EUROPEAN COMMUNITY
GREEN EUROPE NEWSLETTER
IN BRIEF

The outlook for Europe's agricultural policy

February 1984

E

Published by the Agricultural Information Service of the Directorate-General for Information
European Community Commission — 200, rue de la Loi, 1049 Bruxelles

25

THE OUTLOOK FOR EUROPE'S AGRICULTURAL POLICY

Address by Claude Villain, Director General for Agriculture, Commission of the European Communities, Brussels

at the European Agricultural Outlook Conference "Outlook 84", London 8 February 1984

Mr. Chairman,

Thank you for asking me to give the opening paper today.

May I say how much I welcome the fact that Agra Europe organises this Outlook Conference. In the European farm calendar, it is in the same class as the France/England rugby match. You have a big crowd. You have the top players. It is an honour to lead the visitors on to the field.

Perhaps your real reason for inviting me, Mr Chairman, was to give me the chance to correct what I said at your Conference last year. If so, I shall disappoint you. I have checked what I said here twelve months ago. I think it is even more true now than it seemed then.

I told you last year about the Commission's policy for adapting the CAP. I explained our point of view under three heads:

- the level of prices
- the limitation of guarantees
- monetary questions.

On all these points, we have been consistent. We have stuck to our policy. If the Community's leaders had listened to us sooner, then the problems which they face today would be less difficult.

Let me remind you of this:

- More than three years ago the Commission pointed the way ahead, in its memorandum "Reflections on the CAP". It was the political testament of Finn Gundelach.
- More than two years ago the new Commission, with Poul Dalsager, published the "Guidelines for European Agriculture".
- Six months ago, at the request of the Heads of State and Government, we put forward an overall plan for the CAP, in the so-called "document 500".

Mr. Chairman, I make no apology for reminding you of this history. The Commission has done its job. It has shown the way ahead - a rational way for the CAP. The Ministers can no longer afford to delay.

That is why I characterise 1984 as the year of decision.

I want to analyse the outlook for this year of decision:

- First, I shall talk about the market situation, and in this context I shall naturally refer to our price proposals.
- Second, I want to share with you some reflections on agricultural incomes, and on the place of agriculture in the economy.
- Third, I shall say some words about the budgetary problems in agriculture, and about the overall negotiation on which the European Community is engaged.

My three keywords today are therefore:

- markets,
- incomes,
- budgets.

I do not intend to say much about agriculture and external trade, because you have my friend Roy Denman here tomorrow. He will surely have something interesting to say on the subject.

I. Agricultural markets

It is proper to begin with the state of the agricultural markets. An agricultural policy which ignores markets has no future. Markets are made by consumers, who vote every day with their purses.

I do not say that markets are wiser than policians. But they remain when governments have passed.

I want to divide this section of my speech into two parts:

- a summary of the market prospects for the main farm products; and then
- an account of the Commission's price proposals for the coming year.

(a) Market prospects

The level of farm production in Europe last year was, in general, lower than in the previous year 1982. That result does not mean there was a change of trend. In the long term, Europe's farm production has been going up by 1,5 per cent a year. It continues to do so. Last year's result only shows that 1982 was - mainly for climatic reasons - a record.

Mr Chairman, I will now make a rapid survey of the main products. First crops, then animal products.

(i) Crops

The cereals harvest last year, excluding durum wheat, was nearly 119 million tons, less than the preceding year's record of 126 millon tons. My experts reckon that, on the basis of trends in recent years - with a stable area of cereals, but increased yields - the normal level of production by 1990 could be of the order of 137 million tons.

Against that background, how do we see consumption ? Well, off-take within the Community for human and industrial use and for seed seems likely to stay about 40 million tons. That means internal demand will depend on use for animal feed.

If the extra demand which we expect by 1990 for feed for pigs and poultry is all taken up by Community cereals - and that is a big "if", because it supposes no increase in the use of cereals substitutes - then we reckon that the use of cereals for feed could go up by 5 million tons. So it is clear that, on present trends, the quantities available for export by the Community on the world market will increase.

