A Letter from Europe

A monthly update on the European Community from its Delegation in Washington

No. 1

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March 24, 1983

US-EC RELATIONS: THE FARM CRISIS

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This is the first of a series of monthly newsletters in which we shall try and bring you in a short, snappy and readable format news of the main developments in relations between the United States and the European Community.

One of the main questions of the moment is the outlook for US-EC trade relations. Last year these went through a pretty rough patch - steel, the pipeline, agriculture. Everything except the kitchen sink. Then towards the end of 1982 we made some progress. We cut a deal on steel. The pipeline sanctions were lifted. We are pressing ahead with a study of how to come to a common approach to East-West trade. All this leaves agriculture as the main flashpoint of the moment.

What is the argument about? Not about US-EC trade. The EC is the American farmer's largest foreign customer. In 1981 we bought $9 billion worth of US farm products. The argument is about the EC's subsidised exports to third markets. There is a widespread feeling in the US that "predatory" European subsidised dumping is hitting the American farmer hard.

We do not think this squares with the facts.

American farmers are going through a tough time. But we think that those who visit the local RENT-A-SCAPEGOAT emporium are on the wrong track. The main troubles of American farmers were ascribed by a top official in the US Department of Agriculture (US Farm Bureau News of December 13, 1982) to record crops, a strong dollar and lower exports to certain markets (Mexico imported 6 million metric tons of US grain a couple of years ago and in 1982, strapped for cash, took only 2 million tons; a fall in exports to Eastern Europe of 50% and a major loss resulting from the Soviet grain embargo).

In the second place subsidies to agriculture are not a unique European phenomenon. In 1982 the farm budgets of the Community and its Member States together came to nearly the same amount as the US Federal Budget for agriculture, namely $30 billion. So, agricultural subsidies are a fact of life. This was recognised in the last major round of international trade negotiations, the Tokyo Round, which finished in 1979. The trading rules then agreed between all participants - including the US and the Community - permitted the use of agricultural export subsidies providing they were not used to secure more than an equitable share of the world market.

Has the Community held to this rule? We think we have. Let me give only one example. Wheat and wheat flour account for nearly one third of US farm exports; whereas the EC share of the world market was 10.3% in 1968-71, it was 13.7% by 1979-82. But the US share rose by much more - from 33.7% to 45.6%. Figures for other commodities tell a similar tale.

European farmers have a right to export just as the American farmers have and we cannot afford - nor can you - to get off the world market. But we are not going to hog the world market.

How can we resolve our difficulties? Secretary of State George Shultz agreed with President of the Commission Gaston Thorn in December last year in Brussels to try and find a way of accommodating our difficulties "within existing systems". Three sets of discussions have been held; some progress has been made; more is needed. But find a solution we must. Because if unilateral action takes the place of rational dialogue escalation will follow and a lot of damage will be done on both sides of the Atlantic and to the open world trading system on which the prosperity of the West has depended for 35 years.

More in our next issue. In the meantime, attached are some items of Community news.

************* WINDOW ON THE EUROPEAN COMMUNITY **********

EC CURRENCY SYSTEM PASSES CRUCIAL TEST

The EC Finance Ministers resolved a crisis facing the European Monetary System (EMS) by agreeing to redefine the value of the eight affected European currencies--the seventh realignment in the system's four-year history. The EMS limits the amount by which the currencies of EC Member States are permitted to fluctuate against each other. The system does not include the British pound or the Greek drachma. The March 21 realignment package called for a 2.5% devaluation of the French franc and a 5.5% revaluation of the German mark. Other changes included increases in value of 3.5% for the Dutch guilder, 2.5% for the Danish kroner and 1.5% for both the Belgian franc and the Luxembourg franc. The value of the Italian lira and the Irish pound were reduced by 2.5% and 3.5%, respectively.

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NEW SYSTEM FOR HANDLING TRADE COMPLAINTS

The EC Commission has proposed a new regulation that would empower it to take quick, effective action against unfair trade practices, while still respecting its existing international obligations. The proposed new rule would give the Commission powers similar to those conferred on the U.S. Government by Section 301 of the 1974 Trade Act. Under the proposal, an EC industry could bring directly to the Commission complaints about unfair trade practices used by a non-EC country. The Commission would examine the complaint and decide on its merits within a prescribed time limit, determining what, if any, counter-measures the EC should take. However, the Commission's decision could be voided by a majority vote of the EC's Council of Ministers. The Council would have to approve the proposed new regulation before it could become law.

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EC WARNS US ON DEVELOPMENT FUNDING CRUNCH

A failure by the US to make good on its full financial pledge to the sixth replenishment of the International Development Association (IDA) by the end of the next fiscal year "could seriously jeopardize the IDA's future, causing serious damage to the interests of the entire international community," the EC warned recently. The IDA, an affiliate of the World Bank, is an international agency that makes concessional loans for economic develpment projects to the world's poorest countries.

In a March 1 letter to the US State Department, the EC said other IDA members would be unlikely to mount another "rescue operation" (like the one agreed for 1984) to sustain IDA lending operations in the event of another shortfall in the US contribution to that agency. Last year other aid donors agreed to compensate for the US decision to spread its IDA contributions over four years, rather than the originally scheduled three, by abiding by their own three-year commitments and making $2 billion more available through special arrangements. The Community told the US it was concerned by the US Congress' decision last December to appropriate only $700 million of the $945 million the US was committed to secure for IDA during the current fiscal year. However, the EC said it was encouraged by the administration's intent to seek appropriation of the full remaining balance.

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<u>ECONOMIC GROWTH EXPECTED TO PICK UP LATER IN 1983</u> Economic output in the EC's 10 member states may increase only 0.4% this year, well short of the 1.1% annual growth rate forecast last November. However, output is expected to accelerate as the year wears on and may register an annual growth rate of as much as 2% during the second half of 1983, according to the EC Commission in its latest report on the European economy. The Community's economy grew only 0.2% in 1982.

The Commission said private consumption in the EC this year would remain flat, despite an anticipated drop-off in inflation. However, it noted that real demand, economic output and trade both in the Community and elsewhere in the industrialized world would get a boost in the event of more than a modest decline in oil prices. EC unemployment is expected to continue its rise in 1983, averaging 10.6%, compared with 9.6% last year.

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<u>COMMISSION DEFENDS FARM PRICE PROPOSAL</u> The Commission this month defended its proposal for a modest 5.5% increase in common prices for most EC farm products in 1983-84 from critics in the European Parliament who said the proposed increase was too small to protect the incomes of EC farmers. The Commission told the Parliament that the proposal struck the proper balance between the need to support EC farmers and to discourage surplus agricultural production.

However, Parliament rejected the Commission's warnings that a larger price increase would strain the Community's already tight agricultural budget and voted to recommend a minimum 7% increase in farm prices. Parliament also voted to recommend against the Commission's proposal to penalize EC grain and milk producers for exceeding their prescribed production thresholds last year by docking part of the increase in support prices they otherwise would have received for those products.

The Parliament's recommendations are not binding on EC Farm Ministers, who must make the final decision on the farm price package for the 1983-84 season. That marketing season starts as early as April 1 for some crops.