DELEGATION OF THE COMMISSION OF THE EUROPEAN COMMUNITIES

address presented

by

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Washington, D.C.

before the

KANSAS ASSOCIATION OF WHEAT GROWERS

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Thank you very much for your kind invitation. I could wish for no better audience or speaking place. We are almost exactly in the center of the United States, deep in the American heartland and in the main wheat producing region. As you know, wheat has been for a long time a centerpiece in our US-EC agricultural bilateral relations. I would like to apologize for my poor English, but I arrived only two months ago on the shores of your countryland, and I must confess, this is my first speech in the USA. I will take the opportunity you granted me to give you our latest crop estimates and to make some comments about our Common Agricultural Policy and particularly about some of its provisions related to wheat which I think are sometimes misinterpreted in the USA. Please let me describe to you briefly some of the major modifications the Commission of the European Communities is currently proposing to the European Council in order to improve the Common Agricultural Policy's foundations.

First, let's talk about efficiency. We always hear that Americans are the world's most efficient producers. In fact,

the research concluded in Europe since World War II,
the quality of our extension services,
the education of our farmers,
the modern skills and
the tremendous improvement of our farm structures

allow us to produce 4.3 metric tons m.t. of wheat per ha (average 78-83) when you are producing about half (2.3 metric t./ha). In spite of the tremendous efforts made during the past 20 years, during which the number of farmers decreased from 17 million to 8 million, our farm population is still very high compared to yours because of historical and sociological factors. As a result on an agricultural land area which is only one fourth as large as yours, we have a farm population which is about four times larger than yours, your average farm size is about 10 times ours.

Farm population is still declining but we must be very careful in implementing drastic measures which could hurry this reduction at a time when we have the highest unemployment rate since the war. Every farmer who leaves his farm is a potential addition to the ranks of the unemployed. A rapid decline in the size of the EC's farm population would create severe political problems in most of our Member States.

Second, I would like to talk about prices. It is true that wheat prices in the US are currently lower than in the EC. I would like to point out that this is not the case for all products - - for example, sugar or dairy products. But, since the seventies, the relative difference between our prices and world prices has been reduced. If we look at the evolution of real prices - - that is, if we take into account differing inflation rates in the EEC and USA -- there has been a tendency towards a slight increase in the USA (see graphic). (non comparable, because # units)

In addition, our price policy has also recently been modified in the EEC in order to take into account the market situation for the products where the supply exceeds the demand which is the case for wheat. In the guidelines for European agriculture adopted in 1981, it has been decided

a) to reduce the gap between our prices and the prices of our main competitors,
b) to ask the farmers to pay some or all costs of disposing of production beyond certain thresholds.

Both principles are now applied. To illustrate this, let me tell you what happened this year when agricultural price decisions were taken in Brussels. The average price increase of agricultural products in the EEC has been fixed at 5.5 % compared with an average rate of inflation in Member States at 8.6 %. That means a decrease in real terms of about 3 %. In the grains sector, farmers will receive an average increase of only 3 % for their wheat in 1983, 2.5 percentage points less than the average farm price increase. The price increase for wheat was reduced 1.5 percentage points from the overall average as a result of the EC's efforts to reduce the price gap with other exporting countries. Another percentage point was deducted because EC farmers exceeded the guarantee threshold for wheat in 1982 by 1 million tons. Thus, farmers will receive only 3 % more for their wheat in 1983, while their average cost of living will increase by about 9 %.

Current world markets are depressed. After a period of rapid expansion the trade is tightening. United States adopted the PIK programs to reduce the supply of certain commodities. We are often accused of not sharing the burden of the market. I just mentioned what happened to the prices paid to our farmers; but that is not all. In 1982/83 marketing year we strictly maintained our world market share for wheat and wheat flour. As a result, we practically doubled the level of our wheat stocks from 6 million to more than 10 million tons. In 1983 we maintained a stable acreage around 32 million acres, while most of the leading wheat exporters increased their acreage (Canada + 9 %, Australia + 10 %).