A large part of demand on the world market depends on countries such as China and the Soviet Union, whose demand is consistently unpredictable. But my guess is that the world market for cereals in the second half of the eighties will go less rapidly than in the seventies. So although the Community should maintain its share of the world market, it would be unwise to expect a major expansion in volume. That is why the Commission has to be prudent as regards the guarantee threshold for cereals. I will come to the price for cereals later.

Next, sugar. Last year the area sown declined by 9 %, and production wass 11 million tons, compared with 14 million tons in the year before. Consumption of sugar within the Community is about 9,5 million tons, and will stay about that level in coming years.

Taking account of the stocks of sugar carried over, and the prospects on world markets, the situation is not bad. Of course, under the quota system, our producers themselves bear the cost of net exports.

For other crops, I do not have time to go into details. We have a large harvest of olive oil. For oilseeds, we have an increase in production which is rather too rapid for the growth of outlets. That is why we need guarantee thresholds for rapeseed and sunflower seed : not to stop production, but to allow a prudent growth. For tobacco, we must switch from varieties for which there is no demand to those which can find a market.

Last, but not least, I turn to wine. Although the harvest varies, there is a trend increase in production of about half a per cent a year. Meanwhile internal consumption is going down by about three-quarters of a per cent a year. These long-term trends are worrying. Unless effective action is taken, the surplus quantities distilled will go up. That is why the rules to limit the planting of vines must be strictly applied. We also need a solution to the problem of excise. Last year the European Court ruled that the United Kingdom's excise discriminates against wine. The Commission hopes the Chancellor next month, in his budget statement, will conform with the Treaty. At the same time, he can do a good turn to wine drinkers in this country.

(ii) Animal products

The main animal products which I shall mention today are milk, beef and sheepmeat.

Mr Chairman, permit me to borrow another illustration here from sport. Have you ever asked yourself how it is that, in athletics, the world records can be broken so often? Is there not a limit to man's performance ?

I have the same feeling when I look at the statistics for milk production. In fact, they induce a sensation of vertigo as the increase in deliveries to dairies accelerates, from 2,7 % in the past decade to 3,5 % in 1982, and then to 4 % in 1983.

Meanwhile, Community consumption of milk and milk products has been going up by at best half a per cent a year. For the rest of the eighties, on present economic and demographic forecasts, the increase will be even slower.

In the milk sector, therefore, the Commission has had to make a major choice of policy - a choice dictated by the failure in past years to control surpluses by more prudent prices. The choice is this :

- Either we cut prices now by 12 % or more, in order to restore balance in the market.
- Or we master production by means of quotas.

We have chosen the second course, not with joy, but with realism. It is clear that a cut in price of the order I have mentioned would cause intolerable problems for farm incomes; and it would not have its full effects on supply and demand for several years.

Our original idea was quotas at the level of the dairy. Discussions since then have shown that, for reasons of equity and efficiency, farm quotas are also a solution.

To have a quota system which is both fair and flexible, I believe we need to operate at all three levels, that is :

- determination of quotas at the national level;
- administration of quotas at the dairy level;
- allocation of quotas at the individual farm level.

All these details are under intensive discussion. There is the question of direct sales, which bypass dairies. There is the problem of defining "hard cases". There is the choice of reference period. I cannot tell you what the detailed results will be.

Let me just say this. The Commission wants flexibility in the milk quotas. That is essential. Otherwise we shall have invented a solution which is worse than the problem. But the Commission cannot accept a system in which each country does what it likes within a national quota, and gives the Community a financial contribution for excess production. That is a recipe for ten different systems, all conflicting. It is a recipe for over-production. It is not a common market.

Next, I come to beef. Here too, production has been going up faster than outlets. Last year 6,9 million tons were produced, compared with 6,7 million tons in 1982. Public stocks of beef have risen. Among the meats, beef is vulnerable to bad economic times, when people prefer to buy pork or chicken. For the coming years, it is hard to see an increase in beef consumption per head. Since 1980, it has even declined. So we have to be prudent. We have considered making a guarantee threshold for beef, but for the moment we base our policy on three points :

(a) to adapt intervention buying to the market;

(b) to bring in the grid for carcase classification;

(c) to streamline the system of premiums.

That is enough for one year. In particular, the proposed changes in the premiums will not be easy. But we insist that :

- the calf premium has outlived its original use, which was to boost the beef herd in Italy;
- the variable premium in the United Kingdom has not proved a satisfactory alternative to the normal mechanisms;
- so we want to make the suckler cow premium the single Community aid for specialised beef producers.

