Global proposal of the European Community on the long term objectives for the multilateral negotiation on agricultural questions.

The Punta del Este declaration and the decision of the Trade Negotiation Committee of April 1989 are the multilaterally agreed bases on which the agricultural negotiation must be conducted.

According to the terms of the decision of April 1989, the objective of this negotiation is

- to establish a fair and market-oriented agricultural trading system,
- to reach this objective by substantial, progressive reductions in agricultural support and protection, sustained over an agreed period of time resulting in correcting and preventing restrictions and distortions in world agricultural markets.

The decision of April 1989 foresees that participants should submit their proposals by December 1989.

This document constitutes the comprehensive proposal of the Community on the means by which the objectives outlined above should be attained.

I. General principles

1. Agricultural production has its own characteristics which explain the special characteristics of current agricultural policies and the specific rules which currently apply to this sector in the framework of GATT.

   The demand for agricultural products has a weak price elasticity, which explains the very large price variations and which leads to the imbalances which appear between supply and demand.

   Production does not develop steadily, because it is influenced by climatic variations and because it responds excessively to price variations.

   Without public intervention on prices, agricultural production adjusts abruptly in a succession of cyclical crises. This is why existing agricultural policies in most industrialized countries pursue, with very different mechanisms, the same objectives: to guarantee and stabilize the prices received by producers and to ensure security of supply at reasonable prices for consumers. These policies respond to the diversity of agricultural situations and also take into account social concerns.

   The pursuit of these policies currently raises very serious problems, to the extent that they have stimulated a structural imbalance between agricultural production which increases continuously and demand which is limited by the saturation of food consumption in the industrialized countries. Moreover, agricultural policies have, over the years, developed support mechanisms including high levels of protection which have resulted in an unreasonable attenuation of the relationship which should exist between production and the market.

2. The aim of the current negotiation is to correct the situation by ceasing to give excessive stimulae to production and by re-establishing a normal relationship between production and the market. This aim was very clearly expressed at Punta del Este and in Geneva in April 1989, because it was agreed that it was necessary "to reduce the uncertainty, imbalances and instability in world agricultural markets" (Punta del Este), and "to establish a fair and market-oriented agricultural trading system" (Geneva).

The uncertainties which cloud the long term prospects for development for supply and demand, as well as the consequences of changes in prices which will appear after the negotiation, do not allow us to predict where the balance between supply and demand will stabilize for the major products.

This leads to a very important conclusion: the aim of the negotiation can only be, to progressively reduce support to the extent necessary to re-establish balanced markets and a more market oriented agricultural trading system. It is not to set 'a priori' and 'in abstracto', a final level of support. The polemic which seems to be resurfacing on such a final objective has a theoretical even an ideological flavour; it disrupts the negotiation by slowing it down and provokes pointless questions on the possibility of applying to the agricultural sector constraints which no one has previously contemplated imposing on other chapters of the negotiations.

3. Having clarified the subject of the agricultural negotiation, the method to be followed remains to be defined. The Community believes that this method should meet the following conditions:

- Current agricultural policies use very varied instruments: frontier measures, market intervention, deficiency payments, various aids. The different measures must be the subject of a global commitment which will ensure that all support having an impact on agricultural trade is the subject of a steady and balanced reduction.

  It is appropriate to emphasise that any negotiation which focused in priority on frontier measures would in no way contribute, in contrast to what a superficial analysis might suggest, to an improvement of trade. In many cases, without a reduction in internal support, it is not possible to have improved market access.

  Moreover, a negotiation based in the main on frontier measures would inevitably lead to unbalanced and unacceptable results.

- Existing support measures, including price stabilization could more easily be reduced and a lasting balance restored if one foresees, at the same time, international arrangements having equivalent impact on world markets, notably on the management of stocks.

- The development of aids unlinked to production may contribute to solving current agricultural problems, but it cannot be conceivable to set up a general "decoupled" support arrangement, which without an adequate price stabilization mechanism would have the same perverse effect on production as the current regimes.

