

INDUSTRY AND AGRICULTURE
IN THE
EUROPEAN ECONOMIC COMMUNITY

An address

prepared for delivery
by

Professor Dr. WALTER HALLSTEIN
President of the Commission of
the European Economic Community

Lincoln (Nebraska)

December 6, 1962

To have been invited to address this gathering in the agricultural heartland of the United States gives me a great sense of satisfaction. The overwhelming impression of technical progress in America too easily blinds us to the fact that the United States is also the world's foremost agricultural power. I know that a major part of this agricultural strength has its roots in the great region of the Middle West which I am at present visiting.

This is the first time that I have represented the European Economic Community in this part of the United States. It therefore falls to me to begin by giving you a broad outline picture of this organization established by six States of continental Europe - Belgium, France, Germany, Italy, Luxembourg and the Netherlands - and then I would like to say something about our Community's agricultural policy.

I.

Economic integration in Europe begins with the European Community for Coal and Steel, which came into existence in 1952 and in which two important - indeed politically important - key industries were brought under a common system. On 1 January 1958 the Coal and Steel Community was joined by the European Atomic Energy Community and the European Economic Community. The intention in founding these bodies was to replace national isolationism by a European public spirit and to underpin this change by means of common institutions and common rules. A political effect was to be achieved through amalgamation of the national economies, to put an end to a centuries-old history of conflicts and wars between Europeans in which the whole world had all too often been involved.

The European Economic Community, which is the most comprehensive of these three undertakings, has rightly been called a three-stage rocket. Its first element is a customs union; its second economic union, and its third political union; in other words the extension of European unity beyond the economic field to embrace defence, diplomacy and culture.

The customs union is the core of what we are building. What it means is that between Member States all customs duties and quantitative restrictions will be gradually dismantled and that in relations with the outside world a uniform external tariff will be introduced. This uniform external tariff is the logical consequence of the abolition of customs duties within the Community. Since everything imported into a Member State can circulate freely in the whole Common Market, differing external tariffs would lead to diversion of trade. This customs union is today half way towards completion. Internal customs duties have been reduced by 50% and the first step has been taken to bring into line with the common external tariff the duties which Member States charge on imports from third countries. This means that we are already eighteen months ahead of the calendar laid down by the Treaty establishing our Community, the Treaty of Rome. Further accelerations have in some cases already been decided on and yet others will be proposed by my Commission.

The second element of our Community is the economic union. By this we mean that the Common Market, as our

.../...

Community is called, is not merely an agreement about trade in goods, but that it aims at nothing less than the gradual merging of six national economies into one European economy - and this means that there must be free movement of capital, free movement of workers, the right of establishment for entrepreneurs and freedom to supply services. These ends are to be attained by amalgamating the hitherto separate economic and social policies of the Member States, either in the form of completely merged common policies in stead of the previous national policies - in agriculture, for instance, in transport, in commercial matters - or in the form of a more or less complete common responsibility and common discipline in shaping the policies of the several States. Whereas the first four years of our Community, which coincided with the first phase of the twelve-year transition period, were mainly given up to the introduction of the customs union, 1962 can be designated as the year of breakthrough to economic union. This breakthrough is symbolized by the adoption, at the beginning of the year, of fundamental principles for a common agricultural policy and for a common anti-trust policy. Several weeks ago my Commission, which is the executive organ of the European Economic Community, submitted an action programme relating to what still needs to be accomplished in the economic field; this programme has been thoroughly discussed in the European Parliament, where it was received with unstinted approval. From the organisational angle also this move to the second stage of the transition period is of great importance, for, under our Treaty, the further course of the transition period can no longer be slowed down by the veto of any one State. When the move was made from the first to the

second stage this was still possible.

Moreover, the development of economic union did not begin at one stroke on 1 January this year. The first signs of it were apparent before this: in 1960 in the field of capital movements, in 1961 in connection with the free movement of workers and the right of establishment. In the field of transport policy also a beginning was made some time ago with the abolition of discrimination on grounds of nationality and proposals for modernising and improving communication networks have been adopted. In various other fields in which the Community is active proposals have been made and decisions taken: labour programmes, harmonization of legislation, patent law, indirect taxation, vocational training, co-ordination and consultation on monetary matters, etc. And then there is a particularly important field of common policy, namely commercial policy. Only at the end of the transition period, on 1 January 1970, will this become a Community responsibility (unless it is decided to shorten this period). But little by little common action is already beginning to emerge in this field too. One example of this is the success of the negotiations by which Greece has been associated with our Community. The treaty of association came into force on 1 November. Another example is provided by the "Dillon round" of negotiations in GATT, that worldwide association for tariff and trade policy, at which reductions were made in rates of duty. From the outset the Community helped those negotiations forward by the liberal attitude which it adopted. We are also hoping in the very near future to conclude the negotiations which are in train with the 18 African States

associated with us; their purpose is to recast the present Convention in the light of the developments which have occurred since it was signed, in particular the accession to sovereignty of our associates.

