

Address presented
by
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Delegation of the Commission
of
the European Communities
Washington, D.C.

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JOINT CONVENTION OF THE MID-ATLANTIC,
NEW JERSEY & PENNSYLVANIA FOOD PROCESSORS
CONVENTION
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Mr. Chairman, Ladies and Gentlemen,

I would first of all like to say how very grateful I am to the Food Processors Association not only for the warmth of their hospitality and welcome but also for providing me with this opportunity to share a few thoughts with you on a subject of importance to us all - trade in processed agricultural products.

I am also grateful to have been given this chance of visiting the town of Hershey. Perhaps not one of the larger American cities but one with a name that is familiar around the world either through the famous products themselves or through innumerable references to them in American books and films. Chocolate is a product that has always managed to exert its fascination over me and nowhere more so than during the eight years that I spent in Belgium.

And if I may intrude for a moment with a further personal observation, Mr. Chairman - as one who attended a Quaker school in England - a visit to the Keystone State founded by that outstanding Quaker, William Penn, gives me particular pleasure.

And speaking of Quakers, is there any connection between the fact that virtually all chocolate manufacturing in England was for a long time in Quaker hands

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(Rowntree, Fry, Terry etc.) and that the headquarters of Chocolate USA is to be found here in the Quaker State ?

So much by way of personal reflection. Now, to the subject area on which the organisers have asked me to concentrate.

Anyone from Europe who goes about and speaks in the United States quickly realises that mentioning the European Community's farm policy does not always lead to a burst of wild and enthusiastic cheering from the back of the hall.

Perhaps this is because of the similarities between our agricultural policies which are both many and striking or perhaps because of some of the differences.

Let us first look at the similarities. I make no apology for doing this since it strikes me as being essential general background to the specific problem of processed - or if you prefer - high value products.

I don't know whether the objectives of US agricultural policy are set out in your Constitution, but they most certainly are in ours: in Article 39 of the Treaty of Rome. And they are :

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- to increase productivity through technical progress ;
- to give the farmer a fair standard of living ;
- to assure the supply of sufficient food at reasonable prices, and
- to stabilise markets.

These do not strike me as being all that different from US policy aims. Very broadly, these objectives have been achieved by fixing common prices for the major part of our farm production. Some, but by no means all, of these prices are at higher levels than those in other countries. But, assurance of supply like any insurance policy costs money. And the European consumer is prepared to pay this small premium for food security. For many Europeans, security has as much to do with food as it has with missiles.

But when I say a small premium, I am not indulging myself in typical British understatement. A regular survey of retail food prices published by USDA shows in fact that out of a recent shopping list of 15 items, 11 of them were cheaper in Paris than in Washington. The 11 included roasting pork, butter, cooking oil, milk and sugar.

Not only do our policies have similar aims - with perhaps different machinery for their implementation, but they are also policies which have had strikingly similar results with production increases that have resulted in quantities beyond those which the market can absorb.

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Both the EC and US have highly developed economies and we both belong to broadly the same temperate climatic zone which has meant that we have many products common to both. But the US climatic zone is wider than that of the EC, so that a more extensive range of products is possible here (soyabeans, tropical fruit, cotton).

As to the differences - there is of course the obvious and important one of geographical size. The U.S. is almost six times the size of the EC but has about 20% fewer inhabitants.

Partly as a result of this, most farms in Europe are small or medium sized and farming tends to be intensive with high yields. We thus have a different mix of agricultural production compared with the U.S. Here the emphasis tends to be on bulk crop products with grains and oilseeds representing 31% of farm production compared with 13% in the EC. In the Community, on the other hand, the higher value farm products such as livestock and wine play a more important role - 60% of agricultural production compared with 48% here.

And this difference of emphasis on the land has tended to be reflected elsewhere. A number of you will be familiar with USDA's report entitled "High Value Agricultural Exports - US Opportunities in the 1980's" - published about a year ago. The report

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graphically draws attention to the fact that whilst the US's volume share of world agricultural exports almost doubled in the ten years between 1969/71 and 1979/81 from 20% to 39%, your share in terms of value rose only from 15% to 18%.

In other words, you did not target your massive efforts in farm trade expansion on high value products. Why this should be I am not able to say with any great certainty, but what is clear is that the European Community has not only tended to concentrate on more intensive farm production for the reasons I have already mentioned but has also recognised the general advantages to our economy of developing its high quality food processing industries. Sales of processed or high value products not only expand the sales of farm products but clearly increase employment and economic activity. Food processing in the Community accounts for about 10% of the total net value added in all industry. By this yardstick therefore it is the Community's largest single industry.

