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AGRICULTURE AND FOREIGN POLICY

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Since the mid-seventies we have lived in a period of crisis: a period marked above all by high rates of inflation and by high rates of unemployment. Economic activity has slowed down. Trade flows have been affected. None of the major economic powers has escaped the sickness. The crisis is all the more grave because in many lands it has disrupted the political order: in East and West, in North and South, administrations and governments have fallen, or have been shaken to their foundations.

The natural reaction for some governments has been to look for scape goats outside their frontiers. The reaction of others has been to retreat within their frontiers. Most governments are trying to escape from the crisis by boosting exports and sometimes, also, by slowing imports. This is a bad state of affairs. If you look at what this means at the world level, you can see that the situation may easily become explosive unless we take a grip on it very quickly.

I must say that in this context I am quite concerned about the type of remarks which were made by Agriculture Secretary Block, before the House Agriculture Committee on 18 February, when he said (and I quote) "my Department is working aggressively to stimulate long-term growth in exports of US farm products".

I can understand that it is a fair and natural aim for a Cabinet Member to boost the export of products for which he is responsible. But what worries me is the use of the word "aggressively", and the

fact that he continued (and again I quote) "we are going to do battle with the EEC wherever and whenever it is necessary". Well, I must say that personally I think that is neither necessary nor wise. It is not wise because obviously the EEC is not going to lie down and do nothing in the face of economic aggression. It is not necessary because, in these last decades of the twentieth century, our two great powers must surely look for more constructive goals than economic warfare. Make no mistake about it: if there is economic warfare between the United States and Europe, there will be no winner. Both of us will be losers.

For every nation, agriculture is a vital interest. In this century Europe, in the aftermath of its wars, has suffered terrible disruption and shortages - sufferings from which we have recovered only with the help of our transatlantic friends.

Out of these sufferings Europe has also forged an economic union and a political cohesion, and at the same time it has created a strong and vital agriculture - an agriculture which springs from two thousand years of history, and which therefore in some of its aspects may surprise you. But Europe is not going to abandon its agriculture. It is important that you on this side of the Atlantic should realise that.

I would like to demonstrate to you why I believe this to be so. First, I would like to refute some popular but erroneous ideas about the common agricultural policy of the EEC; next I would like to remind you what the common agricultural policy really is; and then I would like to explain to you some of the reasons why we in Europe are worried about the behaviour of other countries, including the United States.

I. Some myths about the CAP

1. First, the common agricultural policy is not static.

Often the CAP is depicted as a kind of impregnable fortress for the protection of useless and inefficient farmers, so that they can get rich at the expense of taxpayers and consumers. You may find this image amusing, but believe me, it is quite flattering by comparison with some of the ways in which the CAP is depicted. What therefore is the truth, as opposed to the fiction.

In agriculture, as in other sectors, Europe decided more than twenty years ago to shape its own future and find its own place in the world. With courage, and with patience, we have made up lost ground, sector by sector, and in some cases we have even taken the lead. Obviously we could not allow the storms and tempests of international markets simply to destroy our agricultural economy.

Our partners in the GATT and elsewhere understood our point of view very well, and they have long accepted our system of import levies and export restitutions. For us, that acceptance is a fact of history, which has been confirmed and reaffirmed: for example, it was confirmed in the Tokyo Round in 1979 by Bob Strauss, speaking in the name of the U.S. Administration.

So the EEC has, for certain products, given itself a degree of protection against the instability of international markets, and has created a dynamic agricultural policy - a policy which it has adapted to face the challenges of structural change both within Europe and outside.

Since I have mentioned structural change, let me remind you that the CAP, in little more than twenty years, has seen one of the most amazing developments in the history of the EEC. From 1958 to 1973, during the period when the EEC had six members, one person left European agriculture every minute. From 1973 to 1980, during the period when the EEC had nine members - and during a period of economic crisis - the restructuring of European agriculture still continued at the rate of one person leaving every two minutes.

The total number of farms is also falling. At least, the number of farms of less than 50 acres is falling, while the number with more than 50 acres is growing. That shows that we are making progress with the structure of our agriculture. At the same time, the area of land used for agriculture is being reduced by 0.3 per cent a year, that is by 60,000 acres annually. I could quote many more statistics, but I think these few examples prove that the CAP has not served to freeze an inefficient structure. On the contrary, it has improved the structure, and above all it has done so in a way that has been politically acceptable, without causing a social crisis in rural areas.

