

NEWSLETTER ON THE COMMON AGRICULTURAL POLICY

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THE NEW COMMISSION'S VIEWS ON THE COMMON AGRICULTURAL POLICY

Two statements by Mr. Finn Olav Gundelach
Commissioner for Agriculture:

- Berlin, January 27, 1977
- Brussels, February 12, 1977

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The new EEC Commission took up its functions on 6 January 1977. The new Commissioner for Agriculture, Finn Olav Gundelach, has already outlined his general guidelines for the common agricultural policy. Firstly at the opening of the "Green Week" in Berlin on 27 January 1977, and later in Brussels on 12 February 1977 during a press conference prior to the Agricultural price proposals for 1977/78 being presented to the EEC Council of Ministers. "Newsletter of the Common Agricultural Policy" publishes here for its readers these recent statements. They represent the current orientation of the Commission towards the common agricultural policy, to which it continues to attach such importance.

SPEECH GIVEN BY MR. FINN OLAV GUNDELACH,
VICE-PRESIDENT OF THE COMMISSION OF THE
EUROPEAN COMMUNITIES AT THE OPENING OF
THE "GRÜNE WOCHÉ" IN BERLIN, JANUARY 27, 1977

The Grüne Woche is one of Europe's major agricultural events. It is also an event that each year confirms and reinforces the ties between Berlin and the rest of the European Community to which it belongs. And you, as Berliners, know more than anyone else that such a confirmation is necessary from time to time.

But the Grüne Woche also offers a meeting place for townspeople and farmers, for consumers and producers. Such meetings become more and more necessary as the interests of urban and rural populations become more and more interlocked. This is reflected in the lively debate between consumers and producers over the shape of the Common Agricultural Policy.

This year's event gives me the opportunity to make my first public remarks since I took on responsibility for agriculture: an opportunity to say how we would like to see the common policy develop.

Let me be clear and frank. The Common Agricultural Policy has proved its worth for all sections of our society. It has been a buffer against volatile changes, whether provoked by ups and downs in world production and consumption or by unforeseeable currency change. Yet, at the same time, it has fulfilled its objective of feeding our peoples.

I do not intend to preside over the decline of this policy. We would be foolish to reject something that has proved so valuable. But we would be equally foolish in believing that any policy does not need to be adjusted in its implementation to changes in the economic environment. I will seek such changes.

There is a belief that a deep and inevitable antagonism exists between producers and consumers: that if producers are to have reasonable incomes then consumers must pay unacceptably high prices for their food.

Naturally there are differences of interests and it is through the democratic interplay of these interests that we will arrive at realistic solutions. Such solutions are at hand because whatever the interests of the different groups of our population their fundamental needs are interlocked.

Any sensible food policy accepts the necessity for stocks. They are needed for the security of supply. They are necessary to maintain reasonably stable prices for the farmer. What is not acceptable is the continued build up of structural surpluses and it must be admitted, this is happening with regard to certain commodities.

Let me at this point pay a warm tribute to my predecessor, Pierre Lardinois, who has worked to keep the policy alive and to develop it in the last four years. In tackling the problems that face us now we must try to build on his good work. Because indeed we do have problems.

A solution will require improvements in our policy and its instruments. But there is nothing revolutionary in this. The Common Agricultural Policy has been adapted in the past and we shall go on doing so. All people - politicians, taxpayers, farmers and consumers - recognise that action is needed in the area of structural surpluses and in particular in the dairy products sector. As a matter of fact the dairy market has been a problem-child right from the beginning of the Community. Despite the drought production rose last year and will continue to increase unless balancing measures are taken. The present surplus is manifested by a persistently high stock of skimmed milk powder - a stock which has now been above 1 million tonnes for 18 months and even butter stocks are increasing again.

A part of the milk being produced today cannot hope to find a market other than a public intervention store. This state of affairs is bad for the Community because of the high costs involved and I believe it is bad for farmers themselves. A business that has no basis in the market place is a very risky business indeed.

We face a choice. We can either opt for price moderation or we can allow ourselves to be drawn into a series of tighter and tighter controls on milk production: we can either make the forces of the market work or we can embark on a policy that leads to the spread of bureaucracy and limits farmers' freedom. For me there is no doubt that prudence over price increases is the best course.

This policy must be carried out in a manner that leaves not doubt about future prospects but necessary adjustments will have to be introduced and maintained over a reasonable period of time. We owe it to our farmers to avoid sudden changes in their working and living conditions. We must give our farmers the chance to switch to more viable forms of agricultural or other productions. That is the essence of the strengthened agricultural structural policy which we need. To this policy must be added strengthened regional policies designed to overcome geographical imbalances in our Community. And finally when we say that the common agricultural policy must be seen as an integral part of our overall economic policy, it cuts both ways: in other words, our actions in the social policy field must also benefit the farming population.

