

A *Letter From* EUROPE

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from its Delegation in Washington

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THE COMMON AGRICULTURAL POLICY AND THE COWARDLY LION

For years, the E.C.'s Common Agricultural Policy was portrayed by some as resembling the Cowardly Lion of the Wizard of Oz: large, imposing and with a considerable food bill, but apt to turn tail when approached in a challenging way. But is the CAP really so fearful of reform? Has the Community in fact been unwilling to sit down with its trading partners and negotiate about agriculture?

The Cowardly Lion myth has been partly dispelled by two positive and decisive steps forward: the general agreement at Punta del Este last September to launch a new round of multilateral trade negotiations, with agriculture as a major component; and the OECD meeting in Paris on May 12-13, at which the European Community and the United States (and some of the other major players in the game) agreed on both the diagnosis and the cure - essential to any negotiation - that the level of farm support needs to be reduced.

Does this simply mean we're starting to run a surplus of communiqués, in addition to farm products? Or is the Community really willing to negotiate meaningfully on agriculture? The answer is yes, for the best of reasons: enlightened self-interest. The European Community, with its 320 million people, accounts for one fifth of total world trade, compared with 15 percent for the United States and some 10 percent for Japan. As the biggest actor on the world trading stage, therefore, the Community has a vital interest in the preservation of the one-world trading system and free access to export markets.

But in order for the one-world trading system (which has grown up over the last 40 years under the aegis of the General Agreement on Tariffs and Trade, or GATT) to be preserved, there must be successive rounds of trade negotiations. The GATT is not, unfortunately, perfect, and it never will be. Periodic negotiations are necessary to improve it, to bring in new areas (like services), to tackle areas such as agriculture more effectively and to reduce still further the remaining barriers to trade. Without such negotiations, the GATT would gradually become irrelevant to the real world of business and would wither on the vine. And given the importance of agriculture in world trade, no new multilateral trade negotiation can take place without it. So the Community has a strong - even vital - interest in successful negotiations on agriculture, as part of a successful global negotiation.

But is the Community really prepared to reduce its level of farm support? Part of the trouble in reforming farm support programs has been the failure during the 1970s - not only in Europe, but around the world - in predicting the spectacular advances in technology and productivity that have taken place in recent years, and the agricultural surpluses and market changes that resulted. But we have already taken some painful steps to reshape the Common Agricultural Policy, which was set up in the early 1960s, in order to fit it to the changed world of the late 1980s.

What have we done? Take dairy products. After introducing production quotas in 1984 (which, by 1985, had already reduced milk production by between 4 and 5 percent), E.C. Farm Ministers decided last December not only to cut output by 9.5 percent over the next two years, but to abolish the automatic right of producers to sell surplus production to public authorities and to make this facility available on only a very restricted basis. At the same time, the support price for beef was slashed by 13 percent.

In the grain sector, the first phase of policy reform was introduced in the 1986-87 marketing year. Official prices were cut for feed wheat and barley, and were frozen (for the third year running) for bread wheat. Moreover, the period during which farmers could sell their grain to public authorities was cut back, the quality standards they had to meet were tightened and a co-responsibility levy (Euro-jargon for a producer tax) was introduced on every ton of grain sold off the farm. Taken together, these measures effectively reduced price supports (depending on the type of grain involved) by between 10 and 15 percent.

This was only the first phase, and the Commission is prescribing some of the same nasty medicine for European farmers in its price proposals for the 1987-1988 marketing year, now being discussed in Brussels. Our farmers have realized that the days of guaranteed outlets at guaranteed prices for unlimited quantities are gone forever, but this has not been easy. Anyone who witnessed twenty thousand German farmers demonstrating in the streets of Bonn in March, or the thousands from across Europe laying siege to the Council of Ministers in Brussels would have no doubt on that score.

So the European Community has already started down the road sketched out by the OECD. It is a tough road and we are disinclined to go down it alone. That is why we hope that the discussions at the Venice Summit on June 8-10 will give a decisive further momentum for the detailed negotiations on agriculture in the new round of GATT negotiations.

