DELEGATION OF THE COMMISSION OF THE EUROPEAN COMMUNITIES

GRAIN IN THE COMMON MARKET

Address presented

by

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"No man qualifies as a statesman who is entirely ignorant of the problems of wheat"

- Socrates

I am most grateful to you, Mr. Chairman, and to the Washington Association of Wheat Growers for giving me this opportunity to visit Spokane once again - This is the 2nd occasion in less than 6 months - we shall - as they say - have to stop meeting like this. And of course for the chance of attempting briefly to explain to you the European Community's cereal marketing arrangements - particularly as they affect wheat. To do this adequately I would need a little longer than this half hour or so.

As most of you will know, the European Community has operated its own farm policy - the Common Agricultural Policy or CAP - for the last 20 years or so and I imagine that you will also appreciate its importance not only to our 3 million farmers but also to all 270 million Europeans living in our 10 Member States.

The objectives of the CAP can be summarised as follows

- to increase productivity
- 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 not very different from those of US farm policy. All the goals I mentioned have equal importance but the last - market stability - has, I suppose - the greatest relevance to our subject this morning.

Broadly, these objectives are achieved by fixing common prices for the major part of our farm production. Then, to maintain internal price stability, variable levies are applied to imports when world market prices fall ~~are~~ below our internal price level. Refunds are also paid on exports to bring our prices to a level at which they can compete on the world market. When our internal price is below that on the world market, as happened in the mid 70's - an export tax or levy is applied - in order to maintain stability on and prevent disruption of the EC market.

But let us examine in more detail the specific arrangements for grains.

The Community's grain market regime was originally set up in 1962 when legislation was enacted which set out the objectives of a common market in cereals and laid down the outlines of the system and the rules for both internal exchanges between the 6 original members and with third countries.

Since there were wide differences between national price levels at that time, levies were applied on intra Community trade but with the objective that these would gradually be reduced over a five year transition period ~~when~~ after which common internal prices and a minimum threshold price would be established.

You can imagine that there were some tough negotiations over the levels at which the common prices should be set. With the benefit of hindsight, perhaps we would have been wiser to have set them at the lower French and Belgian levels rather than at the higher German and Luxembourg levels.

In any event, intra Community levies were finally abolished and common support prices adopted on 1 July 1967.

The relevant regulation provided that a common market system would cover all the main grains whether grown in or imported into the Community, that is

- common wheat
  rye
  barley
  oats
  maize (corn)
  sorghum (milo)
  durum wheat
  a number of other minor grains

would apply also

and to

wheat and rye flour and meal.

This original 1967 regulation has been superseded by subsequent legislation but the basic principles and mechanism remain unchanged. Let me describe them.

It provides for the annual fixing of the following common prices

- the intervention price
- reference price
- target price
- threshold price

These prices are the same - in ECU terms - throughout the Community . Thus the expression Common Prices.

On the basis of proposals made to them by the Commission of the European Communities - the Council of Ministers (national Ministers) annually fixes the target and intervention prices for the main grains and the reference price for bread-making wheat. These prices apply to a standard quality of grain throughout the Community. The threshold price is established later by the Commission. All 4 prices are increased during the year by a fixed monthly increment of 2 $ from Sept to May

The intervention price is the basis for supporting our internal market when supplies exceed demand and applies to barley, feed wheat, rye, maize and durum wheat. Wheat of bread making quality is treated rather differently in that it enjoys a special reference price. I will return to that later.

The intervention price is the delivered to store price at which national authorities are obliged to buy grain of a minimum quality and quantity, offered to them by a farmer or trader. It serves as a last resort - farmers prefer to sell on the mkt and puts a floor in the market. Prices at the farm gate, however, are frequently below intervention levels at times of surplus since allowances have to be made for transport, handling and the risk that the grain might not meet the required minimum intervention standard.

Intervention for wheat is mandatory - that is to say - that anyone can sell his grain to the intervention agency at any time provided that it meets the prescribed standards. In offering his wheat to the national intervention agency, the seller specifies at which of the three nearest intervention centres he is prepared to deliver. The seller has to bear the cost of transport to the centre which may not be the one he has specified since the official agency may indicate a different one. In this case the price to be paid is adjusted to take account of any difference in transport costs between the two centres.

The price paid to the seller is that for the month of delivery, provided it is not lower than the intervention price obtaining in the month of the offer - in this case the higher price obtains. Payment is usually made within a few weeks.

