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The political and economical influences affecting the common agricultural policy

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THE POLITICAL AND ECONOMIC INFLUENCES
AFFECTING THE COMMUNITY'S AGRICULTURAL POLICIES

Address by Claude Villain, Director General for
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Brussels,
at the European Agricultural Outlook Conference
"Outlook 83", London 2 February 1983

Mr. Chairman,

It is an honour to be invited to give the opening paper here today, and I congratulate you on organising this conference.

Let me say a word of praise, too, for your Journal Agra Europe, which provides a remarkable survey of news and views each week on European agriculture. I cannot say that I always agree with what you write. But it certainly makes compulsive reading.

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It was Julius Caesar who said "Gaul is divided into three parts". He also had the temerity to invade this island. So today I will divide my remarks into three sections:

- first, I want to talk about the political and economic factors which underly the Common Agricultural Policy, both in its origins and in its more recent history.
- Second, I shall say something about the way in which I see the CAP developing within the Community.
- Third, I would like to finish with some remarks about the CAP on the international stage.

I. Political and Economic Background

My first theme therefore is the general political and economic background which determines the shape and evolution of the CAP.

In this context one cannot distinguish between political factors and economic factors. They are different sides of the same coin, of the same human reality which is the work and aspirations of our population engaged in agriculture.

Basically, the CAP is not about cows. It is about people.

My analysis will therefore trace:

- a) the historical origins of the policy
- b) its capacity for change and development
- c) the present situation and prospects.

a) Historical origins

You have in English the saying "politics is the art of the possible". I think that is a fair description of how the CAP has been created and evolved.

Let me remind you that the agricultural policy created in 1962 - when the Council of Ministers took the first historic decisions on common organisations of the market and on structural policy - was not a new thing. It was an amalgam of the national policies which already existed. Of the six original member states:

- most had a policy of stabilising agricultural prices, with interventions in the national markets, and measures at the border;
- all attached basic importance to security of food supplies, and to the maintenance of reasonable incomes and standards of living for the agricultural population.

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The aspect of stability is one which I underline most strongly - particularly for the benefit of those in this audience who are not from Europe, but perhaps from across the Atlantic. One of the things which the Europeans above all desired - and still desire - is to ensure stability of prices, and to avoid gross fluctuations from year to year. This is for three reasons:

- (i) Without the intervention of the public authorities, the normal play of supply and demand in agriculture can lead to violent swings and cycles, because of the erratic nature of production: erratic in the sense that output of crops and animals depends on the chances of weather and disease, which no government has yet mastered.
- (ii) This fact, combined with the inelastic nature of demand for food, makes agriculture more prone to instability than most other forms of economic activity.
- (iii) Meanwhile the world markets for agricultural products, which are residual in nature, are even more at risk of fluctuation than national markets.

Our friends in North America have just experienced the reality of this problem. Their difficulties have been multiplied by the instability of the dollar.

On this side of the Atlantic, I am profoundly convinced that the governments will not and cannot tolerate such erratic fluctuations.

Even in the United Kingdom, before it joined the European Community, this point of view was well understood. Britain before 1973 was not an open market for imports at world market prices. All kinds of instruments existed:

- minimum import prices for cereals and beef
- quotas for butter
- "voluntary restraint" for cheese
- the "market sharing understanding" for bacon.

I have underlined the aim of stability of prices. It helps to explain much of the CAP.

It is not simply a question of economic efficiency. Stability of price does permit farmers to plan ahead, and so to operate with lower economic costs. But there are two more profound reasons:

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- first, food, like money itself, stands in a different category from other goods, and governments have a special responsibility for maintaining its stability. Since I have mentioned money, let me add that those who abandoned the stability of the dollar have a heavy responsibility for the present economic crisis;

- second, the economic and social fabric of our rural regions is an inheritance of history, and governments have a duty to safeguard its stability. Whereas agriculture in the New World has a history of one or two centuries, agriculture in Europe goes back one or two millenia - and more.

b) Change and Development

I have said a little about the philosophy of the CAP. Let me turn to its capacity for change and development.

In 1983 the policy reaches its majority of 21 years. Over those years it has changed and developed. It has not been static. But, like growth in children, the change has been gradual. It is hardly perceived by the eye of family and friends.

