

A Letter From EUROPE

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from its Delegation in Washington

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AGRICULTURAL SUBSIDIES: ARE THOSE FOLK FROM THE EUROPEAN COMMUNITY DRAGGING THEIR FEET?

In the multilateral trade negotiation opened last September, the United States has proposed the total elimination of all agricultural subsidies over a period of ten years. The Community this week put forward its own proposal in Geneva. This falls into two parts: firstly, coordinated provisional emergency measures to stabilize the worst-hit markets and concerted action to reduce government farm support in certain sectors. Secondly, in the longer term, a further substantial coordinated reduction in support. Why is the Community's proposal different? And can it form the basis of a successful negotiation in agriculture? Let me set out briefly why we think our proposal is an effective means of tackling the agricultural sector of the new trade round.

First, the Community has a vital interest in the success of a negotiation on agriculture as part of the new round. This is simply because the E.C. is the world's biggest trading bloc, accounting for 20 percent of total world trade (compared with 14 percent for the United States and 10 percent for Japan). Failure of the new round and the massive rise in protectionism that this would bring would hurt the Community most of all. We recognize that without a successful negotiation on agriculture as part of a global settlement, the negotiation will not succeed. Furthermore, as the world's biggest importer and second biggest exporter of farm products, we have a major interest in restoring order to farm trade.

Until just over a year ago, the dialogue on agricultural problems between the United States and the Community was more of a shouting match than a discussion. We had to stress time and time again that the United States spent more on subsidizing fewer farmers than the Community; that we compete for only one quarter of American farm exports and in those areas - mainly wheat and dairy products - the reason for any fall in U.S. exports was patently not a rise in European exports; that we were (and remain) the American farmer's best customer, taking 25 percent of all American exports. But then the shouts began to yield to the beginnings of an agreement.

In the opening of the Uruguay Round last year, we both agreed along with our trading partners to recognize internal support for

agriculture as a topic for negotiation. Further, at the OECD Ministerial meeting this May there was for the first time agreement on the diagnosis of the problem: excessive support for agricultural production leading to a structural imbalance on world markets. There was, therefore, agreement on the need to negotiate reduction in supports in the Uruguay Round, and this was confirmed later at the Venice Summit in June. Do we favor the complete abolition of agricultural subsidies? The answer is that significant reductions are essential; to go as far as complete abolition is not in our view realistic. But we think our proposals are realistic and practical.

The first thing to be done is to tackle immediate problems. It is all very well having an inspired vision of what the world will look like in 10 or 12 years' time, but marching along gazing at the stars risks falling into some deep potholes along the way. What can be done now? The major exporters need to agree on coordinated, pragmatic, provisional emergency measures to stabilize the worst-hit markets: cereals, sugar and dairy products. This means for grains (and grain substitutes) ending the subsidies war and introducing discipline on quantities and prices; on sugar, for the main exporters to agree on reducing the quantities exported and for the main importers to at least maintain present outlets. In the case of dairy products, all the major exporters - whether members of the International Dairy Arrangement or not - should observe the rules of the Arrangement. Alongside these confidence-building measures, contracting parties should take (or continue to take) concerted equivalent action in ways best suited to local conditions to reduce support in the cereals, rice sugar, oilseeds, dairy and beef sectors.

The second part of our proposal covers the longer term. Here what we aim at is a further substantial and coordinated reduction in support. Clearly reductions in support will make it necessary to reduce the imbalances of protection as between various commodities which exist throughout the world. Such reductions in support would diminish incentives to produce more than markets can absorb but would perhaps need to be accompanied where appropriate by direct aid to producers. GATT rules on market access and export competition for agricultural products (including processed products) need to be improved, and new ones are needed on plant and animal health requirements. Further, different treatment should be allowed for developing countries to take account of their special needs.

