

GOVERNOR'S CONFERENCE ON EXPORT EXPANSION

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EUROPE: THE CHALLENGES AND OPPORTUNITIES

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HEAD OF THE DELEGATION OF THE  
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... TO SPEAK ON THE EUROPEAN COMMUNITIES AND REMAIN OBJECTIVE. THE AMBITION OF THE ENDEAVOR ON THE ONE HAND, VERSUS THE DIFFICULTIES OF ITS REALIZATION ON THE OTHER, SWAY THE OPINION OF THOSE INTERESTED IN ITS DEVELOPMENT, EITHER TOWARD OVERT OPTIMISM OR DARK PESSIMISM.

LET US TAKE THE BRIGHT SIDE FIRST. WE SHOULD REMEMBER WHY THE SIX COUNTRIES OF EUROPE FIRST POOLED THEIR COAL AND STEEL PRODUCTION UNDER A COMMON EUROPEAN AUTHORITY IN 1952, BARELY SEVEN YEARS AFTER THE END OF THE SECOND WORLD WAR.

THE SINEWS OF WAR. AND THEY HAVE INDEED ACHIEVED THE GOAL OF MAKING WAR IMPOSSIBLE. WHO, IN 1976, COULD IMAGINE ARMED CONFLICT AMONG THE NATIONS OF WESTERN EUROPE? IN LESS THAN 30 YEARS, THROUGH THE EFFORTS TO UNITE EUROPE -- FIRST ECONOMICALLY AND MORE GRADUALLY, POLITICALLY -- WE IN EUROPE HAVE MANAGED TO OVERCOME A THOUSAND YEARS OF CONFLICTS, OF WAR BETWEEN NATION STATES.

BUT THE COAL AND STEEL COMMUNITY WAS ONLY AN EXPERIMENT, A STEPPING STONE TOWARDS A FAR MORE AMBITIOUS PROJECT, THE GRADUAL CONSTRUCTION OF THE UNITED STATES OF EUROPE. THE PROJECT WAS ENVISAGED BY THOSE WHO, AT THE END OF THE LAST WAR, BECAME AWARE THAT EUROPE HAD DISAPPEARED FROM THE WORLD SCENE; THAT IF IT WERE ONCE MORE TO PLAY THE ROLE ITS CIVILISATION AND PROSPERITY JUSTIFIED, IT WOULD HAVE TO SPEAK MORE FREQUENTLY WITH ONE VOICE.

THAT VOICE COULD ONLY BE HEARD IF IT EMERGED FROM A SOLIDARITY FORGED AMONG THE COUNTRIES OF EUROPE.

AFTER THE INITIAL SUCCESS OF THE COAL AND STEEL COMMUNITY, THE INTEGRATION OF EUROPE MADE FURTHER PROGRESS IN THE LATE FIFTIES AND EARLY SIXTIES.

TWO NEW COMMUNITIES WERE CREATED: THE EUROPEAN ATOMIC ENERGY COMMUNITY (EURATOM) FOR THE COMMON DEVELOPMENT OF THE NUCLEAR ENERGY OF THE FUTURE, WHICH WOULD GIVE EUROPE ENERGY INDEPENDENCE, AND THE EUROPEAN ECONOMIC COMMUNITY (EEC), WHICH WAS TO BE THE FOUNDATION OF ALL LATER EFFORTS AT ECONOMIC INTEGRATION.

THE FOUNDING TREATIES OF THE THREE COMMUNITIES ARE BASED ON THE SAME TYPE OF POLITICAL INSTITUTION; ALL THREE ATTEMPT TO ESTABLISH, THROUGH COMMON RULES, A DEGREE OF SOLIDARITY AMONG THE COUNTRIES OF EUROPE WHICH WOULD SERVE AS THE BASIS FOR ACTION TOGETHER. THE EUROPEAN COMMUNITY'S INSTITUTIONS WERE CREATED AS THE MEANS TO DEVELOP THE COMMON POLICIES THUS ELABORATED.

WHEN IN 1973 THREE ADDITIONAL COUNTRIES, AND AMONG THEM GREAT-BRITAIN, DECIDED TO TIE THEIR FATE, INITIALLY THEIR ECONOMIC FATE, TO THAT OF THE COMMUNITY, IT MEANT THAT IN ITS NEARLY 15 YEARS OF LIFE, THE EUROPEAN COMMUNITY HAD PROVED NOT ONLY THAT IT WAS A LIVING CONCEPT, BUT ALSO THAT ANY EUROPEAN

COUNTRY WHICH VALUES THE GROWTH OF ITS PROSPERITY AS WELL AS THE STRENGTH OF ITS VOICE IN THE WORLD COULD NO LONGER CONSIDER REMAINING OUTSIDE THE COMMUNITY.

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I SHALL FIRST REVIEW THE COMMUNITY'S ECONOMIC SITUATION, THEN DESCRIBE OUR COMMON TRADE POLICY AND CONCLUDE WITH A FEW WORDS ON THE TYPE OF AGRICULTURAL POLICY WE HAVE DEVELOPED.

IN CHOOSING THESE THREE TOPICS FOR MY REMARKS TODAY, I HAVE TAKEN INTO CONSIDERATION THE NATURE OF THE AUDIENCE I AM ADDRESSING. IN SO NARROWING THE SCOPE OF MY TALK I HAVE HAD TO OMIT A NUMBER OF OTHER SECTORS WHICH ARE AT LEAST AS IMPORTANT IN THE RELATIONSHIP BETWEEN THE EUROPEAN COMMUNITY AND THE UNITED STATES, BUT WHICH MAY PERHAPS BE COVERED IN THE QUESTION AND ANSWER PERIOD FOLLOWING MY FORMAL REMARKS.

GENERAL ECONOMIC SITUATION IN EUROPE: OUTLOOK FOR 1976

I WOULD LIKE TO BEGIN BY PROVIDING YOU WITH AN ECONOMIC PROFILE OF EUROPE TODAY, AS IT SLOWLY RECOVERS FROM THE ECONOMIC AND MONETARY UPHEAVALS OF THE LAST FEW YEARS, WHICH HAVE SPARED ALMOST NO COUNTRY.

SINCE MID-1975, WHEN EUROPE REACHED THE BOTTOM OF THE DOWNTURN, THE RECOVERY IN ECONOMIC ACTIVITY HAS BEEN PROCEEDING, BUT AT A SLOWER PACE THAN THAT OF THE UNITED STATES.

AS IN THE UNITED STATES, THE IMPROVED ECONOMIC TREND MAY BE ATTRIBUTED TO THE COMBINED EFFECTS OF SPONTANEOUS EXPANSIONARY FACTORS AND OF REFLATIONARY MEASURES, INCLUDING:

- 1) THE RECOVERY OF CONSUMER SPENDING, WITH SAVINGS AND BEHAVIOR RETURNING TO NORMAL AS PRICE RISES EASE,
- 2) A HALT TO DESTOCKING OR A RESUMPTION OR RESTOCKING
- 3) THE GRADUAL IMPROVEMENT IN EXPORT DEMAND
- 4) THE EFFECTS OF AN EXPANSIONARY ECONOMIC POLICY IN MOST EC MEMBER STATES.

AS A RESULT, INDUSTRIAL PRODUCTION IN THE COMMUNITY AS A WHOLE PICKED UP. HOWEVER, AT THE END OF 1975, TOTAL PRODUCTION IN THE COMMUNITY HAD SCARCELY REACHED THE LEVEL OF THE END OF THE PREVIOUS YEAR, WHICH WAS ITSELF CONSIDERABLY BELOW THE PEAK REACHED IN MID-1974.

