

COMMON MARKET FARM REPORT

BELGIUM, FRANCE, FEDERAL REPUBLIC OF GERMANY, ITALY, LUXEMBOURG, THE NETHERLANDS

THE EUROPEAN COMMUNITY: A DANGER?



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Mr. Mansholt, in an address to the Ninth Federal Reserve District Farm Forum in Minneapolis, Minnesota, on March 3, outlined the problems of European agriculture and European unification for his American audience. He points out that the Community's protection for its agriculture is justified, and that indeed EC support for its farmers is less per capita than the money spent by the United States supporting its farm population. Mr. Mansholt shows that the United States has in fact not suffered from the EC's common agricultural policy but has benefitted from the development and growth of a united Europe. He urges greater mutual understanding and cooperation between the United States and the Common Market to arrive at world-wide solutions to agricultural problems that would also help the less developed countries of the world. Following are excerpts from Mr. Mansholt's speech.

There is increasing concern about the development of the Common Market and a united Europe. We realize that there are problems and questions: Will a united Europe be an asset to world development? Will Europe be protectionist? Will it be a danger or will it be something that one can work with to develop a common policy in international trade, benefitting not only the United States and Europe but also the rest of the world, especially the less developed countries?

Over the past few years we have seen the reaction in the United States and the warnings against protectionism. Very good. You have to warn against protectionism. However, I feel that we are not really behaving as badly as it is sometimes said.

May I add, there is a great lack of understanding in Europe about the United States, its farm pro-

blems, and of what farming is in America. Europeans think: big farms, rich farms, and so on. I think it would be a good thing to have farm forums in all major towns of Europe, where American farm leaders could come and explain U.S. farm difficulties and discuss their problems together with European farmers. It is a lack of mutual understanding that makes it difficult to arrive at common and reasonable policies.

"Europe" is a Political Issue

First, what are we doing in Europe? What does European unity mean? It is a political issue. It is a question of political union. A real start towards a federated Europe was made at the Hague [in December 1969]: first, a decision to go ahead with economic and monetary union; second, the decision to create with the United Kingdom the largest trade association in the world.

It will take more time than we thought to achieve European unity. We fight daily against nationalism, reaction, misunderstanding, and political unwill, but now is not the time to doubt political unification. Just because we are not as close to economic and political union as the United States would expect, it is not the time to despair. We cannot stop at a mere tariff union.

U.S. Negativism to Unification in Europe

I can understand that the United States does not believe that Europe will unite and achieve political union and that the United States does not want to pay the price for a mere tariff union or preferential area of a commercial character -- without political union.

The question now is, does the European Community work? Yes, it works as a tariff union. It works as a common agricultural policy (CAP) with all its ups and downs. One price system, budget, and common financial responsibility. We are also starting a common commercial policy. In other fields, however, there has been no progress for many years because of political controversies in the Community. As you know, French President De Gaulle had another view of Europe than most of the other governments and frustrated our goals for many years. We have created institutions of supranational character that can make decisions, that are law in the six countries: a Council of Ministers, an independent Commission, a European Parliament that will have great powers in the

future, and what can be called a supreme court, in Luxembourg. These institutions are the political force in our Community. However, after the French devaluation and German revaluation, it is clear we cannot create a tariff union without an economic and monetary union.

At the Hague summit conference political decisions were made to move toward an economic and monetary union; and even more recently, on February 9, it was decided to begin the first stage of such an economic and monetary union.

As for British entry into the Common Market, and that of Denmark, Norway, and Ireland: All problems can be solved -- the financial participation, the balance-of-payment problems, certain problems in the agricultural sphere, the preference problems. The political will to achieve success is there. We hope that in England itself the population and the political forces will want to join.

Criticism of the Common Agricultural Policies

There are misunderstandings in the United States about our common agricultural policy, as there also are in Europe. The European Community's basic problem is that there are six million farms on 170 million acres; that means an average of 30 acres per farm. Fourteen per cent of our population is engaged in farming. The farms are much too small, and this creates a social problem. Eighty per cent of our farmers have an income that is two-thirds that of the industrial worker. Eighty per cent of our farmers are on farms that are too small. Fifty per cent are over 55 years old, and of these two-thirds have no successor on the farm -- no son or daughter who wants to stay. Eighty per cent of the farms do not have enough rational work for one man. The European problem is the small farm; and, at present, interest rates in Europe are too high to think of investing in these small farms.

