WESTERN EUROPE'S PROGRAMME TO KEEP ITS AGRICULTURE STRONG

Address presented

by

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I am most grateful to you Mr. Chairman and to the Southern Agribusiness Forum 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 for American agribusiness.

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 3 million farmers and their families but also to all 270 million Europeans living in our 10 Member States.

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

- to increase productivity ;
- 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 here there is perhaps less emphasis/on stability of prices and security of supply.

Very broadly, these objectives have been achieved by fixing common prices for the major part of our farm production. 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 surpluses which are then off-loaded onto world markets. But let us examine the facts.

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 here

in the Eastern half of the US. 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. But, at the same time, I cannot resist commenting that an increase of this magnitude - and particularly in soft wheat - is bound to have had some destabilising effect on the world wheat market.

Furthermore, the increase in Community production has been achieved on an acreage that has remained virtually unchanged for the last ten to fifteen years.

Second. Our total farm spending on all agricultural products at about 13.5 bio $ in 1983, compared with around 20 bio $ here - PIK excluded - represented less than 1/2 of one per cent of the Community's GDP.

As to the impact of the CAP on world markets, let me start by referring to something which I hear with increasing frequency - "the CAP is fine so long as it confines itself to domestic, internal policies but not so good when you export your surplus by means of unfair export subsidies".

Just three general points :

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First, we are not the only producers in the world that export products which are surplus to internal requirements. Two thirds of US wheat, for example, is surplus to requirements and has to find buyers on the world market. In addition, 50 per cent of your cotton and 40 per cent of your soyabeans are bought by customers overseas. The last two - cotton and soyabeans - are, of course, of great interest to you here in the South and East. But the Community grows very little of either and imports about 10 to 11 mio t of the latter.

Second, International trading rules to which both the US and the EC are signatories, specifically permit the use of export 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.

And last, but of signal importance, the EC is the American farmers' best customer taking about 1/3 of US farm exports and running a massive deficit with you on our transatlantic agricultural trade.

It seems to me that where the US has lost markets - the major factors have been the strength of the US dollar brought about primarily by a massive budget deficit - a point of view now subscribed to by USDA in one of their more recent publications - and, of course, a desperate

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shortage of funds particularly in developing countries. This, of course, is not a very original diagnosis but is perhaps worth repeating once again.

This brief review of past events 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. Those of you who follow developments in the Community, even at the most superficial level, will be well aware of the serious problems we currently face. On the agriculture front, we are both of us - US and EC together - basically faced 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, technical advances and productivity gains have meant that output has risen more rapidly than consumption.

Increases in the volume of agricultural production have averaged between 1 1/2 and 2% a year whilst consumption has only risen by about 1/2%.

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At the same time, we are running very low on cash - whether farm expenditure represents less than one half of one per cent 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 an increase of about 30% is estimated for 1983.

Unlike most national governments - 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 has proposed an essential and very tough double barreled battery of measures for the rationalisation of our agriculture. The first was announced in July and concentrated on a broad adaptation of our farm policy - the second, revealed only two weeks ago, makes specific proposals as regards prices for individual crops.

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The main thrust of the Commission's proposals is :

- to adapt our agricultural policy to meet the changed conditions of the mid 80's ;
- to discourage surplus farm production ;
- to limit Community spending on farm support.

Time does not allow me to describe in any detail the full panoply of measures which will hit 8 million European farmers and their families and which will demand substantial sacrifices from them.
The European farmers' organisation - COPA - said recently that the proposed measures "would have extremely serious repercussions on all sectors of agricultural production and would lead to a further substantial fall in farmers incomes".

But briefly, the measures envisaged are :

i - production quotas with severe penalties for farmers who exceed them - a 75% levy in the case of dairy farmers, for example ;

ii - extension of guarantee thresholds (guarantee thresholds 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) ;

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iii - a tough price policy for farm products which will entail reductions in some cases and an intensification of our efforts to narrow the gap between our prices and those of our competitors ; - I will return to these two aspects in a moment...

iv - prices for some surplus commodities to be fixed for more than one marketing year ;

v - reduced intervention or support buying ;

vi - and, the discontinuation of a number of production aids and premiums.

This brings me to the external aspects of the package. 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.

As I said earlier, we are aiming to narrow the gap between our grain prices and those of our competitors. Such a move will, in the long run, 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. Such stabilisation should also help to reduce surpluses in the livestock sector - particularly in milk.

