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ADDRESS BY MR. ARTHUR DUNKEL, DIRECTOR-GENERAL OF GATT
TO THE WORLD FARMERS CONGRESS, QUEBEC

Attached is the text of the address given by Mr. Arthur Dunkel,
Director-General of GATT, entitled "Trade-Related Agricultural Policies and
the Uruguay Round", in Quebec City on 1 June 1992.

Mr. Chairman, Ladies and Gentlemen,

It is a great pleasure for me to be here with you today. I have always considered that keeping open the communication channels and the dialogue between the people engaged in the Uruguay Round process and the representatives of the real world, like you, was an important goal. It is for that reason that I have wanted to attend your Congress, even though this has required some difficult adjustments in my schedule.

The dialogue in which we are engaged today is challenging for two main reasons. The first is that in my capacity as Chairman of the TNC, my partners are government representatives. And this is how it should be because the Uruguay Round is an intergovernmental negotiation. By communicating with you directly, I am going over the heads of the negotiators who, normally, are also your interlocutors. The second and more important challenge is that I will be led, in addressing you, to refer to the present stage of a long and difficult process of negotiation which is still to be concluded. While the proposals which are on the table represent common ground to a very large extent, at this stage they neither commit governments - though many support them - nor should they be considered as representing my views as an individual. Maybe, I will have the opportunity to make these views known in my next incarnation - why not as a farmer... Having said this, I have however to stress that I am in no way trying to evade my responsibilities as Chairman of the TNC. To the contrary, I am committed more than ever to fulfilling my mandate successfully.

This brings me to my next point, namely that the Uruguay Round is a single undertaking. The results are to be seen as an overall, integrated package. There is no "pick and choose". That is why for example, when meeting textiles and clothing producers a few days ago, I was tempted to discuss with them the stakes involved in agriculture or in rule-making. In the same way, I could have chosen to raise with you the challenge negotiators face in textiles, intellectual property or services, or any other important area of the Uruguay Round package.

And, after all, this should not be too surprising to you since the future of trade in cotton, leather or wool, is as important for the clothing industry as for agriculture. Isn't the protection of trademarks equally essential for both producers of processed agricultural goods and of clothing? The liberalization of telecommunications and transportation services will have an impact on the costs of marketing of both textiles and agricultural commodities. I might also add - and I shall come back to that point in more detail - that agriculture, but also textiles, has been the subject for many years of a derogation from the general rules of the GATT.

II

Having very briefly set the context in which the negotiations on agriculture have taken place, a context of political and economic interlinkages, or better said, a context of globality, the first question I want to address is why governments agreed to enter into a process of reform of trade in agriculture when launching the Uruguay Round.

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The answer to this question lies in my view in the combination of a number of factors:

- Firstly, the recognition that trade in goods - not to speak of services - should be seen as a whole. Since the comparative advantages of the different participants do not necessarily lie in the same sectors, all sectors of economic activity and international trade should be included in the overall process of liberalization.

- Secondly, the recognition that international trade in agriculture is plagued by trade restrictions and distortions, competitive subsidization, the displacement of efficient producers, policy-induced production surpluses and rapidly escalating support budgets.

- Thirdly, the recognition that to cope with this situation, strengthened and more operationally effective rules and disciplines in the trade policy field are indispensable. And,

- Fourthly, the recognition that the existing agricultural policies had generally failed to improve the living conditions of farmers and to integrate the agricultural sector into the mainstream of economic and social change around the world.

III

Therefore, when launching the Round in Punta del Este in September 1986, governments committed themselves to achieving the following objectives:

- one, all measures affecting access to markets and export competition were to be brought under improved GATT rules and disciplines;

- two, barriers to imports were to be reduced; and

- three, all direct and indirect subsidies and other measures affecting trade were to come under increased disciplines.

These objectives were confirmed at the Mid-term Review which took place in this beautiful Province of Canada in 1989. It was agreed on that occasion that the negotiations would lead to "substantial progressive reduction in agricultural support and protection sustained over a period of time".

