

NOTES FOR SPEECH BY ROY DENMAN TO WASHINGTON

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U.S.-EEC TRADING RELATIONS

Have spoken on this subject several times in the past year. Freely confess that I have often sounded like a skeleton at the feast. Not the thing for this time of year.

But themes don't always deserve the same conclusions. Like the old joke about Cambridge examination papers - the questions remain the same but the answers vary.

But before giving you my answer to this examination question a bit first of background.

Why are U.S.-EEC relations so important?

Should we not be worrying about other areas of the world?

And questions other than trade.

In answer I give you several reflections.

First the interests of the U.S.

For something like 100 years after the Civil War foreign trade did not account for more than 3-4% of American GNP. Then in the 1970's it took off. In 1980 it accounted for some 12%.

Something like one fifth of American industrial production is exported.

Nearly a half U.S. current 4 out of every 5 manufacturing jobs created in the U.S. between 1977 and 1980 were linked to exports.

So foreign trade is vital to American jobs and the American standard of living. Unemployment now is the highest for 40 years. What would it be if your foreign trade collapsed?

Then your interests in Community market

With the Community as a trading partner in 1980 you ran with us a surplus of 25 billion dollars on merchandise trade, 7 billion in the agricultural field.

Our joint world responsibility

The U.S.-EEC together account for one third of world trade. Nearly half if you count trade between the members of the European Communities.

We are the world's biggest trading partners and thus our relationship is fundamental to the survival of the open world trading system.

But dangers prowl around like medieval beasts in the forest - some in the American forest and some beyond these shores.

First, the economic depression

The current recession which started July 1981, longer and deeper than any post-war depression. Total output same as autumn 1979. Employment unchanged yet labour force rose by 4 million in this period. So unemployment the highest in 40 years at nearly 12 million.

Some bright spots - inflation down to 5%.

Interest rates have fallen.

It could be argued that on this basis we should be in a boom. But consumers face double digit unemployment and growing lay-offs.

No pick-up expected until the second half of 1983.

Then the strong dollar

Unemployment and low capacity utilisation generally call for selective measures. More general protectionist pressures from over-valuation of the dollar.

Let us look back on the '70's. In the final phase of the breakdown of the Bretton Woods system, the dollar was over-valued by some 15%. Result : the Mills Bill in 1970 and the Burke Hartke Bill.

In 1976-77 the dollar was again over-valued. The number of times anti-dumping or counterfeiting duties were imposed or escape clauses invoked rose from 5 in 1975 to 26 in 1976. In 1974 unemployment was high but the dollar and the current account then in equilibrium the Trade Act basis of the Tokyo Round was passed. But the dollar is now 20% over the '80 level, the yen 20% under valued. Result : rising protectionism, recent struggle in Congress over Domestic Content Bill, a Bill in clear violation both of the principles of the GATT and the Ministerial declaration at GATT meeting end November.

These are some difficulties to be seen in the U.S.

But of course the scene ranges wider than that. What is badly needed in 1983 world wide is economic expansion.

Hopes of economic recovery may already have damaged business and consumer confidence so that spending plans continue to be deferred and financing constraints might be more severe than predicted.

"Hope deferred" as the poet said, "maketh the heart sick".

Unless we can break out of the world economic recession the strains on the one world trading system are going to be greater than anything we have seen for the last 35 years.

Then our major and continuing anxieties about the ability of debt-ridden countries including some of the biggest in the developing world - and some of the major companies - to repay and reservice their bank borrowings.

Then the strains imposed on the world trading system by out of line exchange rates, a situation where the dollar is over-valued by 20% and the Yen undervalued by 20% is

a recipe for mayhem.

Only three months ago the whole stormy scene was complicated by increasing tensions on both sides of the Atlantic - steel, the pipeline and the run up to the GATT Ministerial meeting.

But then in October and November some of the clouds began to lift.

On steel we cut a deal.

Not a copybook solution but anyone who criticises it should be reminded of Clement Attlee's comment when asked what life was like at the age of 80, "Better" he said, "than the alternative".

The pipeline sanctions have been lifted.

We have begun to search for a common approach on the difficult but important subject of economic relations with the Soviet Bloc.

Then the GATT Ministerial meeting. This, the first for nine years, ended at 10 to 5 on the morning of Monday November 29th.

The reception of this by the press has been divided.

