UNITED STATES DEPARTMENT OF AGRICULTURE
Foreign Agricultural Service

THE OUTLOOK FOR COMMERCIAL EXPORTS OF FARM PRODUCTS AS AFFECTED BY THE TRADE EXPANSION ACT AND THE COMMON MARKET

Talk by Raymond A. Ioanes, Administrator, Foreign Agricultural Service, at the 40th Annual National Agricultural Outlook Conference, Washington, D. C., 2:30 p.m., November 13, 1962

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Our thinking about the European Common Market has changed considerably with the passage of time. A few years ago, when the Common Market was launched, we saw it as a development fully meriting U. S. support and encouragement. We were right about that, of course. At the same time, many of us thought that substantial growth of this new market area might be a long time in coming. We missed the mark there. The Common Market has amazed the world--and, I daresay, even its founders--by achieving spectacular success within a relatively short time. Today, the Common Market is an economic giant--our biggest single foreign customer for farm and industrial products. We are increasingly aware of its present and potential importance and influence in the foreign trade field.

This change in our viewpoint has been amusingly pictured by a European cartoonist. He shows in one panel of his drawing a kindly, indulgent-looking Uncle Sam feeding a lion cub from a nursing bottle. The cub, with "EEC" on his collar, is small but lively. That is the cartoonist's idea of the way U. S.-Common Market relationships shaped up back in 1957. The second panel shows his appraisal of the situation in 1962. He pictures a huge, grown-up lion holding in his lap a small, worried-looking Uncle Sam. The lion seems friendly--but he certainly looks as though he wouldn't want to be pushed around.

The lion is still growing. Although the United States had, in 1961, a gross national product over $2\frac{1}{2}$ times as big as that of the Common Market--$519 billion against $200 billion--the Common Market's growth rate is almost twice what ours is.

The lion is growing in physical size as well as in economic strength. Just two weeks ago Greece became an associate of the Common Market. That may be only the beginning. Turkey, Austria, Sweden, Switzerland, and Spain also are seeking some form of association. The United Kingdom, Ireland, Denmark, and Norway have applied for full membership. Should all applicants join the Community, and if overseas countries and territories affiliated with them in trade or other capacity are included as associates, the population of the Common Market would total 485 million, in contrast to the U. S. population of about 185 million.

As the cartoonist suggests, the United States has looked favorably on formation of the Common Market. Cooperation among Western European nations became our national policy with initiation of the Marshall Plan, back in 1947, and has remained our policy up to the present. A united rather than a fragmented Western Europe gives the Free World an invaluable buffer against Communism. And the Common Market could well contain the seeds of East-West peace. Jean Monnet, whose vision had much to do with establishment of the Community, said last spring, "When the partnership of America and a United Europe makes it plain to all that the West may change from within but that others cannot change it by outside pressures, the conditions will exist for a lasting settlement between the Soviet Union and the West."

As I mentioned earlier, the Common Market is a prime outlet for American goods. The area is of particular importance to American agriculture. In 1961 the Common Market took 23 percent of our total agricultural exports to all destinations. That same year it bought 31 percent of all U. S. agricultural exports sold for dollars. And if all applicants for full membership or associate status had belonged to the Common Market in 1961, our dollar exports to the "enlarged" marketing area would have accounted for 51 percent of the farm products we sold abroad for cash--over half.

American agriculture sincerely hopes that the Common Market will follow liberal trade principles in the development of its common agricultural policy. All countries participating in liberalized, reciprocal trade tend to benefit.

The hopes of U. S. agriculture have been realized on some products. When it comes to commodities which the Common Market either does not produce at all, or produces in small volume, we are in good shape. On the list are cotton, soybeans and products, tallow, hides and skins, certain fruits and vegetables, and some other farm products. We can expect our exports of these to the Common Market to expand as the trading area expands. These commodities account for about 70 percent of our shipments to the area.

