

NUR 065
14 September 1993

**URUGUAY ROUND TO BRING NEW OPPORTUNITIES, INDEPENDENCE AND
SUSTAINABLE MARKETS TO FARMERS, SAYS SUTHERLAND**

Repudiating Blair House at this stage is "simply not realistic"

"The Uruguay Round has the potential to open up new opportunities for farmers that wish a predictable and stable environment for genuine entrepreneurial agri-business...But if the Round fails, there is every likelihood that the foundations of agricultural policies in many countries would be challenged and subject to attack in the GATT."

This was GATT Director-General Peter Sutherland's message to farmers in a speech on 11 September in Dublin to the Irish Co-operative Organisation Society's Conference on the International Factors Affecting the Food Sector.

Sutherland stressed that a successful agricultural package could only be based, at this stage, on the Blair House accord between the European Community and the United States. To attempt to repudiate its substance at this stage was "simply not realistic." He pointed out that "Blair House took almost 12 months to negotiate and we have only three months left in which to complete all issues in the Round," he said.

The Director-General emphasised that the Round does not seek to reduce the income of farmers. It does not limit the subsidies a country may wish to pay its farmers to maintain their incomes or to encourage the population to remain in rural areas. Governments must simply ensure that the form of the subsidies is such that trade is not distorted, through excess production, for example.

He pointed out the benefits farmers would gain from a successful Round:

- **New opportunities for exports, particularly in processed food.** The Round package seeks to promote structural change towards more value-added agricultural products, and at the same time lower trade barriers to them all over the world, including the dynamic Asian markets.
- **Rapid improvements in world agricultural markets.** With the greater opening of agricultural markets, experts expect world prices to rise from the currently depressed levels. In addition, the existing volatility of agricultural prices would be diminished.
- **Return to the sustainability of agricultural markets.** The lowering of barriers along with stricter rules on trade should lead to a more predictable environment for investment decisions in which all elements of the agri-food industry can thrive. Farmers should again be in a position to supply goods that the market need rather than witness the tragic waste of producing for stock-piles.

"Do not be fooled into believing that the alternative to the Round is the status quo," Sutherland said. "It is not - not in agriculture nor in any other sector." A failure of the Round would inevitably lead to greater friction between countries, "and trade wars are not only damaging to industries, consumers and economies, but they are also a potential threat to political stability and security itself."

Sutherland said that massive governments subsidies to agriculture have failed to stem inevitable structural changes in the industry. He pointed out that despite subsidies:

- agricultural employment in the European Communities have fallen by almost half over the last 20 years;
- farm incomes have not substantially increased as the benefits of subsidies have gone mostly to suppliers of inputs such as agricultural machinery and fertilisers.

On the other hand, subsidies have led to wasteful surpluses like the "butter mountains" and "wine lakes" amidst poverty, and sometimes famine, in the developing world whose farmers have been shut out of the world market by industrialised countries' subsidies. Prices, through protection, have been artificially increased for consumers, while the farmland, lakes and rivers were being polluted by the overuse of fertilisers and pesticides. State control over price mechanism or subsidies in the agriculture was reaching a scale "that in effect eliminates the market," thus putting the traditional pride and independence of farmers in sad jeopardy.

Sutherland concludes: "The Uruguay Round is about managing change and gradual adjustment. For the business of farming, it offers a return to sustainable markets. For the farmer, it provides an opportunity to recapture the independence that comes with greater control over his own business."

The full text of Mr. Sutherland's speech follows:

MORE

**Address By Mr. Peter Sutherland, Director-General, GATT
to the Irish Co-operative Organisation Society's
Conference on the International Factors
Affecting the Food Sector**

Dublin, 11 September 1993

I

I congratulate the ICOS on its initiative on organising this conference today. It is important that the international impact of world farm policy and trade be subject to rational debate and analysis. Too often this debate has been conducted in excessively emotional terms with an exaggerated presentation of the consequences. Indeed, both the producer and consumer have more in common than is often realised since overall economic welfare is vitally dependent on a multilateral trading environment that will stimulate investment, growth and employment.

