

INTERNATIONAL MARKETS AND TRADE POLICY

Address presented

by

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First, let me say what a great deal of pleasure it gives me to have been presented with this opportunity of speaking to you all this morning. It also gives me the opportunity of visiting Northern Illinois and Lake Michigan for the first time since my arrival in the U.S. just before Christmas of last year. The occasional journeys inside the US which I am called upon to undertake as agricultural attache of the European Community, have not yet failed to impress me - I doubt that they ever will - with the enormous size of your country - particularly when compared with the European Community. We have a substantially larger population than the US - 270 mio compared with around 220 mio here and a slightly larger one than the Soviet Union, but we occupy a much smaller area - about one sixth the size of the US. On the plane from Washington to Chicago - a distance of 600 - 650 miles (modest by American standards) - a glance at the maps inside the airlines magazines showed me that if I'd traveled the same distance in an easterly direction from my old office in Commission's headquarters in Brussels, I would - although, regrettably, this is something you cannot bank on these days - have found myself way behind the Iron Curtain - Gdansk or Bratislava.

But to the theme which the organizers of this conference have asked me to address: "International Markets and Trade Policy". This subject - like the proverbial bad penny - keeps turning up - some might say with tiresome frequency, and never with more insistence than at times like the present when the size of the international trade cake - or pie if you prefer - is at best static and less optimistically shrinking. There is rarely

any argument at the family table (or discussion as we prefer to call it in my family) when the size is increasing.

The frequency with which this subject pops up is of course an indication of its great significance and importance. Why is it so important to the US?

If we look back we find that for something like 100 years after your Civil War, foreign trade only accounted for some 3 % to 4 % of American GNP. But in the 1970's it really took off and now it accounts for some 14 %. Something like one fifth of American industrial production is exported and nearly 4 out of every 5 new manufacturing jobs created in the US between 1977 and 1980 were linked to exports. The importance, as far as agriculture is concerned, is even greater. 40 % of all US cropland and more than 60 % of the land devoted to wheat is dependent on foreign buyers. It is thus abundantly clear that foreign trade is vital to the American economy, to American jobs and to the American standard of living.

What part does the European Community play in all this? It may well come as a surprise to some of you to learn that the Community is your largest single trading partner. As Secretary Shultz recently pointed out. In 1982 US trade with the Community totalled \$ 46 billion compared with \$ 32 billion with your northern neighbour, Canada.

What is more, the US and EEC together account for one third of all world trade and almost half if you count trade between the Community's ten Member States. We are the world's biggest trading partners and, as a result, our relationship is vital, fundamental to the survival of the open world trading system.

This open world trading system is fostered and promoted by the GATT. The GATT has been the background and foundation over the last 30 years or so for the most impressive increase in well-being and prosperity that the world has seen. An increase that has not been in evidence since mid-81 - since which date we have witnessed a longer and deeper recession than any since the war. Nevertheless, this increase in prosperity benefitted us all not not least the United States where I sometimes get the impression that people feel that cunning foreigners are squeezing you out of markets and that therefore the GATT system has worked badly. But if I look into the President's Annual Report on Trade Agreements and at testimony given before the House Ways and Means Committee I find that the US share of world exports of manufactures rose from 17 % in 1978 to 21 % in 1981, that the volume increase of US exports in terms of average annual compound rate from 1970 to 1980 was the highest in the world with the exception of Japan, that even with a fluctuating dollar and debt problems in developing countries the US increased its share of world exports from 11.9 % in 1977 to 13.3 % last summer. There are numerous other examples in these documents which are not only a glowing tribute to the skill and salesmanship of US industry but also evidence that the world trading system was not operating too badly for US business.

I would now like to turn my attention a little more closely to agricultural trade which - as you know - is also subject to GATT rules (perhaps not/^{quite} as precise as some would wish) and more particularly to US/EEC agricultural trade questions.

The series of meetings that we have had with our American colleagues over the past few months have helped both sides to obtain a much clearer appreciation of each others problems and of the facts and figures relating to recent developments. These detailed talks have also helped to clear up a number of misunderstandings.

The talks and the agrees statistics resulting from them demonstrate quite clearly that our import system for agricultural products is not really a serious issue between us. The EC's import regime for agriculture is amongst the most liberal in the Western world. This is not fanciful speechmaking, Chairman. It is a fact. Why do I say this? The EC is the largest importer of food and agricultural products in the world - taking about one quarter of total world agricultural imports.

And of more immediate interest to this audience, the Community is the US farmer's largest foreign customer. In 1981, we bought 9.0 bio \$ worth of agricultural products from the US, most of which entered the Community duty and levy free. This is equivalent to more than 20 % of total US agricultural exports and four times the value of EC agricultural exports to the US. As a result, we run a massive deficit on our transatlantic agricultural trade with you which reached just under 7 bio \$ in 1981 - four times the deficit we ran in 1971.