THE RESULTS OF THE LATEST BUSINESS SURVEY CARRIED OUT AMONG HEADS OF INDUSTRY CONFIRM THAT THE PRODUCTION OUTLOOK WILL CONTINUE TO IMPROVE IN THE COMING MONTHS. HOWEVER, THE SIZE OF THE RECOVERY WILL PROBABLY BE LIMITED, AS SIGNS SHOW THE LIKELIHOOD OF ONLY A MODERATE REVIVAL IN WORLD TRADE AND A SLIGHT EASING OF DOMESTIC INFLATION. BUT THE OUTLOOK FOR THE COMMUNITY'S GROSS NATIONAL PRODUCT IS OPTIMISTIC -- A GROWTH OF MORE THAN 3 PER CENT IN REAL GNP HAS BEEN FORECAST FOR 1976 FOR THE EC AS A WHOLE, COMPARED TO A DECREASE OF SOME 2 1/2 PER CENT LAST YEAR.

AFTER REACHING A RECORD HIGH IN SEPTEMBER 1975 OF 4.5 PER

CENT, UNEMPLOYMENT SHOWS ONLY A SLIGHT DOWNWARD TREND: IN MARCH, THE TOTAL NUMBER OF UNEMPLOYED IN THE EC STOOD AT 5.4 MILLION COMPARED TO 5.6 MILLION IN FEBRUARY, A DECREASE OF 180,000. ECONOMIC FORECASTS IMPLY THAT A FURTHER DECLINE IN UNEMPLOYMENT CAN ONLY OCCUR VERY GRADUALLY AND WILL VARY BETWEEN COUNTRIES AND SECTORS. THE AVERAGE NUMBER OF UNEMPLOYED THIS YEAR COULD EVEN RISE FROM THE PREVIOUS YEAR IN SOME MEMBER STATES.

THE GROWING NUMBER OF <sup>unemployed</sup> YOUNG PEOPLE IS GREATLY WORRYING AND SPECIFIC MEASURES ARE REQUIRED TO HELP THIS GROUP. INDEED, YOUTH UNEMPLOYMENT AS A PERCENTAGE OF TOTAL UNEMPLOYMENT RANGES FROM 25 PER CENT IN GERMANY TO 57 PER CENT IN ITALY.

THE RATE OF INFLATION IS STILL A SOURCE OF CONCERN, ALL THE MORE BECAUSE THE INFLUENCE OF DEMAND ON THE PRODUCTION PROCESS IS WEAK AND BECAUSE THE DIFFERENCE BETWEEN VARIOUS NATIONAL INFLATION RATES IS WIDENING. OF COURSE, PRICE INCREASES HAVE SLOWED FROM THE HIGH LEVELS REACHED IN THE LAST TWO YEARS, AND THE PRESENT ANNUAL RATE OF CONSUMER PRICE INFLATION IN THE COMMUNITY AS A WHOLE AVERAGES ONLY 10 PER CENT COMPARED TO 12 1/2 PER CENT FOR 1975.

IN ORDER TO ACHIEVE CONTINUED AND SOLID GROWTH IN 1976 DESPITE THESE DIFFICULT CONDITIONS, IT WILL BE NECESSARY GIVEN THE PRESENT LAG IN EXPORTS, FOR OTHER

DEMAND COMPONENTS TO SUPPLEMENT THE EXPANSIONARY PUSH NOW COMING FROM THE MOVEMENT OF STOCKS AND THE PROPENSITY TO CONSUME. FIXED INVESTMENT SHOULD FILL THIS ROLE. THE RECESSION HAS SLOWED DOWN INVESTMENT IN THE COMMUNITY AND HAS INCREASED THE NEED FOR INVESTMENT IN RATIONALIZATION AND MODERNIZATION PLANS. CONSEQUENTLY, THE PROGRESSIVE IMPROVEMENT IN THE ECONOMIC OUTLOOK, COMBINED WITH THE IMPACT OF GOVERNMENT SUPPORT MEASURES, SHOULD REVIVE THE PROPENSITY TO INVEST IN SEVERAL MEMBER STATES. HOWEVER, BECAUSE INVESTMENT RECOVERY IMPLIES IMPROVED PROFITS FOR ENTERPRISES, IT WILL BE IMPORTANT TO AVOID, THROUGH COOPERATION BETWEEN MANAGEMENT AND LABOR, THE TRADITIONAL SEQUENCE OF A PROFIT EXPLOSION FOLLOWED BY A WAGE EXPLOSION AND THE HARMFUL EFFECTS OF TOO RAPID A SWITCH FROM 'STOP' TO 'GO.'

#### OUTLOOK IN THE PRINCIPAL EC COUNTRIES

THE DEGREE OF ECONOMIC RECOVERY IS, OF COURSE, NOT THE SAME THROUGHOUT ALL COMMUNITY COUNTRIES, SINCE ANTI-INFLATIONARY POLICIES AND THE ENSUING EXPANSIONARY MEASURES HAVE BEEN INTRODUCED AT DIFFERENT TIMES AND WITH VARYING DEGREES OF VIGOR IN INDIVIDUAL COUNTRIES. AND SINCE THE BALANCE OF PAYMENTS SITUATION AND DEPENDENCE ON OIL, ONE OF THE CHIEF AGGRAVATORS OF BOPs, VARY, GROWTH RATES FOR REAL GROSS DOMESTIC PRODUCT ARE LIKELY TO DIFFER FOR THE MEMBER STATES IN 1976 AS WELL. FOR THE FEDERAL REPUBLIC OF GERMANY, FRANCE, THE NETHERLANDS, AND DENMARK, GROWTH RATES OF 4 TO 5 PER CENT CAN BE

EXPECTED, ITALY AND THE UNITED KINGDOM CAN EXPECT GROWTH RATES OF 1 TO 2 PER CENT, AND OTHER EC COUNTRIES, 2 TO 3 PER CENT.

TO GIVE YOU AN IDEA OF THE WIDE RANGE OF ECONOMIC VARIATIONS IN THE EUROPEAN COMMUNITY, I HAVE SINGLED OUT THREE MEMBER STATES FOR CLOSER EXAMINATION.

ACCORDING TO RECENTLY-RELEASED FORECASTS, ECONOMIC RECOVERY IN GREAT BRITAIN SHOULD BEGIN LATER THIS YEAR, BUT IT WILL NOT BE ESPECIALLY STRONG AND WILL BE LED BY FOREIGN, RATHER THAN DOMESTIC, DEMAND.

THE BRITISH TREASURY FORESEES A HIGHER GROWTH IN CONSUMPTION, EXPORTS, AND PUBLIC INVESTMENT, AND HAS ISSUED THE MOST OPTIMISTIC FIGURE FOR THE RISE IN GROSS DOMESTIC PRODUCT, 2.5 PER CENT, WITH SOME ACCELERATION IN THE SECOND HALF OF THE YEAR.

THE UPTURN SEEMS LIKELY TO BE STEADY, WITH BUSINESS MAKING A MORE GRADUAL REVIVAL WITH A CONSIDERABLE IMPROVEMENT IN ITS LIQUIDITY. INVESTMENT INTENTIONS ARE RISING AND -- UNUSUALLY FOR THIS PHASE OF THE CYCLE -- THE CAPITAL GOODS SECTOR APPEARS TO BE FOLLOWING CLOSELY ON THE LEAD OF CONSUMER GOODS.

PRICE INFLATION IN BRITAIN IS NOW SHOWN TO HAVE BEEN RUNNING AT AN ANNUAL RATE OF 12.6 PER CENT DURING THE LAST SIX MONTHS, ITS LOWEST LEVEL IN 27 MONTHS.

THIS DEVELOPMENT SHOULD BE SUPPORTED BY THE RECENTLY CONCLUDED WAGE AGREEMENT BETWEEN THE GOVERNMENT AND TRADE UNIONS, WHICH CALLS FOR A MAXIMUM WEEKLY INCREASE OF £4



AND A MINIMUM OF £ 2.50, WITH A 5 PER CENT LIMIT ON INCREASES FOR THOSE IN THE MIDDLE RANGE OF EARNINGS, FOR THE YEAR ENDING JULY 1977. THE NET EFFECT IS ESTIMATED TO AVERAGE 4 1/2 PER CENT ON WAGES, 5 1/2 - 6 1/2 PER CENT ON EARNINGS, AND 2 PER CENT ON INCREASES FROM OVERTIME OR BONUSES.