However, the situation is not as one-sided as one might easily imagine from the complaints one frequently hears voiced - be they on the Hill, from the Administration or producers associations. A look at the trade statistics - a tedious but essential first step - will help us to a clearer understanding of the issues if

that is what we are really seeking rather than the much easier and attractive ritual of finding a scapegoat. Once again, referring to USDA's report, a perceptive reader will discover that whilst the EC's total exports of high value products rose from 3.2 bio \$ in 1970 to just under 20 bio \$ in 1980, our imports of these products rose from 7.7 bio \$ to 27 bio \$ over the same period - an annual compound growth rate of 13½%. The annual rate of growth in US imports was only slightly lower at 13% but the total value of such imports only reached 15 bio \$ - or 45% less than the Community's figure. I do not make these observations in any accusatory sense but in an attempt to help put the record straight.

All very well, I hear some of you say but things have changed since 1980. Well, I'm afraid that USDA's excellent report only takes us up to 1980 and I regret that those of us who deal with these matters in Brussels do not have the same level of financial resources to mount such studies ourselves. Nevertheless, I would be the first to concede that there has indeed been a change over the last 4 years. It is a fact of which we have been frequently reminded on our television screens over the past few months. And, of course, one of the things that has changed very markedly has been the value of the US dollar.

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Let me quote from a recent speech by Secretary Block: "This leaves our agricultural sector increasingly sensitive to the fact that over the last three and a half years the value of the dollar has risen about 30 percent. This has caused our farm products to become more expensive in foreign markets. Our competitive position has been weakened. As a result, the value of our agricultural exports has declined by \$5 to 6 billion". This speech was made on 26 June 1984 after which the dollar continued its climb.

Such strong appreciation in dollar value has not only made US exports less competitive, as the Secretary points out, but - and this is of perhaps greater significance to this Convention - it has made imported products much more attractive here on this side of the Atlantic. Naturally, this has helped European exports to the US in those cases where they can enter without restriction. They are also boosted by their high quality.

But having said that and, in spite of a dollar at record levels, the EC remains the US's best customer purchasing more from you than you sell to Japan or the whole of South America to the extent of running a deficit with you on agricultural and food trade of nearly 5 bio \$ in 1983. And our overall agricultural trade deficit with the rest of the world - including the US - has grown by more than 60% to 23 bio \$ over the last decade.

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The United States is very anxious - and understandably so - to protect its reputation as a reliable supplier, but it seems to me that importing about one quarter of all US farm and food exports, the EC is a pretty reliable customer - and in hard cash. So much for our "experience in combatting imports" - one of the areas I was asked to cover today. Perhaps I should be picking up tips from you as to how to combat imports.

In fact, in re-reading your invitation to speak here today and on looking again at the subjects which I was asked to cover, I once again got the distinct impression that there is a feeling here that the US is something of a victim in farm and food trade, surrounded by powerful and devious competitors backed by bountiful treasuries who selfishly take advantage of honest Americans.

But let us once again examine some facts and background and start with a fiction which is very easily exploded - that of the EC spending limitless sums of money on agriculture.

The total Community budget for 1983 and which represented less than 1% of Community GNP amounted to some \$23 billion. Not our deficit, Mr. Chairman, but our total budget. Of this, \$15 billion - an all time record - was spent on agriculture. This compared with almost \$19 billion in the US and \$30 billion if PIK is included for about one quarter the number of farmers

we have in Europe. Furthermore, we have recently taken - and aim to take some more - tough and far reaching decisions to cut agricultural support.

And, unlike all national governments that I know of, there is a rigid limit strictly enforced by our Member States as to the amount we can spend, since our Constitution forbids us to run a deficit. We do not have the doubtful advantage of being able to print money as though we were playing Monopoly.

In addition to the occasional criticisms I hear in the US of the EC's Common Agricultural Policy and more particularly of our exports - as if to be an exporter was in itself a cardinal sin - I also detect some measure of dissatisfaction with the arrangements for dealing with agricultural trade which are provided for in the GATT.

Regrettably I do not have the time to deal with such a vast and complex subject in any detail but a fact that is often not fully realised or is perhaps conveniently overlooked is that it was the United States who, in 1955, when American farm exports had not assumed the importance they have today, achieved a formal waiver from GATT provisions enabling it to use import quotas and fees so as to prevent interference with its domestic farm programmes - sugar, peanuts and dairy products are important examples. These Waivers which are now 30 years old seem to me to sit somewhat uncomfortably with the much repeated cry of comparative advantage.

