EUROPEAN COMMUNITY

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EEC-USA RELATIONS

Relations between the European Community
and the United States of America
in the field of agriculture:

THE COMMISSION'S VIEW

Speeches of Mr. **ANDRIESSEN**

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FOREWORD

The Community and the United States are the two main international agricultural trading powers. Consequently both parties have major responsibilities to each other, as well as to the rest of the world to help ensure the well being of agricultural trade and the respect of the GATT rules which govern it.

World markets for many agricultural products are now out of balance - a situation causing widespread concern. No one trading entity is responsible for this: nor can the efforts of one party alone correct the situation. Policy changes by all parties concerned are required.

In order to make available to a wide audience the views of the Commission on this subject, this publication includes the essential points made recently in speeches by Vice President Andriessen to:

- The E.C./U.S. journalist conference,
  Maastricht 6 June, 1985

- The 25th General Assembly of the European Animal Feed Manufacturers,
  Knokke 7 June, 1985

- The Chamber of Commerce of Greater Kansas City,
  Kansas City, Mission 25 June 1985.

E.C/U.S. JOURNALIST CONFERENCE

MAASTRICHT 6 JUNE 1985

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 the United States of America supports us in this endeavour, not only because of our shared ideals, but because America needs a Europe which is strong, a Europe which can speak with one voice.

It is against this background that I want to address my remarks 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 U.S. and EEC policy-makers.

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 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 is 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 are 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 not 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 (1), 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.

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(1) COM(83) 500 of 28 July 1983

The 1985/86 farm price negotiations consitituted 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 in May 1985, 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 demand;

* 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 protection, 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 managment of import levies and export refunds. Finally, we must see how we could encourage the export of higher added-value produce.

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 what 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 payments? How does one reconcile the stated objective of market orientation with the Export Enhancement Programme? What effect will this programme have on world markets?

I put these questions not in an agressive 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. 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 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 of 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.

25TH GENERAL ASSEMBLY OF THE

EUROPEAN ANIMAL FEED MANUFACTURERS

KNOKKE 7 JUNE, 1985

The Community produces about 82 million tonnes of compound feed. The increase over the last 10 years has been of the order of 40%. Those 82 million tonnes are worth 25,000 million ECU. The figures are impressive : 1,000 million ECU for every year since the birth of your Federation.

The compound feed industry also has a key role to play in relations with our trading partners.

As a whole it uses 45% imported raw materials. It is safe to say that half of this figure is from the United States of America.

Mr. Block, however, is in a much more comfortable position than I am. The Commissioner for agriculture must necessarily take into account equally both the interests of the raw material producers - that is to say, the grain farmers - and the feed consumers, i.e. the livestock producers.

He must weigh the interests of producers, dealers and the processing industry against one another.

He must be mindful of the harmonious development of world trade without losing sight of the need to export European farm produce.

Finally, he must weigh up all these - often conflicting - interests within the framework of increasingly stricter budgetary discipline.

Mr. Block has a much easier time. He sells his raw materials here, where they find a ready market and no obstacles are placed in his way.

The recent import figures are eloquent on this point.

In a word, Mr Block comes here, as far as feedingstuffs are concerned as a very successful salesman and we are very happy to have him here.

I am happy to meet him herè as a buyer of American agricultural products. I hope that Mr. Block will welcome me in two weeks' time in Washington as a modest seller of <u>European</u> agricultural products.

It is buying - and selling - that makes international trade; it is also the basis of agricultural trade relations.

This brings me almost automatically to the trade relations between the European Community and the United States of America.

In my speech I want to deal with this subject first.

Not only because Mr Block is with us today but also because of the great importance I attach to our mutual relations.

Recently, the media have been suggesting that we are at daggers drawn. And even those responsible for agricultural policy - on both sides of the Atlantic - are apt to use strong language.

The EEC and and the United States are two agricultural superpowers.

Our combined share of world trade in farm produce at 30% shows clearly not only the impact of our two agricultural industries but also their interdependence.

But interdependence doesn't mean that we have to tell one another what sort of agricultural policy to conduct.

