

Impact of the Political Changes in Europe on Its Agricultural Policies

Report of the Seminar on

Impact of Political Changes in Europe
on Its Agricultural Policies

organised by
Ministry of Commerce
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Ministry of Agriculture and Cooperatives
in cooperation with
Thailand Development Research Institute

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Chapter 1

Introduction and Objectives

Introduction

Important developments are taking place in Europe. In order of decreasing probability, the following changes have taken place and are taking place in Europe:

(i) The incorporation of the former German Democratic Republic into the European Community;

(ii) The coming of the single market in 1992;

(iii) The creation of the concept of the European Economic Area and the possible expansion of the Community itself;

(iv) The reform of the Common Agricultural Policy (CAP) necessitated wither by constraints within the Community or by a successful Uruguay round;

(v) The incorporation of East European countries into the European Economic Area or even the Community itself

Objective

The objective of this conference is to gather the perspectives of the speakers who have expertized and broadly experienced in the political and economic policy of various countries, from Europe and U.S. This conference focused on the changes in Europe, both Eastern and Western, and the

problems in the Soviet Union which may have some impact on Thailand, especially on the most important sector of the country i.e. agricultural sector. Thai experts dealing to this topic were, also, invited to participate this conference whose perspectives would be synthesized to generate any effective economic policies or measures for Thailand.

The following is a list of speakers invited:

1. Lord Henry Plumb, former head of the National Farmers' Union of Great Britain and former Speaker of the European Parliament;

2. Sir Michael Franklin, former Permanent Secretary of Agriculture, Fisheries and Food, United Kingdom;

3. Monsieur Claude Villain, Inspecteur General, Government of French;

4. Dale E. Hathaway, Senior Fellow, National Center for Food and Agricultural Policy, Washington DC, USA.

5. Janos Nyerges, former trade negotiator, Hungary;

6. Alexandre Ivashtchenko, Head of Food Markets, All-Union Market Research Institute;

In addition, the Thai speakers in the conference are as follows.

1. Ammar Siamwalla, Prsident, Thailand Development Research Institute;

2. Surakia Sathirathai; advisor of a former Prime Minister;

3. Mytri Ungphakorn; Journalist

Chapter 2

Significance of the Conference

**Speech of H.E. Minister of Commerce,
Mr. Amaret Sila-on, at the Conference on
Impact of Political Changes in Europe
on Its Agricultural Policies
November 7, 1991
at Ballroom I, The Regent Hotel**

Excellencies, distinguished participants,
Ladies and gentlemen

1. It is an honour and a privilege for me to preside over the opening of this Conference on the Impact of Political Changes in Europe on THAILAND's Agricultural policies. It is also a pleasure for me to reiterate our warm welcome to Thailand to a group of eminent figures in the field of world agricultural trade policies from the International Policy Council on Agriculture and Trade, who will be kind enough to enlighten us on this crucial and most interesting topic.

2. This conference is both timely and relevant, given the relationship between political and economic policies, as well as the increasing economic interdependence among nations.

3. The events in Europe during the last two years have indeed been nothing short of dramatic. The centrally planned economies crumbled largely because of their inability to fill hungry stomachs and to provide decent prospects for

their future generations. With German reunification, and the disintegration of the USSR, the direction of change is now irreversible.

4. The question of irreversibility aside, the changes that have occurred in Eastern Europe and in the USSR have brought about, for the first time, real hope of a lasting peace. Secondly, these changes will send out both positive and negative signals to the entire world.

However, peace prospects and the impact brought about by these changes will very much depend on the manner and the speed with which the new regimes address their chronic economic ills.

5. The Eastern Europeans have shown they are capable of choosing their own political destiny through popular uprisings against authoritarian regimes. But as far as economic destiny is concerned, they will find it difficult to shape the future according to their own aspirations and preferences. Much will depend on the economic and trade rules being written in the Uruguay Round. That is where the new international trading framework will emerge. More specifically, the destiny and fate of these newly free countries will depend on the liberalization policies of the European Community.

6. High on the agenda of the European Community is what may be called "Single Europe, 1992." This momentous event

has triggered fears, here and elsewhere, of a fortress Europe, despite soothing voices from Brussels. But with historical links, geographic, cultural and social affinities, as well as European security considerations, it is not too difficult to discern EC sympathies, priorities and preferences, both political and economic, towards Eastern Europe.

Under that hypothesis, the negative impact will be felt by those outside the EC and Eastern Europe, particularly in a country like Thailand, which competes with Eastern Europe for investment funds and for markets for similar products.

7. Let me make it clear however, that my remarks are made without jealousy or bias against the Eastern Europeans and the newly independent states of the former USSR. I can sympathize with the hardship, the near-despair, and the arduous struggle for survival by the people of that part of Europe. But I am also mindful that the vast majority of the Thai population is not much better off despite efforts during the past and present administrations to develop our economy and despite visible economic progress over the past few years.

8. The Eastern Europeans, the Balkan states and the various republics of the Soviet Union are, of course, entitled to decent living conditions. It is time that we stop paying mere lip service to humanitarian causes. We must

take into account the human dimension when economic and trade policies are drawn up. This human dimension must now be extended beyond national boundaries to encompass the entire world community.

9. My understanding is that basically, Eastern European society, like Thai society, is still mainly agrarian yet with good prospects of further industrial development. If benevolent policies are not integrated into the agricultural import regimes of the major economic powers such as the U.S., EC and Japan and the NICs like Taiwan, sustainable economic development in Eastern Europe will not be easily come by. No policy could be more fair and benevolent than the liberalization of agricultural policies world wide.

10. It is all too easy to single out social ills in the developing countries, child-labour abuse, low standards of industrial safety, depletion of natural resources, rampant prostitution, and so on. All these are caused by sheer poverty, rooted in the inability of the agricultural sector to compete more freely in a truly open world market and, to use a favorite American parlance - they could not compete on a "level playing field".

11. The developing world, and of course Thailand, despite being efficient agricultural producers, is unable to compete and export to its potential markets because of unfair domestic agricultural policies, massive export

subsidies and market access barriers which have been integral parts of the rich countries agricultural policies for the last few decades.

12. We fail to see the logic of why a handful of producers in the western world are shielded from international competition at the expense of the hundreds of thousands of poor peasants in the LDCs. We are appalled at the notion that Japanese cars could penetrate every market year after year, but the import of rice is not allowed in Japan. We feel it is rather ironic that while calling for deep cuts in tariffs, EC import duties on Thai rice are maintained at around 200% .

13. The Farm Act, the Common Agricultural Policy, the restricted agricultural import regimes of Japan, Korea and Taiwan to mention but a few, can only be regarded as fair if the same sense of fairness is extended to other constituencies. If their farmers' livelihood are to be protected, their policy makers should also take into account the basic human requirements of other farmers in the poorer parts of the world. I am not asking for charity. I simply ask for the right to compete freely and fairly. I believe our farmers and the farmers in Eastern Europe, are tough and competitive. They may have less expectations of the good life than those of the affluent societies. But they are no less human than American, Japanese or West European farmers. They too have a right to a decent standard of living.

Ladies and Gentlemen,

14. I am not an expert on European affairs or international politics. I am simply trying to share with you my perceptions of the root causes of the major problems in the world today. With the expertise of the various speakers and participants, I am confident that this conference will enlighten us as to the impact of political change in Europe. I am interested in learning of your conclusions today so that the necessary policy changes in Thai agricultural trade can be intelligently formulated. Though contributing only 14% of our GDP, agriculture still remains the backbone of our society, employing 63% of our work force. Powerful changes in Europe, particularly in EC farm policy, will definitely affect US. Yet I believe that these political changes will yield positive results in the economic realm in the long run. I am optimistic that any changes that occur will be improvements on the current distortive agricultural policies of so many countries, and that they will bring relief and comfort to the peasants of the poorer countries who have suffered for so long.

Ladies and Gentlemen.

With these thoughts and with my best wishes for a successful meeting, I declare this Conference open.

Thank you.

**Report of the Seminar on
"Impact of Political Changes in Europe
on Its Agricultural Policies"**

1. The seminar was jointly organized by the Ministry of Commerce, the Ministry of Foreign Affairs and the Ministry of Agriculture and Cooperatives and Thailand Development Research Institute. The seminar was opened by H.E. the Minister of Commerce, Mr. Amaret Sila-on. Papers were presented by eminent figures in the field of world agricultural trade policies from the International Policy Council on Agriculture and Trade, which were highly appreciated by all participants.

2. In the opening speech, the Minister of Commerce reiterated the need for economic and trade liberalization policies of the major economic powers at this time of political changes in Europe. Failure could hinder the transformation and aspirations of the Eastern European countries. More specifically, liberalization of agricultural policies would allow free and fair competition denied to farmers outside the EC, the US, Japan and the NICs. In fact, many of the social ills in the developing countries are direct results of unfair domestic agricultural policies, massive export subsidies and market barriers in the rich countries.

Session I : Changes in Western Europe**Chairman : Lord Plumb**

3. Mr. Claude Villain outlined the goals of the single market and the effects on trade. The single market (SM) is a step further in the long way towards European unity. The final goal is no less than full economic and monetary union. After the successful establishment of the Common Market under the Treaty of Rome as achieved by the CAP and the common external trade policy, there remain internal barriers created by different national rules and regulations that make the EC far from being a unified market. Starting 1st January 1993, the trade of goods and services and the movement of capital will flow freely between the 12 member states without any border control and without any administrative or technical restrictions. The citizens of the member states will have the right to work and live in any country of the Community. This aims to increase technical and financial competitiveness and efficiency of European companies amidst increasing world competition, to generate growth and foster a more open trading system. Inevitably, third countries will face stronger competition from European firms but they also draw a great advantage from unified rules and standards in the markets of 12 member states. The food industry in particular should benefit.

4. Agriculture and trade in agricultural commodities are in a different situation. The CAP will continue to regulate agricultural production and trade and will not be affected by the SM. Other factors will influence CAP changes like international negotiations, new developments in central and eastern Europe, EC budgetary pressure and public pressure on growing surplus and environmental concerns.

5. In his view, difficulties with the EC for third countries like Thailand follow from other grounds than the achievement of the SM. The causes of tensions are the CAP, the MFA and intellectual property protection. Disputes over these matters await the outcome of the GATT multilateral trade negotiations.

6. Sir Michael Franklin dwelled in some detail of the current CAP reform proposals. In his view, pressure for reform comes in the following order: public criticism of the waste and inefficient use of financial resources and high food prices, environmental concern over the state of the countryside and international pressure. The proposed reform aims to lower internal EC prices and to end the isolation of EC prices from market competition. The momentous changes in Europe which have brought the former socialist countries in Central and Eastern Europe closer to the EC politically and economically could however slow down the pressure of reforms. Fear of competition from eastern Europe is

beginning to build up and this perception is unlikely to change. In the wider context of reintegration into the world economic system, Central and Eastern Europe will need access to markets especially the EC markets, for products they are already competitive. These needs have to be taken into account in the CAP future.

7. The EC is now at a crossroads. On the one hand, the existing 12 members are committed to a "deepening" of their economic and political relations. On the other hand, the EC is increasingly pressed to consider the unwelcomed question of further enlargement, in one form or other, by the upheavals in the Soviet Union and eastern Europe and the growing queue of countries wishing to develop closer trading and political relations with the EC. There can be several models of relations or some kind of "concentric Europe" with the existing EC members remain the "hardcore" of Europe, building around them concentric circles of countries with less ties. The European Economic Area offered to EFTA may not be suitable for Central and Eastern European countries. The question remains unanswered. How can it be done remains unclear. The mechanism for future European decision making also remains to be worked out.

Comments

8. Three issues were touched on. First, as the EC begins to work out future political and economic relations with the countries in Central and Eastern Europe, there appears to have at least 3 directions the EC can go - full integration, limited association or the so-called EC - third country type of relation. Each will have its own political and economic implications to the rest of the world.

Second, the entry into the world market system of Central and Eastern Europe with over 500 million people will have a significant effect on the world capital markets and movement of labour as seen in the impact of German reunification.

9. Turning to the CAP reform, the proposals aim at reduction of EC internal prices while compensating producers in the form of deficiency payments. Problems are foreseen as there is no incentive to reduce production (no "decoupling"). The set - aside mechanism is not an effective output control as the US example shows. Contrary to expectations, the EC may find the cost of CAP increase by a significant amount. It would have a modest positive on trade because it would remove direct export subsidies and would encourage more domestic consumption of EC grains. Import of grain substitutes will be less as the artificial

border protection is removed. However, the changes do nothing to increase access to EC markets as long as the CAP aims at self-sufficiencies or more and continues to pay producers well above world market prices to produce.

10. The effects on Thai exports have to be distinguished between agricultural commodities and processed products. The SM will not have direct effect on agricultural commodity trade like tapioca, rice or raw sugar, which is regulated by the CAP. For processed food like canned seafood, unified standards and regulations would ease the present complications.

Session II : Changes in Eastern Europe

Chairman : Dr. Ammar Siamwalla

11. Mr. Janos Nyerges outlined policy changes that have been taking place to build "democracy", "market economy" and "free trade" in former centrally planned economies. In the agricultural sector, transformation is going to be a very complex process. At the heart of the problem lies not only the absence of clear legal institutions on land, property and land use but also the lack of capital and knowledge of how a market economy functions.

12. In his view, access to Western markets especially EC markets is necessary to help the transition. Yet the

immediate prospect of access is rather small for agricultural products. It is a shock to these countries to find that while they are struggling to cut agricultural support, the West are arguing among themselves to keep their support system. There are signs that some sort of agricultural support system is being reintroduced in Eastern European countries.

