

BRAINERD - MINNEAPOLIS - 19 - 21 JUNE 1988

" AGRICULTURE POLICIES AND GATT"

*Trade - exports ?*

*Why GATT ??*

Question:

GATT-organisation the most qualified ?

to deal with agriculture policies ?

Agriculture policies: are more than production and trade !!

they are: decisive for the social well-being of farmer population

" " " socio-demographic issue of total society.

" " " environmental circumstances.

"Trade" is a side-aspect ! It is not at all dominating !

It would be a great error to think:

that through "trade" you can deal with agriculture policy !

"GATT" = trade-organisation.

But: only 5 % of total agri-production enters in intern. trade !

Even for products like cereals/oilseeds it is not more than 15 %.

There is in general in politics:

an overrating of the importance of "trade"

compared with "production".

On the other hand:

international trade can influence domestic markets in high degree !

Because: the market of basic food stuffs is very inelastic !

Relatively small quantities thrown on a market:

have tremendous influence on prices/ for instance:

*bulk - products* . cereals/oilseeds !  
*low - harvest*

In this context it is necessary:

a closer investigation of the "conflict" of to-day:

culminating in:

liberal trade versus supply management

or: "free trade" " " "fair trade"

or: the position of: in GATT:

USA/CAIRNS Group versus European Community

And I will do so:

in a way to make clear:

*if* there are conflicting positions in GATT

They are the consequences of basic different approach

as far as agriculture policy,

(its aim and mechanism are concerned ! )

First of all:

this basic conflict of to-day

is nothing new !

It existed already far back in history !

History :

The agric- crises of 1830 - 1880, of 1930, we have not forgotten.

and to-day 1980 <sup>90</sup>

Crisis of 1880/'90 on European cereal market:

result of railway development in USA/CANADA !

masses of cereals at low prices on the market ! (liberal trade)

Already then the debate: "free trade" or "Fair trade" ?

" " the urging demand for:

variable levies on imports !

(I quote from a pamphlet out of 1895: from my grandfather,

a farmer in the north of my country).

1895: "It is the task of all European government to

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stabilize farmerprices." "Variable levies are here the

obvious means".

But "Trade-force" opposed.

It took us to 1930, the next crises, to introduce them. *(in Holland)*.

And in 1962: we introduced them as the base of the market-policy in

CAP !!!

And they still are!

And again: the cry for: liberal market

for: free trade !

From who does come that desire ?

Has it to do with forces in international trade ?

Here again I cannot resist the temptation to quote again my

1895:

grandfather: "The trade is concentrated in a few big firms".

"The cereal-warehouses in North America are for 85 % in their hands."

"Soon it will be international concentrated ! "

Well: to-day: 90% of world trade in cereals and oilseeds is in the

hands of the "big five" !

There is nothing "new" under the sun. !

Though trade from the point of:

added volume is not so important.

And agriculture policy - dealing with production !

" " social positions of producers

is overwhelmingly more important.

We have to acknowledge:

there is no other organisation !

So: when we have to establish "some rules":

we have to do that in GATT.

But keeping well in mind:

that by "trade-agreements" you never can

organise agricultural markets !

What can be done is:

to find rules that prevent that agricultural policies  
are the cause of difficulties for "others".

I will try to condense that in one definition:

|| "We all have to avoid to shift our difficulties <sup>through our policies</sup> on  
the shoulders of others" ! "

And in particular:

With regard to less developed countries!

By our policies, both Europ. Comm. and USA

We destroy worldmarkets.

Prices are lower than ever.

No farmer can produce for these prices.

In particular not in less developed countries!

Fighting hunger = producing in those areas

" " = reasonable worldmarket prices.

Even for net importers of food:

low foodprices = advantageous in the short run

= disastrous in the long run!

We would make a great step forwards when that would be the outcome  
of the negotiations.

That does not mean "free trade" or "liberalising trade"  
but "fair trade" !

Once John Kenneth Galbraith formulated:

"Agriculture is an industry which requires intelligent management".

"No country leaves its farmers to the market."

I fully agree with these words !

Intelligent management = "management supply".

But that "management" = agriculture policy.

should not lead to *shifting the burden on the shoulders of others*

Now there is: Basic difference in approach between "main partners"  
USA - Eur. Comm.

Cairns Group between the two

However these group in long run: not far from USA- position.

However: in the long run: not far from US-position.

