Address presented

by

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I would first of all like to say how grateful I am to you Mr. Chairman and to the Fertiliser Institute for providing me with this opportunity to say a few words on a topic not only of vital importance to 8 million European farmers and their families and to 270 million European consumers but also of at least some passing interest to the fertiliser industry and to its clients around the world. I refer, of course, to the subject of European agriculture - and to its place in international trade. I am also grateful to have the opportunity of visiting San Francisco again - albeit far too briefly. Little did I realise as I strolled the streets and rode the trollies in July with my family that I would be back so soon in the city on the bay - the city with a cool climate but a warm heart.

When I talked to the organisers about the area I should try to cover this morning, it was suggested that I should not restrict myself to European agriculture but should perhaps also share some thoughts with you on trade in general between the European Community and the United States. I will have a shot but I should warn you that my remarks will have a marked agricultural flavour.

Let us start by looking at the rising tide of American involvement in external trade.

For something like one hundred years after the Civil War, American involvement in foreign trade never rose above 3-4 percent of the Gross National Product. In the 1970's it exploded and foreign trade now accounts for some 12 percent of American GNP. One-fifth of American industrial production is exported, two-thirds of its wheat and two-fifths of its rice, soyabeans and cotton. In the mid - 1950's when the United States secured its waiver from the obligations of the General Agreement on Tariffs and Trade (the GATT) in the field of agriculture, American farm exports were relatively small. The main concern of the US Administration in those days was that the international trading rules should not interfere too drastically with the operation of the internal American agricultural market administered and regulated by various Federal programmes. Then came the great agricultural boom fuelled by expanding economies around the world, pressing food needs and a low dollar. And, between 1970 and 1980, the value of US agricultural exports jumped from $7 billion to over $41 billion. Certainly, they dipped in the two following years but 1984 agricultural exports are forecast to rise by 9% to some 38 bio $ - an enormous expansion over 14 years ago and a great tribute to the American farmer and to the suppliers of his inputs.

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In all this, the European Community has proved a very valuable customer. Total trade between the EC and the US in 1982 amounted to some 90 bio $ - one-third of total world trade. As Secretary Shultz said in Brussels some months ago - "We must be doing something right". And, despite talk of the EC's protectionist Common Agricultural Policy, we remain the American farmers' biggest customer. Even with a dollar at record heights the Community ran a substantial deficit in agricultural trade with the United States in 1983 of some $5 billion when we took $7.6 billion worth of US farm products compared with the $5.9 billion you sold to Japan and the $4.9 billion to the whole of South America. There is much talk in Kansas City, in Chicago and perhaps here in San Francisco of the United States' image as a reliable supplier. It seems to me that the Community is a very reliable customer - and in hard cash.

Another aspect I would like briefly to mention is the maintenance of what we call the one world trading system. World free trade in the strict sense of the term does not exist - like absolute zero in physics it is a concept more for the laboratory than the real world. But we have made enormous progress in reducing barriers to world trade, and this we should remember has coincided with the greatest increase in prosperity the world has ever known. Between 1926 and 1935 the volume of world trade of manufactured goods collapsed by 28 percent. In the decade up

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to 1972 the volume of world trade rose by 8.5 percent per year. Even after the oil shock it grew by 4.5 percent a year. How did this affect the United States ? Between 1929 and 1939, the Gross National Product in real terms hardly changed. Between 1939 and 1982, it went up in real terms by a factor of five. The face of the United States has changed, thanks in good measure to foreign trade.

This world prosperity,which whatever its imperfections and shortfalls,was hardly dreamt of forty years ago. But it depends on a fragile balance of obligations and advantages hammered out within the international trading rules of the General Agreement on Tariffs and Trade. And preeminent in that is the responsibility of the United States and the European Community who are the two major players on the world trading stage. Together, as I have just said, they account for something like one-third of world trade and thus have a major stake in the maintenance of the one world trading system. If ever there were to come a day when trade barriers would start escalating between us and the shutters were to come clanging down on both sides of the Atlantic, then the world would be threatened with a move back to the wasteland of the 1930's. And that is the real - the unavoidable answer - to all those on either side of the Atlantic who want new trade barriers, and yet further trade barriers, imposed to help industries in difficulty for whatever reason.

