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NOTES FOR A PRESENTATION
BY

PETER CLARK

Unchain your support:
Exposing the decoupling myth

Newsmaker Breakfast
National Press Club
Ottawa
November 1, 2005

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Unchain your support: Exposing the decoupling myth

1. U.S. domestic farm subsides are not the only issue preventing movement in the Doha Round negotiations. The focus is now on European subsidies and market access to the E.U.

2. Over the last few years we have concentrated our analysis on the distortions of U.S. farm support. Today we present our first report on E.U. support and its implications for the Doha Round not only in Agriculture – but in the total package.

3. CAP reform 2003 is supposed to be a major restructuring of support to make European agriculture more market oriented. It redesigns and restructures but the distortions remain. We concluded, as we have in our earlier studies, that when it comes to describing farm subsides in the WTO, truth in advertising is sadly lacking.

4. Green box is a sham. Blue box is a special concession and a cozy deal cooked up by the E.U. and the U.S. as part of the Blair House accord. It was sold on a take it or leave it basis. We are dealing with smoke and mirrors.

5. While the E.U. has taken important steps to reform the CAP, the implications for production and on market access are disappointing; indeed, underwhelming.

Notwithstanding decoupled support, it appears that production of some important commodities will increase. The theory that decoupled support is not trade distorting is a myth.

6. That the E.U. is focusing on decoupling sends an important message. Both the E.U. and the U.S. are determined to paint their domestic support green. They are much more focused on this than on actually reducing farm aid. Decoupling support is the key to the green designation. This is problematic as it ignores the deficiencies and inaccuracies of decoupling claims, as demonstrated by the dispute in *USA – Upland Cotton*.

7. The main feature of the CAP Reform of 2003 is the decoupling of direct payments from production decisions. The E.U. previously provided direct payments to compensate their farmers for significant reductions in reference prices for grains, oilseeds, and beef and veal. To receive the payments, farmers had to produce, so the payments were coupled to production.

8. The direct payments in the 2003 CAP reform do not require a farmer to produce anything. If a farmer decides to simply collect the farm's historical payment and not produce, he can do so provided that the land is kept in "good agricultural condition". Acceptance of the new single farm payments (SFP) also means that a farm must be in compliance with environmental, food quality, food safety and animal welfare standards set by the E.U.

9. For several reasons the effects of decoupling may not be noticeable, at least in the short-run, and it may be hard to track what money is supporting which farmers. The E.U. decoupled payment scheme is trade distorting. Here is why:
   a) Though the reform does decrease commodity-specific aid, many sectors still receive coupled payments. E.U. exports, measured by value, are less than 50% affected by decoupling.
   b) There is a great deal of flexibility in the application of the reforms. This creates less transparency and makes the Common Agricultural Policy less common.

c) There may be external barriers to switching commodity production, such as land suitability constraints and farmer know-how.

10. Decoupling is intended to provide single payment mechanism to support farmers while removing incentives to over-produce. Decoupling should allow farmers to receive direct payments regardless of the commodity produced or if one is produced at all.

11. The E.U. Single Farm Payment (SFP) system does not give farmers full freedom to select which commodity to produce. They can't plant permanent crops, like grapes, certain fruits and vegetable and some types of potatoes. In addition, it may not be easy for a farmer to invest in new equipment or to learn a new set of skills. Furthermore, certain land may only be useful for certain types of agricultural activity.

12. The SFP is based on the historical average of payments made to the farmer in the 2000-2002 period. However, E.U. member states have been given the option of retaining coupling for up to 25% of the payment for arable crops, 40% of the sheep payment and from 40 to 100% of beef and veal payments. In addition, member states can select timing from 2005 to 2007 to implement the SFP.

13. For dairy, the SFP is based on quota held on 31 March 2004 multiplied buy the compensation rate and divided by the average number of forage hectares on the farm in 2000-2002.

14. The Common Agricultural Policy is becoming less and less common. These differences permit the continuation of coupled support and tarnish and negate the decoupling effort.