SOME FAVORABLE DEVELOPMENTS CAN ALSO BE REPORTED IN THE EXTERNAL SECTOR. ACCORDING TO FIGURES RELEASED AT THE BEGINNING OF THIS MONTH, THE CURRENT ACCOUNT DEFICIT HAS BEEN CUT TO £ 80 MILLION IN THE FIRST QUARTER OF 1976 WHICH, AFTER SEASONAL ADJUSTMENT, EQUALS AN ANNUAL £ 300 MILLION DEFICIT, A SUBSTANTIAL IMPROVEMENT OVER 1975 FIGURES. HOWEVER, THESE FIGURES MAY BE MODIFIED BEFORE THE END OF THE YEAR BECAUSE OF THE POUND'S FURTHER DECLINE LAST WEEK.

HOWEVER, EXCHANGE RATE DEVELOPMENTS HAVE NOT YET PARALLELED THESE EXPECTATIONS OF FAVORABLE SHIFTS, FORCING THE MONETARY AUTHORITIES TO RAISE THE "MINIMUM LENDING RATE" BY 1.5 PER CENT IN AN EFFORT TO INFLUENCE INTERNATIONAL CAPITAL MOVEMENTS. SUCH MEASURES TO STEM THE UNFAVORABLE TIDE IN THE EXTERNAL MONETARY SITUATION CREATE A CERTAIN RISK ON THE DOMESTIC FRONT, ESPECIALLY IN THE AREA OF PRODUCTIVE INVESTMENTS, WHICH REMAIN A CRITICAL FACTOR IN THE RECOVERY.

#### GERMANY

IN THE FEDERAL REPUBLIC OF GERMANY, THE COMBINED EFFECTS OF REFLATIONARY MEASURES ALREADY TAKEN BY THE GOVERNMENT AND THE FEDERAL BANK, AND THE MARKED RECOVERY IN EXPORT DEMAND, PRODUCED A NOTICEABLE, FAVORABLE CHANGE IN THE ECONOMIC SITUATION FROM THE MIDDLE OF LAST YEAR ON.

JUDGING FROM INFORMATION CURRENTLY AVAILABLE, THE RECOVERY WILL GATHER MOMENTUM IN THE COMING MONTHS SO THAT GROSS NATIONAL PRODUCT CAN BE EXPECTED TO GROW BY AN AVERAGE OF 4.5 PER CENT IN 1976.

THE EMPLOYMENT SITUATION IN THE FEDERAL REPUBLIC APPEARS TO BE IMPROVING, ALTHOUGH THERE ARE STILL MORE THAN ONE MILLION OUT OF WORK. COMPANIES ARE BEGINNING TO HIRE AGAIN AND THEY ARE LESS PRONE TO LAYING OFF WORKERS.

ACCORDING TO THE FEDERAL INSTITUTION OF LABOR, THERE WERE 1.09 MILLION UNEMPLOYED AT THE END OF APRIL, A DROP OF 8.1 PER CENT FROM THE PREVIOUS MONTH. FOR THE FIRST TIME IN MANY MONTHS THE UNEMPLOYMENT RATIO FELL BELOW 5 PER CENT, THAT IS, TO 4.8 PER CENT. AT THE SAME TIME, DEMAND FOR LABOR ROSE BY 5.1 PER CENT.

THE CLEAREST INDICATION OF THE IMPROVEMENT IS GIVEN BY THE REDUCTION IN SHORT-TIME WORKING WHICH FELL BY 29 PER CENT.

THERE WAS ALSO A MARKED IMPROVEMENT IN EMPLOYMENT AMONG YOUNG PEOPLE AND FOREIGNERS.

PRICE DEVELOPMENTS CONTINUE TO BE FAVORABLE: IN MARCH, WHOLESAL PRICES ROSE 0.8 PER CENT, REPRESENTING AN ANNUAL RISE OF 5.3 PER CENT.

THE MAJOR PROBLEM CONFRONTING GERMANY IS THE PERSISTENT TENDENCY FOR DOMESTIC LIQUIDITY TO INCREASE BEYOND THE LIMITS SET BY AUTHORITIES.

THE PRESENT SITUATION OF MONETARY EASE IS REFLECTED IN THE LOW RATES ON THE MONEY MARKET WHERE CALL MONEY RATES PRESENTLY HOVER AROUND 1.7 PER CENT AND 3 MONTHS DEPOSIT RATES AT 3.6 PER CENT. THE BUNDESBANK IS HAVING SOME UNDERSTANDABLE DIFFICULTIES IN NEUTRALIZING THE RECENT INFLUX OF FUNDS THROUGH THE EXCHANGE MARKETS AND IN IMPLEMENTING ITS GOAL OF AN AVERAGE GROWTH IN THE CENTRAL BANK MONEY STOCK OF 8 PER CENT IN 1976.

## FRANCE

IN FRANCE, ACTIVITY IS STEADILY INCREASING IN MOST SECTORS, DUE TO THE END OF DESTOCKING, THE CONTINUING GROWTH OF CONSUMER SPENDING, AND THE PUBLIC CAPITAL EXPENDITURE PROGRAMS CONTAINED IN THE 1975 PLAN TO STIMULATE THE ECONOMY. HOWEVER, THE RECOVERY IS NOT PROCEEDING FAST ENOUGH TO EXPECT A SIGNIFICANT FALL IN UNEMPLOYMENT THIS YEAR.

ACCORDING TO THE LATEST PROJECTIONS, FRANCE'S ECONOMIC GROWTH RATE WILL BE HIGHER THAN EXPECTED THIS YEAR, WHILE INVESTMENT WILL STAGNATE. IT IS NOW EXPECTED THAT GROSS NATIONAL PRODUCT, WHICH FELL 3 PER CENT LAST YEAR, WILL RISE BY 5 PER CENT IN 1976, COMPARED WITH THE EARLIER FORECAST OF 4.7 PER CENT. IMPORTS ARE PROJECTED TO INCREASE BY 12 PER CENT AND EXPORTS BY 6.4 PER CENT, TURNING 1975'S SMALL TRADE SURPLUS INTO A DEFICIT OF THE SAME MAGNITUDE IN 1976.

FRANCE'S SEVENTH ECONOMIC AND SOCIAL DEVELOPMENT PLAN, COVERING THE PERIOD FROM 1976 TO 1980 IS BASED ON A PROJECTED ANNUAL GROWTH RATE OF BETWEEN 5.5 AND 6 PER CENT, IN REAL TERMS.

THE PLAN ALSO STATES, AMONG OTHER THINGS, THAT FRANCE'S PRESENT INFLATION RATE IS UNACCEPTABLE AND PROPOSES THAT IT SHOULD BE BROUGHT DOWN TO LESS THAN 6 PER CENT.

THE ECONOMIC POLICY ALSO HOPES TO RESTORE THE FOREIGN TRADE BALANCE (WITH A TARGET OF A TRADE SURPLUS OF 10 MILLION FRENCH FRANCES BY 1980), CREATE 1.1 MILLION NEW JOBS, INCREASE PER CAPITA HOUSEHOLD CONSUMPTION BY 3 PER CENT A YEAR, AND ACHIEVE A RATE OF PRODUCTIVE INVESTMENT OF 18 TO 19 PER CENT OF GROSS NATIONAL PRODUCT BY THE END OF THE DECADE.

### C. MAJOR PROBLEMS

TO SUM UP, IN 1976, THE EC MEMBER STATES CAN COUNT ON A MODERATE ECONOMIC RECOVERY, WHICH WILL SET IN ONLY AFTER A LAG IN THOSE COUNTRIES FACING SEVERE STRUCTURAL DIFFICULTIES, THAT IS, IRELAND, ITALY AND GREAT BRITAIN.

SOME RISKS, HOWEVER, ARE STILL PRESENT. THEY RANGE FROM UNCERTAINTY ABOUT EXPORT DEMAND, FEARS OF A RENEWED UPSURGE IN INFLATION, THE STILL INADEQUATE LEVEL OF CONSUMER CONFIDENCE AT A TIME OF PERSISTENT HIGH UNEMPLOYMENT, TO THE DOUBTS ABOUT THE STRENGTH OF INDUSTRIES' PROPENSITY TO INVEST IN THE MONTHS AHEAD.

