

DELEGATION OF THE COMMISSION OF THE EUROPEAN COMMUNITIES

Speaking Notes

Baking & Milling News

Kansas City, 13, June 1980

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A EUROPEAN PERSPECTIVE ON AGRICULTURAL TRADE

First, let me thank you for giving me this opportunity to say a few words about agricultural trade as seen from the other side of the Atlantic. My job as agricultural attaché is beginning to take me around your country and I cannot see that I will ever become accustomed to its enormous size. The distance from Washington to Kansas City is about 950 miles. If I had traveled that distance from my previous office in Brussels, I would have found myself in Riga in Latvia, in Minsk in the Soviet Union or, in order to stay within our EC, somewhere south of Naples in the toe of Italy.

But to trade matters. That this is a question of paramount importance in US/EC relations, is illustrated first by the fact that something like one fifth of American industrial production is exported and nearly 4 out of every 5 manufacturing jobs created in the US between 1977 and 1980 were linked to exports, and second, the EC is the US's largest single market. Together the US and EC account for one third of all world trade. Nearly half,

if you count trade between the 10 Member States of the EC.

Being the worlds largest trading partners, we both have a vested interest in seeing to it, that the open world trading system promoted and protected by GATT and which has provided the framework for a unprecedented increase in prosperity over the last 35 years, should not be put at risk.

One of the factors which could put the system under serious pressure is the friction between us on agricultural trade, particularly when there are so few signs - if any - of growth in export markets for farm produce.

Here, on this side of the Atlantic, the Common Agricultural Policy is frequently seen as being the major cause for these difficulties. So, perhaps, it would be useful if I were to say a few words about it and then move on to the specific areas of friction.

Why, you may ask, bother to have a CAP at all? Why not let the free market work - assuming for the moment that somewhere in the world there is such a thing as a free, unfettered market for agricultural products. The answer lies in the history of our Community.

When the EC was created in 1957 by the 6 original Member States, it was based on a political deal whereby trade was opened up between its members. This could be achieved for industrial goods by eliminating custom tariffs but this would have made little sense for agricultural products because of the widely different agricultural structures in those six Member States and the different forms of farm support used. The only solution was to harmonize these different national systems into a Common European policy. Thus, the CAP became a vital element in the process of European integration - a process which continues and a process which we, who have the privilege of serving in the European Commission, have the duty to nurture.

The objectives of this policy - and which differ very little from those of US farm policy - are spelt out in Article 39 of the Treaty - the Treaty of Rome - which established the Community. These are:

- increase productivity
- secure a fair standard of living for the farm population
- achieve market stability
- to assure availability of supplies
- to provide reasonable consumer prices.

The mysterious ways by which these objectives are attained will be familiar to some of you but less so to others. Very briefly, they include a uniform or common internal price level with variable levies on imports below this price and refunds on exports when the internal price is above the world market. These mechanisms have helped to largely iron out sharp fluctuations on our internal market. Prices have been stabilised - generally at higher levels than those obtained in the US. But assurance of supply - like any insurance policy - involves paying a premium.

The CAP has also helped to achieve sharp increases in productivity and we have witnessed the farm labour force decline from 18 million to less than 9 million. Over the same period, the average farm size has doubled to about 45 acres. Farm incomes have been maintained at a reasonable level but I am certain that our farmers would be the first to point out that their real incomes actually fell in 1979, 1980 & 1981.

The CAP has also enabled the EC to reach self sufficiency in a number of essential goodstuffs. Thus, assured supplies and price stability have been achieved - both are, of course, objectives of the CAP as spelt out in the Treaty and both are of primary concern to our consumers. Security, in the minds of many Europeans,

often has as much to do with guaranteed food supply as it has with missiles and nuclear war heads.

In some cases, self sufficiency has been exceeded and it is in these areas where the problems between the two sides have developed.