Worthwhile to look at this conflict from closeby.

To analyse the cause of this different approach

to understand better each others position.

comparing the agriculture structure in USA and E.C.:

great differences !!

In Europe: 8 mln. farmers: 100 mln. hect. cult. area = average 13 ha.

in U.S.A.: 2.5 mln. " : 430 " " " " = " 170 Ha !!

But: averages do not say very much !

We have to dig deeper to find the real differences in structure.

In Europe: the 8 mln. farmers can be divided in two groups:

	5.5 mln. very small (=70 %)	producing	20%	of Prod.Value
and	2.5 " "family farms" (= 30%)	"	80%	" " "

Real big farms are hardly existing !

The base of C.A.P. are the 2.5 mln. family farmers! = 80 % of production.

" " " price policy in the incomes are rational family farms !

The 5.5. mln. small farmers are more or less part-time farmers.

(a "social" problem !!)

in U.S.A.: total different picture !

Some 250.000 big farmers (10%), producing 80 % of P.V.

650.000 middleclass (26%), " 8 % " "

1.6 mln. small (64%), " negligible.

Even more impressive:

distribution of farm-incomes:

2500 big farmers ( = 1 %) have 65 % of total farm income !!!

And all middleclass farmers (20 - 100.000\$ turnover)

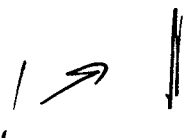
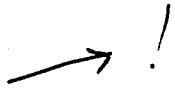
in 1970 still 47 % of total farmer income

in 1985 only 6.5 % " " " " .

U.S.A. farm policies, especially the last decennia

have lead to industrialized farming,

have neglected the "family type" of farmers.



There are two regions in the world, where family farming has disappeared:

Russian and the US.A. !

"Curieux de se trouver ensemble." !

However with absolute different methods:

In the Sowjet-Union: Stalin killed them !

In the U.S.A.: they were "killed" by economic policy !

basic  
The policy of the European community is:

to maintain family farming on a rational base !

And the social/structural policy is aimed in that direction

And the market/price policy " " " " " !

And in the future it will be the same

And that is basic for the coming GATT-negotiations !

It is for this reason:

that the Community for its part:

Council :

- "will insist on preserving a model of agriculture capable of ensuring the survival of a rural economy, which it regards as vital."
- "This implies that the Community must insist on maintaining its double pricing system together with the fundamental mechanism."

So I agree fully with that statement of the Council and I am of the opinion that every approach from its partners in GATT that neglects this position is unrealistic !

Council :

"This preservation of the basic mechanisms of the C.A.P. does not however, mean that these mechanisms should not be adjusted. Such agreements can be made when balance is being restored between world-supply and demand !"

*Condition!  
(Chicken or egg.?)!*

This last "condition" is in my opinion fundamental for the outcome of GATT-negotiations !

Let us hope: GATT will succeed in that approach !

Until '45 we have hoped for it.

It never became a reality.

With regard to the "double pricing system" of the European. Com.:

worth to note following position of the E.C.:

"High level of protection for certain crops and livestock-sectors, coupled with non-existent or low-levels of protection for cereals-substitutes, oilseeds and high protein crops, give rise to distortion.

Council :

The elimination of such distortions should be one of the E.C. main objectives."

These positions follow directly

out of European structure of agriculture.

It is based on: marketpolicy and price policy,

giving reasonable returns to the rational family farm

= 80 % of P.Value.



Contrary to this policy:

the U.S.A. lays its centerweight on industrialised farming.

This clearly leads to another "trade-position".

This industrialising farming

is concentrated on 3 main products, typical export-products.

|| corn - wheat - soy-beans: take 2/3 of total agric. areas !

and " 3/4 " " " exports !

Roughly 1/2 of these productions have to be exported !!

Share of USA in world trade:

in % of USA-production

cereals	50 %		22 %
of which: corn	70 %	corn	47 %
soy beans	70 % (In '83 even 86 %)	soybeans	60 %.

This is a very un-balances parcel of export products

composed out of "raw-material" bulk products for processing.

A fundamental question seems to be:

|| Is there in the longer future still need for these products ?

With an overall increase of output pro hectare ?

" a shrinking world market for these products ?

Let us look at the worldmarket for agric. products :

There has been from 1970 - 1980:

a high increase in volume: + 55 % in 10 years time !

