

"THE COMMON AGRICULTURAL POLICY  
AND  
ITS IMPACT ON THE UNITED STATES"

Address presented

by

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PERCENTAGE SHARES OF WORLD WHEAT TRADE

(includes Wheat Flour)

1981/82 and 1984/85

<u>Crop year</u>	<u>US</u>	<u>CANADA</u>	<u>EC</u>	<u>AUSTRALIA</u>	<u>ARGENTINA</u>	<u>OTHERS</u>
1981/82	49	17	14	11	4	5
1984/85	37	17	16	14	7	9

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Source: I.W.C.

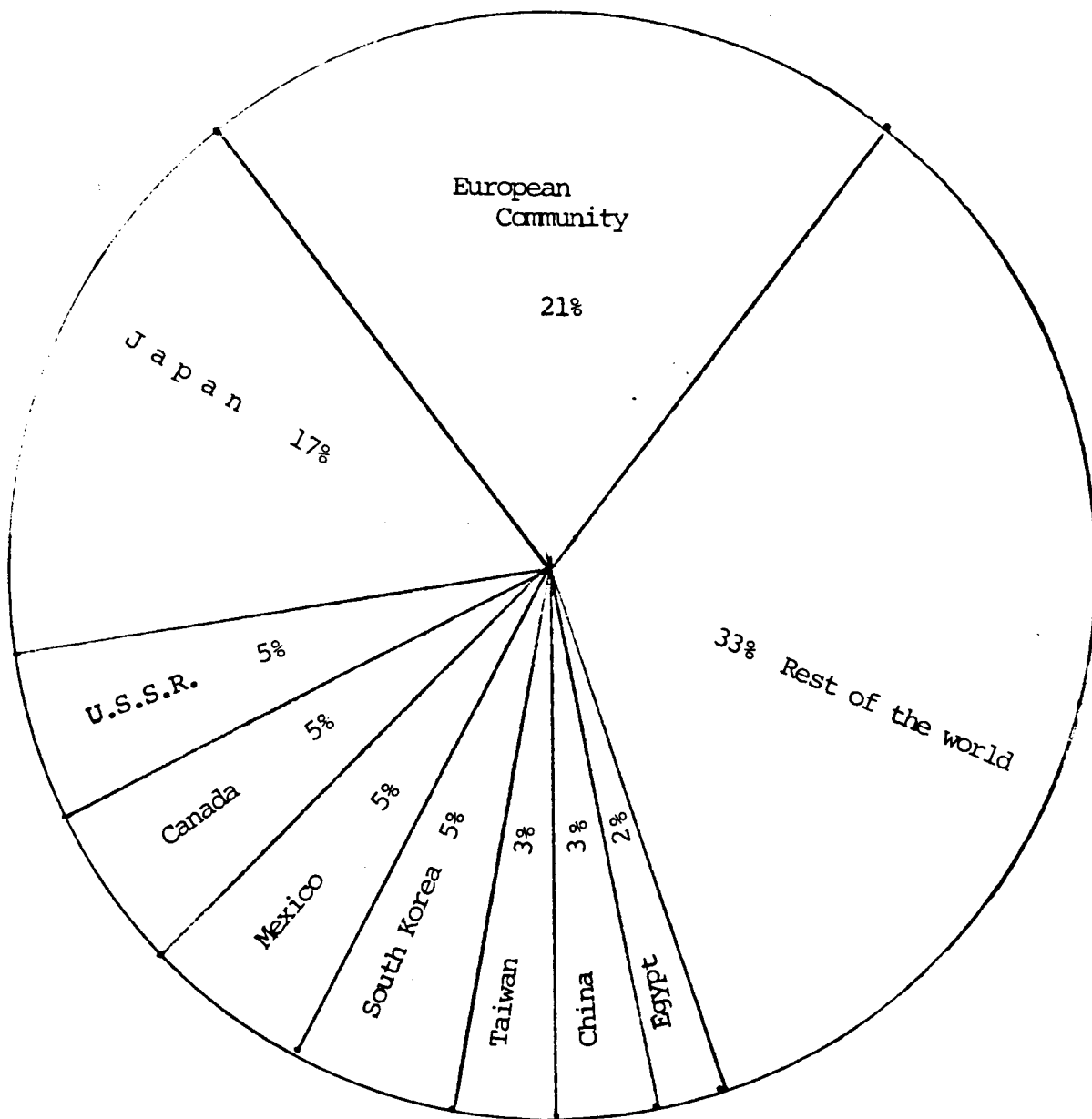
US AGRICULTURAL EXPORTS  
- Major Destinations -

(Total of fiscal years 1982, 1983, & 1984)

US EXPORTS	VALUE	%
T o t a l	(US \$ bio)	
	111.89	100
of which to		
E C	23.24	21
JAPAN	18.57	17
USSR	5.87	5
CANADA	5.68	5
MEXICO	5.24	5
SOUTH KOREA	5.14	5
TAIWAN	3.82	3
CHINA	3.06	3
EGYPT	2.69	2

U.S. FARM EXPORTS  
- Major Destinations -

(Percentage of Total Value - Fiscal Years 1982, 1983, & 1984)



Source: USDA - FATUS

This programme may be seen here as a way of adjusting the tilt of the playing field. But the direction of the tilt in the playing field, like beauty, is in the eye of the beholder. It depends on the direction in which you are playing. Both sides can and do claim they are kicking up hill. Rather is it a case of a bumpy playing field. Let us work together to smooth out these bumps rather than engage in the sterile exercise of depressing even further the prices on a world market already awash with the products from American and European farms and, indeed, from around the world.

