

EUROPEAN COMMUNITY'S AGRICULTURAL POLICY -
IMPACT ON MISSOURI'S AGRICULTURAL COMMUNITY

Address presented

by

Derwent RENSHAW

Secretary for Agriculture
delegation of the Commission
of the European Communities

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I would first of all like to say how very grateful I am to the Missouri Governors Conference for the warmth of its hospitality, for the excellence of its conference organisation and for giving me this opportunity to share a few thoughts with you on a topic not only of vital importance to 8 million European farmers and their families and to 270 million European consumers but a topic also with considerable implications for American agriculture.

I refer, of course, to the subject of European agriculture, its aims and philosophies, the outlook for its future, to its place in international trade and its impact on farming here in the "Show Me" State.

Anyone from Europe who goes about and speaks in the United States quickly realises that mentioning the European Community's farm policy does not always lead to a burst of wild and enthusiastic cheering from the back of the hall. But I don't usually allow this to put me off. So let me start by describing the aims of our farm policy and why it looms so large in the Community's thinking and in its spending and where it has got to.

I don't know whether the objectives of US agricultural policy are set out in your Constitution, but they most certainly are in ours : in Article 39 of the Treaty of Rome. And they are :

- to increase productivity through technical progress ;
- to give the farmer a fair standard of living ;
- to assure the supply of sufficient food at reasonable prices, and
- to stabilise markets.

These goals are closely linked with and in some cases are the very reasons why our agricultural policy has always been and, indeed, remains a central feature of the Community's activity. That it should continue to occupy such a large part of the Community's time and a relatively large part of its spending is perhaps surprising to an outsider when it is clear that farming's share of both Europe's employment and of its economic output is steadily decreasing. The reasons for this are both numerous and complex but there are four basic factors :

First, the political importance in most, if not all, member states of the concept of the family farm as the embodiment of certain social values, an appreciation shared by many parties from the left to the right of the political spectrum.

Secondly, the acceptance by all member states of the need for intervention in the agricultural sector, because of the desire on the one hand for security of food supplies for consumers, and on the other hand for protection of the incomes of agricultural producers against ^{violent} / fluctuations of market prices. In this respect, the aims of the CAP, as set out in Article 39 of the Treaty of Rome, and which

I described earlier, are not so different from those of other industrialised countries such as the United States and Japan.

Thirdly, the existence of a common market for agricultural products, in parallel with the common market for industrial goods, was part of the original political pact to reconcile the agricultural interest of France and the industrial interest of Germany. With a free flow of agricultural products between member states, common prices and common rules for intervention in the agricultural markets imply common finance, and thus it is that the budgetary cost of agricultural price support has been fully transferred from the national to the Community level.

Last, but not least, is the failure so far of the Community to develop common policies and common decision-making in other sectors to the same extent as in agriculture.

It is for this last reason that agriculture takes such a relatively large share of our budget.

Very broadly, the objectives of the Treaty have been achieved by fixing common prices for the major part of our farm production. Some, but by no means all, of these prices are at higher levels than those in other countries. But, assurance of supply like any insurance policy costs money. And the European consumer is prepared to pay this small premium for food security. For many, security has as

much to do with food as it has with missiles. And here, let me add that the CAP should not be looked at in a purely economic context but against a social and political background as well since, as I think I have already implied, we believe that the well-being of agriculture is essential to the fabric of rural life.

But when I say the consumer is willing to pay a small premium, I am not indulging myself in typical British understatement. A regular survey of retail food prices published by USDA shows in fact that out of a recent shopping list of 15 items, 11 of them were cheaper in Paris than in Washington. The 11 included roasting pork, butter, cooking oil, milk and sugar and not exotic items such as truffles or frogs legs.

Let us now look briefly at what the effects of achieving these objectives have been - both inside and outside the Community.

We are frequently accused by our critics of spending limitless sums of money to encourage our farmers to produce enormous surpluses which are then off-loaded onto world markets by means of unfair subsidies. Indeed, I get the distinct impression that there is a feeling here on this side of the Atlantic that the US is something of a victim in farm and food trade, surrounded by powerful and devious competitors backed by bountiful treasuries who selfishly take advantage of honest law abiding Americans depriving them of their rightful place on the world market.

