Address presented

by

Derwent RENSHAW
Secretary for Agriculture
Delegation of the Commission
of the European Communities

Washington, D.C.

at

THE GREAT PLAINS SYMPOSIUM ON AGRICULTURAL TRADE

Fargo, No. Dakota

12-13 June, 1984

I intend concentrating the short time at my disposal on differences and similarities between US and EC farm policies, on the steps taken recently by the EC to reshape its agricultural policy and the effect these steps should have on international agricultural trade, since in spite of an important drift in US trade interests towards the Pacific Basin, the US and the EC remain the two leading actors on the world's agricultural stage, accounting between us for one third of all world trade in farm products. And whilst North Dakota's interest in farm exports may not be as great as say Illinois or Iowa, it is the second most important exporter of wheat in the United States after Kansas. Consequently, all of us have an interest in avoiding conflict and in doing our utmost to cooperate.

First, the differences. There is the very obvious contrast in geographical size between the EC and the US and between the size of our farms which has led to a different emphasis on products. Here in the US, you have tended to concentrate more on the production of grains and oilseeds whereas we have placed more emphasis on livestock and livestock products with a highly profitable result for American soyabean growers - with the EC, according to the American Soybean Association, taking 48% of all US exports.

So much for some differences. As to similarities :

./...

we both belong to broadly the same temperate climatic zone and, as a result, have a number of products which are common to both - wheat and dairy for example.

We both also have - on each side of the Atlantic - farm policies which strike me as being very close in their aims but with, perhaps, different machinery for implementing them.

The aims of the Common Agricultural Policy (CAP) are clearly laid out in Article 39 of the Treaty of Rome - our founding Constitution - and are :

- Increase agricultural productivity (through technical progress, etc.) ;
- Ensure fair standard of living for farmers ;
- Stabilise markets (ie. iron out violent fluctuations in supply and in prices) ;
- Assure sufficient food ;
- Ensure food supplies at reasonable prices.

Not very different from US aims. And, furthermore, we both have policies which have had uncomfortably similar results with increases in both productivity and production leading to quantities beyond those which the market can absorb.

Wheat production in the US, for instance, in the decade pre PIK, had increased by 72% and a large proportion of that in soft wheat - often double cropped with soya - not a very common practice on these Northern plains. This was more than 2 1/2 times the average world growth of 27%. Not only did this have a de-stabilising effect on the world market but made US wheat farmers critically dependent on

./...

this market - unpredictable at the best of times and downright unreliable at others.

At the same time, in the EC, the Common Agricultural Policy - to a large extent the victim of its own success - has led to increased productivity and reduced our dependence on imports for the supply of some agricultural products and, in other cases, transformed the Community into a net exporter of other products.

Productivity increases have also led to an imbalance of supply and demand - as here - with milk as the most glaring example. However, in spite of our achieving security of supply in a number of important farm products - one of the Treaty's aims - the EC remains by far the world's largest importer of agricultural and food products whilst the US remains the world's leading exporter.

A great deal is made of the US reputation as a reliable supplier - and understandably so - but how many of you have paused to consider how very reliable the EC is as the world's best customer for US farm products, taking 7.6 bio $ worth in fiscal 1983 - a figure which is forecast to rise by 16% to 8.8 bio $ in fiscal 1984 - and running a massive farm trade deficit with you of 5 bio $. This suggests to me that international farm trade across the Atlantic - and particularly that which follows the same direction as the prevailing wind - is pretty free already. Only about 15% of our imports from industrial countries are subject to levies and virtually all farm products from the developing countries enter free.

./...

This reliability as a customer has, what is more, been maintained without the benefit of such goodies as PL 480, Blended Credit, PIK exports.

But it is, of course, on world export markets for agriculture where some differences have arisen between us with some fairly shrill criticism of the EC's exports refunds. These criticisms have tended to intensify during periods when the US dollar is strong or when world markets are no longer expanding.

Let me spend just a few moments on this question of our export refunds. Here there seems to be the feeling that agricultural subsidies - whether used domestically or abroad - are an invention of cunning Europeans and the work of the devil.

First, GATT rules on international trade specifically permit export refunds provided that a country does not obtain an inequitable share.

We claim we have held to these rules and trade statistics support our claim. For example, over the ten years up to the beginning of the 80's, the Community share of the world market in wheat and wheat flour rose from 10% to 14%; that of the US from 34% to 46%. I say this in no accusatory sense, but submit that on the basis of these figures no reasonable person could possibly conclude that we had acted against the rules or taken an inequitable share.

./...

Second, the US in addition to supporting its agriculture at home - at considerably greater cost than in Europe incidentally [almost 30 bio here compared with 13.5 bio $ in the Community] - also deploys export aids - some of which I mentioned a moment ago.

On the question of credit for farm exports, Secretary Block said recently when he repeated something our wise and distinguished moderator had already declared, that "This Administration spent more on credit for agricultural exports in the last 3 years than all previous administrations together over the last 25") and there are plain straight-forward subsidies.