And, returning to the question of impact, this is a process that can only have a negative impact on the returns of all our farmers and will only serve to broaden the knowing and anticipatory smiles on the faces of our customers whilst they wait smugly patient for prices to drop even further.

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DR/sbh

5 Nov. 1985

neither the world market nor our budget could realistically be expected to bear.

It is, therefore, no secret that the Commission plans to propose within the next few days a package of measures for the grains sector which we think will take account of a situation that could very easily spiral beyond control.

So, Mr. Chairman, in summary -

Yes, the CAP does have and will continue to have an impact on US agriculture both across the Atlantic and across the world. The EC is both a major customer, which it would hope to remain, for your products and a competitor who plays by the rules. We intend to remain an exporter of farm goods. As a - we hope - valued customer and law abiding competitor, we do not much appreciate being targetted by provocative initiatives such as the Export Enhancement Programme.

Let me take this opportunity to assure you that we will defend our commercial interests in targetted markets and to confirm that the EC will file a trade complaint against the programme which, in our view, clearly violates the GATT Subsidies Code.

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And what gives rise to added concern is that with little prospect of strengthening of grain prices here, the feed cost ratio for dairy cattle could stimulate even larger increases in milk production.

On the grain side, <sup>in the Community,</sup> we/are now faced with a situation of market imbalance which is no less serious than the one that forced us to impose production quotas on our dairy farmers.

Earlier this year, the Commission - the Community's executive body - had to step in and introduce a 1.8% cut in grain prices (market prices have fallen much more - by at least 10%) since the Council of Ministers found itself unable to take the step itself. Of course, a cut of 1.8% on its own is nothing like sufficient to deal with the situation which now stares us in the face.

Any action we take in the grains sector will have an impact on EC/US relations. While, as I explained earlier, the EC does not accept that our export refunds (or subsidies) have resulted in our taking an inequitable share of the world grains market, we are very conscious of the uncomfortable fact that the divergence between the trend of European grain production (currently about 140 million tons and rising at 2% to 3% a year) and that of consumption (117 million tons and rising much more slowly) will lead to exportable surpluses which

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Both of us share depressingly similar problems - surplus production, stagnating markets and budgetary exposure. I referred to technical progress a little earlier. In the EC, this has led to a spectacular increase in productivity. Agricultural production has increased at an annual rate of about 2% whilst demand has barely achieved  $\frac{1}{2}$  % per year. From which you will perceive that productivity increases have not been extended to family size.

Faced with these problems, both sides search for solutions. Debate on a new Farm Bill continues in Congress whilst we, in the EC, also talk but have already taken some steps to put our house in order. We do not pretend that we have found the magic cure-all and that we can now sit back and relax. But painful, unpopular and effective measures were taken last year to reduce our dairy output. Quotas were introduced and in the first year of operation milk production fell by 5% - with further falls expected this year. However, one of the factors that will not make the continued operation of this programme any easier - and we are committed to press on for another 3 years - is that whilst our dairy farmers are cutting back on their own output, they look round the world and see most of the other major producers - and this includes the US - increasing theirs.

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international trading rules provided that they are not used to gain more than an equitable share of the market or to undercut world market prices. The EC has observed these rules and I submit that the figures I gave you earlier on world wheat market shares bear this out.

But, there is no getting away from the fact that we, like you, subsidise our agriculture to an increasingly expensive extent. However, perhaps I should try to comfort my hard pressed colleagues in Brussels with the news that USDA now accepts that, whilst the US spends less than Japan on its farmers, it spends more on its 2 million farmers than the EC does on its 8 million and, further, that Secretary Block announced some two weeks ago that federal spending on direct farm price support cost 18 bio \$ in 1985 and would reach 20 bio \$ in fiscal 1986. Expenditure in the EC is expected to be within budget this year at just under 15 bio \$ and around 16 bio \$ next year.

I make these observations not to be argumentative or critical, but only to point out that farm subsidies are not a monopoly of free-spending Europeans, which brings me back to a point I made earlier about similarities between the EC and US causing impact.

US Wheat listed the following reasons for the decline :

- the value of the dollar ;
- economic stagnation and debt problems  
in client countries ;
- US wheat prices above those of competitors ;
- US trade policy (eg. grain embargoes and re-  
actions to such measures as restrictions  
on textile imports) ;
- cargo preference.

You can imagine that I studied this list with some care but try as I would, nowhere could I find even a passing reference to the impact of the CAP !

