

SPEECH BY MR CHRISTOPHER TUGENDHAT, COMMISSIONER OF THE EUROPEAN
COMMUNITIES, TO THE NATIONAL FARMERS' UNION IN STAFFORD ON
10 JANUARY 1980

EMBARGO: THURSDAY 10TH JANUARY 1980: 15.00 H

The Common Agricultural Policy is a central but increasingly controversial policy of the European Community. Its escalating costs are now a matter of public concern not only in the United Kingdom, but throughout most of the European Community. Opponents of the Community or the C.A.P. welcome this concern, supporters are worried by it. Both wish to see the problem tackled.

The action of the European Parliament in rejecting the Budget for 1980 indicates a widespread belief among Members of the European Parliament that without drastic action to highlight the imbalance in Community expenditure the Council of Ministers would continue to postpone decisions - which only they can take - and to let things drift.

It is my contention that the Common Agricultural Policy is necessary and important for Europe, that a European Community without generally free agricultural trade would not be conceivable and that the changes which are urgently required in the policy should be designed to improve it and eliminate its distortions and not to tear the CAP up by the roots.

Background

Let me therefore remind you of the background to the CAP as we know it today. The Treaty of Rome, signed in 1957, was drawn up in a world where the experiences of World War II were still very much in people's minds. The problems of securing essential supplies in time of crisis, and the accompanying food shortages were among those vivid memories. The ration books were not yet gathering dust, and the prospects of excessive supplies of major food products seemed an impossible dream. The need to increase co-operation and self-sufficiency in a world where vital supplies could be cut off at any time appeared self-evident .

Thus a "Common Agricultural Policy" which would increase agricultural productivity, ensure a fair income for producers, and provide stable supplies of reasonably priced products for consumers, was devised. Against this background the policy has had certain remarkable successes. If our problems now are different, because we have increased production in many sectors that is a measure of the success. Europe is not yet self-sufficient in food - we still import three times as much as we export - but significant progress has been made towards reducing our dependence on external supplies of what is the most vital good of all.

Let me underline this point by contrasting the situation in energy supplies. The West allowed its dependence on external energy supplies to grow, blandly assuming that oil would remain cheap and plentiful. We postponed the investment necessary for developing our own energy resources and lost valuable years. In the 70's and 80's we are facing the consequences.

We should therefore beware of the arguments of those who believe the UK could obtain adequate quantities of cheap food from outside Europe. World prices are volatile and supplies are not always secure - experiences in the beef and sugar sectors in recent years are clear reminders. Security of supply is a very valuable asset and as such needs to be paid for. However its cost, as with any form of insurance, must not be excessive.

Problems of the C.A.P.

The CAP is now facing the need for change and adaptation within the fundamental principles on which it is based. One of the problems is that the relative decline of agriculture within the economy of Western Europe highlights the failure of the European Community to develop effective common policies in non-agricultural areas, and makes the preoccupation of the Community with agricultural affairs seem increasingly remote from the majority of our citizens. In 1958 20% of the labour force were employed in agriculture in Europe: today there are only 8%. In 1958 agricultural production was 9% of EEC gross national product: today it is only 4%.

Figures for each Member State differ from the Community average. Ireland for example still has over 22% of its working population in agriculture, and Italy over 15%. In France it is now some 9% and in Germany 6%. Everywhere the figures are falling and although it will be a long time before any other country reaches the current UK figure of under 3% the trend is clear. So are the political implications.

The agricultural vote has been significantly reduced in importance throughout the Community, even though in certain countries at certain times it can be crucial to the result of a highly competitive electoral contest. The political situation in Germany at present illustrates this point. It is also true that farmers tend to be highly organised and operate effective lobbies at both the national and European level - your own organisation being one of the best examples. Indeed I would suggest that relative to their numbers the farmers' lobby is probably one of the strongest I have come across.

Nonetheless, our societies are now predominantly urban and industrial, and the influence of consumer pressure groups has increased. In a period of high inflation rates concern about the effects of food prices on the cost of living has influenced attitudes. Many of our citizens are viewing with growing scepticism a Community which devotes an overwhelming proportion of its financial resources to agriculture and relatively little to industrial, social, regional and energy needs, particularly when there are such obvious problems in the last four areas.

It is difficult to explain to any audience why finance available for non-agricultural activities in the Community not only represents a small part of our total resources but that the annual growth in expenditure upon agriculture is so large in comparison to our total non-agricultural spending.

