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OFFICE OF INTERNATIONAL TRADE, DEPARTMENT OF STATE,
BEFORE THE AFTERNOON SESSION OF THE NATIONAL AGRICULTURAL
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The Common Market and United States Agriculture

I am very happy to have the opportunity to speak to you on the Common Market and its implications for U.S. agriculture. I am doubly pleased to be here, since Chicago is my home town. I was born and reared here, and it is always a pleasure to return.

General Background

Before getting into particular aspects of the Common Market with respect to agriculture, I believe it would be useful to make some general comments on the character and implications of the Common Market so that we can more fully appreciate its significance in relation to American interests, including agriculture.

The European Economic Community (EEC), more popularly referred to as the Common Market, came into being on January 1, 1958 pursuant to the Treaty of Rome. It presently consists of six full members: France, Italy, Western Germany, Belgium, The Netherlands, and Luxembourg. In addition, Greece has concluded an agreement with the EEC providing for full economic integration, but over a longer period than for the present members because Greece has not reached the same level of economic development. The United Kingdom, Ireland, Denmark and Norway have applied for membership. Negotiations for the accession of the United Kingdom to the Common Market are intensively under way. The Common Market thus already consists of an important and collectively powerful group of states and is likely to be enlarged.

On the economic level, the EEC is to be an economic union of the participating states, under which the present national economies of the members will be amalgamated into a single economic entity. The process of amalgamation is now under way in a so-called transitional period which is to end by 1970 or possibly sooner. By the end of this period there will be a full-fledged customs union, with a common commercial policy. The Member States will eliminate all tariffs on trade between themselves and will maintain against outside countries a single tariff covering the whole area. Capital, labor and services will be free to move throughout the Community. Common or harmonized internal economic policies and rules will apply to such matters as agriculture, which I will discuss in greater detail later; transportation; conditions of competition; including anti-monopoly provisions; taxation and other fiscal questions; and social policies including those relating to employment, mobility of workers, labor legislation and working conditions, and regulation of trade unions and collective bargaining.

To implement

To implement this economic union, the EEC Treaty has set up a number of common institutions. It has a Council of Ministers which is composed of representatives of the Member States and which serves as the highest decision-making body. It has a Commission of nine members appointed by the Member States which serves as the principal executive organ and represents the Community as a whole rather than the constituent states. It has a Parliamentary Assembly which is composed of representatives chosen by the Parliaments of the EEC states and which is consulted by the Council and Commission on a wide variety of subjects. Finally, it has a Court of Justice which interprets the Treaty of Rome and the implementing regulations in the event of disputes.

The EEC thus affects the fundamental aspects of economic life in the Member States. It is much more than a simple customs union, which is generally the first thing which comes to peoples' minds when they think of the EEC.

The Common Market is also much more than an economic entity. Its ultimate goal is political unity and, building on the success of their move toward full economic union, the members of the EEC are currently seeking means of closer political cooperation among themselves. The first and principal interest of the United States in the Common Market lies in this prospect of a strong and united Europe able to resist Soviet and Communist pressures with Germany firmly linked to this larger union. Europe could then serve as an equal partner of the United States in the achievement of our common goals.

Economic Potential

The Common Market has already demonstrated its strength and vitality. It has a population of 170 million people, which would increase to 223 million with the accession of the United Kingdom and which would then exceed the population of the United States by 22 percent. Trade of the Common Market countries with each other has increased more than with the outside world. Intra-area imports rose from $7 billion in 1958 to $12 billion in 1961, an increase of approximately 70 percent. More than two-thirds of the total EEC increase in imports is accounted for by intra-EEC trade. In the four years since the formation of the EEC, 1958-1961, the growth in the gross national product of the EEC was approximately double that of the United States, some 21 percent for the EEC as compared to 11 percent for the United States.

The EEC is a vast and growing market. It is moving into an age of mass consumption similar to that of the United States. The EEC's consumption of such goods as automobiles, television sets, refrigerators, washing machines and other household appliances is now only a fraction of that of the United States and is at a point where the United States was a decade or more ago. With increased growth and economic activity and rising levels of income, the demand within the EEC for such products is bound to increase enormously.

This growing

This growing market will also be a changing market as tariffs are removed among the members of the EEC and they adopt the Common External Tariff. The prospect of such changes has created considerable apprehension throughout the world as many countries fear their export markets will be reduced. As a consequence, a number of countries which are unwilling or unable to accept the full obligations of membership in the Common Market are seeking special arrangements in order to obtain more favorable access for their products. Turkey, Austria, Sweden, Switzerland and Spain have applied for some form of "association" with the Common Market and Israel has also asked for special arrangements for its trade. Other states may follow suit.

