U.S. Department of Agriculture
Office of the Secretary

Conference Copy

441.2(103)

I am grateful for the invitation to speak once again to the annual Conference of European and American Journalists. I compliment the program organizers on their choice of a title for this session of the conference: "Agriculture: The Old Standby." In fact, it prompted me to research USDA's archives. I was reminded of just how long there have been agricultural trade tensions between the United States and the European Community.

U.S. - E.C. Trade Problems -- A Long History

The dusty texts of statements by U.S. officials long ago reminded me that U.S.-EC trade problems already were beginning when the Common Agricultural Policy was but a gleam in the eyes of its creators. Twenty-three years ago, Raymond Ioanes, then administrator of the U.S. Foreign Agricultural Service, discussed with an Iowa audience what was then contemporary history: "In 1960," he said, "we began to hear about some of the proposals for a common agricultural policy. What we heard was not encouraging. The inklings we had made it clear that the future for agricultural exports to the Common Market could bring problems of substantial proportions for outside supplying countries."

Seventeen years ago, when I first arrived in Washington to serve in the Department of Agriculture, my colleague Clarence Palmby delivered a speech denouncing EC pricing policies as "a bitter disappointment to anyone interested in a stable world market based on liberal trade." He observed that the direct and indirect costs of the CAP amounted to 4 percent of the Commmunity's Gross National Product -- "a high price to pay for policies that are essentially destructive to trade and a sound agriculture within those countries."

Remarks prepared for U.S. Secretary of Agriculture Richard E. Lyng to the European and American Journalists Conference, Annapolis, Maryland, July 2, 1986

Assistant Secretary Palmby further said that he could not "foresee a reversal any time soon" in EC policies. Moreover, he predicted they would be extended to an enlarged Community including as full members Greece, the United Kingdom, Ireland, Denmark, Spain and Portugal. He warned that the EC's policy trends were aiming it toward an "economic collision" with the United States.

The events of the two succeeding decades have proven my colleague's observations sadly prescient. During this time the EC moved dramatically from a major net importer to major net exporter of wheat, feed grains, meat and livestock -- and even sugar. Meanwhile, during the decade from 1974 to 1984, farm output in the less developed countries was increasing by 38 percent. It is not difficult to discern the connection between these phenomena and the United States' decline in agricultural exports, from $44 billion in 1981 to $27 billion last year.

I acknowledge that, as we prepared the 1981 farm legislation, U.S. policymakers significantly overestimated global demand and underestimated global productivity. Still, U.S. and EC pricing policies during the first half of this decade differed and produced starkly opposite results. Ours tended to keep our own commodities out of world market competition, while EC policies in effect flooded the world with heavily subsidized European commodities.

Dramatic Changes in U.S. Farm Legislation

With EC policies of excessive protection and excessive subsidization remaining unchanged, United States lawmakers last year decided to make a dramatic change in our own policies. Now we are engaging in some of the practices which we have so strongly criticized in the past. We are doing so because we are determined to regain a substantial part of the agricultural exports we have lost during the past five or six years. We have taken this course reluctantly, after years of unheeded appeals on our part for the EC to reduce its protection and subsidies.

The element of our new farm legislation with the most immediate and forceful impact is the Export Enhancement Program. During the next three years we will use $1 billion worth of government-owned commodities as in-kind subsidies to help U.S. exporters compete against other subsidized exporters. Already we have undertaken 36 initiatives under this program, involving 17 countries and 10 commodities. We have announced sales of more than 10 million tons of grain — most of it wheat and wheat flour — directly aimed at countering excessive EC subsidies in the markets for those commodities.

The United States also is poised to reassert itself in world agricultural markets through lower loan rates for key commodities such as feed grains, cotton, rice and wheat. A marketing loan already has helped American rice re-enter world markets. A marketing certificate program portends to do the same for U.S. cotton. With lower 1986 crop loan rates, American wheat and feed grains will begin to recapture some of their traditional market share.

The 1985 farm bill is the first ever to include an explicit title on trade. This title directs U.S. negotiators to move aggressively to reduce trade barriers around the world; it mandates retaliatory measures if progress is not made. The trade title reflects the growing frustration on the part of our Congress -- and the American people -- with the way the international trading system has been functioning. It is the direct result of the belief in the Congress that the General Agreement on Tariffs and Trade has been ineffective in enforcing rules for international agricultural trade -- and that the United States therefore must act unilaterally.