II. Commitments pertaining to support and protection

1. For the reasons given above, the Community believes that the commitments to be taken to reduce support and protection must be made in terms of an aggregate measurement of support.

2. The characteristics of the support measurement unit (S.M.U.)

- Measures included: these measures must be defined in such a way that the contracting parties may not escape from the commitments to which they subscribe to in the negotiations. Therefore, the S.M.U. must be precise and clear. It must cover all measures which have a real impact on the production decisions of farmers. This includes mainly measures to support market prices, direct payments linked to production or to factors of production and measures aiming to reduce input costs which are commodity specific or where a distribution according to main commodities is feasible.

- Products included: Priority has to be given to sectors in structural surplus and to those where serious disruptions are most likely to occur. The Community, therefore, proposes to add to the sectors already mentioned (cereals, rice, sugar, oilseeds, milk, beef and veal), the following sectors: pigmeat, eggs and poultrymeat.

  For products for which it is not technically possible to calculate Support Measurement Units, equivalent commitments should be undertaken.
  Processed agricultural products should also be covered.

- Other provisions

  - the means of limiting production must be taken into account. A method to quantify them should be established.

  - to calculate the Support Measurement Unit, reference should be made to a fixed external price. This is the only way to remove in particular the impact of market and exchange rate fluctuations which have nothing to do with agricultural support. In this way, commitments may be taken on a stable basis and in full knowledge.

3. Commitments to be taken

a) The negotiation should lead to a commitment to reduce support which meets the following two objectives:

- the movement towards a reduction in support must be clear.

- the scale of this movement should relate, to a certain extent, to the world market situation. Indeed, it is necessary to better relate agricultural policies to market developments.

A mechanism needs to be developed on this point. It should specify the period for which world market prices are taken into account and the proportion of the commitment to reduce support which would be adjusted by the development of these prices.

Provision should also be made to ensure that adjustments are comparable, despite different developments in rates of inflation in the different countries.

b) The commitments to reduce support should be expressed as a percentage reduction of Support Measurement Units, calculated both on a unit and total basis. The commitments should be undertaken on a regular basis. They may vary by product or group of products.

c) The commitments to reduce support could be made for a first stage of five years. During the fourth year, a study of the market situation and trade in agricultural products should take place to establish to what extent and at what rate the reduction in support should be pursued.

As foreseen by the decision in Geneva in April 1989, reductions would be measured against the reference of 1986, in order to give credit for the measures which have been adopted since the declaration at Punta del Este.

III. <u>Tariffication and other means to adapt support and protection</u>

1. The problems occuring in the agricultural field are not exclusively due to excessive levels of support. The means by which support and external protection are ensured is equally a source of serious difficulties.

- In many cases, there are support systems using different protection instruments (quotas, variable levies, exemptions from GATT rules), which in practice result in very small trade flows and in reality an insulation of the internal market from the world market.

- For products which compete directly with one another, there are

import arrangements which provide for a high level of protection for some of these products and either very little or no protection for other products. This is the case, as far as the Community is concerned, for cereals, their substitutes and oilseeds.

- Finally in some sectors, import arrrangements are not the same for all third country suppliers. Some countries, which are not developing countries, enjoy privileged access which is not enjoyed by others.

2. These imbalances or inconsistencies lead to consequences for production and trade, which are not the result of normal competition. One may give a few examples:

- The combination of high levels of protection and support for cereals on the one hand and on the other hand a total absence of protection for products which compete directly, leads to the foreseeable distortions in the level of prices and the demand for these products.

- The artificially very low prices for certain animal feeds lead to an artificial development of animal production, environmental problems as well as the build up of costly surpluses.

- One observes the same effects in the case of the USA when one sees the results generated by the combination of high protection and support granted to sugar and to milk.

- These distortions have serious consequences for trade. They lead to the high levels of exports which contribute to the destabilisation of world markets.

- These distortions also have an impact on the use of land, the localisation of certain agricultural activity and regional equilibria.