We think these proposals are realistic. But two points should be borne in mind in considering them. The first is that we are on the same road - the reduction of farm support; the argument is essentially how far along this road we travel. The second point is that the Community has already made some substantial and painful cuts in farm support. Dairy production this year will be 25 percent less than what it would have been without cuts. Grain support was cut 10-15 percent last year, and will be cut another 10 percent this year. Support for oilseeds has been cut by 13 percent, the beef price by 13 percent. In other words, we are not just talking about what might be done by the year 2000. We have started to put our money where our mouth is. That is not a bad beginning. We hope that it can be built on.

Ray Ferrman

WINDOW ON THE EUROPEAN COMMUNITY

FOREIGN TRADE

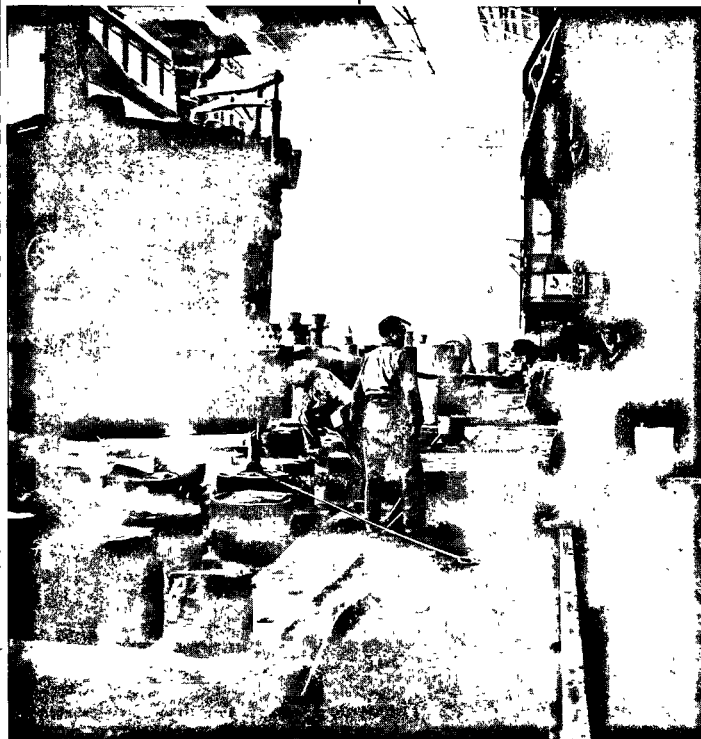
• **Airbus Agreement:** The European Community and the United States agreed on October 28 on a framework for negotiations aimed at reducing trade tensions over government support of the civil aircraft industry. The United States has raised questions about subsidies provided to Airbus, a four-nation European aircraft consortium. A joint statement noted that "the parties commit themselves to search for mutually satisfactory solutions, in a spirit of mutual understanding. Solutions should promote international competition and facilitate the development of aircraft manufacturing in a fair economic environment." Further discussions on the issue will continue at the U.S.-E.C. Ministerial meeting on December 11.

• **Exports Dropping:** E.C. exports to third countries in the first half of 1987 are estimated by the E.C. statistics bureau Eurostat to have been 2 percent lower in volume terms and 3 percent lower in value terms than the first half of 1986. Exports to the United States were 8 percent lower (in European Currency Unit (ECU) terms), and exports to Japan were 9 percent lower. Community imports rose 9 percent in volume terms despite a drop of 4 percent in value terms, reflecting the decline in import prices in 1986. Imports of manufactures, which now constitute 56 percent of the total, rose 8 percent in volume terms and 3 percent in value terms. Imports from the United States were 11 percent lower in ECU terms in the first half of 1987, with import volume remaining high. Imports from Japan were down 13 percent.

The E.C.'s overall trade deficit, which was temporarily reversed last year, reappeared in the first half of 1987. At 4.8 billion ECU (about \$5.4 billion), it is still small by recent standards. Trade between E.C. member states rose 5 percent by volume and 3 percent by value in the first half of 1987.