For the remaining 30 percent of our agricultural shipments to the area, the outlook is less favorable. The biggest problem is the possibility that the Common Market, in formulating its common agricultural policy, will maintain high producer prices for wheat, feed grains, rice, and poultry--prices which will be "insulated" by variable import levies from the price effects of commodities produced in non-EEC countries. Under that system, Common Market producers of farm commodities subject to variable import levies could have absolute protection against imports, depending upon price support levels established within the Community.

The variable import levy is not too well understood in this country. Our tariffs are fixed; they are specific, or ad valorem, or a combination of both. We favor fixed tariffs because they--unlike the "elastic" variable levy--can be readily negotiated. But the variable import levy, whatever our feelings may be about it, is a fact of life in the trade field. Let me show you, with wheat in Western Germany as an illustration, how variable levies work.

I will start off, first, with the West German wheat price structure in October. It looked, in terms of dollars per bushel for German wheat of normal quality, about like this:

Threshold price	$3.35
Target price	$3.29
Actual market price	$3.10
Intervention price	$3.07

These prices are not weighted averages, nor do they apply to any particular day. But they are typical and in line with wheat prices prevailing in West Germany in October 1962.

The key price here is the "target" price. This is the level the West German Government wants wholesale wheat market prices to approximate. It is the basis--the starting point--for the other prices shown. Each member country is free, for the time being, to set its own wheat target prices between the maximum price, which is in Germany, and the minimum price, which is in France.

The "threshold" price is the price of normal-quality German wheat at the German border. This is, for all practical purposes, the "minimum" import price at the border which will reflect the internal target price. The difference of 6 cents between threshold and target prices represents the net effect of three factors--a lump sum giving a preference to EEC producers, an adjustment for quality, and freight.

The "intervention" price, or, as we call it in the United States, the "support" price, is the level at which the government makes purchases, if necessary, in the wholesale market. The intervention price can be set at any level between 5 and 10 percent under the target price.

It should be noted that the target, threshold, and intervention prices move up at the rate of 3 cents a month during the marketing year. That allows for storage, interest, and other carrying costs.

The actual market price of $3.10 a bushel reflects bids and offers of German buyers and sellers. Thus far in 1962, the big German wheat crop has kept market prices closer to the intervention level than to the target level.

In determining the variable import levy, the Common Market determines daily the "adjusted c.i.f. (cost, insurance, freight)" price. In selecting the adjusted price, actual landed prices of wheat from various non-EEC supplying countries are put on an equal-quality basis by subtracting quality differentials. The lowest of these becomes the "adjusted c.i.f." price. The levy for a given day is simply the difference between the threshold and adjusted c.i.f. price. A typical adjusted c.i.f. price in October was $1.65 a bushel. Assuming a threshold price of $3.35, the variable import levy was $1.70. That levy applied equally to all imports of wheat from countries outside the Common Market, not just to U. S. grain.

The market price of $3.10 assumed for October for West German wheat of normal quality, compared with $3.62 for imported U. S. No. 2 Hard Red Winter wheat. The price of the U. S. grain was made up of two elements--the $1.70 variable import levy and the actual c.i.f. landed price of $1.92. The German importer paid the levy to the West German Government, but paid the c.i.f. price to the American exporter.

The variable import levy of $1.70 a bushel compares with a levy of $1.20 in 1961. However, the old levy incorporated a mixing regulation making it mandatory that West German millers use 75 parts of domestic wheat for each 25 parts of foreign wheat included in their grist. That requirement, to insure marketing of the domestic crop, has now been abolished.

Separate regulations cover movement of wheat among Common Market member countries. Briefly, during a 7-year transition period, each member country will apply a separate levy on imports from each fellow member. As prices in the member countries move toward a common level, the levies on intra-EEC trade will diminish. By 1970 there will be a single levy on third-country imports and no levies on intra-EEC trade.

Let us hope--again--that when the common agricultural policy finally crystallizes, that our producers will have been granted reasonable access to the Common Market. Our wheat trade with the Community is important to us, make no mistake about that. In 1961-62 exports amounted to 69 million bushels, which was about equal to the average of the past 6 years. And if the present members, plus all the applicants for full or associate members had been in an "enlarged" Common Market in 1961-62, our wheat exports would have amounted to 180 million bushels.

