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THE AGRICULTURAL NEGOTIATIONS WITHIN THE URUGUAY ROUND OF GATT

Agriculture, Fisheries and Forestry Series

W-6/PART I

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THE GATT URUGUAY ROUND AGRICULTURE NEGOTIATIONS

Final agreement of 15 December 1993
and the amendments made to the Washington draft agreement

The implications for the major production sectors
of Community agriculture

External study W-6: Part II
of the 'Agriculture-Fisheries-Forests' series
FR-7-1994

This is the second part of the study commissioned by the European Parliament's Directorate-General for Research on the GATT Uruguay Round agriculture negotiations. More specifically, it represents an up-date of that study in the light of the major new developments which occurred in the GATT negotiations between the completion of the first part of the study in June 1993 and the conclusion of the Uruguay Round in Marrakesh on 15 April 1994. The new sectoral studies concerning the implications of the agreements for the various production sectors have also been incorporated and they clarify, supplement or correct the information given in the first part of the study.

In the intervening period the Uruguay Round negotiations continued apace and the bargaining finally reached a conclusion beyond the hard-line positions which the various parties had maintained until then for strategic purposes.

On 20 September 1993 a joint Agriculture/General Affairs Council enabled the European Union, against all expectation, to re-establish a strong, united front in order to assert its position in the negotiations. The Union thus regained the upper hand and was able to exert a much stronger influence on the subsequent course of the negotiations.

On 7 December 1993, i.e. a week before the cut-off date for the negotiations which had been set unilaterally by the USA and accepted by GATT, the Union and the USA reached a balanced agreement on agriculture. The agreement differs substantially in certain respects from the draft Blair House agreement: for instance, it significantly reduces the detrimental effects of the latter on the Union and the USA.

The implications of the new agriculture agreement, which the 114 other GATT contracting parties adopted and ratified on 15 December 1993 as part of a final agreement which includes 14 other areas, differ significantly, therefore, from the implications which the draft Blair House agreement would have had. For this reason the question of compatibility between the GATT commitments and the reformed common agricultural policy (CAP) should be reconsidered.

Furthermore, a very important conclusion of the Jumbo Council was the commitment by the Council that the Union's commitments vis-à-vis GATT should not impose any further constraint on European farmers as regards the level of support provided by the CAP. This means that any incompatibility between GATT and the CAP (which has not, therefore, been excluded by the Council, contrary to what the Commission maintains) will not result in a watering-down of the CAP.

Between 15 December 1993 and 15 April 1994 (the date on which the Marrakesh agreements were officially signed) the various parties were required to finalize their lists of commitments vis-à-vis GATT. These lists, which ran to several hundreds of pages, were submitted more or less on time to the GATT secretariat by the various parties, each of which threatened to cut back its list if the concessions it expected from the other parties did not materialize.

Before they can be implemented the agreements have to be ratified by the legislative bodies of the various parties. In June 1994 there were still major problems standing in the way of ratification by the US Congress because of the reduction in customs resources as a result of the commitments to reduce protection measures, whilst in the European Union, final ratification was held up by the question of the division of responsibility between the Commission and the Member States, some of whom insisted on being involved in the ratification.

In the autumn of 1994 the Commission was due to publish the regulations concerning the transposition of the GATT commitments, which will mean thorough-going changes to the principles of the CAP and most of the regulations governing the Common Organizations of the Market (COMs). It should be recalled that the Council and the Commission have given an undertaking that these changes will not result in any decrease in the support provided to Union farmers.

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The study begins by establishing the precise chronology of the Uruguay Round negotiations between June 1993 and the conclusion thereof in April 1994 to enable readers to follow events on a day-to-day basis and to see how the various stages are linked.

The second part is concerned with the agriculture agreement of 7 December 1993 between the European Union and the USA and establishes a comparison between it and the draft Blair House agreement. The final agreement signed on 15 December 1993 by the 116 contracting parties is then considered, with its various agricultural and non-agricultural sections.

The fourth part of the study sets out to consider, in the light of the most recent studies, the implementation and the implications of the GATT commitments as regards the major production sectors. Where possible the possible risks of GATT-CAP incompatibility or disadvantages to producers are indicated in accordance with the international data on which the assumptions are based. By its very nature, such an assessment cannot, therefore, claim to be either exhaustive or infallible. Its main objective is to set out, in the clearest and simplest way possible, the implications of the GATT commitments, although the lists of commitments are extremely complex, even for specialists, and it is very difficult to predict the changes in the agricultural, economic or political parameters which will have a decisive influence on the implications of GATT for European agriculture.

A section of the study is then devoted to Parliament's activities relating to the GATT negotiations between June 1993 and June 1994.

Lastly, in the light of the analyses undertaken in the preceding sections the conclusion to the study tries to present current ideas on the compatibility between the GATT commitments and the CAP and the likely implications for European agriculture.

EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR RESEARCH
Division for Agriculture, Fisheries, Forestry and Rural Development

THE AGRICULTURAL NEGOTIATIONS WITHIN THE GATT URUGUAY ROUND

STRATEGIES OF THE CONTRACTING PARTIES

THE WASHINGTON DRAFT AGREEMENT: COMPATIBILITY WITH THE REFORM OF THE COMMON AGRICULTURAL POLICY

THE DEBATE WITHIN THE EUROPEAN PARLIAMENT

THE CONSEQUENCES FOR AGRICULTURE IN THE COMMUNITY

EXTERNAL STUDY W-6: PART I
OF THE AGRICULTURE, FISHERIES AND FORESTRY SERIES
FR-7-1993

WHY?

The multilateral trade negotiations known as the GATT Uruguay Round began more than seven years ago. The 15 areas covered by the negotiations include agriculture, which is a new departure, since it was more or less explicitly excluded from all the previous GATT rounds.

It was quickly realized that the proposals by the United States and the countries within the Cairns Group would have had the effect of dismantling the common agricultural policy, a pillar of Community integration since 1962. The countries concerned skilfully presented their arguments to the GATT and the media in such a way as to isolate the Community from international public opinion by portraying it as solely responsible for the deadlock in the agricultural negotiations and the Uruguay Round in general. Community export subsidies were the constant target of American attacks, which sought to distract attention from their own subsidies (deficiency payments). Owing to the divergent interests of the 12 Member States and the lack of political unity, the Community had great difficulty in defending its interests with a single, strong voice and securing their recognition by the international community. From 1986 onwards it remained in a defensive posture, acting as the accused. The draft EU/US agricultural agreement of November 1992, known as the Blair House Agreement, was the logical outcome of the Community's lack of political consistency.

In the middle of the battle of experts waged between the Commission, farm trade organizations and national governments, it was very difficult to obtain a clear-cut idea about the practical effect of the commitments included in the draft agreements and about the consequences of those commitments for the vital aspects of Community agriculture (production volumes, percentage of land set aside, level and type of support by product, farm incomes). An assessment of the compatibility of the draft agreements with the CAP, which was reformed in 1992, generated divergent and opposing conclusions which were frequently difficult to understand.

The European Parliament, responsible to the 340 million Union citizens that it represents, decided to commission a study designed to place the GATT events, as conveyed by the media, in context so as to make them comprehensible for MEPs, and to provide them with all the information needed to reach their own conclusions: in addition to setting out the progress of negotiations from 1986 onwards, the study was to present what was at stake in the Uruguay Round, in terms of agriculture, for the various parties and the strategies that they had developed; it was then to analyse as comprehensively and objectively as possible all the literature available on the subject. In particular, it was supposed to analyse the different assessments of the consequences of the draft agreements for European agriculture, and above all enable a comparison to be drawn between their respective conclusions, by setting out and explaining the economic hypotheses on which they were based. These hypotheses were, in fact, the key to understanding the assessments. Readers would then be able to agree or disagree with the judgment made of any given hypothesis and make their own judgments. The same approach was to apply to the assessments of the compatibility of the draft agreements and the reformed CAP.

HOW?

The first stage of the study comprised gathering together the abundant literature on the subject, attempting to be as comprehensive as possible.

The second stage, which was essential for an understanding of current or future events, was the chronological description of the progress of the Uruguay Round from 1986 onwards, together with its main punctuating events: the Punta del Este Declaration (September 1986), the mid-term review in Montreal and the Geneva meeting (December 1988 and April 1989), the proposals made by the various parties (autumn 1989 and 1990), the 'final' Brussels meeting (December 1990), the Dunkel compromise (December 1991) and the draft EC/US bilateral agricultural agreement, known as the Blair House Agreement. The details of what was at stake, economically and politically, for each party in the agricultural negotiations, makes it easier to understand the different positions, by 'standing in the other party's shoes', and also to home in on the strategy followed by each party, with varying degrees of success, to achieve its own objectives.

Once the events of the Uruguay Round were placed in context, the study could attempt to pull together several aspects of the information found in the studies analysed, as follows:

- detailed implications, sector by sector, of the commitments contained in the draft agreements, and impact on (subsidized and total) exports, refund budgets, import volumes and internal supports. The changes could be calculated on two bases:
  - between the period of reference to the GATT (1986-88 and 1986-90) and 1999, or
  - between the 'current' period (1991) and 1999;

- consequences of the commitments contained in the draft agreements for the vital aspects of agriculture, either globally or sector by sector: production volumes, amount of land set aside, producer incomes and Community farm prices.

Fortified by the information contained in the sections referred to above, the study was then able to embark on its most difficult stage: an assessment as such of the consequences of the draft agreements for agriculture and of GATT/CAP compatibility:

- to do this, it was first necessary to list all the economic hypotheses underpinning each study and compare the various studies with each other so as to reach an initial judgment about those hypotheses which seemed the most realistic, on the basis of individual criteria;

- finally, it was possible to summarize the consequences of the GATT commitments for each sector (indicating the hypotheses used and the changes envisaged by the CAP, as reformed in May 1992), and thus arrive at a conclusion about GATT/CAP compatibility.

WHAT CONCLUSIONS?

The consequences of the commitments contained in the draft GATT agreements obviously vary from one sector to another, and may diverge considerably depending on the hypothesis chosen.

Since the consequences were projected forward to 1999 the study necessarily had to take into account the outcome of the various hypotheses for changes in macroeconomic indicators for the next few years: there is thus a major degree of uncertainty, since no-one can predict whether these hypotheses will actually come true. We simply selected the hypotheses which seemed the most realistic.

Moreover, given what we knew as at 30 June 1993 it was extremely difficult to separate the effects of the GATT commitments themselves from those brought about by the CAP reform, which will necessarily play some part (it should be pointed out here that, at present, CAP reform plans run only until 1996, and that the future of internal and external support thereafter is unknown: the CAP rules therefore had to be extrapolated for 1996 to 1999, on the basis of a continuation of the current course).

In June 1993 there was little or nothing in the way of studies giving detailed consideration to the consequences (which are only now beginning to emerge) of the new CAP for the various reformed sectors; to some extent we had to 'unbundle' them from the GATT effects themselves, since the CAP reforms were largely undertaken in (risky) anticipation of the GATT conclusions.

Another gap is that, in the case of those sectors which have not yet been reformed, it was obviously impossible to examine the compatibility of the GATT commitments with the new CAP. These sectors are not insignificant, since they include wine, and fruit and vegetables. It is to be feared that these sectors will be 'sacrificed', and that the CAP reform will have to be limited to ratifying the commitments made to GATT without the possibility of changing the manner or level of support. It should be recalled that these sectors are already characterized by a weak COM (common organization of the market). It will therefore only be possible to examine GATT/CAP compatibility for these major sectors once the draft reforms have been presented by the Commission and accepted by the Council. Although the Commission's proposals for reform of the common organization of the market in wine have been published and are being debated, those concerning fruit and vegetables have not yet been published.

The concluding table sets out, sector by sector, the consequences of the GATT commitments, those of the reformed CAP, the hypotheses used and the conclusions regarding compatibility. This is only a highly compressed summary, which must be read in conjunction with the discussion of the hypotheses cited, which provide the key to the whole approach (a 'literal' reading of the conclusions, stripped of context and details, would lead to major errors).

If one wished to sum up the conclusions of this study in a few words, it could be said that incompatibility between the commitments contained in the GATT draft agreements and the CAP, as reformed in May 1992, is the dominant feature in many sectors. The constraints imposed by GATT would therefore unfortunately compound those already introduced by the new CAP.

EUROPEAN PARLIAMENT

DIRECTORATE-GENERAL FOR RESEARCH
Agriculture, Fisheries, Forests and Rural
Development Division

I N F O

'The GATT Uruguay Round agriculture negotiations'

W6 - Part II
FR-7-1994

What issues were at stake in the GATT Uruguay Round negotiations? Why did the Uruguay Round last seven years? Why was agriculture the focus of the discussions? When did the 'round' start, and when and how did it finish? What is the difference between the Dunkel project, the Blair House draft agreement, the agreement of 7 December 1993, the agreement of 15 December 1993 and the Marrakech agreements? How is GATT going to affect European farmers and agricultural and agri-food imports and exports? Which sectors will be most affected, and how? Will the commitments made at GATT be compatible with the common agricultural policy of May 1992? Why? Under what conditions? What role has the European Parliament played in the negotiations and what impetus has it given them?

This is the kind of question which the study has tried to answer, provided that answers are available, on the basis of what appeared to be the most appropriate economic assumptions. The aim was not to steer the reader's opinion in any particular direction but to inform Members and other interested parties as objectively as possible about the implications of the GATT agreements for each of the major production sectors so that they could act, take decisions or adopt a position in full possession of the facts.

The study represents the second part of a piece of research commissioned by the European Parliament's Directorate-General for Research on the subject and constitutes a more detailed, up-to-date version as regards the implications of GATT for each individual sector.

The document, which was written in French but will be translated into the other languages of the Union, begins with a brief chronological overview of the progress of the negotiations, summarizing the agreements of 7 and 15 December 1993 and comparing the substance and implications thereof with those stemming from the draft Blair house agreement. Details are then given, for each of the Union's main agricultural production sectors, of the likely implications of the agreement for the three areas affected: import arrangements, export arrangements and internal support. New information on compatibility between the CAP and GATT is then provided to round off the conclusions of the first part of the study. Lastly, the work of the European Parliament, in particular the various resolutions and reports which it has drawn up on the Uruguay Round, is briefly presented.
There is an attached bibliography which updates the one in the first part of the study.

The purpose of the two-part European Parliament study entitled 'The GATT Uruguay Round agriculture negotiations' is to explain, in everyday language and using summary sheets and tables, the implications of the agreements for the various sectors of European agriculture.

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Press release on the study
"The agricultural negotiations within the GATT Uruguay Round"

STRASBOURG, 17 November 1993
W6 - Part I
FR-7-1993

The European Parliament closely monitored the progress of the Uruguay Round trade negotiations from their inception in 1986, particularly with regard to agriculture, and expressed its views on several occasions in own-initiative resolutions.

Parliament, aware of what was at stake in the negotiations for the common agricultural policy, the future of the Community's 10 million farmers, the Community's economy in general and the daily lives of the 340 million Union citizens that it represents, decided on practical involvement by commissioning a detailed study on the implications of the negotiations and the consequences of the draft agreements (Dunkel compromise draft Blair House Agreement) for agriculture in the Community. The compatibility of the draft agreements and the new CAP, the focus of discussions within the Community and the GATT from November 1992 onwards, was a major concern for the European Parliament, and the study seeks to sum up this complex problem for the main agricultural products concerned, reach conclusions regarding compatibility and set out the consequences of the draft agreements for the vital aspects of Community agriculture.

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GENERAL INTRODUCTION AND METHODOLOGY

The current cycle of trade negotiations under the GATT, known as the Uruguay Round, began in September 1986. The European Parliament's Committee on Agriculture and Committee on External Economic Relations have regularly requested the Commission to keep them informed of the stage reached in the negotiations. They have also tabled EP resolutions on the Uruguay Round and the issues involved for agriculture and the EC in general, dating particularly from the STAVROU report, submitted to the Committee on External Economic Relations in May 1990 and adopted in plenary in September 1990 (resolution A3-215/90). The EP is seeking to use those reports and resolutions to demonstrate its keen interest in this subject, given that it bears responsibility here vis-à-vis the 345 million citizens of Europe. It is also seeking to remedy in this way the democratic deficit from which it, among the Institutions, suffers: there is in fact nothing in the treaties to indicate that Parliament has to be consulted or involved in international negotiations.

In early 1993, observing the battle of experts being waged between the Commission departments, the trade organizations and the national delegations to the Council, and also noting the dearth of studies providing a statistical analysis to back up their evaluation of the draft agreement, the Committee on Agriculture (via its chairman, Mr BORGO) and the Committee on External Economic Relations (via its vice-chairman and rapporteur for the Uruguay Round, Mr STAVROU) asked the Directorate General for Research to include in its 1993-94 research programme a **study evaluating the chapter on agriculture of the Uruguay Round and its consequences for Community agriculture.**

The Directorate General for Research asked the Division for Agriculture, Fisheries, Forestry and Rural Development to undertake that study.

It is no easy matter to evaluate agreements as complex as the GATT agreements. It is no coincidence that the specialist services of the Commission, the Member States and the COPA have been trying desperately to prepare such a study for six months now but have as yet to arrive at clear, precise and unequivocal conclusions. The fact is that, because of large number of economic mechanisms affected by the agreements, a proper evaluation has to involve simulating their effects, on the basis of extremely complicated and complex **econometric models.** If such models are to be established, it is crucial to set in place in advance a large number of macroeconomic hypotheses which will enable the economic equations contained in the model to function. It is essential that such hypotheses be precisely defined and justified if the evaluations are to be able to be assessed and compared. This is therefore a very technical and complex task, involving a variety of disciplines.

Unfortunately, the European Parliament does not itself have the resources needed to carry out such an evaluation, although this is extremely important from the social, economic and, above all, political point of view. Consequently, as our human and financial resources are very limited, we have opted to deal with this vast and complex subject in stages. The first stage involved establishing a systematic approach, providing a global picture of the problem, on the basis of all the available data which had been collected, listed and analysed.

In this first stage of the study, we were unable ourselves to establish an econometric model, for several obvious reasons:

- the fact that such studies exist on the market and have, in the first instance, to be brought together, analysed, understood, compared and assessed, before we ourselves embark on so complicated, difficult and costly a study;
- the short period of the contract (5 months) meant that it was in any case impossible to establish such a model;
- the need, first and foremost, to collect and analyse the general literature on the subject.

The first phase of the study, which we carried out from 1 January to 31 May 1993, therefore comprised an, of necessity, superficial and simplified approach, based on gathering together and analysing the abundant literature existing on the subject (key words: "Uruguay Round" and "agriculture"). As a result, the analysis drawn up cannot exactly tie up with the specific request of the European Parliament and its own focus of interest. We had to a large extent to rely on the figures of the Commission and the COPA, which do not necessarily have the same political objectives or centres of interest as the EP. Therefore, a critical discussion of their various hypotheses seemed to us crucial to enable us to arrive at a conclusion which is our own and takes into account Parliament's specific objectives. That discussion in fact allows us, despite our very limited resources, to employ the conclusions arrived at by the Commission and the COPA as required by the problems of specific interest to us.

Once we had entered into as broad as possible a range of contacts with those bodies directly involved in the issue (see the list of contacts attached) and collected as much written data as possible, we had to evaluate the different sources and draw up a summary critical analysis to enable us to arrive at conclusions in relation to the issues originally of concern to us, ie **"is the Washington draft agreement compatible with the CAP and what will be its consequences for European agriculture?"** We had to sort through the studies and retain the most reliable of them, on the basis of two main criteria:

- presentation of a precise argument, backed by statistics, and basing its evaluation of the agreements and its conclusions on the compatibility of the Washington draft agreement with the CAP reform; studies which did not contain an argument backed by statistics could not be analysed and were therefore not reliable;

- a specific, exhaustive and precise presentation of all the economic and agronomic hypotheses underlying the models; few studies meet this criteria, and we had to rely on the two main studies which set out their hypotheses in detail: the Commission and COPA studies. Some assessments in fact refer to the hypotheses and figures contained in one or the other of these studies in drawing up their own evaluation of what is being proposed.

The list of economic hypotheses was of course vital to enable us to understand, place in context and assess the models based on them. Without the hypotheses, it is not possible to compare the assessments. Where feasible, however, a comparison is extremely interesting and makes it possible to explain the, sometimes huge, differences in the conclusions arrived at in the different evaluations. More particularly, the on occasion radical differences between the conclusions arrived at by the Commission and the COPA, which at first sight appear surprising, can easily be explained if we go back to the different hypotheses and compare them. In fact, deciding what are the most plausible hypotheses, according to our criteria and information, will make it possible to single out the most reliable results in each study and establish a "personal" view as to the compatibility of the agreements with the CAP.

Only in a second phase (and after having fully assimilated the results of the first) will it be possible to effect a more independent analysis that is more thorough-going and more specific in relation to our centres of interest and objectives. This also presupposes that adequate resources will be available to us.

The study is made up as follows: after describing the special features of the agricultural sector and the background to the trade disputes which led to the Uruguay Round, we go on to detail the principles and objectives of the GATT and the outcome of previous negotiating rounds, to introduce the Uruguay Round - its initial objectives, the issues involved for the different parties, the principal stated negotiating positions and the main stages in the negotiations up to the Washington agreement. The most recent events in the negotiations, which are actively taking place as this is being written, will be covered, as will be the discussions on this issue in the European Parliament.

This will enable us to evaluate the draft agreement, on the basis of the main studies analysed: the results of those studies will be presented and compared in tables, while the hypotheses on which they are based will form the subject of a specific, comparative analysis, also in tabular form.

We shall then be in a position, following critical discussion of the results and hypotheses contained in the main studies, to reach our own conclusions as to the compatibility of the Washington draft agreement with the CAP reform and its consequences for agriculture in the Community. We shall then attempt to present very concisely and as clearly as possible (in tables) the conclusions, sector by sector, as to the compatibility and consequences of the commitments contained in the draft agreement. Reading through the tables will provide a general idea of compatibility, on an individual sector basis, but this will be only very incomplete and will need to be supplemented by looking at the analyses which have led to this general conclusion and the hypotheses applied.

As comprehensive as possible a bibliography will be provided by way of annex.

MAIN CONTACTS ESTABLISHED

EUROPEAN PARLIAMENT (F/LUX/B)	Committee on Agriculture, Fisheries and Rural Development: Mr F BORGO, MEP, committee chairman, and Mr F GUILLAUME, MEP. Committee on External Economic Relations: Mr C STAVROU, MEP, 2nd vice-chairman. EP Delegation for Relations with the US: Mr L ORTIZ CLIMENT, MEP. Committee on Development: Mr V GARCIA, MEP. Directorate General for Research: Mr A ANGELIDIS, Head of Division. LIBRARY
EC COMMISSION DG I (B)	Mr Dirk LANGE, administrator and colleague of Mr GUTH (Mr DE PASCALE's department) Documentation Centre
EC COMMISSION DG VI (B)	Documentation Centre Mrs MINCH and colleagues
COPA (B)	Mr P MYLLERUP Director for international affairs Mrs S MATTHEWS Assistant in the directorate for economic affairs
French Ministry of Agriculture	Service des relations internationales, sous-direction des affaires européennes et multilatérales, bureau des relations économiques avec la Communauté Mr SAURAIN Mr DURAND
APCA (F)	Assemblé permanente des chambres d'agriculture Direction des affaires européennes et internationales Mr D BIGOU Mr H BENOIT
INRA (F)	Institut national de la recherche agronomique Station d'économie et de sociologie rurale, Rennes, Service de documentation

ONIC (F)	Office national interprofessionnel des céréales Mrs M MEIZELS, bureau de la stratégie
AGPB (F)	Association générale des producteurs de blé et autre céréales Mr J-J VORIMORE, secretary-general Mr H LE STUM
AGPM (F)	Association générale des producteurs de maïs
Club de Bruxelles (B)	Attendance at conference on 10 and 11 June 1993 on "how European agriculture can adapt to the world markets?" - dealing in particular with the reform of the CAP and Uruguay Round, and developments in the GATT.

1. PREFACE: SPECIFIC FEATURES OF THE AGRICULTURAL SECTOR AND AGRICULTURAL MARKETS

1.1. THE INDIVIDUALITY OF THE AGRICULTURAL SECTOR

The expression **"European agriculture"** is commonly used for convenience, as though it were a single, uniform whole which could be defined in terms of a number of common values, but the differences among the 8.65 million farms in the European agricultural area are so great that it would be more appropriate to refer to European **farmers** and **systems of European agriculture** in the plural. It is true that some of these farms produce the same products, but there is an enormous contrast between the large farms of the northern European plains, run on the most up-to-date lines, and the smallholdings of a few hectares devoted to subsistence farming in many of the southern regions of the Community and in mountainous areas. **The diversity of agricultural structures stems, in particular, from the natural conditions (soil, climate), the size of the farms, the production methods used, the age and technical expertise of the farmers, the economic environment and the degree of development of non-agricultural activities in the various regions of the Community, etc.** Over twenty-five years of the Common Agricultural Policy (CAP) have not eradicated these long-standing differences, which in some cases had been consolidated by national policies existing before the introduction of the **common market in agriculture**, and indeed they have been accentuated by successive Community enlargements.

Whilst stark contrasts do exist between agricultural structures in the European Economic Community (EEC) from one country to another, and indeed from one region to another, there is, however, a common denominator which differentiates European agriculture as a whole from agricultural systems elsewhere in the world, in particular the United States. **The basic model for European agriculture is a small, often fragmented, family business, engaging in mixed farming using labour-intensive methods.** The following is a telling comparison. In 1957, when the Community came into being, it had 65 million hectares of farmland, worked by 17.5 million farmers, to feed the Community population of 150 million. At the same time, the United States had more than 400 million hectares for a population of 200 million, whilst the former Soviet Union had more than 600 million hectares for a population of just under 250 million. On average, each American farmer had 100 hectares of land, twenty times the area worked by his European counterpart (5 ha). Each American farmer fed an average of 50 people, whereas his European counterpart fed only 10 and **the Community produced only 85% of its food needs.** Thirty years on, although employment in the agricultural sector has been halved, the average area of farms in the EEC is 13 ha, compared with 200 ha in the United States, and the density of agricultural assets is 8 annual labour units per 100 ha, against less than 1 annual labour unit/100 ha in the United States. Some 60% of farms in the Community have an area of less than 5 ha, this figure rising to over 80% in the case of Portugal.

Given this structural shortcoming, one of the most urgent tasks of the Common Agricultural Policy (CAP) was to increase agricultural incomes. There were two ways of achieving this: by paying direct income **subsidies** to farms, or by fixing **remunerative market prices**. The founder States of the Community chose this **second option** for most products. In view of the large number of farmers involved and the wide variety of economic and working conditions, this method was less bureaucratic and cumbersome than direct income subsidies (interestingly, in 1992, in the third phase of CAP reform, this approach was reversed). Moreover, this policy fitted in well with the course taken by most of the Member States, and avoided abrupt switches in national policies. The market and price policy was later supplemented by a common socio-structural policy.

The EEC is not alone in having an agricultural policy: indeed, all other industrialized countries have some means or other of protecting their agricultural sector. For instance, in 1987, the United States accorded 11,250 US dollars per farmer in agricultural subsidies, approximately **five times** the amount of the average aid granted to European farmers under the CAP (EAGGF - Guarantee and Guidance sections).

1.2. FEATURES OF INTERNATIONAL AGRICULTURAL MARKETS

The EEC and some other countries (such as Japan) uphold the very important principle that **agriculture is a very special sector, which is subject to climatic, soil, biological, economic and social constraints. Accordingly, trade in agricultural products can never be treated in the same way as other areas of trade, nor can the rules governing those other areas be applied directly to agriculture.** Agricultural products are peculiar in that they are bulky and (to a greater or lesser extent) perishable, which determines the way in which they are marketed, and they have the important strategic role of feeding the population. Taken together with their sensitivity to natural phenomena (droughts, floods, soil erosion, etc), these characteristics explain the two principal features of agricultural trade: **the low relative volume of international markets and the small number of products involved.** Moreover, in most cases, quantities sold on the world market merely reflect short-term fluctuations in production in the large producer countries, whereas the other component of the market, demand, is characterized by its very high stability and inelasticity in relation to supply. This means that world market prices are subject to major fluctuations: this is particularly true of sugar, cereals and dairy products. In the case of other products, such as bovine meat, sheepmeat, tobacco and wine, there is no real world market, and prices vary according to the destination of the exports. Hence the overriding attachment of all countries - from the poorest to the most highly "developed" - to food security. This explains the basic mechanisms of the CAP and the American Farm Bill, and why it is difficult to liberalize agricultural markets along the lines of markets in other sectors. The fact that, throughout the various GATT rounds, agricultural products have always been treated separately, is directly attributable to these two characteristics, which still apply.

1.3. THE ORIGIN OF AGRICULTURAL TRADE CONFLICTS

As stated above, the volume of international agricultural trade is relatively low and restricted to products which can be stored. To cite an example, in 1990, world agricultural trade amounted to only 10% of total trade (US$ 320 billion and US$ 2,655 billion respectively, and falling; see Table 1 at the end of this chapter). This is, for instance, true of feed-grain, one of the principal products traded on world markets (world production in 1989 was 802.4 million tonnes, and world trade 94.0 million tonnes, or 11.7% of production), and oilseeds (production in 1989 244.8 million tonnes, world trade 31.3 million tonnes, or 12.8% of production). **Most of the world's agricultural production is, therefore, sold for local consumption.** Given limited agricultural market volumes, there will inevitably be a trade war to capture these markets once the volume of supply exceeds, however slightly, the volume of demand (meaning, here, only **solvent demand**, of course). Only a small number of countries, headed by the United States (14%) and the EC (12%), far ahead of Canada (5%), Australia

(4%) and New Zealand (2%), export agricultural food products worldwide. Solvent demand for agricultural products is also highly concentrated: the EC (23%), the United States (11%), the former USSR (9%) and Japan (8%) together account for more than half of all imports of agricultural food products (1986 figures). As to the dependence of world markets on the EC and the United States, the two leading international trading countries in agricultural food products, Community agricultural trade accounts for 12.1% of total extra-Community imports (US$ 71.2 billion) and 8.5% of total extra-Community exports (US$ 44 billion), giving a **deficit** of US$ 26.4 billion (1990 figures). The corresponding figures (same year) for the United States were 7.0% (US$ 36.2 billion) and 14.0% (US$ 52.5 billion) respectively, giving a surplus of US$ 16.3 billion (source: The Agricultural Situation in the Community, CEC Report, 1992). These figures confirm the position of the US as "leader" in world trade in agricultural food products (leading exporter, second importer, with a trade balance well in surplus), followed by the EC (leading importer, second exporter, with a trade balance well in deficit). Moreover, the EC has a **negative balance** of ECU 2.5 billion in its agricultural trade with the US (1990).

What has happened is that since the beginning of the 'eighties, the main agricultural exporting powers have reached, then structurally exceeded, the level of self-sufficiency, while world solvent demand has stagnated. This situation derives from the fact that, as a result of the combined effect of population stagnation and saturation point being reached in the foodstuffs market, domestic demand in the industrialized countries is not growing as fast as supply, and some "southern" countries have achieved self-sufficiency, while most of the developing countries are not solvent. This has given rise to increasingly acute problems in disposing of growing surpluses on limited and saturated markets, which explains the ruthless trade war being waged by the main exporting countries. This situation is an apparent paradox given the food **shortages** suffered by most of the developing countries, ranging from undernourishment to famine. The FAO produces regular reports on the frequently very serious agricultural and foodstuff deficit affecting more than one third of the world's population (it should be stressed that this is non-solvent **demand**).

1.4. THE PROBLEM OF STRUCTURAL SURPLUSES

The root of the trade conflicts among the main agricultural product exporters lies, therefore, in certain surpluses which cannot be placed on the market without subsidies. What is the reason for the appearance of these so-called structural surpluses? As we have seen above, the peculiarity of agricultural products is their **vital strategic nature** in feeding the population. Since it is not possible to forecast agricultural production, governments have done everything within their power to ensure that their countries are self-sufficient in foodstuffs, by supporting domestic production and protecting against imports. By 1960, neither the United States nor the EC had achieved self-sufficiency in many products, and several countries in Europe were still suffering seriously from the effects of the food shortages experienced during the Second World War. Protectionism was, moreover, encouraged by the marked contrasts in the degrees of competitiveness of agriculture from one country to another. That is why the **European Community** established the CAP in 1962. This guarantees a fair income for farmers by means of relatively high internal prices protected against fluctuations in world prices, controls imports by variable levies and promotes exports by refunds, which are also variable. The United States has sought to achieve identical objectives by other means, which are frequently far from as transparent as the EEC levies and refunds (quantitative import restrictions, direct compensatory payments to producers, export subsidies and bonuses in kind, etc). Above all, it must not be forgotten that these policies - which, of course, have been adapted to internal socio-structural conditions - have indisputably succeeded, since self-sufficiency has been achieved and amply exceeded, making the United States and the EEC the world's two leading agricultural exporters; for instance, in the case of staple products such as cereals, oilseeds and dairy products, the EEC and the United States between them account for approximately two-thirds of world exports. As a result, at the beginning of the 'eighties, world agricultural markets rapidly became saturated. This gave rise to an increasingly bitter and costly trade war between the two giants (in competition, moreover, with countries operating a comparatively free trade policy, such as Australia, New Zealand and Argentina, which have enormous agricultural potential and grant only small subsidies, if any, for agricultural exports) over the main products traded: cereals, oilseeds, sugar, dairy products and bovine meat. Export subsidies have become a heavy, even intolerable burden on the respective budgets. World markets are also distorted by these subsidy wars - the first countries to pay the price being the developing countries which are traditional exporters of agricultural products and also find themselves squeezed by the deterioration in the terms of trade, although the reverse applies to net food-importing developing countries, which are able to procure supplies at low prices.

1.5. LEVELS OF SUPPORT FOR AGRICULTURE IN DIFFERENT COUNTRIES

The OECD produces regular calculations showing the level of support given to the agricultural sector in different countries. The figures are based on an overall appraisal of the various different types of State support - both direct and indirect - for agriculture. In 1990 these were estimated to be worth approximately 300 billion US dollars. The calculations show that Japan provides the highest level of protection, and that the EEC has not increased the level of protection which it affords since the start of negotiations in the GATT Uruguay Round, but nor has it reduced it to any appreciable extent. Over the last three years, on the other hand, the figures show a marked reduction in the United States. These differences are attributed basically to fluctuating exchange rates and world prices. The OECD reaches these conclusions by means of an international comparison of the **producer subsidy equivalent** (PSE). This index does not represent a measurement of trade distortion as such. It is the payment that would be required to compensate farmers for the loss of income resulting from the removal of the measures applied, all things being equal in other respects (see **Table 2** at the end of this chapter).

Various contracting parties and some economists have suggested other ways of calculating the level of support for agriculture, giving different results from the OECD method. The EC, for instance, has proposed the SMU (Support Measurement Unit), which differs appreciably from the PSE used by the OECD. However, the PSE is, to date, the reference measurement used in most cases, since no other unit has been universally accepted. There are, on the other hand, various different ways of expressing the PSE, which allow comparisons to be made and lead to different conclusions: the PSE may be expressed as a net percentage of the final value of the product, as a value per hectare of land worked, as a value per producer, or as a value per tonne of product. For instance:

- **percentage PSE** is a global approach allowing comparison of the level of support for agriculture in each country (see **Table 2** at the end of this chapter);

- **PSE by producer** can be used in a comparative study for "social" purposes (see **Table 3** at the end of this chapter);
- **PSE by hectare of land worked** can be used to measure the degree of "intensiveness" of support for each country;
- **PSE by tonne of product** can be used in a comparative study focused directly on the competitive position of the various products in international trade, highlighting the extent to which subsidies contribute artificially to that position.

There are no reliable data on the calculation of the last two indices.

It would be a mistake, however, to consider that agriculture is the only exception to the economic rules, that it benefits from an excessive level of assistance from public funds or that this support could be completely abolished in the name of fair treatment for all sectors of the economy. In actual fact, all human activites, in one way or another, are the subject of governmental action, which varies according to the characteristics peculiar to the sector concerned. **Table 4**, at the end of this chapter, shows, for instance, that other sectors of the economy of the EEC, such as transport, also enjoy subsidies, which may be far higher than those granted to agriculture.

1.6. THE PROCESS OF GLOBALIZATION OF ECONOMIC ACTIVITY AND AGRICULTURE

Foreign trade is the oldest manifestation of international economic interdependence and the interaction between the two fundamental factors - imports and exports - to achieve a balance between supply and demand in the context of open economic systems. Agricultural trade obeys certain rules which follow from the nature and characteristics of these products (bulky and perishable), on the one hand, and from the strategic importance for feeding (first and foremost) local populations, on the other.

Certain economists who champion the cause of free trade have argued at length in favour of the expected benefits of globalization of the world's economies (economies of scale, technological breakthroughs, economic growth, employment etc) for partners in international trade. It is true that there is a positive connection between trade and economic growth, just as other forms of international cooperation have a favourable impact on development, although the distribution of these benefits among the partners involved is not known with sufficient precision. The economic cost of insufficient liberalization of world trade is, naturally, higher for the beneficiary countries (net exporters), and is doubtless aggravated by the absence of a clearly defined and universally respected multilateral regulatory framework.

It is, moreover, accepted that the globalization of economic activity and the resulting system of interdependence between one country and another seriously reduce the room for manoeuvre for national governments to apply economic policies of their own and to implement national measures suited to the conditions and requirements of economic units in the country concerned.

This interdependence has also made it more difficult to define and defend the national interest, which is no longer confined to the geographical frontiers of a nation-State. An increasing proportion of the activity which contributes to the wealth of a country is now carried on abroad (imports) and, even when this wealth creation occurs within its territory (exports), there is an increasing probability that it derives from activities conducted by foreign nationals for whom the goods are intended (multinationals).

This phenomenon has led to a new international division of labour, with the result that production has been transferred to countries with low wage costs.

The globalization of economic activity inevitably results in a certain degree of uniformity among economic systems. Nevertheless, many differences remain from one country to another in lifestyles and working methods. Trading partners have different traditions, aspirations, social values and regulatory frameworks.

