

Remarks of Richard E. Lyng
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Two years ago in May I took part in a seminar like this in South Carolina with a similar "bilateral" group and on essentially the same subject--U.S. and European Community agricultural issues.

I finished my discourse by pointing out that the United States and the EC had discussed the issues many times at many levels in the preceding year-and-a-half, that we had always agreed that our problems were not insurmountable, and that it was up to us, as leading traders, to point the way to a system of equitable world trade.

I closed by saying that if someone in the group would just come up with a definition of "equitable" that was satisfactory to both the European Community and to the U.S., the solutions to our problems were at hand.

That was 1982. Well, here we are in 1984: the United States and the European Community, still talking, still agreeing that we should agree, and still looking for the definition that would make it possible.

If you have been covering agriculture, you know what the issues are. The basic problem for the United States is the way the EC Common Agricultural Policy affects us. We view the CAP as a system of high farm prices that are insulated from the market, stimulating production, with the excess subsidized into export.

The system was inaugurated more than 20 years ago to increase agricultural production and improve food self-sufficiency. It did the job

exceedingly well. As one of your colleagues wrote from Paris, the CAP has succeeded to the point of disaster.

Not only did the Community move from a net importer of virtually all major agricultural commodities to a net exporter of most, it became the world's leading exporter of eggs, poultry meat, dairy products, and sugar, the third largest exporter of beef and veal and fourth in wheat.

And, for this great success, it is paying a heavy price!

To maintain its export volume in 1983, the Community appropriated \$5.4 billion for agricultural export subsidies, more than half of it for dairy products and grain. This total, added to the expense of direct price intervention and other farm support measures, has pushed Community farm support costs to the statutory limit of about \$16.5 billion. We are told that unless costs can somehow be brought down, the EC farm budget will be out of funds by August.

That is a European problem, but it also is a problem for the rest of the trading world because the costs of the CAP are not confined to the European Community. Substantial indirect payments are made by third countries, including the United States. They are made in the form of sales lost to subsidized competition, restricted access to the EC market, and downward price effects of EC overproduction and subsidized exports.

This has been particularly hard on developing countries that depend, as most do, on agricultural exports to earn substantial portions of their foreign exchange.

But developed countries are hurt, too. New Zealand dairy producers, Australian cattlemen, American wheat growers are some of the farmers who are losing export sales to subsidized EC export competition.

The United States has been forced to depart from its policy of liberal trade in a few instances in order to maintain at least a presence in some markets that have been all but lost to subsidies.

Where we have decided it was necessary to take those kinds of actions, as in the sale of wheat flour to Egypt last year, they have been limited in scope and targeted carefully to meet specific market situations. We have turned down many vigorously presented requests for sales of this type, because we want to avoid a subsidy-for-subsidy competition. Our policy has been one of restraint. We have hoped it would be a signal to the EC that we are not interested in making the problem worse but genuinely want to find solutions.

Unfortunately, the EC seems to be pursuing an even more vigorous export subsidy program. Most recently, it sold 500,000 tons of flour to Egypt with a "bonus" subsidy piled onto the regular subsidy and topped off with 50,000 tons of flour free from France.

As part of its plan to reform the CAP, the EC proposes to denature one million tons of bread wheat for export as feed in competition with corn and other feed grains from third countries.

Also as part of the reform, the Community has now decided to restrict imports of nongrain feed and is considering a proposal to impose a consumption tax on vegetable oils. These actions can affect U.S. export trade to the Community worth over \$5 billion last year.

We view these proposals with disappointment and discouragement.

These types of actions can lead to counter actions, and they, in turn, lead to trade wars.

Then everybody loses.

The EC does not lack for complaints about U.S. policies. They contend, among other things, that we unfairly restrict market access, that U.S. credit programs are subsidies, that U.S. deficiency payments are no different from EC subsidies. We respectfully disagree.

Where the EC chose a farm policy of highly protected support prices and export subsidies, the United States has tried to move toward a policy of market reliance. Our price support levels are set in relation to market prices in a system that encourages production for demand rather than government.

The system is far from perfect. The United States does not keep its borders totally open to cheese, for example, and that is a concern of the Community. We can't guarantee permanent and unlimited access for beef. Under existing law, depressed world sugar prices caused by Community practices dictated a temporary system of import quotas on sugar that cause problems for some of our trading partners.

But at the same time, we maintain on the whole the most open market among the major traders. We want to continue to work toward a more open world trading environment, and we want to set an example for others to follow in our own trade policy.

This has become increasingly difficult in the recessionary climate of the past couple of years. U.S. farmers, like those elsewhere, have been battered by rising costs and reduced incomes. When they see their export markets eroded by subsidized competition, their thoughts lean more to retaliation and protection than to the long-term benefits that will accrue from more liberal trade.

Those are the kinds of things the U.S. and the EC have been talking about for three years--in dozens of meetings at nearly all levels of government. Just this week we met in Geneva at a session of the GATT Committee on Trade in Agriculture. And each time, we say to the press that the discussions were frank, or we understand each other, or our problems are not insurmountable and that progress is possible.

That is all we can say. They mean the same thing, as you know: no solutions, but we'll keep on talking--and as it has turned out, talking, and talking, and talking.

However, I think that in the recent past, we have come to, or at least are approaching, an understanding that was not there three years ago, or even six months ago.

