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Notice to Members

Subject: Speech by Commission Vice-President Andriessen
on 6 June 1985

Members will find attached the statement by Commission Vice-President Frans Andriessen to the EC-US Journalists Conference in Maastricht on 6 June 1985. This reflects the latest position of the Commission on US/EC agricultural trade relations.

(This document exists in English only)

DIRECTORATE-GENERAL FOR COMMITTEES
AND INTERPARLIAMENTARY DELEGATIONS

United States - European Community
Agricultural Trade Relations

Statement of Frans Andriessen, Vice-President
of the European Commission,
for delivery at the EC/US Journalists Conference,
Maastricht, 6 June 1985

Ladies and Gentlemen,

It is a pleasure to be with you today to discuss a question which is at the centre of Europe's trade relations with the United States - that is, agriculture.

It is a special pleasure for me to meet with Secretary Block, and other American friends, here in my own native land.

It is well known that the people of the Netherlands, like other European peoples, played a part in the history of the United States. We must never forget the bonds of family, friendship and trade which have linked us for centuries.

We in Europe today are embarked on our own effort to create a union - an economic and political union, blending our nation states into what will one day be a United States of Europe. We know that you support us in this endeavour, not only because of our shared ideals, but because America needs a Europe which is strong, rather than weak, a Europe which can speak with one voice.

It is against this background that I want to address my remarks this morning on agricultural trade.

Agricultural trade is big business, not least for the European Community and the United States.

Our combined trade flow in agricultural goods, with all our partners, is running at about a million dollars a minute.

Business on this scale creates its own problems, if for no other reason than its size.

It is bound to have a marked impact on, and be affected by, domestic agricultural conditions, both in the Community and the United States, as well as elsewhere.

These massive trade flows take place in a world beset with many difficulties, such as:

- * chronic over-supply for many farm commodities;
- * erratic and even irrational currency movements;
- * problems with the functioning of the GATT-based multilateral trade system.

The problems seem to grow each year. Indeed, they seem to approach what in nuclear physics is known as the critical mass which in turn may lead to a series of chain reactions.

Everyone involved in formulating agricultural policy therefore bears an enormous responsibility. The Community and the United States represent by far the largest international agricultural trading entities. So the responsibility to which I have referred must be carried to a significant extent by the policy-makers present here today.

Before I analyse how we should measure up to our responsibilities, let me say this. Not all the problems can be solved, even if the political will is present. But the insoluble problems are often those which are false or imagined. The others, given the political will, are all capable of solution.

It is therefore imperative to distinguish between the real and the imaginary problems in order to focus correctly any remedial action.

It is a basic human weakness, when confronted with difficulties, to seek to place the responsibility for one's plight upon others. This reaction is only too well-known in the world of agriculture. It occurs between the Member States of the European Community. It is invoked on both sides of the Atlantic, with respect to those on the opposite shore.

For example, a thesis which has many supporters in the United States, is that the acute problems now facing American farmers stem directly from the various mechanisms of the Common Agricultural Policy. I do not believe that thesis stands up to examination.

In the seventies, when international markets were buoyant, world trade in agriculture expanded by some 15% per annum. There were few clouds on the horizon.

When world trade in agriculture took a downturn in the eighties, certain things became more apparent:

- * the interdependence of agriculture on a world scale became more obvious
- * the desire to find scapegoats grew.

The scapegoats have been found, and they take different forms.

For some, it is a dissatisfaction with GATT provisions. One of the reasons for dissatisfaction stems directly from the exceptions which were made from the basic GATT rules for primary products.

But these exceptions were not introduced at the insistence of the Community or its Member States. They were introduced by the United States, because Congress wanted them, in order to maintain U.S. domestic prices above world levels.

These exceptions still form part of the rules in force. In particular there is the "waiver", granted on a temporary basis to the United States over 30 years ago. There is also a general derogation permitting export subsidies on primary products. When this derogation was examined by GATT in 1958, the USA was foremost in rejecting calls for a prohibition of export subsidies on such products.

These exceptions and derogations existed when the Common Agricultural Policy was set up. The Community was not granted a "waiver". It obtained the right to support its internal prices above world levels through import levies and export refunds - and it purchased this right by consolidating its import duties on a number of products.

Let us also not forget that the Common Agricultural Policy was set up soon after food ration books had been discarded in Europe and starvation remained in the minds of many of our people.

