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GATT Agricultural Negotiations and EC Agriculture

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It is an important challenge to come and talk to you about the European Community and its development. It is a relatively new community. Its constitution was signed in 1957, a little bit more than 30 years, so it is an infant compared to your vast republic's 200 year existence.

We were six at the origin, since 1986 we are 12 and now others are knocking at the door. We are aiming for a complete economic integration of our 12 national markets in one single European market within five years. Something similar to your Federation in regard to economic structure. Twelve member states with a total population of just over 320 million, or 35% to 40% larger than the population of the United States, but occupying an area which is only a quarter of this vast country. Of that 320 million, 11 million are farmers -- or 4 to 5 times the number of U.S. farmers.

You might think that with 11 million farmers, we would spend much of our time inventing ways of keeping farm imports out of Europe -- and particularly those from the U.S. But, quite the opposite is true. We remain not only the world's biggest importer of agricultural products, but also the best customer of the U.S. farmer, taking a quarter of all American exports, valued last year at $6.8 billion. This resulted in a healthy and growing U.S. farm trade surplus with the Community, currently running at $2.6 billion per year.

Our unique position as the world's biggest importer and the second biggest exporter of farm products helps explain our attitude towards the GATT negotiations on agriculture. The European Community has been a keen supporter of the GATT for a long time and wants the new round--the Uruguay Round--to succeed. Why? Very simple: self interest. In terms of overall trade, the EC is the world's biggest trader with a 20% share of the total (compared with 14% for the U.S. and 10% for Japan)--I speak of total trade, not just agriculture. Consequently, our livelihood and prosperity depend very heavily on a well ordered and open trading system. And, the system provided by the GATT over the past 40 years can only be kept going by periodic negotiations to bring it up-to-date.

As a result, we want a successful negotiation because if it failed the EEC would suffer the most. And given the importance of agriculture in world trade today, there cannot be a successful negotiation without it. Agriculture is thus an essential part of an overall negotiation.

The EEC has, as the world's largest importer and second largest exporter of farm products, a major interest in restoring order and a better balance to world agricultural markets. Our proposal for the GATT negotiations on agriculture aims at this objective and is, we feel, realistic, practical and achievable. We propose a two-stage approach.

<u>In the first or short-term state</u>, major exporters would agree on coordinated, emergency measures aimed at introducing some much needed confidence and stability to the hardest hit world markets. Then, in parallel with these rescue operations, contracting parties would together take steps to reduce the support given to those products in world surplus. <u>In the second or longer-term stage</u>, we propose that the Contracting Parties would carry out further, coordinated, but more substantial, reductions in support.

Let me describe in a little more detail what we have in mind. We have proposed <u>short-term</u> emergency action for the grain, sugar and dairy markets. We appreciate the attraction of having an inspired vision as to what the world will look like in ten or twelve years. However, we have got to get through the "inconvenient"

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present. We are in, no doubt, a situation that calls for emergency action, especially in these three markets.

For grain, we have proposed that the major exporters coordinate some discipline with regard to prices and quantities, that they should agree to halt the subsidy war and that, coupled with action on grain, some discipline should also be introduced for grain substitutes.

As to sugar, the main exporters would agree to reduce the quantities put onto the world market. At the same time, the main importers would guarantee to maintain their sugar imports at existing levels. We would hope they might even increase imports. This is essential for developing country sugar exporters whose outlets in North America and Japan have been devastated in recent years. This is particularly true in the United States where sugar imports have declined by over 80% over the last 6 years.

And, lastly, on the world dairy market, all major exporters, whether or not they are members of the International Dairy Agreement, should comply with the guidelines of that arrangement.

The situation on some of these markets might appear, for the moment, to have improved slightly. Improvement on the world dairy market incidentally is largely due to the production cutbacks imposed on our dairy farmers in Europe.

In the second, or longer-term, phase, we have proposed that Contracting Parties should agree to gradually carry out further, more substantial reductions in support and other programs which encourage over-production and lead to disruption in international trade. We have also proposed that another important cause of disturbance in world markets should be tackled--that of the present imbalance in the protection given to agriculture. This imbalance--strong protection for one group of products and little or none for others--exists in many countries. It is found in the U.S. and Japan, as well as in the EC and has helped create distortions not only in trade, but in production and consumption.

The Community also proposed that more effective GATT rules should be negotiated regarding market access and export competition, and that a framework of rules should be created for harmonality of animal and plant health regulations.

Finally, we have proposed that developing countries should receive special and differential treatment enabling them to benefit immediately for the long term improvement of world markets. The treasuries of industrialized countries have taken a beating, but it is developing countries that have suffered most.

This brief description of the European Community's GATT proposal demonstrates that while going in the same direction, it does not go as far as the United States' proposal. We agree with the United States and our other trading partners that substantial reductions are essential and on this, as the world's largest importer and second largest exporter of farm products, we stand ready to negotiate. But complete abolition is simply not feasible and, furthermore, goes well beyond what we agreed at the opening of the Uruguay Round. Substantial reductions are difficult enough, but the European Community has already set an example by taking some radical steps in this direction without waiting for the outcome of the negotiations. These are not proposals or "pipsqueak", but tough actions aimed at reforming our farm policy.

For example, the E.E.C. dairy sector has been transformed through policy reform. Measures introduced over the last three years have caused milk production to be 25% lower than it would otherwise have been at a time when output of other dairy producers around the world has been increasing. Two major consequences of this substantial (and painful) cutback in milk production are perhaps worth noting. First, with the shrinking of surplus stocks of butter and milk powder, world market prices have improved. Second, our dairy herd has been reduced by 5 million cows. By comparison, 5 million is about half the total size of the U.S. dairy herd and represents an annual production capacity for about 500,000 tons of butter (or slightly more than half of total world trade). It also represents a decline in demand for soybeans.

