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IN BRIEF

The common agricultural policy and the community budget

Extracts from a speech
given by Mr. F.O. Gundelach
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The Common Agricultural Policy, the customs union and the common external policy (of which agriculture forms an important part) are the only fully-fledged Community policies. Beginnings have been made in many other fields but they have either not got off the drawing-board or not gone further than the first steps of a small child. The agricultural policy, on the other hand, is a political achievement which is of tremendous importance to European construction.

The customs union has opened up a market of 250 million people and, through the medium of greatly increased trade and movement of resources, it has brought about a marked increase in the social well-being of people in the Community. It may be that this increased well-being has not been as evenly distributed as it ought to have been, but we have all benefited enormously from the creation of this unified market. But historical, political and economic circumstances were such that a common industrial market could not have been achieved without a common agricultural policy. It is not possible, nor desirable, to limit free trade to industrial commodities. There must also be free movement of agricultural goods. And that can only be obtained with an agricultural policy which aims to support the farm sector.

The reason for this is that there is no way of increasing agricultural incomes rapidly in our highly-industrialised society by increasing the volume of agricultural output. Yet such increases are - or have been - taking place in industry where technological progress goes ahead in leaps and bounds.

If we are to maintain efficient family farms, therefore, we need an agricultural policy which supplies a safety-net, a series of balances, a series of safeguards. The same applies in all industrialised countries, including the United States. In the Thirties, the United States Government adopted agricultural policies which threw millions of people into constant unemployment in the major cities. The present urban problems of big cities like Detroit and Chicago were partly created by the shift in agricultural policy at that time.

We want to maintain our efficient family farms. The policy we want to pursue, therefore, is one that will give those people who want to stay on the land the chance to do so. We want to do this for reasons of employment, and for reasons of making the best use of the land, our biggest raw material. And to

achieve this end, we need an agricultural policy which gives support to the incomes of the farmers. If we do not, farmers will have to leave the land, some of them hoping to achieve an industrial worker's salary. Though, in the present situation of relatively low growth, they can't be sure of finding it. The result of all this would be an increased social problem on the land and in the cities, a further aggravation of an already intolerable burden of unemployment.

I have underlined social aspects of the Common Agricultural Policy, but it isn't just a matter of social policy. It is also a matter of making best use of our resources. One could imagine that our land being used by a highly-industrialised agriculture. It could be done but would require further investment and would result in some 3 or 4 million extra people being unemployed. But there is an economic argument against this sort of agricultural policy. If we were to specialise our agriculture down to a few lines of production - pigmeat, dairying, or whatever - and otherwise rely on imports from other countries, we should find ourselves in acute dependance, and this in a world economy which is unstable and which is plagued by inflation, by supply and energy difficulties - all of which affect agricultural production. We would surely be in the situation that one year we would face abundance but that the next year products essential for our economy and for our more specialised agricultural production would disappear. We simply could not run a food policy on that basis and put ourselves at the mercy of an erratic international economy, and of forces in that economy against which we could no longer defend ourselves.

Furthermore, any economist will tell you that if the Community - which is already the biggest importer of foodstuffs in the world - were to appear on world markets as a massive buyer, then world market prices would not be what they are today. These markets are fairly limited and are highly susceptible to changes in demand and supply. If we were to enter these markets as a massive buyer, world market prices would be around our own level - even higher for most of the time - because we are a very big consuming entity. So, when we talk about the common agricultural policy we must remember the assets of stability of prices and certainty of supply, to which must be added the varied supply of food which exceeds other consumer areas in the world.

This should not be taken as meaning that the Community should seek to become a closed and protectionist entity. International trade takes place not only in industrial but also in agricultural commodities, so that agriculture is part of a broad economic picture. The Community's economic lifeblood depends upon being able to buy raw materials and semi-manufactured products, develop them further and trade them with each other and the rest of the world. Our whole social fabric, our social system - I will go so far as to say even our democratic system - lies on our ability to operate in an open world economy. We shall not be able to sell our industrial products if we establish a closed fortress in the agricultural field. We have to bear in mind that we have to trade with countries who are running a high deficit with us because they import our industrial goods. But, I think, we are finding a balance, and we are the biggest importer of agricultural products in the world.

Whether this import bill is put together in the right manner is one of the questions we will have to debate. A significant part of these imports, for instance, consist of fodder substitutes, and this is one of the problems we shall have to face in the months to come. We are also big importers of sugar and some dairy products, issues which are delicate, but which I suggest to this Committee must always be dealt with in the broader framework of the economy and our fundamental interest in a reasonably open world. We are operating in a world economy which is increasingly dominated by major economic blocs or by groups with common interests. It would be folly to believe that any individual member of the Community could take care of its own economic interest on this international stage. There is no room for a flock of small European countries in the big international battle which is going on at present. It is only by operating as an entity and negotiating in common on the basis of our fundamental and common interest that we can defend our economic interests.

