

The Common Agricultural Policy and the Balance of Payments of the EEC Member Countries

Introduction and Summary

The Common Agricultural Policy (CAP) — a scheme introduced almost as soon as the European Economic Community was established — remains one of the main forces working for the integration of the EEC member countries. There is still an intra-Community trade creation effect in the agricultural sector of the member countries, as intra-Community agricultural import-export data show: in this field there is no intra-Community trade erosion similar to that discernible in other import-export sectors because of the economic crisis.¹

But the CAP generates for each member country an economic burden which affects the balance of payments and the real income of the EEC countries. Consumer prices are inflated as a consequence of higher food prices and consumer's real income is reduced. The balance of payments of each member country is affected by:

a) agricultural transfer payments to the Community, i.e. payments of food levies to the Community budget and payments from the Community to farmers,

b) extra costs resulting from the higher prices of food which are paid for the quantities imported,

c) a reduced competitiveness of non-agricultural commodities due to the higher level in the cost-of-living index caused by more expensive food imports.

While official agricultural transfer payments from and to the Community are well known and publicized, the transfers of the additional burden which the consumers of each EEC country must bear in favour of the farmers of the other member countries are not yet

¹ "A statistical Analysis of Recent Changes in Trade Patterns". Technical Note - II/710/77-E, EEC, Brussels.

measured. This study attempts to assess, for each member country, consumers' transfers to the farmers of the other member countries and, at the same time, to calculate by how much imported and exported food prices are higher because of the CAP.

This paper does not consider the effects on the balance of payments of the Monetary Compensatory Amounts (MCAs), which are a means of compensating for differences between the market rates of exchange and the official rate of exchange used for fixing agricultural prices in the EC member countries. MCAs are paid as subsidies to exporters of countries whose currencies have appreciated, for example Germany, and charged as levies on exports from countries whose currencies have depreciated, Italy for example. The converse applies in the case of imports.

For the sake of simplification, the methodology adopted assumes that there is no downward impact of the CAP on extra-EEC agricultural prices, which in its absence, would be higher. Results for each member country are, therefore, not valid per se but in comparison with the results of the other member countries.

Final results show that Italy bears the heaviest share of the burden of the CAP, i.e. a net outflow of foreign reserves of U.S. dollars 1.3 billion in the last year available, 1976. France, on the other hand, presents a net gain of U.S. dollars .5 billion in 1976, the highest absolute figure, but the Netherlands is the big winner in relative terms if we compare its net inflow of foreign exchange because of the CAP with its total agricultural output. Germany shows a structural change in agriculture as a result of which the net flow of foreign reserves, due to higher prices under the CAP, becomes less negative after 1973. This structural change of the German agricultural industry could well be partly explained by the reduction in the prices of the imported inputs because of the steady revaluation of the DM and the interrelated play of the Monetary Compensatory Amounts. Lower input prices have enabled German farmers to raise their output; conversely devaluation in Italy, the U.K. and France has probably increased farm input prices and reduced production. Belgium's balance of payments is negatively affected. The U.K.'s enormous deficit of 1973 (U.S. dollars 1,861 million), the first year of membership, was reduced almost by half three years later (U.S. dollars 1,067 million only, in 1976). Denmark's balance is not affected very much either way by the net flows of the agricultural transfers from consumers to farmers under the CAP.

The first part of the study establishes the net cost or benefit of the CAP to the balance of payments of each member country, i.e. the loss or the increase of foreign exchange reserves. The most interesting result may be the measurement of the agricultural import and export price increases for each member country.

Italy and the U.K. show the highest import price increases due to the CAP, Germany the lowest. Over the period taken into consideration, in Italy and in the U.K. agricultural import prices in U.S. dollars rise about 30 per cent; in Germany only 10 per cent (in U.S. dollars).

On the export side, Germany was able to increase agricultural export prices the most, followed by France. Denmark, on the other hand, shows the smallest increase. Italy presents an average rise higher than the Netherlands. The U.K. agricultural prices increase by only 4 per cent in 1973, but appear to be catching up very rapidly (an increase of 15 per cent in 1976).