But let us again examine some facts and background and start with a fiction which is very easily exploded - that of the EC spending limitless sums of money on agriculture.

First, the total Community budget for 1983 and which represented less than 1% of Community GNP amounted to some \$23 billion. Not our deficit, Mr. Chairman, but our total budget. Of this, \$15 billion - an all time record - was spent on agriculture. All developed countries support their agriculture in some way and here in the US expenditure reached almost \$19 billion and \$30 billion if PIK is included. Or, in other words, twice the expenditure for about one quarter the number of farmers we have in Europe. Furthermore, and I will return to this later, we have recently taken - and aim to take some more - tough and far reaching decisions to cut agricultural support.

And, unlike all national governments that I know of, there is a rigid limit strictly enforced by our Member States as to the amount we can spend, since our Constitution forbids us the arguable advantage of running a deficit.

Second. As a result of the support we give our farmers, our wheat production, for example, increased by 29% over the pre-PIK decade - slightly more than the world average

of 27%. The increase in the U.S. was 73% and a lot of that in soft wheat - much of it grown here in Missouri. This latter increase was 2½ times the world average. I say this in no accusatory sense, but in an attempt to set the record straight. Furthermore, the increase in Community production was achieved through higher yields on an acreage that has remained virtually unchanged for the last ten to fifteen years.

As to the impact of the CAP and our much criticised exports refunds on world markets, just three points of essential clarification. Since some of our more vocal and less well informed critics are at pains to spread the word that agricultural export subsidies are the invention of cunning Europeans, the work of the devil and, what is more, break international trading rules.

First. Yes, it is a fact - and a very visible one - that we give export refunds. These compensate for the difference between the world market price and our internal price - when this is higher - and are part of the cost of maintaining farmers incomes.

Second and I cannot underline this too strongly, international trading rules formalised in the GATT (the General Agreement on Tariffs and Trade) to which both the EC, the US, Japan and 90 or so other nations are signatories, specifically permit the use of export refunds or subsidies,

provided they are not used to gain more than an equitable share of the market, nor to undercut the going price. We maintain, and trade statistics support our view, that we have kept to these rules.

Third, other exporters of farm products use export subsidies. The US, for example, in addition to supporting its agriculture at home pretty generously over recent years, also deploys a panoply of export aids - GSM-102, PL-480, Blended Credits and plain unvarnished subsidies. For example, I read in one of USDA's excellent publications the following :

"In 1983, Egypt bought 1 million tons of US wheat flour at a subsidized price of only \$136 per ton, about one-third below the average world market price."*

I offer these observations not to score easy points, but simply to register the fact that agricultural subsidies are a feature of life in the modern world, and perhaps we are all - or most of us - sinners in the eyes of the Lord. I cannot, however, resist the observation that actions such as this macho initiative in Egypt do not seem to me to conform with the international trading rules to which I referred a moment ago.

But before I leave the question of the effect of the CAP on agricultural trade, let me just say this. That in spite of achieving security of supply in a number of basic

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USDA "Middle East and North Africa", April 1984

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products - one of the Treaty's important aims you will remember - we remain the largest importer of food and agricultural products in the world and the US remains the leading exporter. I hear a great deal in Kansas City and St. Louis of the need to protect the United States reputation as a reliable supplier - and rightly so, but it seems to me that the Community is a very reliable customer. We import about one quarter of the world's total farm imports - and in hard cash. And in fiscal 83 took over 7 bio \$ worth of goods from American farmers - more than you sold to Japan or to the whole of South America.

Of particular interest to Missouri should be the fact that in that same year out of total US soyabean exports of 24½ mio t, the EC took 10 mio or 41%, and out of your total soyabean meal exports of nearly 6½ mio t, we took over 4 mio t or 65%. Our huge purchases of these two items alone were worth over 3 bio \$ and made a significant contribution to our massive farm trade deficit with the US. I single out these two particular items since they are not only your two biggest exports to us but I understand that after two States beginning with "I", whose names I can't recall for the moment, Missouri is the US's biggest exporter of soyabeans and products - 630 mio \$ in 1983. And also because your State plays host in the city with the shining arch to the American Soybean Association - a body ever mindful of its dependence on the European market.

