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Outlook for World Grains - 22 March 1983

European Common Market Grains Policy

Introduction.

Regrets of Commissioner DALSAGER and his best wishes for the Conference.

On the grain market we are faced today with several complex international issues which risk to become inflammatory if handled in an abrupt and insensitive manner. It is therefore my sincere hope that the contacts at this Conference will stimulate our thoughts as to how we can all live together satisfactorily and work towards common goals in the year ahead.

In my examination of the EEC grains policy, I believe that I should first clarify what the objectives of this policy are, as they are often misunderstood, before looking at its principal features, in its support mechanisms as well as trading policy. I will then give you a few of my thoughts on the outlook for the years ahead.

#### EEC GRAINS POLICY :

The objectives of the Community in the cereals sector are founded, as they are for other product sectors, on Articles 39 and 110 of the Rome Treaty. They foresaw the increase in agricultural productivity through the promotion of technical progress, thus ensuring a fair standard of living for the agricultural community. They also sought to stabilise markets, ensure the availability of supplies and ensure that they reach consumers at reasonable prices.

#### 1. Principal Features of market support

To fulfil these objectives, the support mechanisms were characterised by two essential hallmarks. Firstly, a system of common prices was established for all the major cereal products by which producers would be assured a fair level of income through the annual negotiation process of adjustment in the level of support prices. Some people think that those prices were set rather high at the beginning. Secondly, in order to stabilise variable the market at this level of price, a system of levies on imports variable and refunds on exports was introduced, alongside provisions for intervention on the internal market.

Since the cereals regime first came into being, there have been significant changes in the shape of the cereals sector. By reference to the criteria of production, productivity and structure, the objectives initially laid down have been more than amply met. It is evident that to all those who know about farming that there has been remarkable progress in the efficiency of the Community's cereal production in this period – perhaps more than in many hundreds of years earlier. We in the Community should recognise and welcome this.

<u>Production</u> of all cereals in the Community, with the exception of durum wheat, has risen from 102 million tons in 1972/73 to 124.6 million tons in 1982/83.

This production increase has been reached more through increased productivity than expansion in area under cultivation for cereals. While the utilised agricultural area in the Community only rose marginally, yields per hectare for the major cereals have risen markedly. Between 1975 and 1981 alone, the average yield for common wheat rose by about 20% from 3.9 to 4.7 tons per hectare while the yield for barley per hectare rose from 3.6 to 4.1 tons.

We have also seen progress in the improvement of farming structure, even if today some of the units remain very small when compared with the large average-sized units across the Atlantic. At the time of our last survey in 1977; the average acre under cereals per holding in the Community was 7.6 hectares, ranging from an average in Greece of 1.7 hectares (where half the holdings carrry cereals) to 52 hectares in the U.K..

The growth in Community production coupled with relatively stable internal consumption and more importantly, a significant increase in imports of "cereal substitutes" - to which I shall turn in a moment - has led to difficulties in our market and stimulated our exports of basic cereals. Nonetheless, it is important to keep in mind, that taking one year with another and taking account of "cereal substitutes", the Community remains globally at or about self-sufficiency for cereals, unlike the major surplus producers such as the United States and Canada.

In the Community we have recognised that certain changes had to be made to the way in which we were endeavouring to fulfil the objectives in order to improve the relationship between supply and demand. Following the debate on the 30 May 1980 mandate, the European Commission based its price proposals for the 1982/83 campaign on a new set of guidelines for the cereals sector, reflecting the following principles:

- (i) Establishment of a quantity of production or "guarantee threshold" which would result, if it were exceeded, in a reduction in support prices. The Council adopted this proposal and this changed primarily the nature of the Common Agricultural Policy in this sector.
- (ii) The gap between Community prices and those of our principal competitors to be progressively narrowed;
- (iii) Reinforcement of the criteria on quality particularly at the level of intervention.

Let us examine these new elements under the headings of price.

quantitative limits and qualitative ideas.

