THE EUROPEAN COMMUNITY

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"AGRICULTURE AND THE COMMON MARKET"

Address by Frederick T. Van Dyk, Deputy Director, European Community Information Service, Washington, D.C.
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Working for the European Community in the United States is a bit like working for Brand "X." Everyone talks about it, everyone is interested, but not too many people are really sure what the package contains or what the product is used for.

Mr. Soutendijk has just done an excellent job of describing what the Community is and where it stands. My job is still a tough one, though. The Community's Common Agricultural Policy still isn't understood in most of Europe, much less in the United States. It has been cheered and cursed by people on both sides of the Atlantic -- but usually for the wrong reasons.

I'll do my best today to clear away the heaviest cobwebs and, perhaps, to put Common Market agricultural policy in perspective in the greater context of overall Atlantic relations.

I. From all past experience, the Common Agricultural Policy shouldn't exist at all. If Las Vegas had been laying odds in the 1950's on the chances of a single agricultural policy for Western Europe, those odds would have been, I'm sure, in the neighborhood of 10 or 12,000 to 1.

Anyone naive enough to believe that six Western European countries -- all of which had been at war with each other twice in two generations -- could ever give up their national agricultural policies and create, in effect, a federal ministry of agriculture for Western Europe ... well, anyone that naive was written off as a hopeless dreamer.

Then, of course, it was clearly impossible for the farm lobbies in the Common Market countries to be subdued by their national governments to the point where they would throw themselves open to competition from their Common Market partners. We in the United States have long, long experience with the complicated and cumbersome devices which are an everyday part of our national agricultural policy. Multiply this times six ... then remember that 25 per cent of the people in the Community are farmers, as compared to less than half that percentage here.

All this indicated before 1962 that the European Community might make progress in many areas ... but that agriculture was an impossible nut to crack.

Well, just as most sensible people said in 1952 that the European Coal and Steel Community wouldn't work ... and in 1958 that the Common Market and Euratom wouldn't work ... it was obvious in 1961 that a Common Agricultural Policy wasn't realistic.

But, in September 1963, there is a Common Agricultural Policy. It's undergoing some growing pains ... but it's here and it's here to stay.

II. The Common Agricultural Policy was established in January 1962, due largely to the efforts of Vice President Sicco Mansholt of the Common Market Commission. Mr. Mansholt, a former Dutch minister of agriculture and a leader in the World War II resistance, won his battle in large part because he was both physically and mentally tough. He simply outlasted and outworked all the people who either didn't want a Common Agricultural Policy or didn't think it was possible.

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The Common Agricultural Policy thus came into being in January 1962, and its regulations began to take force in July 1962.

III. Before going further, let me draw the agricultural picture in Europe at the end of World War II.

After World War II, Western Europe faced a general food shortage as well as a shortage of foreign exchange. As a result, government policies were in Western Europe aimed at increasing domestic food output.

These efforts, aided by technology and chemistry, soon began to create surpluses in some products and resulted in a number of devices to protect the farmers at home from competition.

But -- just as in the United States -- farm incomes remained lower than incomes in the rest of the economy. This resulted -- just as in the United States -- in government intervention with price supports and adjustment programs, usually leading to inefficient and uneconomic farm production.

There were also wide variations in productivity and efficiency of farmers from country to country, and from region to region. While farm income gradually improved in the 1950's, the gap between agriculture and the rest of the economy grew wider.

These were and are the farm problems.

IV. I've already mentioned some similarities between Community agriculture and agriculture in the United States ... that is, rising productivity by farmers ... the gap between farm income and industrial income ... the threat of surplus production. There are others too ... the migration of farmers and farm workers to urban areas, where job retraining is necessary ... the depression of prices in certain basic commodities.

But there are also great dissimilarities.

The United States has ten times more acreage under cultivation than the Common Market. But the United States has only half as many farms, half as many farm workers, and between one-third and one-half the number of people living on farms.

In the Common Market, half the farms are less than 25 acres. In the United States, 458 million acres of cropland are distributed among less than four million farms, and 53 million acres are out of production under surplus-control programs. The big farm operator, as we know him in the United States, still doesn't exist in Europe.

