

1 March 1999

UNICE Position on European Agricultural Policy and World Trade**I. Preamble**

1. Today the globalisation of the world economy is an accelerating process which not only includes industry but increasingly extends to all economic sectors. It is marked by a headlong rise in the interlocking of international markets for goods, services, and capital.

Innovations in the field of information and telecommunications technologies together with improvements in transport have added extra pace to the worldwide networking of national economies. Through the gradual opening of markets, this globalisation has released enormous economic potential throughout the world, boosted prosperity, and created jobs.

On the other hand, European business is also today confronted with an international economic environment that has turned out to be less favourable due to turbulence on Asian and Latin American financial market and uncertain economic developments in Russia.

2. Functioning world trade on the basis of the multilateral trading system of the World Trade Organisation is of fundamental importance for European industry and services, for which exports out of the EU are essential. The opening of markets for goods and services has led to a fundamental structural change in individual European economic sectors and enterprises, yet at the same time has considerably enhanced their international competitiveness.

3. Globalisation is also increasingly spreading to the agricultural sector.

In recent years, international trade in agriculture and investment in this economic sector have expanded substantially. The European agricultural sector, and the industries that are close to it, and which are often already very active on external markets, must also come even more to terms with this new global environment and strengthen their international competitiveness. In that perspective, negotiation of a worldwide balanced reduction of support and protection is inevitable.

4. Globalisation inevitably leads to the adaptation of EU agricultural policy. Concrete challenges are:

- enlargement of the European Union,
- multilateral agriculture negotiations to be resumed in the year 2000 under the WTO,
- free-trade areas prospective or under negotiation between the EU and third

countries/regions,

- capturing an increased share of growing world markets,
- improvement of competitiveness in the single market,
- expected surplus of agricultural products and the consequent budgetary problems which the Commission expects around the year 2005.

These challenges are exerting strong pressure on EU agricultural policy and make reform of the Common Agricultural Policy (CAP) both necessary and inevitable.

5. The proposals of the European Commission for reform of the CAP are a central part of the European Agenda 2000 and the timetable it suggests for enlargement to Central and East European countries (CEECs) and future financing of the EU.

In carrying further the agriculture reform initiated in 1992, the Commission is also focusing on GATT/WTO obligations.

UNICE strongly supports a competitive and sustainable agricultural sector in the EU. Agriculture should be able to fulfil its wider role. A prospering agricultural sector is an important basis for many industrial sectors such as machinery and services. It supplies also the food industry with high-quality raw materials.

This reform is therefore one of the pivots for the continued development of the European Union and its position within the framework of international trade negotiations.

6. For all these reasons UNICE has developed the following comments on reform of the CAP as proposed in Agenda 2000.

II. UNICE Position on the agricultural chapter of Agenda 2000

7. On the whole UNICE, welcomes the main goals of the Commission regarding the future development of the Common Agricultural Policy (CAP) and in particular the need for:
 - competitiveness at international level,
 - quality and quantity of European products and/or raw materials,
 - sustainability of the European agriculture sector – environment,
 - adaptation to consumer demand in terms of safety and health.

It also gives its full support to the measures proposed in the framework of the future enlargement to CEECs in Agenda 2000.

Competitiveness at international level

8. UNICE considers that the proposals contained in Agenda 2000 will promote the gradual opening up of agriculture to market forces, greater orientation on market mechanisms and, in the long term an opening of agricultural markets. These proposals endorse the firm conviction that in the long term, the future of the European agricultural sector cannot lie in closed-off agriculture markets. The natural constraints and disadvantages of countries should be taken into account in order to preserve supply of raw materials throughout Europe. The opening of European and third-country agricultural markets should go hand in hand.
9. In particular, the progressive reduction of product-tied subsidies in favour of direct payments to producers/farmers independent of production is a decisive step. The declaration that the principles of the 1992 agriculture reform will be continued, i.e. reduction of EU minimum prices towards world market price levels and replacement by decoupled compensation, will cut distortion of agricultural production and trade. The positive contribution of farmers to development of a sustainable environment should be duly taken into account in the CAP reform.
10. For industries that are close to the agricultural sector, the availability and cost of raw materials, at a comparable level of processing ability and consumer safety, are important competitive factors. It is essential for competition that there be convergence of agricultural market prices towards world market prices by means of the gradual opening of markets while maintaining an efficient Agriculture Policy in the EU. The present practice of export refunds - confirmed in the Marrakesh Agreement - is only necessary as long as agricultural raw material prices in the EU are higher than world market levels resulting from price support measures.

11. The CAP reform should pay attention to the widening use of agricultural raw materials also for non-food use. A clear policy for this future-oriented and developing area will enable farmers and industry to strengthen today's markets and develop them world-wide, and to benefit from high quality raw materials with high value-added performance.