Effects of the Common Agricultural Policy

The six countries which founded the European Economic Community (EEC) in 1957 agreed at the outset to establish a common policy for agriculture to allow farm goods to move freely within the Community and yet to guarantee farm prices. In essence, the Common Agricultural Policy is a scheme designed to ensure the maintenance of high farm incomes through a complex framework of regulations, involving support prices fixed at levels which are generally well above world market prices, variable levies on agricultural products imported from non-EEC sources, and the granting of export subsidies enabling certain EEC agricultural commodities to compete on the world market. These measures constitute the CAP's market or price policy. In addition to the price policy, there is a structural scheme which is concerned with the improvement and the modernisation of the Community's farms.

Although the market and price policies under the CAP differ from product to product, there are some common features which result in a single agricultural market in the member countries by ensuring free access by all farmers to all markets within the EEC and by operating a common system of protection against non-member countries and a common price policy internally. The common price

policy relies, basically, on a variable levy system of protection at the Community's external frontier which creates a substantial amount of trade diversion, i.e. the substitution of high-cost Community sources of supply for low cost non-Community sources.

Important effects of a guaranteed price imposed by the CAP above the level of world market prices are the direct transfers from consumers to farmers. For the limited purpose of the present study, which will focus on the balance of payments effects of agricultural transfers as between EEC member countries, the domestic markets are ignored because domestic agricultural prices mean domestic money transfers as between national residents without any additional cost for the balance of payments. Higher agricultural import-export prices, on the other hand, produce international payments transfers which are recorded in the balance of payments.

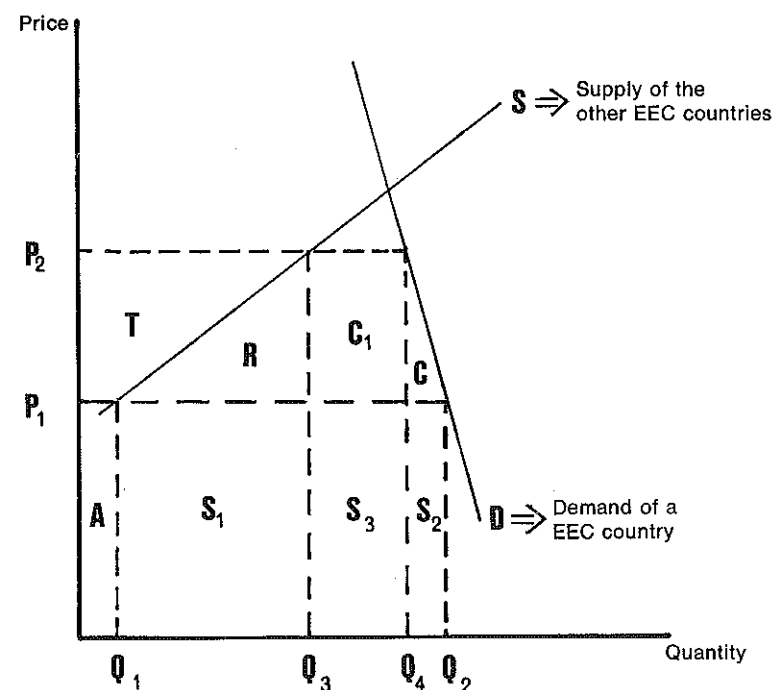
The agriculture import market is illustrated in Fig. 1.

The effects of a policy of higher agricultural import prices are easily shown: *S* is the supply schedule for agriculture imports from the other EC member countries. *D* is the demand schedule for agriculture imports of any EC country. If P_1 is the world market price level, the agriculture imports supplied by other EC member countries is Q_1 and agriculture imports from extra-EC countries are equal to Q_2 minus Q_1 . The total foreign exchange cost for the country is measured by areas $A + S_1 + S_3 + S_2$.

Because of the CAP, import prices are raised to P_2 . Import supply from EC member countries increases from Q_1 to Q_3 . Areas $R + S_1$ approximate the value of extra resources attracted into EC agriculture by the CAP. The farmers' surplus in EC member countries is increased by *T*. The country saves foreign exchange by S_2 since at higher prices quantity demanded falls. Consumers' expenditure will then be less by area S_2 , but greater by areas $T + R + C_1$, the net effect depending on the elasticity of the demand schedule. Consumers' welfare is worse off by areas $T + R + C_1 + C$. If the amount represented by area S_2 could be spent by the consumers on other goods, the triangle *C* represents a loss to the consumers which will correspond to nobody's benefit. $S_1 + S_2$ represent the agricultural foreign exchange saving of the EC Community as a whole, because S_1 is the amount of foreign exchange diverted from extra EC agricultural suppliers to EC farmers and S_2 is not spent on agricultural products because of CAP's higher prices. Areas $T + R$ are the additional transfers from consumers to agricultural producers as between member