TO HELP OVERCOME THESE PROBLEMS, THE EUROPEAN COMMUNITY'S COMMISSION ASKED THE MEMBER STATES TO ADOPT SEVERAL LINES OF ACTION:

1) TO INCREASE JOB-CREATING INVESTMENTS. PLANS TO PROVIDE BASIC AND FURTHER TRAINING SHOULD, IN PARTICULAR, HELP REDUCE THE HIGH LEVEL OF UNEMPLOYMENT, ESPECIALLY AMONG YOUNG PEOPLE, A CAUSE FOR ACUTE CONCERN IN THE COMMUNITY;

2) TO FURTHER SLOW DOWN CONSUMER PRICE INFLATION THROUGH STRICTER CONTROL OF ADMINISTERED PRICES. THIS SHOULD PREVENT THE MODERATION IN THE RISE OF WAGES FROM CANCELLING OUT THE EFFECT ON CONSUMER DEMAND IN REAL TERMS;

3) ACHIEVEMENT OF GREATER AGREEMENT BETWEEN MANAGEMENT AND LABOR ON INCOME TARGETS AND ECONOMIC POLICIES FOR ACHIEVING THESE TARGETS. TO REACH A CONSENSUS ON GUIDELINES FOR THE COMMUNITY'S ECONOMIC POLICY IN THE JUNE MEETING OF REPRESENTATIVES OF LABOR, MANAGEMENT AND GOVERNMENT, THE SECOND SO-CALLED "TRIPARTITE CONFERENCE". ON THE BASIS OF GUIDELINES PUT FORTH AT THIS MEETING, THE COMMISSION WILL ATTEMPT TO RECOMMEND ECONOMIC POLICIES WHICH, WHILE FLEXIBLE ENOUGH TO ACCOMODATE THE ECONOMIC SITUATION OF EACH MEMBER STATE, WILL START THE NECESSARY PROCESS OF CONVERGENCE OF ECONOMIC AND MONETARY POLICIES. SUCH AN EFFORT WOULD HELP PREVENT DISRUPTION OF THE EC "SNAKE" AND STRENGTHEN THE MONETARY COHESION OF THE MEMBER CURRENCIES. IT WOULD ALSO PAVE THE WAY FOR A RESUMPTION OF THE NOW-STALLED MOVEMENT TOWARD ECONOMIC AND MONETARY UNION IN EUROPE.

## TRADE

THE UNITED STATES AND THE EUROPEAN COMMUNITY SHARE A HOST OF COMMON VALUES, GOALS AND INTERESTS. ONE OF THE MOST OBVIOUS POINTS IN COMMON -- AND ONE THAT YOU, AS BUSINESSMEN, ARE MOST FAMILIAR WITH -- IS THE TRADE RELATIONS BETWEEN THESE TWO ENTITIES, THE LARGEST TRADING BODIES OF THE FREE WORLD. IF YOU WILL ALLOW ME, I WOULD LIKE TO PLACE IN PERSPECTIVE THE EUROPEAN COMMUNITY'S POSITION IN WORLD TRADE.

THE EC AND THE UNITED STATES ARE THE WORLD'S LARGEST TRADING POWERS.

EC EXPORTS REPRESENTED 21.4 PER CENT OF TOTAL FREE WORLD TRADE IN 1974, WHILE U.S. EXPORTS FOR THE SAME YEAR ACCOUNTED FOR 15.5 PER CENT. IMPORT FIGURES FOR THE SAME YEAR IN THAT CATEGORY WERE 24.8 PER CENT FOR THE EUROPEAN COMMUNITY AND 16 PER CENT FOR THE U.S.

IN THE AGRICULTURAL SECTOR, UPON WHICH I SHALL LATER EXPAND, THE EC IN 1974, EXPORTED \$9.2 BILLION WORTH OF GOODS TO THIRD COUNTRIES AGAINST U.S. EXPORTS OF \$22.0 BILLION. HOWEVER, EC AGRICULTURAL IMPORTS THAT YEAR FAR SURPASSED THOSE OF THE U.S. -- \$18.9 BILLION TO YOUR \$10.4 BILLION.

THE UNITED STATES AND THE EUROPEAN COMMUNITY ARE EACH OTHER'S MOST IMPORTANT TRADING PARTNER, BOTH FOR IMPORTS AND EXPORTS.

U.S. EXPORTS TO THE EC IN 1975 REPRESENTED 21 PER CENT OF YOUR TOTAL EXPORTS (25 PER CENT FOR AGRICULTURAL COMMODITIES, 22 PER CENT FOR NON-AGRICULTURAL GOODS). ON THE OTHER HAND, U.S. IMPORTS FROM THE E.C. REPRESENTED 17 PER CENT OF TOTAL U.S. IMPORTS THAT SAME YEAR (11 PER CENT FOR AGRICULTURAL COMMODITIES AND 18 PER CENT FOR NON-AGRICULTURAL COMMODITIES).

AS A RESULT OF THE RECESSION, THE VOLUME OF WORLD TRADE DECREASED BY 6 PER CENT LAST YEAR, ACCORDING TO GATT STUDIES, THE BIGGEST SLUMP SINCE THE SECOND WORLD WAR.

HOWEVER, THE U.S. TRADE BALANCE LOOKS BETTER THAN THE EUROPEAN COMMUNITY'S. INDEED, AFTER SHARP DECLINES IN 1972 AND 1974, THE UNITED STATES RAN A TRADE SURPLUS OF \$10 BILLION IN 1975. IN CONTRAST, THE EEC HAS SHOWN A TRADE DEFICIT EVERY YEAR, WITH THE EXCEPTION OF 1972. IN 1974, WHEN THE U.S. HAD A \$3.1 BILLION TRADE DEFICIT, THE COMMUNITY'S TOTALED \$20 BILLION. HOWEVER, THIS DEFICIT WAS GREATLY REDUCED LAST YEAR.

FOREIGN TRADE HAS ALWAYS BEEN AN IMPORTANT ELEMENT OF THE COMMUNITY'S GROSS NATIONAL PRODUCT: IN 1970, EC EXPORTS TO THE WORLD REPRESENTED 8.9 PER CENT OF ITS GNP AND IN 1974, 11.7 PER CENT.

FOR THE UNITED STATES, EXPORTS AS A SHARE OF GNP HAS TRADITIONALLY BEEN LOWER, BUT THE SHARE IS GROWING ANNUALLY: IN 1970, US EXPORTS MADE UP 4.4 PER CENT OF THE U.S. GROSS NATIONAL PRODUCT, BUT ROSE TO 7.2 PER CENT IN 1975.

I DID NOT INTEND TO OVERWHELM YOU WITH FIGURES, BUT THOSE I JUST GAVE YOU SHOULD EXPLAIN WHY WE ARE SO EAGER TO AVOID ANY ELEMENT OF RESTRICTION IN OUR TRADE LINKS. NOT ONLY BECAUSE WE BELIEVE THAT TRADE RESTRICTIONS HINDER PROFITS AND PREVENT MAINTENANCE AND RESTORATION OF EMPLOYMENT OR ECONOMIC GROWTH FROM BEING PURSUED ON BOTH SIDES OF THE ATLANTIC, BUT ALSO BECAUSE CLOSE TRADE RELATIONS AMONG NATIONS IS AN ESSENTIAL FACTOR OR RAPPROCHEMENT BETWEEN PEOPLE.

IT HAS BEEN THE EUROPEAN COMMUNITY'S EXPERIENCE IN THE LAST TWENTY YEARS.

SINCE THE CREATION OF THE EUROPEAN COMMUNITIES IN 1958, WE HAVE BEEN LIVING IN AN ERA OF ECONOMIC GROWTH. IT HAS THEREFORE BEEN EASY TO PROGRESSIVELY LIBERALIZE TRADE AMONG NATIONS AND TO ACCEPT AND DIGEST THE ADJUSTMENTS WHICH RESULTED FROM SUCH LIBERALIZATION.

