



*European Communities
Commission
Background Report*

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The speech by the President of the Commission, the Rt. Hon Roy Jenkins, to the Food Manufacturers Federation Conference in London on September 27, is reproduced here for a wider audience as a background report.

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SPEECH BY THE RIGHT HON ROY JENKINS, PRESIDENT
OF THE COMMISSION OF THE EUROPEAN COMMUNITIES,
TO THE FOOD MANUFACTURERS' FEDERATION CONFERENCE
GROSVENOR HOUSE HOTEL, LONDON
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Theme of the Conference: "Feeding the Nation"

Title of session: "BRITAIN AND WORLD FOOD SUPPLIES"

I would like to begin by thanking you, Mr President, for inviting me to participate in your Conference this year on the subject of food supplies. It gives me an opportunity to exchange views with you and your members on a subject with which I have necessarily become more familiar since I took up my duties as President of the European Commission at the beginning of this year.

I have found it stimulating to get to know the common agricultural policy in more depth, and from a different perspective - I mean from a European point of view, rather than the purely British angle. One realises that some of the conventional wisdom about the CAP accepted by commentators in Britain - and I mean pro-Europeans as well as opponents of the EEC - can be rather shallow and misleading. One begins to understand a little better the reasons why the policy has developed in this or that particular way over the last decade; and it is only when you understand the reasons why things have happened that you can begin to influence their future development.

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This reflection leads me to make a couple of preliminary remarks. They may seem rather simple and obvious to you, but I believe they are apt to be overlooked in discussions about Britain, Europe and food supplies. The first is that the Common Agricultural Policy, like other Community policies, is a common policy - by which I mean it is a European policy framed in the interests of Europe as a whole. It is not framed, and ought not to be framed, in the interests of one particular member or group of members. In a sense, the CAP does not really fit the theme of this Conference - Feeding the Nation. It is more properly about Feeding Europe. You cannot expect it to be a policy which suits the particular circumstances of the United Kingdom at every time and place: it would be an uncommon policy that did that. There is always going to have to be give and take, there is always this broader framework within which Britain's food requirements are met.// I make this point right at the beginning, not in a defensive spirit but because I think it is important to remember that there is this broader dimension in which you have to look at EEC policies. It follows too, of course, that now Britain is a member of the European Community, your Federation and your members have a broader dimension in which to work out your own policies and strategies for production and marketing.

The other point I would like to mention is that the CAP, like other Community policies, is/a ^{still} young policy. It is barely a decade since the first EEC regulations concerning food and agriculture came into force and they still do not yet cover all the products intended; and as for the directives concerning harmonisation of standards and the removal of barriers to trade in the food industry, many more of them are, as you know, still in draft or on the drawing board than in force. I mention this to dispel the idea that the Community system is a monolithic one, which the more recent members such as Britain have had to accept as a kind of ^{intractable} straitjacket. It is continuously evolving, and will evolve to meet the needs of its members and the changing economic and social conditions of Europe. It is up to you /to make sure that

to make sure that you play your proper part in influencing it in the direction which you want it to follow, through the work of your Federation, your contacts with the Commission, your representations to British Ministers who participate in the work of the Council, and the various other EEC institutions including not least the European Parliament which will in future be directly elected.

Effect of CAP on Food Prices

One of the themes of this Conference - and of general political debate in Britain during the last year - has been the impact of EEC policies on costs and prices in the food industry. It is a subject on which a good deal more heat is usually generated than light. Some commentators have captured the headlines by producing calculations that the CAP is costing the balance of payments £650 million and is adding 50 thousand people to the unemployment figures, while others have retorted that the EEC budget has been paying out nearly £2 million a day in subsidies for British food imports. Meanwhile others - and I think this sometimes includes the Government - have taken refuge in the argument that it is no longer possible to say what the costs or benefits are, because you cannot guess what the situation would now be if Britain was not a member.