A successful conclusion to the Uruguay Round will bring considerable benefits. Recent OECD estimates have suggested that the global income gain from the Round could be as much as \$200 billion - and this figure does not include the gains expected from increased services trade. But apart from the benefits which would flow in specific sectors, an increase in business confidence would lead in turn to greater investment, economic growth and development and new employment creation. Clearly, this is vital for the all too fragile recovery in the industrialised economies, for consolidation of economic development in Asia and Latin America, and for the integration of the markets of China, Russia and Central and Eastern Europe into the global economy.

But it is crucial to understand the costs of failure. The benefits of the Uruguay Round are not simply an optional extra to which we can decide to say no without any other harmful consequences. The costs of failure are extraordinarily high. No country, not even any of the stronger countries, could readily bear the self-inflicted wounds of a breakdown. We should not be under any illusion: failure to reach agreement by the end of this year will immediately trigger growing tension in international trade and economic relations. Already, the number of disputes and potential disputes on hold pending the conclusion of the Round are considerable. Can anyone doubt that recovery, growth and employment prospects in the industrialised countries would be seriously jeopardised by a rash of unilateral punitive measures and retaliation that would trigger a series of trade wars? Moreover, unless effective trade mechanisms exist to integrate the markets of developing countries, Russia, China and the countries of Eastern and Central Europe into the global market economy, not only will there be an enormous loss of new economic and business opportunities, the resulting risk of political instability will create new uncertainties that will further dampen economic activity. The impact on political relationships between the various regions will not be conducive to increased international investment. This scenario uneerily reminds us of the 1930's - we simply must demand of our leaders that they avoid this disaster.

II

But what about agriculture? Some would like us to believe that agriculture will be a big loser in the Round -- I cannot share that view. On the contrary, the Round has the potential to open up new opportunities for farmers that wish a predictable and stable environment for genuine entrepreneurial

MORE

agri-business. Now is the time for looking beyond a narrow view of agriculture in the GATT and to look more broadly at the world before us.

It is sometimes thought that agriculture is and has been "outside" the GATT discipline. But this is not true. Not only does the GATT have teeth in the agricultural area but it has helped to find solutions to trade disputes that otherwise would have very adverse consequences for the farmers involved.

Nevertheless, in several respects agriculture is given special treatment in the GATT in that the rules have been applied in a less stringent manner than they are with other goods. The result has been high and increasing levels of protection afforded to agricultural production in many countries. But it has become apparent by now that these traditional approaches to agricultural policy have led to a political, economic, and, I would add, even a moral impasse.

Politically, over the last few years increasing tensions have emerged between the major players in world agricultural markets. Brushfire disputes that originate in one sector spread rapidly throughout the trading system. Almost half of all disputes brought to GATT since 1986 have concerned agricultural products although the sector accounts for only 12 per cent of world merchandise exports. The current negotiations serve at least to keep the lid on even more disputes. For example, without wishing to identify particular countries, I know that disputes are simmering with respect to sectors such as fruits, beef, rice and dairy products. Punitive measures and retaliatory sanctions are in nobody's interest; yet, it is remarkable how easily such disputes flare up into potentially devastating trade wars and how even sectors that are not directly concerned in the original dispute get sucked in.

Economically, protection has been notable in meeting one objective -- increasing food production from the low post-war levels. But in doing so it has been too successful. In many industrialised countries post-war food deficits have been replaced by surpluses. Phrases such as "butter mountain" or "wine lake" evoke an uneasy and graphic picture of waste.

Policies have not been as successful in meeting another objective despite the rising costs to national budgets -- that of stemming job losses in agriculture. Those employed in agriculture in the EC have fallen by almost half over the last 20 years. Land used for agriculture has also declined. This, of course, is not surprising. Rural labour has been moving to urban areas since the onset of the industrial revolution. The attraction of jobs outside agriculture will continue in all countries whatever agricultural policies are employed.