In the beef sector, the support price was reduced by 13%. The slaughtering of 5 million cows (as a result of dairy quotas) will also have a considerable effect on beef production for the simple reason that there will be 5 million fewer cows producing calves. Consequently, in the medium term we expect our beef market to show a better balance with surplus production disappearing.

Measures in the grain sector taken over the last three years are less fundamental than those in the dairy sector. Nevertheless, these measures involved significant cuts in support which, together with the introduction of a 3% producer tax, have resulted in a 20% price decline over the last two years. Recently, additional tough decisions were taken at last February's European summit meeting in Brussels, particularly on grains and oilseeds. It was decided to immediately introduce a system of so-called "stabilizers" for grains and oilseeds. This system means that cumulative price cuts will automatically follow if production exceeds fixed quantities. Grain quantities were cut by up to 12% and much more for oilseeds.

Contrary to what is alleged by some individuals, these quantities have been fixed at levels which could well result in price cuts kicking in this year for every ton of grain--not just the excess. The trigger quantity for grain, for example, is 160 million tons compared with harvests of 175 to 155 million tons over the last four years. Note that production need only be one ton over the trigger for the cuts to take effect. A set-aside program, designed to complement the measures already described, and early retirement incentives for farmers have also been introduced.

We are confident that these actions, plus the summit's decision to impose an additional 3% producer tax on growers, will slow down, stop and reverse growth trends in grain production. These are only a few examples. Similar steps have been taken in all other sectors: sugar, wine, etc. In other words, despite difficult political and social problems, and a farm population of 11 million (compared to only 2 1/4 million in the U.S.), the European Community has demonstrated whether it be through physical control of production, as with milk, or through substantial price cuts, as with grains and oilseeds, it is firmly committed to restore market balance in agriculture--particularly in sectors where the community plays a decisive international role; to slow budgetary expenditures and on-farm production; and to ensure that market signals are heard. We have taken these steps primarily for our own internal Community reasons, but also in the hope that they will reduce tension with our trading partners.

One of the ways in which we would rather spend money is to increase the funds earmarked for reducing the gap between the more and less prosperous regions of the Community. This has been made possible not only by drastically reducing the growth in farm spending, but also because this policy has persuaded member governments to increase funding of our total budget. This agreement, also achieved at the Brussels Summit in February, has put an end to the long and paralyzing arguments over the Community's finances and each national's contribution. The way is now open for us to press ahead towards the completion of a truly European Common Market by 1992, which will be achieved by sweeping away such barriers as frontier formalities and different technical standards. Businessmen should be able to trade and invest in a single market of more than 320 million people just as easily as they can in the U.S. between the different states.

The result of the 40 years of GATT has been an eight-fold increase in world trade in real terms and a five-fold increase in American exports over the same period. This has not, of course, been entirely due to the GATT, but in the latter case in very large measure to the enterprise, skill and hard work of American farmers, manufacturers and businessmen. However, the GATT has provided the framework for the greatest increase in prosperity in the recorded history of the West. We would be taking a grave risk if we were to abandon multilateralism for that of bilateralism.

However, I think, we would all agree that the GATT rules on agriculture leave something to be desired. Improvement and clarification is something to work towards in the new round. This less than satisfactory state of affairs is due to a number of reasons. One of which has been positions taken by the U.S. First, in 1955 when it achieved a temporary waiver from certain GATT provisions to prevent interference with its domestic support program. And second, in 1958, when the U.S. opposed a prohibition on the use of agricultural export subsidizies.

Another reason is that governments worldwide consider that farming is "somehow different" and as a consequence they have intervened in domestic markets. They have done so for 2000 years or more. Since the days of the Pharaohs at least. They have done so for a number of solid, justifiable reasons. Many governments--and by no means not only in Europe--are firmly attached to the idea of food security. Others recognize the greater susceptibility of farming to production cycles and climatic variations than is the case with other industries. Whilst others wish to assist a sector that is less well organized and weaker than sectors both up and down stream of it. Finally, nearly all countries are concerned with the preservation of rural society.

We, in the European Community, will not see the day when agriculture, either here in the United States or around the globe, will wake up and find itself completely free of government intervention. Total abolition goes beyond what we consider realistic or desirable. Nevertheless, that is not to say that we can't work hard at getting ourselves closer to that situation. And we feel that our GATT agriculture proposal is aimed in this direction, and is realistic and achievable. Moreover, we have already taken some painful steps along this difficult road.

The lack of recognition for the steps the European Community has taken is perhaps our own fault. I said earlier that we had taken these steps primarily for our own internal reasons, but also in the hope that they will reduce tensions with our trading partners. However, I fear that these tensions will not be eased by the U.S.'s continuing insistence on its unrealistic long-term goal of zero subsidization, while in the short-term moving in precisely the opposite direction by abandoning all restraint and expanding its aggressive subsidization of farm exports.

While we would not claim that we in Europe have done all we need to do, it is regrettable that the United States is not prepared to recognize the considerable efforts made by its best customer to move in the direction agreed by all parties at the opening of the Uruguay Round in Punta del Este. More remains for us to do in Europe. It is no secret that it will be economically and politically inconceivable for us to pursue this liberalization policy in isolation. Our decisions and actions represent a test of the declared intentions of our trading partners to contribute towards an improvement in world markets. We urge our major trading partners not to delay making their contribution and to take comparable constructive action. We all have too much riding on the successful functioning of an open and ordered international financial and trading system.