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Ladies and Gentlemen,

It is a great pleasure to me to be able to discuss agricultural policy with you today. I thoroughly enjoy to have this opportunity to talk with American colleagues and friends about some of the problems we both face in agriculture.

At present I have the honour to represent more than 8 million farm families in the European Community, that means farmers, farm workers and their families from the ten member states: Germany, France, Italy, Belgium, Luxembourg, the Netherlands, United Kingdom, Ireland, Denmark and Greece. On behalf of them I express the desire to build upon the longstanding friendly relations.

Trade relations between the U.S.A. and the member states of the European Community started a long time ago. Last year, in the presence of many representatives of American Agriculture, my home country, the Netherlands, and the United States celebrated the two hundredth anniversary of diplomatic and commercial relations.

Recently some very harsh words have been heard from representatives of U.S. agriculture. The criticism was mainly aimed at bending the backbone of the European Community: the Common Agricultural Policy.

The purpose of this strategy was to have the European Community take part in solving the current problems of American farmers.

Since the European Community's agricultural budget is - as we experience so clearly again this year - limited, we looked into the causes of the low incomes in American agriculture last year and also studied the arguments put forward in the U.S. for demanding a reform of the Common Agricultural Policy. Before commenting on this subject I will try to explain the Common Agricultural Policy which has been in effect, and considerably improved, during a period of more than 20 years.

When the Common Market was established in 1957, it was based on a political deal whereby trade was opened up between its members, not only in industrial goods but also in farm products. Free trade was achieved in industrial goods by eliminating custom duties between the Community's member states. The different agricultural structures in the member states and the different forms of farm support meant that just cutting duties for agricultural products was not enough. Some member states shielded their farmers from competition. Other states, including the Netherlands, based their agricultural policy on improving efficiency by putting money into the improvement of agriculture by means of research, education and extension. The only solution was a full harmonisation of these different national agricultural policies in a common European agricultural policy. Thus the Common Agricultural Policy became a key element in European integration.

The European Community was welcomed both by the European countries and the United States. Marshall help which was given after World War II to put Europe

back on its economic feet again, required an economic and political cooperation of the non-communist European countries. This requirement turned out to be a success. From a pulpit point of view Europe politically is by no means explosive anymore; economically the Community's policies in the field of agriculture and industry meant prosperity for all people.

Starting with six the European Community presently includes 10 countries with a total population of 270 million people. Spain and Portugal will become members quite soon. No doubt this will bring tremendous problems to the Community because of the large differences in the structure of agriculture and industry, but again no doubt, the European Community will seriously try to overcome these problems.

The creation of a single free agricultural market resulted in a growth in intra-Community trade, far beyond all expectations. Looking at this result I guess the United States would like to become member of the Common Market too.

The objectives of the Common Agricultural Policy are very much the same as those of United States policy.

After millions of Europeans experienced hunger during the Second World War assurance of supply became an important objective of the Common Agricultural Policy. Other main objectives of the Common Agricultural Policy are

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

Goals which are also important to us include the protection of the family farm and, especially in a period of recession with a large amount of people unemployed, retaining the small scale structure of European agriculture. To achieve these goals, the European Community regularly fixes common prices for the major commodities.

When the world market price is below the Community price level, variable levies are applied to imports in order to bring prices up to the European Community level in the interest of internal price stability.

Refunds are also being paid by the European Community on exports in order to bring their prices down to a level where they can compete at the world market. As a result agricultural imports of the European Community do not decrease when world market prices go up, which is the case for corn right now. In case a product has a net export, the quantity does not increase because of temporary high world market prices.

When the Common Market price is below the world market price, as was the case for wheat and sugar in the 1970's, an export levy is applied in order to prevent any disruption of the European market.

It is neither to the advantage of European farmers, nor to the American farmers to depress world market prices. The world dairy market is dominated by the European Community, while the United States in fact controls the world grain and soybean markets. For products such as cotton, corn and soya, whose depressed prices seem to have seriously affected American producers, the European Community is not an exporter but a stable importer. As far as

cereals in general are concerned, the two major factors which determine world prices are first, the size of the harvest in North America - particularly in the U.S. - and second, demand in the main importing countries such as the Soviet Union. As world demand is relatively static while wheat production in the U.S. reached a record of 76.4 million tonnes in 1982/'83 it is hardly surprising that market prices have declined.