In fact, because of our farm structures and of our land shortage in Europe, the acreage devoted to wheat production is pretty stable, while in the USA (if you are not taking into account the fluctuations) there has been a longterm increase devoted to wheat production. (Graphique II)

We personally think that we are not responsible for the trouble of the US farmers, furthermore, because of the indirect effects of the US economic policy, we are also suffering losses. And, I am convinced, that most of you in this audience have the same thinking. Let's just take two examples from respected U.S. wheat representatives, from articles I read in the last issue of the Wheat Grower

First, the U.S. embargo to USSR. Milo Schanzebach writes: "In my mind the embargo had a devastating effect on our wheat trade relationship with the Soviet Union and we are still feeling the impact of this illadvised action." Joseph Halow expresses the same idea: "Our switch from agricultural prosperity came with President Carter's embargo of grain exports to the Soviet Union."

Second, the economic Policy of the United States, and I will quote the president Don Leslie: "An invitation has been extended to Secretary of the Treasury, Donald Regan, to discuss complicated and yet vital monetary policy which affects agriculture exports and our ability to sell what we produce."

That's reality and should take some of the emotionalism out of/disagreement over wheat trade./ To illustrate the effects of economy on exports let me show you a graph I made a few months ago. (III)

Its true that our global wheat exports increased from around 5 million tons in the early seventies to about 11 million tons in the late seventies, while during the same period your wheat exports grew from about 18 to 35 million tons. But, first you have been doing as well as we in the wheat markets. And, second, while in our internal market the use of grains in animal feed increased by only 10 %, the imports of products which are more or less replacing grains, increased tremendously. For example, soybean meal and corn gluten feed, mostly imported from the US,

are now around 20 million tons. Total imports of these products more than doubled during the past ten years. In fact, we have reasonably expanded the volume of our wheat exports, while we were tremendously increasing the imports of competing products, largely to the benefit of US farmers. I would like to remind you that we are the best customers of the United States for agricultural products, accounting for about a third of your export market last year. Our trade deficit with the US in agricultural products in calendar year 1982 was 8 billion dollars.

So, instead of blaming and attacking us, I think you should realize the efforts we have been making. And we have every intention to continue.

In this line, as I told you before, the Commission of the European Communities has been adapting the Common Agricultural Policy for a number of years and has in particular established guarantee thresholds and a tougher price policy taking into account the longterm prospects for production. But, the world agricultural situation has not improved, stocks of commodities are increasing and agricultural expenses as well. It is for this reason that the Commission is currently proposing to the Council of Member States -

which will take place in Athens on December 5 and 6 - a new series of adaptations of the CAP and particularly the policy of guarantees for production. The main aspects of the rationalization of the market organisation proposed by the Commission are:

- a greater participation of the agricultural producers to the cost of disposal of their products. This means a reinforcement of the guarantee threshold policy,
- a restrictive price policy which for grains means a further progressive reduction in the gap between Community prices and those of its principal competitors,
- an improvement of market management to permit a flexible reaction to the development of the market situation,
- a decrease in aids and premiums,
- an examination of the regimes applicable to certain imports with a means to adapt them to the market situation in accordance with the international agrements and in light of the greater disciplinesrequested of the EEC producers.

In concrete terms this will mean a reduction of agricultural expenditures of about 2.5 billion dollars for the first year of implementation and of more than 3 billion dollars after 3 years in the EEC.

You can imagine that these tough measures represent heavy sacrifices for our farmers and that they are not welcomed by the European farm organizations. But everybody recognizes that sacrifices must be made and that these efforts will help to ease and to improve the situation in the long run.

For grains, the specific proposal of the Commission to the Council is

- establishing a 120.5-million-ton guarantee threshold,
- limiting imports of cereal substitutes by using the EC's rights under GATT,
- speeding the narrowing of the gap between our prices and those set by our competitors,
- achieving a proper price relationship between the different qualities of wheat and reinforcing quality standards.

In conclusion, I would like to comment to you our last estimates on wheat supply and distribution for the 83/84 campaign.

- In 1983 our total wheat production has decreased slightly (about 1%) when some of the major exporters (except USA) have increased their acreage and their production.

- At the beginning of the current campaitn, we had a carryover which was 75% above last year level. This increase is the result of the decision taken by the common market not in increase its share of the world wheat trade.
The EEC has maintained its world market share of 14% to comply with its international agreements and to take accout of the difficult world market situation.
The EEC also has decided not to respond to the US flour sale to Egypt to avoid a trade war.

- As a result, our total supply will be about 4 million tons above the previous campaign.

-Fortunately, we expect that our interal use of wheat will increase by about the same amount because of the increase in price of other feedstuffs and soybean and because the commission of the European Communities intend to take measures to stimulate the use of wheat for feeding purposes in selling intervention stocks.