The act of competing for markets can, therefore, give rise to tensions resulting from the incompatibility of different socio-economic systems. Interpenetration of markets can, moreover, give rise to major socio-economic imbalances (introduction of new habits, cessation of traditional economic activities which cannot stand up to foreign competition, etc.), not forgetting the adverse environmental impact of, for instance, increased use of non-renewable energy resources in transporting goods, etc.

In the case of agriculture, globalization is (and will continue to be) limited, because, as we have mentioned above, agricultural products, by virtue of their nature and characteristics, cannot be treated in the same way as industrial goods. This is evidenced by, inter alia, the low proportion of agricultural products in world trade (only 10% of total international trade), which actually fell by 6.5 percentage points during the period 1970-1990, giving way principally to manufactured goods (see **Table 1** at the end of this chapter).

International economic interdependence does indeed exist in agriculture as in the other sectors of the economy, but it is severely limited, depending as it does on aspects of agronomy, such as climate, soil and biological factors. Moreover, advances in biotechnology, climatic change and new production techniques have reduced this interdependence to a small number of products (a few tropical and other products), since most crops can now be grown virtually anywhere. Given the inelasticity of demand for agricultural food products (which leaves room for manoeuvre only in the case of new or high-quality products), world trade in these products can be expanded only at the cost of market share held by another partner.

The EC is a striking example if we consider the composition of its imports of agricultural food products, the overwhelming majority of which are products which could be grown within the Community.

Witness that in 1989/90, the Community imported 53 million tonnes of soya beans, soya meal, corn gluten feed and other cereal substitutes as animal feedingstuffs; 6.4 million tonnes of cereals and 0.6 million tonnes of rice; 2.05 million tonnes of sugar (including sugar in processed products); 2.65 million hl of wine (including vermouths and flavoured wines); 1.7 million tonnes of fresh fruits (not including citrus fruits), 1.5 million tonnes of citrus fruits and 0.9 million tonnes of fresh vegetables; 1 million tonnes of cotton (fibres); 0.463 thousand tonnes of tobacco (raw); 0.438 thousand tonnes of potatoes; 295,000 tonnes of bovine meat, 251,000 tonnes of sheepmeat, 112,000 tonnes of poultrymeat and 40,000 tonnes of pigmeat (live animals and meat expressed in terms of fresh carcase weight, including meat preserves); 113,000 tonnes of cheese, 89,000 tonnes of butter and 63,000 tonnes of casein; 78,000 tonnes of olive oil; 67,000 tonnes of alfalfa (flour); 25,000 tonnes of eggs; floricultural products of a value equivalent to 495.4 MECU, etc.

Most of these imports enjoy preferential access, including, in the majority of cases, total exemption from customs duties and substantial reductions in levies, which represents an appreciable loss of own resources for the Community budget, amounting to several billion ECU, but which has never been calculated precisely. According to some estimates, these imports correspond to an area of over 20 million ha, which is thus transferred away from Community agriculture (now obliged to set aside part of its own land, following the CAP reform) to non-member countries. Community dependence on external sources has become particularly serious in certain areas, such as the oilseeds sector, in which Community imports account for 44% of world trade (48% in the case of soya). This dependence stems from the artificial limitation of Community production (CAP reform + Blair house draft accord), it being perfectly possible to grow these same products within the EC.

It is because of the current economic crisis and growing competition in world trade that there has recently been such a strong tendency to relocate production in low-wage-cost countries, and in view of this there is cause for grave concern about the economy of the Community in a period of deep recession and rising unemployment. The debate triggered off in France by the publication of the Arthuis report, and the renegotiation of the NAFTA agreement, show how important it is to combat the likely effects of relocation, particularly exploitation of child labour and other unfair social dumping practices, which violate human rights and human dignity.

It is vital that certain minimum social conditions be respected in the interests of equity, which is a question of human dignity and should prevail in international trade. However, the theory of comparative advantages and concern to promote economic development through trade (which was the historical basis for the development of capitalism in Europe) led the founders of GATT to decide not to concern themselves with equitable labour standards based, for example, on the ILO's International Labour Code.

From the first, the idea of introducing the principle of maintaining reasonable labour standards into international trade negotiations was in the air, being mentioned in the Havana Charter of 1948. However, several attempts to initiate a debate on establishing a link between trade and human rights failed. The time has therefore come to reopen the debate on the social clause and to make this one of the key issues in GATT negotiations.

TABLE 1

Breakdown of world exports by product, 1970-1990
(percentage based on value)

	1970	1980	1990
Goods	81	83	81
Market services	19	17	19
	100	100	100
Agricultural products	16 1/2	12 1/2	10
Mining and quarrying	12	22 1/2	11 1/2
Manufactured goods	50	45 1/2	57
Transport	8 1/2	7 1/2	6
Travel	5 1/2	4	5 1/2
Other market services and income	6	6	7

Source: GATT

TABLE 2

PSE*, net percentage

	1984	1985	1986	1987	1988	1989	1990	1991
Canada	31	39	49	46	43	36	45	45
Australia	10	14	16	11	10	10	15	15
Austria	33	39	50	53	48	41	50	52
EEC (1)	**32**	**43**	**51**	**51**	**49**	**41**	**49**	**49**
Finland	60	67	70	71	70	69	72	71
Japan	67	69	76	77	74	70	66	66
New Zealand	18	23	33	14	8	5	5	4
Sweden	38	40	54	61	58	52	61	59
USA	28	32	43	41	34	28	29	30
AVE. OECD	34	41	51	50	45	40	45	45

*PSE= Producer Subsidy Equivalent
(1): EEC of the 10, up to 1985
EEC of the 12, from 1981
Former GDR included in EEC since 1990
1990: estimates
1991: provisional data

TABLE 3

PSE*, US$/producer

	Ave. 79-86	1987	1988	1989	1990	1991
Australia	4000	4000	4000	4000	6000	5000
Canada	10000	17000	16000	15000	20000	22000
EEC (1)	**7000**	**10000**	**10000**	**9000**	**13000**	**13000**
Japan	9000	16000	18000	17000	16000	17000
New Zealand	7000	3000	2000	2000	2000	1000
USA	15000	26000	23000	19000	22000	22000
AVE. OECD	9000	14000	14000	13000	16000	16000

*PSE= Producer Subsidy Equivalent
(1): EEC of the 10, up to 1985
EEC of the 12, from 1986
Former GDR included in EEC since 1990
1990: estimates
1991: provisional data

Source: **OECD, Agricultural** policies, markets **and** trade, 1992.

TABLE 4

EC: SUBSIDIES BY SECTOR

% of value added

	Agriculture		Manufac-turing		Ship-building		Railways	
	1981-86	1986-88	1981-86	1986-88	1981-86	1986-88	1981-86	1986-88
Italy	na	na	9.5	6.7	45.9	28.2	49.0	8.0
Belgium	7.3	6.2	6.4	4.4	27.7	12.3	70.0	63.0
France	12.1	7.6	4.9	3.7	56.6	68.0	38.0	29.0
Netherlands	7.2	6.2	4.1	3.3	10.7	3.8	22.0	6.0
UK	14.1	8.6	3.8	2.7	21.6	25.0	18.0	9.0
FRG	9.8	13.5	3.0	2.7	12.3	16.6	37.0	32.0

Source:
1. OECD
2. The Economist, 23.11.1991

2. THE GATT URUGUAY ROUND, FROM THE PUNTA DEL ESTE DECLARATION TO THE WASHINGTON DRAFT EC-US AGREEMENT ON AGRICULTURE

2.1. PRINCIPLES AND OBJECTIVES OF THE GATT - THE FIRST SEVEN ROUNDS AND THEIR RESULTS

2.1.1. WHAT IS THE GATT?

The General Agreement on Tariffs and Trade was negotiated in 1947 and entered into force in January 1948. It is the only international treaty which lays down concerted rules for world trade. There are currently 116 "contracting parties". The Community is not a contracting party as such, but the interests of members are defended jointly by the Commission.

2.1.2. PRINCIPLES AND OBJECTIVES OF THE GATT

The GATT is complex, but is derived from a limited number of simple objectives and principles:

- **non-discrimination in trade.** The best-known clause, namely the "most-favoured nation" clause, provides that member countries, known as contracting parties, are obliged to grant to each other treatment as favourable as the treatment which they give to any other country. There are two exceptions: regional trading arrangements, such as the European Economic Community (EEC), deriving from Article XXIV (see below), and provisions in favour of developing countries;

- **customs duties as, in principle, the only means of external protection, and the binding of these duties.** The customs duties negotiated between the contracting parties are listed, for each member country, in tariff schedules (the Common Customs Tariff, or CCT, in the case of the EEC), and included in the Agreement. Increases in customs duties, in principle prohibited, trigger compulsory compensation to the GATT partners - hence the term "bound" duties;

- **consultation, conciliation and dispute settlement.** Most disputes are settled directly between the member countries concerned, but in recent years increasing use has had to be made of special working parties ("panels"), consisting of independent experts chosen in their personal capacity from among the nationals of countries which do not have a direct interest in the dispute concerned;

- **waivers and possible emergency action.** In certain cases, Article XIX authorizes member countries to introduce restrictions at their borders or to suspend tariff concessions when imports cause or threaten serious injury to domestic producers;

- **quantitative import restrictions.** These are theoretically banned, but many nevertheless exist, particularly in agriculture. In 1955, moreover, the US, under a 1951 national law (the Agricultural Adjustment Act), secured a waiver for them, a theoretically temporary derogation (which has lasted over 40 years!) with a very broad scope, which has enabled it to limit its agricultural imports in all sectors it considers sensitive;

- **regional trading arrangements and provisions in favour of developing countries.** Article XXIV permits groups of countries which have concluded such arrangements (elimination or reduction of barriers to reciprocal trade) to depart, on that basis, from the general rule of most-favoured nation treatment, without, however, erecting barriers to trade with other countries. Furthermore, since the Tokyo Round, developing countries have been permitted to conclude preferential regional or global trading arrangements which also depart from the most-favoured nation rule.

2.1.3. THE FIRST SEVEN MULTILATERAL TRADE NEGOTIATION ROUNDS AND THEIR RESULTS

In order to achieve a substantial reduction in customs tariffs and other barriers to trade, seven sets of multilateral trade negotiations (MTNs) have already been held under the GATT:

- 1947, in Geneva (Switzerland),
- 1949, in Annecy (France),
- 1951, in Torquay (United Kingdom),
- 1956, in Geneva,
- 1960-61, in Geneva (Dillon Round),
- 1964-67, in Geneva (Kennedy Round),
- 1973-79, in Geneva (Tokyo Round).

Ninety-nine countries participated in the latest cycle completed to date, the Tokyo Round. This was concluded, in 1979, with agreements covering, in particular, an improved legal framework for the conduct of international trade (including the establishment of a permanent legal basis for the preferential tariff and non-tariff treatment in favour of and among developing countries), non-tariff measures (subsidies and countervailing duties), improvement of the 1967 GATT anti-dumping code, bovine meat and dairy products, tropical products and special treatment for developing countries. Participating countries also agreed to reduce customs duties on a large number of industrial and agricultural products, for the most part to be implemented progressively over a period of seven years from 1 January 1980.

The Tokyo Round made major advances in the following areas:

- **customs duties:** reduction or binding of duties negotiated covers trade worth more than 300 billion US dollars;

- **non-tariff measures:**
  1) subsidies and countervailing duties: these measures may be imposed only if evidence can be provided that the subsidized imports concerned are indeed adversely affecting the national industry making the request;

  2) import licensing procedures: the parties committed themselves to simplifying these procedures and administering them in a fair and equitable manner;

  3) GATT anti-dumping code (Article VI): this was revised in such a way as to bring the provisions on anti-dumping duties into line with the corresponding provisions on the subsidies code and countervailing duties;

- legal framework governing **international trade:**

  1) differential and more favourable treatment, reciprocity and fuller participation of developing countries: preferential tariff and non-tariff treatment in favour of and among developing countries was made

into a permanent legal feature of the world trading system. This "enabling clause" provided, inter alia, a legal basis for generalized preferences systems (GPSs);

2) trade measures taken for balance-of-payments purposes: these practices are based on certain principles and strictly codified;

3) safeguard action for development purposes. Greater latitude granted to developing countries as regards the trade measures necessary for their fundamental development needs;

4) understanding regarding notification, consultation, dispute settlement and surveillance within the GATT framework. Existing mechanisms in these areas improved;

agriculture: in theory, the agreements on tariff and non-tariff concessions and all the multilateral agreements concluded in the Tokyo Round apply to **agricultural products** just as they do to industrial products. In addition to this, a purely administrative arrangement was reached on **bovine meat**, with the creation of an International Meat Council, and an international **dairy** arrangement which, inter alia, under the aegis of an International Dairy Products Council, fixes **minimum prices** applicable in international trade in certain milk powders, milk fat, including butter, and cheeses, with a view to balancing supply and demand. In practice, the situation has not turned out quite like this. The effectiveness of the agreements has been impaired, because they have not always been applied as strictly as had been intended;

tropical products: reductions, by the industrialized countries, in import duties and other barriers to exports of tropical products from developing countries were implemented in 1976 and 1977; others, subsequently negotiated, took effect as from 1980. These concessions mainly affect coffee, cocoa, tea and spices.

2.2. THE URUGUAY ROUND: OBJECTIVES, ISSUES AND POSITIONS, PROGRESS OF THE NEGOTIATIONS AND MAIN STAGES

2.2.1. INTRODUCTION

Seven years after the end of the Tokyo Round, and even though the commitments entered into had not been met in full, certain States (in particular the United States) felt the need for further multilateral negotiations to curb the trend towards concluding bilateral agreements and market sharing outside the GATT framework, and to restrict the subsidy race in which a large number of countries were involved.

In September 1986 a new round of GATT negotiations opened at **Punta del Este (Uruguay)**; in view of the important issues it raises, **international agricultural trade was to be one of the main subjects for negotiations**, the objective being to "reduce the uncertainty, imbalances and instability in world agricultural markets". These negotiations were expected to be completed at a GATT ministerial meeting in Brussels in late 1990.

In 1985, before the new round of negotiations was lauched, the European Economic Community (EEC) had raised objections to an undertaking of this kind, fearing - rightly, as it has turned out - that it would be obliged to make concessions leading inevitably to a fundamental challenge to the Common Agricultural Policy (CAP). The EEC therefore asserted from the outset that it was prepared to discuss international agricultural trade, **but only provided that the principles and instruments of the CAP were not called into question.**

2.2.2. THE PUNTA DEL ESTE MINISTERIAL MEETING (SEPTEMBER 1986)

At the ministerial meeting held at Punta del Este in September 1986, the GATT contracting parties set the following objectives for the agricultural negotiations:

> "AGRICULTURE
>
> CONTRACTING PARTIES agree that there is an urgent need to bring more discipline and predictability to world agricultural trade by correcting and preventing restrictions and distortions including those related to structural surpluses so as to reduce the uncertainty, imbalances and instability in world agricultural markets.
>
> Negotiations shall aim to achieve greater liberalization of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines, taking into account the general principles governing the negotiations, by:
>
> i) improving **market** access through, inter alia, the reduction of import barriers;
>
> ii) improving the competitive environment by **increasing discipline** on the use of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade, including the phased reduction of their negative effects and dealing with their causes;

iii) minimizing the adverse effects that **sanitary and phytosanitary regulations and barriers** can have on trade in agriculture, taking into account the relevant international agreements.

In order to achieve the above objectives, the negotiating group having primary responsibility for all aspects of agriculture will use the Recommendations adopted by the Contracting Parties at their Fortieth Session, which were developed in accordance with the GATT 1982 Ministerial Programme, and take account of the approaches suggested in the work of the Committee on Trade in Agriculture without prejudice to other alternatives that might achieve the objectives of the Negotiations."

The Community thus secured the inclusion in the negotiations of all provisions affecting agricultural trade, whether imports or exports, making allowance for the individual features and problems peculiar to agriculture, whereas other contracting parties, in particular the United States, wanted the talks to be confined initially to measures governing exports and imports, disregarding those relating to domestic policies.

All the contracting parties agreed to observe a **standstill**, with immediate effect and until negotiations were concluded, in measures which might have an adverse effect on international trade. Under that standstill agreement, each participant undertook not to adopt any measure which would enable it to improve its negotiating position.

In September 1986, the **European Parliament (EP)** adopted a long resolution (OJEC 255 of 13.10.1986, p 69) on the new round of multilateral negotiations within the GATT, which it forwarded to the Ministers attending the Punta del Este meeting. In the section of this document devoted to international agricultural trade, the EP considered that improvements should be made as soon as possible to the rules and disciplines governing international agricultural trade, and that direct and indirect assistance to exports, in so far as it affected world trade, should be restricted, while taking account of the interests of the developing countries, which are frequently net importers of agricultural products. The EEC needed, in any case, to uphold the priorities of the CAP. The EP was thus largely endorsing the position adopted by the Commission and the Council.

In 1988 the EP restated its position on the stage reached in the GATT negotiations, adopting a resolution (OJEC C 326 of 19.12.1988, p 315), which was forwarded to the ministerial meeting in Montreal, and in 1990 it adopted another resolution (minutes of proceedings of the sitting of 17.05.1990, part II, p 68), which led to the preparation of a draft report by the Committee on External Economic Relations (EP 143.122; opinion of the Committee on Agriculture; EP 140.436; see detailed chapter on the role of the EP at the end of this Section).

2.2.3. PROGRESS OF THE NEGOTIATIONS, FROM PUNTA DEL ESTE TO MONTREAL

Since the start of the Uruguay Round at Punta del Este in September 1986, progress in the negotiations on **agriculture** has been at the rate of "two steps forward, one step back". It might justifiably be said that negotiations proper did not begin until the second half of 1990.

Four groups of countries emerged as the main protagonists in these agricultural trade talks: the United States, the EC, the Cairns Group (Australia, Canada, New Zealand, Hungary, Fiji, Brazil, Uruguay, Argentina, Malaysia, Indonesia, the Philippines, Thailand, Colombia and Chile), and the diffuse group of developing countries (some of which also belong to the Cairns Group).

From the outset these (groups of) countries put forward totally different approaches to bringing the negotiations to a conclusion. The most radical initial proposals were put forward by the **United States**, the cornerstone being a proposal on the total liberalization of agricultural trade, **under a "tariffication" system based on an agreement providing, on the one hand, for common measurement of the various levels of overall support and, on the other, a timetable for phasing out such support over ten years (the "zero option").**

In its concern to achieve total liberalization of world trade in agricultural products, of which its members are net exporters, the Cairns Group took up a position close in spirit to that of the United States. But, unlike the United States, the Cairns Group also advocates the rapid application of corrective measures obliging exporters to reduce their stocks without disturbing trade, the freezing of trade barriers and all subsidies affecting trade, increased market access in the context of agreed percentages and the implementation of phased reductions in export subsidies and producer subsidies.

Faced with these proposals, the EC was obliged to adopt a rather defensive position, leading it to recommend a dual pricing system, so as to preserve a style of agriculture in Europe capable of ensuring the survival of a rural economy which the Community regards as vital. The Community advocated a significant reduction in all types of support, and various different mechanisms were proposed to achieve this. At the same time, **the Community stressed that it was already firmly** committed to the process **of adapting the CAP along the lines sought by other contracting** parties - it had been implementing reforms in certain sectors since 1983 and broadening stabilization measures since February 1988.

Up to this point the **developing countries** had not played a major part in the negotiations on agricultural trade, except as regards tropical products. Some of the developing countries belong to the Cairns Group.

On the basis of the positions oriiginally adopted, the negotiations revolved initially around the question of how to negotiate and how to seek a common approach. From then onwards, serious problems arose, leading to the failure of the **Montreal "mid-term review" of December 1988.**

2.2.4. THE MID-TERM REVIEW IN MONTREAL (DECEMBER 1988) AND GENEVA MEETING (APRIL 1989)

The major differences between the European Community and the United States at the **"mid-term review"** meeting of the relevant ministers **in Montreal in December 1988** meant that universal agreement could not be reached on how the negotiations should proceed. Another meeting, convened in **Geneva in April 1989**, had to be held before the following agreement on agriculture could be reached:

"AGRICULTURE

1. The Negotiating Group on Agriculture has made substantial progress in elaborating the elements of the negotiating proposals and submissions under the subsequent negotiating process. The stage has now been reached in this process where the general direction and procedures to be followed in the final phases of the negotiations need to be defined in operational terms so as to provide a framework for liberalizing trade in agriculture and bringing all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines.

2. There is a broad measure of consensus that agricultural policies should be more responsive to international market signals in order to meet the objective of liberalization of international trade and that support and protection should be progressively reduced and provided in a less trade-distorting manner.

3. The particular needs and conditions of developing countries should be fully taken into account at all stages of the negotiation in conformity with the principle of special and differential treatment to developing countries as laid down in the Punta del Este Declaration.

4. Ministers accordingly endorse a framework approach comprising the following interrelated long- and short-term elements and arrangements on sanitary and phytosanitary regulations.

A. LONG-TERM ELEMENTS AND GUIDELINES FOR REFORM

5. Ministers agree that the long-term objective of the agricultural negotiations is to establish a fair and market-oriented agricultural trading system and that a reform process should be initiated through the negotiation of commitments on support and protection and through the establishment of strengthened and more operationally effective GATT rules and disciplines.

6. The above-mentioned long-term objective is to provide for 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. This goal will be realized through negotiations on specific policies and measures, through the negotiation of commitments on an aggregate measurement of support, the terms of which will be negotiated, or through a combination of these approaches. Credit will be given for measures implemented since the Punta del Este Declaration which contribute positively to the reform programme.

7. In realizing the long-term objective stated above, the strengthened and more operationally effective GATT rules and disciplines, which would be equally applicable to all contracting parties, and the commitments to be negotiated, should encompass all measures affecting directly or indirectly import access and export competition, in particular:

Import access

- quantitative and other non-tariff access restrictions, whether maintained under waivers, protocols of accession or other derogations and exceptions, and all measures not explicitly provided for in the General Agreement, and the matter of conversion of the measures listed above into tariffs;
- tariffs, including bindings;

Subsidies and export competition

- internal support measures (including income and price support) which directly or indirectly affect trade;
- direct budgetary assistance to exports, other payments on products exported and other forms of export assistance.

Export prohibitions and restrictions

- export prohibitions and restrictions.

8. **Ministers agree that:**

- special and differential treatment to developing countries is an integral element of the negotiations particularly on the strengthened and more operationally effective GATT rules and disciplines;
- government measures on assistance, whether direct or indirect, to encourage agricultural and rural development are an integral part of the development programmes of developing countries;
- ways should be developed to take into account the possible negative effects of the reform process on net food-importing developing countries.

9. **Non-trade concerns**

Participants recognize that factors other than trade policy are taken into account in the conduct of their agricultural policies. In the negotiations to achieve the long-term objective, account will be taken of proposals aimed at addressing participants' concerns such as food security.

10. **Implementation**

Implementation of the first tranche of agreed commitments on the long-term reform programme shall take place in 1991.

11. **Work programme**

Participants are invited to advance by December 1989 detailed proposals for the achievement of the long-term objective, including the following:

- the terms and use of an aggregate measurement of support;
- strengthened and more operationally effective GATT rules and disciplines;
- the modalities of special and differential treatment for developing countries;
- sanitary and phytosanitary regulations and the work programme foreshadowed in (C) below;
- tariffication, decoupled income support, and other ways to adapt support and protection;
- ways to take account of the possible negative effects of the reform process on net food-importing developing countries.

12. Not later than the end of 1990, participants will agree on the long-term reform programme and the period of time for its implementation. Soon thereafter, taking into account the different national procedures for implementation of international agreements, participants will notify their plans for meeting the obligations and commitments agreed upon.

13. **Surveillance**

The reform programme will be subject to multilateral surveillance and other procedures necessary to ensure full compliance with commitments made in the negotiations.

B. **SHORT-TERM ELEMENTS**

14. With effect from the adoption of this decision and continuing until the formal completion of these negotiations on agriculture by December 1990, participants, within the scope of their existing legislation and their existing GATT rights and obligations, undertake to ensure that current domestic and export support and protection levels in the agricultural sector are not exceeded. Participants undertake to ensure that tariff and non-tariff market access barriers in force at the date of this decision are not subsequently intensified in relation to imports of agricultural products nor extended to additional products, including processed agricultural products. Participants shall be deemed to be in compliance with this undertaking so long as the access opportunities granted to individual products in 1989 and 1990 are not less than those granted on average in 1987 and 1988. Participants shall also ensure that support prices to producers, to be expressed in national currencies (ECU in the case of the EEC), that are set or determined directly or indirectly by governments or their agencies are not raised above the level prevailing at the date of this decision or otherwise take actions to ensure that the current levels of support for the commodity concerned are not increased.

15. Participants state their intention to reduce support and protection levels for 1990. This could be done either by using an AMS or by taking specific policy measures. They will notify the undertakings for fulfilling this commitment by October 1989.

16. **Reporting requirements**

Participants agree to report on their compliance with the above undertakings at six-month intervals. The first report shall be submitted not later than 1 December 1989.

17. Any participant may raise any matter relating to or affecting the observance of the commitments at a meeting of the Negotiating Group on Agriculture.

18. In exceptional circumstances (for particular countries excessive rates of inflation will be taken into account) a participant can be relieved by the Negotiating Group on Agriculture of commitments under the above undertakings.

19. **Developing countries**

Developing countries are not expected to subscribe to the commitments under B.

C. **SANITARY AND PHYTOSANITARY REGULATIONS**

20. Ministers endorse harmonization of national regulations as a long-term goal and a work programme embodying the following objectives:
(1) develop harmonization of sanitary and phytosanitary regulations and measures, on the basis of appropriate standards established by relevant international organizations including the Codex Alimentarius Commission, the International Office of Epizootics and the International Plant Protection Convention;
(2) strengthen Article XX so that measures taken to protect human, animal or plant life or health are consistent with sound scientific evidence and use suitable principles of equivalency;
(3) review existing notification and counter-notification procedures to ensure transparency and the existence of an effective notification process for national regulations and bilateral agreements;
(4) develop a consultative process which ensures transparency and allows opportunity for the bilateral resolution of disputes;
(5) improve the effectiveness of the multilateral dispute settlement process within the GATT in order to provide the necessary input of scientific expertise and judgment, relying on relevant international organizations;
(6) assess the possible effects on developing countries of the GATT rules and disciplines for sanitary and phytosanitary measures, and evaluate the need for technical assistance;
(7) examine the possibilities for implementation of the above programme in the context of short-term elements."

In practice, the participants actually agreed on only two points:
- multilateral surveillance over safeguards should be reestablished, inter alia, by abolishing measures not covered by this;
- it was universally recognized that safeguards, by definition, have a limited duration.

At the meeting of the GATT Trade Negotiations Committee (TNC) in Geneva in April 1989, the Americans were forced to consent to a balanced compromise. The text of the agreement did not, in actual fact, advocate the total elimination of subsidies, but only "**substantial progressive reductions in agricultural support**

and protection". The Twelve were given confirmation that the negotiations did indeed cover all direct and indirect aid directly or indirectly affecting international agricultural trade (internal support, barriers to market access, export subsidies). Apparently, therefore, all support instruments were to be negotiated - on an equal footing - and to be subject to commitments of a universal nature.

Moreover, the agreement stated that support and protection would be reduced either by means of an aggregate measurement of support, as advocated by the Twelve, or through negotiations on policies, as the Americans demanded, or again through a combination of the two. It may be noted that no decision was adopted on this.

The Twelve made a concession, by agreeing to consider the option of **"tariffication"** (which consists in converting import barriers into customs duties). But, in exchange, they secured the inclusion in the negotiations of the **"rebalancing"** of external protection (improvement of the EEC's protection against cereal substitutes and vegetable fats, which are currently allowed to enter without levies).

Lastly, thanks to the EEC, the agreement provided for **"special and differential"** treatment of agricultural subsidies for developing countries. It also recognized the need, during a transitional period, to ease the additional burden of increases in world prices on the economies of net food-importing developing countries. This related to food supplies and the granting of financial assistance.

2.2.5. PROPOSALS FOR THE AGRICULTURAL SECTOR BY THE CONTRACTING PARTIES TO THE END OF 1989

During the negotiations within the framework of the Geneva meeting in April 1989, all the contracting parties had undertaken to submit, by the end of the year, substantive proposals for the final negotiating phase, and subsequently did so. The United States of America submitted its proposals on 25 October 1989, the net food-exporting countries, grouped together in the Cairns Group, on 27 November 1989, and the Community on 20 December 1989. We propose to summarize below the proposals of the three main supplier countries and the proposal of a major food importer, Japan.

None of the three proposals, including the one put forward by the United States, which, in the meantime, had abandoned the **"zero option"**, advocated the total withdrawal of State aid. However, all of them stressed the need to expose the agricultural sector more extensively to market forces.

The **United States** document and the **Cairns Group** proposal conclude that extensive liberalization of external agricultural trade is essential, which implies that all export subsidies should be abolished, the conditions governing market access of imported agricultural products fundamentally improved and all support to producers eliminated or limited to a level which does not disturb the market equilibrium. This led to the emergence of the notion of **decoupling**, whereby State aids to agriculture must, as far as possible, be designed so that they do not disrupt the patterns of international trade.

The Community's proposal, on the other hand, argued that the total abolition of price support mechanisms would lead to unacceptable cyclical fluctuations, and that the level of support should be reduced only if necessary to restore market equilibrium. Improvements should be made to the rules on import and export mechanisms to avoid distortions, but the essential functions of those mechanisms should be preserved. Moreover, the principal agricultural product supplier countries should come to an arrangement at world level on the distribution of production and trade, in the form, for instance, of product-by-product agreements. This notion was fundamentally in line with the quantitative approach which the Community adopted in reforming its Common Agricultural Policy, and also with the principle, which has hitherto applied within the GATT framework, whereby a contracting party must limit its claims to a fair share of international agricultural trade. One of the objectives of the negotiations would be to bring these two concepts closer together - on the one hand, the international management of agricultural products according to the laws of the market and, on the other, the sharing-out of agricultural production under multilateral agreements.

THE US PROPOSAL

There are four main aspects to the US proposal:

a) **Market access**
Over a period of ten years, all protection against imports would be progressively reduced. Bilateral agreements such as voluntary restraint agreements and arrangements setting mimimum import prices would be prohibited, as would variable import levies such as those applied by the Community. Moreover, current waivers and other non-tariff import barriers would be converted into tariff quotas as an interim measure to assist the

transition towards the ultimate introduction of a system in which tariffication would be the only lawful means of controlling imports. The implementation of tariff quotas would imply the establishment of import quotas (at bound rates of duty), with duties set at higher rates for any imports in excess of these quotas.

The ultimate objective, to be fully achieved by the end of the transitional period, would be the full tariffication of all forms of protection against imports. However, a special safeguard mechanism would be instituted to protect countries against sudden increases in imports during the transitional period. Over the ten years of transition, there would be:

a) an annual progressive reduction, at bound rates, of the duties applying to imports in excess of the quotas; and
b) an increase in the initial quotas by agreed minimum amounts.

b) Export competition

Export subsidies for a wide range of agricultural products would be abolished over **five years.** The only exceptions would be in respect of subsidies for genuine food aid, and even so the United States hoped that there would be new GATT rules to govern and define food aid deliveries. Export restrictions for certain products in short supply, currently authorized under the GATT, would also be phased out.

c) Internal support

The United States proposed that current national agricultural support measures should be split into three categories: those which were seriously trade-distorting, those whose adverse effects on trade were limited (and which therefore called for the application of "GATT discipline"), and those deemed not to be trade-distorting.

Measures falling within the first category would be completely eliminated within **ten years.** The following policies would be affected:

- regulated price policies;
- income support policies related to production or marketing;
- any subsidy for farm inputs not granted to producers and processors of agricultural products on an equal footing;
- certain marketing programmes (such as transportation subsidies);
- any investment subsidy not granted to all producers on an equal footing.

The following policies would, on the other hand, be authorized:

- income support policies not related to production or marketing;
- environmental protection and conservation programmes;
- disaster aid;
- genuine internal food aid;
- certain marketing programmes (such as business information, promotion, inspection and classification programmes);
- general services (such as research, popularization and education);
- resource withdrawal programmes (such as set-aside);
- certain food stockpiling programmes (not constituting direct price or income support).

All other policies would be permitted, but subject to strict GATT disciplines (for instance, guaranteeing non-discrimination in investment in the farm inputs sector). Reductions in systems of internal support measures would be negotiated on the basis of an aggregate measurement of support.

d) **Phytosanitary and veterinary measures**
The United States wanted all phytosanitary and veterinary legislation to be brought under the aegis of the GATT. Such legislation should be consistent with sound scientific evidence, a clear reference to the much-debated Community ban on the use of hormones in meat preparations. The GATT would, moreover, draw up detailed rules on an effective dispute settlement procedure.

THE PROPOSAL OF THE CAIRNS GROUP COUNTRIES

The CAIRNS Group suggested that an agricultural trade reform should extend over a period of **ten years**, being complete, integrated and fair, and offering no possibility of reinforcing protective measures, except in carefully defined cases in which such provisions could be adopted for limited periods. The level of support and protection should be reduced systematically, on the understanding that all producers and all products would be involved. In this respect, the reduction of barriers to import access would be accompanied by a reduction in export subsidies and internal support. The extent of the support given to agriculture and reduction of that support should be quantified and monitored against a general criterion.

The Cairns Group proposal comprised the following points:

a) **Market** access
Ban on introducing or continuing to apply measures which were not expressly authorized under the GATT, including non-tariff barriers and measures such as variable levies and mininum import prices; termination of all exceptional forms of treatment, whether maintained under waivers, protocols of accession or other exceptions; binding of all customs tariffs at a low or, if possible, zero level.

b) Non-tariff measures
Non-tariff barriers should be converted into tariff equivalents, which in turn would be reduced to a very low level over a period to be determined, with tariff quotas being raised in parallel. No increase in the level of protection afforded to the various agricultural products would be tolerated during the transitional period.

c) **Internal support**
Internal support arrangements should be consistent with the strengthened GATT disciplines, with distinctions being drawn between the various types of support: prohibited measures, authorized measures subject to international monitoring and authorized measures. The classification of internal support measures currently in use in these categories would be one of the points to be included in the negotiations. The Cairns Group considered that producer support prices, budgetary expenditure allocated to particular or unspecified products and tax relief should fall within the first two categories.

d) **Export subsidies**
Existing subsidies should be abolished and any new subsidy prohibited.

THE EEC PROPOSAL

For the Community, the aim of the negotiations was to reduce support for the agricultural sector progressively - an essential precondition for the re-establishment of balanced markets and the development of a more market-oriented agricultural trading system. The extent of such a reduction could not be fixed in advance and in the abstract.

All agricultural policy instruments had to be taken into account for the necessary reduction in support. It would be superficial to regard it as sufficient to act exclusively on border protection measures, since the fact remained that internal support devices, such as direct compensatory payments to producers, had a fundamental effect on foreign trade. The Community proposed that reference should be made to a precisely defined and transparent **"Support Measurement Unit"** (SMU), which would encompass **all measures having a genuine influence on the farmer's production** decisions, in particular market price support measures, direct support for production, support designed to reduce the cost of farm inputs, etc. All products for which markets were exposed to disruption at international level would be included. A simpler approach could be adopted for other products. The main characteristics of the SMU recommended by the Community are outlined below.

Reduction of support should be organized around the prevailing situation on world markets. The extent of the reduction must bear some relation to the situation on the world market. Indeed, it was necessary to forge a closer link between agricultural policies and market trends: it would be logical for support to be reduced more severely than the movement in world prices when these prices were dropping, and, conversely, for the reduction in support to be less severe when world prices were on the increase. In this context, a mechanism needed to be developed to establish the period during which world prices needed to be taken into consideration, as well as the extent of reduction in support, which would be adjusted according to world price movements. Provision should also be made for these adjustments to be comparable, even if movements in inflation rates varied from one country to another. The reference period would start in 1986, when the Uruguay Round had begun. In supporting the agricultural sector, priority should be given to measures which did not have a decisive influence on the quantity produced. Commitments to reducing support should be expressed in terms of a proportional reduction in Support Measurement Units, calculated both on a unit basis and on an aggregrate basis. These commitments would have to be entered into at regular intervals. They could differ from product to product or product group to product group. Priority should be given to sectors which were in structural surplus and sectors where there was a high probability of serious disturbance. The Community therefore proposed that pigmeat, eggs and poultry should be added to the sectors already mentioned (cereals, rice, sugar, oilseeds, milk, beef/veal). In the case of products for which it is impossible to calculate support measurement units, equivalent commitments would have to be entered into. Processed agricultural products had also to be included.

The support measurement unit should be calculated by reference to a fixed external price. That was the only way of neutralizing, in particular, the impact of fluctuations in the market and exchange rates, which have nothing to do with support for agriculture. Commitments could then be entered into on a stable basis and in the full knowledge of their implications. Commitments to reduce support, expressed in terms of a percentage reduction in the SMU, could be undertaken for an initial period of **five years**. In the course of the fourth year, the situation on the agricultural markets would be reviewed, in order to determine the extent to which the reduction should be continued. Under the principle of special and differential treatment, developing countries could not be required to enter fully into these commitments unless capable of doing so. The problems of net food-importing developing countries should, moreover, be taken into consideration.

In addition to the reduction in external protection, and in parallel to the cut in internal support, there was another aspect to the Community's proposal, namely the requirement for a **rebalancing** of existing customs structures in the cereals sector, in the sense that substitute products hitherto imported into the Community duty free would, in future, be subject to duty, while the level of protection for cereals should be reduced in compensation. This argument was opposed, in particular, by the United States. However, the nature and extent of the cereal substitutes problem constitute sound arguments in favour of the Community's proposal. Indeed, the problems of the agricultural sector are not attributable to excessively high levels of support alone. The means whereby external protection and support are provided are also a source of serious difficulties. A large number of support systems use a variety of instruments of protection (quotas, variable levies, derogations from GATT rules, etc), the effect of which in practice is a serious reduction in trade flows and, in actual fact, isolation of the internal market from the world market. For products in direct competition with one another, there are import regimes which guarantee a high level of protection for some of these products but provide little or no protection for others. In the case of the Community, this applies to cereals (heavily protected) and their substitutes, and oilseeds (no protection). Lastly, in some sectors, import regimes are not the same for all non-member supplier countries. Some countries which are not developing countries enjoy preferential access, whilst others do not.

