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BARRIERS TO AMERICAN AGRICULTURE IN WORLD TRADE

The title chosen could suggest that American agriculture has a vested right to flood the world with its products and that it has to contend with countries which take a mischievous delight in erecting "unfair trade barriers".

The message of American media and in many speeches made by US leaders in the last two years seems to be that these barriers have been deliberately set up by the Community and the Community alone. I am therefore very grateful to the organizers of this conference for the opportunity they have given me to set things in a fairer perspective.

I know that Chicago is a place where issues connected with trade are taken seriously and treated seriously. This means having the courage to face reality and being prepared to check some of the political rhetoric we hear against the facts.

The facts I want to put to you today should help to show what is the real shape-out of responsibility for current developments.

There are three aspects:

1. The absence of specific barriers to United State exports,
2. The extent to which American policy is itself responsible for the situation of farming in the United States,
3. The action taken by the Community to settle its own agricultural problems.

1. A first, irrefutable point is that until 1981 American exports of agricultural products were expanding at a spectacular tempo, at a rate well above the rate of the increase in world trade.

The increase between 1973 and 1981 was spectacular. In dollars, the increase was from \$19 600 million to \$48 000 million. The surplus earned on the US agricultural trade balance soared from \$7 500 million in 1973 to \$22 700 million in 1981. But this success brought with it, as successes often do, a new headache, because as the years passed, the United States became more and more dependent on world markets trends which are notoriously unpredictable. This became all too clear in 1982, and the problem persists this year.

The Community, too, has become more dependent on export markets: in the last 20 years it has modernized agricultural structures and achieved very substantial productivity gains. Its production has increased at an average rate of 2.5% annually over this period. With high consumption levels and no more population growth the Community has reached and passed the self-sufficiency threshold for many products. Later I will tell you how we have decided to cope with the new situation.

Graph I  
Global agr.  
trade ba-  
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However, the expansion of the Community's agricultural production and exports has not meant lower imports. In fact, the Community's deficit on agricultural trade is still a matter of great concern. It was \$20 600 million in 1981, down from \$34 100 million in 1979.

The reason for this is that the general arrangements for imports into the Community are, whatever may be thought on this side of the Atlantic, among the most liberal in the western world: the Community takes one quarter of world imports of agricultural products, and this makes it the largest importer of such products in the world.

In 1982, only 15% of the Community's agricultural imports from industrialized countries were subject to the variable levies system, so sharply criticized by the US administration for more than 20 years. As for the other 85%, more than 50% of imports from industrialized countries came in over zero duties. This accounts for the very sharp increase in imports of products for animal feed from the United States and a steady deterioration in the deficit in agricultural trade with the United States, which rose from \$3 600 million, that is 2 900 million ECU in 1973 to \$7 400 million, that is 6 600 million ECU in 1981.

bilateral  
trade  
balance II  
ECU)

I cannot deny that this trend is causing us concern. Voluntary restraint agreements have been concluded with the countries supplying manioc. The levies on imports of bran have been increased. A solution must be found, in cooperation with the United States, for corn gluten feed.

Whatever the conventional wisdom dispensed by the media on this side of the Atlantic may say, I am quite sure that competition from the Community is not the reason why US agricultural exports declined in 1982.

A closer examination shows that in respect of many agricultural products the Community does not compete with the United States on world markets at all.

In fact, it is a net importer of products which the United States is finding it hard to dispose of abroad.

example,  
For the Community, which grows practically no soya of its own, is your best customer for this product. Our imports of beans and cake rose from 2.8 million tonnes in 1966 to 12.8 million tonnes in 1981.

The fall in soya market prices and the export difficulties in 1982 have nothing to do with the Community, which has made no changes in its import arrangements.

This is also true for corn gluten feed, which is produced in negligible quantities in Europe and almost all of the US production of which is sold in the Community. From a few thousand tonnes in 197 , US exports had swollen to almost 3 million tonnes by 1982.

The Community also grows less corn than it needs and imports nearly 9 million tonnes, almost all from the United States.

We are net importers of citrus fruit and of a large number of fruits and vegetables, cotton, and other products.

In this connection, the criticism of the Community's preferential agreements with Mediterranean countries is both unjustified, since the United States retains its overall share in the Community market for the relevant products, and undiscerning, because of the political importance of these agreements for the western world.

If we examine things in depth we find that the areas of friction on world markets are much smaller than some critics are apt to suggest. Really, they concern only the wheat and flour markets, and chicken. And, of course, the problems must be seen in their proper perspective. With regard to wheat and flour, it is true that the Community exported 14 million tonnes of these products in 1982, 14% of the world market, but I would remind you that this proportion had already been achieved by the Community thirteen years ago (1969-70), a year in which the United States had only 33% of the world market, whilst its share today is much nearer 50%.

Table III

With regard to poultrymeat, the key development is the rapid emergence of a newcomer, Brazil, which in less than six years, from 1975 to 1981, boosted its share of the world market from negligible quantities to 20%, encroaching on the exports of both the United States and the Community.

Table IV

There is nothing here to explain the aggressiveness of the United States in its attitude to the Community's export refund arrangements. This is an attitude we find surprising, since it seems to be a criticism of export subsidies as authorized by the Code on Subsidies and Countervailing Measures adopted following the Tokyo Round. But you know that the Community has

never refused to comply with the procedures and decisions adopted under the Code to ensure respect for relevant GATT rules.

I do not say this because, on the question of flour, the GATT panel set up on the initiative of the United States did not come to the conclusion that the Community had taken more than an equitable share of an expanding world market. No, the United States attitude surprises me because I get the impression that our critics do tend to see only the mote in the eye of their neighbour. After all, all exporting countries pay export or production subsidies of one kind or another, and American exporters have certainly no grounds for complaint on this point.

I shall not dwell on the ways international trade can be distorted by blended credits, the PL 480, drawback, and so on. Let me simply say that the United States' sale to Egypt of 1 million tonnes of flour, or about a fifth of the world market, at a price \$ 20 to 30 below normal prices, is definitely from the Community point of view an infringement of GATT, and that we disagree with the view that temporary, trade-distorting measures such as the wheat flour transaction can be justified on the ground that "when all the world is mad, 'tis folly to be sane". What is quite certain is that this US action can in no way find its justification in the findings of the panel on EEC flour exports. Furthermore the net result of the US-Egypt deal is simply

to depress flour prices on the world market. Indeed it even depresses wheat prices, since the sales price of the flour is in fact lower than the cost of the raw materials involved in its production.

