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Delegation of the Commission of European Communities



1984 Agricultural Outlook Conference, Session # 27
Washington, D.C.

I propose spending the time allotted to me this morning on the subject of the Commission's recent proposals for the adjustment of the European Communities Common Agricultural Policy, since I get the very strong impression that a number of people, not a hundred miles from this hall, hold the view that these proposals could adversely affect "the future of US agricultural trade" - the topic for this morning's session.

The framework of this package of measures was made known at the end of July since when it has been fleshed out by a number of more precise, more detailed proposals. Regrettably, there seems to me to have been a great deal of misunderstanding over these proposals - one might even say misrepresentation - to the extent that they are being portrayed as a serious threat to the US farmer and exporter.

A great deal of attention has been paid, quite understandably, to the external measures contained in the package but rarely, if at all, is any mention made of the fact that these proposed external measures form only a part, and a small part at that, of a much larger programme.

60th ANNUAL AGRICULTURAL OUTLOOK CONFERENCE • USDA
OCT. 31-NOV. 3 1983 • WASHINGTON, D.C.
60 YEARS OF SERVICE TO AMERICAN AGRICULTURE

What is more, the alleged effect of these external measures has been grossly exaggerated. As recently as last Thursday, a Senate hearing was told - in all seriousness - that the Commission's proposals regarding grain substitutes and vegetable oil would, if adopted, cost the United States 5 billion dollars in lost sales. I'm sure that no one in this knowledgeable audience would be taken in by such an extraordinary claim. But this is not the first occasion on which this figure has been mentioned so I will return and examine it in a moment.

It is, of course, not difficult to appreciate the great sensitivity here in the US as regards agricultural exports when one takes into account that 2 acres out of every 5 US farm acres rely on overseas sales - a significantly higher proportion than that for the industrial sector and that, for example, about two thirds of US wheat production is surplus to internal requirements and is consequently dependent on an unreliable world market for outlets. So, some concentration on the external effects of our proposals is perhaps not too surprising. But I should like to use this opportunity for which I am most grateful to the organisers of this conference, to briefly describe the whole package and to set the two relatively small elements concerning corn gluten feed and vegetable oil in their true perspective.

First, what are we trying to achieve? The main thrust of the Commission's proposals is

- to limit Community spending on farm support
- to adapt our agricultural policy to meet the changed conditions of the mid 80's
- to discourage surplus farm production.

The Common Agricultural Policy - more familiarly known to both its admirers and detractors as the CAP - is one of the major achievements of the Community. But, like anything else in this ever changing world, it cannot, if it is to survive, remain immutable and become fossilised. Since its inception some two decades ago, in addition to the technical progress and productivity increases acknowledged by Secretary Block on Monday, fundamental structural changes have also taken place. There are now approximately 8 million working on the land compared with 18 million 20 years ago. The number of holdings has fallen and their average size increased to about 45 acres - small by American standards, but double what it was in Europe when the CAP started.

In spite of these technical advances and of the support afforded by the CAP, and contrary to what is often believed, incomes from agriculture have increased more slowly than other incomes since 1973. High rates of inflation and divergences of inflation rates between our 10 Member States have also created problems for the CAP.

But in spite of these difficult economic conditions, the Community remains not only the worlds largest importer of food - taking about one quarter of total world agricultural imports - but also the US farmers best customer - to the extent that we currently run a massive deficit on our transatlantic agricultural

trade of between 6 and 7 billion dollars - four times the deficit we ran in 1971.

One of the principles of our agricultural policy - just as it is in most other parts of the world - is to provide a reasonable standard of living for our farmers - the descendants of men and women who have farmed our European soil for 2000 years. The CAP has, in addition to its economic role, an important social function as well. It has also got to be set against a historic, cultural and environmental framework. However, in providing our farmers with a reasonable standard of living, the Community cannot merely sign a blank cheque with no ceiling on expenditure. If Community agriculture is to succeed, the accent must be increasingly placed on production at competitive prices.

It is no secret that the background to our proposals is - first, a shortage of funds. From 1974 to 1979 expenditure on supporting agricultural markets grew at 23 % a year - almost double the rate of growth of revenue. Agricultural expenditure remained fairly stable in the period 1980 to 1982 largely because prices remained relatively high on world markets. But since then, expenditure has increased sharply - an estimated 30 % or thereabouts is expected for 1983. So, the funds are getting very low - and the Community, unlike national governments, cannot run a budget deficit.