As Budget Commissioner I am increasingly aware of the rate at which the cost of the Common Agricultural Policy is rising. This growth limits and will continue to limit, our scope for action in other areas. Let me illustrate what I mean by giving you some figures. Over the last five years annual expenditure on agriculture has increased at a rate of around 20% - or some 1,000 million pounds per annum. In 1979 around three quarters of our total expenditure went on agriculture.

Sometimes it is argued that agriculture is bound to take the lion's share of the Budget as it is the only really well-developed Community policy. Although it is true that agriculture is indeed a highly developed common policy this is not sufficient reason why the Budget expenditure upon agriculture should increase even more rapidly than expenditure on non-agriculture sectors - sectors where the Community has been active, particularly since 1973 in developing new Community measures. For example, in 1973 there was no Regional Fund. Now we have a Regional Fund, but with comparatively limited resources. If the responsibilities of the common agricultural policy particularly its price support role, had also developed over recent years by incorporating significant new products, this could explain, at least in part, the rapid increase in costs. However, this is not what has happened.

The cause of the considerable rise in costs is essentially the increase in quantities subject to intervention and other support measures. Sometimes there is a great deal of controversy about the means of disposal of these surpluses, but there is no easy or cheap solution to the problem, and it is on the factors giving rise to the surplus production that we need to concentrate. The hungry of the world can not be rescued by a diet of butter and skimmed milk - even assuming that these products could be distributed in the countries concerned in a state fit for human consumption. The internal Community market is already oversupplied/ and increases in consumption of one product are likely only to be achieved by displacing producers of a similar or competing product.

The cheapest means of disposing of surpluses is by export, but even here the costs are high, because Community prices for various important products are generally considerably higher than those found on the world market. For example when we export butter, and remember that we exported 400,000 tonnes last year, it costs the Community Budget some £1,200 per tonne in subsidy. This is almost three-quarters of the price paid to the producer. It is costs of this magnitude combined with extensive surpluses which make milk the most expensive sector for the Budget, taking nearly 45% for all agricultural activities, or 32% of the entire Community Budget in 1979.

This situation is not good for the Community, nor is it good for the Common Agricultural Policy. The combination of soaring agricultural expenditure and increasing surpluses requiring disposal on the world market discredits the Common Agricultural Policy and threatens to undermine its fundamental objectives.

It is important to remember that it is not the CAP itself which is intrinsically expensive: if run on a basis of reasonable balance between production and consumption, and taking account of the vagaries of production from year to year, much of the expenditure would be unnecessary. It is essentially the distortions of the Common Agricultural Policy which have increased costs and these costs cannot now be dramatically cut without taking radical action.

Matters should not of course have been allowed to get to this stage, for the problem could be and was foreseen many years ago. Had the Council of Ministers heeded the warnings which the European Commission has been giving in clear and unmistakable terms over the last three years preventive action could have been taken and the present Community crisis on both finance and agriculture might have been avoided. In 1977, shortly after taking on the job of Commissioner responsible for the Budget I made a speech in Paris criticising the Council of Agricultural Ministers for excessively high price settlements which encouraged surpluses and thus inflated the costs of the CAP. I said:

"It is my belief that the Council's attitude towards surpluses and costs reflects an institutional problem which the Community can no longer afford to ignore ..."

"This tendency of the Farm Council (to do trade-offs between farming interests) will only be corrected if we find ways of more fully engaging the representatives of consumers and taxpayers in the yearly farm price negotiations" (May 1977).

These remarks were then regarded by the Agricultural Ministers as outrageous and I was fiercely attacked. Yet each year since, when the Commission reiterated its warnings and proposed low price settlements, the Council went ahead regardless increasing prices and storing up surpluses and trouble for the Community.

Last month in Brussels the Council took the first step to tackle the problem I referred to in the remarks quoted above. Council agreed on a procedure whereby Finance Ministers as well as Agriculture Ministers would be involved in the consideration of the farm prices settlement for 1980/1. This is a step forward in bringing financial considerations to bear on decisions concerning the CAP, and one very welcome to the Commission.

The European Parliament has made its concern about the run-away tendencies of CAP expenditure clearly heard. The Commission welcomes this concern. A start has to be made in removing the source of surpluses.

There are two reasons why this has to happen. First the attitude of public opinion, particularly as expressed in the European Parliament, and secondly the limit of our Own Resources.

Last year the cost of agricultural support in the Community was around £6,600 million - roughly three times what it was shortly after the Community was enlarged in 1973. If expenditure continues to rise at this rate the cost in 1982 will be around £9,000 million. These multiple millions sound a lot: they are. To put it into perspective this latter amount of money would buy, even at today's high prices, the equivalent of all the farm land in Staffordshire nine times over - assuming you were prepared to sell!! Even if expenditure in the non-agricultural sector is frozen at its 1979 level the Community will not have sufficient funds to finance these and agricultural activities in 1982. If non-agricultural expenditure develops only at a relatively modest rate we will not have sufficient finance even by 1981.