Given the number and broad range of countries and areas which may be affected by the changes -- and some of the countries whose trade is most heavily concentrated in the EEC and UK are geographically far removed -- the most appropriate solution would appear to lie in measures which will maintain and improve access to the Common Market on a multilateral and non-discriminatory basis. This would mean we could compete in the EEC market on an equal footing with all other non-member states. One of the major objectives of the trade legislation now before Congress, which I shall discuss later, is to enable us to obtain, on a non-discriminatory basis, a lowering, and in some instances elimination, of the external trade barriers of the Common Market so that any problems of adjustment, both ours and those of other countries, can be reduced to a minimum and all countries of the free world can share in the economic growth which would accompany the expansion of trade.

Implications for Agriculture

I would now like to turn more specifically to the importance and implications of the Common Market for American agriculture.

The EEC is the largest market for our agricultural exports. In 1961 U.S. agricultural exports to the EEC were $1.2 billion. They represented some 24 percent of our total agricultural exports to the world and 23 percent of our total exports to the EEC.

Some of our major agricultural exports to the Common Market are cotton, wheat, feedgrains, tobacco, poultry, soybeans, tallow and lard, fruits and vegetables, and vegetable oils. In 1961 our total exports of wheat and flour to the EEC amounted to $180 million and of feedgrains to $187 million. 14 percent of our wheat and flour exports and 36 percent of our feedgrain exports went to the EEC. In 1961 our exports of tobacco to the EEC amounted to $97 million, representing 25 percent of our total exports of tobacco. In recent years our exports of poultry and eggs to the Common Market have climbed sharply, from $4 million in 1958 to $48 million in 1961. These were 51 percent of our poultry exports in 1961. In 1961, U.S. exports of raw cotton to the Community were $238 million, soybeans $122 million, and tallow and lard $34 million. 27 percent of our cotton exports went to the EEC, 36 percent of our soybeans and 21 percent of our tallow and lard.

While the

While the EEC is thus an important agricultural market for us, there are a number of developments affecting our position there which must be taken into account. One is the technological revolution in agriculture which is under way in Europe. Just as the United States experienced a tremendous growth in agricultural production as a result of new scientific developments and the application of more effective techniques, so is Europe now undergoing a similar experience. Over the long pull we can expect Europe to produce more grains and other temperate zone products with fewer and fewer farmers. Production is also expanding generally more than consumption so that Europe is becoming increasingly self-sufficient and less dependent on outside sources for its supplies. Though the vitality generated by the Common Market may accelerate this trend, it is one that would have existed even in the absence of the Common Market.

Another factor affecting our position is the Common Agricultural Policy (CAP) of the EEC. After the most intense and difficult negotiations the member countries finally agreed in January of this year on a Common Agricultural Policy. Basic decisions involving fundamental aspects of agricultural policy and practice in the Member States were adopted. France, which potentially would gain most from the adoption of a single agricultural market, was adamant that some measure of agreement on a common agricultural policy had to be reached before the EEC moved to the second stage of the transition toward a full-blown customs union. Moving to the second stage has been generally interpreted as the EEC's crossing the point of no return on its progression toward economic union. When one reflects on the difficulties which the United States as a single country has in developing and obtaining Congressional and public acceptance of a farm program, one can appreciate the tremendous hurdles which had to be overcome in reconciling six countries, with major differences and interests among themselves, on a common policy. It is truly an historic achievement.

The CAP provides for a unified system of internal price support and for arrangements to prevent the system from being frustrated by imports. Common or "target" prices for most agricultural commodities produced in the EEC have been approved in principle, though the precise level of such prices remains a major issue yet to be resolved. The EEC will move to common prices in stages starting July 1, 1963. Pending the determination of price levels, the EEC has agreed that the high price countries would not raise, and the low price countries would not lower, their internal support levels. Thus the upper and lower limits within which future prices decisions will be made have been set.

For many key agricultural commodities -- covering about 70 percent of the domestic agricultural production in the EEC -- the internal EEC market is to be protected by a system of variable import levies. These levies are designed to equalize EEC domestic prices and world market prices. Of commodities of export interest to the United States, wheat, feedgrains, poultry and rice are to be subject to the variable levy system. Levies on wheat, feedgrains and poultry will come into effect on July 1 of this year. With respect to commodities subject to the variable levy, the latter is supposed to be the only limitation on imports, and quantitative restrictions and other non-tariff devices are prohibited except in limited, special circumstances.

How

How this variable levy system will affect opportunities for access to the EEC market depends upon how it is applied. Variable levies could be applied in an exceedingly restrictive manner to the detriment of imports. They could also be applied in a liberal manner so as to permit reasonable access for imports. The EEC has given assurances that the latter is their intention.

A test of whether this intention is achieved is the level of internal support prices which the EEC finally determines. Should these be set too high, domestic production will be excessively stimulated and imports will be subject to more restrictive levies.

The U.S. Government is following this matter closely. It will do its utmost to persuade the EEC to follow a reasonable course and to ensure that the interests of American agriculture are protected.

