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THE FUTURE OF THE COMMON AGRICULTURAL POLICY AND THE RELATIONS BETWEEN THE UNITED STATES AND THE EUROPEAN COMMUNITY

Address by

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to the Agricultural Committee of the
Chambers of Commerce of Minneapolis and St. Paul
and the USDA Club of the Twin Cities
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Mister Chairman and Ladies and Gentlemen,

I thank you very much for your kind invitation to come here today. I am pleased and honored by this invitation.

I came to Minneapolis last year during a visit sponsored by the State Department. It was more or less a vacation trip for me to learn more about the United States. In two months, one only has time to receive superficial impressions, but I was impressed by Minneapolis as both a political and economic center.

I hesitated slightly before accepting your invitation. I have been appointed to Washington only since the beginning of September and the tasks of a newcomer in Washington are overwhelming. But I am worried about a growing tendency in the United States to consider the European Community only in terms of its common agricultural policy.

I want very much to understand your concerns and your anxieties about the C.A.P. I would also like to explain that the common agricultural policy is not a fixed construction and that it is in a constant process of evolution and reevaluation. Actually, agriculture has to be put into its proper context as one aspect of a newly emerging Europe. This evening I would like to try to prevent the misunderstandings of the past from continuing.

The United States cannot dissociate itself from Europe's destiny or from Europe's efforts toward unification on both economic and political levels.

The common agricultural policy must not become a source of conflict between the United States and the Community and so both sides have to make an effort to understand each other's situation and problems. Solutions must be found which will not only allow for coexistence but define the means for a fruitful cooperation on both sides of the Atlantic.

I. <u>The meaning of the common agricultural policy cannot be understood unless one knows something about the circumstances of its development</u>.

1) <u>I must say that the governments of the six Member States and the Commission were really very ambitious in wishing to construct a common policy in a field as difficult as agriculture</u>.

The new mechanisms of the C.A.P. have been sharply criticized. Theoretically these mechanisms are simple -- variable levies on imports and refunds on exports. In practice, they have become more and more complicated because agriculture itself is a very complicated matter and maybe because experts in all countries want to do too much. All the same, these mechanisms themselves are neutral in relation to production and to trade.

We in the Community must recognize that the prices of our chief agricultural commodities are higher than international market prices. But you, in the United States, must understand our particular farming conditions. Our farmers' incomes are much lower than those in other professional fields, and their way of living in our consumer society is much less enjoyable. At the same time, our agricultural producers have had to spend a lot of money to modernize their farms, so it has been impossible to avoid increasing their prices. Finally, political realities have to be taken into account. Community prices often result from political compromises rather than economic justifications.

The Community is often criticized by its trading partners for seemingly having greatly increased its production. Fortunately, this is not true for all commodities. And, in every case, it is hard to divide the responsibility between price increases and the growth of productivity. Generally speaking, the Community's growth in grain production is mainly due to overall productivity increases and its butter and skim milk surplus is mainly a result of the high common price level.

Many people in the Community now admit the drawbacks of our system of common prices and denounce the fact that, for the most efficient producers, prices are too high, even unjustified, while for the less productive farmers they are not high enough.

It is also more and more widely recognized that intervention price mechanisms -- i.e. guarantee prices -- are too generous. The farmers' incentive is to obtain the guarantee prices rather than to sell to the market.

The Community must find a way to export its excess production at a time when there are fewer and fewer export markets and many other countries with production surpluses.

The costs of the common agricultural policy have considerably risen these past years and eventually could compromise the Community's goals. However, it should be kept in mind that other countries, including the United States, also have costly agricultural policies.

This situation cannot be explained without reference to the Community's political problems. Within Europe of the Six, the agricultural population is still large and, in fact, different types of farms have to coexist. The United States should understand this particular problem of the Community because the United States itself, with a much smaller agricultural population, has some agribusiness farms which coexist with the traditional, family-style farms.

2) <u>Despite the difficulties caused by the stage-by-stage development of the common agricultural policy, it has had some good effects in expanding international trade and especially American exports to the Community</u>.

Variable levies have replaced import quotas. Thus, entrance into the Community is never denied. As a result, the Community market is never isolated from the world market as our individual member countries' markets sometimes were before the common market.

The common prices have sometimes resulted in increased export profits for a number of countries. A typical case is Denmark's export of certain cheeses. Furthermore, by setting a minimum price level for imports, the Community has actually improved the climate for competition between the exporting countries. For instance, this policy has prevented sales at abnormally low prices, mainly by state trading countries.

The common agricultural policy did not prevent the Community's participation in the "Kennedy Round" tariff cutting negotiations from 1961 to 1967, where in fact it played a positive and key role.

Then, too, international trade statistics show that the common agricultural imports from growing. Even our imports of products subject to variable import levies expanded.

Imports into the Community for total agricultural products, not including intra-Community trade, increased from $7.4 billion in 1958 to $8.9 billion in 1962, and to $10.3 billion in 1968. Of this total, imports of products entering under the Common Agricultural Policy increased from $2.1 billion in 1958 to $2.6 billion in 1962, and to $4.1 billion in 1968.