Currently, there is a general inflation of 5 per cent a year in Europe and wage increases in industry and services have amounted to an average 14 per cent. That is why our farmers are demanding higher prices -- for a higher income. However, higher prices are not the answer. Our prices are already the highest in the world, we can't increase prices more, to do so would only increase the gap between the large and the small farmer. The only way to increase general farm income is to reduce the number of farmers as soon as possible. That means a structural and social reform program.

We aim to reduce the farm population from 10 million to 4 to 3 million in ten years, reduce total acreage but increase acreage per farmer, and increase output of a farm family without increasing total output. First, we propose giving a premium (not a subsidy) to farmers 55 years and older to leave and either rent or sell their land. Second, we will give subsidies to encourage young farmers to transfer to industry, and provide a guaranteed income while they are studying to make it more attractive for them to shift into industry and other activities.

Third, we plan to give development subsidies to families who stay to improve farms, but only if the farmer submits development plans which guarantee a minimum of 2 men per farm. Fourth, we propose to take 12.4 million acres -- 6 per cent of total acreage -- out of production.

This plan was submitted two years ago. It now has received the general approval of the European Parliament, being adopted overwhelmingly by all parties, except the Communists. The Council of Ministers will meet to adopt these measures. (Agreement was reached at the March 25 Council

meeting, details in next Farm Report.) The program will eventually cost about \$3 billion a year; however, the costs will start low and accelerate to this amount over five years. Fifty per cent is to be financed by the Community, the rest by the member states; but it will be worked in such a way that the Community financing will put 75 per cent of the monies in backward regions of the Community (i.e. Sardinia, Sicily, Southern Italy) and only 25 per cent in other regions (in Germany, France, and Italy). None will go to the Benelux countries which have no need.

In the meantime, for prices, we have proposed a 5 per cent increase for milk (no more surpluses are left in the Community), barley, and wheat, and 10 per cent for meat (5 per cent this year, 5 per cent next). In view of inflation there is not much else to do.

But, we cannot increase prices freely. That is why, in the plan, we apply new "direct payments" to certain categories of farmer, grants of incomes payments -- social payments -- not for production but to families.

The price increases our farmers want are not possible. Nor can prices go up after the United Kingdom and other applicants join the Community. In two years the United Kingdom will be a member of the Community (January 1, 1973); agricultural prices in the United Kingdom will go up -- their cereal price by 30 per cent; Danish milk will increase by 60 per cent, and the United Kingdom and Ireland will have to increase their meat prices by 75 per cent to our Common Market level.

Trade

Trade is the complement of production and consumption. In Europe we will soon have one internal market, a preferential system of ten countries -- just as the United States is a preferential system. There will be one external tariff, one world policy. We have had to hammer together six separate markets and that has caused great complications and changes in competition. Soon we will be adding another four to this market. We will need still another 10-15 years to create specialization within the Community. We are attempting this. It's hard. Already 50,000 farmers in Bonn have protested against the development of one market; 30,000 wine producers in France have protested against our wine market and against Italian wine coming into France.

In the period of adopting production to a new common market, we cannot use direct control on production quotas or set-aside programs as are used in the United States. Quotas are based on past years' production. However, we can't freeze ourselves into the present situation, not if in the future we are to develop specialization and rational production. That would be to put the clock backwards. Production quotas are not possible. We are now introducing direct income subsidies. Our aim is to stop small farming -- something that can not be solved by pricing. We must regulate the market by 1) low prices, 2) deficiency payments, and 3) structural reform. But in the European Community it is not so easy to change.

Foreign Trade

Is the Common Market a threat to international trade? Are we dangerous because we protect our markets? Or, is the United States dangerous because it protects its markets? We are still in a transitional period, which is inevitably a difficult period where the right policies are hard to define. But I think the basic elements of our protection are justified to protect against a

chaotic world market, against the world market's lower prices. Our objective: to give social status to farmers comparable to workers in other industries. It will be a wrong system if feather-bedding is maintained and if no structural reform and no regionalization is undertaken.