The Community, one-eighth the size of the United States, has a population almost the same as the United States.

So, while there are many similarities, there are also important contrasts.

V. Now, to the Common Agricultural Policy itself. What are its aims and how does it work?

It has three aims:

1. To create a stable agricultural market.
2. To provide a fair income for farmers.
3. To guarantee reasonable prices for consumers.

These three aims are all commendable ... but inevitably they have and will sometimes come into conflict.

To accomplish these aims, several things are necessary. The first of these is to encourage, in all manner possible, migration of marginal producers from farms to industry, where there is a labor shortage. The second is to encourage only efficient, "rational" agricultural production in the Community. The third is to import those commodities which cannot be produced efficiently and at low cost inside the Common Market.

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These things are difficult to carry out. The surprising thing to me is that there haven't been more crises and controversies than there have been. Just now we're passing through what has been called the Great Chicken War -- in which American and European poultry farmers have been at odds.

But it should be noted that poultry is the only commodity thus far on which the Common Agricultural Policy has been applied -- and the list of commodities includes cereals, pork and pork products, poultry, eggs, fruits and vegetables -- where there has been a controversy between the Common Market and the United States.

But, despite this relative peace and quiet, there undoubtedly will be more Chicken Wars -- but involving other commodities -- before the Common Agricultural Policy comes to full maturity. The only question is this: Will we have the foresight and patience to see them through?

VI. There's a term you'll be hearing more of from now on. That term is "variable levy."

A so-called variable levy system is replacing all the patchwork of devices in the six EEC countries as a regulator of most important agricultural imports. How does it work?

In summary, price levels are set on basic commodities. These price levels are, in theory, to be set as close as possible to the low selling prices of the most efficient farm producers within the Community. Then, to regulate imports, variable levies are placed against imported farm products so that the imported commodity will always have a slight disadvantage when in competition with the efficiently-produced domestic product. These levies vary from day to day, according to port of entry and changing market conditions.

Some people have charged that this amounts to a system of complete protection, since the levy -- which can change from day to day -- will always place the foreign producer at a slight disadvantage.

But the variable levy system itself is neutral. The key factor -- the one that will really determine just how much the Community produces and just how much it imports -- is the setting of the price level. If the price level is set too high -- that is, above that of the efficient producer -- it's easy to see that complete protection can in fact occur. But if it is set low, there will be ample opportunity for the producer outside the Common Market. The setting of these price levels is where the real battle is now taking place. We'll return to this in a moment.

VII. As I'm sure you've seen, I've been moving to that important question. But what does all this mean for American farmers?

Here are the facts thus far.

According to Common Market statistics, the United States exported in 1958 -- the first year of the Common Market -- some $846 million in farm products to the Community. In 1959, U.S. farm exports to the EEC amounted to $942 million. In 1960, $1.1 billion. In 1961, $1.2 billion. And in 1962, almost $1.4 billion.

The percentage increase in U.S. farm exports to the Common Market since 1958 has been greater than the percentage increase in farm trade among the six member countries.

Today, the United States has an agricultural trading advantage of five to one with the Common Market -- that is, the United States sells $5 in farm goods in the Common Market for every $1 in farm goods the Common Market sells here.

What does the future hold?

Almost all farm economists agree that -- irrespective of the Common Agricultural Policy and other factors -- United States farm exports to the EEC have just about reached their limit, although a very nice limit it is.

The reason has nothing to do with the Common Market.

The reason is that European agriculture -- making the same technological improvements U.S. agriculture has to a large part already made -- will in the future capture a greater share of the European market for food. We see chemistry at work and not any dark plot against the American Farmer. Europe will produce more of its food from now on, and there's no escaping it.

But now, back to the Common Agricultural Policy and its effects on U.S. commodities being sold in Europe. What is the outlook?

Here I'll quote a man many of you know: Ray Ioanes, Administrator of the Foreign Agricultural Service of the U.S. Department of Agriculture.

His summary is a good one, and it follows:

"... When it comes to commodities which the Common Market either does not produce at all, or produces in small volume, we are in good shape. On the list are cotton, soybeans and products, tallow, hides and skins, certain fruits and vegetables, and some other products. We can expect our exports of these to the Common Market to expand as the trading area expands. These commodities account for about 70 per cent of our exports to the area.