But, I realise that there are influences at work in the other direction. No European living in the United States can fail to be impressed by the gradual shift in power and influence in this country towards the South and the West. I do not make this point in any critical sense. It is a fact of geography and history. And Europe must learn to live with it. But combined with the virtual disappearance of the generation of American Statesmen who, in the 1940's and 1950's, who were much mixed up with the European affairs, there is a natural tendency for the new power-brokers of this country to ask themselves - Is not, and this is a very real question here in California, the real world for the United States the Pacific and the South ? -

Then, there is of course a rising tide of protectionist sentiment around the land. There is no monopoly of this on this side of the Altantic as we in Europe know only too well. But the strength of the dollar, competition from across the Pacific rim, not only from Japan, and the fact that a number of developing countries have had to retrench substantially on their purchases have meant a tough time for American exporters and a tough time for all Americans who compete with imports from abroad. In the Community, we welcome the stand which the Administration has taken against both versions of the Wine Equity Bill, domestic content, the 15 percent steel quota bill and on copper. But you will understand me if we say we are still worried by other decisions and ones which have still to be made by the Administration over the next couple of months.

But, Mr. Chairman, I have sketched out very briefly enough of our general background. This is as necessary as the background in any portrait. Let us come to the subject on which I warned you I might concentrate --- agriculture. What are we arguing about ? Are we a threat to the American farmer ?

Anyone from Europe who goes about and speaks in the United States quickly realises that mentioning the Common Agricultural Policy does not lead to a burst of enthusiastic cheering from the back of the hall. But the Common Agricultural Policy is so festooned with myths that it is at times from outside Europe difficult to see the policy. So let me explode a few myths.

Was a Common Agricultural Policy necessary ? Answer, yes. Because when the original Six: France, Germany, Italy, Belgium, Luxemburg and the Netherlands, set up the European Community in 1957 their first task was to free trade. This could be done relatively easily for industrial products by cutting tariffs. But the varieties of agricultural protection in the individual states were / so manifold and ingenious that cutting tariffs would have been meaningless. Europe could not unite half in free trade and half not. So, the only solution was to establish a unified Common Agricultural Policy.

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Was not its aim to pamper the European farmer ? Answer, no. The aims were very much those of US farm policy. To increase productivity, to secure a fair standard of living for the farm population, market stability, the assurance of an adequate food supply and reasonable consumer prices.

But has not this led to a vast and over-blown agricultural population ? Answer, no.
Over the last twenty years, the EC agricultural labour force has dropped by more than 50 percent from 19 million to less than 8 million. That meant the loss of one job every minute in European farming. During the same period, the average farm size doubled.

But has the CAP feather-bedded European farmers ?
Answer, no.
In fact, since 1975, EC farm incomes have fallen well below industrial EC incomes.

Has the CAP led the EC to be a net food exporter ?
Answer, no.
Whilst we are net exporters of some products thanks to increases in productivity, our overall trade deficit in food and agricultural goods grew from some \$14 billion in 1973 to \$23 nillion in 1982.

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All this has to be seen against the background - as I pointed out earlier - that the Community is the American farmers' biggest customer with a net agricultural surplus for the United States in the Community market last year of $5 billion.

The factors which are responsible for the hard times that American farm exports have been going through are not the European Community but cut-backs in purchases by developing countries strapped for cash, record US production, client countries changing their suppliers because of difficulties in other sectors - such as textiles - and above all the high level of the dollar.

Let me quote SecretaryBlock in a recent speech: "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 $5-6 billion.". This was in a speech he made on 26 June since when the $ has continued on its inexorable climb.

In fact, the major argument between us has centred on subsidies. The claim is often made in the U.S.A. that the Europeans are selfishly and massively subsidising their agricultural exports, thus capturing overseas markets and

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taking bread out of the mouth of the American farmer. We point to the existence of massive agricultural subsidies on both sides of the Atlantic. The total Community budget for 1983 amounted to some $23 billion - less than one percent of Community GNP - of which $15 billion was spent on agriculture. But price support alone in the United States for that year amounted - according to the report of the Council of Economic Advisers - to $18.9 billion - with an extra $9.4 billion for PIK. I offer these observations not to score points but to register the fact that subsidies to agriculture are a political fact in the modern world. Perhaps we are all sinners in eyes of the Lord.

The last major round of trade negotiations, the Tokyo Round, which was concluded in 1979, recognised agricultural subsidies as a fact of life. And the rules laboriously hammered out allowed subsidies to agricultural exports providing that these were not used to take more than an equitable share of the world market. What, our American friends ask, is equitable ? We explain that this is rather like drafting a definition of an elephant. Difficult, but if one were to enter this room, I think most of us could guess the kind of animal involved.

Let me give just two sets of figures. In the 1970's, Community exports of wheat and wheat flour combined rose from 10 percent to 14 percent of the world market. Certainly an increase and an increase in exports which were subsidised. But the United States share of the world trade rose from 34 to 46 percent. I make this point not in an accusatory fashion, but simply to say that it would be difficult to conclude from this that we were breaking the international trading rules or hogging the world market.

