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A FRANK LOOK AT US-EUROPEAN COMMUNITY RELATIONS IN THE FIELD OF AGRICULTURAL TRADE

Summary of a speech by Mr. Pierre Lardinois, Member of the Commission of the European Communities, at the Delmonte Lodge, Monterey, California, to the National Soybean Processors Association on 24th August 1976.

The Commissioner for Agriculture for the European Community (EC) warned today that the crucial trading partnership between the United States and the Community is in danger, and made a plea for greater caution and understanding. In a major policy speech delivered to the National Soybean Processors Association meeting in Monterey, California, Mr. Pierre Lardinois, a member of the EC Commission, said, "an element of tension, of mistrust even, is creeping into our relations. If this is not faced squarely, it could lead to some sort of rupture." "We must be careful," he said, "for we both have a lot to lose. Dislocation of trade between us will harm farmers and consumers in our European Community. And, in harming them, it will harm you and the United States economy, and will boil over with general political effects. Innocent bystanders in the developing countries will be hurt since added instability in either American or European agriculture will greatly affect the security of their food supplies."

Having pointed out that the US has a \$6.1 billion total trade surplus with the EC, Mr. Lardinois referred specifically to the "huge and growing American farm trade surplus with the Community" -- \$4.5 billion for 1975 -- and went on to say that "In the last two years our exports have been shut out of one American market after another. This has happened to far too many products for it to be just a coincidence."

The Commissioner listed some of the products affected -- dairy produce, canned hams, beef, and brandy -- and added: "We have the impression that America is purposely treating agricultural trade as a one-way flow. You preach free trade when it comes to other people's internal markets, but you practice rigid protection at home. For us Europeans, America has become the most protected farm market in the world."

Turning to the subject of soybeans and soybean meal, Mr. Lardinois pointed out that the EC has stuck to its GATT commitment to allow these products duty-free access to its markets despite very large increases in US exports, and sharp price fluctuations which, the Commissioner said, "have little to do with supply and demand, but arise out of a new kind of speculation." He added: "To us, your biggest customers, these erratic price movements are a source of deep concern. Our whole agricultural policy is directed towards maintaining stability in consumer prices and stability in farmers' incomes... We have reached the stage where an unpredictable movement on the Chicago market can make the difference between a reasonable income or none at all for the mass of our pig and poultry farmers." Mr. Lardinois added, "I tell you bluntly that we want more stability in soya prices and that this may be something we shall have to talk about."

He denied that there was any discrimination by the EC against US soybean products, and said that the so-called anti-soy measures adopted or proposed by the Community were part of an attempt to solve the problem of Europe's dairy surpluses. He said that to prevent a further reduction in the competitive position of butter, the Community proposed a consumption tax on both imported and home produced vegetable oils. Mr. Lardinois said that the deposit scheme for vegetable proteins, which is aimed at selling 400,000 tons of the EC skimmed milk powder surplus, should have fulfilled its purpose and ended before the start of the winter period. He stressed that the scheme falls equally on vegetable proteins produced within the Community and those that are imported. He pointed out that since soybean imports into the EC to the end of May are up substantially over last year, there is no evidence of an attack on US soybean producers' interests, and, since the deposit scheme is a once-for-all operation, that too is no cause for complaint.

To sum up, Mr. Lardinois said he would like to see more two-way traffic in US-EC farm exports, and more American understanding of the Community's agricultural difficulties, which, he said, "have their roots in a different historical evolution to that here in America." He said that, against all American expectations, European union has brought the USA solid benefits in farm trade, and added, "we would all be unwise to throw away these new opportunities to develop our partnership by squabbling over skimmed milk powder. If we did, then the judgments of our children would be severe, and rightly so... Our partnership is full of potential, a potential that we must develop for all our peoples."

A full text of Mr. Lardinois' speech accompanies this summary.

