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## **EC 1992 AND THE IMPLICATIONS FOR THE GLOBAL AGRICULTURAL POLICY PICTURE**

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It is a pleasure to be here to discuss with you the European Single Market, or what is mostly referred to as European Community 1992 (EC 1992). This issue has been and certainly will continue to be of great importance to the European Community as well as to the United States and other nations. In these remarks the EC 1992 program is being assessed with regard to farm policy and trade developments within the EC and to the effects the EC 1992 program will have on farm trade with nations outside of the EC and on global agricultural policy. The interrelation between the EC 1992 program and the Multilateral Trade Negotiations (MTN) of the current Uruguay Round of the General Agreement on Tariffs and Trade (GATT) will also be considered.

### **The Importance of EC 1992**

#### **The Meaning of EC 1992**

The European Community is in its fifth year of an ambitious legislative program to remove existing internal obstacles for the free movement of people, goods, services and capital by eliminating physical, technical and tax barriers. The EC Commission — introducing legislation in the EC — has issued many directives and more than 40 percent of them have been accepted by now. There are about one hundred EC directives that are aimed at agriculture, mostly concerning plant and animal health regulations and food safety. The EC 1992 program has generated considerable debate and caused concern that liberalization between EC countries might be accompanied by restricted market access in some areas for countries outside the EC. Another concern is that, as a European trade block emerges, competing blocks of trading nations will emerge, undermining the GATT efforts to maintain and improve the global trading system. Thus, earlier the question was raised, does EC 1992 mean internal harmony versus external conflict? And the label "Fortress Europe" has been used to describe the potential market and investment environment that could emerge from EC 1992 if other countries are not vigilant in monitoring the progress of all directives comprising the EC 1992 program.

There are three major points at hand to meet these concerns:

1. Economic history of the last thirty years shows that economic prosperity is contagious due to globalized markets. Having integrated its economies, the EC will be stronger and a better customer on world markets. On the other hand, a more prosperous community will also be a more efficient competitor. European leaders have reiterated their commitment to GATT, the Organization for Economic Cooperation and Development (OECD) and international regulatory bodies, underlining that EC 1992 will benefit Community and Noncommunity countries as well and will improve the global trading system.

2. Some economic facts have to be considered, specifically the economic U.S.-EC relationships: The United States and the EC account for almost 40 percent of global GNP and 35 percent of world trade; both-way-trade adds up to nearly \$180 billion per year; the EC purchases 24 percent of U.S. exports and imports 18 percent from the EC; 10 percent of EC's GNP depends on foreign trade compared to 5 percent in the United States; each year \$200 billion of capital passes through the transatlantic network and the EC has an estimated \$400 billion invested in the United States. These U.S.-EC economic relationships are too valuable to be allowed to deteriorate.

3. Actually there are specific trade issues between the United States and the EC, i.e., EC automobile imports, Common Agricultural Policy (CAP), U.S. steel quotas, the U.S. textile bill and others that deserve special attention. However, with the responsibilities of the United States and the EC for world trade, the forum for settling such concerns is the GATT, and the EC 1992 preparations coincide with the Uruguay Round of the GATT. The two sets of trade changes are complimentary

Thus, the question — EC 1992, internal harmony versus external conflict? — presumes a wrong approach. Apparently the U.S. perception is no longer fluid as earlier. It has become more rational and is turning positive. The U.S. business community and government officials are discussing more specifically EC 1992 issues, such as company law, merger and acquirement regimes, standards, environment, public procurement, etc. that indeed provide opportunities and challenges for the United States. This has been largely supported by the International Trade Commission, by the U.S. Chamber of Commerce and by the U.S. business community itself. Both the United States and the EC have yet to be cautious not to give way to domestic protectionist pressures on specific trade issues.

## **EC 1992 and Agriculture**

### **Obstacles for Intra-EC Trade**

The idea of achieving a "common market" in intra-community trade is not new to those involved in EC agricultural affairs. In many respects, the Common Agricultural Policy (CAP) was the original internal market experiment and, even today, is the only regime which most closely represents "common policy" within the community.