We have structural problems to deal with in the CAP and we must face that fact. But other difficulties have come from the upheaval in the general economic situation including low economic activity, unemployment, balance of payments difficulties and last but not least, severe monetary disturbances. Stability will not be brought about in agriculture before these problems have been dealt with and they must be dealt with at a European level. No country can tackle them alone. Nor will Europe be heard in international discussions on vital issues until we have a common stand.

We have some protection in agriculture against monetary disturbance through the apparatus of green rates and monetary compensatory amounts. These help us to avoid reductions in producers' incomes or sharp rises in consumers prices. This protection is necessary in the short term but it is wrong to think that the mechanism can hold off for ever the effects of monetary changes, whether they flow from revaluations or devaluations.

The maintenance of monetary compensatory amounts beyond their proper short term role leads to growing budgetary tensions. The system will cost four times as much this year as it did in 1973 and will necessitate supplementary finance if nothing is done.

Just as serious is the distortion of trade between member states as the monetary compensatory amounts smother the normal working of the market. These distortions, in turn, tempt member governments to add further distortions as we have seen recently in the case of Britain and its pig producers. By allowing the misuse of this monetary protection, therefore, the Community risks the break-up of our common farm market. This is something we must fight to prevent.

The Commission has already tabled ideas on how they can be resolved. Thorough analysis has been carried out in Brussels, in Bonn and in all our other capitals. The agriculture ministers have had the opportunity for long and searching discussions. We have now arrived at the moment for action. I believe that this is vital for the future of the common agricultural policy.

When one thinks of the dangers which face us politically just as much as economically if we fail, one finds the courage to believe that the difficulties facing us in agriculture and in the economy as a whole can be overcome. This year's Grüne Woche appears as a symbol of the will and the necessity to overcome them.

PRESENTATION BY MR. GUNDELACH,
OF THE PROPOSALS FOR THE 1977/78
AGRICULTURAL PRICES

Brussels, 12 February 1977

PRESENTATION BY MR. FINN OLAV GUNDELACH,
VICE-PRESIDENT OF THE COMMISSION OF THE
EUROPEAN COMMUNITIES, OF THE PROPOSALS
FOR THE 1977/78 AGRICULTURAL PRICES

Shortened and revised text of his press conference in Brussels on February 12, 1977

Method of calculation

What are the elements on the basis of which these proposals have been made? As the Treaty demands, and as common sense demands, you start off by considering the needs of the farmers. As in previous years, we have based ourselves on the so-called objective method, which tries to calculate the need of price increases taking into account the various relevant economic factors. But this Community exercise has been complicated by diverging trends of inflation in the Member States and by significant changes in the exchange rates going in opposite directions. If, as one should, one carries out the necessary calculations on the basis of a hypothesis that there were a single market with regard to prices and currencies and no monetary compensatory amounts, then the need for price increases comes out as being very low indeed. But this hypothesis is not in accordance with reality since we have considerable monetary compensatory amounts ranging from + 9.3 % in Germany, to - 33 % in the United Kingdom. If we try to arrive at a more realistic figure by basing ourselves on the countries belonging to the so-called "snake", we come to a figure in the neighbourhood of 5 %. The agricultural organisations (with a different calculation) arrive at the slightly higher figure of 7.5 %. This objective method has its limitations in the present circumstances as I tried to explain. Correctives are necessary because an agricultural policy must not only take into account the special characteristics of agriculture in Europe, it must also take into account the fundamental principles of that policy as laid down in the Treaty.

The Common Agricultural Policy has served the Community well

Let there be no misunderstanding in regards to what I have to say subsequently. I have no intention to preside over the dismantlement of the common agricultural policy. On the contrary. I consider it my first and foremost task to defend that policy. I consider that it is sound in its fundamental principles. I think it has served the Community well. It has safeguarded an agricultural population economically and politically, and it is an important element in the whole of European civilisation. I do not think it

would serve the political development, stability and civilization of Europe to pursue policies which have been pursued elsewhere which would accelerate an exodus from the land into cities and which do not, in the present circumstances and for some time to come, offer employment. I do not think we should pursue policies which force people off the land. I think we should pursue policies which make it attractive again for young people to take up agriculture, not only as a good economic proposition but as a good political and social proposition in the general economic circumstances in which we are living.