There is a saying to the effect that people who live in glass houses should not throw stones. One does, indeed, sometimes wonder whether the United States market offers that freedom from barriers to trade which the United States authorities are so anxious to see achieved on the world market. I must say, I doubt it. The facilities available to the American authorities through the waiver empower the President to institute for major products, as soon as the need is felt, import quotas, additional charges, domestic price compliance rules - all measures which are just as formidable as any of the machinery the Community uses to ensure Community preference.

2. Secondly, I should like to put it to you that the problems American farmers have to content with are largely due to American policy itself.

I can understand that for reasons of internal politics it is convenient to put it about that competitors' export subsidies are the reason for the deterioration in the situation of farming in the United States. But the facts do not support this. Many developments have helped to widen the gap between supply and demand for agricultural products and thus aggravate the recession.

Some are inherent in the development of American agriculture itself; others are more economic and political.

Those inherent in American agricultural policy include the increase, during the seventies, of the total cultivated area in the United States by 60 million acres and of the productivity of farming by more than 10%.

The United States was already self-sufficient in 1970, and could therefore dispose of the increase in production only by winning new export markets.

A more serious matter is that American farmers went on intensifying production capacity at a time when, in the second half of the seventies, economic conditions were deteriorating.

A policy of easy credit proved a sharp spur to investment. Farmers' borrowings tripled in the seventies, to reach a figure of \$150 000 million.

This is not denied by Mr Block, who recently observed: "With plentiful and easy credit and rising land values during the seventies, farmers found it advantageous to escalate borrowing and make heavy capital investments. Results were dramatic indeed. Between 1971 and 1982, farmers increased the area planted to principal crops".

What was bound to happen happened quite soon. There have been record crops in recent years. Between 1975 and 1981, United States production rose



from 57.9 million tonnes to 76.2 million tonnes for wheat  
from 41.4 million tonnes to 56.5 million tonnes for soya  
from 146.5 million tonnes to 208.3 million tonnes for corn  
from 52.3 million tonnes to 59.0 million tonnes for milk (1980)  
or from 115 400 million pounds to 128 400 million pounds.

The equilibrium of world markets is always rather unstable, and production growth on this scale was bound to give it a severe jolt.

The sharp increase in supply, not offset by demand, now quite weak, has led Mr Block to admit that the resulting decline in prices of agricultural products has been reducing the incomes of US farmers to the lowest point since the depression in the thirties at the very time when their interest payments are increasing.

What American farmers need right now is the market stabilizing machinery which the US authorities have always criticized in the Community.

With regard to the more economic and political factors, it is clear that American farming has, like agriculture elsewhere, been caught by the disruption of economic equilibria resulting from the persistence of the 1973 crisis.

It is true that US monetary policy has not been very helpful.

In the last two years, with production steadily growing as rationalization and modernization has progressed, interest rates have risen and the dollar has made gains against the other currencies thus helping to force up the sales prices of American products in foreign countries and depress US farm gate prices.

But monetary policy is not the only culprit. The decline in value of US agricultural exports from \$43 800 million in 1981 to \$39 100 million in 1982 and the further reduction of \$2 000 million expected for 1983, at a time when the volume of American exports declined by only 2% between 1981 and 1982 is only a symptom of the crisis. The recession, which has taken its toll nearly everywhere in the world, is cutting deeply into effective demand for agricultural products in the industrialized countries and in the developing countries.

In many Latin American and eastern European countries, the United States, like the Community, is suffering heavy losses of exports, because of the payments difficulties these countries have run into, engendered by their mounting debts.

This is why the United States exported only 2 million tonnes of cereals to Mexico in 1982, down from 6 million tonnes in 1981. Exports to the eastern European countries also dropped by 50%.

Everybody concedes that the former administrations embargo policy cut back the United States' share in Soviet imports of cereals from 70 % in 1977 to 30 % in 1982.

This is a barrier to American exports which we really did not put up. Nor are we responsible for increasing exports of Brazilian soya which were helped by the temporary embargo on exports of this product put up by the United States in 1973. This does not mean that I deny that the Community does compete, within the limits I have suggested, on world markets, but I do feel that responsibilities must be properly assigned.

3. The last point I want to make is that although the Community does not accept responsibility for the American difficulties, it is making efforts to solve its own problems. But it must be made clear that the Community's agricultural policy can be adapted only in terms of Community priorities, just as the agricultural policies of other countries are adjusted on the basis of the priorities set by these countries. This is only reasonable.

The common agricultural policy is more than 20 years old. Over the years, it has changed and developed. There could be no greater mistake than to imagine that it is static or monolithic.

The Community has decided to adapt to what is a completely new situation, that of its being a permanent exporter of agricultural products. It has learned the lessons of its greater dependence on the world market, which is expensive, for the difference between the rather stable Community price and the fluctuating price obtained on the world market is paid to the exporter in the form of "refunds" and this money comes from Community funds.

As the Community budget is not inexhaustible, it has been agreed that it is neither feasible in financial terms nor sound in economic terms to maintain guaranteed prices for unlimited quantities, regardless of market needs.

Hence, in the "Guidelines for European Agriculture", adopted in 1981 as a sort of "Charter of Agriculture" for future years, it was proposed that our exports could be increased only:

- if we reduce the cost of our exports by narrowing the gap between our prices and world prices,
- if we ask our farmers to pay some or all of the cost of disposing of production beyond certain thresholds.

Since then, a cautious policy on prices has been pursued, taking account both of the situation on the markets and the situation as regards farmers' incomes. The increase proposed for the 1983/84 marketing year, which was to have begun on 1 April, is 5.5%.

In the cereals sector, we have already applied this policy when the guarantee prices were fixed last year, by increasing cereals prices less than the others.

This year, we will continue to reduce by 1.5% the gap between our prices and those obtained by farmers in the main competing countries. This is something we can do without causing undue hardship, as the productivity of our farmers leaves room for this saving. We must do it in order to cut the cost of cattle feed and make imports of grain substitutes less attractive.

