EUROPEAN COMMUNITY PERSPECTIVE: SOUTHERN AGRICULTURE AND THE WORLD ECONOMY: THE MULTILATERAL TRADE NEGOTIATIONS

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Let me start out by thanking you for giving me this opportunity to share a few thoughts with you on the European Community's (EC) agricultural policy—and on some recent important developments affecting farm trade. I am especially grateful to you because the opportunity comes at a time when consideration of farm policy and farm trade is more than ever on people's minds.

We have the U.S. Congress setting the tone and getting down to drafting a final version of the Trade Bill—a piece of legislation which contains a large number of provisions affecting agriculture. We had six months ago the U.S. Administration's dramatic proposal in the General Agreement on Tariffs and Trade (GATT) to eliminate farm subsidies over the next ten years. And we had in the subsequent months the proposals made by the main trading partners in the world farm trade, that is to say the EC, Australia, and Canada.

Let me take some of these points one at a time, starting with the U.S.'s dramatic GATT proposal to eliminate over the next ten years all farm subsidies that impact on international trade. It is impossible in a few words for me to deal adequately with this courageous and far-reaching initiative. But, here are some very brief comments. These, I hope, will not be felt as negative. There is much we can agree with in the U.S. diagnosis, but the proposed treatment does raise some doubts.

First, it goes further than is possible or desirable for the European Community (and much further than the comprehensive negotiating mandate agreed upon by all trading partners at Punta del Este). I think that governments have intervened too much in agriculture and should withdraw to some extent and let the market do its job. In fact, we all did agree on this at the Organization for Economic Cooperation and Development (OECD) Ministerial Meeting in Paris last May. This is why we are now moving away from permanent intervention in Europe. In other words, we want stability of markets in Europe but at lower prices and with greater room for market forces. But we cannot accept excessive instability, either caused by dramatic fluctuations in production cycles or erratic variations on commodity or currency markets.

Second, the proposal seems to ignore the specific nature of the farm sector which has persuaded all governments to intervene in agriculture. The reasons for this are very straightforward:

1. the firm attachment of many governments, and not only in Europe, to the idea of food security;
2. the greater susceptibility of the farm sector to production cycles and climatic variations than is the case with other industries; and
3. the fact that in many countries the farm sector itself is less well organized and weaker than the sectors both up and down the stream.

Third, it seems to imply that all farm industries throughout the world operate in similar circumstances. Let me give you a simple statistic which, I think, illustrates the wide differences which exist. For every 1,000 hectares (roughly 2.5 thousand acres) of farm land, there are 70 farms in the European Community; 4 in the U.S.; 1 in Australia; and 440 in Japan.

Fourth, the proposal seems to contain no provisions for giving different treatment to developing countries—as is provided for in the GATT. We have to take account of their very special needs.

Fifth, as the old saying has it: "politics is the art of the possible," and I hope you will not be

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surprised if I say that I doubt whether the U.S. could actually deliver what it has proposed.

But, the proposal merits very serious consideration by trading partners, and as I said earlier, there is much we can agree with. We agree with the U.S. view on the costs of farm support policies which have escalated dramatically over recent years and on the urgent need to reduce these costs and to bring some sanity to the market. But, let me now pass on and say a few words about the proposal for agriculture which the European Community has presented in Geneva last fall and which is aimed in the same direction as that of the U.S.

Let me start with a comment regarding our general position as regards agriculture and the new round—the Uruguay Round. In terms of overall trade we are, as a Community, the biggest player on the world trading stage, and with 20 percent of total world trade, we are heavily dependent on an ordered and open system. We realize that the one world trading system agreed upon in the General Agreement on Tariffs and Trade cannot be kept going without successive major trade negotiations to bring it up to date. And given the importance of agriculture in world trade today, a successful negotiation cannot take place without it. We want to see a successful negotiation. Agriculture is thus part, and an essential part, of an overall negotiation. As well as attaching great importance to the successful overall outcome of a new round because of our position as the world's leading trader, we have, as the world's largest importer of farm and food products and as the second largest exporter, a major interest in restoring order and a better balance to world agriculture markets.