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Let me give you three examples:

- (i) The first enlargement in 1973 brought some problems. But it also brought new ideas. The directive on farming in mountain and less-favoured areas is a new and positive departure. The market organisation for sheepmeat is of a new and more flexible type.
- (ii) The second enlargement to include Greece in 1981 has made us more conscious of the need to solve the deep-seated structural problems of agriculture in the Mediterranean regions. We are now adapting our structural measures to the specific needs of these regions. We shall launch integrated programmes, combining agricultural and other measures in an effort to promote regional development.
- (iii) The third enlargement to include Portugal and Spain will add more agriculture of the South. The importance of agriculture in the Community's work force will increase. Our self-sufficiency in Mediterranean products will go up. But already we have begun to adapt the CAP in the perspective of enlargement. Last year the Council took decisions on wine. This year it is discussing olive oil and fruit and vegetables.

So the CAP is not a monolith. It can and does change.

c) Present situation and prospects

In looking now at the present situation and prospects,
I distinguish two themes:

- (i) Incomes and employment in agriculture
- (ii) Supply and demand for agricultural products.

In considering these points, we must put agriculture in the perspective of the economy as a whole. After all, it is not the vocation of our farmers to have the status of the economically handicapped. They are businessmen and entrepreneurs.

Some people - even some farmers - forget at their peril that:

- agriculture is one of the last bastions of private enterprise, for it contains some 5 million independent economic units;
- the average farmer, and even the small farmer, possesses in his land and other assets a capital many times larger than that which the average working man accumulates in a life time.

Yes, agriculture has special problems. But it should not, and cannot, escape from the basic laws of our economy.

(i) Incomes and employment

In the long-term, the CAP has certainly protected the incomes of agriculture, and has stopped too wide a gap emerging with incomes in the rest of the economy. It is true that in the years 1979, 1980 and 1981, farm incomes, in the sense of net value-added per work unit in agriculture, declined by about 9% in real terms. But the rather good result of 1982, when farm incomes are estimated to have risen by 8.6% in real terms, has largely restored the situation.

We have a responsibility to continue to support farm incomes. Because last year was very good, it does not mean that this year we should destroy that progress by freezing prices.

We cannot have a policy of stop-go. That is why we have this year proposed a modest "norm" of 5.5% for the increase in common agricultural prices.

Incomes and employment are linked. One of the reasons why income per head in agriculture has been able to increase over the years is precisely that the numbers employed have declined. In 1958 there were 20 million in agriculture in our 10 member states, and now there are 8 million. That represents an outflow of about 1 person per minute.

The long-term decline in numbers will continue. We cannot stop it. But in a time of economic crisis, with 11 million jobless, we must not accelerate it.

(ii) Supply and demand

The last 20 years have seen a remarkable increase in farm production in Europe - an increase of 2.5% a year. Productivity has gone up through better varieties of crops, better breeds of animal, better machinery, improved management: in short, more rational use of resources. This progress will continue. It is a story of success.

But success has brought with it some problems. Consumption has gone up less rapidly than production. For example:

- in 1982 we produced 23% more milk and 42% more sugar than in 1973;
- but we consumed only 6% more milk products, and 10% less sugar.

Thus the Community has passed the point of self-sufficiency for many products. We have become more dependent on exports for our markets.

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What then are the prospects for demand for food, inside and outside the Community?

Inside the Community, the two important factors are population and purchasing power:

- We estimate that the population of the Community will grow from 270.4 million persons in 1981 to 274.0 million in 1990. That means only 4 million more mouths. It means an annual rate of increase of 0.15%, compared with 0.32% in the period 1971 - 1981.
- We estimate that between now and 1990 private consumption per head will increase at an annual rate of only about 2%, compared with a rate of 3.3% in the last decade.

So we can conclude:

- first, that overall demand for food in the Community will increase less rapidly than in the past
- second, that although the pattern will continue to adjust, with growing demand for processed products and prepared foods with higher added value, this trend also will be less pronounced.

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Outside the Community, on world markets the prospects are hardly more encouraging:

- on the one hand, world population will increase rapidly, from 4,500 million in 1980 to as much as 6,000 million in 2000.
- On the other hand, the capacity to pay - that is, effective demand - will depend on economic growth and credit possibilities. Here there is, to say the least, a question mark. The developing countries and the Eastern European countries have run up a colossal debt. These are the very countries where our agricultural exports have expanded most rapidly in recent years.

So we must conclude that, on world markets, demand may not be strong; and competition from other agricultural producers will be relentless.

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II. Development of the CAP

I have given you an account of the political and economic facts. The European Community intends to maintain an agricultural policy. It cannot and will not abandon it. But how will that policy develop?