At the moment, however, the most important example of negotiations between the Community and a non-member State is provided by the conference on Great Britain's entry as a full member. These negotiations are the most impressive token of the success of our Community and at the same time a turning-point in British policy towards Europe. Their importance is matched by the difficulties involved for both sides. The Community finds itself face to face with a country which has exceptionally wide and varied links with other parts of the world. Great Britain will have to break with many habits and traditions and accept commitments of a kind it has so far avoided. On the other hand these negotiations offer an exceptional chance of tackling problems which can be solved only on a world scale, such as world trade in farm products, help for underdeveloped countries and currency problems. I cannot go into details here. I can however say that so far these negotiations have on the whole made very real progress. As you know, other countries have joined in the movement. Denmark, Norway and Ireland also wish to become members, and other European countries want either to be associated or to conclude an organic trade treaty which would give permanent form to their relations with the Community.

Not less important is the second event in which recognition of our Community as a successful reality finds expression:

.../...

President Kennedy's Trade Expansion Act. If good use is made of the chance which this holds for a genuine Atlantic partnership between the United States and the European Community, it might establish in the non-communist world an economic order which would be decisive for the character of the second half of this century and would make an immense contribution to the prosperity and strength of the free world.

Even the attitude of the Soviet Union towards Europe has been changing during these months. Instead of routine polemics on the lines of the well-known cliché that "the capitalist world will be destroyed by its own internal contradictions" a more realistic judgement is being formed. Interest in us is growing and our existence now and in the future has even, it seems, been accepted.

As I have said, the third stage of the Common Market rocket is political union. This political union too has already begun; indeed, it is implicit in the form of the European Economic Community itself, for in fact this Community is, as I have already said, political in its motivation. It has political institutions of a federal or quasi-federal type: a Community Executive - my Commission - which is independent of the member Governments; a Council of Ministers of the Member Governments forms the supreme legislative organ of the Community; there is a Parliament which alone has the constitutional right to dismiss the Commission; and then there is the Supreme Court of the Community. Finally - and this too I have already said - the elements being amalgamated are political: they are

essential elements of economic and social policy previously controlled by national Governments and Parliaments.

Let me now consider the economic results of what is known as economic integration. They are reflected in the following figures:

From our beginning in 1958 through December 31, 1961, the value of our gross Community product rose by 18,5% and estimates available now indicate that the figure will be 24% for our first five-year period. Thus we have enjoyed the fastest growth rate of any major economic area in the world.

Industrial production rose 29% in the 1958-1961 period and our calculations indicate that the result for the 1958-1962 period will be 36%.

The rapid phased reduction of tariffs and the response of "Common-Market-thinking" businessmen has undoubtedly contributed immensely to an unusual growth in intra-Community trade - 73% for the period 1958-1961. And here we expect the increase to be of the order of 92% over the first five years.

Contrary to the fears of some, our trade with the world has benefited, not suffered, because of our domestic progress. Our imports from 1958 through 1961 rose 27% and our exports 28%, a particularly high rate of expansion, with our imports from the United States rising 44%. We believe now that 1962 will show something like a five-year increase of 39% in imports

.../...

and a 30% increase in exports, with imports from the United States having risen about 59%.

The assessment of future prospects is similar. Our gross Community product, which was slightly more than 181 billion dollars in 1959, may rise to 288 billion dollars by 1970, on the basis of a recent study made by our Commission. This would represent an increase of almost 60% in the present decade. Private consumption in our economy totalled \$ 110.6 billion in 1960, but our projections indicate that it may reach \$ 184.4 billion by 1970, an increase of more than 66%.

This is the edifice which we have erected, and this is the life which informs it. The common agricultural policy occupies an important place therein.

And now I should like to raise a question: Why do we in fact have a common agricultural policy? Is this change from national agricultural policies to a common European agricultural policy more or less a move by the Europeans to ensure advantages for themselves?

I will attempt to answer these points. We will all agree that there must be such a thing as an agricultural policy, that the State must endeavour to see that farmers obtain an adequate income. The agricultural market is not such that it could be left to itself and to that free competition which renders us such good service elsewhere.