The next important step in the direction of a reform package for agriculture was taken in February 1991. The negotiations which had stalled after the failure to conclude them at the Ministerial Meeting held in Brussels in December 1990, resumed on the basis of a consensus. Accordingly, firm commitments were to be negotiated in each of the main areas, namely domestic support, market access and export competition. This was done through intensive negotiations up to the end of 1991.

As you are all aware, the participants in the Uruguay Round agreed that, by the end of 1991, a Draft Final Act embodying the results of the work carried out in each specific area should be tabled. They also agreed that if negotiations failed to bridge gaps here or there, the Chairmen of the negotiating groups should take it upon themselves to offer balanced compromise solutions to the best of their ability. And, indeed, the Draft Final Act document contains, in certain areas - inevitably the most difficult ones - such contributions by the Chairmen. I must, however, stress the fact that the bulk of the Draft Final Act, including the text on agriculture, is the result of intensive negotiations.

The presentation of the Draft Final Act marks a turning point in the Uruguay Round. From then on the negotiations have become global which means that all interests at play are taken together with a view to ensuring a balanced result.

Contrary to what was alleged at a certain stage, no government has ever been asked to accept or reject the Draft Final Act. This is because a very fundamental part of the global package was, and is still, missing. By this I have in mind the market access negotiations in respect of trade in goods, including agriculture, and in services. Nevertheless, all participants recognize that the Draft Final Act sets the scene for the conclusion of the Round. It has given for the first time in the negotiating process the overall picture of the results which can be expected from the most ambitious round in the history of GATT.

I should like to compare this picture to the one you get from a polaroid camera - and, rest assured, I am not making a publicity campaign! The picture will get sharper as time passes, and not just in agriculture. For obvious reasons, public attention has focused on your sector - I am tempted to say my sector too, since I had the honour to chair the agriculture negotiations. But there are still other agreements to be refined in two or three other crucial areas, such as certain sectors of services trade.

IV

Against this background, let us now concentrate on agriculture.

First, some critics of the negotiating process tend to say that the Uruguay Round is forcing unjustified changes in national agricultural policies. The reality is that the world is changing, national agricultural policies are changing and they will continue to change with or without the Uruguay Round.

Over recent years, we have seen such diverse countries as Argentina, Brazil, Chile, Colombia, Mexico, Egypt, Ghana, Morocco, Nigeria, India, Indonesia and many others, engaging in major and sometimes painful economic policy reforms, including in the agricultural sector. Among developed countries New Zealand has dismantled its protection of agriculture; Sweden has overhauled its agricultural policies; Switzerland has recently announced a programme to the same effect; and, of course, there is now the

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agreement by the Agriculture Ministers of the European Communities to fundamentally reform the Common Agricultural Policy. And it would not be very difficult to add to this list of examples by including the Central and Eastern European Countries and the Republics of the former Soviet Union which are turning their back on centrally-planned systems.

All this is to make clear that the Uruguay Round negotiations are: (a) a reflection of the direction taken by reforms around the world; (b) a collective effort to anchor these reforms in a multilateral system of rules and disciplines; and (c) a means to make these reforms mutually supportive and mutually compatible.

Second, what then are the main features of the reform envisaged in the Uruguay Round?

Let me begin by noting that the 108 countries participating in the negotiations have recognized all along that the conditions and rôle of agriculture vary enormously among them. It would be futile and inappropriate to seek a uniform model of agricultural policy for all situations. This is not the GATT's job. The Uruguay Round negotiators have been basically concerned with the trade effects of policy measures, and with the reduction of trade distortions.

These considerations are reflected in the fact that domestic support measures in favour of agricultural producers are divided into two categories: trade-distorting support, or so-called amber policies, and policies which have at most a minimal impact on international competition. In the jargon of GATT negotiators, these latter policies figure in the so-called "Green Box".

As you are aware, according to the agricultural section of the Draft Final Act as it stands now, only amber policies would be subject to reduction commitments. In contrast, governments would remain free to implement any policies which qualify for the Green Box.

