

SPEECH BEFORE THE
FLORIDA SOYBEAN PRODUCERS ASSOCIATION

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Speech before the Florida Soybean Producers Association on February 1, 1980 by Ulrich Knueppel, Agriculture Secretary, Delegation of the E.C. Washington, D.C.

- Frank Ray invited me to speak before your Association on
- the type of agriculture in the European Communities
 - how soybeans are used in the EC
 - and what is the future of soybean export to the Community.

Now, I must confess that I am no specialist on soybeans or animal feed in general, but I think the information I was able to gather and which I will present to you in the second part of my speech, will be useful to you.

Before elaborating on the Common Agricultural Policy let me give you some general data which may help you to get an overall idea of the EC which you certainly know better under the unofficial title European Common Market.

The area of the nine member-countries is about 1/6 of the United States and has a population of 260 million; once Greece, Spain and Portugal join the Community the total population will be about 320 million.

The European Community of the nine countries is the world's largest trade unity with about \$200 billion worth of imports from third countries and about the same value of exports to these countries. The Community is also the world's biggest importer of food. In 1978 we bought \$7.1 billion worth of agricultural products from the U.S. At the same time, EC food exports to the U.S. was only \$2.1, so that your country enjoys with us a net food balance of \$5 billion. I think this figure should be kept in mind when we discuss our mutual relations in agricultural trade.

Before speaking specifically about our agricultural policy let me only mention that the Community is naturally much more than only a trade unity. The EC is also very active in a lot of other fields such as Energy, Research, International Development Aid, internal and external Economic and Financial Affairs, Transport, Fisheries and others.

Some of our latest achievements are the creation of a European Monetary System, and the direct election of the European Parliament, a delegation of which was in Washington only a few days ago.

This new Parliament showed its determination to be a real political factor in the life of the Community only recently when it rejected the 1980 budget. The main reason for this action was the budget outlay for the Common Agricultural Policy which today, plus or minus 15 billion dollars, absorbs 70% of the total EC budget.

When the original six member countries created the European Economic Community in 1957, they gave special attention to agriculture and thereby followed the way that nations all over the world have already gone in the past. Sufficient food supply is the indispensable requirement of independence. In the case of the Community this policy is influenced like elsewhere, by particular climatic, geographic and traditional environments. But in the Community's case other problems still have to be considered due to the fact that the CAP is also a key instrument of European integration.

The CAP is based on the following three principles:

1. Establishment of a single market characterized by the free movement of agricultural products within the European border

2. The Community preference - the mechanism which protects the single EC market from world price fluctuations and ensures growth in intra Community trade
3. The principle of financial solidarity among member states to finance together through a common fund, the cost of the Common Agricultural Policy.

Of these three principles it is the second which primarily interests American exporters / because the Community preference has a direct bearing on access on our market of agricultural products particularly those from the U.S. which is our main supplier.

The principle of national preference is certainly not new to you as the U.S. itself applies rather effective protective mechanisms on ^{imports of} / important agricultural items, just to mention cheese, meat and sugar.

For cheese the U.S. applies import quotas; for meat, a new counter-cyclical import law entered into force on January 1, 1980; and for sugar, the U.S. applies a sort of variable levy that the European Community applies for most of its agricultural imports, soya being an important ^{exception.} /

But with regard to agriculture, social conditions as well as general economic and specific production conditions vary from one country to the other, often more than those in the industrial field, and each country therefore has to find its own ways.

Regarding the CAP as a farm program, the Treaty of Rome enumerates as five main objectives

- to increase productivity
- to secure a fair standard of living for the farm population
- market stability
- supply assurance
- and reasonable consumer prices.

The main instrument in reaching these objectives was the creation of market regulations establishing price targets which are subject to annual review.

Today, 70% of agricultural production in the Community (grains, sugar, milk, veal, pork and other products) benefits from more or less elaborate price support mechanisms bolstered by governmental intervention buying. For other 25% of production (e.g. eggs and poultry) more indirect support mechanisms apply. Finally, for a small percentage of production, aid is given in the form of deficiency payments.

As a whole this program worked rather well. It helped to integrate European agriculture and to adapt it smoothly to more efficient forms of production. Farm population declined by half/^{from} 18 million to less than 9 million, farm size doubled and productivity jumped up. Average farm income increased steadily and kept in path with incomes in the industrial field, but notable income differences still exist between various agricultural regions in the Community. These discrepancies can only be overcome through a strong and effective regional and social policy towards which important steps have already been taken.

The aim of market stability and to ensure reasonable prices to consumers had also been reached. Although food prices are generally higher in the Community than in the U.S., the influence of farm prices in the housewife's shopping basket should not be over-estimated as food prices include a large and growing proportion of costs quite independent from the prices paid to the farmer.

Finally, the aim of supply security has been reached for some agricultural items to a degree even of over-self-sufficiency, as there are e.g. dairy products, sugar, barley and some sorts of wheat. However, for other products and particularly as regards animal feedstuff such as soya, corn, tapioca etc., required for intensive breeding, the Community has increased its dependence on external supplies, which is not without danger as the soya embargo in 1973 showed.

And with these remarks, I come to the second part of my speech.

The fact that EC soya production with its highest harvest ever in 1979, reached only 16,000 tons, best shows our dependence on soya imports from foreign countries.

In 1978 the Community's degree of sufficiency in total proteins was 18.8% and in protein oil meals only 3.5%.