I referred a few moments ago to the importance which we in the Community attach to the preservation of the fabric of rural life. But this should not be taken to imply that it is a goal to which we aspire regardless of cost.

Indeed, our policy has neither led to a vast and overblown agricultural population nor to a feather bedding of those who earn their living on the land. Over the last twenty years, the EC's agricultural labour force has dropped by more than 50 percent from 19 million to 8 million. That meant the loss of one job every minute in European farming. As to farm incomes - these have fallen since 1975 well below those in industry.

So, all is not milk and honey down on the farm but there has certainly been too much of the former and of some other products.

Those of you who follow developments in Europe, if only through your newspapers, will be well aware of the serious challenges we currently face. On the agriculture front, we, and indeed other major producers, are basically faced with the same problem : that of producing larger quantities than markets can absorb which, of course, is far from being the same as saying that there is too much food in the world. Who could possibly say such a thing with the news from Ethiopia in mind ?

And so, whilst I strongly believe that the CAP is one

of the major achievements of the European Community, it must - like any other institution or policy, if it is to survive - and survive it will - adapt itself to changing conditions.

In the Community, the CAP has to a large extent been the victim of its own success. The technical advances and productivity gains sought in Article 39 have meant that output has risen more rapidly than consumption. We have achieved self-sufficiency in a number of products and have reduced our dependence on imports. In other cases, the Community has become a net exporter. But, a responsible one, supporting the principle of price stabilisation agreements and, in spite of strong internal pressures to do otherwise, building up our stocks to unprecedented levels. Furthermore, in spite of achieving security of supply in a number of important farm products - we have seen our overall agricultural trade deficit grow by more than 60% from \$14 bio in 1973 to \$23 bio in 1982.

Productivity increases have also led to a serious imbalance of supply and demand in Europe - with milk as the most glaring example - as the underlying trends of production and consumption went on their divergent ways. Increases in the volume of total agricultural production have averaged between 1½ and 2% over recent years whilst consumption has only risen by about ½%.

At the same time, we started to run very low on cash - in spite of the fact that our farm expenditure represents only about ½% of our GDP. From 1974 to 1979, expenditure on supporting agricultural markets grew at 23% per year - almost twice the rate of growth in our revenue. For the next two or three years - 1980 to 1982 - expenditure remained fairly stable, largely because prices remained relatively high on world markets. But since then expenditure has increased sharply and rose by about 30% in 1983.

As I said earlier - our Community constitution forbids us to run a budget deficit. So, for the first time we were up against our financial limits.

This chilling fact coupled with that of production outpacing consumption was the background against which the Commission proposed and the Council of Ministers - that is to say national Ministers from our ten Member States - in a rare act of political courage, adopted last spring an essential and very tough battery of measures for the rationalisation of our agriculture.

Time does not allow me to describe in any detail the full range of measures which will hit European farmers and their families and which will demand substantial sacrifices from them. But recent demonstrations by European farmers, in England and France, for example, leave little doubt that they are being squeezed.

Briefly the decisions reached in March can be summarised under six main points :

1. confirmation of the principle of guarantee thresholds, and their extension to other products ;
2. strict control of milk production by means of quotas ;
3. a return to the unity of the market, through the dismantling of monetary compensatory amounts ;
4. tough policy for prices ;
5. streamlining of aids and premiums for various products ;
6. observance of Community preference.

Let me flesh out four of those six main elements - guarantee thresholds, the action on milk, prices and Community preference :

First, Guarantee Thresholds:

We in the Commission have been insistently warning the Council of Ministers for the last 4 years - and I quote from what we said in 1980 - that

'in the present state of agricultural technology, it is neither economically sound nor financially feasible to guarantee price or aid levels for unlimited quantities'. We argued that the Community had passed the level of self-sufficiency for many major products, and while production was continuing to rise, the increase in consumption was practically nil. In these circumstances, we said that

there should be 'producer coresponsibility above a certain level of production - that is, a first stage in which Community responsibility would be total, and a second in which it would be shared between the Community and producers'.

