

CHECK AGAINST DELIVERY

Address by Mr. Jaap van der Veen, President of the Christian Farmers' and Growers' Union and Vice-President of the 3 Central Farmers Organisations in the Netherlands.

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Ladies and Gentlemen,

With great pleasure but also with concern I return after two years to my American colleagues and friends to discuss some of the problems US and EC agriculture is facing. Several things have changed since 1983, some for the better, others for the worse. The economy is on its upturn again; for 1985 and 1986 a steady economic growth rate of about 2,5 percent is predicted for the EC and the US, inflation will be at 4 percent and the dollar rate will finally be brought in line.

So far, so good, but there are other factors which don't look so bright. World trade is slowing down, protectionism is growing in certain countries and agriculture is in financial difficulty.

The economies of the ten countries of the European Community and the fifty states of the Union, together the welfare of half a billion people, have become more and more dependent on world trade. The Community accounts for one-fifth of world trade, the United States for about 15 percent. Together we account for more than one-third of world trade. This places on us very heavy responsibilities, not only for the trade we do with each other and which

totalled over \$ 100 billion last year, but also regarding the developing countries.

In agriculture world trade is even more important. The US is the largest world exporter of agricultural products and ran an agricultural trade surplus of almost \$ 20 billion in 1984. The European Community is the world's largest importer of farm products and ran a trade deficit in agriculture of \$ 20 billion last year. Over the years the EC has been the American farmers' best customer: last year despite the high dollar we bought for \$ 6.7 billion in farm products from the US with a trade deficit of \$ 3.6 billion.

As far as possibilities are concerned for competition between the US and the EC in agricultural goods on the world market, it is good to know this only applies to about a quarter of the range of US farm products sold overseas. The major part of American agricultural exports, soya, cotton and corn, but also small products like nuts, are not grown in Europe to any large extent. For example about 80 percent of soybean meal feed in the EC is imported from the United States.

For beef and pork the EC would like to have the US open up its market to the Community. The EC is competitive in pork production but hardly has any access to the US market. In the Western cattle areas it is often heard American beef farmers are the best in the world. I do agree you serve some excellent steaks here, but why then is the US a net importer of beef? Two commodities remain to take a close look at when we discuss competition: wheat and dairy products.

The US share of the world wheat market fell from its highest point of 49 percent in 1981/82 to 36 percent in 1984/85. The EC's share moved only marginally during that period from 14 to 16 percent. Thus the bulk of the lost US share has been taken by exporters other than the EC. But, in spite of this, the US has decided to attack our wheat export refunds in the GATT.

US exports of heavily subsidised dairy products, especially of skimmed milk powder, have expanded rapidly. Up to 1982 they rarely reached 15 percent of world trade. Now they account for more than 25 percent. This gain has been largely at the expense of the EC.

So these facts demonstrate clearly that the European Community did not cause the decline in the US market shares nor the hardship American farmers are going through these days. The basic element of the farm crisis is the lowest net farm income in real terms in the last 25 years, combined with rather heavy indebtedness. High interest rates, a high dollar price, less than contracted sales to the USSR, enormous supplies and a severe debt situation in developing countries have created the situation that one third of US farmers is facing financial difficulty. As a result banks, machinery industry, cooperatives, in fact the total agriculture related rural economy is put under pressure.

US legislators, especially the ones up for reelection, try to cure the symptom of decreasing farm land values by reinforcing the financial system. Further proposals they come up with to strengthen agriculture and other economic sectors are certainly to be concerned about.

Trade is visioned to be mainly unfair and damaging American labour, agriculture and industry. Therefore about 300 protectionist bills are introduced in Congress with more than half of its members signed up as co-sponsors. It is just this approach which got the Smoot-Hawley legislation signed in 1930 and which caused the start of a world depression.

You all know what happened in the thirties. Agriculture, the sector President Hoover specially had tried to help, suffered most of the retaliation of the trading partners. All over the world quotas were introduced and tariff walls reached the highest point in history. After several years of failing international conferences the US decided in 1935 that free and open trade is the best means of promoting the development of both the United States economy and the world economy.

Since the stage was set for World War II it took until 1947 to set up the open trade system of the General Agreement on Tariffs and Trade. Although the structure of agriculture is entirely different between the US and the EC - a working agricultural population in the European Community of over 8 million which is 4 times as large as in the US and a utilized agricultural area which is 4 times smaller than in the US - the Common Agricultural Policy of the EC is brought and accepted under GATT. As the biggest exporter in the world the EC stands foursquare with the US government for a new round of trade.

Just recently the EC backed the US at the special three day session of GATT's

90 participating countries in Geneva which resulted in a joint agreement to a new round, including industry, agriculture and services. Also this month in South Korea the EC and its member states worked together with the US to set up new plans for debt burden developing countries to change from a policy of tightening the belt to economic growth. This clearly shows that we strongly feel that a multilateral approach to world problems is the only solution to strive for.