This was the way the Community negotiated in the recent GATT talks, and we have achieved considerable improvements. In the past, the common agricultural policy has contributed to a bad relationship with our trade partners who are all interested one way or another in agricultural trade. I'm not going to say that this time we have achieved miraculous results, even though we have achieved useful ones for access to important markets for our more developed products, including those from the dairy sector. But we have got out of the

situation of trench warfare in which the Community has lived with its partners for the last fifteen years. We have started a constructive dialogue, which bodes better for achieving our goals of a higher degree of stability, a higher degree of transparency, and a higher degree of coresponsibility for adapting world agricultural policy to the world's increasing needs. We are living in a world where there is a growing shortage of foodstuffs, and that element too must be taken seriously into account in our agricultural policy, and in our collaboration with other producing countries, be they industrial or developing.

But if matters are as clear and well-founded as this, why the debate? Why the criticism? Why the uncertainty? Why all these attacks on the Common Agricultural Policy? It is evident that a policy of this nature costs something. And this cost presents itself in various ways, sometimes in prices higher than those prevailing on the world markets, and sometimes on the Community's budget. I do not believe - for the reasons I have just indicated - that the cost is too high. I think that our security of supply, our independence, our ability to collaborate internationally and to share our responsibility for meeting real food needs in the world is worth money. It also saves the public budget a great deal of money on other chapters, the social budget being just one example. Nor must we forget that it certainly is of importance to the balance of payments of a number of our Member States, and that a number of the regions of Europe which are in the greatest difficulty, are heavily dependent upon agriculture and have no alternative.

If we take the increase in the Community budget as a yardstick for the cost, and if we take into account inflation, I do not believe that the cost is unacceptable. It is when we look at the way in which the sums in question are being used that we come up against a difficulty. About half of the extra yearly cost of the agricultural policy is accounted for by the dairy sector. To get to the next items you have to drop down to 10 per cent for beef and a little less for sugar and cereals. Expenditure on these other items is either below or at the level of the increase of the own resources, about 10 or 11 %. This seems to indicate that whilst there are adjustments to be made to various sectors they are running in a not too unsatisfactory manner. But there is an enormous jump between these products and the dairy sector, where the growth rate of expenditure is 48 per cent a year.

Herein lies our difficulty. It is not in the interest of those who have to pay for the Common Agricultural Policy, or in the interest of the Community, that a vast amount of extra spending is being used for the production of commodities for which there is no natural market either inside the Community or outside. We have taken a number of steps which have brought the budget up to a high level. We are supporting butter sales inside the Community through consumer subsidies, through subsidies to special organisations, through welfare subsidies, and through subsidies to the processing industry for human consumption. We are also supporting the use of milk powder both internally and externally, including for food aid, and the use of skimmed milk and skimmed milk powder so as to make it competitive with soya. Our disposal policy for skimmed milk powder has been successful. I inherited 1.3 million tonnes of powder in stock and it has now been brought down to about 300,000 tonnes. But this has only been achieved at a tremendous cost. And even with special sales programmes for butter, public stocks are now 315,000 tonnes and Community-aided private stocks amount to another 250,000 tonnes, and they are increasing.

Despite all the money involved, we are not able to bring about consumption increases which parallel those in production. Despite all these efforts, we have jumped to a higher trend for increasing production of 2 % a year, even this year with a price freeze. And the consumption trend is at best stable - increases in the consumption of cheeses and certain new products being offset by falling butter consumption despite all the efforts of support. In my view, the cause is a fundamental change in the dietary habits of our consumers, due to an entirely different life-style which means less fat. Margarine consumption is also falling. This is not the time nor the place to go into a fundamental discussion as to how this problem should be solved. I am only signalling that it is a priority problem, and that, without a solution, the Common Agricultural Policy will not regain the credibility which it deserves. It will not be in a position where its future demands for more money will be credible.

I realise that expenditures in the Community cannot be kept within the present financial regulations for ever and ever. Own resources will have to be increased, and in any event the enlargement of the Community will make this absolutely necessary. But own resources can only be increased by unanimous

decision of Council, by positive decision of the European Parliament, and by ratification by Member States' national Parliaments. It is inconceivable that such an increase could be approved to meet an extra bill for more surpluses of butter and a bit more for meat and sugar. Consequently, we have to put our house in order, so that we can ask for an increase when it becomes necessary. To obtain an increase to meet, say, the extra expenditure due to enlargement, we shall have to demonstrate that we are using our resources in a sensible manner, economically and socially.

The Common Agricultural Policy was conceived as a market policy, where certain prices were fixed for operating Community preference, and for providing a safety net for the incomes for the producers. It was expected that most commercial transactions would take place above that safety net. But for a number of important products, the safety net has moved up and become the market price, which was not what was originally intended. In my view, the cap should remain a market policy. All attempts to have a detailed and planned agricultural policy have failed, and led to undersupply to the consumers. On that point I must be categorical. It follows that price policy will continue to be a main element of Community agricultural policy.

