

The Agricultural Policy in the European Community
and Current US/EC Agricultural Trade Issues

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1. Introduction

Gentlemen,

It is indeed a pleasure for me to have this opportunity today
to address this audience.

I am, on the other hand, afraid that I am facing a very difficult task.
Anyone from Europe who speaks in the United States quickly realises
that mentioning the European Community's Common Agricultural Policy -
the CAP - does not lead to a burst of enthusiastic cheering from the
back of the hall. I doubt if Europe, and especially European agriculture,
has ever been as much criticised and attacked by the US as has been
the case over the past few years.

I also think it is correct to recall that the ties between the nations
of the European Community and the United States are important. We are
allies. We depend on one another in many ways, both politically and
economically. Any strain on our relationship is therefore a step away

from our mutual best interests, and we must try to look at the present tensions between us as slight differences only. I would like first of all to make a few remarks about the CAP before I start talking about the reshaping of the CAP and current US/EC agricultural trade issues.

2. The Common Market and its Agricultural Policy

When the Common Market was created in 1957, it was based on a political deal, whereby trade was opened up between its members, not only in industrial goods, but also in farm products. Free trade was achieved in industrial goods by eliminating customs tariffs between the Community's member states. But the different agricultural structures in the member states and the different forms of farm support meant that cutting tariffs for agricultural products would have been meaningless. The only solution was the harmonisation of these different national agricultural policies in a common European policy. Thus the CAP was built up and became a key element in European integration.

The goals of the CAP are very much the same as those of the US farm policy:

- increased productivity,
- a fair standard of living for the farming population,
- market stability,
- supply assurance,
- and reasonable consumer prices.

The aspect of stability is the one which I must underline strongly. One of the things which Europeans - farmers and consumers - desire above all, is to ensure stability of prices and to avoid fluctuations from year to year.

In order to achieve the goals of the CAP, the EC once a year fixes common guideline prices for a major part of its agricultural production. These prices are guaranteed externally and internally. When world prices are below the EC level, variable levies are applied to imports, in order to bring prices up to the EC level. Similarly, refunds are paid by the EC on exports in order to bring our prices down to a level where we can compete on the world market. Internally, major commodities, such as grain and milk, can be sold to public intervention stocks at fixed minimum prices.

The CAP has been a success. Productivity has increased, stability has been reached, and trade among member countries has increased significantly. I feel it has only failed in one area, but an important one. Farmers have not obtained reasonable incomes. From 1974 to 1982 real incomes have dropped by 2.9 per cent per year on an average for EC farmers.

Danish agriculture in particular has experienced a very serious crisis. In 1980 we saw net farm incomes dropping to only 3,000 dollars per farmer on the average. Since 1979, more than 3,000 out of our 100,000 farmers have gone bankrupt. 1983 was a very bad year too, because of a bad harvest, whereas 1984 will improve the economic situation in Danish agriculture, as a result of a record harvest and better price relations, especially for pig meat.

It is important, however, to underline that the EC as a community is not as developed as the United States of America. The EC is only a union of 10 independent countries. That implies that each country has a different economic policy, different tax rules, different rules concerning agriculture - for instance, succession transfer etc., which influences the agriculture of each country. The structure of agriculture is also different among the countries. As a result of that, you can have agricultural problems in one country which you do not have in another country.

The success of the CAP has led to some problems, which are, however, partly linked to the overall economic recession. Consumption has gone up less rapidly than production. Thus the Common Market has passed the point of selfsufficiency for some products. We have become more dependent on exports. That gives us internal and external problems. Internally, because of the increasing costs to the CAP. Externally, quite naturally with other exporters to the world market, such as the US, Australia, New Zealand, etc. Of course, the CAP is not a static policy but a dynamic policy that can adapt and already has adapted to changes influencing it.

3. Reshaping of the CAP

The EC has implemented a number of measures to ensure a better matching of supply and demand to reduce costs of the CAP, and to make producers aware of the costs of overproduction.

In addition to the prudent price policy for farm products, the coresponsibility levy for dairy farmers from 1977, the limits on price

guarantees for sugarbeet producers who from 1981 had to shoulder 100% financial responsibility for their production, the Community in 1982 introduced so-called guarantee thresholds for cereals, rapeseed, milk and processed tomatoes. Whenever production exceeds these thresholds, support prices are to be reduced the following year.