15. The U.S. Congress, perhaps understanding that their own decoupling initiatives did not liberalize trade, is insisting that the E.U. open its markets much more than has been offered. Congress wants real market access commitments. So does the G-20. Developing countries are concerned about E.U. shifting their support from the Blue Box to the Green Box, and the E.U. wants to keep the Blue Box.

16. The 2003 CAP Reform does decrease commodity-specific aid. Quota systems and maximum guaranteed areas remain in place. Moreover, even those commodities that are decoupled are allowed to maintain, in most cases, some coupled payments.

17. Many commodities remain coupled, including: drying aid for cereals, durum wheat quality premium, protein crop supplement, crop-specific payments for rice, flax, potato starch processing, and dried fodder processing. Fruit, vegetable and wine payments are not affected by the reform. Nor is the sugar support scheme.

18. Intervention prices have been reduced for three commodities, rice (50%), butter (25%) and skim milk powder (SMP) (15%), but direct payments to compensate for lower prices will have been incorporated into the SFP. A cap on rice intervention was set at 75,000 tons. A declining cap on butter was set at 70,000 tons in 2004 with scheduled reductions to 30,000 in 2008. The milk quota was increased by 1.2%. Intervention for rye was abolished.

19. Financial discipline involves allowing the CAP budget to increase by 1% per year until 2008 and if violated, the SFP would be reduced by the same proportion. The CAP reform of 2003 also included a “carbon credit” of 45 euros per hectare for the production of biofuels which E.U. farmers can use to continue to plant on set aside land.

20. In analyzing the 2003 CAP reform, it is important to recognize that for many farmers money is fungible and that decoupling will not likely reduce production.

- Why, if dairy support is to be decoupled and replaced with SFP (income support), will it be necessary to maintain milk production quotas until 2014? Could it be because absent the quotas and overproduction penalties, surplus production would increase rapidly as it did in the period before quotas and super levies were introduced?
- Even if there is an SFP for dairy producers, why shouldn’t they produce up to quota and supplement their income?

- A University of Tennessee study suggests that with or without subsidies, farmers will continue to farm. Therefore, if their revenues continue to be supported, will there be any incentive not to farm?
- Why would farmers, particularly those with capital investment in particular products like dairy, beef and swine, switch into other commodities?

21. The ability to convert amber box payments into green box payments was attractive to the E.U. But nothing has changed as the SFP system:
    - will provide a basic income which permits a farmer to continue to produce what he knows best, with less income/market risk;
    - will permit farmers to top up the SFP with market revenue;
    - will encourage through sales and transfers of entitlements, the creation of larger units which will be able to compete even at lower prices which will result from phase out and removal of reference prices;
    - the lower prices will make it more difficult for other countries to access European markets;
    - the shift in the exchange rate between the U.S. dollar and the Euro will mean a continuing need for export subsidies.

22. The 2003 Reform is a re-packaging and re-orientation of the CAP which will increase the average size of farming units in the E.U. The direct payments,, will permit these larger and more efficient farms to compete profitably at lower reference prices.

23. The 2003 E.U. reform will not solve the current farm income crises because it will not contribute in a meaningful way to stability on international markets. The decoupling efforts are partial and qualified and are not likely to be more successful at reducing production than U.S. "Green Box" programs. E.U. reforms will lower prices, not increase them.

24. The E.U. introduced these reforms to minimize the budgetary implications of enlargement to 10 new countries with smaller farming units. The farmers who will leave

the farm because they cannot cope with lower reference prices will, in many cases, be older operators. They will be replaced by younger farmers who have access to incentives that facilitate the consolidation encouraged by the new CAP regime.

25. This reform and revitalization of agriculture in the E.U. is not meant to reduce production. It will not guarantee improved market access, nor is it likely to increase prices.

26. Spain and France are encouraging rationalization into more efficient units with incentives to new farmers In Spain 5000 small dairy farms have been consolidated into 500 larger ones. In countries like Austria, where herd size is quite small, dairy will be undergoing significant change.