Finally, <u>sheepmeat</u>. Here again, we must be careful. With depressed market prices, the variable premium has proved expensive. That is why we propose to limit the premium to a reasonable level, which should help to make prices more firm.

(b) <u>Price proposals</u>

Those are the markets, and our ideas for reforming the mechanisms. In the light of this, the Commission last month made its proposals for common prices for the coming year. We have modulated them according to the market situation :

(a) First, for some products we propose a freeze, particularly for cereals, milk, and wine.

(b) For most other products, we propose a limited increase, with 1 % for sugar, 1,5 % for the meats, and for other products up to 3,5 %.

(c) Finally, for some products we propose reductions. That is the case for rapeseed, where the guarantee threshold has been passed, and for some varieties of tobacco.

Let me just comment on two of these products - cereals and milk :

- For cereals, the proposal is in the line of our policy to reduce the gap between our prices and those enjoyed by producers in competing countries. It will help livestock producers - not least pig producers in this country, who are suffering such a bad period. At the same time, we have put a mandate to the Council for negotiations on the stabilisation of imports of cereals substitutes, such as corn gluten feed.

- For <u>milk</u>, the proposal for a price freeze comes with the introduction of quotas. That is strong medicine. We are asking the farmers to swallow two bitter pills. But it is only the result of past failure to control the milk problem.

II. Agricultural Incomes

It is no surprise that the Commission's proposals for prices for the coming year have been opposed by the farm organisations. But what is surprising is the violence of the attacks. It is said that we have ignored the consequences for agricultural incomes, and that we have subordinated everything to budget considerations.

I do not want to add fuel to the fire. I prefer to pour oil on the water.

I will try therefore to explain the Commission's point of view by way of three reflections on farm incomes. These reflections concern :

(i) The price policy itself.
(ii) The recent development of incomes in the Community.
(III) The place of agriculture in the overall economy.

(i) Price policy

As regards prices, I shall deal first with the common prices and then with agrimonetary questions.

(a) Common prices

If someone says we should take more account in our price proposals of farm incomes and of the aims of Article 39 of the EEC Treaty, my reply is this. If we did not have to take account of the income objective, out task would be much easier. We should make the same analysis, which I made earlier in my speech,of the market prospects. Then we would propose cuts in many of the common prices.

What is the normal consequence, in other sectors of the economy, of an excess of supply over demand ? It is a corresponding fall in prices. But precisely because the CAP includes among its aims the standard of living of the agricultural Community and the stability of markets, the policy for prices must be rigorous, but not too severe.

It is worth remarking that five years ago, when the average rate of inflation in the Community was much higher, the Commission proposed a general freeze in all the common prices.

That brings me to the other charge, that we have been guided in our proposals by purely budgetary considerations. That too is an error. Even if we had the money, we could hardly create a market for the extra butterfat which is now being produced. It is above all for market reasons, not budget reasons, that we must follow the restrictive policy for prices.

Again, recall the situation five years ago. The market situation, though bad, was not so bad as now. As for the budget, the Community had not yet reached the limit of its own resources. Nevertheless, we proposed a price freeze.

(b) Monetary Compensatory Amounts

It is customary, and necessary, for the Commission to accompany its price proposals by agrimonetary measures : that is, proposals for the dismantling of monetary compensatory amounts.

At this point, as I utter the words "agrimonetary" and "MCAs", I cannot resist asking myself how many members of the general public can possibly understand what I am talking about.

In his essay "The language of Economics" J.K. Galbraith discussed why people use this kind of jargon. He observed that "professional economists, like members of religious congregations, aboriginal tribes, British regiments, fashionable clubs, holders of diplomatic passports, and followers of the more intellectually demanding criminal pursits, have a natural desire to delineate the boundary between those who belong, and those who do not".

I think this may be true also of the language of the common agricultural policy. If we did not conceal some of our actions by a barrier of jargon, they would not long survive.

That is probably the case with monetary compensatory amounts and green rates. If we reflect on the ends and means of those measures, we see that :

- their end is to protect agriculture from the normal effects of changes in currency rates;
- their means is a system of border charges, which protects agriculture in richer countries and disadvantages agriculture in poorer countries.