Nevertheless, you will have heard that we do have from time to time farmers' demonstrations. They are not entirely without cause. You have to realise that, since 1978, agricultural incomes in the EEC, as measured by net value added per worker, have dropped by nearly 12 per cent in real terms. That has been due to a combination of cost increases in agriculture with only modest increases in EEC farm prices - and let me remind you that our price policy really has been prudent: that is, we have increased farm prices by less than the rate of inflation. Moreover, the CAP has dealt - with some success - with the imbalance of supply and demand for some products, and will continue to do so. I will come back to this point later.

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So, gentlemen, the CAP is not a static instrument designed to prop up the least efficient farmers, or to create surpluses that mop up the EEC budget.

2. That brings me to a second myth, which is often repeated, about the excessive cost of the common agricultural policy.

I do not want to start a battle of figures, because I think that approach does not lead to any useful result. What I will say is that, in many official documents from the USA, we find comparisons which suggest that the cost of farm support in the EEC is 40 per cent higher than that afforded by the U.S. government to its farmers. But such comparisons mean nothing. It really is almost impossible to get a precise idea of the financial support provided by governments for agriculture. You have to estimate not only the direct budget support, but all the direct and indirect transfers of resources to the farm sector.

Agricultural incomes are supported not only by direct budget subsidies but also by policies affecting land, production costs, direct and indirect taxation, transport costs, and so on. The simple budget transfers cannot possibly give a true picture of what is happening. What is more, any comparison with the USA should also take account of spending from state budgets, as well as from the federal budget. Despite all these reservations, I do not want you to think that I am trying to avoid a comparison of the cost of support. I will simply say that if you compare the budget spending on agriculture with the value added of the agricultural industry, you will find that in 1976 to 1978 the ratio in the EEC was 39.2 per cent and in the USA it was 37.6 per cent. That is nothing like the gap which some critics would have us believe!

It is true that the Reagan Administration is trying to reduce farm spending. So is the EEC. In the period 1975-79 our farm spending from the EEC budget grew at an average rate of 23 per cent a year, but in the period 1979-82 the rate has fallen to 10 per cent. In 1981, our public expenditures for market supports were down for the first time in 10 years.

In our view, if you compare like with like, the conclusion must be that farm spending in the EEC is of the same order of magnitude as in the USA.

Initially, the 1982/83 US Farm Budget envisaged large reductions. However, substantial revisions have since been made which increase foreseeable outlays by some \$6.8 billion. When I look at the Farm Bill, I see that the target price system is continued, that the milk

support programme, despite some changes, is still likely to lead to a big surplus and that a new sugar support programme is being introduced.

I always thought that the U.S. was the great defender of free competition, but I must say that all these target prices and support programmes have a familiar European ring to them: and believe me - for I know something about these kind of programmes - they are going to mean quite a few extra dollars on the U.S. budget!

3. The third big myth, which worries me a lot, has gained some credence in recent months. It is the myth that the EEC and its agricultural policy is responsible for the difficult situation in which American farmers find themselves today. It worries me all the more because the U.S., by more or less openly supporting this kind of charge, seems to call into question the undertaking which it made in the Tokyo Round in 1979 to accept the principles of the CAP. The attack seems to focus mainly on the question of farm trade.

So what are the facts?

First of all, it must be remembered that the EEC remains the biggest importer of agricultural products in the world. In 1980 we took a quarter of world agricultural imports, and had a trade deficit in agriculture of nearly 29 billion dollars. Both the USA and the EEC have diversified their sources and destinations of farm trade, but still the trade deficit of the EEC with the U.S. has increased from 5.8 billion dollars in 1979 to 6.8 billion dollars in 1980.

That is an increase of 17 per cent: and in the first 9 months of 1981 it continue to increase by 13 per cent. From our point of view, it is not a satisfactory affair. Let me remind you, for example, that EEC farm exports to the U.S. grew by only 5 per cent in 1980.

If U.S. farmers find themselves in difficulties at the present time, it is basically for two kinds of reasons - external and internal. On the external front, there is the general development of a more competitive agriculture in a growing number of countries. Several redoubtable competitors have appeared, other than the EEC, and in addition to the traditional competitors of Canada and Australia. Just think of Brazil and the Argentine, who have put an end to the American monopoly of soya exports.