Restoration of the traditional Soviet markets is now seen necessary as they are geographically natural markets for Eastern Europe. That involves certain problems however as the country is going through massive political and economic crises.

13. Mr. A. Ivashtchenko dealt with the situation in the Soviet Union. Political changes since 1985 have brought about the end of centrally planned mechanisms without the creation of a market system. The economy is in a deep recession in all sectors and the monetary and financial sector is out of control.

The agricultural sector inherits many problems from the old centralized system. Problems are compounded with the breakdown of the traditional ties between republics and regions and all government mechanisms previously responsible for supplies of inputs, procurement and distribution of products.

Privatization is proceeding slowly with the lack of clear property rights, marketing channels, processing and transportation networks. In fact, the whole system has broken down.

The breakdown of COMECON means the end of food supplies from eastern European sources and a complete reorientation of food imports. Massive foreign aid is needed for the reconstruction of the agricultural sector. Top of the list are foreign investment, favourable loans and market access for products that the Soviet Union has a comparative advantage, namely grains. Without coherent and coordinated Western assistance there will remain the source of instability and political problems for the whole world.

Comments

14. Changes in Central and Eastern European countries have brought about concern and uncertainty as most people cannot foresee how the events will unfold.

It now seems clear that these countries need much technical assistance, food aid, capital and a more liberal Western trade policy to rebuild a market economic system and to integrate their economies into the world trading system. Western Europe and Japan should play a leading role as they

have direct interest to maintain peace stability in the region.

Agriculture in these countries have been destroyed by the centrally planned economic system. Productivity is low and there has been so much loss and waste. The agricultural sector should be the first to benefit from the return to the market mechanism. Productivity improvement for Soviet agriculture could turn the country into a net food exporter, as it used to be and put the world agricultural trade in a different pattern.

15. For Thailand, changes have also brought opportunities and doubts. As these countries become more open, the opportunity for trade and economic relations will increase. Yet there can be diversion of interest away from Asia to Europe. In the long run, these countries may be competing for capital and markets.

16. There has been much interest by Thai business men to expand trade and businesses with these countries. They have however been discouraged by the lack of supporting banking and financial services necessary for normal business transactions. Payment is complicated by inadequate banking services in these countries. A tri-partite arrangement has been discussed. A barter arrangement is also recommended perhaps utilizing experienced Austrian firms.

Chapter 3

Analysis and Opinions of Thailand Development Research Institute Foundation

Analysis and Opinions of Thailand Development

Research Institute Foundation

Ammar Siamwalla

There are simultaneously two developments going on in Europe, in the West and in the East. These occasionally interact with one another, at least at the political level. But, ultimately, they have rather different impulses, and the impact on Thailand is quite separable, so my reflections will be separated into two different parts.

WESTERN EUROPE

The message that comes through very clearly from M. Claude Villain's paper is that the drive towards the single market within the European Community (EC) will have relatively little impact on *agricultural trade*. The major components of this exercise are in areas such as the harmonization of the value-added tax, the simplification of various regulations which may have become invisible barriers to intra-Community trade. These things are of secondary interest as far as agricultural commodities are concerned, and therefore its importance is relatively small.¹

¹ About five or six years ago, agriculture would loom large in discussions of the single market. At that time, different European countries have different price levels for agricultural commodities, even though the various administered prices were denominated at the same level in ECU terms. The device used was to allow member countries to use exchange rates different from the official rates, when they convert the ecu support prices to their domestic currencies (the green exchange rates). The price differences are then sustained by the payment of the

The standardization of regulations may have some positive impact on exports of *food products*, in that the unification of the regulations would help foreign suppliers to produce to specifications which are common to all European countries. Of course, this advantage is available to all potential suppliers, both within and outside the EC. Thai suppliers would most likely be competing with other non-EC suppliers (e.g. of seafood, canned pineapples). In this respect, there is no reason to fear that the competitive advantage of Thailand would be any worse than other countries.

The main problem may lie in the increasing complexity and the need to lobby the regulators, because now the regulations may have impact across all 12 member-states rather than each one, putting at risk a larger volume of trade.

The main argument in favor of the single market, M. Villain suggests, is the increased income of arising from the greater efficiency of the European economy, which the EC Commission estimated to be between 5 to 7 per cent one-time gain.

Turning now to the issue of the incorporation of other Western European countries (i.e. the EFTA countries) into the European Economic Area, the main conclusion drawn by Sir

monetary compensation amounts (MCAs) at the borders between member countries.

Michael Franklin was that although most of these countries would be keen to become full members, the EC would prefer to keep them in some sort of associate status. The tide of events for the EC has simply been overwhelming, and there will probably be considerable delay before they become part of the Community.

By far the most important impact on agricultural trade will come neither from the expansion of the Single European Market, nor from the expansion of the European Community to other Western European countries, but from the impending reform of the Common Agricultural Policies.

Both M. Villain and Sir Michael stress that the main motivation for the proposed reform does not come from outside. In particular, it does not arise from the U.S. pressure in the GATT round. There are two main reasons for the pressure: one is the budgetary constraint; and the other, and this is certainly very significant, is the increasing unpopularity of agriculture, which is now perceived as a major polluter.

The proposed reform is certainly very profound. It is expected that support prices for cereals will be brought down by 35%. This will bring cereal prices in the EC to very near world price levels. If this is the case, the incentive of European feedmills to use cassava would disappear.

Very many details have still to be worked out. In particular, what sort of compensation will have to be paid to farmers to replace their lost income from the falling prices. But these details will have little impact on cassava demand, which is expected to fall drastically.

One point needs some stress. The reforms that are being discussed concern solely cereals and beef. We have said that the impulse for the CAP reform does not come from the need to accommodate the U.S. in the GATT round. However in the GATT round itself, the EC is presenting the reform to the U.S. (whom it seems to consider to be the only negotiating partner on agricultural issues in the GATT round) as the most it can do, and it is ignoring the interests of all the other contracting parties.

This of course is the least satisfactory solution from the point of view of Thailand. The cereals reform would of course hurt the cassava trade, indeed to the point of near extinction. There will be some benefits in terms of higher cereal prices for the maize and the rice sectors,² but this would be insufficient to offset the loss on the cassava trade. The key for Thailand is sugar. As a heavy protector of sugar, EC has shifted from the status of importer to major exporter, thus depressing prices in the free world market. As Thailand's exports go almost entirely to the

² Rice is sometimes considered as part of cereals in the EC, but in many regulations it has a special status.

free market, this extra supply from the EC works directly against Thai interests. The speakers argue that sugar does not feature in the CAP reforms, because the policy cycle requires the issue to be raised in 1993. Even then, the pressure for reform in sugar will be considerably less, as the current system of support (broadly similar to what we have in Thailand) is self-financing. Furthermore, in the GATT, if the EC and the U.S. are going to settle the issue among themselves, both have a clear interest in ignoring sugar.

EASTERN EUROPE

Two papers were presented, one on the smaller Eastern European economies, and one on the Soviet Union. Although the scale of the problem are different, somewhat similar conclusions can be drawn. I shall divide the discussion in two parts pertaining the transition period and the long-term.

Transition period: All the countries face enormous problems in the transition period, primarily a severe shortage of capital that will enable private farmers to acquire and work the assets (whose value is also doubtful). In Eastern Europe, there is an additional problem raised by the claims of the former asset-owners which have to be sorted out.

The transition period will be particularly painful in the Soviet Union. First and foremost is the dissolution of the Union itself, which is becoming inevitable. The second is in the financial sphere, with hyperinflation a most likely possibility. In agriculture, production this year has fallen relatively to last year's, mostly due to increasing chaos in the distribution system. The breakdown in the monetary system is increasing the demand of grains for hoarding. In any case, while the U.S.S.R. will probably need to import 40 million tons of grain this year, it is unlikely that it will have the wherewithal to buy it in the commercial markets.

Long Term Outlook: Eastern Europe and the Soviet Union have always had the basic comparative advantage in agricultural production, particularly for cereals, as evidenced by their exports in the pre-Communist era. There are two questions that need to be asked: how far away is the "long term", and when that time comes, how much of these countries' exports will be artificially boosted by subsidies.

There is no clear answer to the first question, particularly for the Soviet Union. For the smaller Eastern European countries, one can expect about a 2-5 years' transition period (starting from now). All of these hinges on the question of what Western European countries will be

doing to their agricultural policies, because obviously, they will be the major market for Eastern European produce.

The attitude of Western Europe will also be important as far as the use of subsidies is concerned. Already protection is being offered to the agriculture sector in Eastern European countries. They do not see why they should accept the dictates of the markets when their more capitalistic neighbours to the West do not. Clearly if their main market will be in Western Europe, the pressure on their governments to match the protection in the West would be irresistible.

Chapter 4

Papers and Comments

Single Europe in 1992

Claude Villain

Introduction

First of all, I would like to thank you for inviting me to attend this seminar. It is a great honour for me to speak in Bangkok today. But it is also a difficult task which I have now to fulfil.

The topic I have to deal with is 1992. Or, in clearer words: What is the European single market?

It is difficult because a lot has already been said about this event, by politicians, journalists and the so-called experts, and perhaps what you have listened to was not absolutely accurate.

For example, 1992 is a wrong figure, because the single market will begin only on January 1993. It is the most simple mistake made about the single market. We will see together that a lot of more important misunderstandings do exist about this issue.

I would divide my presentation in three parts :

- 1 - What are the main objectives (goals) of the single market?**
- 2 - What changes does the single market mean for the members states of the European Community?**

3 - What will be the consequences for the countries outside of the Community, which we call in our European and technocratic language, the Third Countries?

The main purpose of the single market.

In 1986, the EC decided that the free circulation of goods, capital and people had to be achieved between the 12 members states on January 1993.

At this deadline, the trade of goods and services and the movement of capital must be completely free between the members states, without any control at the border and without any administrative or technical restriction.

Likewise, citizens of the members states will have the right to work and live in any country of the Community, without any need of administrative authorisation.

Some of you, if not all, know that the Common Market, created by the Treaty of Rome in 1957, had the same purpose.

You know that the EC has already achieved a great deal of unification through its political institutions and common policies.

For example, the EC is a trading power and a single partner in the GATT talks. The EC has also developed a well-known Common Agriculture Policy.

When your representatives talk about tapioca, their counterpart is the European Commission of Bruxelles,

speaking on behalf of the member states, but not the members states themselves.

You are not wrong.

The main goals of the single markets are identical to those of the Common Market. But the fact is that a lot of internal barriers - related to differences in taxation and technical standards, and to monopolistic laws and internal legislation - remain in place and prevent the Community from a truly becoming united market.

We phased out between us our customs duties 25 years ago, but our lorries are still obliged to stop at the border because VAT (our main indirect taxation) is not the same in the 12 members states, and also because the rules for transportation are different: a German lorry can bring German goods into France, but on its way back, It may not carry any freight between two points in French territory.

Up to now, and in spite of the CAP, it is sometimes difficult to trade processed food products between 2 members states for reasons of standards or health.

In reality, those national laws which remain 30 years after the Treaty of Rome have a common root. It is the protectionism of member states who try to defend their national markets with technical or legal barriers instead of the custom duties abolished in the Sixties.

These barriers are not limited to commercial activities. In the financial sector, for example, it is quite impossible for a citizen in a member state to sign a life insurance contract with a company based in another country.

Some member states forbid borrowing or buying other European currencies if it is not for trade purposes.

Other examples could be found in matters of intellectual activities, like lawyers, doctors, engineers, who may not perform their jobs in other countries because their academic titles are not valid outside their homelands.

I quote today only some examples. I could develop a long list of them.

In short, I would say that up to now the EEC is a custom union with some common policies, mainly the CAP and the external trade policies, based on a common tariff vis a vis Third Countries. But it is not really an united internal market.

As limited as it is, the EEC has been a tremendous success. Trade between its member states accounts for 60 percent of its total trade volume.

More and more, European companies develop technical and financial links with their European partners.

Last but not least, a spirit of economic and political co-operation has replaced the fighting spirit which dominated 10 centuries of European history.

Nevertheless, the achievement was not complete.

Vis a vis the increasing economic competition from the United States, Japan, and newly industrialised countries like yourself, Korea, Taiwan and Brazil, the 12 heads of government decided to elaborate for 1993 a true single market.

To reach this target, it is necessary to phase out all of the internal barriers, some of them I referred to. The EEC Commission calculated that 300 regulations have to be passed and approved by the European institutions to eliminate these barriers or to harmonised national legislation.

To improve the chance of success, the heads of government decided to change the decision-making process. Instead of adopting the European regulations only unanimously, they accepted, for most of the matters, the rule of the majority.

And today, 14 months before the deadline, I can say that the target will be reached, perhaps not completely but at a level of 90 or 95 percent.

What changes does the single market mean for the member states?

The main result of the single market will be an improvement in the competitiveness of European firms and, as a consequence, of the European economy as a whole.

From an economic point of view, the phasing out of the internal barriers will produce different effects.

It will favour economies of scale.

The firms will develop their research, development and production efforts to supply a market of 340 million people (in fact, 380 million with the new (EEA)).¹

As we have seen, the different internal markets are so protected that, for example, public procurements are in fact reserved to national firms. It is too expensive today in some sectors of production (electricity, mechanics, engineering) to develop production adapted to different national standards.

This aspect is very important for all investment goods. As regards consumption goods, the harmonisation of standards will benefit the European manufacturing industry by decreasing costs.

¹ The European Economic Area brings together the 12 member states of the EEC and the 7 members of the former EFTA (Norway, Sweden, Finland, Iceland, Lichtenstein, Austria and Switzerland).

In general terms, the allocation of resources will be improved through a greater mobility in production factors.