These illogical imbalances have consequences for production and trade which do not stem from normal competition. In the Community's view, **"tariffication" is not a reasonable or credible solution to this kind of problem.** If protection were to be based exclusively on customs duties and provision made for these duties to be reduced to zero or a very low rate after a transitional period, the basis for conducting agricultural trade would would, in the end, be completely unrestricted and chaotic. The Community remains convinced that this kind of regime is not viable. It would entail a cycle of crises (with their inevitable social and political consequences), which would be the only means of adjusting agricultural activity. Application of a regime of this kind would be tantamount to extending to all internal markets the chronic instability which is so prevalent on the world market. Sooner or later, there would be an abrupt, ill-considered and therefore dangerous resurgence of intervention by the authorities in the working of the agricultural markets, which would be the exact opposite of what everyone is hoping to achieve. Moreover, the proposed tariffication mechanism is, for the main part, based on the same principle as the Support Measurement Unit (calculation of the difference between the world price and the internal price), but it does not take account of instruments such as deficiency payments, which can have as much of an impact on trade as border protection measures. That impact is proportional to the difference between the internal price of a crop supported by deficiency payments and world prices, and to the level of self-sufficiency of countries using this instrument. For these reasons, an approach which involves a substantial reduction in support and protection by means of an aggregate measurement of support will make it possible to achieve the objectives of the negotiations, while avoiding the pitfalls inherent in separate treatment of support, on the one hand, and protection, on the other.

The Community considers that the above reservations are of fundamental importance. However, the **Community would be prepared to consider the inclusion of certain aspects of tariffication in the rules on external protection, provided that the problem of rebalancing can be resolved within the tariffication framework.** An agreement on the following basis could be considered:

- border protection measures for products in the Support Measurement Unit list and their derivatives and substitutes would be provided by a fixed component. This component, expressed as an absolute value, would be reduced at the same rate as the Support Measurement Unit. It would be weighted to take account of variations in exchange rates and fluctuations on the world market in excess of certain agreed limits. Deficiency payments would be treated in the same way and converted into duties.

- the same arrangements would apply to exports; the total budget allocated to exports could not exceed the amounts levied on imports. External protection regimes based on components linked in this way to the reduction of support would make it possible to eliminate the current inconsistencies and distortions and would bring about an overall level of protection which would be lower, but more balanced than at present. This system would forge a link between the world market and the internal market, whilst ensuring the necessary stability and security.

- to date, no serious proposal has been made on the quantitative limitation of international agricultural trade, such as the fixing of worldwide ceilings for quantities produced, marketable quantities and market shares of the various exporters competing on world markets. However, the Community would stress that in certain exceptional circumstances, the contracting parties must be able to apply quantitative restrictions in relation to domestic agricultural production or factors of agricultural production. An appropriate form of words for Article XI needs, therefore, to be agreed.

JAPAN'S PROPOSAL

Japan presented its proposal on the liberalization of agricultural trade in December 1987, and supplemented and refined it in September and December 1989.

It should first be recalled that, after the EEC, Japan is one of the leading world importers of agricultural products, and that it is highly dependent on its food imports. The key ideas of the Japanese proposal in its "final" version of December 1989 may be summarized in a number of points:

a) Unlike its main trading partners (United States, Cairns Group), Japan does not propose that all aids and subsidies for agriculture should be abolished. It regards a reduction in support for agriculture, where it is trade-distorting, as constructive and realistic, but does not put forward specific measures or time limits. On the other hand, Japan does target export subsidies directly, blaming them for distortions in world trade and overproduction. It calls for their progressive reduction and possible abolition. In its December 1987 proposal, Japan recommended that export subsidies should be scaled down to their 1980 level within five years. There is no trace of this time limit in the final proposal. It should be noted that export subsidies are the only instrument of agricultural support which is directly challenged by Japan, which exports few, if any, agricultural products. For Japan, it is an essential precondition for any agreement on agriculture that they be dismantled.

b) The second crucial point for Japan is the inclusion of non-trade objectives in the agreements: soil conservation and environmental protection, the maintenance of rural employment and communities, and **above all food security for net importers of agricultural products.** The overriding importance of food security for Japan means that multilateral agreements must permit support for domestic production (producer subsidies, subsidies to increase productivity) and protection of that production against imports (customs duties and quantitative import restrictions). The products concerned are foodstuffs of major importance (such as rice in the case of Japan) which account for a large proportion of the daily calorie intake requirement. Details of these, specifying the level of production required to guarantee food security, are to be listed for the benefit of the other countries.

c) In more general terms, with a view to achieving all these non-trade objectives, Japan considers that the future agreement should grant **derogations** to individual countries permitting them to support certain agricultural activities within the framework of national agricultural support policies. Japan does not believe that **internal support** for agriculture in any way hampers the liberalization of international agricultural trade (it should be borne in mind that this country is a net importer of all foodstuffs) and considers that a clear distinction should be drawn between these "inoffensive" domestic forms of support and export subsidies which, in its view, are at the root of the market distortions. Japan insists that for the purposes of an **aggregate measurement of support (AMS)** a distinction should be drawn between external support (export subsidies), on the one hand, and internal support (protection of the producing sector) - involving specific instruments and measures linked to non-trade objectives - on the other, and that the latter should not be counted in the AMS.

d) As regards import duties and restrictions, Japan first calls for **waivers** and other quantitative import restrictions enjoying derogations should cease to be singled out within the GATT and be brought under the same rules as all other import restrictions affecting trade (in other words, be reduced or abolished). Japan is calling for quantitative import restrictions be eliminated but, owing to the unpredictability of agricultural production, also proposes that derogations be maintained to limit imports in the event of surpluses at the domestic supply level.

e) Lastly, Japan insists that, in view of the diversified roles of agriculture (economic, social, food security), it would be difficult to eliminate support and protection for agriculture entirely. Behind this assertion lies Japan's political will to defend its traditional rice-growing industry.

2.2.6. THE COURSE OF THE NEGOTIATIONS IN 1990 UP TO THE "FINAL" BRUSSELS MEETING

At the end of 1989, the United States returned to its initial objective, presenting a new "hard-line" plan to the GATT for the liberalization of world agricultural trade. It demanded the abolition of export subsidies within five years and the removal of internal support within ten years (with the exception of "decoupled" direct income subsidies). It called for import levies to be converted into fixed customs duties, which should subsequently be phased out.

The EEC responded to this new American offensive with an admirable display of unity in its counter-proposals presented at Geneva. The Twelve came out in favour of a comprehensive, progressive and balanced reduction in all forms of support for production over five years, with a review of the situation in the fourth year. In their view, the commitment to reduce support should be expressed in terms of the **"Support Measurement Unit" (SMU)** which they had proposed back in April. They also asked that the efforts already made by the EEC since 1986 in lowering prices and reducing production should be taken into account as part of this exercise.

At the same time, the Europeans continued to defend the **"dual pricing"** system (domestic price and world price), but declared that they were prepared to consider the inclusion of certain tariffication elements in the rules governing external protection, on the understanding that the problem of rebalancing could be resolved in this context. In their view, the tariffication elements could take the following form: border protection for products in the SMU list, their derivatives and their substitutes, would be reduced at a rate similar to the SMU rate; this would be supplemented by a weighting to allow for exchange rate variations and world market fluctuations in excess of certain agreed limits. It was understood that **deficiency payments** and refunds would be treated in the same way. The Twelve restated their proposals on the developing countries.

The Americans, for their part, pursued their hard line. At the start of 1990, they continued to call for separate negotiations on the three forms of support granted to farmers (internal support, barriers to market access, export subsidies), laying stress on the abolition of export subsidies within five years. This approach was unacceptable to the Twelve. In practice, it placed Community refunds and American export subsidies on the same level, relegating deficiency payments (indirect export subsidies), which American farmers would continue to enjoy, to second place. If they had agreed to it, the Twelve would have jeopardized their position as exporters of certain agricultural products, leaving the Americans a clear field.

Meanwhile, the Americans stepped up the pressure, thereby enhancing their position of strength in the negotiations, through certain proposals made by the American Administration in the context of the drafting of the 1990 Farm Bill. In particular, these proposals included an intensified EEP **(Export Enhancement Program)** and increased flexibility of implementation of American farm programmes, which in practice meant increasing the support provided for certain crops.

THE OECD MINISTERIAL MEETING IN PARIS, MAY 1990

The OECD Ministerial Meeting in Paris in May 1990 revealed the full extent and depth of the differences between the EC and the United States on agricultural trade liberalization. The EC refused to give in to the USA's demand that the negotiations should deal with the different areas of support for agriculture separately. The Community insisted that these three sectors should be included in an overall reform proposal. Otherwise, the EC would be obliged to abolish its export subsidies, whereas the United States could continue to guarantee compensatory payments to its farmers through its domestic support programme. The Commission estimated that, if the EC accepted the American proposal to abolish all support for agriculture, internal agricultural prices would fall by between 20 and 35% and 2-3 million European farmers would lose their jobs. The Community's negotiating position centred on the assessment of all the elements which go to make up support for agricultural production, and the phased reduction of this support. The EC stressed that, since the start of the Uruguay Round in 1986, it had dropped its support prices for plant products by 10% (25% in the case of cereals) and for animal products by 15%, by means of milk quotas, production stabilizers and more restrictive price policies and other guarantees.

THE DE ZEEUW DRAFT FRAMEWORK GATT AGREEMENT (JULY 1990)

At the beginning of July 1990, Mr DE ZEEUW, the Chairman of the GATT Negotiating Group on Agriculture, endeavoured to reconcile the American and Community positions in his draft framework agreement on agriculture. His text envisaged the reduction (and not elimination) of support, but adopted the American approach in distinguishing between the three different aspects of agricultural support (internal support, barriers to market access, export subsidies). The most he would accept was that internal support should be reduced using an aggregate measurement of support such as the SMU, which had already been proposed by the Twelve.

He also made provision for export subsidies to be reduced more than other forms of support, but did not tackle the subject of rebalancing. Moreover, there was much evidence in this text of the idea of decoupling, favoured by the Americans. Mr DE ZEEUW rejected Community preference, opting wholesale for the American idea of "tariffication". Indeed, he argued in favour of converting all barriers to market access (quotas, variable levies) into customs duties, and did not adopt any of the European suggestions regarding partial "tariffication" corrected according to world market price movements. Lastly, this text did not take any account of the efforts made by the EEC since 1986 to move closer to world market conditions. The Twelve therefore refused to ratify the draft.

THE G-7 COMPROMISE IN HOUSTON (JULY 1990)

At the Summit Meeting of Heads of State and Government of the seven most industrialized countries (United States, Canada, Japan, Germany, France, United Kingdom and Italy, plus the European Commission) from 9 to 11 July 1990 in Houston, the United States attempted, unsuccessfully, to secure recognition of Mr DE ZEEUW's text as the basis for discussion for the final phase in the Uruguay Round negotiations. The final declaration simply advised the negotiators to bear it in mind as one means of carrying the negotiations forward. The Americans, unable to breach the united front of the Twelve, were forced, like them, to back down and consent to a final declaration which was far more balanced than Mr DE ZEEUW's text had been.

The declaration ("the Houston Compromise") calls for substantial progressive reductions in agricultural support and protection, including internal support systems, market access and export subsidies. It states that the framework for the discussions to come should contain specific and internally consistent assurances that, by using a common measurement and other means, the participating countries would reduce not only internal support, but also export subsidies and import protection. Commitments would be entered into in an equitable way. The declaration speaks of reductions rather than elimination of support and protection, as the Americans had demanded. It does not, moreover, establish a timeframe for the implementation of these reductions, nor does it lay down a scale of preference among them. In other words, all support for agriculture would have to be discontinued. As regards the negotiations on reduction of this support, the declaration strikes a compromise between the positions adopted up to that time by the Americans and the Twelve. It proposes special commitments for each type of support, but interlinked and organized in a consistent way around aggregate support trends. The compromise in this area therefore appears to be balanced between the two parties. It means that all existing agricultural policy instruments have to be taken into account, thus allowing the EC to preserve the consistency of the CAP.

In order to implement the reductions in support and protection, the declaration refers to a common measurement instrument to enable the efforts of all parties to be gauged in an equitable way. Moreover, the final text recognizes the legitimacy of concerns for food security. It also states that the diversity of agricultural support mechanisms from one country to another reflects the differences that exist in economic and social conditions in agriculture. In other words, it acknowledges the existence of diverse forms of agriculture and the need to treat them differently.

THE NEW PROPOSAL OF THE UNITED STATES, AUTUMN 1990

This offer was presented on 13 October 1990 and includes the following, inter alia:

- Internal support: 75% reduction over ten years from 1991, on the basis of the aggregate measurement of support (AMS) calculated for the period 1986-1988; this reduction affects, in particular, market price support and direct payments (to producers) other than those which can be exempted on the basis of criteria to be agreed - including deficiency payments, payments by unit and processing subsidies - taking into account levies or duties paid by producers;

- Border protection: conversion of all measures into tariff equivalents on the basis of their average in 1986-1988; reduction of these tariffs by 75% over ten years from 1991, the tariffs not, in any circumstances, to exceed 50% ad valorem at the end of that period; 75% increase in import tariff quotas over ten years; to protect against fluctuations in world prices, a 50% corrective adjustment when import prices fall to less than 75% of their average for the three preceding marketing years; temporary doubling of the tariff if the quantities imported exceed 120% of the quantities imported during the preceding marketing year, these two safeguard mechanisms not being cumulative for the same product;

- Export subsidies: 90% reduction over ten years from 1991 on the basis of the level of these subsidies in 1986-1988, abolition of export subsidies for processed products by the end of the 1996/97 marketing year.

THE NEW EEC PROPOSAL (NOVEMBER 1990)

The Community had considerable difficulty in formulating a new offer on agricultural trade liberalization for submission to the GATT ministerial meeting in Brussels. It took the Commission two attempts to agree on a proposal to submit to the Council. After seven Agriculture Councils, including two joint meetings with the Foreign Trade Ministers, the Twelve finally reached agreement on the agriculture proposal on 6 November 1990.

The main strands of the Community offer were as follows:

- **Internal support:** 30% reduction in support and protection for the main agricultural products, based on calculation of an aggregate measurement of support. For other products, for which calculations cannot be made in terms of an aggregate measurement of support, specific commitments would be entered into. The base year was to be 1986, when the Uruguay Round started, so as to take account of the efforts made by the EEC from that time onwards to reduce production and freeze agricultural prices. Reductions were to be staggered over five years to 1995/96 and could be brought about by any means which reduced support as a whole, in particular by production limitation measures. If 1986 is taken as the base year, this assumed an annual reduction of 2.9%. The EEC was not prepared to enter into commitments concerning specific instruments;

- **Export refunds**: the reduction of support for agriculture could lead to a considerable reduction in export refunds. Moreover, the EEC undertook to ensure that export refunds would not exceed the difference between internal prices and world market prices or import taxes applied to the same products, and to apply the concept of "equitable share" of trade in a positive way, in accordance with Article XVI of the GATT;

- **Border protection**: the EEC was prepared to convert border protection measures, namely variable import levies, into tariff equivalents which would be reduced by 30% by the 1995/96 marketing year. The tariffs would be calculated to represent the difference between a representative world market price or import price and the EEC intervention price plus 10%. A weighting would compensate for monetary fluctuations and certain fluctuations in the market price compared with the reference price.

- **Rebalancing:** customs duties were to be introduced on imports of cereal substitutes (basically gluten and maize) and oilseeds, which had not hitherto been subject to any customs duty. Tariff quotas should be calculated on average imports over the period 1986/88, with tariffs falling within the 6-12% range. Outside these quotas, the normal tariff would be applied. The Council did not accept the Commission's proposal that the tariff quota should be raised by 8%.

The Community's offer was linked to accompanying internal measures to compensate for loss of income of EEC farmers following an agreement within the GATT. These measures related principally to structural aids not affecting production and conditional upon environmental protection measures, set-aside, extensification and compliance with product quality standards.

THE DECEMBER 1990 MINISTERIAL MEETING IN BRUSSELS

A successful outcome to the Brussels meeting was precluded by the differences between the two offers set out above, since the parties were not prepared to make concessions. After three days of negotiations and progress in other areas, the meeting finally had to come to an end as deadlock had been reached on agriculture. A final attempt was made by Mr HELLSTROM, the Swedish Agriculture Minister, but this failed because of opposition from the EEC, Japan and South Korea.

These two Far Eastern countries are highly sensitive to the consequences of liberalization for rice, a traditional industry to which both producers and consumers are strongly attached. In South Korea, some 85% of farmers (who, in total, account for 17% of all employment) depend on rice growing, and enjoy a system of border protection and direct subsidies which absorb 1.5% of the national budget. The South Koreans would not countenance even a very limited opening (2-3%) of their market to imports, which Japan could have accepted.

At the European Council of 14 and 15 December in Rome, the Heads of State and Government of the Twelve deplored the stalemate in the Uruguay Round negotiations. The Council stressed that only a global approach based on balanced concessions on all sides would lead to results. It recalled that the objective of the negotiations was to strengthen the open multilateral trading system which had made an unprecedented expansion of world trade possible, to extend it to new areas and to achieve the settlement of all disputes within a multilateral framework, while complying with the obligations of the system.

2.2.7. THE RESUMPTION OF NEGOTIATIONS AFTER THE FAILURE OF THE BRUSSELS MEETING; THE DUNKEL COMPROMISE (DECEMBER 1991)

At a meeting convened in Geneva on 31 January 1991 by Mr DUNKEL, GATT Director-General, the chief negotiators of the Uruguay Round decided that, in view of the impossibility of ironing out the main differences, particularly on agriculture, the only way of continuing the multilateral discussions, the decision on formal resumption of which was to be taken shortly by the Trade Negotiations Committee, was over a relatively long period with no specific deadline.

The Uruguay Round negotiations were resumed on 26 February 1991, when the contracting parties adopted a **negotiating framework** for the reform of agricultural subsidies: internal support, export subsidies, import barriers. The EEC declared that it was prepared to enter into specific commitments in these three areas. The following list of technical questions was adopted as an **outline** for the consultations:

- **Internal support:** how to determine policies to be excluded from the reduction commitment, role and definition of an aggregate measurement of support and equivalent commitments, how to make allowance for the high inflation rates in some of the participating countries, and strengthening of GATT rules and disciplines.

- **Market access:** tariffication procedures and scope, possible special safeguard clause for agriculture, commitment regarding minimum access, reduction of existing tariffs and strengthening of GATT rules and disciplines.

- **Export competition:** definition of export subsidies to be subject to the conditions laid down in the final agreement, how to avoid circumvention of commitments while maintaining adequate levels of food aid, strengthening of GATT rules and discipines.

- **Sanitary and phytosanitary measures:** possibility of further improvements to a number of technical provisions and procedures.

- **In all the above areas**, account to be taken of the particular concerns of net food-importing developing countries, and concerns relating to food security.

Mr DUNKEL declared that the Brussels meeting had helped identify the main stumbling blocks for the negotiations.

United States involvement in the Gulf War in the first few months of 1991 had the result of strengthening American leadership on the international scene, whereas, one year earlier, the EEC had succeeded in increasing its world influence by means of the role falling to it as a result of the upheavals in Eastern Europe. It was noted in Brussels that this meant that Washington might try even harder to impose its views in the Uruguay Round negotiations.

During this period, the Commission maintained close contact with the Article 113 Committee and the Council, keeping them abreast of developments in the situation at the meetings of 4 February and 4 March 1991.

After the concessions made by the Community on specific commitments at the Geneva meeting in February 1991, the GATT spotlight focused on Washington. In early March, the US President asked Congress to grant an extension of the fast-track negotiating authority for the GATT and the North American Free Trade

Agreement (NAFTA) under the 1988 Trade Act. Without the fast-track procedure (which limits the Congress vote to straightforward acceptance or rejection of the final agreement, without any opportunity to amend the text), an agreement under the GATT would be strictly hypothetical, since any draft would inevitably be subjected to minute Congress scrutiny and would in all probability be pulled to pieces. This vote gave rise to a general feeling of uneasiness in Washington for several weeks, not because of the GATT but because of political concern in some quarters regarding the non-trade aspects of the NAFTA. Since the rules laid down by Congress in the 1988 Act indissolubly linked the two extensions, there was a genuine risk that the GATT negotiations would be scuppered by the NAFTA. Finally, in May 1991, the two Houses voted with comfortable majorities in favour of the extension - 231 votes against 192 in the House of Representatives and 59 votes against 36 in the Senate.

Having resumed work on 15 April 1991, the GATT took advantage of the enforced interruption caused by the need for the Americans to await renewal of the fast-track authority to set the major political issues on one side and seek a consensus on technical matters. This included, in particular, reaching agreement on customs duties and export subsidies, defining an aggregate support measurement and tackling the problem of inflation, and calculating the various options implicit in an agreement marking the conclusion of the Uruguay Round. Other groups studied the problems peculiar to the developing countries, such as food security and measures to prevent the diversion of food aid.

In November 1991, however, the negotiations were still deadlocked. A meeting on 9 November between Mr Delors, the President of the EEC, and Mr Bush, the US President, in The Hague seemed to pave the way to resumption of the negotiations, on the basis of a 30-35% reduction in Community support over five or six years. Considerable differences in interpretation nevertheless still remained.

At the end of November 1991, in a last-ditch attempt to break the deadlock in the negotiations, Mr Dunkel presented a document in Geneva, suggesting a **five-point compromise**. It comprised the following main points:

"THE DUNKEL COMPROMISE"

internal support	20% reduction in the AMS; commitment product by product; base period: 1986-88; transitional period: 1993-99; compensatory payments (US and EC) in yellow box.
import access	***tariffication:** conversion of all barriers into customs duties; 36% reduction in customs duties (arithmetic mean), with minimum 15% per product; base period: 1986-88; transitional period: 1993-99; possibility of safeguard clause. ***market access:** minimum access 3% of domestic consumption in base period (1986-88), rising to 5% in 1999; transitional period: 1993-99; customs duties: low or nil; current access maintained or increased (if > 3% (86-88)); commitment by product ("tariff line")?
export subsidies	**36%** reduction in refund budgets <u>AND</u> **24%** reduction in volumes exported (with subsidies) commitment product by product; base period: 1986-90; transitional period: 1993-99.

The "Dunkel Compromise" tackled the question of classifying support measures in the **"green box"** (for those deemed not to affect production) or the **"yellow box"** (for those having a distorting effect on trade, which should be reduced).

Commissioner MacSharry's proposals in February 1991 on reforming the Common Agricultural Policy were intended as a firm step towards closer linkage of agriculture with world markets (COM(91) 100 final). In several respects, they reflected American wishes and the Dunkel compromise proposals:

- Internal support prices for cereals were to be reduced by 29% over three years, which would also make it possible to reduce support prices for bovine meat by 15%, pigmeat by 15% and butter by 5%.
- Sheepmeat and bovine meat production would, like milk, be subject to production quotas.
- Reductions in internal support should theoretically eliminate the need for refunds for most products as from 1996-97. This aspect of the reform was entirely in line with the American proposals. One problem still remained, however, as the United States and the Cairns Group were demanding limits on export volumes AND reductions in the budgets allocated to subsidies, which would have appreciably increased constraints on Community exports (for wheat in particular).

There was also a difference of opinion regarding the direct compensatory payments granted to producers by the new CAP. The Dunkel Compromise had placed this form of support in the "yellow box", as trade-distorting measures which should be phased out according to procedures to be finalized as part of the Uruguay Round. The Community had not, of course, intended to abolish these compensatory payments - at the very least not before 1996.

The United States suggested that certain domestic support measures should be placed in a new **"blue box"**, which would apply to domestic support which was **not production-related.** These support measures should either be phased out over longer periods than those in the yellow box, or should be granted a grace period before any reduction was made.

The EC's position was considerably strengthened by the CAP reform proposal, and its situation was reversed: the success or failure of the negotiations now depended on the United States, which bore this responsibility for the first time since the start of the negotiations; the USA had in fact repeatedly claimed that the main obstacle to the success of the negotiations was the "insubordination" of the EC as regards the agricultural proposals. In the communiqué issued by the Council after the Lisbon European Summit in June 1991, the Community stressed that it had proposed essential contributions and made offers which directly affected the key sectors of the negotiations, and called on all the other parties to demonstrate the same flexibility.

2.2.8. DECEMBER 1991-NOVEMBER 1992: FROM THE DUNKEL COMPROMISE TO THE DRAFT WASHINGTON AGREEMENT

THE RESUMPTION OF NEGOTIATIONS IN SPRING 1992 ON THE BASIS OF THE "DUNKEL COMPROMISE"

Between December 1991 and November 1992 the negotiations passed through various stages. The Dunkel Compromise served as a basis for the resumption of negotiations in the spring of 1992. In May 1992, in adopting a radical reform of the CAP, the EC showed its readiness to further demonstrate its goodwill towards the renewal of negotiations. Moreover, the choice of the type of support under the new CAP (direct income subsidies) was directly inspired by the American model.

From October 1992 the run-up to the presidential elections in the United States gave the Americans the impetus to start the negotiations again with a view to securing agreement at all costs on the basis of the "Dunkel Compromise". In order to increase the pressure on the EC, the American Government, in breach of GATT rules, wielded the threat of retaliatory trade measures following the Euro-American dispute on Community support for oilseed production. These retaliatory measures (approximately 100% increase in customs duties) would have involved 300 million US dollars' worth of imports from the EC (mainly French cheeses and alcohols), with the possibility that the lists might be extended to cover a value of 1 billion dollars. If the EC did not give way to the American demands, they were to take effect on 5 December 1992. After the Euro-American discussions on 3 November 1992 failed, the internal cohesion of the EC was seriously shaken by the threats of American retaliation, and serious rifts appeared between Member States within the Council and even within the Commission; regrettably, these divisions weakened the EC's position in the GATT negotiations and further eroded its political credibility in the international arena. However, the negotiations continued in a strained atmosphere. The American threats caused some EC member countries to panic and go all out to seek a return to negotiations with the Americans, even if it meant granting concessions which, a few weeks earlier, would have been unthinkable, wishing to be spared US wrath and condemnation at all costs. A small number of other countries proposed that a list of countermeasures should be drawn up to apply to Community imports from the US (the EC was far and away the USA's biggest customer, and would have been in a strong position to do this), but the majority did not go along with this suggestion.

20 NOVEMBER 1992: THE WASHINGTON DRAFT EC-US AGRICULTURAL AGREEMENT

Contrary to all expectations (particularly those of agricultural circles), on 20 November 1992, after several days of frantic negotiations and numerous trips by European Commissioners to Washington, the European and American delegations presented a draft agreement which, in actual fact, was a slightly amended version of the Dunkel Compromise. It also dealt with the oilseeds question, which had been the source of a dispute between the EC and the US for several years and the subject of the American threats of retaliation in November 1992. Two successive GATT panels (special groups of experts) had ordered the EC to amend its system of support for oilseed production, which impaired the value of the concessions (zero duty) granted by the EC to oilseed imports in 1962. The "oilseeds" section of the agreement was intended to meet the American requirement for the EC to implement the panels' conclusions. The draft agreement comprised the following main points:

WASHINGTON DRAFT EC-US AGRICULTURAL AGREEMENT

internal support	**20% reduction in overall AMS** across-the-board commitment for all products (average 20% reduction); base period: 1986-88; transitional period: 1994-2000; direct income subsidies (EEC) and compensatory payments (USA) not affected, ie placed in "green box" (conditionally).
import access	* **tariffication:** conversion of variable levies into fixed customs duties; **36%** reduction in all customs duties (arithmetic mean), with **minimum** of **15%** for each product; base period: 1986-88; transitional period: 1994-2000; possibility of applying safeguard clause (to be triggered automatically?). * **minimum market access:** markets to be opened up to as much as **3%** of domestic consumption, rising to **5%** in 1999 (depending on level of aggregation: "tariff line" or group of products?); duty applied: 32% below base tariff; base period: 1986-88; transitional period: 1994-2000; maintenance of current access opportunities (if > 3% (86-88)).
export subsidies	* **reduction in volume of subsidized exports: 21%,** product by product; * **reduction in refund budget: 36%,** product by product; base period: 1986-90; transitional period: 1994-2000.
oilseeds	* **ceiling for area** planted within the EEC: **5.128** million hectares, less **10%** minimum annual set-aside (cf **F.T. 4.7.6,** Annex 1). * **non-fodder use** of oilseeds grown on set-aside land limited to **1 Mt** soya meal equivalent.
"Andriessen Compromise"	EC to undertake not to export any subsidized bovine meat to **Asian** markets in future.
"peace clause"	USA not to challenge internal EC support within the GATT if the EC met its commitments (text not very explicit, open to interpretation).

The Washington draft agreement **did not make any provision for direct income subsidies granted under the new CAP after 1999.** Up to 1999 they would be conditionally excluded from the obligations, like the American compensatory payments (both measures would be placed in the GATT "green box" for support which does not affect trade but is intended to limit production); it should be noted that the CAP reform does not make any provision for them after 1996.

Moreover, in a "peace clause" the United States would undertake not to challenge the EC's internal subsidies within the GATT, provided that the EC met the commitments which it had entered into under the agreement: this point is somewhat vague and is interpreted differently by the EC and the USA, as is the concept of globalization for market access (in the case of bovine meat in particular, where the extent of globalization would have dramatically different consequences on imports into the EC and on sector equilibrium).

As agreement was reached on the draft accord right at the end of the meeting between the American and European delegations in Washington, it was not possible to issue a joint communiqué before the European Commissioners left for Brussels; it was left to the staff of Mrs Carla Hills to draft a text, and the draft agreement is summarized in a letter from Mrs Hills to Mr Andriessen.

2.2.9. THE POSITION OF THE COPA-COGECA

As they stand, the DUNKEL document and the Blair House compromise are not acceptable to the COPA and the COGECA, since they do not offer the possibility of attaining the objective stated in the Punta del Este Declaration which launched the Uruguay Round, given, in particular, the following:

a) the absence of a "lasting" peace clause allowing the Community, within the framework of the accepted AMS, to administer the CAP support measures and mechanisms in line with the special features of its agricultural situation. To that end, and in order to guard against unilateral, groundless attacks on justified instruments of agricultural policy, the foundation of a world trade organization should form an integral part of any final agreement.

b) the absence of
   i) an automatic, effective safeguard mechanism for all agricultural products, particularly in relation to currency and world price fluctuations;

   ii) an effective rebalancing clause to enable the Community - at the very least - to stabilize its imports of cereal substitutes, including CGF;

   iii) a formal commitment to the Community's offer regarding minimum access and aggregation.

c) the damage that the proposed commitments to cease all subsidized exports of bovine meat to the Far East and to reduce the volume of subsidized exports of all products would cause the Community: the definition of export subsidies given in the Dunkel document, the proposed rate of reduction, the base period chosen and the absence of aggregation would lead to a drop in Community exports averaging one third, but which would be far greater than that in the case of certain products. About half of that reduction would apply to most products from the first year of application of any agreement concluded on that basis.

The COPA/COGECA particularly stress that:

- the long-term effects of a GATT agreement on the current bases would be very substantial and damaging, in particular due to the effects of tariffication and minimum access, which would lead to a weakening of external protection and the ultimate dismantling of Community preference. These effects would be particularly serious in the case of sectors of production as yet not reformed (fruit and vegetables, wine);

- these general effects would be magnified if the Community decided to set up preference or free-trade arrangements with the countries of Central and Eastern Europe and the Maghreb.

Reference: COPA/COGECA, PR(93)19 - P(93)24 of 16/07/93

2.2.10. THE GENESIS OF THE WASHINGTON DRAFT AGREEMENT AND PROSPECTS FOR THE URUGUAY ROUND

After 20 November 1992, events started to move fast: the draft agreement was generally favourably received by most of the Governments of the Twelve, with France alone rejecting it outright and threatening to use its veto in the Council. Farming communities throughout Europe, on the other hand, showed their utter disapproval in the form of violent demonstrations and through the representative trade organizations. On 25 November 1992 the Commission, in a document quoting rather vague figures, stated that the draft was compatible with the reformed CAP (with certain reservations regarding beef/veal), and in January 1993 submitted its lists of support reduction commitments to the GATT in Geneva, without Council approval. The draft agreement has still not been endorsed by the Council, which wishes to state its position only on the overall agreement concluding the Uruguay Round, and meanwhile battle was joined between experts in Brussels and Paris as to whether or not the draft agreement was compatible with the CAP. A joint analysis of the impact of the Washington draft, proposed by the Commissioner for Agriculture on 8 January 1993 and carried out by Commission and COPA experts, resulted in widely diverging assessments. On 10 March 1993, the Special Committee on Agriculture (SCA), which was asked to present conclusions, could do no more than note fundamental differences in the economic assumptions underlying the two studies. In actual fact, it would not accept the Commission's optimistic conclusions as plausible without verifying a long list of key assumptions on which the Commission's assessment was based and which, on closer scrutiny, proved to be highly uncertain. According to the professional organizations (COPA-COGECA), the Washington draft would lead to a loss of one third of full-time employment in agriculture by the year 2000, the set-aside of some 11.5 million hectares (assuming frozen cereal yields) and a considerable reduction in exports in all the major sectors; which would mean a further loss of jobs in the agri-food sector. Moreover, simply to maintain the current purchasing power of farmers, the EC would have to provide compensation amounting to some ECU 33 billion ECU, which is twice the amount forecast by the Commission. And this would all take place against a background of budgetary uncertainty, given that, according to the EP Committee on Budgets, by 1994 the budget heading provided by the CAP reform would already be overspent to the tune of 1.4 billion ECU.

On 13 May the French Government published a memorandum setting out its position on the GATT Uruguay Round negotiations as a whole. In particular, it calls for the establishment of a lasting peace in trade and for amendments to the pre-agreement of the previous November on the Uruguay Round agricultural negotiations. These relate to the peace clause, the consequences of dollar/ECU parity fluctuations, the rebalancing of Community protection with regard to corn gluten feed, the aggregation of quantitative commitments on imports and limitation of export volumes.

On 8 June 1993 France finally (conditionally) accepted the settlement of the EC-US dispute on oilseeds on the basis of the Blair House pre-agreement, in exchange for an arrangement concerning the demands for adjustment of the CAP reform, obtained on 27/05/1992. Nevertheless, France has declared that it remains opposed to the rest of the same compromise.

On 9 June 1993 P Sutherland was appointed by consensus as the next GATT Director-General.

On 22 June 1993 the US House of Representatives adopted the renewal of the fast-track authority which - following the opinion of the Senate, expected shortly - gives the American Government until 16/04/1994 to sign any agreement on the Uruguay Round. Allowing time for internal administrative procedures, this means that the negotiations must be completed by 15/12/1993 at the latest. Congress will then be able only to accept or reject the agreement, if any is reached, as a whole. The preceding fast-track authority had expired on 31/05/1993, and the President had asked Congress to renew the authority with a view to the forthcoming G-7 summit in Tokyo on 07/07/1993.

On 27 June 1993 a ministerial meeting of the Cairns Group was held in Bangkok. The declaration presented to the Prime Minister of Japan, with a view to the G-7 summit, called for improved access to agricultural markets and for firm rules to be laid down, in order for an agricultural agreement to be acceptable, and said that, at the minimum, the status quo must be maintained with regard to the conditions governing access to agricultural markets.

On 28 June 1993 the bilateral negotiations between the USA and Japan ended in failure. July 1993, events succeeded one another as follows:

4 July 1993: after the Senate vote of 1 July, Bill Clinton signed the extension of the 'fast track' authority.

6 July 1993: the 'Quadrilateral' group meeting in Tokyo announced a general agreement on market access which endorsed the EEC's approach:

- elimination of tariffs in certain sectors: medical equipment, construction materials, steel, pharmaceuticals, beer and spirits (and chemicals?);

- a cut of 50% in tariffs on high-rated products (subject to tariffs over 15% - it was unclear how determined the USA was to include textiles in this package);

- a cut of at least one third in low-rated products (subject to tariffs below 15%). These cuts were to be applied by group of products, and trade-offs between them were possible.

2.3. NOTE: CEREAL SUBSTITUTES AND SOYA MEAL

Cereal substitutes are high-energy foods used in the European Community (EC) exclusively as animal feed. They include (Annex D of Basic Regulation (EEC) No 2727/75 on cereals): **manioc, sweet potatoes, corn gluten feed (CGF), bran, maize germ cake, citrus pellets, dried sugar-beet pulp, distiller's wash and other fruit waste.** They have the following common economic characteristics: they are mostly imported into the EEC, at very low or zero rates of duty, and in increasingly large volumes. They are a highly topical issue, since European cereal producers are challenging the conditions in which they are produced outside the Community, in particular in the US, and imported into the EC. In addition to cereal substitutes, soya meal (protein-rich feed), imported as such or made in the Community from imported beans, is used as animal feed.

REGIME FOR IMPORTS INTO THE EC

During the 1961-62 Dillon Round, after the Common Agricultural Policy (CAP) was adopted, the United States challenged the EC under the terms of the GATT over the principle of Community preference. They secured a so-called countervailing measure from the EC: the Community undertook to import most cereal substitutes, and oilseeds and oilseed cake, at zero or very low duty, **some subject to a quota** (manioc, sweet potato and bran), and **others without any limit.** It should be noted that in 1962, when these agreements were signed, imports of cereal substitutes into the EC were virtually non-existent.

The agreements in question were made binding during the Kennedy Round in 1964-67, by which time imports had started to grow. Once they had become binding, it was impossible to terminate them without offering some other form of compensation in return under a new GATT agreement. What this means in practice is that since 1962, all cereal substitutes and other animal feedingstuffs have been imported into the EC virtually without any protection, which makes them very competitive compared with cereals produced in the Community, with which (as their name suggests) they are in direct competition on the animal feed market.

