"THE EUROPEAN COMMUNITY - A RELIABLE CUSTOMER"

Presentation by

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I appreciate the opportunity to discuss with you today some aspects of US/EC trade in soybeans and soybean products.

In 1980, the European Community's imports of soybeans and soybean products from the U.S. accounted for nearly 3.5 billion dollars or 39% of total E.C. agricultural imports from your country - 9 billion dollars worth. This means that we imported from you:

- about 45% of your total soybean exports or about 80% of our total soybean imports;
- about 55% of your total soybean meal exports or about 55% of our total soybean meal imports;
- about 1% of your total soybean oil exports and nearly the total of EC soybean oil imports. However, these imports account only for about 1% of the Community's soybean oil supply which comes nearly exclusively from seed crushing inside the Community.

The Community's 1980 imports of U.S. soybeans and soybean products were 600 million dollars above the previous year and it could therefore appear that U.S. soybean exports to the Community are still in full expansion and will show continuing growth. In my view however, such an impression would be wrong.

First, I believe 1980 was not a really typical year because international trade following the grain embargo was distorted to a certain point.

Second, the exchange rate of the dollar was much lower than it is today.
Third, competition from Argentina and Brazil in the market for soybeans and soybean meal will increase.

Fourth, production of other oilseeds such as sunflower seed, rapeseed and palm kernels show a significant expansion. In addition, imports into the Community of corn gluten feed, maize germ meal and other by-products from the milling industry which come mostly from the U.S., are increasing rapidly. The following figures will give you an idea of the problem:

From 1975 to 1980 the Community's consumption increased
- for rapeseed meal, from 560,000 T to 1,300,000 T;
- for sunflower meal, from 370,000 T to 1,300,000 T;
- for corn gluten feed, from 1,050,000 T to 3,000,000 T; and
- for maize germ meal, from 480,000 T to 930,000 T.

At the same time, the Community's soybean meal consumption increased only from 9,590,000 T to 15,150,000 T.

My fifth and most important point is that the Community has, for the time being, probably reached the optimum level in soybean meal consumption in general. Let me elaborate further on the medium and long term prospects for feed consumption in the Community.

The European Community with a total population of 270 million people, is presently facing serious economic difficulties characterized by a
zero growth rate at best, with an average inflation rate of 11% and an unemployment rate of 8%. Due to the dollar increase we are now paying 35% more than a year ago for imported oil and our trade balance with major trading partners is a particular problem. Our deficit with Japan is more than 10 billion dollars and our deficit with the U.S. doubled during 1980 to 25 billion dollars with a deficit in agricultural trade alone of about 7 billion or roughly 20% more than in 1979. Our trade deficit with the U.S. accounted for 40% of our total trade deficit in 1980.

Under such conditions increased E.C. consumption of food and feed is rather unlikely. In addition, the strength of the dollar makes U.S. products less competitive, and even where E.C. importers depend on supply from the U.S., the dollar rate and high interest costs in the E.C. oblige them to keep stocks to a minimum.

However, the long-term aspects are even more important. Production in most of the major livestock sectors was growing over the years to such a level that farmers now no longer have the same incentive to use more feed to increase output. Total EC production of manufactured feed in 1980 amounted to 78.9 million tons, only 1.3% up on 1979 but 16.5% up on the 67.8 million tons produced in 1977 and in the first few months of 1981, sales even declined in some member states. Therefore, the potential for further growth would appear to be confined to countries with remaining productivity reserves such as France in particular, which recorded a feed production increase of 4.9% in 1980.
Another important element which may change the trade environment over time is the Common Agricultural Policy. At the end of June, the Commission transmitted to the governments of the Member States, a major study on the reform of the Community budget. This study includes among others, important proposals for a further adjustment of the Common Agricultural Policy. The study recommends the general application of the principle of farmer co-responsibility which means that price guarantees to producers would decrease as their production exceeds EC production targets. The study also suggests that internal EC farm prices must decline gradually to a level comparable to those of major world suppliers. Specific legislative proposals will be forwarded in the Fall and it can be hoped that these proposals will already have an important impact on the EC price decisions for the next marketing year due in Spring, 1982.