For example, the unification of financial markets will develop opportunities for saving and borrowing throughout the Community. People able to freely transfer their capital and savings will look for the best profits. On the other hand, - In contrast firms will have greater possibilities to finance their investments by issuing shares or bonds on the market place of other countries.

In a broader sense we see that the single market will encourage competition. At the outset, firms will benefit from a larger market, decreasing their costs and increasing their margins. But it is also clear that stronger competition will lead quickly to pressure on prices and benefits for consumers.

The process of the single market is a change at the micro-economic level, at the first step. Then, via a combination of interrelated effects, the final result is, at the macro-economic level, an increase in the growth rate of the global economy.

Let me say that this tough competition will, as usual, profit only those firms and regions or member states of the EEC able to survive, or in other words, those who develop their research, investment, production and marketing in the most efficient way.

As regards agriculture and agro-business industry, we have to distinguish between agriculture and livestock on one hand, and the foodstuff industry on the other.

Agriculture and livestock production are, up to now, regulated by the Common Agriculture Policy, and not by market forces.

So the single market and the adaptations involved will not automatically bring about changes in the definition or management of the CAP.

Actually, the evolution of the CAP will depend on other factors such as:

- international GATT negotiations,
- new developments in Central and Eastern Europe,
- budgetary pressure at Community and member state levels.
- European public dislike for surpluses and for the environmental consequences of the CAP.

The prospects are quite different for the foodstuff industry. As noted earlier, a lot of internal barriers remain in place for health or standards reasons. The phasing out of these protectionist regulations will provide new opportunities for dynamic firms to develop sales markets outside their national borders.

In any case, the economic consequences of the single market on prices and competition will impact on the agro-food industry, as well as on other sectors.

Already, the movement of merging and forming associations, which has grown between European companies in the last 5 years, is very important to the agro-industry. The firms are preparing themselves for the fierce competition which will occur after 1993.

What will be the consequences for the Third Countries?

The single market has been too often presented as a threat against Third Countries.

It has been depicted as 'Fortress Europe'.

The reality is quite different for a lot of reasons.

First of all, we should recall some figures about the world trade of goods.

In 1989, the EEC accounted for

36 per cent of world export

37.7 per cent of world import

EFTA at that time had an export share of 6.04 percent.

But if we consider the volume of trade by destination or origin, we see that for imports, for example,

57 percent of EEC imports come from the EEC itself

10 percent from EFTA countries and only 33 percent from the rest of the world.

As regards exports, the figures are

60 percent within the EEC

10 percent to EFTA

30 percent to the rest of the world.

So, the integration of Europe is already a fact and the single market will not change significantly the orders of magnitude except for some sectors.

For services, the situation is rather different. The EEC represents about 50 percent of the world value of exchanges in services. But as the Community market is not yet really united, 60 percent of export of services by the EEC are addressed to Third Countries.

More precisely, as regards trade in food products, the rest of the world (outside the EEC itself and EFTA countries) receives only 24 percent of Community exports and supplies 33 percent of Community imports.

I am deeply convinced that the single market will not basically change the current flows of trade in agricultural commodities for the several reasons I have already noted:

- integration between EEC members states has already been achieved by the CAP;

- trade in agricultural commodities is more regulated by CAP and GATT rules (or GATT practices) than by market forces; and

- large part of the commodities imported from Third Countries is needed for agricultural or technical reasons (coffee, cocoa tropical fruits and, partly, oil seed); they cannot be stopped and replaced by European products.

For processed food products the situation is different. The reinforcement of European firms, through a larger market and an increased competitiveness, could push them to become more aggressive in the world market. But we have also to bear in mind that some of the largest European firms are multinational companies, whose strategies are already at the world scale.

However, as stated earlier, the removal of artificial internal barriers will provide the European foodstuff industry with greater opportunities to produce at lower financial, industrial, marketing and advertising costs. (I exclude the cost of agricultural raw materials which depends on CAP factors).

We can expect then that the European companies will be in a stronger position to compete with other countries, especially with American firms and American processed food products.

Should Third Countries face stronger competition, they will also draw great advantage from the single market.

Up to now, when a company has to export to Europe, it has had, like the European companies, to adapt its production to the different rules and legislation of the 12 member states.

Tomorrow, like the European firms, they will profit by a united market with united rules and united standards.

Today, if a Thai bank wishes to create a subsidiary in France, Germany or the United Kingdom, it has to comply with several pieces of legislation.

After 1993, the bank or the insurance company which has the right to operate in a member state automatically will have the possibility of delivering its services in other member states.

CONCLUSION

'Fortress Europe' is a wrong concept, conceived by some American interests.

The reality is absolutely the opposite.

The single market is only another step on the long way towards European unity.

No one would reproach the United States for having phased out some fiscal or technical barriers between

California and New Jersey. It is a bit the same for the single market.

As I said before, the new measures of liberalisation between member states will be profitable also to Third Countries. And in this sense, the single market is a progress towards a more open trading system.

The difficulties faced by Third Countries, like Thailand, in their relationship with the Community, follow from grounds other than the achievements of the single market.

The causes of tension between us are the CAP and the MFA (multifibre agreement).

On the other hand we in Europe think that some Third Countries are protectionist for services do not play fair in matters concerning counterfeit goods and intellectual property.

All around the world, we have to settle our disputed during the GATT negotiations. For our part, we have also to reform the CAP. But negotiation is negotiation, like business is business.

At the negotiating table, it is impossible to have winners and losers. Everyone has to give-and-take, otherwise there is no possibility of a successful conclusion.

You also have to bear in mind that the single market is not the last step on the long way towards European unity. It is a milestone. The next milestone will be, at the end of the century - in fact tomorrow - the establishment of a single currency for Europe. When this event happens, you will not have to fear new dangers. Quite the opposite, it will be good news for all nations. It will mean that the international monetary system is more stable and no longer dominated by American and Japanese economic and monetary policies.

**THE IMPACT OF POLITICAL CHANGES IN EUROPE ON ITS
AGRICULTURAL POLICIES**

Sir Michael Franklin

Closer integration in the European Community

When the political map of Europe was abruptly changed at the end of 1989, the European Community (EC) was preoccupied with its own internal organisation. Following a period of stagnation in the early 1980s, the EC had galvanised itself into a period of intense activity. At the heart of the new agenda was the plan to create by the end of 1992 the truly single market which the architects of the EC had always intended but never achieved. That programme is well on the way to fulfilment but there will still be work to be done long after the end of 1992 to remove all obstacles to the free circulation of goods, capital, people and services throughout the whole EC. Once the 1992 programme was on its way, the Community turned its attention to other long-standing sores and achieved some useful improvements in getting the Common Agricultural Policy (CAP) under better control and in relation to some of the inequities and inadequacies of its budgetary system. Flushed with these successes and eager for more, the EC Commission - encouraged by the European parliament and most of the member states - began to plan the next leap forward. This was to be no less than full economic and monetary union

(EMU) and what were widely felt to be the necessary accompanying steps towards a political union (whatever that term turns out to mean).

Thus were borne the two intergovernmental conferences of the existing member governments - one on EMU and the other on political union - which are due to produce draft treaties which the heads of government can endorse - or argue about - at the European Council meeting in Holland next month. It seems likely though not certain that compromise deals will be struck on both subjects. Germany has made it clear that it will not agree to EMU unless there is agreement on political union. The broad outlines of the agreement on EMU are already clear. The Community will move fairly rapidly from its present position to a preparatory stage in which currencies are locked more closely together, the co-ordination of economic and budgetary policies will be more intense and some embryonic European central banking system will be set up. The Treaty will clearly envisage the eventual movement to a single currency - the ecu. The difficult part of the negotiation is determining the conditions for the move to the single currency: some countries do not want to go at the pace of the weakest economy, some countries do not want to be left behind, and Britain (because of its obsession with parliamentary sovereignty) wants to leave the final decision to a later British parliament. With a single currency goes a single

European central bank but just how independent it will be of national governments is another contentious issue. It thus seems reasonably certain that Europe will have a single currency one day but not for some years.

The negotiations on political union are more complex, less advanced and the subject of many cross currents. At one extreme, Germany and Italy are keen to increase the powers of the European parliament and are ready to see the competence of the EC extended to other areas, notably foreign policy and security. At the other end of the spectrum stands Britain which prefers to leave security questions with other European organisations, wants foreign policy to remain a matter of co-operation between the states, is not keen to extend the competence of the Community and opposes giving much more power to the European parliament. On some but by no means all of these issues France has the same attitude, but what is likely to determine the shape of the final outcome is what sort of deal the French and the Germans can strike. The Franco-German alliance has long been a potent force in determining the direction of EC policy.

Upheaval in the Rest of Europe

Into the midst of all this intense internal activity has come the dramatic course of events in the Soviet Union, the unification of Germany and the overthrow of the

communist dictatorships in Central and Eastern Europe. The speed and unexpectedness of these events have left everyone reeling.

From the point of view of the EC, it was the collapse of the Berlin Wall which had the most immediate impact. Once it became clear that the East Germans wanted to unite with their West German brothers and sisters, the die was cast. As soon as the two parts of Germany became one, the former East Germany automatically became a part of the EC. Memories of the Second World War caused disquiet at the prospect of a strong and united Germany again but the German government was assiduous in assuring the other member states that Germany intended to remain a good Community partner. These political fears were also assuaged by the realisation that the process of economic integration was going to be much more difficult and expensive than the first optimistic assessment. As a result, the German budgetary position has drastically worsened and the DM has ceased to be the strongest currency in the EC. This has probably made agreement on EMU easier. The decision to join the two currencies at parity may have been politically necessary but it has certainly rendered much of East Germany's industry uncompetitive. The process of industrial privatisation has thereby been rendered more difficult. The process of transferring land to private ownership is also proving to be a tricky one. East German agriculture was historically very

productive but under communist rule became inefficient and overmanned. The social desire to break up the large farms created by the communists is now doing battle inside Germany with the economic desire to avoid recreating the small-farm size which has made much of West German agriculture so inefficient. Eventually, Germany may find itself, like France, with an efficient agriculture in the North and a relatively inefficient agriculture in the South. What effect this will have on German policy towards the CAP is an interesting speculation.

The Soviet withdrawal from Central and Eastern Europe opened a veritable Pandora's box of fresh political, social and economic aspirations. Political pluralism and a free market economy became the order of the day. All looked towards the evident prosperity and technical advance of Western Europe as their new goal. Most have expressed a wish to become members of the EC. First in line come the three countries of Eastern Europe which are most advanced along the tricky path of conversion from centrally planned dictatorship to democratically run market economy - Poland, Hungary and Czechoslovakia. As a first step, they are currently negotiating special trade arrangements with the EC which have run into difficulty because of the EC's reluctance to concede adequate access for textiles and agriculture - the areas in which these countries have comparative advantage.

Still further off from eventual membership lie Bulgaria and Roumania, but the EC cannot be indifferent to the struggles they face in making the transition. In the Balkans, the withdrawal of Soviet hegemony has brought to the surface long-standing but suppressed ethnic and tribal rivalries. The current disintegration of Yugoslavia is the most obvious symptom but one of the reasons that the EC has been so active in trying to secure peace has been the anxiety that the disputes will spill over into neighbouring countries, including Greece, an EC member.

As a result of the break-up of the Soviet Union, there are some states geographically closest to Western Europe, like Georgia, Moldavia and even Armenia, which may well seek to develop closer links with countries whose neighbouring countries are or are likely to be EC members. There is even talk of an independent Ukraine, a country the size of France, possibly wanting to join the EC.

The European Economic Area

While all this turmoil has developed to the East, the EC has been dealing with its nearest neighbours, notably the members of the European Free Trade Area (EFTA). The EC has for some time had close trading relations with the EFTA countries but when one of them, Austria, decided to apply for full membership of the EC, the Commission proposed instead the creation of a European Economic Area (EEA) which

would share with EFTA most if not all the economic characteristics of the EC without the political and institutional obligations of membership. Negotiations to that end have continued for some time but, not suprisingly, have run into difficulty. From the EC's point of view, it looked like a device to avoid or at least postpone the unwelcome question of further enlargement. To some EFTA countries, like Austria and now Sweden, it looks a less attractive option to full membership. Even to Switzerland, which has always been most attracted by the commercial advantages of membership and most concerned lest its neutral position in Europe should be prejudiced, the attractions of the EEA now appear less evident. Norway cannot make up its mind whether it wants to apply for membership (again) or not. Other non-EFTA countries have applied to join the EC as well. In particular, Turkey's application has caused the EC some embarrassment, given on the one hand its strategic position in Europe and on the other hand its human rights record, its different cultural and religious background and its very low standard of living. The EC is likely to procrastinate.

EFTA or the EEA hold no attraction for the countries of Eastern Europe. They do not all want to embrace and certainly could not stand the competition from the free-market system personified by EFTA or the EEA. What they want most of all is political integration with the West and

that means membership in the EC however long it takes to get their economies into a fit state.

The EC's Dilemma

Thus the momentous changes elsewhere in Europe have brought the EC to a crossroads. Despite the important differences among themselves, all 12 of the existing EC members are committed to a steady deepening of their already close economic and political relationships. That is their agenda. But there now is a growing queue of countries wishing to take up the EC'S contractual commitment to allow any other European country to join their ranks. Once Greece and then Spain and Portugal had thrown off their undemocratic systems of government, they were welcomed into the EC despite of their economic backwardness. That enlargement of the Community has been accomodated with remarkable ease. But the changes in the USSR and Eastern Europe are of quite a different order. The EC can no longer monopolise the term *Europe*. Instead the EC has to find a way to reconcile its old, sometimes introverted, preoccupation with West European integration with the challenge of political and economic reconstruction across the continent.

