

WHERE ARE US/EC RELATIONS HEADED ?

The EC View

Address presented

by

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I find it somewhat ironic that as a European I should have been asked to speak to you about relations between the European Community and the United States here almost on the shores of the Pacific Ocean. Ironic not only because of what appears to me at least to be a transfer in the basis of influence and power from the North East to the South and West and with it a certain refocussing of overseas interest and attention and even a sense of irritation with Europe, but also because of a pronounced drift in US trade policies, with the Pacific Basin becoming increasingly more important for US foreign trade than the Atlantic - an importance which has long existed for the No. West Grain Trade.

Nevertheless, in spite of these significant developments, the US and EC remain the 2 leading actors on the world agricultural stage. And, it is on this aspect of our relationship that I propose to concentrate my remarks this morning.

Before looking at what could be ahead, I think it might be useful to plot where we have got to and by what route.

Both the US and EC have some remarkable similarities : we both have highly developed economies and we both belong to broadly the same temperate climatic zone. We thus have many products common to both. But the US climatic zone is wider than that of the EC, so that a broader range of products is possible here (for instance, soyabeans and cotton).

There are, however, some other important differences. We have a somewhat larger population : about 270 million compared with 230 million here. There is the important difference of geographical size. Do you realise that if I had travelled from my old office in Brussels the same distance that I flew yesterday between Washington and Portland, I would be way beyond Moscow, the other side of the Ural Mountains - or, perhaps, floating on my magic carpet somewhere above Baghdad !

Contrasts between your farm structures and outlets and ours have led to different mixes of farm products. Your farms average 160 ha. and ours 16 ha., we have tended to place a greater emphasis on livestock and livestock products; the US on grain and oilseeds. One result of this has been that EC livestock production has provided a very attractive export market for US feed products, such as soya, of which we took 11.5 mio tons in 1982 and 10 mio tons in fiscal 1983. This represents something like 48% of all your soyabean and meal exports and is worth around 3.5 bio \$.

Just to give you a rough idea of this difference in product mix : livestock and livestock products represent 56% of farm production in the EC and about 48% in the US, whilst crops represent 52% in the US and 44% in the EC [of which grains + oilseeds: 31% US ; 13% EC].

But whilst structures and crop mixes exhibit some differences, on both sides of the Atlantic we have agricultural policies which are strikingly similar in their aims but with somewhat different machinery. The aims of the Common Agricultural Policy (CAP) are clearly laid out in Article 39 of our founding Constitution the Treaty of Rome and are:

- increase agricultural productivity (through technical progress, etc.);
- ensure fair standard of living for farmers;
- stabilise markets (i.e. iron out violent fluctuations in supply and in prices);
- assure sufficient food;
- ensure food supplies at reasonable prices;

not very different from US aims. And, furthermore, we have policies which have had similar results for us both, with increases in both productivity and production that have resulted in quantities beyond those which the

market can absorb.

Wheat production in the US, for instance, in the decade pre PIK, had increased by 72% and most of that in soft wheat - or more than 2 1/2 times average world growth - thus making your farmers critically dependent on an unreliable world market.

At the same time, in the EC, our Common Agricultural Policy - the victim of its own success - has led to increased productivity and has reduced our dependence on imports for the supply of some agricultural products and, in other cases, transformed the Community into a net exporter. However, in spite of achieving self sufficiency in a number of important farm products, the EC remains by far the world's leading importer of agricultural and food products whilst the US remains the world's leading exporter.

But it is, of course, on these very world export markets for agriculture where the most serious conflicts between the US and the EC have arisen and where trade relations have sometimes been fraught with difficulties.

Let me review briefly some of the major developments in the field of US/EC agricultural trade so as to set the present situation against some sort of back drop.

In the early 1960's, the introduction by the Community of the Common Customs Tariff - one of the provisions along with the CAP of the Treaty of Rome - and of the first Common Market organisations for some crops, seemed to the US to pose a threat to American sales to Europe.

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To offset the measures just adopted, the EC agreed to bind at nil the Customs duties on some imports and to start negotiations on the completion of the CAP. Nevertheless, a fall in US exports of chicken sparked off reprisals in 1963 against our exports to the US.

Subsequently, a marked improvement in the US agricultural trade balance with Europe helped to relieve American pressure as the value of our imports of US products gathered momentum to achieve about 22% of all American agricultural exports.