The discussions between US and EC officials, the next round of which will take place in Washington on 22/23, have enabled the two sides to clearly identify these friction areas - they are relatively few in numbers and are: wheat, wheat flour, poultry and dairy products. They have also helped - equally importantly - to establish that our import arrangements for agricultural products - as opposed to their export - are not a divisive or serious issue between us. These import arrangements - whatever may be put about elsewhere - are amongst the most liberal in the western world. Proof of this is to be found in the fact that, in spite of our having reached and, in some cases, exceeded self sufficiency in a number of products, the EC is the largest importer of agricultural goods in the world - about one quarter of global agricultural trade is discharged in European ports, and, what is more important to an audience in the heartland of the US, we are the American farmer's best customer. In 1981 we bought 9.0 billion \$ worth of US agricultural produce - including 2.8 billion \$ of soyabeans - and ran a massive trade deficit on transatlantic agricultural trade of around 7.0 billion \$. Thus, our import

arrangements are not an issue. The trade figures I have just cited underscore the point I made at the beginning about the paramount importance of US/EC commercial ties.

So let us examine the circumstances surrounding the Community's transformation from a net importer to a net exporter of some agricultural products. This has come about largely as a result of a revolution in productivity which has taken place in the Community since the inception of the CAP. Just as productivity has increased in the US so it has - even more so - in the EC. Grain yields, for example, have doubled over the last 20 years, because of better seeds, varieties and cultivation techniques etc. In fact, wheat yields of 5 tons per hectare are far from unusual in Europe (a hectare is almost 2 1/2 acres). The result of this has been that over the past decade, Community wheat production - as opposed to productivity - has risen by 29 %, compared with an average world increase of 27 %. Since we are frequently accused of artificially stimulating production in the Community by fixing generous support prices, it is illuminating to compare this 29 % increase with what has happened in the US. The first

thing one notices is that whereas the EC's increase has taken place on a relatively static acreage - there is after all not much spare land available in Europe - that in the US has taken place on a markedly increased acreage it has also largely taken place in soft wheats. As to total US wheat production this has gone up by 73 % compared with 29 % in the Community and 27 % over the world as a whole. Since total wheat production in both the EC and the US exceeds internal needs - two thirds of US wheat is surplus to requirements - some of the excess finds its way on to the world market. And it is this massive increase in US production which has been one of the most important destabilising factors on the world wheat market. But before I look at the way in which exports have developed, let me say a word or two about our export refunds - or subsidies as the GATT terms them. GATT rules permit export subsidies on agricultural products provided they do not result in a contracting party gaining more than an equitable market share. We feel we have observed this rule. Figures exchanged by the two sides in the bilateral discussions show, that in the case of wheat the EC share of the world market over the last decade has grown from 5 % to 10 %. The US pushed its share of the world market much more strongly from 33 % to 51 %. I submit that it would be difficult on the basis of these percentages to sustain the argument that the Community had been taking some of the US share.

At a gathering such as this I cannot, of course, overlook flour, so let us examine wheat and wheat flour together - a more realistic exercise than that of confining our studies to wheat or flour separately, since, if you export wheat as flour, you cannot expect to export it as grain as well. Over the same decade, that we took for wheat on its own, that is to say for the period 71/72 to 81/82, the Community increased its share of the world market for wheat and wheat flour from 9 % to 14 %, whereas the US share grew from 32 % to 49 %.

Generally speaking, the worlds wheat flour market has stagnated over the last couple of years. This is not entirely surprising when one observes the world recession coupled with a trend for developing countries to set up their own flour milling plants and to import wheat instead of flour. However, it does seem to me that the only potential area for any sustained growth in exports of wheat and/or flour is in these developing countries.

But coming back to the discussions with our US colleagues on wheat and wheat flour. The US's dramatic increase in production, the resultant increased dependence of the US wheat farmer on a notoriously unreliable world market are two striking elements that have emerged with great clarity. Nevertheless, we in the Community are prepared to make a real and considerable effort to ease the situation by building up our wheat stocks to unprecedented levels. This effort, if not nullified by other



exporters, should help to improve the situation on the world wheat market.