Roy Harman

WINDOW ON THE EUROPEAN COMMUNITY

EUROPEAN POLITICS

• **Single European Act:** In a May 26 referendum, Ireland voted by more than two to one in favor of a constitutional amendment allowing the Irish Government to ratify the Single European Act. All the major Irish political parties had urged voting in favor of the amendment, pointing to the importance of E.C. membership to the Irish economy. The Single European Act allows the Council of Ministers to take more decisions by majority (rather than unanimous) vote, gives more power to the European Parliament and should help pave the way for the creation of a completely free internal market in Europe by 1992.

FOREIGN TRADE

• **Action on Japan:** The Council adopted a proposal on May 26 enabling the E.C. to impose 100 percent tariffs on imports of certain Japanese personal computers, electric hand tools and color televisions on which tariffs were placed by the United States in April in a dispute over a U.S.-Japan trade agreement on semiconductors. The Commission set up surveillance of the goods earlier in the month to see if the American tariffs had caused trade diversion of the Japanese goods to Europe; if such diversion is found to be taking place, the E.C. will levy its own tariffs within a matter of weeks. The Council also this month sanctioned substantial tariff increases on six Japanese electronic products if Tokyo refuses to offer compensatory access to goods from Spain and Portugal, the two newest members of the European Community.

• **Anti-dumping Report:** The Commission recently adopted the European Parliament's Fourth Annual Report on anti-dumping and anti-subsidy actions taken by the Community in 1985. The report notes that the Commission opened 36 investigations, down from 49 in 1984. Thirty two investigations were completed in 1985 (down from 42 in 1984). During the course of the 1985 investigations, nine provisional duties were imposed, ranging in length from four to six months.

• **Cyprus Accord:** The Commission said in early May that it was close to an agreement with the Mediterranean island of Cyprus on a proposed customs union. While Cyprus is currently linked to the Community through a 1973 Cooperation Agreement, the new

funds will go to projects aimed at helping those under 25 years old. This year's projects include several which provide training in the new technologies, including a video specialist project in England and an experimental laser program in Italy.



The Commission recently developed a program aimed at cutting down on accidents and keeping Europe's children healthy.

agreement would end most of the remaining customs duties and quotas on produce from Cyprus by 1997, and a full customs union would be established over the next four or five years.

SOCIAL ISSUES

• **Child Protection:** The Commission announced on May 7 a campaign to cut down on the millions of accidents that occur to European children every year at home or at play. Some 20,000 children die every year from such accidents, and around 20 million—equal to the combined population of Greece and Belgium—are sent to the hospital. The Commission also announced two moves to safeguard E.C. consumers. One would make all manufacturers responsible for the safety of their products, and the other is designed to make it easier for consumers to take their complaints to court.

• **Job Creation:** The E.C. Commission recently approved funding under the European Social Fund (ESF) to help over 3 million Europeans find a job or be trained for one this year. The total funding of 3 billion ECU (about \$3.3 billion) will be used to finance up to 50 percent of job-creating projects supported by the member states, and about 75 percent of the total

• **War on Illiteracy:** The Council of E.C. Education Ministers adopted in May a two-year work program for fighting illiteracy in the European Community. While the exact number of illiterates in the Community is not precisely known, the problem is still widespread and not limited to such groups as recent immigrants. The inability to read and write is a complex problem, the Council noted, that results from a number of factors including childhood environment as well as medical, psychological and geographic factors, and the education system alone cannot completely fight the problem. The Council is recommending that illiteracy therefore be fought at all educational levels, from elementary school to adult education.

• **ERASMUS Adopted:** The Council of Education Ministers adopted on May 14 a program known as ERASMUS, which is designed to clear away barriers to student mobility in the European Community. The program has four key components, including the creation of a cooperation network between European universities, direct funding for students to allow them to study in another of the E.C.'s member states, academic recognition of diplomas and education credits in other member states, and complementary initia-

tives including seminars, language courses, support for university organizations, and so on.

