

"EC/US AGRICULTURAL COOPERATION OR CONFLICT"

Speech presented

by

Vice-President Frans H.J.J. ANDRIESSEN
COMMISSION OF THE EUROPEAN COMMUNITIES

at

THE CHAMBER OF COMMERCE OF GREATER KANSAS CITY

Kansas City, Missouri

26 June, 1985

Embargo : Noon (US Central time) - 26 June, 1985

I realise that on this bank of the Missouri I am still in the "Show Me State" and that as from the 1st of January, Spain will be joining the EC, but for you to have laid on a mock up of the Giralda from Seville in the Country Club Plaza in downtown Kansas City is carrying even Mid-Western hospitality to extremes.

I come to Kansas City today - the farm distribution centre of America - after a two day visit to Washington where there was much to talk about with several of your political and administrative leaders.

They told me a lot of things on Capitol Hill

and so it is important for me to have this very welcome opportunity to see whether all I was told in Washington is what Americans really feel here in the heartland of rural America, here where so much hardship is being suffered by American farmers.

I have come here at a time when farm policy on both sides of the Atlantic is at the cross roads and what is more a cross roads where we in Europe have altered direction.

World trading conditions for most agricultural goods are not what they were. Nor are the buoyant conditions experienced for over 40 years up to the early eighties likely to return in the foreseeable future. We are thus

bound to adapt our policies to take account of these changed conditions. Here in the United States you are still going through the evolutionary stage of a new Farm Bill. In Europe we have already taken some very difficult steps and have committed ourselves to further ^{far-}reaching changes.

Commercial demand on world markets is now well satisfied. Market prospects for the marketing year which has just started are not very promising. Crops are expected to be good in the Western world but may also be large in the USSR which is not good news for either of us.

Virtually all the main exporting countries have contributed over the years to replacing shortages by surpluses.

United States farm output went up by some 40% in the decade prior to its peak in 1981. For crop production upon which United States agriculture is so dependent for its exports, the figure is 50%.

The European Community also increased its farm output over this period, by some 20%.

Production increases were recorded in many other parts of the world. For example, China, once a big customer

for wheat, has now become a corn exporter.

Both our agricultural policies were adapted to a change in the trends in world trade. That there is now an urgent and vital need to meet the new conditions brought about by the success of these policies is now being honestly recognised.

For example, the draftsmen of the Administration's 1985 Farm Bill clearly recognised this when they stressed that existing United States measures were encouraging "production in response to the artificial support rates set by Government programmes" ... programmes involving "rigid price support levels which... encouraged excessive production and stock accumulation and have contributed to a loss (for the United States) of world markets".

As I have just said, we in the European Community have started to attack the problems.

For example, just over a year ago fundamental policy changes were introduced. These included restrictive dairy production quotas and strict limitations on price support in a number of other major sectors. And despite the resistance shown by some of our Member States to making price reductions in real terms, the European Commission took a very firm and courageous line. We went

./.

so far as to implement 'de facto' price cuts for grains following the Council's inability to take such a decision itself. This is a clear indication of the direction which the Commission intends to follow.

As far as dairy production is concerned our new policy has already resulted in a cut of 4 to 5% in annual milk production and in butter production of over 10%.

We expect milk production to fall even further in the current year.

For cereals, the Commission has intensified its efforts to bring Community prices in line with those on world markets in order to stabilise our internal production and to ensure our position on world markets.

In general it is clear that we both face strikingly similar fundamental problems - surplus production^{of agricultural products} and budgetary restraint. As far as budgetary resources are concerned, the Commission has tabled its budget proposals for 1986 which involve a substantial reduction in real terms in agricultural spending.

Policy makers world wide are now beginning to recognise the central problem common to us all namely of a persistent downturn in world market conditions.

We welcome the general thrust of the 1985 Farm Bill to the extent that it seeks to reduce superfluous public support and protection for agriculture. So far so good.

It is however important not to confuse the policy proposals in the 1985 draft Farm Bill with policy decisions. In this respect, it is instructive to compare policy proposals in this Bill with the recently announced Export Enhancement Programme.

This programme, from what we have learned so far, is certainly not in line with the market orientation thrust of the Administration's 1985 Farm Bill proposal.

So one can ask oneself some basic questions, such as :

- What in this programme makes producers more aware of real market signals ?
- Where is the reduced Government involvement ?

I have not come to Kansas City to give you lessons on how to shape your export policy. The only point I might mention, with the benefit of ^{our own} past experience, is that with this kind of programme you risk paying twice. Once, in making available at give-away prices your surplus commodities; and again, when world market prices fall, your overall return or sales will be reduced.