This has resulted in a decline in the use of cereals produced in the Community, replaced by imported cereal substitutes and meal. To cite one example, during the ten-year period 1975-1985, the share of cereals in animal consumption of marketable feed (ie excluding roughages, grazing, hay, silage, etc.), dropped from 61% to 51%; over the same period, the share of cereal substitutes and meal increased from 5 to 11% and 13 to 17% respectively. Another example is the use of Community cereals by the compound feedingstuffs industry, which declined from 36.2 to 31.2 million tonnes from 1985 to 1991 (-14%), this trend being more pronounced in the new Member States such as Spain (-20%) and Portugal (-31%), where stock-farming is a traditional outlet for secondary grain.

What makes this decline more disturbing is the fact that animal feed is by far the largest area of internal use of cereals within the Community. In 1988/89, 83 MT of feed grain were used as animal feed, of which 77 MT (93% of the total) were produced in the Community. At the same time, 84 MT of energy- and protein-rich foods, more than the amount of Community cereals, were used as animal feed. More than 60% of that quantity (50 MT) was imported. Imports of cereal substitutes (19 MT) and soya meal (19 MT) account for more than three-quarters of all imports (source: 1990 CEC Report on the Agricultural Situation in the Community, table, p 85). In 1989/90, the quantities of cereals used as feed amounted to only 80.5 MT, and 79.2 MT in 1990/91.

In 1989/90, bran topped the list of cereal substitutes used in the EC (10.1 MT, or 28% of the total); almost all of this is produced in the EC. Next came manioc (6 MT, 19%) and corn gluten feed (CGF) (6.4 MT, 16%), both almost exclusively imported. Then came dried sugar-beet pulp (5 MT, 15%), which is also mainly produced within the EC; distiller's wash and fruit waste, classified as "other", 1/3 of which is imported; maize germ cake, exclusively imported from the USA in spectacularly increasing volumes (+100% in 5 years); lastly, citrus pellets and sweet potatoes, which are also exclusively imported.

In 1989/90, manioc accounted for 38% of the volumes of imported cereal substitutes, with corn gluten feed (CGF) in second place with 26%, maize germ cake third (13%) and citrus pellets fourth (9%). With the exception of bran, cereal substitutes are increasingly imported. Imports of manioc, sweet potatoes and bran (about half of the total quantity of imported cereal substitutes) are subject to a quota with a low or zero duty/levy, under agreements between the Community and certain non-member supplier countries, some of them members of the GATT, others not. In the case of manioc, the main substitute, the overall quota is 7 MT, broken down as follows (in descending order of quantity): Thailand: 5,650,000 T; Indonesia: 825,000 T; China: 350,000 T; other countries: 175,000 T. An import levy, with a ceiling of 6% ad valorem, is charged on the quantities imported within these quotas.

In 1989/90, soya meal was the top protein-rich feed used in the EC (20.6 MT, 46% of the total); this was virtually all (98%) imported, mainly from the United States and South America. This was followed at considerable distance (4.7 MT, 12% of the total), by protein plant feed (peas/field beans/sweet fodder lupins); most of these (84%) are produced within the Community.

Overall, it may be seen that between 1983/84 and 1988/89, the quantity of cereal substitutes used in animal feedingstuffs increased by 18%, and the quantity imported rose by a massive 35%. This means that imported cereal substitutes have won market share from Community products. On the other hand, over the same period, the quantity of soya meal used as animal feed seems to have levelled out, as has the quantity of imports. In 1991/92, the quantity of soya meal used (20.9 MT) remained virtually at the 1986/87 level: 21 MT, of which 20.4 MT were either imported or made from imported seeds (EC degree of self-supply: 6%).

The explanation for this phenomenon lies in the physical limits which the use of meal as a constituent of the feed ration in stock-farming cannot exceed, which have probably already been reached.

PROBLEMS PRESENTED BY THE INCREASED USE OF CEREAL SUBSTITUTES AND SOYA MEAL AS ANIMAL FEEDINGSTUFFS

By their very nature, and owing to developments in stock-farming techniques, the use of cereal substitutes and soya meal as animal feedingstuffs can only increase at the expense of Community cereals, for which animal feedingstuffs are also the main outlet. Until the mid-seventies, cereal substitutes accounted for only a minor proportion of animal feedingstuffs in the EC, but the situation has altered in their favour, and, particularly since the mid-eighties, the pace of this change has gathered speed, so that today their market share amounts to 70% of the market share of cereals. All forecasts predict an increasingly bright future in the EC for these products, particularly cereal substitutes.

The problems and conflicts of interests derive from the fact that cereal substitutes are imported into the EC at a very low or zero rate of duty, which makes them highly competitive. Community maize producers, for instance, are faced with direct competition from imports of corn gluten feed, 95% of which come from the USA, and they look very unfavourably on such rapid growth. This is a particularly sensitive sector, as CGF is virtually free as a by-product of the ethanol and fructose corn syrup industry, and enjoys subsidies and other governmental concessions. Between 1983/84 and 1989/90, the market for maize as animal feed in the EC suffered a 20% drop, this decline being directly linked with the increase in CGF imports. From 1989/90 to 1991/92, the quantity of Community-produced maize used as animal feed fell below the 20 MT threshold (-13% in one year). EC maize producers are asking the Commission to challenge the US under the GATT on grounds of unfair competition: American producers have spectacularly increased their CGF production because they can take advantage of the subsidies, protection measures and sundry concessions granted by the American Government, and the particularly lucrative outlets offered by the complete absence of protection at EC borders.

This is a serious matter, with severe consequences for the income of Community cereal producers, subject as they are to a restrictive price policy under the CAP reform, and aware that, despite the efforts demanded of them, the Community is blithely continuing to import more and more substitutes.

There is another, even more serious consequence in structural terms: the relocating of livestock farms, in particular pig farms, to areas near Community ports which have special facilities to receive manioc and other imported cereal substitutes. This results in an expansion of industrial facilities, with unfortunate environmental repercussions for the Member States concerned (Netherlands, Belgium, Germany).

Another consequence is the impact on the area farmed in the Community. Two million ha under cereals had already been lost between 1980 and 1988, and a further million between 1988 and 1991 in the EC of the Twelve, and the trend is continuing downwards, in particular owing to the combined effect of the reforms (set-aside) and imports of substitutes.

Clearly, therefore, the Community should intervene to slow down the increasing use of cereal substitutes, since soon it will not just be a matter of the non-use of several million tonnes of cereals, but of a threat to a system of production which is typical of European agriculture, based on mixed "livestock-feed grain" farming, practised on a large number of family farms. This problem was raised at the European Council of February 1988, which instructed the

Commission to carry out an in-depth study. There were two main aspects to the proposal submitted by the Commission in response to this brief (COM (88) 164 final of 01.12.1988):

a) the granting of a premium for additional quantities of Community cereals used in the manufacture of compound feeds in excess of 20% over a reference period (1986/87 and 1988/89 marketing years);

b) the granting of a kind of loyalty bonus to producers using more than 45% of Community-produced cereals, irrespective of the basic premium on additional quantities.

When the Commission proposal was submitted to it for an opinion, the **European Parliament** (DOC A2-49/89 - rapporteur Mr EYRAUD) voiced doubts about the effectiveness of the approach advocated by the Commission and made a counterproposal for a support mechanism which would not use reference periods, would be simple to administer and could allow Member States to guarantee effective monitoring mechanisms to prevent fraud. Parliament considered that the Commission proposal could be improved if the idea of an additional quantities premium were abandoned in favour of the idea of a premium for the use of Community-produced cereals - a kind of intra-Community production refund. This would be a single, fixed premium, which would facilitate monitoring. It would be paid both to livestock farmers making their own feedingstuffs incorporating their own cereals, and to manufacturers of compound feeds using at least 20% of cereals bought on the Community market. However, nothing came of either the Commission proposal or of the Parliament's opinion when they were submitted to the Council, possibly because other courses, such as the third CAP reform (lowering of institutional prices of cereals), were already in view.

2.4. NOTE: TROPICAL PRODUCTS AND THE URUGUAY ROUND

THE APRIL 1989 AGREEMENT

Although trade in tropical agricultural products accounts for only 5% of world trade in terms of value, its liberalization is a matter of vital importance to the economies of the developing countries. Indeed, tropical products account for 40% of the value of exports from these countries. The Uruguay Round negotiations have approached the question of tropical products through a special negotiating group. The experts have worked on a list of 500 tropical products, some of them agricultural and some industrial.

The EEC was the first to submit its proposal, in October 1987, suggesting the reduction or elimination of tariff and non-tariff barriers for these products. It should be borne in mind here that the EEC had to strike a difficult compromise between its desire to make concessions to the developing countries and the reluctance of the ACP countries, with which the EEC had signed the LOME Convention, to share their preferential status with regard to access to the Community market. The United States then submitted a proposal along the lines of its proposal for agriculture, consisting of an accelerated timescale for the elimination of all support and protection measures covering trade in tropical agricultural products, **subject to agreement on trade in agriculture**. According to the US the reforms should be applied in full within less than 10 years. The third main group concerned, consisting of the developing countries, called for the reduction of duties for the entry of processed and semi-processed tropical products into other countries, and the elimination of internal taxes, global quotas and the discretionary nature of the granting of licences, and greater flexibility in health and technical standards. In the final analysis, the developing countries wanted the other countries to make allowance for their special situation. More than 20 different countries (or groups of countries) submitted lists of the main products affecting them and their liberalization proposals for these products.

In May and June 1988 there were two series of multilateral negotiations on the seven groups of tropical products adopted as bases for negotiation. These seven groups are: tropical beverages; spices, flowers, basketware and wickerwork items; certain oilseeds, vegetable oils and oilseed cake; tobacco, rice and roots of tropical origin, tropical fruits (including nuts); natural rubber and tropical timber; jute and hard fibres. It was understood that this list did not constitute a definition of tropical products, that it was not exhaustive and that other products could be included as the negotiations progressed. A separate negotiating group worked on non-tariff barriers.

The agreement resulting from the mid-term review in Montreal from 5 to 9 December 1988, then in Geneva from 5 to 8 April 1989, includes a chapter on tropical products. The results achieved thus far are organized around the following three commitments:

1) elimination of customs duties on non-processed products;
2) elimination of or substantial reduction in duties on semi-processed products. The objective of this measure would, in particular, be to eliminate or reduce the progressive nature of duties;
3) elimination or reduction of all non-tariff measures affecting trade in these products.

These commitments cover trade in approximately 140 products, accounting for a volume of some 10 **billion US dollars'** worth of trade. In Geneva, the various signatory countries undertook to put their stated intentions to liberalize into practice **at an early date**, in other words by the end of 1989. However, after the April 1989 declaration in Geneva, it became very difficult to make progress in the negotiations in certain sectors, particularly agriculture, and certain countries - in particular the United States, Canada and Switzerland - made fulfilment of the commitments entered into in Geneva subject to movement in the agricultural negotiations, all accords and commitments remaining frozen until such time as this was achieved. Other countries, such as the EEC, decided to apply, unilaterally, a limited number of the liberalization commitments entered into in Geneva. Lastly, Australia, Austria, Finland, New Zealand, Norway and Sweden decided to act on their commitments immediately.

It should be noted that the United States and the EEC are the two main importers of tropical products. As in the negotiations on agricultural products, these two countries have different interests in tropical products to defend. Each of the two parties claims to be putting forward the most favourable proposal for trade liberalization. It is difficult to compare these two proposals, since the offers made by the two countries do not cover the same products and/or do not concern the same quantities of imported products. A comparison for some of the main problems is, however, shown in **Table** 3 at the end of this chapter.

THE NEW EC OFFER ON TROPICAL PRODUCTS IN DECEMBER 1990

In December 1990, the EC presented a new offer on tropical products which went considerably further than the previous one, adding new products and greater customs duty reductions to the list.
The proposed reductions went as far as:
- total elimination of customs duties on raw tropical products;
- a 35% reduction on semi-processed products;
- a 50% reduction on processed products.

On the other hand, the December 1990 offer omitted 84 products which had been included in the previous offer, and added seven new ones. The customs duty reductions proposed were greater (with the exception of 26 products in respect of which the reductions were not as great).

The new EC offer covers 220 tariff lines and imports amounting to a value of approximately ECU 4 billion, 30% lower than the previous offer (ECU 5.7 billion), and entails a loss in duty of ECU 190 million, rather than ECU 243 million (-22%). The limitation of the value of trade is not fully reflected in the loss of duty levied, owing to the larger reductions in duties granted. The developing countries which stand to benefit most from this offer would be certain South American countries, the ACP countries and the ASEAN countries. The Canary Islands (arrangements under the 1985 Act of Accession) would also derive substantial benefits (value of trade involved: almost ECU 250,000).

However, this new offer does not have the same impact on all the Community's trading partners: whilst trade in tropical products with Japan, the United States and the other developed countries is significantly affected, the interests of the developing countries are protected or even, in some cases, enhanced.

With regard to certain tropical products which are no longer included in the new EC offer, the following points are worth noting:

a) Tropical timber plywood
The Community industry is experiencing serious difficulties owing to the export restrictions applied to timber by certain countries supplying the Community with tropical timber plywoods.

b) String and rope for hard fibres
The situation with regard to string is very delicate. The Community industry has been seriously hit by a tax on raw materials levied on products from Brazil, the main supplier. In order to restore normal conditions of competition, the Community recently raised customs duties for these products from 12 to 25%.

c) Cork floor coverings
This product is still covered under the new Community offer.

d) Ramie yarn (Boehmeria nivea, China grass)
A concession on this product could benefit subtropical countries such as China and Japan in the long term (also comes under the textiles offer).

e) Cane, wicker and bamboo furniture, etc.
Indonesia applies restrictions on exports of the raw material (rattan). The Community will not put forward any offer for manufactured products unless these export restrictions are abolished.

TABLE 3

COMPARISON OF TROPICAL PRODUCTS SUPPLY IN THE EC AND US

	EC	US
	Special arrangements for the least developed countries: zero customs duties quantitative restrictions	Condition sine qua non; conclusion of negotiations on agriculture
Tropical beverages	45% of imports	35% of imports
	internal taxes: 5-55%	internal taxes 0%
	coffee: cd = 4-15% cocoa: cd = 0-12% tea: cd = 0% internal taxes	coffee: cd = 0% cocoa: cd = 0-0.4% tea: cd = 0%
Plants-flowers	cut flowers: cd = 8-20%	cut flowers: cd = 4-8 cd at 25% for some products
Vegetable oils	cd = 5-20%	cd = 0%
Fresh bananas	cd = 20% + quotas for some countries	cd = 0%
Tropical timber	cd = 2-2.5%	cd = 0%
Natural rubber	cd = 0%	cd = 0%

(cd = customs duties)

Source: Doc PE WIP/90/04/065 (DG IV)

2.5. NOTE: FISHING IN THE CONTEXT OF THE URUGUAY ROUND

(Reference contained in the Manual on the Common Fisheries Policy, External Study by the Directorate General for Research of the European Parliament, ISBN 92-823-0367-5, FR-4-1992)

The commercial issues bound up with fishing are dealt with as part of the GATT Uruguay Round within the Negotiating Group on natural resource-based products. A working group on trade in some of those products had already been set up in May 1984 (Doc C/M/176) - well before the start of the Uruguay Round therefore - and had been mandated to

> consider, in line with the decision on problems in trade involving some products derived from natural resources, adopted at the ministerial meeting of the contracting parties in 1982 (Doc BISO/295/20), the problems falling within the scope of the General Agreement and concerning customs duties, non-tariff measures and other factors affecting trade in products derived from the following natural resources:

a) non-ferrous metals and ore;
b) forestry products;
c) **fish and fishery** products

including in processed and semi-processed form, with a view to recommending possible solutions.

The **Working Party on** Fisheries, which is independent of the two other groups, met on several occasions in 1984 and 1985 and produced an initial report in November 1984 (Doc MDF/3). Two major aspects were the immediate focus of concern:

- the overfishing of fish stocks which was assuming alarming proportions and expanding further with every year;

- the redistribution of the sea's resources (in terms of catch possibilities) which followed the "revolution" in the rules of the sea decided upon by certain states of the North Atlantic in 1977 (and subsequently generally applied), consisting in the extension of national fishing limits to 200 nautical miles offshore. That new state of affairs enabled the coastal states (and Canada and the United States in particular) to obtain additional maritime assets to manage, while other countries (and the Community Member States in particular) were deprived of large sections of their traditional deep-sea fishing zones, with the significant economic and social repercussions this implied for them.

Some coastal states then went on to expand their fishing fleet and their industrial processing sector to enable them to obtain maximum advantage from their new fishing resources. In every case, it is the coastal state which has sole responsibility for fixing its **"TACs" (total allowable catches)** representing the annual catch tonnage which may not be exceeded in "its" waters for the different species. Should their fishing fleets be unable to cover all of the TACs, then - in line with the provisions of the Convention on the Law of the Sea - the coastal states have to determine the surplus volume available for third countries: allocation of that surplus is, of course, a source of benefit: commercial advantages, preferential access to the market of the countries concerned etc. Between 1977 and 1985, more than 300 bilateral agreements were entered into, some of them based on the **principle** of **access to resources in exchange for market access**. It is plain that the TACs and the dividing-up of the surplus have an effect on patterns of trade. A coastal state is in fact completely free to fix unilaterally and subject to its own criteria the volume and nature of its surpluses, to determine their value and accord them to some countries but not others, depending on the commercial advantages obtained and/or existing commercial or political disputes.

Such policies and practices therefore produce a fundamental imbalance. The fact is that while trade is subject to the rules of the GATT, the allocation of any surplus is not subject to any international regulation.

Indeed, **transparency** in the allocation of surpluses cannot be guaranteed precisely because the principle itself of that allocation and the **discrimination** encountered by some countries creates an atmosphere conducive to the development of commercial and indeed diplomatic problems. Incidents have therefore inevitably arisen between coastal states and states seeking access to resources. One of the most significant and most serious is the dispute between **Canada and the European Economic Community (EEC)** since 1985. A fisheries agreement was in fact signed in 1981, for a period of 6 years, and was able to be tacitly renewed (unless denounced with twelve months' notice). Canada accorded the EEC annual access to its resources to the level of 16,000 tonnes of cod (14,500 tonnes in 1982) and 7,000 tonnes of squid in return for preferential access to the Community market for certain of its fisheries products (frozen cod, whole and in fillets; salted cod, whole and in fillets; and certain forms of prepared herring).

In 1986 therefore, the Community accounted for 14% of Canadian exports of fishery products, and this was likely to increase with the entry of Spain and Portugal into the Community. From the time the agreement first came into force (1981), however, Canada condemned administrative obstacles, set in place, it alleged, by the Community, and having the effect of blocking access for its products to the Community market, in breach of the agreement signed. But the real start of the conflict between Canada and the Community can be traced to the spring of 1985 when Canada claimed that cod-fishing by the Community in a zone of the North Atlantic administered under the NAFO (North Atlantic Fisheries Organization) Convention and <u>outside</u> its jurisdiction was illegal. Canada declared that the cod quota which it accorded the Community represented the total Community quota <u>within</u> and <u>outside</u> Canadian waters. Since the Community refused to comply with the demands of a country acting outside its exclusive economic area, Canada ceased to apply the provisions of the agreements from the end of 1985. Moreover, at Canada's instigation, NAFO set zero fishing quotas for certain stocks of interest to the Community. Such quotas are not, however, binding unless a unanimous decision is taken by those party to the convention. Given that it could not endorse such proposals, the Community took the view that it was not obliged to respect the NAFO decision and therefore fixed its own quotas independently. (For more information on this, see EP Working Paper No 21 in the Agriculture, Fisheries and Forestry series on relations between the EEC and Canada in the fisheries sector).

It was from 1986 that the GATT Working Party on Fisheries began its work, and the Uruguay Round began in September 1986.

In September 1985, the Negotiating Group on natural resource-based products published a major report (Doc L/5895) devoted to the commercial issues posed by fishery products and in which the Community view was clearly stated. At the conclusion of the **GATT ministerial meeting at Punta del Este**, in September 1986, Mr Willy de Clercq, the then Commissioner for External Relations, stated that the Community had accepted the text on natural resource-based products as a whole and was, of course, prepared to work towards a greater degree of liberalization in that area. However, as far as the fisheries sector was concerned, the Community regretted that the options it had put to the Working Group on Fish and Fishery Products and had referred to in that Group's report did not figure anywhere in the text. The Community therefore felt itself compelled to repeat what it had always stated in all fora in which the issue had been considered, namely that it would agree to take part in discussions covering the fisheries sector only if all the special factors concerning that product and affecting trade in it were taken into account (Doc MIN (86) SR.7).

On this subject, the **Punta del Este Declaration** is worded as follows:

> "Negotiations shall aim to achieve the fullest liberalization of trade in natural resource-based products, including in their processed and semi processed-forms. The negotiations shall aim to reduce or eliminate tariff and non-tariff measures, including tariff escalation."

In July 1987, the Community issued a communication addressed to the Negotiating Group on Natural Resources (Doc MTN/GNG/NG3/W/4) setting forth, inter alia, its position on the trade in fisheries products and stating the problems it wished to see specifically discussed by that Negotiating Group, namely:

a) the tariff and non-tariff measures applied to imports;
b) aid measures for production and trade;
c) the other factors specific to those products and which affected trade.

The Community issued a further communication in February 1988 (Doc MTN/GNG/NG3/W/11) to explain the position of the Community, which attached particular importance to the principle of non-discrimination under the GATT. Finally, in July 1989, the Community issued a communication (Doc MTN/GNG/NG3/W/25) concerning the obstacles to the trade in natural resource-based products and stressing the need for the Working Group on Fisheries to tackle the issue of **discriminatory access for third country fleets to the resources and the limiting and discrimination of access to ports and port facilities**. At the time, those two issues concerned more particularly the United States and Canada. The latter had in fact unilaterally barred access to their port facilities to fleets which they did not consider sufficiently "cooperative", but had provided no more specific reason for this. The Community was therefore determined that access to fishing resources and related problems should be broadly discussed by the Negotiating Group on

Natural Resource-based Products. In its communication, the United States included fisheries in the agricultural sector, while Canada put them under the heading of tariff and non-tariff measures. **Both those countries declared that the issues to be negotiated in the fisheries sector were limited to the level of customs duties and non-tariff measures. They took the view that access** to **fishing resources was a subject outside the field of negotiation** under the **Uruguay Round and covered by the UN Convention on the Law** of **the Sea** (Doc MTN/GNG/NG3/W/8/Rev 1). A kind of dialogue of the deaf seemed therefore to have set in between Canada, the United States and Australia on the one hand, and the EEC, supported to some extent by Japan, on the other. The former wished to discuss only customs duties and non-tariff measures as such, while the Community was prepared to negotiate only if all factors influencing trade - including access to resources - were taken into account.

At its Geneva meeting, on 8 June 1990, the Negotiating Group on Natural Resource-based Products considered a new proposal from the Community (MTN/GNG/NG3/W/37). The document, which focused in the main on access to fishing resources and two-tier price fixing (a practice which involves supporting local industries by permitting imports of raw materials duty-free or at a reduced rate of duty, while at the same time imposing duties on imports of processed products) provoked very mixed reactions within the Group).

The Community proposal on access to resources was badly received. Chile made an official protest and claimed that this fell outside the Group's terms of reference. Japan also expressed concern and stressed that discussions on fisheries ought rather to be a matter for the group dealing with agriculture. The EEC delegation stressed, in its defence, that the Community was not seeking to erode the sovereignty of the coastal states but was concerned to ensure that all the countries could compete on an equal footing for access to fishing resources.

In contrast, the Community proposal on two-tier price fixing proved more persuasive. The Community was looking to put a stop to the practice which was, in fact, a method of according aid for continued operation to the national industry. Australia, Canada and the United States were in favour of the Group discussing the issue and pointed out that commercial problems were likely to arise in that area. Brazil, however, stressed that there were many factors influencing trade, including environmental considerations and the need to protect national security, which explained why some countries had problems in eliminating import restrictions.

When the Community proposal was further discussed, on 8 June 1990, several of the participants, and in particular the developed and developing coastal states, rejected the Community proposal on the ground that the issue was not covered by the GATT.

At that point, several of the participants informed the Group that they were engaged in far-reaching bilateral negotiations on market access.

In September, the first joint meeting on market access was held between the Negotiating Groups on Customs Duties, Non-tariff Measures, Natural Resource-based Products and Tropical Products.

That meeting simply provided many delegations with an opportunity for expressing their concerns at general progress on market access and calling for the bilateral negotiations on the substance to be speeded up. The participants also agreed to a proposal from Australia and the Community inviting the secretariat to evaluate the proposals on natural resource-based products.

The second joint meeting, in November 1990, saw no progress in the negotiations on market access - difficult decisions were constantly postponed.

It was therefore not possible to establish a foundation enabling ministers to take final decisions, in Brussels, in December 1990.

2.6. NOTE: UNITED STATES AGRICULTURAL POLICY

THE 1990 FARM BILL

The five-year "Food, Agriculture, Conservation and Trade Act of 1990" (1990 Farm Bill) was signed by President Bush on 28 November 1990. The House of Representatives and the Senate agreed to reduce agricultural spending between 1991 and 1995 by $ 13.6 bn in contrast with the preliminary draft farm bill which had estimated agricultural spending at some $ 55 bn for the period 1991-1995. There was therefore to be a cut in spending in the region of 25%. But the agricultural budget was set at $ 41 bn over five years, that is $ 8.3 bn per annum (0.63% of the federal budget).

Were the American Farm Bill and the new international trade negotiations within the GATT complementary or were they moving in different directions? The latter seems the more likely answer, bearing in mind that the option of extending for a year the 1985 bill - which would have made it possible to take account of the outcome of the GATT negotiations - was firmly rejected.

Both Congress and the Administration had in fact to meet certain requirements. Most urgent for the immediate future was to reduce the United States' large budget deficit. Given that the costs of supporting agriculture had swung during the life of the previous five-year bill from $ 11 bn to $ 25.8 bn, it too was a candidate for the essential cuts. But it should also be borne in mind that a large number of American farms were in a shaky financial situation as a result of climatic (drought etc) or economic factors (high level of indebtedness etc). In addition, the agricultural trade balance - in the region of more than $ 20 bn in 1990 - made a major contribution to the American balance of trade and the agri-food sector, together with the industries dependent on it both upstream and downstream was the leading sector in the economy. Those considerations need to be taken into account alongside the demands of the trading partners who traditionally support American positions and influence the negotiation of the Uruguay Round (the CAIRNS Group, for example).

Alongside the pressure from the CAIRNS Group, there was a constant demand for review of protectionist agricultural policy within the United States. Although in place since the sixties (negotiation of the Kennedy Round), it was not without ambiguity. Although the United States criticize the openly protectionist nature of the CAP, it too resorts, and to a considerable degree, to what are unquestionably protectionist mechanisms. In addition to the imposition of **quotas** on certain foodstuffs, such as meat, sugar and milk products, **crops covered by "programs"** provide farmers who take part in efforts at voluntarily limiting production with an income guarantee. Unlike the Community import levy, which makes it possible to maintain high internal prices, the **American compensatory payment** is equal to the difference between the **market price** (or **"loan rate"**), closely related to the world price, and a statutorily set **target price**, calculated to provide the farmer with what is deemed an adequate income. That compensatory payment, which varies according to the difference between those two prices, therefore enables American farmers to cushion the impact of fluctuations in rates on the international markets. The fact that the internal prices (or loan rates) are akin to world prices is achieved artificially, and is the product of a deliberate policy. It benefits consumers as well as the processing industry which is, as a result, more competitive. Above all, it facilitates the disposal on world markets of production between 30% and 50% of which is intended for export. Combined with subsidies and various credits, the support mechanisms have the clear effect of depressing world prices. This provokes protest from other exporters of agricultural products who do not have the resources to guarantee their producers an adequate level of income supplement.

In order to encourage a reform incorporating these various factors, the Administration drew up a draft proposal which it put to Congress in February last. Two key-concepts emerged from that draft: "flexibility" and the breaking of the link between compensatory payments and production. The 1985 bill had taken up the basic system, brought in fifty years earlier, of price support in exchange for partial withdrawal of the land under cultivation, making it possible to control production all the more closely where allocation of land use for different crops is fixed rigidly. It had also set in place a ten-year programme for the protection of the land most liable to erosion, thereby reducing by that area the land cultivated. The Administration proposed that farmers should be completely free to cultivate land on which program crops (wheat and other cereal crops, rice and cotton) and oilseeds had hitherto been grown, under the principle of flexibility. The secretary of state for agriculture could even authorize cultivation of some of the land forming part of the compulsory land reserve. The support linked to program crops - excluding oilseeds - remained set at their "historic" level and no longer therefore depended on production (decoupling).

According to the Department of Agriculture, adoption of that system would bring with it several advantages. It was intended, among other things, to tailor supply more closely to demand, as farmers would pay greater attention to the market and take their decisions concerning production in the light of the market instead of the various government support programmes. It was also intended to facilitate crop rotation and thus reduce the use of fertilizer while limiting the threat of erosion.

Congress largely remained deaf to this argument. Once the initial enthusiasm had passed, the concept of flexibility was seen as dangerous. The freedom of cultivation accorded to farmers would have benefited some at the expense of others. Those who continued to obtain "historic" compensatory payments for having taken part in the program crops arrangements from which they traditionally benefited would have enjoyed an unfair advantage over the other producers. Had they enjoyed this new freedom of cultivation to opt for crops which did not attract this type of support, they would have been able to accept without risk a fall in the market price, resulting from increased production. The potato-growers and, above all, the powerful soya lobby soon objected to the proposal. Following their consideration of the question, the proposals of both Congress and the House of Representatives in fact limited flexibility to 25% of the land historically used for program crops and oilseeds. Farmers could claim loan rates in respect of that agricultural area but not compensatory payments.

Congress proved still more distrustful of the concept of decoupling. The breaking of the link between production and government payments was bound in the short or medium term to result in a sharp drop in those payments, which would be all the easier to put into effect as this would be a fixed allowance which could, in the long term cause many farms simply to cease to exist. Democrats and Republicans joined forces to reject it. What Congress in fact feared was surreptitious retreat by a government facing serious budgetary difficulties and seeking to carry through its negotiating position in the GATT. Many interests opposed to it were involved. First and foremost, there were the interests of the farmers. Farms accounting, in 1990, for three-quarters of the land area used for the production of cereals and cotton, benefited from federal support. Farms with a turnover of between US$ 40,000 and 500,000 received three-quarters of all compensatory payments. Those payments were vital to their survival, whereas the large farms could take the risk of not taking part in government programmes while, at the other extreme, small farmers carried on a secondary activity which made them less reliant on federal aid.

Also at stake was the balance in the distribution of those subsidies and advantages between the different products and the different regions of production. The sugar lobby was particularly active because of being under threat from the attempt at liberalization.

Congress, with a Democrat majority, was sensitive to the arguments of the electorate but was, at the same time, aware that an overall reduction in the budget deficit also involved reducing agricultural spending - if this were not done, President BUSH would veto the bill. It therefore finally gave its approval, but the agreement could be no more than a compromise solution, the main elements of which are summarized below.

The main provision to emerge from the agreement between the Administration and Congress was the establishment of a **"triple base"** reflecting the principle of flexibility. Added to the "normal crop" basis, compulsorily grown by farms taking part in the government programmes for wheat, other cereals, rice and cotton (traditionally sown crops), was the land reserve, the percentage of which was determined annually (15% for the next marketing year). Under the "triple base", farmers would have to relinquish compensatory payments on a further 15% of land traditionally cultivated. In return, they would be free to sow that portion of their land and to benefit from loan rates where statutorily provided for. There were also specific programmes for various products (wheat, grains, cotton, rice, oilseed, sugar, honey, wool, tobacco and milk products).

The compromise balanced out the sacrifices to be made between the different products. The reduction in compensatory payments which largely affected cereals was counterbalanced by the introduction of a co-responsibility levy on sugar and milk products and a premium for soya. Soya producers likely to be affected by the reduction in the market price resulting from the introduction of flexibility were given twofold protection in the form of a marketing loan which enabled the farmer, where the world price was lower than the loan rate, to recover his production from the federal intervention board (CCC) for a sum lesser than the loan rate he had been accorded. Moreover, where there was a significant fall in rates, the soya triple base would be reduced from 15% to 10%. The sugar producers meantime retained a high level of support price but saw their production made subject to quota to prevent imports being eliminated.

The changes in production levels brought about as a result of the flexibility of the Farm Bill are unlikely to be noticed during the next few marketing years. The producers will need some time to appreciate fully the options offered under the new Bill. The differences between the regions may actually be accentuated given that, for agricultural reasons, they are not suited to the same types of production.

The bulk of decisions concerning trade, including the EEP (Export Enhancement Program) are retained in accordance with the 1985 Bill. Some changes have, however, been introduced with the aim of increasing American "commercial aggressiveness", laying down new rules for participation in programmes by the new democracies and the manufacture of products with major value added.

Those new measures have been introduced in response to the recent significant changes which have taken place on the international markets.

New amendments have been introduced into the American legislation as far as environmental protection policy is concerned. The list of penalties provided for where there are breaches of the "sodbuster" (conservation of land at risk from erosion) and "swapbuster" (conservation of marshland) programmes has been extended and the levels of fine increased. The programme for the reduction of utilized agricultural area (ARP) is still being implemented while the area covered by the reserve conservation programme is to be increased from 34 to 45 million acres by 1995.

THE CONSEQUENCES OF THE 1990 AMERICAN FARM BILL FOR THE URUGUAY ROUND

What are the implications of this legislative compromise for the negotiation of the GATT? The flexibility means that some producers enjoy a new, albeit limited, freedom. It encourages farmers to pay greater attention to both internal and international market signals - the prime objective of the Administration. But it is evident that that freedom will be of benefit only where crop replacement is possible. That would apply to the maize-soya rotation where the decision on which to sow will depend on the rates of the two products. Wheat producers, in contrast, will derive very little benefit. Growers will therefore be tempted not to take part in the government programmes (30% of their basic surface being excluded from federal aid) and to sow all of their land, regardless of the risk of erosion. They will have therefore to offset through increased production the failure to obtain the compensatory payments they have abandoned.

The introduction of flexibility is an ambiguous measure. It does, of course, enable vital accounting savings to be made in the federal budget, but the reduction in supports which it allows seems to require retaining the current level and role of compensatory payments, despite the reduction provided for under the legislation, from 1994. While the very large farms will probably not hesitate to withdraw from government programmes if they are taking part in them, the same is unlikely to apply to medium-sized undertakings. They will be all the more dependent on compensatory payments calculated on the basis of sufficiently high target prices to the extent that the income they obtain from the market will be diminished by the fall in rates which will be bound to result in an increase in production. But their contribution to total production cannot be sacrificed without jeopardizing this vital sector of the economy. The opposition of the farmers and, consequently, of Congress to reducing supports, so long as the intervention of the different countries involved in world trade causes prices to fall (so that they do not provide adequate income) is likely to wreck any major international trade reform.

Finally, the Export Enhancement Program (EEP) would continue to apply since it benefits American agricultural exports by making the prices of American products artificially competitive as compared with the exports of other countries. The EEP is seen as an important means of exerting pressure to reach a solution within the GATT.

THE AMERICAN DEFICIENCY PAYMENT

The deficiency payment system in the United States involves financing the bulk of support for agriculture through the budget by offsetting the difference between a **"market price"** (the natural consequence of the relationship between supply and demand) and a **"target price"** (reflecting the desirable level of producer income). That method therefore differs radically from that applied until May 1992 by the EC which involved supporting market prices at what was deemed a "satisfactory" level (for producers), the burden of which fell almost entirely on consumers.

Although selective (as it benefits only certain products and producers who request it), the American deficiency payment system proves costly where international competition produces market prices which fall below production costs. But the risk of an unlimited increase in the cost of the system is averted (in theory at least) by the requirement that agricultural budgetary discipline be respected, which also applies in the United States.

The United States has therefore endeavoured to guarantee the international competitiveness of its agriculture by requiring its main competitors to undertake, in the context of the Uruguay Round GATT negotiations, reforms which diminish the impact of their various support systems. One result of that pressure is to be found in the Commission proposal (COM(91) 100 FINAL of 1.2.1991) that it too should adopt - as part of the "CAP reform" - a system of "direct aid" in order to enjoy the same conditions of competition (perfectly acceptable under the GATT principles) as the United States.

However, the system of direct aid for major crops which the Community has set in place differs markedly in several respects from the American system.

Definition

The amount of the compensatory payment corresponds to the difference between:
- the **"target price"** - which more or less corresponds to the EC target price - and which is fixed annually by the United States Department of Agriculture (USDA)

and

- the **"market price"** which is at the same level on the national as on the international markets

or

- the amount of the floor price (**"loan rate"**) which is also set in advance for every marketing year and deemed to reflect the market price. The amount of the "loan rate" is taken into account when calculating the compensatory payment only where the market price is below it.

The deficiency payment system applies to only a limited number of program crops: fodder grain, wheat, rice and cotton. The other crops (soya, sunflower, colza etc) are able to benefit from a "loan rate" but not a "deficiency payment".

The deficiency payment system is an optional system which does not apply automatically to all producers but only to those who apply for it. For farmers, the benefit of the deficiency payment is accompanied by a land set-aside requirement as part of the land conservation programme. When applying for the deficiency payment farmers have in fact to sign with the Administration a specific contract involving the obligation to set aside land. Land thus made subject to the programme is intended for the production of a specific crop (fodder grain, wheat, rice and cotton) and a percentage of it set aside at a level fixed annually by the USDA (aerial photography is used to ensure that this commitment is being met). The land yield is also fixed on the basis of a past sample (the average yield of the past 5 years).