In the following years, this idea was refined by the development of the 'guarantee threshold' concept. This term indicates the predetermined level of farm production beyond which producers have to share financial responsibility. In 1982, the Council introduced thresholds for several products (milk, cereals, colza and processed tomatoes) in addition to those where analogous measures already existed (sugar and cotton). The level of these thresholds naturally differed according to the products, as did the steps to be taken in the event of their being exceeded but, in general, they consisted of a cut, direct or indirect, in the price or aid for the product in question. In its March 1984 decisions the Council not only extended thresholds to further products (sunflower seed, durum wheat and dried raisins) but, in an important political declaration, accepted the Commission's guidelines for guarantee thresholds, and emphasised the advisability of introducing them for products in surplus or on which expenditure is likely to increase rapidly.

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Second, milk:

The milk sector, with its grave imbalance between supply and demand, had to be at the centre of any plan for reform of the CAP. As the world's largest milk producer our outlays on milk were by far the highest in the agriculture budget. We in the Commission had been warning the Council of Ministers about these dangerous trends since 1980 but to no avail. However, in 1983, the price increase for milk had already been abated as a result of the guarantee threshold being exceeded. But despite this, milk production increased by 4% in 1983, and the Commission was obliged to present the Council with a stark choice : either a drastic cut of the order of 12% in milk prices, or the introduction of quotas to limit production and maintain prices at a more reasonable level. Ministers chose the latter and fixed strict production quotas for 5 years at something like 8 million tons less than the 84 figure. Harsh levies have been introduced for any milk producer who exceeds his assigned limit. The levy has been set at 75% and, in some cases, 100% of the milk target price. In other words, totally dissuasive. In addition, prices have been frozen.

Third, prices:

Price decisions were adapted to the different market situation for the different products. For example, for sugar the price was frozen and for grains a 1% cut was applied. Overall, farm prices for the 1984/85 marketing year were cut by ½% as expressed in the European Currency Units,

compared with a forecast general inflation rate of 5½%. And, for the first time ever, the Council's decisions meant that in national currencies there were significant price reductions for a number of products in several Member States. In addition, there will be an intensification of our efforts to narrow the gap between our prices and those of our competitors. This will apply particularly to grain.

Since in politics one has to tackle one thing at a time, the Commission has made no secret of its plans to propose for the 1985/86 marketing year meaningful cuts in grain prices following this year's 1% cut. The dairy farmers caught it this year; our cereal growers know it is their turn next.

Fourth, Community Preference:

This brings me to an external aspect of the package which, whilst only a very small part of the whole, seems to have attracted a great deal of attention in the United States. Since our own farmers are being asked to make considerable sacrifices and to limit their production, the Commission feels that it is not unreasonable to review the treatment of competing imports provided that this is done strictly in accordance with international trading rules.

As I said earlier, we are aiming to narrow the gap between our grain prices and those of our competitors. Such a move will obviously have the effect of making much less

attractive all those grain substitutes which at present displace our own feed grains and have also contributed to surpluses in the dairy and livestock sectors. But until that time and whilst we are implementing a strict guarantee threshold and requiring our grain producers to limit their own production, it is absolutely essential to have some effective stabilisation of the imports of grain substitutes, such as corn gluten feed. Corn gluten feed is a by-product of corn sweetener manufacture, the booming production of which in the U.S. is due in no small part - to protective import quotas - who would bet against them ^{even} being reduced/further this year - and high priced internal arrangements enjoyed by US sugar growers and of ethanol production encourage by tax exemptions.

Imports of corn gluten feed into the EC have, in fact, soared from 700,000 tons to 3.5 million tons since 1974. Our intention, therefore, for corn gluten feed is not to ban imports or reduce them, but to stabilise these imports after discussion with the EC's major suppliers against appropriate compensation on our part for any loss of growth - and in full accordance with the GATT rules.

In other words, we are looking for a temporary breathing space so as to avoid the risk of sabotage to our efforts to get our grain prices lower and to limit production. Such stabilisation should also help to reduce surpluses in the dairy and livestock sectors.