Even the goal of bolstering agricultural incomes has not been adequately achieved. Many of the benefits of the subsidies have merely gone to increasing land values and thereby rents and mortgage repayments. In many cases, input subsidies and price supports do not reach the farmers, but are captured by the suppliers of agricultural machinery, fertiliser or other inputs, or by those involved in the distribution of final product. Even the simple right to produce in the supply-controlled industries often has a value that defies common logic.

Environmental problems have arisen through the intensification of agriculture as a result of subsidies either designed to, or inadvertently having the effect of, increasing production. Woodland and hedgerows have been ploughed-up to increase the productive area of holdings, and rivers and lakes are polluted by the overuse of fertiliser and pesticides.

I would finally add that we have reached a moral impasse.

MORE

Despite food mountains in Europe, the United States and elsewhere, famine is a recurring problem in parts of the developing world. More broadly, almost all developing countries have suffered from the international effects of developed countries' agricultural policies. The governments of industrialised countries provide aid to developing countries, but at the same time limit the opportunities in their own markets for exports from those countries. Furthermore, Europe and the US, among others, use export subsidies that disrupt the world market for developing countries. They can even disrupt domestic markets in some cases by undercutting the prices received by local farmers and threatening their survival. When one sees the poignant TV images of famine in Somalia or the Sudan, "Trade Not Aid" becomes more than a slogan.

In the more developed countries such as Ireland there are also moral concerns. The prices paid by consumers in protected agricultural markets are considerably higher than those in more open markets -- often by a factor of 2 or 3. Inflated food prices are themselves a problem, but they have further ramifications. The effects of high prices fall disproportionately on those with low incomes. Those on benefits and pensions generally spend a larger proportion of their income on food. Hence the income left for the enjoyment of life -- as opposed to the maintenance of life -- is depleted.

This same situation even occurs on a national scale. The Irish, on average, spend over one-third of their income on food, beverages and tobacco while those in Germany, spend about half this figure. Irish agriculture benefits from Europe's Common Agricultural Policy, but as consumers we certainly pay for it.

The moral issue also faces the individual farmer who wishes to participate in a genuine entrepreneurial business. He or she too must feel a great sense of frustration. The role of farming and a traditional rural way of life is rightly prized as having important social, political and cultural value. This noble image of farming we all share surely comes from the high value we attach to farming as the activity that generates from the soil nourishment, a sense of local community and, above all, an independent business and livelihood. Farmers are rightly proud of their profession as a business. But is there not a risk that farming is ceasing to be a business in the sense that we generally understand the term? Most systems of state intervention in farming were conceived and justifiable as mechanisms to provide necessary demand/supply adjustments at the margin and to smooth out fluctuations arising from seasonal variations. But when state control over the price mechanism or subsidies reach a scale that in effect eliminates the market, is it any wonder that many farmers feel that the traditional pride and independence that are synonymous with their profession are sadly jeopardised?

To reverse these trends and begin to alleviate the consequences is a fundamental rationale of the Uruguay Round.

The challenge facing the countries participating in the GATT is to bring about a more rational agricultural trading system which at the same time offers the prospect of preserving the indispensable political, economic and social value of farming in our societies.

Other sectors too face their own adjustment process. Sectors such as textiles, steel, automobiles and electronics, also characterised in the past by intensive government intervention and high levels of protection, can only survive on a viable basis if they become more responsive to the market. Services that hitherto have not been subject to international trade rules are part of the global negotiations that constitute the Uruguay Round.

MORE

III

Reading some comments on the negotiations, one could be forgiven for thinking that the purpose of the GATT and the Uruguay Round was to wipe out the industry entirely. Nothing could be further from the truth. The Uruguay Round is not about a revolution in agricultural policy, but about providing a global framework for gradual evolution and structural adjustment. Above all, through its renewed emphasis on market-oriented mechanisms, it offers farmers opportunities to achieve greater independence in managing their business.