In return, the farmer enjoys two advantages:
- **payment in advance of the "loan rate"**: the amount of the estimated harvest is in fact paid in the form of a loan (at the level of the "loan rate") to the farmer who undertakes to deliver it to the national intervention agency (Commodity Credit Corporation - CCC). At harvest time, the farmer can decide to repay the loan to the CCC enabling him to sell his produce on the market from which he will derive a larger income, if the yield or rates are favourable.
- **the benefit of the "deficiency payments"**: in addition to the income he earns from his crop, the farmer receives compensatory payments for the production volume covered in the contract to the limit of US$ 50,000 per farm (US$ 250,000 if the loan rate in question has been the subject of "Finley" reductions which trigger entitlement to "emergency compensation"). That limit may, however, be circumvented given that, since the 1990 Farm Bill, the farmer's spouse may be taken into account separately for the payment of that aid.

Advantages

The deficiency payment is a flexible measure, given that, every year, the USDA is able to modify in the light of the situation on the markets:
- the percentage of compulsory set-aside, thereby checking or boosting production;
- the level of the "target price" and of the "loan rate", thereby making them more or less attractive depending on the differential being covered.

The system leaves farmers free to take part or not and - in the light of the comparative advantages of the United States in agricultural production - that reduces the function of the deficiency payment to harvest insurance against low prices.

Moreover, a farmer taking part in a federal programme enjoys some leeway in choosing what to produce since the new agricultural legislation has introduced the system of the flexible triple base which can be summarized as follows:

