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EC AGRICULTURE AND GATT NEGOTIATIONS

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Delegation of the Commission of European Communities

The European Community (EC) has for a long time been a keen supporter of the General Agreement on Tariffs and Trade (GATT). And the EC wants the new Uruguay Round to succeed. Why? Very simply from motives of self interest.

In terms of overall world trade, the EC is the biggest player with a 20 percent share of the total compared to only 14 percent for the United States. Ten percent of our Gross National Product (GNP) depends on exports compared to 5 percent for the United States. Consequently, our prosperity depends very heavily on an open trading system. And the system provided by the GATT over the last forty years has to be kept going with periodic negotiations to bring it up to date. We want to see a successful negotiation, because we would suffer more than most countries if the new round were to fail. And, given the importance of agriculture in world trade today, you cannot have a successful negotiation without agriculture as an essential part of the overall negotiation.

In addition, we have a major interest in restoring order and a better balance to world agricultural markets because we are the world's first importer of food products and the second largest exporter of farm products.

Our proposal for the GATT negotiations on agriculture aims at this objective and is, we feel, realistic, practical and achievable. It calls for a two-stage approach.

In the first stage—or short-term phase—the major exporters would agree on coordinated, pragmatic emergency measures aimed at introducing some confidence and stability to the worst hit world markets. The instability of those markets weighs heavily, especially on developing countries. These emergency measures need only be temporary and they could be negotiated to run for a marketing year at a time. And, in parallel with these coordinated rescue operations, members of the GATT would, together, take steps to reduce the support given to those products in world surplus.

In the second stage—or long-term phase—contracting parties

would negotiate to carry out further, coordinated, but more substantial, reductions in support.

We have proposed short-term emergency action on grain, sugar and dairy markets. We can appreciate the attraction of an inspired vision of the world as it should look in twelve years time; however, we must get through the inconvenient present and we are sure that the situation—especially on these three markets—calls for emergency action.

For grain, we propose that major exporters 1) coordinate to introduce some discipline of prices and quantities; 2) agree to halt the subsidies war; and, coupled with this action, 3) introduce some guidelines for grain substitutes (e.g., corn gluten feed and related products).

As to sugar, the main exporters would agree to reduce the quantities put on the world market. At the same time, however, the main importers should guarantee to at least maintain their sugar imports at existing levels and we would hope they might do better. This is essential for those developing countries exporting sugar whose outlets, especially in North America, have been devastated. Imports here in this country have declined by more than 80 percent over the last six years and were in imminent danger of disappearing altogether until recent decisions by the U.S. Department of Agriculture.

Finally, on the world dairy market, all major exporters, whether or not they are members of the International Dairy Agreement, would agree to comply with the disciplines of that agreement.

One may argue that the situation in some of these markets might appear, for the moment, to have improved, but I think that a natural tendency for agricultural producers to increase output makes short-term measures even more essential.

In the second, longer-term phase, contracting parties of the GATT would agree to gradually carry out further, but more substantial, reductions in support that encourages over-production and leads to disruption in international trade. We have also proposed that another important cause of world market disturbance be tackled—that of the present imbalance in the protection given various commodities. Strong protection for one group of products and little or none for others exists in many countries including the United States and Japan as well as the EC. It has helped create distortions, not only in trade, but in production and consumption as well.

The European Community also proposes that more effective GATT rules should be negotiated regarding market access and export competition and that a framework of rules should be created for the harmonization of animal and plant health regulations.

Finally, we have proposed that there should be special and differential treatment for developing countries, giving them the possibility

of benefiting without waiting for the long-term improvement of world markets. If, for the time being, the treasuries of industrialized countries have paid their tribute, it is the developing countries that have suffered most.

This brief description of the EC proposal is long enough to demonstrate that, even if we go in the same direction, we do not go as far as the United States. We agree with the United States and other trading partners that substantial reductions are essential. But complete abolition is simply not feasible and, furthermore, it goes well beyond what we all agreed upon at the opening of the Uruguay Round.

Substantial reductions are difficult enough and the EC has already set an example by taking some radical steps in that direction without waiting for the outcome of the negotiations. These are neither proposals nor intellectual pipe dreams but tough reality aimed at farm policy reform.

For example, in the dairy sector, measures introduced over the last four years have brought milk production now 25 percent lower than it would have been otherwise—and this at a time when other dairy producers around the world have been increasing their output. The EC dairy will have been reduced by 5 million cows by 1989, i.e. half the U.S. dairy herd.

All the measures decided so far in the grain sector (price reductions, tightening of quality criteria) caused prices to drop by an estimated 25 percent in real terms the last three years. For comparison, over the same period the target price of American wheat, which plays more or less the same income-support role as the intervention price, was reduced by only 12 percent in real terms.

Last February, the European Council decided to adopt a new mechanism, the maximum guaranteed quantity. This was set at 160 million tons:

- 14 million tons below the best crop, 1984/85
- 25 million tons below the forecasted annual production for the next five years.

The introduction of this new mechanism could lead over the next four years to an automatic, cumulative reduction in the cereal price of 3 percent per year in the case of excess production.

To this must be added a 3 percent increase in the rate of co-responsibility levy paid by producers (3 percent already). A set-aside program, designed to complement the measures already described, has also been introduced.

These are only a few examples. Similar steps have been taken in all other major sectors such as sugar, oilseeds, beef and wine.

We are confident that these actions will slow down, stop and reverse growth trends in production. Despite difficult political and social problems and a farm population still at 11 million (of which more than 7 million have less than fifty acres, compared with a U.S. farm population of only 2¼ million) the EC has demonstrated its firm commitment to:

- restore market balance to agriculture, particularly in those sectors where we play a decisive international role; and
- put the brake on budgetary expenditure and farm production and insure that market signals are heard.

We have taken these steps primarily for our own internal Community reasons—we would, after all, rather spend the money on something else—but also hope that they will reduce tension with our trading partners.

In summary, I would like to stress three points.

First, we feel that our proposal is practical and realistic and aims in the same direction as that desired by the United States and other trading partners—the reduction of government support affecting international trade in agriculture.

Second, our proposal attempts to find a practical emergency solution to the immediate problems facing the worst hit markets.

Third, that without waiting for the outcome of the Uruguay Round before embarking on our own farm policy reforms, the European Community has actually got on with the action and has already reduced support in a large number of sectors. We have done this first for our own sound Community reasons and, second, because these measures should help reduce tensions with our trading partners.