THE COMMON AGRICULTURAL POLICY (CAP) OF THE EUROPEAN COMMUNITY AND THE US-EC RELATIONS

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As representative of the farming community of the EC and of Belgium, it is a real pleasure for me to have the opportunity to be with you today. I realise, however, that I am facing a very difficult task.
Because Europe and especially the CAP have probably never been more criticised and attacked by the US and its farming community as over the past few years. I have therefore somewhat the feeling that I walked into the lion's den.

INTERDEPENDENCE AND UNDERSTANDING

On the other hand, I think it is correct to point to a long history of alliance and partnership. The ties between the countries of the European Community and the United States are important. We depend on one another in many ways, both politically and economically.
A strained relationship is certainly not favorable to our mutual best interests. Therefore we must try to look at present tensions as differences of a temporary nature. We are in the same family and we should not allow family quarrels to blow the family apart.
Solutions may not be easy, but they have to be found in a spirit of mutual understanding and cooperation.
I hope to be able to give you some valuable information on the European Economic Community and the CAP. I would also like to make some remarks about our and your agriculture and make some comments about the development of the world market for agricultural products and our mutual problems.

THE EC AND ITS AGRICULTURAL POLICY

In 1957, six European countries : West-Germany, France, Italy, Holland, Belgium and Luxemburg, signed the so called European Treaties. The creation of the European Community - more widely known as the Common Market - was welcomed both by the Europeans and the United States as a contribution towards the strengthening of the free world and the safeguarding of peace. The basic internal justification was to ensure economic and social progress of the member countries.
In 1973, the U.K., Ireland and Denmark joined the Common Market, and in 1981 Greece became the tenth member. Negotiations are now under way to enlarge the EC to include Spain and Portugal.
In the treaty of Rome it was forseen that the Common Market should extend to agriculture and trade in agricultural products. In fact, it was part of a deal whereby trade was opened up between member states, not only for industrial goods, but also for farm products.
In 1962, an agreement was reached on the basic principles of the Common Agricultural Policy, usually called the CAP.

THE FUNDAMENTAL GOALS OF THE CAP

The goals of the CAP are very much the same as those of the US farm policy, namely :
- to increase productivity,
- to secure a fair standard of living of the farming population,
- market stability,
- assurance of supply (food security) and
- reasonable consumer prices.

This short list indicates that economic efficiency is not the only consideration, but that also some more general socio-economical and even strategic objectives are listed.

The EC disposes only of 125 million acres of arrable land to feed 260 million people. In the US, you have 475 million acres to feed 230 million. We have a net import of the equivalent of 30 million acres of soybeans as protein and vegetable oil source, and the equivalent of 7,5 a 10 million acres of cereals as grain or cereal substitutes.

This limited land base and tremendous import needs are making it politically and economically impossible to idle our land in cases of over production.

It is particulary on the point of market stability that the US and the EC agricultural policies differ the most. The European consumers are in favor of stability of their food expenditures. On the other hand farmers are in favor of income stability.

In order to achieve these goals, the EC, once a year fixes common target prices for a major part of its agricultural production. These prices are guaranteed externally and internally. When world prices are below the EC level, variable levies are applied to imports in order to bring prices up to the EC level. Similarly, refunds are paid by the EC on exports in order to bring our prices down to a level where we can compete in the world market. Internally, major products such as cereals and milk can be sold to public intervention stocks at fixed minimum prices.

Let me underline further an important fact about the CAP.

To this day the CAP remains the essential element, the cement holding the Community together.

The United States must realize that the CAP reflects a crucial twentyfive years old political bargain which made possible the very founding of the European Economic Community.

It is at the heart of the unprecedented economic and political cooperation that the EC has brought to Western Europe in the place of wars which ravaged it throughout history. Therefore the EC cannot and will not give up its CAP or its system of export refunds or export subsidies like you call them.

THE CAP AND FARM STRUCTURE

Some think that the CAP has helped to maintain outdated farm structures in Europe. But the fact is that over the past 20 years, the labour force in EC agriculture has dropped by more than 50 percent : from 18 millions to less then 8 millions. During the same period, farm size has doubled to about 45 acres and productivity rose sharply.

But our agriculture is still somewhat different from yours. The Community's present area covers only one-sixth of the US agricultural land.

And we have more farmers than you do. Farms are smaller and are more intensively cultivated than yours. At the same time, there are considerable geographical and climatic differences between the member states, each of them having different histories and cultural traditions.

I have to mention this just to indicate to you that having one single agricultural policy throughout the EC is not the easiest thing in the world. I know however that some of these differences exist within the US as well.

As far as the structural policy of the CAP is concerned our main objective is to promote the family farm.