In the last few decades the United States and the Community have developed agricultural policies that are best suited to their respective production structures and to their own particular economic and social circumstances.

It is not surprising, therefore, that the two agricultural policies differ in several respects.

Traditionally there are a number of important structural differences, such as the area under cultivation and the size of the farming population. Over the years, however, these differences have become much smaller. We must not forget that since the introduction of the Common Agricultural Policy, half of the Community's farmers and farm workers have left the land.

On the American side, the working of the CAP has been the subject of misgivings - and often of open criticism - for years. This has focused especially on our export policy.

The Americans have long reproached us with being protectionist. However for a number of products (sugar, meat, milk) the American market is one of the most protected in the world. Moreover the Americans still enjoy a "waiver" which gives them almost carte blanche for their import policy. We are often accused - wrongly - of being a bit careless about the GATT rules.

Objection is taken to our growing share of world trade, whereas the Community is still by far the biggest importer of farm produce in the world (50,000 million ECU), with a deficit in our agricultural trade balance with the United States of around 5,000 million ECU.

We are attacked for the excessive cost of our Common Agricultural Policy, whereas on the other side of the Atlantic a similar amount is paid out. In the recent past there have even been years when the cost of supporting American agriculture was appreciably greater than the cost of supporting Community agriculture.

As regards our export policy, whatever its faults, at least you can understand how it works, since we have only one export instrument at our disposal, that is, refunds.

In the United States the machinery is more complex, with other instruments, such as PL 480 and export credits.

It may be true that the working of the Common Agricultural Policy influences international trade in farm produce; that is also true of American agricultural policy.

Recent developments in connection with the new Farm Bill and the recently announced Export Bonus Program are an illustration of this.

Personally I think that mutual recriminations - snapped up by the media - are less important than the realization that on both sides of the Atlantic there is an intrinsic need to adjust our agricultural policies.

The reasons for this are common to us both, namely the limits placed on the growth not only of our budgets but also of our production.

Like it or not, we are being forced more and more to bend to the discipline of the market.

To that extent it is completely understandable that the US administration is trying on the one hand to reduce the level of support for American agriculture and on the other hoping to sell a large part of its enormous stocks on the world market.

Similar considerations in the Community led last year to a series of far-reaching changes in the operation of the Common Agricultural Policy.

For a number of products we have set clear limits to growth : the introduction of the quota system for milk is the best illustration of this. Guarantee thresholds have been introduced for other products.

As far as stocks are concerned, we share the same concern as the US authorities. It is in the common interest to sell off surplus stocks - whether of butter or meat - since continuing surpluses depress the world market for everybody.

These same financial considerations are forcing the Community to choose a more market-oriented price policy for the future.

Just as the US administration must from time to time reach compromises with Congress, the European Commission must take into account the views of the Council of Ministers.

However, this does not alter the fact that there is a clear difference of objectives between the American and the European approach.

Our American partners are stating quite candidly that what they seek is a larger slice of the world market by keener pricing.

From their point of view, this simply means the recovery of ground gradually lost over the past few years.

As they see it, moreover, almost all of this ground has to be won back from the European Community.

Our aim is more modest. We are trying to adjust our cereals policy so that we maintain our present share of the world market.

An American policy which aims to enlarge its share of the market at our expense is undoubtedly striking at the essential interests of European agriculture. This cannot be without consequences as far as imports are concerned.

If we cannot sell so much wheat on the world market, it will find its way to the European feed industry and this will, of course, be detrimental to imported feedingstuffs.

In other words, there are a number of parallels between the policy adjustments being made on both sides of the Atlantic but there is also a clear difference in approach.

Both the Americans and ourselves are opting for a more market-oriented policy because of budgetary problems which are common to us both; in the cereals sector, however, the Americans are pursuing an expansionist export policy which is detrimental to the European share of the world market and which will almost inevitably place us on a collision course.

This brings me to the adjustment of our cereals policy.

It is no accident that cereals prices have been a key issue in the EEC price negotiations. There is clearly more at stake than the scale of the price reduction for the coming marketing year. The fundamental controversary concerns the function of the price instrument, particularly in the cereals sector.

