

" EUROPEAN PERSPECTIVE - CUSTOMER OR COMPETITOR "

Presentation by

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It is a provocative title that was selected for me for this morning : "European Perspective - Customer or Competitor." However, there was never and will never be a situation in US/EC trade where one of both sides can only be a customer or will only be competitor. I would therefore like to offer as a working title "Customer, Competitor, Partner." Let me give you my personal views on these key aspects after an analysis of the general situation of EC trade and economy.

The European Community, with a total population of 270 million people, is the world's largest trade block, and the United States' most important client. In 1979, we imported 300 billion dollars worth of world products and exported about 266 billion dollars worth. At the same time, imports from the U.S. accounted for about 16% of total EC imports, and our exports to the U.S. were about 13% of our total exports. Looking from the U.S. side, your 1979 exports to the EC accounted for 23.4% of your total exports, and your imports from the EC for 16.1% of total imports. From 1979 to 1980 your EC exports increased by 26% and your EC imports by 8%. These figures confirm the EC as the U.S.'s traditional first client and its second supplier. What worries us in this picture is that our trade balance with you has very much deteriorated over the last few years. The U.S. surplus with the EC practically doubled during 1980 to 25.0 billion dollars with a surplus in agricultural

trade alone of about 7 billion or roughly 20% more than in 1979. Our trade deficit with the U.S. accounted for 40% of our total trade deficit in 1980.

The United States is already worried about its trade deficit with Japan of about 10 billion dollars. The EC's deficit with Japan is even higher. Imagine therefore what it means to have a deficit with the U.S. of 25.0 billion on top of this amount! The picture gets even worse when you realize that the EC is at present faced with a zero growth rate at best, with an average inflation rate of 12% and an unemployment rate of 8%. Due to the dollar increase we now pay 35% more than a year ago for imported petrol and record interest rates in the U.S. force us to increase interest rates too, with all the negative consequences such a policy has on investment, employment and economic growth.

We have to be aware of these facts when we discuss the prospects for US/EC agricultural trade in the future.

In my view, the EC will remain the United States' first customer in the foreseeable future but growth rates may be less than in the past for various reasons:

First of all, the economic situation in the EC at the moment and in other countries to which the EC exports, does not favour increased consumption. This is particularly true for livestock products. I therefore foresee a temporary stagnation in imports of feed grains and feed grain products and demand for higher priced livestock products such as U.S. High Quality Meat may be less than may have been expected. In addition, the strength of the dollar makes U.S. products including wheat, less competitive compared with EC domestic products/^{and products} from other third countries. Even where EC importers depend on supply from the U.S., the dollar rate and high interest costs in the E.C. oblige them to keep stocks to a minimum.

However, there are also some long-term aspects which may even be more important.

Participants at the recent meeting of the European Feed Manufacturers' Federation were told that after a decade of rapid expansion, the EC feed manufacturing industry is facing a period of static or declining sales. Production in most of the major livestock sectors was growing over the years to such a level that farmers/^{now} no longer have the same incentive to use more feed to increase output. Total EC production of manufactured feed in 1980 amounted to 78.9 million tons, only 1.3% up on 1979 but 16.5% up on the 67.8 million tons produced in 1977 and in the first few

months of 1981, sales even declined in some member states. Therefore, the potential for further growth would appear to be confined to countries with remaining productivity reserves such as France in particular, which recorded a feed production increase of 4.9% in 1980.

Another important element which may change the trade environment over time is the Common Agricultural Policy ^{as such.} /Following continuing ^{few} efforts in the last/years to diminish the costs of the agricultural policy and to bring supply in line with domestic and external demand, the Commission has now gone a step further. Two weeks ago the Commission transmitted to the governments of the Member States, a major study on the reform of the Community budget. This study includes among others, important proposals for a further adjustment of the Common Agricultural Policy. The study recommends the general application of the principle of farmer co-responsibility which means that price guarantees to producers would decrease as their production exceeds EC production targets. The study also suggests that internal EC farm prices must decline gradually to a level comparable to those of major world suppliers, to make EC products more competitive and to avoid frictions which may otherwise result from the application of the export refund system. These ideas are not entirely new and were partially already applied in the past. As part of a new global concept for the further development of the Common Agricultural Policy and in view of the

necessary budgetary reform, these ideas have however been given a new dimension. /
We cannot expect the Council of Ministers to make a decision overnight, but it can be hoped that the proposals will already have an important impact on the EC price decisions for the next marketing year due in spring, 1982.