Our aim of stabilising imports of substitutes is not a fiendish European plot aimed specifically at the residues of the US corn processing industry. 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 South East Asia and elsewhere.

It is now proposed to stabilise the imports of other major substitutes - corn gluten feed, for example - a residue, to a large extent, from the corn sweetener industry which, incidentally, has been able to take advantage of US support arrangements for sugar. Imports of cgf have soared from under 700.000 tons to 3 million tons since 1974.

However, and I must stress this, what is being proposed is <u>not</u> hasty unilateral action, <u>not</u> 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 stabilisation of imports and this only after carrying out the procedures laid down in the GATT.

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Two final observations about this particular proposal. It does not seem to me unreasonable to ask for cooperation from other countries in limiting our imports of subsitutes since adaptation of the CAP - with the cutbacks envisaged - is in their interest since it should lead to a better balance on world markets - something the US has been pressing us to do for years.

And, furthermore, it seems to me that if we can successfully stabilise our imports of grain subsitutes, then the amount of European wheat which would 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 a number of those represented here today.

The second measure which has caused concern here in the United States and nowhere more so than in Mr. Weems association, is the proposed consumption tax on oils and fats.

Let me try to calm these fears.

First, the tax would be non-discriminatory and applied to all oils and fats, excluding butter, whether produced locally or imported. Imports would be treated no differently from domestic products. This squares fully with international trading rules.

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Second, it is extremely doubtful whether the tax would have any measurable effect on the quantities of oilseeds and beans imported because:

(a) the low rate of tax proposed is unlikely to alter consumption patterns of oil and margarine;

(b) all other vegetable oils, including olive oil, would be taxed at the same flat rate which would have a proportionally greater effect on lower priced oils - such as rapeseed oil largely produced from Community grown seed;

(c) soya beans and meal are imported primarily for animal feed and not for oil production.

Third, and most important, it is no part of this proposal to subject 3 to 4 bio $ worth imports of soya bean or soya meal or any other oil seed to any restriction, tax or levy.

Let us now turn to the detailed price proposals made a fortnight ago but which have to be seen in the framework of the earlier proposal made last July. We have explained to the 10 national governments that what is required from them is a global decision before 31 March on both elements. There can be no picking and choosing from the list as one might do from an a la carte menu. Ministers can no longer put off taking difficult decisions.

What has been proposed in reality is a virtual price freeze, but with variations - a few prices are to be increased, some frozen and some reduced.

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Our price proposals have been adapted to the different market situations of different products.

- For cereals, milk, wine and tomatoes, where the market situation calls for a particularly restrictive pricing policy, it is proposed that prices for next year are frozen at their present level ;

- For colza and rapeseed, where the guarantee thresholds I mentioned earlier have been exceeded and for certain varieties of tobacco, price reductions are proposed ;

- For sugar, durum, wheat, sunflower seed, beef and some other products marginal increases have been proposed.

The average effect of these measures overall will be to increase prices by 0.8% in Ecu terms. But when expressed in national currencies, which after all is what our farmers are paid in, the result will be an average frop of 1/2%.

It is abundantly clear that some parts of this package will be difficult for the agricultural community to accept, particularly after an average decline in EC farm incomes of about 6% last year. But it has to be pointed out that the CAP has helped to protect our farmers from the worst effects of the economic crisis. Farm incomes in some other parts of the world declined more steeply last year.

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It is also abundantly clear that the market situation for many of our farm products is extremely difficult and in milk particularly production has gone far beyond what the market can handle. Public authorities cannot be expected to take charge of all these products for which there is no market. The CAP cannot continue on such a basis - one which is neither economically sound nor financially acceptable.

However, this is not to say that these proposals for European agriculture are merely a list of price savings to the benefit of our hard pressed budget and at the expense of the farm community. They have to be seen as part of a coherent, overall policy for the development not the dismantling of the Common Agricultural Policy.

Neither should they be seen as an attempt to shuffle off our problems on to our friends and allies. They are a serious and honest effort to adapt our farm policy to meet the vastly changed conditions of the mid 80's. As a result, the CAP will be given the opportunity to continue to ensure food supply and price stability, to give our farmers a reasonable, but not excessive, return and yet permit us to play a positive, cooperative and responsible role in the world trade.

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