How that is to be done remains unclear. Should the existing EC members remain the 'hard-core' of Europe, building around them concentric circles of countries with lesser ties? Can the decision-making processes of the EC be

strengthened sufficiently to absorb a gradually increasing - perhaps substantially increasing - number of new member states? Where would it be reasonable to draw the line around an enlarged EC?

It is hardly surprising that the debate about these issues has hardly begun. There is uncertainty at every turn. While the Soviet military threat which constituted the Cold War has disappeared, there remain many potential trouble spots in and around Europe to make security issues of continuing concern. Europe's ability to react to an event like the Gulf War is the subject of serious debate. New-found political freedoms are not irreversible. The traumas involved in changing the economic systems in the ex-communist countries will certainly produce political instability as events in Roumania demonstrate. Economic distress or ethnic unrest may trigger massive movements of people. Migration is likely to be one of the major issues for Europe over the next decade.

The Implications for European Agriculture

The current proposals for reforming the CAP are only the latest in a long series of efforts to remove the perceived defects in the EC's agricultural policies. More radical than some of their predecessors, they would nevertheless leave the basic framework of the CAP intact. The Commission has felt constrained to put these ideas

forward for three main reasons. First, public opinion in the EC has become increasingly critical of the CAP's evident weaknesses. It puts up the price of food. It creates surpluses which are unsaleable except at knock-down prices. It swallows a disproportionate share of the EC's budget. It gives the EC a bad name internationally. And, in addition to all that, it fails to achieve its principal objective of maintaining farm incomes.

Secondly, concern over the environment has greatly changed attitudes towards agriculture. By many it is seen as a major polluter, destroyer of natural habitat and a despoiler of the countryside. As the awareness of the scale of the environmental problem has grown, and the pressure groups correspondingly have become more influential, the power of the farming lobby has declined - though it still remains much stronger than agriculture's contribution to GNP would ever suggest.

Thirdly, comes international pressure. Changes to the CAP in the past have followed internal pressure and most attempts in the GATT to discipline the CAP have been unsuccessful. In the Uruguay Round, it has been recognised from the outset that agriculture would play a dominant role. It may be doubted whether propaganda by the Australian Government addressed to the consumers of the EC will do more than irritate. But the realisation by other important economic groupings in the EC that their ability to secure

the GATT reforms which they seek is being prejudiced by the EC's meagre response in the agriculture negotiations and is putting some pressure on EC governments. Nevertheless it remains likely that what Agriculture Ministers can decide among themselves will set the boundaries of the EC position in the GATT, rather than the other way round.

So far, the revolutions in Eastern Europe have served more as a break than a stimulus to CAP reform. Farmers fear that they will to face new competition from Eastern Europe and are therefore more reluctant to see their government offer international concessions. This perception among farmers is unlikely to change even though the threat of competition in their own markets may be less than the prospects for sales as the states of the Soviet Union and Eastern Europe improve their ability to pay for much needed food supplies. For the moment, food aid is bridging some of the gap between need and ability to pay.

The need to improve the efficiency of agriculture in the Soviet Union and in the newly - democratic countries of Central and Eastern Europe is self - evident. Agriculture can and probably should spearhead the necessary economic reconstruction. To do so it will need resources and access to markets, especially the EC market. How far the EC is prepared to help remains an open question. But these needs ought to be taken into account in the discussions about the future of the CAP. Up to now, they have not been.

Policy Developments in Eastern Europe and the USSR

Janos Nyerges

Policy Developments in Eastern Europe

I was always against the term "Western Europe" as an indicator for practical policy considerations. It gives a general view which is not telling more than the view of the Globe for a traveller who has to organise his trip from Columbus, Ohio to Karlovy-Vary, Czech and Slovak Republic.

Agriculture and food industry, as such, is again too broad to the practical policy maker or observer of these policies.

In spite of this warning, we have to realize that this region lived under a regime which insisted not only on the respect of some basic features but on their uniform application. We can state with relief that this latter goal was never attained. Countries in this region have not lost, but strengthened their identities.

Some common features are, nevertheless, visible and have an impact on the development.

Ideology A pragmatic society centred on economic performance needs no ideological-religious justification to have its legitimacy accepted. The countries of our region lived under political systems the legitimacy of which was based mainly on the catholic or orthodox religion. The communist ideology, which was mended to be scientific, became religion overnight.

There are signs that the new concepts of 'democracy' 'free trade' and 'market economy' will be used as a sort of 'religion' (i.e. a political weapon to get to the power and to keep it) , and not as practical rules to be adopted to reality. Even in the 'pure' economic thinking, 'free trade' 'market economy' and 'private property' were treated as a holy trinity in the Middle Ages, with real dogmatism and intolerance.

Structural changes are needed within the whole of economic life, of which agriculture is a non-negligible branch. Structural changes in agriculture imply changes in property - state, co-operative, individual and private - with emphasis on private property.

Political situation a multiparty system is introduced in each country in the region with very different practical results as to the handling of the problem of transition. Value systems are involved which are different from those prevailing in the West and from each other. In example,

democracy, market economy, and acceptance of individual responsibility are high on the scale in the US and low on the scale in Eastern Europe. There is a lack of democratic institutions and these institutions, even if they begin to function, lack the authority that they would have in the West.

Every phenomenon, every rule, law, economic programme or plan and, above all every effort to establish oneself in this region should be seen against this background.

Taking Eastern Europe as a whole, 1990 elapsed without definitive decisions regarding the restructuration of agriculture. Long and heated debates continue this year. Implementation of various laws on property and use of land will be a very long and complicated process. There are still very few private enterprises in agriculture, which is due not only to the absence of clear legal situations but also to the lack of capital and adequate knowledge to run a market - oriented, independent agricultural enterprise, and a basically inherited risk - avoiding attitude.

As to the substance of the changes, there is a political debate in all countries of Eastern Europe about privatisation. Theoretically, the choice is between justice and economic efficiency. Reprivatisation, indemnisation more or less, regardless of social and economic consequences, is forcefully urged by the former proprietors

or by their heirs - maintenance of performing agricultural co-operatives is demanded by those who have invested a lifetime of work in these co-operatives and who, being former small holders, do not see any prospective to begin small-scale agricultural exploitations without capital, credit and marketing facilities. In Hungary, for instance, the transition to small but still viable agricultural exploitation involves, according to expert estimates, 3 billion dollars. Political history makes peasants rather cautious. A significant figure, about 300,000 demands for indemnisation of nationalised property were expected. The actual number, one week before the deadline, is 50,000.

Another problem is the drastic cut in agricultural support taking place in every Eastern European country. The reasons and considerations are well known. The measures are very unpopular and hardly justifiable in the eyes of an agricultural population whose products face a thoroughly subsidised competition in the world market. There are signs that Eastern European governments are slowly crawling back to some sort of agricultural support system. The programme of the Hungarian Government, for instance, provides interalia for:

- a normative uniform support system for agricultural exports;
- a fund for intervention on the internal market;

- use of protective devices in conformity with GATT rules; and

- guaranteed price levels for intervention.

Similar signs are coming from the Czech and Slovak Republic, where agricultural farms have already overdrawn the guaranteed credit line by 3 billion kronas. The tax burden is 4 four times higher than it was at the beginning of the process of liberalisation, and the bulk of state support has been abruptly withdrawn.

Poland has increased import duties on beef, meat, sugar, canned food, cheese, eggs, wheat, flour, pastries, fruits and vegetables and has decided to intervene in the market for pork.

Another shock to be faced by the agriculture sector of Eastern Europe is the sudden collapse of the Soviet market and the hopeless situation in the EEC, as regards any appreciable access of agricultural products or foodstuff. The Berlin Wall is torn down but the Brussels wall stands firm. This is a complex situation, one not easily solved.

In my opinion, the first thing to do would be to undertake a restoration of the Soviet market, which involves additional problems.

- the menacing economic collapse;

- the lack of a comprehensive programme;
- the lack of political authority, federal or confederal, to implement any programme; and
- the lack of a programme for co-operation-cum-immediate - help from the Atlantic Community.

As to the perspectives of any meaningful action on behalf of the European Community, I am rather pessimistic, despite the fact that there is a very substantial potential market for Western agriculture and foodstuff industry and investment possibilities in Eastern Europe.

Let me turn now to problems related to the transformation of the Hungarian agriculture, within the framework of the broad picture outlined in the introduction.

1. The costs of Hungarian agricultural production are below the costs of production in the Community due to the following factors:

- cheaper labour,
- cheaper supply of energy (electricity, gas),
- favourable climatic conditions,
- almost non-existent environmental costs, and
- large-scale farms.

2. Costs of overseas production are below of the cost level of Hungarian production, thus the costs of Hungarian production are in many cases higher than the so-called world market costs.

3. It is to be expected that production costs of the Hungarian agriculture. Sector will increase because of anticipated changes in the factors listed under pointed.

4. It will be difficult if not impossible to integrate the Hungarian agriculture into the Community system. There is a clear tendency to keep the Hungarian agriculture and, for that matter, Central Europe's agriculture at arms length from the community.

Churchill's words come to mind: 'I am eager to shake hands with our Soviet allies, as far eastwards as possible'.

5. Importers of foodstuff and inputs of the food industry are keen to get to the cheap supply from Eastern Europe - with some preference for Hungary. Multinationals from the West are trying to buy whole branches of the Hungarian food industry. Sugar and bakeries are already in Western hands. Western companies are taking an active part in the privatisation process of tobacco and alcoholic beverages interests.

The processing of fruit and vegetables, the deep-freezing industry and the establishment of food chains is an

ever-growing branch with foreign participation, including management. This activity is designed to conquer - better to say 'create'- a Hungarian home market involving substantial exports of more sophisticated, and better packed and preserved food to Hungary and to the Hungarian customer. Production and processing for markets outside Hungary is also envisaged.

There are two noticeable exceptions to these favourable developments. In all of these branches, the output of which is severely limited or controlled by the Community (meat, grains) or mainly exported to the now shaky Eastern market (canned vegetables, food), there is a marked absence of interest.

6. Eastern markets - in spite of the present crisis - continue to be the main outlet for the Hungarian agriculture and food industry.

Despite well-known difficulties, Hungary's export of food in the first nine months of 1991 to former socialist countries equalled the amount exported during the same period in the previous year.

This situation can be attributed to some specific factors:

- prices quoted in dollars are higher than the depressed prices of the COMECON;

- barter trade is flourishing; and
- some deliveries to the Soviet Union and Roumania enjoyed Western guarantees.

It is worthwhile to consider this latter element in a more comprehensive and general context.

Let me turn back to the Hungarian situation, which can be used as an example for several reasons, the first of which is that Hungary began the transformation of her economic system back in 1968 with the new economic mechanism gradually introducing market-like elements, institutions, laws and regulations, so that the upheaval in the former Soviet Union has not resulted in a complete collapse but was met with a considerable degree of flexibility, especially within agriculture.

There has been and still is a very large and important field of activity within agricultural co-operatives in other branches such as tourism, services, industrial production, etc. In some cases, these activities have accounted for as much as 80 percent of the profits.

As to the future, it is expected that reprivatisation will not result in dismemberment of existing collective farms. Whereas 30 percent of the land is now, in principle, privately owned, that proportion could reach 60 percent, but the land will be exploited 'collectively' on a more

efficient large - scale basis, as the importance of land rent will increase. Foreign capital already has full possibility to rent land.

It is also expected that the importance of so-called part-time farming will increase.

Penetration of foreign capital will come, if it will, through investment and privatisation in the food industry.

Foreign investment has not yet found favourable conditions. Although there are laws and regulations in place, the evaluation of assets is still uncertain, and conflicting interests and favouritism are disturbing and slowing down the process.

Economic and Political Changes in the USSR

A. Ivashtchenko

Introduction

Political changes in the USSR which started in 1985 were quite gradual although persistent until 1991: erosion of the dominant position of the communist party, creation of many centre and right-wing parties, appearance of regional centres of power mainly relying on the nationalistic basis. Solution of many international problems (Afghanistan, arms control, unification of Germany, etc.) had an impact on economic policies, including agriculture. The major direction of economic policy of the Union authorities was the creation of market mechanisms and environment, while trying to keep to old command methods of decision making. At the same time, the Union parliament adopted a number of laws for development of a market economy in agriculture, namely, laws on land, leasing, joint ventures, co-operatives and some others. But what is more important is that the psychology of people started to change, including general dissatisfaction with communism, acceptance of private property ideas and profit motivation freedom of speech and action, etc. However, the pace of destruction of old centrally-planned mechanisms was much quicker than the process of creating a market system. This led to an accumulation of problems inherited from the old system, to increased macro-economic disproportions, breakdown of

traditional economic ties speeding up of political disintegration, sharp reduction in the standard of living, and big differentiation of incomes leading to popular discontent.

On this basis, in 1991, events in the political sphere began to develop at an accelerated rate, resulting in a failed August 1991 coup and in actual disintegration of the USSR. Although the Soviet Union still exists *de jure*, in fact, now on its territory, there are a number of independent states, recognized internationally (like Baltic Republics) or not (like Georgia, Armenia, etc.), and a loose confederation of republics which may further disintegrate or transform into some form of a union, depending on future political and economic developments in Russia. The agreement on economic union has recently been signed by 8 of 15 former republics. However, many of its clauses are so weak (especially on taxes, currency and banking system) that experts and more cynical politicians consider it unworkable from the very beginning. In this context, the future development of this region will totally depend on the successful implementation of the programme put forward by the President of Russia Mr. B. Eltsin at the last session of the Russian parliament in October 1991.