27. The political reality is that while E.U. agriculture will become more efficient, further reform will be resisted, particularly in those countries which have traditionally benefited most from the CAP. The politics of integration – so critically important to the E.U. – are being resisted and threatened by referenda defeats as Europeans who have benefited so much from integration send messages to Brussels that their meddling in the economy and common regulations for 25 countries does not enjoy broad public support.

Commodity Specific Impacts

Dairy Products

28. Between now and 2012, milk production in the EU-25 is expected to be in line with production quotas and will increase slightly to 145 million tonnes by 2012. The Super levy will enforce the quotas and reductions/elimination of the reference price will be offset by direct payments and the SFP.

29. E.U. projections suggest in an overall increase in domestic milk demand in the form of dairy products. As supply remains limited by quotas, butter and SMP exports are expected to and cheese exports to increase in a limited way.

30. Cheese production and consumption are expected to maintain their sustained growth after the slowdown observed in 2002, E.U. cheese production is expected to increase from 8,568 KT to 9,237 KT or by 8%. Imports of cheese will remain relatively low at 114 KT increasing to 131 KT – representing 1.44% of consumption in 2005 and 1.53% in 2012. The 2003 CAP reform will not improve access to the E.U. market for cheese. Clean 5% access for cheese to the E.U. would result in very substantial additional imports – some 300,000 tonnes in 2012:

	Imports	**5%**	**Difference**
2005	114 KT	396 KT	282 KT
2012	131 KT	429 KT	298 KT

31. If the E.U. granted 8% access – which would match what Canada did during the Uruguay Round – the calculations would be:

	Present Estimate	**8% Access**	**Difference**
2005	114 KT	634 KT	520 KT
2012	131 KT	686 KT	555 K5

Butter

32. Production of butter in the new Member States will experience some short-term growth in response to price increases towards E.U. levels. However, EU-25 production of butter and SMP is projected to continue to decrease over the medium term, as more milk is used for the production of cheese and other higher value-added dairy products.

33. Butter production in the E.U. is expected to decline by 10% (2,125 KT to 1,910 KT). The support price will be reduced by 25%. This price reduction should mean that there will be less need for export subsidies. The reduced overhang of E.U. intervention stocks will reduce competition in export markets, but it is not clear if this will improve prices for dairy farmers.

34. Indeed, market prices will fall in the E.U. insulating European dairy farmers from increased imports. Lower E.U. reference prices coupled with high tariffs on imports will discourage imports.

35. In a July, 2005 study, the E.U. Commission projected that imports of butter will be stable between 2005 and 2012 – while exports will decline by 44% (350 KT to 193 KT). Intervention stocks will decline rapidly after 2005 becoming negligible in 2010. While the E.U. cautions that these projections do not take account of the results of the DDA, there is enough water it the E.U. domestic support commitments and scope to insulate sensitive products from further opening of the E.U. butter market and is at best a very remote possibility.

Skim Milk Powder

36. Skimmed milk powder (SMP) production over the period to 2012 will decline by 17% (1,098 KT to 903 KT). Imports between 2005 are estimated at 10 KT annually each year. This is more than 80% below 2003 import levels. Exports will decline by 53% (250 KT to 117 KT). E.U. expects that intervention stocks of SMP will be eliminated after 2004.

37. While the E.U. is no doubt an efficient producer of SMP, the projected imports for the period reflect only 1/10 of 1% of consumption. If indeed the E.U. is such an efficient producer of SMP, that the reference price was reduced by 15%, why does it require TRQ protection?

38. The E.U. does not import any **whole milk powder**.

Beef and Veal

39. Beef and veal production in the E.U. will likely decline marginally over the next 10 years as decoupled payments will allow some farmers to forgo production. Pasture land is not allowed to go into crop production, so with lower cattle numbers, farmers will graze fewer animals on the same area, which is part of the E.U.'s environmental program.

