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**“European agricultural policy in a changing environment”**

Check Against Delivery  
Seul le texte prononcé fait foi  
Es gilt das gesprochene Wort

Europa Lecture

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Excellencies, Minister Goff, ladies and gentleman.

Firstly, I should like to thank Professor Roy Sharpe, Vice Chancellor of Canterbury University, for his kind words of introduction.

I should also like to express my sincere thanks to the National Centre for Research on Europe and the New Zealand Institute of International Affairs for co-hosting this event.

I should like to say what a great honour it is to be invited by Minister Goff and the New Zealand Parliament to deliver the sixth Europa lecture in this magnificent and historic setting.

Today I'm a long way from home, but in some ways I could almost be on my own doorstep. Culturally, the European Union and New Zealand have a great deal in common. If anyone doubted that, they should read the Joint Declaration which we signed in 1999. In our shared commitment to supporting democracy, to the rule of law, to human rights, to environmental protection, and to so many other causes, it is clear that we see the world in essentially the same way.

One of the things we have in common is the importance which we attach to agriculture. The EU and New Zealand are both highly successful agricultural exporters. In fact, although we are so far apart geographically, we are direct competitors in a number of markets. And of course, the EU is itself an important market for many of New Zealand's key products.

Perhaps it's not surprising, then, that the Common Agricultural Policy (or "CAP") seems to have been mentioned in every Europa Lecture given to date! If we want to understand relations between the EU and New Zealand, we can't leave the CAP out of the conversation.

I know that this point is taken seriously in New Zealand, and I hope that each party in our relationship is moving towards a clearer understanding of the other's circumstances and concerns in the agricultural sector. Genuine understanding of EU agricultural policy is like gold dust – because so much discussion of this topic is founded more on myth than on up-to-date knowledge.

At this Europa Lecture, let me recall that before Europa became a continent, in Greek legend she was of course a woman. The god Zeus, impressed by her beauty, disguised himself as a bull and carried her off to Crete on his back.

I think this is a good illustration of the way some people see the relationship between the European Union and the CAP. In their view, the CAP has always been the EU's jailer. They believe that narrow agricultural interests took control of much of the EU's business early in its life and have imposed irrational policies ever since – thereby wasting public money, creating and dumping huge surpluses, and creating blockages in world trade talks.

I would like to shine the light of fact on this over-developed myth.

To see the CAP of today in its proper perspective, we have to understand its history and the context in which it was created.

In legal terms, that history goes back to the Treaty of Rome – the founding document of what has become the European Union, signed in 1957 by France, West Germany, Italy, the Netherlands, Belgium and Luxembourg.

Among other objectives, the Treaty set out that agricultural policy in the signatory countries should aim:

- to increase agricultural productivity;
- to ensure a secure food supply at reasonable prices; and
- to give the agricultural community a fair income.

These aims were to be achieved through a free internal market with high domestic prices. The tools used to maintain high prices were import tariffs, export subsidies, and intervention buying when markets came under pressure.

Let me emphasise strongly that this was a response to very real challenges and anxieties of the time. When the Treaty of Rome was signed, western Europe had vivid memories of the food shortages brought about by two World Wars. National farm sectors were still weak, and there was a serious danger that bankrupt farmers would leave their holdings – creating land management problems and adding to unemployment in the cities.

Citizens looked to their governments for solutions. The CAP was a legitimate attempt at such a solution - and it was very successful.

No one would deny that unforeseen consequences developed over time. Healthy production became overproduction, and the associated level of public spending became a problem.

However, the EU responded to these problems several times in the last two decades of the 20th century. We established production quotas for milk. We limited intervention buying. We partly replaced price support with direct payments to farmers. We introduced compulsory set-aside of arable land. And in the Uruguay Round, we signed up to import tariff reductions and caps on export refunds.

All of these steps marked a significant evolution for the CAP. Nevertheless, over the last few years we have seen a need to go much further as the CAP's context has shifted dramatically, in domestic and international terms.