ADDRESS
PETRUS J. LARDINOIS,
MEMBER OF THE COMMISSION OF THE EUROPEAN COMMUNITIES,
BEFORE THE NATIONAL SOYBEAN PROCESSORS ASSOCIATION
DELMONTE LODGE, MONTEREY, CALIFORNIA
AUGUST 24, 1976

We are partners in trade: The United States and the European Community. Last year, the Community bought a fifth of all of your exports to give you a \$6.1 billion surplus with us: that is a \$6 billion surplus on a total trade, imports plus exports, of \$40 billion. Trade is running in exactly the same way this year with correspondingly large benefits to the US economy.

We are also partners in farm trade. Last year we bought \$5.6 billion worth of your farm produce -- which was exactly five times more than we sold to you. This gave you a huge \$4.5 billion surplus on trade in the farm sector -- three-quarters of your total trade surplus. This farm-trade surplus alone is more than double your agricultural exports to us in 1972. It is not far short of your farm exports to all countries (\$6.2 billion) in 1968. So you can see it is a very large figure.

We are partners too in supplying the world with foodstuffs. Your effort in this area goes without saying -- total agricultural exports of \$22 billion last year. But the Community also makes a big contribution to world trade in agricultural produce.

Since 1958 we have achieved important increases in food output but even more in efficiency and productivity.

In doing so we have greatly reduced our dependence on imports of basic foodstuffs and so helped to make extra food supplies available to developing countries. We have also become exporters of foodstuffs -- with a share of 12 per cent of world agricultural exports -- so helping to increase food security in the world.

But this does not mean that our market has become protectionist and self-sufficient. On the contrary, we are by far the biggest importer of agricultural produce in the world, taking up 35 per cent of all farm products traded on international markets. We are, in fact, net importers with an overall farm trade deficit of more than \$21.5 billion -- a sharp contrast to America's agricultural trade surplus of \$13 billion last year.

The European Community's partnership with the United States means a great deal. It means that our economies -- especially our farm economies -- are largely interdependent. Our consumers and farmers need you and they rely on you for more than 60 per cent of oilseed meal used in animal feed. But equally you need them. Without their considerable and regular demand backed by hard currency, your incomes would be disastrously reduced.

Our partnership also means a great deal in the struggle against food shortages. Ranged against us and the security of world food supplies are such common enemies as drought, floods, and poverty. These common enemies should inspire us to even greater efforts to bring order and stability to world food trade.

Yet this partnership -- important to us and to the rest of the world -- seems, if you believe certain commentators, to be in danger. It is true that an element of tension, of mistrust even, is creeping into our relations. If this is not faced squarely, it could lead to some sort of rupture. During the last few months, we have heard fresh rumblings in the so-called chicken war. Our farmers are being unfairly treated by the US phosphate cartel and we have had problems with canned hams and beef. The American side has complained about the Community's deposit scheme for vegetable protein and our proposal for a consumption tax on vegetable oils.

Competition is inevitable and desirable -- that, after all, is what trade is all about. But mutual trust is essential. In the present atmosphere, actions taken for very good reasons are capable of being misconstrued and labelled as protectionist, as anti-soya or even as anti-GATT [General Agreement on Tariffs and Trade]. This last line of attack is so easy for America because you do not have obligations for farm products under GATT. The so-called "grandfather clause" -- written into the Treaty in 1948 -- gives you a waiver on all imports of farm products.

We must be careful for we both have a lot to lose. Dislocation of trade between us will harm farmers and consumers in our European Community. And, in harming them, it will harm you and the US economy and will boil over with general political effects. Innocent bystanders in the developing countries will be hurt since added instability in either American or European agriculture will greatly affect the security of their food supplies.

So, if I make any plea here today, it is a plea for greater caution and greater understanding in all our dealings. This means that we must not hide the reasons for our actions behind labels and political slogans. It means that we must make an effort to see problems from the other man's point of view -- with all frankness and openness.

In this spirit, I want to deal with two hot issues, as seen from the European angle, concerning farm trade. The first is the gradual closing of US markets to European agricultural produce. And the second is the so-called anti-soya measures that have been adopted or proposed in the Community.

