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# Proceedings



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# OUTLOOK '88

64th Agricultural Outlook Conference  
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# ANNUAL AGRICULTURAL OUTLOOK CONFERENCE

United States Department of Agriculture  
Washington, D.C.



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## TRADE CHALLENGES: THE INTERNATIONAL VIEW

Aart de Zeeuw  
Chairman of the Negotiating Group on Agriculture  
General Agreement on Tariffs and Trade

Unfair competition on international markets; import restrictions; subsidized exports. These are the results of the implementation of national agricultural policies in the many developed countries, which has stimulated production too much in relation to market possibilities. Budgetary problems in the developed world and too low incomes in the developing countries, which are highly dependent on export, are but two of the effects of the completely distorted international market. It is obvious that this situation may not continue; not only for the sake of agriculture itself, but also because of its negative effects on other sectors of the economy.

Mr. Chairman,

You have invited me to address the Outlook Conference. I consider that a great honour. I am addressing this conference as chairman of the GATT Negotiation Group on Agriculture, which has been entrusted with the task to liberalize agricultural trade in the Uruguay Round which has begun last year.

For this purpose rules will have to be drawn up to improve the access to markets, to reduce or eliminate subsidies which have a negative effect on trade and to harmonize veterinary and phytosanitary regulations.

Can it be done? GATT has been existing for forty years. During that period the trade in industrial products has been largely liberalized, but agricultural protectionism has greatly increased. You are all familiar with the causes.

From the beginning of GATT's existence agriculture has held an exceptional position. Article XVI allows agriculture to subsidize exports;

under article XI the quantitative restriction of imports is possible. Industry never had these options and still doesn't have them. Moreover, in the practice of trading other instruments have been developed, which have greatly restricted trade: such as "voluntary" export restraint agreements, minimum import regulations; variable levies and restitutions, incorrectly applied state trading, etcetera. And finally, some countries have been granted special rights, such as the United States Waiver. In retrospect it can be argued that despite the fact that we got off to a bad start, we did nothing to improve the situation. On the contrary, we aggravated it.

Again: do we in the Uruguay Round stand a real chance of realizing a breakthrough in the liberalization of agricultural trade? I am convinced that it is possible. Never before was the political will so clear. I will give you some examples of statements made at high political level.

At the Venice Summit the following was agreed by government leaders: "We underscore our commitment to work in concert to achieve the necessary adjustment of agricultural policies, both at home and through comprehensive negotiations in the Uruguay Round. In the meantime, in order to create a climate of greater confidence which would enhance the prospect for rapid progress in the Uruguay Round as a whole and as a step towards the long-term result to be expected from those negotiations, we have agreed, and call upon other countries to agree, to refrain from actions which, by further stimulating production of agricultural commodities in surplus, increasing protection of destabilizing world markets, would worsen the negotiation climate and more generally damage trade relations."

And at the OECD ministerial meeting in May of this year in Paris the following declaration was issued:

"All countries bear some responsibilities in the present situation. The deterioration must be halted and reversed. Some countries, or groups of countries, have begun to work in this direction. But, given the scope of the problems and their urgency a concerted reform of agricultural policies will be implemented in a balanced manner."

Not only the objective to which the Contracting Parties in Punta del Este have agreed, but the afore-mentioned statements made in Paris and Venice as well hold promise of success. In the long term we must seek to "...allow market signals to influence the orientation of agricultural production, by way of a progressive and concerted reduction of agricultural support, as well by all other appropriate means, giving consideration to several other concerns such as food security, environmental protection and overall employment."

The central themes are a more market-oriented policy, the reduction of support and the decoupling of income support from the market and price policy.

According to the Punta del Este Declaration a more market-oriented policy should be translated into:

- improved import access;
- reduction of trade-affecting subsidies;
- reduction of the adverse effects of phytosanitary and veterinary regulations.