The same variable import levy system I have just described for wheat is in operation for feed grains. Here, again, our American farmers have a big stake in the decisions that ultimately are made. In the past 6 years U. S. feed grain shipments to the Common Market have almost tripled--from 2.4 million short tons in 1956-57 to 6.1 million tons in 1961-62. This has been a solid development. Prosperity in Western Europe has brought increased demand for meat, poultry, milk, and eggs--a demand that has meant expanded livestock and poultry numbers. U. S. grain has been imported to help supply the additional feed required.

The increase in poultry meat exports to Europe has been one of the notable U. S. agricultural export developments of recent years. From almost nothing in 1955, our shipments of poultry, mainly to Western Germany and the Netherlands, rose to 157 million pounds in 1961.

Part of the uptrend is explained by the increased demand for protein foods I mentioned a moment ago. But market development activity by the Foreign Agricultural Service and the poultry industry have done much to "push" U. S. poultry consumption in Europe. This market development effort has helped to give direction to a potential demand for reasonably priced, high-quality poultry meat.

However, Common Market pricing policies and levies increase the price of imported U. S. poultry--an advantage to Common Market farmers. There is a "gate" or minimum import price of 33.3 cents per pound. Any time imported poultry is offered at a lower price, the difference is offset by a levy. On top of that, there are two ad valorem duties, currently based on the gate price plus a fee to equalize the internal German price of feed grain with world grain prices. The total levy figures out at 9.7 cents a pound. This levy, plus the gate price,

(more)

has raised the price of poultry at the West German border. At the retail store, where the housewife buys, it follows that prices also will be higher.

It is hard to tell, this early, just what effect the increased price will have on consumer buying. It will have some, of course. Furthermore, high internal prices for Common Market producers could well speed up poultry production within the area.

Not all of our problems trace to variable import levies. On tobacco, for example, the Common Market has established a duty structure that is not advantageous to our higher-priced, higher-quality leaf. We had, up to recently, a specific duty of 12.8 cents a pound in the Common Market--on the basis of average incidence. Now we have an ad valorem duty of 28 percent, with a maximum of 17.2 cents a pound and a minimum of 13.2 cents. Most U. S. tobacco will pay the maximum duty rate, whereas the lower-quality, lower-priced tobacco produced elsewhere will be admitted at the minimum rate. Our tobacco exports to the Common Market countries have been relatively stable in recent years, ranging rather narrowly between 124 million pounds and 144 million pounds annually. We want to hold what we have; and we would like to expand our sales to the Common Market to the maximum extent possible.

What are the chances of obtaining more liberal treatment for our "problem commodities?"

I'll tell you one thing: All of us concerned with the problem of trade access have been working hard to improve the American position. We know that we will have to redouble our efforts in the months ahead and this will be done. We have already made headway. Here are some of the accomplishments:

Quality wheat: The Common Market has agreed that if the common agricultural policy results in reductions in our historical trade, corrective action will be taken.

Flour: Because we have a small but steady market for flour in the Netherlands, we have urged that the over-protection given flour through a variable import levy system be moderated. We have not gained our point thus far but we are continuing to press the Common Market for remedial action.

All wheat, corn, grain sorghum, and poultry: The Common Market recognizes that the common agricultural policy for these products and particularly the variable levy system may make trading prospects cloudy for third countries. The Common Market has agreed that further negotiations on trade access are needed at an early date. Strong representations have been made by President Kennedy to Chancellor Adenauer regarding the potential harmful effects of the rise of protection given to poultry in Western Germany. This has led to action by the German Government which we hope will eventually result in some reduction in the levy.

Rice: The United States has stressed the trade-damaging effects that a proposed variable levy program could have. There has been considerable support for the U. S. position and thus far the variable levy system has not been put into effect.

<u>Tobacco and vegetable oils</u>: Common Market officials are well aware of U. S. dissatisfaction with the tariff levels negotiated for these products at the 1961 conference under the General Agreement on Tariffs and Trade. They have assured us that they are prepared to consider reductions in these duties during the next general round of tariff negotiations.