#### (i) Prices

It has been an essential part of the Community's guideline for several years now to maintain a prudent price policy. This has now been complemented, in the cereals sector, with the objective of gradually narrowing the gap between Community prices and the prices of the major exporting countries. The first step was taken by the Council in the prices decision for the 1982/83 campaign year and we are now expecting that a further step be taken in this year's price package.

This objective, first mentioned in the report of the

Commission on the mandate of 30 May 1980, was clarified in

the Commission's document "Guidelines for European

Agriculture" of 23 October 1981 whereby the parameters

chosen for narrowing the gap were the prices received by US

cereal produces, not it should be observed, world market

prices.

I consider that this objective is a realistic one over the long term. Let us trace the evolution of the gap between Community intervention prices and the prices received by US cereal producers over the past 10 years for soft wheat and barley.

From 1973 to 1978, the gap widened for the these cereals.

From 1978 to today, the gap has narrowed consistently both

for wheat - going from 47.7% in 1977/78 to 30.4% in 1981/82

- and barley passing from 49.3% in 1978/79 to 33.9% in

1981/82.

The narrowing of the gap during the period 1977/78 to 1980/81 for these cereals was principally due to the US support prices (the target price) rising faster than the Community's intervention price: these increases had a very beneficial effect on prices received by US cereal producers. The gap continued to narrow in 1981/82 and 1982/83, not because of higher US support prices (the target price actually diminished over this period) but through the appreciation of the dollar in respect of the ecu.

Such a policy, if continued, will be an essential element in bringing the support levels in the cereals sector closer to the reality in the international market place and will reduce the cost of our exports in the medium term.

# (ii) Quantitative limits:

The principle of the guarantee threshold now agreed on by the Council in its price decisions last year is an extension of our central philosophy that more responsibility should be placed on producers in the disposal of production above our current requirements. It should be understood that we have not introduced quotas for producers but have instead introduced a means whereby the

open-ended support arrangements for the principal cereals (with the exception of durum wheat) are now restricted under certain conditions.

For example, for the coming year 1983/84, as the average production of the 3 most recent campaigns exceeds the guarantee threshold, established at 119.5 million tons for 1982/83, by more than one million tons, we have proposed that both the intervention and the reference prices should be reduced by 1%. The operation of the threshold this year has not been affected by the level of import of cereal substitutes – if this import level exceeds 15 million tons for the year preceding the application of the guarantee threshold then a quantity equivalent to the difference between the amount actually imported and 15 million tons is added to the threshold.

The acceptance by the Council of our proposals for lower price increases and the application of the guarantee threshold (which is essentially the same as that mysterious concept called a 'quantum') are of critical importance to our overall strategy. Higher productivity levels and stagnant demand both inside and outside the Community cannot be reconciled unless we exercise some restraint on our cereals prices and do not allow imports of "cereal substitutes" to run out of control.

I cannot accept the argument that such an approach leads to double penalisation of cereal producers in the Community. It is after all a natural phenomenon in a market economy that, if supply increases, the prices should go lower. We have introduced a mechanism into the basic regulation in the cereals sector which we now apply on an annual basis in our assessment of price increases: it only comes into operation should the guarantee—threshold be triggered. This element, together with that for gradually narrowing the gap between EC intervention prices and the price received by cereal producers in other major exporting countries, should ensure that the price decided on in future years for cereals reflects better the situation in the market place.

### (iii) Qualitative ideas :

It has been the Commission's policy in recent marketing years to reinforce the quality criteria for intervention. The purpose of this policy in the longer term is to ensure that the price rise for cereals of minimum quality.

utilised mostly for animal consumption, should be less than the cereals of average or above average quality. The result of this policy should be to reduce the price gap between home-produced cereals and imported substitutes used in animal feed, rendering the latter less attractive.