Like the current internal market exercise, the CAP was hailed at the time as an important experiment to bind the agricultural economies of diverse countries. In fact, the CAP played an important role in enhancing the unity of the original community of six. Consistent with the U.S. efforts to strengthen European economies after the war, the United States encouraged Europe's steps toward economic integration. Despite some U.S. concerns about protectionist measures, the United States noticed that the elimination of import tariffs and direct trade barriers among member states would mean a stronger Europe and, thus, a stronger ally.

Despite the CAP's role in European integration, agriculture has a great number of restrictions regarding the movement of goods between member states. Obstacles currently impeding competition in the farm and agribusiness sector of the EC include:

- different value added taxes
- the EC's agrimonetary system which includes special exchange rates for agriculture ("green rates") for converting EC-support prices into national currencies and a system of order taxes (MCA's) to prevent trade distortions caused by the green rates mechanism
- national quotas related to production and trade of certain commodities (dairy, sugar)
- a wide range of technical, health and sanitary regulations including food labeling and ingredients.

These obstacles have to be eliminated if the EC is to create a Europe without internal barriers.

### **Removal of Internal Barriers**

What would be the internal and external impact on agriculture and farm trade of the removal of internal barriers?

The effect on internal trade should greatly facilitate intra-EC commerce. Virtually there should be no custom posts and no physical checks for the movement of people or goods. Consequently, physical movement throughout the community should be simpler and faster. This development should also lead to financial savings for companies trading between member states, as well as for governments.

Although benefits to internal trade appear clear enough, the possible effects for external trade sometimes seem less clear.

The likely impact shall be demonstrated for two of the mentioned barriers.

**Border Taxes.** The elimination of farm-border taxes and subsidies will certainly present the EC with the need to resolve difficult pricing systems, the setting of common prices in a monetary system that does not actually have a common currency. The common EC farm prices are actually expressed in a basket of currencies called ECU. In order to offset price differences — due to exchange rate fluctuations — the complex system of MCA's and the artificial green rates were created. With the elimination of border controls, this system will have to be removed.

However, some mechanism will be needed if differences in the common prices are not to cause a flow of commodities into high price countries from low price countries.

It is yet unclear how the EC will assure a common price system without either a common currency or the use of MCA's. The MCA-system has increased the costs of CAP and subverts the intention of a real common EC farm market. It has been responsible for an upward bias in farm pricing, when CAP-common prices, denominated in MCA's, were converted into national prices. Reform-minded EC officials have been concerned about the upward bias. Eliminating MCA's provides an opportunity to propose changes that would reduce EC prices. Additionally, important steps have been taken recently in terms of subsidy cuts by the EC.

*Health Regulations and Food Standards.* The EC Commission estimates that nontariff barriers cost the EC food industry from \$600 million to \$1.2 billion annually. Most of the costs result from national labeling, packaging and ingredient requirements that prevent internal EC trade.

To dissolve these kinds of barriers, there must be Community-wide agreement on at least minimum standards and regulations.

The EC is setting such standards and has agreed on the principle of mutual recognition of each member's regulation. In general, the extension of common minimum standards to twelve markets will help farm trade and make it easier to import from outside. Once an imported commodity meets minimum EC standards, it would have access to all member states without having to adhere to different rules across internal EC borders. However, while there is agreement on mutual recognition, the question remains, how restrictive will the minimum standards be and will foreign standards be accepted on an equivalent base. Certainly, the EC's 1985 ban on hormones has left room for some doubt on the equivalency issue. However, all GATT members have agreed to move forward to use international standards for food safety and plant and animal health regulations. A GATT agreement would go a long way toward ensuring that the EC 1992 program's progress keeps on track with international concerns — accepting international scientific bodies settling disputes, accepting international organization standards of identity for food product content, etc.

### **Short- and Mid-Term Implications**

Short-term impacts on agriculture should be more indirect, benefiting food industries. Mergers and acquisitions to prepare for a large EC market of 325 million people are predominant: EC and internationally operating food companies need to become EC companies increasing their size of operations and locating in the most profitable regions of the Community. There will be increased opportunities for those able to compete in a deregulated EC economy, especially for companies doing business in the EC and making changes necessary to respond to a Pan-European market. Basically short-term effects to a more com-

petitive environment in the agribusiness sector could result in lower farm costs.

In the mid-term the impacts on agriculture should be more prominent.