- Because of these measures we expect that our availabilities for exports and carryover stocks will be at the same level as last year.

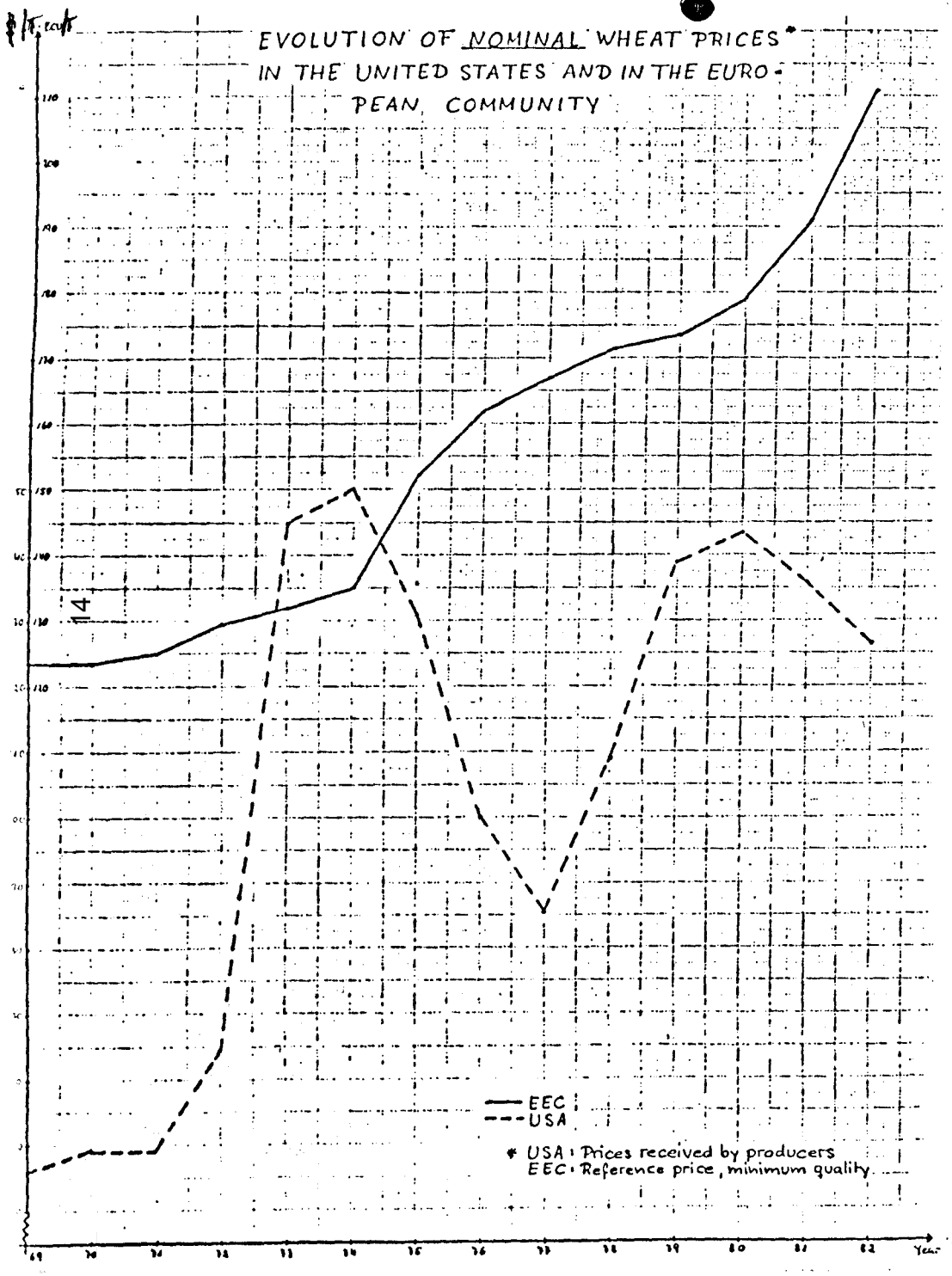
-We expect to maintain our world market share of 14% which means exports of about 14 million tons (11 million tons of wheat including food aid and 3 million tons of flour). We should in this case have a carryover of the same magnitude as our carry in. We are even not sure that we will be able to export 14 million tons of wheat, since as now we have contracted 6 million tons of wheat and 1.3 million tons of flour.