What would the application of the above-mentioned principles mean for U.S. exporters to the EC? In my view, we can assume the following: First, the production increase in the dairy, livestock and poultry sectors will slow down. This means slower growth in feed utilization. Second, domestic EC feed grains become more competitive with imported feed ingredients. Third, due to lower import levies, the commodity mix of imported feed ingredients may
change to some extent in favour of corn, which may mean less imports of soybeans and soybean products as well as grain substitutes. It is difficult to say how important this change will be. I would believe that will depend very much on world price relations between these products in the years ahead.

Up till now, I have only spoken of the present Community of 10 Member States.

The accession of Spain and Portugal envisaged for 1984 will increase the Community's population by 45 million to 315 million. The importance of this further enlargement is in the first place, a political one: It will contribute to peace and security in Europe and to stability in the Mediterranean area in particular.

Lawrence S. Eagleburger, Assistant Secretary for European Affairs in the U.S. Department of State said recently: "The Reagan Administration considers progress toward European unity important for Europe, the West and the World." We are grateful for your government's political support and are confident that this understanding will facilitate future US/EC discussions on trade aspects related to enlargement.

In fact, there is little doubt that U.S. exports will benefit from the implementation of E.C. rules in both countries and particularly with regard to Spain.
The average level of Spanish customs duties for industrial products is more than twice the level applied by the Community. A reduction of Spanish duties by more than 50% is therefore a major advantage for the U.S. Furthermore, the U.S. industry will find in Spain more favourable conditions for investments and subsequent exports to the other Member States.

In the agricultural sector, the adoption of Community rules means a substantial liberalization of the present applicable trade regime in Spain. It should be noted that until now about 50% of Spanish agricultural imports have been managed by state agencies and an additional 10% are subject to certain quantitative or other restrictions.

You know, probably better than I, the problems which may result from the soybean regime which obliges Spanish soybean processors to re-export a large portion of the oil resulting from soybean crushing. Although Spain still has a large deficit in vegetable oils other than olive oil, under the present regime it exported about 400,000 T of soybean oil in 1980 and at the same time imported from the U.S. for example, about 11,000 tons of sunflower oil. Once the Community soybean regime applies, Spanish soybean oil consumption will certainly increase considerably in view of the price advantage which soybean oil enjoys on the Spanish market. In the middle of last year, the Spanish retail price for soybean oil was about 98 cents per litre compared with about $1.37 per litre of sunflowerseed oil and about
$1.93 per litre of average quality olive oil. These price relations may change somewhat because of inflation and modifications in the regimes for the various oilseeds and fruits following accession, but soybean oil should maintain a good part of its present price advantage. The liberalization in Spanish rules regarding soybean oil will probably also have a stimulating effect on soybean imports. Further demand for such imports may result from modifications in the support programs for dairy, beef and feedgrains where Spain is still in deficit, but it would be too early to make any predictions in this regard. Independently from accession however, soybean meal imports will probably remain at recent low levels because of the expansion of the Spanish seed crushing industry.

Before coming to the questions related to the olive oil sector, let me quickly mention for reasons of fairness, that U.S. producers of citrus and almonds believe that Spanish accession may complicate their exports to the present Community. I do not believe that this will be the case, but nevertheless taking their concerns into full consideration, it remains for me a fact that the accession of Spain and Portugal to the Community, will be of overall major advantage to U.S. exporters in general and exporters of soybeans and soybean products in particular. I am happy to say that this is apparently also the opinion of U.S.D.A. In a contribution to the March 1981 edition of Foreign Agriculture, I found the following conclusion:
"Assuming continued price competitiveness with other suppliers such as Brazil and Argentina - and continued trade servicing and other market development efforts, U.S. exporters should be able to continue to expand sales of most of the agricultural raw materials needed by Spanish industries. Furthermore, when Spain accedes to the EC, most of the rigid import restrictions now in effect for processed foods are expected to be eliminated."