Target prices remain high this year to support American farmers' incomes as we begin to move their competitively priced commodities back into world markets. Joined to these high target prices though are provisions that will tend to discourage surplus production. These provisions include measures that will limit planted acreage of the major crops. This year, program participants will be required to reduce acreage by 20 percent for feed grains, 35 percent for wheat and 25 percent for cotton.

Surpluses of cotton, sorghum, wheat, corn and soybeans will be trimmed further by the retirement of acreage through the new Conservation Reserve. As many as 45 million acres may be taken out of production through this program during the next five years.

Farm programs this year will cost United States taxpayers far more than in any other year in our history. Such spending runs counter to our major trends toward lower taxes, lower government spending, reducing our budget deficits and withdrawing the government from excessive intervention into the economic activities of our citizens. Our Congress found this level of farm program expenditure necessary primarily because, for two and a half decades, the European Community has been spending its resources so heavily.

Trade and Farm Policy Reform a Necessity

Our policymakers view our heavy farm income supports and aggressive export subsidies as feasible only for a period of transition ending in closer orientation to world markets. It is crucial for the European Community to understand that our new legislation, for all its aggressiveness over the short term, is essentially an invitation for all the developed countries to negotiate a freer world trading order for the long term. We fervently hope to realize the aims of the declaration in Tokyo earlier this year by the leaders of the seven major industrial democracies.

Never before have the participants in these annual economic summit meetings devoted so much attention to agriculture. The seven leaders candidly acknowledged that the "global structural surplus" for some important agricultural products is partly the result of "longstanding policies of domestic protection of agriculture in all our countries." The summit leaders also conceded the harm this situation is causing to some of the less developed countries. These are problems, the leaders declared, that "we all share and can be dealt with only in cooperation with each other."

Is there reason to hope that the United States, the members of the European Community and the other developed countries might act in unison to bring their farm policies into line with a freer and more rational world trading order? Yes, I believe there is. I am especially encouraged by the efforts being made to point the Community in the direction of reform. I believe the case is growing ever more compelling that the economic and social changes in each of our countries' rural communities would be less painful if we would implement reforms in coordination with one another. The timing and framework of the Multilateral Trade Negotiations are ideal for this purpose: On one hand they give us occasion to take the urgent decision to pursue comprehensive reforms -- the basic "agreement to agree." Since MTN sessions always are long and laborious, they also provide us ample time to resolve the many details among the participating nations and their domestic constituencies.

I dread the consequences if we should fail to use the opportunity we now have to bring more freedom and harmony into the world agricultural trade. The economic recovery now being enjoyed by some of the developed countries would never reach the less developed countries. In our own countries the chaos in markets would grow more severe; the walls of protection would climb higher and the level of retaliation more harmful. How much happier it would be, if a decade or so into the future, our successors could look back and remark how United States and European leaders of the 1980's had finally put aside the dangerous old standby of agricultural trade conflict.

As I commenced this talk I noted that the agricultural trade conflict between Europe and the United States has persisted throughout the development of the European Community. We lament this and fervently wish we could put an end to it.

But it needs to be said that throughout all of this the United States has steadily supported the expansion and strengthening of the European Community. We recognize the need for a Common Agricultural Policy and, while we would very much like to see some parts of the CAP reformed, it is not our goal to destroy it.

A unified, stable Europe is clearly in our best interest. While in Luxembourg last week I visited the U.S. Military Cemetery. Over 5,000 American soldiers are buried there, including General George S. Patton. Most of them were killed during the harsh winter days of the World War II Battle of the Bulge.

One cannot view the rows and rows of graves there without realizing that the U.S. has a precious investment in Europe, an investment of our flesh and blood which can only be considered worth making if it contributes to peace in Europe.

So, though we are frequently frustrated and though our patience is often frayed, we will always try to respond with renewed vigor -- with stronger, more persuasive arguments and with more aggressive action -- all designed to settle our trade differences and further the preservation of peace in Europe.

Thank you.

#