The abolition of national border taxes and subsidies within the EC will lead to a concentration of farming in areas with lower production costs. Elimination of MCA's particularly means common prices in the EC that favor more efficient uses. Consequences on world farm trade should be positive: lower intervention prices and reduced EC surpluses because of fewer EC farms, particularly those needing high prices to survive. A fully integrated EC would reduce the power of farm lobbies towards maintaining high protection levels and cause tougher competition for EC budget outlays by different sectors. Finally, the CAP expenditures would certainly face more public scrutiny, since agriculture would no longer be "the only kid of Europe."

However, since complimentary GATT negotiations are underway addressing major reforms of farm policy and trade, the Uruguay Round will have more direct and immediate implication for the global agricultural and food policy.

### **The EC 1992 GATT Connection**

The Uruguay Round is certainly the most ambitious undertaking in GATT history, meaning comprehensive negotiations in fifteen different trade areas. The UR's outcome will significantly impact the global trading system, because GATT's credibility and efficiency are being increasingly challenged today. The fact that trade in farm products is largely conducted outside of GATT rules and disciplines makes agricultural reforms a particularly important part.

The agricultural negotiations turned out to be one of the most contentious sectors and, as the Uruguay Round moves toward the December date set for finalizing the agreement in Brussels, many officials express concern that there is yet no certainty for success. The perspective very much depends on what is going to be defined as success, and a lot of people just refer to maximalistic/minimalistic proposals so far tabled in Geneva.

What would a successful outcome mean?

At issue today is not a perfect solution, it is not, whether the UR reforms will completely liberalize world agriculture or force open markets totally on most competitive producers. Yet, the UR can produce policies that are much more responsive to world market fundamentals and that better use agricultural resources.

The basic questions today regarding the UR are:

- whether farm trade accounts for a larger share of increasing food consumption;
- whether agricultural resources would be used more efficiently; and
- whether agriculture will contribute to the positive growth of global GNP.

The recent Houston summit of the heads of governments (G7) put these ideas into a very cautious language, also reflecting opportunities for compromise, mainly between the United States and the EC. There is momentum for a positive outcome of the UR in a sense of a "balanced approach," as U.S. Secretary of Agriculture Clayton Yeutter recently put it.

Factors providing momentum are for instance: (1) Both the United States and the EC face tremendous pressure on government budgets due to the East European (German) developments and the current Gulf crisis; program outlays are publicly under much more scrutiny. (2) The shape of world markets again is going to deteriorate, providing additional pressure for trade disciplines. (3) Farm trade, accounting for less than 14 percent of global trade, though being a contentious sector, would not be allowed to make the entire UR fail. (4) The current Gulf crisis causes tremendous political and economic stress, in particular, for developing countries, and may force major players to take a more flexible and comprehensive approach for concessions. (5) Failure of the UR certainly would mean more and stronger preferential trade agreements with adverse effects of the global trading system. Almost all preferential trade arrangements encounter difficulties when incorporating farm products.

A positive outcome of the UR would have a permanent impact on the EC 1992 standardization program as mentioned earlier, but also on further CAP reforms in terms of more liberalization. It would undermine any imminent temptation of maintaining high levels of farm production and, ultimately, it would send a clear signal to East European countries for their progress towards market driven economies and farm sectors, in which the EC claims a leading role.

### **Recent Challenges for EC 1992**

Some final remarks with respect to recent challenges resulting from East European transition from plan to market and the current Gulf crisis.

Since East Europe's pace of reforms will be determined substantially by massive transfers of capital and know-how; the availability of hard currency; the utilization of the potential of the respective food and fiber sectors; and certainly rising domestic production and consumption patterns, the East European countries will claim more open EC markets for their commodities and ask for preferential trade agreements or an associated member status to the EC. The EC's deciding to take a leadership role in supporting the economic development of its East European neighbor states does not mean restructuring priorities in the EC 1992 process. However, completion of EC 1992 program could eventually slow down. On the other hand, keeping the EC 1992 program on track could mean even more pressure on CAP reforms, shifting substantial parts of the EC budget to other sectors within the EC or toward supporting East European developments.

The current Persian Gulf crisis raises even more questions for global economic perspectives and also perhaps for the EC 1992 program. The perspective for the EC is still positive. However, the EC must demonstrate more strength and potential under conditions of economic and political stress than before.