FIGURE 1

AGRICULTURE IMPORT MARKET OF A EC MEMBER COUNTRY



countries. More precisely area *T* is the farmers' surplus and area *R* the "incentive" to factors to enter the agricultural sector to increase production to be exported to EC member countries. Area S_3 is the amount of foreign exchange paid by the EC importing country to the agricultural exporting nations outside the EEC. Area C_1 shows the amount of import levies due by each member country under the CAP.

The measuring of areas $T + R + C_1$ for each member importing country constitutes the first part of the present study.

To make a complete estimate of the total net cost of the CAP for the balance of payments of each member country, it would be necessary to calculate the gains of the agricultural exports of every EC country arising because: a) farmers are able to export their products at higher prices than the world market prices, and; b) they are, at the same time, able to produce a larger volume of agricultural output for exports.

Mutatis mutandis, the CAP's effects on agricultural exports are the second half of the same picture and the second part of the story.

Ignoring once again the domestic market, higher agricultural export prices produce international payments transfers which are recorded in the balance of payments. Figure 2 may be used to show the agriculture export market of a member country. S and D are the supply and demand schedules of an EC country exporting agricultural products to the other member countries. At the world market price level P_1 farmers are able to export quantity Q_1 and to produce an inflow of foreign exchange equal to A . At CAP's price level P_2 , they export quantity Q_3 and produce an inflow of foreign exchange equal to areas $A + T + R + S_1$.

Measuring the increase of the inflow of foreign exchange (areas $T + R + S_1$) because of CAP's higher prices should constitute the second half of this study. But because of difficulties in measuring the supply schedule S for each agricultural traded commodity, it is impossible to quantify area S_1 apart from area A .² As a result, only areas $T + R$ (the consumers' transfers) will be measured for each supplier member country. The net effect (the inflow minus the outflow of foreign exchange) of the consumers' transfers on the balance of payments of each EC member country because of the CAP, will be calculated last.

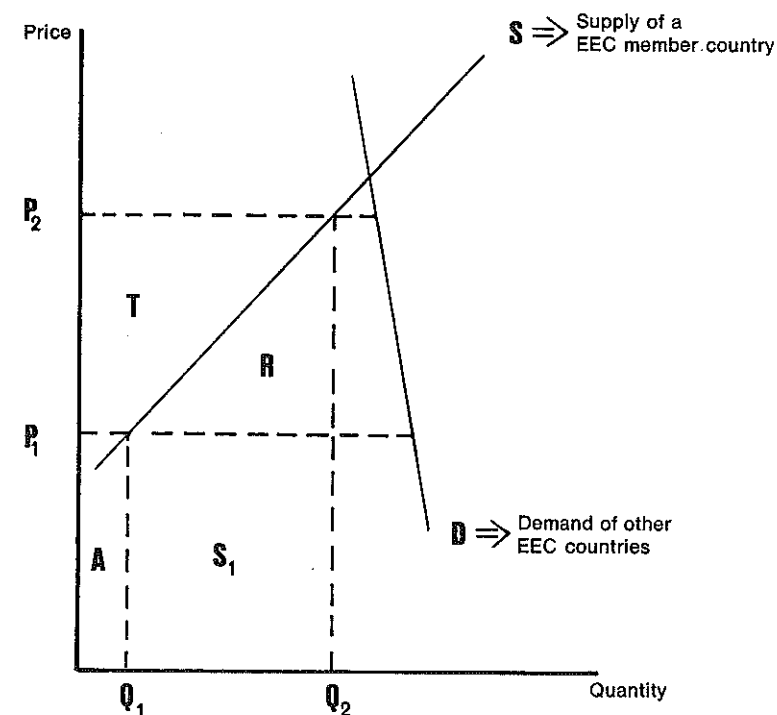
Methodology

Using the most disaggregated foreign trade data available on tape, where for each importing country the value and quantity of each agricultural imported product is reported, unit values, i.e. values per unit of quantity within the Standard International Trade Classification (SITC), are calculated. Then, the total amount the importing country (reporting country) should spend for total agricultural imports if prices were intra-EEC import unit values and the total expenditure on total agricultural imports if prices were average import unit values of countries outside the EEC, are computed. The difference between the possible amount spent if prices were either those of the EEC members or those of extra-EEC countries measures the consumers' transfer to the farmers of the EEC member countries (areas $T + R$

² This point is taken up more fully in the next section.