What do I mean by insufficient finance? Unlike finance for the public sector in the Member States, the Community has a very strict limit upon its financial resources. For the Community there is no relatively easy way out: we cannot find extra money just by adding a few pence to income tax or the cost of a bottle of gin. The money the Community has comes essentially from three relatively limited sources. These are customs duties, levies upon/imports agricultural from third countries, and the revenue from, at most, the equivalent of 1% of value added tax. In 1979 finance of Community activities took all of the customs duties and agricultural levies as well as almost four fifths of the total potentially available through value added tax.

Consequently the margin left for additional expenditure is only one-fifth of 1% of VAT which in pounds sterling currently represents only some £1,200 million, or less than one-fifth of our current expenditure upon agriculture. For 1980 the remaining margin may only be half as much unless development of agricultural expenditure can be curbed.

The Community can increase its financial resources. However, to do this requires not only approval within the Council but also ratification by each and every member state. Put simply, if we are to obtain more money we must spend what we have in a manner acceptable to all. If we had relatively unlimited resources then it is conceivable that all reasonable demands and requirements could be met but even under these ideal circumstances I doubt whether tax payers would be prepared to see an agricultural policy develop production for goods where there is no demand other than costly market support measures. No reasonable person can object to the application of support to give stability when production occasionally oversteps demand. Likewise no reasonable person can accept a system where support is given to production which is regularly and considerably in excess of market requirements as is now the case in the dairy sector and with sugar.

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Agricultural ministers now recognise the problem and are apparently prepared to act. The next important step is for ministers to agree upon how the operation should be carried out. There is still a tendency for ministers to contemplate action only when the burden falls upon producers in countries other than their own. To effectively tackle, as we must, the cost of the Common Agricultural Policy, there must be recognition that the only solution that will be acceptable is one where there is a reasonable share of the burden throughout the Community.

Commission Policies

In order to curb development of agricultural expenditure the Commission has recently proposed a series of measures concerning particularly dairy products, sugar and beef. In making these proposals we were very conscious not only of the need to curb expenditure but also to do this in a manner which requires an equitable degree of burden-sharing for all. We examined a wide range of potentially suitable measures. Where we had no choice was on the fundamental need to do something effective to curb expenditure. There was, however, no question of excluding any of the five sectors involved - the three I have just mentioned as well as cereals and fruit and vegetables as they alone account for virtually 60% of total Community expenditure. Obviously if we are to do something effective we have to tackle the big spending areas.

As far as the particular mechanisms are concerned the choice was not easy. For example we examined possibilities of cutting prices, of making exemptions from various of the measures for small-scale producers, of exempting those who are not selling into intervention, giving more weight to regional patterns of production and consumption, granting direct income aids to producers, and so on. Each and every alternative has its attractions but what is certain is that no system, or indeed detail within a system, will be judged by all to be fair and reasonable. How could it be when the prime objective of the operation is to make the agricultural policy less expensive than it otherwise would have been for the Community?

British Agriculture

I think it fair to say that British farmers are generally more favourably disposed towards the Common Agricultural Policy than they were to the system under which they operated prior to membership just over seven years ago. They are aware that particularly in the current climate of austerity in the UK they would face considerable problems operating under the deficiency payments system. This is not to say that British farmers have generally been happy with the functioning of the Common Agricultural Policy. The initial attractiveness in pre-accession days of obtaining parity with producer prices on the continent, and being relieved of the visible disadvantages of guaranteed price/deficiency payment system turned into disappointment when the disparity between the green pound and its true value developed. It is nonetheless fair to say that the question of adjusting green rates to market rates

is essentially the prerogative of the Member State concerned. Each time the United Kingdom has requested the devaluation of the green rate the Commission has made the corresponding proposal. However, with the recent relative strength of the pound and following four green rate devaluations for the pound in 1979, support prices enjoyed by British farmers are very close to common prices for most products.

Inflation particularly over the past few years, has hit agriculture especially hard. Many producers in the United Kingdom have attempted to maintain their financial position through investment, often with borrowed capital, and are consequently, as many of you know only too well, incurring extremely high debt service charges. Even when price levels in the United Kingdom are almost at the common price level the cost of capital employed in agriculture is an extremely heavy burden though one which I do not think should be attributed to the effects of Common Agricultural Policy, nor indeed to the Community. As I said earlier the Commission has warned for many years of financial difficulties due to production outstripping demand for certain products. On this point I would like to stress that with a common organisation of agricultural markets in the nine Member States of the Community we cannot consider each national market in isolation when determining policies, any more than on a national scale producers who happen to be close to markets are entitled to expand whereas those who are more distant have to bear the brunt of any needed cutbacks. Those who advocate expansion without considering the true costs to the economy of the Community are doing a great disservice to agriculture.