Some people think that the Common Agricultural Policy has helped to maintain outdated farm structures. But the fact is that over the last 20 years the labour force in agriculture in the European Community has dropped by more than 50 percent: from 18 million to about 8 million persons. During the same period the average farm size doubled to about 45 acres and productivity rose sharply.

The guarantee of supply and stable consumer prices is not expensive to our consumers: Like the U.S. less than one percent of the Gross Domestic Product is spent in the European Community on agricultural policy. The total cost of food is less than 20 percent of the European consumer's disposable income.

When we compare European and American agriculture we do not only note that production takes place under different climatic circumstances, but also in an entirely different structure of farming.

The agricultural area of the European Community is just one-sixth of the U.S. agricultural land mass.

A farmer from Europe who emigrated to the U.S. a century ago could start on a 160 acre farm. The average farm size in the European Community is, as already mentioned, 45 acres right now!

Furthermore the U.S. has the possibility to increase and decrease its area under cultivation as the area in the European Community, e.g. the area under grains, remains constant. You will understand that set aside programs can hardly work for farmers on 45 acres of land.

Also U.S. agriculture is not as diversified as Europe's, and very much specialised in easily exportable raw materials like grains and soybeans. Therefore it is not hard to understand European agriculture cannot compete effectively with the U.S. on land bound productions. In the field of livestock and horticulture European farmers are competitive though, even with higher feed-stuff and energy prices.

The Common Agricultural Policy has been attacked for being protectionist. The European Community however, is the biggest importer of agricultural products in the world. It accounts for a quarter of all world agricultural imports and runs a trade deficit on agriculture in some years about the size of the U.S. agricultural income.

The European Community is also the largest customer of the American farmers (23% of U.S. total agricultural exports, mainly soybeans and animal feed-stuffs).

In 1982 the European Community bought four times as many agricultural products from American farmers than the U.S. bought from their European counterparts. When industrial goods are included, the deficit in trade of the European Community becomes even larger.

From all member states of the European Community the Netherlands has the largest trade deficit in agriculture as well as industrial goods with the United States.

Only about 15 percent of farm imports from industrialised countries are covered by the variable levy system of the European Community. Of the remainder, just over half of farm imports from industrialised countries enter the Community free of levy and duty.

Nearly all imports from developing countries enter levy free; if there are any duties, they are very low.

All industrialised countries enjoy a certain degree of protection in the field of agriculture. According to the specific situation it only varies in ways and means. Not only now, but also in the past, the American farmer enjoyed a larger income support from Federal funds per head than in Europe. European farmers are not envious for that though, but they do not like to be accused of being exporters on Government account. In fact public expenditure is only one element influencing the farmer's income. U.S. measures such as import restrictions for sugar, dairy and beef products have an income support effect without implying public expenditure.

It is true that the Community turned from a net importer to a net exporter for various products. The enormous productivity growth since the Common Agricultural Policy exists resulted for example in 1982 in an average wheat production in Europe of about 69 bushels per acre (4.5 Mton/ha). The same production growth as a result of increasing productivity occurred in the United States although American farmers at the same time took a larger acreage under cultivation. As a result the U.S. became at an earlier stage a big exporter of agricultural products.

The General Agreement on Tariffs and Trade was not, as we all know, set up out of charity. It is open to all those who undertake to respect its rules and is chiefly concerned with each country's trade policy.

The G.A.T.T. is not inspired by any ideology, unless free trade can be considered one. In any case, the pragmatists who signed the General Agreement on Tariffs and Trade doubtlessly believed in the virtues of free trade but thought it necessary to subject it to certain rules. The Agreement is meant to prevent distorting the effects of competition and exploit resources fully, to the benefit of everyone.

Paradoxically therefore, G.A.T.T. could be described as an agreement to "protect" free trade.

In connection with the G.A.T.T. the Common Agricultural Policy has unjustly been under heavy fire from the U.S. The G.A.T.T. permits special protection for agriculture. These provisions were included for the first time at the insistence of the United States.

At the G.A.T.T. Tokyo Round negotiations, to which the United States was a party, the Common Agricultural Policy with its agricultural export restitutions was recognised as a matter of fact in international trade. It was then agreed and is now embodied in the international trading rules that agricultural subsidies are permitted provided that G.A.T.T. members do not thereby secure more than an equitable share of world trade.