An obvious domestic change has been the EU's enlargement from a membership of 15 to one of 25 – with more members on the way. All new entrants have brought welcome extra diversity to the Union, but with the diversity have come fresh policy challenges.

Furthermore, we need to shift the emphasis of European farming from quantity to quality. Consumers are growing richer, but they will spend more of their money on food only if they are impressed by its taste, its nutritional value, its production method and origin – and its safety.

Added to this are environmental concerns. Our citizens want farming to help provide clean air and water, attractive landscapes, places for recreation. They want guarantees that farming will not exhaust our land, or poison it.

In external terms, of course the CAP has to operate according to international trade rules. Pressure for open agricultural markets is very strong, and will only get stronger for the foreseeable future.

Faced with this shifting context, we in the EU have grasped the opportunity for change. Since 2003 we have been building a new CAP fit for the domestic and international challenges of the 21st century.

The foundation of our reformed system is a new type of support payment to farmers, which is no longer linked to current production. We call it the "Single Farm Payment".

To receive the Single Farm Payment, a farmer does not need to farm a given product. Instead, he or she must respect demanding conditions of environmentally friendly land management, and public and animal health.

This innovation separates the notion of private goods – goods for the market – from that of public goods.

Now that subsidy is more or less divorced from production choices, farmers are free to produce what the market wants – instead of calculating which subsidy combination will pay the best.

They receive public money to produce the public goods we want – a pleasant, well-tended countryside with high environmental standards.

We have not yet entirely stripped the CAP of its traditional tools. There remains a very limited linkage between subsidy and production; not more than 10% of the direct payments to farmers remain coupled to production. We still operate intervention buying in some of the Common Market Organisations, and we still use export refunds – though within the Doha Round we have offered to phase these out.

But the overall picture is clear: year by year, we are extending the reform principles of market-responsiveness and environmental responsibility to more and more of the products covered by the CAP. Just a few weeks ago we agreed on a sugar reform that brings this sector into line with the overall principles of the CAP reform. This year, the Commission is working on proposals for fruit and vegetables, and wine.

So far, I have been describing the “how” of our agricultural spending. Of course, the “how much” is also important.

In 1995, direct payments and “market measures” under the CAP – in other words intervention buying, export subsidies and so forth – took up 0.51% of the EU’s gross domestic product. In 2005, the figure was 0.43%. By 2013, we estimate it will be around 0.3%. The downward trend is obvious.

And while we reshape our systems for supporting our farmers, we are also busy refining our policy for rural areas in general.

The EU has a strong rural flavour. Rural areas cover more than 90% of our territory and are home to more than 50% of the population. When they are in poor health, the Union as a whole is in poor health. We must help them to develop as places of recreation and bases for enterprise. If we turn our backs on them, we run the risk of rural unemployment – which usually becomes urban unemployment.

In 2005, EU Member States agreed new rules for rural development in the period 2007 to 2013. Under the new system, rural policy will be focused according to three broad priorities, which are:

- the competitiveness of farming and forestry;
- managing the land; and
- diversification in the rural economy, and the quality of life in rural areas.

These three topics for action reflect the diversity of the Union. In some areas, the most pressing task is upgrading the physical and human capital of farming and forestry businesses. In others, the biggest challenge is protection of our landscapes and wildlife. Offering a high quality of life and the means to adapt to changing economic circumstances is relevant to all parts of the EU.

Ladies and gentlemen, I hope that, so far, I have convinced you that the EU has made a huge effort to bring the CAP up to date. The context has changed; the CAP has changed with it.

Let me emphasise just how challenging this has been. The EU has nearly 460 million citizens. It is made up of 25 Member States. Each of these Member States is in turn made up of several regions, many of which like to run their own affairs as far as possible.