As I said earlier, the intervention price for wheat relates to a standard ~~quantity~~ quality and the actual price paid to the farmer is adjusted for variations from this standard - reductions for excess moisture (or bonuses for moisture below the standard) for example. If wheat does not meet the minimum quality ~~standards~~, it is rejected. Thus, some farmers will prefer to sell wheat of poorish quality at a price well below interv level rather than risk rejection after paying transport costs to the centre

Much of the wheat produced in the Community is not of bread making quality but for that which is a special "reference" price or super intervention price is fixed, which reflects the fact that these types of wheat have lower yields than feed wheats. To qualify for this higher reference price the wheat must pass special tests to determine its suitability for bread making.

But let me return to the other institutional prices which are fixed each year and describe their relationship with the intervention price.

First, the target price. -

This represents the desired price for our wheat producers and is intended to reflect the delivery price at Duisburg in West Germany which, since it is situated in the centre of a highly industrialised area, supposedly represents the point ot maximum deficit in the Community.

This target price is derived from the intervention price at Ormes in the Paris basin - the bread basket of the Community - and to which is added

- a "market" element which takes account of the difference between the market price and intervention price expected as at Ormes in a normal year.

- and second, the cost of transporting wheat from Ormes to Duisburg.

As a result, in most regions of the Community, market prices should normally be between the Ormes level - that is intervention, plus the market element, and the Duisburg or target price.

I fear that I now have to burden you with yet another element in this concept - that of the threshold price.

A threshold price is set not only for the main grains (wheat, barley, maize etc.) but also for the less important ones and it is fixed at such a level that imported wheat, for instance, will be sold in Duisburg - yes Duisburg once again - at the target price set for internally produced wheat. The threshold price is thus arrived at by taking the target price and subtracting the cost of shipping the grain by the cheapest means from Rotterdam to Duisburg. Its purpose is to ensure that the target price is not undercut and in order to achieve this, variable levies are charged on imports. The levy is set daily by the Commission and is equal to the difference between the threshold price and the lowest cif price available at a Community port.

So to resume, we have an intervention price - the floor to the market, a target price - the desirable internal price level and a threshold price calculated in such way that the target price is not undercut. Within this framework, grain is freely bought and sold by private traders on the open market within the 10 Member States.

Once wheat, for instance, has been offered and bought into intervention by national authorities, it can only be sold on to the internal market when there is no danger of depressing prices. It is normally sold by tender.

Perhaps I could now say a word about the way in which our cereals export policy is operated. This is, I imagine, not without interest to you since as I was told only the other day - "the CAP is fine so long as it confines itself to domestic, internal policies but not so good when you export your surplus by means of unfair export subsidies".

Just two general points. First, we are not the only wheat producers in the world that export their surpluses. On average Two thirds of US wheat, for example, is surplus to requirements and has to find buyers on the external market. And second, international trading rules specifically permit the use of export subsidies, provided they are not used to gain more than an equitable share of the market. I will return to this point in a moment, but to the nuts and bolts of the operation itself.

The Commission has a fair amount of discretion over the way it operates the Community's export policy but within a strict framework set out in legislation

The major considerations taken into account are the Community's supply situation, the need to avoid violent price fluctuations on the internal market, the prices ruling on export markets and budgeting constraints.

The purpose of any export refund fixed by the Commission is to bridge the gap between the normally relatively high price available inside the Community and the lower price on a specific export market. It is not used to undercut third market prices since this would be contrary to GATT international trading rules and seond would be a waste of money.

Export refunds, which, more often than not, are fixed by tender, vary in their amount depending on the country - or zone of destination. If the tenders submitted are excessive as to the level of refund requested, then they are turned down. Export refunds to most destinations in the world are far from being the usual state of affairs - as is often believed. In fact, it is not infrequent to for us to have refunds for only one or two destinations or even for none at all.

Well, so much for the legislative requirements. You will, I imagine, be interested in the practical effect of all this.

First, the effect of the support prices I have just described. We are frequently accused of spending limitless sums of money to encourage our farmers to produce surpluses which are then off-loaded onto world markets with the aid of unfair export subsidies. ~~But at the same time I cannot resist the temptation of adding that an increase of this~~ -

~~magnitude which has, to a large extent, been insofar wheat can only have had a destabilising effect on the world market.~~

But Let us examine the facts.

First, as a result of the support we give our farmers, our wheat production, for example, has increased by 29 % over the last 10 years - slightly more than the world average of 27 %. The increase here has been 73 % or 2 1/2 times the world average. I say this in no accusatory sense but in an attempt to set the record straight.

But at the same time I am bound to ~~reflect~~ comment that an increase of this magni[tude] can only have had a destab[ilising] effect on the w.m

Furthermore, the increase in Community production has been achieved on an acreage that has remained virtually unchanged for the last ten years or more.