The backbone of the Common Agricultural Policy is its system of intervention, import levies and export refunds. Although this system is compatible with the GATT, it suffers from a particular disadvantage.

Its mechanisms are clearly visible. It is 'transparent'.

But it is an error to assume that its mechanisms distort trade more than other less visible tools.

A good example of the less visible tool is special credit programmes for agriculture. Such programmes have enabled farmers in some countries to enjoy access to loans at lower interest rates than other sectors of the economy. This stimulus to agriculture cannot fail to have an impact on international trade.

Another example, which is wrongly considered to be more trade neutral, is the system of deficiency payments.

This too can have a marked impact on production, consumption and trade. The United Kingdom, before it joined the Community, applied a deficiency payments system. But its agricultural production and consumption developed for each main commodity at similar rates both before and after it switched to the Common Agricultural Policy. Thus the theory of the distorting effects of the Community system are not borne out by the facts.

The essential point is that few support measures can be said to be neutral with respect either to production or trade.

Consequently, if we focus attention on the trade distorting effects of one or other policy instrument, we may deflect attention from the underlying problems. This may enliven the debate, but will not enlighten it.

As a matter of fact, I found quite some enlightenment regarding the problems facing agriculture in a speech which I read in December last year, before I took up my present duties in the European Commission. It was a speech made in Washington by Secretary Block, setting the scene for the U.S. Farm Bill. He made three points:

- * first: "New Advances in agricultural science will lead to further large increases in farm yields".
- * second: "We can no longer afford large, explosive open-ended budget expenditures for farm price-support programmes".
- * third: "It is our responsibility to challenge foreign competitors, rather than unthinkingly aid and abet them".

Well, I gave John Block a high score for the first two points, but no quite such a good mark for the third one.

We have studied with interest the development of the Farm Bill.

We read in the U.S.D.A.'s notes on the Farm Bill, that in recent years the world recession, the high value of the dollar and problems of debtor nations have made it very difficult for U.S. agricultural commodities to compete in the international market place.

We read that this problem has been aggravated by the high and rigid levels of U.S. price and income supports.

I do not want to dwell too much on these points. I simply want to say that we understand these problems, and the political pressures which they generate.

We too, on this side of the Atlantic, have analysed the problems which face our agricultural policy, and we have made a start in trying to solve them. As long ago as July 1983, in the so-called document 500, the Commission pointed to the need for adaptations of the CAP required because of changed circumstances. We argued that short-term palliatives could not remedy the problems, and more fundamental changes were needed to put the CAP on a sound economic and financial footing. Market disciplines had to be accepted, and a greater accent placed on production at a competitive price.

Since then, Commission proposals have led to important Council decisions.

We now have production quotas for milk, and no longer an open ended support system for most other major products, with the generalised application of "guarantee thresholds". For wine, significant policy changes have been made to bring home to producers the realities of the market.

The 1985/86 farm price negotiations constituted further progress. For the third consecutive year support prices in the Community have been adjusted by amounts below inflation, and in certain cases prices have been cut. In addition the Commission through various market management instruments has tried to make producers more aware of

market realities. There is of course bound to be a time lag before producers respond fully to these new signals, but the impact of the policy changes is already beginning to be felt.

At Siena last week, the Agriculture Ministers of the Community agreed to take a new look at the long-term prospects in this framework. I told them very clearly that the only sound approach for the CAP in the medium and the long term is to give to market prices a greater role in guiding supply and demand. If we do not succeed in this, we shall find ourselves sooner or later extending the empire of quotas. But quotas are no real solution: for if the limitation of quantity is compensated by higher prices, this in turn reduces demand on our own markets and makes our exports less competitive.

In our examination of the prospects for the CAP, we are looking at external trade. The basic premises from which we start include our determination:

- * to maintain our position on the world market, taking account of future demands;
- * to retain our system of import levies and export refunds, which are in conformity with our international obligations;
- * to implement Community preference, which is the equivalent at the Community level of the priority given to domestic production in a national market.

As regards the export system of the Community, we have to consider whether the difference between our prices and those on world markets should be covered in whole or part by our own producers. In this context there exist a number of possible models, of which one example is the Community's sugar regime.

Another basic consideration is that trade in agriculture, like trade in other products, is a two-way street. Europe remains the world's first importer of agricultural products, but it is now also the world's second exporter. The Community, if it wishes to enhance its exports, must respect the possibility of imports. This does not however exclude the question of adjusting our import production, if necessary to correct certain imbalances.

