AGRICULTURAL TRADE:
THE EUROPEAN COMMUNITY AND THE UNITED STATES

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Mr. Chairman, it has been a privilege for me to have attended these proceedings. We have had a very clear and workmanlike account from Claude Villain of developments in the Common Agricultural Policy. And we had a very rich and informative diet of reports on particular food sectors. I hope it will not appear too much of an anti-climax if I try and give you today some reflections on agricultural trade between the European Community and the United States where I live and work and where I represent the Commission of the European Communities.

I do so against a background which contains several paradoxes. We have a contrast between a rising American involvement in nal trade and on the other hand some serious points of trade ict between the United States and the European Community. omething like one hundred years after the Civil War, American involvement in foreign trade as measured by the percentage of this against its GNP never rose above 3-4 percent. In the 1970s it exploded. Foreign trade now accounts for some 12 percent of American GNP. One-fifth of American industrial production is exported, two-thirds of its wheat. In the mid-1950s when the United States secured its waiver from the obligations of the GATT in the field of agriculture, American farm exports were relatively small. The main concern of the then US Administration was that the international trading rules should not interfere too drastically with the operation of the internal American agricultural market. Then came the great agricultural boom. Since the 1960s the output of all US agriculture has increased more than 50 percent. And between 1970 and 1980 the value of US agricultural exports jumped from $7 billion to $41.3 billion. Despite talk of a protectionist Common Agricultural Policy the European Community remained the American farmers biggest customer. Even with an over-valued dollar the Community ran a substantial deficit in agricultural trade with the United States in 1983 of some $5 billion. There is much talk in Kansas City and Chicago of the United States image as a reliable supplier. It seems to me that the Community is a very reliable customer.

Total trade between the EC and the US in all products in 1982 amounted to some $90 billion, one-third of world trade. As Secretary Shultz said "We must be doing something right". Yet despite this great increase in the American stake in foreign trade and in trade between us there has been a dangerous rise in points of conflict between us. These have not been limited to agriculture. But if I quote points from outside the agricultural field it is simply because they must colour and determine our relationship.

I begin with the political. The impression any European gets in the United States today is that Americans are less sympathetic to and easily irritated with Europe. Partly this mirrors a shift in the United States towards the South and the West, a feeling that their future is in the Pacific, that Europe was over-rated by the old East Coast Establishment. Partly a feeling that Europeans are quick to benefit from American help but less ready to stand up and be counted when America needs their help. We may disagree with these sentiments. But they exist. And in an election year they need careful attention.

Then some examples of particular difficulties. The arrangement which we concluded in October 1982 with the United States Administration to limit our steel exports to the United States, a trade extending to some several million tons, has been placed in danger by an escape clause petition filed by a major American steel company. Escape clause petitions have been or are about to be filed in a whole range of other cases - footwear, copper, and stainless steel flatware - bills are before Congress to enforce reciprocity sector by sector in wine and to limit globally steel imports, and countervailing and anti-dumping complaints have been filed on wine.

Then we recently had to make compensatory increases in the tariffs the Community charges on a number of American exports because we were unable to secure adequate compensation under the GATT rules for the restrictions the United States Administration placed on imports of specialty steel in the summer of last year. On more general subjects we have expressed our concern to the Americans about unitary taxation -a system prevalent in several States of the Union that taxes firms on the basis of their worldwide profits and not simply on their manufacturing operations in that State. We are concerned about the Export Administration Act. This has been due for some time to be renewed and we are apprehensive about the extraterritorial provisions likely to be adopted.

On the macro-economic front high interest rates in the United States and the strength of the dollar are causing us some alarm. High interest rates mean that interest rates in Europe have to be maintained higher than would otherwise be necessary - with a dampening effect on a slow European recovery from recession. And the strength of the dollar, fuelled of course by high interest rates - while it does mean an increase in US imports - has dangerously increased American protectionist pressures in an election year.

And our disagreements do not exclude the agricultural sector. This is an area where we have had some of our longest arguments with American friends. The major argument has centred on subsidies. The claim is often made in the United States that the Europeans are selfishly subsidising massively their agricultural exports thus capturing overseas markets and taking bread out of the mouth of the American farmer. We point to the existence of massive agricultural subsidies on both sides of the Atlantic. The total Community budget for 1983 amounted - at current exchange rates - to some $20 billion - of which $13.5 billion was spent on agriculture. But price support alone in the United States for that year amounted to over $20 billion - PIK excluded - in other words more than all Community spending. I offer these observations not to score points but to register the fact that subsidies to agriculture, whether Adam Smith would have agreed with them or not, are a political fact in the modern world.