For myself, I am not going to offer you here today a new set of figures, freshly calculated by the Commission's experts, to add fuel to the argument. I am not sure that this would add conviction or resolve the argument. I will simply mention that, as far as I can see, the argument has ebbed somewhat, partly because the Government has stated clearly that the effect of CAP price increases on the retail price index has been extremely small. For example, Mr. Hattersley told the House of Commons on 20 June that "of the 17.5% inflation over the last year, about 0.5% was caused by the CAP". The reason why the impact on retail prices is about $\frac{1}{2}$ % is that the effect on food prices is about 2%, and food of course
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accounts for about a quarter of the index.

I would also like to mention a recent independent study which I thought was particularly perceptive and illuminating. It was presented to a conference on the food industry earlier this year by Messrs Harris and Josling - the former an economist in the food industry and the latter a professor of agricultural economics. They concluded that "in aggregate the CAP caused food expenditure [in Britain] to be less than it otherwise would have been in 1973, about the same in 1974, and more in 1975 and 1976". They put these results into perspective by remarking that the price effects of the CAP in 1974-76 were actually smaller than the British Government's consumer subsidy programme for food. As for the future, they commented that "further price fluctuations seem bound to occur, which means that it is likely that, from time to time, world prices will generally be closer to, or above, CAP levels than at present."

Now I am not going to be drawn into a debate about the future course of world prices for food. Perhaps Sir George Bishop, when he speaks to you later this morning, will be bolder. He has more expertise on this than I have. The main things which I know are that there have been quite violent fluctuations in the level of prices in the last five years; and that population pressure is increasing. According to Mr Robert McNamara, the head of the World Bank, the present world population of 4,000 million could stabilise at 8,000 million in the year 2070 if urgent measures are taken now to speed up the decline in birth rates. Otherwise it will hit 11,000 million. Now I know that these predictions are extremely speculative - in fact, you only have to ask yourself whether any country in the world is politically willing or able to double its population over the next century, to convince yourself that such forecasts can never come true. But it is obvious that an increasing population, with higher living standards, will pose great demands on food resources throughout the world.

/Alternative Policies for Food

Alternative Policies for Food

It is against that kind of background that any British Government, of whatever political persuasion, has to reflect about the type of policy to follow for food supplies. If Britain was not a member of the EEC, and the CAP did not apply, there would still be the same basic questions to be answered: how much food should we produce at home, at what price, and where can we look for continued access to regular supplies from other countries? That is the question which has to be answered by those who say that Britain should withdraw from the CAP because it is inimical to her interests. What is the alternative policy for food and agriculture?

I believe that a number of premises are clear. The first is that, inside or outside the EEC, Britain would naturally in the second half of the 20th century want to expand its domestic food production. When one reflects that food is one of the biggest single items in the British import bill it is perfectly obvious that the arguments of import saving point in the direction of higher domestic production. That was precisely the theme of the White Paper "Food from our own Resources" which was published in 1975 by the Government of which I was a member: it came, as a matter of fact, just before the referendum on membership of the EEC, and it said explicitly that its conclusions held good whether the result of the referendum was yes or no.

The second indisputable point is ~~that~~ such an expansion has to be financed in one way or another. It does not grow on trees, if I may use that expression in this context. The necessary capital has to be injected into the farming industry, either directly through higher market prices, or indirectly through grants or deficiency payments. No one can seriously believe that, if the CAP did not apply, a British Government, beset with all the problems of public expenditure, would embark on a new programme of deficiency payments. The truth is that agricultural expansion would have to be financed by higher market prices, with some control of imports so as to put a floor in the market. We all know that was the way British policy was already moving in the 1960s, even when our membership of the EEC seemed rather uncertain.

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For these reasons I myself am convinced that an alternative food policy in Britain would, in essence, be remarkably like the one currently in force. Its overall impact on the costs of the food industry and on prices to consumers in the last five years would have been very roughly the same, give or take a bit more in one year and a bit less in the other. Of course the jargon would be different, and there would be different situations for the individual products: but, broadly speaking, the government would be following the same general path in its food policy and its execution.