At the level of trade mechanisms, we are examining the possible diversification of our instruments, to include those used by competitors on the world market, such as export credits, long-term supply agreements, and linkage between commercial exports and food aid. A number of questions also have to be examined concerning the better management of import levies and export refunds. Finally, we must see how we could encourage the export of higher added-value by means of our processed agricultural products.

I believe that the debate which took place at Siena last week marked an important stage in the development of our agricultural policy.

The US too is in the process of formulating a new farm policy.

This policy is presented as being "market-oriented".

The Community cannot object to such an orientation in principle. But we are concerned to know what it means in practice.

The Farm Bill calls for plans to be drawn up to remove that are described as major agricultural trade barriers. Such action, which is envisaged on a bilateral basis, could run counter to the GATT based multilateral trade system.

Another question is whether the new Farm Bill will really be more market oriented. In other words, to what extent will reductions in the loan rate be compensated by other forms of support such as deficiency payment? How does one reconcile the stated objective of market orientation with the recently announced Export Enhancement Programme? What effect will this programme have on world markets?

I put these questions not in an aggressive manner, but to illustrate our legitimate concern. Personally, I do not believe in "megaphone diplomacy". I prefer to discuss matters in a calm and rational way - and I certainly hope to do so with Secretary Block in the coming days and weeks. I know that there are no simple solutions to these complex problems.

In my view, any objective analysis of the present situation leads to the conclusion that we have a common problem.

Existing agricultural policies, in the Community, in the US and in many other countries lead to an excess of supply over demand and thus risk a destabilisation of world markets. The US government has proposed drastic policy changes. We on this side of the Atlantic believe that evolutionary reform is better than revolution. Perhaps it is a difference of pace and style, rather than a difference of direction. We all know that a continuation of present policies will lead to increasing surpluses and costs, as well as to increasing friction and conflict in international trade. Moreover these policies do not serve the best interests either of our societies as a whole or the real needs of agriculture. Change must therefore be accepted.

All commentators however recognise that adjustment of policy whether in the Community, the USA or elsewhere is painful and politically hazardous.

On this point too, I learned a lesson recently from an editorial in the Washington Post. Discussing the Farm Bill, the newspaper remarked that "economists usually talk as though people welcomed economic growth. People welcome higher pay for what they're used to doing, where they're used to doing it. But economic growth strikes a much harsher bargain. It makes society richer, but only by requiring people to leave their accustomed ways of life. It imposes immense strain on the people directly caught in it, a kind of cost to which economics pays little attention".

Moreover, for the Community, the future adjustments are more problematic because of the imminent arrival of Spain and Portugal. This enlargement of the Community from ten to twelve is an achievement of major political significance. It will however entail changes in many agricultural sectors, in competitive forces, and in the Community's degree of self-sufficiency for some products. Consequential changes in trading patterns will therefore result.

I have tried this morning to give you some reflections on the progress of efforts to adapt agricultural policy, both on our side and on your side of the Atlantic. What do the results show?

To a large extent it is too early to judge. Adjustments in both the USA and the Community to the new circumstances of the 1980's have been initiated. But generally these adjustments have only been partially implemented and thus the full impact has still to be experienced.

Nonetheless, where decisive action has been taken, notably in the Community with milk quotas, the results are already significant.

Perhaps even more important, attitudes of all involved in agriculture have changed. This is a desirable and necessary development. Recognition of a problem is a precondition for its resolution. A few years ago many refused to even acknowledge the existence of increasing problems of over-supply brought forth by a variety of policy support measures. Such attitudes are now more rare.

We in the Community will continue to play our part to help to resolve the problems facing trade in agricultural products.

We will do this in our internal deliberations and decisions, despite their shortcomings.

We will do this through negotiation with our international trade partners, in particular in the established institutions such as GATT. Here too the shortcomings are evident, but with a will, improvements can be made.

We count on our American partners to do the same.

Let me finish by returning to our historic sources, to put these agricultural problems in perspective.

This town of Maastricht grew up because the Romans made a bridge here across the river Maas nearly two thousand years ago, at about the time when the Roman poet Virgil penned some wise words, with which

I know Secretary Block will agree. He said 'God did not will that the way of cultivation should be easy'. So it is with agricultural trade: but, if there's one thing you must possess to be a farmer, or a farm negotiator, it is patience and skill, and with those two virtues we can surely find the way.