Furthermore, in 1982 the Commission strengthened its prudent price policy for cereals by basing it on "the philosophy of gradual narrowing of the gap between EC cereals prices and those prevailing in the main competitor countries".

In 1984 guarantee thresholds were introduced also for sunflowers, durum wheat and dried grapes.

Furthermore, the system of guarantee thresholds has been adapted as a principle to be applied to all market organizations for surplus products or products liable to boost expenditure, i.e. deficit products supported by costly deficiency payment systems (due to present GATT obligations).

Another change in the CAP was the decision to implement a quota system for milk for a five year period from 1 April 1984. The total EC guaranteed quantity for 1984/85 is 99.57 mio.t. (219,5 mio. pounds), or 4% below 1983 deliveries. For the following four years the quantity is reduced further by 1%. The higher quantity for 1984/85 should ease the downward adjustments for individual producers, but the budgetary costs of this extra quantity are to be borne by all producers through a 1% increase in the flat rate coresponsibility levy. The guaranteed

quantities are divided between member states, who can decide themselves to implement quotas on an individual farm basis, or on a dairy basis. Deliveries above individual farm quotas are levied 75% and above dairy quotas 100% of the milk target price.

I must underline that the farm organizations of the Common Market have strongly protested against the introduction of these measures, which will cut farmers incomes at a time where they are already too low. We feel that farmers in this way pay for the overall economic problems that are the main reasons for the lack of demand.

4. Current US/EC agricultural trade issues

I know that American agriculture is having a hard time for the moment, just like we are in Europe. But the factors which are responsible for the hard times you have are not presented by the European Community, but by cutbacks in purchases by developing countries because of lack of purchasing power, record US production and, above all, the high level of the dollar.

The Common Market is in fact your biggest farm customer. Our livestock farmers rely on your cereals and soybean growers for much of their animal feed. But equally you need them. Without their considerable and regular demand, your farm incomes would be even lower than they are now. Even with the dollar at record heights, the Community ran a substantial deficit in agricultural trade with the United States in 1982 or some \$5.6 billion, which consisted of about \$2,6 billion of soybeans, about \$1,6 billion of animal foodstuffs and about \$550 million of fruit and vegetables. There is much talk of the United States' image as a reliable supplier. It seems to me that the Community is a very reliable

customer.- and in hard cash.

In 1982 only 15 percent of the Community's agricultural imports from industrialized countries were subject to the variable levy system, so sharply criticised by the US administration for more than 20 years. As for the other 85 per cent, more than 50 per cent of imports from industrialized countries came in at zero duties.

EC animal production has increased over a number of years, but at the same time there has been decrease in grain quantities used for feeding purposes. This gap has been closed by the steep increase in import of grain substitutes from, among others, the US.

The demand for agricultural products on the world market has been sluggish for the last couple of years. In a situation like that, it is natural that a country wants to protect its own farmers, and also wants to take as big a share of the world market as possible. I feel that the current trade issues between the US and the EC can be explained in that way.

The US accuses the EC for being protectionist and for subsidizing its exports. Protectionist because of the planned tax on oils and fats, and because of the ideas about putting an upper limit on imports of corn gluten. To that I must say that we have not passed the tax on oils and fat, and we have not decided on the issue of putting an upper limit on corn gluten imports to the EC. Regarding the accusation about subsidizing export, I must say that our subsidies are consistent with the rules of GATT.

The EC could equally accuse the US of being protectionist. You have just passed the Wine Equity Act. You have quotas for dairy products, cotton and beef, etc. You have comprehensive export credit programs, etc.

On the other hand, I am convinced that a first step towards a satisfactory agreement between the US and the EC is a wide understanding of each other's point of view. That is why I have been very pleased to have had this opportunity today to explain our point of view.

It is through co-operation, and not confrontation, that we shall achieve progress. A confrontation - a trade war

- will make world prices fall,
- will provide no substantial commercial benefits to either party,
- will be very costly to public finances and thereby a catastrophe for farmers' incomes,
- will be beneficial to third countries, such as the Soviet Union,
- will not remain limited to the agricultural sector.

The only reasonable way to proceed is to find common solutions to common problems. Here and now in consultations amongst the world's leading exporters and perhaps importers of agricultural goods, so to avoid any trade confrontation, - and, in particular, to prevent world prices from collapsing. In the longer run through a stabilization of world markets by means of international commodity agreements.

We can turn trade into an economic battleground. Or we can co-operate and respect each other's interests. In the European Community we prefer the latter and I am sure you do, too.