It will respond in the first place to the needs and priorities of Europe itself. It will not be reshaped in the interests of our competitors.

Yes, we are conscious of the need for cooperation with our trading partners. The EEC Treaty itself includes in its aims "the harmonious development of world trade". But I repeat: Europe's farm policy will be adapted in response to Europe's priorities, just as the farm policies of other countries will develop in response to their own national priorities. That is normal.

I come therefore to my second main theme, which is the internal adaptation of the CAP. Here I distinguish three aspects:

- a) the level of prices
- b) the limitation of price guarantees
- c) monetary problems.

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a) The level of prices

We shall in future pursue a prudent price policy, taking account both of the state of the markets and of agricultural incomes.

For cereals in particular, we shall continue to reduce the gap between our prices and those received by farmers in the principal competing countries. This programme of alignment is for three reasons:

- First, the onward march of technical progress means that we can produce more cereals at lower real prices. Our cereals growers are efficient. They have yields which are high by world standards. They can compete.
- Second, the price of cereals is a keystone of our agricultural economy. It was an error to fix these prices so high at the outset. Lower real prices for cereals will mean lower costs of animal feed, and in turn more competitive animal production.
- Third, we cannot ignore the problem of imported substitutes, such as manioc and corn gluten feed. In the short term we are trying to stabilise these imports, by agreements with our trade partners. But in the medium and long term, the correct solution is to reduce their attraction by reducing the price of cereals.

It is for all these reasons that in 1981 we announced the policy of progressively reducing the gap for cereals prices. We included it in our prices package last year, when cereals prices were increased less than other prices. We have included it again this year.

I insist that the reasons for this policy for cereals are the interests of Europe itself. We are not doing it at the bidding of the Americans.

b) The limitation of price guarantees

When the CAP and common prices were introduced, it was possible to maintain guaranteed prices for unlimited quantities, regardless of the needs of the market.

That is no longer the case. We have become more dependent on exports. On the world market, we receive the world price; and the difference between that and the Community price is covered by an export restitution.

Our system of restitutions is perfectly compatible with the GATT. But it does cost money from the Community budget, and that budget is not limitless.

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The lesson is simple: it is neither financially possible nor economically sound to expand our exports, unless we do one of two things:

- Either we reduce the cost of exports by reducing the gap between our prices and world prices, as the Commission advocates for cereals.
- Or we ask farmers to pay all or part of the cost of disposing of production in excess of certain limits.

It is in this context that the Commission has developed the philosophy of "guarantee thresholds".

It is a new expression in the Euro-jargon of Brussels. But it is not a new concept. As the Bible says, there is nothing new under the sun. Already long ago the mechanisms of the CAP included:

- the market organisation for sugar, in which production in excess of a certain limit is subject to a levy
- the coresponsibility levy for milk.

We have now refined the concept, and extended it to other products.

It now applies to five important sectors of the CAP - cereals, milk, colza, processed tomatoes, sugar. These five account for:

- 65% of gross expenditure from the Guarantee Section of FEOGA
- 35% of the value of the Community's agricultural production.

The Council decided that, if production of cereals and colza exceeds the thresholds, then the intervention price in the following season will be reduced. Since the thresholds fixed for 1982 have been exceeded, we have drawn the automatic conclusions in our price proposals for 1983. To be precise:

For cereals the proposed increase in common prices of 4% is translated into an increase of 3% in intervention prices: that means an abatement of 1%.

For colza the "norm" of 5.5% is reduced to 4.5%: that again means an abatement of 1%.

For milk, the Council decided that measures should be taken if the increase in deliveries last year exceeded 0.5%, that corresponds to the annual average increase in Community consumption. Therefore the Commission has proposed for 1983 an increase of only 3.2% in intervention prices for milk.

Let me explain three things:

- a) this represents an abatement of 2.2% of the "norm" of 5.5%
- b) it was based on a provisional estimate of 2.7% for the increase of milk deliveries in 1982
- c) if the definitive figure for deliveries is higher - and it now seems that it will be more than 3% - then we shall have to consider proposing a higher abatement.

c) Monetary problems

It is said by some that the system of monetary compensatory amounts is a threat to the existence of the CAP. That is both true and false:

- False, because MCAs and green rates have helped to stabilise prices for food and agriculture, by protecting them from the shocks of sudden movements in money. For example, the recent fall in value of the pound has not pushed up food prices in Britain, because MCAs have absorbed the impact.