Geneva Tariff Negotiations

One effort the U.S. Government has made to maintain and expand markets for U.S. exports in the EEC has been to obtain commitments from the EEC to reduce or otherwise limit the tariffs which it applies to the outside. In pursuance of this objective the United States concluded extensive tariff negotiations with the EEC at Geneva last March.

In the agreement reached with the EEC, the latter made commitments on products accounting for approximately $800 million of U.S. agricultural exports to the Common Market in 1960. These commitments cover such major items as cotton, soybeans, tallow, hides and skins, and certain fruit and vegetable products. On cotton and soybeans, duty-free bindings replace tariffs in some of the member countries. The United States also obtained a reduction in the common external tariff on tobacco. For this item, and other agricultural products about which the United States was dissatisfied with the extent of the EEC tariff concessions, the United States has made clear to the EEC that it intends to enter into further negotiations for further reductions in the external tariff of the EEC.

With respect to another group of products, principally grains and certain livestock products, which will be protected by variable levies instead of fixed tariffs, the United States sought to obtain adequate assurances of access to the EEC market. Because of the many problems which were still unsettled among the EEC countries themselves, it was not possible to work out during the Geneva negotiations definitive arrangements for access. Instead, interim arrangements seeking to protect the existing U.S. trade position and providing for future negotiations to develop more definitive commitments for access, were worked out.

Specifically, the EEC agreed to interim arrangements for wheat, corn, grain sorghum, poultry and rice. U.S. exports of these commodities to the Common Market in 1960 amounted to $214 million. For ordinary wheat, corn, grain sorghum, poultry and rice the EEC agreed to negotiate further on these items with respect to trade access arrangements, and to maintain existing national import systems on as favorable a basis as at present until a common policy is put into operation.

In the case of quality wheat, the EEC agreed to negotiate further on trade access arrangements after the initiation of the Common Agricultural Policy. Before this new system is put into operation, the

member

member countries of the EEC agreed to continue to apply existing national import systems on as favorable a basis as at present. Further, the EEC agreed that when the common policy on wheat is put into operation, and throughout the period of the negotiations then to take place, it will take corrective measures for any decline in U.S. exports of quality wheat resulting from the application of the common policy.

Future Negotiations and the Trade Expansion Act of 1962

The maintenance or expansion of U.S. exports, industrial as well as agricultural, will depend to a major degree on future negotiations with the EEC to reduce its external tariff or otherwise to assure trade access. In the recent negotiations at Geneva the United States was seriously handicapped as a result of its lack of bargaining power. Under the present Trade Agreements Act the United States could make reductions of generally no greater than 20 percent, a completely inadequate amount to obtain the duty reductions necessary to offset the competitive disadvantage to our trade resulting from the complete elimination of duties among the EEC countries themselves. Furthermore, the highly selective, item-by-item negotiating process followed under the existing act meant that the United States was prepared to offer even the small duty reductions permitted under the present act with respect to only a limited proportion of its trade. Thus, for example, in the Geneva negotiations the United States made tariff concessions on only 20 percent of its total imports from all the 24 countries with which it negotiated. It made tariff concessions on only 35 percent of its imports from the EEC.

The Trade Expansion Act of 1962, which President Kennedy has recommended and which is now being considered by the Congress, is designed to correct this situation. It would permit the President to reduce duties by 50 percent in negotiations with any Free World country. It would further permit the President, in negotiations with the EEC, to reduce duties under certain conditions by more than 50 percent or even to eliminate them completely. It would also enable the elimination of duties in other defined circumstances.

The proposed trade act specifically envisages the use of the authority granted therein to obtain tariff concessions for U.S. agricultural exports, particularly with reference to the EEC market. This objective is specifically recognized in the statement of purposes of the act. The act also explicitly authorizes the President in negotiations with the EEC to agree to mutual elimination of duties on an agricultural commodity if he determines that doing so will assure the maintenance or expansion of U.S. exports of such commodity. Beyond this special authority, it is envisaged that the various forms of bargaining power granted by the act will be used to obtain the best package of agricultural and non-agricultural concessions it is possible to conclude. Accordingly, with the passage of this legislation, the hand of the President will be greatly strengthened in opening up markets for agricultural exports.

While

While enactment of the proposed trade bill is essential to provide the bargaining power necessary to protect and improve the market for U.S. agricultural products abroad, I would not wish to suggest that, even with such enactment, the road ahead is an easy one. There is perhaps no more difficult problem in the field of trade policy than that of agriculture. It will not be easy to overcome strongly entrenched interests abroad. If we are to be successful, our own policies and actions will have to be as reasonable and restrained as those we expect from others.

Conclusion

Difficult problems lie ahead. Some readjustments in pattern of trade must be expected. These problems, however, can and must be met. While the solutions may not be easy, they are, in my judgment, achievable. In particular, if the President is given adequate legislative authority, further leverage can then be applied to advance the interests of American agriculture. And, in the end, American agriculture along with the rest of the American economy will benefit from the impetus to growth and expanded economic activity which the Common Market will generate.

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