We have also extended the use of the "guarantee thresholds"

The principle of guarantee thresholds was built into the machinery of our farm policy some time ago.

The products concerned were:

- sugar, which, since 1968 has been subject to a co-responsibility scheme involving producers in the cost of exports. Since 1 July 1981, producers have been covering the cost of their exports in its entirety
- milk, for which a co-responsibility levy has been charged since 1977. It is now 2% of the target price for milk.

We have now refined the concept and extended it to other products.

It is applicable at the present time to five main policy sectors - cereals, milk, colza, processed tomatoes and sugar. The five sectors represent:

- 65% of the gross expenditure of the EAGGF Guarantee Section,
- 35% of the value of Community agricultural production.

To illustrate this, let me tell you that our Council of Ministers had decided that if production of cereals and colza exceeds fixed thresholds, the intervention price for the following marketing year will be cut. Since the thresholds for 1982 were exceeded, we automatically drew the conclusions which were necessary in our price proposals for 1983.

- for cereals, a 1% reduction is therefore to be added to the 1.5% reduction already proposed for price alignment purposes. The increase in prices in 1983 will therefore be only 3% instead of 5.5%.
- With regard to colza, the increase of 5.5% is reduced to 4.5%; this also represents a reduction of 1%.
- With regard to milk, the Council decided that measures should be taken if the increase in deliveries compared to last year exceeded 0.5 %, which corresponds to the average annual increase in Community consumption. Since the increase in deliveries for 1982 has reached 3.5%, the Commission proposed for 1983 that intervention prices for milk should be increased by only 2.3%, a good 3% below the 5.5% norm.

On another point, there has been American criticism of production or processing aids granted by the Community in the form of deficiency payments to Mediterranean farmers, but I would like to point out that the sole object of these schemes has been to maintain and where possible step up production located in what we call "less-favoured" areas.

These aids are strictly limited and supervised, and the scheme cannot possibly constitute a threat to American farmers.

These are, then, the measures adopted by the Community to restore sound operation on its agricultural markets.

As you can see, we are definitely not abandoning the common agricultural policy, for it has a social function which is of overwhelming importance, but we are adapting it in ways which will enable us to preserve what matters most - price stability and reliable supplies.

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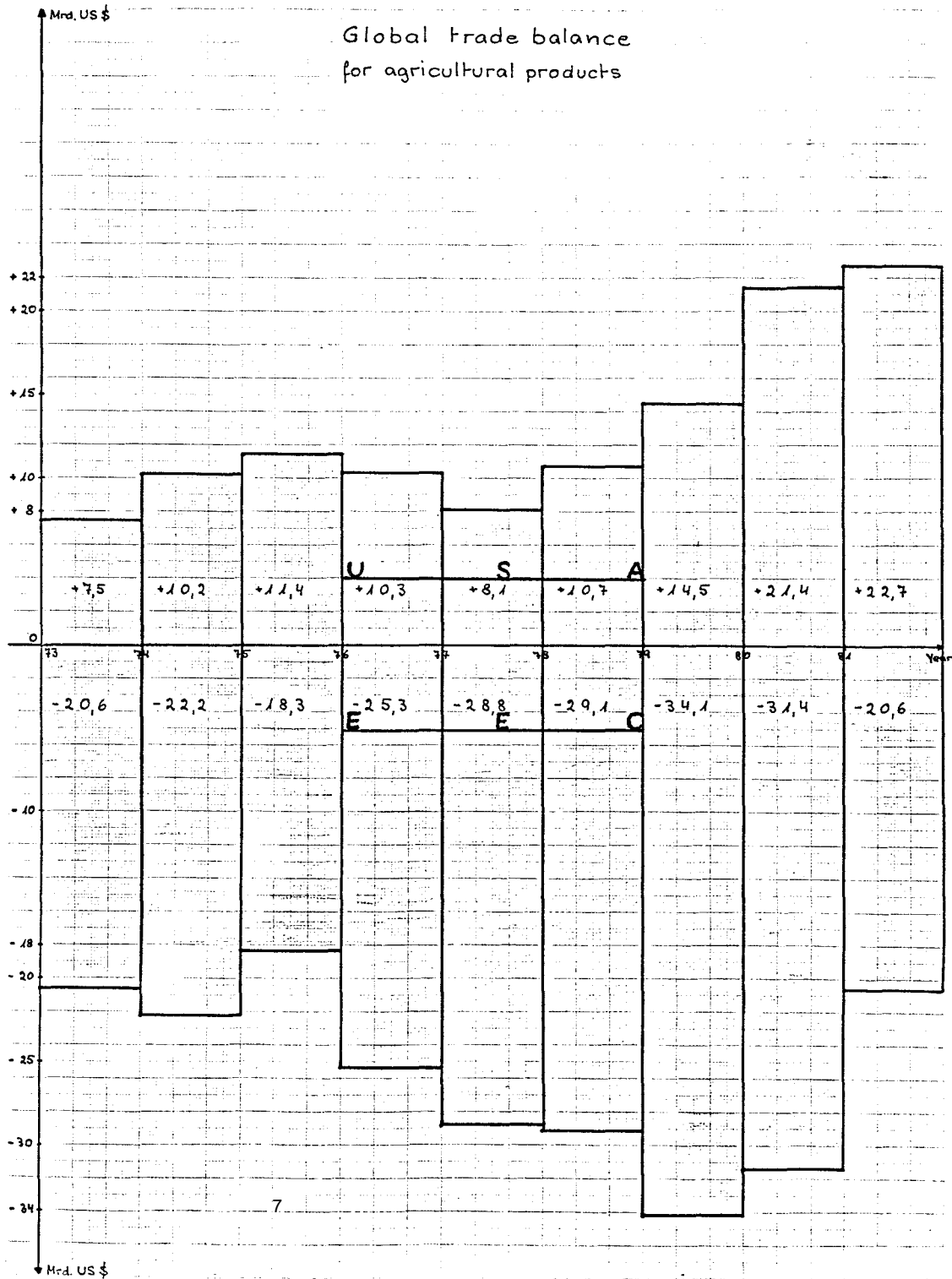
The Community is not responsible for the barriers to world trade about which US exporters feel so resentful. I hope I have brought this message home to you. The Community is not interested in, and does not want, a confrontation with the United States. It has shown that it is prepared to talk. It is still prepared to talk, but each party must be aware of what it stands to lose, and you know that we are your best customers.