LAST YEAR'S RECESSION, WHICH HIT OUR COUNTRIES HARDER THAN YOURS, COULD HAVE INTERRUPTED THAT LIBERALIZATION TREND AND DRIVEN ALL NATIONS IN A RACE TOWARD PROTECTIONIST MEASURES. BUT OUR GOVERNMENTS HAVE HAD THE FORESIGHT AND PRUDENCE TO AVOID THESE TRENDS.

I MUST SAY THAT THE INCREASE IN DEMANDS BY VARIOUS INDUSTRIES IN THIS COUNTRY AND THE NUMEROUS INVESTIGATIONS INITIATED DURING THE PAST 18 MONTHS HAVE BEEN A MAJOR SOURCE OF CONCERN IN EUROPE. AT THE END OF LAST YEAR, 25 PER CENT OF EC TRADE WAS SUBJECT TO INVESTIGATION BY US AGENCIES AND WAS THEREFORE THREATENED WITH EXCLUSION FROM THE US MARKET:



HAM, SHOES, STEEL, SPECIALTY STEEL, AUTOMOBILES, AND OTHER LESS IMPORTANT PRODUCTS, TOTALING NEARLY \$5 BILLION.

SINCE THEN, PRESIDENT FORD HAS, BY HIS DECISIONS ON THESE CASES, SHOWN THAT HE WAS DETERMINED TO FIGHT PROTECTIONISM WHILE PROVIDING, WHEN NECESSARY, ADJUSTMENT ASSISTANCE TO INDUSTRIES HARDEST HIT BY THE RECESSION. WE, NEVERTHELESS, REGRET THAT THE PRESIDENT FELT OBLIGED TO IMPOSE LIMITATIONS ON SPECIALTY STEEL IMPORTS SINCE WE HAVE ALWAYS BELIEVED THAT THIS INDUSTRY'S PROBLEMS WERE OF A TEMPORARY NATURE AND DUE TO THE RECESSION.

BUT OUR TRADE RELATIONS SHOULD NOT BE SEEN ONLY IN A NARROW BILATERAL FRAMEWORK, BUT ALSO AS THEY ARE SHAPED BY THE MULTILATERAL TRADE NEGOTIATIONS NOW UNDERWAY IN GENEVA. THE EUROPEAN COMMUNITY IS FIRMLY COMMITTED TO THE SUCCESS OF THESE NEGOTIATIONS, LAUNCHED IN TOKYO NEARLY THREE YEARS AGO. SOME FEEL THE TALKS ARE AT AN IMPASSE AND SO QUESTION THEIR OUTCOME. HOWEVER, CONSIDERING THE NUMBER OF COUNTRIES INVOLVED AND THE SCOPE OF THESE NEGOTIATIONS, IT IS NOT SURPRISING THAT THEY ARE LENGTHY AND DIFFICULT.

SOME 83 COUNTRIES NEGOTIATE IN GENEVA ON SUBJECTS AS VARIED AND COMPLEX AS A CODE FOR STANDARDS, A CODE TO REGULATE THE USE OF COUNTERVAILING DUTIES AND SUBSIDIES, ACCESS TO RESOURCES, PROBLEMS OF SAFEGUARDS, SPECIAL TREATMENT FOR DEVELOPING COUNTRIES, A POSSIBLE CODE FOR PROCUREMENT, NOT TO MENTION THE CLASSICAL AND BETTER KNOWN QUESTIONS OF TARIFF REDUCTIONS AND QUOTA ELIMINATIONS.

LAST FALL'S RAMBOUILLET AGREEMENT SET A DEADLINE FOR THE COMPLETION OF THESE NEGOTIATIONS -- THE END OF 1977. IT IS INDEED AN AMBITIOUS GOAL, CONSIDERING ALL THE ELEMENTS IN PLAY.

THE QUESTION ARISES WHETHER THESE GATT NEGOTIATIONS, IN ADDITION TO PROVIDING MORE STABILITY AND FREE TRADE AMONG OUR COUNTRIES AND OTHER INDUSTRIALIZED PARTNERS IN THE FREE WORLD, WILL PROVIDE TRADE INCENTIVES AND OPPORTUNITIES NECESSARY TO HELP THE DEVELOPING COUNTRIES WHO SUFFER MOST FROM ECONOMIC FLUCTUATIONS.

BECAUSE OF ITS HISTORIC INVOLVEMENT WITH THE GREATER PART OF AFRICA AND THE FAR EAST, THE EUROPEAN COMMUNITY IS PARTICULARLY SENSITIVE TO THIS PROBLEM AND HAS CONSISTENTLY GIVEN AID WHERE NEEDED. WE HAVE OFFERED FREE ACCESS TO OUR MARKETS TO MOST DEVELOPING COUNTRIES' MANUFACTURED GOODS SINCE 1970 AND WE HAVE ANNUALLY INCREASED THE SCOPE OF THIS PLAN. IN 1975 WE SIGNED A 5 YEAR CONVENTION WITH 46 AFRICAN, CARIBBEAN, AND PACIFIC COUNTRIES, PROVIDING FREE ACCESS TO OUR MARKETS FOR 99.2 PER CENT OF THEIR EXPORTS AS WELL AS AID WORTH \$4 BILLION, MOSTLY IN THE FORM OF GRANTS. AS PART OF THIS PROGRAM, WE DEVELOPED AN ORIGINAL PLAN, KNOWN AS STABEX, FOR STABILIZING THE EXPORT RECEIPTS OF THESE COUNTRIES FOR EXPORTS TO EC MARKETS OF SOME OF THE RAW MATERIALS THEY PRODUCE.

THE PLAN ALLOWS ANY COUNTRY PARTICIPATION IN THE CONVENTION TO REQUEST A FINANCIAL TRANSFER FROM THE COMMUNITY WHEN, FOR A GIVEN YEAR, EXPORT RECEIPTS FOR ONE OF THESE PRODUCTS FALLS BY 7.5 PER CENT AS COMPARED TO THE MOVING

AVERAGE OF EARNINGS FROM COMMUNITY-BOUND EXPORTS DURING THE FOUR PRECEDING YEARS.

## AGRICULTURE

TURNING TO AGRICULTURE, A SUBJECT OF NO SMALL IMPORTANCE TO YOU IN IOWA, I WOULD LIKE TO DISCUSS THE COMMUNITY'S COMMON AGRICULTURAL POLICY, OR CAP AS IT IS REFERRED TO WITHIN THE COMMUNITY.

THE CAP WAS ONE OF THE BOLDEST AND MOST SIGNIFICANT STEPS IN THE UNIFICATION OF THE NINE. IT HAS BEEN AT ONCE THE STRONGEST BINDING FORCE BETWEEN THE MEMBER NATIONS AND THE GREATEST CAUSE OF DISSENTION. AS THE UNITED STATES HAS FOUND GOVERNMENT INTERVENTION IN AGRICULTURE IS OFTEN NECESSARY AND CAN BE A HEALING FORCE TO PREVENT OVERDRAMATIC CHANGE IN THE INDUSTRY, BUT CAN ALSO OUTLIVE ITS USEFULNESS. SO NOW, IN A TIME OF HIGH AGRICULTURAL PRICES, THE U.S. HAS DECIDED TO RETURN TO A FREE MARKET AND THE EUROPEAN COMMUNITY, TIRED OF SPENDING SOME 70-75 PER CENT OF ITS TOTAL BUDGET ON AGRICULTURAL INTERVENTION, IS MOVING SOME WAY IN THE SAME DIRECTION.

BUT MUCH OF THE CAP WILL REMAIN IN OPERATION AS IT NOW STANDS AND I WILL ATTEMPT SOME EXPLANATION OF WHY IT DEVELOPED AS IT DID AND HOW IT WORKS.