Take beef, for example, a product where a big expansion policy was introduced by the Government in the late 1960s, in the interests of import saving. Minimum import prices were introduced so as to put a floor in the market, and this mechanism was replaced by the similar EEC one in 1973. The expansion policy for beef has been remarkably successful in stimulating output: Britain's level of self-sufficiency increased from 77% in 1970 to 94% in 1977, with imports falling from 326 thousand to 187 thousand tons in that period. Indeed, in the European context, the policy has been only too successful: the fact that Britain and Ireland taken together had become roughly self-sufficient by the mid-1970s was an important factor in the EEC beef crisis. Meanwhile, as you know, there was a big surplus on world markets which led to increased EEC import levies and restrictions on beef imports into Europe. I am quite convinced that parallel action would have been taken by Britain if she had not been in the EEC: indeed, it would have flowed automatically from the beef arrangements already in force before entry.

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Let me /test my thesis by looking at an important agricultural product which is not yet covered by the CAP, and where Britain in the meantime pursues her own purely national arrangements. I mean potatoes, a product where the aim traditionally has been to maintain a high level of domestic production in Britain. In this year's farm price review the Government put up the guaranteed price by 16½% - far more than the average increase in EEC farm prices. You may recall that under the 1947 Agriculture Act this guaranteed price for potatoes is implemented by means of intervention buying, the stockpiling of potatoes, their disposal, if necessary, for animal feed after denaturing with coloured dye, /and by a complete

and by a complete ban on imports in a normal year. I think you can imagine the press reaction if that were a Community system proposed by the Commission, and not a national system.

Since I have mentioned "Food from Our Own Resources" you will expect me to say something about the Commission's attitude to it - or if I do not, someone will certainly ask me later. There was of course some well-publicised misunderstanding earlier this year, ^{mainly} as a result of a perhaps unfortunate ^{phrase in a} letter which emerged from Brussels.

Let me just say that the Commission has no quarrel with the fact that the British Government draws up its own priorities and objectives for food and agriculture, and pursues them in Brussels. Naturally, like the other Member States, it will try to persuade the Community to take the decisions which it thinks are right. But naturally also we expect the British Government to respect Community rules and decisions when they are taken. . If, in furtherance of national aims, they take unilateral action which is contrary to the Treaty - as was, unfortunately, the case with pigs a little while ago - it is the Commission's duty to enforce the rules by all the means which are available. As a matter of fact, as far as the objectives of "Food from Our Own Resources" are concerned, it would be rather absurd to suggest that Community rules or the CAP are frustrating their achievement: on the contrary, if only Britain took advantage more readily of the opportunities offered - and here I am thinking of a more realistic long-term attitude to adjustment of the green pound - I cannot help thinking that these objectives would be more easily attained by the agricultural industry.

Let me add another consideration before I leave this question of alternative agricultural policies. As far as imports are concerned, Britain must naturally look for dependable supplies at reasonable prices. I mention both "dependable" and "reasonable" because they are both important factors. The cheapest source is not necessarily the most secure - rather the opposite where the world market for food is concerned. In the past we looked mainly to the Commonwealth
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countries for our regular supplies, and we still have many of these links. But what membership of the EEC means is that Britain has constant and free access to European supplies of food. I am not for the moment getting involved in the complications of monetary compensatory amounts and related subjects, which are not a small matter. We are actually part of the CAP and Europe in a way which is not true of, say, the USA. During the sugar shortage of 1974 this access to European supplies was of real value; and I was very interested to read only last week that a prominent British **baker** said that, in view of the low quality of the British wheat harvest, "first we shall have to look to the rest of the EEC, and secondly to North America" for our supplies of grain. Since Britain participates in the Council of Ministers, it is able to influence directly the decisions which govern European food supplies - to influence them far more directly than is the case with any non-EEC food supplier. Obviously it is not going to be true that Britain will simply dictate the shape of Continental food production. But it is true that we now have dependable and preferential access to continental supplies when we need them - after all, that is what a common market is supposed to be about.