The Community is also a most attractive market for agricultural exports from developing countries - accounting, as we do, for about 30 % of developing countries agricultural exports - most of which enter the EC with zero or extremely low import charges.

A second and more important point to emerge with startling clarity is the truly breathtaking rise in US agricultural exports up to 1981. Your overall surplus on agricultural trade tripled between 1973 and 1981 to almost 23 bio \$. But this remarkable bonanza brought with it an uncomfortable hang-over. It meant of course that US agriculture was becoming more and more dependent on the world market, an uncertain place at the best of times and downright unreliable at others. This dependency and extreme sensitivity is very well illustrated by US wheat - two thirds of which is normally surplus to your requirements and which has to find buyers where it can around the world. Coupled with this dependency has been the massive increase in wheat production in the US. We in the Community are frequently accused of artificially stimulating production by fixing overgenerous support prices. I will return to this particular point in a moment. But let us for the moment look at what has actually happened to wheat production in the US and the EC over the past decade. The result of our cereals policy, improvements in varieties, technology and so on, has been that our wheat production has risen by 29 % over the last 10 years compared with an increase in total world production of 27 %. In the United States, however, the increase has been far more substantial:

- 73 % or about 2 1/2 times the world average.

An increase of this magnitude is bound to have had a disruptive effect on the world market - particularly when it is kept in mind that the bulk of the increase has been in soft wheat where production has multiplied three or four times.

The world market's chronic unreliability is further aggravated by debt problems in client countries - look at the way Mexico's grain purchases from the US collapsed from 6 mio tons in 1981 to 2 mio tons in 1982, nor is it tempered by volatile exchange rates.

I notice that recent USDA studies, in contradiction to those of USITC, show quite clearly that the dollar's high value bears the most significant responsibility for the drop in US farm exports - particularly for soybeans and feed grains. Whilst the dollar's value has also damaged wheat exports, the report cites debt and currency problems in Eastern bloc and developing countries as being the major reasons.

I should now like to spend a little time looking at developments in our own agricultural policies in Europe, since I imagine that we would all agree that nearly all initiatives in international agricultural trade are the consequences of domestic agricultural policies.

The Common Agricultural Policy - more familiarly known to both its admirers and detractors as the CAP - is one of the major achievements of the European Community. But, I cannot let this occasion slip by without also mentioning the central part

which the Community has played in providing the political stability and peace which has characterised Western Europe for the last 38 years. Let me quote from a leader in the Sunday Telegraph, not a journal normally given to strong pro European sentiment:

"Not only have Britain and Germany overcome old hatreds, but so, even more dramatically, have Germany and France. No international development since the war contains greater grounds for comfort and inspiration than these European reconciliations which go much deeper than mere alliances based on ephemeral diplomatic convenience. The peoples of Western Europe have grown together, which would have been regarded as miraculous a generation ago..."

But, like anything else in this ever-changing world, the CAP cannot, if it is to survive, remain immutable and become fossilised. It must be adapted to respond to presentday needs. Since its inception, some two decades ago, technical progress and productivity in European agriculture have increased sharply - generally speaking at a higher rate than consumption. Structural change has also been rapid. There are now approximately 8 mio working on the land compared with 18 mio 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, both in the US and Europe, incomes from agriculture have increased more slowly than other incomes since 1973. 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, when war has not prevented them - farmed our European soil for the last 2.000 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 - as it should - by maintaining its presence on world markets, the accent must be increasingly placed on production at competitive prices. This is one of the reasons why the Commission has recently proposed that its policy of price guarantees must be changed and that unlimited guarantees cannot be permitted to continue. It is no longer reasonable or desirable to provide unlimited guarantees when there are serious doubts concerning outlets both inside and outside the Community.

Our Council of Ministers has therefore been invited to take some very tough political decisions involving, amongst other things, the extension of guarantee thresholds to a wide range of products, which will mean that farmers will themselves have to bear the cost of disposing of production beyond a certain strict predetermined threshold.

Guarantee thresholds can be applied in different ways depending on the product concerned. But briefly what has been proposed for some of the major products is as follows:

MILK - which accounts for around 30 % of our agricultural expenditure - a supplementary levy (supplementary to the co-responsibility levy of 2 % already charged) on all deliveries above a reference quota - based on 1981 production.

- a special levy on milk produced in milk factories - or intensive farms.

- suspension of intervention buying of skimmed milk powder from October to March.

CEREALS - The fixing of guarantee thresholds so that if production exceeds predetermined limits, intervention prices will be abated. This system has already been implemented with the result that the 1983/84 intervention price was abated. It is proposed to continue along this path and to extend the system to durum wheat.