There is no doubt that a subsidy war would cost a fortune, both in the Community and in the United States.

I feel that we have no choice but to hammer out an agreement. Solutions can be found. But it would really be a very great mistake to corner the Community into a position where it is forced to take protectionist measures.

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### GLOBAL AGRICULTURAL TRADE BALANCE

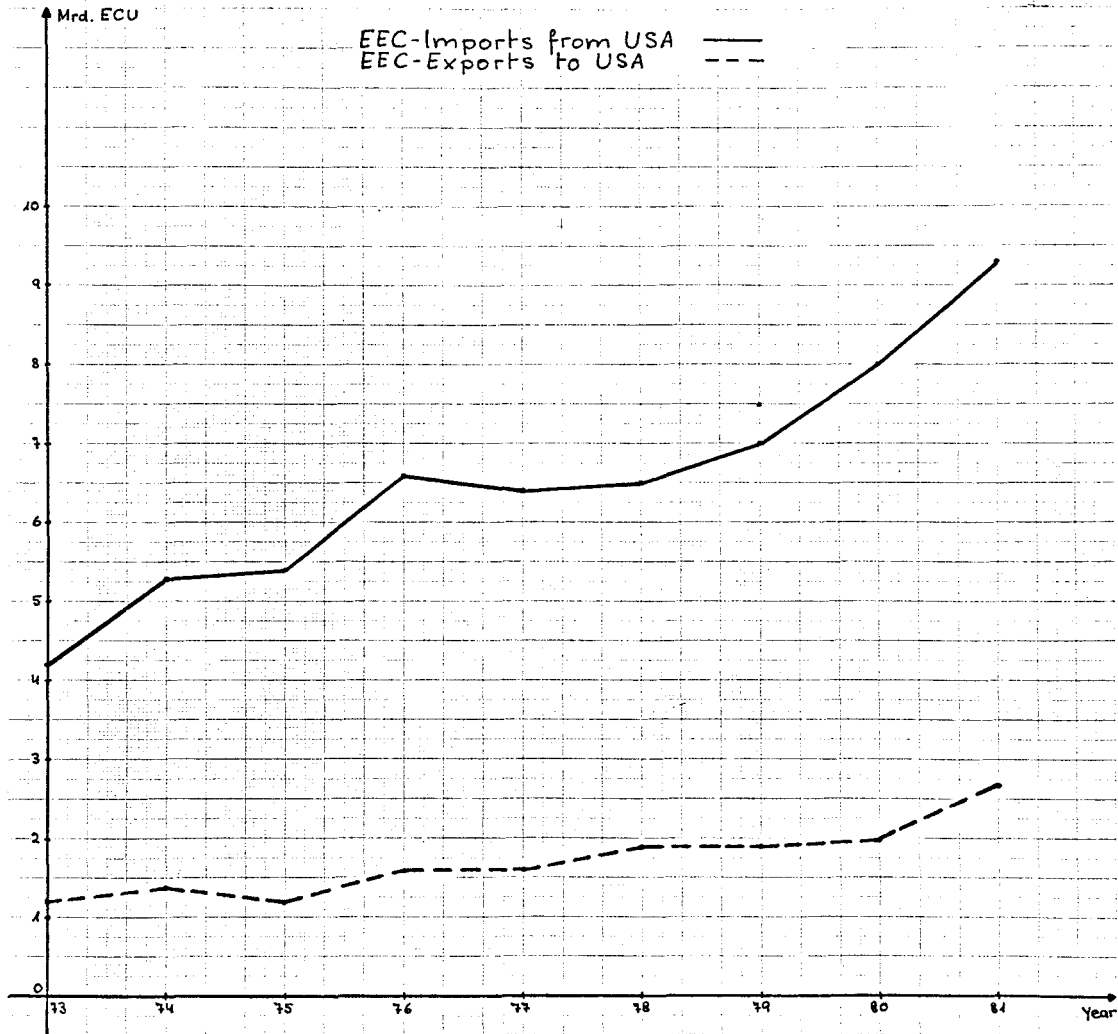




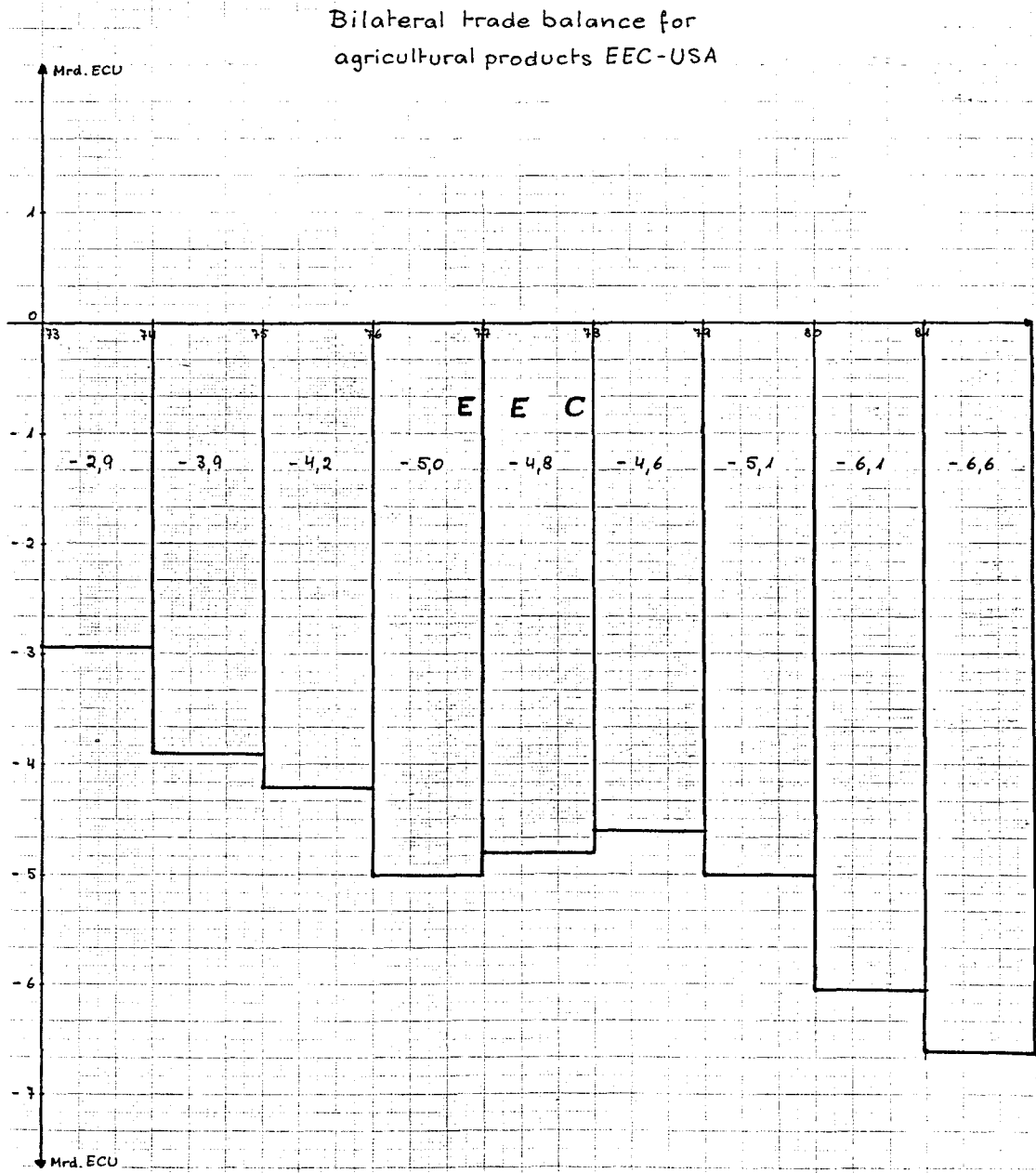
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### BILATERAL AGRICULTURAL TRADE BALANCE EC-US