Finally, a word upon efficiency. Frequently one sees the claim that British agriculture is the most efficient in the Community if not in the world. Although I would not want to disagree with this claim I do think it useful to consider just what we mean by "efficiency". If we are talking in terms of the organisation and structure of agricultural holdings, or in terms of output per acre, per animal or per hour of labour, then probably the claim is sound. If, however, we are talking of efficiency in terms of output per pound of invested capital, or tonne of fertiliser, or tonne of bought in feeding stuff, then I think the picture is not so bright. It is perhaps more true to say to say that British agriculture generally involves intensive use of resources. For as long as these resources, which are often bought in from the non-agricultural part of the economy, remained relatively inexpensive then agriculture was both efficient and profitable. When, however, the cost of these resources increased more rapidly than the value of agricultural production then even if the efficiency was not considered to have been reduced, most certainly the profitability was.

Conclusion

I cannot give you a recipe for profitable farming. What I can do is to give you the assurance that it is in the interests of all producers within the Community to see that the Common Agricultural Policy remains strong. It is wrong to consider that the agricultural policy is weakened if the Commission endeavours to curb its costs, for if we do not achieve this objective then it is very likely that the whole basis of the CAP will be called into ^{question.} / I do not believe anyone here wants that to happen. I certainly do not.

It is worth noting that the Resolution by which the European Parliament rejected the 1980 Budget included a statement that it "in no way attempted to call in question the principles of the Common Agricultural Policy, but simply to control the cost". We agree with that view.

Farmers should recognise that measures to tackle the abuses of the CAP will safeguard, rather than undermine their interests. What we must seek to develop, - and what I hope will emerge from the present controversy - is a well-balanced agricultural policy which takes into account the interests of Community producers, consumers and taxpayers, all of whom need and can benefit from a system providing secure and stable supplies of food.

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SPOKESMAN'S GROUP
GROUPE DU PORTE-PAROLE
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**PRESSE-MEDELSE
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**INFORMATION A LA PRESSE
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EMBARGO: 10.1.1980, 15.00 H

Brussels, 10 January 1980

**EXTRACTS FROM SPEECH BY CHRISTOPHER TUGENDHAT, COMMISSIONER OF
THE EUROPEAN COMMUNITIES, SPEAKING TO NATIONAL FARMERS' UNION
IN STAFFORD, ENGLAND, ON 10th JANUARY 1980**

The escalating costs of the Common Agricultural Policy are now a matter of public concern not only in the United Kingdom, but throughout most of the European Community. Had the Council of Ministers heeded the warnings which the European Commission has been giving in clear and unmistakable terms over the last three years preventive action could have been taken and the present Community crisis on both finance and agriculture could have been avoided.

The action of the European Parliament in rejecting the Budget for 1980 indicates a widespread belief among EMPs that without drastic action to highlight the imbalance in Community expenditure the Council of Ministers would continue to postpone decisions - which only they can take - and to let things drift.

If as a result of the actions of the European Parliament the Council and the Member States really face up to the problems of agricultural expenditure, the need for effective Community policies in non-agricultural areas, the costs of enlargement, the pursuit of convergence, and the question of whether all these matters can be dealt with within the present 10-years-old limit on Community own resources (revenue), then the temporary financial difficulty faced by the Community will not have been in vain.

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The European Parliament has made its concern about the run-away tendencies of CAP expenditure clearly heard. The Commission welcomes this concern. We have already put to the Council of Ministers a package of proposals designed to curb agricultural expenditure, especially in the dairy sector where costs of surpluses are greatest. Now it is essential that the Council of Ministers adopt this year a realistic price settlement which takes budgetary problems into account.

It is worth noting that the Resolution by which the European Parliament rejected the 1980 Budget included a statement that it "in no way attempted to call in question the principles of the Common Agricultural Policy, but simply to control the cost". We agree with that view.

Farmers should recognise that measures to tackle the abuses of the CAP will safeguard, rather than undermine their interests. What we must seek to develop, - and what I hope will emerge from the present controversy - is a well-balanced agricultural policy which takes into account the interests of Community producers, consumers and taxpayers, all of whom need and can benefit from a system providing secure and stable supplies of food.