We in the Community thought it a useful and successful, though necessarily not sensational meeting. It corresponded pretty well exactly to what we thought possible when we first started planning the meeting 18 months ago.

There could not be new negotiations because the results of the Tokyo Round were still being digested. And a study on services will need a couple of years of careful charting of the ground before we can see our way to a negotiation. What could be done was a realistic recommitment against protectionism on the part of the world's trading Ministers and a useful programme of work, services - some further work on safeguards, a study on agricultural export subsidies and other relevant forms of agricultural protection.

It is true that there were some exaggerated expectations particularly on agriculture. But we have consistently made it clear that we were not willing to re-open one

sector of a very difficult and hard fought negotiation only three years after the conclusion of the Tokyo Round. All the more so since we do not notice any great interest elsewhere in re-opening other parts such as the tariff on woollen textiles in some of our main markets. But agriculture remains a difficulty between us.

These may be some of the famous last words of 1982.

Here on this side of the Atlantic the Common Agricultural Policy has been built up as some kind of fiendish plot by Europeans to impoverish American farmers. So since a good deal will be heard on this in 1983 let me, before we finish 1982, say a few words about it.

Why, you may ask, should we have a Common Agricultural Policy?

Why not simply let the market work?

The answer is rooted in the history of our Community. In 1957 the original six member countries of the EEC faced a major problem in freeing trade internally. Freeing trade in industrial goods could largely be



achieved by cutting tariffs.

This would not have been acceptable without freeing trade also in agricultural goods.

But the very different agricultural structures in the Member States and the different varieties of protection meant that simply cutting tariffs for agricultural products would have been largely meaningless. The only solution was the harmonisation of these different agricultural policies in a common European policy. Thus the Common Agricultural Policy became a key element in a European integration. Without it there could be no Community.

What is the CAP trying to do?

The CAP's goals are very much the same as those of the U.S. farm policy :

- to increase productivity
- to secure a fair standard of living for the farm population
- market stability
- supply assurance
- and reasonable consumer prices

The means by which these objectives were sought - a uniform internal price level, export refunds when this is higher than the world market and variable levies on imports below this internal price - are well known to those who are interested and incomprehensible to those who are not.

What you will want to know is how was the policy worked out.

Here let me deal with two illusions.

The first is that the CAP has helped to maintain outdated structures. The fact, however, is that over the last 20 years the E.C. labour force occupied in agriculture, has decreased by half from 18 million to less than 9 million including the farm force in Greece, the E.C.'s newest member. During the same period the average farm size doubled to about 45 acres and productivity rose sharply.

Another illusion is that the CAP has featherbedded its farmers. Average farm income just kept pace with industrial income until 1975 but since 1976 real farm

income has remained stagnant at least; in 1979 and 1980 it actually fell.

On prices, these have been stabilised general at a higher level than in the U.S. but assurance of supply like any insurance policy, costs and real prices for a number of foodstuffs have fallen in recent years. Where we have exceeded self-sufficiency, we have adopted measures to discourage over production and we have increased our dependance on outside suppliers for products of particular interest to the U.S. such as soybeans and corn gluten feed.

Then it is alleged that we have built a trade wall around our imports of farm goods.

The European Community is in fact the biggest importer of agricultural goods in the world. In 1980 it accounted for a quarter of all world agricultural imports and it ran a trade deficit on agriculture of 29 billion dollars; its deficit with the U.S. in this areas was no less than 7 billion dollars making it the American farmer's largest customer. The 9 billion dollars worth of U.S. farm products which the E.C. bought in 1981

(half of them came in duty and levy free) included 2.8 billion dollars of soybeans, 1.7 grains and cereal preparations, 1.6 of animal foodstuffs and 680 million dollars of fruits and vegetables. Only about 15% of EEC farm imports from industrialised countries entered subject to levy and duty. Nearly all imports from developing countries enter the EEC levy free and at very low duties if there are any duties at all.

But it is argued that the Community has turned for various products from a net importer to a net exporter.

True. But in the 1950's large sections of European agriculture were inefficient and out of date.

The CAP has brought about a revolution in productivity. Just as productivity has increased in the U.S. so it has in the E.C.

In both countries for example yields of cereals have doubled over the last 20 years due to better seeds and cultivation techniques.

Then we come to the argument about subsidies.

Has not this major expansion of EEC export of farm products been based on large government subsidies?