But here we see a disastrous development:

	<u>exports</u>	<u>Agri. Prod.</u>	<u>imports</u>
industrial countries ("Western")	+ 80 %		+ 30 %
developping countries ("the poor")	+ 20 %		+ 125 % !!

based on data of FAO)

Food Trade Balance:

( Blns. of Dollars)	1970		1984		bln \$
Developing countries	+ 6	to	-4	=	-10
Industrial "	-4	to	+ 17	=	+ 21
East Eur. non market "	0	to	-13	=	-13

It is absolutely evident that we all (we, the rich) have shifted our burden on the shoulders of the poor !!

But there is more to take into account !

And special when we have to ask:

- ||| is there any place for more cereals, oilseeds - feeding-stuffs?
- ||| is there still an expanding market ?

Let me take one important product:

	<u>Cereals</u>			
<u>Cereals</u> (mml. tons)	'60	'70	'80	'87
World production	700	900	1150	1400
inter. trade	75	100	200	190
in % of production	11 %	11 %	17 %	13.6 %
<u>Prices:</u>				
Hard winter \$/tn.	60	60	170	110
Value of \$ in Ecu			1.3	0.76 !
<u>Value of Cereals in Ecu</u>			100	40 =
				- 60 % !

'60-'87  
2 x  
2 1/2 x

'70-'80 : 3x !

!! →

So: in our currency world market prices toppled in a few years time with 60 % !!!

So it was in 1880. So it stil is in 1987 !!

And:

with this exemple it may be clear that:

the U.S.A.-proposal "phasing out of all policies that "distort trade"  
by the year 2000",

is fully unrealistic !

It is even conflicting with the basic elements of agric. production in  
the society

" " " " " decisions of the Committee on Trade in Agric.  
recognising that agric. *policies are not*  
negotiable in GATT.

" " " " " : support of domestic agriculture is  
legislative for reasons of food-security  
" " " price-stabilisation  
" " " adequate farm-incomes

The mere existing of agric. policies will always "distort" trade. !

Trade will always be the "result" of agric. policies !

The only question is: what part of disstortion we do not accept !  
(kind)

In my opinion, this is "dumping" !

A second question is:

Can the U.S.A. go on with that production pattern ?

What about soil - conservation ?

water-economy ?

erosion ? Dustbowls ?

I am not judging. I am only putting this second question.

Anyhow: This question is important when comparing real costprices.  
Overcropping, or exhausting soil and water-supply is rather common.

We too know that problem!

We are producing hog at low prices

Real-costprice!!

But spoiling the water for the population with nitrate

The acid rain is too partly result of intensive stock-raising

But: Let us compare the cost- and marketprices for a basic product:  
Cereals

I quote the prices for U.S.A. on an interview with John Nichols (Minnesota)  
in "SPIL" '87

As far as the policy of to day is concerned:

He received for his <u>corn</u>	50 dollar/ton (= 1.27 doll./bu)
plus def. Payment	50 " together 100 doll.
His costprice was 108,	so 8 doll/ton short (= 20 cts/bu)

Same story for wheat

Most interesting is what he said about the policy of Democrats:

The proposed Family Farm act (F.F.A.)

With an increased loan rate, replacing the def. payment  
and reducing production on set aside program.

Result: More realistic marketprices

Based on cost prices plus reasonable farmincome.

// → It is the policy we apply on Europe (CAP)!

Comparing the prices he mentioned (FFA)

// For wheat and feedgrains are Cif-prices Usa in Rotterdam equal to  
our interventionprices.

For soybeans our costprice is higher!

Such a change in USA-agric. policy would be a great step forward.

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Back to the European Community: (Dealing with C.A.P.)

C.A.P. is only a part of political fundament of the Community.

The creation of the Community has a political aim:

and that is: a political United Europe !

that can play its role in the world. (Jean Monnet - Schuman)

By creating the "common market"

with: its institutions:

European Commission

Council of Ministers

European Parliament

European Court of Justice,

It is a development, sui generis.

It is: supra-national !

A decision of the Council

<sup>regulation</sup>  
A ~~regimentation~~ of the Community:

replaces national laws !

So: A cereal-market regulation is law in all participating nations.

First 6, now already 12 (including Spain - Portugal - Greece).

The C.A.P.:

is based on:

- Common rules for market products.
- " financing of this policy.
- " rules for structural and social development.