We have a Common Agricultural Policy but so far relatively little progress has been made in the field of general economic and monetary policy.

Interest rates and taxation may still differ from one country to another.

THE CAP AND FARMERS' INCOME

It is an illusion to think the CAP means wealthy European farmers. I know that the US farmers went through and still are in a very difficult economic situation, but so are the European farmers. From 1974 to 1982, the average farmers' real income dropped by 3.9 percent per year. The farmers purchasing power is today 27 percent lower than in 1974. During the past five years farmers earned on the average 75 percent of the income of non farm workers. Putting more pressure on the farmers would mean throwing several million European farmers on the bread line - in addition to the 12 million of our citizens already unemployed.

Belgian farmers have experienced a serious crisis. In 1981 farm incomes dropped to an average of only 6,800 dollars per person. This was partly a result of low prices (insufficient price increases) in the EC, and steep increases of production costs (feed, energy, interest rates).

THE CAP AND INTERNATIONAL TRADE

The CAP has also been attacked for being protectionist. I know that the product of two out of every five acres of US farmland is sold abroad. Another fact however is that since 1962, when the CAP came into force, agricultural trade between the EC and the US has continued to expand.

The EC-USA agricultural trade balance has shown a constant deficit in favor of the United States. The EC's agricultural trade deficit rose from $ 3.6 billion in 1973 to $ 8.4 billion in 1980.
The EC is the biggest importer of agricultural goods in the world.
It accounts for a quarter of all world agricultural imports and in spite of our import levy system, only about 15 percent of EC farm imports from industrialised countries are covered by variable levies, and nearly all imports from developing countries enter the EC levy-free or at very low duties if any at all.
I can assure you that our farmers are not very pleased with this - they are of the opinion that some of the imports are unnecessary, because they are a burden on the market.

COSTS OF THE CAP

It is often claimed that the costs of agricultural support in the EC are very high, whereas it is very low in the US. In fact, we all know that, both the US and de EC subsidize their agriculture. This is not unusual, all industrialised countries enjoy a certain degree of protection which, according to the specific situations varies only in its ways and means. Comparison of expenditures are difficult, because methods of support as well as budgetary treatment of the costs are different.

To give you some figures anyway, EC farm price support in 1982 amounted to 12.3 billion dollars. In the same year, federal income support for agriculture has been estimated at nearly 12 billion dollars.
For fiscal year 1983 the figures are estimated at 13.5 billion dollars for the EC and 21 billion dollar in the US with budgetary expences of the PIK program amounting to 10 billion dollars !
In 1982, the farm budgets in the EC and its member states together amounted to nearly the same amount as the US federal budget for agriculture, namely 30 billion dollars.

The agricultural work force of the US is not more than a half of that of the EC, so US Government agricultural expenditure per head is higher than in the EC.

In the US it is also generally thought that because of the CAP, the European consumer has to pay considerably more for his food than the American consumer. The average Belgian consumer spends about 18 percent of his budget for food. For the US, this figure amounted to 17,6 percent in 1982.

EXPORT SUBSIDIES AND THE WORLD MARKET

A very crucial question is whether the EC, has because of its export subsidies taken more of its equitable share of the world market and by doing so has unfairly depressed world market prices.
Before I go into details, I should, however, like to recall the way in which the Common Agricultural Policy is built up. Export restitutions are part of it, and a fundamental aspect of Article XVI of the General Agreement on Tariffs and Trade, GATT, is that export subsidies are allowed, provided that the country granting the subsidies does not have more than an equitable share of the world market for the product in question.
This principle is one of the fundamental rules of the GATT and was confirmed and made clear during the Tokyo Round negotiations. Statistical evidence does not prove a bigger increase in EC exports of farm products than US exports.

As far as cereals are concerned, corn is the US commodity that has been hit the hardest by declines in export prospects. It is interesting to note that the Community is not even an exporter of corn. US corn exports have fallen off because the strong dollar has made US corn less of a bargain and imported corn has been subsituted by imported corn gluten feed and a slightly increased French production.
In the case of wheat and wheat flour, which account for nearly one third of the volume of total US farm exports, the European Community's share of the world market between 1969-1971 and 1979-1982 increased by 3.4 percent, while the US share expanded by 11.9 percent.
I am not capable of giving you the figure of today, but it will surely have to incorporate the fact that you have taken over the very important Egyptian market from the EC.
The two major factors which determine world prices are the size of the harvest in North America - particularly in the US - and demand in the major importing countries such as the Soviet Union.

As world demand is relatively static, while wheat production in the US is forecasted to reach a record, it is hardly surprising that market prices are declining. At the same time, you feel prices far lower than we and other importers do because the dollar has revaluated enormously compared to European currencies. And what has been the effect of high interest rates and the enormous foreign debt of some importing countries on world trade in general ?