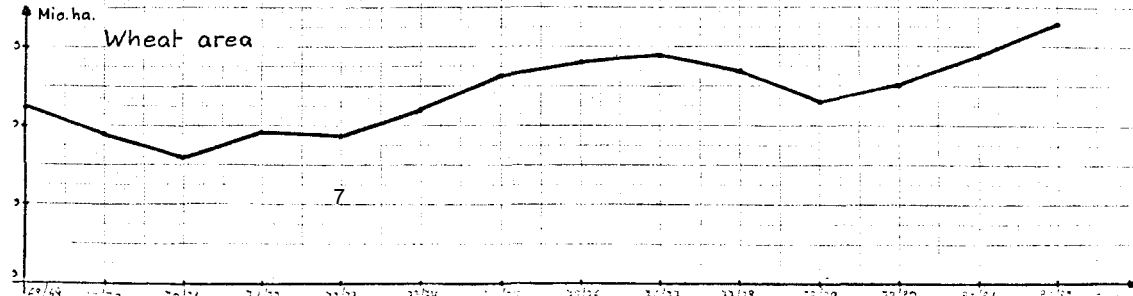
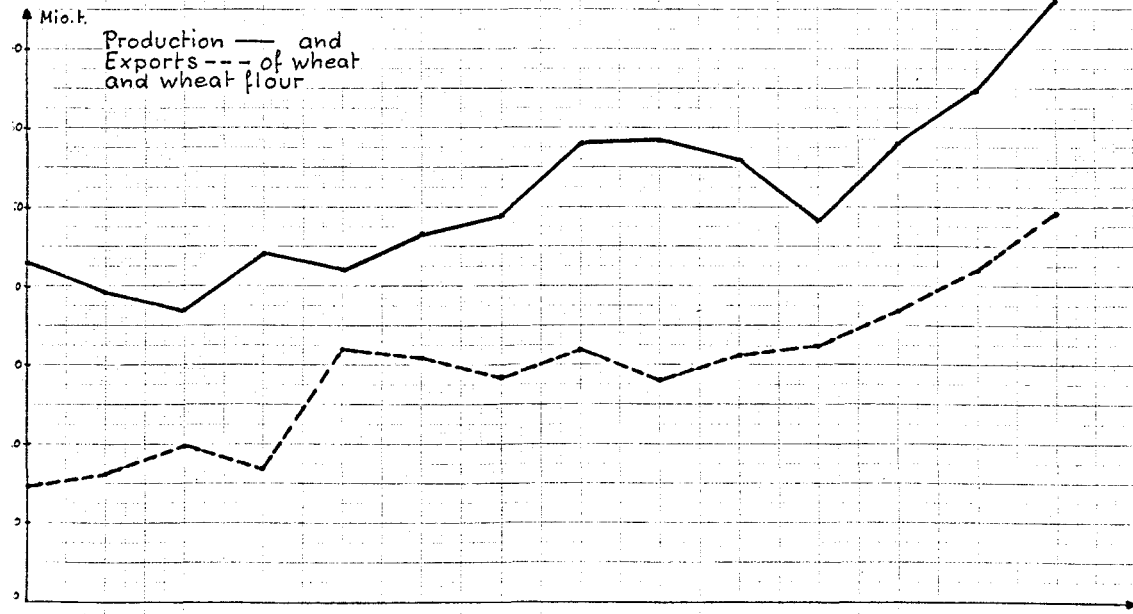
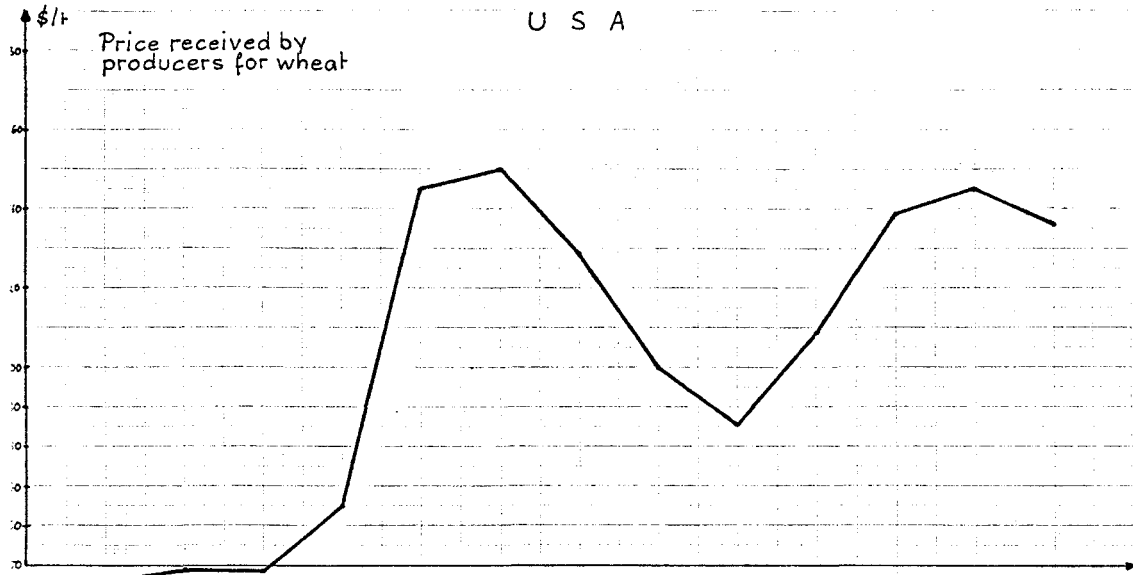
Bilateral trade balance for agricultural products EEC-USA