Put in those terms, how could one possibly defend their continuation ?

Of course, we accept that in the interest of stability, MCAs are proper and even correct as transitional measures, to avoid abrupt changes in price as a result of devaluation or revaluation. But we cannot accept that they are used to make permanent price differences within the common market.

Let me put it this way :

- How can I justify to a cereals farmer in France that, in order to buy a ton of fertilisers, he needs to produce 20 % more cereals than his German counterpart?
- How can I justify to an Italian farmer that his counterpart in Holland enjoys price support 6 % higher, in Britain 8 % higher, and in Germany 10 % higher ?

It is for these reasons that the Commission proposes to phase out existing MCAs in two stages, despite the fact that, with a restrictive price policy in ECU, this will lead to price reductions in national money.

Last week I asked my experts to tell me the rate of exchange of the pound sterling against the ECU. They told me that since June it has been practically stable. That is good news. A country which has a stable rate of exchange enjoys a privilege. That is why the European Monetary System is a good thing.

But let me remind you that with privileges go obligations. The United Kingdom cannot expect to evade the common discipline of dismantling its monetary compensatory amount, on the grounds that the pound is unstable. Although the pound is not fully participating in the EMS, it is rather stable. And the British rate of inflation is now practically the lowest in the Community. Again that is good news : good news for consumers, good news for farmers, good news for the economy as a whole.

Let me make my point in this way. On the Continent we owe much to the language of Shakespeare. The English language is one of your invisible exports. Thus in French we have the expression "le fair-play". So on monetary compensatory amounts, I say: "Jouer le jeu avec fair-play". Do not try to keep for ever these positive MCAs which - when they were negative - British farmers denounced with such vigour.

By the way, when it comes to fair play, I insist on it equally on the other side of the Channel.

(ii) Development of Farm Incomes

After prices and MCAs, I want to :

(a) mention the development of agricultural incomes in recent years;

(b) consider the prospects for the future.

(a) Recent years

Last year the traditional indicator of agricultural incomes at the Community level - net value-added per agricultural work unit - dropped in real terms by about 6 %. That did come after increase of about 11 % in 1982, and 2 % in 1981. But the level of agricultural incomes in real terms is nevertheless lower than in the mid-seventies.

That is a most serious situation for our farmers. Because of increased costs, they have not been able to improve their income from farming so well as other economic sectors - despite the increases in volume of production, and despite the increases in prices fixed by the Community - and it is worth recalling here that the average increase in common prices in the last 3 years, expressed in national money, was no less than 33 %.

But, although I regret this state of affairs, I must in fairness remind our farmers :

- first, that the world recession has hit trade, particulary in agricultural products. Having increased by 15 % a year in value in the seventies, world farm trade was stable in 1981, and fell by 9 % in 1982. The Community did better than average, with exports increasing by 17 % a year up to 1981, and falling by only 2 % in 1982. But now that we are more dependent on the world market, we have to live with these ups and downs; and we have to bear them in mind when fixing prices;

- second, I must remind our farmers that in other developed countries, where farmers do not enjoy the support of the CAP, the decline in farm incomes has been catastrophic. In the United States, incomes fell by nearly 30 % in real terms in 1980, and by about 27 % in 1982. In Canada, they fell by a third in 1982, and in Australia, New Zealand and Japan it was much the same.

Mr. Chairman, I resolved not to mention external trade questions today, and particularly not US/EC relations. I believe that we can achieve more with our American friends through friendly dialogue than through what Lord Carrington has called "megaphone diplomacy".

Nevertheless, I become restive when I hear American spokesmen blaming the common agricultural policy for the bad situation of their own agriculture. Therefore I cannot resist referring to a new report by the U.S. Department of Agriculture. This report which can be purchased from the Superintendent of Documents at the Government Printing Office, Washington, is entitled "Strong Dollar Dampens Demand for U.S. Farm Exports". It concludes that : "The price competitiveness of the U.S. agricultural export sector in the 1970s was brought on by relatively loose monetary policy. It was probably one of the main reasons for the boom in farm exports over that period. This boom was cut off by much tighter monetary policy in the early 1980s. With large stocks and falling grain exports, more direct ways of boosting U.S. agricultural exports are being implemented or are under consideration".