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But is there not also on the external front what Committee Chairman Kika de la Garza has called "the loss of credibility of the U.S. as a reliable supplier", after the various export control measures taken in recent years?

The 1980 grain embargo for example, whatever good political reasons may have been at its origin and which was supported by the EEC, has certainly led some purchasers to look for other suppliers.

On the internal side, as Secretary Block has said, U.S. farmers are having more and more to face the same problems as European farmers: big cost increases, following the price hikes for oil and fertilisers, big rises in the cost of borrowed capital, and surpluses which are more and more difficult to get rid of. Here I must underline to you that the weapon with which the U.S. Administration has chosen to fight inflation - that is, the level of interest rates - is hurting not only U.S. farmers but also the Europeans.

In addition to the internal effects on costs of this monetary policy, it should be noted also that this policy raises the dollar rate of exchange and so hinders the growth of the U.S. export flow.

This mutual problem, at least, should inspire some kind of solidarity between us in the agricultural sector! Finally there is the question of environmental costs, which are borne not only by farmers but by society in general: and above all there is the problem of soil erosion and water depletion, a problem posed by farming practices that seek the maximum short-term profit rather than the long-term safeguarding of the nation's heritage.

Well, these are internal problems for U.S. agriculture, to which the Administration must find internal solutions. On the external side, the Administration must take care to shoot at the right targets. Let me illustrate what I mean by quoting just one topical example, which shows how wrong it is to see the EEC as the cause of the farm problems of the U.S.

A big problem for U.S. agriculture - and I regret it very much - is the drop in prices for coarse grains, that is corn and soya. But let me remind you that for these products the EEC remains the world's biggest importer, to the tune of 9.9 million tons of corn in 1980, 11.8 million tons of soya beans and 7.2 million tons of soya cakes. Meanwhile the EEC's exports of barley in that year were only 4.3 million tons. It is perfectly obvious from these figures that EEC competition has not hurt U.S. farmers.

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For the major other grain production, wheat, let me remind you that the main components of the world price are on the one hand the demand from the Soviet Union and other state trading countries and on the other hand the size of the U.S. crop. If you look to the size of this crop over the last three years, you will see that it increased from 58 million metric tons in the 1979-80 marketing year to 76 million metric tons in 1981-82. This increase of 18 million tons is more than double the total EEC wheat grain exports. In other words, even if the EEC could have eliminated by a magic stroke all its exports, the market would still have been depressed.

To conclude, I have only to quote my friend Seely Lodwick who in a recent meeting of the Agriculture Subcommittee of President Reagan's Export Council blamed this year's drop in U.S. exports on record or near record U.S. crops, a sharp increase in foreign grain output, the world-wide economic recession and the rapid appreciation in the value of the dollar against other currencies.

These explanations seem to be appropriate and realistic.

II. Guidelines for the CAP and prospects for the future

For the future, the EEC intends to continue and to intensify its efforts to rationalise its agriculture, and to integrate the agricultural sector into the economy. We shall do this basically through the CAP, but also with the aid of other programmes, such as the regional and social policy of the EEC.

As regards structure, the CAP will continue to aim at improving productivity by optimising the methods of production and the marketing of farm products. In this framework we have two important aims: to concentrate our efforts on those regions and those farms most in need, and to coordinate our efforts in the field of structures with our market programmes. To help the economic lift-off of the poorer regions, we are going to need other programmes in addition to the CAP.

After all, it took you in the United States two centuries to reach your present federal structure. By contrast, the CAP has had only 25 years to absorb and harmonise the agricultural policies of ten nations, which extend from Scandinavia to the Mediterranean.

In their agricultural development the U.S., Canada and the Argentine have had to deal with practically virgin lands, settled by native peoples whom you either absorbed or simply removed. We in Europe are faced with the challenge of bringing together and

uniting independent nations, whose political and economic structures are a legacy of man's history. This is an enterprise in which we intend to succeed: and the success of the CAP must be an important part of the story.

As far as the agricultural markets are concerned, we have witnessed the rapid progress of productivity in the farm sector, combined with the slackening of demand for farm products on both the internal and external side.

This has led to some surpluses, particularly of milk. We have to restore the balance. Efforts have already been made, and we shall continue them. Domestically, our underlying aim is to put more and more responsibility on farmers themselves to dispose of surpluses, especially by making the farmers contribute to the cost of surplus disposal.