As it is currently conceived, the Green Box would cover a wide range of support measures. They include general government services, for example in the areas of research, training, disease control, infrastructure, environment protection and food security. But perhaps even more importantly from the point of view of the individual farmer, the Green Box also includes direct payments to producers, for example certain ("decoupled") forms of income support, structural adjustment assistance, direct payments under regional assistance programmes and direct payments in the framework of environmental programmes. In other words the overall level of income transfers to farmers could well remain untouched or even increase, if governments so wish.

Thus, the Green Box is in my view one of the most innovative elements of the agricultural proposals. It leaves maximum scope for governments to design agricultural policies in response to their specific and individual needs. It encourages a progressive switch from policies that support

prices to policies that support people, namely the rural community, which plays such an essential political and social rôle in every society.

The Green Box makes it possible for governments to directly support farmers in all their functions beyond agricultural production proper. The right it confers on them, for example to protect the landscape and the environment, is a "first", a "première". It amounts to an international recognition of the specificity of agriculture.

In other words, every effort has been made to concentrate the reform on limiting distortion through protection and support.

In respect of protection, the draft text proposes to replace quantitative restrictions and other non-tariff border measures by tariffs, it being understood that this change of instruments of protection would provide the same initial level of protection as before. The rationale for this proposal is to do away with forms of border measures which are not transparent, but are often discriminatory and iniquitous in their application.

I know, of course, that in the agricultural sector as well as in the industrial sector - as the history of trade negotiations tells us - there are always very good reasons to provide exceptions to a general approach. But having myself served a government and led negotiating teams, I also know that one exception leads to another and so on. This is the domino effect! The risks that it entails should be kept in mind by everybody as I have done myself.

Some people argue that in order to fight protectionism, it is enough to concentrate on measures at the border, such as tariffs, quantitative restrictions, etc. This is of course not the whole truth. It is perfectly possible to nullify the effects of any reduction of protection at the border through certain forms of internal subsidies. This is why the draft reform package also seeks to discipline the trade-distorting effects of internal support measures. To say it more simply, one country's internal market is part of the world market for its partners. And, this point is equally relevant in respect of policies designed to ensure that internal demand is met by domestic production, through the isolation of the national market from the world market at the import as well as the export levels. The argument is made that no interference occurs with a world market of which this national market would not form part. This approach naturally goes against the principles of international trade. If applied to all areas of economic activity, it would mean that we should close down the GATT! And by saying this, I am not fighting for my job, but for the jobs of all of those people around the world who engage in international trade for the greater benefit of producers and consumers alike.

But, enough about import restrictions. Let us look at the other side of the same coin, namely export subsidies. Here, the draft text proposes: (a) that all countries undertake not to introduce or re-introduce any export subsidies on products which did not carry such subsidies during the base period; (b) that existing export subsidies be reduced at a higher

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rate than internal subsidies covered by amber policies; and finally (c) that these reductions relate both to budgetary outlays and to the volume of subsidized exports. And of course, the commitments on amber policies are also meant to discipline support which indirectly affects export competitiveness.

I do not wish to leave this point without stressing that the commitment on the volume of subsidized exports is not at all aimed at freezing any country's exports at any given level. It only puts a new name to the game, more competition through efficiency and not through financial power. This means that exports of competitive agricultural products could very well grow even though the subsidies are reduced.

I am sorry to have imposed on you a review of some of the main features of the draft agricultural package since I am sure you have looked at it very carefully. I thought, however, that it was necessary to put a certain number of points straight, it being of course understood that I stand to be challenged, in line with my search for a dialogue with you.

Let me, however, not leave this overview without stressing the time factor. As you are all aware, the negotiators have worked under the assumption that the reform package being negotiated in the Uruguay Round has to be seen in a long-term perspective. The package of measures that the Draft Final Act proposes as a first step is to be implemented over a period of six years. Furthermore, a number of elements of flexibility have been introduced in respect of the access opportunities to be offered and the pace of the cuts in export subsidies. Finally, special safeguards are provided for.