However, and I must stress this, what is being proposed is not hasty unilateral action, not a banning of all corn gluten imports nor even a reduction, as one might gather from the howls of protest, but what we hope will be a calm and reasoned negotiation aimed at temporary stabilisation with appropriate compensation and this only after fully carrying out the procedures laid down in the GATT. Two meetings on this subject have already taken place in Geneva.

Those briefly were the tough decisions taken in Brussels at the end of March 1984, but this was not an instant rescue package and more hard decisions will have to be taken.

Nevertheless, the long-term prospects for control of agricultural policy and its expenditure have been improved. The Council has accepted three points of major importance :

First, the principle that agricultural guarantees can no longer be unlimited in nature. Second, an effective control of milk production by means of quotas. Third, a tough price policy, including - for the first time - price cuts for several products in several countries. Meanwhile, a budgetary framework is being evolved by the Community, in which financial discipline for all policies, including agriculture, will be exercised.

But more tough initiatives will be required in the coming years to continue the rationalisation of agricultural policy on which the Community is now embarked. It would be an illusion to suppose that our task is completed. Nevertheless, the CAP is on the right path. France's Minister of Agriculture, Michel Rocard, declared :

"The CAP will remain at the centre of the European construction, but the benefits which it gives to farmers will perhaps no longer be so exclusive, ...
..... and so unlimited, as in the past. What is needed now, if the European adventure is to continue, is for the construction of agricultural Europe to be accompanied by common policies in the fields of industry, money, research and even defence."

It is this recognition that agriculture - despite its difficulties, and its differences from other sectors - must be more and more integrated into Europe's economy, and must find its place alongside other policies of the Community, that is perhaps the most important aspect of the decisions recently taken on the CAP.

In conclusion, I must stress that these decisions, which are not an attempt to shuffle off our own problems on to others but which represent an important contribution towards a better balance of supply and demand on world markets, should be of benefit to farmers in all trading

nations. They were not, I must emphasise, taken purely for budgetary reasons, but to fit our farming to meet the changed economic circumstances of the mid 1980's and beyond. They will not lead to the dismantling of the CAP nor to the disappearance of European farm products from world markets. We are not, in the words of the poet Longfellow, going to "fold our tents and silently steal away". You can instead expect a leaner, more streamlined European agriculture. We have laid the foundation on which European agriculture can expand its potential.

It seems to me, therefore, that there is all the more reason for each one of us to seek cooperation rather than conflict, particularly with the prospect of ever increasing yields around the world, and for the major exporters to strive to find some way of enabling the hungry nations of the world to purchase this bounty. The EC, whilst defending its own interests, will be prepared - as it has been in the past - to search diligently with other trading nations for ways of cooperating in the GATT and in other fora such as the International Wheat Council so as to promote world trade. And here, it would be helpful if the one-sided campaign directed against the Community and its export subsidies was stopped and replaced by a more constructive approach looking at the overall support given to agriculture by all major traders - whether this be via subsidies, subsidised credit, internal aids or through import restrictions.

Since, if we don't seize the opportunity to cooperate openly and honestly, we shall all be losers. It is no good individual nations trying to re-write the rules on their own.

The agreement reached recently in Geneva in the Committee of Agricultural Trade is an encouraging start. But in trying to find new and tougher rules for agricultural trade we must avoid getting ourselves trapped in endless semantic discussion as to the difference between a prohibition of export subsidies with carefully defined exceptions of export subsidies within carefully defined restrictions. Let us concentrate on getting our spending under control. We have made a painful start in the EC on milk in particular and with more to come.

Those who are not attracted to the far from easy but promising path of cooperation should bear in mind the ghastly alternative of returning to a situation which resembles that of the wastelands of the 1930's with protectionism piled on more protectionism. I hope the recent closing of your frontiers to European pipes and tubes is not a sign post pointing down that dismal road.

But, for such cooperation and for any other concerted measures, we shall need considerable political will not only in Brussels and Washington but in capitals around the world, to achieve rules of conduct for agricultural trade which will benefit us all.

I believe that if we keep cool and bear in mind what we can gain and what is at risk for farmers on the banks of the Missouri and Mississippi as well as for those who farm on the banks of the Loire and the Rhine, we can together build a more secure and prosperous world trading system for importer and exporter alike.

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7 Dec. 1984