

A TIME FOR DECISION

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Last month, millions of Americans were watching and talking about "The Winds of War"—a week-long series of televised dramatizations of the events, primarily in Western Europe and the United States, that led to the Second World War and to this country's ultimate participation.

This month, I am sorry to say, the "winds of war" are beginning to stir once again in Western Europe and the United States—not a war with nuclear or conventional weapons, fortunately, but a tragic, costly war nevertheless. I am referring to the prospects of a trade war, specifically an agricultural trade war between the United States and the European Economic Community.

I.

Use of the word "war" is not an exaggeration. The United States Government, faced with mounting surpluses here at home, and a lack of restraint by the European Economic Community in encroaching upon traditional U.S. export markets, has *condemned* the \$6 billion a year export subsidy program of the EEC and vowed that we will no longer play the part of the supine giant. Leaders of the EEC, with their own record crops to worry about, have in return *condemned* the U.S. Government for using its new subsidy scheme of blended credits as well as surplus government stocks to take away some of Europe's traditional markets, such as wheat for Morocco and wheat flour for Egypt. Efforts at negotiation on these issues have failed. Efforts to obtain a meaningful GATT adjudication have failed. Both sides appear unyielding. Both sides are preparing new counter-measures.

The *New York Times* quotes a French trade official as saying: "We are on the verge of war." U.S. Secretary of Agriculture John Block says: "We have had all that we can stand." The West Europeans threaten again to restrict our duty free access of corn gluten feed and even soybeans and soybean meal—trade which now

amounts to \$4 billion annually. The U.S. government, urged on by an angry Congress, now threatens to dump dairy products and to use its own subsidies and surpluses to undercut the world price in still more markets. An EEC official called the U.S. sale of wheat flour to Egypt "A brutal takeover." Secretary of State George Schultz recently remarked "We should remember that these are insane things we are doing." The Europeans reply that a country with tariffs and import quotas, some supposedly voluntary, on beef, veal, sugar, dairy products, tobacco, mandarin oranges, cotton, peanuts and even mushrooms, is interested only in free markets elsewhere.

American officials say that the EEC is violating the rules of GATT. EEC officials say that we are. GATT shows signs of being too cumbersome and too politicized to settle anything. Confrontation is the order of the day and escalation may come at any moment.

This is not the first time that Western Europe and the United States have faced the threat of an agricultural trade war. But this time both sides have hardened their positions and reached for their weapons. This time the consequences would be more serious than at any time in the last forty years. Despite encouraging signs of recovery in the United States, the western world is suffering from a prolonged economic slump. Enormous amounts of indebtedness, high rates of interest, rapid currency fluctuations, and rising political tensions now combine to make the economies of all Western nations more volatile and more vulnerable than ever before. In every Congress and Parliament, popular pressures for economic nationalism are increasing as a result of hard times, not only in agriculture but in steel, automobiles, textiles, electronics and most other manufactured products.

Indeed, even as we face in Europe the prospect of a trade war in agriculture spreading to industry, we face in China the

danger of a trade war in industry—specifically textiles—spreading to agriculture. Because China has only recently become the single largest importer of U.S. wheat in the world, a "two-front" trade war in which this country simultaneously confronted both China and the EEC would be a nightmare.

Moreover, international trade in general, and agricultural trade by and among the industrialized nations in particular, have become far more important now to the economic health of the west than was true fifty years ago or even ten years ago. Substantial increases in living standards around the world have led to demands for richer diets, particularly meat. The United States, as the dominant agricultural exporter in the world, would have the most to lose from an all-out trade war.

Elimination of this nation's \$6.5 billion trade surplus with Europe, our largest customer as well as our competitor, would inflict serious hardship not only on American farmers, already mired in debt and declining profit but also on the processors, carriers, handlers, equipment manufacturers, bankers, merchants and others who depend upon the economic strength and progress of those farmers. We sometimes forget their importance to our economy. The newest forms of high technology may receive more attention in most of the public debates on economic growth; but, in fact, it is man's oldest occupation, agriculture, that is the largest dollar earner in our balance of trade and responsible for about 15 percent of this country's GNP.