What would the application of the above-mentioned principles mean for U.S. exporters to the EC? In my view, we can assume the following: First, the production increase in the dairy, livestock and poultry sectors will slow down. This means slower growth in feed utilization. Second, domestic EC feed grains become more competitive with imported feed grains and grain substitutes. Third, the commodity mix of imported feed ingredients may change to some extent in favour of corn, which may mean less imports of soybeans and soybean products as well as grain substitutes. It is difficult to say how important this change will be. I would believe that very much will depend on world price relations between these products in the years ahead.

Until now I have only spoken about the feed ingredients, but there are possible effects for food grains and animal products too due, as in the case of corn, to a reduction in import levies which would be a consequence of a realignment of EC domestic prices to world market prices. Without being very specific on this point, I would assume that the fluidity of the market

would increase with advantages for those U.S. exporters who are particularly competitive.

Now I would like to discuss two points on which we heard a lot of talk from the new USDA officials in recent weeks : corn gluten feed and vegetable oil tax.

Let me first say that there are no proposals from the Commission to the Council to deconsolidate the zero duty binding for corn gluten feed or to introduce a tax on vegetable oils, although pressures from the farm community and some Member States for such measures will remain strong particularly in case the farmer co-responsibility should become the general rule. You know from policies in your own country what this means.

For the time being, I would suggest however, that there will be no proposals for a deconsolidation of the zero duty binding for corn gluten feed. In fact we were assured by your administration that the production of this product will not increase substantially over the next few years and if the EC should succeed in bringing its grain prices closer to world market price levels, the present problem with this product should become less important.

Regarding the possibility of a vegetable oil tax, any speculation would be premature. This question may come up when negotiations on the accession of Spain and Portugal have advanced to a decisive point. In this context, you should know that the accession of Spain in particular will become extremely costly to the Community because among others, we will have to accept supporting Spanish olive production, which is the basis of income for a large proportion of the Spanish farm population. These people have no alternative and would be unemployed if olive production were no longer feasible.

However, olives are not the only problem. Large amounts of money will be needed to help Spain and Portugal to adjust their social and economic structure in order to become an integral part of our Community. In addition, the Community is committed to assist other countries in the Mediterranean area to diversify their exports which may be affected by the accession of Portugal and Spain. If enlargement is going to be successful, we will have to find the necessary funds somehow, and if due to the present state of economic difficulties in the Community, it should not be possible to get agreement from the Member States for increased national contributions to the E.C. budget, a vegetable oil tax may be one alternative.

Such a vegetable oil tax would not have any/substantial
probably
oil market as the charge would/be only 5% of the vegetable oil
retail price and would therefore not have any effect on soybean

imports from the United States.

Under Secretary Lodwick recently said in Munich, Germany :

"While we support Spanish entry as we have supported the creation and enlargement of the Community from the beginning, we expect that the Community alone will bear the cost of any economic adjustments which will occur. We realize that internal adjustments are painful, but this is the only acceptable option for a responsible trading partner."

We are grateful for the United States' moral support for enlargement. As Lawrence S. Eagleburger, Assistant Secretary for European Affairs in the U.S. Department of State said recently: "The Reagan Administration considers progress toward European unity important for Europe, the West and the world." But at the same time, I would be grateful if your administration could examine the question of a vegetable oil tax with a more open view. It is my firm belief that such a tax, which would apply to domestic and imported oil alike, would not only be without effect on the vegetable oil market as explained earlier, but would conform entirely with GATT rules. Some people tell me that this tax is not the essential point, but USDA and industry believe that once a vegetable oil tax is agreed upon, the E.C. would be encouraged to go further and envisage a deconsolidation of the zero duty binding for soybeans and soybean products. I can assure you that such intentions do not exist in the Community's institutions and I would therefore suggest that

the U.S., as a "responsible trading partner", reconsider its position on a possible vegetable oil tax which, I repeat, is far from being decided upon. If after such consideration the U.S. Administration should maintain its present position, it would be appropriate for the U.S. as a "responsible trading partner" to request a ruling from a GATT panel instead of burdening our bilateral relations with tough talk of retaliation. In fact, we can better use our resources than fighting each other.

Regarding the particular trade aspects of enlargement, I would like to say the following: Spain and Portugal are importers of feedgrains such as soybeans and corn. Particularly in the case of soybeans, the U.S. should profit considerably from a liberalization of imports once the Community tariff is applied. I would believe the same should be the case for a variety of industrial products since Spanish duties are in average still higher than those applied in the Community. I know that California producers of citrus and almonds are worried about their exports to the E.C. once Spain and Portugal have joined the Community because they believe that imports from the new Member States could replace Californian products. I doubt whether this would be the case. Spain and Portugal are already exporting a major part of their production to the Community and further trade performance will very much depend on the question of how Spain and Portugal will deal with inflation. Furthermore, Californian almonds are very particular so that there should not be a direct competition. Finally, with regard to oranges, you are already enjoying trade concessions which give you lower import duties for periods where Spanish and Portuguese production are low.