To enable these measures to have their full effect in the medium-term, strengthening the Community's position as a supplier of cereals on world markets, the Commission has proposed that there should be a minimum quality for export and will be proposing, in the future, measures providing for more detailed certification on a voluntary basis of the quality of common wheat exported.

# 2. Trade Policy

I have described earlier the developing situation in the cereals sector and the tendency for imports of "cereal substitutes" to grow and exports of the Community's own cereals to rise. I would stress that the present market situation is due not only to increasing domestic production, but also to the enormous growth in the import into the Community of cereals substitutes over the past decade, such as manioc, corn gluten feed and citrus pulp.

This phenomenon has resulted from increasing demand of the Community's livestock sector for cheap feed inputs as well as the emergence of new suppliers on the world market. It has of course also been stimulated by our almost completely liberal import regime, with no duties on such products as corn gluten feed and citrus pulp or a minimal level of duty on a product such as manioc (at 6%).

In global terms, imports of all cereal substitutes have grown from 6 million tons in 1974 to 15 million tons in 1981.

Individually speaking, over the same period, imports of manioc rose from 2.2 to 6.6 million tons.

Imports of soya which is partly associated with the development of the manioc trade rose from 10.7 to 16.6 million tons (in cake equivalent) while imports of corn gluten feed rose from 0.7 to 3.0 million tons. In 1981, the Community also imported 12.9 million tons of cereals (e.g. maize) and 23 million tons of products providing supplementary protein.

It always is a source of amazement to me when I look at these figures that the Community can be so unjustifiable criticised, as it has been attacked by the United States, for its policy in this sector. The Community is playing a major role in world trade in absorbing the surpluses exported by one of its major competitors and ensuring that the world prices in the cereals market are not heavily undermined.

The consequence of this open-door import policy has been to increase the use of cereal substitutes in animal feed for the Community's livestock sector. Beneficial, it is true, for our pig, poultry and milk producers but liberating, as a result, a greater volume of home-produced cereals for export which would otherwise

have been consumed in animal feed. The amount of cereals used in animal feed has fallen below 70 million tons in 1981, about 60% of the Community's consumption of cereals.

In order to try to restore balance in this sector, we have not only taken measures internally to restrain prices in real terms but have sought, and obtained, voluntary restraint arrangements with the principal suppliers of manioc (e.g. Thailand) and are now looking for an arrangement on corn gluten feed with the US. The objective of this approach is not to reduce the level of Community imports but to limit their growth at low or nil duty levels.

On the export side, the Community exported about 20 million tons of cereals equivalent in recent years. It is important to bear these figures in perspective. In 1981/82 the Community produced about 10% of all cereals in the world and exported 15% of its total production. In the same year the US accounted for 26% of world production in 1981 and exported 39% of its total production, while Canada accounted for 4% of world production in 1981 and exported 45% of its total production. The total volume of cereal exports from the Community this campaign year is roughly equivalent to the increase in production of wheat in the US alone between 1979/80 and 1981/82 when the amount produced rose from 58 to 76 million tonnes.

Whatever the absolute quantity exported, I firmly emphasise that the Community, in its present and future export policies, particularly in the cereals sector, will respect its international obligations, notably in the context of GATT, and will work constructively towards the orderly expansion of world trade through international negotiation. It is the Community's hope that its trading partners will adopt the same approach.

As I have just returned from discussing several of these issues with the US administration, I will take this epportunity to make some comments on the Community's position in regard to the cereal sector in our relationships with the US before moving on to the outlook for the years ahead.

# US-EEC Discussions:

Community.

In the past months we had detailed bilateral discussions which helped very much to get a better understanding of facts and figures relating to past developments as well as to the present situation. The field within the grain sector in which the USA and the EEC are competitors on export markets is wheat, and in particular soft wheat and wheat flour. On both sides production and exports increased. In 1970 the level of wheat production was identic on both sides: 37 Mio t for the 10 Member States of the EEC, the same amount for the USA. 1982 production is over 59 Mio t for the EEC and over 76 Mio t for the USA. EEC exports went up from about 5-7 Mio t from 1968/69 until 1977/78 to 14 Mio t in 1981/82, US exports from 16 to 20 Mio t at the beginning of the 70ies to 49 Mio t in 1981/82 (wheat and flour in grain equivalent).

