

SPEECH BY CHRISTOPHER TUGENDHAT, MEMBER OF THE EEC COMMISSION
WITH RESPONSIBILITY FOR BUDGETS AND PERSONNEL, TO THE ANNUAL
CONFERENCE OF THE DAIRY TRADE FEDERATION, EASTBOURNE :

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Ladies and Gentlemen :

The theme of this Conference is the value of milk. You have already heard this morning Mr. John Peyton address you on its value to Britain. Other eminent speakers are addressing you later on other areas of value. My task is to say something from the point of view of the European Community as a whole.

The dairy sector is, in economic terms, by far the most important single sector of Community agriculture. It accounts for practically 20% of the value of final agricultural production in the Community. Owners of dairy herds in the Community, of whom there are 2.2 million, represent more than a third of the total number of people self-employed in Community agriculture, and about a quarter of total agricultural employment.

The UK currently produces about 13½% of the Community's milk - only about half the share of Germany (27%) or France (24%), but rather more than the UK's share of total Community agricultural production (11,8%). In other words while the UK is not among the most important Community milk producers, the milk sector is rather more important in UK agriculture than in Community agriculture as a whole.

The British are, of course, important consumers of milk and milk products. UK consumption per head of milk fats is exceeded only in Ireland, and of milk proteins only in Denmark and the Netherlands. This is of great importance in a Community with a milk surplus. The British prominence among Community consumers of milk is of course largely due to the famous British appetite for liquid milk - the daily pinta - of which the British consumer appears to drink roughly twice as many as the average Community consumer. One of the major considerations in the Commission's proposal to the Council of Ministers to authorise the continued existence of the UK Milk Marketing Boards was the belief that this would help to maintain the high level of liquid consumption in the UK, thereby avoiding higher production of butter and skimmed milk powder for which the only outlet would be intervention. In making its proposal the Commission was well aware that several Member States regard marketing boards as a radical, and indeed unacceptable, departure. We believe our proposal to be the right one, but we recognise that to get it accepted will require a major effort on our part.

/ In the UK,

In the UK, the Community's dairy policy is all too often associated in people's minds with the so-called butter and milk powder mountains. It is true that intervention stocks of surplus agricultural products were almost unknown in the UK before accession to the Community, at least since the introduction of standard quantities of milk. This was not because those responsible for agricultural policy in the UK were necessarily more virtuous than policy-makers elsewhere, but simply a reflection of the fact that the UK was a substantial net importer of practically all foodstuffs, though it did, and still does, have substantial periodic surpluses of potatoes. Obviously surpluses tend to pile up in the hands of exporters, not of importers. Thus the Community of Nine, with a higher degree of self-sufficiency than the UK on its own, and given the vagaries of harvests and world trading opportunities will inevitably sometimes find itself with more on its hand than people want to eat.

I should stress that the Community is by no means alone in this situation. The USA, for example, has for years regularly held vast stocks of grain, the disposal of which has involved concessionary sales to developing countries under the famous Public Law 480 or, more recently, sales to Russia and now China. Most of the world's dairy producers have also been faced with huge stockpiles. The USA currently hold stocks of about 350,000 tonnes of skimmed milk powder.

/ I say

I say this not to point the finger of blame at anyone, but merely to show that the periodic growth of intervention stocks in the Community is not a particularly abnormal phenomenon, but something we have in common with other agricultural exporters. Furthermore, for most products the level of stocks even in bad years represents only a relatively small part of annual consumption. For example, intervention stocks of beef, even at their peak, only represented about 20 days normal consumption; they are now falling.

What is worrying, however, is when the long term trends of production and consumption get seriously out of line, with the result that surpluses, instead of being periodic phenomena, become a permanent feature. The Community producer then finds himself producing for intervention rather than for the market.

In the memorandum accompanying its price proposals for the coming marketing year, the Commission has drawn particular attention to this problem, which is now emerging in a number of sectors. The most prominent among these is, of course, the milk sector, where production now exceeds by nearly 15% the level of consumption in non-subsidised outlets. Moreover, the gap is widening. Community milk production is growing at a long term rate of 1.7% a year. Human consumption, on the other hand, is now falling, and is forecast to fall further between now and 1985.

/The seriousness

The seriousness of this situation is not, I think, as widely appreciated as it should be. This is I suspect because the eyes of public opinion tend to be focused on the level of intervention stocks as being the outward and visible sign of underlying surpluses. They see the level of dairy stocks falling from nearly 1.4 million tonnes to a current level of a little over 850,000 tonnes, so they assume the problem must be going away.

I have already argued that the existence of stocks is not in itself proof of an underlying surplus. I now want to take the converse of this, and argue that it is possible to have an underlying surplus without intervention stocks. The true extent of the dairy surplus is the difference between what is produced and what can be sold without a subsidy. The level of intervention stocks merely reflects what cannot be sold even with a subsidy. To this extent the best tangible measure of the extent of surpluses is not the level of stocks but the expenditure on subsidies from the Community budget.

