

A Letter From EUROPE

From:
Roy Denman
Head of Delegation

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from its Delegation in Washington

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THINGS THAT GO BUMP IN THE NIGHT

Of all the present day economic Bugaboos, green-eyed monsters and things that go bump in the night the Common Agricultural Policy (CAP) of the European Communities is generally thought in this country to take the biscuit. It has not yet been reported to me that American mothers have started to say to their children, "Put away your laser pistols this instant and get ready for bed, or the CAP will come and get you." But this is what can happen when myths drive out reality. Let us look quickly at some of these myths.

Myth No. 1: The European Community subsidizes its agriculture far more than anyone else.

Fact: Mr. Dan Amstutz, Under Secretary at the U.S. Department of Agriculture, said when answering a question before the House Agriculture Committee in November 1985 about who subsidizes the most: "In my judgement, the latest figures will show that Japan leads the parade and I think the U.S. will come in second and the E.C. will come in third" - and this before the runaway expenditure of the 1985 Farm Bill had become apparent. Last year the Community subsidized 11 million farmers to the tune of \$22 billion, compared with \$26 billion of Federal price support expenditure on 2.5 million farmers in the United States. Moreover, incomes of E.C. farmers have fallen by 30 percent over the past ten years, compared with a rise of 19 percent in general Community incomes.

Myth No. 2: But U.S. subsidies, unlike the E.C.'s, are used to decrease production.

Fact: U.S. wheat acreage over the last 15 years rose by 40 percent, compared with 8 percent for the world as a whole and 13 percent in the Community. E.C. sugar production has been reduced by about 15 percent over the past five years, while U.S. production shows no sign of dropping.

Myth No. 3: A comparison between Federal farm price support and Community expenditure is meaningless, because the E.C. member states also subsidize agriculture.

Fact: There is a wide range of subsidies to American farmers not covered by the direct Federal price support expenditure, including cheap water in the West, subsidized river and canal transport, agricultural credit programs, crop insurance and promotion campaigns for farm products.

Myth No. 4: The Community is unfairly taking the U.S. farmers' share of the world market with subsidized exports.

Fact: The Community and the United States compete only over about a quarter of U.S. farm exports, mainly wheat and to a lesser extent dairy products. The international trading rules provide that agricultural export subsidies are permitted but should not be used to get more than an equitable share of the world market. What then has happened to the E.C. share of the world market in wheat and dairy products? The high point of American wheat exports was 1981-82 when the U.S. accounted for 49 percent of the world market. In 1984-85 this had dropped to 36 percent. Was this the Community's responsibility? Hardly, since our share remained stable between 14 and 16 percent. That of other exporters rose much more sharply. What about dairy products? For years the American share of the world market was nil. In 1985 it was 10 percent, an increase achieved mainly at the E.C.'s expense.

Myth No. 5: The Community shuts out U.S. farm exports.

Fact: For the fiscal year 1986, the Community retained its position as the biggest U.S. farm export market - \$6.4 billion compared to \$5.1 billion to Japan. Moreover, U.S. farm exports to the E.C. declined by only 3 percent compared with a fall of 19 percent to non-E.C. countries, and now represent almost a quarter of all U.S. overseas sales.

Myth No. 6: The E.C. refuses to make real reforms to the CAP.

Fact: The Community has taken, and continues to take, real and painful measures to reform the CAP, to reduce the cost to the taxpayer and to get production under control. In 1984 the Community decided to cut dairy output, and by 1985 it had already fallen by between 4 percent and 5 percent. Support prices for grain were frozen last Spring for the third consecutive year. Production has been made less attractive and returns to farmers have been reduced by at least 15 percent.

Furthermore, in December last year the Council of Ministers agreed that dairy production would be cut over a two year period by just under 10 percent, and that the price of beef should be reduced by some 13 percent. The E.C. butter mountain - now at some 1.5 million metric tons - will be brought down to 350,000 tons, and the beef mountain should be cut by some 50 percent by the end of 1987.

