

CURRENT AGRICULTURAL TRADE ISSUES
IN US-EC RELATIONS

MYTHS AND FACTS

Presentation by Barbel Jacob,
Counsellor, Economic and Commercial,
Delegation of the Commission
of the European Communities,

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I am particularly pleased and honoured to be able to speak to you today because this for me constitutes a triple "first":

- this is the first time I am addressing the National Soybean Processors Association;
- it is also my first time at the "Greenbrier" and
- last but not least, this is the first time I have seen a soybean even though it was not even the real thing but a golden pin which Ralph Weems, the President of the American Soybean Association, was kind enough to give me in order to overcome this deplorable ignorance.

Two years ago at this very place my colleague, Ulrich Knueppel, had already addressed your association and talked about some of the more specific questions of mutual concern. Given the fact that I am a relative newcomer to this agricultural field, I would prefer today not to go too much into the technicalities but rather to present to you some of the more general problems which arise currently in the agricultural trade relations between the United States and the European Community.

One further remark in terms of introduction: I had been very much looking forward to this occasion until sometime in late July whilst I was vacationing on the sunny beaches of southern Spain I read in the "International Herald Tribune" that the Commission in its proposals for the reform of the Common Agricultural Policy had also considered the institution of a tax on the consumption of vegetable oils and fats. Had I known this

in advance I am sure I would not have accepted your kind invitation so eagerly. Anyway, I will try to deal with this later in my presentation. But first I would like to examine together with you some of the myths which we encounter frequently in the field of US-EC farm trade and to see to what extent they are supported by the facts.

Myth number 1 is the most often heard argument that the root of all the problems of the US farmers lies in third countries. However, it seems to me that the reasons for all these problems are quite different and I would only like to quote a most authoritative US publication, the "Farm Bureau News" which recently reported the following remarks made by a high-level official of the Department of Agriculture: "Rising production, due in part to the promise held out by the booming '70s combined with weak demand are responsible for current low prices U.S. agriculture simply lost the growth we've been accustomed to over the last few years. For the first time in 12 years U.S. farm exports in 1982 dropped by 4 billion dollars. A big chunk of that was due to the strength of the dollar All of this has come during a period of widespread recessions in which the growth of industrialised countries has fallen markedly and instability has wrecked other markets Adding to that are losses resulting from the Soviet grain embargo. The U.S. had 70% of the Soviet grain market prior to the 1980 cut off and is now struggling to keep 30% of an export market that exploded during the 1970s." It would appear to me that these remarks speak

for themselves and don't require any further comment.

Myth number 2 is similar but a little more specific than the first one. According to this most of the problems US farmers are encountering are caused by the CAP, the most recently invented three-letter word, which stands for Common Agricultural Policy and which is supposed to be cutting out the US from major markets. If you look at the facts you will discover that the EC has always been and continues to be the world's largest importer of agricultural goods. In 1980 for instance, it accounted for one-quarter of all world agricultural imports and it ran an overall trade deficit in agriculture alone of something like 32 billion dollars.

As for its farm trade with the US, the EC imported in 1981 9 billion dollars worth of US farm products making it the American farmers largest foreign customer and leaving the US with a 7 billion dollar farm surplus vis a vis the EC.

According to myth number 3, the EC has heavily subsidised its farm production and exports. This is true. But so has the US government. A quick look at the figures will show that in 1982 the total EC farm support expenditure amounted to 12.3 billion dollars. During the same period the US government's income support for farmers has been estimated at nearly 12 billion dollars. So who is subsidising more?

Closely linked with this is myth number 4, according to which subsidies are bad per se, are not allowed by the international

trading rules and therefore must be abolished. The facts are slightly more complicated. The current GATT rules which were reached after long negotiations during the Tokyo Round, do not categorically ban subsidies but only allow them to the extent that they do not give the subsidising countries more than an "equitable share of the world market". It goes without saying that this general principle, as clear as it may sound, leaves a lot of room for interpretation and this is what some of our current agricultural trade disputes are about. What is important is that all the major world trading partners reach an agreement about the interpretation of this general principle in order to make the subsidy code more operational.

In this context it is very often heard that the EC, through its farm subsidisation programme, has reached more than its fair share of world farm trade. There are, however, few facts to prove this. If you look at the global figures for instance, you will see that between 1970 and 1980 the US was able to increase its overall farm exports from 7 billion dollars to 41.3 billion dollars which meant increasing its share of world farm exports from 25% to 39%. These figures do not seem to me to indicate that US farm exports have been displaced by subsidised exports from the EC.

If you look at some of the figures for grain which is a product where the US and the EC compete, there is not much evidence either to support this allegation. In effect if we look at world exports of grain (in percentages) and we compare

the figures for 1974 with those for 1981 you will discover that the EC increased its share of world flour exports from 55 to 62%. In the same period the US increased their share from 18 to 25%. The situation is different if you look at wheat where the EC, over the same period, increased its share from 8 to 9%, whereas the US, which had always been a traditional supplier, increased its share from 47 to 55%. Finally, in feed grains, the EC slightly reduced its share from 6 to 5%, whereas the US increased their share from 55 to 60%. If one takes these figures into account the overall balance does not seem to be looking too badly for the US.

Let me add one further myth which brings me also to the point which I mentioned at the outset of my presentation. According to this myth, the CAP will inevitably result in ever-increasing production, every-increasing subsidisation and surpluses. Here again the facts are somewhat different. Over the last years the Community has made considerable efforts in order to bring its farm prices more in line with world market prices and thereby reduce the costs of price support. I only mention the recent price decisions taken for the 1983/84 campaign and which result in an average increase of around 4.5% which is way below the EC-wide level of inflation.

Furthermore, the Commission has recently put forward proposals for further restructuring of the agricultural policy which will not only moderate further the price increases but also limit price guarantees to certain production quantities.

These proposals, which at the moment are only in the form of an outline which will be followed by more detailed texts in September, demand considerable efforts from the European farmers. It would be unrealistic, however, to expect EC farmers to shoulder the entire burden of the readjustment. The EC's main trading partners will have to share some of this load. The Commission has, therefore, launched the idea, among others, of instituting a tax on the consumption of all vegetable oils and fat. I would, however, like to assure you that the EC will only take action in accordance with GATT rules and that it will seek cooperation with its major agricultural partners in order to prevent further deterioration of world markets.

In conclusion I would therefore like to suggest waiting for the final detailed proposals which are due some time in September. You should be aware that a final decision on this reform package will only be made by the European Council meeting in December in Athens. If in the meantime you have any questions or difficulties please don't hesitate to contact our Delegation in Washington, which will do its best to help.