OIL SEEDS - The Commission proposes the extension of the threshold, which is already applied to rapeseed to sunflower seeds. These briefly are the measures proposed for 3 major sectors, representing 52 % of all agricultural expenditure.

In addition to the tightening and extension of the threshold concept, the Commission's proposed programme also includes

- a restrictive price policy which will accelerate the narrowing of the gap between our prices and those of our competitors,
- a reduction in production aids and premiums and consumer subsidies,
- the disappearance of Monetary Compensation Amounts.

These are all burdens which the European producer is being asked to bear. But a successful adaptation of our agricultural policy can only be achieved if the burdensharing is spread. Consequently, we are proposing in the cereals sector to deal with the serious market imbalance here and to stabilise the import of cereal substitutes. Measures have already been taken as regards manioc and bran and it is now proposed to achieve stabilisation of corn gluten feed and citrus pellet imports by using our rights under the GATT. The precise and appropriate procedure will be chosen bearing in mind the possibilities of negotiation with supplier countries.

It is no earthly use, Mr. Chairman, our trying to implement a guarantee threshold for our domestic grain, if substitutes are imported in ever-increasing quantities.

One other aspect of our proposals of some interest to the US is the introduction of a non discriminatory internal tax on the consumption of oils and fats other than butter. The Commission's view is that the Community's oils and fats market has become seriously imbalanced. If we are to attempt to redress this balance by introducing a coresponsibility levy on milk, guarantee thresholds for milk and oilseeds and by the supplementary levy on milk which I have just mentioned and which will put a check on internal butter consumption, we must reestablish balance on our oils and fats market by introducing this consumption tax, on all oils and fats other than butter. Such a tax would be in conformity with our international obligations. Details of this consumption tax will be announced shortly.

These are some of the measures recently proposed by the Commission which should enable us to curb our agricultural spending without compromising either our social policy goals, our international obligations, our need for security of supplies or stability of prices, and which will adapt our system of support so that it more closely reflects the realities of domestic and international markets. Her let me add a word about security and stability. The CAP has stabilised consumer prices - generally at higher levels than those in US. But assurance of supply - like any insurance policy - costs money and let me emphasise that for a large number of Europeans, security still has as much to do with guaranteed food supplies as it has to do missiles, zero options and the like. The proposals are a complete and balanced package and must be adopted as a whole. It has not been designed by the Commission for piecemeal adoption.

So much briefly for our proposals regarding the future shape of the CAP. As for our agricultural export policy, this will continue to be pursued in accordance with our rights and obligations under the GATT, as it has been in the past. The rules here are rather complex, but article XVI of the GATT clearly permits export subsidies for agricultural products, so long as their application does not lead to a contracting party taking more than an equitable share of the market. Provided our proposals for adapting the CAP are adopted and the gap between our prices and those of our competitors narrowed, these subsidies should be reduced as also should the quantities on which they are paid. A policy from which the US should benefit. Droughts such as this year's in the US also serve fortuitously to narrow the gap and also serve as a salutary reminder to us all that the politician and bureaucrat do not always have the last word.

We feel that we have observed these GATT rules and our conviction is borne out by the statistical data emerging from our bilateral discussions with our American colleagues.

Let us look briefly at wheat once again since this is one of the products where we both compete and quite frankly, my Chairman, after driving across Kansas during our summer holidays, the endless wheat fields and the ever present grain silos left an unforgettable impression with me. But to the figures.

The statistics exchanged and jointly adopted show that over the last ten years the EC has indeed increased its

share of the world wheat market from 5 % to 10 % (8 % had already been registered in 1974/75). The US share, on the other hand, rose more strongly from 33 % to 51 %. It seems to me that it would be difficult on the basis of these figures to sustain the argument that the Community had been taking some of the US share. Furthermore, we agreed in our talks not to exceed the share of the world wheat market that we had enjoyed the previous year. This undertaking was observed. It is a fact that the Community now has a more obvious presence on the world wheat market than in the past, but this is due in no small measure to the ever increasing quantities of grain substitutes exported to the Community - a development I mentioned earlier.

Meanwhile, my hope is that patient and frequent consultation and discussion will continue between the Community and its major agricultural competitors, in an attempt to deepen our understanding of each others problems and to find rational and acceptable solutions to them. It is in nobody's interest - except perhaps those whose capitals are in those regions to the East of Brussels that I mentioned earlier - that steps should be taken deliberately or in ignorance that would put at risk not only our common trading system but our common political heritage. This would be particularly regrettable at the present time when we look as though we have the opportunity of feeling our way out of the worst recession for 50 years.