These agreements are the biggest changes in the CAP since it was established in 1962. They will result in savings from the 1989 budget of between one and two billion dollars. These cuts have been very unpopular with Community farmers, some of whom have been forced out of business by earlier cutbacks. They are asking, "If we are suffering these painful cuts, what are our trading partners doing? Are Community farmers expected to bear this burden alone?"

The Community watches with great interest the proposals now being formulated by the U.S. Administration to trim its own farm support program in the years ahead. Meanwhile, we in Europe have already taken decisive and fundamental action.

Roy Harman

WINDOW ON THE EUROPEAN COMMUNITY

FOREIGN AFFAIRS

• E.C. Commission President Jacques Delors and other Commission officials met in Brussels on December 12 with Secretary of State George Shultz, Treasury Secretary James Baker, Commerce Secretary Malcolm Baldrige and Trade Representative Clayton Yeutter for high-level talks on trade and U.S.-E.C. relations.

• E.C. Foreign Ministers will meet February 9-12 with their Central American counterparts for talks on political and economic relations between the two regions. The meeting, the third of its kind, will be held in Guatemala.

• The E.C. protested to Pretoria last month about growing evidence of abuse of human rights in South Africa.

• The E.C. expressed its sadness and concern in December at the death in prison of Soviet dissident Anatoly Marchenko, a member of a group set up to monitor Soviet compliance with the Helsinki Final Act. The Twelve called on Moscow "to honor its Helsinki commitments in the field of human rights and fundamental freedoms."

• Forty percent of Norwegians are still opposed to seeing their country join the European Community, according to a recent poll.

TRADE

• The E.C. and the Soviet Union held their first official talks on January 15 and 16, following an exchange of letters between Willy De Clercq, the E.C. Commissioner responsible for external relations, and Soviet Foreign Minister Eduard Shevardnadze. The talks were the first step in discussions toward establishing formal diplomatic ties. Further discussions are expected in late February.

• The E.C.'s exports to third countries remain "undynamic", according to Paul Luyten, deputy Director General for external relations at the Commission. "Since E.C. imports will continue to show substantial growth (of about 6.5 percent), the effect will be that the Community will continue to contribute towards levelling out

disequilibria affecting world trade," he told a GATT session of Contracting Parties in December.

• The United States said in December it would restrict imports of machine tools from the Federal Republic of Germany, a move the E.C. believes is counter to international trade regulations.



E.C. Commissioner for External Relations Willy De Clercq (l) and Commission President Jacques Delors (c) with Secretary of State George Shultz during high-level talks in Brussels on December 12.

• In its report *International Trade 1985-86*, the multinational trade body GATT notes that world trade grew by 3 percent in 1985 and by an estimated 4 percent in 1986. Germany, the report indicates, was in dollar terms the world's largest exporting country.

• The Commission announced on January 13 that it would open an office in Beijing this year to underscore the growing importance of trade between the E.C. and China, which increased 54 percent in 1985 from the year before. China's main trading partner in 1985 was still Japan (30.1 percent) followed by Hong Kong (17.8 percent), the E.C. (11.9 percent) and the United States (10.7 percent). The Community, which imports primarily textiles from China and exports primarily machines and transport equipment, had a trade surplus of 2.735 billion ECU (about \$2.7 billion) in 1985.

• The Commission said on December 30 that it was not satisfied with a Japanese plan to reform taxes on imported alcohol, which it believes are discriminatory and protectionist, and said it would pursue dispute settlement proceedings in the General Agreement on Tariffs and Trade (GATT).

• The Japanese airline All Nippon Airways (ANA) said last month it would buy 10 A320-200 medium-range jets with an option for 10 more from Airbus Industrie, the European aircraft consortium, in a deal worth about \$1 billion. Airbus also announced that a joint venture it was setting up with Guinness Peat Aviation would buy 25 A320

airliners between 1990 and 1992, and the German airline Lufthansa announced in January its intention to buy 15 of Airbus' new A340 long-range aircraft. The United States is concerned over European government subsidies to Airbus (which had been competing for the ANA contract with Boeing), and says it will seek talks on the issue this year.