On the proposal of the European Community a study group of European Community and U.S. officials was set up to look at world trade figures. So far the conclusion is that American exports of food products to third countries grew more rapidly in recent years than Community exports to those countries.

There is no question of any significant loss of a fair share of trade at the world market by the U.S. because of the Common Agricultural Policy. I suppose my explanation of the Common Agricultural Policy has shown why this also could not be the case.

I will not go into the U.S. flour and dairy sales to Egypt. You all know these actions are not justified under G.A.T.T. I regret the fact that the United States, as one of the founders of G.A.T.T., nowadays pays a different value to G.A.T.T. regulations than the European Community.

In Europe we are well aware of the problems American Agriculture is facing at the moment. The worst drought in half a century, world recession, high interest rates, a very strong dollar, lower sales to the Soviet Union, record supplies and a slackened demand have put a heavy burden on American farmers. In European agriculture we experience some of the same kind of problems. We continuously try to come to arrangements through the adaption of changes in the Common Agricultural Policy. Like in the U.S. the member states of the European Community are trying to balance the Community budget. The European Commission is looking for measures to reshape the Common Agricultural Policy, stipulating though that its objectives be achieved and its fundamental principles retained.

In the dairy sector the European Commission proposes a superlevy. A levy of 75% of the present price will have to be paid on the increase of milk production (-1%) since 1981. As if this measure is not bad enough for the 1.8 million dairymen in the Community the Commission also proposes to continue a restrained price level and coresponsibility levy on all milk

supplied of 2 percent. Furthermore the Commission proposes a levy on milk production at farms which use a lot of concentrated animal feedstuffs. Many of this type of dairy farms are to be found in the Netherlands.

As for cereals the European Community has embarked on a programme to reduce the gap between its own support prices and those of other major producing countries such as the U.S. In recent years the European Community has increased cereals prices less than other farm prices, and the gap is narrowing. In addition, the European Community introduced a threshold for cereals production in 1982, with a reduction in intervention prices if the threshold is exceeded. As a result, the European Commission cut the cereals price increase for 1983 by 1 percent.

Financial support for sugar has been curtailed, and since 1981 European sugar producers bear all the costs of net exports. Meanwhile the E.C. continues to import 1.3 million tons of sugar a year from developing countries. For this quantity also a price is paid which is higher than the average price European sugar producers receive.

In order to pay for the olive oil market policy when Spain and Portugal join the European Community the Commission is proposing a consumer tax on oils and fats. This taxation will have the same effect on consumption as an increase in Value Added Tax. Since the tax will be levied on home grown as well as on imported oils and fats the comparative price level of imported oil seeds will not change. As far as soybeans are concerned the effect - if any - will be very limited because this commodity is imported more for its protein content for cattlefeed than for oil.

In order not to export more wheat or feed grains as necessary the European Commission is looking at ways and means to limit the imports of grain substitutes. In the case of Thailand the price of manioc has increased significantly as a result of the negotiated Community import level. Although livestock farmers in the European Community do not like to pay more for manioc, the higher price compensates the producers and traders for limiting their exports.

As far as corn gluten feed is concerned you all know it is a by-product of the production of high fructose sugar or derived from the production of ethanol for use as motor fuel. Each of these end products is heavily subsidized in the U.S.: sugar by import quota and ethanol by the "forgiveness" of Federal and other gasoline taxes on gasoline. In addition, the U.S. government gives significant credit subsidies and guaranties for the construction of production facilities for ethanol. Small amounts of corn, claimed to be off-grade, have been sold by the Commodity Credit Corporation at subsidized prices for the production of alcohol. While the corn may be off-grade, the corn gluten meal produced from it is not.

Remarkably the waste product itself is hardly used in the United States. Since grain substitutes are granted zero levies under G.A.T.T., certain compensatory measures will be negotiable when the European Commission will start trying to stabilize corn gluten feed imports. Since corn gluten feed can be very well combined with manioc in compound feeds, a higher price may be received as result of a limit on exports too. Also it may be wise to agree to a stabilization at a time a new sweetener - aspartam - is taking over the market share of high fructose sugar.

Ladies and Gentlemen,

I would like to make some final remarks.

The United States and the European Community are facing the same kind of problems in agriculture.

