SOME VIEWS ON THE AGRICULTURAL POLICY OF THE EUROPEAN COMMUNITY AND ITS EXTERNAL TRADE IMPLICATIONS

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Introduction:

Bearing in mind the good relationships between the United States and the European Community since its foundation and the traditionally close ties between Ireland and the U.S., the tensions which have arisen in recent times on agricultural policy and trade, are a cause of very deep concern. As a representative of the European Community and of Irish farmers, I am very grateful to have this opportunity to discuss these issues of common concern. The present difficulties must not be allowed to escalate into a trade war, not only because of the effects on the agricultural sectors in your country and in Europe, but also because of the wider political implications.

I know that farm incomes in the U.S. are depressed; they are also depressed throughout the E.E.C. and particularly in Ireland. In times of economic depression, blame may be hastily allocated without taking full account of the viewpoints of others. I wish, therefore, to make some observations about the E.E.C. Farm Policy, about its particular importance to Ireland, about the current re-examination of that policy in the E.E.C., and also about the particular issue of agricultural trade between Europe and the U.S.A.

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Irish Agriculture in the E.E.C.

Agriculture in Ireland has experienced the difficulties which are common to many developing countries. Our relatively large agricultural exports, over and above domestic requirements, were met with trade barriers and extremely low export prices. Therefore, the potential of Irish agriculture could not be fully exploited and the Irish economy was severely retarded as a result.

On accession to the European Community in 1973, Irish farmers were now provided with accessto a market of 260 million consumers. E.E.C. prices were then at levels which were reasonable to both consumers and producers. The volume of agricultural output in Ireland is now 34% above the level of 1979.

Some of our traditional manufacturing industries could not survive in the free trade environment of the E.E.C. At the same time, Ireland within the E.E.C. became a profitable location for mobile foreign investment. A number of major U.S. companies have contributed very substantially to industrial development in Ireland.

One of the major criticisms of the Common Agricultural Policy has been that prices are set too high and thus that the rationalisation of agriculture is impeded. In reality however, the number of people working in agriculture in the E.E.C. has fallen from 18 million twenty years ago to under 8 million today. A similar pattern has prevailed in Ireland. The number of people working in agriculture 20 years ago was 390,000 but today it is down to 180,000. However, average farm size in the Community is still very low by U.S. standards at about 45 acres. It is difficult to foresee any substantial increase in the farm size over the next decade.

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Agriculture is more important to the Irish economy than in any other E.E.C. country except Greece. Agriculture accounts for 13.7% of G.N.P. in Ireland. The overall E.E.C. figure is 3.8%. The percentage of the population working in agriculture is 19.2% in Ireland and 8.2% in the overall Community.

Milk and beef account for over two-thirds of Ireland's agricultural output. Milk output is 6½ times more important to the Irish economy than to the overall economies of the 10 E.E.C. countries, and beef output in Ireland is about 8 times more important to the Irish economy, than to our E.E.C. partners. Dairy and beef exports combined account for 22% of total national exports, and in view of the very low import requirements, the dairy and beef sectors account for about 34% of Ireland's trade balance.

Is the C.A.P. Over-Protectionist?

Farmers in Ireland find it very difficult to understand the allegation that the Common Agricultural Policy is over-protectionist. In reality the European Community is the biggest importer of agricultural goods in the world. It accounts for a quarter of all world agricultural imports. Furthermore, only about 15% of E.E.C. farm imports from industrialised countries are covered by the variable levy system. Indeed the increase in imports of farm products is a cause of concern to E.E.C. producers who see Community Preference being rapidly eroded.

Some of these imports, for example soya, are complementary to E.E.C. production. E.E.C. imports of soya beans and cake have increased from 2.8 million tonnes in 1966 to 12.8 million tonnes in 1981. The Community also grows less corn than it needs and imports nearly 9 million tonnes, almost all from the United States.

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Of particular concern to the E.E.C. is the increased trend in the importation of cereal substitutes. Exports of corn gluten feed from the U.S. to the E.E.C. which were negligible in 1973 have now increased to 3 million tonnes annually. This, and the other cereal substitute imports, displaces similar quantities of E.E.C. produced cereals which then have to be sold on world markets.

Efforts by the E.E.C. to get agreement on these cereal substitutes with the U.S. have been unsuccessful. But if the U.S. insists on exporting large quantities of animal feedingstuffs to the E.E.C. - and very often at zero or low levels of import duties and levies - these feedingstuffs will be converted into increased production of animal products - milk, beef, pigmeat, and poultrymeat - within the E.E.C. This increased production is inevitably forced on to world markets. This development, i.e. increased animal and animal products output based on relatively cheap imported feedingstuffs, is now threatening the future of the C.A.P. itself. A considerable part of the cost of the C.A.P. can be traced directly to the increased levels of imports of agricultural products in recent years.