General State of Economy

The combination of several crises at the same time (structural crisis, energy and food crises monetary crisis, crisis of the system of management, etc.) is a unique phenomenon of the USSR not seen anywhere else in the world. As

a result, the economy is in deep recession. According to independent estimates, from 1985 to 1990, GNP has gone down by 15 percent in real terms. In 1991, it is estimated to fall by more than 13 percent. (If real inflation rate is used, the decline can be closer to 20 percent). Double-digit figures in reductions will be registered for practically all sectors of the economy - industry, agriculture, construction, internal and external trade.

The situation in the financial sector is simply menacing. Total deficit of budgetary and non budgetary funds of all authorities on USSR economic territory will surpass 300 billion roubles. Inflation is such that existing factories have difficulty printing enough new notes to meet obligations. New higher denomination notes have been introduced. According to some private estimates, the rate of inflation at the end of October had reached 8 percent per week in Moscow. In conditions of no indexation of incomes, people with fixed incomes, especially pensioners, are in a tragic situation. Most of the former republics have declared that in 1992 they will introduce their own currencies. As a result, the stream of roubles pouring into Russia has increased in the last few weeks. There are even chances that Russia herself may put new currency into circulation. The rate of exchange of rouble to foreign currencies is falling rapidly. At a recent currency auction, it has been more than 70 roubles per one US dollar. The run away from roubles to goods has created shortages of everything. To alleviate this situation, most regional and

republican authorities are introducing different border controls, including customs posts and licences. All of these measures can lead in the end to complete stoppage of industry. Popular discontent is growing and may become a decisive factor in the choice of economic policies.

To stabilise the situation, the Russian parliament has given Mr. B. Eltzine practically unlimited powers. His tough political stance vis-a-vis regions and autonomous republics of Russia, as well as other republics, will be complemented by some radical economic measures. In his programme speech, he proclaimed that he would adopt strict financial and credit policy, as well as the reform of a tax system favouring production and discouraging speculation. Exact measures are not yet known but it is rumoured that they can vary from freezing of certain funds of enterprises to limits on credits. All aid, assistance and credits to other countries is stopped. Also, freeing of prices for practically all goods is expected this month as the first real step towards market economy. Certain measures of social security for vulnerable groups of population are envisaged, such as free meals, food coupons, use of supports in kind rather than in cash, access to cheap goods. But concrete steps have yet to be implemented and will require some time, thus lagging behind price liberalisation. Secondly, he puts emphases on privatisation, on creation of mixed forms of ownership with strong private sector, and on land reform. Regarding privatisation, he wants to simplify and shorten the time

necessary for privatisation, as well as establish penalties for bureaucrats preventing this process. He plans to privatise within the next three months 50 percent, or nearly 10,000 small- and medium - sized enterprises, to mobilise 100 billion roubles for the budget. Special procedures will be used for large enterprises.

In the agricultural sector, only those state and collective farms which for a long time work at a loss will be privatised and do not fulfil their obligations before the state. Mr. Eltzine said that he would introduce amendments to the law on land, allowing the sale and purchase of land. The law providing for payment for land at last has been adopted. The minimum basic rate is 10 roubles for ha. The rate is much higher for land used for non-agricultural purposes, while for private farmers it is zero for five years.

In the field of foreign trade, it will be allowed to foreign companies to sell socially important goods, such as food and mass consumer goods, for roubles with their further investment in the country; sale of roubles to foreign companies on a competitive basis at the market rate for further investments in Russia; sale of export and import licences for roubles on a competitive basis; and some other measures. Also, customs posts are being organised along the border with Baltic republics, and Soviet customs post will be taken over by Russian authorities. The policy of internal convertibility of the rouble will be continued, which may encourage foreign investments into Russia. Additional guarantees for such

investments can be formulated at respective international forums.

The state of agricultural and food sector

The agri-food sector of USSR develops under the impact of a combination of macroeconomic, natural and policy, including trade policy, factors.

Agricultural production in the country declined for the second year in a row. In 1988 and 1989 it increased although at a slow rate of 1.7 and 1.3 percent respectively, but in 1990 there was a decline of 2.3 percent. In 1991 it is expected to fall by a further 10 to 11 percent to around 140 billion roubles in actual prices. For 9 months of 1991, production of food has gone down by 8.3 percent, compared to the same period in 1990. The biggest falls were recorded in Armenia Georgia, Moldovia, Kirgizstan and Tadjikistan.

The reductions were in practically all sectors of agriculture and food industry. The grains crop in 1991 is estimated at 160 m. tons, which is 25 percent lower than in the previous year and 17 percent lower than the five-year average. Grain yield amounted to approximately 1.62 t/ha compared to 2.2 t/ha in 1990 and 1.8 t/ha in 1986-1989.

The oilseed crop, excluding cottonseed, is estimated at 7.5 m. tons which is 9 percent lower than in 1990 and roughly equals an average crop for 1986-1990. Production of

sunseeds has gone down to 6.1 m. tons, compared to 6.5 m. tons in 1990.

Sugar beet crop has declined by 20 percent to 65 m.tons.

Production of major food crops in the USSR

(m.tons)

	1989	1990	1991
Grain	210.9	217.8	160.0
Oilseeds	8.7	8.3	7.5
incl. Sunseed	7.1	6.5	6.1
Sugar beet	97.4	81.7	65.0

The supply of feeds for the feed livestock industry had deteriorated by autumn. In September 1991, the stock of all feeds was 1.11 tons per head against 1.24 tons per head at the same time last year. The stock of grain-based feeds from local grains has declined by 23 percent, of hay by 12 percent and of silos by 15 percent.

As a result of lower feed supplies, production of the livestock industry also declined. From January to September 1991, the output of meat declined by 13.4 percent (to 13.4 m. tons of live weight), of milk by 10 percent (to 59.3 m. tons), of eggs by 4 percent (to 41 b.).

Production of most types of food from all sources, including imported raw materials, also declined substantially during the first three-quarters of 1991, except for bread and macaroni.

USSR production of food for January - September 1991.

	1991 (m. ton)	percent change to 1990
Meat (actual weight)	6.90	-12
Milk products (in milk equivalent)	22.40	-10
Butter	1.20	-13
Vegetable oils	2.10	-4
Sugar	4.20	-17
Candies and sweets	3.30	-9
Bread and bakery products	22.80	+4
Macaroni	1.40	+6

The reasons for such a substantial decline of both agriucultral and food production are manifold. Because many crop areas are on marginal lands the impact of weather is significant. In 1991 in May-July there was a long period of hot weather without rains which badly affected grains in the Volga area, Siberia and Kazakhstan.

The breakdown of traditional ties between republics and regions causes deterioration in supplies of spare parts,

fuel, machinery and fertilisers, as well as prevents supplies of agricultural products to processing facilities, elevators and warehouses.

Higher input prices and costs of production, while procurement prices for many commodities are kept artificially low, leads to a reduction in area sown to such crops as grains. Many farms prefer production of those commodities which can be sold at free prices, i.e. meat, fruits and vegetables.

Shortage of labour, especially at harvesting, became a big problem with discontinuation of the practice of forced mobilisation of workers and students for harvesting. An ageing and declining rural population, because of migration to cities and emigration (i.e. Germans from Kazakhstan), contributes to the problem.

Huge losses in the field during transportation, storage and processing are also important factors determining food shortages in the USSR. For example, for grain harvesters are not efficient to harvest big crops and, for potatoes, the design is such that one-third to one-half of the crop is left in the field. For meat, milk, fruits and other perishable products, the processing units are too far from the farms, sometimes hundreds of kilometers away. There are acute shortages of small processing units, small country elevators and warehouses. Shortage and poor conditions of roads cause extra losses during transportation.

Government policies have aggravated problems this year. The old system of nearly forced procurement has been abandoned, but nothing new has been offered in its place. Although procurement prices have increased, they are way below market prices and lag behind price increases for inputs. With the inflation rate as high as it is, farmers just do not want to sell, as they can't buy anything per rouble. In the past, the central government sold farmers some inputs at low fixed prices, against purchases of grains. But in recent years it didn't fulfil its obligations and lost the confidence of farmers. As a result, government purchases of agro-food products have declined drastically and acute shortages of food are evident in big cities with queues now not only for meat, but also for milk, bread and even rationed sugar.

State purchases for January - September in m. tons

	1991	1990	1991 as percent of 1990
Grains	35.9	60.8	59
Potatoes	5.4	6.1	88
Vegetables	7.9	9.7	81
Supar beet	30.3	31.7	99
Cattle & poultry	13.1	14.8	88
Milk	51.7	59.7	87
Eggs (billion)	35.1	38.3	97

Certain hopes were placed on private farms as a source of increased food production, as productivity on private farms is higher than on state or collective farms. But this

process is going on very slowly. On 1 January 1990, there were just 6.5 thousand private farms in the USSR, with 94 percent in Baltic republics. As of 1 March 1991, their number increased to 47.1 thousand, with 20.7 thousand private farms in Georgia and 8.9 thousand in Russia. By 1 September 1991, there were 28 thousand private farms in Russia with 1.2 million ha of land at their disposal.

As of 1 March, an average farm in the USSR had 22 ha of land, with 20 percent of the farms having just 0.5 ha (mainly in Georgia); 34 percent of the farms have plots of land of 0.5 to 10 ha, 29 percent with 10 to 35 ha, 12 percent with 35 to 100 ha and 4 percent with more than 100 ha (the latter mainly in Karakstan and some regions of Russia for pasture).

Most of the farmers (69 percent) had the right to inherit the land; 22 per cent of the farmers had lease contracts for more than 3 years and 14 percent for shorter term leases.

Private farms specialise mainly in production of livestock products (77 percent), while the share of farms concentrating on crop production is just 25 percent. The yields in private farms in 1990 were 21 percent higher than in state and collective farms for grains, 16 percent for vegetables, 25 percent for forage, and 53 percent for potatoes. Still, in Russia, private farmers used only 60 percent of land allocated to them.

Private farms, as of 1 March 1991

	No. of farms	Land area (ha)	Average land per farm (ha)
USSR	47,107	1,023,314	22
Russia	8,931	395,187	44
Ukraine	218	3,981	18
Byelorussia	116	2,721	23
Uzbekistan	1,996	11,823	6
Kazakhstan	605	268,476	444
Georgia	20,750	16,830	0.8
Azerbaijan	76	1,659	22
Kirghizsia	101	19,068	189
Lithuania	2,892	48,745	17
Latvia	7,749	158,743	20
Estonia	3,673	96,081	26

Most private farms are one family (83 percent) or two-three families (14 percent). They use mainly their own labour (85 percent of forms). Private farmers market their produce through a number of channels: 50 percent through special procurement organisations (state and cooperative), 33 percent through collective and state farms, and the rest on a free market.

Many farmers complain of poor supplies of inputs, especially small agricultural machines, fertilisers, seeds, fuels and construction materials, as well as of their high

prices. To somehow alleviate the problems of private farmers, each republic develops special programmes for farmer support. For example, in Russia in the 1992 budget, 6.5 billion roubles have been allocated to private farmers for the purchase of tractors, lorries and agricultural machines. These resources will be guaranteed by imports of such machines, for the value of US 100 m. dollars, as well as by organisations of production.

This winter it is envisaged to privatise supply and marketing channels servicing agriculture to break up existing monopolies. However, there will be only case-by-case privatisation of existing state and collective farms in many republics.

Regarding marketing channels, the state purchasing system has practically collapsed mainly on economic grounds. The state purchasing prices were increased in the first half of 1991 by 56 percent, while prices for inputs and services supplied to agriculture went up 85 percent. At the same time, free-market prices for agricultural produce on commodity exchanges went up by several times. For example, wheat prices on Moscow commodity exchange stand were at 1,700-2,600 roubles per tonne, while state purchasing prices were around 360 roubles per tonne. But farmers are prevented by different means from marketing agricultural produce through commodity exchanges. The lack of established intermediaries and free-market channels leads to big disproportions in prices, deprives farmers of a big bunch of income and fuels inflation. To

overcome these shortages of existing marketing organisations a scheme was developed in Russia according to which it is suggested to have a single food tax in kind (of around 30 percent of actual production) for grains. The rest can be used on the farms or sold at free markets, but only through registered commodity exchanges. This scheme is in line with the decision of the Russian president to free all prices.

The major issues still to be resolved in agriculture in most republics are land reforms, providing for free sale and purchase of land, creation of a new system of input supplies on a competitive basis at reasonable prices, organisation of marketing channels that will bring farmers equitable returns, development of storage, processing and transportation networks, and training of farmers.

The extremely complex food supply-demand balance in 1991/92 in the country necessitates continuation of large-scale imports. For the first 10 months of 1991. 'Exportkhleb' has already imported 37 m. tons of grains. Total grain imports in 1991 may exceed 90 m. tons. Imports of other major food and agricultural commodities will not be less than in 1990, i.e. of soybean meal 3.0 - 3.5 m. tons, raw sugar 4.5-5.0 m. tons, vegetable oils 0.8-1.0 m. tons.