The very serious concern around the world about market imbalance in agriculture has recently been emphasized by world leaders. This is hardly surprising if one stops to reflect on the fact that, for example, world stocks of grain and sugar are twice the level of annual world trade. And there is general agreement that the main cause is excessive government support and that we must negotiate together to achieve a balanced and coordinated reduction.

The European Community has already taken some big steps in this direction. But the job is not finished. I come to our agriculture proposal which is for a two-stage approach.

In the first stage—or short-term phase—the major exporters should agree on coordinated, pragmatic emergency measures aimed at introducing some much needed stability into the worst hit world markets. Those are grains, sugar, and dairy. We can fully appreciate the attraction of having an inspired vision for the next ten to 12 years. However, we have, all of us, now got to 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 the major exporters should coordinate to introduce some discipline as regards quantities and prices, that they should agree to stop the subsidies war, and that because of the action on grain, some discipline should also be introduced on grain substitutes. As to sugar, the main exporters should agree to reduce the quantities put onto the world market. But at the same time the main importers should guarantee to at least maintain their sugar imports at existing levels. This is essential for developing countries which are sugar exporters. And, on the world dairy market, all major exporters, whether or not they are members of the International Dairy Arrangement, should agree to comply with the disciplines of the arrangement. These emergency measures should only be temporary and would be negotiated to run for a marketing year at a time.

In parallel with these rescue operations, all Contracting Parties would in concerted action take, or continue to take, equivalent steps to reduce the support given to those products in world surplus. Where the situation is very serious (i.e., grain, rice, sugar, oilseeds, dairy products, and beef/veal), these steps could take the form of reduction in the level of support or other measures such as production controls.

It is proposed that in assessing the equivalence of these steps to reduce support in every country, actions already taken along these lines since the 1984-85 marketing year will be accounted for. And here, as I mentioned earlier, the Community has already implemented—not just talked about—a wide range of tough measures. These include

- production quotas which, for example, as a result of the last two or three years, mean that our milk production is now 25 percent lower than it would otherwise have been;
- a substantial reduction in price support for grain, beef, and oilseeds; and
- a drastic cutback in the scope for farmers to sell at guaranteed prices to guaranteed outlets. The days are over

when the authorities in Europe would buy unlimited quantities from farmers. And our farmers know it.

In the second stage—or longer term phase—of our proposal, those Contracting Parties would agree to carry out further, concerted but more substantial reductions in support or equivalent measures. At the same time, another important cause of disruption should be tackled—that of the present imbalance in the protection given to agriculture around the world. This imbalance—that is to say strong protection for one group of products and little or none at all for others—exists in many countries, including the United States; the Community, where we have relatively high protection for grain and livestock and none for grain substitutes and oilseeds; European Free Trade Association (EFTA) countries; and Japan, for example.

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

To implement this proposal, trading partners would have to agree on how to measure the various forms of aid to agriculture. It seems to us that the measurement device created by OECD—the producer subsidy equivalent (PSE)—would provide a very suitable basis with one or two adjustments. These adjustments would need to:

- take account only of measures which have a significant effect on trade;
- include a way of measuring production restraints; and
- take account of fluctuations in world prices and, particularly important, in currency exchange rates.

And, lastly, we propose that there should be special and differential treatment for developing countries and that we should look for ways to enable these countries to benefit without waiting for the long-term improvement on world markets.

That very briefly is a sketch of European Community's proposal that has been tabled by the EC in Geneva. In conclusion, I feel I should stress three points. First, the Community's proposal aims in the same direction as that of the United States—to reduce government support affecting international trade in agriculture. Second, our proposal attempts to find a coordinated emergency solution to the immediate problems facing the worst hit markets. Third, without waiting for the outcome of the Uruguay Round before embarking on our own farm policy reforms, we have got on with the action and have already reduced support in a number of sectors. We have done this first for our own sound Community reasons and, second, because these measures will help reduce tensions with our trading partners who, we hope, will join us in making comparable efforts to restore health and sanity to world markets.