As to the other important sector in the 25% - dairy. Here, on examining the trade figures, one finds that US exports of subsidised dairy products - particularly of skim milk powder, have expanded rapidly recently. Although rarely reaching 15% of total world trade up to 1982, the US now has more than 25%. A gain made largely at the expense of the EC. This should not be unwelcome news to those in the hall from Wisconsin - America's dairy land.

On the question of subsidies to agriculture, allow me to make two general points. The first concerns subsidies on farm exports. These are permitted under

Much has been made recently of the allegedly unfair way in which the EC is said to have taken away large portions of the US share of the world wheat market. Even to the extent that the President recently instructed his Trade Representative to initiate proceedings against us under the GATT.

It is not difficult to understand the sense of frustration over lost markets. But let us take a cool look at the facts of the situation.

International Wheat Council figures show that the US share of the world wheat market has quite clearly fallen from its peak of 49% in the 1981/82 marketing year to 37% in 1984/85 - a loss of 12%. However, what the same figures also show and equally clearly - is that the EC share has moved only marginally over the same period from 14% to 16%. Thus, the bulk of the lost US share has gone to exporters other than the EC. What the figures do not show is the doubling of the quantity of grain taken off the market and put into store in the EC.

That the US has not continued to enjoy an ever increasing share of the world wheat market as it did in the late 70's and has lost some of its predominance is indisputable. The reasons for this were very clearly spelt out by US Wheat Associates only two or three weeks ago at a congressional hearing.

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A careful analysis of the sort of products that we both grow and export shows that for 75% of all US farm exports, competition from the EC is for the most part non-existent or, at best, indirect (for example soya, cotton and corn). From this it should be clear that it is not the impact of the CAP that is responsible for the problems which the US might be suffering as regards the bulk of its farm exports.

"Ah yes", I hear you cry, "but what about the other 25% where we do compete and what about those enormous subsidies that the EC lavishes on its farmers?". Let us take these two points one at a time.

In the 25% of your trade where we do compete, there are only two really important sectors. Those are wheat and dairy products.

Both, of course, are products of considerable interest to the Twin Cities and to this region. Much of the wheat that is grown on the Northern Plains and exported via the Gulf is barged down the river at the end of this street - (at something less than cost - I might add - thanks to the generosity of the US Corps of Engineers). And, in Wisconsin and Minnesota, of course, you have two very important milk producing states.

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But in addition - and this is a point that it is impossible for me to stress too vigourously or too often - the EC has been over recent years, the United States' best customer for farm goods. Even in 1984, with a very strong dollar discouraging US exports, the EC bought US\$ 6.7 bio worth of American farm products and ran a farm trade deficit with you of US\$ 3.6 bio. Over the last three years, the US has sold over 23 bio dollars worth of farm goods or 21% of all its farm exports to the EC. This compares with 17% to Japan and only 5% each to Canada, the Soviet Union, Mexico and South Korea.

From this, Mr. Chairman, it would not be unreasonable to conclude that the transatlantic impact of the CAP is far less harmful to the US than is frequently alleged.

This is a conclusion that is reinforced when it is kept in mind that most US farm exports to the EC enter without import charges. For example, in 1984, despite having available ample supplies of our own feed grain, we imported, free of any levy or duty whatsoever, one third of all US soyabean exports and almost half of all US overseas sales of soyameal.

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Over the last three years EC farm exports have fallen by a similar proportion to those of the US, but over the decade they rose by some \$15 bio. Our imports, on the other hand, rose by \$20 bio.

Second, the similarities. We both have modern innovative agricultural sectors where technical progress rather than the decisions of politicians and bureaucrats has caused impressive - but worrying - increases in production, to the extent that we have both become increasingly dependent on export markets which, because of low economic growth and the desperate problems of indebtedness, have not provided the essential growth in commercial demand.

So much, very rapidly, for some of the factors responsible for this impact. I will now pass to the impact itself and attempt to measure it, limiting myself to the impact of the Common Agricultural Policy - or CAP - on the United States.

I think it would be true to say that this manifests itself primarily in two areas. In transatlantic trade and on third country markets.

As to the first, I mentioned earlier that the EC was the world's biggest importer and the US the world's biggest exporter of agricultural goods.

The title of this particular session, "the Common Agricultural Policy and its Impact on the United States" would seem to assume that there is an impact.

I think that few of us here this morning would dispute this assumption. Just as a similar gathering to this one in, say, Copenhagen (you will notice that I was careful to choose a Scandinavian city here in Minnesota), would be convinced, and rightly so, that US farm policy has an impact on our farming in Europe.

That there should be an impact in one or both directions - beneficial or otherwise - is hardly surprising once a number of factors are recognised. Let me briefly give you two - one is to do with the great difference but dependence between us; the other is to do with the uncomfortable similarities we share.

First, the difference and dependence. The European Community in spite of achieving self-sufficiency in a number of products is still the world's leading importer of farm goods. By contrast, the United States is still the world's largest exporter. Whilst one hears a great deal about the EC increasing its exports in recent years, a fact not generally acknowledged is that our imports have risen much more strongly.