The most developed up till now is: common market policies.

In short:

for basic products: cereals - dairy - meat - sugar - wine -,  
common price levels, common finance.

As I said already:  
of  
because the very unstable world-market for their products:

a stabilised price level:

with variable levies on imports

and " restitutions in exports.

These basic products cover: 60 % of the total agric. prod. Value.

It is evident that this stabilisation has a great influence on all  
other productions !

It is the "cornerstone" of our price- and market-policy !

With its: target-prices, intervention-prices and  
threshold-prices.

I will not enter in the application of the policy.

Only:

Final decisions are taken by the Council of Ministers.

Only on proposal of the European Commission

After: advise of the European Parliament.

Important decision in unanimity.

(more and more in simple majority).

A rather difficult procedure ,

with long (too long) negotiations.

Giving room for: veto - position !!

In February: (Last summit meeting):

*Summit  
Feb. 88*

big step forward to:

1. Real Common Market in 1992 !

no more control on the borders !

one free market for:

people - goods - capital !

A great challenge.

2. Decision on agriculture:

to curb financial burden

to limit production.

~~With regard to coming GATT negotiations,~~

I will deal more specific with that now:

~~I will deal~~ <sup>it</sup> with the most urgent problem:

from international point of view.

The question of surpluses:

of export-subsidies,

regarding GATT-negotiations.

Clear: I am not speaking for the European Community

not for the Commission

but I am giving my personal view,

of what should be done !!

File: What is the cause of these "surpluses" ??

Price ?

First we have to ask:

Are European prices too high ??

Are they the cause of surpluses ?

In my opinion: NO !

They decreased the last 15 years at a rate of 2 % a year (deflated)

<u>Prices off farmgate</u>	<u>'1970</u>	<u>1980</u>	<u>1985</u>
	116	100	88
Prices means of production	98	100	99

And what did production?

cereals	73	100	112 = + 2.9 % year
			= 2 x in 24 years

It is the same for total world production: + 2.8 % pro year.

High priced countries compared with low priced:

Production:

Europe	+ 2.8 %	U.S.A.	+ 3.3. %
		Argent.	+ 2.6 %
		Canada	+ 1.8 %
		Austr.	+ 3.2 %

Better indication:

cultivated area = acreage of cereals

From 1962 - 1985 = 22 years

U.S.A.	+ 23 %		
Canada	+ 22		
Brazil	+ 79	Europe	+ 0 %
Austr.	+ 47		
Argentina	+ 9 %		



The general overall increase of production is mainly the result of

better yields pro hectare ! = *higher productivity*

And that is still going on !

*Result of technical development*

"Textbook"-economists are saying "in chorus":

high prices lead to more production,"  
" so: lower the prices !

These economists do not know:

what farming is, how farmers react !

We have plenty of those "economists" in Europe (even in the Commission),

like you have them here !

(I think more special in "trade-circles" !)

This will not say: that price-relations between products are inactive.

they should be used in managing the market, managing the supply.

Farm-income was stable in that period.

Because of + 2 % increase of productivity pro ha.

+ 5 % " " " pro worker.

Nevertheless: only  $\frac{1}{2}$  of group of 2.5 mln. family farmers has

comparable income !

An overall price-cut does not help,

" " " " is undesirable for social reasons !

The summit of 11th February 1988 has decided:

for cereals/oilseeds a price cut of 4 % a year during 4 years.

when cereal production exceeds 155 mln. ton a year.

*Farm income :*

Hoping that cereal production will be reduced !

I think that is an illusion !

Production will continue ! and surpluses will be bigger in  
1992 surplus will be ca 54 mln tons ! 2 x level of '80 ! (23 Hg.) 1992 !  
And so the need for surplus-disposal.....

When we will come to agreement in GATT:

" " " bring order in our own house:

more has to be done !!

But what ??

Balancing the market means managing the supply !

When, through technological development (that you cannot stop !),

production pro hectare increases

you have to reduce the cultivated area ! + number of animals

Even a quota-system on one or more products does not help in the long run., because of shifts to other products.

and so decay in other markets.

In short run it can be of use:

so ~~decaying~~ <sup>for milk</sup> production by quota-system is now in balance with demand  
surpluses of 15 % have disappeared !

But we see already with concern the increase of meat-production.....

*There is urgent need for* so: restricting the area of cultivated land = set-aside programs.