An example of the triple base: wheat

```
| X |                XXX                | 1990
 5%                  95%

| X |  XX  |           XXX             | 1991
 15% 15%(10%)          70%
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Set-aside

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| X |
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Non-program crop without deficiency payment

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| XX |
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Program crop with deficiency payment

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| XXX |
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- the program crop (benefiting from the deficiency payment) now covers only 70% of the utilized land; the farmer may, however, use for the production of his choice 10% of the land utilized included in that initial base. In that case, the farmer receives only 92% of the compensatory payment.

- the compulsory set-aside applies to only part of the remaining 30% of land: for 1991, that percentage amounts to 15% under contract for wheat, 7.5% for maize, 0% for oats; generally speaking, the percentage has to depend on the stock/utilization ratio and may be reduced in return for a lesser deficiency payment.

- it is entirely up to the farmer to decide what he does with the remaining land covered by the program (that is some 15%).

Disadvantages

- "Set-aside of unproductive land/intensification of productive land"

The 1985 Farm Bill linked the deficiency payment system to an Acreage Reservation Program the purpose of which is to protect the environment rather than to control production. Two factors have in fact tempered the effectiveness of land set-aside:

- farmers have set aside "peripheral" land producing a lesser yield and sought to offset the loss of volume inherent in set-aside by intensifying their production;
- in addition, the 1988 drought led the USDA to reduce considerably the level of compulsory set-aside (reducing it, for instance, from 15% to 5% for wheat)

- Budgetary cost

Unless budgetary discipline is applied, the deficiency payment system may give rise to excessive budgetary expenditure. Its cost to the budget has in fact become difficult to manage, even for the United States, where world prices have collapsed (between 1983 and 1986) in the wake of stronger international competition.

To tackle the crisis and maintain the competitiveness of American products, the USDA in fact agreed to pay increasingly high levels of deficiency payment to the ever-growing number of producers applying for them.

At the time therefore, the system of compensatory payments operated as a "buffer" aid. That was particularly noticeable in the case of maize. In the past, there had been practically no deficiency payments for American maize: in 1983, only 3.9% of American maize production benefited form a compensatory payment of US$ 6.60; in 1986, that proportion had risen to 59.5% and the deficiency payment amounted to US$ 34.91.

- The distortion of competition

The American system of compensatory payments represents an indirect export aid. In point of fact, to the extent that it makes it possible to maintain rates at a level that only American producers are able to cope with, it protects the internal market against imports AND constitutes an export subsidy guaranteeing the competitiveness of American products.

- Discrimination between beneficiaries

The deficiency payment system is an optional system which does not apply automatically to all producers but only to those applying for it. In general terms, the effect of the system is to encourage the big specialized farms with the paradoxical result of diverting the support away from those farms in greatest need of it. Budgetary support for agriculture therefore goes only to part of total production, so that the breakdown of levels of support differs fundamentally from that of the EC in the context of the GATT negotiations.

A COMPARISON OF THE AMERICAN DEFICIENCY PAYMENT SYSTEM AND THE DIRECT AID SYSTEM RESULTING FROM THE CAP REFORM

As far as the major crops (cereals, oilseeds and protein crops) are concerned, the reform of the CAP basically involves bringing Community price levels down to the level of world prices and partially offsetting the resultant fall in income by a system of direct compensatory aids per hectare (not linked to production therefore), the amount of which will depend on farm size and the set-aside of some of the land covered by the system.

The impact on prices therefore varies according to farm size, as the percentage of compulsory set-aside and the amount of direct aid vary depending on the land area covered by the system.

This is a new form of support (based on aids, that is principally through the tax-payer) which differs radically from support for cereals in the past (based on prices, that is principally through the consumer), and very different form the system applied in the past to protein-rich oil plants and the American deficiency payment system.

The comparison that follows is very telling:

	US Farm Bill 1991-1995	EC Commission proposal (COM (91)100 FINAL of 1.2.1991 and COM(91 258 FINAL of 22.7.1991
Beneficiaries	The deficiency payment benefits only farmers who apply for it by signing up to a crop program. These are generally a minority of producers (some 15% on average in normal times)	The Community system, although also contractual, would encompass almost all producers in that aids would be indispensable to offset (in part at least) inadequate market prices
Set-aside	Yes The percentage of set-aside linked to the grant of aid is the same for any given production whatever the area covered The percentage of compulsory set-aside is revised every year by the USDA in the light of market needs.	Yes The percentage of set-aside linked to the grant of aid varies depending on the area involved. The possibility of annual adjustment is not envisaged.
Flexibility	Yes Application of the principle of "flexible triple base". The farmer therefore regains the ability to take the initiative over a part of his land covered by the contract.	No
Production covered	Quantity established on the basis of the past reference yield of that particular farm.	As an "aid paid per hectare", the EC deficiency payment would take account of a reference yield, calculated on a "regionalized basis".
Level of premium	Compensation constant between "loan rate" (or market price, if higher) and "target price" within the limit of the reference yield.	Compensation very reliable and varies according to: - the size of the farm - the situation of the farm, in both economic and regional terms, in line with criteria still to be defined (some by the Member States) - yields which will be taken into account. There would be no more guaranteed producer prices.
Products covered	wheat fodder grain rice cotton	cereals oilseeds protein crops

2.7. NOTE: THE CORN GLUTEN FEED SECTION OF THE WASHINGTON DRAFT AGREEMENT: A SIGNIFICANT THREAT TO THE EQUILIBRIUM OF THE COMMUNITY CEREALS MARKET AND A DEFINITE OBSTACLE TO GATT/CAP COMPATIBILITY

Corn gluten feed - CGF - is a by-product derived from the manufacture of starch from maize-seed using the following process:

maize-seed starch + gluten + seed (subsequently split into oil and seed cake) + residual by-product (corn gluten feed).

The American starch industry is more or less the world's only producer of CGF (the US is the world's largest maize producer) and holds a sort of de facto monopoly on the product.

CGF can be used as a supplement in animal feed, in place of cereals, but has three shortcomings in terms of nutrition:

- it is low in easily assimilable sugars (starch);
- it is high in cellulose, which is unable to be digested and which affects the capacity of proteins to be digested;
- it presents a protein imbalance.

Mixed with co-products, such as broken or waste products resulting from the screening process, seed cake or steep water, CGF can be made into a complete feedingstuff and, as such, a strong competitor for cereals.

Following the Kennedy Round of the GATT (1967) the Community gave a concession for CGF imports, exempting them from all duty on entry into the Community. CGF is therefore classified under tariff heading 2303 of the Common Customs Tariff, as a **residue.**

While that gap in Community protection was without impact in 1967, when the concession was made, we should bear in mind that currently (1992) the Community imports 38.7 million tonnes of cereal substitutes, including 6.1 million tonnes of CGF, at a time when the quantities of cereals used in animal feed is no more than 82 million tonnes, and their market share is being slowly further eroded every year by the cereal substitutes. For Community cereal producers, the 40 million tonnes of substitutes products imported mean that that volume is not available for cereals on the internal market, and the EC is thus deprived of a substantial acreage of crops. In contrast, stock farmers and the manufacturers of animal feed, particularly those located close to the large ports (foremost among them Rotterdam) at which those imports enter the Community, are in favour of imports of cereal substitutes, simply because they are a great deal cheaper than Community cereals (because they enter the Community duty free). There is therefore an internal conflict of interests within the Community on this issue, which explains the difficulty the EC has in calling for a rebalancing of imports of cereal substitutes in the context of the GATT and in taking tough decisions on controlling import fraud.

The source of the **"CGF affair"**, which is currently the focus of attention in Community circles and the Uruguay Round negotiations, is, in fact, the mistake made by the Community negotiators in 1967. At that time, what they actually did was to offer a concession not on a clearly defined product but on a manufacturing process. That lack of clarity opened the door to all the products more or less encompassed by that definition of the process, as well CGF per se. The problems emerged some 25 years after the concession was granted.

In point of fact, using an effective method of analysis, based on optic microscopy, the Netherlands customs' authorities uncovered a fraud concerning the composition of CGF imported from the United States: this contained high levels of broken maize seed which was <u>not the product</u> of the processing of which CGF is a residue. Consequently, this false CGF can no longer be considered a residue falling under tariff heading 2303; instead, as a compound feedingstuff, it should be classified under tariff heading 2309 and subject to an import tax (levy) of ECU 79.2 per tonne. Checks revealed that the quantities of (genuine and false) CGF exported from the US to the EC clearly exceeded the production capacity of the American starch industry. Between **1991 and 1992**, the quantities of CGF exported from the US to the EC **increased sharply by 20%**, rising from 5 to 6 million tonnes.

At the same time as this fraud was being uncovered, the Uruguay negotiations were taking place, and in those negotiations the US was arguing essentially for greater transparency and more extensive liberalization of world trade. On 25 November 1992, the bilateral negotiations on agriculture between the EC and the US resulted in the Washington draft agreement (or Blair House draft accord), negotiated between the Commission and the US Administration.

In addition to the general chapter on agriculture, that draft includes a chapter on "oilseeds" and a chapter on "corn gluten feed". We should bear in mind that currently (27.5.93) only the chapter on oilseeds has been approved by the Agriculture Council.

The CGF chapter included recognition of the American position on the definition of CGF which had been being stated for several years: the US was demanding a clear definition of the product CGF - the definition it was proposing **included broken grain and other waste from the sifting process and the water residue from grain washing**, all of them products not included in the original definition.

The draft actually fixes a maximum rate of 15% for the residue from maize sifting and specifically includes in the definition maize germ pellets, which in fact mean abandoning checks using microscopy, the only type of check to have been effective hitherto. The Americans had made agitated and persistent calls for the use of checks involving microscopy to be abandoned on the pretext that the method had yet to be perfected, an argument rejected by the customs authorities of the Netherlands and the other Member States. The initial position of the EC, which continues to be that of several Member States, was based on a decision of the Court of Justice of the European Communities, in Luxembourg, categorically excluding from the definition any kind of mix. Were the American position adopted, CGF would cease to be a by-product of the process of extracting starch from maize and become a compound animal feedingstuff, better balanced in relation to the earlier definitions, and the quantities of it imported would be bound to increase.

The Americans stressed that the two chapters on "oilseeds" and "corn gluten feed" were, in their view, inextricably linked, and called with increasing vehemence for the immediate application by the EC of the chapter on "corn gluten feed, following the approval, by the Council, of the chapter on "oilseeds" in May 1993. **Retaliatory measures** were even threatened against imports from the EC if the chapter on "corn gluten feed" was not swiftly approved.

During May 1993, the Commission was unable to gain immediate acceptance by the Member States of this disastrous chapter of the draft, the result - we should bear in mind - of the feverish efforts made by the Commission negotiators in November 1992 to obtain - whatever the cost - an agreement on agriculture with the Americans.

In defence of "its position", the Commission claims that the chapter on CGF would merely confirm a situation that has already existed for several years and would not bring with it the risk of increased American imports of ("genuine" and "false") CGF in the future. Several delegations found it scandalous and insane that the Commission should be proposing to **legalize a fraud**, in breach of its own legislation, and to accord so naively to the Americans a concession that was unlimited in quantity and for which nothing was being given in return.

In June 1993, the Commission tried to use a legally vague aspect of the Treaties concerning the powers of the Commission and Council respectively to classify for customs purposes the products at issue, to have the chapter on CGF in the draft endorsed "on the quiet" by a technical committee of national experts, the Committee on Common Customs Tariff Nomenclature. However, the proceedings of the latter did not result in acceptance of the new definition, which was clearly in breach of the Common Customs Nomenclature (compound feedingstuffs such as the "false CGF" to which broken maize grain had been added could not be accepted under tariff heading 2303 "residue") and ran counter to the ruling of the Court of Justice in Luxembourg (which can be set aside only on the basis of fresh agreement within the Council). Marked opposition to the Commission proposal came to light in the Committee.

Future developments may, in theory, take one of the following forms:

- either the Committee will end up by endorsing the new definition, and it is likely that the Commission will be able to have it applied directly by its own services, without having to put its proposal to the Council. This seems less and less likely, in view of the categorical opposition to it expressed by the French Government in its memorandum and underlined by the French Prime Minister before the Commission, the President of the United States and his fellow heads of government at the Copenhagen meeting of the European Council in June 1993;

- or the Committee on Common Customs Tariff Nomenclature remains too divided and is unable to give an opinion. The Commission would then be free to try to have the chapter on CGF endorsed by its own services, without referring to the Council. As matters stand, this is quite likely to be the outcome. It presupposes, however, that the governments of the Member States, the European Parliament and public opinion will not take too great an interest in the question, which would then become too "hot" a political issue for the Commission to treat in such an "anti-democratic" fashion;

- or the Committee categorically rejects the definition the Commission is asking it to approve; the text would then be bound to be referred to the Council, and it is far from certain that the latter would accept it, given the political issues and the firm opposition of some of its members. This scenario presupposes that the Committee manages to agree a clear-cut joint position, which appears relatively unlikely at the moment.

We should bear in mind that, as the assessment studies progress, the Washington draft agreement seems less and less likely to be compatible with the reformed CAP, and that acceptance of the CGF chapter of the draft would lead to a significant increase in imports of the "false CGF" from the US, put at 1.16 million tonnes by the services of the Commission itself (DG VI) and, according to the AGPB at 2.9 million tonnes in the short term and 7.6 million tonnes in 1997-98.

The opportunity for Community cereals to recover shares of the Community market in animal feed, estimated by the Commission at 12 million tonnes and even at this stage very unlikely (see above) would then be permanently undermined.

It is hard to see how Community producers could be asked to cut their cereal exports and production, how the development of their industrial crops could be restricted and the fraudulent entry on to the Community market of unlimited quantities of cereal substitutes could be legalized, in direct competition with cereals on the animal feed markets. Assurances as to the nature of the product would depend solely on pseudo-certificates of origin, not guaranteed by the American Government. The logic of that argument seems, to say the least, difficult to grasp and will be difficult to defend vis-à-vis Community producers.

Until such time as a decision is taken on the issue, we should remember that at present, in the wake of the conflict between the Europeans and the Americans, transitional measures (opposed by several Member States) have applied to CGF since the end of 1991. When they expire at the end of May 1993, they will certainly be extended further by the Twelve, on 20 July, for 2 months (Commission proposal) or 6 months (French proposal). They exempt from import duty mixes containing more than 50% of maize seed cake.

2.8. NOTE: THE CHAPTER ON "OILSEEDS" OF THE WASHINGTON DRAFT AGREEMENT: SETTLEMENT OF THE DISPUTE BETWEEN THE US AND THE EC ON COMMUNITY AID FOR OILSEED PRODUCTION

Oilseeds, in the form of seed cake and seeds, account for a substantial and rapidly growing proportion of animal feed in the Community. While the bulk of the colza and rape consumed is produced in the EC (5,710,000 tonnes of seed and 3,200,000 tonnes of cake produced compared with 510,000 tonnes and 480,000 imported, that is self-supply rates of 92% and 82% in 1990/91), a greater quantity of sunflower is imported (4,200,000 tonnes of seed and 2,300,000 tonnes of cake produced as compared with 300,000 and 1,330,000 tonnes imported, that is self-supply rates of 93% and 61% respectively). In the case of soya, the quantities involved are far greater, and it is largely imported: in 1990/91, the EC produced 2,130,000 tonnes of seed and 1,700,000 tonnes of meal (from Community seed) and imported 13,190,000 tonnes of seed and 10,140,000 tonnes of meal from the US and Latin America, resulting in **self-supply rates of 14% for the seed and 8% for the meal**. In 1991/92, Community acreage sown to oilseed amounted to 5,500,000 hectares, and seed production amounted to 7,400,000 tonnes for colza and rape and 4,200,000 tonnes for soya. The substantial quantities of seed and cake imported duty free, together with the cereal substitutes which are also imported duty free, are in direct competition with Community production on the internal markets in animal feed, and mean that the relevant crop acreage is lost to the Community. We should bear in mind that the Community is the world's largest importer of oilseed, accounting for 44% of world imports in 1988, even though oilseeds can be produced in the proper agricultural conditions in the Community. We should also bear in mind the scale of potential outlets for oilseed crops represented by non-food uses (digester processing, for example).

The Washington draft Agreement between the US and the EC includes a chapter on the settlement of the dispute between the two parties on the aids accorded by the EC for oilseed production. The dispute has been in existence for several years and resulted in the setting-up of two successive panels - in early 1990 and in early 1992 - by the GATT special working parties. The US accused the EC of seeking to use the aids to nullify the effect of the concessions on oilseed imports which it had accorded its suppliers in 1967 (duty free entry of oilseed into the Community). As the arrangement reached in October 1991, following the first panel (Council Regulation (EEC) No 3766/91, OJ L356 of 24.12.91, p17) did not satisfy the United States, the latter caused a second panel, which called for the EC to make further changes, to be set up. In early November 1992, when the bilateral negotiations on agriculture between the EC and the US were again blocked, the US cited section "super 301" of its trade law, in complete violation of the rules of the GATT, and used the unresolved dispute on oilseeds as a pretext for threatening to take retaliatory measures against agricultural imports from the EC, with a commercial value of US$ 300 million, with the possibility of increasing that to US$ 1 bn. The retaliatory measures were to take effect as of 5 December 1992.

On 25 November 1992, in the Washington draft agreement between the EC and the US, the Commission had proposed the following measures to meet the demands made in the conclusions of the GATT panels on oilseeds:

- the introduction of a separate base area (SBA) for the cultivation of oilseeds, as of 1994 (except for Spain and Portugal for which this is postponed to 1995-96): the area would be equivalent to 5.128 hectares. The SBA would be accompanied by a land set-aside requirement, the rate of which would be fixed annually by the European Council but could not in any case be less than 10% (rate for the 1993-94 marketing year: 15%);

- reduction of the compensatory payments in cases where the SBA was exceeded;

- imposition of a ceiling on production not primarily intended for human or animal consumption on the area set-aside of 1 million tonnes of by-products, expressed in "soybean meal equivalents";

- exclusion from these arrangements, as of 1994, of sunflower seed intended for confectionery products;

- no additional aid would be accorded by the EC to support the markets in rapeseed, colza, sunflower or soybean, except for those set in place by the Regulation on the reform of the CAP relating to major crops (COM(91) 379 final; Council Regulation (EEC) No 1765/92, OJ L 181 of 1.7.92, p12);

- a quota at a reduced rate of duty would be opened for the US to import annually into Portugal 500,000 tonnes of oilseeds.

Those measures are in several respects restrictive: they would involve reducing the area sown to oilseed in the EC (5.62 million hectares in 1992-93, hence a reduction of nearly 500,000 hectares would be needed to reach the targets), and be compounded by set-aside, the minimum rate of 10% of which makes it still more restrictive and inconsistent with the objectives sought by the new CAP reform; they straightaway prevent any significant increase in non-food outlets for oilseed, although these are attractive markets.

3 December 1992 saw the publication of a memorandum of understanding based on an exchange of letters and formalizing those proposals. In late January 1993, the Commission issued a recommendation for a Council decision on the conclusion of an agreement between the European Economic Community and the United States of America concerning certain oilseeds in the context of GATT (SEC(93) 53 final of 26.1.93) seeking to obtain the approval of the Council as soon as possible, and without taking into account the remaining aspects of the agricultural chapter of the Uruguay Round, for the changes to the Community support system for oilseed production and the concessions those changes represent. In late February 1993, the French Government indicated that it would veto any vote in the Council, although the governments of the other Member States agreed in principle with the Commission proposal.

On 18.5.1993, however, the French foreign minister said that the French Chamber of Deputies could taken an "open-minded" approach to the chapter on oilseeds of the proposed Washington accord, but only subject to certain conditions. The French foreign minister demanded, inter alia, that it should be possible to review every 5 years the clause limiting the acreage sown to oilseeds on the area of industrial fallow. The acreage sown to oilseeds for industrial purposes is limited to some 800,000 hectares and that limiting clause is contained in the chapter on oilseeds. French agreement is subject to a further condition: an increase in the rate of compensation for land set-aside deemed "necessary". The minister finally demanded that the compensation offered to the other countries participating in the soya panel (Argentina, Brazil, Canada etc), in return for retaining the European system of support for oilseeds, should be "limited". Those reciprocal concessions concerned purchases of durum wheat, beef/veal and poultrymeat etc.

Following the meeting of the Councils of ministers of agriculture (27.5.93) and of foreign ministers (8.6.93) and the visit to the Commission by the French prime minister (10.6.93), France finally accepted (subject to conditions) the "oilseeds" chapter of the Washington draft agreement.

On 9 June 1993, the French minister for agriculture gave an assurance that the compromise on oilseeds was in line with the conditions set by France and that, in particular, there would be area management on an individual country basis such that any penalties for exceeding the limit would in fact apply to those countries which had actually exceeded the limit. In his view, the French acreage sown to oilseeds this year (1.380 hectares) is less than the area ceiling accorded to France. As far as limiting oilseed production for industrial purposes to 1 million tonnes of meal equivalents was concerned, the minister noted that that figure was the equivalent of some 800,000 hectares and that, in the current year, that type of production accounted for only 100,000 hectares in the EC, 37,000 of them in France, so that the ceiling of 800,000 hectares meant that there could be a significant increase in that crop.

In a communication also made public on 9 June 1993, the Commission services emphasize, inter alia, that:

- the base area of 5.128 million hectares provided for under the compromise will make it possible to maintain the current area distribution between the three major crops in the EC (oil seeds, protein-rich crops and cereals) and thus meet the final objective of the reform in those sectors;

- the reference to a maximum area will make it possible, in the longer term, once the Community market has made the necessary adjustment, to seek productivity increases without the resultant increase in production being called into question;

- the provisions laid down for industrial production (particularly biofuels) mean that it will be possible to use 800,000 hectares sown to colza all of which would otherwise have been set aside (1.6 million in the case of sunflower) and that, if we consult the list of all the digester units that exist, are being built or planned in Europe, then the level of production needed for those installations is not in excess of the limit laid down;

- the income support mechanism for Community oilseed producers will not be included in the commitments to reduce aids contained in the draft final act of the Uruguay Round;

- American exports of oils produced from oilseed, currently of the order of 740,000 tonnes will decrease to 140,000 tonnes because those sales, which are supported by the Export Enhancement Program (the Community scheme for oilseeds does not provide for export refunds) have increase substantially in recent years and will have immediately to be reduced in volume, during the first year of application of the final act of the Uruguay Round (if adopted), to the average of the period 1986-1990;

- the European industry presses every year some 25 million tonnes of seed, including 13 million tonnes of soya largely exported from the US (6.2 million), Brazil and Argentina (5.5 million). The EC is a net importer of all vegetable oils. More specifically, it is a net importer of soya oil (1.6 million tonnes), self-sufficient in sunflower oil and a net exporter of colza oil (700,000 tonnes). 75% of the Community requirement for meal is covered by (net) imports, particularly of soybean meal (9.1 million tonnes of which come from Brazil and Argentina);

- the Commission is continuing its discussions with nine other parties: Argentina, Brazil, Canada, Uruguay, Poland, Sweden, India, Pakistan and Hungary.

CONCLUSION: As is plain from the arguments of the Commission itself and despite the clarification obtained by France, the separate agreement on oilseeds between the US and the EC savagely curbs on Community production, which is already largely inadequate to meet internal requirements, even though the Community will become increasingly dependent on imports as consumption grows. The agreement will reinforce the developments produced by the new arrangements for oilseeds adopted as part of the recent CAP reform, which are based solely on compensatory aid calculated as a flat rate, although guaranteed prices are a thing of the past. Quite obviously, the combined CAP-GATT system penalizes above all the most dynamic farms with the best yields, so that a further reduction in Community production is to be feared in the medium term.

3. THE DEBATE ON THE URUGUAY ROUND IN THE EUROPEAN PARLIAMENT

THE RESOLUTION OF SEPTEMBER 1990

On 22 September 1989, the Committee on External Economic Relations asked for authority to submit a report on the stage reached in the multilateral negotiations in the context of the GATT Uruguay Round. The President of Parliament announced that that authority had been forthcoming, in plenary, on 23 October 1989.

The Committee on Agriculture, Fisheries and Rural Development was asked for an opinion and appointed as its rapporteur Mr WOLTJER. The latter submitted his draft opinion (PE 140.436) on 10 April 1990. Opinions were also sought from the Committee on the Environment, Public Health and Consumer Protection, the Legal Affairs Committee and the Committee on Development and Cooperation.

At its meeting of 17 October 1989, the Committee on External Economic Relations appointed Mr STAVROU as its rapporteur, and discussed the draft report at its meetings of 21 December 1989, 22 January 1990, 20/21 February 1990, 2 March 1990, 26 April 1990, 31 May 1990, 16/17 July 1990 and 17/18 September 1990.

The motion for a resolution was unanimously adopted at the last of those meetings (Doc PE 144.724). It was adopted by the European Parliament sitting in plenary on 11 October 1990 (Session document A3-215/90 and OJ C284 of 11 November 1990). This is a lengthy documents which tackles all chapters of the Uruguay Round.

In relation more specifically to the agricultural sector, Parliament stresses the importance of those negotiations for the success of the Uruguay Round and that, because of its particular production conditions, special arrangements are required for the agricultural sector. It calls upon all the participants in the negotiations to embark upon a constructive dialogue for the purpose of reaching agreement on the definition of a unit of measurement f aid which takes into account, on the one hand, all the internal support measures which affect external trade in agricultural products and external protection measures. The Commission proposal, intended to provide for a gradual and reasonable reduction in agricultural subsidies, was approved by Parliament which took the view, however, that it was also necessary to look into the possibility striking a new balance (by increasing customs duties or import duties in one sector, for example, to offset a reduction in another sector).

Exports of agricultural products by the developing countries are deemed very important for those countries and the Parliament highlighted the need to continue to allow the developing countries to fix their domestic agricultural prices above the world market level.

The European Parliament expressed its concern over the new Farm Bill tabled in Congress and which clearly conflicted with the United States negotiating position, taking the view that the Bill was in breach of the agreement on freezing support measures concluded in Geneva in April 1989.

The European Parliament also considered trade in tropical products and took the line that the tariff concessions accorded were an important factor enabling a balanced outcome to be achieved.

There follows an extract from the above-mentioned resolution covering the sections on "Agricultural external trade" and "Tropical products":

"The individual negotiating groups

(d) Agricultural external trade

54. Holds the view that the increase in trade in agricultural products should comply with the principle of sustainable development formulated in the Brundtland report;

55. Maintains its point of view that in the framework of the Uruguay Round of GATT negotiations on international agreement should be established to restore the equilibrium on the world markets for major agricultural products;

56. Is of the opinion that a complete liberalization of trade in agricultural commodities, as proposed for the medium term by the United States, is unacceptable; the European Community must retain the right to protect its own agricultural structure, characterized by many small-sized family farms, by agricultural production which protects less-favoured regions and marginal regions and by a large deficit in certain agricultural products, but also notes that the subsidy race, which has had a significant impact especially since the early 1980s, has left too little scope for market forces in some producer countries, leading to disturbances in world agricultural trade;

57. Takes the view that the dumping of agricultural products on the world markets must be prohibited forthwith as such activities destabilize the world markets for such products and harm the developing countries;

58. Therefore calls for the gradual reform of those elements in the agricultural policy of all the signatories that badly distort trade;

59. Considers that the measures to reduce market supports should be accompanied by further measures providing direct income support for farmers to reassure them of the continued commitment to the rural economy;

60. Is of the opinion that the efforts made to date by the European Community to limit and control its agricultural production, by establishing a system of quotas and stabilizers for the main sectors of its agricultural production, must be recognized as a substantial contribution to restoring the equilibrium on the world market for agricultural products;

61. Takes the view that account must be taken of the differences in the structure of agricultural holdings in the various countries;

62. Calls upon the United States and the Cairns Group to drop their demands for the elimination of all subsidies distorting agricultural trade by the end of the 1990s;

63. Calls instead for a constructive dialogue involving all the participants in the negotiations, so that the signatories can agree on the definition of a yardstick for assessing support, including all internal support affecting agricultural external trade and all external protection measures so that comparability of support measures is attained and a balanced adjustment can be undertaken at international level;

64. Is, therefore, of the opinion that all systems of support for agriculture, including the system of deficiency payments, should be taken into consideration for the establishment of the agreement that will be concluded at the end of the GATT negotiations;

65. Believes that this step will serve as the basis for any global, gradual and controlled reductions in national agricultural support measures, including in particular specific treatment for the developing countries, to which the signatories may commit themselves at the conclusion of the Uruguay Round;

66. Supports the Commission in its proposals for a planned gradual reduction in subsidies and support measures in so far as this will contribute, on the one hand, to environmentally acceptable production and the avoidance of surplus production and, on the other hand, to maintain family-run farms, and agrees with the Commission that agricultural subsidies are not a taboo subject;

67. Considers that, in the agreement to be concluded at the end of the GATT negotiations, account should be taken of all agricultural support systems, including the deficiency payments system;

68. Supports the recent proposals by the Commission as a positive contribution to arrive at a final agreement; urges strongly all trading partners now to overcome their differences in order to arrive at an agreement which substantially improves the world trade in agricultural products without excluding future negotiations; emphasizes in this framework once more that an adaptation of the internal agricultural policy should take place in a socially acceptable way and by introducing instruments that can achieve a sufficient control of production in order to avoid the export of excessive production and any negative effects for the developing countries;

69. Believes that there is a need for clear agreements on the time-scale and extent of reductions in subsidies which distort competition;

70. Supports the position of the Commission for a global rebalancing in order to achieve a more balanced and fairer trade in agricultural products; is, however, of the opinion that such a rebalancing should not have negative consequences for the developing countries;

71. Is disturbed by the damage caused to national economies and the environment in developing countries by the dumping on the world market of surpluses from subsidized agricultural systems in the northern hemisphere;

72. Points out that when customs duties are imposed on cereal substitutes transitional and restructuring measures must be adopted for the developing countries which currently export such cereal substitutes; considers that the Community must be involved in the financing of these measures;

73. Seeks the early establishment of a GATT Working Group on Agricultural Trade and Sustainable land use;

74. Therefore supports the Commission's proposals for the gradual reduction of all support provided by agricultural producer countries; also demands, however, that the interests of the developing countries should be taken into account, particularly with regard to market access for their products, market prices and their processing facilities for their products;

75. Demands that additional accompanying measures be taken to increase the local and regional use of products from developing countries and to develop local processing facilities;

76. Stresses that the instability of both volume and price are of great importance for exports of developing countries' agricultural products, and that safeguards against such instability must be permitted in addition to any that are retained against import surges and excessive price movement of imports;

77. Insists that for both development and food security reasons developing countries should continue to be permitted to set domestic agricultural prices above world market levels, at least as a specific exemption from GATT rules;

78. Considers that developing countries must be permitted domestic agricultural marketing boards and price stabilization schemes, in view of the special character of agricultural production in these countries;

79. Urges the Community to stand firm in these talks on its demand for minimum quality standards for agricultural products; believes that consumer protection considerations must be taken into account when establishing minimum standards for the quality of agricultural products, while trading partners should be allowed to take measures to re-establish fair trading conditions;

80. Regrets that the negotiations have so far skated over the essential subject of the protection of the environment and nature in connection with world trade rules and calls for exceptional provisions in this field as in the field of health and plant protection, so that higher standards may operate reliably and restrict market access;

81. Takes the view that an agreement on plant protection should be based not purely on scientific arguments but that account should also be taken of consumer protection when laying down minimum requirements for the quality of agricultural products; considers, however, that these measures should never be adopted on the basis of resident treatment but always on the principle of reciprocity and thus that a special clause should be included in the agreement enabling the partners to undertake such negotiations;

82. Notes that the tabling of the new agriculture bill in the US Congress clearly conflicts with the United States' negotiating position and is in breach of the Geneva Agreements of April 1989 on the freezing of support;

83. Notes that there is no longer any justification for the external trade waiver granted to the United States many years ago and advocates the abolition of waivers and other exceptional provisions which benefit industrialized countries;

84. Urges Japan to submit constructive proposals for opening its markets to agricultural products and food, and condemns it for simply stressing the importance of its own supplies;

85. Takes the view that the Commission should refrain from concessions, particularly over export refunds, so long as the other negotiating parties, especially the United States, fail to offer anything in return;

86. Is dismayed that the burdens imposed on European farmers between 1983 and 1986 consequent upon the reform of the common agricultural policy (a freeze on officially fixed prices and a reduction in guarantees) have not been credited to the Community;

87. Points out that for this reason every effort must be made to utilize this credit item in an appropriate manner and considers that the best strategy is certainly not for the Community to proceed unilaterally with its efforts to dismantle support to agriculture, while other signatories, especially the United States, pursue and aggressive policy and deprive the Community of traditional markets;

88. Is of the opinion that any agreement to be concluded for the agricultural sector should have broad support and insists therefore that the conclusions of the coordinating committee cannot on their own establish an agreement, but that the agreement should be established following negotiations by the Commission in direct contact with the Council and Parliament;

89. Believes that laying down rules on applied biogenetics and biotechnology is a matter for the FAO and not GATT and that steps must be taken to ensure that farmers and stockbreeders in developing countries have access to local genetic material and to scientific and technological information;

(e) Tropical products

90. Welcomes the tariff concessions on tropical products agreed to by the industrialized countries during the mid-term review;

91. Sees this as a major step towards balanced results for all those concerned;

92. Deplores the fact that the majority of signatories, with the exception of the EEC, have so far made no progress in relation to what was initially agreed at Montreal;

93. Points out that as far as tropical products in particular are concerned, lowering the tariffs for manufactures from the poorest countries will have a positive effect on the economies of those countries;

94. Notes, however, that the agreed tariff reductions are threatening to undermine the preferences granted to the ACP States and other developing countries, and calls on the European Community to devise, for the benefit of the developing countries, systems to compensate for the losses incurred in this field;

95. Demands that trade in tropical timber should be strictly limited, if not prohibited, for ecological, economic and cultural reasons;

96. Supports the request for the abolition of taxes on the consumption of tropical products;"

THE RESOLUTION OF DECEMBER 1990

On 13 December 1990, the European Parliament again expressed its view when it adopted a resolution (Doc pe 147.264, OJ C19 of 18 January 1991) regretting that final ministerial conference of the Uruguay Round had been unable to produce an agreement because of the intransigence of the United States and the countries of the Cairns Group as well as the limited negotiating mandate accorded by the Twelve to the Commission.

The text of the resolution is as follows:

RESOLUTION

on the Uruguay Round of GATT

"The European Parliament,

- having regard to its resolution of 11 October 1990 on the Uruguay Round of GATT,

A. whereas these negotiations were due to end on 7 December 1990,

B. whereas the strengthening of an international system of free trade should of necessity respect the eco-balance of the planet,

C. regretting also the fact that, because this conflict has come to a head, there has been next to no role for the developing nations in the negotiations themselves,

1. Notes with regret and concern that the negotiating partners were unable to reach an agreement during the ministerial meeting in Brussels, although further progress has been achieved in the working groups;

2. Regrets that because of the inflexible attitude of the USA and the countries of the Cairns Group and the fact that the Commission's mandate, which should have included sone freedom of movement was unnecessarily limited, no progress could be achieved in any of the other fourteen negotiating panels;

3. Insists that a failure to conclude the Uruguay Round negotiations would have a devastating effect on the world economy;

4. Calls therefore on the Heads of State and Government, who will gather for a European Summit meeting in Rome this week, to discuss this urgent and important topic in order to contribute to a political breakthrough;

5. Calls on the President of the Commission to assume his responsibilities and proposes to the European Council in Rome that it take the necessary political steps to commit the contracting parties of GATT to find a fair and equitable overall agreement, particularly in the agricultural sector which - in this respect - must guarantee a dignified and decent standard of living for farmers and reduce, by way of new proposals, the pressure on world agricultural markets including the EEC;

6. Continues to believe in the importance of a comprehensive world trade agreement, and therefore advocates comprehensive and simultaneous negotiations in all the GATT panels;

7. Maintains its belief that in the framework of the Uruguay Round an international agreement should be established to restore equilibrium on the world markets for major agricultural products;

8. Demands that our GATT partners accept that the common agricultural policy also contributes to sustainable land-use and to the preservation of the environment, and that it also comprises important social and structural aspects; believes nonetheless that additional weight should gradually be given to market forces;

9. Takes the view that the Uruguay Round must restore balance on the world markets for the most important agricultural products and that all GATT partners must put an end to the practice of disposing of agricultural products on world markets at dumping prices;

10. Takes the view that the European Community, without destroying the world agricultural market through dumping, must stand by its right to protect its agricultural structures, which are typified by the existence of a large number of small family farms, farming as a means of protecting disadvantaged and peripheral areas, and a substantial deficit in certain agricultural products;

11. Considers, as far as agriculture is concerned, that the Community is right to insist that it is not the only problem area, but also considers that a balanced and reasonable package can be agreed containing specific commitments that will not lead to an unacceptable loss in farm incomes so long as it is accompanied by appropriate income support measures and sufficient safeguards against import surges;

12. Points out that monetary stability is essential for more balanced development of world trade and, in this regard, recalls the crucial importance of consolidation of the EMU;

13. Points to the need to achieve an overall balanced agreement and underlines the importance to the European Community of common positions, notably on agricultural policy, anti-dumping, textiles, subsidies, protection of intellectual property and trade-related investment measures, the international trade in services, an arbitration procedure and the creation of a multilateral trading body;

14. Regrets that the confrontation between the USA and the countries of the Cairns Group, on the one hand, and the EC took too little account of the interests of the developing countries;

15. Calls on the European Council to take initiatives towards a world trade summit with leading Heads of State and Government, including those of the developing countries, with the aim of achieving agreement on the future shape of free and fair world trade;

16. Calls on all the GATT signatories to refrain from bilateral trade measures which could undermine the multilateral agreements and to make every possible effort to contribute to a successful outcome of the GATT negotiations;

17. Instructs its President to forward this resolution to the Council and Commission and the GATT Secretariat."

Since 1990, the European Parliament has adopted two further resolutions on the stage reached in negotiations in the Uruguay Round of GATT, on 22 February 1991 (OJ C72 of 18 March 1991) and 13 February 1992 (OJ C67 of 16 March 1992).

THE RESOLUTION OF FEBRUARY 1991

The text of the resolution is as follows:

RESOLUTION

on the stage reached in the multilateral trade negotiations within the Uruguay Round of GATT

"The European Parliament,

- having regard to its resolution of 11 October 1990 on the stage reached in the multilateral trade negotiations within the Uruguay Round of GATT and of 13 December 1990 on the Uruguay Round of GATT,

- having regard to the statement by the Commission on the stage reached in the GATT negotiations,

A. concerned that the participants in the Ministerial Conference held in Brussels on 3-7 December 1990 did not manage to bring the Uruguay Round to a successful conclusion,

B. whereas the differences over agricultural trade between the Community's position on the one hand, and that of the United States and the countries of the Cairns Group on the other, have proved to be unsurmountable and are blocking the entire negotiating process,

C. whereas events in the Gulf are preoccupying the governments of the Western countries, overshadowing the need to bring the Uruguay Round to a successful conclusion,

1. Stresses the importance of a successful conclusion of the Uruguay Round to the successful development of an open, multilateral world trade system;

2. Appeals to all the GATT signatories, despite the military confrontation in the Gulf, not to let up in their efforts to give new political impetus to talks within the Uruguay Round, with a view to bringing these to a successful conclusion as soon as possible;

3. Stresses the global nature of the talks, while pointing out that unless both sides review their negotiating positions on agricultural trade and show a maximum of flexibility in the talks, the entire Uruguay Round is threatened with failure;

4. Expressly supports the efforts of the Director-General of GATT, Mr Arthur Dunkel, to enable the deadlock to be broken; welcomes his latest moves to restart in the next few days the talks on the Uruguay Round which were suspended two months ago, and hopes that, on this occasion, political progress will be possible in the most complex areas such as agriculture;

5. Recognizes that more time is necessary to solve the problem of the Uruguay Round and therefore favours extending it until the end of 1991;

6. Considers a corresponding extension of the US Government's negotiating brief and the 'fast track' procedure for ratifying the outcome of the talks by the US Congress to be crucial to the success of the Uruguay Round;

7. Calls on all countries involved in the talks to refrain from calling in question the progress and interim results achieved by the other negotiating groups at the Ministerial Conference in Brussels;

8. Notes with interest the Commission's guidelines for the structural reform of the CAP;

9. Urges the Commission to put forward without delay specific and realistic proposals for the reform of the CAP;

10. Stresses the need ultimately to create an institutionalized world trade organization and to improve arbitration procedures;

11. Realizes that the reasons behind such reform are not directly lined with the GATT talks, but points out that binding commitments by the Community to embark on reforms of this kind are an essential precondition for the continued progress and successful conclusion of the talks;

12. Calls, therefore, on the Council to consider the Commission proposals immediately and in a constructive spirit and to take Parliament's opinion into account before reaching its final decision;