The other two problem areas are poultry and dairy products. Our discussions on poultry and careful examination of the trade figures has shown that, yes, the US has lost some of its world market share recently, but then so has the EC. Further examination reveals that our combined loss has been the gain of a comparative newcomer to the world poultry scene - Brazil, whose exports, helped by low prices and generous credit terms, have increased to the extent that they now have 20 % of the world market compared with virtually "o" five years ago. It is clear that we need, in the case of poultry, to convert our bilaterals into trilaterals and to include Brazil.

Dairy products, in my view, present the biggest potential dangers and problems. Some of you may have read of the advances made in genetic engineering and other areas with the result that some herds of super cows in the US have started producing 55,000 lbs. of milk per year - this is about 3 times what is achieved at present in Europe by our most successful herds. At the same time I have seen forecasts that the world's most important export outlet for dairy products - the Soviet Union - should be able to build up their domestic production to the extent that by 1990 they will no longer

need to import. I shall believe that when I see it but, nevertheless, it is an indication and warning to us all. Stocks in the US and the EC are already at massive levels (last year the US government bought three quarters of all dried milk produced) and, unless both sides get to grips with this rapidly worsening situation, the problems we have seen with grains will seem relatively minor. Both sides must agree to take measures - the US and EC must each take their own - which will adapt milk production to market needs and thus reduce present budgetary costs.

These then are the four major areas of friction and I hope that next week's talks will see us achieve some accommodation. You may have gathered from what I have said that the sorts of accommodation that may emerge do not involve a renegotiation or a dismantling of the CAP. This is so. We are seeking solutions to our problems within existing systems and the EC for its part has no intention of abandoning or bargaining away the principles of the CAP. For one thing, the CAP is an essential element in European integration and, for another, it has little to do with the problems - serious as they are - facing American farmers. These difficulties are due to other, far more telling factors.

I have listed these factors on previous occasions, but I make no excuse for doing so, yet, again. Some have been outside your control - world recession and crippling debt problems in important client countries. Mexico, for example, reduced its grain purchases from the US from 6 mio tons in 1981 to 2 mio tons in 1982.

Others - if I dare say this so far from home - are to a large extent of your own making - the increase in the total cultivated land during the 70's by 60 million acres (I have already referred to the dramatic increase in wheat acreages.). This expansion was continuing even in the late seventies, when economic conditions were deteriorating sharply.

This, of course, led to huge increases in production. Between 1975 and 1981, US production of wheat increased from 58 mio tons to 76 mio tons, soya from 41 mio tons to 56 mio tons, corn from 146 mio tons to 208 mio and milk from 115 billion lbs to 128 billion lbs.

As was the case with wheat, the world market, unable to absorb such surges, was seriously disrupted.

There has, of course, in addition been a strong dollar and last, but by no means least, in this light, which is far from exhaustive, was your government's decision, to impose a grain embargo on the Soviet Union.

(We all await news from next week's talks on a LTA with great interest.)

Thus, whilst clearly the EC and its CAP has an influence on world markets as do all exporters, large and small, we insist that the real causes of the difficulties of American farmers lie a lot closer than Europe.

Nevertheless, the CAP is not set in concrete, it can and does evolve and steps have been taken to ensure a better matching of supply and demand, to make producers bear the burden of overproduction, to adapt to our role as a permanent exporter of some products and to restore sound operation to our agricultural markets.

The recent price decisions taken in Brussels - in the face of strong political pressure - are some of the first steps along this road. Price increases were extremely prudent overall - the lowest in a decade or more - and in the case of crops, where production had exceeded predetermined thresholds, penalties were inflicted on producers. Ministers not only accepted the principle of, what we call, producer co-responsibility, but they saw to it that this principle was implemented where it hurts. These are proofs that the CAP is not immutable, but is established and adaptable and good for many more years, yet. It is a policy for people - not cows - and what is more, for people whose ancestors have farmed in Europe for 2000 years. From this you may gather, that it has an immensely important social function as well as an economic one.

I trust, Chairman, that these recent adaptations to the CAP, the changes of direction and emphasis, and some development of the progress we have made so far in our talks with our American colleagues will enable us to defuse the problems which, as I said at the outset, could put at risk the trading system - and more - which has served friends and allies together so well over the last 30 years.