

The Agricultural Policy in
the European Community.

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1. Introduction.

It is indeed a pleasure for me to have this possibility today to address this audience. I am, however, afraid that I am facing a very difficult task. I doubt if Europe and especially European agriculture has ever been as much criticized and attacked by the US as has been the case over the past few years. I therefore feel that I have walked directly into the lion's den.

Dependency and Understanding.

On the other hand, I think it is correct to recall that the ties between the nations of the European Community and the United States are important. We are allied. We depend on one another in many ways, both politically and economically. Any strain on our relationship is therefore a step away from our mutual best interests, and we must try to look at the present tensions between us as slight differences only. We are in the same family, so to say, and problems in the family must never be allowed to blow the family apart.

Mutual understanding is a key-word, and I hope to be able to give you some valuable information on the European Community and the common agricultural policy, which the 10 member states of the Community have built up. Obviously, I am not going to lecture you about your own agriculture, but nevertheless, I shall make some remarks as to how we look at it, as I shall comment on the development of the world market for agricultural products.

2. The Common Market and its Agricultural Policy.

In 1957, 6 European countries, namely West Germany, France, Italy, Holland, Belgium and Luxembourg, signed the European Treaties in Rome, the capital of Italy. 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 idea behind it is to ensure the economic and social progress of the member countries.

In 1973, the UK, Ireland and Denmark joined the Common Market, and in 1981, Greece became the tenth member country. Negotiations are now taking place to include Spain and Portugal in the Common Market as well.

In the Treaty of Rome it was foreseen that the Common Market should extend to agriculture and trade in agricultural products. In fact, it was part of a political

deal whereby trade was opened up between member states, not only in industrial goods, but also in farm products. In 1962, agreement was reached on the basic principles of the common agricultural policy, usually called the CAP.

Goals of the CAP.

Let me underline a few general, but important facts about the CAP.

- "Politics is the art of the possible". I think this is a fair description of how the CAP has been created and evolved.
- The CAP remains to this day an essential element in holding the Community together.
- Basically, the CAP is not about cows. It is about people.

The goals of the CAP are very much the same as those of the US farm policy,

- to increase productivity,
- to secure a fair standard of living for the farming population,
- market stability,
- supply assurance,
- and reasonable consumer prices.

The aspect of stability is the one which I must underline strongly. One of the things which Europeans - farmers and consumers - desire above all, is to ensure stability of prices and to avoid fluctuations from year to year.

In order to achieve the goals of the CAP, the EC once a year fixes common guideline 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 commodities such as grain and milk can be sold to public intervention stocks at fixed minimum prices.

3. Functioning of the CAP.

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 per cent: from 18 million to less than 8 million. During the same period, the average farm size doubled to about 45 acres, and productivity rose sharply.

But our agriculture is still somewhat different to yours. The Community's present area covers only one-sixth of the US land mass. We have more farmers than you, our

structure is different, farms are smaller and have more intensive cultivation than yours. A main objective for us is to maintain what we call the family farm. At the same time, there are considerable geographical and climatic differences between the member states and finally, each of them have different histories and cultural traditions. I mention this just to indicate to you some of the basic problems which lie in having one single agricultural policy. I know that some of these differences exist within the US as well.

Farmers' Incomes.

It is an illusion that the CAP means wealthy European farmers. I know that the US farmers are in a very serious economic situation, but so are European farmers. From 1974 to 1981, farmers' real incomes dropped by 4.1 per cent per year on an average for EC farmers. The farmers' purchasing power today is 21 per cent lower than in 1974.

Especially Danish agriculture has experienced a very serious crisis. In 1980, we saw net farm incomes dropping to only 3,000 dollars per farmer on the average and since 1979, more than 3,000 out of our 100,000 farmers have gone bankrupt. This is partly a result of insufficient price increases in the EC, but first and foremost a result of high debts and a very high interest rate. We have a common agricultural policy in the EC but so far, we have not yet been able to create a common economic and monetary policy. Therefore, interest rates, tax provisions, systems

of inheritance and of tenure vary from one member country to the other.

Imports.