We talked about this in Brussels in December 1982 when Secretary Shultz and four of his Cabinet colleagues sat down with Gaston Thorn, the President of the European Commission, and his team. We agreed to talk about agricultural export subsidies. And we have made some progress. The discussions cleared away a great deal of statistical undergrowth of mismatching figures and misconceptions and enabled us to explain with a common statistical base that we were operating fully within the concept of an equitable share of the world market and thus fully in accordance with the international trading rules.

But we have gone further than this. We have started discussions aimed at clarifying the international trading rules on subsidies. And in the work of the Committee set up in Geneva under the GATT to look systematically at all forms of agricultural protection - and the rules for agriculture in world trade - there is close and constructive collaboration between the EEC and the American side.

We have also embarked in the European Community on a reshaping of our Common Agricultural Policy which has, to a large extent, become the victim of its own success.

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As the Commission we put forward some major proposals to our Council of Ministers for changes in the Common Agricultural Policy and for limitation of support. The package we put forward was based on three main principles :

(a) restriction of the volume of production on which Community farmers receive a guaranteed price - something we have been urging the Council to do for years ;

(b) a requirement that EC farmers should foot the bill for their own overproduction ;

(c) a reduction in the gap between the Community and world prices.

And we got this package through. In March of this year, the Community Council of Ministers adopted a major package of reforms. This included a freeze on milk prices, the introduction of restrictive quotas which will reduce subsidised dairy production by 7% with harsh penalties for any additional quantities, and a stringent policy for 1984-85 prices of all other products with price reductions in a number of cases. In addition, since in politics we have to tackle one thing at a time, the Commission has made no secret of its plans to propose for next year meaningful cuts in grain prices following this year's one percent cut. The dairy farmers caught it this year; our cereal growers know it is their turn next.

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This package represents a major shift in the direction preached for years by American critics of the Common Agricultural Policy and should be welcome news for American farmers.

But the package has some external effects. The proposals would require substantial sacrifices from EC farmers and have not generally been well received by them. When the EC is asking its own farmers to make sacrifices and, in fact, to control their production, which would be of substantial benefit to our trading partners, the Commission believes that it is not unreasonable for the Community to review its treatment of competing imports provided that this is done strictly in accordance with the international trading rules set out in GATT.

So let me spell out what we propose in particular in relation to grain substitutes. The EC cannot implement a guarantee threshold for grain and move its prices towards those of its competitors without stabilising imports of grain substitutes. These displace both American corn and Community grown cereals in animal feed and have the effect of forcing more EC grain onto the world market. This is not a proposal aimed specifically at the United States. Substitutes are imported from a wide range of sources and satisfactory arrangements have already been made for manioc and bran coming from Southeast Asia and elsewhere. What we now have in mind is to stabilise the imports of other important substitutes - corn gluten feed for example, a by-product of corn sweetener, the booming production of which in the United States is due in no small part to the protective and high priced arrangements enjoyed by sugar growers and of ethanol production encouraged by tax exemptions.

Imports of corn gluten feed into the EC have, in fact, soared from 700,000 tons to 3.5 million tons since 1974. Our intention, therefore, for corn gluten feed is not to ban imports or reduce them, but to stabilise these imports after discussion with the EC's major suppliers against appropriate compensation on our part - and in full accordance with the GATT rules.

We are asked whether this is a case of corn gluten today and soybean tomorrow. Our answer is unequivocal. Action on soybean is not repeat not part of this package.

We are also asked whether this means that American farmers will bear the major burden of the reforms. Again our answer is clear.

It is European farmers who will bear the burden of these reforms with a tough policy on prices, production quotas, with severe penalties for farmers who exceed them and a cut in financial assistance. Anyone who wonders where the burden is should read for example about the added security provided for European Agricultural Ministers when they visit their constituents.

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is only a very small part of a major attempt to reshape the Common Agricultural Policy, to cut subsidies and to reduce the gap between EC prices and world prices. This has been seen in the United States as a golden path which we have been asked for years to follow. We cannot follow it if we exempt competing imports from the equation. And I would add that since stabilisation of imports of corn gluten feed will mean less Community wheat being pushed out on to the world market, measures in this area should be of direct benefit to American, Argentinian, Australian and Canadian grain farmers.

So in summary, Mr. Chairman, our thesis is this. 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, agriculture, we have started to talk, we have made some progress, we on our side are making major attempts to reshape the Common Agricultural Policy and to reduce our subsidies - a path along which you are also trying to go. I believe that our joint responsibilities compel us to move along the road of co-operation and not confrontation. We have made a start. Let us continue along this difficult but promising road.

14 Sept. 1984