The Blair House accord between the European Community and the United States is often portrayed as an additional burden for farmers. But this is not the case. It remains at present a bilateral understanding negotiated between the two sides concerned. But if it is incorporated into the final conclusions of the Round -- and I cannot yet prejudge this process -- it will provide a stable global framework for policies aimed at alleviating the effects of adjustment such as the compensatory payments envisaged by the reform of the Common Agricultural Policy. The Round does not seek to reduce the income of farmers. It seeks mutual reductions of trade-distorting supports over a six year period. The Round does not even seek to limit the subsidies a country may wish to pay its farmers to maintain their incomes or to encourage the population to remain in rural areas. Governments must simply ensure that the form of the subsidies is such that trade is not distorted, through excess production, for example.

Most importantly, the agricultural package seeks to promote structural change towards more value-added products -- an important element for a country such as Ireland which is very dependent on the agri-food industry. The export subsidy commitments on processed agricultural products, for example, are less stringent than on basic products -- for example, there is no specific volume commitment. Another important element of the Round will be an increase in the security provided to products brand names throughout the world. For the processing industries that use imported inputs, lower tariffs should reduce their implicit taxes.

Producers will also be in a better position to pursue export prospects, particularly with respect to agri-food products. Indeed, the Round is the most promising way to penetrate the Asian markets which currently are among the most dynamic parts of the world economy. In these markets, quality is the over-riding factor determining choice and the potential for high value branded exports is enormous. The Round will also ensure that as other countries' economies improve, barriers will not be erected towards Europe's exports. Stated simply, those farmers that are able to produce and export quality products will be in a better position to broaden markets and to increase market share.

A successful Round should encourage rapid improvements in world agricultural markets. In the context of a greater opening of agricultural markets, a number of commentators expect world prices to rise from the currently artificially depressed levels. In addition, the existing volatility of agricultural prices would be diminished as the effects of sudden production changes, resulting from drought or flood, for example, are spread over a broader market.

As for products other than the processed products, the concept of total elimination of export subsidies is no longer on the table. A reduction of such subsidies and the quantity of product exported with them will be required, but over a six year adjustment period.

MORE

And the overall quantity of exports is not limited either -- the restrictions apply only to subsidised exports. With the opportunities resulting from the Round, along with product differentiation through quality and branding, unsubsidised exports to third countries should increase.

Remember too that trade within the European Community -- Ireland's exports to other EC members -- is not restricted in any way by the Round.

Enhanced market access abroad must go along with some opening of the market at home. However, countries will not be faced with massive floods of imports. Import prohibitions will have to be replaced by a tariff-based system, but the new system may provide, initially, an equivalent level of protection to the existing systems. This level of protection will be subject to a gradual reduction over a six-year period -- by no means a complete opening of borders to foreign products.

All of these elements do add up to one thing. The Uruguay Round will lead to a substantial improvement in the sustainability of agricultural markets. A broader market resulting from gradual improvements in access, along with stricter rules on trade, should lead to a more predictable environment for investment decisions in which all elements of the agri-food economy can thrive. Farmers should be able to develop a longer term view of their business prospects than has been the case in recent years. They should again be in a position to supply goods that the market needs rather than witness the tragic waste of producing for stock-piles. Processors will be able to plan ahead with more certainty and with greater efficiency through the reduction of the implicit tax on primary inputs. Less volatile world markets will enable exporters and importers to increase business opportunities at lower levels of risk.

The Round is a reform package; it represents an adjustment, albeit gradual, that is unavoidable. It provides time for adjustment -- time that can be used to seize new opportunities; new opportunities in other markets for exports as well as new opportunities in the Community's domestic market.