FIGURE 2

AGRICULTURE EXPORT MARKET OF AN EC MEMBER COUNTRY



in Figure 1) and to the EC Commission's budget (area C_1 in Figure 1).

In practical terms, for each year a basket of products which covers all agricultural items imported by the reporting country is multiplied by the average import unit value of the EEC members exporting agricultural products in the country concerned and by the average import unit values of all other extra-EEC countries exporting in the same market (reporting country). The difference, which can be positive or negative, depending on whether extra-EEC agricultural prices are higher or lower than intra-EEC agricultural prices, measures the financial transfer from the consumers of a member country to the farmers of the other member countries and to the EC Commission.

The methodology used for agricultural imports can also be used for agricultural exports. Within the same framework, the exporting

country should be substituted for the importing country. Then, the total amount of foreign exchange the exporting country should be able to raise by selling total agricultural exports if prices were intra-EEC export unit values and the total revenue produced by the agricultural exports if prices were average export unit values of countries outside the EEC are computed. The difference between the possible revenue if prices were either those of the EC members or those of extra-EC countries measures the increase in foreign exchange revenue accounted for the farmers of each EC member country because of CAP's price increase (areas T + R in Figure 2). The increase in quantity (area S1) is not measured, because it is quite difficult to estimate for each agricultural exported commodity the price elasticity of supply.

This methodology may have two biases. First, it disregards the downward effect of the CAP on farm prices outside the Community. Because of the diversion of demand from extra-EEC to domestic or intra EEC sources of supply, agricultural non-EEC prices are generally lower than they would be without the CAP, given non-infinite world agricultural price elasticities of supply. It follows that a substantial bias exists, which makes the consumers' transfers calculated according to this methodology higher. The importance of this bias would depend for each member country, on the basket of imported (exported) products and the volume imported (exported). For this reason instead of considering the consumers' transfers of each member country per se, results should be compared among the member countries and weighted according to total agricultural imports (exports) of each country. By this approach, the relative balance of payments burden (gain) among EC countries may be more objectively evaluated.

The second bias could be produced because of the use of agricultural unit values per unit of quantity within the SITC import (export) classification. However, since the SITC is the only set of agricultural trade statistics which can be used at present, the best possible data are in fact being used. The general criticism that a change in unit value might not necessarily represent a change in price because there could be a shift from one quality or type of item to another is not so very true in the context of this study. The unit values are not compared over time and are compared within each market (importing-exporting). Moreover, the well-known criticisms of the use of unit value data are probably much less valid for agricultural products than for manufactured products.

TABLE 1
CONSUMERS' TRANSFERS FROM EACH MEMBER COUNTRY
TO THE FARMERS OF THE OTHER MEMBER COUNTRIES AND TO THE EEC
(foreign exchange reserves outflow in million U.S. dollars)

Country	1970	1971	1972	1973	1974	1975	1976
Germany	677	772	919	669	402	570	625
France	417	209	290	408	206	377	502
Italy	979	1,020	1,177	1,193	860	1,388	1,510
Netherlands	304	288	343	371	113	376	492
Belgium	233	212	345	301	223	386	483
United Kingdom . .	—	—	—	1,889	1,814	1,651	1,236
Denmark	—	—	—	111	87	68	158
Total	2,610	2,501	3,074	4,942	3,705	4,816	5,006

Data and Results

For the purpose of computing the consumers' transfers from one member country to the farmers of the other member countries, OECD bilateral trade data, which are available on tape, have been chosen. The OECD trade data are import and export data (quantities and values) classified on the SITC (revised) basis.³ Data on imports and exports by commodity for 24 countries (OECD reporting countries) are reported quarterly. A complete classification by trading partner country (204 countries) is given. The tapes contain data from the years between 1963 and the last year already available: at present, 1976. According to the SITC, data under 1,312 items are provided. Imports are c.i.f., exports f.o.b. All values are in United States dollars. Quantities are expressed in metric units.