The last major round of trade negotiations, the Tokyo Round which was concluded in 1979, recognised agricultural subsidies as a fact of life. And the rules laboriously hammered out allowed subsidies to agricultural exports providing that these were not used to take more than an equitable share of the world market. What, our American friends ask, is equitable. We explain that this is rather like drafting a definition of an elephant. Difficult, but when an elephant enters the room at a trot, one can usually guess the kind of animal involved.

Let me give you just two sets of figures. In the 1970s Community exports of wheat and wheat flour combined rose from 10 percent to 14 percent of the world market. Certainly an increase and an increase in exports which were subsidised. But the United States share of world trade rose from 34 to 46 percent. I make this point not in accusatory fashion, but simply to say that the well-known figure of British common law, the man on the Clapham omnibus, would find it difficult concluding from this that we were breaking the international trading rules or hogging the world market.

We talked about this in Brussels in December 1982 when Secretary Shultz and four of his Cabinet colleagues sat down with Gaston Thorn, the President of the European Commission, and his team. We agreed to talk about agricultural exports subsidies. And we have made some progress. The discussions cleared away a great statistical undergrowth of mismatching figures and misconceptions. We isolated three main problem areas. Grains, dairy products and poultry. We established in the case of poultry that both our shares of the world market had dropped while that of Brazil had substantially increased. That left us with dairy products and grains.

And here, as Claude Villain explained yesterday, we have put forward some major proposals to the Council for changes in the Common Agricultural Policy and for a limitation of support. In summary the proposed Community farm package would

(a) restrict the volume of their production on which farmers are entitled to receive a guaranteed price;

(b) require EC farmers to foot the bill for their own over-production;

(c) reduce the EC world price gap.

This package represents a major shift in the direction urged for years by US critics of the CAP and should be welcome news for US farmers who have long complained about the European Community's "extravagant" farm spending.

But the package has some external effects. The proposals would require substantial sacrifices from EC farmers and have not generally been well received by them. When the EC is asking its own farmers to make sacrifices and in fact to control their production, which would in fact be of substantial benefit to our trading partners, the Commission believes that it is not unreasonable for the Community to review its treatment of competing imports provided that this is done strictly in accordance with the international trading rules set out in GATT.

So let me spell out what we propose. First in relation to grain substitutes. The EC cannot implement a guarantee threshold for grain and move its prices towards those of its competitors without stabilising imports of grain substitutes. These displace Community grown cereals in animal feed and have the effect of forcing more EC grain on to the world market. This is not a proposal aimed specifically at the United States. Substitutes are imported from a wide range of sources and satisfactory arrangements have already been made for manioc and bran coming from South East Asia and elsewhere. It is now proposed to stabilise the imports of other important substitutes - corn gluten feed for example. Imports of corn gluten feed have in fact soared from 700,000 tons to 3.5 million tons since 1974.

What is being proposed for corn gluten therefore is not banning imports or reducing them, but stabilising these imports after discussion with the EC's major suppliers and in full accordance with the GATT rules.

Then the oils and fats tax which we have proposed to our Council of Ministers. This proposal has been presented as an external measure which will impair the duty-free access to the Community of soyabeans, soyameal and other oil seeds and oil seed products valued at about $4 billion in 1982. This is not so.

First the tax would be a non-discriminatory sales tax on all oils and fats (excluding butter) consumed in Europe whether produced locally or imported. Imports would not be treated differently from domestic products; this non-discriminatory treatment squares fully with the international trading rules. Imports of soyabeans and meal would not be directly affected.

But, you might ask, will there not be an indirect effect? We do not think so to any discernible degree. Of 12 million tons of soyabeans we import from the United States the bulk goes to animal feed. Only some 2 million tons goes into the production in Europe, mainly in Germany and the Netherlands, of soyabean oil. Some 300,000 tons of that is exported from Europe and some goes to industries here. But 1.7 million tons or less of soyabean oil produced for domestic consumption is only part of a total volume of up to 8 million tons of oils and fats produced in Europe and covered by this tax. The tax we propose is at a modest level. It would raise retail prices by something like 8 percent. And this is not likely - combined with the reduction in butter subsidies - to alter consumption patterns of soyabean oil or margarine. In the second place the modest tax we suggest would have a proportionally greater effect on the lower priced oils such as rapeseed oil. This proposal does not subject our imports of soyabeans, soyameal or any other oil seed to any restriction or levy.

It has been asked whether the United States will bear the burden of the changes in the CAP we have suggested.