The USDA in its April publication "Middle East & North Africa - Outlook and Situation" says : "In 1983, Egypt bought 1 mio t of US wheat flour at a subsidized price of only $136 per ton, about one-third belowe the average world market price" and an accompanying graph clearly shows how the United States' share of the Egyptian market has evolved spectacularly from 1972 when it had no share at all to 1983 when it had 40% of the total market - domestic production included about 50% of the imports.

So, agricultural subsidies are a fact of life and perhaps, we are both sinners in the eyes of the Lord, But, how will these trading relationships develop in the future ? Always a cautious person by virtue of my Yorkshire upbringing rash to attempt prediction particularly in election year. In any case, the weather sometimes gives us all a healthy reminder - all is not decided in Washington, Geneva, Brussels.

./...

Whatever happens, we must never lose sight of the fact that no one has God given right to dominate world markets at expense of others who may have different methods of support and that the US and EC have everything to gain from harmonious working world trade. Both must seize opportunity to cooperate, since if we don't we shall all be losers.

All is very well saying this. It is not going to be easy to achieve in face of the difficult problem of selling agricultural products on static world markets. There does not seem to me much prospect of great improvement in the short term with yields tending to increase and commercial markets tending to stagnate. A lot of course will depend on the $ and how soon developing countries can get their economies moving viably again. Not all dependency. Light at end of tunnel (hope not headlight of approaching train!).

Positive signs for world trade :

- Whilst there is more produced than the commercial market can absorb, hungry mouths continue to multiply ;
- Useful, positive start to GATT Agriculture Committee, where a real effort is being made to clarify the rules for agricultural trade, and it is in the GATT that we should seek to find ways out of our problems; but all these efforts will be rendered totally ineffectual unless all exporters submit to the disciplines.

./...

In this context, it would be helpful if it were recognised from the outset that every agricultural exporting nation assists its farm trade directly or indirectly and if prominent officials here would refrain from muddying the waters by misleadingly stating that whilst the US had taken steps to cut grain production over the past two years, the EC had stepped in and increased theirs. The facts are rather different and show that EC grain production did not increase neither did our share of the world market.

- Both sides moving along similar tracks : control of farm spending.

Last, nowhere more evident than in recent Brussels decisions on future of CAP and on farm prices for 1984/85. Not time for details, but 3 major points :

1. Agriculture guarantees no longer unlimited ;
2. Effective control milk production - restrictive quotas with harsh penalties for exceeding ;
3. Tough price policy (for first time ever price cuts for several products in several countries).

This is by no means the end of the story. More hard decisions will be required. EC milk producers bore brunt of attack this time round - because supply/demand imbalance most serious - grain producers escaped relatively lightly with only a 1% price cut compared with the awful fate which befell our milk producers. They are next in the firing line.

./...

But did not this package also include decisions on cgf you might ask ? Should not exaggerate or overdramatise this question, because :

- First, EC making use of its GATT rights which provide for the renegotiation of concessions subject to appropriate compensation.

- Second, the Community is not taking immediate, unilateral action to prohibit or even reduce imports of corn gluten feed which displace grain in animal feed and force it onto the export market, but is proposing negotiations with a view to stabilising them. These talks started today in Geneva.

- Third, the measure has to been seen in the general framework of the decisions taken recently to reform the CAP which will result in major sacrifices by our farmers :
  - drastic limitations in financial support ;
  - cutting back on milk and other surplus production (should reduce demand for cgf and other substitutes) ;
  - and a tough price policy which should bring our prices and particularly our grain prices closer to those of our competitors' (This will over time reduce demand for cgf) - meanwhile, we do not wish to see our efforts to get our prices down undermined by increasing imports of substitutes.

./...

These recent decisions taken in Brussels represent an important contribution towards a better balance of supply and demand on world markets which should be of benefit to all farmers in all trading nations. They were not taken just for budgetary reasons, but to fit our farming to meet changed economic circumstances of the mid 1980's and beyond.

They will not lead to dismantling of the CAP nor to the disappearance of European farm products from world markets. We are not going to fold our tents and silently steal away. You can instead expect to see a leaner, more streamlined European agriculture.

Therefore, all more reason for us to seek cooperation rather than conflict. EC, whilst vigilantly defending its own interests, will be prepared - as it has been in the past - to search diligently with the US and others for ways of co-operating so as to promote world trade. I would have thought that a modest start could be made on the world's stagnant wheat market, where crippling debts in many of the purchasing countries are coupled with anticipated record crops in the major exporting countries. For our mutual survival there has to be at least a minimum degree of understanding between us. Perhaps an agreement on pricing would be too ambitious at present but surely efforts could be made to find an understanding on approximate market shares if prices dropped below a certain level, on assisting importing countries to finance their purchases and on food aid.

./...

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

* * *

DR/sbh

11 June 1984