• Japan said last month it would rescind its safety standards for ski equipment, which the E.C. had complained discriminated against imports of European skis.

• The Council authorized the Commission on December 15 to negotiate a new trade and economic cooperation agreement with Rumania, to replace the existing sector agreements. Rumania is currently the only Eastern European country linked to the E.C. through a commercial agreement.

• The Commission opened an investigation in December into complaints that Japan, South Korea and Singapore were dumping microwave ovens on E.C. markets. The Commission also extended surveillance on imports of tape recorders from South Korea and some sensitive industrial products

from Japan until the end of this year.

• The E.C.'s Common Customs Tariff for 1987 has been published in Official Journal #L345; changes from the 1986 tariff are minimal.

BUSINESS

• In response to growing strains within the European Monetary System (EMS), E.C. Finance Ministers agreed on January 12 to a currency realignment that revalued the German mark and the Dutch guilder upward 3 percent and the Belgian and Luxembourg francs upward 2 percent. The values of the French franc and the other EMS member currencies were left unchanged. The realignment was the eleventh since 1979, when the EMS was formed.

• The Commission said this month that the Community's competitiveness in labor costs relative to its main trading partners is starting to worsen after five years of improvement. The decline is attributed to a rise of over 10 percent in the Community's effective exchange rate over 1986. While American wage levels have generally been higher than those in Europe since 1982, last year's depreciation of the dollar is expected to raise German wages above the U.S. level.

• Commission President Jacques Delors is currently touring European Community capitals for discussions focusing on the E.C. budget. Among the Commission's suggestions for the future: an increase in member states' contributions to the Community, expansion of the E.C.'s social and regional development funds, and continued reform of the Common Agricultural Policy.

• E.C. Industry Ministers approved on December 22 a new plan on aid to the shipbuilding industry designed to provide a framework for shifting production toward the market areas where European yards are most competitive. The four-year plan allows production aid to be paid up to a common maximum ceiling of 28 percent, with additional aid for restructuring shipbuilding and repair yards. European shipyards, faced with a decline in world de-

mand and competition from Asian competitors, suffered a drop in orders of 73 percent in the first nine months of 1986, compared with the year before.

- The E.C. Council of Transport Ministers made substantial progress in December on liberalizing air transport in Europe, but failed to agree on an overall package that would restrict price-fixing arrangements among national airlines. The Council also laid out the basic elements of a Community policy for maritime transport at the December 15 meeting.

- In a decision that could broaden competition in the E.C. insurance market, the European Court of Justice ruled on December 4 that Denmark, France, Ireland and Germany had broken E.C. law by imposing restrictions which hampered foreign insurance groups from offering policies in their countries.

- Former French President Valéry Giscard d'Estaing and former German Chancellor Helmut Schmidt, the founders of the European Monetary System, set up a 19-man committee last month to develop new initiatives on official and private use of the European Currency Unit (ECU). The group, made up of bankers and politicians, is known as the Committee for the Monetary Union of Europe.

- The Commission fined three major European chemical companies \$50,000 each on December 4 for exchanging details about sales of fatty acids in Europe, in violation of E.C. competition rules.

- E.C. unemployment climbed 0.8 percent in November, according to figures released this month by Eurostat, bringing the total number of jobs in Europe to 16.2 million. Ireland had the highest unemployment rate, at 18.5 percent, and Luxembourg the lowest, at 1.5 percent.

- The French communications group CGE and the American company ITT agreed on December 30 to create a new company grouping all the telecommunications, enterprise communication and cables activities in Europe of both companies. ITT holds 37 percent of the capital of the new company—known as Alcatel—while CGE holds a 55.6 percent majority. Alcatel will keep its accounts in European Currency Units (ECU), the first major industrial company to do so.

- E.C. crude steel production declined 6.7 percent in the first eleven months of 1986 from the year before, while U.S. production dropped 7.5 percent and Japanese production fell 6.8 percent over the same period. The Commission expects apparent E.C. steel consumption to rise at an annual rate of 2.5 percent during the first half of this year.

