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U.S.-EC TRADE RELATIONS

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Have spoken on this subject several times since I came to the United States in September last year. Freely confess that I have often sounded like a skeleton at the feast. Not the thing for spring and California.

But themes don't always deserve the same conclusions. Like the old joke about Cambridge examination papers - the questions remain the same but the answers vary.

But before giving you my answer to this examination question a bit first of background.

Why are U.S.-EEC relations so important?
Should we not be worrying about other areas of the world?

And questions other than trade.

In answer I give you several reflections.

First the interests of the U.S.

For something like 100 years after the Civil War foreign trade did not account for more than 3-4% of American GNP. Then in the 1970's it took off. In 1980 it accounted for nearly 9%. Something like one fifth of American industrial production is exported. 4 out of every 5 manufacturing jobs created in the U.S. between 1977 and 1980 were linked to exports.

So foreign trade is vital to American jobs and the American standard of living. Unemployment now is the highest for 40 years. What would it be if your foreign trade collapsed?

<u>Then your interests in Community market</u>

With the Community as a trading partner in 1980 you ran with us a surplus of 25 billion dollars on merchandise trade, 7 billion in the agricultural field.

<u>Our joint world responsibility</u>

The U.S.-EEC together account for one third of world trade. Nearly half if you count trade between the members of the European Communities.

We are the world's biggest trading partners and thus our relationship is fundamental to the survival of the open world trading system.

But dangers prowl around like medieval beasts in the forest - some in the American forest and some beyond these shores.

First, the economic depression

The current recession now ending started in July 1981, and has been longer and deeper than any post-war depression. So unemployment the highest in 40 years at nearly 12 million.
Some bright spots - inflation down to below 5%.
Interest rates have fallen.

A recovery certain this year. But how quickly and how strong. The indicators are giving some conflicting signals. And all this has not exactly discouraged protectionism.

Then the strong dollar

Unemployment and low capacity utilisation generally call for selective measures. More general protectionist pressures from over-valuation of the dollar.

Let us look back on the '70's. In the final phase of the breakdown of the Bretton Woods system, the dollar was over-valued by some 15%. Result : the Mills Bill in 1970 and the Burke Hartke Bill.

In 1976-77 the dollar was again over-valued. The number of times anti-dumping or counterfeiting duties were imposed or escape clauses invoked rose from 5 in 1975 to 26 in 1976. In 1974 unemployment was high but the dollar and the current account then in equilibrium the Trade Act basis of the Tokyo Round was passed. But the dollar is now substantially over the '80 level, the yen still substantially lower.

Result : rising protectionism, a struggle in Congress over Domestic Content Bill, a Bill in clear violation both of the principles of the GATT and the Ministerial declaration at GATT meeting end November.

These are some difficulties to be seen in the U.S.

But of course the scene ranges wider than that. What is badly needed in 1983 world wide is economic expansion.

Hopes of economic recovery may already have damaged business and consumer confidence so that spending plans continue to be deferred and financing constraints might be more severe than predicted.
"Hope deferred" as the poet said, "maketh the heart sick".
Unless we can break out of the world economic recession the strains on the one world trading system are going to be greater than anything we have seen for the last 35 years.

Then our major and continuing anxieties about the ability of debt-ridden countries including some of the biggest in the developing world - and some of the major companies - to repay and reservice their bank borrowings.

Then the strains imposed on the world trading system by out of line exchange rates, a situation where the dollar is substantially over-valued and the Yen undervalued is a recipe for mayhem.

Only a few months ago the whole stormy scene was complicated by increasing tensions on both sides of the Atlantic - steel, the pipeline and the run up to the GATT Ministerial meeting.

But then in October and November some of the clouds began to lift.
On steel we cut a deal.
Not a copybook solution but anyone who criticises it should be reminded of Clement Attlee's comment when asked what life was like at the age of 80, "Better" he said, "than the alternative".
The pipeline sanctions were lifted.

We have begun to search for a common approach on the difficult but important subject of economic relations with the Soviet Bloc.

