

" THE EUROPEAN COMMUNITY AS A TRADING PARTNER "

Address Presented

by

Ulrich D. Knüppel
Secretary for Agriculture
Delegation of the Commission
of the European Communities
Washington, D.C.

at the

40th Annual State Convention
of the Minnesota Farmers Union
Bloomington/Minneapolis, November 24, 1981

I appreciate the opportunity to participate in today's panel discussions on International Trade. As time is short, let me limit my initial remarks to the following points :

- The European Community as a Trading Partner
- Evolution of the Community's Common Agricultural Policy, in short, CAP
- Community Efforts for an adjustment of this policy, and finally,
- Effects which such an adjustment may have on bilateral trade.

The European Community, in short E.C., and better known to most of you as the European Common Market has, since the recent accession of Greece as the 10th Member State, a total population of 270 million people. The E.C. is the world's largest trade bloc and the United States' most important client as well as its second supplier. Your 1979 exports to the EC accounted for about 23% of your total exports and your imports from the EC for about 16% of total imports. Unfortunately, the EC last year, suffered a 25 billion dollar trade deficit with the United States alone and this year, it will be at least 15 billion dollars, of which 7 billion in agricultural trade. In 1980, the EC imported 9 billion dollars worth of US agricultural products and exported about 2 billion to the U.S. This year, your agricultural exports to the EC may remain slightly below the 9 billion dollar mark due to the dollar exchange rate and a sluggish economy in Europe. However, our livestock

industry in particular, will continue to depend heavily on imports from your country.

Let us now take a quick look at the Community's Common Agricultural Policy.

When the original six member countries created the European Economic Community in 1957, they gave special attention to agriculture as nations do all over the world. Sufficient food supply is indispensable for independence. Apart from this aspect of supply assurance, the following objectives were set out :

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

To reach these goals the following mechanisms were put to work :

1. Establishment of a single market by free movement of agricultural products in the EC.
2. The Community preference - which by a uniform border protection, shields the internal market against world price fluctuations and ensures growth in intra-Community trade.
3. Financial solidarity among Member States to finance through a common fund, the cost of the Common Agricultural Policy.

All these mechanisms are not new to you. In the U.S., you have uniform price support systems of different kinds throughout the country; you have uniform duties, levies and quotas to protect domestic production and most costs of support programs and other measures for agriculture are carried by the Federal Budget. Even the system of export subsidies for which the EC is often criticized is nothing new to the U.S. as the recent sale of 100,000 T of U.S. butter to New Zealand shows.

To increase self supply, productivity and the living standard of the farm population, it was necessary in the past to apply in the EC, for most major commodities, higher support levels than those presently applied in the U.S. As a whole, this program worked rather well. It helped to integrate European agriculture and to adapt it smoothly to more efficient forms of production. Farm population declined by half from 18 million to less than 8 million, farm size doubled, productivity jumped up, and average farm income increased steadily. Regarding self supply, we achieved a situation of over-self-sufficiency in several major commodities such as wheat, barley, sugar, dairy products and meat. However, for other products and particularly regarding animal feedstuffs such as soya, corn, tapioca, etc. required for intensive breeding, the Community has increased its dependence on external supplies, which is not without danger as the soya embargo in 1973 showed.

These evolutions accompanied by growing budgetary costs for the EC, the need to develop new EC policies in areas other than agriculture, the recognition that unchanged direct price supports may give the *richer* farmer too much and the smaller farmer not enough, and finally the aspect of the upcoming accession of Spain and Portugal to the EC, made the EC institutions think about a reform of the Common Agricultural Policy.

Proposals for such a reform will be discussed by the EC Heads of State and government in two days in London. The main proposals are the definition of production targets and the financial co-responsibility of the farmers for the disposal of products if production exceeds the targets. This shall particularly apply in the cereals and dairy sectors. In the dairy sector, farmers are already sharing through a tax, 10% of the surplus disposal costs. This tax may be increased in the future. In the cereals area, co-responsibility might be achieved by a subsequent lowering of support prices if the target was exceeded in the previous year. For cereals, the proposals also envisage to keep support price increases below the rate of inflation. This would allow EC cereal support prices to be brought, step by step until 1988, close to the price support level for cereals applied in the U.S. The Commission of the European Communities believes that despite all these measures,

average farm income should remain sufficient, while smaller farmers may get additional help through some kind of deficiency payment. In addition, the Community's Social and Regional Funds will have to be increased to help less developed regions in the Community more efficiently than could be done by an agricultural price support policy alone.

What would the above-mentioned measures mean for our bilateral trade relations.

As Community cereals would become relatively more competitive vis a vis imported feed products such as soya^{and} corn gluten feed, which enter the EC free of any duty or levy, the domestic use of EC cereals would probably increase and we may see some decrease particularly for imported corn gluten feed. At the same time, U.S. corn could again have a better chance due to relatively decreasing import levies. With regard to EC cereal exports, it is expected that we will maintain the present level. Such a stabilization should eliminate a major bone of contention between your new administration and the EC. The overall effect of a reform of the Common Agricultural Policy as proposed above and also so often suggested by your own administration, may well be a stagnation of EC agricultural imports from the US around present levels. EC production and consumption levels are presently among the highest in the world and further expansion of world agricultural trade will

mostly come from growing demand in the developing countries and in the Eastern Bloc.

I look forward to discussing with you any questions you may have.

Thank you very much.