



Minister for
International Trade

Ministre du
Commerce extérieur

STATEMENT DISCOURS

CHECK AGAINST DELIVERY

87/13

Address by John McDermid,
Parliamentary Secretary to
the Honourable Pat Carney,
Minister for International Trade,
to the Canadian Federation of
Agriculture

OTTAWA

March 4, 1987.

Canada

Ladies and Gentlemen,

I appreciate the opportunity you've given me to speak to you this evening. I take it as a recognition of the growing importance of trade for agriculture, as well as of the complexity of agricultural issues generally.

Annual meetings are usually a useful occasion to take stock of events over the past year, an opportunity to try to put some intellectual order into what can appear to be, during the year, a chaotic series of more or less unrelated events.

In the few minutes I have I would like to take you through some of the major events of the past year so that they can be seen in perspective. On that basis we should be able to see more clearly what the prospects for the immediate and longer-term futures may be.

One of the themes that marked the past twelve months is the extent of linkages between domestic and international policies. Whether in agriculture or in other sectors, these are making the development of trade policy an increasingly difficult task for all of the players on the international scene.

If we look over the past year, it is clear that the international trading system has continued to be subjected to intense pressure from many sides. The economic situation of the major trading countries, combined with international monetary and financial problems, have exacerbated the protectionist pressures that lurk at the edge of the trading system even at the best of times.

At the Punta del Este meeting of GATT Ministers last September, Canada noted that the world's prosperity over the past forty years owed a great deal to the institutions that individuals of vision established at the end of World War Two, including notably the GATT. In the forty years that have followed, however, the commitment of all countries to the GATT has been subject to all kinds of domestic pressures, and particularly so in agriculture. Governments everywhere have, for one reason or another, succumbed to the temptation to take policy decisions on purely domestic grounds, while setting aside - or ignoring - any implications for their trade interests as exporters or importers. Thus many countries have, at one time or another, acted outside of - or sometimes against - the rules of the GATT. Moreover, in agriculture, the GATT has become riddled with derogations, waivers and other forms of exceptions. Over time the authority of the GATT has been

.../2

eroded. This is particularly true in the area of agricultural trade, although it has also occurred more recently in textiles, clothing, automobiles and steel, to cite some other examples.

Everyone has seen the difficulties we have had in defending our access to the United States market, whether it be for wood products, hogs, flowers, or any one of a whole series of products. But those problems are not unique to our relationship with the USA. It is difficult, if not impossible, to sell some goods in Japan or the EC or a range of other countries. We have also heard allegations that some aspects of our own trade policy could be liberalized.

In the face of the parlous situation of international trade, Canada urged on all countries the need to restore vitality and discipline to the international trading system. WE have initiated negotiations bilaterally with the United States, our principal export market and the major supplier of Canadian imports, in order to bring greater predictability and security to our trading relationship. Our access to that market, and to others as well, has been threatened by the implementation of trade policies which are the extension of domestic policies. One current example is wheat. There the combination of USA deficiency payments and set-aside schemes with currency revaluations have led to inefficiencies which partly engendered the USA's Export Enhancement Program. And that program has hurt Canadian wheat producers, who rely on the international market for 80 percent of their sales. Canadians generally depend on international trade for more than one-third of their incomes and it is essential that they have some confidence that their livelihoods will not be jeopardized by capricious actions of others. It is worth reminding ourselves that international trade accounts for about 50 percent of farm income in Canada, and that we cannot therefore afford to stand by and watch while the international trading system works its way through its difficulties.

Although the preponderant part of our trade is with the United States, Canada was one of the countries that promoted the launch of a new round of GATT negotiations. We can not afford to neglect our exports to, and imports from, other parts of the world. Moreover, it is clear that some issues which arise in the context of Canada/USA negotiations have larger ramifications and need to be dealt with on a broader basis than the bilateral context.

As you well know, over the past year, Canadian agriculture has been particularly stressed by developments in international trade.

The United States 1985 Food Security Act intensified dramatically the competition for international markets and has led to decreases in international prices for Canadian exports of grains and oilseeds. The implementation by the USA of the Export Enhancement Program made it more difficult for Canadian farmers to make an honest living. We all know and understand that the USA adopted that legislation partly because it perceived that excessive subsidization by the EC had, over a period of years, eroded the United States' market share. The EC, when it adopted the Common Agricultural Policy three decades ago, aimed to achieve greater self-sufficiency ratios. The EC's policies have been "successful" beyond the wildest dreams of their originators. One of the major changes on world markets over the past ten years has been the transformation of the EC from a net importer of most major agricultural products to a net exporter of those products. Whether it be wheat, beef, sugar or dairy products, the EC now has accumulated massive surplus stocks and has moved into foreign markets acquired through its export subsidies.

