ISSUES IN THE EUROPEAN ECONOMIC COMMUNITY'S AGRICULTURAL TRADE POLICY

Address presented

by

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I am most grateful to you Mr. Chairman and to the Virginia Cooperative Extension Service for giving me this opportunity of saying a few words to you on such an important topic - one with implications not only for European farmers but also for American agriculture. And one with particular relevance today when both the EC and US are reviewing their farm policies.

I propose spending the half hour alloted to me this morning saying something about the Common Agricultural Policy - where it has got to and the course plotted for its future.

As most of you will know, the European Community has operated its own farm policy - the Common Agricultural Policy or CAP - for the last 20 years or so, and I imagine that you will also appreciate its great importance not only to our 8 million farmers and their families but also to all 270 mio Europeans living in our 10 Member States.

The objectives of the CAP - set out in the Treaty of Rome, our founding Constitution - can be summarised as follows:

- to increase productivity through technical progress;
- to give the farmer a fair standard of living ;
- to assure the supply of sufficient food at reasonable prices, and
- to stabilise markets.

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Goals which are not very different - I would have thought from US Farm Policy, but - I get the impression - that there is perhaps less emphasis here on stability of prices and security of supply. And, what is more, we both have policies which have had uncomfortably similar results.

Very broadly, the objectives of the Treaty have been achieved by fixing common prices for the major part of our farm production. Some/ but by no means all of these prices are at higher levels than those in the US. But assurance of supply like any insurance policy costs money. And the European consumer is prepared to pay this small premium. But here, let me emphasise that the CAP should not be looked at in a purely economic context but against a social, political, cultural and environmental background as well. We believe that the well-being of agriculture is essential to the fabric of rural life.

Let us now look briefly at what the effects of achieving these objectives have been - both inside and outside the Community.

We are frequently accused by our critics of spending limitless sums of money to encourage our farmers to produce enormous surpluses which are then off-loaded onto world markets with unfair subsidies. But let us examine the facts.

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First. As a result of the support we give our farmers, our wheat production, for example, has increased by 29% over the last decade - slightly more than the world average of 27%. The increase here in the US has been 73% and a lot of that in soft wheat grown largely in the Eastern half of the U.S. and frequently double-cropped with soya. This increase is 2 1/2 times the world average. I say this in no accusatory sense, but in an attempt to set the record straight. Furthermore, the increase in Community production has been achieved through higher yields on an acreage that has remained virtually unchanged for the last ten to fifteen years.

Second - the extent of our expenditure.
Our total farm spending on all agricultural products at an all time record of 13.5 bio $ in 1983, compared with almost 30 bio $ here - PIK included - represented less than 1/2 of one per cent of the Community's GDP.

And, unlike all national governments that I know of, there is a rigid limit as to the amount we can spend since our Constitution forbids us from running a deficit.

As to the impact of the CAP and our much criticised export refunds on world markets, just three points.
Since I get the distinct impression that there is a feeling amongst less well informed groups than this one that agricultural subsidies are an invention of cunning Europeans and the work of the devil.

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First, international trading rules formalised in the GATT to which both the US and the EC and 90 or so other nations are signatories, specifically permit the use of export refunds or subsidies, provided they are not used to gain more than an equitable share of the market. We maintain, and trade statistics support our view, that we have kept to these rules.

For example, over the ten years up to the beginning of the 80's, the Community share of the world market in wheat and wheat/flour rose from 10% to 14% ; that of the US from 34% to 46%. I submit that on the basis of these figures no reasonable person could possibly conclude that we had acted against the rules or taken an inequitable share.

Second, the US, in addition to supporting its agriculture at home pretty generously over recent years, also deploys a panoply of export aids - GSM-102, PL-480, Blended Credits and plain unvarnished subsidies.

On the question of credit for farm exports, Secretary Block said recently with some pride that: "This Administration spent more on credit for agricultural exports in the last 3 years than all previous administrations together over the last 25". And on US farm export subsidies.

Obliged in my present post to at least cast an eye over the never ending stream of USDA publications, I noticed in an April issue entitled "Middle East & North Africa - Outlook & Situation" the following sentence : "In 1983, Egypt bought 1 mio of US wheat flour at a subsidised price of only $136 per ton, about one-third below the average world market price" and an accompanying graph shows with startling clarity how the United States' share of the Egyptian market has evolved spectacularly from 1972 when it had no share at all to 1983 when it had 40% of the total market - domestic production included about 50% of the imports.