The negotiators have also recognized that developing countries face particular problems in adjusting their output and trade patterns because of their less-developed physical and educational infrastructure. Therefore, in the case of these countries, the draft text provides for lower cuts in support to be phased in over a longer period of time, notably ten years. A special declaration contained in the package sets out objectives with regard to the provision of food aid, basic foodstuffs in full grant form, and of aid for agricultural development in net-food importing developing and least-developed countries.

V

Ladies and Gentlemen, let me now conclude by sharing with you some thoughts concerning the consequences of success in these negotiations - and of failure.

The Uruguay Round negotiations have sometimes been presented as negotiations whose main consequence would be to put in danger the future of agriculture and this for the sake of satisfying the interests of other economic sectors. I disagree with this extreme view. It does not correspond to the motivations, identified some minutes ago, which led

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governments to launch the Round. Nor does it fit with experience which demonstrates that if farmers' livelihoods are under threat, it is often because of existing policies. Market price support and protective barriers have proved to be an inefficient and in the long-run unsustainable way of bolstering farm incomes, especially for smaller producers.

The draft agricultural reform package is not meant to undermine the legitimate interests of the farming community. It calls - I would be the last to deny it - for structural adjustment in all quarters. However, rather than putting the farm community on the defensive, it seeks to establish new, predictable and market-oriented rules of the game, and this through a very gradual process. It is a vote of confidence in entrepreneurship, and, last but not least, would pave the way for more environmentally friendly modes of agricultural production.

For agricultural producers around the world, much as for producers in other sectors, agreement in the Round would offer new opportunities for investment, specialization and trade expansion. For many agricultural products, world market prices would tend to increase, thus offering better rewards for efficient suppliers. At the same time, price fluctuations on world markets for many agricultural products would be reduced as a result of an agreement because a broader world market would serve as a better buffer for unexpected production changes in individual countries.

And we should not forget, as I have noted in the beginning, that these agriculture-specific benefits are set in the context of a global agreement which provides for trade liberalization as well as improved rules and dispute settlement covering all major sectors of world trade. Farmers around the world would benefit from lower prices for fertilizers, pesticides, agricultural machinery and other inputs as well as from the boost to world income growth that would result from a successful Round. It has become increasingly clear that without an agreement on agriculture soon, all of this is in peril.

The costs of failure would be high. To the lost opportunities for economic growth, for budgetary savings in developed countries and increased export income in developing ones, must be added the costs of a possible sharp deterioration in the political climate of world trade. In this context it is noteworthy that of some 200 trade disputes brought before the GATT Council or specialized GATT bodies since 1948, slightly less than half have concerned agricultural products. Since 1987 the proportion of agricultural to all other GATT disputes has risen.

A number of potentially explosive agricultural trade disputes have been held more or less in suspense as long as the negotiations offered the hope of a comprehensive solution. If this hope remains unfulfilled, there is reason to fear a return to a cycle of subsidy wars, escalating trade barriers and retaliation, more savage than we have seen since the 1930's. The consequences would not be confined to agriculture.

What are really the obstacles to final agreement? As far as we know the substantive points at issue between major participants are not such

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that solutions cannot be found to them. The problem has at least as much to do with political perceptions as with the issues themselves, and thus it can only be resolved with a degree of political courage. However, given the multilateral character of the negotiations, an agreement among the major participants, while necessary for a successful conclusion, would not be sufficient by itself. Such an agreement would have to be acceptable to all other participants.

A successful conclusion of the Round is urgent. Policy-related uncertainty is among the worst enemies of economic actors who have to make investment decisions practically on a daily basis. This goes for farmers as it does for traders and processors of agricultural products.

In any event, the world does not stand still. GATT or no GATT, the structure of agricultural production and trade is changing rapidly. The choice is not between a GATT agreement and no change. It is between change in the context of a multilateral agreement, with the sharing of costs and benefits, safeguards, and an equity of treatment, and the much more painful unilateral changes that would become unavoidable sooner or later, under the pressure of political and economic necessity.