The result of these USA and EC policies for Canada has been the unwelcome spread of the subsidy war to our traditional markets in the Middle East, Eastern Europe and China.

For other agricultural producers, of course, the fall in grain prices is seen as helpful relief in the constant struggle to survive. Livestock producers, for instance, are benefitting from low feed prices. As a result, surplus beef stocks are expanding, for example, in the EC.

The new USA aggressiveness has also manifested itself in negotiations with the European Communities over compensation due to the United States from expansion of the EC to include Spain and Portugal. The threats of retaliation and counter-retaliation which were publicly exchanged during the past year did not help to inspire confidence in the capacity of the international system to maintain a reasonably secure and predictable international market. In the event, that issue was resolved at the last minute but the uncertainty and tension which resulted will take some time to dissipate. Another major dispute between the EC and a number of its trading partners is now looming over the EC Commission's proposal to impose a domestic tax on fats and oils. Such a tax, if imposed would erode the value of access negotiated with the EC in the past and could therefore lead to another major dispute.

Trading tensions, of course, are not confined to agriculture. Products such as aircraft, fish, alcoholic beverages or electronics products, and measures relating to subsidization for domestic or export production, to access to one's domestic market have all become the subject for heated

international debate. Many of these disagreements arise from a lack of clarity or rules governing trading relationships or from conflicts between domestic policy-making and international trading obligations.

These issues, and many more which fill up the international trade agenda, bring into sharp focus the differences of view as to countries' rights and obligations with respect to trade measures. They are the symptoms of the increasing complexity of linkages between domestic and trade policy as well as of the erosion, over time, of the authority of the GATT.

It is an examination of these difficulties which has led Canada to the conclusion that there is a need to liberalize trade rules. And that need is even more urgent for agriculture than for other products. That is why we promoted the launch of a new GATT round, although we have not confined our efforts to the GATT.

For example, with respect to agriculture, the Prime Minister took the initiative of raising agriculture at the Tokyo Summit last May. In preparation for those discussions, the Prime Minister and a group of Ministers met with key farm leaders. As a result, the Prime Minister carried into the Summit the acute concerns of Canadian producers. Tokyo was the first occasion when heads of governments of the most important countries in the world publicly recognized that adjustments to agricultural policies were required.

Since then, Canada has participated in meetings with other like-minded countries to continue to promote the need for fundamental reforms of policies which affect trade directly and indirectly. It is clear that, without reforms of such policies in all of the major trading countries, we would have to continue to live with subsidized competition from abroad in our own domestic market as well as in the export markets which we have traditionally served. And the simple fact is that we can ill afford such expenditures on a continuing basis. The efforts at coordination of our approach with that of like-minded countries, which have focussed on the new round of GATT negotiations, were useful in securing in the GATT a suitable and forward-looking mandate for the new round.

The Secretary of State for External Affairs has referred publicly on certain occasions in the past to a possible Canadian initiative to commission a group of international experts to examine agricultural trade problems and to recommend some possible solutions, particularly with respect to the shorter term. We very much regret that the international consensus which was a prerequisite to the

successful launch of such a group could not be achieved. We wanted to ensure that the efforts of such a group would not just lead to another report full of good ideas. We wanted one which would mobilize governments to action. The discussions in the context of that proposal as well as in other forums such as the Wheat Exporters' Ministerial meetings, the OECD and elsewhere have, however, served to advance the international debate.

The current international picture in agriculture is certainly gloomy. I would like to be able to affirm that we are now emerging from the proverbial tunnel, but I fear that such an unqualified expression of confidence could be misunderstood. I would be the last to deny that there are hopeful signs for the future. Indeed, we are doing all we can, together with our trading partners, to bring about a more rational environment for agricultural trade. We are urging on our trading partners the need for decisions to ease the current trading tensions in the near future. But we also need to attack some of the root causes of the crisis we find ourselves in. We see the GATT negotiations as being a useful tool to restore the health of the international agricultural trading system for decades to come.