40. E.U. production of beef and veal will decline from 7,938 KT in 2005 to 7,716 KT in 2012 (2%). Live cattle imports will continue to be negligible and live exports will increase by 18%. Imports of beef will increase by 15% from 549 KT to 628 KT. Exports will decline 62% from 266 KT to 101 KT. This is more than proportional to the decline in the dairy herd – which is an important source of E.U. beef.

41. There will be a slight decline in per capita consumption of beef from 17.9 kg to 17.5 kg, concentrated in the EU-15. Per capita consumption in the EU-N10 – will be stable at about one-third the level of the EU-15 level. The beef sector will continue to be an outlet for culled cows from the dairy sector.

42. While the milk quota is increasing marginally, it is not likely to result in more beef production as more productive dairy animals will be introduced into the herd, replacing dual-purpose breeds.

43. While the beef sector will be less sheltered than the dairy sector, its continuing heavy reliance on culled cows from the dairy herd means that it will continue to require some protection. Oxfam calculated and concluded that the E.U. exports beef at 47% of its cost of production[1] and argued that the E.U. could, in the Doha Round, expand such trade distorting support by a massive €28.8 billion from current levels, without running afoul of its anticipated obligations.[2]

44. Our conclusions on the 2003 CAP reform are:

- Decoupling support from the need to produce specific commodities was seen as a great liberalizing solution for E.U. agriculture. But it is a myth, an intellectual fraud perpetrated by bureaucrats who have never been within smelling distance of a farm and who do not understand what motivates farmers to farm or to produce particular commodities.

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1 Oxfam Briefing Paper 76, "A Round for Free", June 2005, p. 3
2 Ibid at p. 4

- Farmers will farm if they have a choice. They are accustomed to working hard and are very much opposed to welfare type schemes. If you give a farmer a decoupled payment, not requiring production, E.U. studies suggest most will continue to produce. It is also likely that they will continue to produce what they are accustomed to producing, particularly if there is any significant capital investment in the current commodity focus- particularly in dairy, beef and pork operations.
- Decoupling, when combined with the SFP, will not guarantee reduced production. Indeed, it will create income security which will insulate E.U. producers from market signals. "Partial" decoupling, which is widespread, is even more likely to encourage increased production. CAP Reform and decoupling will actually result in increased production in some sectors, particularly grains.
- Dairy farmers will no longer have regulated prices, but with the SFP on top of market revenue, and larger herds, dairy producers in the E.U. could be better off than before.
- CAP reform is part of a shift towards larger farming units and younger specially educated farmers who will generate higher productivity. It will be necessary to consolidate into larger scale, more economic units in order to compete.
- The SFP, which can be sold with the land, capitalizes benefits for older farmers and will facilitate their retirement from the sector. This will facilitate the desired consolidation into larger, more economic and more profitable farming units.[3] This trend is illustrated by the Spanish experience where 5,000 small dairy farmers have been replaced by 500 larger farmers[4] – no doubt operating at 10 times the scale. Spain has also introduced policies to facilitate the retirement of older farmers and their replacement by younger ones.[5]
- E.U. market prices will decline. It is hoped that this would reduce the need for export subsidies to meet competition in world markets. However the strength of the Euro opposite the U.S. dollar could change these dynamics.

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[3] See Agra Europe
[4] Ibid
[5] Ibid

- The shift to safety net subsidies will place E.U. farmers in a situation similar to their U.S. counterparts. While they will take less from the market, they will be insulated from price reductions by government support.
- Reductions in market prices and tariffs will not improve market access if the single farm payment (SFP) and other direct payments combined with market revenue continue to insulate European farmers from market forces
- The E.U. support is being moved, not entirely, but substantially from the Blue and Amber Boxes to the Green Box.
- The special concessions in the Uruguay Round with respect to non-inclusion of Blue Box support in AMS reduction was a special gift to the E.U. which the E.U. wishes to continue and which the U.S. now wants to redefine in order that it better fits the evolution of U.S. support.
- Support to dairy in the aggregate will not decline, and is likely to increase.
- Market access to the E.U. for milk and milk products access will not improve from now to 2014 and who knows how much longer. E.U. market access for dairy products will not be improved in the Doha Round based on E.U. market projections and proposals for "sensitive products".
- If the E.U. were to grant 5% clear market access for cheese, imports would increase by nearly 300,000 tonnes annually.
- If the E.U. were to grant the equivalent to what Canada offered in the Uruguay Round – e.g., 8% of consumption - for cheese, imports would increase by over 500,000 tonnes annually.
- Market access for beef and veal products will continue to be less than 2% of consumption.