Development of the CAP

I must now try to give you some idea of how I think Europe's food policies should, or will, develop over the next few years. I must really speak about how they ought to develop, rather than how they will, since it is the task of the Commission of which I am President, to make proposals: it is the Council of Ministers which disposes, and they do not always follow our suggestions.

In fact I have to say that we need to look again at the existing decision-making procedures, whereby important decisions are taken by specialist Ministers in their own specialist Councils which are not well suited to taking account of the broader economic interests. In the past consumers, food manufacturers and Finance Ministers have not succeeded in bringing their proper influence to bear on the agricultural decisions. So far as the Commission is concerned, I do not think we do too badly in

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putting forward proposals which reflect a reasonable balance between the different interests involved. I know that most of you will immediately think of several proposals which you have strongly opposed, but by and large I think **that** the thirteen Members of the Commission, with their different portfolios, and points of view, usually arrive at sensible and balanced proposals. Moreover, as far as the food industry is concerned, we have made some organisational changes within the new Commission in order to ensure that your particular problems are taken into proper account.

I know that the food industry has had to occupy itself quite a lot in the last few years with the green pound, so that most of you will be perfectly at home when I talk about this imaginary currency. I rather wish that it really existed - perhaps in the form of bank notes signed by Mr Gundelach - so that I could hold one up for you to see. It has recently aroused a good deal of excitement. It still serves, I think, rather like the yellow peril or the red menace, as a useful scapegoat: if you ask the average farmer why he is looking miserable, he will say it's because of his low prices caused by the green pound, while the average consumer - a good deal more paradoxically - is quite likely to blame the green pound for the increased cost of his food.

As you know, the green pound - like the green franc, the green D Mark and the other green currencies - is the rate

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at which CAP prices are translated into national money in the member state concerned. Normally speaking, you would expect this to be done at the current rate of exchange on the money markets: after all, that is the rate at which other prices are translated in business and commerce. But it has been accepted in the CAP that, when the value of a currency changes quite substantially because of a devaluation or a revaluation, the effects need not immediately be passed on to the level of farm price support. After all, an overnight change of 10% or more in prices is not necessarily a good thing. So we accept - and the Commission certainly does accept - the use of green rates and the resulting MCAs as a temporary cushion: like the classic device of a transition period, it should allow you to move with least pain from point A to point B.

The trouble comes when the participants in this game are tempted to use the existence of green rates as an excuse for never arriving at point B. The consequence of that, in the context of the CAP, would be that member states would apply different levels of farm price support on a permanent basis - and when the gap between levels is of the order of 35 - 40 per cent, that is a very substantial difference. Now what is wrong with this is not just that it hampers trade and makes life more complicated for you in the food industry because of the proliferation of MCAs - though that is bad enough - and not just that it makes decisions on common prices in Brussels more abstract and remote. What is wrong is that if food producers and processors in the various member states receive vastly different prices in real terms, it frustrates and makes a mockery of the idea of a common market with equal terms of competition. The aim of producing food in the areas of Europe best suited to its production - and hence of producing it most efficiently and cheaply - is in practice abandoned, which means a waste of resources at the European level. For a country, a reluctance to apply up-to-date rates of exchange to the food sector means that sector getting out of step with other sectors of the economy - that is, in the case of a country like Britain with a depreciated currency, the food sector becomes depressed and imports are encouraged, while in a /country like Germany

country like Germany the sector becomes inflated, imports are discouraged and exports are made artificially more competitive. It frustrates, in the food sector, the natural economic consequences of a devaluation or revaluation.