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- True, because the refusal to dismantle MCAs within a reasonable period creates a dangerous distortion of competition. It means different national prices instead of common prices. It creates a centrifugal force which may destroy the common agricultural market.

In short, MCAs can be tolerated as a transitional measure, but not as a permanent system.

That is why we seek each year to dismantle them progressively. But our room for manoeuvre is limited. The lower our proposals for common prices, the smaller can be the green changes. We cannot do everything at once in our price decisions. We have to practise the art of the possible.

Moreover, until we achieve greater stability of money in Europe, the problem of MCAs will remain, and the CAP will suffer. So we need to develop and strengthen the EMS. The United Kingdom still does not participate fully in EMS. But, after the experience of the last two months, the case for Britain's joining - in its own interest - must be very strong.

III. - International Trade

My third main theme is the role of the CAP on the international stage. I want to examine this from three points of view :

- a) The multilateral framework which exists in GATT
- b) Our bilateral relations with other trading partners
- c) The development of international agreements for agricultural products

a) The multilateral framework

The General Agreement on Trade and Tariffs remains, and must remain, the basis for our multilateral relations. It has its problems, it has its weakness, but it provides the rules of the game.

Winston Churchill said of democracy that it is the worst system of government, except for all the alternatives. It is rather the same with the GATT.

The European Community has always respected the GATT. That is normal and natural. So far, it has never been proved that the common agricultural policy has infringed the rules, although a number of cases have been made against us. We have a good conscience.

So we shall continue to respect our obligations.
We shall also, when necessary, exercise our rights.

b) Bilateral relations

But among friends and partners, disputes are sometimes better settled privately. We are ready for any discussion with our partners in a bilateral context.

Take wheat, for example. In a difficult time, when the world market is contracting, we are ready to play our part in self-restraint. Under the CAP, we have the means to monitor exports. We have decided not to increase our market share ; but we shall defend that share.

Points of friction can easily arise between exporters - and this is true as much for agriculture as for other sectors. In industry, or in textiles, we have had problems from time to time both with our industrialised competitors, such as Japan, and with the newly developing countries.

At present, the European Community is engaged in agricultural talks with the United States. Last month, I led a delegation to Washington. Next week, we continue in Brussels.

We began those talks in order to find a reasonable way of solving our bilateral problems. I believe that we can do so ; but I must add that, if the other partner were to take unreasonable steps to increase its market share by undercutting the world price - and that is one interpretation which could be put on the recent U.S. flour export deal - then the basis of our talks could be in danger.

Let us not dramatise these conflicts on farm trade, whether with the U.S. or with other partners. In time of economic crisis, it makes no sense for friends to declare war.

For the European Community, it is out of the question to begin a trade war. If I may borrow an expression of President Reagan, we are not about to "raid the henhouse". But, as Mr Reagan also observed, U.S. agricultural exports rose by 500 per cent in 10 years. That has given the U.S. a rather fair share of the world market. Our exports rose less fast. Between friends, it must be understood that we too have a right to a place in the sun.

c) International agreements

The Community has for many years preached the need for international agreements for agricultural products.

Sometimes our partners have listened, at other times they have been less receptive.

I think that the present moment is opportune for us to reopen this dossier, for two reasons :

- First, I have already explained to you the virtues of stability of prices and markets within the frontiers of Europe. Sometimes our critics complain that we secure stability at the expense of exporting instability. That is unjust : and for proof, I mention the actions we are taking to stock sugar and cereals so as to keep them off the world market. We believe profoundly that stability can also be exported. It is in the interest of our partners, as much as ourselves, to secure the best conditions on world markets through mutual and binding agreements.
- Second, experience has shown that international agreements for agricultural products can work. Some limited arrangements exist for milk products, beef, wheat and sugar. I do not mean that these agreements have produced all the results which were hoped. School reports sometimes say at the end of the year : "can do better". That is true of these agreements. But they show that cooperation is possible in the interest of all.

Therefore the Community stands ready to make further progress in this domain. For example, we have said that we wish to adhere to an improved International Sugar Agreement. We hope that other partners will show, like us, willingness and flexibility.

In conclusion of my remarks, I say this. The common agricultural policy is alive and well. It is moving with the times - as it must, in order to survive. Let no one believe that it is on the way out, or that it is going to be destroyed, despite the voices which are sometimes raised to that effect.

Europe can and will defend itself.

At the last GATT meeting, our member states showed their solidarity. That solidarity was forged in the past, in a better economic climate. In the difficult times of today it will survive and emerge, more sure and more strong.