I furthermore notice with a considerable amount of interest that in international discussions concerning raw materials and foodstuffs, many of the fundamental ideas which are contained in the common agricultural policy are coming to the forefront. I therefore do not feel that the basic principles of the common agricultural policy are antiquated. Its instruments bring stability to the production of foodstuffs in a world which is increasingly lacking them and security of supply to the consumers. I am convinced that coming international negotiations are going to be based on principles of that nature, which does not mean that there may not be serious difficulties to overcome. But I think these discussions will be considerably less dogmatic in the future than they have been in the past.

Overall economic problems

But having said this, I would equally like to underline that with all its special characteristics which must be maintained, the common agricultural policy can not be seen in isolation from the rest of the economy. It is part of our overall economic policy, and it must be adapted to changing economic circumstances. Otherwise it can not survive. We are living in an extremely difficult economic situation. We are confronted with somewhat lesser inflationary rates than we have had in the previous two years but we are nevertheless experiencing unemployment of an unprecedented scale, which is socially and politically totally unacceptable. A great task of changing our economic climate is therefore in front of the Community institutions and the national governments together with other important economic powers in the world, be they industrialised or under-developed. In this overall endeavour which is of crucial importance in our part of the world for the maintenance of stability, for the maintenance of our type of democracy, agriculture must clearly play its part. The proposals which the Commission is submitting to the Council are assigned to do just that. That means that in terms of anti-inflationary policy, general economic policies, and employment policies, a considerable amount of prudence has to be demonstrated in fixing prices for the coming year.

Outside threats to the Common Agricultural Policy

A second set of considerations which militate in favour of prudence are the difficulties which the policy itself is confronted with. They are the products of the economic situation to which I have just referred, the differences in rates of inflation and

the varying exchange rates. They threaten to break up and, to a certain extent, have broken up the unitary market for agricultural commodities. These difficulties which weigh heavily on the common agricultural policy and on its budget are not the consequences of this policy. They are the responsibility of the overall economic policy. But they nevertheless have their consequences for what we are dealing with. It must be our task to try in a realistic manner to diminish the impact of the monetary compensatory amounts on the free market which is our goal for agricultural commodities as it is for industrial commodities. Consequently, no price package can be made without certain moves with regard to the existing monetary compensatory amounts. This is not just to alleviate the impact on the budget, important as that may be, but it is important in order to avoid the increasing distortion of the agricultural markets which are the result of these monetary compensatory mechanisms. They are not neutral and therefore they must be diminished. The Commission has made proposals for an automatic adaptation which remains on the table. These will probably not be dealt with in the context of the Council's deliberations on the prices. Therefore we are making in this package certain concrete suggestions as to how we can realistically diminish the impacts of the monetary compensatory mechanisms at this point of time, without thereby giving up our long term objective to come back to a situation where monetary compensatory amounts are a transitional instrument to cushion the blow of monetary movements. It is an economic fallacy that movements in the value of money should apply to all sectors of the economy excluding agriculture. It would be a deterrent against too lighthearted decisions on exchange rates if it were realised that they must also apply to foodstuffs. This would be a contribution to the ultimate goal of stable exchange rates.

Problems inside the Common Agricultural Policy

But there are also problems inside the common agricultural policy, which are proper to the policy itself. And that is the building up of structural surpluses. Stocks are part of our agricultural policy and if these move up and down due to cyclical movements, that is part of the normal mechanisms to stabilize the markets and the prices and to secure the supply. What is not normal is that over a long period of time surpluses are building up which can not find a place on our own market or on international markets and which, in other words, are produced for intervention and not even for potential markets. We do not have many structural surpluses. I want to underline that. For the majority of products things are pretty normal. So far we might be confronted with new difficulties in the wine sector. It is somewhat different in the field of cereals. I think beef will strengthen considerably towards the end of the year and subsequently the porc situation will also improve. But prudence is necessary for most of these commodities for general marketing reasons without there being fundamental structural difficulties.

The milk problem

But for dairy products steps have to be taken which are more far-reaching. Last autumn the previous Commission submitted a package to deal with these problems. You all know what the fate of these proposals has been at the Council. No decisions were taken. Besides a very prudent price policy on milk we must therefore continue to press for more far-reaching measures on the basis of the Commission's proposals of last summer and autumn. They should increase consumption and decrease production under socially acceptable circumstances. The most striking element of these proposals has always been the so-called coresponsability levy. This idea has been maintained because it has the great merit of providing us with the financial means to dispose of dairy products in an economically sound manner, be it through human consumption or by making skimmed milk powder or liquid skimmed milk more competitive as animal feed. I insist on the word coresponsability because I would like to underline that the difficulties in the milk sector can only be overcome if there is a genuine cooperation between the decision-making bodies of the Community and the interested organisations. It should be clear that we are not talking about a tax but about a measure of coresponsability. Therefore I cannot accept that it is regarded as a negative price element.

