

Agricultural Trade Relations Between the European Community and the United States

Text of a speech delivered for
Finn Olav Gundelach by
Herman De Lange*

The European Economic Community is your biggest farm customer and your biggest competitor:

- Our 260 million people consume the bulk of your agricultural exports.
- Our livestock farmers rely on your cereal and soybean growers for much of their animal feed.

Yet, our farmers and your farmers face each other in many third country markets.

Your agriculture and ours are largely interdependent. Our internal farm policy affects you. Your trading aspirations affect us. It is both right and useful, therefore, that our nine-nation community be represented here today.

Let me begin by emphasizing our interdependence.

We are partners in trade. Last year, the Community bought a sixth of all your exports to give you a \$4 billion trade surplus with us.

We are also partners in farm trade. Last year we bought close to \$7 billion worth of your farm produce — six times as much as we sold to you. Twenty per cent of all our food imports come from the United States and you are our biggest single supplier.

We are partners too in supplying the world with foodstuffs. Your effort in this area is huge — total farm exports of \$24 billion last year. But the Community is developing its exporting role. We have built up to an 8 per cent share of world agricultural exports — though we still are, and are likely to remain, considerable net importers.

The United States and the Community are, then, partners in important ways. We are partners in overall trade, in farm trade, and in supplying the world with

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food. Our consumers and farmers need you, especially for animal feed. But equally you need them. Without their considerable and regular demand backed by hard currency, your farm incomes would be greatly reduced.

But inevitably, these partnerships are spiced with competition. And it should not surprise us if we seem to have conflicting trade objectives.

- You sell us a lot and you want to sell us more. We, on the other hand, are alarmed at the one-sided nature of United States-Community farm trade. We do not want our farm deficit with the United States to get any bigger.
- a You have a predominant position on most third-country markets and you want to make it stronger. Our farmers also aspire to export growth and want to *see* us selling more overseas.

It is my view, and the view of the European Commission, that these apparent conflicts can be resolved — that the United States, The European Community, and other countries can make progress towards realizing their trade aspirations. That is our goal in the current multilateral trade negotiations.

As I see it, we can expect the MTN to resolve these issues in several ways.

- We must agree to run our internal agricultural policies so that we do not pass the whole burden of agricultural adjustment to other countries.
- We must avoid unreasonably erratic price fluctuations on world markets.
- We must work for an expansion of international farm trade by guarding against unnecessary border restrictions.

Let me deal with these points in more detail so that you will be better able to see what lies behind our thinking in these important areas.

Our internal agricultural policy is a key part of our European construction. It has controlled and smoothed revolutionary changes in our community agriculture. Since 1958, for example, half of our agricultural population (8 million people) has moved off farms. Farm size has doubled, output has increased. No longer can our industry be characterized as one where producers eke out a living from farms little bigger than gardens. It is now an industry of profit- and cost-conscious farmers using the latest production techniques.

The smoothness with which this change has taken place has been one of the triumphs of the policy.

Another has been its role in bringing free agricultural trade to our community. It is too easily forgotten that the policy has made it possible to dismantle many quantitative restrictions — while, elsewhere, these crude and arbitrary restrictions often continue to hamper the development of agricultural trade.

In these and other respects our agricultural policy is a success. It is here to stay. The present U.S. Administration understands this.

We are now getting to grips with the problem of market imbalance that has

dogged some sectors of our agricultural industry since the late 1960's. Imbalances have almost always been present in the milk market and now they are serious in the sugar sector. But we are on the way to bringing them under control: we are on the way to ending the waste of resources represented by farm surpluses.

The foundation of our approach is a tough price policy. Last year we increased our farm support prices by an average of 3.9 per cent. This year we have gone a step further — increases have been held back to an average of 2.1 per cent. In weaker currency areas, the rise will be higher but it will still be less than inflation.

At a difficult time for our economies — one of inflation combined with recession — we have sent a clear signal to our farmers. We have told them through their pockets: "You are producing more than consumers at home and abroad can buy."

This has not been easy. Many of our governments wanted to do more for their farming communities. Agreement was only reached after about two weeks of solid, government-to-government negotiation.

And this is of relevance to you in the United States and to the MTN. True, I have been talking about internal policy. But by tackling our internal problems we are doing our share to bring down world farm surpluses. We are making a Community contribution to the world problem.