Of all items specified according to the SITC only import-export products subject to the Common Agricultural Policy have been selected. Given that only annual data have been used, to eliminate problems connected with the date when new CAP policies have been put into effect, the analysis starts in 1970 only. In 1970 all products taken into consideration were already subject to the CAP.

a) Outflows of foreign reserves

Total consumers' transfers from each member country to the farmers of the other member countries and to the EC Commission are

³ UNITED NATIONS, "Standard International Trade Classification, revised". Statistical Papers, series M no. 34, New York, 1961.

given in Table 1 for the period 1970-1976. For the United Kingdom and Denmark which joined the Common Market in 1972, figures are available only from 1973.

Germany shows a rising trend up to 1972, which is decreasing thereafter. Italy has a continuous rising trend combined with the highest absolute figures. The U.K. starts in 1973 with a very large figure which then rapidly declines.

Table 2 presents the transfers of the consumers of each member country as percentages of total EEC consumers' transfers. The U.K. replaced Italy in carrying the largest share of the burden in 1973, but Italy moved into first place again in 1976. On the other hand, France shows over the whole period relatively small percentages. In 1976, Germany and France had almost the same percentage of the total. Belgium, with a population smaller than the Netherlands, shows a percentage almost always as large as the Dutch one. Variations around the trend are due to two factors: the commodity composition of import demand, which may change from year to year, and the difference between extra- and intra-EEC agricultural prices. As a result of these two factors combined, agricultural consumers' transfers fluctuate substantially.

Table 3 presents agricultural consumers' transfers as percentages of total agricultural imports for each member country. The table shows how large a "surcharge" consumers of each member country pay to the agricultural producers of the other member countries. In practical terms, the table shows by how many percentage points goods imported from other EEC countries are more expensive than goods

TABLE 2

PERCENTAGES OF CONSUMERS' TRANSFERS OF EACH MEMBER COUNTRY ON TOTAL EEC CONSUMERS' TRANSFERS

Country	1970	1971	1972	1973	1974	1975	1976
Germany	26	31	30	13	11	12	12
France	16	8	9	8	5	8	10
Italy	37	41	38	24	23	29	30
Netherlands	12	11	11	7	3	8	10
Belgium	9	8	11	6	6	8	10
United Kingdom	—	—	—	38	49	34	25
Denmark	—	—	—	2	2	1	3
Total	100	100	100	100	100	100	100

TABLE 3

AGRICULTURAL IMPORT PRICE INCREASES, BECAUSE OF THE CAP, FOR EACH EEC MEMBER COUNTRY

Country	1970	1971	1972	1973	1974	1975	1976
Germany	20.66	20.00	20.04	11.15	6.47	8.45	8.17
France	27.08	13.15	14.39	14.03	7.12	9.98	12.64
Italy	46.44	39.44	35.04	25.54	17.78	25.97	28.32
Netherlands	26.59	23.69	22.60	15.98	4.12	11.43	14.68
Belgium	23.97	19.62	26.29	16.13	11.03	15.76	17.87
United Kingdom	—	—	—	43.38	33.53	26.39	24.16
Denmark	—	—	—	22.54	16.06	12.29	23.24

imported freely from the world market. Italy and the U.K. pay the highest price increases. Germany shows the smallest percentage of consumers' transfers on total agricultural imports. France, in the last four years, is second after Germany as the country with the lowest "surcharges". 1974 shows the smallest "surcharge" for the old member countries because of the high agricultural prices on the world market.

An analysis by product and country reveals interesting patterns. Each country has particular products which have made the main contribution to the country consumers' transfers over the period 1970-1976. But the basket of items which have been the principal cause of the transfers has changed quite substantially from year to year.

For Germany, imports of beef and veal, pigmeat and wheat were important up to 1973. Tomatoes and other fresh vegetables are the main items responsible for the consumers' transfers over the whole period (1970-1976). Imports of barley were important only in certain years.

In France, a small number of imported goods are heavy contributors to French consumers' transfer to farmers of other member countries. French imports of oranges, tangerines and mandarines, other citrus fruits, raw sugar and leguminous vegetables are the main items responsible for the transfer over the whole period (1970-1976). Imports of wine start to be significant only in 1973.