• **Farm Trade Proposals:** Noting that the Uruguay Round of multilateral trade negotiations "represent the most important international basis for bringing about a better balance in world

agriculture," the Commission made a number of proposals in October on how the negotiations should run. A first stage should aim at coordinated adjustment of existing agricultural policies both in the Community and other producer countries, and international



Some 80,000 jobs may have to be cut in Europe's steelmills to bring the industry back to profitability.

arrangements simultaneously adopted to ensure better balance in key sectors. In a second stage, the Commission recommends, agricultural market support should be steadily reduced, linked with the restoration of balance of external protection in sectors that are currently imbalanced.

BUSINESS & ECONOMICS

• **Three Wise Men:** The Commission has asked three experts on the European Community steel industry to make specific recommendations on how to implement planned reductions in Europe's steelmaking capacity. The reductions are expected to cut 30 million tons of excess capacity at a cost of some 80,000 jobs. The experts are Hans Friderichs of Germany, former Federal Minister for Economic Affairs; Umberto Colombo of Italy, President of the National Commission for Atomic Energy and Alternative Energy Sources; and Jacques Mayoux of

France, former Chairman of the steel company Sacilor.

• **Annual Economic Report:** The Commission submitted its Annual Economic Report for 1987-1988 in October, predicting slow growth and no appreciable decline

needed to attract inflows of private capital. Thirdly, the Community should support the adjustment process through the structural funds, as well as through its financial instruments and the European Investment Bank. The Commission proposes to double the resources of the structural funds in real terms by 1992, and to increase their effectiveness."

• **Industrial Output Up:** The European Community's index of industrial output rose 1.2 percent in the first half of the year from a year before, according to the E.C. statistics agency Eurostat. Production of consumer goods rose 2.5 percent, capital goods rose 0.5 percent, and intermediate goods rose 1 percent, according to Eurostat. Industrial production rose 2.3 percent in the United States and 0.8 percent in Japan over the same period.

• **Budget Delayed:** Efforts to draw up a budget for the E.C. for 1988 collapsed in early October when Spain, Britain and Greece refused to withdraw their objections. Decisions on both long-term reforms and the short-term budgetary crisis will be addressed at the Community's summit meeting in Copenhagen in December.

• **Merger Legislation:** Appearing before the Economic and Monetary Affairs Committee of the European Parliament in late October, Commissioner Peter Sutherland underscored the crucial importance of new legislation to cover mergers. "Appropriate Community-wide merger legislation forms an integral part of the Community's stated objective of completing the internal market. Since competition increasingly operates in the context of international markets—and indeed even worldwide markets—the assessment of changes in market structure should be made at Community level rather than at national level. For many products the relevant market is already the whole of the E.E.C. It is on this market that efforts have to be undertaken to promote competitive and efficient structures for European industry. It cannot be desirable to maintain a system where a proliferation of national controls (which may be incompatible with each other) create uncertainty for enterprise. Nor

can it be denied that a Community-wide approach is indispensable if the partitioning of the internal market through national dominant positions is to be avoided. Those who advocate the completion of the internal market must logically favor a Community-wide regime."

FOREIGN AFFAIRS

• **Democracy in Chile:** Foreign Ministers from the E.C. called in early October for a return to democracy in Chile, saying in a statement that they "firmly believe it is essential for Chile to return to truly democratic government if peace and respect for human rights are to be restored there. Accordingly, they consider that the Chilean people should have complete freedom of information and opinion, and should be able to elect their president and the members of their Parliament in a ballot guaranteeing the free expression of their will."

SCIENCE & TECHNOLOGY

• **Biotechnology:** The E.C. Commission is proposing a revision of the 1985-1989 Biotechnology Action Program with a request for supplementary funding of 20 million ECU (about \$22 million). The Commission is calling for an increase in training in all parts of the current program, the integration of Spanish and Portuguese laboratories, extension of the bio-informatics part of the program, an increase in the research related to risk-assessment, and feasibility studies for the next biotechnology research and development program. The aim of the current program is to improve the capacity of the member states to compete with the outside world in areas relevant to the preparation of improved agricultural and bio-industrial products. The program includes enzyme engineering, genetic engineering, in vitro testing of molecules for toxicity, cell technology and collections of biotic materials.