As we all know, agriculture is a special case and if the peasant is left to his own devices, he cannot keep up with the rest of the economy.

Each of the six States which founded the European Economic Community had its individual policy for agriculture, a policy with long traditions, and a wide range of instruments for applying its policies. Like all agricultural policies in the world, these policies fulfilled their purpose more or less satisfactorily. For the rest they were fundamentally different from each other: the methods were different, the branches of agricultural production which they covered were different, and the resulting prices were entirely different.

A common market, a large unified economic area, can, however function only if it covers all goods, including agricultural products. It is not possible to exclude agricultural products from a common market and not to allow them to circulate freely among the member countries. Nor was there any intention of excluding them: for the purpose of the European Economic Community is after all the merging of the separate national economies of the six member countries. The frontiers for agricultural products, the customs and levies and also the quantitative restrictions between the Member States must therefore be dismantled for farm products as well. This is, however, possible only if agriculture operates under roughly equal conditions in all the Member States. As we know, grain prices in Germany are very high

.../...

while French prices are lower. Free movement for grain and all products made by processing grain can therefore be achieved only if there is at least gradual introduction of one common price. Another obstacle appears in the subsidies which the various States pay for this or that agricultural product. Here too it is only possible to establish a free exchange of goods if the same products are subsidized or if the subsidies themselves are abolished.

The inclusion of agriculture however is not only a question of the free exchange of goods, it is also a question of economic policy. If a unified European economic territory is to be created, with an economic policy which is a Community responsibility, then agricultural policy cannot remain national. It is such an essential component of overall economic policy that it must be fitted into the large framework along with the rest. Its importance can be measured by the fact that almost 25% of the population in the Community is agricultural. The proportion in the United States is only half as high. In the European Economic Community agriculture contributes about 11% to the gross product, while in the United States the figure is only 4%. In the European Economic Community there are 9 million farms, in the United States with its vastly larger territory on the other hand only something over half that number, some 5 million. The average size of farm in the Community is, then, 4.5 acres, or only 1/18th of the average size in the United States, where the average farm covers more than 80 acres. Correspondingly the area cultivated by one man in the United States is much higher than in the Community: 130 acres as against 11 acres. You see therefore

.../...

that agriculture has immense importance for the European Economic Community. At the same time the situation of agriculture in Europe - and this is evident from the figures already given - is greatly in need of improvement, except perhaps in the Netherlands. Things could not go on like that. The need for reforms, for European agriculture to move into the second half of the 20th century, is therefore the second reason why we need a common European agricultural policy.

Now what are the aims of such a policy?

The first aim of all agricultural policy is to ensure an adequate income for the farming population. When you reflect that the quarter of the total population represented by the farming population of the European Economic Community amounts to 40 million people, you understand the importance attaching to this. The common agricultural policy bears a responsibility for the weal and woe of 40 million human beings. That is one side of the question. The other is that, because of our political responsibilities, we must have the support of these 40 million people to build up the European Economic Community. It is impossible for us to do it without them or even against them.

The second aim of the Community's agricultural policy is to increase the productivity of agriculture. For this purpose it is necessary to encourage technical progress, to favour the rationalization of agricultural output and to arrive at optimum use of the factors of production, in

.../...

particular manpower. This too is an immense task in view of the situation which emerges from the figures quoted. It is not our purpose to keep an out-of-date system alive. The common agricultural policy requires rather that European agriculture shall make a great effort. Each individual enterprise must face the question whether it is profitable or not. We are not certain that everyone of these enterprises can answer "yes" to this question and we wish to help those farmers who realize this to face the consequences. We are therefore convinced that agricultural problems cannot be solved in the framework of agriculture alone. Rather must the other sectors of the economy help to facilitate the adaptation which agriculture must undergo. In other words^a necessary part of the common agricultural policy is a regional development policy creating new jobs in farming areas so that all those who wish to cease working in agriculture can earn an adequate income through other activities, whether in industry or in the service sector.

The third great aim of the common agricultural policy is balance between production and consumption. In Europe too we note - as do most advanced industrial countries; I will have a few words to say about this later - that production is overtaking consumption. As we modernize agriculture, increase its productivity and apply rational methods of production (and this we must do if farm incomes are to maintain an adequate level), the problem of latent surpluses in a whole series of farm products becomes increasingly urgent.

.../...

We are already producing more dairy produce and more pigmeat than we can consume. When allowance is made for yearly fluctuations, our own production of sugar just meets the demand. Surplus production is both an internal and an external problem. An internal problem: no agricultural policy may be applied which artificially stimulates production. An external problem: the degree of self-sufficiency directly determines ^{the} amount which can be imported and the quantity which has to be exported.