I mentioned earlier the GATT ~~results~~ rules on international trading which permit export subsidies on agricultural products provided that they are not used to gain more than an equitable share of the market.

Let us examine for a moment what has actually happened with wheat and wheat flour. Our share of the world market increased over the last decade from 10 % to 14 %. The US share from 34 % to 46 %. I do not think that any reasonable person would conclude from this that we had acted unfairly - or against the rules.

It seems to me that where you have lost markets for wheat - or indeed for other agricultural products, the major factor has been the strength of the US dollar. This is not

Second, our total farm spending, currently at around 13,5 bio $, represents less than 1/2 of 1 per cent of the Community's GDP. This [illegible] around 21 bio $ here - a figure which exc[illegible] a particularly original diagnosis. But in support of it I should just like to offer you a telling example which was provided recently by a former Under Secretary at USDA.

If you look at the price of wheat in mid August 1980 and mid August 1983 you will find that it was almost exactly the same in dollar terms on both dates - 3.34 $ per bushel in 1980 and 3.30 $ in 1983. But to have paid for that same bushel in German DM, for example, would have cost you 5.97 in 1980 and 9.11 DM in 1983.

From the point of view of a competitor the contrast is equally striking. In August 1980, the US price converted into Australian dollars would have been 2.89 Australian and in 1983 3.82 Australian. In other words, the Australian farmer would have received nearly 1 $ more in Australian currency or he could have dropped his price by a cent or two, to undercut the US price, and still have made comfortably more than in 1980.

In addition to being told that we spend endless sums of money on our farmers, that we thereby encourage vast surpluses and then take other people's market shares by unfair means, we are also told that, unlike the U.S. we make no attempt whatsoever to adjust to changed market conditions.

I have already answered the first three charges. Let us now examine the fourth - that we let others bear the burden of adjustment whilst we stand on the bridge and merrily signal full speed ahead to the engine room. We will restrict our examination to wheat.

I mentioned earlier the much greater increase that there had been in U.S. wheat production than in European. But what is also overlooked when we are admonished on this is that, in the light of a difficult world market situation, we undertook not to increase our share of world trade but freeze our share of the world wheat and wheat flour market in 1982/83 at the level of the previous year and to increase our carry over stocks by over 70%. We held to both these undertakings.

Another question I have frequently been asked since I've been here in the United States is - O.K. you've made some effort to build your stocks but why don't you have a PIK programme for wheat in Europe? I would just like to make the following observations. (Even if we could afford it): 12 bio $

- We do not have enough agricultural land in Europe

....

- our average farm size is only 45 acres

and last, the 29% increase in wheat production that has taken place in the Community has been achieved on an acreage that has remained virtually unchanged for ten to fifteen years whereas the increase here has been achieved on a vastly expanded surface. Thus a PIK programme for us would mean reducing acreages which obtained over ten years ago.

This does not all mean, of course, that everything is fine and we have no problems. We are both - the US and the EC basically faced with the same problem - that of producing larger quantities than markets can absorb.

In response to this situation and to the fact that our cash is running out - unlike national governments we are forbidden to run deficitis in the EC - the Commission has recently proposed a tough and wide ranging package of measures affecting all our farmers.

Briefly, these include:

- through production quotas - with severe penalties for exceeding them - and through guaranteed thresholds a restriction will be put on the quantities on which farmers can enjoy guaranteed prices.
- a restrictive price policy will be followed
- prices to be fixed for more than one year for some products and an accelerated move made towards the prices of our competitors.

This brings me to the external aspects of the package. 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.

The EC cannot ask its farmers to limit its own grain production without stabilising imports of grain substitutes. This is why we are proposing to stabilise the imports of corn gluten feed, for example, not to ban or to reduce them but to stabilise them after full discussion with our major supplier - the U.S.

Furthermore, it seems to me that if we can successfully stabilise our imports of grain substitutes, then the amount of wheat which would be forced onto world markets because it had been displaced by substitutes in animal feeding, would be reduced. A factor which should not be contrary to the interests of those represented here today.

The proposals I have just very briefly described, and which are at this moment being examined in Athens at the European Summit meeting, are not an attempt to shuffle off our problems ~~off~~ on to others but a serious and honest effort to adapt our farm policy to meet the changed conditions of the mid 80's. As a result, the CAP will be enabled to continue to ensure food supply and price stability, to give our farmers a reasonable, but not excessive, return and yet permit us to play a positive and responsible role in world trade.