Consequently, I believe that the accession of Spain and Portugal will result in a significant overall trade advantage for the U.S. and therefore hope that the questions related to enlargement will not become a problem between the U.S. and the E.C.

Now to the second aspect: The Community as a competitor.

There is a clear relationship between increased EC imports from the U.S. and increased E.C. competition on world markets.

For example, poultry products which may compete with U.S. products in some parts of the world are finally nothing else than the result of E.C. imports of soybeans, soybean products, corn and corn gluten feed. The same is true to a certain extent for our wheat and wheat flour exports. I do not deny that the E.C. has a certain need for U.S. wheat in order to obtain the right bread making quality for consumption in some of our Member States, but it is equally evident that feed ingredients from the U.S. have not only replaced the utilization of important parts of EC grains for feed, but have also profoundly changed the pattern of agricultural production in the EC as a whole. This is not at all the fault of the U.S.; your traders simply took advantage of the trade possibilities which existed. Nevertheless, the fact remains that dairy, livestock and poultry production in the EC reached its present performance by the use of imported products rather than feed produced in the EC. I think it is important to realize that the U.S. cannot export unlimited quantities of feed ingredients to the Community and at the same time refuse to see the Community as a competitor on the world market.

However, it would be too easy to blame imports alone for the problems we have. New plant varieties and modern production techniques have increased productivity in a way nobody expected ten years ago. Nevertheless, the Community has, under the GATT, entered into agreements with the United States and other participant countries regarding the limitation of export refunds. The Community is strongly committed to these agreements and respects them. If, under these conditions, the U.S. should feel that EC wheat exports risk taking an undue share in world trade, it would seem appropriate for the U.S. to address this question in the competent forum of GATT, rather than spelling mistrust among trade partners. Up till now, there has been no indication that EC wheat exports really exceed what can be reasonably accepted by other trade partners. In the past, the EC has merely maintained its market share of 15 to 17% of world wheat trade and I do not expect the situation to change substantially in the near future. As U.S. Wheat Associates state in their newsletter of June 26, 1981, "global demand for grains is undoubtedly on the increase and the prospect for a tight world grain supply/demand situation in the 1980's is far greater than one of oversupply." It would therefore be shortsighted if under such conditions, anyone were to try to make a case out of an exceptionally good crop situation in the EC which may occur unexpectedly as the second in a row although recent EC price support decisions were very reasonable and EC farmers had reduced their wheat acreage compared with last year, which has not been the case in the United States.

Should the Commission's latest reform proposals succeed, the result may well be less EC poultry exports and lower export growth of E.C. wheat. However, there is little doubt that the EC will remain a permanent exporter of commodities such as wheat, barley, sugar, beef, poultry, and dairy products. In view of the Community's overall trade deficit such exports are important to us and we will have to try to remain competitive in the market place. We will therefore have to develop a consistent export policy which may include bilateral supply agreements and special credit arrangements.

I really do not understand USDA's recent polemic against such arrangements.

If you look into records, the ever repeated justification for long term PL 480 credits is that these credits have helped the U.S. to develop foreign markets. CCC export credit guarantees are another tool recently used for example, for U.S. wheat guarantees for Brazil now accounting for 245 million dollars.

We also have been advised by USDA that the new administration is in principle against bilateral supply agreements. We are grateful for this advice but I still have trouble finding out which agreements may be appropriate and which ones may not be. Some people say that the best agreements are those which limit foreign competition. If this should be the case, the E.C. may well be ready to accept USDA's advice.

Let me come to the aspect of partnership. The new USDA officials have been open enough to tell us in public what in their view, the problems in US/EC trade relations are. We have noted these comments with interest.

We particularly agree that both sides have to make every effort to fight protectionism wherever it may occur. We both have problems with imports of cars, textiles, shoes, etc. Our discussions on such issues are useful and help us to keep problems under control. Even in the case of regulated U.S. gas prices, we avoid public confrontation although these gas prices are a major subsidy to U.S. producers and exporters.

What I fail to understand is that the USDA steps up public criticism against EC support programs when at the same time it suggests a limitation of tobacco and casein imports into the U.S. in order to protect its own support programs; and the U.S. dairy sector is already highly protected just as are beef and sugar.

I think it is therefore time to sit together and find out where our real common interests lie.