- second, advances in technical progress and great improvements in productivity have meant that output has risen more rapidly than consumption. Increases in the volume of agricultural production have averaged between 1.5 % and 2.0 % a year whilst consumption has only risen by about 0,5 %.

This is the sombre background to the tough programme of measures proposed by the Commission - and which are now before the Council of Ministers - for the rationalisation of European agriculture.

Consequently, the Commission proposes, in particular, to tighten and to extend the application of the guarantee

threshold system to more products. Guarantee thresholds discourage surplus production by putting a strict predetermined ceiling on the amount of a given crop EC farmers may produce without being obliged to contribute towards the cost of disposing of the surplus. The Commission takes the view that it is no longer reasonable or possible to provide open ended guarantees to farmers when market outlets no longer exist. The Community's sugar producers have, incidentally, had to pay the full cost of disposing of excess sugar production for the last 2 years. But these measures will generally be strengthened and extended over a wide range.

Milk, which accounts for about one third of the EC's current farm price spending, provides a very clear example of how these new measures are designed to discourage over-production. The Commission has proposed that as from 1984 milk producers be required to pay a supplementary levy on the amount of milk they produce which exceeds 101 % of their total 1981 production. This supplementary levy would be equal to 75 % of our milk target price. In addition, the Commission has proposed a further 4 % levy on all milk produced on intensive dairy farms, together with the suspension of support buying of skimmed milk powder from October to March.

Guarantee thresholds already apply to most grains, to processed tomatoes, oilseeds and sugar and has already been proposed for dried raisins. In the case of grains and oilseeds, the system would be extended to cover all the main types of grain and major oilseeds. This will mean for these products that if production exceeds the fixed ceiling, then support prices will be abated for the next marketing year.

In addition to the tightening and extension of the threshold concept, the Commission's proposed programme also includes a restrictive price policy for all agricultural products which will take into account not only the economic situation of the agricultural industry itself but also the markets on which it depends. In the case of those products where our prices are higher than those of our principal competitors - and here let me add that in many cases they are at about the same level, (milk for example) and in some lower - the Commission proposed that the effort to narrow this gap should be accelerated. The implementation of such a restrictive price policy could well mean reductions in support prices expressed in national currencies.

A reduction in a number of production aids and premiums has also been recommended - on the processing of fruit withdrawn from the market for example and also in the olive oil and wine sectors.

These are some of the internal measures envisaged.

The full range

- production quotas with severe penalties for exceeding them
- extension of threshold guarantees
- much lower price increases for farm products (in some cases reductions in national currencies)
- prices for some surplus commodities to be fixed for more than one marketing year
- reduced intervention or support buying
- and the discontinuation of a number of aids and premiums

are all initiatives which will hit the European farmer and which will require substantial sacrifices from him. They have not been well received at home, and COPA - the European farmer's organisation - has gone as far as to say that they "would have extremely serious direct and indirect repercussions on all sectors of agricultural production and would lead to a further substantial fall in farmers' incomes, which have already declined by about 20 % in real terms since the mid 1970's."

When we are asking our own farmers to make real sacrifices and to limit their production - or as a friend of mine recently put it "when we are taking the knife to our farmers" - the Commission believes that it is not in the least unreasonable for the Community to review its treatment of competing imports provided that this is done strictly in accordance with the international trading rules as set out in the GATT.

This, of course, brings me to the two elements of the package that have been given star billing here. But before doing so I would like to turn briefly to a remark made on Monday about unfair trading practices and which referred to export subsidies. Since this clearly has some relevance for US farm exports. For me, unfair implies something that is against the rules. However, agricultural export subsidies are permitted under GATT international trading rules provided that they do not result in a member gaining an inequitable share of the market. We maintain that we have observed these rules and have thus not acted unfairly. From this I can only assume that it is perhaps the rules themselves that are considered by some to be unfair.

But back to grain substitutes and the proposed oils and fats tax.

First, grain substitutes and in particular corn gluten feed and citrus pellets. As I said earlier, we are aiming to close the gap between our grain prices and those of our competitors. This would have the effect of making substitutes less attractive. But until that time and whilst we are implementing a guarantee threshold for grains and requiring our cereal growers to limit their production, it is absolutely essential to have some effective stabilisation of the imports of grain substitutes. Since, as we all know, these products displace Community grown cereals in animal feed and have the effect of forcing more EC grain onto the world market.