The CAP has been working for five years. There has been, of course, a shift in production, and the European Community has had to go to animal husbandry. The European Community can either import all the basic food stuffs, say cereals or feed cakes, or import the chickens and meat -- but not both. (The "chicken war" was basically a result of a lack of mutual understanding and lack of international policy.) The European Community prefers to import cereals, including feed cakes.

There really is no reason for complaint, we have had a careful price policy. For instance, in the past six years there has been no increase of wheat or barley prices in Germany; there has been a slight decrease. In the whole European Community between 1958 and 1969 there has been almost no increase in acreage for cereals (less than 1 per cent). There is less wheat, a little bit more barley, and more corn -- but total area has not been increasing. Increase of production per acre yes, that is normal -- we have learned that from Nobel Prize winner Norman Borlaug. Increased production by means of new breeds and intensification has meant an increase per acre of almost 3 per cent every year. While we have had an increase in cereals, we still need more imports because we need more feed stuffs in our effort to produce more meat, pigs, poultry, and so on. The Common Market between 1958 and 1969 generally increased its agricultural imports by 50 per cent.

Mansholt Suggests New Trade Talks

In an interview with Muriel Allen of The New York Journal of Commerce on March 8, during his visit to the United States, Commission Vice President Sicco Mansholt called for the United States to initiate informal international talks to discuss world trade problems in the 1970's.

Mr. Mansholt said that in his talks with officials at the White House and at the Departments of State and Agriculture, on March 4 and 5, he had stressed the need for new economic guidelines for the coming decade, especially to deal with difficult agricultural trade problems arising from the enlargement of the Common Market and on traditional preferential trade associations. Mr. Mansholt said he would like to see such talks begin this year and be followed by a formal round of negotiations within the General Agreement on Tariffs and Trade. He emphasized he was speaking personally and not for the Community. He noted that it was unlikely that the European Community countries could initiate the informal talks because they are "paralyzed with the problems" of enlargement.

Miss Allen reported that what Mr. Mansholt had in mind as a beginning was a restricted brainstorming, stocktaking session which would create a framework for formal trade negotiations and that this could be carried out by a group within the Organization for Economic Cooperation and Development (OECD). The informal talks could start immediately following ratification of Great Britain's entry into the Community, and before its official entry which is projected for January 1, 1973.

The increase in agricultural imports from the United States during this period was almost 100 per cent -- the European Community nearly doubling its imports from the United States. Imports from the United States of products covered by the Common Market organizations -- and this includes cereals -- increased actually 300 per cent! Judge our policy -- you in the United States have had your part of our increasing and expanding market!

Total U.S. agricultural exports to the European Community have increased from \$1.269 billion in 1969 to \$1.559 billion last year, an increase of 23 per cent, an increase that was greater than the growth of U.S. exports to the rest of the world (21 per cent). The European Community's imports of soybean oil, oilseeds, and cake have shown a considerable increase, from \$460 million in 1969 to \$629 million in 1970. There has been an increase, too, in imports of feeds, wheat, and flour. 1966 was a peak year for imports from the United States (a bad year for EC production); we have now passed that peak. There has been an average general increase of imports. So, we have protection; but that does not lead to autarchy, and the United States has shared in our growth. Can this protection then be called excessive?

Comparison of U.S., EC Marketing and Income Policy

The European Community's situation is different than that of the United States. The United States has an abundance of land, fewer farmers. The European Community has an abundance of farmers, less land. You can reduce land through premiums; we have to reduce the number of farmers by means of premiums. Both programs can be good: the situation is different, so the program is different. There are too many small farms in the Community, one cannot use a set-aside program with small farms. It is almost a political impossibility to take away the land of the small farmer. First we must reduce the number of farmers. The structural reform will reduce the land acreage by 6 per cent or 12.4 million acres. Our milk production is now in balance, a result of structural changes.

Our system of protection is different from the U.S. system, but both of us have such systems. Both are good. We both have a level of support in common, one by direct subsidies, the other through higher prices. I am not attacking the quota system the United States has. It is just that the Community has another system. Is the Community's protective system too great? Let us make a comparison of protection in the United States and the European Community. Let us compare what would happen if agricultural support in all forms were stopped. Farm income in the United States would drop 44 per cent; in the European Community 50 per cent. This would come to a \$1,300 per man drop in the United States and an \$860 per man drop in the European Community. The EC support doesn't seem to be too excessive, it is lower per man than in the United States. This is the way to judge the policy.