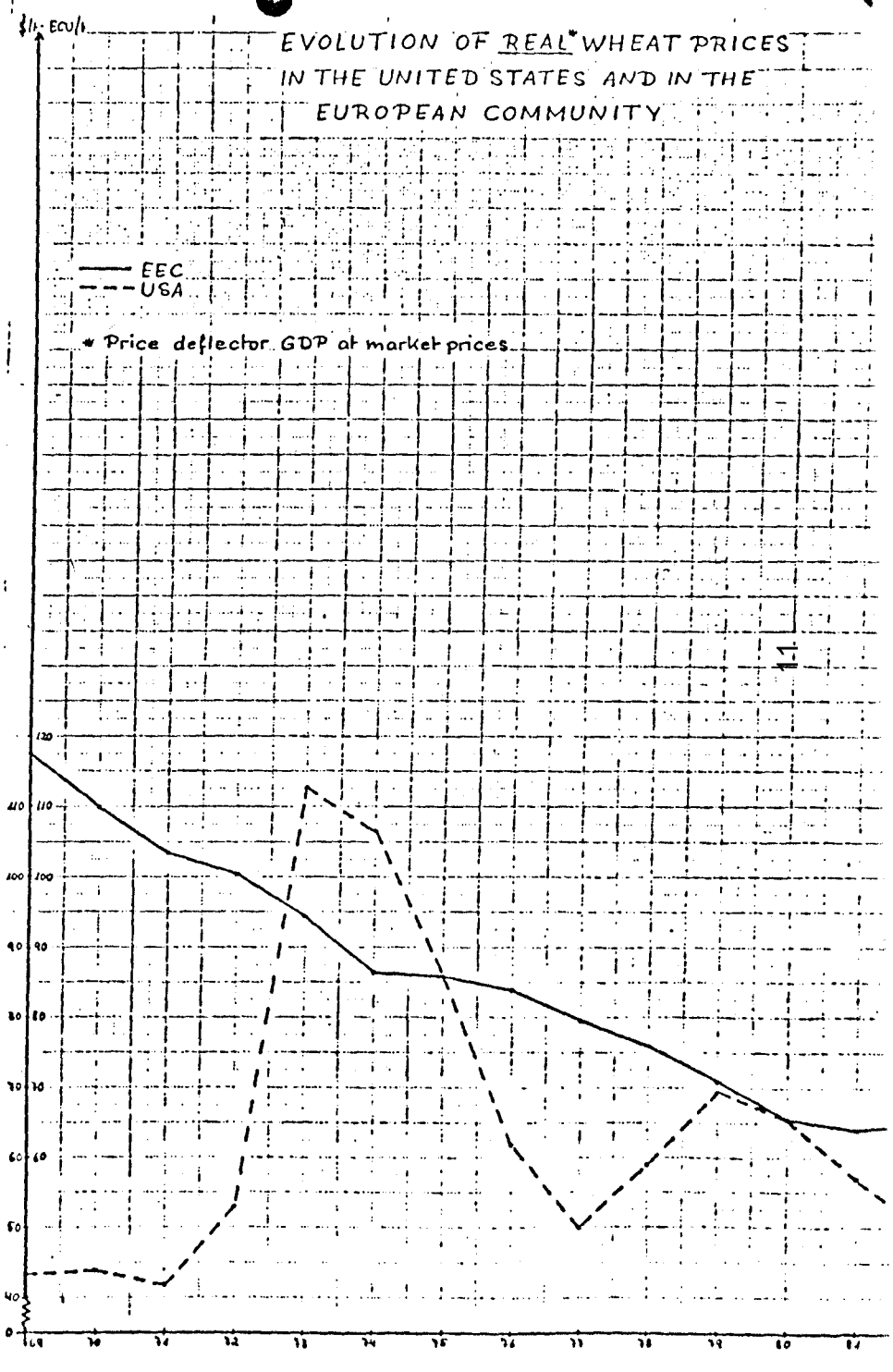
I think that the seriousness of this management is the proof of our goodwill and show clearly that we are not destabilizing the world wheat market.

A last word about the current plantings for the 86/85 season. As now we expect stable acreage. Currently winter wheat planting is a little bit late because of dryness in some areas of Europe. We expect no specific problems if it rains normally before the end of the year 1983.

Thank you very much for listening.