But this, apparently, was insufficient and in 1971, further improvements in access were demanded by the US and with the start of the Tokyo Round in 1973 pressure intensified. In 1976, 16 complaints were filed by the US against the EC in the GATT and in place of the chicken war, we were treated to a turkey war.

In spite of all, "peace broke out" in 1979 - as peace does - with the help of mutual and balanced concessions and at the same time, the machinery of the Common Agricultural Policy was acknowledged as being in line with GATT rules on international trade.

Since then, there have been other important developments. I hope you will excuse this potted history - which might incidentally have some interest for the publishers - or indeed the readers - of the Readers' Digest, who seem to prefer condensed versions. But, the EC maintained its 22% share of US farm exports. And what is more, 22% of a considerably enhanced total - a total of around 7 or 8 bio \$ in 1971 which had swollen to 41 bio \$ in 1980.

But whilst the EC has maintained its pre-eminent position as the biggest overseas market for US farm products, it has become a net exporter of some and the US, whilst vigorously defending all the concessions obtained from the Community, now criticises competition from the EC on world markets and, in particular, attacks EC export refunds. It is perhaps worth stressing a number of points at this juncture - that a range of export aids are also deployed by the United States by way of export credits, [I heard Secretary Block boasting only last week that this Administration had spent more on credit for agricultural exports in the last 3 years than previous administrations had over the last 20 years] PL 480 and the like - that the EC's export refund mechanism was endorsed as I have just said in 1979 as being in line with GATT rules;

- That even though EC exports of some farm products have grown - they have done so much less rapidly than those of the United States. Between 1961 and 1981, the value of EC farm exports rose by 27 bio \$ and of US exports by 38 bio \$;

- And, finally, whilst this development in our exports was taking place, our agricultural imports were climbing steeply and our agricultural trade deficit with the US doubled between 1973 and 1981. and today stands at about 5 bio \$.

But, to return to our brisk trot through past events. In 1981, the US filed a further batch of complaints with the GATT against the EC - on wheat flour, poultry meat and sugar.

And, following US disappointment with the results of the GATT Ministerial Committee in November 1982 - despite an agreed programme of

work on trade in agriculture - pressure mounted here for a more aggressive export policy. But at the end of that year, following a most valuable meeting in Brussels between President Thorn of the Commission and Secretary Shultz, it was agreed to hold exploratory talks to try to find an arrangement compatible with existing systems.

A useful series of meetings took place in 1983 between senior officials. As a result, a procedure for exchanging information was introduced aimed at avoiding misunderstanding and giving both sides early warning of possible problems and an informal working party was set up to look at clarifying GATT rules.

Regrettably, despite these intensive contacts, the US announced in January 1983 the notorious subsidised flour deal with Egypt for 1 mio t/at below market price levels and then again in August, the US concluded another contract with Egypt. This time for the sale of 18,000 t/and 10,000 t of cheese at prices subsidised to a level not only below market rates but under the minimum fixed in the International Dairy Arrangement.

But to end this very brief resume on a more positive note. In the wine sector : - first, the Administration declined to support the Wine Equity Bill so eagerly subscribed to not only <sup>particularly</sup> by producers and their friends in the next State South from here, but also by a considerable number of Congressmen;

- second, the ITC found that imports of ordinary table wine were not injuring the US wine industry; and





- The EC is the world's leading exporter of poultry meat and usually of milk products (I notice incidentally that the US is starting to make disturbing incursions here and not just in Egypt. I trust that this is not a new trend since it will aggravate a very precarious situation on the world dairy market).

- The EC is the world's leading importer of agricultural products and the US farmers' best customer taking 7.6 bio \$ worth of US farm produce in 1983 - Japan 5.9 bio \$ - South America 4.9 bio \$.

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

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

- 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.

What I am trying to say is that both parties have everything to gain from the harmonious working of world trade and that we must both fully take account of the fact that we live in a highly interdependent world trading system and should seize the opportunity to cooperate and to solve our problems together.

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It will not be easy, faced as we will continue to be with the difficult problems of selling agricultural products at commercial prices for some time. There are, however, some hopeful indications :

- there has been a reasonably positive start - to the work of the GATT Agriculture Committee, but here it would be helpful to end the one-sided campaign against the EC and its export refunds and to recognize that every agricultural exporting nation supports its farmers with the result that exports are assisted directly or indirectly ;
- and both EC and US now seem to be moving along similar tracks - that of controlling farm expenditure.