There are still Member States which believe that our pricing decisions can serve two masters at once: incomes and the market.

These Member States must recognize that even if we can stabilize cereal production at 150-160 million tonnes in the 1990s (which is an optimistic assumption) and keep our share of a slowly increasing world market (another optimistic assumption), we will still be left with a cereals surplus which we are unable to dispose of. Appropriate price policy can play a major rôle in reducing this problem of surplus production.

Basically, there are only three outlets for cereals: exports, human and internal consumption in feedingstuffs and industrial processing. The latter will provide no miraculous solution.

Thus, adjustments to our cereals policy will mean taking a fresh look at both exports and imports. As regards exports, there is, in my opinion, no doubt that our present share of the world market can only be maintained if we bring our export prices into line with world market prices.

Similarly, given low world market prices (and very probably an unfavourable relationship between the dollar and the ECU), makeshift solutions will, in my opinion, be quite out of the question. By this, I mean maintaining a fairly high level of internal prices, on the one hand, and making upward adjustments to our export refunds, on the other.

In financial and political terms, this is out of the question.

Lower prices will eat into the incomes of some of our farmers and ways and means will surely have to be found of cushioning the impact of this.

We need lower prices if we are to compete on the world market. But it is also a fact that lower cereal prices may also have important consequences for imports of cereal substitutes.

The adjustment of our Common Agricultural Policy and of the export policies of our major partners cannot fail to have repercussions on the compound feed industry.

The major expansion of the compound feed industry in the past was essentially caused by three factors :

- specialization in agriculture, as a result of which fodder cereals were consumed in ever smaller quantities on the farms on which they were produced but were instead marketed through the compound feed industry;
- the high cereal prices, replacing cereals by cheaper substitutes.
- the steady expansion of milk and meat production.

It should be borne in mind here that these phenomena did not occur independently of each other and are closely connected with the enormous rise in productivity achieved by farmers over the last 25 years.

The decline of mixed farming and the trend to specialization of our farms has been marked and although not yet complete, the process has nonetheless reached a certain natural limit. It is estimated that 31 million tonnes of cereals are still fed to animals on the farm on which they are grown. This is less than the quantity imported as animal feed.

The greatest restriction on the growth of the animal feed industry lies undoubtedly in the constraints on the end product. After spectacular rises in the supply and demand for meat and milk products, both in the Community and on the world market, further expansion is now limited. The consumer is well supplied and not prepared to buy more at current prices. This message has been received somewhat belatedly by suppliers with the result that cold storage warehouses are overflowing with meat and butter. The effect has not gone unnoticed in the animal feeds industry. The quotas, which will inevitably result in a fall in the number of dairy cows, may also have a healthy influence on meat production to the extent that most beef production is complementary to milk production. Restrictions in the dairy sector may well be necessary for a long time to come. The question is whether or not the mandatory restrictions can be replaced by limits of a voluntary nature.

The trend of the last ten years is therefore very unlikely to continue. This could also be the case with the use of basic commodities. It has become clear that, with a self-sufficiency rate in cereals of 130%, the Community must offer more competitive prices. This would reduce the comparative advantage offered by cereal substitutes and stimulate demand for home-produced cereals.

After a steady rise in the use of cereal substitutes in animal feed rations, the consumption of home grown cereals have recently increased by 6 million tonnes. This is again a matter of relative prices.

Just over a year ago, soya extract cost nearly 50% more than wheat. Now wheat is dearer than soya. Manioc, corn gluten feed and wheat bran were also abnormally expensive last year. So we should not be surprised to find that last year the use of substitute meal products fell below the level reached in 1980. This year, we are operating along the lines set in 1983. The changes in 1984 show that as cereals get cheaper, less substitutes are imported. We must also bear in mind the gradual increase in the Community production of oilseeds and protein plants, which also relieves the need for imported proteins, and the fact that the nutritional value of grain substitutes is being increasingly appreciated in the producing countries.

A reasonable conclusion is that in the future the manufacturers of animal feed will be buying more of their requirements on the European market.