We are both trying to solve the problems.

We have accepted that each of us tries to do it his own way. On our part the Common Agricultural Policy is essential to the existence of the European Community and thus to European farmers.

The United States and the European Community have a common interest and responsibility for the world market.

Also in the interest of the developing countries, we have to come to a solution to our problems. This solution will not be established by staying in our trenches. We both will be heavy losers in a trade war. Therefore we should not start - or, as some people say, continue - on a collision course, but consult as close friends together in order to reach an acceptable solution to our problems. In this respect I am convinced that multilateral agreements have to play an important part.

The European Community is the American farmer's largest customer and I sincerely hope to the benefit of both parties it will remain that way.

I am convinced I have given you enough material for a fruitful discussion, with emphasis on discussion, because that way we enlarge our view and knowledge and build on mutual respect and understanding, something very important in a difficult period for American and European agriculture.

Thank you.

Information sheet Mr. J. van der Veen
U.S. Speaking Tour, October 6-14, 1983

- U.S. Production (billion bushels)

	1983/84	1982/83	% change	earlier expected influence of PIK (%)
corn	4,4	8,4	- 48	- 33
wheat	2,4	2,8	- 14	- 19
soybeans	1,5	2,3	- 33	- 9 *
cotton			- 35	- 23
peanut			- 15	
tobacco			- 31	

* soybeans are not brought under PIK, areage decrease because of limits on double cropping

- Commodity prices (\$/bushel , Chicago)

	29/9/83	30/9/82	% change
corn (Dec.)	3,54	2,88	+ 23
wheat (Dec.)	3,75	3,20	+ 17
soybeans (Nov.)	8,95	6,71	+ 33

- U.S. agricultural trade (mln. dollars)

	E.G.			world	
	exports	imports	US trade surplus	exports	imports
1975	6,0	1,7	4,3	21,9	9,5
1976	6,7	2,0	4,7	23,0	11,2
1977	6,9	2,1	4,8	23,6	13,5
1978	7,5	2,8	4,7	29,4	15,0
1979	8,1	2,0	6,1	34,7	16,9
1980	9,2	2,2	7,0	41,3	17,4
1981	9	2	7	43,8	15,9
1982	8,4	2,4	6	36,6	15,2

E.C. imports of grain substitutes (million tons)

		<u>totaal</u>	<u>w.v. USA</u>	<u>%</u>
Corn gluten feed	1980	2,6	2,5	96
	1981	3,0	2,9	97
	1982	2,8	2,8	100
Manioc	1980	4,9		
	1981	6,5		
	1982	8,1		
Fruit pulp	1980	1,6	0,9	56
	1981	1,4	0,8	57
	1982	1,3	0,5	38
Corn germs	1980	1,2	0,3	25
	1981	1,0	0,3	30
	1982			

E.C. export shares of world market (%)

	<u>1970</u>	<u>1975</u>	<u>1980</u>
wheat	6,6	8,0	8,9
wheat flour	30,5	46,1	46,5
corn	2,2	0,6	0,2
sugar	4,6	3,3	15,3
milk powder	36,4	52,7	59,0
butter	26,7	17,5	61,4
cheese	27,7	34,5	45,4
beef	5,4	13,8	22,6
pork	24,3	10,7	14,6
poultry meat	34,2	27,3	28,2
eggs	19,4	9,9	16,6

- Farm Structure:

	U.S.	E.G.
total number of farms	2.370.000 (-1%)	5.600.000
of which part-time	50%	27%
average size (total, acres)	440	40
ag. population	5.800.000	8.600.000
dairy production (billion lbs, 1982)	136	220

- Dairy surplusses (August 15, 1983)

(tonnes)

	U.S.	E.G.
butter	214.000	767.000
milkpowder	606.000	1.010.000
cheese	433.000	

- Last minute notes:

- The U.S. House of Representatives' agriculture subcommittee on wheat, soyabeans and feed grains will hold a hearing on October 4 to review the European Community's plan to adopt an internal tax on fats and oils consumption.
- The U.S. Department of Agriculture has turned down a proposal by the Millers National Federation for an additional sale to Egypt of 390.000 - 450.000 tonnes of flour.
- It is unlikely there will be a new PIK program for 1984.
- October 12: New U.S. Crop Production Estimate.