Let me make it clear that this major package of proposals has <u>not</u> been designed to shift the burden of adjustment away from European agriculture onto the shoulders of US exporters and others.

First, soyabean exports should not be affected by the proposed tax on vegetable oil.

Second, the stabilisation of imports of corn gluten feed and other substitutes will be carried out in compliance with GATT rules.

Third, European farmers would bear the major burden of the reforms which would

- follow a stringent price policy for farm products - the Commission's recent price proposals are clear evidence of this
- fix prices for some surplus commodities for more than one marketing year
- set production quotas with severe penalties for farmers who exceed them.
- extend guarantee thresholds
- reduce EC support buying to prop up farm prices
- discontinue many other forms of financial assistance.

The Commission's proposals are a tough package of measures which call for major sacrifices by European farmers but which are unlikely to reduce current levels of US agricultural exports to the EC. In fact, world wide the US farmer stands to benefit from the cutbacks in the production of EC products which compete with US products in third markets.

But one question remains about reactions in the United States. And it is an important one. There are voices raised saying that if the Community even wants to start talking about stabilising imports of corn gluten feed then there should be immediate US retaliation. And there is talk of retaliation in the wine sector. For by some sinister statistical coincidence Community exports of wine to the United States - in 1982 at some $668 million - amount to about the same as Community imports from the United States of corn gluten feed.

Here we should on our side make several points clear. We have every sympathy with the concern that is bound to be felt in the United States - particularly in the agricultural States in an election year - about measures in the Community which would limit exports from American farmers to Europe. But what we are proposing in relation to corn gluten feed is only one part of a major attempt to reshape the Common Agricultural Policy, to cut subsidies and to reduce the gap between EC prices and world prices. This should be of direct benefit to American wheat exporters. And furthermore this has been seen in the United States as a golden path which we have been asked for years to follow. We cannot follow it if we exempt competing imports from the equation.

Secondly, that wine has a psychological and political importance in the Community which should not be underestimated by our American friends. I hear much talk when I visit the Middle West of the fundamental political and social importance of certain major agricultural commodities. Well and good but this applies in full measure on our side to wine.

Thirdly, what we are proposing is foursquare within the GATT trading rules. Article XXVIII provides that any concession - and we have bound our imports of corn gluten feed duty free - can be modified in discussion and after agreement on appropriate compensation. It would be completely contrary to the principles and the practice of the international trade rules as embodied in the GATT if any Contracting Party were to refuse to engage in discussion under the GATT rules and were instead to put into effect immediate retaliation. Let us by all means argue about the amount of trade involved by stabilisation and discuss the compensation which would be appropriate. But let neither of us shoot from the hip. To do so would be the beginning of the end of the one world trading system which the United States has done much across the years to support and which has been responsible over the last thirty-five years for the biggest increase in prosperity in the recorded history of the West.

Let me give one example. In the summer of last year the United States imposed additional restrictions on imports of specialty steel. This hit us, the European exporters. But we did not shoot from the hip. We made it clear that we disagreed with the United States decision. But all of us know that governments everywhere come under pressures and must make a political judgement about what to do. So we engaged in the very procedure - Article XXVIII of the GATT - I have mentioned. We tried to agree on compensation in the shape of lower American tariffs on other goods to re-establish overall balance of advantage. The discussions were friendly and constructive and we twice extended the deadline. But in the end we came to the view that the compensation offered was not enough to defend to our clients and we therefore gave due notice - without dramatisation - that we intend to take countermeasures on a modest list of American exports to the Community.

An opposite course is provided by the Wine Equity Bill. This would seek to enforce strict reciprocity in the wine sector, country by country. But the international trading system since the war, from which the United States has derived such benefit, has been based on an overall balance of advantage and on equal treatment for all countries subject only to carefully drafted exceptions. Any legislative measure which begins to tear up the international trading rules would soon be regretted by all.

So what we need to do is what we did across the Atlantic in the case of steel - keep our cool, bear in mind the big picture, the total trade across the Atlantic and act in accordance with the international trading rules. The international trading rules - like the law as felt by the citizen in any country - can be inconvenient but they are the only rules we have and the choice is between anarchy and accumulative disaster and peace in the valley. I very much hope that we can follow this path in anything we decide on corn gluten feed and on oils and fats.

If we can continue on this track through the various storms, if we can retain the political will to hang together rather than hanging separately, if we can bear in mind that we are both steering the same general course on subsidies both in agriculture and in industry then we can not only avoid a smash, we can build a more secure and more prosperous West.