Italy is a very special case. Imports of bovine cattle and beef and veal combined account on average for 50 per cent of Italian consumers' transfers to the livestock farmers of the other member

countries. In the following table, weights of beef and veal and cattle imports in the total of Italian consumers' transfers are given for each year. Other imports which weigh heavily in the creation of Italian consumers' transfers are imports of pigmeat, of fresh and frozen fish, of milk and butter, of wheat and barley, and of refined sugar.

For the Netherlands no imported item is sufficiently important to account to any significant extent for the Dutch consumers' transfer, which is in any case not large. Only tobacco shows some prominence over the whole period (1970-1976). Imports of wheat and wine show some weight from 1970 to 1973 only. Rice imports begin to acquire importance in 1976. The Dutch consumers' transfer to the farmers of the other member countries is, therefore, accounted for by small contributions of various agricultural imported commodities.

TABLE 4

WEIGHTS OF BEEF AND VEAL AND CATTLE IMPORTS IN THE TOTAL OF ITALIAN CONSUMERS' TRANSFERS

1970	1971	1972	1973	1974	1975	1976
47.2	48.4	45.1	32.1	51.2	50.1	51.3

Belgium has a pattern which is not so different from the Dutch one. Generally, weights are very well distributed over all the Belgian agricultural imported commodities. Only imports of cattle, wine and tobacco have some importance. In certain years, butter, wheat and other cereals show some weight.

For the U.K., cattle imports are the most important item in the creation of British consumers' transfers. Other imports which weigh heavily are butter, cheese, wine and tobacco. Raw sugar imports show some contribution only in 1973 and 1974.

In Denmark oil seeds, wine and tobacco are the main items responsible for the consumers' transfer over the whole period.

b) *Inflows of foreign reserves*

As noted above, there is no easy way of measuring supply price elasticities for each agricultural item entering into trade. Accordingly, instead of measuring the total increase of the inflow of foreign ex-

change because of the CAP for each EC exporting country (areas S1 + T + R in figure 2), the problem has been limited to measuring areas T + R only. As a consequence, results show only part of the total increase in foreign exchange inflows because of higher agricultural export supplies. Table 5 shows the inflows of foreign reserves for each member country because of agricultural transfers from consumers to farmers as between EC countries. (Areas T + R, only, in fig. 2.)

France and the Netherlands show a continuous rising trend combined with the highest absolute figures. The U.K. starts with a very small figure which is rapidly increasing. Italy presents figures smaller than Belgium and not much bigger than Denmark.

At the bottom of the table percentages are presented. France carries the largest share of the gain, followed by the Netherlands. In 1976, the U.K. has overtaken Denmark and nearly overtaken Italy.

Table 6 presents by how much the exporters of each member

TABLE 5

INFLOWS OF FOREIGN EXCHANGE PER EACH EC MEMBER COUNTRY BECAUSE OF AGRICULTURAL TRANSFERS FROM CONSUMERS TO FARMERS (million of U.S. dollars)

Country	1970	1971	1972	1973	1974	1975	1976
Germany	314	305	152	245	216	339	406
France	706	685	681	695	214	646	991
Italy	134	124	136	129	119	206	176
Netherlands	399	431	425	448	331	518	656
Belgium	135	182	179	231	146	183	251
United Kingdom	—	—	—	28	46	127	169
Denmark	—	—	—	127	50	100	133
Total	1,688	1,727	1,573	1,903	1,122	2,119	2,782
(percentages)							
Germany	18.6	17.6	9.7	12.9	19.2	15.8	14.6
France	41.8	39.6	43.3	36.5	19.7	30.0	35.6
Italy	7.9	7.2	8.6	6.8	10.6	9.6	6.3
Netherlands	23.6	24.9	27.0	23.5	29.0	24.0	23.6
Belgium	7.9	10.5	11.4	12.1	13.0	9.5	9.0
United Kingdom	—	—	—	1.5	4.1	5.9	6.1
Denmark	—	—	—	6.7	4.4	4.7	4.8

country are able, on average, to increase their agricultural export price above the world market price level because of the CAP. In other words, the table shows the other side of the picture displayed in Table 3, where "surcharges" on agricultural consumers' imports have been presented.

On the whole, Germany and France show the relatively highest increase in export prices because of the CAP, but the U.K. appears to be catching up very rapidly. The diminishing difference between CAP prices and world agricultural prices has substantially narrowed down the price gain for the agricultural exporters inside the Community, as was already made clear by Table 3, where the price surcharges for the consumers were presented.