Imports of selected food into the USSR (in m. tons)

	1989/90	1990/91	1991/92
Grains	37.1	29.1	40.0
Soybean meal	2.6	3.0	3.0-3.5
Raw sugar	5.3	4.6	4.5-5.0
Vegetable oils	0.8-1.0

In fact, import figures are indicative of total imports into the economic territory of the USSR. At the same time, due to border restrictions between republics, some of them with surpluses of certain commodities (for example, Ukraine with sugar) sold them for export but they finally ended up as imports into other republics. Inter-republic trade resembles more and more not internal but foreign trade. It is most probable that from 1992 all inter-republican transactions will be based on world prices. The consequences can be as far-reaching as they were when trade between former Comecon countries was changed to settlements in dollars at world prices. The latter measure led to practically a complete half in the import of food from East European countries. For inter-republican trade, it would mean: firstly, the reorientation of import sources to origins outside the republics of the USSR (i.e. replacement of teas from Georgia to those from India or Africa); secondly drastic changes in the composition of food imports (for example, replacement of fruit imports into Russia from southern republics by imports of cheaper fruits, such as bananas and citrus, from developing countries); thirdly, a

general increase in the volume of trade in the short run, as republics with surplus food will seek market outlets for hard currency, while food deficit republics will continue to import food in the short run while attempting to speed up implementation of long-term measures to decrease imports; fourthly, the increase of barter transactions in the short run (for example, Uzbekistan imported more than 1.0 m. tonnes of grain in exchange for cotton via 'Exportkhleb', Azerbajdjan concluded a barter deal oil for grains, etc.)

Although there is no coherent foreign trade policy in individual republics as yet, some of them, like Russia, liberalised the import of food to a great extent. Import taxes on food have been slashed several times for basic food as well as for tropical food and beverages and for prepared food. It was also allowed to barter for food with former comecon countries. Intermediaries were allowed to import food. It is envisaged that from 1 January 1992 foreign trade in all goods will be conducted by any firm registered as a participant in foreign trade, irrespective of whether this firm is a producer of goods or an intermediary. That should increase competition and improve food supplies.

The acute shortages of food this winter, as well as the lack of hard currency and a negative balance of payments, raise the question of massive food aid to the USSR from Western countries in 1991/92. The aid is necessary to help on going reforms and prevent public unrest.

As the practice of aid distribution for last year shows, the best means for channelling bulk commodities are traditional big importing companies with organised distribution networks, such as 'Exportkhleb' and Prodnitorg. Specialised distribution agencies for the most needy, under international supervision, may be organised in big cities. However, direct food aid should be regarded only as a temporary measure supplemented by permanent long-term strategy and concrete steps aimed at solving structural disproportion and creating a market infrastructure in the USSR.

In this respect, emphasis has to be placed not on government-to-government aid but rather on encouragement of private investment into agriculture, food processing, distribution and training. This can be in the form of investment guarantees, export subsidies and favourable loans for investment projects in targetted areas, and other similar measures. One can only state that, without coherent and co-ordinated Western assistance to the agro-industrial complex of the USSR, this region will remain a source of instability and potential problems for the whole world.

**The Impacts of Changes in the European Community on
World Trade in Agricultural Products**

Dale E. Hathaway

I am told there is an old Chinese curse which says, "May you live in exciting times." If so, then the present citizens of the European Community must feel truly under a spell, because for the third time in this century the political, economic and military map of Europe is being rewritten. Changes are under way which will affect the lives of those in Europe and outside it, just as the events following World War I affected my father's generation, and the events of World War II and its aftermath affected my generation.

This time, however, these changes are occurring without war and military conquest. They are occurring because millions of people in Central and Eastern Europe want to have a more open and responsive political system and a more productive economic system. This is occurring at a time when the member countries of the EC already have taken major steps to deepen the economic integration begun under the Treaty of Rome more than 30 years ago. Now they must consider how they are to respond to the political and economic changes taking place on their borders. Moreover, after 40 years of successful military response to military

threats from the East which were led and heavily financed by the United States, Western Europe is going to have to both lead and finance the economic and political responses to the new changes.

Political Decisions and Trade Links

I want to focus my comments on three issues: two are general and one is specific. First, I want to comment on the implications of the future political and economic arrangements between the current Economic Community and the newly emerging democracies in Central and Eastern Europe. It appears there are three directions the present EC can go. One is to expand its economic integration to include most or all of Central and Eastern Europe at some point. A second option is to provide certain favoured access to EC markets for some products from these countries. The third option is for the present EC to treat these former communist countries as they do the rest of the world in terms of political and trade ties.

If the decision is made to fully integrate these countries into the EC, it will mean that the countries will have strong reason to defend the EC trade policies, and little reason to be concerned with the wider world trading system. If the EC decides to establish a truly integrated trading block from the Atlantic to the Urals, it is inevitable that other countries will follow in their spheres

of economic interest. It is easy to envision a Western Hemisphere Common Market and a Pacific Common Market following close behind early in the next century. In that event, the interest in and support for GATT would almost certainly decline, and the political dynamics of trade would certainly change.

Conversely, if these countries remain outside the EC but heavily dependent upon it for markets, they will continue to push for greater market access, as they already are doing. This would give them a great incentive to participate in GATT and to push for trade liberalisation within that forum. If, however, the EC gives these countries some preferred access on some products, this can be used to induce countries to mute their criticism of EC trade policies, just as the EC sugar policies mute the criticism by the ACP countries by giving them favoured access to the EC market at the expense of the rest of the world market.

Macroeconomic Issues

Turning to a major macroeconomic issue, it is surprising to me how little attention is being paid to the implications of having a huge geographical area with over 500 million people suddenly enter the world market system. We already have seen the impact of the reunification of Germany on world capital markets, as the savings of one of

the world's major capital exporters suddenly were diverted to the former East Germany. It appears likely that this huge area, newly opened to world capital markets, will have a significant effect on the cost of capital by increasing the demand for capital and, absent an increase in world savings, driving up the real price or interest rates.

The likely effect upon world capital markets is clear. The likely effect upon world labour markets is less obvious. What does it mean to have a huge, relatively well-educated labour force suddenly competing in world markets? Will workers from the East replace the existing guest workers in the EC labour force? Will investors looking for low-cost manufacturing sites from which to export to Europe now invest in these countries instead of in Asia, Africa or Latin America? Many of the answers to these questions will depend upon how the political leaders in the EC answer the questions regarding the future political and economic relations with these eastern countries.

Reform of the Common Agricultural Policy

At long last it appears that some significant reforms of the CAP are under way. These are in response to internal political problems rather than to the GATT negotiations, although they may make the GATT negotiations politically easier. I want to comment on four things: 1) What the CAP reforms apparently involve, 2) Some of the internal and

external effects of the reforms if they are adopted as proposed, 3) Some problems which EC policy makers may not expect, and 4) The effects of the reforms on trade and on the GATT negotiations.

It is said that imitation is the sincerest form of flattery. If so, the United States should be flattered, for according to the Director-General for Agriculture of the Commission, the new policy is modelled after the US agricultural policy. If that is true, the EC would do well to look carefully at some of the problems the US policy has created, and consider how they can be avoided.

As I understand the proposed policy, its main feature involves dropping the EC's internal support level for grains by some 35 percent. To compensate grain producers for the decline in internal prices, direct compensation would be paid in the form of deficiency payments. In the case of producers with a larger area of grains, the payments will depend upon the maintenance of a set-aside of a certain percentage of their area under grain production. The programme for oilseeds would be revised to try to meet the objections of the 1989 GATT panel to the previous programme. Deficiency payments would be made directly to farmers to bridge the gap between an EC reference price and the EC target price. If the world price deviates more than 8 percent from the reference price the payment will be adjusted for the additional difference.

The internal support level for dairy products would be reduced by 10 percent, with the reduction largely in the support level for butter. In addition, the individual production quotas for milk will be reduced modestly. Farmers will be compensated via direct payments for the reductions in quotas.

The support level for beef will be reduced by 15 percent. Payments to producers using extensive beef production methods (forage) will be increased. Changes in the sugar policy were left for further consideration.

I want to examine three aspects of the proposed new policy. First, I will discuss the consumption effects of the changes. Second, I will speculate on the production effects of the changes and suggest some problems which might be encountered in light of the US experience. Finally, I will comment on the trade effects of the changes and the possible links to the current GATT negotiations.

The EC has been demanding an opportunity to 'rebalance' protection at the border to reduce the demand for imported grain substitutes and to reduce the internal demand for imported oilseeds. All attempts at rebalancing by increasing the border protection on the present duty-free imports of grain substitutes and oilseeds have been rejected by the exporters of these products, although Thailand and other manioc exporters were forced to accept an export

restraint agreement on manioc. The proposed CAP reform would bring about rebalancing and, moreover, it does it in a way in which exporters cannot object to or challenge in GATT.

The reform will achieve rebalancing by eliminating the distortions which created the artificial import demand for grain substitutes. Internal grain prices will fall and EC feed users will use local grain and oilseed meals to produce the least-cost feed mixes. The least-cost mix will no longer consist of imported grain substitutes and excessive quantities of oilseed meal. The use of EC grain will expand and the cost of production of EC livestock and poultry products will be reduced. This allows the support level of dairy products and beef to be lowered, but it will have little or no effect on the retail price and the consumption of these products.

Thus, on the demand side, the effect on the demand for agricultural products within the EC will be increased modestly, but the demand for feedstuffs will be switched heavily from imported grain substitutes to domestic grains. This, in turn, will reduce the quantity of grains which enter export markets from the EC.

On the production side, the reform programme does not decouple the deficiency payments from current production. It is true that the payments are not made upon current

individual farm yields, but they are made upon the current area planted to grains or oilseeds. Moreover, since the payments are made on recent average regional yields, by definition many of the farms will be receiving higher income from growing these crops than they received before. In any case, as long as the payments are conditional upon growing the crops involved, there will be a powerful incentive to continue to produce the crops concerned. The use of past regional average yields should reduce the very high levels of fertiliser application which have contributed to very high yields in the Community and to its considerable pollution problems.

The EC is depending on set-asides to reduce and control cereal and oilseed output. It is likely to be surprised at what a blunt tool this is to achieve output control. First, the EC is not requiring farms which produce less than 92 tons of grains and oilseeds to participate in the set-aside programme. According to Community figures, these producers account for 80 percent of the holdings and 40 percent of the area in cereals. Thus the 15 percent set-aside required of the larger farmers will at most involve 15 percent of 60 percent, or 9 percent of the land in these crops. I would suspect that the officials will be surprised to find out how little output reduction is achieved when each farmer takes his poorest land out of production. They also may be surprised to find out that they have fewer large farms than

they thought. In the US, when limits were put on the amount of direct payment which could go to an individual farm, a whole new legal industry grew up which made small farms out of big farms for government payment purposes. I would be surprised to learn that EC farmers or lawyers were less enterprising, or EC officials more effective, at writing regulations to prevent such circumvention of intent.

In the case of the EC there will be less incentive to use set-asides as an effective production control tool. In the US, larger set-asides save public expenditures because there is no compensation to producers, but in the EC the savings will be less because there are payments to compensate for some or all of the set-aside requirement. Since there presumably will be no export restitutions required under the new policy, there will not be appreciable savings by reducing the set-aside and there are likely to be a number of pressures to keep them low. EC officials will find that producers of inputs do not like set-asides, nor do owners of storage facilities or the owners of export facilities. Many groups develop an interest in maintaining high levels of farm output and moving the excess into export markets.

Surprises and Pitfalls

When the United States embarked on its use of deficiency payments for major programme crops, it did so

with an established base acreage of the crops concerned on individual farms. The EC starts without such a base and I predict that they will find out that the total acreage of grains, oilseeds and protein crops claimed by producers substantially exceeds the global estimates of area in recent years. Establishing a base while paying for it is bound to lead to increases in the base.

Secondly, the EC is going to have to deal with the complex issues of whether size limits apply to ownership or operation, whether payments go to landowners or renters, and a series of other complex legal-economic questions. Moreover, because laws, traditions and practices vary widely between member states, there are likely to be wide differences as to national interpretation. This will raise major political problems of equity between areas.

Thirdly, the proposed reforms are likely to affect land prices, whether intended or not. This raises the question of whether the payments go with the land or the individual. If farms with large land area are treated less favourably under the new programme the incentive for farm consolidation will disappear. That should depress land prices. However, if the stream of deficiency payments is tied to land and transferable with the land, regardless of the size of the resulting unit, it might bolster the price of small farms.

Finally, as has been the case with the US, the EC is bidding against itself to achieve conservation and environmental improvements. By making high payments to land in crops, they guarantee it will cost more to convert it to pasture or forest.

Trade and GATT

On the trade side, the CAP reform could solve one of the EC's most difficult problems, namely, the need to use export subsidies to export an ever-increasing quantity of surplus grain. EC export subsidies have been a sore point in international agricultural trade for decades and have been a major sticking point in the present GATT negotiations. The reform would allow the EC to accept the demands of the US and Cairns Group to scale back or eliminate export subsidies. Moreover, since the export subsidies on meat and poultry products are supposed to merely off-set the higher cost of domestic feed, these could be reduced or eliminated also.

The CAP reform will make a second contentious issue irrelevant. The EC has demanded rebalancing as their price for accepting tariffication. Now they can drop rebalancing and move on to more important issues.

The CAP reform clearly revolves around the cereals policy. EC documents make several assertions and the proposed reforms clearly are based on certain assumptions.

They assert that the deficiency payments are unrelated to current production, thus implying that they are decoupled and should be included in the "green box" for GATT purposes. They assert that the oilseed reforms meet the GATT panels objections to the current programme. They suggest that land set-asides will be effective production controls for grains.

However, before becoming too enthusiastic about the reforms, one should remember that the changes do nothing to increase access to EC markets. They do not remove community preference or variable levies, so that despite claims of greater competition in internal markets there is no indication of how or why it would occur. As long as EC production policy aims at self-sufficiency or more and pays producers well above world market prices to produce that amount, there is no great break-through in access in the policy.

It is true that the proposed system is similar to that used by the US. I would suggest that EC officials ask Thai or other members of the Cairns Group about their views of the US deficiency payment system as a trade distorting policy. My impression is that they view deficiency payments on exported products as being almost as bad as direct export subsidies, and they certainly view them as trade-distorting subsidies because of their output effects.