I think that is a rather fair description of what has been happening on the other side of the Atlantic.

b) Future propspects

I return now to Europe, and the future prospects for farm incomes.

You do not have to be an economist to see that, with the Commission's price proposals, those prospects are difficult. Even if inflation in Europe is coming down, our proposals will not cover the normal increases in costs of production.

But I want to look a little closer at these costs of production - and in particular for two products for which we propose a price standstill : cereals and milk.

As is well known, for cereals the Commission's efforts are directed to reducing the price gap. I have often heard it said that this unfair, because conditions of production on the other side of the Atlantic are different from those here in Europe.

This has led me to ask, what are the costs of production ? The reply which I get is interesting. In 1981 in the USA, the average direct costs of cereals production - excluding labour and interest charges - were about 145 ECU per ton. In the Community, for the same period, they are estimated to have been about 116 ECU. Tu put it another way, at least 80 % of the farms producing mainly cereals had lower direct costs than the U.S. average.

Of course, I realise that in the USA the structure is different. Because farms are larger, production per farm is greater, and in that sense the Americans often benefit from better conditions. That is why we think the reduction in the price gap should be progressive.

For milk, the Commission has proposed a quota system under which deliveries beyond the quota would be subject to a levy of 75 % of the target price. Now I do not think we have many milk producers for whom the marginal cost of production is as low as 25 % of the target price. On the other hand, I can assure you that 75 % is not an overestimate of the marginal cost of disposal of milk products at the present time. According to my experts, the real marginal cost is more than 100 %.

The point which I want to make here, however, is that if farmers will no longer be able to increase their income by expanding milk production, many will still be able to cut their costs by more efficient management. We know that the gap between the best and the worst is wide, and there is plenty of room for improvement. Also it is interesting to note that, in general, smaller milk producers tend to have lower costs.

(iii) Agriculture in the Economy

My third reflection on this matter of agricultural incomes brings me to the question of agriculture's place in the economy as a whole.

First, some basic figures:

(a) In the ten years from 1973 to 1982, the value of production of agriculture in the Community increased in real terms by 18 %, while industrial production went up by 9 %. In the same period, the agricultural work force declined by 31 % while the industrial work force went down by 9 %. These figures show how agriculture produced relatively more goods, with less labour.

(b) During the same period, our self-sufficiency in agricultural products increased from 79 % to 87 %. Meanwhile the overall trade deficit of the Community increased from 4 milliard ECU to 35 milliard ECU, but its trade deficit in agricultural products covered by market organisations declined from 8,4 milliard to 7,8 milliard ECU. These figures show the contribution which agriculture has made to the balance of payments.

(c) During the same ten years, spending on food as a share of household expenditure fell from 22% to 18 %. These figures show how agriculture - and of course the food industry - has assisted the consumer.

Mr Chairman, I mention these figures because farming has a right to be proud of its achievements. It stands comparison with other sectors of the economy.

In the United Kingdom your farmers - under the wise leadership of their unions - have insisted that agriculture be treated with respect in the councils of state : not as a second-class industry, but as an equal.

But there is a lesson in such comparisons. They imply that agriculture may be judged by the same standards as other forms of enterprise.

In short, they imply that farmers cannot consider themselves as salaried employees. The majority of them own substantial capital, in the form of land and equipment. They accumulate wealth which is not even measured by our traditional indicators of income.

Of course, there are many farmers whose land is so poor, or so limited in area, that they cannot make a decent living. For them, increases in prices and the volume of production cannot solve the problem. We have learnt by now that policies which try to make farming profitable for everyone create overproduction, which makes farming unprofitable for everyone. We therefore have to develop other instruments of economic policy, to encourage the creation of other jobs in difficult regions. The trend towards part-time farming is well established, and will continue. Again, one must remember that our indicators of agricultural income do not include these other sources of revenue.

Against this background, I believe that it is fair and just for the Community to say to farmers that you cannot produce more if there is no market, in the Community or outside, at a reasonable price.

It is true that agriculture has a key role to play in the fabric of rural life. It is true that, in a time of high unemployment, we should not encourage the outflow from farming. I do not under-estimate these points. But I still say that the Community has a right to ask farmers to be realistic about the economic and demographic prospects. It has a right to limit the price guarantees to quantities which are related to the market.