### WHY A CAP

IN MODERN INDUSTRIAL SOCIETY, AND ESPECIALLY DURING THE INDUSTRIAL POST-WAR BOOM, THE AGRICULTURAL SECTOR HAS

Contradicted  
on p. 95  
See arrow

TENDED TO LAG BEHIND THE OTHERS, MAINLY BECAUSE STRUCTURAL CHANGES AND ADAPTATIONS TO AN EFFICIENCY-ORIENTED SOCIETY ARE MADE MORE SLOWLY IN AGRICULTURE THAN IN INDUSTRY. SO IF THEY WANT TO KEEP UP FOOD PRODUCTION, GOVERNMENTS ARE INDUCED TO INTERVENE TO MAINTAIN OR RE-ESTABLISH COMPARABLE INCOME LEVELS FOR AGRICULTURE AND INDUSTRY. THE GOVERNMENT INTERVENTION IN FAVOR OF AGRICULTURE HAS NOT BEEN LIMITED TO EUROPE ALONE: SINCE THE THIRTIES THE UNITED STATES GOVERNMENT HAS PURSUED COMPARABLE OBJECTIVES BY MAINTAINING A CERTAIN "PARITY" BETWEEN AGRICULTURE AND INDUSTRY, A CONCEPT WHICH IS STILL A REFERENCE POINT IN U.S. LEGISLATION.

WITHOUT A DOUBT THE CAP HAS HELPED EASE THE PAINFUL PROCESS OF THE TRANSFER OF LABOR FROM FARMING TO INDUSTRY. SINCE THE LATE FIFTIES, THE COMMUNITY'S FARM POPULATION HAS BEEN CUT IN HALF -- FROM 17 AND 1/2 MILLION TO NINE MILLION PEOPLE IN THE NINE EUROPEAN COMMUNITY COUNTRIES. TODAY FARMING COUNTS FOR 9.4 PER CENT OF TOTAL EMPLOYMENT IN THE COMMUNITY, AND THIS CHANGEOVER WAS MADE RELATIVELY SMOOTHLY, WITHOUT CAUSING AN UPHEAVAL IN EITHER FARMS OR INDUSTRY.

AS PART OF THE PROCESS, THE NUMBER OF FARMS IN THE EC WAS REDUCED AND THOSE REMAINING WERE MODERNIZED. THUS TODAY WE FIND OURSELVES WITH AN AGRICULTURAL STRUCTURE AND POPULATION WHICH ALLOWS AN ACCEPTABLE BALANCE BETWEEN AGRICULTURAL AND INDUSTRY SECTORS. THIS IS NOT A MINOR

ACHIEVEMENT, ESPECIALLY AS, UNLIKE THE UNITED STATES, AGRICULTURE IN EUROPE WAS AND STILL IS LARGELY CONDITIONED BY CENTURIES OLD TRADITIONS, HIGHLY RESISTANT TO CHANGE.

BEFORE THE FORMATION OF THE EUROPEAN COMMUNITY, ALL SIX OF THE ORIGINAL MEMBER STATE GOVERNMENTS HELPED THEIR FARMERS IN DIFFERENT WAYS, EMPLOYED DIFFERENT POLICIES TOWARD IMPORTS, AND APPLIED DIFFERENT METHODS AND LEVELS OF PROTECTION -- WHICH OFTEN WORKED AGAINST EACH OTHER. TO SUDDENLY ABANDON THESE COMPLEX NATIONAL POLICIES IN FAVOR OF SIMPLE AGRICULTURAL FREE TRADE WOULD HAVE VIOLENTLY UPSET FARMS, FARMERS, AND THE SUPPLY OF FOOD. IT WAS CLEAR THAT ANY DEVELOPMENT TOWARDS A COMMON TRADING POLICY FOR FARM PRODUCTS MUST BE ACCOMPANIED BY A COMMON APPROACH TO FARM POLICY AS A WHOLE.

THE IMPORTANCE OF AGRICULTURAL PRODUCTS IN INTERNATIONAL TRADE WAS ANOTHER REASON FOR A COMMON POLICY. IT WAS VITAL TO THE COMMUNITY THAT THE STABILITY OF AGRICULTURE AT HOME SHOULD BE PROTECTED WITHOUT DISRUPTING WORLD TRADE.

### STRUCTURE OF THE CAP

AFTER THE SIX ORIGINAL EC MEMBER STATES HAD DECIDED TO FORMULATE A COMMON POLICY FOR AGRICULTURE, THEY HAD TO DECIDE WHAT FORM TO GIVE IT. THE THREE PILLARS ERECTED AS A BASE FOR THE CAP WERE AND ARE:

- 1) MARKET UNITY, HARMONIZATION, AND THE COMMON PRICING OF FARM PRODUCTS TO ALLOW FREE MOVEMENT OF AGRICULTURAL GOODS AMONG MEMBER STATES
- 2) *Variable Levies*  INSURING THAT EC PRODUCTS ENJOY A PREFERENCE OVER IMPORTED GOODS
- 3) FINANCIAL SOLIDARITY.

FROM THIS BASE, A FARM INCOMES POLICY WAS DEVELOPED. THE ADOPTION OF THE SYSTEM FINALLY CHOSEN CAN PERHAPS BE BEST EXPLAINED BY DEMONSTRATING WHY THE OTHER MOST PROMINENT SYSTEM -- THAT OF DEFICIENCY PAYMENTS USED BY GREAT BRITAIN -- COULD NOT BE ADOPTED.

A DEFICIENCY PAYMENT SYSTEM IS ONE UNDER WHICH THE FARMER RECEIVES AN INCOME SUPPLEMENT OUT OF THE GENERAL BUDGET. IN OTHER WORDS, ALL THE TAXPAYERS CONTRIBUTE TO THE FARMERS' INCOME, PERMITTING HIM TO EARN A LIVING FROM THE LAND AND GIVING THE TAXPAYERS, IN RETURN, LOWER PRICES FOR FARM GOODS.

THIS SYSTEM WORKED IN GREAT BRITAIN BECAUSE OF THAT NATION'S LOW SELF-SUFFICIENCY IN AGRICULTURAL PRODUCTS (BRITAIN DEPENDS HEAVILY ON OTHER NATIONS, ESPECIALLY THOSE OF THE COMMONWEALTH, FOR ITS FOOD SUPPLIES) AND ITS SMALL FARM POPULATION (3 PER CENT). WITH SUCH A SMALL PERCENTAGE OF THE POPULATION ACTIVE IN AGRICULTURE, THE TAXPAYER COULD CONTRIBUTE TO THE FARMERS' INCOME THROUGH THE BUDGET WITHOUT TOO MUCH OF A FINANCIAL STRAIN.

BUT THE ADOPTION OF SUCH A SYSTEM BY THE EUROPEAN COMMUNITY WAS OUT OF THE QUESTION. WITH A FARM POPULATION WHICH STILL ACCOUNTED FOR 25 PER CENT OF THE POPULATION IN ITALY, 20 PER CENT IN FRANCE,

THE HEAVY TAX BURDEN WOULD HAVE BEEN POLITICALLY UNACCEPTABLE. AND BECAUSE OF THE FINANCIAL SOLIDARITY PRINCIPLE, THE TAXPAYER WOULD HAVE HAD TO SUPPORT, NOT ONLY HIS OWN FARM POPULATION, BUT THAT OF OTHER MEMBER STATES.

THUS THE EC, AS IT OFTEN HAS, TOOK AND EXPANDED A SYSTEM THAT WAS ALREADY IN USE IN SEVERAL MEMBER STATES. A PLAN WAS DEVELOPED TO GUARANTEE FARMERS' INCOME BY THE SETTING OF MINIMUM PRICES FOR AGRICULTURAL PRODUCTS, TO BE MAINTAINED AT A DESIRABLE LEVEL. SOME EXCEPTIONS TO THIS SYSTEM WERE DEVELOPED FOR PRODUCTS NOT WIDELY PRODUCED IN THE COMMUNITY, SUCH AS DURUM WHEAT AND OLIVE OIL. BUT IN GENERAL, THE SYSTEM ADOPTED IS AS FOLLOWS:

1) ~~A TARIFF WALL SURROUNDS THE EC TO BAR ENTRY OF ANY~~ <sup>IS PROTECTED FROM</sup> AGRICULTURAL PRODUCTS PRICED BELOW THE DESIRED OR GUARANTEED PRICE LEVEL. IF THE DOMESTIC PRODUCTION RESULTS IN SURPLUSES WHICH LOW PRICE LEVELS, THE SURPLUSES ARE REMOVED FROM THE MARKET AND STORED BY THE COMMUNITY, OR ELSE A FINANCIAL INCENTIVE IS GIVEN TO SPUR EXPORTS. THIS ACTION PERSISTS UNTIL DOMESTIC PRICES AGAIN REACH THE DESIRED LEVEL. THE MEMBER COUNTRIES TOGETHER FINANCE STORAGE AND EXPORT AID COSTS.