The difficult point in the proposals has been the tax on vegetable oils and fats. There is a real difficulty on this point and therefore we are proposing an alternative which is that the equivalent amount of the tax be used as a direct subsidy to dispose of dairy products. We hope that thereby a way will be opened for compromise. The various other elements in the milk package are maintained but I would like to stress that in keeping with our desire to reinforce the structural aspects of the common agricultural policy, we have proposed a strengthening of the Community financial contributions to the two structural measures involved - the early retirement scheme for farmers between 55 and 65 and the scheme for the reconversion of dairy herds to beef production.

If this package were adopted a major step forward would have been taken. But you will see from the documents that I have demanded a further review of the dairy sector by mid-summer and that I reserve my right to submit subsequent proposals. Naturally, if the Council were not to take action once again on the amended proposals the Commission could forward other proposals at an earlier stage. Because in the long run more is needed. But nothing can be solved from one day to another. The concept of stability to which I referred must also be observed in trying to bring a big industry like the dairy sector on a course which is more in accordance with future possibilities. That being said, I must make it quite clear that I have all the will and determination to go to the end of this road. Let there be no doubt about that. The proposals which we submit today have been limited to what is absolutely necessary at the moment. A second package of a more structural nature concerning such sectors as beef and olive oil will be submitted around the middle of the year.

The price proposals

I should stress that the price proposals constitute a significant effort to be asked of the agricultural community. If that is to be fair, other parts of the economy should be willing to make the same effort to solve our general economic problems. One cannot ask the farm community to solve them alone. Otherwise I would feel that the sector for which I am now responsible will have been betrayed. We have proposed an average price increase of 3 %. The new prices will be introduced at the beginning of each relevant marketing year, with the exception of butter for which, for reasons I have indicated, there will be a freeze of the price until 15 September. At that date, there will be an increase in prices of 3 %, and a coresponsibility milk levy of 2.5 % will be introduced. As regards the reductions of the monetary compensatory amounts, we feel that there should be an effort from all sides. I therefore suggest that Germany cuts its monetary compensatory amounts by a little less than 1/3 (from 9.3 % to 6.5 %), the Benelux countries from 1.4 % to 1.0 %, France, Italy, Ireland by 3 percentage points and the United Kingdom by 8 points because it has the longest way to go.

Impact on consumer prices and specific UK problems

We realize that there is a major problem for butter in the United Kingdom. As the cut in the British monetary compensatory amounts will mean an extra butter price increase in this country, we propose it will be made in two parts, the first half on 1 April and the second on 16 September. Likewise the price increase following the accession treaty will also be spread as much as possible over the year and, moreover, the milk price increase in our proposals will only take place on 16 September. But even with this spread the consequences of the price increases in the United Kingdom for butter are considerable. We are therefore going a long way to off-set these effects, first by financing 100 % of consumer subsidies for dairy products. These subsidies could be the alternative if the tax on vegetable oils and fats is not adopted. They will bring down the price increases for the British consumer considerably. To that should be added an improved butter subsidy scheme in the United Kingdom, to which the Community can also give a contribution. The higher the national British subsidy, the higher the contribution for its financing from FEOGA. If these possibilities are used to the maximum the butter price in the United Kingdom could stay virtually the same over the year. The effects on the cost of living of the proposals in the whole of the Community will be + 0.3 % which I hope and trust consumer representatives will consider as a major contribution to anti-inflationary policies. The actual figure will be even lower partly due to the subsidies I just mentioned, partly due to the fact that the prices I have referred to are institutional prices which for some products have no influence on market prices. In the United Kingdom, due to the accession treaty and the devaluation of the green pound, the figure expressed in institutional prices would be 1.9 % but since some of the market prices are already higher, it will be rather in the neighbourhood of 0.7 % from which you then have to deduct the butter subsidies. So in any event, the figure will be lower than 0.7 %.

Conclusion

I hope I have given the main outline of the policy we intend to pursue now and in the futur. It is the beginning of an action and not the end. I hope that I have indicated that a major effort is being made to take into account the legitimate interest of the producers but subjected to the overall demands of the economy and the state of the market, in particular in the dairy sector. Consumer interests have been honoured and I would like to conclude with an appeal to other sectors of the economy to make equivalent efforts in order to combat the economic crises in which we find ourselves.