It will have to be examined whether the proposals tabled in Geneva fulfil these criteria. With regard to the long-term solution it is clear that the American proposals are the most drastic ones: full market access, that is a complete recoupling of markets on the one hand, and income support decoupled from production and market incentives on the other. All other subsidies should be phased out over a period of 10 years.

The European Community proposal is less drastic. The EC wishes to maintain the two price system and can therefore not accept the complete recoupling of markets. Improved access to the EC-market, however, is offered. Furthermore, the Community negotiating plan includes the idea of decoupling income support from the market and price policy. Finally, the EC wishes to negotiate a considerable reduction of support levels.

The proposals by the Cairns Group and by Canada also seek recoupling of markets by eliminating import restrictions and subsidies which distort production and trade. As concerns a short-term solution, the EC and the Cairns Group are in favour of measures aimed at products for which

the world market situation has been distorted most. Up till now the United States has opposed such measures, as it is feared that this approach could jeopardize the more structural long-term solution.

Although the Nordic countries and Japan have not yet submitted their proposals, they are likely to advocate managed trade on the basis of supply management and production control. In this way these countries can continue to guarantee their producers a market price which is remarkably higher than the world market price. Import restrictions and production controls are appropriate policy instruments for this purpose. The Nordic countries and Japan refer to Article XI of the GATT, under which it is allowed to introduce quantitative import restrictions when domestic production is effectively restrained.

In summary, it can be said that exporting countries such as the United States and the countries of the Cairns Group propose to completely integrate agriculture into GATT, and thus to completely eliminate the exceptions, which under articles XI and XVI have been created for agriculture concerning quantitative import restrictions and export subsidies.

The EC proposals are less drastic in this respect and leave open to what extent the Community wishes to integrate agriculture into GATT. It shows the dilemma of the EC, being both an importer and an exporter. Finally, there are Japan and the Nordic countries whose export of agricultural products is negligible and which therefore do not object to more drastic disciplines in the field of export subsidies. As concerns import, however, these countries wish to fully control import. They are prepared to restrain domestic production in favour of a higher level of import.

From the afore-mentioned proposals two different approaches can be derived to restore agricultural world trade. The first one is the free market approach, which implies that the support of agricultural prices should be gradually reduced so that under this pressure supply will be brought down to the level of demand. The second approach is supply management. Supply management can also bring production down to demand level, but not by way of the price mechanism, but by way of production restraints.

The first approach is advocated by the exporting countries in particular. They interpret the objectives of Punta del Este as the recoupling of markets, to stabilize the movements on the world market. Demand and supply are balanced by the market price mechanism.

If decoupling is then introduced, as a result of which not only the support to farmers is reduced, but also made independent of the production volume, fair competition may improve the competitive environment. In that case surplus situations will develop not as easily anymore.

The second approach actually implies national production restraints as the basis of surplus control and as the basis of the import quotas allowed.

Countries which are net importers prefer this approach, as it will help them stabilize their domestic markets without having to follow price fluctuations on the international market. The system is indeed market-stabilizing, but it is not market-oriented. In fact it is based on Article XI of GATT, under which quantitative restrictions are allowed if production is under control.

The key question is: are we going to distinguish between exporting countries and importing countries, when we are developing adjusted or new GATT rules. If a country has a net exporting position, its internal market may not be isolated from the world market. But if the country is in a net importing position, isolation of his own market could be accepted if its domestic production is restricted and if a minimum access commitment is applied.

Personally, I would rather not make this distinction with regard to exporting and importing countries. I would prefer the more market-oriented policy in both situations. After all, our experiences of a policy aiming at a high level of protection have not been too good. In spite of the condition of production control, production has easily increased as a result of which trade was restrained more than necessary.

But if we wish to find a solution in terms of more open markets, we must realize that it is only possible if we take into account the fact that in countries where the competitive power of agriculture lags behind, it is



difficult for certain basic products to realize guaranteed incomes only through the market plus direct income support.

A possible solution could be the introduction of fixed import levies, bound in GATT. Their level could be negotiable, but should not stimulate an unjustifiable production increase.