THIS SYSTEM HAS WORKED WELL OVER THE YEARS UNDER STABLE CURRENCY CONDITIONS AND UNDER REASONABLE GENERAL PRICE RISES. HOWEVER, THE RECENT SITUATION WITH ITS EXCHANGE RATE FLUCTUATIONS AND INFLATIONARY PRESSURES HAVE MADE THE SYSTEM DIFFICULT TO OPERATE.

*has further*  
~~EXCESSIVE EXCHANGE RATE FLUCTUATIONS NECESSITATED THE REINTRODUCTION OF CERTAIN TARIFFS. TO KEEP PRICES STABLE IN NATIONAL CURRENCIES, LEVIES HAD TO BE ESTABLISHED TO COMPENSATE FOR THE CURRENCY FLUCTUATIONS.~~

*Complicated*  
INFLATIONARY PRESSURES ALSO INDUCED EC FARMERS TO PRESS FOR HIGHER PRICES -- AND TO MAINTAIN THEIR INCOME THEY INCREASED PRODUCTION. SURPLUSES RESULTED, WHICH NEEDED TO BE SOLD ABROAD AND THE EXPORT AID BILL ROSE. THIS, COMBINED WITH MONETARY ~~LEVIES~~ *supports*, CAUSED AN ENORMOUS GROWTH IN COMMUNITY AGRICULTURAL EXPENDITURE (\$6.6 BILLION IN 1976).  
*eliminate*

THE PROBLEM FACING THE COMMUNITY TODAY IS THE SAME ONE FACING ALL OF US -- TO HOLD DOWN PRICE INCREASES TO A MODERATE LEVEL, WHICH REQUIRES A REDUCTION IN INFLATION AS WELL AS STABLE CURRENCY PARITIES. ONLY THEN CAN ORDER BE BROUGHT ONCE MORE TO AGRICULTURAL POLICY AND MONEY MADE AVAILABLE TO PURSUE MUCH NEEDED REFORMS, SUCH AS MODERNIZATION AND CONSOLIDATION OF SMALL, UNPROFITABLE FARMS.



IN SPITE OF ALL ITS PROBLEMS, HOWEVER, THE CAP HAS AS I HAVE SAID, BEEN A CONSIDERABLE ACHIEVEMENT. IN A WORLD OF UNCERTAIN FOOD SUPPLIES, IT PROVIDES THE EC CONSUMER WITH SECURITY OF SUPPLY AT STABLE, IF HIGH, PRICES. BY GUARDING AGAINST VIOLENT FLUCTUATIONS IN FARM GATE PRICES, THE POLICY GIVES TO RELATIVELY EFFICIENT FARMERS THROUGHOUT THE EC THE CONFIDENCE TO PROVIDE THE FOOD NEEDED AND A MARKET OF 250 MILLION CONSUMERS IN WHICH TO SELL IT.

#### COMPARISONS BETWEEN U.S. AND E.C. AGRICULTURE

WHILE EUROPEAN AGRICULTURE IS DEEPLY INVOLVED IN A COMPLEX SET OF MARKET, PRICE, AND MONETARY REGULATIONS, U.S. GOVERNMENT POLICY HAS TRIED, SINCE 1970 AND MORE ESPECIALLY SINCE THE 1973 AGRICULTURAL ACT, TO REDUCE INTERFERENCE WITH MARKET FORCES.

THIS POLICY WAS MADE EASIER BY THE CONSIDERABLE CHANGE IN INTERNATIONAL DEMAND DURING THAT PERIOD.

BEFORE 1970, WORLD DEMAND FOR AGRICULTURAL PRODUCTS WAS FAIRLY STABLE AND GROWING GOVERNMENT STOCKS, WHICH THE GOVERNMENT COULD NO LONGER FINANCE, REQUIRED THE PURSUIT OF A POLICY OF PRODUCTION LIMITATION.

AFTER 1970, HOWEVER, IN THE WAKE OF MANY WORLD-WIDE GRAIN FAILURES, WORLD DEMAND FOR US GRAIN GREW RAPIDLY. THE ADMINISTRATION BEGAN TO FOLLOW A POLICY OF LESS GOVERNMENT INTERFERENCE, THE MAIN GUIDELINES OF WHICH ARE:

1) PRODUCTION SHOULD BE GUIDED BY MARKET FORCES TO BALANCE SUPPLY AND DEMAND,

2) FARMERS SHOULD HAVE FULL BENEFIT OF HIGH PRICES, BUT SHOULD ALSO BEAR THE RISK OF UNFAVORABLE MARKET DEVELOPMENTS.

THE RESULTS OF THIS CHANGE OF POLICY HAVE CONSIDERABLE INTEREST FOR US IN THE EUROPEAN COMMUNITY.

THE DIFFERENCE BETWEEN US AND EC AGRICULTURAL YIELDS -- EACH SYSTEM OPERATING UNDER DIFFERENT CONDITIONS OF GOVERNMENT SUPPORT -- ARE REMARKABLE. NET FARM INCOME AT CURRENT PRICES HAS MORE THAN DOUBLED IN THE UNITED STATES; IN EUROPE, PRODUCTION VALUE INCREASED BY ONLY ABOUT 30 PER CENT.

THIS WOULD SUGGEST THAT PRESENT U.S. POLICY IS FAR MORE PROFITABLE FOR BOTH TAXPAYERS AND FARMERS. BUT YOU MUST, NONETHELESS, REMEMBER THAT THE STRUCTURES OF FARMING IN THE UNITED STATES AND IN THE COMMUNITY ARE VERY DIFFERENT. WHEN THE FIRST SETTLERS CAME TO AMERICA, THEY HAD VAST AMOUNTS OF UNTILLED LAND WHICH COULD BE CULTIVATED AND DEVELOPED WITH THE EFFICIENCY THAT SUCH SIZE PERMITS. BUT WE, IN EUROPE, HAVE LIMITED AMOUNTS OF ARABLE LAND AND CENTURIES-OLD METHODS OF AGRICULTURE TO REFORM IN NINE MEMBER STATES, EACH WITH ITS OWN IDEAS ABOUT FARMING.

GOVERNMENT EXPENDITURES IN THE UNITED STATES FOR FARM INCOME SUPPORT DROPPED FROM \$3.5 BILLION IN 1973 TO \$0.6 BILLION IN 1975. OVER THE SAME PERIOD, EC EXPENDITURES ROSE FROM \$3.6 BILLION TO \$6.6 BILLION.

GOVERNMENT STOCKS HAVE VIRTUALLY DISAPPEARED IN THE U.S., WHILE IN THE EC, LARGE JOINT STOCKS ARE STILL BEING HELD. THE PRINCIPLE SURPLUS IN THE COMMUNITY AT THE MOMENT IS \$1.2 MILLION TONS OF SKIM MILK POWDER.

SINCE 1970, U.S. AGRICULTURAL EXPORTS HAVE MORE THAN TRIPLED -- RISING FROM \$7 BILLION TO \$21 BILLION, WHILE THOSE OF THE EC ONLY DOUBLED -- FROM \$4.5 BILLION TO \$9 BILLION OVER THE SAME PERIOD OF TIME.

CURRENT AGRICULTURAL TRADE PROBLEMS BETWEEN THE US AND EC

AGRICULTURAL TRADE BETWEEN THE U.S. AND THE E.C. IS RATHER UNBALANCED. AT PRESENT, U.S. EXPORTS TO THE E.C. ARE RUNNING AROUND \$5.5 BILLION ANNUALLY, WHILE U.S. IMPORTS FROM THE E.C. ARE ONLY \$1.1 BILLION IN THAT SECTOR.

