INTERNATIONAL TRADE ISSUES:
CURRENT & FUTURE

Presentation by

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Introduction

A year ago, Senator Jepsen was kind enough to invite me to a similar conference in Iowa. Unfortunately, I had to cancel my participation at the very last minute because of some urgent business regarding steel and the imminent visit of Vice-President Davignon who deals, among other things, with steel issues. This time around, even though steel continues to be very much on our minds, and by pure coincidence Viscount Davignon flew into Washington last night, I decided to keep my commitment, and to come and meet you all here.

I must confess that one of the reasons I had to stick to my commitment this time was that I was afraid that the Des Moines Register might run a story with a headline such as "E.C. Boycotts Conference in Major U.S. Farm State".

What I would like to do in the first part of my presentation is to go over with you some of the misconceptions or myths regarding the farm problems in general and the E.C.'s Common Agricultural Policy in particular.

One of the most widely held beliefs is that imports are causing most of the problems of the American farmer. To this I can only say that, according to a recent article in the most authoritative American Farmers' Bureau News this is not the case. The main reason being the rising production, due in part to spectacular gains in productivity, slackening demand due to the world-wide recession, and the high value of the dollar, together with extremely high interest rates and last, but not least, the grain embargo by which the US farmers lost a major market from which they have not fully recovered, even after the lifting of the embargo.

The second misconception or myth which is related to this is that the Common Agricultural Policy (CAP) is the main culprit. This strikes me as slightly odd, given the fact that the E.C. continues to be by far the biggest customer for American farmers. Even as recently as 1983 the U.S. was running an agricultural trade surplus with the EC amounting to 4.7 billion dollars and this in spite of the high exchange rate of the dollar, which had already negatively effected the non-agricultural trade balance.

Another assumption which you hear wherever you go in the U.S. is that the E.C. is subsidizing its farm production and its farm exports, to which I reply that this is true. And this is exactly why the current reform of the CAP is under way. (More about that in the second part of my presentation.) One should, however, not forget that the U.S. government is spending roughly the same amount of money for their own farmers. In 1982 the figure was between 12 and 13 billion dollars for each . In this respect it is also interesting to record a recent statement made by Secretary Block to the effect that this Administration has spent in the last three years more in credits for farm exports than all the previous Administrations in the past 20 years added together.

Talking about subsidization, one also hears very often that subsidies are not allowed and, therefore, should be abolished. The real situation is slightly different. What the relevant international rules say is that subsidies are allowed provided they do not give a country more than an equitable share of the world market. If you look at the figures it would seem to me that there is no indication that the U.S. has lost its share of the world market. In 1970 the US share of world farm exports was 25% and it increased to 39% in 1980, which would not appear to indicate that US farm exports have been displaced. The situation is similar if you take wheat for example. Between 1974 and 1981 the US share of world wheat exports went from 47 to 55%, whereas the EC's share changed only slighly from 8 to 9%.

The next most generally held belief is that the E.C. is going to drown in its ever-increasing farm surpluses causing constantly growing deficits which, in turn, will bring the E.C. to collapse. To this I can only say yes, there are increasing farm surpluses which, yes created some budgetary problems, but this is exactly why a serious reform of the CAP is under way and this brings me to the second part of my presentation, in which I would like to describe the reform of the CAP currently under way.

The main objective of this exercise is to reduce farm surpluses and thereby cut expenditures. The means to achieve this are the following:

- cut back in price support across the board in order to bring EC prices more in line with world market prices;
- introduction of guarantee thresholds for major products including dairy and grain;
- introduction of the so-called super-levy on surplus milk production.

The first steps in this direction were taken recently when the Council of Ministers put special emphasis on the dairy sector. Everybody agrees, however, that if current trends continue in the grain producing sector, this sector will be next.

If the Community were to impose considerable sacrifices on grain farmers, both in terms of production and prices, it would be difficult to admit continuously increasing imports of grain substitutes which would undermine these efforts. This, and nothing else, is the rationale behind the Commission's decision to stabilize imports of grain substitute, including corn gluten feed. So much has been said about this decision, not all of it correct, that I would like to spell out in more detail what this is really all about.

First, the EC is only using its GATT rights under Article XXVIII which allows for a renegotiation of a concession, subject to mutually-agreed compensation.

Second, the EC is not taking any immediate or unilateral action, but has only asked for the beginning of negotiations with the U.S. government.

Third, what the EC has in mind is not to ban, or even to reduce imports, but only a stabilization or a cap (in one word obviously, as opposed to CAP). What this means technically is that a duty-free quota would be applied at the level of stabilization and only the excess quantities would be subject to a tariff.

It goes without saying that the EC is ready to offer compensation and to discuss the modalities with the US Government.

Lastly, it should be borne in mind that corn gluten feed from the US is not the only grain substitute concerned. The EC has already negotiated quota limitations with certain South East Asian countries for tapioca and brans.

In conclusion I would like to say that the corn gluten feed discussion has to be seen in the overall context of the reform of the CAP, which is going to ask for major sacrifices from the European farmers.

Conclusion

Looking into the future of world trade in general and world trade in agriculture in particular one would probably be safe to say that the situation is going to get worse before it can get better. In the meantime both the EC and the US would need a lot of crisis management and should also resist pressures for further protectionist measures. It is also important that all channels for communication, both bilateral and multilateral, remain open. A strong, world-wide recovery would obviously solve many problems; the rising tide lifting all the boats. The problem, however, is that the current recovery is totally lopsided with the US recovery going full speed ahead and followed only slowly by some of the European countries, not to mention the LDCs. As a general rule we should both try to stop allegations about who is the bad guy, who is spending more in agriculture and who is more protectionist.

One last thing, let us pray for a strong recovery of the world economy and ... bad weather ... on both sides of the Atlantic, which would solve most of our surplus problems automatically.