

In recent years, agricultural policies have brought about excessive growth in farm production in developed countries. World farm output outstripped growth in world demand, with the result that stocks have grown and international prices for agricultural commodities have fallen dramatically. Although in the past few months stocks have been somewhat reduced and some prices have made a modest recovery, the need for reform that addresses the root causes of the problem is still urgent.

The financial position of farmers exposed to low world prices has deteriorated. Costs of farm support programs have increased dramatically and constitute a major charge against countries' treasuries.

The international community has recognized that the problems of agricultural trade will not be solved unless their underlying cause — excessive domestic support and protection — is addressed. The OECD has determined that government support to agriculture has more than doubled in the period between 1980 and 1986 to more than \$300 billion a year.

This situation has been aggravated during the last decade by the slowdown of demand related to world economic developments, further increases in supply arising from technological advances in developed countries, and expanded production in some developing countries.

Certain policies stand out as being particularly damaging to the world agricultural economy. In 1977, the European Community (EC) had a deficit in cereals trade of 24 million tonnes. High farm support prices have transformed this into a surplus of 14 million tonnes in 1986; a net change of 38 million tonnes in less than a decade. The EC has resorted to export subsidies to dispose of its surpluses, affecting all traditional exporters and causing the United States to react with export subsidies of its own, through the Export Enhancement Program. This export subsidy competition has driven world prices down to levels well below US domestic market prices. Although recent decisions by the EC are intended to constrain agricultural support expenditures, the effects of these measures on production and trade are, in Canada's view, not likely to be significant.

Prime Minister Mulroney first introduced agriculture as a Summit issue at Tokyo in 1986. Leaders then noted with concern the surplus in agricultural production that had resulted, in large measure, from domestic subsidy and protection policies. Consensus was reached that action was needed to redirect policies and to discipline agricultural production in light of real world demand.

That same year, Canada played an instrumental role in the founding by Australia of the Cairns Group of agricultural exporting nations. The Group includes 13 diverse countries and has established far-reaching objectives for agricultural trade reform, a major item on the agenda of the Uruguay Round. The problems of agricultural trade were a major priority of Canada at Venice in 1987. The Venice Economic Declaration gave a strong, unqualified endorsement of the 1987 OECD Ministerial communiqué on agriculture, a document that had reaffirmed the need for a concerted reform of agricultural policies, and had established a set of principles for reform.

At their most recent meeting, Cairns Group Ministers agreed on the need to develop the elements of a reform package by the middle of this year. The Group aims to enhance the prospects for a collective commitment to a framework for agricultural reform at the MTN Mid-Term Review Conference to be held in Montreal in December. Canada takes the position that this framework should include short-term and long-term elements. The latter would include improvements in the GATT rules and reductions in those support measures that are trade and production distorting. In the short term, Canada advocates a contractual freeze on new trade-distorting measures as well as early relief measures.

In Toronto, Summit leaders will review progress towards agricultural trade reform and discuss the tasks that remain, particularly in relation to the Multilateral Trade Negotiations.