But, before I leave the question of the macho Egyptian flour deal, allow me to disabuse you of the notion frequently put about that it brought the EC scuttling to the negotiating table. The US and EC had in fact already started a series of meetings before this unfortunate initiative and what this deal did was to very nearly torpedo them. They did continue nevertheless but I can assure you - since I was present - in a much chillier atmosphere. So, agricultural subsidies are a fact of life and perhaps we are all sinners in the eyes of the Lord.

But this brief look at some of the similarities and differences between us should not be taken to imply that everything is fine on the other side of the Atlantic and that we have no problems whatsoever in the Community.

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Those of you who follow developments in the Community, if only through your newspapers, will be well aware of the serious challenges we currently face. On the agriculture front, we are both of us - US and EC together - basically presented with the same problem : that of producing larger quantities than markets can absorb which, of course, is not the same as saying that there is too much food in the world.

Whilst I strongly believe that the CAP is one of the major achievements of the European Community, it must - like any other institution or policy, if it is to survive, and survive it will - adapt itself to changing conditions.

In the Community, the CAP has to a large extent been the victim of its own success. The technical advances and productivity gains sought in Article 39 of the Treaty have meant that output has risen more rapidly than consumption. We have reduced our dependence on imports for the supply of some agricultural products and, in other cases, transformed the Community into a net exporter of others.

Productivity increases have also led to an imbalance of supply and demand - as here - with milk as the most glaring example. Increases in the volume of total agricultural production have averaged between 1 1/2 and 2% a year whilst consumption has only risen by about 1/2%. However, in spite of our achieving security of supply in a number of important farm products - one of the Treaty's aims - the EC remains by far the world's largest importer of agricultural and food products whilst the US remains the world's leading exporter.

At the same time, we are running very low on cash - whether our farm expenditure represents less than one half of one per cent of our GDP or not.
From 1974 to 1979, expenditure on supporting agricultural markets grew at 23% per year - almost twice the rate of growth in our revenue. For the next two or three years - 1980 to 1982 - expenditure remained fairly stable, largely because prices remained relatively high on world markets. But since then expenditure has increased sharply (once again, as it has here), and increased about 30% in 1983.

As I said earlier - our Community Constitution forbids us to run a budget deficit. So, for the first time we are running very close indeed to our financial limits.

There is very little spare left. This chilling fact coupled with that of production outpacing consumption is the background against which the Commission proposed and the Council of Ministers - that is to say National Ministers in a rare act of political courage adopted - an essential and very tough battery of measures for the rationalisation of our agriculture.

Time does not allow me to describe in any detail the full range of measures which will hit 8 million European farmers and their families and which will demand substantial sacrifices from them. Recent demonstrations by European farmers in England and France for example leave little doubt that they will be squeezed.

But briefly the global agreement reached can be summarised in six main points :

- confirmation of the principle of guarantee thresholds, and their extension to other products ;
- strict control of milk production by means of quotas ;
- a return to the unity of the market, through the dismantling of monetary compensatory amounts ;
- tough policy for prices ;
- streamlining of aids and premiums for various products ;
- observance of Community preference.

Let me flesh out some of those six main elements :

Guarantee Thresholds. These thresholds which put a strict ceiling on the amount of a given crop a farmer may produce without him having to contribute to the cost of disposing of the surplus, were extended to three new products -- sunflower seed, durum wheat and raisins. They were continued for milk, cereals, colza, cotton, tomatoes and sugar.

Prices. Price decisions were adapted to the different market situations for the different products. For example, for sugar there will be a price freeze and for grains a 1% cut.

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Overall, farm prices for the 1984/85 marketing year will be cut by 0.5 per cent as expressed in European Currency Units. And for the first time ever the Council's decisions mean that in national currencies there will be significant price reductions for a number of products in several Member States.

In addition there will be an intensification of our efforts to narrow the gap between our prices and those of our competitors. This will apply particularly to grain.

Milk Production. Because the milk supply/demand equation was so seriously out of balance, forcing the Community to purchase large quantities, strict production quotas have been set for five years at only one per cent above 1981 milk deliveries. Harsh levies will be applied to any milk producer that exceeds his assigned limits. The levy has been set at 75% of the milk target price. In other words, totally dissuasive. In addition, prices have been frozen.

This brings me to an external aspect of the package which, whilst only a very small part of the whole, has attracted a great deal of attention here. Since our own farmers are being asked to make considerable sacrifices and to limit their production, the Commission feels that it is not unreasonable to review the treatment of competing imports provided that this is done strictly in accordance with international trading rules.