If the proposed EC policies were to be classified as production-neutral and not trade-distorting, it would be relatively easy for the EC to agree to large reductions in trade distorting subsidies, especially if they were allowed to use an aggregate measure which aggregated all agricultural products. I would be surprised if other countries would agree to this definition, especially as the US appears to be in the process of challenging the revised oilseed programme for not removing the impairment of the EC binding on oilseeds.

Thus, in summary, I would view the proposed EC revisions of the CAP as having a modest positive effect on trade because it would remove direct export subsidies as a method of export competition. It would destroy the artificial market for grain substitutes in the EC, and have adverse impact on those dependent upon that market. However, the most these exporters can expect is sympathy because their market has depended upon bad policies within the EC and it is too much to expect the EC will continue to run such a policy for the benefit of others.

I think the proposed changes will have only a minor effect on the ability to reach a satisfactory GATT agreement. If all that the US and the Cairns Group wanted was a scale-back of export subsidies, this would go a long way towards allowing it. If, however, as I believe, they also want a substantial scale-back in trade-distorting

domestic subsidies, these CAP reforms are unlikely to be accepted as a substitute for real reductions in output-increasing domestic programmes. And, the reforms clearly do not allow greater access to EC markets.

On the side of political speculation, I would think that the reforms might make GATT changes harder to accept among EC producers, especially large producers. These producers already are greatly concerned by the proposed reforms. If there is an attempt to impose GATT-agreed cuts on top of unwanted reforms, it seems to me that opposition to the changes might increase to the point where EC political leaders are unwilling to enforce them. As I understand, the German Government has agreed to negotiate reductions in subsidies in GATT, if EC farmers are fully compensated for any potential reductions in income. Since the proposed CAP reforms already are scheduled to increase the cost of the CAP by a significant amount, it appears that any significant GATT agreement will carry a major budget cost for the EC at a time when it wants to spend less, not more, on agricultural income transfers.

Comments: Political Changes in Europe

Dr. Surakiat Sathirathai

Changes in Western Europe

During the past 2-3 years, the single market issue has raised our hope for new opportunities and concern for obstacles. Thailand shares the vision that Mr. Villain and others express that there is an opportunity to be shared in the potential growth as a result of the single market. We would also be able to benefit from the elimination of various kinds of barriers within the EC itself. However, there are some aspects that such growth or such elimination of barriers may become hindrances to our own growth or may become a threat to our market security in the EC and in the third market. I would like to make some observations on reasons for our concern.

First, if we look at the impact from the Thai export perspective, we are concerned with the effect on our exports which are similar to those produced and traded within the EC member states. As we all know that a single European market will lead to an economy of scale in production and marketing, which will drive down the cost of production and will expand foreign markets for European products. We felt that the effect would be mostly on industrial goods but

there are possibilities that products like preserved seafood or canned seafood exported from Thailand could be affected.

The second aspect of the trade effect is the effect on our exports which have been used as production inputs in the European countries. Although the volume of our exports used as inputs are not large at present but because of the fact that the single market may expand its production, therefore the market for these inputs could be enlarged.

Concerning agricultural products, some may say that there may be a better opportunity for tapioca pellets, natural rubber or non-processed tin and so on. But at the same time, I think we have to be aware of the fact that the EC has to also import substitutables from other countries, for example corn gluten and cereal crops from the U.S. which can be used as inputs for compound feed in the EC. Therefore, in this light the expansion of the production of finished goods may not necessarily lead to an expansion of input demand from our country because there are other sources of supply for such inputs.

The third aspect is the effect on our exports which compete directly with EC export in the third market e.g. rubber products or molasses in the US market or industrial goods in Japanese market or sugar and raw sugar in the Soviet Union. We are concerned because the economies of scale will enhance the EC's competitiveness in the third

market, thus, effecting our market security in those markets.

The second perspective is the impact from specific policies of the EC itself. The first one is the EC policy towards the APC countries (African Caribbean Pacific countries). We have heard complaints against the EC all along that some of our products have recieved different treatment because the EC is bound under the Lome Agreement to extend preferential tariff to the ACP countries. The two most popular products are canned pineapple and canned tuna which recieve lower tariff compared to exports from other countries. The economies of ACP countries and Thailand are not that much different. The difference is not in the costs but the tariff structure. So we have been in a disadvantaged position. The question is whether the policy tawards the ACP countries would change at all as a result of the single market. That remains to be seen. As I understand, the CAP reform itself does not change the preferential structure. Nor does it change the levy structure. I tend to agree to what Mr.Dale said in his paper. Thus, we are concerned that whether the change will affect the policy towards ACP countries.

Secondly, about the Common Agricutural Policy (CAP), all of us know very well that one of our major export items to the EC is tapioca or manioc as called in Europe. When we talk about free trade or liberalization of trade or the

reduction of subsidies, we will be told by our European friend all the time that whenever the CAP is wiped out, our tapioca trade would be wiped out as well. So it is very difficult for Thailand to favour both the CAP and the free trade policy at the same time. On the one hand we know that free trade is good for Thailand. On the other hand, we also know that if the subsidies under the CAP is substantially reduced or eliminated, tapioca trade with the EC will go down the drain. Many questions follows. What would be the change in the CAP as a result of the single market? What would be the effect on our tapioca export? I guess there are two changes that would affect Thailand. First, if the reduction of subsidies under the CAP turns out to be the defficiency payment scheme which is very much the same as under the Food Security Act of the U.S., how much of such reduction will be enough to lead to the reduction in the price of grain and will convince compound feed producers to use grain to produce compound feed instead of other alternative like tapioca? The second change, that one can foresee, is the change of tariff, the effect of which is probably more difficult. Because, as you all know that, the EC has obligation duties under the GATT not to levy more than 6 percent on tapioca products without any quota restriction. So, given the current system as under GATT the negotiation has to be proceeded although, we always have differences in looking at the agreement on manioc production between EC and Thailand and we always have differences in

looking at how GATT can play a role in our relationship with the EC regarding the tapioca matter. I think the key issue is the changes of the CAP on the subsidy side and how that would effect the tapioca trade. If the change is not substantial, I personally do not think that would effect the tapioca much, provided that the tariff structure remains intact. There are two major reasons why tapioca have been doing very well in the EC. First, because the CAP subsidies increase the price of grains, the compound feed producers have to look for alternatives. Tapioca which is high in carbohydrate can be mixed with soybean to produce compound feed. So if the prices of grains are no longer high, there will be much less incentive to use tapioca.

The third aspect of the impact from a specific EC policy is the deficiency payment. Although with the deficiency payment, the EC will continue to receive criticisms in the same manner as the Food and Security Act of the U.S. (the Farm Act) has recieved or encountered criticism from many countries including Thailand. If we look at the U.S. legistation itself, one can see that the U.S. has looked at the deficiency payment or what we may call "domestic subsidy" as something creating trade distortion. Thus, the U.S. tariff act of 1930, which is later amended, has treated those type of subsidy as a subsidy against which countervailing duties can be imposed. So I think that although the deficiency payment itself is a big change under

the CAP, it will remain to be the subject for discussion and will remain to be looked by other countries as creating trade distortion.

The last impact is from a multilateral negotiation perspective. I think many of us have talked about the impact of single market in the negotiation in the Uruguay Round, especially on agriculture and I think it is well said in Dale's paper. Other countries can accept EC position better if the CAP is reformed. But I think it remains to be seen how developing countries will respond to the EC deficiency payment scheme.

Finally, some of the concerns that we have to think further, is the movement under the Asian Pacific Cooperation (APEC), including the idea of East Asian Economic Grouping (EAEG) proposed by the Malaysian Prime-Minister whether this movement will receive any response from the EC at all. Secondly, whether this movement would have any response to the single market at all. The next minister meeting will be hosted by Thailand in 1992. I am sure that some of the topics will be discussed there. We do not look at the single market as something which is a part of protectionism in itself. We know very well that the opportunity is lying ahead, but in Thailand both the public and private sector are in the state of uncertainty, not being very sure of what is going to happen, and how Thailand can be a part of that

growth, how we can take advantage of those opportunities and how we can cope with the potential obstacles.

Changes in Eastern Europe

I offer to share with you my thoughts of what have been the perception of the Thai people or Thailand about the changes in Eastern Europe. It is very difficult to say what is our perception especially if one wants to distinguish the perception of the private sector from the government. In the government sector we even have more differences among different institutions in the executive branch. But I will try to gather from our perception from the past to the present government and what have been the problems foreseen by us, correctly or wrongly. First, the general perception of the changes in Eastern Europe is that our economic, technological development and our trading experiences have reached the level that we can benefit from the change in Eastern Europe. I think that is our hypothesis or a sort of a hidden assumption when we look at changes in Eastern Europe. This explain why we have been quite enthusiastic about it. Secondly, we also look at these changes as providing both opportunities and threat to our economy. The opportunities are very clear i.e., Eastern Europe is an alternative market especially when we have more problem with the U.S.; and when we are unsure about the effect of single market in Europe and so on. Then we look at this as our new market or our alternative market , for both trade and

investment. How about the threat? We feel that financial assistance and all kinds of aids and investment will go to Europe. We are a bit concerned that Japanese investment would be redirected from Southeast Asia to Eastern Europe. Secondly, we feel that with such assistance and massive investment and the likelihood of more realistic technology transfer from other Western European countries, the Eastern Europe countries would be able to take-off quite fast. In due time, Eastern Europe countries will be a competing against Thai exports in both agricultural and industrial goods, especially when the economy of those countries are gradually liberalised.

The third perception is that, although we have exported some goods to Eastern Europe we have a trade deficit with Eastern Europe. In 1988, our deficit was about 6700 million baht. In 1989 it was a bit better, the deficit reduced to 1200 million bath. Our export to Eastern Europe included sugar, rice, tapioca products, rubber products, garment, computer and parts and so on. So with that deficit, with that figure, we feel that there could be more room for export improvement.

At the same time with such massive assistance and investment, Eastern Europe countries should have more purchasing power. With such increase in purchasing power, Thailand should stand a good chance to export more to Eastern European countries. At the same time we want

desperately to diversify our market. The government had talked to the private sector again and again to pay attention to the Eastern European market and see whether we can diversify our export. I think those are the several perceptions of the changes. In this room, I can see officials from both the foreign and commercial ministry. You can help me clarify the perception of Thailand or the Thai government whether it is correct or not. Secondly, I would like to talk about the problems as seen by us, but these may not be a problem or concern in Eastern Europe. These are: (i) I think we lack detail analysis of what is going on. There exists a sense of uncertainty similar to the uncertainty when we look at Single Europe. Traders lack knowledge of one another. I think except for some specific groups, Eastern European traders and Thai traders do not know one another and the likely business system. Therefore, most of the trade have been through trading houses in the Eastern European countries and this is creating some kind of "SOGO SHOSHA" like Japanese trading houses in Europe. (ii), we are afraid of the protectionism in Europe especially in the EC and how that would affect the growth of the export sector in Eastern European countries. I am very glad to hear one of our panelists said that this is a chance that various countries including Hungary would be signing a preferential agreement with the EC and if that is the case, the fear of protectionism would be eroded. We are also concerned of the surplus of agriculture produce in Eastern European

countries. We wonder whether the Eastern European countries would, in the future, have the policy of dumping the surplus to the world market and how that would affect Thai export.

(iii) We are concerned about the lack of hard currency in Eastern Europe and the lack of financing facility. Until now, we are still not sure that our EXIM Bank, if it is established, would be able to cope with this matter at all. As I understand, the law drafted at the moment for the EXIM Bank is to help and facilitate businessman to do business better with Eastern European countries. The next problem that we have seen is in the area of transportation. There is no direct line of transportation between the two regions. Goods have to be loaded and reloaded again and again, thus creating undue costs. Lastly, from the private sector point of view, when we import products and, indeed, we have imported more than we have exported, we are concerned about after-sale service. In many sectors, the lack of after-sale service has created a lot of cost and has destroyed the brand names or the reputation of the products from Eastern European countries. Some of these problems have been overcome by the private sector itself. Some have been overcome by our better understanding of the system and better contract. Some have tried to reduce cost by contacting trading houses in Western European countries, but that is still very difficult to do.

The last part that I would like to discuss with you is the policy initiatives of the last government which have not been materialized. First, we thought of having a very close relation with Austria. We wanted to initiate a concept or an approach of looking at Austria as a gate-way for our trade and investment with Eastern European countries. In doing that, we would also offer Thailand as a gate-way for Austria and Eastern European countries to Indo-China. Now there is a choice whether we should look at Austria as a gate-way to invest and to trade in those countries or to find direct channel of contract point in the Eastern European countries themselves. There are a lot of details and arguments for and against that type of conceptualization. This issue was raised once with the Austrian Prime-Minister and it was very well received. We did try to find a model for working together between two countries, i.e. how to facilitate trade and investment between Indo-China and Eastern Europe, how we can connect the development of changes in those two important regions of the world together with Thailand playing a significant role. The second initiative that we thought about or that we planned to do is what I call triangular arrangement. I think it was brought up in inter-agency meetings several times, especially in the preparation for the visit of former Prime-minister Kaifu. The first visit was postponed and there was a Coup d'etat. So the issue I believed was dropped. The idea was that instead of talking to Japan about bilateral trade problems, about

market access, about rice issue, about the white paper. Yes, we would like to continue to talk with Japan in those areas but we can think of other more initiative ways of talking to Japan while taking into account of what is happening in the world today. We remembered that we had to negotiated with USSR several times on rice export because the USSR had asked us to give a special credit and we ran into a lot of difficulties for various reasons. One of the reasons was that how the Thai government could extend credit for G to G sales. It may not be that difficult at all if it is done by the private sector. We have purposed to Minister Nagayama of Japan that instead of asking Japan to import rice into the country which Japan cannot do we would like to ask Japan to finance this type of sales. I still remember one time when we visited Japan, we planned to raise the issue of market access of rice again. Prime-minister Kaifu's advisor asked us not to raise this issue because if the issue was raised there would be no other news in the front page. We realize that Japan has a lot of problems, cultural and political about rice. So instead of asking Japan to import rice, we can ask Japan to buy rice from us, and export it to other countries. Japan has something like the US PL480 and the Food for Peace program. Japan could buy rice from us and sell it or give it as a part of aid package to other countries in latin America or Africa or wherever. That has already been done on the spot basis in the past. But we can think of that as a regular framework. So there are various

forms under the concept of triangular arrangement that can be done by beginning with involvement of countries like Japan, Korea or Taiwan who have a lot of cash surplus and the same way can be applied to our relationship with country in Eastern Europe.