For products such as cotton, corn and soya, where depressed prices seem to seriously affect American producers, the EC is not an exporter but an importer.
As regards poultry, the share of the EC decreased from just under 55 percent in 1975-1977 to 43.2 percent in 1982. The US share in the meantime fell from 38.5 percent tot 24.9 percent, not because of the European Community, where market share was declining, but because of Brazil, which went from 6.5 percent to a 31.9 percent market share over that period.
For dairy products, the EC is playing an important and increasing role in the world market, like you are for wheat and feedgrains.
However, our minimum prices for dairy products are lower than your support prices and do not forget that in the case of the sale of 100,000 tons of butter to New Zealand in 1981, the US did not hesitate to make use of fairly high export subsidies. So I feel we are very much in the same boat here.
We know the US is highly critical to the GATT and the way disputes are settled. However, for the time being, we have to live with some international law and order, and that we try.

A point I want to mention has to do with the consistency of US policy as the world's biggest economic power.
Our people have a hard time to understand why it can be right for the US to export cereals to the USSR while it is wrong for Europe to import Soviet natural gas.
One cannot reconcile unrestricted exports of corn gluten feed to the Community with barriers to the Community's exports of steel or dairy products into the US.
Our farmers know that his midwestern colleague is the most efficient in the world. But they say also that the US only free marketeer for the products it is competitive with on the export markets.

For the less competitive products, the US is protecting its domestic markets by imposing import quotas. This is a policy of double standards. With liberal trade the US would very likely be a significant net importer of dairy products. This are the words of a distinguisted US economist like Gale Johnson of the University of Chicago.

The problems between the EC and the US are fundamentally of a political nature. As stated by Michel Fribourg, President of Continental Grain Company, each side has a political face to save. Each side is under strong political pressure from its respective farmers and their electoral allies. Both sides are determined to protect their farmers from undue hardship; and both sides provide farmers with too much incentive to produce. Both sides have been guilty of unilateral restrictions and violations of the principle of free trade. Both sides have surpluses they must get rid of. And, most damaging of all to the prospects for peace, both sides - both the US and the EC - have made politically unrealistic demands.

WHAT HAPPENED TO THE FARMER ?

A very important question is : what has really happened to the farmer in the EC and in de US as well.
Enormous pressures and efforts to increase productivity, production and exports - have they made the farmer any better ?
In real terms prices and incomes of our family farms went down while costs continue to rise, without an offsetting in product prices. The impact on young farmers, or those trying to overcome cash flow deficits is devastating. I am very worried about this.

Are we not ending up by subsidizing the consumer and importing countries ? Importing countries in general and developing countries in particular find it more convenient to buy cheap on the world market than to invest in their own self sufficiency. Are we nog making agricultural development in the third world impossible ? What is the price, that our tax payers and our farming community are paying for this ?
Recently I read some articles in which among others former Iowa Governor Ray and a distinguished Iowa farmer like Walter Goeppinger expressed great concern about the possibility of US farming to maintain markets if their best soil washes away.

THE CAP IN THE PAST AND IN THE FUTURE

The CAP has been a success. Productivity has increased, a greater stability has been reached, and trade among member countries has increased significantly. I feel it has only failed in one, but an important field : our farmers have not obtained reasonable incomes.
But the success has brought with it some problems, wich are, however, partly linked to the overall economic recession. Consumption has gone up less rapidly than production. Thus, the Common Market has passed the point of self-sufficiency for many products. We have become more dependent on exports. That gives us internal and external problems. Internally because of the increasing costs to the CAP. Externally quite naturally with other exporters to the world market, such as the US, Australia, New Zealand, etc. Of course, the CAP is not a static policy but a dynamic policy that can adapt and already has adapted to changes influencing it. These adaptations have not, however, and will probably not change the fundamental principles of the CAP.

In the present considerations on the CAP, prospects for the demand for food, inside and outside the Common Market play an important role.
Inside the Common Market, two significant factors are population and purchasing power :

- We estimate that the population of the EC countries will grow with only 4 million people to 274 million people until 1990.
- Secondly, private consumption between now and 1990 per head is only estimated to increase at an annual rate of about 2 percent, may be less.

So the conclusion is that overall demand for food in the EC will increase less rapidly than in the past.
Outside the Community, on world markets, prospects are hardly better :

- On the one hand, world population will increase rapidly, from 4.5 billion in 1980 to as much as 6 billion in the year 2000.
- On the other hand, the capacity to pay or the effective demand - will depend on economic growth and credit possibilities, and developing countries and the Eastern European countries have run up a colossal debt.