"For the remaining 30 percent of our agricultural shipments to the area, the outlook is less favorable. The biggest problem is the possibility that the Common Market, in formulating its Common Agricultural Policy, will maintain high producer prices for wheat, feed grains, rice and poultry -- prices which will be 'insulated' by variable import levies from the price effects of commodities produced in non-EEC countries. Under that system, Common Market producers of farm commodities subject to variable import levies could have absolute protection against imports, depending upon price support levels established within the Community...."

The Common Market countries are now trying to set the critical price levels on these commodities. The most important decision for the U.S. farmer will be the one which sets the price level on cereals. The United States sold 6 million tons of cereal last year to the Common Market. It would be a painful loss.

If the cereal price level is set near the low French price the chances are good that U.S. exports will remain high. But if cereal prices are set nearer the high German level, the Common Market will become self-sufficient in cereals within ten years. This is the decision to be made by the Six Common Market members in the next few months.

In most European eyes, this is not seen as a critical decision for American farmers, and I think this is quite understandable. It is seen, however, as a critical decision for European consumers and farmers. More than 25 per cent of the people in Germany live on farms -- and over 14 per cent of the German labor force is on farms. What happens to these people if their price supports are suddenly reduced so that a low grain price level can be established in the Common Market as a whole? What happens to the German government which enforces such a decision on them? What happens to the political leaders who depend on them for reelection?

The hope of the Common Market Commission -- and certainly of the majority of those in Europe who look toward an Atlantic Partnership with the United States -- is that these price levels will be set as low as possible to allow for sizeable imports from the United States.

But, these decisions will be difficult to reach because, above all, there are farmers and their families to be considered. It is a human as well as an economic problem.

VIII. Before closing, I'd like to take a very quick look at the Kennedy Round of trade negotiations to begin in May of next year, and the prospects for agriculture in them.

These negotiations promise the greatest trade liberalization in history. All the 50 members of the General Agreement on Tariffs and Trade will participate, with the Common Market and the United States as the two most powerful bargainers among them.

There will be hard bargaining on industrial products. But the real challenge lies in agriculture. Because every country in the world has a protectionist system for its own agriculture, the Kennedy Round negotiation on farm products will be long and hard, and it may fail altogether. But, despite these dangers, the Kennedy Round also offers the best chance to date to solve agricultural problems all over the world. For the first time, the United States, Great Britain and the Common Market have all agreed to negotiate toward world commodity agreements, where exporting and consuming countries will attempt to establish really balanced trade. If these agreements can be reached, we may find for the first time some of the answers to the dilemma which sees some countries producing farm surpluses while others go hungry.

Vice President Mansholt of the Common Market says what we need is a Code of Good Behavior for world agriculture. In arriving at this code, it will be necessary to examine not only ordinary protectionist tools, but other potential barriers to trade -- which are part of domestic farm policy -- including Common Market price levels as well as American price supports, export subsidies and marketing policy.

After Secretary Freeman's recent experience with the wheat referendum, we can see how difficult this will be.

IX. Finally, I will speak quite frankly.

We fool ourselves if we think that all will be rosy in future agricultural trade between the United States and the Common Market.

There undoubtedly will be future Chicken Wars. Some Common Market commodity price levels will probably be set too high to please the United States. Some Europeans will resent what they feel is American economic domination. But the rewards are too great to allow ourselves to become overexcited about these inevitable disputes.

American policy since World War II has been to encourage and assist the rebuilding and uniting of a free Western Europe. The very sound principle has been that it is in this country's interest to have a stable, united friend in Western Europe instead of many unstable, disunited problem children.

Western Europe has united economically and is now on the threshold of political unity. It would be a tragedy if we were to divert ourselves from our long-range goal just short of success.

Europe will neither fragment itself nor turn inward on itself if we in the United States maintain the patience and statesmanship that will be necessary in the months ahead. I'm sure that neither frozen chickens nor temporarily injured feelings will deter either the United States or the European Community from working toward a real Atlantic Partnership.

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