I think the perception of the Thai people or the Thai government is that Eastern Europe is something very important. We have realized that there are problems needed to be overcome and therefore, we would like to take the first initiative . We would like to be a part of such growth, to be a part of such change in a meaningful way. I am glad to hear from our speaker that Eastern European countries will not be a direct competitor against Thailand. I think I have exhausted on that but what would happen in reality and in the future, things remains to be seen. I hope that the Thai government will work hard to facilitate our export and investment in Eastern Europe and they will think more of other initiatives that Thailand can play a meaningful role with a result in helping a private sector to benefit from changes in the region. I would be happy to hear more comments or suggestions from officials from both ministries.

Comment: Changes in Western Europe

Peter Mytri Ungphakorn

Dr. Ammar asked me to be one of the Thai commentators today, and I accepted under great duress. I am not an agricultural economist, nor am I a practitioner in any way. I am a journalist, and as such I am happiest asking questions. So, I'm afraid my comments today will be a series of questions.

I don't apologise for that however. Viewed from Thailand, anything about the future of Europe is bound to be a series of questions. Trying to analyse the future impact of agricultural change, when the nature of that change is itself uncertain, is bound to be fraught with even more uncertainty. I glanced yesterday at the work of some agricultural economists who were trying to predict the implications for developing countries of farm trade liberalisation¹. What impressed me most was how complex the task was: How to include in the models all the countries concerned along with their different characteristics; whether you concentrate on data for the agricultural sector alone (what economists call partial equilibrium), which is easier to compute but fails to take account of related changes, gains and losses in other parts of the economy; or whether you try to tie

¹ Ian Goldin and Odin Knudsen (eds), *Agricultural Trade Liberalization: Implications for developing countries*. Paris: OECD, 1990.

in data from the other sectors (general equilibrium), making calculations more cumbersome and margins of error larger.

At the other extreme is the question of what kind of Europe we are talking about. The EC-12? The Atlantic to the Urals? Or the vision put forward by James Baker on June 18 of a "Euro-Atlantic community" stretching from "Vancouver to Vladivostok". There are a number of ways of looking at "Vancouver to Vladivostok", and personally I think Baker was getting carried away. It would be more realistic for him to stand in Vancouver, turn round 180 degrees and look towards Vladivostok in a Westerly direction.

The questions, however, should not only be asked from a Thai point of view. Failure to understand the issues is not restricted to Thailand alone. In October 1989, three years into the Uruguay Round, I met in Paris officials of the largest French farmers' union, officials whose main duty was to monitor developments in Brussels and the Gatt talks, and coordinating with farmers unions from the other EC members. They were genuinely puzzled. Why was Thailand a member of the Cairns Group? they asked me. As far as they were concerned the Cairns Group was a group of American puppets. Judging by the level of debate in Europe -- at the level of the informed public, as reflected by the work of my colleagues in the press, at least -- on the Uruguay Round agricultural negotiations, perhaps we should be grateful that they had heard of the Cairns Group at all.

They did know that Thailand would lose much of its main market for tapioca (or manioc) if EC agriculture were liberalised, which naturally increased their surprise about Thailand's membership of the Cairns Group. I had to explain that Thailand's pre-occupation was with the \$1 billion the US government had spent on rice subsidies in the first year of the 1985 Farm Act; and that the 1985 Farm Act was retaliation against EC subsidies. But Europe is not a competitor in rice export markets, they said. Put yourself in my place, a journalist who prefers asking questions, having to explain the links that you are all familiar with, between the slump in Thai export prices, the politics of Arkansas, California and Oklahoma, and the Common Agricultural Policy. For the rest of the world, agricultural problems are interlinked. For the United States, agricultural trade sometimes seems like a bilateral issue between the US and the EC, with the rest of the world constituting a pool of potential allies or opponents -- hence Washington's refusal to move on rice until after the Uruguay Round. For the EC, agriculture is an internal affair, and the Americans are interfering. No one else counts.

So here goes with my questions.

1. What do we mean by "Western Europe" when we are looking at the future of agriculture?

Only yesterday, a senior European official expressed to me his private and off-the-record concern that the present EC 12 are

too pre-occupied with the difficulties of monetary union and political and security cooperation, and, he said, paying too little attention to the question of new members -- a topic that Sir Michael Franklin has discussed. Sir Michael's comments on the implications of German unification -- the North-South divide and the rising cost of support as more inefficient farms come under the CAP -- are interesting and presumably have a bearing on the more distant prospect of Eastern European countries joining. I would be interested to hear Sir Michael's view, and that of the other panelists, on a point that some Efta countries such as Sweden are raising, that their more liberal approach, even in agriculture, could help counter some of the more protectionist tendencies in the present or enlarged EC. (I would add that I find Mr Villain's arguments to be convincing: that the Single Market will not have much of an impact on Agriculture.)

2. How is "Western Europe" going to decide what it will do with agriculture?

Take first, the EC-12. For me, one of the comments in Sir Michael's paper is extremely interesting: "... it remains likely that what Agriculture Ministers can decide among themselves will set the boundaries of the EC position in the Gatt, rather than the other way round."

From the other side of the globe, we tend to see the EC first as a monolith and second as a group with different national interests: the French are protectionist, the Dutch are free-

traders, and so on. A closer look reveals that conflicting internal-EC interests cut across boundaries. This, together with the highly complicated decision-making apparatus -- the Commission, the Councils of foreign, trade and agriculture ministers and the European Council of heads of government -- they all add up to some wonder on my part that decisions are ever reached. The rest of the world negotiates with Andriessen, Andriessen negotiates with MacSharry, Andriessen and MacSharry negotiate with the trade and agriculture ministers, who presumably negotiate among themselves. I say presumably, because even when everyone is in the same city, as they were in Brussels at the Uruguay Round ministerial last December with Andriessen and MacSharry shuttling back and forth between the Gatt meeting and the EC's offices where the Council (of trade and agriculture ministers) met, the EC failed to budge. Europeans must excuse the rest of the world for feeling baffled. One day the German *economics* minister says his country is ready to compromise on agriculture, the next day the German *agriculture* minister says his colleague had no authority to make such a statement. Not even during the famous disputes in this country between the Baan Phitsanulok advisers and the foreign or commerce ministries were there such contradictory foreign policy signals. Look also at Britain, that arch enemy of the CAP. MacSharry proposes reform, British Agriculture Minister John Gummer opposes it, on the grounds, if I might be allowed a little poetic licence, that

larger farms are more efficient and should therefore be rewarded with larger subsidies.

That's why Sir Michael's comment about the primacy of ``what Agriculture Ministers can decide among themselves'' rings so true. And it begs the question: Can the 12 agriculture ministers decide anything among themselves? Or, more seriously, can we expect them to agree on any significant change? And, for the longer term, how can a widened or deepened community reach decisions on such an important topic?

Quote: "Could a European Council or Council of Ministers ... cope with 18 or 19 members? With 12 members, the preliminary round of a meeting allows each representative to speak for 10 minutes. This takes two hours, rising to three hours for 18 members and four for 24. Then the second round has to begin."

Continue quote: "In other words, any significant enlargement will entail a profound adjustment in Community decision-making procedures. ... If the intergovernmental approach of the Council cannot operate efficiently with more than 12 or 13 members, it will have to give way to a federal approach. ..." etc, etc.

I apologise for quoting that "f" word, "federal". The writer is a Frenchman, of course, Bernard Cassen of *Le Monde*

*Diplomatique*². The question of when and how the EC will use majority decisions instead of consensus, mentioned by both Mr Villain and Sir Michael, is surely going to be a more difficult one for the Europeans to work out than the two speakers seemed to imply.

3. What kind of reform will emerge, and what will its impact be?

Farm Commissioner Ray MacSharry does have his proposal and it is a useful starting point for trying to assess the implications for the rest of the world. At the risk of being thought a member of the Cairns Group, in other words an American puppet, I would like to thank Dale Hathaway for his enlightening analysis of this document. From a Thai point of view, it seems to settle a question that was asked five years ago, when Thailand embarked on the road of agricultural trade liberalisation by hosting the first meeting of the Cairns Group in Pattaya. What would liberalisation in the European Community mean for Thai tapioca (manioc)? The answer given then was that at first exports would probably fall because the price of EC cereals would fall, but ultimately EC cereal production would be discouraged and demand for Thai tapioca might recover. The MacSharry plan has put paid to that. Deficiency payments that top up incomes will encourage EC farmers to continue to produce cereals despite lower market prices -- but subject to set-aside conditions that Mr Hathaway has argued could cut acreage by only 9 per cent (which

² Bernard Cassen: ''How Large Is 'Europe'?'. *European Affairs*, August/September 1991, No 4.

Sir Michael has called "substantial"). "The demand for feedstuffs will be switched heavily from imported grain substitutes [read: tapioca and maize gluten] to domestic grains."

This could mean a slight improvement in rice prices even if there is no change in US rice subsidies, because of the reduction in the EC grain surplus available for export. There is apparently some substitution of rice for wheat in some countries such as India and China when wheat gets expensive. But it would only be a slight improvement, and surely incomparable to the depressing effect of the US marketing loan subsidies in a year of low rice prices.

In this context, I take seriously the possibility of there being no change in the US rice subsidy programme. The EC stresses that its internal reform is an internal matter not related to the Gatt talks. If the US is dissatisfied with the CAP reform, there could well be no agreement in the Uruguay Round, in which case each participant would be left to decide what to do in its own interests. The EC might or might not go ahead with its reform; there is no sign that the US will cut rice subsidies in the absence of a Uruguay Round agreement. Thailand will end up the loser both on tapioca and rice. Perhaps we should never have joined the Cairns Group after all.

To me, this confirms in concrete terms a doubt I have had all along (and one that agricultural economists have told me is valid, just as Dale Hathaway did in his paper): that "decoupling"

is a false concept. "Decoupling" suggests that deficiency payments that are paid to top up incomes are subsidies that are independent of how much is produced, or that production is independent of the subsidies. Therefore, the argument goes, these income subsidies do not influence or distort trade. And yet here we have an expected 35 per cent drop in the price of cereals that will surely wipe out Thailand's main tapioca market, worth Bt18-20 billion per year. Perhaps that market should never have existed, but can anyone say with confidence that there would still be no market if there were no deficiency payments? Quite clearly the deficiency payments would sustain cereal production at higher levels than would be the case without the subsidies, thereby depressing EC demand for Thai tapioca. If that's not distorting trade I don't know what is.

The issue also highlights an analytical problem. It is no easy matter to put "trade liberalisation" into an economic model, when lobbyists, lawyers and officials are so ingenious at devising complicated programmes instead of simply cutting tariffs, levies and subsidies. Frohberg, Fischer and Parikh, in their chapter in this OECD book³, estimated that unilateral liberalisation by the EC would cause the world price of rice to rise faster than the prices of non-agricultural goods by 1.5 per cent by the year 2000. Unilateral liberalisation by the United States would do so by only 0.2 per cent. But if everyone in the

³ Klaus Frohberg, G Fischer and K S Parikh, 'Would Developing Countries Benefit from Agricultural Trade Liberalisation in OECD Countries?'. In Goldin and Knudsen, *op cit*.

OECD liberalised, the gain for rice would be 21 per cent. Commerce Minister Amaret Sila-on talks of a 25% increase in paddy prices arising from liberalisation, from Bt4,000 per tonne to about Bt5,000 per tonne. I believe his figure comes from an Unctad study. But none of these estimates, as far as I know, considered the possibility of the EC adopting deficiency payments.

I am not competent to comment on the implications for Thai maize, soybean, palm oil and sugar trade. On sugar, the summary of the MacSharry proposal that I have, says tantalisingly:

"The Commission will review the sugar régime in the light of the reform of the arable crops sector and in connection with proposals on the future of the existing régime which expires at the end of 1993. Account will be taken also of the Community's international commitments especially in relation to the ACP countries."⁴

Perhaps someone explain that and also comment on the effect of MacSharry's proposal on these other crops and products.

4. Will the EC's reform be enough to secure agreement in the Uruguay Round?

Dale Hathaway thinks not. Some officials have suggested that in order to rescue the Uruguay Round, a weak agreement might be

⁴ EC Commission, 'The Development and Future of the Common Agricultural Policy: Proposals of the Commission'. *Green Europe*, 2/1991.

reached with a commitment to negotiate further reductions later. (Sir Michael, I noted, said that we should not be too ambitious, and shouldn't hope to achieve everything in one negotiation. I wonder if he has inside information.) Others say Congress would consider a weak agreement to be worse than no agreement.

I have asked a lot of questions there. I'd better leave people time to reply to them. Thank you for listening.