• **Thermonuclear Fusion:** Delegations from the United States, the European Community, Japan and the U.S.S.R. met in Vienna in October and agreed on the joint development of a design for an International Thermonuclear Experimental Reactor (ITER). The technical objective of the ITER

project is to demonstrate the technical feasibility of fusion power; the project would accomplish this by demonstrating controlled ignition and extended burn of deuterium-tritium plasmas, with steady state as the ultimate goal, by demonstrating technologies essential to a reactor in an integrated system, and by performing integrated testing of the high-heat-flux and other nuclear components required to utilize fusion power for practical purposes. Actual work on the design activities is expected to start in early 1988.



The Commission has proposed new measures to control agricultural production and cut the costs of the Common Agricultural Policy.

AGRICULTURE

• **Farm Reforms:** The E.C. is considering a new set of proposals designed to control agricultural production and the cost of supporting it, it announced early in October. The proposals, drawn up by the E.C. Commission, are built around the concept of "budgetary stabilizers"—various mechanisms to limit automatically the Community's expenditures in each commodity sector. These include production quotas and taxes, cutbacks in support when production ceilings are exceeded, and stricter rules for selling surpluses to public agencies.

The Community has applied such mechanisms for several

years, but the Commission argues that they must be strengthened and expanded. It notes that despite reforms that saved the Community millions of dollars, farm support spending increased by 40 percent between 1984 and 1987.

"Further savings must be made if the Community is to comply with the principle of budgetary discipline in 1988 and thereafter," the Commission said in an August report on the Common Agricultural Policy (CAP). Following that report, the Commission forwarded specific proposals for each com-

modity. It also proposed that it be given increased powers to intervene under certain conditions to implement the new measures, allowing for stricter and more immediate enforcement.

The proposals include: setting a "maximum guaranteed quantity" every year for grains; extending the production quota system for milk until the end of the 1990-1991 marketing year; maintaining the production quotas for sugar through 1990-1991; introducing a global maximum guaranteed quantity of 350,000 metric tons for tobacco; and implementing other measures for wine, oilseeds, lamb, and other products.

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SOCIAL ISSUES

• **Free Food:** The E.C. Commission decided in October that it would continue a program established in January to distribute free food to citizens of the Community who are least able to help themselves. In a statement, the Commission said it believes that such a program should be a permanent part of Community policy, and that future food giveaways should involve only products drawn from intervention stocks and that measures should be decided on according to specifically voted appropriations. The Commission is calling for a budget of 100 million ECU (about \$110 million) for the program in 1988. Its recommendations must now receive approval by the Council of Ministers before more action can be taken.

• **Cancer Prevention:** A poll conducted earlier this year on European awareness of cancer risks and prevention found differing results throughout the European Community. The poll found that 28 percent of Europeans are unaware that tobacco is by far the most widespread carcinogenic element in the environment, while most respondents overestimated the effects of radioactivity, pollution and certain occupations.

While some 53 percent of smokers say they would like to quit, only 63 percent pay attention to the tar content of their cigarettes, the poll found. Broad public support exists for national or Community anti-smoking proposals, and seven out of ten are in favor of a significant increase in the tax on tobacco, part of which should be allocated to the anti-smoking campaign. Nearly eight out of ten of those polled favored banning smoking in public places, while 84 percent support a proposal for a ban on tobacco sales to those under 16.

AID AND DEVELOPMENT

• **Refugees:** Eleven years after the Communists came to power in Indochina, more than 160,000 refugees from Kampuchea, Vietnam and Laos have settled in the European Community, the Commission said recently. Most of the refugees—about 102,000—have settled in France, while some 22,000 are in Germany and 17,000 in Britain.