Equitable solutions to trade problems are only possible if we recognize the sort of contribution the Community is making. We must all hold back our production if world markets are to be balanced and we, in the Community, would be happy to see other countries make the same effort.

You in the United States have your contribution to make though I notice you have recently increased your dairy support prices.

The second part of our internal attack on wasteful surpluses also has repercussions for international trading patterns. We are determined to make our own products attractive on our internal markets so that we consume more of our own output. This will not be done by restrictions at the Community frontier but by adapting our policy to market forces.

Let me quote an example for the milk sector. Not too long ago, the Community owned stocks of almost 1 1/4 million tons of skimmed milk powder. This was surplus to the requirements of the food industry and could not find outlets on the world market. The stocks represented a huge problem.

Now, by adapting internal subsidy schemes, we are well on the way to a solution. More and more of this protein is being used either as liquid or as powder in animal feed and the stocks are already down to 750,000 tons. We have made our own products attractive on our internal market.

This policy does not hamper your present exports of soybean meal. Nor does it exclude growth. What does limit growth is the necessity of trying to hold down our animal production.

This skimmed milk powder story illustrates several important points.

- It illustrates the importance of expanding international trade — because the more we can sell abroad, the less we shall need to feed at home.
- It illustrates the importance of burden-sharing. We feel, for example, that America's close stance to our dairy products has left us to bear more of the burden of international adjustment than is just.
- It illustrates the interdependence of products in trade. If we cannot sell our skimmed milk powder, then we have to use it internally. America's dairy import restrictions look like good news for your dairymen but bad news for your soybean growers, because the possibility of growth for your exports of soybean meal depends on the internal and external possibilities of our animal production.

You will see that we are increasingly adapting our policy to market forces. We are holding down increases in our support prices and we are making our produce more attractive in the market place. This is not easy. We are having to resist calls for greater protection.

These calls have been especially loud from citrus producers in poorer regions of the Community. They have for a long time argued that the policy did nothing to help them develop. Now, we have made a series of proposals that will help them to raise their efficiency and fight for a bigger share of an expanding market.

As I say, this is not what they want. They have asked for the short term gains that would come from greater protection. We have offered the longer term but more lasting gains of greater market strength.

Now we are being asked in the MTN to make concessions for your citrus fruits and similar products. You will understand our difficulties. We cannot give something with one hand and take it away with the other. I will not jeopardize the entire Mediterranean programme.

The third factor we consider important in the MTN concerns price fluctuations. Our agriculture is very open — remember we import about one-third of total produce traded on world markets. Erratic price movements on world markets can lead to sudden rises or falls in our farmers' costs leading to unjustified falls in our farmers' incomes or sudden spurts in productions.

We have made great efforts in this area in the current trade negotiations and now seem to be making some progress on the question of minimum and maximum prices for wheat. There are still problems, though, on the issue of feedgrains. The two must go together.

This question, I repeat is important to us.

Erratic price movements make it impossible to direct and fine-tune our agricultural policy. We do not want to make your grains and soybean meal more expensive — obviously not. But price movements that bring "boom" one month and "bust" the next are disruptive and harmful to our farmers and not in the interest of orderly international trade.

I have dwelt on these points because we believe them to be important. We are convinced that a first step towards satisfactory arrangement for world trade is a

wide understanding of each party's point of view. That's why I've gone into such detail today.

We see that the United States wants to increase its total exports to offset its oil deficit and we see that this will apply to agriculture. We are sympathetic. At the same time, you must recognize our position.

- We are making a major contribution to bringing world markets into balance by controlling our own production. This will steady prices and increase everyone's export earnings.
- We are resisting calls from our farmers for greater protection on a variety of products.
- We are developing our internal markets but we too want to see export markets opened up. We have special interest in the dairy sector.
- We want erratic price fluctuations ironed out because they damage our open farm economy — adversely affecting farmers and disturbing our internal policy.

World trade can be developed but this must be done in a way that spreads the benefits. That way, trade unites nations.

In any other way it is divisive, it has a potential for good or for ill. We can turn trade into an economic battleground. Or we can cooperate and respect each other's interests. We in the European Community choose the latter.