What does this mean for the Doha Round Negotiations?

45. Since the July 2004 framework was developed, the DDA negotiations have increasingly been subject to demands interlinking progress in the market access and domestic support pillars. These demands for linked progress have intensified and expanded to other segments of the agenda. International Trade Minister Jim Peterson observed that unless there is more ambition – from the E.U. on agricultural market access – very important to

Canada for beef and pigmeat – as well as grains and oilseeds – others will not engage in areas of the negotiations important to the E.U., USA and other developed countries.

46. How real is the latest E.U. offer? They say the offer explores their full flexibility – to me this means this is a final take it or leave it offer. Or at least that is the way it is being played by E.U. negotiators.

47. The latest offer by the E.U. still falls short of what is needed to provide meaningful access to the E.U. as it is conditional on considerable movement in the very short term towards what the E.U. wants from others on:

- extending the scope of protection for Geographical Indicators (USA, Canada, others);
- short term export for credits (USA);
- commercially motivated food aid (USA) Congress has already made it clear that they will not accept the E.U.'s proposed disciplines on food aid. The E.U. demands here are also important to Canada – our pork exports, among others, have been adversely impacted in the past.
- state trading enterprise cross subsidization (N.Z. and Canada);
- countercyclical type domestic support (USA);
- non-agricultural market access (G-20, developing countries);
- anti-dumping (including a lesser duty rule, mandatory public interest proceedings, increased transparency, reduce cost proceedings, and more uniform and predictable enforcement – USA); This is simply not negotiable now and for the foreseeable future Congress does not appear to be in any mood to dilute the effectiveness of their contingency trade remedies system. This is an important issue for many other countries including Canada. But it will be a deal breaker for the USA – another piece in the exit strategy puzzle.
- a meaningful development package;
- services (Brazil, many developing countries). On services, Commissioner Mendelson has upset more than a dozen developing countries who are not at all interested in making commitments on 85 to 90 % of its services sector. There is

little support for numerical targets in the Services negotiations. E.U. insistence on some will bring these negotiations to a halt. This demand is no doubt designed to put Brazil on the defensive. Minister Amorim described the E.U. proposal as :

- Incompatible;
- Inappropriate;
- Imbalanced; and
- Incredibly unrealistic.

48. Brussels claims there must be parallel progress in all of these areas by the end of the Hong Kong Ministerial for the E.U. to maintain its offer on agriculture at Hong Kong.

49. There are many issues listed above which could scuttle the negotiations. It is a recipe designed to drive the negotiations into the rocks – at a high rate of speed.

50. The European negotiators have focused, in particular, on disciplining the use of counter-cyclical payments, a key cornerstone of the U.S. farm safety net programs. Congress has constrained USTR's ability to engage in negotiations that may limit Congress' ability to legislate farm support, but has given assurances of reform – which will ***not*** eliminate CCP – on a basis which the E.U. and others consider to be a repetition of the "Trust me" theme they have heard too often before.

51. The E.U. agricultural market access offer itself is seen as unacceptable by Canada, the USA and the Cairns Group. G-20 does not like it. For many developing countries it does not mater what gains may be made or appear to be made in agriculture. Their experience has been that this has been illusory – not real. They are not prepared to go too far on services – and want to continue with the current incremental approach.