This is obviously a point of major concern to me as Commissioner for budgets. Agricultural expenditure accounts for three-quarters of the Community budget and the milk sector alone consumes 25% of the budget, the major part of it related directly to the disposal of surpluses. The size of this expenditure, though perhaps small by comparison with national budgets, has nevertheless made it very difficult to develop satisfactorily other areas of Community expenditure.

The sums involved are very considerable. In 1977 the Community spent about £700 million on export refunds for dairy products, about £125 million on consumer subsidies for butter and nearly £350 million to encourage animal feed compounders to use skimmed milk powder. By comparison we spent only a little over £200 million on the Regional Fund and £250 million on the Social Fund. This kind of budgetary distortion clearly has to be remedied.

It is this type of consideration, together with the sheer waste of economic resources involved in producing solely for intervention - a point frequently stressed by my colleague Finn Gundelach - which has led the Commission to propose very small price increases for the coming year.

At the same time, the Commission has proposed a number of accompanying measures in the dairy sector, with a view to reducing and absorbing the surplus. We have proposed the continuation of the coresponsibility levy. We are recommending the extension with some improvements of the schemes for non-delivery of milk and for beef conversion. We have proposed suspending intervention for skimmed milk powder for the latter half of the next milk year, while at the same time increasing the possibilities of granting aid for the use of skimmed milk powder in animal food. Considerable publicity has been given in the UK to our proposal to increase the level of aid and the range of products qualifying for our school milk subsidy. This will in our view make an important contribution towards boosting consumption of liquid milk. Again, on the consumption side, we have earmarked a further £32 million for cut-price butter sales within the Community. In the short run, of course, most of these measures will cost large sums of money. It is the Commission's hope that, in the longer run, they will contribute to the removal of the dairy surplus.

/ Of course

Of course the Commission's proposal for very modest price increases has been attacked on both sides. On the one hand, there have been those who say that our proposal for a 2% common price increase is too low. This point of view is naturally enough advanced most strongly by representatives of those Member States who are unable to give their farmers price increases through green rate realignments, for whom therefore the common price increase is a maximum rather than a minimum. These critics point out that the results of the Commission's own objective method indicate that a price increase of at least 4.2% is necessary in order for farm incomes to keep pace with incomes in the rest of the economy.

/There are

There are good reasons why the Commission has rejected this approach. In the first place, the so-called "objective" method is only a rough and ready indicator to be used as a starting point, as those very same critics have been only too ready to point out in previous years when the results have produced figures which they regarded as too low! Quite apart from the rather crude statistical assumptions involved, e.g. regarding productivity growth, the calculation takes no account of the differing economic environment in agriculture as distinct from other sectors. The agricultural industry is sheltered from the worst effects of the present economic recession by Community and national policy measures. Almost 87% of gross agricultural production is marketed under the coverage of a common market regulation, 70% combined with a common price regime. Most basic agricultural products benefit from price guarantees for unlimited quantities. They are protected from third country competition by variable levies and from monetary instability through MCAs. In general, therefore, agriculture runs less economic risk than other sectors. Farmers are unlikely to be thrown out of their jobs at short notice as a result of Japanese competition. Price guarantees allow farmers to safeguard their incomes to some extent through increased production, a possibility which does not generally exist in other economic sectors - indeed rather the reverse.

/ In any case,

In any case, as I have said, the objective method is only a starting point, only one of several factors to be taken into consideration. We also have to look at the balance of supply and demand in the different agricultural markets, where of course there are major difficulties in a number of sectors. We have to consider the budgetary and resource costs. Price increases for surplus products place a major burden on the Community budget, because the cost of surplus disposal is increased. We have to consider the cost to consumers. It is in the light of these wider considerations that the Commission has taken the view that price increases should on the whole be limited to 2%.

This prompts critics on the other side to ask why the Commission does not, therefore, propose price reductions, or at least a price freeze particularly for surplus products. The idea of a price freeze in the CAP is after all nothing new. It was practised for a number of years in succession before the UK joined the Community. Over the period 1967/68 to 1970/71, institutional prices under the CAP rose by a total of 2.1% over the four years. The milk price did not rise at all. You may wonder why the Commission does not propose more of the same medicine. The answer lies in what happened afterwards. The 1967/71 farm price freeze led to such a build-up of economic and political pressure - including riots in which people were seriously injured - that the dam finally burst in the years 1974 - 77. Each year, the Commission initially proposed more than was indicated by the objective method and each year the Council adopted a higher price increase than proposed by the Commission. This price explosion naturally undid most of the good achieved by the previous freeze.

It is to avoid the repetition of such an experience that the Commission believes it important to make proposals which, while very modest, are nevertheless seen to be realistic. Just as the CAP cannot afford to ignore consumers - who provide the market for what farmers produce - neither can it afford to ignore the interests of farmers - who provide the food we eat and constitute an important sector of society. Nor can it ignore the budget constraint. The Commission has sought to strike a balance in making its proposals. It is a balance which I, as Budgets Commission, find particularly heartening since, despite the need to spend large sums of money on the milk action programme, it will not lead to a global increase in agricultural expenditure this year and will only require a very modest increase next year, a welcome change from the rapid rate of increase in the cost of the CAP in the recent past.