13. Notes with satisfaction that the European Parliament was represented at the Ministerial Conference in Brussels by a delegation and calls on the Commission and Council to make the necessary preparations for a similar delegation to attend the Ministerial Conference to be convened, where appropriate, to wind up the Uruguay Round;

14. Reiterates its demand that it be consulted on the overall outcome of the talks on conclusion of the Uruguay Round;

15. Instructs its President to forward this resolution to the Commission, the Council, the governments of the Member States and the General Secretariat of GATT."

THE RESOLUTION OF FEBRUARY 1992

The text of the resolution is as follows:

RESOLUTION

on the GATT Uruguay Round

"The European Parliament,

- having regard to the Commission's statement of 17 January 1992 on the progress of the GATT Uruguay Round,

- having regard to the Council's statement of 11 January 1992,

- having regard to its resolution of 11 December 1991 on the reform of the CAP.

A. whereas on 13 January 1992, the 108 countries participating in the Uruguay Round negotiations accepted the draft drawn up by the Director-General of GATT, Mr Dunkel, as a working basis on which to conclude the negotiations, if possible by April 1992,

B. whereas the negotiations of the GATT Uruguay Round embrace all aspects of international trade relations, not just the agricultural sphere,

C. whereas enormous economic interests are at stake; whereas, especially, the Community would derive substantial benefits in terms of trade, economic activity and jobs from a positive outcome to the Uruguay Round.

1. Considers it a matter of urgency to conclude the Uruguay Round negotiations as soon as possible;

2. Stresses that the Council must adopt a position on the reform of the CAP if the Uruguay Round is to succeed;

3. Stresses that the inadequacy of the Dunkel document in certain areas of the negotiations (primarily agriculture) may jeopardize the conclusion of a global agreement and a positive outcome to the Round;

4. Stresses that such a positive outcome would bring substantial advantages, particularly in terms of a world economic recovery which would benefit the developing countries above all;

5. Emphasizes that it is a matter of urgency to reach an agreement which resolves these differences, given the short time available to ensure that the decisions arising from the negotiations can be implemented on 1 January 1993, and in view of the constraints imposed on certain contracting parties by their political schedules;

6. Calls on all the contracting partners in GATT, and the Commission and the Council, to do their utmost to secure a positive outcome to the Uruguay Round as soon as possible;

7. Instructs its President to forward this resolution to the Commission, the Council and the governments of the Member States.

4. CONSEQUENCES OF THE WASHINGTON DRAFT AGREEMENT FOR AGRICULTURE IN THE COMMUNITY

4.1. THE CAP REFORM OF MAY 1992, A FUNDAMENTAL CHANGE AND THE RISK OF ANTICIPATING A SUCCESSFUL OUTCOME TO THE URUGUAY ROUND NEGOTIATIONS

Main measures adopted in May 1992 (according to the publication "Economie et statistiques", No 254-255 p72; for further details see the Manual on the Reform of the Common Agricultural Policy, produced by the Agriculture, Fisheries, Forestry and Rural Development Division of the European Parliament's Directorate-General for Research):

A) Cereals

i) Maintaining the common organization of the market in cereals and, in particular, the three institutional prices. Reducing those prices in three stages from the 1993-94 marketing year. Those prices are fixed for the three marketing years to which the reform applies and for all cereals, on the following scale (institutional prices in green ECU per tonne):

marketing year:	target price	intervention price	threshold price
1993-1994	130	117	175
1994-1995	120	108	165
1995-1996	110	100	155

ii) Introduction of a system of direct payments intended to offset loss in income linked to reductions in the institutional prices. The payments are not linked to the volume of production, are made per hectare and based on average regional yield calculated on a sample period from the past (1986/87 - 1990/91 marketing years) multiplied by the programmed price reduction: 4.6 T/ha* (155-110) ECU/T = 207 ECU/ha on average for the Community in 1995-96. To establish the area eligible for the premium, the Member States determine base areas equal to the average areas on which cereals and protein-rich oil plants were cultivated during 1989, 1990 and 1991 (including areas left fallow). The Member States are able to establish for those base areas a system of individual references by producer or of regional references.

iii) Non-compulsory participation in this system of aids. The payment of the aids is dependent on the withdrawal (set-aside based on rotation) of the area on which cereals and protein-rich oil plants have been cultivated (base area), that rate being subject to annual review in the light of the conditions of production on the market. The Member States are able to opt for an individual or regional base area.

iv) Definition of small producers who are not required to take land out of cultivation. A small producer is deemed to be one producing less than 92 tonnes of cereals a year, corresponding to an area of less than 20 ha on the basis of average Community yield (4.6 T/ha).

v) Maintaining the Community preference by fixing a threshold price. But modification of the range between the threshold price and the target price which is fixed at a lower level. The threshold price is gradually to be reduced until, in 1995-196, it reaches the current average market level in the EC.

vi) In addition to these arrangements, which apply to all cereal crops, it is worth mentioning the case of durum wheat. In past years, the Council's approach to this product has been gradually to reduce its price to the level of that of other cereals and, at the same time, to increase the aid given which is accorded only for crops grown in what are called the traditional zones. As of 1993/94, durum wheat is to be brought into line with the other cereals, with the same price and the same level of compensation per hectare. The special situation of the traditional zones will continue to be taken into account, since a supplement to the aid, also payable by the hectare and amounting to ECU 297, will be able to be accorded in those zones.

vii) The Member States are able to treat maize differently from the other cereals. If they do so, they have to establish separate base areas and apply different average yields in terms of the categories of crop thus identified. In addition, the Member States are able to separate out zones under irrigation and to determine for that category also base areas and regionalization programmes. Overall, however, the total compensation may not exceed the compensation obtained on the basis of the average land area and yield recorded nationally.

b) Protein-rich oil plants

i) Integration of the common organizations of the market into the system generally applied to major crops, but abolition of the institutional prices which no longer apply. There will simply be aid per hectare fixed at Community level and then regionalized on the basis of average past yield. Those payments are to act as no more of an incentive than those paid in respect of cereals.

ii) The reform is to be applied at a stroke and in full (following the expiry of certain transitional arrangements in 1992/93) from the 1993/94 marketing year for which the Council has decided upon aid of 359 ECU/ha. Paid in two instalments, the first at the beginning and the second at the end of the marketing year, the aid is able to be adjusted in terms of the price trends recorded on the world market.

In practice, if average world prices recorded for the three main protein-rich oil plants (colza, sunflower and soya) depart from the provisional reference price (163 ECU/t) by ±8%, no adjustment will be made. If, however, prices rise or fall in excess of that percentage margin, the compensation accorded per hectare will be cut or increased accordingly.

As regards regionalization, which is determined on the basis of the average aid of 359 ECU/ha, the Member States have the option of putting this into effect in the light of average regional cereal yields or average oilseed yields.

Since the base areas are determined for all the major crop plants, land may be left fallow on the basis of either the cereal or the oilseed fallow.

iii) Compulsory set-aside and definition of "small producers" (see section on "cereals").

C) Milk and milk products

i) Price of butter reduced by 2.5% in 1993-94 and 1994-95. No reduction in the price of milk powder.

ii) No reduction in the quotas for 1992-93, but the possibility of reducing them at the beginning of the 1993-94 and 1994-95 marketing years in the light of the market situation.

D) Beef and veal

i) Intervention price reduced by 15% over the three marketing years 1993-94, 1994-95 and 1995-96 as follows:

1 July 1993: 325.85 ECU/100kg carcase weight
1 July 1994: 308.70 ECU/100kg carcase weight
1 July 1995: 291.55 ECU/100kg carcase weight

ii) Changes to the premium arrangements. Four premium systems are retained: the premiums for male bovines, the premiums for suckler cows, the premiums for processing calves and the premiums for extensive live-stock farming. In general terms, the reform establishes a density factor (equal to 3.5 adult bovine animal units (UGB) in 1993, 3 UGB in 1994, 2.5 in 1995 and 2 thereafter) representing a premium capping level. In addition, the premiums are limited to a maximum number of animals per farmer. A regional reference herd, the maximum number giving entitlement to premiums, is defined. Seasonal adjustment of the premiums for male cattle. In the case of suckler cows, the setting-up of a national reserve and possibilities of transferring premium entitlement as in the case of sheep.

iii) Acceptance for intervention of animals with a carcase weight of between 150 and 200kg; limiting intervention to 750,000 tonnes in 1993 and gradually reducing that level to 350,000 tonnes in 1997; keeping in place the "safety-net", that is intervention where there is an excessive fall in prices.

E) Sheepmeat

i) Changes to the premium arrangements: limiting the number of ewes eligible for the premium to the 1989, 1990 or 1991 reference level (the choice being a matter for the Member States), with a ceiling of 1,000 head in the less-favoured regions and 500 elsewhere (outside those limits, the premium is to be cut by 50%); the setting-up of an additional reserve in the less-favoured zones and definition of the rules governing the transfer of premium entitlements between producers.

ii) The premium for lightweight animals and goats will amount to 80% of the normal premium.

F) Tobacco

The varieties (and there are more than 45 at present) are to be divided into 5 main groups, plus 3 groups covering certain Greek varieties.

Maximum tonnage eligible for support = 370,000 tonnes in 1993 and 350,000 tonnes as of 1994.

ii) Processing quotas for crops in the period 1993 to 1997.

G) Accompanying measures

The reform defines the accompanying measures, in the form of supplementary aids, in three programmes:

i) An agri-environmental programme designed to enhance the part played by farmers in protecting the rural environment and managing the countryside.

ii) A programme for the afforestation of agricultural land, designed to help investment and better compensate for loss of income during the non-productive stages when the trees are growing.

iii) Early retirement programme

The details of these accompanying measures are as yet rather unclear. Significant budgetary costs are to be anticipated if the measures are actually put into effect by all the Member States.

4.2. THE MAIN ANALYSES CARRIED OUT SO FAR AND THE CONCLUSIONS REACHED IN THEM: A COMPARATIVE STUDY

METHOD

The tables which follow have been drawn up on the basis of statistics contained in the following documents each of which is identified by a letter (the documents most often referred to are the B and L (COPA), F (Commission) and 8 (SCA report). Those letters are used in the tables to indicate the different documents.

A: INRA - Sciences sociales-Rennes, 11/92: Réforme de la PAC, simulations et analyses [Reform of the CAP, simulations and analyses] (summary analysis);

B: COPA, 16.11.92: Volet agricole des négociations GATT et panel oléagineux [The chapter on agriculture of the GATT negotiations and the oilseeds panel] (11 pages including tables);

C: Proceedings of the 31st seminar of the European Association of Agricultural Economists, Frankfurt am Main (G), 7-9 December 1992 (first draft): The EC and US agricultural trade conflict and the GATT Round: petty multilateralism? (available from INRA-Rennes (F));

D: Economie et statistiques, No 254-255, May-June 1992: La réforme de la PAC et les négociations du GATT: un pas nécessaire pour un compromis minimal? [The reform of the CAP and the GATT negotiations: a necessary step towards a minimum compromise?] (pages 41-61);

E: 11/92: DG I internal working document: "The European Community and the Uruguay Round";

F: 25.11.92: SEC(92)2267 final: Commission commiunication on the chapter on agriculture of the GATT negotiations and the reform of the CAP;

G: ONILAIT, OFFICE NATIONAL INTERPROFESSIONNEL DU LAIT (F), 25.12.92: Conseil de direction: négociations commerciales multilatérales, impact du compromis de Washington dans le secteur laitier [multilateral trade negotiations, the effect of the Washington compromise on the milk sector];

H: FEDERATION NATIONALE BOVINE (F), 26.11.92: Communiqué: GATT, conséquences dramatiques pour les producteurs de viande bovine [GATT, disastrous consequences for beef and veal producers];

I: AGPB, 25.11.92: pourquoi les céréaliers français rejettent un accord au GATT dans les conditions actuelles [why French cereal producers are opposed to a GATT agreement in the current circumstances] (communication);

J: AGPM/AGPB, 10.12.92: GATT: une épreuve de vérité pour l'Europe [GATT: a litmus test for Europe] (joint communication with the AGPM);

K: FEDERATION NATIONALE PORCINE (F), 30.12.92: Bilan de l'accord de Washington pour le secteur porc [an assessment of the Washington agreement for the pork sector];

L: COPA, 28.1.93: Preliminary results of a study to access the possible impact of the GATT on the EC agricultural sector as a whole (17 pages + 18 pages of separate tables);

The following documents have also been used but contain data that is superfluous in relation to the above documents or have used their results or economic arguments, or do not provide precise figures. No reference is therefore made to them in the tables:

1: AGPB, 4.2.91: Premières réflexions sur l'impact de la nouvelle PAC sur les PSC [an initial assessment of the impact of the new CAP on the cereal substitutes].

2: AGPB: 31.3.93: Utilisation des céréales en alimentation animale: conséquences de la réforme de la PAC. [The use of cereals in animal feed: consequences of the CAP reform].

3: 25.11.92: The United States Trade Representative, letter to Mr Frans Andriessen (this document in fact constitutes the written transcription, left to the Americans to draw up, of the commitments entered into in the Washington draft accord which the two delegations (EC and US) did not have time to formalize in writing at the end of their last meeting.

4: 18.12.92: Paper prepared for the 1992 International Symposium on "GATT and Trade Liberalization in Agriculture", Otaru University of Commerce, December 18-19 1992, Otaru, Hokkaido, Japan: The common agricultural policy of the European Community in the context of the GATT (Stefan Tangermann, Institute of Agricultural Economics, University of Göttingen, G).

5: Commission of the European Communities, Directorate General for agriculture (DG VI-H-1), 15.2.93: 191NOTO2.93SAC: for the attention of the Special Committee on Agriculture. Subject: agriculture in the GATT negotiations and the reform of the CAP (information sheet, internal document).

6: Commission of the European Communities, Directorate General for agriculture (DG VI-H-1), 22.2.93: 196NOTO2.93SAC: for the attention of the Special Committee on Agriculture. Subject: agriculture in the GATT negotiations (information sheet, internal document).

7: COPA, 8.3.93: Rapport des réunions avec les services de la Commission (4.2.93, 11.2.93 and 4.3.93) concernant l'impact éventuel du GATT sur l'agriculture de la Communauté [report of the meetings with the Commission services on the possible impact of the GATT on agriculture in the Community] (21 pages).

8: Council of the European Communities, 10.3.93: 5030/93-RESTREINT: Report of the Special Committee on Agriculture to the Council (16 and 17 March 1993). Subject: Uruguay Round - chapter on agriculture - compatibility of the Blair House accord with the common agricultural policy (35 pages).

4.2.1. IMPACT OF THE COMMITMENTS CONTAINED IN THE WASHINGTON DRAFT AGREEMENT FOR COMMUNITY EXPORTS, IMPORTS AND INTERNAL SUPPORT

COMMITMENTS	DOC.	APPLICATION		
REDUCTION A.M.S (AGGREGATE MEASUREMENT OF SUPPORT) ("INTERNAL SUPPORT" CHAPTER)	F	A.M.S (MECUs)	AMS 1999/COMMITMENTS WASH	AMS 1999/ REFORMED CAP
		A.M.S. cereals	25526	11101
		A.M.S. livestock	23076	19698
		other A.M.S	16490	20422
		A.M.S. ALL PRODUCTS	65091	51221

<table>
<tr><th>COMMITMENTS</th><th>DOC</th><th>APPLICATION</th></tr>
<tr><td rowspan="3">TARIFFICATION OF IMPORTS AND REDUCT. IN CUSTOMS DUTIES

("IMPORT ACCESS" CHAPTER)</td><td>F</td><td>Tariffication compatible with reformed CAP in all sectors except white sugar and skimmed milk, but the EC will be able to reduce by 20% only in those sectors (commitment to a 36% arithmetic mean reduction on all products) to maintain a Community preference (ECU/T):
<table>
<tr><th>PRODUCTS</th><th>CUSTOMS DUTIES 1999 (-36%/86-88)</th><th>(A) LOWEST IMPORT PRICES (1)</th><th>(B) EC PRICE(2)</th><th>EC PREFERENCE (A)-(B)</th></tr>
<tr><td>comm. wheat</td><td>95.0</td><td>197.9</td><td>126.5</td><td>+71.4</td></tr>
<tr><td>maize</td><td>94.0</td><td>175.5</td><td>126.5</td><td>+49.0</td></tr>
<tr><td>barley</td><td>92.6</td><td>162.7</td><td>126.5</td><td>+36.2</td></tr>
<tr><td>white sugar</td><td>335.4</td><td>629.7</td><td>678.5</td><td>-48,8</td></tr>
<tr><td>skimmed milk powder</td><td></td><td></td><td></td><td></td></tr>
<tr><td>butter</td><td>950.4</td><td>1701.7</td><td>1974.5</td><td>-272.8</td></tr>
<tr><td>beef/veal (fresh)</td><td>1895.6</td><td>3460.3</td><td>2930.2</td><td>+530.1</td></tr>
<tr><td>sheepmeat</td><td></td><td></td><td></td><td></td></tr>
<tr><td>(fresh)</td><td>1768.3</td><td>3171.7</td><td>2670.9</td><td>+500.9</td></tr>
<tr><td></td><td>1713.5</td><td>3741.1</td><td>3035.9</td><td>+705.2</td></tr>
</table>
(1) assuming : application of the safeguard clause in line with the Dunkel compromise; world prices envisaged = lowest monthly prices recorded between 1986 and 1991.
(2) Price after introduction of the reform, including possible monthly increases (cereals and sugar), ie intervention price for sugar, skimmed milk powder and butter and the representative market price for sheepmeat.</td></tr>
<tr><td>H</td><td>Washington draft => 42% reduction in customs duties (1999/91) for beef/veal, compounded by the commitments to import "Hilton Beef" at very low rates.</td></tr>
<tr><td>K</td><td>Tariffication => diminished protection in relation to imports, hence the fall in internal support prices, in part offset by the fall in production costs resulting from the fall in cereal prices (ca 8 to 12%).</td></tr>
</table>

COMMITMENTS	DOC.	APPLICATION
TARIFFICATION OF IMPORTS AND REDUCTION IN CUSTOMS DUTIES ("IMPORT ACCESS" CHAPTER (cont)	L	Tariffication => reduction in customs duties = 20% for sugar (assuming: ACP sugar excluded from GATT commitments) = 20% for fruit and vegetables = 20% for wine = 20% for skimmed milk powder = 36% for other milk products

COMMITMENTS	DOC.	APPLICATION			
MINIMUM MARKET ACCESS - INCREASE IN IMPORTS ("IMPORT ACCESS" CHAPTER	C	Impact of the measures contained in the Dunkel compromise on the increase in Community imports, comparison 1999/90 (1,000 Tonnes):			
		Products	import. 1990	import. 1999	Difference 1999/90
		cereals	5675	7652	+34.8%
		wheat	1351	2964	+119.0%
		other cereals	4324	4689	+8.0%
		sugar	1860	1846	-0.7%
		olive oil	76	72	-5.0%
		butter & b. oil	60	90	+50.0%
		cheeses	113	205	+81.0%
		skim'd milk pdr.	14	71	+407.0%
		whole milk pwdr.	3.4	13	+282.0%
		concentr'd milk	2.4	12	+400.0%
		beef	501	492	-2.0%
		pork	78	625	+701.0%
		sheepmeat	287	252	-12.0%
		poultry	135	273	+102.0%
		eggs	42	241	+474.0%
	D	Increase in imports of CGF, manioc and other cereal substitutes between 1990 and 1996, following the commitments contained in the Wash. draft and in line with trends in world price differentials between the different products (MT):			
		Products	1990	1996	difference (%)
		CGF	8.1	10.6	+24%
		manioc	5.8	5.9	+ 2%
		other substitutes	25.8	31.0	17%

COMMITMENTS	DOC.	APPLICATION
MINIMUM MARKET ACCESS - INCREASE IN IMPORTS **("MARKET ACCESS" CHAPTER)** (cont)	F	minimum market access => increase in cheese imports = +100000 T (a year?), that is 1 MT milk equivalent
	G	minimum market access => 100% increase in imports of milk products between 1991 (1.45 MT) et 1999 (2.90 MT).
	H	In the Wash. draft, and in line with the opinion of the oilseeds panel, the EC undertakes to open import quotas for "Hilton Beef" (superior quality beefmeat), which will add to Community beef/veal surpluses.
	J	Commitments in the Wash. draft => increase in cereal imports = +100% => increase in poultry imports = +86% => increase in pork imports = +1000% Fall in substitute imports following reductions in cereal prices exaggerated by the Commission (in doc. SEC(92) 2267 final). Similarly, increase in imports in all sectors minimized by the Commission.
	K	Market access commitments for pigmeat : 3%(86-88) = 374000 T in 1994 5%(86-88) = 624000 T in 1999 Vol. import. 1990 = 99000 T Vol. import. 1991 = 56000 T (DG VI, ex-GDR included) = 115000 T (Institut technique du porc, F) Vol. import. 1992 = 75000 T (DG VI estimate) = 100000 T (ITP) Between 1992 et 1999, pork imports would therefore increase 6- or 8-fold depending on the source.

COMMITMENTS	DOC.	APPLICATION
MINIMUM MARKET ACCESS - INCREASE IN IMPORTS **("IMPORT ACCESS" CHAPTER)** (cont)	L	Impact of the commitments in the Wash. draft on imports et EC internal consumption, comparison 1999/91 (%):

Products	imports (*)	internal consumption
cereals	+79	-4.8
potatoes	±0	+1.6
sugar	+179	+1.6
oilseeds	-4.6	-9.7
fruit & veg	±0	+1.6
olive oil	-8.4	+1.6
wine	+231	+1.6
meat	+51	+1.6
-beef	-18.3	+1.6
-pork	+1014	+1.6
-poultry	+80	+1.6
milk products	+261	+1.6
eggs	+562	+1.6

(*) assuming : the imports satisfying minimum access are included but not aggregated (by individual tariff heading).

Increase in wine imports on the basis of the minimum access commitments in the Wash. = +100% (because 1999 minimum access equivalent 5% internal consumption 86-88).

<table>
<tr><th>COMMITMENTS</th><th>DOC.</th><th colspan="4">APPLICATION</th></tr>
<tr><td rowspan="4">FALL IN VOLUME SUBSIDIZED EXPORTS

("EXPORT SUPPORT" CHAPTER)")</td><td rowspan="2">B</td><td colspan="4">Fall in volume of subsidized exports, comparison 1999/91 :</td></tr>
<tr><td colspan="4">Cereals: fall 21% vol. export. sub. (1999/86-90) = fall 32% (1999/91)
Wheat: fall 38% vol. export. sub. (1999/91)
Fodder grain : fall 24%
Sugar: fall 19% (quotas A et B)
All meats: fall 39%
Beef/veal: fall 38%
Pigmeat: fall 41%
Poultry: fall 40%
All milk products: fall 24%
Butter + butter oil: incr. +6%
Cheese: fall 35%
Skimmed milk pwdr: unchanged
Other milk products: fall 31%
Eggs: fall 27%</td></tr>
<tr><td rowspan="2">C</td><td colspan="4">Volume of subsidized exports permitted under the Dunkel Compromise (attention: 24% fall in volume as compared with the reference period), comparison 1999/90 (1,000 Ts):</td></tr>
<tr><td>Products

cereals
.wheat
.other cereals
sugar
butter & b. oil
cheese
skmd milk pwdr.
whole milk pwdr.
concentr'd milk
beef
pork
poultry
eggs</td><td>1990

33627
22436
11191
3310
262
456
207
522
343
816
580
425
139</td><td>1999

22468
13524
8944
2776
315
316
233
416
295
714
353
300
100</td><td>% difference

-33
-40
-20
-16
+20
-31
+12
-20
-14
-12
-39
-29
-28</td></tr>
</table>

<table>
<tr><th>COMMITMENTS</th><th>DOC</th><th colspan="3">EFFECT</th></tr>
<tr><td rowspan="4">FALL IN VOLUME SUBSIDIZED EXPORTS

("EXPORT SUPPORT CHAPTER")

(cont)</td><td>D</td><td colspan="3">1996 : export vol milk prods provided for under CAP reform = 13,7 MT (13,3 MT in 1993) (assuming: no quota cut, price cut of 1,25% over 3 years);
1996 : reduction in surpluses in 1996 as compared with 1993 according to new CAP (assuming fall in price = 15%);
1996 : increase in volume of exports of pork, poultry and eggs as compared with 1993 (assuming fall in costs of animal feed)</td></tr>
<tr><td rowspan="3">E</td><td colspan="3">Impact of draft Washington accord on the volume of subsidized exports permitted in 1999 for the EC, compared with 1986-90 (-21%) (MT):</td></tr>
<tr><td>Products</td><td>1986-90</td><td>1999</td></tr>
<tr><td>wheat
ALL CEREALS
white sugar
butter
skmd milk pwdr
cheese
beef
pork
poultry</td><td>17.0
29.8
1.60
0.46
0.31
0.39
1.00
0.49
0.37</td><td>13.4
23.5
1.30
0.37
0.24
0.30
0.82
0.39
0.29</td></tr>
</table>

COMMITMENTS	DOC.	APPLICATION		
FALL IN VOLUME SUBSIDIZED EXPORTS **("EXPORT SUPPORT" CHAPTER)** (cont)	F	- **cereals:** in 1999, EC exportable surplus = 19 MT (assuming: yields static at 4.66 T/ha, production = 164 MT, int. conseq. increase of 12 MT, imports stable at 3 MT) or 25.4 MT (assuming: increase in yield = 1% annually), whereas volume permitted under Wash. draft = 23,4 MT. - **milk products:** 21% fall in volume of subsidized exports will not be binding on butter and skimmed milk powder; for cheese and other milk products, surplus over commitments (1999) = 3-3.5 MT milk equiv., but buying-up of Italian and Spanish quotas (2 MT) and conseq. increase EC cheeses (600-900000 T), means no real overrun in 1999. - **meat:** in 1999 surplus in excess of quantities provided for under the commitments of 200,000 T for pork and 150000 T for poultry, and 300,000- 400,000 T for beef/veal. Volume of exports subsidized in 1986-90 and volume authorized in 1999 according to the commitments under the Washington draft (21% reduction in volume in 1999 as compared with 1986-90) (MT):		
		Products	1986-90	1999
		wheat and flour	17.0	13.4
		other cereals	12.6	10.0
		ALL CEREALS	29.6	23.4
		butter and b. oil	0.46	0.37
		skmd milk pwdr.	0.31	0.24
		cheese	0.39	0.30
		other milk prods	1.19	0.94
		ALL MILK PRODS	2.35	1.90
		beef	1.03	0.82
		pork	0.49	0.39
		poultry	0.37	0.29
		ALL MEATS	1.89	1.50

<table>
<tr><th>COMMITMENTS</th><th>DOC</th><th colspan="5">EFFECT</th></tr>
<tr><td rowspan="13">FALL IN VOLUME SUBSIDIZED EXPORTS

("EXPORT SUPPORT" CHAPTER)

(cont)</td><td rowspan="10">G</td><td colspan="5">Milk products: 21% reduction in export volume in 1999 (compared with 1986-90) => fall in exports of milk products = 1.6 MT milk equiv. (or 13%) compared with 1991, or 1.6% of quotas.
Overall cut 13% (99/91) = 30% cut for non-fat-red. pwdrs, cheese, skmd milk;
= permitted increase of 12% for butter and b. oil.
= permitted increase of 18% for skmd milk pwdrs
If impossible to increase exports of butter and skmd milk pwdrs, quotas cut by 2.3% and not 1.6%.
Additional constraint resulting from the cut in budgets for refunds (-36% in 1999 compared with 1986-90) => fall in volume of subsidized exports 1999/91 = 27%, that is 2.4% of 1991 quotas (and not 1.6%).</td></tr>
<tr><td colspan="5">Fall in volume of subsidized exports of milk products in 1999 compared with 1986-90 and 1991 (1,000 Ts):</td></tr>
<tr><td>Products</td><td>1986-90</td><td>1991</td><td>1999</td><td>1999/91 (%)</td></tr>
<tr><td>butter and b. oil</td><td>417</td><td>294 (+60=GDR)</td><td>329</td><td>+12%</td></tr>
<tr><td>skmd milk pwdr</td><td>308</td><td>205</td><td>243</td><td>+18%</td></tr>
<tr><td>whole milk pwdr</td><td>541</td><td>617</td><td>427</td><td>-31%</td></tr>
<tr><td>concent'd milk</td><td>401</td><td>316</td><td>317</td><td>+-0%</td></tr>
<tr><td>cheese</td><td>367</td><td>428</td><td>290</td><td>-32%</td></tr>
<tr><td>liq. milk + yoghurt</td><td>214</td><td>274</td><td>169</td><td>-38%</td></tr>
<tr><td>TOT MILK EQUIV.</td><td>13500</td><td>12300</td><td>10700</td><td>-13%</td></tr>
<tr><td>H</td><td colspan="5">Volume of subsidized exports of beef/veal in 1999 (according to the Washington commitments) : 50 0000 T reduction over 1991.
Washington draft includes an EC commitment to refrain from all subsidized exports on the markets of South-East Asia: but those markets are growing substantially (and are the only ones) and are solvent: the commitments, which are unilateral and therefore without consideration, are an obstacle to the opportunities for increasing EC exports.</td></tr>
<tr><td>I</td><td colspan="5">Wash. draft results in loss of export outlets for 12 to 19 MT of Community cereals.</td></tr>
<tr><td>J</td><td colspan="5">Wash. draft => fall in vol. export 1999/92: wheat = -40%
poultry = -40%
beef/veal= -30%</td></tr>
</table>

<table>
<tr><th>COMMITMENTS</th><th>DOC.</th><th colspan="3">APPICATION</th></tr>
<tr><td rowspan="4">FALL IN VOLUME OF SUBSIDIZED EXPORTS

("EXPORT SUPPORT" CHAPTER)

(cont)</td><td>K</td><td colspan="3">Volume EC subsidized exports pork 1986-90 = 497 000 T
Vol permitted by commitments for 1999 = volume 1986-90 - 21% = 393 000 T
Volume EC subs. exports pork 1990-91 = 633 000 T (source: Commission, DG VI)
= 668 000 T (source: Eurostat)
Volume EC subs. exports pork 1992 = 550 000 T
=> reduction 1999/90-91 = -38 à -41%
Surplus in 1999 over commitments in draft = 200 000 T, accepted by Commission which however considers problem to be "apparent only".</td></tr>
<tr><td rowspan="3">L</td><td colspan="3">Impact of the commitments contained in the Wash. draft on the volume of EC subsidized exports and total exports: comparison 1999/91 (% differences):</td></tr>
<tr><td>PRODUCTS

cereals
potatoes
sugar
fruit & veg
olive oil
wine
ALL MEATS
-beef
-pork
-poultry
milk products
eggs</td><td>TOTAL EXPORTS

-25.9
0
-10.3
-2.6
-21.8
-0.5
-38.8
-39.8
-42.1
-34.3
-17.6
-29.8</td><td>SUBSIDIZED EXPORTS

-26.9
0
-32.9
-17.5
-21.8
-1.7
-38.8
-39.8
-42.1
-34.3
-18.4
-29.8</td></tr>
<tr><td colspan="3">Reduction in vol. subsidized sugar exports 1999/86-90 = 26% and not 21%, if account is taken of the additional constraint caused by the 36% cut in the budget for refunds</td></tr>
</table>

COMMITMENTS	DOC.	APPLICATION		
FALL IN BUDGET FOR REFUNDS **("EXPORT SUPPORT" CHAPTER)**	E	Impact of the commitments entered into in the Wash. draft on the resources allocated for refunds: comparison 1999/1986-90, in MECUs:		
		Products	1986 - 1990	1999
		wheat	1783	1141
		cereals	3224	2063
		beef	1967	1259
		refined sugar	776	497
		butter	1325	848
		skmd milk pwdr	370	237
		cheese	439	281
		pork	176	113
		poultry	143	92
	G	Cut in budget for refunds 1999/91, to meet the 36% cut 1999/86-90 and in the light of cuts already made since then: -8%		
	K	budget refunds pork exports: 1986-90 : 151 M ECU 1999 = 1986-90 - 36% = 97 M ECU 1991 : 304 M ECU => reduction 1999/91 = -70% 1992 : 200 M ECU => reduction 1999/92 = -50% => further fall in volume of exports and/or fall in internal support prices		

4.2.2.CONSEQUENCES OF THE COMMITMENTS CONTAINED IN THE WASHINGTON DRAFT FOR THE VITAL ASPECTS OF COMMUNITY AGRICULTURE

COMPONENTS OF AGRICULTURE	DOC	HYP see 4.2.4	CONSEQUENCES OF THE COMMITMENTS IN THE WASH. DRAFT FOR COMPONENTS OF AGRICULTURE
INTERNAL SUPPORT COSTS	A	2 16 17	Fall in milk price between 1996 and 1999: -8% Fall in white-sugar price between 1996 and 1999: -8%
	G	18	Fall in the prices of EC milk of between 3 and 4% in 1999/91, as a result of export and import commitments
	L	1 2	Prices paid to producers (covering all products) fall by 12.5% between 1991 and 1999 (causes: reduced frontier protection and fall in price of animal feed): .cereals: -33.6% .potatoes: +10.0% .olive oil: -6.1% .oilseeds: -48.6% .fruit and veg.: -5.1% .milk prods: -19.7% .wine: -1.9% .meat: -10.7% (milk: -2.3%) .sugar: -9.3% (poultry: -15.0%) .others: -5.1% .eggs : -9.8% (beef: -27.0%) (pork: -13.5%) (sheepmeat: -17,0%).
		4 5	Fall in the CSP prices will follow fall in cereal prices: -33.5% (1999/91) Protein feed prices static (if world demand increases and world raw materials' prices remain static)

COMPONENTS OF AGRICULTURE	D O C	HYP see (4.2.4)	CONSEQUENCES OF THE COMMITMENTS UNDER THE WASH. DRAFT ON THE COMPONENTS OF AGRICULTURE
SET-ASIDE (CEREALS OILSEEDS AND PROTEIN CROPS)	A	9 10	Between 1996 and 1999, 10% increase in area of set-aside (compared with the 15% provided for under the CAP)
	B	10	In 1997-98, set-aside = 4.4 M ha, under the reformed CAP and the Dunkel compromise; hence arable land sown to crops in the EC = 47.5 M ha (1991-92: 48.2 M ha).
	I	10	In 1999, set-aside will increase from 15% (CAP year 1992-93) to 25 or 30%
	J	10	Set-aside will increase from 15% in 1992-93 to 25 or 30% in 1999-2000, as a result of the commitments contained in the Wash. draft
	L	10 7 8 14	Set-aside in 1999 : *1st hypothesis*: yields of cereals and protein-rich oil plants remain static from 1993 to 1999, and imports of CSPs and protein feeds decrease. -set-aside existing in 1992: 1.2 M ha (ex-GDR excluded) -GATT constraints + fall in demand for animal feed: 8.7 M ha -effect of increase in cereals stocks (19 MT): 1.5 M ha or 11.5 M ha in total. *2nd hypothesis*: increase in yields of cereals and protein-rich oil plants: +1% per annum, fall in imports of CSPs and protein feeds, and increase in rate of food conversion, the fall in prices leads to extensification. in this situation, set-aside = 20 M ha.

<table>
<tr><th>COMPONENTS OF AGRICULTURE</th><th>D
O
C</th><th>HYP see (4.2.4)</th><th colspan="4">CONSEQUENCES OF THE COMMITMENTS UNDER THE WASH. DRAFT ON THE COMPONENTS OF AGRICULTURE</th></tr>
<tr><td rowspan="8">VOLUME OF AGRICULTURAL PRODUCTION AND SURPLUSES</td><td rowspan="4">D</td><td rowspan="4">8</td><td colspan="4">Equilibrium of the EC cereals market following the CAP reform: comparison 1996 (reformed CAP)/1990 :</td></tr>
<tr><td>elements</td><td>1990</td><td colspan="2">1996 (CAP reform)</td></tr>
<tr><td>supply
demand
balance
rate of self-supply</td><td>155.5 MT
128.7 MT
+26.8 MT

121%</td><td colspan="2">156.6 MT
141.8 MT
+14.8 MT
110%</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td rowspan="4">G</td><td rowspan="4">18</td><td colspan="4">Commitments under the Wash. draft result in a fall in exports of milk products for 1999 estimated at 1.6 MT litres milk equivalent, hence a reduction of 1.6 MT milk equivalent in production quotas, that is 1.6% (compared with 1991).
Moreover, were it not possible to increase exports of butter and skimmed milk powder, the cut in quotas would rise to 2.3%.
Effect on milk quotas, from 1994 to 1999, of the fall in subsidized exports and increases in imports provided for under the Washington draft (MT milk equivalent):</td></tr>
<tr><td></td><td>Impact of the increase in imports</td><td>Impact of the fall in exports</td><td>Overall impact on quotas</td></tr>
<tr><td>1994
1995
1996
1997
1998
1999</td><td>-0.64
-0.81
-0.97
-1.12
-1.29
-1.44</td><td>+0.74 (-1.18)
+0.26 (-1.39)
-0.21 (-1.61)
-0.68 (-1.82)
-1.15 (-2.04)
-1.63 (-2.26)</td><td>+0.10 (-1.80)
-0.55 (-2.18)
-1.18 (-2.56)
-1.80 (-2.92)
-2.44 (-3.31)
-3.07 (-3.70)</td></tr>
<tr><td colspan="4">Figs. hypothesized in table: possibilities of increasing exports of butter, butteroiland skimmed milk powder - Hyp. figs in brackets: little or no opportunity of increasing exports of these products because the market is saturated.</td></tr>
</table>

COMPONENTS OF AGRICULTURE	D O C	HYP see (4.2.4)	CONSEQUENCES OF THE COMMITMENTS UNDER THE WASH. DRAFT ON THE COMPONENTS OF AGRICULTURE		
VOLUME OF AGRICULTURAL PRODUCTION AND SURPLUS (cont)	L	4 5 7	Consequences of the commitments under the Wash. draft on the volume of production of the different agricultural products in the EC, and on the value of that production, comparison 1999/1991 (%):		
			Products	Production volume	Production value
			cereals	-13.4	-42.5
			potatoes	+2.1	+12.4
			white-sugar	-2.1	-11.2
			oilseeds	-16.1	-56.9
			fruit & veg	+1.5	-3.7
			olive oil	+0.1	-6.0
			wine	-1.2	-3.1
			meat	-5.4	-15.5
			-beef	-9.8	n.d.
			-pork	-4.5	n.d.
			-poultrymeat	-3.2	n.d.
			milk products	-4.5	-23.3
			eggs	-3.5	-12.9
			others	+1.5	-3.7
			TOTAL	-4.0	-16.0

COMPONENTS OF AGRICULTURE	DOC	HYP see (4.2.4)	CONSEQUENCES OF THE COMMITMENTS UNDER THE WASH. DRAFT ON THE COMPONENTS OF AGRICULTURE
VOLUME OF AGRICULTURAL PRODUCTION AND SURPLUSES (cont)			Although the total value of agricultural production is going to fall by 16% between 1991 and 1999, the value of the inputs used will increase by 7% (9% fall in the quantities used, animal feed costs static, 3% increase annually in the costs of chemical products and services).
		7 8 9	- **cereal production:** increased imports (imports = 7.5 MT in 1999, if minimum access = 5% of internal consumption 1986-88) + fall in volume of subsidized exports (approx. -27%) + fall in budgets for refunds + fall in intra-EC demand for cereals for animal feed (fall of 11.5% between 1991 and 1999) => fall in cereal production between 1991 and 1999 = 13.5% (in terms of volume) or 42.5% (in terms of value).
		16 17	- **sugar production:** 9% fall in internal support prices + 26% fall in export volume (to meet the 36% cut in the budget for refunds) + reduction of 20% only in customs duties (36% as the arithmetic mean for all products) + assumption ACP sugar excluded from GATT commitments => 2% fall in production (in terms of volume) between 1991 et 1999.
		20	- **production de fruit and vegetables:** if customs duties are cut by 20% only, costs of internal supports will fall by 13% between 1991 and 1999, but production volume will be affected little or not at all as the bulk of production is not subsidized.
			- **olive oil production:** 21% fall in volume of exports + cut in customs duties of 20% only => fall in costs of internal support.
		20	- **wine production:** 100% increase in volume of imports and 20% cut in customs duties => fall in internal support costs and production volume.
		20	- **beef/veal production:** reduction in customs duties + reduction in intervention prices (-27% between 1991 and 1999, but the prices paid to producers are already much lower than the intervention prices) => 10% fall in production volume.
		11 12 14 21	- **pork production:** between 1991 and 1999, the EC is going to move from being a net exporter to being a net importer: although prices paid to producers will fall by 13,5%, production volume will fall by 4,5%.
		12 14	- **poultrymeat production:** prices will fall by 15% between 1991 and 1999 (because of the lower customs duties) and production volume by 3%.
		12 14 20	- **sheepmeat production:** prices will fall by 17% between 1991 and 1999. Even now, this sector exports very little and is a major importer. That trend is going to become more marked.

COMPONENTS OF AGRICULTURE	D O C	HYP see (4.2.4)	CONSEQUENCES OF THE COMMITMENTS UNDER THE WASH. DRAFT ON THE COMPONENTS OF AGRICULTURE
VOLUME OF AGRICULTURAL PRODUCTION AND SURPLUSES (cont)		18 19 20	- **milk products:** 20% reduction in customs duties (skimmed milk powder) or 36% (other products) + 9.5% fall in intervention prices (but 20% reduction in prices to producers) => 4.5% fall in production volume (milk equivalents) de 4,5% between 1991 and 1999. - **egg production:** 10% fall in prices to producers and 3.5% fall in production volume.

<table>
<tr><th>COMPONENTS OF AGRICULTURE</th><th>D
O
C</th><th>HYP see (4.2.4)</th><th colspan="4">CONSEQUENCES OF THE COMMITMENTS UNDER THE WASH. DRAFT ON THE COMPONENTS OF AGRICULTURE</th></tr>
<tr><td rowspan="9">EC MARKET IN ANIMAL FEED</td><td rowspan="7">D</td><td rowspan="7">8
4
5</td><td colspan="4">Development of EC markets in animal feed between 1990 and 1996, following the measures to reform the CAP (MT):</td></tr>
<tr><td>Products</td><td>1990</td><td>1996 (reformed CAP)</td><td>Difference (%)</td></tr>
<tr><td>cereals</td><td>79.3</td><td>87.2</td><td>+9.1%</td></tr>
<tr><td>cake</td><td>40.6</td><td>38.3</td><td>-6.0%</td></tr>
<tr><td>CGF</td><td>8.1</td><td>10.6</td><td>+23.6%</td></tr>
<tr><td>manioc</td><td>5.8</td><td>5.9</td><td>+1.7%</td></tr>
<tr><td>other substit.</td><td>25.8</td><td>31.0</td><td>+16.8%</td></tr>
<tr><td>F</td><td>8
11</td><td colspan="4">Increased use of cereals in animal feed in the EC = 12 MT : 5 MT deriving from the increase in the production volume of white meats and 7 MT from the use of cereals instead of substitutes as a result of the fall in beef/veal production and increased rates of livestock food conversion.</td></tr>
<tr><td>L</td><td>8
11</td><td colspan="4">Overall fall in the demand for livestock feed between 1991 and 1999 : -8,5% (in terms of volume), as a result of the fall in beef/veal production and the increased rates of livestock food conversion.</td></tr>
</table>

<table>
<tr><th>COMPONENTS OF AGRICULTURE</th><th>D O C</th><th>HYP see (4.2.4)</th><th colspan="2">CONSEQUENCES OF THE COMMITMENTS UNDER THE WASH. DRAFT ON COMPONENTS OF AGRICULTURE</th></tr>
<tr><td rowspan="4">PRODUCER INCOMES AND CAP BUDGET</td><td rowspan="4">L</td><td rowspan="4">1
2
6</td><td colspan="2">Trends in prices paid to producers between 1991 and 1999, following the CAP reform and n the basis of the commitments contained in the Wash. draft (the direct compensatory payments provided for in the CAP reform are not taken into account in this table; in theory, they will be designed to offset these income trends:</td></tr>
<tr><td>Products</td><td>Trends 1999/1991 (%)</td></tr>
<tr><td>cereals
potatoes
sugar
oilseeds
fruit and veg
olive oil
wine
meat
milk products
eggs
other
TOTAL</td><td>-33.6
+10.0
-9.3
-48.6
-5.1
-6.1
-1.9
-10.7
-19.7
-9.8
-5.1
-12.5</td></tr>
<tr><td colspan="2">The agricultural working population will fall by 33% between 1991 and 1999, declining from 8.1 million to 5.5 million.
If the compensatory payments were not introduced, farmers' purchasing power would fall by 50% between 1991 and 1999.
In fact, the compensation needed solely to maintain 1991 spending power would amount to ECU 32.5 bn, that is more than twice the budget provided for the reformed CAP, or the whole of the EC agricultural budget in 1993-94.</td></tr>
</table>

COMPONENTS OF AGRICULTURE	DOC	HYP see (4.2.4)	CONSEQUENCES OF THE COMMITMENTS UNDER THE WASH. DRAFT ON THE COMPONENTS OF AGRICULTURE
COMPATIBILITY OF THE WASH. DRAFT AND THE REFORMED CAP	C	6 8 9 10 12 13 15 16 18 19 20 21	Compatibility of the Dunkel Compromise with the reformed CAP, for the volume of subsidized exports [NB: Dunkel Compromise provides for a 24% reduction in the volume of subsidized exports, whereas Wash. provides for only 21%], in 1999 (assuming constant institutional prices between 1996 and 1999) : CAP volume - Dunkel volume: cereals : + 10.8 MT (overrun) beef : + 0.5 MT white meats +eggs : + 3.8 MT sugar : + 0.5 MT butter & butteroil : -103.0 MT cheese : +220.0 MT skmd milk pwdr. : + 9.7 MT whole milk pwdr. : +115.2 MT concentr'd milk : + 57.6 MT

COMPONENTS OF AGRICULTURE	D O C	HYP see (4.2.4)	CONSEQUENCES OF THE COMMITMENTS UNDER THE WASH. DRAFT ON THE COMPONENTS OF AGRICULTURE
COMPATIBILITY OF THE WASH. DRAFT AND THE REFORMED CAP (cont)	F		Compatibility of the Washington draft and the reformed CAP: **.tariffication and fall in customs duties:** no problem for any except the sugar and skimmed milk sectors. But possibility of cutting customs duties by only 20% for those sectors => Community preference maintained. . **internal support:** A.M.S. permitted in 1999 under Wash. = ECU 65 bn, A.M.S. envisaged in 1999 under the reformed CAP = ECU 51 bn: there is therefore no problem of compatibility in relation to the A.M.S. . **volume of subsidized exports:** -cereals: imports stable = 3MT/per annum internal outlets increase by 12 MT production = 164 MT => if yield remains static, exportable surplus = 19 MT => if yield increases by 1%/per annum, exportable surplus = 25.4 MT, but increased yield not very likely. compatibility therefore ensured for cereals -milk products: overrun for cheese only (= 3-3.5 MT milk equiv.) but buying-up of Spanish and Italian quotas (2MT) and anticipated increase in EC cheese consumption (600-900000 T), compatibility therefore assured. -white meats: exportable surpluses in 1999 will exceed the permitted quantities of 200,000 T for pork and 150,000 T for poultrymeat, but the fall in cereal prices will certainly make it possible to export all those surpluses without refunds. -red meats: in 1999, there will be an excess of exportable surplus of between 300,000 and 400,000 T, that is 5% of EC production. But supply control measures are needed with or without GATT constraints.

4.2.3. **HOW THE COMMITMENTS** CONTAINED IN THE **DRAFT** WASHINGTON ACCORD **WILL** APPLY AND **THEIR** CONSEQUENCES, **ON AN INDIVIDUAL** PRODUCT BASIS

Note: for each product, two tables are provided:
- *table A concerning the effects of the commitments,*
- *table B concerning the consequences of the commitments.*

1. CEREALS

A. **HOW THE COMMITMENTS** WILL APPLY

<table>
<tr><th>DOC.</th><th colspan="4">DETAIL APPLICATION</th></tr>
<tr><td>F</td><td colspan="4">AMS 1999 = 25,526 MECU under WASH
AMS 1999 = 11,101 MECU under the CAP</td></tr>
<tr><td>B</td><td colspan="4">Fall in vol. export. subs. all cereals 99/86-90 = 21%
99/91 = 32%
wheat 99/91 = 38%
fodd. grain 99/91 = 24%</td></tr>
<tr><td rowspan="5">C</td><td colspan="4">Fall in vol. export. subs. 99/90 (1,000 Ts):</td></tr>
<tr><td>Products</td><td>1990</td><td>1999</td><td>Variation (%)</td></tr>
<tr><td>wheat</td><td>22436</td><td>13524</td><td>-40</td></tr>
<tr><td>other cereals</td><td>11191</td><td>8944</td><td>-20</td></tr>
<tr><td>ALL CEREALS</td><td>33627</td><td>22468</td><td>-33</td></tr>
<tr><td rowspan="4">E,F</td><td colspan="4">Fall vol. export. subs. 99/86-90 (1,000 Ts):</td></tr>
<tr><td>Products</td><td>1986-90</td><td colspan="2">1999</td></tr>
<tr><td>wheat</td><td>17.0</td><td colspan="2">13.4</td></tr>
<tr><td>ALL CEREALS</td><td>29.8</td><td colspan="2">23.5</td></tr>
<tr><td>F</td><td colspan="4">EC exportable surplus (1999) = 19 MT (assumed yield: 4.66 T/ha, production = 164 MT, cons. internal incr. = +12 MT, imports static at 3 MT)
or exportable surplus = 25.4 MT (same hypotheses except yield increase +1%/per annum)</td></tr>
<tr><td>I</td><td colspan="4">WASH => loss of outlets for 12 to 19 MT cereals produced in the EC</td></tr>
<tr><td>J</td><td colspan="4">WASH => fall in wheat exports 99/92 = 40%</td></tr>
<tr><td>L</td><td colspan="4">Impact of WASH on volume of EC exports, comparison 1999/91 :
- subsidized exports: -26.9%
- total exports: -25.9%</td></tr>
<tr><td>E</td><td colspan="4">Fall in budgets for refunds, comparison 1999/86-90 (MECU):
1986-90 1999
Wheat 1783 1141
ALL CEREALS 3224 2063</td></tr>
</table>

DOC.	DETAIL APPLICATION				
F	36% cut in customs duties and Community preference (ECU/T):				
	Products	customs duties 1999	lowest import price	EC price	Community preference (%)
	common wheat	95.0	197.9	126.5	+71.4%
	maize	94.0	175.5	126.5	+49.0%
	barley	92.6	162.7	126.5	+36.2%
C	Consequences of the DUNKEL compromise on Community imports, comparison 1999/90 (1,000 Ts):				
	Products	import 90	import 99	variation (%)	
	wheat	1351	2964	+119.0%	
	other cereals.	4324	4689	+ 8.0%	
	ALL CEREALS	5675	7652	+ 34.8%	
J	WASH => increase in volume of cereal imports between 1991 and 1999 : +100%				
L	Consequence of WASH on the imports and domestic consumption of the EC, comparison 1999/91 : -volume of imports: +79% -volume domestic consumption: -4.8% (imports to meet minimum access calculated WITHOUT aggregation, that is on an individual product basis)				

1. **CEREALS**

B. CONSEQUENCES OF THE COMMITMENTS

<table>
<tr><th>DOC.</th><th colspan="3">CONSEQUENCES IN DETAIL</th></tr>
<tr><td>L</td><td colspan="3">WASH => reduction in prices paid to producers, comparison 1999/91: -33.6% for cereals (all products: -12.5%)</td></tr>
<tr><td>A</td><td colspan="3">WASH => between 1996 and 1999, set-aside will increase from 15% à 25% (cereals + oilseeds)</td></tr>
<tr><td>B</td><td colspan="3">In 1997-98, set-aside under CAP and DUNKEL compromise = 4.4 M ha</td></tr>
<tr><td>I</td><td colspan="3">1999: set-aside will increase from 15% (1992-93) to 25 or 30%</td></tr>
<tr><td>J</td><td colspan="3">1999-2000: set-aside will be of the order of 25 to 30%, under the WASH accords</td></tr>
<tr><td>L</td><td colspan="3">Set-aside in 1999:
-1st hypothesis:
.cereal yields static between 1993 and 1999
.fall in imports of substitutes and protein crops
=> set-aside 1999 = set-aside 1992 (1.2 Mha) + GATT constraints + fall in demand for animal feed (+ 8.7 Mha) + consequences increase cereal stocks (+ 1.5 Mha): that is 11.5 Mha.

-2nd hypothesis:
.increased yield cereals and protein-rich oil plants + 1%/p.a.
.fall in imports of substitutes and proteins
.increase in food conversion rates
=> set-aside 1999 = 20 Mha</td></tr>
<tr><td rowspan="7">D</td><td colspan="3">Balance on EC cereals markets following reform of the CAP, comparison 1996/90 :</td></tr>
<tr><td>elements</td><td>1990</td><td>1996</td></tr>
<tr><td>supply</td><td>155.5</td><td>156.6</td></tr>
<tr><td>demand</td><td>128.7</td><td>141.8</td></tr>
<tr><td>surplus</td><td>+26.8</td><td>+14.8</td></tr>
<tr><td>rate of self-supply</td><td>121%</td><td>110%</td></tr>
<tr><td colspan="3"></td></tr>
<tr><td rowspan="4">L</td><td colspan="3">Consequence of WASH on the volume and value of agricultural production, comparison 1999/91 for cereals:
-volume : -13.4%
-value: -42.5%</td></tr>
<tr><td colspan="3">Cereal imports in 1999 = 7.5 MT compared with 3 MT in 1991 (increase in imports to satisfy minimum access)</td></tr>
<tr><td colspan="3">Volume of cereals exports in 1999, compared with 1991 : -27% (to meet the 36% cut in the budgets for refunds).</td></tr>
<tr><td colspan="3">Fall in intra-EC demand for cereals for animal feed, between 1991 and 1999 : -11.5%</td></tr>
</table>

DOC.	CONSEQUENCES IN DETAIL
D	Trends in the use of cereals in Community animal feed between 1990 and 1996, following the CAP reform: +9.1% (87.2 MT in 1996 as against 79.3 MT in 1990)
F	Increase in the use of cereals in animal feed in the EC = +12 MT between now and 1999: .5 MT deriving from the increased production of white meats .7 MT deriving from the use of cereals instead of substitutes in animal feed (as a result of the fall in cereal prices)
L	Trends in prices paid to producers following the CAP reform and WASH: comparison 1999/91: -33.6% for cereals
C	Vol. subsidized exports, 1999 : difference between the volumes permitted under the DUNKEL compromise and the volumes provided under the reformed CAP (assuming: constant institutional prices between 1996 and 1999): the anticipated overrun is 10.8 MT (NB: the DUNKEL Compromise provides for a 24% fall in the volume of subsidized exports)
F	Compatibility of WASH with the reformed CAP: assuming: volume cereal imports static at 3 MT between now and 1999 internal outlets increase by 12 MT/per annum production 1999 = 164 MT => if yields remain static, 1999 surplus = 19 MT => if yields increase by 1%/per annum, 1999 surplus = 25.4 MT But assumed increase in yields of 1%/p.a. not very likely: therefore compatibility assured in the case of cereals

2. OILSEEDS

A. HOW THE COMMITMENTS WILL APPLY

DOC.	DETAILED APPLICATION
L	Consequence of WASH on the imports and domestic consumption of the EC of oilseeds, comparison 1999/91: -imports (commitments considered without aggregation): -4.6% -domestic consumption: -9.7%

2. OILSEEDS

B. CONSEQUENCES OF THE COMMITMENTS

DOC.	CONSEQUENCES IN DETAIL
L	Consequences of the commitments under WASH on the volume and value of oilseed production in the EC, comparison 1999/91: -production volume: -16.1% (all products comb.: -4.0%) -production value: -56.9% (all products comb.: -16.0%)
	Trends in prices paid to oilseed producers between 1991 and 1999, following the reform of the CAP and WASH commitments, CAP compensatory payments excluded: -48.6% (average all agricultural products: -12.5%)

3. MILK PRODUCTS

A. HOW THE COMMITMENTS WILL TAKE APPLY

<table>
<tr><th>DOC.</th><th colspan="4">DETAILED APPLICATION</th></tr>
<tr><td>B</td><td colspan="4">Fall in vol. subs. exports:
milk products: fall of 21% 1999/1986-90
but fall of 24% 1999/91
butter and butteroil: possible 6% increase 1999/91
cheese: 35% fall 1999/91
skimmed milk powder: remaining static: +-0%
other milk products: 31% fall</td></tr>
<tr><td rowspan="7">C</td><td colspan="4">Vol. subs. exports, comparison 1999/90 (1,000 Ts):</td></tr>
<tr><td>Products</td><td>1990</td><td>1999</td><td>variation (%)</td></tr>
<tr><td>butter and b. oil</td><td>262</td><td>315</td><td>+20%</td></tr>
<tr><td>cheese</td><td>456</td><td>316</td><td>-31%</td></tr>
<tr><td>skmd milk pwdr</td><td>207</td><td>233</td><td>+12%</td></tr>
<tr><td>whole milk pwdr</td><td>522</td><td>416</td><td>-20%</td></tr>
<tr><td>concentr'd milk</td><td>343</td><td>295</td><td>-14%</td></tr>
<tr><td>D</td><td colspan="4">1996 : vol. subs. exports provided for under CAP = 13.7 MT (1993: 13.3 MT), if no cut in quotas and 1.25% fall in prices over 3 years</td></tr>
<tr><td rowspan="5">E</td><td colspan="4">Vol. subs. exports provided for under WASH in 1999, comparison/ 1986-90 (MT):</td></tr>
<tr><td>Products</td><td>1986-90</td><td>1999</td><td rowspan="4"></td></tr>
<tr><td>butter</td><td>0.46</td><td>0.37</td></tr>
<tr><td>skmd milk pwdr</td><td>0.31</td><td>0.24</td></tr>
<tr><td>cheese</td><td>0.39</td><td>0.30</td></tr>
<tr><td rowspan="8">F</td><td colspan="4">21% fall in vol. subs. exports will not restrict exports of butter or skmd milk pwdr; in case of cheese and other milk products, surplus envisaged compared with WASH for 1999 = 3-3.5 MT milk equivalent;
but buying-up of Spanish and Italian quotas (2 MT) and increase in cheese consumption in EC (600 to 900000 T) => no overrun to be feared for 1999.</td></tr>
<tr><td colspan="4">Vol. subs. exports 1999, comparison / 86-90 (MT):</td></tr>
<tr><td>Products</td><td>1986-90</td><td colspan="2">1999</td></tr>
<tr><td>butter and b. oil</td><td>0.46</td><td colspan="2">0.37</td></tr>