In this context, an outbreak of a U.S.-EEC trade war in agriculture, complete with deliberately provocative measures, counter-measures, retaliation, and escalating tariffs and quotas, could easily spread into manufactured products and services, restricting the flow of goods, cutting sales, increasing prices, retarding recovery and thereby prolonging and worsening the economic slump of the 1980's as much or more as it did in the 1930's.

II.

What can be done to stem this tide of events before it is too late? Some of the bloodiest wars in human history began when a shot was fired or a threat fulfilled without either side truly wanting war and with both sides realizing, in their cooler moments, that they faced incalculable and unjustifiable losses. But politics and pride, nationalism and emotion, brinkmanship and anger, drove them to the brink and then over it.

And so it is with a trade war in agriculture. Most farm audiences today will cheer a speech denouncing the Europeans, dismissing GATT, calling for more U.S. subsidies and less U.S. restraint. But that short-term view can lead to long-term disaster, to a trade war bringing economic havoc and political disarray to the West, and to the disruption and even the destruction of the solid network of international economic practices and institutions that has been carefully built and steadily liberalized over the past generation.

I speak today, therefore, in an urgent plea to both sides to hold their fire, to consider the somber lessons of the past, and to develop a brighter plan for the future. I am not suggesting that this war should be prevented by U.S. appeasement or surrender. Nor am I suggesting that the differences that divide the two sides are small or imaginary. This crisis was created by real problems that require real solutions. But a brief look at the past tells us at least where a solution cannot be found.

First, history teaches us that there is no solution in unilateral American action. Currently the Administration is hinting that there will be such action to demonstrate our determination and strength. Congress is pushing it, and has appropriated funds for that purpose. The farmers want it, and there is a Presidential election next year.

But, in this interrelated world, unilateral action accomplishes nothing. To be sure, the United States, as the world's strongest, wealthiest, most powerful na-

tion and leading agricultural exporter, has a responsibility to take the initiative in resolving the present dispute. That dispute cannot, in truth, be solved without our leadership. But we are not so dominant in the world of agricultural trade that such a dispute can be resolved by our acting alone.

I cannot think of a single unilateral trade aggression initiated by the United States in modern history that did not in the end penalize our farmers, our economy and our standing in the world far more than it harmed our intended target. The grain embargo we imposed upon the Soviet Union at the time of its invasion of Afghanistan is still an outstanding example.

Consider these facts. The Soviet Union, once a major exporter of grain, had become through the failure of its system—not its farmers, but its system—the world's largest importer of grain. At the time of the embargo, it had suffered two consecutive crop failures and its import requirements had reached record proportions. The United States, by way of contrast, the world's largest exporter of grain, was enjoying two successive years of record production and our surplus accumulations were enormous. Yet the embargo accomplished nothing. Other grain exporting countries, such as Argentina, moved in when we moved out. The Soviet Union endured little or no hardship. But there was considerable hardship here.

Even today, long after the embargo was removed after having no visible effect on Soviet policy, our grain sales to Moscow remain at minimum levels while still more countries have increased their production to take our place. As a result of that initiative, our own domestic surplus problem was aggravated and our tensions with the EEC were thus heightened. Let us not now compound and repeat that error by trying to resolve these new tensions by imposing our will unilaterally. Whatever market shares we might gain by new subsidies and

expanded aid programs will be more than offset through retaliation by our competitors, new burdens on our taxpayers and misleading signals to our farmers.

Second, history teaches us that there is no solution in international cartels. EEC officials have been suggesting that the tensions of open competition in agriculture can be avoided in just this fashion. They invite us to join them in a world in which the major food producers would coordinate sales, divide markets, increase prices and would also agree upon, and divide the cost of an increase in governmental storage of surpluses. Such a plan would be completely consistent with the EEC's Common Agricultural Policy which effectively insulates Western Europe's farmers from the ups and downs of the world market.

But such a plan would be completely inconsistent with this country's historic principle of free agricultural trade, the principle that has enabled us to expand food exports so dramatically over the last decade. We know, moreover, that such cartels are doomed to fail. Their artificially high prices ultimately discourage consumption and stimulate production.

What better example of this than the reckless escalation of oil prices by the OPEC countries over the last decade? That exercise in monopoly commodity power was a major factor in creating unprecedented inflation, enormous trade deficits, record high interest rates, massive debt, escalating unemployment, and finally a worldwide recession. But those excessive prices also triggered increased energy conservation, reduced energy consumption, and substantial investment in both new and alternative energy sources; and those developments in turn, combined with the global recession, have created today a worldwide oil glut, with prices falling, agreements breaking, and the members of OPEC scrambling to undersell each other.