Those negotiations are now formally launched. More importantly, with respect to agriculture, we secured an undertaking to liberalize agricultural trade and to "bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines". In effect, what emerged from the Punta del Este meeting was a commitment by all of the GATT countries to find ways to make the GATT more effective and more workable. The result should be a more predictable and secure environment for international trade, where competition will no longer depend only on the resources of a country's Treasury. When compared to the negotiating mandates of previous rounds of GATT negotiations, it is clear that the Punta Declaration is the most forward-looking that we have ever achieved. If the promise of the Declaration is kept, we can look forward to seeing a reasonable agricultural trading framework emerge.

Delegations in Geneva have now agreed on more detailed negotiating plans for each of the subjects under negotiation. That agreement, which was reached a few weeks ago, marks another step forward in the arduous negotiation process. With much of the procedural aspects of the negotiations now resolved, substantive deliberations can begin. While progress may not look spectacular, it should be considered against the backdrop of the Tokyo Round, when it took essentially two years to resolve procedural aspects.

Another hopeful sign arose from the OECD's Agriculture Committee. At its meeting last December, that Committee recognized the seriousness of the problem as well as the need to deal with measures which distort trade. The Committee also noted that, "Public opinion and policy makers now recognize the seriousness of the problem and the urgent need to provide real solutions. It is essential that a series of complementary measures be rapidly taken so as to improve in the short term the functioning of markets and their equilibrium and to encourage the long-term adjustment of the agricultural sector."

Over the next few months, we will be receiving from the OECD the final conclusions to an extensive four-year study of agricultural policies and their implications for trade. I expect that the OECD Ministerial Council, which meets in May, will provide an opportunity for Ministers to reflect together on the international trading tensions in agriculture. Similarly, the Venice Summit of heads of government of the seven leading industrialized countries provides a further opportunity for world leaders to consider the full implications of the current impasse on agricultural trade.

All this talk is fine, but where does it lead us? What should you expect to see change as a result of our activities in the bilateral and multilateral contexts that I have referred to?

In the medium term, it is clear that we are heading toward an improved trading system for agriculture, with better, clearer rules which should minimize the scope for the kinds of disruptions that are making it more difficult for Canadian farmers to survive.

In the context of Canada/USA bilateral discussions, our negotiators have been tasked with developing a package which would improve market access for our products, improve disciplines on subsidies affecting trade and improve disciplines on technical regulations to prevent their use as disguised barriers to trade.

The timetable for these negotiations is shorter than that for the multilateral effort. The USA law authorizing the Administration to conclude these negotiations expires in January 1988. This means that, given the domestic process the Administration has to go through, the negotiators will have to decide by October of this year whether they can initial a draft agreement and recommend its acceptance to their governments. The USA Congress will then have 90 days to decide whether to accept the eventual package but it will not be able to pick and choose among the elements of the package. Obviously, the agricultural part of those negotiations will not be easy.

Tariffs affecting Canada/USA agricultural trade are already relatively low or are the same on both sides of the border as a result of past negotiations in the GATT; indeed, about half of our agrifood trade is already duty free. Past negotiations have not, however, resolved non-tariff barrier issues. These tend to be linked to domestic agricultural policies. Although the extent of assistance varies between commodities, it can be argued that the level of aggregate government assistance in Canada and the USA is roughly comparable. The different nature of the support measures, as well as the differences in the way in which assistance is delivered, will, however, make these discussions thorny.

On the multilateral front, I must confess that it is rather hard to be optimistic about immediate progress. Until the GATT negotiations are completed, some two to three years from now, Canada is, and will be, doing all it can to promote some concerted international action to alleviate the crisis. It remains to be seen, however, what might be achievable in the short term. In the longer-term, there are also obvious questions about what Canada might do in terms of its own policies to help restore rationality to international markets. It does not seem useful to me to speculate on these questions at the moment. We do, however, need to be thinking about this, since any negotiation which deals seriously with international reforms in agriculture will require contributions from all countries.

I wish that I could conclude with some rousing comments on the prospects for immediate improvements in world trade conditions, particularly for agriculture. I think that the prospects for improvements are very real and very promising. But it may take a little while longer to reach our goals than we would like.

In order to achieve these goals, however, it will be very important over the coming months to ensure that our domestic consultative processes work well, so that Canada can speak confidently with one voice at a range of international meetings. The continuing need for discussions with industry is what motivated the government to put in place the ITAC and the SAGITS. We are counting on these groups as well as on your representations to obtain the information we need to hone the policies that will take us through the adjustment process that is now upon us.