But I take this occasion of underlining to you clearly and firmly that the EEC does not consider that an excess of domestic production over domestic consumption is necessarily a surplus that must be eliminated. The EEC intends to keep its place in world trade, and we may even have to look again in certain cases at the trade flows. But we consider that, for some products, the European Community's price guarantees to its farmers should no longer be unlimited, but graduated.

We have this new system already fully in force for sugar, and in part for milk products. It should be realised that the Community's sugar beet growers and processors themselves finance completely the difference in price between the domestic and the export market. It must be realised also that the EEC milk producers pay a co-responsibility tax which in 1981 amounted to nearly 28 per cent of the cost of our export restitutions for milk. This system of co-responsibility should now be extended to cereals and rapeseed.

Since we are gathered here today in Minnesota - a state which is so important for the production and marketing of cereals - let me pursue this question of grains a little further. The EEC intends to fix "production thresholds" in terms of quantity for its cereals for the 1980s. This does not mean that European farmers cannot produce more than these production thresholds. It means simply that, if the threshold is exceeded, then in the following year the level of support will be diminished. This system is in the interest of everyone, including the other exporting countries: but it can only be put into practice if the problem of cereals substitutes - in particular, manioc and corn gluten feed - is solved.

Let me remind you that the quantity of cereals used for animal feed in the EEC is about 73 million tons, of which about 13 million tons are imported; and that this tonnage of cereals used for animal feed has not increased since 1973. In other words, the increase in our animal production, which has been very substantial, has been obtained mainly by the use of cereal substitutes imported into the

EEC free or at a very low rate of duty. From 1974 to 1980 our imports of cereals substitutes grew from 6.2 to 14.4 million tons. Within this total, manioc grew from 2 to 5 million tons, and corn gluten feed from 0.7 to 2.6 million tons.

This situation obviously cannot continue. After all, you cannot attack the EEC for exporting chickens, and at the same time ask it to import more and more corn gluten feed. You cannot congratulate yourselves on the increasing imports of cereals substitutes into the EEC, and at the same time complain that it wants to maintain its position as an exporter of wheat. You must have some degree of logic and consistency!

I would like to use this example also to revert to what I was saying about some of the myths concerning the so-called protectionism of Europe, and the alleged free-trade philosophy of the U.S. In 1980 only 14.5 per cent of the EEC's agricultural imports, particularly cereals, came under the system of variable import levies. Of the remaining 85.5 per cent, it must be added that 51 per cent of the farm imports from the industrialised countries entered the EEC free of duty.

Compared with this alleged protectionism, I must say that I think the free-trading United States is armed with a remarkable weapon in the form of the GATT waiver. This is the exemption which since 1955 has allowed you to ignore certain rules of the GATT; and I note that the U.S. authorities have invented an impressive number of other measures, including import quotas, supplementary taxes, domestic price rules, and marketing orders.

I do not want to continue with a comparison of the different means which the U.S. and the EEC have forged to carry out their farm trade policies. But I would simply like to make quite clear the position of the European Community. Unlike Mr. Block, we do not intend to "do any battle" with our trade partners. Europe believes in negotiation rather than the use of force. That is why the Commission has recently proposed to negotiate with its partners the tariff concessions on corn gluten feed. The GATT articles entitle the Commission to renegotiate concessions with its partners. The objective is not to reduce imports from the USA but to limit their growth and, therefore, prevent our agriculture from being disrupted.

If such negotiations fail, then I have to remind you that there exist certain articles of the GATT, namely Articles XIX and XXVIII, which would allow us to take action to prevent our agricultural economy being disrupted.

The Community has respected its obligations under GATT. It is natural therefore that we should also wish to exercise our rights. And you must realise that the rapid growth in imports of certain

cereals substitutes has been disruptive not only on the domestic front but also on the international level. The fact is that these imports displace our home-produced cereals, and therefore oblige the EEC to export more on the international market. This situation is simply not healthy, and it cannot continue.

Let me return once again to the question of exports, and try to tell you some home truths.

First, let me say that the system of export aids practised by the EEC is in conformity with the GATT rules, and is accepted as such by the GATT. Discussions have been opened in GATT on some cases in dispute, and they will I am sure be solved in an appropriate way.

As regards the GATT dispute settlement procedure let me tell you that we were very concerned to read that a former U.S. official who recently resigned said in a meeting (and I quote) "If the GATT panel's determination is inconclusive or in favour of the EEC, then it could have a serious impact on future international trade. A decision against the U.S. could result in the U.S. withdrawing from the GATT subsidies code".