Quality of European products and/or raw materials

12. The quality standards highlighted in the proposals of the European Commission have a key role to play in achieving the goal of international competitiveness with open agriculture markets. UNICE therefore welcomes the fact that the marketing of healthy and safe food is one of the main priorities of the CAP. It is also in the interests of the industries that are close to the agricultural sector that the cornerstones of agricultural policy must be the supply of high-quality raw materials, free trade in goods, fair competition, environmentally sustainable production, consumer protection. Binding European standards on raw materials should also be applied to imports provided such application is consistent with WTO provisions.

Sustainability of the European agricultural sector – environmental protection

13. As is the case for industry, agricultural production methods must be environment-friendly to ensure their sustainable development. The impact of environmental protection measures on rural areas and industrial structures in the processing sector should be assessed. Producers need sufficient transition periods, co-operative interaction with public authorities and means to implement their clean production processes in order to continue to produce in a competitive way.

Adaptation to consumer requests in terms of security and health

14. The European Commission is right to underline that agricultural policy must also be guided by consumers' expectations of safe and healthy products. These consumer interests and the different levels of standards within the EU they imply must be taken into account but must not be indirectly misused in order to erect new non-tariff trade barriers.

Enlargement of the European Union to CEECs

15. The enlargement of the EU to the east is both a challenge and an opportunity for the European agricultural sector as well as for the European economy in general. In the candidate countries applying for EU membership, agriculture is more important than in the EU countries, at the current stage of their economic development with regard to both GDP and also the proportion of the population employed in agriculture. On average, in these countries over 20% of persons in gainful employment are still in agriculture.
16. Regarding enlargement, the planned expenditures on CAP have to undergo a careful evaluation. Furthermore, the overall aim of consolidation and restructuring of the total EU budget has to be taken into consideration while assessing the necessary volume of CAP expenditures
17. That is why the Commission has adopted the right approach in focusing on the urgently required structural adjustment in rural areas as part of the pre-accession aid for the candidate countries. In the run-up to the membership negotiations with the central and eastern European countries, it must be ensured that the Europe agreements already in place are adhered to and that no prior tariff increases are made. This must be supplemented by the mutual adjustment of legislation. If these proposals are implemented consistently and speedily, the result will be a strengthening of the competitiveness of European agriculture as a whole.

III. Forthcoming WTO negotiations

18. Important incentives for a prompt start on the reform of the CAP are the WTO negotiations on agriculture to start in the year 2000 and the new WTO negotiating round now pending. Other important trading partners, such as the USA, and the agriculture producer states that are members of the Cairns group, can be expected to voice clear demands for a further reduction in restrictions on agricultural trade. By implementing reform of the CAP the EU can adopt a constructive approach which makes it possible to take the legitimate interests of European farmers seriously into account while avoiding being forced into a defensive position in the multilateral WTO negotiations. Besides, the EU should request that the measures of other trade partners which are also trade-distortive should also be abolished at the same time. From this point of view the EU also has to adopt an offensive position in the forthcoming multilateral negotiation regarding agricultural subsidy practices in third countries.
19. From the point of view of the whole of the European business community, any stagnation in the further course of the liberalisation of world trade must be avoided. The pending WTO negotiations on further market opening and the removal of barriers to trade will probably - as was the case in the GATT Uruguay Round - be closely linked to negotiations on agricultural policy. This means that vital interests in liberalisation shared by the whole of the business community - e.g. protection of intellectual property, services, reduction of tariffs, removal of non-tariff trade barriers - would all be directly dependent on progress in the agricultural sector. The future WTO negotiations should lead to a global, substantial and balanced agreement.
20. The reform of the CAP and the worldwide development of the agricultural markets are important for the international economic relations of the whole of the EU. Today, some of the agricultural policies of the industrial nations can impede efforts to integrate into world trade undertaken by the developing and newly industrialising countries, and also the reformist countries of eastern Europe. For these countries it is imperative that the export of agricultural products should assist in coping with the structural change of their economies. On the other hand, the agricultural producers are important trading partners for the EU and are significant markets for European industrial goods and services. It is therefore in the interests of the whole European economy that the EU should give its backing to the dynamics of open markets on the basis on the multilateral trade system.

IV. Conclusion

21. UNICE considers that the Commission's proposals are generally well-suited to launching the necessary reorientation of the EU agricultural policy, greater market orientation, and an increase in the competitiveness of the agricultural sector. UNICE demands that the Commission be particularly vigilant regarding third countries with support policies, direct or indirect, in order to reach balanced results.
 22. UNICE is convinced that reform of the CAP within a reasonable period of time is necessary and also possible. This means that the trading partners of the EU must also engage in a determined effort to reduce levels of support and protection of their respective agricultural sectors. Sticking to the status quo does not appear to be a realistic political option. However, the changes must proceed step by step with time to enable the agricultural sector and the industries close to it to embrace the necessary structural adjustments.
 23. This UNICE position is intended to be a contribution to the on-going debate at EU and WTO level. UNICE wishes to remain in close contact with Community institutions on this dossier and its experts are at the EU's disposal to study additional issues and pursue the dialogue.
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