Cost of the C.A.P.

It is normal practice for all industrialised countries to implement agricultural policies aimed at security of supplies and reasonably stable prices for food products. Under the C.A.P., national agricultural supports and national agricultural expenditure have been replaced by a Community system. The cost of farm price support in the E.E.C. last year was about 12.3 billon dollars, while Federal income support for agriculture in the U.S. was also close to 12 billion dollars. The number of people working in agriculture in the U.S. is approximately one-third of that in the E.E.C. Therefore, per capita support in the E.E.C. is substantially lower than in the U.S.

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E.E.C. and U.S. Farm Exports

The growth in U.S. agricultural exports has been faster than the growth in E.E.C. agricultural exports. Between 1971 and 1980, world agricultural trade increased by 450%, E.E.C. agricultural exports increased by 513% and U.S. agricultural exports increased by 536%.

One area of conflict between the E.C. and the U.S. has been the export of wheat and flour. However, between 1969/70 and 1980/81, the E.C. share of the world market fell from 16.6% to 14.9%, while the share held by the U.S. increased from 38.4% to 44.8%.

In recent years, some of the biggest problems for U.S. farmers have been in the corn and soya bean markets. Here the E.E.C. is not a competitor but is in fact the largest market for U.S. exports.

In the case of dairy products, the minimum price for dairy products is in fact lower in the E.E.C. than in the U.S.

The U.S. has in recent times been particularly critical of the E.E.C. export refund system. But within the G.A.T.T., export subsidies are allowed, provided that the country granting the subsidy does not have more than the equitable share of the world export market for the product concerned.

Since 1955, the U.S.,unlike the E.E.C., has benefitted from a special G.A.T.T. waiver, whereby the U.S. is free to impose import restrictions on commodities benefitting from an internal support programme, such as dairy products, sugar, cotton and peanuts.

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The E.E.C. has sought consultations with the U.S. on the growth in imports of corn gluten feed from the U.S. The U.S. has claimed that its right of access to the E.E.C. market is "non-negotiable". But G.A.T.T. gives any contracting party the right to withdraw a trade concession in return for adequate compensation.

Changes in C.A.P.

The U.S. Government has taken strong measures,-notably the payments-in-kind programme - to control the levels of farm production. As a result of this programme, and the effects of the weather, production in 1983 will be substantially down.

Similarily in the E.E.C., the C.A.P. is now undergoing a major review. Already, since 1982, the E.E.C. no longer maintains guaranteed prices for unlimited quantities. On milk, a "co-responsibility" levy has applied to producers for many years. On cereals, the E.E.C. is reducing the gap between its support prices and those of other major producing countries such as the U.S. In the sugar sector, producers have to bear all the costs of net exports.

The E.E.C. is now debating a series of even more stringent measures on producers. These include a quota system for milk, and a very restrictive price policy for all products. The farm organisations of the E.E.C. are extremely concerned about these new proposals, which will cut farmers' incomes at a time when they are already too low. The Irish Farmers' Association is particularly concerned about the quota/super levy proposal for milk, because Irish agriculture is so heavily dependent on milk production.

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Some General Considerations:

In the E.E.C. the rate of population growth is now extremely low and demand for food products will rise much more slowly than in the past. In the developing countries, the effective demand for food is limited by severe economic and financial problems.

A number of factors outside of the C.A.P., may be causing the present difficulties.

Firstly, the economic recession has affected all exporting countries including the E.E.C. as well as the U.S.

Secondly, the dollar has been particularly strong, and interest rates have been intolerably high in recent years.

Thirdly, the volume of U.S. exports have been increasing rapidly.

I suggest that if these three factors were fully analysed, they would explain much of the difficulties now being faced by European farmers.

I would go further and say that what American farmers need now is a market stabilising system like the C.A.P.

Concluding comments:

Confrontation between the U.S. and the E.E.C. would have a number of disastrous consequences. It would lead to a further fall in world prices; it would give no commercial benefits to either party in the longer term; it would be costly to public finances; it would be disastrous for farmer incomes, and I would be very surprised if the confrontation was limited to the agricultural sector.

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A stable rural population is an objective of all the Governments of Western Europe, and in my view it is preferable to continue with this objective rather than allow agricultural production to become extremely industrialised.

The E.E.C. and the Common Agricultural Policy have contributed very substantially to political and economic progress in Europe. The E.E.C. and the U.S. must discuss openly their common problems. The common interests by far outweigh our differences, and highest amongst our common interests is the need to prevent any further collapse in world prices. In the longer term international commodity agreements must be used to a greater extent to stabilise world markets. The only reasonable way forward is to find common solutions to common problems.