Bringing about reform therefore means creating consensus between a large number of centres of power, all of which have their own agendas. Add to this the huge geographical, economic and social diversity of the EU, and you get some idea of the difficulties involved in reform.

People sometimes hold up the theoretical model of full liberalisation for the farm sector, and ask why the EU has not travelled down that road. Perhaps I have just answered that question. The EU works in a highly complex political context; within that context, I feel we have achieved a great deal for the CAP.

Unfortunately, we are not always given credit for this. The CAP still has enemies, many of whom are simply unaware of the quiet revolution which it has been undergoing.

This misunderstanding about the EU and its attitude towards agriculture spills over into discussion about the role played by the EU in the WTO Doha Round.

Too often I hear that the EU has supposedly been a roadblock to progress in the Doha Round, refusing to give significant ground in the agricultural section of the talks.

Let me be extremely direct in my comment on this idea: it's complete nonsense.

Time and time again, it has been the EU that has injected fresh momentum into the Doha process when this has stalled. This was the case in July 2004, when we made a conditional offer to abolish our export refunds. It was also the case at the Hong Kong ministerial meeting last December, where we agreed a rough timetable for this.

Isn't it strange how quickly the focus of attention can shift? For many years, export refunds probably attracted more criticism than any other aspect of the CAP. But as soon as we made concessions of real value on this issue in Hong Kong, our critics simply turned their guns on other aspects of our Doha offer.

So let's examine what the EU has proposed within the other two "pillars" of the Doha agricultural talks: domestic support and market access.

We have offered to lower the ceiling on trade-distorting domestic support by 70%. Some people play down the value of this by saying that we can achieve that figure without further reforming the CAP. That's true. So what? I would describe the situation in slightly different terms: We can make such a valuable offer because we have already been pro-active about reforming the CAP.

In any case, the 70% cut is more than a paper cut because it locks in changes at the international level. It prevents back-sliding to old ways of doing things.

With regard to import tariffs, the reductions which we have offered are very significant: we just halve our average tariff from 23% to 12%.

Those cuts in themselves should mean substantial gains in market access for our trading partners. But it is important to realise that the full value of these gains arises from our offer as a whole, not only our proposal on import tariffs.

If the EU scales down trade-distorting support, this lowers domestic production. If it abolishes export refunds, that reduces our exports. Both changes leave extra space for our competitors on our market and on other markets.

On the basis of the offer we have tabled, we expect to see a significant impact on our farm sector. I'll give you some quick examples. We would probably lose most of our share of the world export market for dairy products. Our exports of coarse grains would fall. We would also import far more beef and poultry. The full list of likely consequences is a long one.

The EU can accept sacrifices like these as part of a balanced deal in the Doha Round. But we cannot accept that it is up to us to make offers, while others simply make demands. Everyone must bring something to the table in this Round; and everyone must benefit.

With regard to agriculture, that means that the subsidy elements of food aid, state trading enterprises and export credits must be disciplined in parallel with the EU's export refunds. We also have to move up a gear in our discussions on Geographical Indications.

Outside agriculture, it means that we have to get serious about opening markets for industrial goods. The conclusions to the Hong Kong meeting clearly commit WTO members to showing the same level of ambition over non-agricultural markets as over agricultural.

It would also be in everyone's interests to recognise the huge dividend that could be paid by a more liberal world market in services.

Ladies and gentlemen, I'm coming to the end of my efforts at challenging myths about European agricultural policy and its international influence.

The CAP has certainly never been perfect. As a former farmer and a former agriculture minister in Denmark, I know this as well as most people.

But I also know that the EU's agriculture policy cannot be summed up and then dismissed with a few critical soundbites and colourful images. It helped rescue European farming and the European countryside from a very dangerous situation in the post-War period. It has shown itself accountable to the wishes of the EU's citizens and to international rules and needs. As its setting has changed, it has evolved.

I look forward to the time when simplistic opinions about the CAP also evolve.

Thank you for your attention.