Imports from the United States have increased considerably. Total agricultural products went from $889 million in 1958 to $1.3 billion in 1962, and to $1.6 billion in 1968. For products entering under the Common Agricultural Policy, progress has been still more spectacular, imports increasing from $253 million in 1958 to $549 million in 1962, and to $1.2 billion in 1968.

More importantly, the United States' share in the Community's total imports increased more rapidly than for other countries. Taking 1958 as a base year, the Community's imports for all agricultural products had risen by 1968 to 84% for the United States, but the average increase was only 41% for all its trading partners.

Naturally, export trends can fluctuate in different years and for different products. It is also clear that, for the time being, American broiling chicken exports to the Community do not look as promising as to turkey parts.

II. <u>Instead of fighting each other, the United States and the Community must combine their efforts to solve price problems</u>.

:) <u>First of all, I cannot overemphasize that the United States and the Community must cooperate</u>.

Every country in the world has an agricultural policy that varies considerably, depending on the product: some need great protection while others are highly competitive on the international market. The United

States itself provides such an example and its agricultural policy for grain is quite different from its dairy policy. Most countries, without consulting each other give some kind of aid to their agriculture, even as their agricultural policies become more and more closely interdependent.

Unless this aid and this interdependence are taken into account, it seems practically impossible to solve the problems of production and international trade in agricultural commodities.

A chance for international cooperation in the field of agriculture was lost during the Kennedy Round, when the Community's proposal to negotiate the global effect of government agricultural aid did not receive full support. The Community was willing to freeze its common support prices for three years and also considered the possibility of making commitments on self-sufficiency ratios for certain products. I am not going to accuse any particular country of letting this chance for reciprocal and appropriate commitments slip by, but when people criticize our common agricultural policy, they often forget that the Community did make proposals of great significance for the future of international agricultural relations.

Instead of becoming discouraged, we should rather seek the means for a new cooperation.

The International Grain Agreement seems to be a good example of what cooperation between different partners can accomplish when it is really effective. After meetings in London, Washington, Buenos Aires, today the main exporting countries seem to have reached an agreement to avoid a price war which would hurt them.

In an everchanging world, international agreements should provide a supple framework for permanent consultation and cooperation.

The bilateral contacts which tend to develop between politicians and officials in the United States and the Community should improve their understanding of each other's different situations and points of view.

2) <u>The Community has to make great efforts to adjust its price and market policy but thereforms of European agriculture have already started</u>.

The Council of Ministers has had before it the Mansholt Plan for reforming agricultural structures and for developing social aids.

The Mansholt Plan means the Community recognizes that a price policy by itself cannot solve every agricultural problem. This plan emphasizes the desire to speed up changes in agriculture. It favors large units of production and grants premiums to older farmers to encourage them to give up farming.

The governments often react favorably but never before has such a plan been so widely discussed by all of the people who would be affected by it.

Many people now think the future of Europe is not in agriculture but in industry, while recognizing the need to facilitate transitions, they maintain that the financial burden of agriculture should not hold back industrial development and economic expansion.

I should stress the importance of the Commission's latest proposals on prices, production control and the cost of the common agricultural policy. They include reducing the common price level for products such as wheat and dairy products and limiting both price guarantees to farmers and establishing some limits for the trend of expenditures on the common agricultural policy.

These measures are severe because farm income has not increased during the past years. Taking into account inflation and increases in the prices of goods bought by farmers, in fact constitutes a real decrease of the price of European agricultural products.

The farmers would be unlikely to accept such stringent price restrictions without benefits provided in the Mansholt Plan.

In conclusion, I would like to appeal for a lively effort to improve mutual understanding and to find ways for real cooperation.

If we agree on these objectives, we should be very happy to have the meeting of U. S. and Community agricultural organizations held in Washington in the early 1970's.

Since the agricultural situations are different in the United States and in the Community, the solutions must be different. This fact must be understood and accepted. European farmers will still need help in the next few years in their efforts to adapt to the requirements of the modern economy.

Moreover, we have to try not to look at relations between the Community and the United States only from the vantage point of agricultural policy. The creation of Europe of the Six favors the expansion of industrial trade, encourages American investments abroad, and contributes greatly to the economy and the prosperity of the United States. Then, too, in the industrial field, the Community's tariffs are lower than the United States'. I hope that this fact will be remembered in the United States.

The Europe of the Six constitutes a preferential zone which membership of Great Britain and some Scandinavian countries will enlarge. But an enlarged Community will not necessarily mean that the United States will not receive any economic benefits. The most recent and objective

studies show that Community trade, and especially its imports from other industrialized countries, gave the main impetus to world trade expansion to world trade expansion in 1968. The economic growth of Europe of the Six is and will remain a factor in the expansion of international trade, particularly in the case of an enlarged Europe.

Finally and above all, we must not forget that Europe of the Six is chiefly a political endeavor and that its goals are political.

Not only do Europeans not want wars among themselves, we also want and also intend to make further progress towards political unification.

European political unification, if it comes into being, in a form still to be defined, is much more important than cancelling customs duties between six countries and each new U. S. administration has always lent its support to this objective.

I would like to thank you very much for having given me the opportunity to explain, once again, some of the objectives of European development and to recall how closely the prosperity of the United States and Europe are linked. Our interdependence requires a very close cooperation.