The huge and growing American farm trade surplus with the Community -- \$4.5 billion, as I have already said, for 1975 -- is for you a cause for satisfaction. But for us it is not that simple. While your exports to our Community were \$3.8 billion higher in 1975 than in 1968, our shipments to the United States increased by only \$0.7 billion. The prospects for 1976 are even brighter for you because our shipments to America will probably fall while yours to the European Community will certainly increase.

Let's make this point clear. I am not saying that our balance of farm trade must come into equilibrium. We take it for granted that yours towards Western Europe will be positive -- yes, very positive. Yet the picture now shows a huge amount of black on your side of the account and too much red on ours.

In the last two years our exports have been shut out of one American market after another. This has happened to far too many products for it to be just a coincidence. We have been kept out of your dairy market by a rigid system of quotas. We are being pushed out of the market for canned hams. We have been displaced almost completely in the beef market. A month ago you took action against our brandy exports. New health regulations are constantly threatening different minor products.

We have the impression that America is purposely treating agricultural trade as a one-way flow. You preach free trade when it comes to other people's internal markets, but you practice rigid protection at home. For us Europeans, America has become the most protected farm market in the world. Each time our traders discover some growth in an American market, measures are taken against them. Therefore, they are becoming very wary of investing money and effort in your market -- the very market that needs such investments if you want to build something worthwhile.

Consider the case of canned hams, produced mainly from materials coming from the United States -- soyabean and maize. In the three years from 1973 to 1975, our shipments to your market were cut back by 30 per cent (from 104,000 tons in 1973 to 72,000 in 1975). They are expected to go still lower (65,000 tons) in the current year.

This is caused by the constant threat of countervailing duties against our trade because of the so-called export subsidies we pay to partly compensate producers for higher feed costs caused by our cereals policy.

But as exports from our Community are pushed out, Eastern bloc countries step in. Poland, for example, has raised its share of your imports from 17 per cent to 27 per cent in three years. In these state-trading countries, according to the United States, the problem of export subsidies does not appear to exist! Or is it that the Eastern bloc needs the currency to pay for its American grain imports?

Another example is provided by beef. Because of foot-and-mouth disease regulations, only one Community country, Ireland, is allowed to ship beef to the United States -- even though many of our countries have been completely free of the disease for years. But even shipments from Ireland have been made so uncertain and difficult that the confidence of Irish traders has been destroyed. From 18,000 tons in 1974, Irish shipments fell to just 3,000 tons last year.

In the dairy sector, you have maintained rigid controls against our exports: Cheese shipments are under diminished quotas, and butter shipments are ruled out completely, even for use on ships sailing out of American ports. These controls apply just as much to Puerto Rico, where there is absolutely no danger to your dairy industry and where Europe used to have a traditional market.

Again, the US Government gives as its reason for controls the subsidies paid on our dairy product exports, especially those paid on butter. Yet it can be argued that you subsidize your artificially low butter price by maintaining a higher support price for skimmed milk powder and a monopoly for liquid milk around the consumer areas.

Our dairy system uses different tools, but the farmer gets on average about the same price for his milk.

We feel we have just cause for complaint on these and on other farm-trade issues. Yet, despite this, the Community has stuck to its GATT commitment to allow US soyabean and soyabean meal duty-free access to our markets. Since 1962 when this was bound into GATT, your soyabean exports to us have increased by 4 million metric tons (more than 300 per cent) and your soyabean meal exports have increased 10-fold to 2.6 million tons in 1975. You can understand our concern when the products we make from your soyabeans and your maize are not allowed access to your internal market, even in small amounts.

We have also stuck to our commitment despite sharp fluctuations in the soyabean meal price. These showed movements by as much as 5 per cent between the spring and the summer. These fluctuations are even more severe -- up to about 80 per cent -- when you translate them into some of our weaker currencies. Such sharp rises and falls have little to do with supply and demand but arise out of a new kind of speculation, that became evident after the Bretton Woods monetary arrangement had ceased to exist.

To us, your biggest customers, these erratic price movements are a source of deep concern. Our whole agricultural policy is directed towards maintaining stability in consumer prices and stability in farmers' incomes -- a stability that is vital to our social fabric in Western Europe. Soya price fluctuations and their effect on competing products are undermining this policy.