- The Brookings Institution will be holding its Annual European Seminar for U.S. Corporate Executives in Paris from June 28 to July 3. The seminar reviews doing business in and with Europe, with discussions of current political and economic trends in Europe, the role of E.C. institutions, and European industrial policies. Contact: Center for Public Policy Education, The Brookings Institution, 1775 Massachusetts Ave NW, Washington, DC 20036.

AGRICULTURE

- European Agriculture Ministers reached agreements on December 16 on reforms to the E.C.'s Common Agricultural Policy (CAP) that will cut E.C. milk production by 9.5 percent by April 1989 and will lower support prices for beef an average 13 percent. Sir Geoffrey Howe, British Foreign Secretary, called the agreement "the most important measure of reform ever achieved" for the CAP. E.C. Agriculture Commissioner Frans Andriessen said that the plan to curb milk production could be a crucial step in restoring world dairy markets to better conditions.

- According to recently released figures by Eurostat, the E.C.'s statistics office, final product prices for agriculture goods in Europe during 1986 rose by only 1.5 percent from 1985. Plant product prices rose by 4.5 percent while animal product prices fell about 1 percent, and farm production costs fell about 2.7 percent due to lower energy, fertilizer and feed costs. Overall farm income fell by 0.8 percent in real terms.

- E.C. Fisheries Ministers agreed in December on large cuts in some minimum prices paid to fishermen; herring prices were cut by 7 percent and tuna by 10 percent, with most other prices frozen or very slightly raised.

- The Commission decided on January 5 on grants totalling 77.1 million ECU (about \$77.1 million) to finance 922 projects aimed at

modernizing and developing Europe's fishing industry. About 28 percent of the funding will go to Spain.

POLITICS



Sir Henry Plumb, the new President of the European Parliament.

- Sir Henry Plumb, a Conservative Member of the European Parliament (E.P.) from Britain, was elected President of the E.P. on January 20. He succeeds Pierre Pflimlin, who retired this month after serving as President since 1984. In his acceptance speech the new President told the Parliament, "I was born as an Englishman, I shall die as a European."

- Belgium took over the presidency of the European Community on January 1 for a six month term. In remarks to the press, Prime Minister Wilfried Martens and Foreign Minister Leo Tindemans emphasized their country's commitment to Europe and their desire for progress on completing the internal market.

- E.C. Heads of State and Government, meeting in London December 4-5 for the second 1986 European Council, voted unanimously to reappoint Jacques Delors to a second two-year term as President of the E.C. Commission.

- A lawsuit over policies on migrant workers was brought before the European Court of Justice last month by five E.C. member states. Germany, France, the Netherlands, Denmark and Britain are protesting a Commission decision of July 8, 1986 which establishes a procedure of preliminary discussion of migrant policies with regard to third countries.

- The Commission will award 20 research grants of up to 4,500 ECU this summer to young university teaching staff doing research on European integration. Applications for the grants must be submitted by March 31, and are available from the Information Service of the E.C. Delegation in Washington. (202) 862-9500.

SCIENCE AND TECHNOLOGY

- Ariespace, the European space consortium, announced last month that it would resume launching telecommunications satellites early this year. Ariespace has suspended launches since May 1986, after an Ariane 2 rocket was destroyed when its third stage motor failed to ignite. The next flight, tentatively scheduled for March, will use an Ariane 3 rocket to launch two telecommunications satellites into orbit.

- The European Space Agency (ESA) said last month that work would begin this year on the study phase of the planned European space station, known as Hermes. European research ministers are scheduled to decide next June on authorizing construction of two Hermes shuttle craft.

- The E.C. Commission has proposed a Community action program on Trade Electronic Data Interchange Systems (TEDIS), aimed at developing European standards for data exchange.

- The E.C. and the U.S. signed an agreement on December 15 for cooperation in research and development in thermonuclear fusion.

- The E.C. said last month its financial support for energy in 1985 reached a total of 3.5 billion ECU (about \$3.5 billion).

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