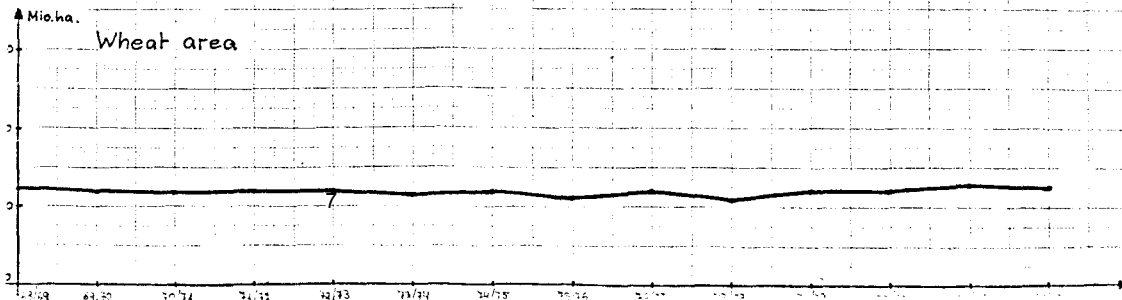
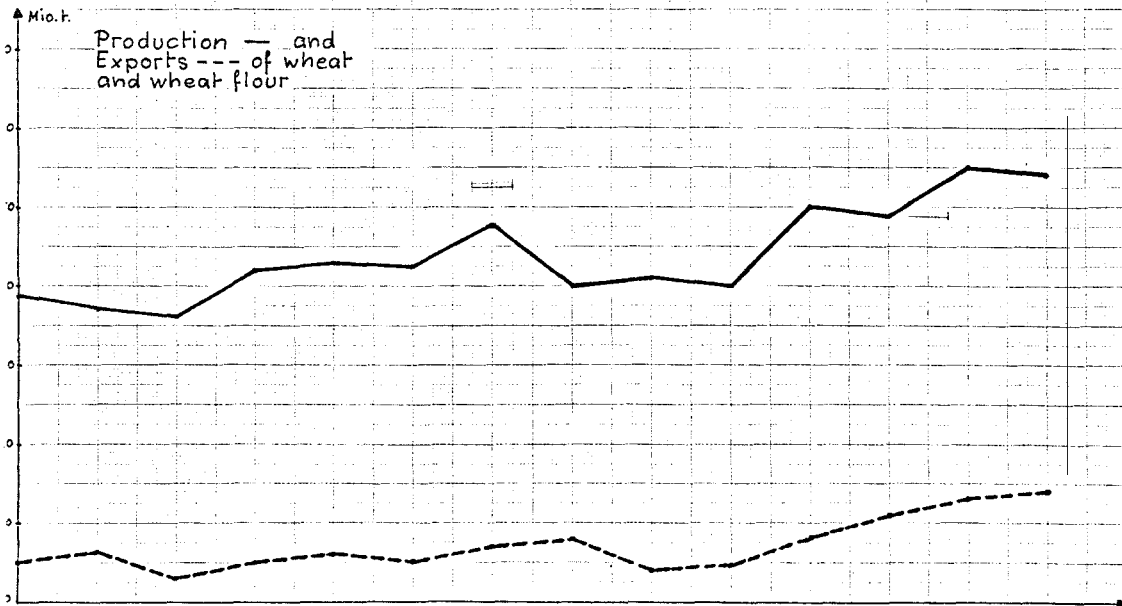
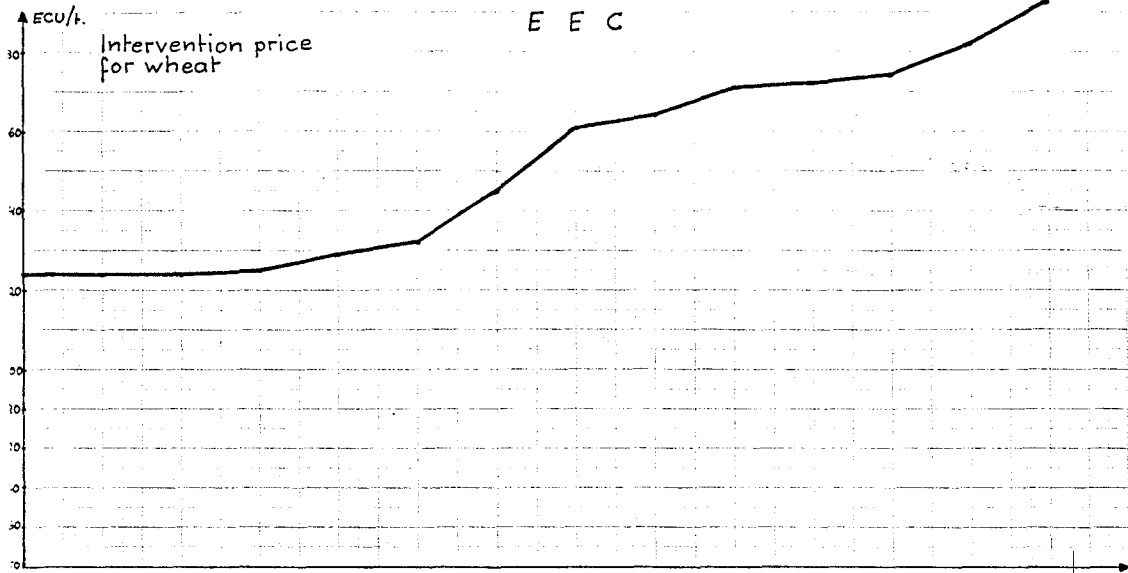
### BILATERAL AGRICULTURAL TRADE BALANCE EC - US