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As I said earlier, we are aiming to narrow the gap between our grain prices and those of our competitors. EC milk producers bore the brunt of the price decisions this year because the demand/supply imbalance was most serious here and our grain producers escaped relatively lightly this time with only a 1% price cut compared with the awful fate which befell the dairy sector. They have been warned that they are next in the firing line.
Such a move will have the effect of making grain substitutes much less attractive. But until that time and whilst we are implementing a strict guarantee threshold and requiring our grain producers to limit their own production, it is absolutely essential to have some effective stabilisation of the imports of grain substitutes. In other words, we are looking for a temporary breathing space so as to avoid the risk of sabotage to our efforts to get our grain prices lower and to limit production. Such stabilisation should also help to reduce surpluses in the livestock sector.

Our aim of stabilising imports of substitutes is not a fiendish European plot aimed specifically at the residues of the US corn processing industry which, incidentally, has been able to take advantage of the high priced and US restrictive arrangements for sugar. Substitutes are imported into the EC from a wide range of sources and arrangements have already been concluded for manioc and for bran coming from Southeast Asia and elsewhere.

However, and I must stress this, what is being proposed is not hasty unilateral action, not a banning of corn gluten imports nor even a reduction in imports, as one might gather from the howls of protest, but a calm and reasoned negotiation aimed at a temporary stabilisation of imports with appropriate compensation and this only after fully carrying out the procedures laid down in the GATT. The first meeting on this subject took place in Geneva last week.

Two final observations about this particular proposal. Our cutting back on milk production should reduce demand for corn gluten feed. And, furthermore, it seems to me that if we can successfully stabilise our imports of grain substitutes, then the amount of European wheat which should be forced onto world markets because it had been displaced by substitutes in animal feeding, would be reduced. A factor which should not be without interest to US wheat farmers.

Those briefly are the decisions taken in Brussels at the end of March 1984, most of which are now in place. But this was not an instant rescue package and more hard decisions will have to be taken.

Nevertheless, these recent decisions which are not an attempt to shuffle off our problems on to others but represent an important contribution towards a better balance of supply and demand on world markets, something

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the US has been pressing us to do for years, should be of benefit to all farmers in all trading nations.

They were not, I must emphasise, taken purely for budgetary reasons, but to fit our farming to meet the changed economic circumstances of the mid 1980's and beyond.

And they will not lead to dismantling of the CAP nor to the disappearance of European farm products from world markets. We are not going to "fold our tents and silently steal away". You can instead expect to see a leaner, more streamlined European agriculture.

It seems to me therefore that there is all the more reason for us to seek cooperation rather than conflict, particularly with the prospect of ever increasing yields around the world. The EC, whilst vigilantly defending its own interests, will be prepared - as it has been in the past - to search diligently with the US and others for ways of cooperating so as to promote world trade. Since if we don't seize the opportunity to cooperate we shall all be losers. Those who are not attracted to the far from easy path of cooperation should bear in mind some factors of paramount importance.

- First, the US and EC are the largest economic units operating on world agricultural markets accounting together for about one third of world trade and nearly 30% of world agricultural exports.

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- Second, that the EC is the world's leading importer of agricultural products and the US farmers' best customer taking 7.6 bio $ worth of farm produce in 1983 and forecast to rise to 8.8. bio $ in 1984 - Japan 5.9 bio $ - South America 4.9 bio $. Japan is the US's leading single individual country market but the EC - due to its CAP - is a single multi-national market. On this point, a great deal is made of the US reputation as a reliable supplier - and understandably so - but how many of you have paused to consider how very reliable the allegedly protectionist EC is as the world's best customer for farm products ? Only about 15% of our imports from industrial countries are subject to levies and virtually all farm products from the developing countries enter free. In fact, a recent study by OECD showed that it is the EC which imports by head of population the largest quantity of agricultural products from LDCs.

- Third, that the US is the world's leading agricultural exporter supplying about 55% of the coarse grains, 50% of the soya of which the EC takes very nearly half, 45% of the wheat, 30% of the cotton and 25% of the rice that move in world trade.

- That the more numerous that agricultural exporters become on world markets the greater the need for internal discipline.

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- That every agricultural exporting nation assists its farm trade directly or indirectly.

- That no one has a God given right to dominate world markets at will at the expense of other partners who may have different methods of subsidisation.

But for such cooperation and for any other concerted measures, we shall need considerable political will not only in Washington and Brussels and in capitals around the world, but in communities such as Richmond and Rouen,in the Appalachians and the Alps, to achieve rules of conduct for agricultural trade which will benefit us all.

If we keep cool and bear in mind the big picture of the total trade - not just agriculture - across the Atlantic and the mutual advantage this provides and if we can continue along the same general course which we both seem to have set out on - that of controlling farm spending, I believe we can build a more secure and prosperous West on the foundations of the one world trading system.

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