In this context, some people reproach the Commission for wishing to stop the advance of the food production - that is, for Malthusianism.

I do not know how many of you are familiar with the work of Thomas Malthus. He was a fellow of Jesus College Cambridge, an Anglican priest, and a professor of political economy. Since he appeared to predict the control of population by famine, and to advocate the restraint of procreation, he was, and still is, widely reviled.

In fact, his work includes some rather sound observations. For example, he said :

"It is a truth, which history I am afraid makes too clear, that some men of the highest mental powers have been addicted to an immoderate indulgence in the sensual pleasures".

Whatever the truth of this remark, the Commission does not aspire to be classed with Malthus. Our efforts are devoted rather to bringing agricultural production more into line with the markets. The analysts agree that, in the eighties, we are experiencing in Europe the results of a "baby slump" rather than a "baby boom". At the same time, we are emerging with difficulty from recession.

In these conditions, we are not asking agriculture to make an unfair sacrifice. If one looks at the steel industry, where the Community is seeing cutbacks of 15 % in capacity and 25 % in the work force over a period of about three years, the sacrifices are greater. What we are asking of our agriculture is to accept the reforms necessary to pass a difficult period. It will emerge sounder and stronger when conditions improve.

III. The Budget and the Global Negotiation

Finally Mr Chairman, I promised to speak about the budgetary situation, and the global negotiation on which the Community is embarked.

I want to deal briefly with three points :

(a) the agricultural budget
(b) the question of own resources
(c) the other Community policies.

(a) The agricultural budget

I have already said that the Commission's proposals for prices and reform of the CAP are based on the state of the market. They are not based, in the first place, on the budget.

But even, if they were based on budgetary considerations, that is not a matter for shame. Public finance is limited. No major policy can continue long at a rate of growth of more than 20 % a year, as did the CAP in the late seventies.

Although the rate was checked at the start of the eighties, it returned to 13 % in 1982 and 28 % in 1983. For the three-year period 1983-84-85, even with the Commission's proposals, the average rate of increase of spending from the Guarantee Section of the farm fund will be 11 %, compared with a less than 7 % increase in the Community's budget resources during that same period.

These figures underline the need for decisions by the Ministers on our reform package. They underline also that agriculture - whose share in economic activity is in decline - cannot expect to take an increasing share of public resources.

In the rich sixties, we could perhaps afford that. In the lean eighties, we cannot.

(b) The question of own resources

It is evident that the decisions which need to be taken on agriculture are linked with the decisions on the overall budget - that is, the increase in own resources, and the resolution of the British budget problem.

The Heads of State and Government are meeting in Brussels on 19 March, to resume discussion. At Athens in December they reached no decisions. Next month it is urgent for them to do so.

Sometimes I am asked :

- What will happen if the money in the agricultural budget runs out in September ? or
- Is this the last farm price package of the traditional kind ?

I do not reply to hypothetical questions. But I will say this that, unless decisions are taken this year, and soon, things will not be same next year. We cannot continue in this way.

The Community needs new own resources, because it needs to expand its actions, particularly with enlargement from ten to twelve countries. It is not a question of more public spending. It is a question of transferring spending from national to Community level, in those domains where common policies can be more effective.

(c) New Community policies

What are these domains where common policies are needed ? It is clear that Europe needs to act urgently and collectively :

- to combat unemployment,
- to promote industrial investment,
- to coordinate research and development.

These are only three priority fields. There are many others where Community policies could and should be implemented : and they need not cost money on the budget. I am thinking here of the extension and completion of the common market in goods and services, to include for example transport, or financial services.

Mr Chairman, in this difficult time, with tensions between East and West, and North and South, the Europeans must stick together. All the history of Europe proves the truth of the saying that "unless we hang together, we shall hang separately".

Agriculture is important to all ten member states, including the United Kingdom. But it is not, and cannot be, the only thing to count in Europe. Our European Community is a gathering of nations in a common cause. It is more than a common market in agricultural and industrial goods. It stands for the values of Western democracy. It can give to our small nations a big voice in world affairs. When the history books are written, that is what will count.