52. It is essential to understand that:

- the E.U. is not going to accept reforms that go beyond the 2003 CAP reforms; and

- their July 2005 projections of principal markets flat line imports between now and 2012 in many important product sectors.

53. We need only examine what the E.U. projects for its own markets after CAP reform to assess what their markets will look like in 2012 when most of the DDA results will be phased in. Market projections for the main agricultural products in the EU-25 were established under a specific set of assumptions. These cover the outlook for the macro-economic environment, with a gradual recovery of E.U. economic growth and a strengthening of the US$ over the medium term.

Is it an offer, or an exit strategy?

54. It is important to examine the E.U.'s latest offer very carefully. Is it a plan for engagement and a desire for balance? Or is it a carefully constructed strategy of non-negotiable "must-have" linkages which provide an exit strategy which if it does not eliminate risk of blame will ensure that it is shared? What does Europe want?

55. Brussels is faced with its own internal divisions and political problems: internal unity along with dissatisfaction with Brussels and enlargement which many consider has already gone too far. Does the E.U. really need, or want, agricultural reform? Is the strong value of the Euro a bigger drain on its budgets than U.S. support programs? Will CAP Reform in its latest iteration provide the budget disciplines the U.K. wants – or will Chirac offer the WTO along with his shrug – le finger?

The French Connection

56. The coming weeks in the Agriculture negotiations will be frustrating for many – and potentially very bitter for the E.U. negotiators who have a not so subtle rebellion in their ranks. France is the lightning rod – but France is not alone. No one else is likely to threaten a veto– but there are others who believe that the E.U. has gone too far based on vague promises from a Congress they do not trust. France is not now and has never been concerned about being isolated – if they believe in their position.

57. France will or could argue that they are defending the basic principles of Article 33.1 of the Treaty Of Rome which sets out the objectives of the Common Agricultural Policy including the highly politicized and highly jeopardized objective to:

> "… ensure a fair standard of living for the Agricultural Community in particular by increasing the earnings of persons engaged in agriculture."

58. President Chirac has thrown down the gauntlet. He has threatened to veto any agreement on agriculture which would require going beyond the 2003 CAP Reform – the reforms which are the focus of our study.

59. This is a realpolitik situation for France. The French citizenry voted against the E.U. Constitution. French farmers have been very critical of Brussels' performance in the Doha AoA negotiations. There will be an election in France in 2007. France knows how to say **non!** and does not hesitate to do so.

60. Don't think that France cannot block consensus because it is part of the E.U. France is the Member State – and remains the Member State. The E.U. speaks on behalf of its WTO members but it is not a member state in its own right. And as we know from the Doha Ministerial experience with India consensus means unanimity – one dissident can block consensus.

61. So the threat is real and one should not discount France's willingness to exercise its veto on issues which could adversely impact its economic and political interests.

62. France treats ambitious market access proposals by the USA with high skepticism – because they are being asked to trust Congress – and they do not. And why should they consider that the USA is loading all the adjustment on the E.U and Japan, while trying to avoid any real concessions of their own.

63. The optics and logic of accepting deeper cuts than the U.S. is not saleable in the French countryside. French farmers – and many other farmers in the E.U. – do not accept that

the U.S. provides less generous support than they receive. In addition, the CAP reform will weigh heavily on older operators and will in some cases accelerate their retirement.

64. European farmers believe that Congress provides as much or more than they do. In reality, Congress simply packages it differently. Reporting from Washington to the WTO on subsidy expenditures is incredibly late and extremely fuzzy. The USTR position that:

- there be no changes in green box support; and
- that USDA be permitted to retain counter cyclical payments

does little to support Washington's claims of great sacrifice.

65. Another failure to move the agenda to the point it should have been nearly 3 years ago should create the crisis that makes governments realize that they risk crippling the WTO, an organization they would need to invent if it did not exist. This does not mean Ministers will wake up one morning looking out at one of the most beautiful harbours in the world and collectively decide to stop bickering and agree to do what they said they would do 4 years ago in Doha.