BUSINESS & ECONOMICS

• **Internal Market:** The Commission published in early May its second annual report on the completion of the internal market in Europe, noting that progress had been "adequate rather than outstanding." Removing the remaining barriers to internal trade in the E.C. by 1992 is a top priority for the Commission, which has been seeking the quick implementation of over 300 proposals outlined in a 1985 White Paper on the internal market drawn up by Lord Cockfield, the Commissioner with responsibility for the internal market in Europe.

The Commission has now tabled 170 of the proposals, half of them dealing with the agricultural sector. In areas of strategic importance for the internal market—public procurement, standards, free movement of capital and common structure for indirect taxation—the Commission will be submitting more proposals this year. Lord Cockfield noted, however, that the Council of Ministers—which must approve the White Paper proposals before they become law—has adopted only 57 of them.

• **Insider Trading:** With the recent liberalization of capital markets in the Community, cross-frontier transactions are increasing rapidly, and while a number of E.C. member states have regulations controlling insider trading, no Europe-wide legislation currently exists. The Commission therefore recently adopted a proposal designed to create a uniform basis for fighting the problem, which it says "will enable the Community to assume its responsibilities in the face of the growing internationalization of securities markets."

• **Capital Taxes:** The Commission proposed this month lifting indirect taxes which affect transactions involving securities and the operations of stock exchanges throughout the Community. The proposal is aimed at developing a harmonized base for taxing such transactions, and the Commission believes that creating a real capital

market at the Community level requires the coordination of regulations governing stock market operations in all the E.C. member states.

• **Maritime Transport:** At a symposium on European shipping held in the Belgian port of Antwerp on May 6, E.C. Commissioner Stanley Clinton Davis expressed concern that the Community, which depends on maritime transport for some 90 percent of its internal trade, was undergoing a severe decline in its shipping fleet. Over the past decade, the E.C. has seen its share of the world fleet drop from 31 percent to 19 percent, and the tonnage registered in the 11 E.C. maritime countries has fallen 40 percent from its 1980 level. "If the decline continues at this rate," Clinton Davis warned, "our ability to influence the availability and quality of the maritime services we need will be hypothetical."

member state governments will have the right to match the grants if they wish.

• **Oils Debate Postponed:** The Council of E.C. Farm Ministers decided at its May 27 meeting to postpone discussion of a controversial tax on vegetable fats and oils, in order to move ahead with talks on 1987 farm prices. The proposed fats and oils tax is opposed by some European countries and has aroused considerable concern in the United States, which fears the effects of the tax on its annual \$1.8 billion in soy oil exports to the Community. The tax is intended to boost the consumption of surplus olive oil in the E.C. by eroding the price advantage of cheaper oils.

• **OECD Agriculture Talks:** At the OECD Ministerial meeting in Paris in May, E.C. Commissioner Willy De Clercq noted that a "remarkable degree of consensus"

structural overcapacities. The Community would continue to do its share in bringing about a "concerted reform" of farm policies provided that the other OECD countries did the same, De Clercq told the meeting.

• **Farm Income Aids:** The Commission has developed a plan for supplementing farmers' incomes in Europe by setting up a Community framework system for national aids to farm income and encouraging farmers to leave agriculture. While the Commission has been calling for a more restrictive price policy in the Common Agricultural Policy, as well as reducing intervention operations and guarantees, it intends to make sure that the market reorganization measures to have a balanced impact and not to harm structurally and economically weak farms.