Now I will come to the tough part. You and your Administration seem to be worried about the possibility of the introduction of a Community tax on imports of soybeans and soybean products.

Let me first say that there are no proposals from the Commission to the Council for any tax whatsoever. In addition, your Administration was assured only recently by representatives of the Commission, that the Community will respect its GATT obligations to the letter. I therefore cannot foresee any proposals for a tax on oilseeds or oilseed meal even if pressure from the farm community remains strong particularly in case farmer co-responsibility should become the general rule.
Regarding the possibility of a general vegetable oil tax, any speculating would be premature but the Commission services will have to keep this option in mind as a possibility to finance the costs of enlargement in general and of the olive oil sector in particular. Please do not be frightened by this statement because I will show you that such a tax would not do any harm to U.S. exports of soybeans or soybean oils. In addition, such a tax would be in full conformity with the Community's GATT obligations.

Let me first give you some background on the olive oil situation.

After the accession of Portugal and Spain, the enlarged Community's total production of olive oil will be in the order of 1,300,000 tons which corresponds to a degree of self supply of about 110% based on present consumption patterns. If the Community were to continue to import from other Mediterranean countries, this would add another 60 to 70,000 tons to the Community's supply. Production in the Community as well as in Spain and Portugal was rather stable over the years and we can expect that this remains the case in the near future. The problem we have to face however, is the consumption aspect.

Recent consumption patterns were per head of population:

- 2.6 kg in average for the previous Community of 9 Member States, with
- 11.5 kg in Italy and zero in other countries.
- 15 kg in Greece
- 8.4 kg in Spain, and
- 5.2 kg in Portugal.

What we would wish is to maintain olive oil consumption at present levels as long as structural changes in agriculture of the new Member States have not brought about a decline in production. If internal consumption would decline, we would have to export the resulting surplus, and I am sure you would not like to see this happen.

However, such a decline in consumption particularly in Spain, is a real risk. The price relation between olive oil and other vegetable oils in Spain is presently 1.6 to 1 whereas the present Community has a price relation of 2.5 to 1 resulting from its existing support programs. If Spanish olive oil retail prices would have to increase to the present Community level, consumption would drop considerably. A consumption subsidy is therefore the only way out.

You may ask why we should maintain production at the present level at all, and why we should continue to import olive oil from other third countries. The answer is very simple. Olive growers in Spain and Portugal have no other alternative and would be unemployed if olive production were no longer feasible. The same is true for producers in other Mediterranean countries such as Tunisia, Morocco and Turkey, for whom olive oil exports to the Community are very
important. An end to such imports could have adverse political repercussions which cannot be in the interest either of Europe or the United States.

It is very important that you understand all these problems but at the same time, realize that any measures the Community takes will not increase olive oil production above present levels. After accession of Spain and Portugal, you will have the advantages resulting from the liberalization of the Spanish soybean regime without being faced with additional competition.

Now let me come back to the possibility of a vegetable oil tax. The accession of Spain and Portugal will be a costly undertaking for the Community because olive oil is a major problem but not the only one. There are areas in agriculture, industry and general infrastructure where Community financial assistance is very much needed. Also, the Community will have to make a major effort in support of other Mediterranean countries which will lose part of their export advantages to the Community after enlargement. Such an effort again is also of substantial political interest to the United States.

The question remains how to finance all these programs. In view of the economic difficulties in the Community, Member States may not be able to increase their contribution to the Community budget substantially and we would therefore have to look for other financing possibilities.
A vegetable oil tax may be one of such options.

