

FINAL REPORT

EUROPEAN TRADE TASK FORCE

**Presented to the Legislative Council
and the Iowa General Assembly
January 1991**

Prepared by the Legislative Service Bureau

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AUTHORIZATION AND MEMBERSHIP

The European Trade Task Force was established by the Legislative Council in 1989 to consider issues related to emergence of the European Community. The Task Force met for the first time in 1990 after being reestablished by the Legislative Council to consider issues related to European trade generally.

Members of the European Trade Task Force appointed by the Legislative Council included legislators and persons having special expertise in areas of international trade. Members of the European Trade Task Force included the following:

Senator Berl E. Priebe, Co-chairperson
Representative Minnette Doderer, Co-chairperson
Senator Leonard L. Boswell
Senator C. Joseph Coleman
Senator H. Kay Hedge
Senator William D. Palmer
Senator Jack Rife
Senator Kenneth D. Scott
Senator John E. Soorholtz
Senator Richard Vande Hoef
Senator Joe J. Welsh
Representative Dennis H. Black
Representative Tony Bisignano
Representative Clifford O. Branstad
Representative Russell J. Eddie
Representative Johnie Hammond
Representative Steven D. Hansen
Representative Deo A. Koenigs

Representative Tom H. Miller
Representative Phil Tyrrell
Mr. John Brewer
Ms. Eleanor Birch
Ms. Ann Jorgensen
Mr. John Kish (resigned)
Ms. Gretchen Sealls
Dr. John Wong

MEETINGS

The Task Force was authorized to meet on four days. The Task Force completed its work after three meetings which were held on the following days and locations:

July 7, 1990, in Room 22 of the State Capitol, Des Moines
September 9, 1990, in Room 22 of the State Capitol, Des Moines
November 12, 1990, in Room 116 of the State Capitol, Des Moines

CHARGE

The charge of the Task Force reads as follows:

Review the existing state of agricultural and other commercial trade with the European Economic Community countries and Eastern European countries and develop a strategy for the identification of value-added products, and manufactured goods.

TESTIMONY AND MATERIALS

A list of persons providing testimony and materials presented to the Task Force for consideration is attached as Appendix A.

CONSIDERATION OF ISSUES AND PERSPECTIVES

Expanding International Trade Opportunities

The Task Force considered government's role in creating opportunities for businesses to develop trade. The Task Force heard from persons both supportive and critical of efforts by the Department of Economic Development. Attention was focused upon administration of foreign trade offices and promotion of trade shows.

The Task Force considered the merits of employing foreign agents to assist Iowa firms. It was emphasized that coordination of programs is essential to increasing international trade.

The Task Force heard testimony that Iowa firms are typically limited in their ability to reach markets since the state is not located in an advantageous geographic position to develop trade relationships with foreign nations. It was also noted that the risks of doing business in developing nations are often enormous. The Task Force was informed by several speakers about the complexities and frustrations involved in developing overseas markets. The importance of developing long-term relationships with business and governmental contacts was repeated in testimony and written materials. Speakers also emphasized the importance of the state employing qualified persons to assist businesses entering into international markets.

The Task Force considered testimony regarding the Iowa International Development Foundation. According to testimony, the Iowa International Development Foundation was formed from a special task force sponsored by Governor Branstad, which was charged with studying Central and Eastern European trade opportunities. According to testimony, the Foundation represents a public-private sector initiative which serves to create political, educational, and economic ties between Iowans and citizens of Central and Eastern Europe. The Task Force understands that the focus of the Foundation is to pool public and private resources in order to create substantial relationships necessary to conduct business in Eastern Europe.

Western Europe

The Task Force considered the development and structure of the European Community as Western Europe approaches integration of its political and economic institutions in 1992. A summary of the developing European Community is attached as Appendix B.