<tr><td>skmd milk pwdr</td><td>0.31</td><td colspan="2">0.24</td></tr>
<tr><td>cheese</td><td>0.39</td><td colspan="2">0.30</td></tr>
<tr><td>other milk prods</td><td>1.19</td><td colspan="2">0.94</td></tr>
<tr><td>ALL MILK PRODS</td><td>2.35</td><td colspan="2">1.90</td></tr>
</table>

DOC.	DETAILED APPLICATION

G

21% fall in vol. subs. exports 1999/1986-90
=> fall of 1.6 MT in vol. of milk equiv. exports between 1991 and 1999, that is 13%
=> cut of 1.6 MT milk equiv. in production quotas, that is 1.6%
- -non-fat reduced pwdrs, cheese, liquid milk: 30% cut
- -butter and butteroil: 12% increase permitted
- -skimmed milk powder: 18% increase permitted

If it proves impossible to export more butter and skimmed milk powder, cut in quotas = -2.3%
If the further constraints resulting from the 36% cut in the budget for refunds are taken into account, cut in quotas: -2.4% (1999/91) and cut in vol. subs. exports = -27%.

Fall in vol. of exports between 1986-90 and 1999 and between 1991 and 1999 (1,000 Ts):

Products	1986-90	1991	1999	1999/91
butter and b. oil	417	294+60 GDR	329	+12%
skmd milk pwdr.	308	205	243	+18%
whole milk pwdr.	541	617	427	-31%
concentr'd milk	401	316	317	+-0%
cheese	367	428	290	-32%
liq. milk + yoghurt	214	274	169	-38%
TOT MILK EQUIV.	13500	12300	10700	-13%

L

Impact of WASH on the vol. exports in milk products, comparison 1999/91:
- -vol. total exports: -17.6%
- -vol. subs. exports: -18.4%

E

Cut in budget for refunds, comparison 99/86-90 (MECU):

Products	1986-90	1999
butter	1325	848
skmd milk pwdr.	370	237
cheese	439	281

F

Tariffication poses problems of GATT-CAP compatibility for skimmed milk, but the EC cut customs duties by 20% only for the sensitive sectors (WASH commitment to cut by 36% as an arithmetical and not weighted average)

Reduction in customs duties and Community preference (ECU/T):

Products	at 1999	lowest import prices	EC price (interven tion)	Community preference
skmd milk pwdr	950.4	1701.7	1974.5	-272.8
butter	1895.6	3460.3	2930.2	+530.1

<table>
<tr><th>DOC.</th><th colspan="4">DETAILED APPLICATION</th></tr>
<tr><td>L</td><td colspan="4">Fall in customs duties following tariffication, comparison 1999/1986-88 :
-skimmed milk powder: -20%
-other milk products: -36%</td></tr>
<tr><td rowspan="3">C</td><td colspan="4">Consequences of DUNKEL compromise on volume of Community imports, comparison 1999/90 (1,000 Ts):</td></tr>
<tr><td>Products</td><td>1990</td><td>1999</td><td>difference (%)</td></tr>
<tr><td>butter and b. oil
cheese
skmd milk pwdr.
whole milk
concentr'd milk</td><td>60
113
14
3.4
2.4</td><td>90
205
71
13
12</td><td>+ 50%
+ 81%
+407%
+282%
+400%</td></tr>
<tr><td>F</td><td colspan="4">5% minimum access in 1999 will result in a 100,000 T increase in cheese imports for the EC, that is 1 MT milk equiv.</td></tr>
<tr><td>G</td><td colspan="4">5% minimum access in 1999 will result in a 100% increase in imports of milk products between 1991 (1.45 MT) and 1999 (2.90 MT)</td></tr>
<tr><td>L</td><td colspan="4">Consequence of WASH on EC imports and domestic consumption of milk products, comparison 1999/91:
-imports (commitments considered without aggregation): +261%
-domestic consumption: +1.6%</td></tr>
</table>

B. CONSEQUENCES OF THE COMMITMENTS

<table>
<tr><th>DOC.</th><th colspan="4">CONSEQUENCES IN DETAIL</th></tr>
<tr><td>A</td><td colspan="4">Fall in milk price between 1996 and 1999 = 8%</td></tr>
<tr><td>G</td><td colspan="4">Fall in milk price between 1991 and 1999 = 3 to 4%, because of the export and import commitments under WASH</td></tr>
<tr><td>L</td><td colspan="4">Prices paid to producers, comparison 1999/91:
-all milk products: -19.7%
-milk: -2.3%</td></tr>
<tr><td rowspan="10">G</td><td colspan="4">Commitments under WASH => fall in exports 1999/91 = 1.6 MT milk equiv, hence the 1.6 MT cut in production quotas, that is 1,6%. If it is impossible to increase exports of butter and skimmed milk powder, cut in quotas = 2.3%.</td></tr>
<tr><td colspan="4">Effect on milk quotas, between 1994 and 1999, of the fall in vol. of subsidized exports et and the increase in imports provided for under WASH (MT milk equiv.):</td></tr>
<tr><td>Years</td><td>consequence incr. imports</td><td>consequence fall exports</td><td>total effect on quotas</td></tr>
<tr><td>1994</td><td>-0.64</td><td>+0.74 (-1.18)</td><td>+0.10 (-1.80)</td></tr>
<tr><td>1995</td><td>-0.81</td><td>+0.26 (-1.39)</td><td>-0.55 (-2.18)</td></tr>
<tr><td>1996</td><td>-0.97</td><td>-0.21 (-1.61)</td><td>-1.18 (-2.56)</td></tr>
<tr><td>1997</td><td>-1.12</td><td>-0.68 (-1.82)</td><td>-1.80 (-2.92)</td></tr>
<tr><td>1998</td><td>-1.29</td><td>-1.15 (-2.04)</td><td>-2.44 (-3.31)</td></tr>
<tr><td>1999</td><td>-1.44</td><td>-1.63 (-2.26)</td><td>-3.07 (-3.70)</td></tr>
<tr><td colspan="4">N.B.: The figures in brackets reflect the least favourable scenario, in which exports of butter butteroil and skimmed milk powder could not be increased because of market saturation.</td></tr>
<tr><td rowspan="2">L</td><td colspan="4">Consequences of WASH on the volume and value of milk product production, comparison 1999/91:
- volume: -4.5%
- value: -23.3%
Fall in production between 1991 and 1999 because of:
- cut in customs duties of 20% (skimmed milk powder) or 36% (other milk products)
- 9.5% fall in intervention prices
- 20% fall in prices to producers</td></tr>
<tr><td colspan="4">Trend in prices to producers between 1991 and 1999, following the reform of the CAP and the commitments under WASH (excluding compensatory payments under the CAP): for milk producers, fall of 19.7%</td></tr>
<tr><td>C</td><td colspan="4">Compatibility between vol. subs. exports subv. "provided for" under the CAP in 1999 and those permitted by the DUNKEL compromise (assuming: constant EC institutional prices between 1996 and 1999):
-butter and butteroil: CAP less than DUNKEL by 103 MT
-cheese: CAP exceeds DUNKEL by 220 MT
-skimmed milk pwdr: CAP exceeds DUNKEL by 9.7 MT
-whole milk powder: CAP exceeds DUNKEL by 115.2 MT
-concentr'd milk: CAP exceeds DUNKEL by 57.6 MT</td></tr>
<tr><td>F</td><td colspan="4">Compatibility of WASH and reformed CAP for milk products: overrun of between 3 and 3.5 MT milk equiv. for cheese alone, but buying-up of Spanish and Italian quotas (2MT) and increase in intra-EC cheese consumption (600000 à 900000 T) => compatibility assured for milk products.</td></tr>
</table>

MEAT

A. HOW THE COMMITMENTS WILL APPLY

<table>
<tr><th>DOC</th><th>DETAILED APPLICATION</th></tr>
<tr><td>F</td><td>Comparison of overall livestock support measured by A.M.S. in 1999, in line with the WASH commitments and the reformed CAP:
-AMS livestock 1999 acc.WASH commitments = 23076 MECU
-AMS livestock 1999 acc.CAP = 19698 MECU
=> WASH therefore compatible with reformed CAP.</td></tr>
<tr><td>B</td><td>Fall in volume subs. exports comparison 1999/91:
-ALL MEATS: -39%
-beef/veal: -38%
-pigmeat: -41%
-poutrymeat: -40%</td></tr>
<tr><td>C</td><td>Fall in vol. subs. exports, comparison 1999 (ACCORDING TO DUNKEL COMPROMISE)/91 (1,000 Ts):
<table>
<tr><th>Products</th><th>1990</th><th>1999</th><th>difference (%)</th></tr>
<tr><td>beef</td><td>816</td><td>714</td><td>-12%</td></tr>
<tr><td>pork</td><td>580</td><td>353</td><td>-39%</td></tr>
<tr><td>poultrymeat</td><td>425</td><td>300</td><td>-29%</td></tr>
</table></td></tr>
<tr><td>D</td><td>The reform of the CAP will result between now and 1996 in an increase in exports of pork and poultry as compared with 1993, because of the fall in costs of animal feed.</td></tr>
<tr><td>E</td><td>Fall in volume of subsidized exports according to WASH commitments, comparison 1999/1986-90 (MT):
<table>
<tr><th>Products</th><th>1986-90</th><th>1999</th></tr>
<tr><td>beef</td><td>1.0</td><td>0.82</td></tr>
<tr><td>pork</td><td>0.49</td><td>0.39</td></tr>
<tr><td>poultry</td><td>0.37</td><td>0.29</td></tr>
</table></td></tr>
<tr><td>F</td><td>Meats: surplus in 1999 over WASH commitments = 200000 T for pork, 150000 T for poultrymeat and 300000 to 400000 T for beef/veal.

21% fall in vol. subs. exports between 1986-90 and 1999, according to the WASH commitments (MT):
<table>
<tr><th>Products</th><th>1986-90</th><th>1999 acc. WASH</th></tr>
<tr><td>beef</td><td>1.03</td><td>0.82</td></tr>
<tr><td>pork</td><td>0.49</td><td>0.39</td></tr>
<tr><td>poultrymeat</td><td>0.37</td><td>0.29</td></tr>
<tr><td>ALL MEATS</td><td>1.89</td><td>1.50</td></tr>
</table></td></tr>
<tr><td>H</td><td>Fall in vol. subs. exports between 1991 and 1999 according to the WASH commitments: 500000 T.
WASH also includes an undertaking by the EC to refrain form any form of subsidized exports on the markets of South-East Asia: but these are the only markets which are solvent and expanding markedly.</td></tr>
<tr><td>J</td><td>Fall in vol. subs. exports between 1992 and 1999 acc.WASH:
-beef/veal: -30%
-poultrymeat: -40%</td></tr>
</table>

<table>
<tr><th>DOC</th><th>DETAILED APPLICATION</th></tr>
<tr><td>K</td><td>Pork: vol. subs. exports 1986-90 = 497000 T
1990-91 = 633000 T (DG VI)
= 668000 T (Eurostat)
1992 = 550000 T
1999 acc. WASH = 393000 T
=> fall in volume between 1991 and 1999 = -38% to -41%
Pork surpluses in 1999 as compared with WASH commitments = 200000 T, accepted by the Commission which considers this a problem "in appearance only"</td></tr>
<tr><td>L</td><td>Impact of WASH on vol. meat exports, comparison 1999/91 (%):
<table>
<tr><th>Products</th><th>total exports</th><th>subs. exports</th></tr>
<tr><td>beef
pork
poultrymeat
ALL MEATS</td><td>-39.8
-42.1
-34.3
-38.8</td><td>-39.8
-42.1
-34.3
-38.8</td></tr>
</table></td></tr>
<tr><td>E</td><td>Impact of WASH on the budgets for refunds: comparison 1999/1986-90 (MECU):
<table>
<tr><th>Products</th><th>1986-90</th><th>1999</th></tr>
<tr><td>beef
pork
poultry</td><td>1967
176
143</td><td>1259
113
92</td></tr>
</table></td></tr>
<tr><td>K</td><td>Trend in refunds budget for pork:
1986-90: 151 MECU
1991: 304 MECU
1992: 200 MECU
1999 acc. WASH: 97 MECU
=> fall 1999/91 = -70%
fall 1999/92 = -50%
These commitments will result in additional restrictions on the volume of subsidized exports and/or internal support prices.</td></tr>
<tr><td>F</td><td>Cut in customs duties and Community preference for meat (ECU/T):
<table>
<tr><th>Products</th><th>d.d. 1999</th><th>lowest import price</th><th>EC price</th><th>Comm. pref.</th></tr>
<tr><td>fresh beef/veal</td><td>1768.3</td><td>3171.7</td><td>2670.9</td><td>+500.9</td></tr>
<tr><td>fresh sheepmeat</td><td>1713.5</td><td>3741.1</td><td>3035.9</td><td>+705.2</td></tr>
</table>
=> the Community preference is secured for beef/veal</td></tr>
<tr><td>H</td><td>WASH => 42% cut in customs duties between 1991 and 1999 for beef/veal, compounded by the commitments to import "HILTON BEEF" at very low rates of duty.</td></tr>
</table>

<table>
<tr><th>DOC</th><th>DETAILED APPLICATION</th></tr>
<tr><td>C</td><td>Consequences of the DUNKEL compromise on the import volumes of the EC, comparison 1999/90 (1,000 Ts):
<table>
<tr><th>Products</th><th>1990</th><th>1999</th><th>difference (%)</th></tr>
<tr><td>beef</td><td>501</td><td>492</td><td>- 2%</td></tr>
<tr><td>pork</td><td>78</td><td>625</td><td>+701%</td></tr>
<tr><td>poultry</td><td>135</td><td>273</td><td>+102%</td></tr>
<tr><td>sheepmeat</td><td>287</td><td>252</td><td>- 12%</td></tr>
</table></td></tr>
<tr><td>H</td><td>Under WASH, the EC undertakes to open import quotas for "Hilton Beef" at very low rates of duty, which will add to the Community surpluses of beef/veal</td></tr>
<tr><td>J</td><td>WASH => 86% increase in imports of poultrymeat
=>1,000% increase in pork imports between now and 1999</td></tr>
<tr><td>K</td><td>Market access commitments for pigmeat:
.3% of internal consumption 1986-88 = 374000 T in 1994
.5% of internal consumption 1986-88 = 624000 T in 1999
The volume of imports amounted to 99000 T in 1990
56000 T in 1991 (DG VI)
115000 T in 1991 (ITP)
75000 T in 1992 (DG VI)
100000 T in 1992 (ITP)
=> between 1991 et 1999, pork imports will increase 6- or 8-fold depending on the source
N.B. : ITP = Institut technique du porc (F)</td></tr>
<tr><td>L</td><td>Consequences of WASH on EC imports and domestic consumption of meat, comparison 1999/91 (%):
<table>
<tr><th>Products</th><th>variation in imports (commitments not aggregated)</th><th>variation in domestic consumption</th></tr>
<tr><td>beef</td><td>-18</td><td>+1.6</td></tr>
<tr><td>pork</td><td>+1014</td><td>+1.6</td></tr>
<tr><td>poultry</td><td>+80</td><td>+1.6</td></tr>
<tr><td>ALL MEATS</td><td>+51</td><td>+1.6</td></tr>
</table></td></tr>
</table>

4. MEATS

B. CONSEQUENCES OF THE COMMITMENTS

<table>
<tr><th>DOC</th><th colspan="3">CONSEQUENCES IN DETAIL</th></tr>
<tr><td rowspan="5">L</td><td colspan="3">Variation in prices paid to producers between 1991 and 1999 (compensatory payments under the CAP not included):
. poultrymeat: -15.0%
. beef: -27.0%
. pork: -13.5%
. sheepmeat: -17.0%
. ALL MEATS: -10.7%
(. ALL PRODUCTS: -12.5%)</td></tr>
<tr><td colspan="3">Consequences of WASH on the volume and value of meat production, comparison 1999/91 (%):</td></tr>
<tr><td>Products</td><td>variation in volume</td><td>variation in value</td></tr>
<tr><td>beef
pork
poultrymeat
ALL MEATS</td><td>-9.8%
-4.5%
-3.2%
-5.4%</td><td>n.d
n.d
n.d
-15.5%</td></tr>
<tr><td colspan="3">- beef/veal: cut in customs duties and fall in intervention prices (-27% between 1991 and 1999, but prices to producers are already very much lower than the intervention prices) mean a fall in production of 10% in volume;
- pork: between 1991 and 1999, the EC will move from being a net exporter to being a net importer. Prices to producers will fall by 13.5% and output by 4.5%;
- poultry: between 1991 and 1999, reduced external protection is going to result in a fall in prices of 15% and a fall in output of 3%;
- sheepmeat: between 1991 and 1999, prices will fall by 17% and the EC's rate of self-supply will decline further.</td></tr>
<tr><td>C</td><td colspan="3">Compatibility of the DUNKEL compromise with the CAP in terms of the volume of subsidized exports, in 1999 :
- beef : expected DUNKEL overrun = 470000 T
- white meats + eggs: DUNKEL overrun = 3.85 MT</td></tr>
<tr><td>F</td><td colspan="3">Compatibility of the WASH draft and the CAP in the meat sector:

- white meats (pork, poultry): exportable surplus in 1999 will be in excess of the volume permitted under WASH of 200000 T for pork and 150000 T for poultry, but the "fall in cereal prices will certainly make it possible [sic] to export all those surpluses without refunds"

- red meat: surpluses in 1999 over the volume permitted under WASH = 300 à 400000 T, that is 5% of Community production. But "supply control measures are needed, regardless of the GATT".</td></tr>
</table>

4.2.4. DIFFERENCES BETWEEN THE HYPOTHESES OF THE COMMISSION AND THE COPA ON THE ECONOMIC PARAMETERS DETERMINING ASSESSMENT OF THE COMPATIBILITY OF THE WASHINGTON DRAFT WITH THE REFORMED CAP.

		POSITIONS	
N°	HYPOTHESES	COPA	COMMISSION DES CE
1	Exchanges rates (of $ in particular) *affects all WASH commitments*	impossible to forecast, the $ may fall, if the US so decides: this factor will have a major influence on trade, agricultural budgetary equilibrium and farmers' incomes.	stable in the years to come
2	rate of inflation in the EC *affects producer margins and income*	hyp. = 3%: optimistic for the years to come and very much lower than years gone by.	3%: reasonable hyp.
3	"world" agricultural prices *affects all WASH commitments*	stagnation as world supply structurally > world demand and markets lost by EC as a result WASH accords will immediately be taken over by competitors	increase as fall in volume of subsidized exports arriving on world markets => stabilization
4	price trend in CSPs (cereal substitutes) *affects the minimum access commitments, the outlets for common wheat and market equilibrium*	fall parallel / fall EC cereal prices: price may fall as much as -40% as comp. EC cereal price without affecting US loan rate; Latin American countries have huge scope for reduction	no fall in prices; use of EC cereals in place CSPs = 7 MT; Thailand will not cut its manioc prices but will sell to Asia.
5	price trend in protein feed *affects the minimum access commitments*	stagnation	stagnation; fall in excessive use of soya in the EC as replaced by less expensive cereals.

		POSITIONS	
N°	**HYPOTHESES**	COPA	COMMISSION DES CE
6	increase in overall food consumption in the EC *affects the consequences of the commitments*	at best in line pop. growth (1.6%/p.a.).	will certainly > 1.6%/p.a. for certain products (cheese).
7	agricultural input prices in the EC *affects farmers' margins and income*	increase in line inflation: +3%/p.a. at least, determine the margins => EC inflation = decisive factor for farmers' incomes with $.	incr. < inflation, as in recent years (1986-90); fall in demand and fall in agricultural wages => fall in input prices.
8	trend in cereal yields *affects the export commitments*	*constant? (not very likely) *increase 1%p.a. as a result of genetic progress alone: far more likely	constant or increase < 1% /p.a.as decoupling aids does not encourage increased yields.
9	use of Community cereals in EC animal feed *affects import and export commitments*	*at best constant as % => fall in volume as overall volume animal feed falls; *probably % fall as CSP prices will also fall and WASH => increase CSP imports = 3Mt	increase of 12 Mt between 1999 and 1992, as a result of fall in cereals prices: *CSPs replaced by 7 MT cereals; *increased use for white meat production: 5 MT; *over-use soya cake eliminated.
10	exportable cereal surpluses in 1999/those permitted under WASH (23.4 Mt) (23,4 Mt) *affects export commitments*	33.7 MT at best: 10 MT surplus / WASH.	*if yield static: 14.7 MT *if yield incr.1%/p.a.: 24.9 MT => no problem as 2.5 MT/p.a.in food aid and incr. yield not very likely.

		POSITIONS	
N°	**HYPOTHESES**	COPA	**COMMISSION DES CE**
11	set-aside (cereals, protein -rich oil plants) *affects the export, production and income commitments*	*if yield constant: 11.5 Mha in 1999; *if yield incr. 1%/p.a.: 20 Mha in 1999.	15% set-aside rate (=4.5 M ha) sufficient during 1993-2000 to comply with commitments.
12	trend in white meat consumption and consequences *affects the export commitments*	probable increase in consumption white meats but consequence = fall consumption beef/veal => fall consumption cereals by beef cattle and reduction in land used grazing and fodder => used instead for cereals => problem.	marked increase in consumption white meats and incr. overall meat consumption => incr. use of cereals in EC animal feed = 5 MT. N.B.: problem of what to do with pasture and fodder area not studied by Commission.
13	surplus beef/veal in 1999 / WASH. *affects the export commitments*	very large => severe drop in prices inevitable.	very large, will pose problems but problems would have arisen without WASH: need for drastic reform of sector.
14	export of large quantities of white meat without refunds *affects the export commitments*	exports without refunds not possible, as production costs will not fall adequately; very fierce competition on world markets.	no problem as white meat production costs will fall as EC cereal price falls.
15	marketing of existing stocks: -cereals: 19 MT -beef/veal: 1 MT *affects the export commitments*	very difficult, not to say impossible before the entry into force of WASH: solvent world markets saturated, former USSR no longer buys, bitter trade war and US pressure.	able to be disposed of without difficulty before entry into force of WASH (incr. world prices, food aid).

		POSITIONS	
N°	HYPOTHESES	COPA	COMMISSION DES CE
16	application sugar protective clause: automatic and permanent *affects the import commitments*	impossible, it is not realistic to accept that the other parties will agree (that would amount to increasing import barriers as compared with the current situation)	no problem, nothing to prevent this in WASH.
17	price of sugar intra-EC between now and 1999 *affects the import commitments and producer incomes*	sharp fall, as world prices static, supply in structural surplus and indefinite application protective clause impossible.	slight fall in prices, as incr. world prices and permanent application protective clause will not pose any problem.
18	milk quotas *affects export commitments,production and income*	anticipated cut in quotas = 4.5% between 1991 and 1999; 2% cut in quotas anticipated by Commission will not suffice and is not yet approved by Council.	commitments met if 2% cut in quotas in 1994 (proposed by Commission).
19	disposal cheese surpluses in 1999 *affects export commitments*	problems will arise, inter alia because of: - incr. imports (minimum access) of 10400 T, that is +81% between 1991 and 1999. -possible new members from Eastern Europe = major producers of cheese and limited purchasing power for quality cheeses.	no problem: -minimum access import quotas unlikely to be met in full, as cheese concerned not to European tastes. -99 surpluses calculated on a very generous basis; -quality cheeses will be exported without refunds; -incr.intra-EC demand as a result accession Eastern Eur. countries; -opening of US market post-WASH. [!]
20	peace clause and new sectors affected by the CAP reform between 1993 and 1999 *affects all the commitments under WASH for those sectors*	new sector reforms and compensatory aids compatible with the peace clause? => new reforms possible? Q : what about the clause after 1999?	no problem if new aids remain < overall AMS provided for 1992 ; A: duration of clause = 6 years.

N°	HYPOTHESES	POSITIONS COPA	 COMMISSION DES CE
21	product aggregation for minimum market access *affects the market access commitments*	*not written into WASH. => major problem for the beef/veal sector if no aggregation; *prob. for EC exports if other countries also apply this.	*aggregation = position defended by EC, will be respected in GATT; *"it is for the EC [to ensure] that this method cannot be applied by other countries"
22	former GDR included in statistics *affects the calculations concerning commitments and thus compliance with them*	no => EC production of cereals and fodder and pasture underestimated. Allocation of milk quotas to former GDR?	in part only => problem as for the COPA estimates.

WASH.: draft Washington agricultural accord.
Hyp.: hypothesis
A.M.S.: aggregate measurement of support, adopted by the GATT at the suggestion of the EC to take into account all forms of support, direct or indirect, internal or external, influencing agricultural production policy.
=> : means (consequence).
/ : compared with (comparison).

4.3. CONCLUSIONS AS TO THE COMPATIBILITY OF THE WASHINGTN DRAFT AGREEMENT AND THE CAP REFORM; CONSEQUENCES OF THE DRAFT AGREEMENT FOR AGRICULTURE IN THE EC.

4.3.1. CRITICAL ANALYSIS OF THE DIFFERENT ECONOMC AND AGRONOMIC ANALYSES

General criticism of the COPA study: it compares a situation in 1991 (former CAP with stabilizers - but without GATT) with a new situation in 1999 (new CAP + GATT), but fails to separate out the effects of the CAP reform and any GATT agreement: combining the two in this way means that it is not possible to identify the true effects of the Washington draft agreement alone, even though the principal points of and main sectors affected by the CAP reform are largely accepted.

General criticism of the Commission study: it is based more on imprecation and wishful-thinking than on real economic models; moreover, on its own admission, it has failed to establish a general model of the effects of the draft but has referred in part to simulative models produced elsewhere (the "SPELL" model of Bonn University and the INRA "MISS" model), and therefore using an approach to problems and methods of which it was not the originator. Moreover, the Commission automatically considers its views and demands in the context of the negotiations to be agreed (its position on the level of import aggregation, for example); this might be a sensible approach in the context of the negotiations but it is less appropriate when it comes to assessing the consequences of the draft that has actually been drawn up and accepted by the Commission itself, in Washington, on 25 November 1992; the fact is that in most instances, the wording of the draft is not in line with the "wishes" or "views" of the Commission.

N°	HYPOTHESES	OUR VIEW
1	exchange rate (of $ in particular)	rates of exchange generally and that of the dollar in particular are unlikely to stabilize in the next few years: there will continue to be a great deal of uncertainty concerning the competitiveness of European products on the international markets and the conditions of competition. The models established have therefore to treated with a great deal of caution.
2	rate of inflation in EC	COPA's assumption of 3%, although below the figures of past years, seems fairly realistic given the general deflationary trends. It remains to be seen how far the fall in rates will continue (US, Europe).
3	"world" agricultural prices	there is nothing to indicate that, as the Commission believes, the fall in the volume of subsidized exports entering the markets after a GATT accord would significantly boost world prices. For the main products in fact, supply by far exceeds demand and the market shares lost by the EC as a result of possible concessions to GATT would immediately be taken over by its competitors, the downward pressure on markets being unable to be checked in those conditions.

N°	HYPOTHESES	OUR VIEW
4	trend in cereal substitute prices	it is not very likely that Thailand would prefer to sell on the Asian market than to cut its prices on the European market (where it obtains hard currency); in contrast, the US could cut its prices substantially before jeopardizing its margins (cereal substitute=by-products), and it will have no problem in following the fall in European cereal prices: the latter will therefore have a great deal of difficulty in being competitive on the animal feed markets.
5	trend in protein feed prices	soya prices will probably remain static or fall in the coming years, the margin avilable to the countries of Latin America and the US to cut prices being very large.
6	increase in overall food consumption in EC	logically, will more or less keep pace with the growth in population, that is +1.6% per annum; will be little affected by the general increase in consumption in the former GDR (food staturation point has already been reached and exceeded for the EC).
7	costs of agricultural inputs (operating costs in EC)	there is no reason why the costs of agricultural inputs should increase less rapidly than inflation; the main trend reveals an increase often swifter than inflation, except for recent years. Moreover, the structural costs (amortization or rent) are heavy and unable to be reduced).
8	trend in cereal yields	the trend towards a slowdown in the rate of increase is likely to continue because of the "disincentive" resulting from link between support and yield being broken (particularly in the peripheral regions), but it is almost impossible that the increase in yield will be less than 1% p.a. simply because of genetic progress, not to mention technical advances (in the dynamic regions above all).
9	use of Community cereals in EC animal feed	the 12 MT increase forecast by the Commission is based on very optimistic, not to say unrealistic, forecasts; in fact the fall in cereal prices will make then more competitive vis-à-vis the substitutes only if substitute prices do not fall in parallel; however, the US and the countries of Asia (preferential agreements) and Latin America can substantially cut their prices without difficulty. It is therefore very likely that the proportion of cereals in feed will, at best, remain at the same level or fall. As a result of the overall fall in the volume of animal production, the volume of cereals used will therefore decline.

N°	HYPOTHESES	OUR VIEW
10	exportable surpluses of cereals in 1999 / those permitted under WASH	as there is no chance of cereal yields remaining static, we can forecast, on the basis of an increase of 1% p.a., an exportable surplus of 33.7 MT, that is a 10 MT excess over the WASH commitments.
11	set-aside (cereals protein-rich oil plants)	given the anticipated increase in yield (at least 1% p.a.), the anticipated overrun in relation to the WASH commitments and the current state of Community stocks (some 27 MT in May 1993), and given that there is little likelihood of a significant expansion in internal outlets, very strict measures will be needed to keep production within the limits provided for under WASH: 25-30% set-aside is to be feared, that is 20 Mha in the EC.
12	trend in consumption white meats and consequences	the trend towards increaased consumption of white meat will continue in the coming years, but the increase in internal production does not mean an increase in outlets for Community cereals (5 MT in the Commission view) but instead for the substitutes; moreover, we should not overlook the increasing competition from low-cost imports from the countries of Eastern Europe, which enjoy preferential agreements. At any rate, beef/veal will decline because of the WASH commitments and the fall in internal consumption: land used for pasture and fodder will be diverted to cereals and thus the surpluses will be compounded. The premium for extensification will therefore not produce the hoped-for result. The Commission has clearly failed to tackle this issue.
13	surplus beef/veal 1999 / WASH	the surpluses, anticipated by COPA and accepted by the Commission, will be very large, and draconian measures will be required to control production, severely affecting this sector. The import and export commitments add significantly to the gravity of the situation.
14	export of large quantities of white meat without refunds	production costs will certainly fall as a result of the fall in cereal prices, but it does not appear very likely that it will be possible to export the large quantities of surplus without refunds. World prices are in decline and are unlikely to increase. The fall in EC white meat prices will not be sufficient to make it competitive. There is thus the threat of being left with stocks of white meat that it is difficult to sell.

N°	HYPOTHESES	OUR VIEW
15	disposal of existing stocks (05/93): -cereals: 27 MT -beef/veal: 1 MT	these stocks must be disposed of before the entry into force of any GATT agreement (1994?), but this would appear more or less impossible given the level of stocks and the world market situation: a low level of purchasing by the former USSR, exaggerated competition with the US which has adopted zero set-aside for 1993-94 and a reinforced EEP (in breach of GATT rules), dumping by Eastern European countries on the meat market. Here again, the Commission underestimates the problems..
16	application protective clause on sugar: automatic and permanent	here again, the Commission considers that its wishes have been met, although the draft does not take account of them and the other parties categorically refuse to accept any possibility of automatic application of protective clauses which establish greater protection than already exists!
17	intra-EC sugar price between now and 1999	it will not therefore be possible to apply the protective clause indefinitiely, and world prices are unlikely to increase, given the current trend towards market blocking. We have therefore to expect substantial falls in prices in the coming years and difficulties in applying the Community preference, becuase of tariffication. The imports under the Lomé agreements (guaranteed quantities, 1.3 MT, at high prices) will add to market saturation.
18	milk quotas	the 2% cut in quotas for 1994 envisaged by the Commission will not be enough to adjust production in line with the WASH commitments on import and export. A cut of between 3.5 and 4% will probably be needed, and this will have a severe effect on the sector.
19	disposal of cheese surpluses in 1999	major problems are inevitable, as the WASH commitments mean that imports will more or less double. It is not responsible to claim that the cheeses likely to be imported are not to European taste and that the countries of Eastern Europe represent a large potential market, given their poor level of purchasing power. As far as the propspects of an opening of the American market are concerned, the Commission seems excessively optimistic.

N°	HYPOTHESES	OUR VIEW
20	peace clause and new sectors affected by CAP reform between 1993 and 1999	there is going to be practically no margin available for the reforms to come for fruit and vegetables, wine, sugar and the other sectors if the EC wishes to remain within the limits of the supports adopted in 1992 (see 4.3.2) - those limits were largely reached in 1993 and will certainly be exceeded in 1994. What instruments of support will be able to be introduced without increasing expenditure?
21	aggregation of products for minimum market access	there is nothing in the WASH draft to confirm the Commission position. The DUNKEL compromise specifies four-figure positions for the tariff headings, which rules out aggregation. The other parties seem in no way prepared to accept the Commission viewpoint, which it alone considers agreed. The latest (20 June 1993), however, is that the US might possibly be prepared to show some flexibility on this, if the EC gives way on all the other points of disagreement.
22	inclusion of former GDR in statistics	the failure to include the former GDR in all the studies means that a number of areas of production are underestimated, including pork, colza, barley and beef/veal, and therefore distorts the quantities on which calculation of cuts in support has to be based. This will be a source of more acute problems of compatibility, given that production is tending to grow very rapidly (ie colza) (i.e. colza) in the new Länder as a result of the opportunities offered by the market and Community supports.

4.3.2. CONCLUSIONS ON GATT-CAP COMPATIBILITY ON A SECTORAL BASIS AND IMPACT ON COMMUNITY AGRICULTURE

The following table illustrates, for the main sectors subject to reform, the main changes effected by the reform **(under** 4.1.), the most likely consequences of the commitments under the Washington draft accord (**under 4.2.2. et** 4.3.1.), and concludes as to GATT-CAP compatibility. The principal effects of GATT and the CAP reform are also listed as well as the cumulative effect of GATT + CAP.

SECT: sectors; CER: cereals; OIL: oilseeds; MILK: milk products; MEAT: meats.

SECT	**WASH** commitment	**HYP** (see 4.2. 4)	**GATT** impact	**CAP** impact	**GATT-CAP COMPATIBLE**	cumulative impact of GATT + CAP
CER	20% reduction AMS; 21% fall vol. subs. exports	1 3 7 8	fall in prices 1999/91: -33.6% for cereals	29% fall in prices between 1992-93 and 1995-96, offset in part by direct aids	NO	-the CAP changes are restricted to price cuts offset by direct aids per hectare to deter crop intensification. -the GATT imposes draconian export and production limits which will devastate this production sector.
			A.M.S. 1999 < 25526 MECU	A.M.S. 1999 = 11101 MECU	YES	
	21% fall in vol. subs. exports between 1986-90 and 1999	3 4 5 6 8 9	fall in volume subsidized exports 1999/91: -32%	fall in volume of exports hoped for (not quantified)	NO	

SECT	WASH commitment	HYP (see 4.2.4)	GATT impact	CAP impact	GATT-CAP COMPATIBLE	cumulative impact of GATT + CAP
CER cont	minimum access (5% in 1999) and 36% cut in customs duties	21	increase in volume of imports 1999/91: +150% (volume imported in 1999 = 7.5 MT)	no increase in volume of imports (stable at 3 MT)	**NO**	
	export and import commitments	4 5 6 8 9 10 11 12 15	set-aside needed in 1999 to comply with GATT commitments: 25 à 30%, ie 11.5 - 20 M ha	set-aside: 15%, ie 4M ha	**NO**	
			supply - demand balance 1999 = + 25 MT (GATT commitment: 13.4 MT)	market equilibrium: supply - demand balance 1996 = + 14.8 MT	**NO**	

SECT	WASH commitment	HYP (see 4.2. 4)	GATT impact	CAP impact	GATT-CAP COMPATIBLE	cumulative impact of GATT + CAP
OIL	- fixing of a maximum area able to be sown to oilseeds: 5.128 M ha; any overrun of this SBA will give rise to a penalty - minimum compulsory set-aside every year:10% - area of fallow sown to "industrial" oilseeds limited to the level of 1 MT (eg meal) of production	1 3 22	- limit imposed on the development of these crops in EC, despite very low level of self-supply; - limit imposed on the development of these industrial crops and biofuels, though they are a promising source of markets	- no limit on area or volume of production (though the system is restricted to areas reflecting the current situation established on the basis of a reference period; unrestricted use of oilseeds grown on fallow for industrial purposes; - internal prices brought down to the level of world prices from 1992-93, at a stroke; - direct aids paid to producers according to land area (359 ECU/ha)	YES, BUT... compatibility is not totally guaranteed; the development of the sector is greatly hindered.	-the effects of the CAP amount to checking production and putting the prices of EC oilseeds at the world market level, producer income being supported by direct aids per hectare. -the further limits on the area sown to oilseeds and the production for industrial fallow derive solely from the GATT, and the CAP reform is going to have to be modify to incorporate them.

SECT	WASH commit-ment	HYP (see 4.2.4)	GATT impact	CAP impact	GATT-CAP COMPATIBLE	cumulative impact of GATT + CAP
MILK	-21% fall in vol, subs. exports -36% fall in refund budgets -minimum access (5% in 1999) -20% or 36% (acc. product) cut in customs duties	3 18 19 21 22	- fall in milk prices between 1996 and 1999:-8%, because of WASH import and export commitments - producer price 1999/91:- 20% (all milk products) - milk price, 1999/91: -2.3% - cut in quotas 1999/91:-4.5%	- 2.5% fall in price of butter in 1993-94 and 2.5% fall in 1994-95; - 1% reduction in milk quotas in 1993-94 and 1% reduction in 1994-95.	NO	compatibility between the surpluses to be exported under the CAP in 1999 (assuming constant EC institutional prices between 1996 and 1999) and the quantities permitted under the Dunkel Compromise: - cheese: 220 MT overrun - whole milk powder: 115 MT overrun - concentrated milk: 57.6 MT overrun - skimmed milk powder: 10 MT overrun

SECT	WASH commitment	HYP (see 4.24)	GATT impact	CAP impact	GATT-CAP COMPATIBLE	cumulative impact of GATT + CAP
MEAT	-21% fall in vol. subs. exports -36% fall in refund budgets -non-aggregated minimum access (5% in 1999) -36% cut in customs duties -Andriessen compromise	1 3 12 13 14 15 21 22	Variation prices to producer, 1999/ 91 (compens. aids under CAP not included): -all meats: -10.7% -beef: -27% -sheepmeat: -17% -poultry: -15% -pork: -13.5% Cut in customs duties for beef 1999/91: 42%. Variation imports, 1999/91: - pork: +700 to +1000% - poultry: +102% - beef: - 2 to -18% - sheepmeat: -12% Moreover, the "Andriessen compromise" prevents the EC expanding on the lucrative Asian markets. Fall in meat production 199/91: -5.4% (-15.5% in value), but 10% for beef/veal.	Intervention price for beef/veal cut by 15% between 1993-94 and 1995-96, premiums capped at 3.5 and then 2 UGB/ha, ceiling on herd size (regional reference herd), compensation for extensive rearing, "male bovine" and "suckler cow" premiums increased.	NO	- exportable surplus beef/veal 1999 = 1 074 000 T, as compared with 817 000 T authorized under WASH (exports 1992: 1 200 000 T). Moreover, the stocks in the EC, 1 MT in mid-93, will be impossible to export before 1994; exportable surplus of pork = 600 000 T in 1999, compared with 393 000 T authorized under WASH; - exportable surplus of poultry = 490 000 T, as compared with 290 000 T authorized under WASH

OTHER SECTORS

The compatibility of the GATT and CAP is unable to be assessed for the many sectors that have not been subject to reform: fruit and vegetables, wine, sugar etc. These sectors have been tackled to a limited extent only, if at all, and the Commission has proved extraordinarily reticent about them during meetings of the SCA and with the experts from the COPA.

It has, however, to be borne in mind that the Washington draft provides that future common organizations of the market should not exceed, for each sector, the level of the package decided in 1992, and that the instruments of support should remain unchanged.

We have therefore to query the margin of manoeuvre that will be available to the Commission when it tackles these sectors, which **will have, moreover, to incorporate in full the rules and disciplines** arising out of **any GATT** agreement and will, in particular, bear the full brunt of the **minimum import access concessions** - (wine imports would increase from 2 mio hl to 7 or 8 mio hl; in Geneva, the Commission did not propose minimum access for fruit and vegetables in relation to which customs duties would be reduced by 20%) - and the limits on exports (fruit and vegetables and table wines), as well as the cut in internal supports (20%).

4.3.3. ECONOMIC ASPECTS: THE CONSEQUENCES FOR THE AGRICULTURAL SECTOR OF THE COMMUNITY IF THE DRAFT AGREEMENT IS APPLIED AS IT STANDS

It is clear that the price reductions imposed through the reform of the CAP will not be fully offset by direct aids to income in the cereals, oilseeds and beef/veal sectors. The commitments contained in the Washington draft would clearly involve limits on production and on land area and price reductions - for which there would be no compensation - over and above those inherent in the CAP reform. It is, however, extremely difficult (see the studies of COPA and the proceedings of the SCA) to separate out the actual effect of the GATT from the effects of the CAP reform - the deadlines are not even the same. The issue is all the more complicated because the way in which the CAP will apply to the sectors subject to reform has not yet been fully decided. Unfortunately, the position is altogether uncertain when it comes to the sectors which have yet been reformed and are significant sectors: fruit and vegetables, wine etc. In point of fact, those sectors **will have to incorporate all the disciplines**, cuts in support and income resulting from a GATT agreement **BEFORE** they are reformed. Such reform will have in fact inevitably to incorporate the GATT disciplines, and those sectors will be doubly sacrificed.

In the case of the **reformed** sectors - cereals, oilseeds, beef/veal and milk products - the economic consequences (none of them compensated for, as they have not been anticipated by the Commission), will vary from one product to another and will depend on a number of macroeconomic parameters defining the world markets in agricultural products, and it is precisely these parameters which underlie the assessment of GATT-CAP compatibility.

The fact remains that it would require a miracle for all the extremely optimistic prognoses on which the Commission is basing its approach to take effect simultaneously, the GATT commitments are certainly not compatible with the reformed CAP and would result, for European farmers, in forced cuts in exports and increased imports - and thus a fall in production - accompanied by a reduction in the area cultivated: at the end of the day, that would inevitably bring a fall in income.

Some sectors, like cereals or milk products will be more particularly affected by the reduction in exports; others, like wine, fruit and vegetables, beef/veal and white meats, will also be seriously thrown out of kilter by the import concessions, particularly if the level of aggregation defended by the Commission to and against all parties in the GATT continues not to be accepted.

All those sectors will see their opportunities for future development limited in authoritarian fashion, in terms of exports but also production, including sectors in deficit (eg oilseeds, fruit and vegetables).

The main consequences for each sector were listed in detail in chapter 4.2. The main consequences on the major balances affecting the most important products can be summarized as follows:

CEREALS

- fall in prices to the producer: -34% (not including compensatory aids under the CAP):
- . 32% fall in exports between 1991 and 1999 (40% in the case of wheat), the effects of the reformed CAP combining here with those of the GATT (hence the loss of export markets which will immediately be taken over by the US and the other exporters);

. decline in Community production: -13.4% in volume and -42.5% in value (1999/91);
. exportable surpluses as anticipated under the CAP = at least 25 MT, ie an overrun of 10 MT in relation to GATT commitments;
. supplementary imports: some 3-4 MT (+79%);
. set-aside: 25 to 30% (compared with 15% in 1992-93) at least;
. fall in Community demand for cereals for animal feed: between 0% and -11.5%, depending on the level of "world" cereal and cereal substitutes prices (as the latter are by-products and have no cost price, their prices may be cut at will by the producers, principal among them the US).

OILSEEDS

- fall in prices to the producer, 1999/91: -48.6% (not including compensatory aids under the CAP);
- fall in production: -16.1% in volume, -56.9% in value.

MILK PRODUCTS

- increases of 400% in imports of concentrated milk, of 407% for skimmed milk powder, 282% for whole milk powder, 81% for cheese and 50% for butter;
- fall in prices paid to the producer, 1999/91: -19.7% for milk products as a whole, -2.3% for milk;
- fall in volume of exports: -1.6 MT;
- cut in production quotas: -4%, ie a fall in value of -23.3%;
- overrun of the volume of exportable surplus in 1999, reformed CAP compared with the GATT: +220 MT for cheese, +115.2 MT for whole milk powder, + 57.6 MT for concentrated milk and + 10 MT for skimmed milk powder.

BEEF/VEAL

- intervention prices reduced by 15% according to the reformed CAP, in fact -27% under the GATT commitments;
- fall in the volume of subsidized exports: -38%, ie 820 000 T;
- variation in volume of imports, 1999/91: -18%;
- 42% reduction in customs duties between 1991 and 1999, compounded by the opening of import quotas for "Hilton Beef" at a very low rate of duty;
- decline in production between 1991 and 199: -10% in volume;
- overrun of the volume of exportable surplus in 1999, reformed CAP compared with the GATT: +400 000 T, ie 5% of Community production;
- stocks of beef/veal currently in cold storage in the Community: ca. 1 MT, needing to be disposed of as a matter of urgency (but how?) before the entry into force of the GATT commitments.

WHITE MEATS

- fall in intervention prices between 1991 and 1999: -15% for poultrymeat, -13.5% for pork, -17% for sheepmeat;
- reduction in the volume of subsidized exports: -40% for poultrymeat, -41% for pork;

- variation in volume of imports: +102% for poultrymeat, +700 to +1000% for pork in respect of which the EC will become a net importer;
- overrun of the volume of exportable surplus in 1999: +150 000 T for poultrymeat and +200 000 T for pork. Contrary to the Commission's (unrealistic) assumption, it will not be possible to export these large quantities of surplus without refunds as a result of the fall in cereal prices - something which the Commission departments have now, incidentally, accepted.

SECTORS IN WHICH THE COMMON ORGANIZATION OF THE MARKET HAS NOT YET BEEN SUBJECT TO REFORM

Unfortunately, there is no information on the economic consequences of a GATT agreement on all the sectors still to be reformed in 1992, as no study has as yet covered them in detail. But, like all the other sectors, these sectors will have fully to incorporate the disciplines arising out of GATT agreement, including tariffication and minimum access, reducing the volume of subsidized exports and the refund budgets and cutting internal supports. The common organizations of the market in those products, which are even now little developed and little "cherished" by the EAGGF, would in all probability be completely "wrecked" by a GATT agreement (abolition of import schedules, variable reference prices and countervailing charges), and it would subsequently become almost impossible to reform them, had such reform to incorporate the disciplines arising out of the GATT. The Mediterranean countries of the EC, producing fruit and vegetables - notably Spain - and table wine (it is table wines which attract all the internal aids and export supports, and here again Spain accounts for a substantial proportion of wine exports benefiting from refunds) would be particularly affected by such agreements.

4.3.4. POLITICAL AND SOCIAL ASPECTS: THE BALANCE OF POWER BETWEEN THE EC AND THE US, THE ROLES OF THE DIFFERENT COMMUNITY INSTITUTIONS, THE ROLE OF THE GATT

It is clear that the text of the Dunkel compromise and that of the draft Washington accord were based on the arguments of the US: separation of commitments into three sectors: internal aids - export subsidies and market access, with direct income support remaining unaffected as well as waivers and unilateral US measures. Throughout the negotiations, the US has demonstrated a united front, consistently adopting an ultra-free-trade and maximalist approach, in daily contrast with its actual actions (abolition of set-aside, bolstering of export subsidy programmes, import barriers, unilateral retaliatory trade measures etc) but which has earned it the support of the liberal exporters of agricultural products in the Cairns Group. The EC has been skilfully made by the Americans, inevitably supported by the Australians and the Cairns Group, to occupy the position of the eternal naughty schoolboy in the class of the GATT contracting parties, throughout the 7 years of negotiations. The American tactic is to shout out at the least opportunity that the European export subsidies are THE factor disrupting the world agricultural markets, which would otherwise be functioning excellently, that EC protectionism in regard to its agricultural markets is without parallel and intolerable for all the exporting countries, including the developing countries and that the obstinacy of the EC in protecting its agricultural markets has seriously jeopardized the successful outcome of GATT Uruguay Round as a whole (the other 14 areas of negotiation of which having been making rapid and harmonious progress, according to the US! The true state of affairs was apparent when the other sectors concerned were discussed after the publication of the Washington draft agreement...).

Finding itself constantly in the dock, the EC adopted an exclusively defensive position, and was weakened further by the lack of internal cohesion and the deep-seated differences in interest and strategy dividing the Member States which made any firm and rapid decision practically impossible. Not to mention the different reception the Member States gave to American commands and did or did not obey without question...the Community has unquestionably been in a position of weakness as compared with the US since the start of the negotiations, and has more often than not been the odd man out.

This weakness in the Community position has been aggravated by the differences existing between the Member States within the Council but also those existing between the Council and the Commission, the European Parliament having generally confined itself to issuing opinions belatedly and with little determination. More particularly, during the negotiations between the EC and the US in October-November 1992, which resulted in the Washington agreement, the Commission was accused by several Member States of having largely exceeded the mandate it had been set by the Council - the mandate itself perhaps lacking in precision. It is at any event desirable that, given the huge importance of the economic, social and political issues for the 345 million citizens of Europe, that mandate should be set and strictly adhered to as negotiations are pursued. A conclusion to the Uruguay Round - whatever its nature - will in fact effect a profound change in the living and working conditions of every European in the decades to come.

The role of the GATT has also been the subject of an ever-increasing amount of discussion during the past 7 years. The need for far-reaching reform of the way in which it operates - whether or not accompanied by the creation, a concept withdrawn after Bretton Woods, of a world trade organization with real powers to carry out surveillance and impose penalties - has become increasingly apparent. However, the concept of total free trade advocated by the GATT which has proved extremely catastrophic for the economy and social conditions of many countries (foremost among them the United Kingdom) is being increasingly called into question in Europe and elsewhere, particularly since the dramatic increase in unemployment in the major industrialized countries, accompanied by a tragic (but with less media appeal) decline into poverty of all of the countries of Black Africa. Serious economists realize that the economies of the industrialized democracies will never be able to withstand, in the context of absolute free trade, exports from countries where wages are 10 or 50 times lower than in the EC or social protection does not exist and the workforce (particularly child labour) is overexploited, not can they withstand the exports of countries which sell off their products on the world markets at low prices in order to dominate them and thereby perpetuate the collapse in world agricultural prices (and along with them that of several of the developing countries whose economies are undermined by the staggering deterioration in the terms of trade), and are prepared to provide their farmers with (temporary and degressive) direct aid to guarantee them a decent income. Those aids, which result in farmers ceasing to be economic agents and being instead transformed into the takers of hand-outs, are not only unable to halt but are in fact going to accelerate the process of rural exodus and desertification of the countryside, thereby jeopardizing the regional balance in the Community. It is therefore the basic principles underlying the GATT - and they are clearly not suited to agriculture - that are being questioned and that require adjustment of its rules and the way in which it operates, and perhaps indeed consideration of whether it should exist at all.

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