Then the GATT Ministerial meeting. This, the first for nine years, ended at 10 to 5 on the morning of Monday November 29th.

The reception of this by the press was divided.

We in the Community thought it a useful and successful, though necessarily not sensational meeting. It corresponded pretty well exactly to what we thought possible when we first started planning the meeting 18 months ago.

There could not be new negotiations because the results of the Tokyo Round were still being digested. And a study on services will need a couple of years of careful charting of the ground before we can see our way to a negotiation. What could be done was a realistic recommitment against protectionism on the part of the world's trading Ministers and a useful programme of work, services - some further work on safeguards, a study on agricultural export subsidies and other relevant forms of agricultural protection.

It is true that there were some exaggerated expectations particularly on agriculture. But we have consistently made it clear that we were not willing to re-open one sector of a very difficult and hard fought negotiation only three years after the conclusion of the Tokyo

Round. All the more so since we do not notice any great interest elsewhere in re-opening other parts such as the tariff on woollen textiles in some of our main markets. But agriculture remains a difficulty between us.

Here on this side of the Atlantic the Common Agricultural Policy has been built up as some kind of fiendish plot by Europeans to impoverish American farmers. So since a good deal will be heard on this in 1983 let me, say a few words about it.

Why, you may ask, should we have a Common Agricultural Policy?
Why not simply let the market work?
The answer is rooted in the history of our Community.
In 1957 the original six member countries of the EEC faced a major problem in freeing trade internally.
Freeing trade in industrial goods could largely be achieved by cutting tariffs.
This would not have been acceptable without freeing trade also in agricultural goods.
But the very different agricultural structures in the Member States and the different varieties of protection meant that simply cutting tariffs for agricultural

products would have been largely meaningless. The only solution was the harmonisation of these different agricultural policies in a common European policy. Thus the Common Agricultural Policy became a key element in a European integration. Without it there could be no Community.

What is the CAP trying to do?
The CAP's goals are very much the same as those of the U.S. farm policy :

- to increase productivity
- to secure a fair standard of living for the farm population
- market stability
- supply assurance
- and reasonable consumer prices

The means by which these objectives were sought - a uniform internal price level, export refunds when this is higher than the world market and variable levies on imports below this internal price - are well known to those who are interested and incomprehensible to those who are not.

What you will want to know is how was the policy worked out.

Here let me deal with two illusions.

The first is that the CAP has helped to maintain outdated structures. The fact, however, is that over the last 20 years the E.C. labour force occupied in agriculture, has decreased by half from 18 million to less than 9 million including the farm force in Greece, the E.C.'s newest member. During the same period the average farm size doubled to about 45 acres and productivity rose sharply.

Another illusion is that the CAP has featherbedded its farmers. Average farm income just kept pace with industrial income until 1975 but since 1976 real farm income has remained stagnant at least; in 1979 and 1980 it actually fell.

On prices, these have been stabilised generally at a higher level than in the U.S. but assurance of supply like any insurance policy, costs and real prices for a number of foodstuffs have fallen in recent years. Where we have exceeded self-sufficiency, we have adopted measures to discourage over production and we have increased our dependance on outside suppliers for products of particular interest to the U.S. such as soybeans and corn gluten feed.

Then it is alleged that we have built a trade wall around our imports of farm goods.
The European Community is in fact the biggest importer of agricultural goods in the world. In 1980 it accounted for a quarter of all world agricultural imports and it ran a trade deficit on agriculture of 29 billion dollars; its deficit with the U.S. in this areas was no less than 7 billion dollars <u>making it the American farmer's largest customer</u>. The 9 billion dollars worth of U.S. farm products which the E.C. bought in 1981 (half of them came in duty and levy free) included 2.8 billion dollars of soybeans, 1.7 grains and cereal preparations, 1.6 of animal foodstuffs and 680 million dollars of fruits and vegetables. Only about 15% of EEC farm imports from industrialised countries entered subject to levy and duty. Nearly all imports from

developing countries enter the EEC levy free and at very low duties if there are any duties at all.

But it is argued that the Community has turned for various products from a net importer to a net exporter.