It has, too, another less direct but more insidious consequence for Community policies and decision making. To the extent that member states focus on their green rate as the central instrument in determining the annual prices for food and agriculture, the more they are prone to relax their grip on the common prices which are the real discipline in the system. It is very tempting to say "well, let's get the settlement we want for the green pound (or the green krone, or the green D Mark, or whatever your currency is) and let the common prices take care of themselves". It is tempting for the British Government, it is tempting for the other governments, but it is fatal for the common good if the common prices are fixed at a level which provokes an excuse of production over consumption - which is the inevitable result of such a lax approach.

It is perfectly understandable and right that a British Government should not want to prejudice the results of overall economic policy by a too rapid increase in prices. The Commission appreciates that, and our proposals on the green pound have always tried to take it into account - including particularly this year the impact of the last steps of the 5-year transition under the Treaty of Accession. But we also have to remind the member states that the common prices are their prices, they have participated in fixing them from year to year: if they deplore the consequences of surplus production resulting from high prices in the Community member governments must make an effort to curb them. If they fall head-over-heels into the green trap, they will not achieve the improvements in the CAP which they want.

I have gone into these matters in some detail to try to explain to you why it is that the Commission is in favour of phasing out MCAs and the green pound. It is not because they are expensive, or for the sake of some dogma about the unity of the market, or in order to pick an argument with the British Government: it is because we believe their continuation as a permanent feature is not in the long-term interests of Europe or its member states.

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Therefore you must expect us to continue to press for the progressive abolition of these monetary distortions - not of course, overnight, but over a reasonable period of time. Moreover - and this is a matter which goes far beyond the field of food and agriculture - we must seek to find ways of curing the underlying problem of economic divergence. I myself have become more and more convinced that this divergence, and the monetary troubles which accompany it, is one of the main obstacles to progress in European unity.

But what about the future development of the CAP? Broadly speaking the faults of the mechanisms can be exaggerated. It is not the fact of intervention buying or export refunds which has given rise to surpluses. Rather the converse: if these mechanisms are sometimes used to an exaggerated and extravagant extent, it is because of the surpluses which have arisen. I am not saying that we cannot develop and modify the instruments of the CAP; in particular I am sure that we must try to reduce the rigidity of the intervention mechanisms, so as to avoid excessive interference in the market and the conspicuous waste which can result from it. For example, the Commission will very soon be proposing changes in the beef system which will help to give consumers greater benefit on prices in a time of surplus, without weakening the guarantees to producers.

It is more the overall level at which the common prices are fixed from year to year for each product that influences the level of output. One of the main changes therefore which we need

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to see - and which I am sure we shall see - in the price fixing process is a greater emphasis on the market and on the likely level of demand for food. European agriculture has a tremendous productive potential: if average yields of crops and livestock were brought up to the levels of the most efficient the increases in output would be enormous. But if nobody wants to consume the additional output, if there is no market for it, we shall have wasted our resources. That is why I am convinced that we must take more and more account of future demand for food, and for different types of food, in Europe. We must not fall into the trap - which the Community sometimes has in the past - of starting from the premise that production is expected to reach a certain level, ^{and that} therefore we must find an outlet for that quantity either on the market or through open ended intervention. We have got to look at the quantities and qualities of food that our domestic market requires, and of course at our possible export markets: we have got to form some idea of the medium and long term trends of demand as well as supply.

It has often been said that the consumer should have a greater say in the fixing of prices under the CAP. I myself share that point of view. But I do not think it is very useful to polarise the issue in terms of consumers always wanting the lowest possible prices, and farmers wanting the highest possible incomes. We need to look at the question more in terms of what food supplies Europe is likely to require over the next five or ten years, and what pattern of agricultural production and prices is needed to fulfil that need, taking account also of exports and the possibility of supplies from third countries. Only with such a comprehensive approach can we hope to make rational decisions on prices under the CAP. Another way of saying this is that one has to look at the food chain as a whole, from the field to the meal-table, not forgetting those intermediary stages with which the food manufacturing industry is concerned.

I believe that in this connection the experience and ideas of the food industry are particularly valuable:

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You are in the middle of the chain, and know more than anyone about reconciling consumption with production and consumers with producers.