This solution would enable countries, which cannot accept a completely open market, to realize a higher internal market price without nullifying the effect of price fluctuations. We will then have to accept that the support, in this case protection at the border, will only consist of this bound levy. It will replace not only quantitative import restrictions, variable levies, minimum import prices, voluntary import restrictions, etcetera, but also national subsidies in the form of deficiency payments, direct export subsidies, transport subsidies, export credit facilities and so forth. Such a system of recoupling markets should have a price stabilizing effect on the worldmarket and would allow less protective trade systems. I realize that there could be another destabilizing factor, namely the highly volatile rates of exchange of major currencies. A GATT agreement on agriculture would be difficult to realize if there would be a continuation of the present monetary disorder.

It is conceivable that an exception could be made for export subsidies to be financed by agriculture itself, to bridge the gap between the internal market price and the world market price, insofar as the gap is the result of a moderate fixed import levy. It is also conceivable to allow exceptions on the general rule for a restricted period of time for food importing developing countries and even for some products in food importing developed countries, because of the need of restructuring their agriculture.

I present these views to you only for consideration, not yet as a compromise solution. For I am of the opinion that a considerable number of countries are not yet willing to pursue a policy of recoupling the internal market with the world market. They are only willing to apply more market oriented policies to the internal market, not to the world market.

Lower guaranteed prices and less intervention are presented as a more

market oriented policy, whereas at the same time the internal market remains isolated from the world market as a result of import restrictions.

Of course, it is not simple to change domestic policy in such a way, that your home market will be integrated in the world market. It means in fact, that the EEC, the USA, Japan and others, over a certain period of time, may not use any instrument of production related support other than fixed bound levies aiming at guaranteeing higher internal prices. Although this is supposed to be the regular system for developed countries, we have to anticipate strong resistance within certain countries where the competitive power of agriculture lags far behind. If such countries would need more time of adjustment for certain commodities a longer transitional period is only acceptable if those countries would refrain from exporting and would guarantee a minimum access commitment. I am also aware that many food importing developing countries need also more time for adjustment. Those countries should be allowed to protect their markets in order to enable them to develop their agriculture with international assistance.

Mr. Chairman,

The various countries in their proposals also plead for measures in the short and medium term. I find this understandable, especially for countries which are heavily dependent on the world market for their economic development. But I also appreciate the viewpoint of the United States that short-term solutions are no use as long as a long-term solution has not been found. This brings me to the question when to expect the first results of the work done in GATT. I firmly believe that before the end of 1988 at least a framework for the long-term solution must have been accepted by the Contracting Parties, together with temporary short-term solutions, in particular for products clearly in surplus.

I am aware that a transition period is required as it will take years before a long-term solution will have been introduced into each national legislation.

A transition period of ten or more years I personally find too long, because experience has shown that decisions whose implementation takes too long are carried out only partly.

I have come to the end of my speech. I would like to express the wish that in this delicate stage of negotiations the countries most involved will not introduce measures which offer possibilities for more protection. I am thinking in particular of the discussions concerning the Trade Bill. The credibility of the United States is under discussion, if in the context of GATT its Administration tables very radical proposals for dismantling protection, and at the same time Congress is preparing a Trade Bill which allows for more protection. I am also thinking of the proposal of the EEC to introduce a tax on fats and oils and of the wish of several member countries of the EEC to put a levy on imported grain-substitutes. If this would happen, the climate for negotiations would severely deteriorate.

In particular the USA and the EEC must realise, that the negotiations can only become a success, when they are willing to create a favourable climate.

Mr. Chairman, Ladies and Gentlemen,

Your Agricultural Outlook Conference has reached the respectable age of 64, but is still alive and kicking. Rather than to look back on the past, you consider it more important to look out for the future. The present predicament of agriculture can only be resolved if the access to markets is improved; if real competition becomes possible again and if trade barriers are broken down. I am convinced that we can succeed. The political will is there.