THE CHAMBER OF COMMERCE OF GREATER KANSAS CITY

KANSAS CITY, MISSOURI 26 JUNE 1985

I come to Kansas City - the farm distribution centre of America - after a two day visit to Washington where there was much to talk about with several of your political and administrative leaders.

They told me a lot of things on Capitol Hill and so it is important for me to have this very welcome opportunity to see whether all I was told in Washington is what Americans really feel here in the heartland of rural America, here where so much hardship is being suffered by American farmers.

Farm policy on both sides of the Atlantic is at the cross roads and what is more a cross roads where we in Europe have altered direction.

World trading conditions for most agricultural goods are not what they were. Nor are the buoyant conditions experienced for over 40 years up to the early eighties likely to return in the foreseeable future. We are thus bound to adapt our policies to take account of these changed conditions. In the United States the Farm Bill is at an evolutionary stage. In Europe we have already taken some very difficult steps and have committed ourselves to further far-reaching changes.

Commercial demand on world markets is now well satisfied. Market prospects for the marketing year which has just started are not very promising. Crops are expected to be good in the Western world but may also be large in the USSR which is not good news for either of us.

Virtually all the main exporting countries have contributed over the years to replacing shortages by surpluses.

United States farm output went up by some 40% in the decade prior to its peak in 1981. For crop production upon which United States agriculture is so dependent for its exports, the figure is 50%.

The European Community also increased its farm output over this period, by some 20%.

Production increases were recorded in many other parts of the world. For example, China, once a big customer for wheat, has now become a corn exporter.

Both our agricultural policies were adapted to a change in the trends in world trade. That there is now an urgent and vital need to meet the new conditions brought about by the success of these policies is now being honestly recognized.

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.

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*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.

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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.

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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.

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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 are 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.

Fourth, no exporting country can reasonably claim any right to hold on to the highest share of the world market forever, or indeed any specific market, which it attained at some date in the past. Elementary mathematics show this to be an unattainable objective for exporting countries generally. However, this objective appears to form a central part of the Export Enhancement Programme.

In present and foreseeable market conditions, including a somewhat lower US $ parity, it would be highly ambitious for U.S. agricultural exports to regain their market shares which peaked in 1981. We know what it is like to lose market shares having lost a large part of the world's dairy product market through U.S. food aid programmes and through plain old-fashioned subsidies.

But, to return to the chronic scapegoat syndrome and limiting myself to the wheat issue, it should be interesting for you to learn that since 1981 (the US peak export year) our share of the world market for this product remained stable. So, it seems that if the real culprit could not be found - a convenient scapegoat in the shape of the Community has been produced.

The Community which would in normal circumstances hope and expect to remain your best customer is puzzled by this treatment.

Another serious misrepresentation of the Community in the US is the allegation of our delaying the start of a new GATT (General Agremeent on Tariffs and Trade) round. I cannot emphasize too strongly that the EC favours such a round and has declared publicly its unanimous support for this. What we want is a well prepared round - both as regards agenda and participation.

We do <u>not</u> exclude discussion of agricultural issues as part of a well balanced package. But we do point out that there are certain priciples of our farm policy that we would not abandon. Just as I am sure that there are similar values that you would not sacrifice here.

I should add that we want to deal with a new round in a comprehensive way and tackle some of the fundamental problems which jeopardize harmonious trade development such as the volatile monetary situation to which international trade is exposed.

We, in Europe, are firmly convinced of the valuable framework of the GATT within which to resolve trade problems. The GATT has played a central role in improving the prosperity of the Western world over the past four decades. It is the basis of the multi-lateral trading system and it should stay that way.

In so far as agriculture is concerned, it seems to me that the time has never been riper to discuss these problems and we, in Europe, are willing to re-assess our internal and external policies in the appropriate GATT Committee. This is an important point on which Secretary BLOCK and myself fully agree.

As the world's two largest agricultural super powers we bear a heavy responsibility to face this awesome challenge. Let us both accept it with a determination to succeed and a realisation what failure would bring.

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