If such a tax were to be proposed, it would be a tax on all vegetable oils whether they are produced in the Community or imported from third countries. As such a tax would affect all vegetable oils and Community consumption of olive oil remains unchanged, no adverse impact can be expected for the competitive situation of any of these oils. Furthermore, the amount of the tax, perhaps 5% of the vegetable oil retail price, would be minimal in absolute terms but also particularly when compared with general inflation rates and food price increases of 10% and more per year. Such a general consumption tax would therefore not only have no effect on your soybean or soybean oil exports, but it would also be in full conformity with our GATT obligation. Up till now, nobody ever had the idea of suggesting that general consumption taxes on tobacco products, alcoholic beverages, margarine, matches, light bulbs, salt, ice-cream and whatever you may find as consumption taxes around the world, are in contradiction with GATT rules, even if some of these products were imported into the country concerned with consolidated duties.

There are some people in your country who suggest retaliatory action in case the Community introduces such a general vegetable oil tax. I should warn you about the possible consequences if the United States
unilateral
were to take such/action, which would be politically short-sighted, legally unfounded, economically unjustified, and finally damaging for U.S. exports in general and soybean exports in particular.

As I said earlier:

The accession of Spain and Portugal is of major political interest for the United States.

United States exporters and investors will, beyond doubt, benefit from enlargement.

A general vegetable oil tax would, in my firm view, be in full conformity with our GATT obligations and furthermore, without damage to your soybean exports.

If anyone should have doubts about this question, he should follow the normal GATT procedures of consultations and negotiations under Article XXIV/6 which will in any case, take place after the accession treaties are signed.

Under these conditions, if the United States should nevertheless decide to take unjustified retaliatory action, I do not doubt that the Community would have to counter-retaliate. As the Community has a 25 billion dollar deficit with the United States including a 7 billion dollar deficit in agricultural trade, any escalation of
retaliation would hurt the United States probably more than the Community, and imports of U.S. soybeans and soybean products would probably be a major target for E.C. counter-retaliation. I therefore ask you to examine the question of a possible vegetable oil tax objectively. If there were to be any retaliations we both could only lose.

Now let us take a look at the question what you can do to maintain, if not to increase your market share in the Community.

The first important aspect is price stability and availability of soybeans and soybean products. There were periods where the U.S. was unable to satisfy demand, and prices independently from the exchange rate of the dollar, fluctuated considerably in the past. I know that the A.S.A. is not in favour of a farmer-owned reserve for soybeans, but in my view, there is no long-term alternative to such a solution.

Secondly, soybeans have to remain price competitive. The cost of the production of soybeans is one aspect and I know that your producers are making every effort for improvement of soybean yields. A second aspect is the competition from other oilseeds and grain substitutes. Regarding other oilseeds such as sunflowers, you probably have little influence. However, with regard to grain substitutes and corn gluten feed in particular, you may wish to
take a closer look.

EC corn gluten feed imports, mostly from the U.S., increased from 930,000 tons to 2,700,000 tons between 1975 and 1980. It is certainly true that such imports were favoured by our import regime which allows duty free entry for corn gluten feed but applies import levies on corn. However, it is also true that corn gluten feed production in the U.S. profits from subsidized U.S. sugar production and from tax advantages for the gasohol industry. Let me explain. If the U.S. sugar industry were not to enjoy the same protection which it has now, production of competing corn sweeteners would be less profitable and production of such sweeteners might be lower, resulting in lower corn gluten feed output. If the gasohol industry were not to enjoy the present tax advantages, corn gluten feed outputs again would be lower.

Finally, there is still a market to be developed for processed food in the Community. Reading the ingredient labels on U.S. food products, I doubt if we want to/into food processing as far as your industry does. Nevertheless, there is certainly still a major evolution ahead in the Community and I believe that soybean products could take advantage of that if adequate marketing efforts are made.
Closing my presentation, I would hope that from my remarks, you have realized what I suggested by the title I chose for this speech: The European Community will remain a good customer for U.S. soybeans and soybean products, on condition that your products remain competitive and constantly available.

Thank you very much.