Council of Ministers has started a program:

on base of premium-system, she is on the good track.

Seems to me: too limited to scope.

needed is already now: a limitation of 10-15 %

The decided programm will perhaps be a limitation of 2 % !!

and mostly marginal soils !

→ So much more has to be done !!

And this has to be seen against the background of a generation-  
development !

There is no reason to suppose that increase of productivity will stop !

On the contrary: we are <sup>at</sup> the beginning of an era of new developments:

bio-chemical processes, gene-manipulation.

It is now in the beginning.

And modern communication-society will accelerate in practising this process. Not only in industrialised countries, but too in less-developped countries.

(can?)  
That in itself is hopefull. It will free the world from hunger !

But it will too have an un-balancing effect on markets !

The need for a real management of productions

" " supply will be even greater !

As for Europe:

It will mean:

that in one generation time

we can feed her population with half the cultivated area of  
to-day.

That is a tremendous problem ! *Local, political.*

And it will be accompanied by a further reduction of the number of workers !

Of course:

there are possibilities of other use, of new products, basic material for industrial purposes.

biomass → for energy (alcohol)

But do not overestimate. For instance:

In European circumstances producing alcohol is still

→ !! negative in the energy-balance !

Coming decennia will need: restricting cultivated areas, set-aside progra

And they have to be accompanied by sociale programs !



Programs needed for USA and Europe  
Same character and almost same scope.  
Great parallelity

USA:

*Family Farm Act*

Following the F.F.A.-Program of Democrats

Loanrate = Marketprice on level of productioncosts

Reduction of cultivated area

(from 350 mln acres with:

40 mln Common Reserve Program

22 % set aside "

to 240 mln acres.)

*parallelity !*

Europe: (12)

From 300 mln acres by -10 % set aside now

plus - 2 % a year

= In 5 years time - 20 % to

to 240 mln acres.

We are both sharing the burden  
the burden of technological development

We both can preserve our agricultural society

In Gatt we only need the binding commitment to stop with  
subsidised "exports" of surpluses

It is up to the contracting parties HOW they are doing this  
That is not a matter for GATT.

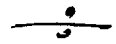
That is a matter of agriculture policy!

It is up to the nations whether they will sacrifice their family-farmers  
or maintaining a well balanced socio demographic structure

And the nations themselves have to pay the price for that

It has nothing to do with "liberal trade"

But it is the base for "fair trade" !



What will this all mean for international trade ? ?

A shrinking market for basic foodstuffs ( cereals - oilseeds)

Already to day:

Europe does not need these products !

And it would be unrealistic to try to keep that market by trade.

An overall productivity-increase of 2 or 3 % a year is such a tremendous  
task.

When European policy is based on the maintenance of a <sup>via</sup>~~variable~~ farm-  
population, as it is to day,

the process of supply-management will lead to shrinking the  
imports !

On top of that:

when she takes her pledge to stop with dumping serious,

and she has to take it serious,

the process of shrinking imports will be accelerated.

When I see it well, there seems to be in the intentions of the CTA  
to introduce:

Market-sharing? ??

some sort of market-sharing-system, based on minimum-quota's  
for imports. I heard of 10 % or 20 % of total consumption.

That road seems to me an illusion !!

Not only - because - in a market based on double prices  
it cannot work,

but too:

because it is an absolute artificial system, based on

trade-quota's

that will not last in the longer future.

Conclusion:

The E.C. and U.S.A. (and Cairns-group) should be wise:

. . to meet the future with a clear picture of long term  
developments

More special USA: . . to recognise that it is dangerous to build agrarian  
economy in high degree on exports like cereals/soybeans.

" " . . to strive for maintaining more than 50 % of world trade !

On the other hand:

Europe: →

there will be no question of total self-sufficiency in Europe

We are the greatest net-importer of foodstuffs in the world.

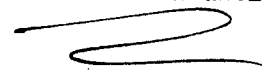
And with the good prospects of the expanding market in 1992 and

after: we will stay to be a big importer

But it is sure that the basket of products will be another.!

Real supply management will say:

being flexible and avoid to stick to out-of-date situations !



I have the impression

that the coming GATT-negotiations

are too much dominated by certain vested interests in trade.

and a lack of imagination.

Only a clear insight in the reality that will be ahead,

can help us out of to-day's difficulties

That is true for all partners.

.....—.....