Several persons expressed confidence that European markets would offer significant opportunities for Iowa firms. Other persons stated that an integrated Western Europe would consolidate markets to the exclusion of United States enterprises. There was discussion of the concept referred to as "Fortress Europe," which proposes that the European Community will turn protectionist. Many speakers agreed that agricultural trade would remain limited in Western Europe due to its strong production and export subsidies. There were differing predictions regarding the General Agreement on Tariffs and Trade (GATT) negotiations. Persons expressed fears that world protectionist policies may result from negotiations failing.

Eastern Europe and the Soviet Union

The Task Force learned how recent political developments have relaxed or removed control of many Eastern European nations from communist rule. Speakers related how Eastern European nations, like Poland and Hungary, are restructuring political, business, and social structures to conform with Western style models. It was noted that the Soviet Union is in an economic crisis which is almost beyond description.

Generally, the Soviet economy and Eastern European economies suffer from low productivity and inefficient processes and methods, according to testimony. Several persons stated that a large barrier to trade remains the lack of hard currency. It was noted that technology and skills are also demanded. Persons commented that managerial expertise and infrastructure investment are desperately required. Several persons commented that there is an acute shortage of storage and processing facilities required to maintain and transport agricultural products.

Several persons expressed a strong belief that the state must become involved in encouraging development of Soviet and Eastern European markets. Several persons discussed a strong entrepreneurial spirit and innovative approaches witnessed in these nations. Several persons predicted that Eastern Europe and the Soviet Union will eventually become integrated within the European Community structure. Other persons stated that Japanese companies are expanding into the Eastern European market. There appeared to be a consensus that overcoming trade barriers would be a time-consuming process.

Asia

Several persons noted that Asia remains a region experiencing rapid economic growth. The Task Force was informed about a range of activities underway to penetrate those markets. The Task Force studied initiatives underway including programs established by the Iowa Cattlemen's Association and the Midwest Agribusiness Trade Research and Information Center (MATRIC) to expand meat exports to Japan.

Latin America

According to information received by the Task Force, Latin America's population is approaching half a billion people. Its economies are "intermediate" between Third World and developed nations. Testimony also indicated that the U.S. share of Latin American imports has gradually declined over the past decade. This, according to testimony, is partly the result of a new and strong interest in Pacific Rim markets. It was noted that European and Asian countries have been displacing the United States in Latin American countries where U.S. firms have

softened their efforts. It was suggested that once markets are lost it is increasingly difficult for U.S. producers to regain product loyalties, business contacts, and financing.

DELIBERATION

The Task Force considered testimony and written materials proposing various initiatives, including developing several foreign exchange programs, developing a commercial bartering system, establishing an export enhancement program, supporting existing state initiatives, expanding financial assistance programs, coordinating international trade programs under one authority, dismissing certain agency employees, restructuring foreign trade offices, creating foreign trade offices in conjunction with other midwestern states, supporting joint ventures with foreign firms, creating an Iowa export dollar, restricting the use of trade shows, and establishing a lobbying presence in Washington, D.C. to support free trade efforts.

Members of the Task Force emphasized the importance of international trade to the state, and expressed a reluctance to prematurely establish or modify initiatives without adopting a comprehensive policy based on a thorough analysis of foreign trade barriers, existing state initiatives, opportunities in specific markets for Iowa products, and approaches to establish a long-term presence in promising markets. Members also emphasized that the analysis must include trade within the entire international community, including Latin America. Members agreed that the analysis must be performed in conjunction with the Iowa International Development Foundation.

RECOMMENDATION

The Task Force recommends the establishment of a new committee to be composed of members of the Iowa International Development Foundation and the European Trade Task Force which will study state policy related to international trade, including trade with Mexico and Latin America; reorganizing agency initiatives; and the location of foreign offices. The Task Force also recommends that the committee report to the General Assembly no later than February 15, 1991.