N° 1


$/t, ecu/t
EVOLUTION OF NOMINAL WHEAT PRICES*
IN THE UNITED STATES AND IN THE EUROPEAN COMMUNITY
14
EEC
USA
* USA : Prices received by producers
EEC : Reference price, minimum quality
Year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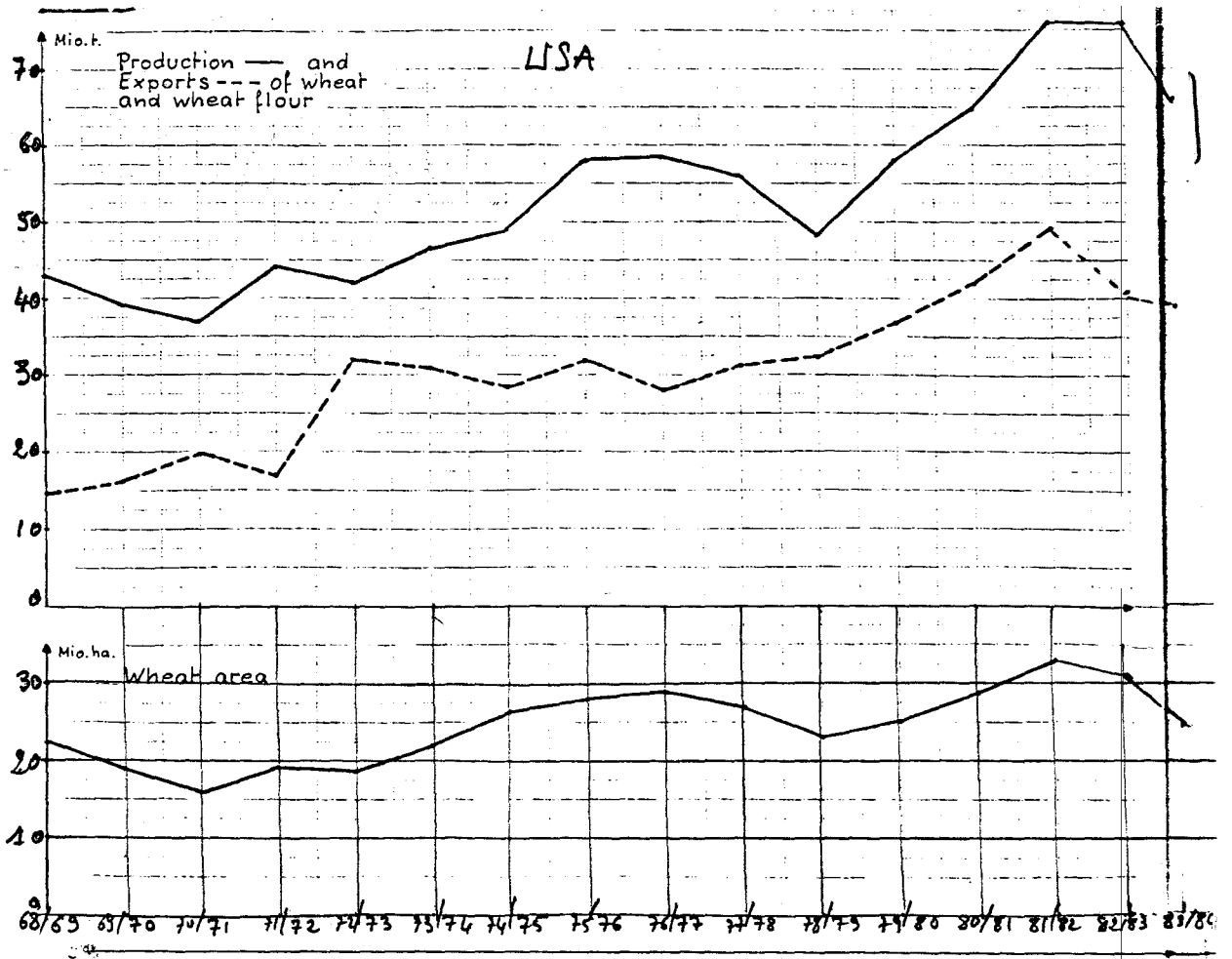
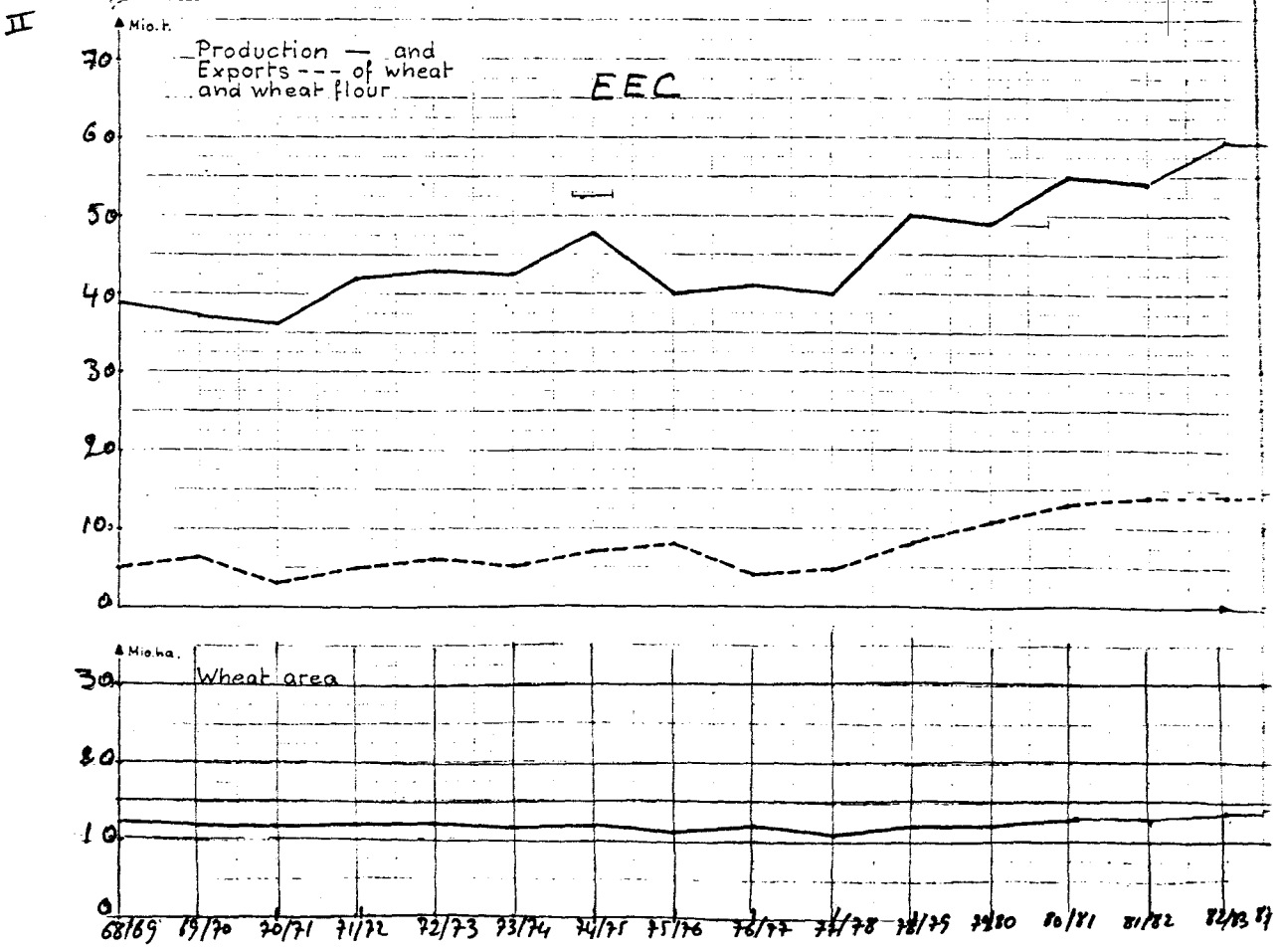
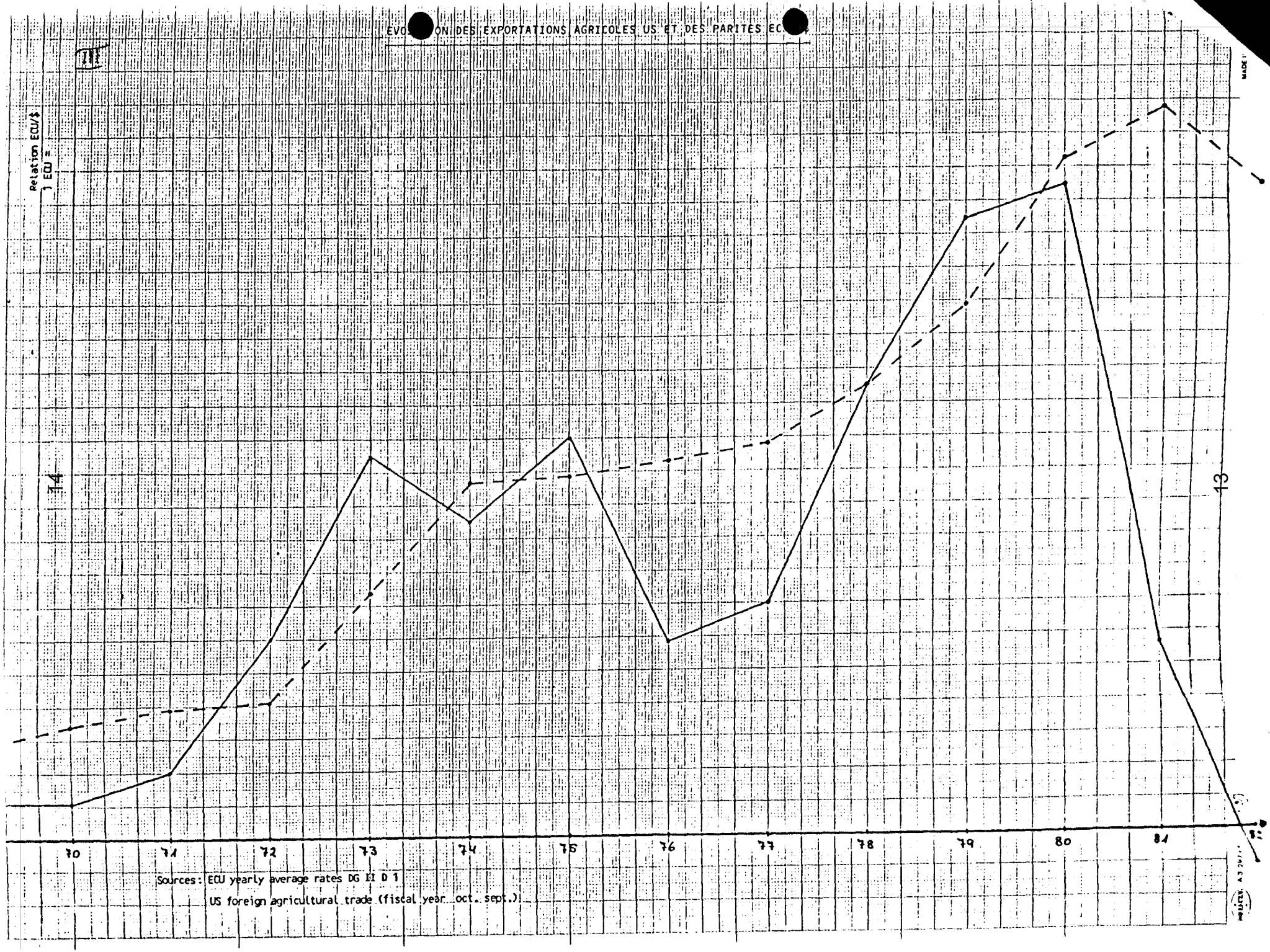
EVOLUTION OF REAL* WHEAT PRICES
IN THE UNITED STATES AND IN THE EUROPEAN COMMUNITY
11
EEC
USA
* Price deflector GDP at market prices

PRODUCTION AND ACREAGE OF WHEAT IN USA AND EEC





EVOLUTION DES EXPORTATIONS AGRICOLES US ET DES PARITES EC



Sources: ECU yearly average rates DG II D 1

US foreign agricultural trade (fiscal year oct. sept.)

SUPPLY AND DISTRIBUTION OF WHEAT IN THE EEC in 83/84 campaign.

(Million metric tons)

	83-84	Changeover 82/83
CARRY-IN	10.3	+4.4 (75%)
PRODUCTION	55	−0.6 (−1%)
IMPORTS	2	idem.
TOTAL SUPPLY	67.5	+3.8
INTERNAL USE	43.6	+3.7 (+9%)
SPECIAL TRANSACTIONS	1.3	idem
COMMERCIAL EXPORTS (1)	13	idem.
CARRY-OVER	9.9	−0.4.

(1) Including wheat flour (wheat equivalent)