Since many forecasts envisage a longer term contraction in commercial demand on world markets the European Commission drafted its Green Paper. The US Administration tried to take account of these developments in its new Farm Bill. The changes our European farmers are already going through are hard.

Last year the European Community forced domestic dairy production down by 5 percent through a restrictive quota system. In the Netherlands, a Friesian Holstein dairy country pre-eminently, production at the dairy farms had to be cut by 8,65 percent in 1984/85. This year another one percent cut was added and an increasing co-responsibility levy is just around the corner.

As far as wheat production is concerned the EC has already lowered Community prices to bring them closer to those on world markets in order to stabilize our internal production and to ensure our position on the world market. At the same time, because of all sorts of adverse weather conditions, total EC cereal production fell by nearly 10 percent in 1985 to about 137 million tons. As a result of large carry-over stocks, depressed export markets and restrictive management measures cereal prices in the EC fell 10-15 percent. Also in the fields of sugar and beef the European Community is reshaping its policy,

basically in the same direction as for wheat.

Working with a Community budget which is roughly of the same magnitude as the US Federal expenditure for farm support, the EC changes its Common Agricultural Policy in order to achieve its objectives and retain its fundamental principles. These objectives are:

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

The guarantee of supply and stable consumer prices are not expensive to our consumers. Community citizens spend about 18 percent of their disposable income on food compared with 16 percent by the (more wealthy) American consumers.

Farm income has been - and continues to be - under pressure in the US as well as in the EC. Net farm incomes in the EC have been declining in real terms over the last decade. This was caused by the more rapid increase in our total farm input prices. Also farm output prices and the slow-down in the rate of labour productivity gain, which has to do with the 11 percent unemployment in the EC, added to the decline of farm incomes. The enlargement of the Community with Spain and Portugal coming up at the end of this year, both countries with a relatively large agricultural population and small sized family farms, won't make things easier. Under these circumstances it will be even more obvious that the structural change of EC agriculture cannot

follow the present US road toward corporate farming.

As I hopefully have made clear so far, the European Community has tried hard and continues to try to adopt changes in agricultural policy which will also help to improve world agricultural trade. It is difficult to understand then that an Export Enhancement Programme, commonly referred to as BICEP, is directed specifically against the Community. EC export refunds are consistent with GATT rules. We shall have to see whether the EEP is also consistent. The only effects of the US export programme have been that the price Egypt paid for 500,000 tons of wheat was considerably below the going world market price and the Community was obliged to offer wheat to other Mediterranean countries at the same depressed price level in order to retain some of its markets. Other and larger political buyers (eg. Soviet Union) wait patiently for the price to fall even further. Neither US nor EC farmers benefit from these sales.

Another violation of GATT rules concerns wine. In 1984 Congress adopted the Trade and Tariff Act which made it possible for the first time for US grape growers to seek countervailing duties and anti dumping duties with the help of the International Trade Commission. Although before this act American wineries could under GATT rules bring forward a case, none did. Since wine is the most important European agricultural export product to the US the high dollar made competition of French, Italian and German wines on the US market more noticeable. As a result the Trade and Tariff Act is used to push for protectionist actions. Following normal procedures in trade disputes the European Community has asked a GATT panel to look into this issue.

The controversies about canned fruit and corn gluten feed are being dealt with under GATT. To improve the rural economy the EC stimulated the canning of fruits in some of the less developed areas of the Community. Since charges were made under GATT these actions were hurting US exports of canned fruit, the Community reduced the aid successively during the past three seasons.

At the end of this month the truce on pasta and citrus will end. Any subsequent US actions against pasta imports from the EC will be contrary to the GATT and therefore be without legal justification. The European Commission has made clear it will counteract swiftly and effectively on imports of walnuts and lemons from the US.

While the US has a preferential system for the Caribbean Basin countries the EC maintains a system of preferences for developing countries in the Mediterranean Basin, designed to assist these countries in the development process, and contribute thereby to economical and political stability. During the Tokyo round the EC and US agreed to respect each others preferential arrangements. Therefore changes in this field will have to be made at the upcoming GATT round.

Ladies and Gentlemen,

I have always enjoyed the frank and serious way we can discuss our mutual problems. Times are neither easy on either side of the Atlantic nor in the developing countries. We all have to decide how to give agriculture directions towards the future.

Both the EC and the US share the problems of surplus production, stagnating



markets and budgetary restraint. To work off our common problems on each other will only benefit a few third, mainly communist countries.

I returned to the US this year because I believe once again we have come to a turning point in our relations. Like 55 years ago the road to protectionism is freshly paved again. I am convinced we should not go that way. We have not worked so long and so hard, even under more difficult circumstances than today, to reach a level of world trade of over \$ 2 trillion. The United States and the European Community have a common interest in the world market. Also in the interest of the developing countries, we have to come to solutions.

As the world's two largest agricultural super powers we bear a heavy responsibility to come to an acceptable solution to our problems. Realising what failure would bring we should show the world our determination to succeed.