I must say that such declarations are the proof of a curious conception of the way in which the international trade rules are working. In addition, it is an unacceptable pressure on the members of the GATT's panels.

Next, let me say how amazed and even envious I am when I review the panoply of instruments which a liberal country such as the U.S. possesses to support its exports!

To mention only some, there are the measures of trade promotion, export credit, export guarantees and insurance, food aid under PL 480, the DISC tax arrangements, government-to government agreements particularly for milk products, the drawback system for sugar, and so on.

Perhaps I should ask my experts to consider how we can improve the instruments of the CAP so as to be as liberal as the U.S.! But let me leave that for a future date. For the present, I would simply pass on to you some of the points which worry my legal experts in this context.

They reckon that the DISC system is a clear export subsidy, and should not be applied to exports of non-primary products. They are inclined to doubt whether the exports under Section I of PL 480, the government to government agreements on milk products, and the U.S. methods of applying drawback for sugar, are compatible with the rules of GATT. For myself, I am tempted to think they are right, but no doubt these matters can be discussed at the appropriate time and in the appropriate forum.

Finally, let me add that what strikes me most in thinking about all these problems is how similar is the situation in which the world's principal agricultural exporters find themselves - the EEC, the USA, Canada, Australia, New Zealand, Argentine and Brazil. What unites us is really more important than what divides us. All these countries face the same problems, have developed measures which are more or less the same, and have adopted very similar solutions.

The logic of the situation could very well lead to confrontation and competition. That is particularly true for Europe and the USA, which ultimately are the two great powers of the free world in terms of civilisation, economics, and military strength.

But let us be realistic. The world in the 1980s and the 1990s is not going to be the same as in the 1960s. That golden era of growth and stability is well and truly past. We may dream nostalgically of what was possible in the good old days, but that is not an attitude worthy of our two great powers. Neither of us will find our salvation by exporting our difficulties to our neighbours.

So the alternative for us can only be co-operation on an equal footing. As we approach the end of the twentieth century, we are beginning to see the emergency of countries which want to reopen questions that many of us thought were settled.

No great power can ignore these developments. I only have to mention Iran, Poland, Afghanistan, Cambodia, Nicaragua and El Salvador for you to see what I mean. In practically every part of the globe the traditional order is at risk, and democracy is being threatened or even suppressed. In this situation it would be madness for our two powers, which are the last great defenders of individual freedom, to engage in rivalry.

In the next twenty years, hundreds of millions of human beings will die of hunger. If present trends continue, then according to the Food and Agriculture Organisation the developing countries will need to import 200 million tons of cereals by the year 2000. Some will be able to pay for them, but others will not. We know that the urgent problems of the developing world will become more pressing: hunger has already toppled regimes in these countries, and it will do so again. In the end, without security of food supplies, there is no security.

This line of thought is not based solely on the experience of those states which are traditionally classed as developing countries. It is related also to the food situation in the so-called state-trading countries. We have witnessed the drama of Poland, and we continue to see the unhappy consequences of what has happened in that country.

Let me therefore assure you that the major problem of the end of this century will be to find financial means to allow the poor countries - including some of the socialist countries - to live and to survive.

We have let this problem of world hunger wait too long. We shall have to act now urgently, with emergency aid and gifts of food to certain countries.

In the next stage we shall have to continue the aid, until ultimately the development of food production in those countries can take over the job. The long-term development of the world economy must be based on the effective launching of the economies of the hungry countries of Asia, Africa and South America. They represent markets of enormous potential.

As the Secretary General of the FAO, Edouard Saouma, has said, "the best investment that the developed countries can make is to turn today's starving poor into tomorrow's consumers".

The developments which I have described show the inter-play between agricultural policies and international actions. For the motives of security of food supply, trading balance and the necessity to supply food aid to developing countries, Europe will maintain and continue to modernise and to develop its agriculture. Europe wished to retain its food independence. Europe has a role to play vis-a-vis the Third World.

However, Europe has no intention of pursuing aggressive policies. We are seeking multi-lateral co-operation whether this takes place within the framework of GATT, in the framework of international product agreements to which we are ready to subscribe or even in bi-lateral agreements.

Agriculture, international co-operation and the development of the Third World are the real challenges of the future.

Challenges which only a few countries are equipped by their history and by their aspirations to face.

Let history not say that we failed to meet the challenge.