US dairy product quotas are, of course, very much in existence to this day as are those for beef and cotton and the recently announced sugar import quotas - at levels significantly below those for the previous year are a striking example of a measure which, whilst permitted by the US GATT waiver, is in direct conflict with the GATT principle that if import quotas are introduced the burden of reduction should be shared equally between indigenous and foreign producers. For senior officials of the US Administration to criticise the effect of the European Community's sugar policy on sugar exporting countries - as was done only recently - when there is such a highly protected sugar market here with quantities to be imported under quota from Central and South America in 1984/85, for example, at only 50% of what was imported only 2 years ago strikes me as playing fast and loose with the facts of the situation. Which leads me to a problem linked very closely to US sugar arrangements. And since it is perhaps of some interest to you as food processors you will allow me to touch briefly on it.

If, on the one hand, US sugar producers did not enjoy the high priced arrangements they do with less resultant encouragement for the corn refiners to produce high fructose and if, on the other, there were no programmes to subsidise ethanol production - once again from corn - it has been estimated that US pro-

duction of corn gluten feed (a by-product of sweeteners and ethanol) would be about one third of what it is. Thus, less would be exported to Europe and one of the more explosive issues between the US and the EC would be safely defused. This is a serious import problem for the EC and is perhaps one of the aspects that the organisers asked me to touch on.

So here, let me briefly explain that we announced earlier this year that in order to avoid putting at risk our programme of cutting support we needed to look at imports of competing products. And imports of corn gluten feed, a by-product largely from the sweetener and ethanol manufacture mentioned earlier, and which displace grain in the Community, have soared from 700,000 t in 1974 to 3.4 mio t last year.

What we have proposed is not to slash these imports as one might gather from the howls of protest, but to stabilise them under existing GATT procedures. These provide that even though free entry may have been guaranteed in a previous negotiation, this concession can always be renegotiated subject to adequate compensation. So, what we are trying to do in Geneva is to ascertain the loss of trade that would result from what we propose and to fix an appropriate compensation.

And, furthermore, we have said that although GATT practice has been to establish for these purposes a level of trade which would be the average of the last three years (amounting in this case to 2.9 million tons) we are prepared to fix a duty-free quota that goes substantially higher than this - equivalent to the best year ever achieved by the US and to compensate for any trade which would then be subject to duty over and above this level. This is a proposal well within the spirit and letter of the international trading rules. We hope we can pursue this matter along these lines and reach a reasonable agreement. But I digress slightly.

And, before I digress any further, I will attempt to summarise. What I have been trying to say is that contrary to popular belief the European Community has just as many problems with imported agricultural products as does the US. And since we import far more perhaps our problems are larger.

The way for both of us to find solutions to these and other connected problems is first to recognise that agricultural subsidies are not a uniquely European phenomenon and are instead a fact of life in the modern world. That the European Community has recently taken tough steps to restrict such expenditure. That measures

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such as blended credits, export subsidies or import restrictions - to name but three - all affect trade flows in agriculture and food. And that in the last major round of multi-lateral trade negotiations, the Tokyo Round, rules were laboriously hammered out which allow subsidies for agricultural exports.

And whilst there may be elements in these international trading rules - better known as the GATT - that you and we view with less than total enthusiasm, they have indisputably provided through their fragile overall balance of obligations and advantages the basis for enormous progress in reducing barriers to world trade. This has coincided with the greatest increase in prosperity the world has ever seen. For those sceptical of this claim, I would only ask you to compare the decade between 1926 and 1935 when world trade collapsed by 28 per cent, with the decade up to 1972 when it rose by $8\frac{1}{2}$ % a year. Even after the oil shock it continued to grow at $4\frac{1}{2}$ % a year. This boom in prosperity, whatever its imperfections, was never dreamt of forty years ago.

So, Mr. Chairman, whatever arguments we have must be seen against the background of the strong political links which bind us, and the major responsibilities

which the United States and the European Community both have in maintaining the one world trading system and the prosperity of the West. In one of our major problem areas, agricultural trade, we have started to talk to try to find new and tougher rules for international trade in farm and food products.

But for these talks to succeed, it would help if the one-sided campaign directed against the Community and its export subsidies was stopped and replaced by a more constructive approach looking at the overall support given to agriculture by all major traders - whether this be via subsidies, subsidised credit, internal aids or through import restrictions. Since, if we don't seize the opportunity to cooperate openly and honestly, we shall all be losers. It is no good individual nations trying to re-write the rules on their own on a piecemeal, product by product basis. We have also to keep in mind the concept of an overall balance of advantages.

Those who are not attracted to the far from easy but promising path of cooperation should bear in mind the ghastly alternative of returning to a situation which resembles that of the wastelands of the 1930's to which I referred earlier. But, for such cooperation

and for any concerted measures, we shall need considerable political will in Brussels and Washington and in capitals around the world, to achieve rules of conduct for agricultural trade which will benefit us all.

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