We have reached the stage where an unpredictable movement on the Chicago market can make the difference between a reasonable income or none at all for the mass of our pig and poultry producers.

We are quite content to pay the average price that we have seen for your soya in the last few months or years. We are not opposing price variations caused by real supply and demand problems after some care for stocks has been taken. But I tell you bluntly that we want more stability in soya prices and that this may be something we shall have to talk about.

Greece will probably soon become our tenth member and she does not have import obligations of oilseeds at all because of her own olive oil production. But for her existing membership, Italy would surely change her policy. France has also always had difficulties with duty-free imports of oilseeds. It is only the northern European countries that do not have this problem. You can see that, in a way, this is causing us a north-versus-south problem in our Community. This will present the Community and the United States with difficulties in the future.

I come now to the so-called anti-soya measures adopted or proposed by the Community.

Background to these is the persistent structural surplus in our dairy industry -- a surplus sometimes seen in high stocks of butter, sometimes in skimmed milk powder. It was butter in 1973 when we had almost 400,000 tons in stock.

Now it is skimmed milk powder and we have stocks of 1.4 million tons, of which three-quarters of a million tons are surplus. We also have an over-supply in olive oil and are currently stocking 80,000 tons, a fifth of a year's output.

It is when we tackle the problems of surpluses that the overlap occurs between the needs of our own internal agricultural policy and the interests of the United States and her soyabean growers. We have a real difficulty that is sharpened by the imbalance in our foreign trade with the United States -- our openness to soyabeans and meal and your attitude to dairy imports.

To eliminate our dairy surpluses, we must reduce milk supplies and increase demand. As part of our attempt to reduce supplies, we are planning a tax on all milk delivered to dairies. To balance this proposal and to prevent a further reduction in butter's competitive position, we propose a matching consumption tax on vegetable oils imported and home produced.

So we have not singled out American or Brazilian soya for special treatment. There is no discrimination against you.

The deposit scheme for vegetable proteins has been in operation since April -- and again it falls equally on those vegetable proteins produced in the Community and those that are imported. It is aimed at selling 400,000 tons of our skimmed milk powder surplus for animal feed and will end as soon as this target is reached. The scheme is on schedule, and we think it will end before the start of the winter period.

Some of your experts predicted a substantial loss of soya sales. This loss has not materialized. On the contrary, soyabean imports into the Community to the end of May were 23 per cent up on last year, almost reaching the record 1974 levels. Meal imports were 30 per cent up and well over 1974 levels. There is no evidence here of an attack on your interests. And, when you add the fact that the scheme is a once-for-all operation and is more than half-over, you will see there is really no cause for complaint.

Moreover, our scheme did not prevent the huge rise in meal prices this summer that started peculiarly enough at the same time as our scheme came into force.

Our actions for a better dairy policy are an attempt to control persistent surpluses by taking measures to influence supply and demand. There is nothing in our milk policy that should endanger our partnership -- something which is almost as old as your country. We, for our part, would like to see the partnership extended to cover more two-way traffic in farm exports. You, for your part, must understand our difficulties in the milk and olive oil sectors. That is the best way to safeguard a relationship that means so much to farmers and consumers in Europe and to farmers and agribusiness here in America, besides all those who have an interest in the security of world food supplies.

Our agricultural problems in Europe have their roots in a different historical evolution to that here in America. These problems are something we must solve ourselves at the same time that we meet the challenge of building the European Community -- a challenge that surpasses even that of the founding of the United States 200 years ago.

We have already made considerable progress in the few years that have elapsed since the end of a most devastating war, a war that we can now see as the second European civil war this century.

The United States of America has, right from the start, taken a far-sighted and constructive view of our efforts to build this union. And, against all the expectations of American opinion, our union has also brought you solid benefits in farm trade just where you were expecting to lose out. We would all be unwise to throw away these new opportunities to develop our partnership by squabbling over skimmed milk powder. If we did, then the judgements of our children would be severe and rightly so. I therefore repeat my appeal for more understanding in all our dealings, in the confidence that it will have your support. Our partnership is full of potential, a potential that we must develop for all our peoples.