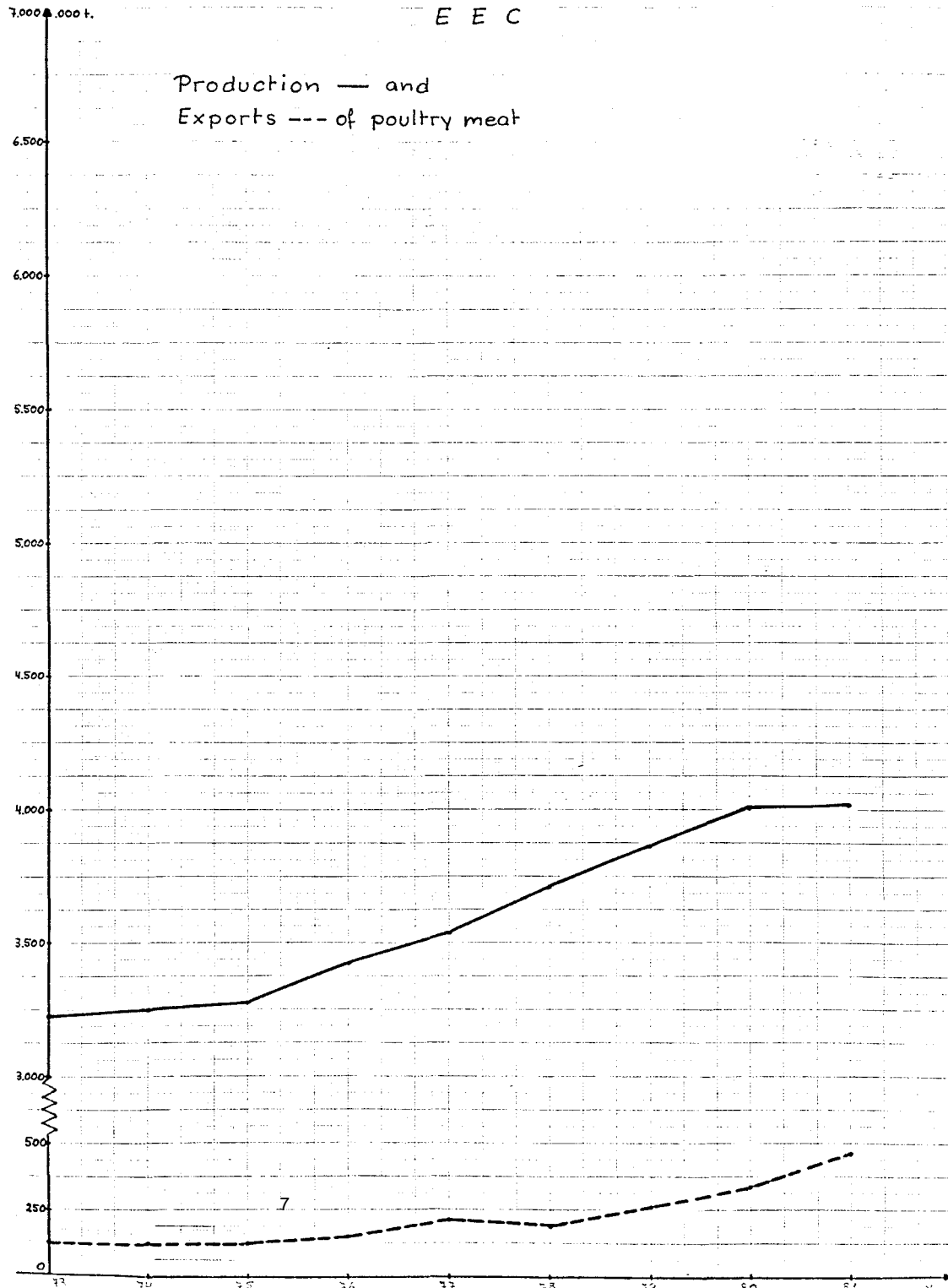
WHEAT: PRICE, PRODUCTION, EXPORTS, AREA  
U S A