In the EC's case, this latter development is nowhere more evident than in the decisions taken recently on the adaptation of the CAP and on farm prices for the next marketing year. After 3 years of persistent effort by the Commission, the Council of Ministers, under French presidency, accepted three points of major importance:

- First, the principle that agricultural guarantees can no longer be unlimited in nature.
- Second, effective control of milk production by means of strict quotas with harsh penalties if exceeded; and
- Third, a tough price policy, including - for the first time - price cuts for several products in several countries.

As for cereals in particular :

- guarantee thresholds will be maintained - which means that if a pre-determined production total is exceeded, farmers will not get the same guarantee for their products;

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- in addition, guaranteed prices for grain 1984/85 will be reduced by 1% as compared with this year - as indeed they will be oilseeds and wine.

But this does not complete the exercise and hard decisions will be required in the future. Our milk producers bore the brunt of the attack this year, since it is here that the imbalance between supply and demand is most serious and our grain producers got off fairly lightly this time round. It will be their turn next.

As for other prospects for cereals, we reckon that on the basis of recent trends - a stable acreage but improved yields - our normal level of production by 1990 could be in the order of 137 mio t compared with just under 119 mio t this year.

We also reckon that the off-take within the Community for human and industrial use and for seed seems likely to stay about 40 mio t. That means internal demand will depend on use for animal feed.

If the extra demand which we expect by 1990 for feed for pigs and poultry is all taken up by Community cereals - and that is a big "if", because it supposes no increase in the use of cereals substitutes - then we calculate that the use of cereals for feed could go up by 5 mio t. So it is clear that, on present trends, the quantities available for export by the Community on the world market will increase.

A large part of demand on the world market depends on countries such as China and the Soviet Union, whose demand is consistently unpredictable. But my guess - not particularly original - is that the world market for cereals in the second half of the eighties will

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increase less rapidly than in the seventies. So although the Community should maintain its share of the world market, it would be unwise to expect a major expansion in volume. That is why the Commission has to be extremely prudent as regards the guarantee threshold for cereals and will be focusing more attention on cereals prices in next years price decisions following the 1% cut this year.

But - I hear you ask - did not this package of measures also include decisions on corn gluten feed which could sour the EC/US relationships ? I do not accept that our proposals in this area need lead to any breaking of china. I say this, because :

- First, the Community is making use of its rights under Article 28 of the GATT which allows renegotiation of concessions subject to certain conditions of compensation.

- Second, the Community is not taking immediate, unilateral action to prohibit or reduce the imports of corn gluten feed and other corn based by-products, but is proposing that negotiations should be opened with a view to stabilising them.

- Third, it is proposing that such stabilisation should be achieved through a temporary and partial suspension of existing concessions, by the establishment of annual tariff and levy free quotas and with appropriate compensation.

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- Fourth, moves in the grain substitutes area are not aimed specifically or exclusively against corn gluten feed or against the United States. Arrangements have already been concluded and are in place as regards other important substitutes such as manioc and brans from S.E. Asia and elsewhere.

- Fifth and last, the measure has to be seen in the general framework of the far reaching decisions to reform the CAP which will result in major sacrifices by our farmers through :

- drastic limitations on financial support;
- cutting back on milk and other surplus production (which should reduce demand for cgf and other substitutes);
- bringing our grain prices closer to those of our competitors' - an effort we do not wish to see undermined by increasing imports of substitutes.

These reform measures represent an important contribution towards a better balance of supply and demand on world markets which should be of benefit to all farmers in all trading nations and should thus help to smooth relationships. So, don't let us overdramatise what is happening in the field of grain substitutes.

This considerable package of decisions taken in Brussels on 31 March 1984 were not taken primarily for budgetary reasons, but to fit our Common Agricultural Policy and our farming to meet the changed economic circumstances of the mid 1980's and beyond.

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It will not lead to a 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.

There is, therefore, all the more reason for us to seek cooperation rather than conflict.

The EC, whilst vigilantly defending its own interests but complying with its international obligations, <sup>and</sup> is/ will be prepared - as it has been in the past - to search diligently with the US and others for ways of <sup>to</sup> cooperating so as to promote world trade and/avoid sterile bickering. But for this, we shall need considerable political will. Let us all demonstrate this will to achieve rules of conduct for agricultural trade which will benefit us all.

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