If we are to put the emphasis, as I have mentioned, more on the needs of the market, it follows inevitably that in fixing prices for certain products we shall have to follow a policy of severe restraint - or as it is sometimes euphemistically put, a prudent price policy. I do not think there can be any running away from that, even if it causes real political difficulties, and even if we have to find other ways of aiding farm incomes. But I take some encouragement from our success this year in proposing an average increase in the common prices of only 3 per cent, and obtaining a final figure in the Council of Ministers of 3.9 per cent. To achieve this at a time when inflation in the Community as a whole is running in double figures is not a bad start.

I have not so far mentioned the enlargement of the Community to include Greece, Spain and Portugal. That event, for which we must now prepare and plan, will certainly bring new problems in the field of food and agriculture. How will new competition affect Italy and France, whose producers of Mediterranean products such as wine, tomatoes and olive oil are already in difficult circumstances? Will joining the EEC provoke a great increase in agricultural production in the new members? These are questions to which the Commission is already devoting itself. I cannot say that we have found all the answers, but I am certain that we must throw out from the start the idea that the problems should be solved by rigid protectionism or by stockpiling new mountains and lakes of surplus produce.

This is not to say that stock piling of produce does not have its place in a global food policy, provided that we are talking about produce which people want to eat, and which can usefully be released on to the market at an appropriate moment. The acceptance

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of the principle of world food reserves would be one of the most practical contributions that our generation could make to future economic and political stability, not only of the poorer countries - though it is of crucial importance to them - but even in our own interests in the richer countries. It is curious how, in this particular area of world agricultural markets, international thinking has come to approximate more closely to some of the ideas which lie behind the common agricultural policy - stability of prices and supplies, intervention by the public authorities to stabilise the market.

I leave it to Sir George Bishop to say more about the commodities involved. But I would mention one which is I believe particularly close to his heart - that is sugar. The European Community has been present at the various discussions for an International Sugar Agreement, including the latest session in Geneva. The Commission has pressed for a realistic mandate for the EEC in these talks, and indeed the majority of member states are in agreement. We believe that a successful outcome to these negotiations and the full participation of the Community, is an essential step towards the creation of a new order in world **markets**. If the Community fails to rise to this challenge - and the matter is very urgent and is indeed being discussed in Brussels by the Agriculture Council today - it will weigh heavily on its conscience.

So far I have focussed mainly on agricultural policies and prices, rather than the food industry as such. That is not entirely illogical, since the cost of raw materials accounts for at least half of your costs. I would like to conclude by mentioning some aspects of EEC affairs which concern you more particularly and exclusively.

/Harmonisation of food laws

Harmonisation of Food Laws

The programme of harmonisation of food laws forms part of our overall work on removing technical barriers to trade in Europe. The Community has made some

progress on standards for food and drink, but I think that it has been slower than the Commission and much of the food industry hoped. There was of course a lot of difficulty at one time because of the idea, which became current in the British press and public opinion, that the Commission was trying to harmonise and fix Eurostandards for everything. That profound misunderstanding has now been largely overcome,

but nevertheless we have to recognise that these directives are extremely technical, and ^{that} the Council's time is limited. We therefore have to decide on priorities. I was particularly glad to see that the food industry's European arm, CIAA, conducted a survey of its members' views on the priorities which they want in the Community programme. My colleague Etienne Davignon is studying that survey, and will be drawing his conclusions later this year.

All I would add is that, for me, the only sensible purpose in making such directives and regulations is that they should really contribute significantly to consumer protection, or permit freer trade within the Community - in other words, allow you to do more trade: that is why it is so important for us to have the views of the food industry. I hope that you will have the closest possible relations with the Commission, and feel able to make representations on any issues that concern you. We for our part appreciate, perhaps more than ever before, the role which you have to play - a role which is not ^{merely} ancillary to agriculture, but ^{is} an essential part of the business of feeding the people.