IN THE LIGHT OF THIS IMBALANCE IT IS DIFFICULT FOR EUROPEANS TO UNDERSTAND WHY THE U.S. ENGAGED IN PROTECTIONIST ACTIVITIES IN ITS AGRICULTURAL TRADE WITH THE E.C., IN THE CASES OF CHEESE, CANNED HAM, AND BEEF, FOR EXAMPLE.

THE MAJOR CAUSE FOR DISPUTE TODAY IS, OF COURSE, THAT OF THE POSSIBLE IMPACT ON AMERICA'S SOYBEAN EXPORTS OF THE EC'S PLAN FOR COMPULSORY INCORPORATION OF SKIMMED MILK POWDER IN ANIMAL FEED.

AS I AM SPEAKING TO AN AUDIENCE REPRESENTING MANY FARM INTERESTS, YOU MUST FORGIVE ME FOR DWELLING ON THIS CASE IN MORE DETAIL;

EUROPE'S MILLION TON MILK POWDER MOUNTAIN CAN NO LONGER BE SUPPORTED BY PUBLIC FUNDS AND THE COMMUNITY HAS GOT TO FIND A WAY TO RESOLVE THIS PROBLEM. IT IS, OF COURSE, OUT OF THE QUESTION TO FLOOD THE WORLD MARKET.

SO THE EC DECIDED TO GIVE MORE MILK POWDER AS FOOD AID TO POOR NATIONS AND TO REDUCE ITS STOCKPILE IN EUROPE BY INCORPORATING 5 PER CENT OF THE POWDER *in what?*

BUT LET US REMEMBER THAT WHILE THERE ARE POSSIBLE ALTERNATIVES TO THIS PLAN, THEY WOULD HURT OTHER SECTORS OF THE WORLD FARMING COMMUNITY.

THIS OPERATION IS A ONE-TIME EFFORT TO PURGE THE COMMUNITY OF ITS SKIM MILK POWDER STOCKPILE.

IT IS IMPOSSIBLE TO ASSESS THE IMPACT OF THIS PROGRAM ON US SOYBEAN EXPORTS TO THE COMMUNITY UNTIL IT HAS ENDED. HOWEVER, YOU SHOULD NOTE THAT IN 1974-75, THE EUROPEAN COMMUNITY BOUGHT NEARLY \$2 BILLION WORTH OF SOYBEANS AND SOYBEAN MEAL FROM THE UNITED STATES AND THAT ANY DISPLACEMENT CAUSED BY THIS PLAN WOULD HAVE A MINOR IMPACT ON TOTAL US SOYBEAN SALES TO THE COMMUNITY.

CONCLUSION

AS I SAID AT THE OUTSET, I CHOSE THESE THREE TOPICS BECAUSE I THOUGHT THEY WOULD BE OF THE GREATEST INTEREST TO THE AUDIENCE HERE TODAY. IN SO DOING, I HAVE NOT BEEN ABLE TO TALK TO YOU ABOUT THE COMMUNITY'S PROGRESS IN THE FIELD OF EXTERNAL RELATIONS.

I HAVE BARELY TOUCHED THE WIDE NETWORK OF COOPERATION AND TRADE AGREEMENTS WHICH THE COMMUNITY HAS ESTABLISHED WITH COUNTRIES OF THE THIRD WORLD.

I HAVE NOT DISCUSSED THE DEVELOPMENT OF DIPLOMATIC RELATIONS BETWEEN THE COMMUNITY AND A NUMBER OF COUNTRIES, AMONG THEM THE PEOPLE'S REPUBLIC OF CHINA.

LET ME JUST TELL YOU THAT, HOWEVER DIFFICULT THE CONSTRUCTION OF EUROPE'S ECONOMIC UNION MAY APPEAR, A STUDY OF THE PROGRESS MADE IN THE LAST FEW YEARS SHOWS THAT EUROPE'S ECONOMIC STRENGTH AND ITS POSITION IN INTERNATIONAL TRADE HAVE INCREASED SO AS TO ENHANCE ITS ATTRACTION IN THE EYES OF THIRD COUNTRIES.

THIS CAN BE EXPLAINED BY A FEW FACTS RELATIVE TO THE COMMUNITY'S SIZE. THE COMMUNITY IS THE WORLD'S LARGEST TRADING UNIT, WITH A GROSS NATIONAL PRODUCT

THAT NEARLY EQUALS THAT OF THE UNITED STATES AND IS FAR GREATER THAN THAT OF THE SOVIET UNION. ITS POPULATION EXCEEDS THAT OF THE UNITED STATES IN A MUCH SMALLER LAND MASS AND IS FAR LARGER THAN THE POPULATION OF THE U.S.S.R.

THE EUROPEAN COMMUNITY HOLDS 30 PER CENT OF THE WORLD'S

MONETARY RESERVES AND GIVES OUT HALF OF THE TOTAL AID GRANTED TO THE DEVELOPING WORLD.

AS I HAVE STATED REPEATEDLY, ITS PROGRESS IS DIFFICULT AND ITS PACE TOWARD THE AMBITIOUS GOAL OF EUROPEAN UNION VARIES FROM YEAR TO YEAR.

BUT ONE THING IS CLEAR: THE COMMUNITY IS HERE TO STAY. IT IS COMING OUT OF THE DEEPEST RECESSION IN THE WESTERN WORLD SINCE THE LATE 1930s. THE NINE COMMUNITY COUNTRIES HAVE STUCK TOGETHER THROUGH GREAT PRESSURES OF INFLATION AND HAVE RESISTED THE GREAT TEMPTATION TO WITHDRAW INTO THEIR OWN SHELLS AND PROTECT THEMSELVES BEHIND NEW TRADE BARRIERS. THROUGH THIS THEY ARE NOW EMERGING, IF NOT STRONGER, AT LEAST CONVINCED THAT THEIR FUTURE STILL LIES IN THEIR UNITY.

I WOULD LIKE TO ADD, AS A CONCLUSION, THAT THE COMMUNITY'S PERMANENCE, ITS ATTRACTIVENESS TO OTHERS, AND ITS POLITICAL IMPLICATIONS SHOULD BE OF GREAT INTEREST TO THE UNITED STATES. WE LIVE IN A WORLD WHERE DEMOCRATIC VALUES ARE LOSING GROUND. I AM TOLD THAT OUT OF THE NEARLY 150 COUNTRIES IN THE WORLD, ONLY 29 REMAIN DEMOCRACIES. THE MOST IMPORTANT LINK BETWEEN THE UNITED STATES AND EUROPE IS A LINK OF CIVILIZATION, INTIMATELY BOUND TO OUR VALUE OF DEMOCRACY. EUROPE REMAINS THE OTHER PILLAR OF DEMOCRACY.

THE STRENGTH WHICH THE COMMUNITY HAS GIVEN TO EUROPE HAS ALSO STRENGTHENED DEMOCRACY. WE HAVE SEEN IT IN THE PAST, WE ARE SEEING IT IN THE PRESENT AS COUNTRIES LIKE PORTUGAL, SPAIN, AND GREECE ATTACH INCREASED IMPORTANCE

TO REINFORCED LINKS WITH THE COMMUNITY -- NOT ONLY BECAUSE OF THE COMMUNITY'S ECONOMIC ATTRACTIVENESS OR BECAUSE OF THE DESIRE TO SHARE THE GROWTH IN PROSPERITY LINKED TO IT. BUT ALSO BECAUSE COMMUNITY MEMBERSHIP HAS MEANT THE CONFIRMATION OF THE MEMBER COUNTRIES' ATTACHMENT TO DEMOCRACY. AND THE FRAMEWORK OF SOLIDARITY PROVIDED BY THE COMMUNITY TO ITS MEMBERS SHOULD ENABLE THEM TO FACE MOST POLITICAL, ECONOMIC, AND SOCIAL STORMS WHICH STILL, UNFORTUNATELY, LIE AHEAD.

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