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FOR THE 1977/78 AGRICULTURAL PRICES

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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 CAP 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 CAP

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 CAP

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.

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 co-responsibility milk levy of 2 1/2 % 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 increases 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 United Kingdom could stay virtually the same over the year. The effects on the cost of living of the proposals in the

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 future. 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 crisis in which we find ourselves.