An analysis by product and country reveals the agricultural specialisation which has taken place because of the CAP.

Over the period 1970-76 Germany has received an inflow of foreign reserves produced by consumers' transfers from other member countries because of exports of dairy products. Exports of beef and veal start to be important from 1973 onwards. In 1976 exports of refined sugar are also responsible for the positive effect on the balance of payments due to the higher prices entailed by the CAP.

France shows a strong specialisation over the whole period on the following agricultural products: beef and veal, butter, cheese, wheat, barley and refined sugar. French exports of milk and malt are becoming important in 1976.

In Italy, the inflow of foreign exchange generated by the price policy under the CAP is very small and is accounted for by only a few items. Only rice, apples and some sweetened forage are of any

TABLE 6

AGRICULTURAL EXPORT PRICE INCREASES, DUE TO THE CAP,
FOR EACH EEC MEMBER COUNTRY

Country	1970	1971	1972	1973	1974	1975	1976
Germany	38.9	31.5	11.6	11.6	8.1	11.8	13.3
France	31.9	24.7	18.5	13.3	3.5	10.1	15.2
Italy	22.2	17.1	14.1	11.8	8.8	12.1	11.1
Netherlands	19.2	18.4	14.9	11.5	7.4	9.3	10.9
Belgium	19.1	25.3	16.7	16.6	9.2	9.6	12.3
United Kingdom	—	—	—	3.9	5.9	10.3	14.9
Denmark	—	—	—	9.2	3.0	4.9	6.6

TABLE 7

NET GAIN (+) OR NET COST (-) BECAUSE OF THE CAP
FOR THE BALANCE OF PAYMENTS OF EACH MEMBER COUNTRY
(million of U.S. dollars)

Country	1970	1971	1972	1973	1974	1975	1976
Germany	-363	-467	-767	-424	-186	-231	-219
France	289	476	391	287	8	269	489
Italy	-845	-896	-1,057	-1,064	-741	-1,182	-1,325
Netherlands	95	143	82	77	218	142	164
Belgium	-98	-30	-166	-70	-77	-203	-232
United Kingdom	—	—	—	-1,861	-1,768	-1,524	-1,067
Denmark	—	—	—	16	-37	32	-25

importance. No appreciable weight for wine, oranges and other typical Italian agricultural products has been found.

The Netherlands present an advantage in exporting at higher prices poultry, milk, butter and cheese over the whole period (1970-1976). Exports of beef and veal show some positive contribution from 1975.

Belgium has one agricultural product which is very important over the whole period. Beef and veal and malt show some importance from 1975. Refined sugar has some weight at the beginning of the period only.

In the U.K. there is no single item that stands out, but milk starts to be important in 1976.

For Denmark, exports of beef and veal, butter and cheese are the most important items accounting for the inflow of foreign exchange generated by the CAP prices.

c) *The net balance*

In Table 7, which is the sum of table 1 (foreign exchange reserves outflow) and table 5 (foreign exchange reserves inflow), the net gain or net cost because of CAP's price policies for the balance of payments of each member country is presented. Inflows of reserves in million of US dollars are shown by a plus (+), outflows by a minus (-). This result, however, should not be taken as the overall net agricultural balance of payments, because it excludes transfers from and to the EC Commission.

The increase in net losses of reserves for Italy attributable to CAP pricing is very striking. In 1976, Italy reached a net outflow of more than 1.3 billion of US dollars. France, in absolute figures, is the country which gains the most because of the Common Agricultural Policy, followed by the Netherlands. The Dutch, on the other hand, gain most in relative terms, because of the size of the agricultural output of their country.

Germany, after the heavy net outflows of foreign reserves up to 1973, shows remarkable results for the last three years available.

Belgium shows a small but increasing deficit. Denmark is a country which is well balanced, showing a net effect on the balance of payments not too far from equilibrium.

The U.K. shows still in 1976 a very substantial outflow of foreign reserves entailed by CAP price policies. But the evidence now points to an early and quite rapid reduction in the deficit, which could well, in the future, become a surplus. It looks like the U.K. is catching up by riding the tide which favors agricultural commodities which can be produced in the U.K. as well as in other northern European countries. Higher CAP's prices may favor U.K.'s domestic production of agricultural output which reduces import quantities and increases exports.

Bruxelles

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