The fourth aim of the common agricultural policy concerns the consumer. The fact that I mention him at the end of my list does not mean that less importance is attached to his interests than to any others, even if it is already almost a tradition that he is mentioned at the end when speaking of agriculture. But in the last resort it is, after all, for him that the whole of agriculture exists. Agricultural policy must supply him with the necessary foodstuffs at reasonable prices. The level of the cost of living has a decisive influence on wages policy and hence on the economy at large. Particularly for such a highly industrialized area as ours, where foreign trade accounts for more than 30 % of the gross product, the interests of the consumer are at the same time vital interests of the community as a whole.

What are the characteristics of the common agricultural policy devised to achieve these ends? I think that we can find certain features which it has in common with American farm policy. Basically, the range of possibilities open to

.../...

agricultural policy is pretty limited. Either market prices can be allowed to develop freely and imports made without restrictions or protectionist measures of any importance, in which case farm prices will be very low and direct subsidies will have to be paid to farmers so that they have an adequate income; this is the system applied in Great Britain, and it is only practicable when the agricultural population is not too numerous. Or farm prices must be fixed high enough for the farmer to earn a living from them; protection is provided at the frontier against too heavy and too cheap imports and the State buys from farmers what they cannot place on the market. This system is applied in the United States and under the common agricultural policy.

As far as imports from non-member countries are concerned, the common agricultural policy provides for a uniform system which consists simply of levies or customs duties. The levies are variable payments which offset the differences between prices outside the Community and the prices which agriculture requires within the Community. The charges made on imports from all non-member countries are the same. They are therefore - and this is a very important point - non-discriminatory. This system replaces all other restrictions on imports such as quotas, compulsory mixing, monopolies, and State trading formerly under the national policies of the Member States. The common agricultural policy thus pins its faith to a non-discriminatory multilateral world trade system in which the consumer has the last word on what amounts and qualities shall be imported and from what country.

As far as the details of our common agricultural policy are concerned, we have not yet finally agreed the whole system. What already exists is the framework, the instruments for applying the policy, in other words we have decided that there will be a target price and an intervention price for grain, that there will be levies between Member States and at the external frontier, that there will be certain financial measures. These instruments of policy are, if you permit me the expression, agriculturally neutral, and it is possible to use them in connection with this or that agricultural policy. The decision as to what is to be made of these instruments will come the moment we decide on the common grain price, that is the price which is to obtain for the whole Community and towards which the still widely differing national prices must move. We have already begun thinking about this in Europe and our Council of Ministers must take the first decisions by 1 April 1963.

These are therefore the motives, the aims and the most important elements of our common agricultural policy, its internal, European aspect. What is the external aspect, the world situation of agriculture and agricultural policy, into which this common policy is being fitted? I mean the situation as it is, which exists even without the common agricultural policy and with which our policy must come to grips. This brings us to the problems of agricultural trade.

Here we must begin by distinguishing between the advanced countries with high income, such as the United States.

.../...

the Community, Canada, Australia, not to mention Japan, and those countries which are in course of development and have a low income - in South America, Asia and Africa. The relationship between production and consumption is very different in these two groups of countries. The advanced countries produce quantities which almost completely cover their own requirements; they even produce surpluses, and so they must export. On the other hand, demand in the developing countries, almost without exception, is enormous. They can, however, import only on a limited scale, for they have not the foreign exchange with which to pay for imports. In fact exports to the developing countries in recent years have hardly increased. Against this there has, in the advanced and industrialized States of late years been a certain demand for particular products, and this has even led to their being imported on a larger scale. This applies also to the Community, which in 1958 imported from the United States about 265 million dollars worth of grain and livestock products and in 1961 about 490 million dollars worth. It was particularly grain imports from the United States which thus increased from about 200 million dollars in 1958 to about 395 millions by 1961.

A new branch of American exports to the Community is table poultry, which increased from 2.7 million dollars in 1958 to 36 million dollars in 1961, or more than thirteenfold.

These figures show that in the Member States there was still a demand which was met by importing products from overseas. Broadly speaking, however, we must assume that farm output in the developed countries - and therefore in the Community - is growing at a rate of some 4% per annum. This is a natural outcome of technical progress, of agriculture having discovered what chemistry can do for it, and the 4% increase of output is occurring without any particular stimulus, such as higher prices. Except for some livestock products, consumption is on the whole expanding at the same rate, so that the margin for imports is not very wide. It is mainly in coarse grain, beef, high-grade wheat, and vegetable oils and fats, that the Community still needs to import in order to meet demand. All concerned must realize this, and the Community too will have to bear it in mind when it begins to work out its price policy.