So probably, the increase in world market demand may not be strong.

RESHAPING THE CAP.

The EC Commission has already implemented a number of measures to ensure a better matching of supply and demand, and to make producers aware of the costs of over-production. These measures have been introduced in the first place to respond to the needs and priorities of Europe itself, just as the farm policies of other countries will develop in response to their own national priorities. That's normal.

The EC no longer maintains guaranteed prices for unlimited quantities. In the dairy sector, a farmers' co-responsibility levy has been applied for years. In addition, in 1982, the EC introduced a threshold for milk production so that if milk deliveries increase by more than 0.5 percent, prices will be reduced. This year for example, the EC Commission has cut the milk price increase for 1983 by 3 percent. For the coming season, the Commission proposes in addition a flat rate levy of 2 percent, and a super levy of 75 percent of the target price on the increase of production as compared with a reference quotum on a per farm base.
As for cereals, the EC has embarked on a program of reducing the gap between its own support prices and those of other major producing countries such as the US. The erratic behavior of our exchange rates is making the realisation of this goal very difficult.

In addition, the EC has also introduced a threshold for cereal and oilseed production, like for milk, which will automatically reduce intervention prices, if the threshold is exceeded, and this is the case for 1982.
In the sugar sector, producers must now themselves bear all the costs of net exports.

The farm organizations of the Common Market, I must underline, have strongly protested against the introduction of these measures, which will cut farmers' incomes at a time where they are already too low. We feel that farmers in this way pay for the overall economical problems that are the main reasons for lack of demand and the increase in production. It could also be that lower prices do not reduce production but merely would make already poor farmers poorer. But I feel it is correct to inform you of the fact that such measures have been introduced.

Other recent proposals of the Commission of the EC highly criticized by the US are the taxation of oils and fats and the cereal substitutes.
Here the principle is quiet simple. How would the US farmer react if he gets penalized or taxed for producing too much milk or cereals while EC dairy products or cereal derivatives are flodding your market ?
Our farmers feel that measures aimed at limiting production and exports to third markets, should not create competitive advantages for substitutes from domestic or foreign origin.

I can further add that some EC members are strongly advocating that the EC should conquer its place on world markets and are therefore not in favor of policies that cut production and exports.

Our livestock farmers rely on your cereals and soybean growers for much of their animal feed. But equally, you need them. Without their considerable and regular demand, your farm incomes would be even lower than they are now. Yet, our farmers and your farmers face each other in many third countries. We are also your biggest competitor.
In 1981, the EC imported agricultural products worth 9 billion US dollars from the US, this is four times the value of our exports to the US. The EC absorbs more than 20 percent of the total US agricultural exports. The considerable US surplus in its agricultural trade with the EC amounted to nearly 7 billion US dollars in 1981. Of the imports from the US, half were duty and levy free.
It includes 2.8 billion dollars of soybeans, 1.6 billion dollars of animal feedstuffs, and 680 million dollars of fruits and vegetables.

The EC animal production has increased over a number of years, but at the same time there has been a decrease in quantities of cereals used for feeding purposes. This gap has been closed by the steep increase in imports of grain substitutes, from among others the US, on which no or only very small duties and levies are imposed. So there have been increases in the EC animal husbandry sector, but it was the US that provided the feedstuffs required to do so. Therefore I sometimes feel it difficult to understand, if the US, on the one hand, expects the EC to import unlimited quantities of feedstuffs and, on the other hand, wants to prevent us from exporting to the world market. And I would certainly not understand, if the US would ban the importation of EC goods produced on the basis of US feedstuffs.

It should also be made clear that, if the EC is to export less cereals and flour on the world market, this can only be realised by feeding those cereals to our own livestock at the expense of imported cereal substitutes : maniok, corn gluten feed and also soybean meal.

FINAL REMARKS

There will be no cheap solutions or easy answers to the problems that we are facing today. However, I am convinced that a first step towards a satisfactory agreement between the US and the EC is a wide understanding of each other's point of view. That is why I have been very satisfied to have had this opportunity today.
It is through cooperation, and not confrontation, that we shall achieve progress. A confrontation - a trade war - :
- will make world prices fall,
- will provide no substantial commercial benefits to either party,
- will be very costly to public finance and a catastrophe for farmers's incomes,
- will be beneficial to third countries, such as the Soviet Union,
- will very likely not remain limited to the agricultural sector.

In order to avoid any trade confrontation and, in particular, to prevent world prices from collapsing, the only reasonable way to pursue is to find common solutions to common problems.
We can turn trade into an economic battleground. Or we can cooperate and respect each other's interests. In the European Community, we prefer the latter.

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