True. But in the 1950's large sections of European agriculture were inefficient and out of date.
The CAP has brought about a revolution in productivity.
Just as productivity has increased in the U.S. so it has in the E.C.
In both countries for example yields of cereals have doubled over the last 20 years due to better seeds and cultivation techniques.

Then we come to the argument about subsidies.

Has not this major expansion of EEC export of farm products been based on large government subsidies?

Both the U.S. and the EC subsidise their agriculture.
Comparisons of expenditure are difficult because methods of support as well as budgetary treatmrnt are different.

Moreover, public expenditure is only one element influencing the farmer's income. For example, U.S. measures such as import-supporting restrictions on sugar, dairy and beef products have an income-supporting affect without requiring a public expenditure. But the level of price support is substantial on both sides of the Atlantic. In 1982 EC farm support expenditures, originally programmed at nearly $13.5 billion maximum is now likely to amount to $12.3 billion. In the U.S. in the same year, federal income support for agriculture has been estimated at nearly $12 billion.

In 1982 the farm budgets of the EC and its Member States together amounted to nearly the same amount as the U.S. federal budget for agriculture, namely $30 billion. Since the agricultural work-force of the U.S. (3.3 million) is now not much more than a third of that of the EC (just under 9 million, including the newest Member States - Greece), it is clear that total U.S. Government agricultural expenditure per farmer is higher than that of the EC.

It was in the light of these facts that the Tokyo Round to which the U.S. was a party recognised agricultural export subsidies and agreed that these were permitted providing that they do not allow any GATT contracting party to secure by these means more than an equitable share of world trade.

I set out these facts in order to try and show you that the Common Agricultural Policy is not a devilish plot, nor is it responsible for the present very difficult state of U.S. agriculture.
These are the results of far more telling factors such as high interest rates, a strong dollar, lower exports to the Soviet Union, record harvests and the world recession.

But has the rule about equitable shares been observed? U.S. exports of farm products have fallen more by value than by volume simply reflecting the point made earlier about the strength of the dollar.

And one other piece of evidence tells in the EC's favour. If one looks at the breakdown of American exports in volume between 1981 and 1982 most products are either stable or expanding. One notable exception is corn. If exports of corn had remained in 1982 at the same level as 1981 the volume of U.S. exports would not only have increased, their overall value would have remained the same. But the Community is not an exporter of corn.

One or two other points. Let us take wheat and wheat flour which account for nearly one third of U.S. exports of farm products by volume. If one takes the years 1968/1969 and 1970/1971 in comparison with the years 1979/1980 and 1981/ 1982 the percentage of the world market taken by the Community rose from 10.3% to 13.7%. The U.S. share rose from 33.7% to 45.6%. These figures speak for themselves. Take butter. EEC butter exports in 1981 decreased by 102 thousand tons or 17%, whereas non-EEC countries, notably because of U.S. intervention - increased their exports by 71 thousand tons and thereby reduced the EEC market share from 63.2% in 1980 to 54.1% in 1981. In 1982 a further fall of some further 100 thousand tons in EEC exports is forecast. Again let us take poultry. Community exports have been substantially higher than those of the U.S. Yet our share of the world market fell from just under 55% for the years 1975-1976-1977 to 43.2% in 1982. The U.S. share also fell from 38.5% to 24.9%. But the real cause of all this was an increase in subsidised exports from

Brazil from 6.5% in the earlier period to no less than 31.9% in 1982.

So the position is clear. We are not transgressing the GATT rules. The issue in reality is a different one. What many in Washington seem to be saying is that it would be a great convenience to American farmers if we were to get off the world market. The Community has no intention of doing so. If we did so we would throw several million European farmers on the breadline - in addition to the 12 million of our citizens already unemployed. We are going to stay on the world market. But we are not going to hog the world market. This seems to us a reasonable line.

Let us hope that bearing in mind these facts and building on the US-EEC agricultural conversations in January and February we can find solutions within our existing systems which can accommodate our problems. Individual actions can easily produce counter-reactions, and these can escalate. But jaw-jaw, as Churchill once said to Stalin, is better than war-war.