I say this, because you should cherish no fond illusions that your major trading partners will not match you dollar for dollar. Some have already given

notice to this effect. But again, it is not for me to advise your Administration in these matters.

One other important aspect of this somewhat provocative approach where I think I am entitled to re-act and that is that the Community is undoubtedly the target. The Administration made no secret of this in presenting the programme.

The Chamber of Commerce's invitation provides me today with a good opportunity to put the record straight on a number of misconceptions which seem to have inspired the Export Enhancement Programme in particular and US attitudes generally.

Even after only two days of talks in Washington, I have been forcibly struck by the erroneous view of the EC's true role in world agricultural trade. We have been cast in the role of scapegoat, ^{responsible} for all the ills which befall US farmers.

First, for some 75% of the United States agricultural exports competition from the Community is at best indirect. The problems of United States agriculture for at least this massive part of its exports cannot possibly be attributed to actions by the Community.

If you pause to reflect - we are only on a

collision course for three products : wheat, wheat flour and poultry.

Second, do you realise that the Community remains one of the United States' biggest agricultural export markets? Even in 1984 with a strong dollar the EC imported American farm goods to the value of \$ 6.7 bio , most of them free of duty, and that we ran a deficit with you of \$ 3.6 billion.

Third, let me explain that the fall in Community agricultural exports over the past four years has been of a similar proportion, when expressed in US \$, to the reduction experienced by the United States. Perhaps a general fall in exports explains the current US attitude.

Fourth, no exporting country can reasonably claim any right to hold on to the highest share of the world market forever, or indeed any specific market, which it attained at some date in the past. Elementary mathematics show this to be an unattainable objective for any party . However, this objective appears to form a central part of the Export Enhancement Programme.

In present and foreseeable market conditions, it would be too ambitious to stay on the 1981 summit, we would all have to pay for it.

./.

./.

Being a guest here - and I hope a polite one - I will refrain from mentioning the substantial share of the world's dairy product market which you have gained - at our expense - through food aid programmes and through plain old fashioned subsidies.

But, to return to the chronic scapegoat syndrome and limiting myself to the wheat issue, it should be interesting for you to learn that since 1981 (the US peak export year) our share of the world market remained stable. So, it seems that if the real culprit could not be found - a convenient scapegoat had to be produced.

I have been somewhat puzzled, as someone who thought he was a valued customer, to be treated in this way. We would in normal circumstances hope and expect to remain your best customer and to be treated accordingly.

Another serious misrepresentation of the Community here in the US is the allegation of our delaying the start of a new GATT (General Agreement on Tariffs and Trade) round. I cannot emphasise too strongly that the EC favours such a round and has declared publicly its unanimous support for this. What we want is a well prepared round - both as regards agenda and participation.

We do not exclude discussion of agricultural issues as part of a well balanced package. But we do point out that there are certain principles of our farm policy that we would ^{not} abandon. Just as I am sure that there are similar values that you would not sacrifice here.

I should add that we want to deal with a new round in a comprehensive way and tackle some of the fundamental problems which jeopardise harmonious trade development such as ^{the} volatile monetary situation to which international trade is exposed.

Indeed, the unilateral measure decided by the President last week against our pasta exports is most certainly not an encouraging signal for the launching of a new round. Moreover, this particular initiative together with some others - on footwear, textiles and possibly wine - singles out one of our Member States in a most unbalanced way.

You might ask what will be our reaction. It will be swift and effective. I have no doubt that the European Council of Ministers will decide tomorrow to retaliate. The products involved will come as no surprise. There will be no winners - that is for sure. Initiatives such as the one on pasta might seem "macho", but are not dissimilar from playing war games in our mutual trading relations. And all this because of differing interpretations of GATT international trading rules. ./.

We, in Europe, are firmly convinced that we should discuss these and similar matters in the framework of the GATT. The GATT has played a central role in improving the prosperity of the Western world - including the Mid-West - over the past four decades. It is the basis of the multi-lateral trading system and it should stay that way.

In so far as agriculture is concerned, it seems to me that the time has never been riper to discuss these problems and we, in Europe, are willing to re-assess our internal and external policies in the appropriate GATT Committee. This is an important point on which Secretary BLOCK and myself fully agree.

As the world's two largest agricultural super powers we bear^a heavy responsibility - on both sides of the Atlantic - on the banks of the Missouri and of the Rhine - to face this awesome challenge. Let us both accept it with a determination to succeed and a realization what failure would bring.