Our efforts to stabilise our imports of substitutes is not a measure aimed specifically at the residues and byproducts which come from United States processing industries - yet another misconception that has gained currency. Substitutes are imported into the EC from a wide range of sources, and arrangements have already been made for manioc and bran coming from such areas as South East Asia and elsewhere.

It is now proposed to stabilise the imports of other major substitutes - corn gluten feed and citrus pellets. Imports of corn gluten feed - a residue to a large extent from the sweetener industry which has been able to take advantage of the umbrella provided by US support arrangements for sugar - have soared from 700,000 tons to 3 million tons since 1974. Citrus pellets have shown a similar rate of increase.

However, what is being proposed for both corn gluten feed and for citrus pellets is not a banning of imports, or even a reduction in imports but a stabilisation of imports and this only after fully carrying out the procedures provided for in the GATT. There will thus be no loss of trade.

The proposed tax on fats and oils is frequently presented here as a purely external measure which will impair the duty free access to the EC of soya beans, soya meal and other oilseeds and oilseed products, valued at around 4 billion dollars in 1982. This is just not so.

First, the tax would be a non-discriminatory internal consumption tax on all oils and fats (excluding butter) used in Europe for human consumption whether produced locally or imported. This non-discriminatory treatment is in full accord with international trading rules.

Second, imports of soya bean and soya meal - or any other oil seed - would not be subjected to any import tax or levy.

Third, it is extremely doubtful whether the proposed tax would have any discernable effect on the quantities of beans (or meal) imported since

a) the low rate of tax proposed combined with the reduction in butter subsidies is not likely to alter consumption patterns of soya bean oil and margarine

b) all other vegetable oils, including olive oil, whether obtained from imported or domestically produced seeds would be taxed at the same flat rate. This would have a proportionally greater effect on the lower priced oils - such as rape seed oil.

Fourth, the tax would not apply to oils used for industrial purposes, nor would it affect any oil which was later exported from the Community.

Lastly, soya beans and meal are imported very largely for animal feed and not for oil production.

This brings me back to the highly misleading figure of 5 billion dollars worth of lost markets which was being tossed around last week. I suppose that this figure represents the complete loss of all sales to the EC of corn gluten feed and

citrus pulp, currently worth about \$ 700 million and total oil-seed exports valued at around \$ 4 billion. To claim that these sales would be lost is to play fast and loose with the facts of the situation - since what is being proposed, as I have tried to explain, is a stabilisation of substitute imports - not even a cutting back and most certainly not a total ban, as is implied when a loss of 5 billion is bandied about plus a modest internal consumption tax on oils and fats which should have no discernible effect on the EC's massive imports of soya bean and meal. Neither is it very helpful in the interests of trying to understand each others problems to present our measures as was done on Monday as representing a potential loss of 3 1/2 billion \$ over 5 years on corn gluten feed and citrus pellets alone, since - I repeat - our aim is to stabilise not cut these imports.

In concluding, Mr. Chairman, I submit that this major package has not been designed to shift the burden of adjusting the CAP away from the shoulders of our own farmers onto those of American farmers and exporters. If you are in any doubt, I suggest you ask any member of the European farmers delegation now in Washington for meetings with the Chamber of Commerce who they think is being asked to bear the burden.

First, soyabean and soya bean meal exports would not be affected by the proposed tax on oils and fats.

Second, stabilisation of corn gluten feed and citrus pellet imports will be carried out in strict conformity with GATT rules and in full consultation with the United States.

Third, by far the most substantial and toughest part of this package is that which affects our own farmers and which calls for major sacrifices on their part.

These measures which represent a major shift in the direction urged for years by United States critics of the Common Agricultural Policy should be welcome news for US farmers and exporters who have long complained about the European Communities extravagant spending on agriculture. They should not reduce current levels of US exports to the Community. On the contrary, the US farmer should stand to benefit from the cutbacks envisaged in European farm production which competes with US products on world markets. This always assumes, of course, that world import demand picks up again and is maintained, that some way out of the debt problems of developing countries can be found because this is where the potential lies and that the US is able to deal with the factor that bears the most significant responsibility for the fall in its exports - the strength of the dollar.