For fats and oils the situation was better. Our degree of self-sufficiency here was in total 56.9% and in vegetable oils and fats, 22%.

The Community's share in world imports of soybeans and meal was 55% in 1978.

The EC's soya supply situation breaks down as follows:

	In 1,000 T	
	<u>1973</u>	<u>1978</u>
1. Seed crushed	<u>7,001</u>	<u>10,768</u>
2. Meal produced	5,576	8,651
3. Meal imported	3,277	5,818
4. Meal exported	1,177	771
<u>Supply</u>	<u>7,752</u>	<u>13,792</u>
5. Oil produced	1,233	1,897
6. Oil imported	12	16
7. Oil exported	183	350
<u>Supply</u>	<u>1,018</u>	<u>1,546</u>

The figures show an important increase in soya demand in the Community in only six years. This may be further illustrated by the following relations:

In 1973 soy meal represented 56.5% of total oil meal supply in the Community; soy oil represented 25% of vegetable oil supply (excluding olive oil).

In 1978 these proportions were 67% and 36% respectively. Moreover in terms of our oilseed crushing industry, in 1973 this industry crushed 10.634 Mio T of oilseeds of which 7.001 Mio T or 66% were soybeans; in 1978 the total crushed had reached 14.255 Mio T of which 10.768 Mio T or 75.5% were soya.

Our special dependence on soya from the U.S. becomes clear when we take a look at where the imports come from: During the 1978/79 marketing year 9,051,000 T out of 11,242,000 T of imported soybeans, and 2,593,000 T out of 5,969,000 T of imported soymeal came from your country.

For the 1979/80 marketing year the EC Commission services estimate our total oil meal use to be about 20 million tons.

A breakdown in oil meal use by sector shows the following distribution:

Pork	7.8 Mio T
Poultry & Eggs	5.7
Beef	2.5
Dairy	2.5
Others (e.g. Horses)	1.5
	<hr/>
	20.0

With regard to the question of what the future of soybean exports to the Community will be, we can only speculate at the moment.

The import figures which I indicated to you before show a clear upward trend. If this trend continues in the future depends, in my personal view, on several questions:

1. What will the evolution of livestock production be in the Community?
2. What will EC policy be regarding proteins as well as fats and oils in the coming years?
3. What will be the price and supply situation for soya and other products on the world market in the years ahead?

I recognize that this catalogue of questions may not be complete and that modifications for one element may influence the evolution of the others. But let me try to give you some reflections on the indicated points.

As you may know, meat consumption in the Community of nine countries has reached a level which is not very far from that in the U.S. and the Community is self-sufficient particularly in pork and poultry but also more or less in beef. A certain increase in beef consumption may still be possible but it will depend on how our economy will develop and whether this increase will not diminish the consumption of poultry and pork meat. When Spain one day enters the Common Market some increase in overall meat consumption may arise.

Regarding meat exports some possibilities for a slight increase may exist but other meat exporting countries have equal or better production conditions and will not give as much margin for manoeuvre. Furthermore, traditional meat importing countries develop their own meat production and may in the future buy less than before from us.

Finally, some slight increase may also come from direct human consumption of soya and soya products, but I do not think that this will become as important as for example, in the U.S. or in Japan.

With regard to my second question on future EC policy for proteins, fats and oils, I must tell you that an answer is not possible at the moment.

As you know, one of the biggest problems the EC is faced with today is our large surpluses in the dairy sector. If we should be able to reduce the milk output and, let us assume that milk cattle would ^{not} be replaced by beef cattle, consumption of soya may decrease to a certain extent. But it is also possible that farmers will increase their soya input for the remaining milk production in order to obtain higher yields than they obtain by traditional feeding. In addition, a reduction of the milk output may also reduce the output of skimmed milk powder which in the past, was also used for feedstuff. Such change would give way to higher consumption of protein meals.

Apart from this dairy aspect, the EC is trying to develop its own protein basis by giving incentives for production of protein from field-beans, peas and other plants. But at the moment, I think such measures could only have a marginal effect on our supply situation in proteins, fats and oils.

With the accession of Greece, Spain and Portugal to the Community the picture may change a bit, but it would be too early to predict a notable increase of our supply situation after that date. I think it is reasonable to assume that any increase in protein production would be absorbed by increasing protein consumption in these countries.

Summarizing my remarks to both preceding questions, we can therefore only acknowledge that we do not know what the evolution will be. My personal guess is that oil meal demand will continue to increase but not in an impressive way as in the past.

On my third question, I hope you will have the answer. The world price and supply situation for soya depends heavily on you and your country.

Unhappily enough, in the last decade, soya prices have been volatile as the following examples show.

In 1972/73 the average price for soybeans cif. Rotterdam, jumped from \$133/ton to \$267, fell in 1975/76 to \$215, reached \$288 in 1976/77 and after a \$31 decrease in the following marketing year, came to \$296 in 1978/79.

When we look at the fluctuations from month to month, the movements were even greater. For example, they swung

in 1972/73 between 136 and 470, and

in 1978/79 between 270 and 392 dollars per ton.

The other years showed the same picture.

The European Community is the best client you have. In view of this dependence our interest as importers and your interest as exporters are therefore best served if you can assure adequate supplies at reasonable prices. If this will be the case, I think importing countries will continue to buy as in the past.