The Uruguay Round of negotiations presents the opportunity to resolve these sorts of problems by rebalancing support and protection.

3. Tariffication does not provide a reasonable or convincing solution to these types of problems. Basing protection exclusively on customs tariffs and envisaging, after a transitional period, the reduction of these tariffs to zero or a very low level would lead to trade in agricultural products on a totally free and chaotic basis.

The Community remains convinced that such arrangements are not viable. It would lead to a cycle of crises (with their inevitable social and political consequences) as the only means of adjusting agricultural activity. This boils down to extending to all internal markets the chronic instability which rules world markets. To go down this road would lead sooner or later to an abrupt, ill thought out, and consequently dangerous: resurgence of the intervention of public authorities in the operations of agricultural markets. This is exactly the reverse of what everyone wants.

4. Moreover, the tariffication mechanism proposed is mainly based on the same principle as the Support Measurement Unit (calculation of the difference between the world price and the domestic price), but it does not take into account instruments such as deficiency payments which may have as much of an impact on trade as a frontier measure. This impact is related to the domestic price of a product supported by the deficiency payment in comparison with world prices, as well as the level of self-sufficiency of the countries which use this instrument.

5. For these reasons, an approach which is focusing on a substantial reduction of support and protection by means of an aggregate measurement of support will meet the objectives of the negotiation while avoiding the pitfalls of dealing separately with support and protection, each in isolation.

The reservations above are fundamental. However, the Community is prepared to consider including elements of tariffication in the rules of external protection given that the problem of rebalancing can be solved in the context of tariffication. This could be envisaged on the following basis:

- Border protection for the products included on the list of Support Measurement Units, as well as their derivatives and substitutes, would be assured by a fixed component. This component, expressed as an absolute value, would be reduced at a similar rate as the Support Measurement Unit. It would be completed by a corrective factor in order to take into account exchange rate variations and world market fluctuations which went beyond certain limits to be agreed.

- Deficiency payment would be treated in the same way and converted into tariffs.

- The same arrangement would apply to exports, the amount granted to exports could not exceed that levied on imports.

External protection provisions based on these elements and linked to reduction of support would eliminate the current inconsistencies and distortions and would lead to a global level of protection lower but better balanced than at present. It would link the world market to domestic markets while ensuring the necessary stability and security.

6. Furthermore, in certain exceptional circumstances, Contracting Parties may have to apply internal quantitative restrictions to agricultural production or agricultural production factors. An appropriately formulated Article XI will, therefore, have to be retained.

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IV. SPECIAL AND DIFFERENTIAL TREATMENT FOR DEVELOPING COUNTRIES

1. Since, on the grounds of the specific characteristics of agricultural production, a degree of support and protection has to be maintained in developed countries, it is also undeniable that developing countries which, as a matter of priority, have to develop their own agricultural production, must benefit from special conditions in this exercise on reduction of support and protection;

The Community does not insist on full participation by all developing countries in commitments on reduction of support and protection. It holds the view, however, that developing countries with significant export interests or relatively advanced economies have a genuine interest in participating in such commitments, either to draw all the benefits from commitments made by others, or to better solve internal agricultural problems.

In this context, special and differential treatment should consist of :

- a degree of flexibility in the application of whatever rules will be adopted for the reduction of support and protection;

- this flexibility would vary according to the actual level of development and the development needs of the countries concerned.

Furthermore the possible negative effects of the reform process on the economies of net food importing countries would have to be taken into account.

2. Flexibility could apply in the following way :

- commitments could be restricted to a limited number of products and expressed in terms which might differ from those applied to developed countries;

- the magnitude of the reduction and the time-frame for its implementation could vary according to the specific needs of the developing countries concerned.

As developing countries also suffer from imbalances in their agricultural systems, it would seem appropriate, for, in particular, the more advanced among them, to partipate in the rebalancing exercise, at least for products of major internal or external interest to them.

3. The reduction in agricultural support and protection will, by reducing overall supply and restoring a better balance on world markets, result in a higher average price level.