CONCLUSIONS

66. These are serious challenges facing ministers at Hong Kong. The E.U. agriculture offer and its attached conditions further complicate the negotiations. Can there be enough progress, enough specificity on the full range of issues to catalyze results?

67. These potential roadblocks have been present for a long time – but the focus on agriculture has deflected attention from differences in these areas. No one wants to fight on several make it or break it fronts. Concerted discussions of these other issues at the Ministerial will focus attention on these differences and underline how fragile the negotiations are. This really does seem to be the round no one (except Mr Lamy and the E.U.) really wanted at Seattle.

68. Brussels is still far from what the U.S. wants – and the E.U. has said they have gone far enough – and they are not going further, the negotiations will be into a salvage mode – preserving what they can – either to continue their endless running on the spot to wait for a better time – or do the unthinkable and admit failure.

69. Failure would seriously damage the WTO – and force a serious re-evaluation of the Organization.

70. But the E.U. is quite right:

- the negotiations are to be based on a single undertaking;
- the negotiations are about more than Agriculture;
- others too must contribute though their own concessions of interest to the E.U.;
- if there is no balance, there will be no deal.

71. Do not expect the E.U. to engage in unilateral disarmament on the road to Hong Kong. There have been several rounds of CAP reform. And these reforms have been crafted very carefully to meet E.U. budgetary concerns while preserving the basic principles of the CAP and trying to address WTO pressures for liberalization.

72. Canadian Ministers seem to understand that Canada has already gone further than most. The proposals on the table do not meet Canada's needs and some demands are simply outrageous. It is hard to engage in unilateral disarmament if there is no hope of reciprocity and if some major participants are insulated from the very proposals they advocate for others.

73. It may well be that the G-10 will be prepared to see the DDA crash and burn if the option is to bite cyanide filled bullets by opening their own very vulnerable agricultural markets and reducing domestic support.

74. The E.U. is not setting out to make life easy for other players. They are laying down demands which some may find unacceptable – forcing them to dig in their heels – and

increasing the chance of consensus being blocked by others, i.e., India or Brazil which will be much more on the defensive in resisting E.U. demands.

75. The sense of urgency which has been created is both real and artificial. The U.S. will get fast track authority if it likes the deal. If they do not, Congress will vote it down.

76. No one can realistically expect to sell a deal in U.S. mid-term election year. From a U.S. perspective, 2007 is better but as I recall it will get mixed in with French election politics. French elections can be somewhat more manageable than U.S. elections but they too are problematic.

77. Everyone has work to do. The U.S. needs to do more to cut its subsidies substantially. The E.U. needs to do more on market access and everyone must provide significant new trade opportunities for developing countries. It is after all a development round. In turn, developing countries need to open their markets in services and manufacturing, and lower their own agricultural protection

78. We must give the benefit of the doubt to the E.U. – that they are serious about achieving progress in all areas. There are many member states which need liberalization outside agriculture. France may find it more difficult to be inflexible with out equally determined company. And France needs an ambitious deal on Services. So does Canada – services accounts for 69% of our GDP but only 12 % of our exports.

79. Are we heading for a crash or a lowest common denominator result? My experience suggests the latter as the former is unthinkable. This calls for a hard nosed but flexible approach – otherwise we will have spent and wasted a lot of time and effort. The heads of the World Bank and the IMF are urging flexibility among the major players. Pascal Lamy is an encouraging change at the top. Hong Kong may not give Canada everything we need, but if the major players are serious and the biggest ones resist a take it or leave it approach, there should be enough movement to position us for resolution in 2007

which is the only real window which does not risk being slammed shut by U.S. election pressures.

80. The LCD approach will require careful balancing. We did not collect on what we bought and paid for in the Uruguay Round. The Prime Minister and his team are getting good marks for his determination to enforce our rights on Softwood Lumber. Hong Kong will require the same type of dedication and determination. If not, we will overpay once more and be engaged in an endless game of catch up to ensure delivery of what we thought we bought and paid for.