APPENDIX A

TESTIMONY AND MATERIALS RECEIVED BY THE TASK FORCE

Testimony

Mr. Donald Gingerich, National Pork Producers Association
Mr. Bruce Gerleman, International Trade Centers
Dr. Earl Hammond, Iowa State University
Mr. Jim Hill, Iowa Cattlemen's Association
Mr. Tom Parks, INTERNET
Professor John Carlson, University of Iowa College of Law
Ms. Ann Jorgenson, Task Force Member
Dr. Dermot Hayes, Iowa State University
Mr. Gary Lutz, Global Swine Exchange LTD, and Global Livestock LTD
Mr. Bill Aosse, Midamar, Inc.
Mr. John Chrystal, International Affairs Expert
Mr. Gregory J. Wilson, Attorney
Mr. Verdell Johnson, Lamb and Wool Producer
Mr. Don Latham, Iowa Soybean Promotion Board
Mr. Larry Grubisich, Economic Development Center
Mr. James Wanberg, Economic Development Center
Mr. Bogdam Szewczyk, European Marketing Service
Mr. Paul Daemen, International Trade Consultant
Mr. George Caudill Jr., Iowa International Development Foundation
Dr. Steffen Schmidt, Iowa State University
Mr. Mike Doyle, Department of Economic Development
Mr. Donald Hattery, Cedar Rapids Chamber of Commerce
Ms. Monica Magee, Cedar Rapids Chamber of Commerce

Materials

Europe magazine, April 1989
Europe magazine, June 1990
The European Community, E.C. promotional publication
Uruguay Round Update, U.S. Department of Commerce
State Legislatures, "EC'92---Opportunity Knocks", May/June 1990 issue
Newsweek magazine, "Why Russia Cannot Feed Itself", October 15, 1990
Overseas Business, "Europe in the Global Nineties", premiere 1990
Overseas Business, "Ira Magaziner on America's Economic Future", Nov. 1990
Success, "Guerrilla Entrepreneurs", September 1990
OECD in Figures, June/July 1990
European Business Support Systems and Europe 1992, Dr. Steffen Schmidt
Focus on Iowa--Latin America, Dr. Steffen Schmidt
Meat Marketing in Japan, MATRIC



APPENDIX B

SUMMARY OF DEVELOPMENT AND STRUCTURE OF THE EUROPEAN COMMUNITY

The European Community was formed by the Rome Treaties in 1957 to eliminate obstacles to trade and movement between its member nations. In 1985 the E.C.'s governing authority proposed that Community members adopt approximately 300 proposals to eliminate remaining "non-tariff" barriers. The result of this proposal was the adoption of the Single Europe Act of 1986. The Act calls for the adoption of 279 barrier reductions. A milestone in the consolidation of the European Community will be marked on December 31, 1992. By that time the European Community is scheduled to become a true "common market." The main objective of the consolidation is to promote the development of the Community rather than one nation or region.

The Task Force received information detailing the structure of the European Community. The European Community contains twelve Western European nations, including France, the Federal Republic of Germany, Italy, Belgium, the Netherlands, Luxembourg, the United Kingdom, the Republic of Ireland, Denmark, Greece, Spain, and Portugal. In addition, six other Western European nations are affiliated with the Community through the European Free Trade Association (EFTA).

The Task Force also considered geopolitical dimensions of the Community. The European Community is smaller than the United States, but contains a larger population base. The E.C. covers 870,000 square miles and has a total population of 324.7 million people. In comparison, the United States contains 3,618,800 square miles and has a population of 245,000,000 people. The total Community civilian labor force in 1987 amounted to 139.6 million people. The labor force for the United States equaled 119.8 million people. In 1988 the gross national product of the United States amounted to 4.8 trillion dollars. The gross national product of Japan equaled 2.8 trillion dollars. And the gross national product of E.C. nations equaled 4.7 trillion dollars. The United States and nations within the E.C. are economically interdependent. Nations of the E.C. combined represent the United States' largest trading partner.