<u>Quantitative restrictions</u>: The strongest possible action has been taken to encourage the removal of remaining quantitative restrictions imposed by some of the Common Market countries on items where we have obtained reciprocal tariff reductions. In the recently concluded GATT negotiation, formal proceedings have been instituted under the GATT which will result in our withdrawing tariff concessions from two of these countries unless they make satisfactory progress in eliminating restrictions. This action will be especially helpful to the U. S. fruit industry.

We would certainly acknowledge that this is a fluid situation where negotiations and representation and just plain day-to-day haggling will take place in the years ahead. Remember that we are dealing in a situation which is extremely fluid. Regulations are improperly written, or if properly written, sometimes improperly interpreted. It will take time to obtain adjustments, and we do not argue that in certain cases we will bump up against cold, hard protectionism. We are already doing so. We must meet it when it occurs. We must meet it head-on.

One thing in our favor is the new Trade Expansion Act of 1962, which became law only this fall. The Trade Expansion Act gives us new authority to take to the bargaining table. It will, for one thing, enable us to offer the Common Market and other trading partners deep and broad tariff cuts on their goods in exchange for concessions on U. S. farm products.

In this area there are many opportunities for trade "swaps." The Common Market has been selling us only a small volume of farm products, because the area is not primarily agricultural, but has been shipping us a big volume of industrial goods. It would like to ship us more. We can use many of the industrial goods the Common Market produces; and the Common Market, we are convinced, can profitably use more of our farm products.

But market access is not the entire story. Access must be accompanied with intelligent, persistent market development work. Now, certainly, is no time to let down in our efforts to push sales of U. S. farm products. Nor are we letting down.

As I mentioned earlier, market promotion has helped us increase sales of poultry in Germany. It has helped us expand soybean oil exports to Spain. It has helped to expand tobacco sales to Japan. Exports definitely can be expanded if we provide foreign customers a high-quality product, pricing it competitively, and making a determined effort to sell it. Today we are giving foreign customers a "hard sell."

The United States is sponsoring agricultural market promotion, not only in the Common Market, but also in over 50 other countries. These are cooperative programs, carried on by the Foreign Agricultural Service with the assistance of over 40 trade and agricultural groups. Since 1954 the Federal Government has put in for market development work about $55 million, and cooperators--U. S. and foreign--over $23 million, for a total of $78 million. It has been money well spent.

Promotion work has included advertising, distribution of samples, sponsored visits of buyers to the United States, seminars, motion pictures, brochures, and many other tested merchandising techniques.

Trade fairs have been a very effective means of calling to the attention of the foreign trade and public the high quality and wide variety of U. S. farm products. The United States participated in 24 exhibits overseas in 1962. Four of these--at Manchester and London, England; Munich, Germany; and Brussels, Belgium--were "test sales" exhibits; that is, shows at which U. S. processed foods were sold at retail to the public. In addition to processed foods, commodities promoted were feed grains, poultry, soybean oil and meal, rice, fruits and juices, dry milk, and honey. Since 1955, the Department of Agriculture has taken part in 122 overseas exhibits in 30 countries, with a total estimated attendance of 47 million.

Which should come first--market access or trade promotion? Market access, obviously. However, it sometimes is possible through trade promotion to encourage dismantling of trade barriers. Nothing is to be gained, certainly, by assuming that a trade barrier, no matter how formidable it looks, needs to stand forever.

It is easy to put more emphasis on problems than on opportunities. There may be a tendency, in the case of the Common Market, to look too closely at the dark side. I sometimes catch myself doing that.

In more contemplative moments, however, I feel that events will turn out somewhat better than many folks now believe is possible. I can't believe that the highly developed economies of the world will permanently live behind screens that protect their agriculture.

Agricultural protectionism does not meet the needs of consumers at home--nor is it conducive to expanding trade between nations that must live together. Agricultural protectionism is an anachronism in a period when economic development is taking place almost everywhere in the world.

Problems we have--and in abundance. But if we continue to work hard we will come out ahead. Total trade in the decade that lies ahead can handly go any way but up. That's the way I see the longer range outlook for commercial agricultural exports.