Surely we in the agricultural trade learned that same lesson from the various efforts to control global wheat prices, such

as the International Grain Arrangement of 1967. All went well so long as wheat prices were stable. But once the world market softened, one exporter after another invented devices to sell below the minimum prices established under the agreement. Importers were happy to go along; and the agreement soon became irrelevant. It was not renewed, and the new International Wheat Agreement had no price guidelines. Clearly another cartel is not the solution to our present problems.

Third, history teaches us that there is no solution in protectionism. This lesson is surely too obvious to any thinking person to require elaboration. The memory of the Smoot-Hawley Tariff and its contribution to worldwide depression cannot be erased that easily. Yet in times of economic stress and political pressure, it is all too easy to embrace unthinking proposals that appear to offer some immediate relief, that place the blame for domestic distress on foreigners who cannot vote in our elections, that advance a simple exception here, a compromise there, a mere voluntary quota, a temporary restraint, another exception or two or three—and then we will awake one morning to find nearly forty years of work in constructing an open trading system gone.

A time of low economic activity is a time to increase, not restrict, trade; a time to sponsor new measures of trade expansion and fairness; a time to support those intergovernmental institutions that are designed to keep production and marketing incentives at appropriate levels and to move toward freer trade.

That leads me to my *fourth* and final lesson from the past: *history teaches us that there is no solution in aggravating political tensions.* This is not a time for name-calling and finger-pointing between the U.S. and the EEC. It is a time to be extra attentive to each other's needs and views, to seek joint policies, to work through the international institutions established for that purpose, to meet and talk at the highest levels of

government.

Trade abhors tension but follows friendship. U.S. agricultural exports to China and the Soviet Union, for example, expanded greatly when our political relations with those nations improved. Just as we would not now jeopardize our Chinese relations by permitting secondary disagreements to grow out of proportion, and just as we should make the most of the USSR's change of leadership by exploring its potential need for an improved international atmosphere, so, too, should we take care today not to permit our disagreements with Western Europe to spread, to escalate, to sour the crucial political and diplomatic unity of the Atlantic Alliance. By rebuilding our political bridges across the Atlantic, we can help dismantle its economic barriers.

III.

So much for the lessons of the past. So much for what we cannot do. The more difficult question is: what can we do? What can we do to prevent an agricultural trade war between the United States and Western Europe? There is no single, easy answer. I am not in a position to know all the facts or to suggest a technically detailed program. But permit me today, speaking out of deep concern, to suggest to both sides a basic three-step program by which we might avoid the war that is otherwise coming.

Step One is the elevation of the U.S.-EEC agricultural trade dispute to the highest levels of political accommodation and reality. Thus far negotiations and argumentation have taken place principally (though not exclusively) at the level of our respective Ministers of Agriculture and Trade, all of them subjected to special constituencies whose pressures and complaints make any compromise difficult. Each side invokes legal precedents and technical evidence, not political reality. Each Minister demonstrates to his Head of Government and the rural voters that he can be a tough and un-

yielding negotiator. Settlement will be possible, I believe, only when on both sides the Heads of Government themselves, with the help of Foreign Ministers, recognize the need for a political solution.

For it is fundamentally a political problem that we confront. Each side has a political face to save. Each side is under strong political pressure from its respective farmers and their electoral allies, whose influence on most governments of the industrialized world far exceeds their numbers. Both sides are determined to protect their farmers from undue hardship; and both sides provide those farmers with too much incentive to produce. Both sides have adopted policies that help producers at the expense of consumers. Both sides have been guilty of unilateral restrictions and violations of the principle of free trade. Both sides have surpluses they must get rid of. And, most damaging of all to the prospects for peace, both sides—both the U.S. and the EEC—have made politically unrealistic demands in this present confrontation.