The CAP has also been attacked for being protectionist. The European Community is, however, 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 per cent of EC farm imports from industrialized countries are covered by variable levies, and nearly all imports from developing countries enter the EC levy-free at very low duties, if at all any. These are facts, and I gladly admit that farm organizations in the EC are of the opinion that some of the imports are unnecessary, because they reduce farmers' prices.

Costs of the CAP.

It is furthermore claimed that expenditure on agricultural support in the EC is very high, whereas it is very low in the US. In fact, both the US and the EC subsidize their agriculture. As a matter of fact, all industrialized countries enjoy a certain degree of protection which, according to the specific situation varies only in its ways and means.

Comparisons of expenditure are difficult, because methods of support as well as budgetary treatment are different. Import systems influence as well, but do not imply on public expenditure. 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.

In 1982, the farm budgets of 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 third of that of the EC, so US Government agricultural expenditure per head is higher than in the EC.

Export Subsidies.

I should now like to come to a very crucial question, namely whether the EC, using export subsidies, has taken more than its fair share of the world market and unfairly depressed world prices? Before I go into details, I should, however, like to recall the way in which the common agricultural policy is built up. Export subsidies 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 export 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 products.

I should also like to draw your attention to the fact that the US have shifted from being a net importer of agricultural commodities in the fifties, to becoming the world's biggest net exporter today.

As regards cereals, between 1974 and 1981, the Community expanded its share of the flour market from 55 to 62 per cent, the US from 18 to 25 per cent. I am not capable of giving you the figure today, but it will surely have to incorporate the fact that you have taken over the very important Egyptian market from the EC.

From 1974 to 1981, the US expanded its share of the wheat market from 47 per cent to 55 per cent compared with the EC's 8 to 9 per cent. Figures for feedgrains are almost similar.

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 main importing countries such as the Soviet Union. As world demand is relatively static, while wheat production in the US is forecast to reach a record, it is hardly surprising that market prices have declined. At the same time, you feel prices far lower than we do because the dollar has revaluated enormously compared to European currencies.

For products such as cotton, maize 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 increased slightly more rapidly than the US share. However, this evolution took place in a fast growing market where the US, like the EC, have been able to increase their export substantially. Recently, the US export has slowed down, but this seems largely to be due to the rapid expansion of Brazilian exports.

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.

4. The CAP in the Past and in the Future.

The CAP has been a success. Productivity has increased, stability has been reached, and trade amongst member countries has increased significantly. I feel it has only failed in one, but an important field: Farmers have not obtained reasonable incomes.

But the success has brought with it some problems, which 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.

Prospects.

In the present considerations on the CAP, prospects for the demand for food, inside and outside the Common Market of course 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 per cent.

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 more encouraging:

- 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 - that is, 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 pro-

duction so that, if milk deliveries increase by more than 0.5 per cent, prices will be reduced. This year for example, the EC Commission proposes to cut the milk price increase for 1983 by 3 per cent.

As for cereals, the EC has embarked on a programme of reducing the gap between its own support prices and those of other major producing countries such as the US. In addition, the EC has also introduced a threshold for cereals 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 the increase in production and lack of demand. It could also be that lower prices do not reduce production but merely would make poor farmers poorer. But I feel it is correct to inform you of the fact that such measures have been introduced.

5. US/EC Trade.

The Common Market is your biggest farm customer.

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 per cent 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 included 2.8 billion dollars of soybeans, 1.6 billion dollars of animal foodstuffs, 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 grain quantities 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 feed-stuffs.

6. Final Remarks.

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 points of view. That is why I have been very satisfied to have had this opportunity today to give you some of our points of view, and I hope you will pass it on to others.

It is through co-operation, 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 thereby a catastrophe for farmers' incomes,
- will be beneficial to third countries, such as the Soviet Union,
- will not remain limited to the agricultural sector.

The only reasonable way to pursue is to find common solutions to common problems. Here and now in consultations amongst the world's leading exporters and perhaps importers

of agricultural goods, so to avoid any trade confrontation and, in particular, to prevent world prices from collapsing. In the longer run through a stabilization of world markets by means of international commodity agreements.

We can turn trade into an economic battleground. Or we can co-operate and respect each other's interests. In the European Community, we prefer the latter.

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