The developed countries, therefore, are only to a limited extent capable of absorbing a constantly rising agricultural output. But, as I have shown, the developing countries cannot take surpluses either. The United Nations Economic Commission for Europe (ECE) has calculated that a mere 3% annual increase in the standard of living of these countries will mean that in the ten years from now their imports will have to mount from their present level of 10 billion to 35 billion dollars. Only a small part of these imports

.../...

can be paid from development aid. It may be possible to set up special funds to deal with this matter. As you know, the FAO and France are strongly in favour of such a policy. Nevertheless, the developing countries will always have to pay in foreign exchange for a considerable part of their imports, and this in turn they must earn by industrial exports. For these they need markets, especially in the developed countries. In other words, they will only take more agricultural produce if we help them to find these markets. We must therefore keep in mind this further link between our policy for trade in industrial goods and the problem of our agricultural outlets.

At any rate, we find - and this is the reason why I have dealt in such detail with the interdependence of these matters - that the emergence of surpluses in the developed countries has nothing to do with the establishment of the European Economic Community or its common agricultural policy. It is simply the result of technical progress in agriculture and the poverty of those countries which still have a large food deficit. The relationship between demand and output would not be any better if there were no Economic Community.

With the establishment of the European Economic Community the matter has, however, reached a new stage. The change is twofold: First, the principal European consumer countries are for the first time acting as a unit with a uniform agricultural policy, which enables them to arrange their relations with the outside world in uniform manner. This was not possible

.../...

so long as there were six States, each of which had its own farm policy. Now that agriculturally they are being merged into one unit, an entirely new - and we feel big - chance is being opened up.

Secondly, the problem of world agriculture has entered into a new stage through the prospect of British membership of the Common Market. A single market of more than 250 million consumers, which is what would result from such an extension of the Community, would be the world's largest importer of agricultural produce. It would take almost 70% of the world's coarse grain imports, almost 70% of all butter imports, nearly 60% of all wool imports and over 50% of all meat imports, to quote but a few examples. The question of how such a market would regulate its imports will then be the key problem for world trade in agricultural produce. Such an expanded Community would, therefore, bear a great responsibility.

What then are the procedures which, if these opportunities are grasped, will result from the merging of the European agricultural policies? First, we can consider dealing with this issue in the framework of Atlantic partnership. With the Trade Expansion Act President Kennedy has, as you know, laid the foundation for a partnership between the European Economic Community and the United States, and comprehensive tariff negotiations are planned which should lead to a considerable reduction of customs duties on either side of the Atlantic. The United States has suggested that in the course of these negotiations these two units, the United States and the European Economic Community, should also discuss agricultural matters.

.../...

Mr. Freeman, your Secretary of Agriculture, has spoken in favour of such a widening of these talks. The European Economic Community will shortly make its views known.

In the wider content, consideration must be given to the possibility of world-wide arrangements for certain items. It seems paradoxical that there should be a very highly developed market organization for the individual national agricultural markets, while at world level there are only a few fragmentary beginnings, such as the World Wheat Agreement. Nor has GATT, which is really the large-scale multilateral commercial organization of the western world, been able in its present form to solve the problems of agriculture. The GATT rules leave so much margin that each government is virtually free to pursue whatever agricultural policy it likes, and for some countries, including the United States, there even exists a formal waiver, so that these rules are not applicable at all.

Such world-wide agreements, covering the main agricultural products, would have to be concluded between all producer and all consumer countries. In the negotiations concerning British membership of the European Economic Community, the Commission has already made proposals for such world-wide agreements. We believe that, if Britain should join the Common Market and the present preferential system between the Commonwealth countries and the United Kingdom disappear, the special problems that would face the Commonwealth countries could be solved through these agreements; they should, however, bring in the other non-member countries and thus establish a

.../...

world-wide multi-lateral trading system for the products concerned.

We therefore believe that here, too, the European Economic Community can make a major contribution to the future economic system of the free world. In this way we shall convince those who doubt whether the free world can overcome the problems facing it, and prove to those who hope it will come to grief that Europe and the United States, that free democratic convictions, are not merely a thing of yesterday but will still be there tomorrow and the day after. For the inner meaning and most convincing justification of our European union will stem from the realization that a system based on freedom not only is better, but also works better. This is the contribution we are making to the strength of the free world and to peace.

- - - - -