Both the U.S. and the Community subsidise their agriculture. Comparisons of expenditure are difficult partly because methods of support as well as budgetary treatment are different, partly because public expenditure is only one element influencing the farmer's income - measures such as import restrictions for sugar, dairy and beef products among others in the United States have an income support effect without implying public expenditure. But government farm price support is substantial on both sides of the Atlantic. In 1982 Community farm price support, originally programmed at 14 billion dollars maximum is now likely to amount to 12 billion. In the United States in the same year Federal income support has been estimated at nearly 12 billion dollars.

Naturally our Member States have agricultural budgets of their own but such budgets are focusing mostly on structural assistance and social measures as do programmes in other parts of the U.S. Federal budget and in the U.S. State budgets.

Then there are substantial additional amounts in our Member States and in your U.S. State budgets. And relevant to all these comparisons difficult though it is to compare apples and pears is the factor that the agricultural population of the U.S. is a good deal less than half that of the Community. A factor which in so far as assistance per head can be calculated needs to be borne in mind.

It was in the light of these facts that the Tokyo Round to which the U.S. was a party recognised agricultural export subsidies and agreed that these were permitted providing that they do not allow any GATT contracting party to secure by these means more than an equitable share of world trade. We think we have kept to this undertaking. Our wheat exports for example doubled in the 1970's to 14 million tonnes but our share in fact fell marginally. World trade was expanding even more rapidly, and U.S. exports nearly trebled.

If this has sounded too much like a defence of the CAP as a perfect and immutable system, let me simply say

that it is neither perfect nor immutable. The principles of the policy are part of the constitution of an emerging Europe and are as easily changed as your Constitution. But the CAP is not a system of open-ended guarantees on unlimited quantities. The Community budget must be balanced and increasingly there will be financial constraints on agricultural expenditure. So the CAP uses price flexibility and other measures to ensure that its objectives can be achieved in a changing world at a reasonable cost.

A number of measures have recently been implemented to ensure a better matching of supply and demand and to make producers aware of the costs of over-production. Financial support for EEC grown sugar has been eliminated and producers must bear all the costs of storage and disposal of surplus sugar themselves. Production in 1982 is expected to drop by 9% from 1981 levels.

A ceiling of 119.5 million tonnes has been set for all cereals excluding durum wheat and rice for the 1982/83 period. If average production over the three marketing years 1980/81 to 1982/83 exceeds this level intervention

prices in 1983/84 will be reduced. In the dairy sector we have applied for some years a farmer co-responsibility levy which now covers 10% of the surplus disposal costs. In addition appropriate action will be taken if deliveries of milk in 1982 exceed those in 1981 by more than 0.5%. It looks as if this will be the case and so the EEC Commission has recently proposed a 2.2 reduction in the 1983/84 intervention price. A decision on this proposal will have to be made in the spring.

I set out these facts in order to try and show you that the Common Agricultural Policy is not a devilish plot, nor is it responsible for the present very difficult state of U.S. agriculture.

These are the results of far more telling factors such as high interest rates, a strong dollar, lower exports to the Soviet Union, record harvests and the world recession.

But it is clear that there will be a good deal of pressure next year in Congress and in this country on agriculture. And some of the points I have just made



came up in discussion on December 10 in Brussels, when your Secretary of State and four of his most senior Cabinet colleagues sat down with the President of the Commission and his team to talk about the trade issues between us.

It will be no surprise that agriculture occupied a major part of the proceedings.

What distinguished the discussion was the sensible and constructive tone. Those who attended it were the people who had looked over the abyss and did not like what they saw. Both of us agreed to avoid rhetoric and see what could be done within existing systems on both sides of the Atlantic.

We need to start with some detailed talks with our U.S. opposite numbers here in Washington in mid-January on agriculture.

We need to report to our principals by the end of March. It would not be realistic to hope that all our difficulties on the agricultural front could be wished away by detailed talks among senior officials.

But what was encouraging about December 10 was the political will on both sides of the Atlantic to respect each other's fundamental policies and principles but to see whether we could not find some way within these to accommodate each other.

So when 1982 rings out shortly I think looking back on it we can reckon that we have made some progress. We have agreed to concentrate, not on rhetoric but on solving problems.

We have agreed in other words to take our responsibilities as the two great trading powers of the world in preserving the open world trading system on which the prosperity and peace of the West depend.

So however difficult 1983 may be, we enter it with a sense of hope.