ENVIRONMENT



FOREIGN AFFAIRS

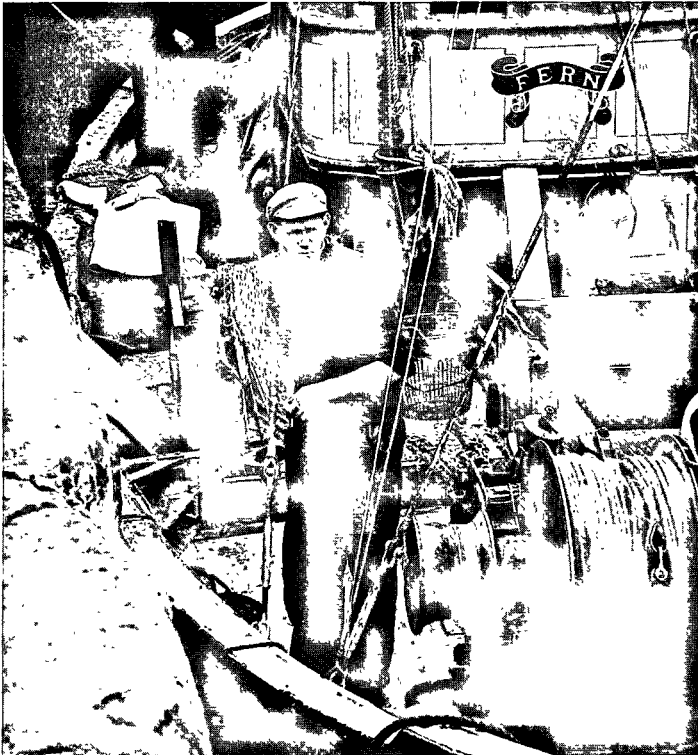
• **E.C.-Norway Ties:** Gro Harlem Brundtland, the Prime Minister of Norway, met with the E.C. Commission in early May and announced that Norway would seek "to improve and increase bilateral cooperation" with the Community, "but without preparing or announcing membership." Norway signed a Treaty of Accession with the E.C. in 1972, but the agreement was rejected in a national referendum. Economic and trade ties with the Community are strong; about 65 percent of Norway's exports are sold in the E.C., and about 40 percent of its imports come from Community countries.

• **South Africa:** E.C. Foreign Ministers met this month following the May 6 elections in South Africa, and released a statement expressing their "deep concern over the serious risk of a further polarization of attitudes" in the troubled country. The Ministers reaffirmed that the objective of the Community's attitude toward South Africa "remains the total dismantlement of apartheid and its replacement by a genuinely democratic, nonracial system of government." The statement also called for a process of fundamental but peaceful change, and called on President Botha to lift the state of emergency, release unconditionally all political prisoners, and legalize the African National Congress, the Pan-Africanist Congress of Azania and other political parties.

• **Nuclear Energy:** The European Parliament recently affirmed the importance of nuclear energy to Europe, voting in favor of a resolution to continue developing electrical production from nuclear power and coal and voting down a call submitted by the environmentally-oriented Green coalition to abandon the construction and use of fast breeder reactors, currently the most advanced type of nuclear reactor. The economic costs of losing its nuclear energy facilities would be "incalculable" to Europe, E.C. Commissioner Nicolas Mosar told the Parliament during the course of the debate.

• **Eco-Advisor Program:** The E.C. Commission launched a new program in May aimed at recruiting, training and supporting 40 "environmental advisors" whose task will be to provide citizens of the European Community with information about improving the quality of the local environment. The program has been set up in collaboration with local authorities, environmental associations and consumer groups, and underscores the Commission's belief that better environmental management can bring tangible results at all levels—including individual households. The "Eco-counselors" will advise on such subjects as cutting down and recycling waste, saving energy and water and reducing the use of chemicals.

In an effort to upgrade Europe's fishing fleet, E.C. Agriculture Ministers agreed in May to grant about \$11 million for improvements.



AGRICULTURE

• **Fishing Support:** Agriculture Ministers agreed in May to grants amounting to over \$11 million to modernize European fishing fleets. The money will be provided for improving communications and data-processing equipment, and for upgrading vessels. The grants will be financed out of the Community's 1988 and 1989 budgets, and

existed within the group on the analysis of the problems in the agricultural sector. De Clercq observed that "We are all in agreement on the fact that the imbalance between global supply and real demand for most agricultural produce is structural in nature," and noted that the E.C. had reduced agricultural support prices for several years and had taken other measures to face up to the