It is perhaps more a perception than an understanding; it is the beginning realization that trade policies and practices--the subsidies, levies, quotas, and other mechanisms that countries impose on one another--are not the real issue. The fundamental issue in agriculture today is how do we respond to change? Will we have more government on the farm and in the market, or will we have less?

You don't need to be a farmer to be aware that agriculture has changed. The move from live horse power to machinery, and to newer and bigger machinery is apparent in the countryside. Streamlined food distribution is more and more evident in supermarkets and fast food outlets in our cities.

Less visible and more important are the gains in productivity. Maize yields per hectare in the United States, for example, have tripled in 40 years, and soybean yields have doubled.

The United States today has the same number of breeding animals of all kinds as it had in 1920 and yet U.S. production of animal products is up by 2-1/2 times.

Similar gains are occurring in much of the world as technology spreads. As I mentioned earlier, the European Community, which couldn't feed itself 25 years ago, now exports more than it imports of almost every major agricultural commodity.

The overriding fact in agriculture today is that farmers can produce more food than is being consumed. If we could get that food to all who need it, we would finally end hunger in this world.

That is a challenge for us all, but the world community has not done well in that regard, nor have governments done well in recognizing and responding to change. They have not begun to seriously address the fact of overproduction.

Except for the United States, farm policies in the past 2 years of declining demand have spurred production to new highs in most countries.

The largest acreage reduction program in history, with an assist from drought, reduced U.S. grain production by two-fifths last year, while production outside of the U.S. set a record.

When the year was over, while the U.S. Treasury had paid U.S. farmers a record sum to bring down production, the European Community farm budget had emptied its treasury by producing, protecting and exporting the third largest grain crop in its history.

Anyone who believes that domestic agricultural policies of today are tuned in to a changing global agriculture of today might want to think about that for awhile.

Agriculture has changed whether we like it or not, and I suggest that we are at the point where those who try to avoid change, delay change, or ignore change will be washed away by what is yet to come. And it is coming with considerable speed.

I am talking about the tremendous possibilities in research:

--About molecular biology and molecular genetics that could create plants that would grow in arctic cold or desert heat;

--About substances to prevent disease and regulate growth in both plants and animals;

--About research that offers prospects for improved crop and livestock production in ways we cannot imagine.

Possibilities like those have profound implications for farm policy as well as for the world's food supply.

What, for example, will the dairy program of the future in the U.S. or the EC look like when one cow, a cow that produces more than twice as much milk daily as the U.S. average, is artificially bred to a champion bull and produces 10 calves in one single gestation cycle?

All of these calves were delivered by surrogate dams, but they are all offspring of the superior pair with champions' characteristics. Not too far down the research road calves like these will be produced in volume from embryos conceived in laboratories and stored frozen until needed.

Work like this is going on in the science of plants as well as animals, in chemicals and in equipment--almost across the board in agriculture.

What do we do about this?

We can be grateful, I think, for the research and the farmers that have brought abundance, and we can hope that the future holds an end to the paradox of too much production for some and bare survival, or worse, for others.

Then we can muster the political will to address the problems caused by this abundance, because if we don't we will be overwhelmed by the consequences of research bearing down on us from laboratories and experimental plots all over the globe.

I think there are signs that we can do this. Both the Community and the United States have begun to address seriously the reform of domestic policy in agriculture.

Debate has started in the United States on what kind of farm program we should have when the current farm act expires at the end of next year.

There is growing support in the U.S. agricultural community for greater market orientation in the farm price program--for flexibility to respond to almost any market condition. There are also those who favor greater income stability even though it demands a larger role for government.

We support the Community's recent effort to deal with production excesses at the farm level rather than in the foreign market. We hope that these measures will begin to eliminate European surpluses and will bring domestic farm prices more nearly into line with world market prices.

At the same time, we do not see the economic relationship between reform of this type and the trade-distorting decision to restrict access of nongrain feed ingredients.

This measure will not benefit EC farmers. It will not increase domestic use of EC grain, but the EC seems to persist in this protectionist plan as if it is a price third countries must "pay" for the EC's limited reform.

More protection is not the longer-term answer to the problems of farmers in today's global, changing agriculture. He can't for very long be isolated from change.

Farm programs from now on must take account of global factors; they must recognize the growing interdependence and productive capacity of world agriculture if farmers themselves and the world they feed are to realize the full benefits of that capacity.

The accelerating pace of economic evolution in agriculture is rapidly making the farm policies of the developed countries obsolete and excessively expensive. It is time for some new approaches.

In the United States we have been moving toward a market-oriented system. More than half of our total production is not touched by government price supports. We depend heavily upon exports, as the world's leading agricultural exporter, but we are also the world's largest farm product importer!

We do not ask for the dismantling of the European Community's Common Agricultural Policy. We ask only that it be modified to eliminate those current effects which do us serious and unfair injury.

A failure to recognize that this situation exists threatens to destroy the market system for farm commodities world-wide. As we take steps, however hesitantly, to protect our interests, we actually add to the problem by creating price distortions which then force new levels of export subsidization and further heavy costs to the taxpayers on both sides of the Atlantic.

I hope that we can both begin to see movement which will begin to correct the fundamental farm marketing problems facing the U.S. and the European Community. Right now, though, the only movement I can see is in the wrong direction.