Actually, we must get to the roots of the problem. Our aim is to get an international agreement on agricultural policies. And we offered such an approach during the Kennedy Round of negotiations, but the United States said no.

International Trade

The U.S. argues for free trade; and the European Community wants better organized world market agreements. Is there really "free trade" when there is so much manipulating of production and trade on a national basis? Is there a real base for the world market price of the product, or is it more or less the result of national policies,

where both the United States and the European Community subsidize between 44-50 per cent of farm incomes? What about the other countries in the world who can't afford to do that, who don't have the riches to subsidize their products, -- is this really free trade? Look at the developments on the rice market and the dumping there: Brazil and the United States getting rid of their rice with great subsidies. As long as the world market is not better organized we cannot give up protection.

For instance, the European Community has made a proposal for an international agreement on cereals, not just wheat. We proposed an overall wheat agreement (including stockpiling arrangements) but the United States refused. The wheat agreement did not work out. There really is no wheat agreement anymore. We failed on the wheat agreement. I see low prices and a new crises. The answer is that the United States doesn't want agreements on grains, dairy, fats and oils. We were willing to bind our hands with an international agreement that could mean something -- a better organization of the world market. You want your freedom; well, we will have ours. Do not blame us for increasing our barley prices 5 per cent. We are free at this moment to do so, because there is no international agreement.

I can only feel bitterness looking at all the failed chances. I see the time coming when production will again get out of hand and there will be low prices. We have to live together; wouldn't it be more advisable to sit down and agree to world prices? To help each other? We, on our part, will study the difficulties, such as tobacco and citrus; we will be talking to the U.S. Administration on these matters. But, don't blame the European Community for raising prices. Where there are not international agreements, the European Community is free to increase its prices. We remain willing to bind our support prices. It is the level of supports that must be discussed, product by product.

Impact of U.K. Entry on Free Trade

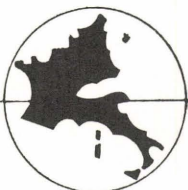
Will there be an impact on world trade if Britain enters the Common Market? Of course there will be! There will be one market of ten, that means in five years we will have a large preferential area, just as the United States does. It will be the world's second largest industrial area, the world's first largest trading area.

On January 1, 1973, there will be full preference on all agricultural products of the Ten. This is what the Council approved. The full Common Market system, the entire machinery, will be applied by the enlarged Community at that time. Prices for agricultural products will be given five years to adopt to the European Community, that is, by 1978 -- the date set for full economic and monetary union of the European Community. There will be no increase in prices in the five-year transition, and the United Kingdom will participate in all price decisions from January 1, 1973.

What the meaning will be for world trade is difficult to predict. We will try to avoid any shock. There will be an impact for butter, bacon, sugar, and certain vegetables and fruits; however, we will take special measures to avoid a shock for third countries. There will be no difficulties, of course, for products where we don't have any protection, not even tariffs, as for soybeans. That should not be too difficult for the United States; where there is no protection, there is no problem.

For cereals, there will be no shock at the beginning; there will be no direct change. In fact, there will be an "anti-preference" in the system. It will be much easier for the United States and other third countries in the beginning. Depending on the cereal market in the United Kingdom, the United States will initially have better entry into the U.K. market than the Six. But not for long, as French wheat moves on to the British market. Later there will be an impact on world markets. At any rate, it is impossible to be entirely sure of future results. It may be that because of new shifts to direct payments the European Community may even have to reduce some prices after U.K. entry, or to reduce some prices before, to meet prices in the United Kingdom upon entry. There will be some shifts in markets, that is normal. All depends what price and support policy will be followed in the Community of Ten. It is the support policy which will decide whether there is an outburst of production or not. I must remind you we are free in what supports we now give our farmers. We must reconsider this in light of our offers made during the Kennedy Round. We must reconsider the platform to discuss these problems. We must reconsider the structure and usefulness of GATT. We must reconsider our interest, and reconsider the interests of the third world.

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