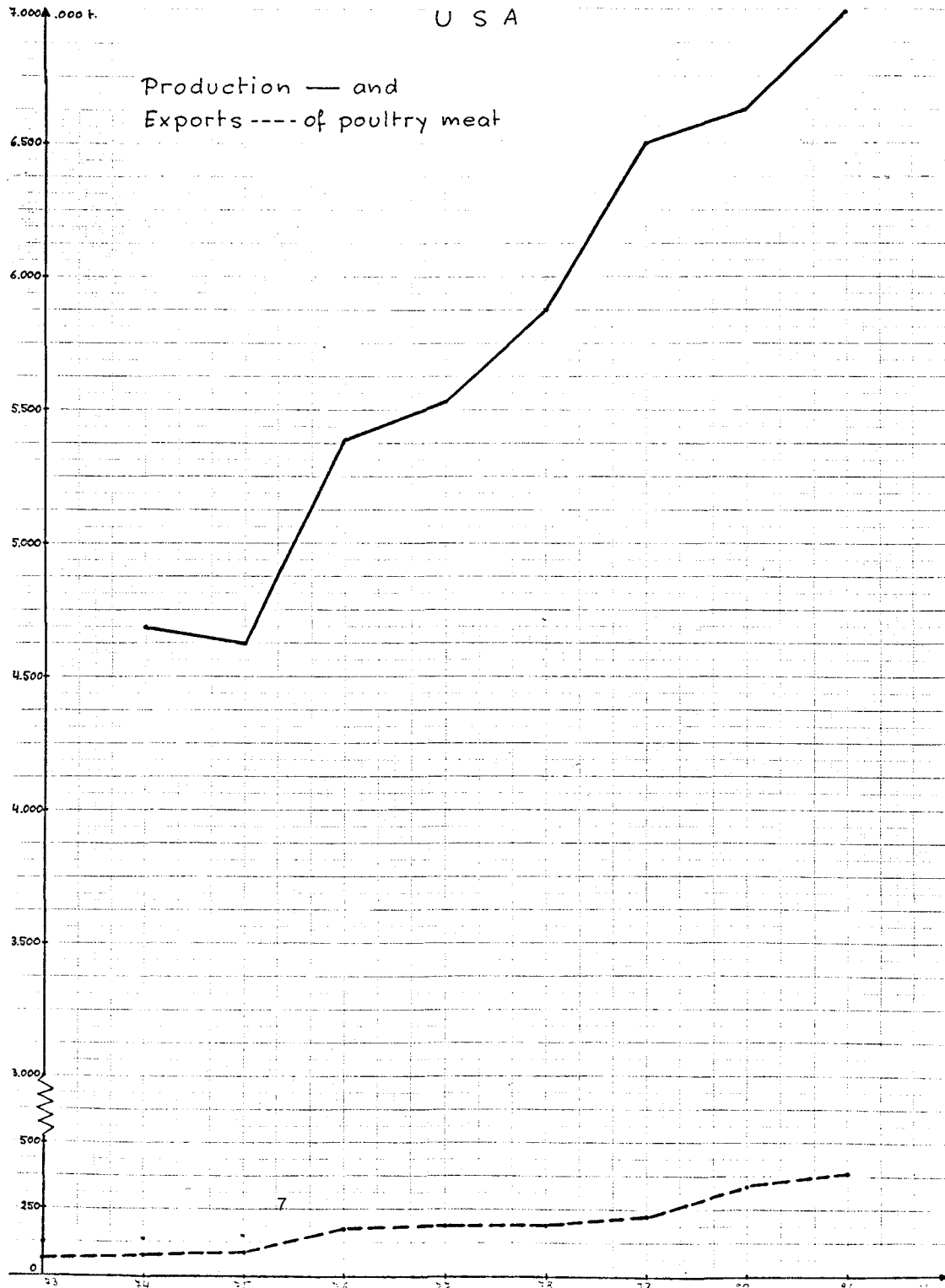
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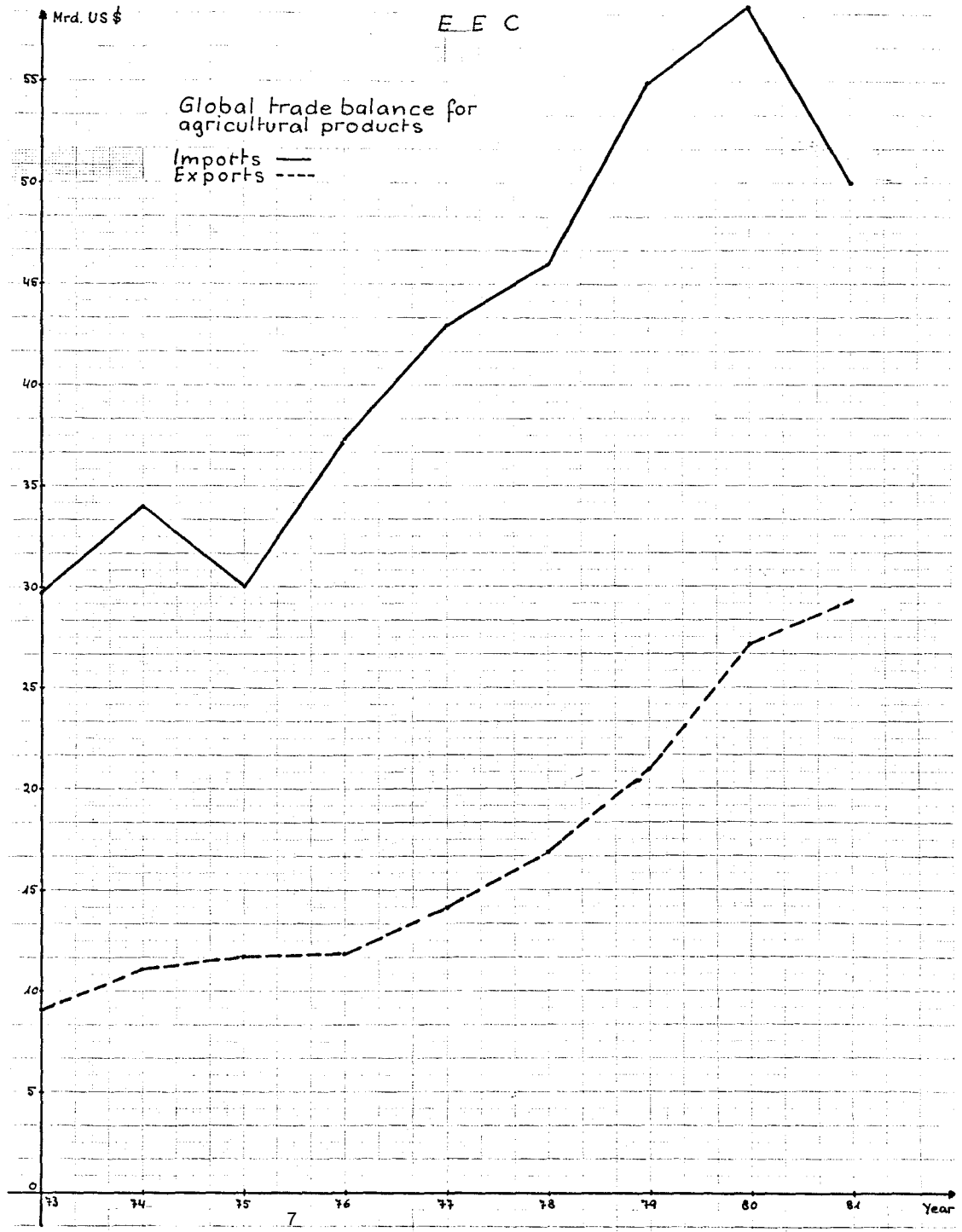
### POULTRY: PRODUCTION, EXPORTS E E C



### POULTRY : PRODUCTION, EXPORTS U S A



### GLOBAL AGRICULTURAL TRADE BALANCE



### GLOBAL AGRICULTURAL TRADE BALANCE

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