The export increase was rather spectacular for EEC wheat flour. The GATT panel investigating if export refunds have been unduly used by the EEC came to the conclusion that no inconsistency with existing GATT rules and criteria can be proved. Meantime the Community has engaged in GATT consultations on the recent US sale of wheat flour to Egypt.

The enormous increase of world wheat exports in the late seventies and until 1981/82 was possible because of a dramatic increase in world demand. The higher their export quantities are in absolute terms and in relation to their production, the more is the present cyclical depression of the world market felt by the different wheat exporting countries. This means in practice that it is felt much more sharply by the US than the

We still strongly believe that the balance sheet of recent developments is in favour of the US. I think it is recognized in the meantime that the Community is by no means one of the main causes of present problems in the US farming industry. After all, for products such as cotton, maize and soya whose depressed prices are seriously affecting US producers, the Community is an importer, not an exporter, and is playing its: part in this manner in supporting the revenue of third country, including United States, producers.

As for cereal prices on the international market, the two most important factors determining their level are the size of the harvest in North America - particularly in the US - and the demand in the main importing countries such as the Soviet Union, other East European countries and the People's Republic of China. The Community, with not more than 14% of the world market for wheat in 1982, does not have the influence on world market prices that some critics would have us all believe.

We urgently need to examine, with <u>all</u> the major exporting countries as we have proposed, how best to deal with the current situation on the world market. I hope we can come to some positive conclusions in our meeting planned for next month

### Outlook for the years ahead :

My remarks so far have examined where we are today. I would now simply like to indulge in a little crystal ball gazing and see where we are now likely to be heading.

On the basis of continuity of our present policies which we believe are a sound basis on which to maintain the confidence of our cereal producers, we expect that there will be a relative stability of the total area of cereals between now and the end of the 1980s. As yields will increase for almost all varieties of cereals, we expect an annual rate of increase of the order of 1.8%.

Demand for cereals in the Community in the future will depend considerably on our policy of progressively reducing the gap between Community cereals prices and those applied by our main competitors. Narrowing this gap will reduce the competitive advantage currently enjoyed by imported cereal substitutes and permit greater incorporation of domestically produced cereals into animal feed which largely determines the utilisation of cereals in the Community.

Until this policy begins to take effect, we will continue action in the short to medium-term to stabilise the import of cereal substitutes. We have already taken action on manioc imports (through voluntary restraint agreements with principal suppliers) and brans (through an increase in the import levy) and we will continue our efforts concerning corn gluten feed.

On this basis, we expect demand for cereals going to animal feed to reach about 80 million tons by the end of the 1980s, while utilisation for human consumption, industrial use and use for seeds should remain relatively stable.

These forecasts illustrate clearly the importance of the success of current Community policies. They also illustrate that the Community intends, as already indicated in several documents submitted to the Council of Ministers over the past three years, to pursue its export programmes in order to maintain its fair share in the growth of world markets. In this context much will depend on the capacity of Western Governments to pull the free trading world out of the pit of economic recession and increase demand for further exports.

We all know that potential demand for cereals is enormous, particularly in the developing world. What we need to have confirmed is that these potential clients will have the financial capacity to pay for our cereals exports. It is unaceptable to me that we have the capacity and know how to produce surpluses which we have difficulty in finding markets for while there are millions of poor people across the globe who have difficulty in finding enough food to eat. We recognise, of course, that in the long-term, developing countries should adopt agricultural policies which will encourage their own production and so be better able to feed their own peoples. In the meanwhile, however, it is my firm belief that we in the developed world should avoid spending our time on limited internal squabbles and focus our attention on those problems which are really worthy of our full effort and time.