The United States must realize that Western Europe's Common Agricultural Policy reflects a crucial twenty-five year old political bargain which made possible the very founding of the European Economic Community. It is at the heart of the unprecedented economic and political cooperation that the EEC has brought to Western Europe in place of the wars which ravaged it throughout history. The EEC cannot and will not give up the Common Agricultural Policy or the export subsidies that stem from it. That is a hard political reality that our U.S. negotiators must recognize. They have continually persisted in repeated futile efforts to attack the EEC subsidies, to demand their reduction or elimination, to insist on what never will be. That must change.

Similarly, the EEC has wasted equal effort trying to talk the United States into forming cartels, abandoning the free market, forgetting the consumer, insulating our

agricultural economy as theirs is from the vicissitudes of supply and demand. That also is unacceptable. That also is unrealistic, for all the reasons already noted.

It is time for the top political and diplomatic leaders on each side to acknowledge and accept these realities, time for them to recognize the political principles and pressures that determine the other side's course. It is time to seek joint action on attainable goals in place of unilateral action coupled with unrealistic demands.

Step two, therefore, is the adoption by both parties of a five-year interim agreement, first freezing, then gradually reducing the gap in their respective agricultural support prices. I say five years because it would be politically unrealistic and economically reckless to require of the EEC a lasting solution to this mammoth problem in any shorter period. I single out the gap in support prices because that is the heart of the problem, reflected in the EEC over-production, the source of the surpluses that the EEC is anxious to sell. The EEC will not reduce its export subsidies. The U.S. will not join a cartel. But more equal support prices could be negotiated and achieved, with some compromise from each side, thereby helping to rationalize if not equalize the terms of competition.

One possibility would be application of the extremely high EEC supports to a declining percentage of its present production, with the remainder of that production subject to free market prices or to a substantially reduced support price. At the start, a mutual freeze in existing support prices will be necessary to prevent this troublesome gap from increasing still further while the interim agreement is being negotiated. Secretary of Agriculture Block has proposed such a freeze for U.S. target prices in 1984.

That interim agreement must also include such measures as may be necessary to reduce production and show restraint on exports on both sides, in the interests of peace during this five year period. More

EEC food distribution to needy people could help reduce surpluses. More EEC surpluses could be stored instead of exported. None of these measures I am suggesting will be popular, I realize. But they can help avoid a disastrous trade war.

Step Three, the final step, is the development by both sides of a joint effort to stabilize the economies of the developing world. We are quarreling today over markets that are limited and hard-pressed. When the pie being fought over becomes larger, agreements on each slice become easier. We tend to forget the developing countries in our disputes with Europe and Japan, but in fact 38% of U.S. exports go to these countries. Today, unfortunately, they are poorer than ever, overburdened by debt, victimized by low raw material prices, unable to sell their one or two basic commodities in these recessionary and protectionist times, and lacking in the foreign exchange necessary to buy our products. Ample markets in the developing nations for the exports of both the U.S. and the EEC will exist only when the governments of those nations can recover their economic health.

Western aid programs are not enough. The industrialized world must take steps to alleviate the overwhelming financial burden of the developing nations, to restructure their debt and to establish new institutions and measures to prevent further destabilization. The relationship between financial stability and trade is crystal clear in those nations that are starved for foreign exchange to service their debts. Unwilling to spend what little they have on imports, desperate to increase their exports, they are driven to acts of economic nationalism that reduce agricultural markets for the West.

If these impoverished countries are to be able to buy, they must first be able to sell. We cannot export to them if we do not import from them. All of the Western nations must jointly agree to open our markets through such plans as the Caribbean Basin Initiative. All of us must purchase

from them, in a coordinated effort, more metals and other basic commodities—even above normal requirements—for our national stockpiles. We must learn better to barter our agricultural products in exchange for their metals. We must together assume the leadership in rebuilding their economies and purchasing power, much as the United States rebuilt the economies of Europe and Japan after the Second World War.

This is not charity. All nations will benefit from an expansion of trade in a financially healthy world. But none of this will be accomplished easily or overnight.

Detailed implementation will be far more difficult than sketching out the three broad steps that I have recommended today. No doubt some will say that these recommendations are too vague and visionary; others may say that such a political compromise is impossible. But I urge political and diplomatic leaders on both sides of the Atlantic to consider these steps, to weigh the lessons of the past and the alternatives we face in the future. War is near. Time is short. Those of us who believe that we are headed for global disaster must make ourselves heard. It is in that spirit that I have spoken to you frankly today.

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