Many countries have made or are considering reforms in their agricultural policy since the beginning of the Round. Examples can be found in such diverse countries as Argentina, Chile, Nigeria, New Zealand and Sweden, to name but a few. For Ireland, of course, the reform of the Common Agricultural Policy is the most important event in this context. Put simply, unilateral reforms of this nature -- reforms occurring outside the context of the Round -- anticipate the adjustments required in the Round and remove or reduce the need for additional steps to be taken. Many credible analyses have found that the increase in market orientation involved in the sectors concerned reflects the types and magnitude of changes envisaged by the agricultural agreement.

Unilateral reforms such as the CAP reform illustrate too that the Round is not out of step with economic reality as is sometimes alleged -- rather it is a reflection of the cumulative thinking of reform throughout the world.

IV

I should like to return to some of the broader implications of the Round.

Do not be fooled into believing the alternative to the Round is the status quo. It is not -- not in agriculture nor in any other sector.

Many agricultural policies are open to question under the existing GATT rules. At the commencement of the Round, negotiators implicitly agreed, to the extent possible, to close their eyes to the practices of other countries that they considered were harmful to their interests in the expectation

MORE

that acceptable solutions could be found during the Round. A successful conclusion to the Round will include a peace-clause -- as long as countries meet the commitments to which they have agreed -- there will be little risk that others will challenge their policies.

But if the Round fails, there is every likelihood that the foundations of agricultural policy in many countries would be challenged and subject to attack. For the farming community, this would mean less predictability about the rules of the game -- with direct consequences for investment decisions and revenues. More broadly, controversies over environmental issues associated with over-production, over the burden of agricultural support on consumers and over the impact on developing countries would remain untempered.

In this scenario, a piecemeal approach would inevitably lead to greater friction between countries. And trade wars are not only damaging to industries, consumers and economies, but they are also a potential threat to political stability and security itself. An integrated world economy on the other hand leads to long term stability. It is very hard to consider hostile actions against a neighbour if much of your food or fuel or machinery comes, directly or indirectly, from that neighbour. History has shown us that trade wars, if left unchecked, can culminate in wider conflict. Conversely, trade is a powerful force for peace.

The emerging economies of the old centrally-planned bloc need ongoing, predictable trading relationships with the rest of Europe. Without a GATT agreement, the ability of the European Community to conduct a common external policy could be rendered less effective thereby threatening its cohesion on an issue fundamental to its existence. Those in other parts of the world too, particularly the developing countries that have undertaken major reforms in their economies and, in some cases, the functioning of their democracies, would be put at risk by a failure in the Round.

V

What then remains to be done to bring the Round to a successful conclusion? It is fair to say that the participants in the Round are very close to an agreement. That is not to say that all the problems have been solved and, of course, the remaining problems are some of the most difficult.

One outstanding issue is that of getting multilateral acceptance for the Blair House accord. It seems clear to the negotiators at this stage that a successful agricultural package can be based only on the accord. To seek to repudiate its substance at this stage is simply not realistic. Blair House took almost 12 months to negotiate and we have only three months left in which to complete all issues in the Round. Given the tight time schedule, we simply do not have the luxury to encounter major new blockages.

Details of the future rules for the world trading system are now being finalised in Geneva -- rules that in the future must apply to all equitably. Given the limited time available, now is not the time to introduce new elements into the negotiations. We are in the last lap.

Whether or not we will conclude successfully the Uruguay Round of multilateral trade negotiations will prove to be one of the defining issues for the world in the latter part of this century. And I say this not lightly in a decade which has seen the Iron Curtain crumble and in a week which has seen a heartening historic breakthrough in the bitter Middle East conflict.

MORE

For agriculture, the issues are clear. One way or another, change cannot be avoided. To seek to avoid change is unwise and ultimately counter-productive. The Uruguay Round is about managing change and gradual adjustment. For the business of farming, it offers a return to sustainable markets. For the farmer, it provides an opportunity to recapture the independence that comes with greater control over his own business.

END