Support prices are important because they play a significant role for farmers' income, and they are an important element in deciding the prices consumers have to pay. I don't think there is necessarily a fundamental difference between the needs of consumers and producers, but of course there is a difference of interests. And with a policy of this nature it is the role of the political institutions of the Community to arbitrate in a democratic way in order to find a solution which is reasonable balanced.

The price policy will therefore remain the main instrument of the Common Agricultural Policy. A more prudent price policy over the last few years has led to a situation in which agriculture has contributed to the fight against inflation. Most of our home-produced agricultural products have on average increased less in price than consumer prices. Milk actually increased the least. But it is equally clear that the price policy cannot stand alone. There are certain market situations where any effort to solve the problem by the price policy alone would take many more years than we have available. It has to be accompanied by mechanisms whereby there is an influence on the level

of production, and where the financial responsibility of the Community finds a reasonable limitation. The open-ended guarantee to buy any amount of dairy products at fixed prices is not acceptable because of the financial consequences.

We have, therefore, to achieve a limitation of that financial responsibility which will make Community expenditures more reasonable and which will also take into account the important social problems which exist, not least in the dairy sector. Between 1973 and 1978 nearly 500,000 small dairy farmers left agriculture. That exodus of less-efficient farmers will to some extent continue but it should take place in circumstances which are socially acceptable. The price policy I put in the centre, but it must be a price policy based on the costs of an efficient family farm, not of the most inefficient producer. If not, we are naturally trying, through the price policy, to solve problems which should be solved by other means.

Farms which fall below the level of the efficient family farm have to be helped by some other means. Here I am talking about structural policy, which I believe has to be re-cast to suit present-day conditions. The early 70's have seen too much emphasis placed on increasing productivity in areas which were already becoming quite productive. We are trying to swing structural policy around so as to concentrate efforts on helping people out of sectors of structural surplus, or on assisting farmers in the less-well-off areas of the Community to become more efficient. I do not exclude the possibility of so-called income aids - possibly as a last resort - but I am not a very enthusiastic supporter of that system. I would vastly prefer that funds were used to re-organise and stimulate agriculture in the most defavoured regions so that they become efficient. We have seen from the first results of last year's Mediterranean package that such a thing can be done. This package aims to re-orientate agriculture in that region through a mixture of aid to improve the structure, to provide technical assistance, and to provide aids for the processing of fruit and vegetables and other aids of that kind. It is more profitable, more dignified, and more satisfactory to give aids of this kind than to give out income aids, which will always be considered by producers as some kind of social help, which puts them apart from the productive class.

I will sum up my position in this way : the Common Agricultural Policy is essential to the Community and it must be safeguarded and further developed. It must continue to be based on financial solidarity, on Community preference and on the free movement of goods. Price policy remains a fundamental instrument and must be pursued, as in the last few years, with extreme prudence. We shall face difficulties at the next price-fixing because of the increases in cost caused by the increase in energy prices. But the price policy cannot stand alone, because we will run up against our budgetary ceiling in 1980. Not in 1981 or 1982, but in 1980. Of course, there is some uncertainty as to this, because the weather could change, and we might have a very bad crop, or international economic forces could change, but we are nevertheless confronted with an immediate problem which makes an additional component to price policy necessary. I would not call this "quotas" because I do not believe in a far-reaching regimentation of trade and production in the agricultural field. But this additional component should involve some indication of tolerable levels of production, so that we may define where Community financial responsibility lies, and how far it goes. Finally we shall have to re-assess our external policy, however painful it may be. For whilst I think we should continue to collaborate internationally, it is clear that we are now in an anomalous situation. We are increasing our imports of fodder substitutes, production in certain sectors is in surplus, and we are facing pressure from certain Third Countries to increase our imports of these fodder substitutes. Now here is a set of contradictions with which we cannot continue to live. If we are to maintain a certain trade in these products, and a fair production ourselves, then there is a limit to our capacity to import increasing amounts of soya and manioc. As the Committee will be aware, we have come a long way in negotiating proper settlements in regard to manioc imports. But it is quite evident that in a discussion about a better equilibrium in agricultural production in the short and longer term, we shall have to look at the highly-disputed and delicate issue of the imports of soya and other vegetable fats.

We must give the farmer of Europe a greater feeling of security, in the way we handle our immediate problems, than he has today. We must conduct our discussions and take our measures in a way that reassures him of his future. Only by doing that are we entitled to demand certain sacrifices, a holding-back in certain commodity areas, particularly dairy products. That holding-back is necessary not as some sort of penalty, but as reaction to the

situation of the market. It is only acceptable to the farming Community, however, if it is seen as an element in a broader perspective in which farmers can see clearly what they can count on, where they can plan, and where they can adapt. If we just take a series of ad hoc measures so that farmers cannot see from one year to the next, then they will have a very difficult time in accepting what has to be accepted. And we will throw the Community into a political strife which we can quite well do without. Our task together is, therefore, to take the imperfections of the Common Agricultural Policy seriously, to have the courage to admit their existence, and to deal with them in a manner which will make the rest of the policy credible. By doing that we shall create a sounder, more permanent, less contested basis for the activities of farmers in years to come.



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