EXTRACTS FROM A SPEECH BY MR CHRISTOPHER TUGENDHAT, VICE-PRESIDENT OF THE EUROPEAN COMMUNITIES, TO A MEETING OF THE EUROPEAN UNION OF WOMEN IN LONDON, THURSDAY 5 MARCH 1981 AT 1445

EUROPEAN AGRICULTURE - AN IMPORTANT STEP FORWARD

The Agricultural Prices Package of 1981/2 recently proposed by the European Commission represents a major step towards a rebalancing of the Community Budget which will give greater weight to non-agricultural policies, and reduce the growth of agricultural expenditure. It is essential that the Council of Ministers of the Member States now respond to this package in a more realistic way than has often been the case in past years.

The Heads of Government of all Member States of the European Community, meeting in the European Council in Venice last June published their "commitment to implement structural changes which (would ensure) a more balanced development of common policies". This prices package provides a test of their will to ensure that Ministers follow the path thus clearly marked out, and operate within a wider framework than that of agricultural policy alone.

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An agricultural prices package involves three major considerations, any of which may carry greater weight in one year than another. These are the effect on consumers, the effect on farmers, and the effect on taxpayers. In current economic conditions the problems on all three fronts are serious. Reducing or keeping down inflation is a priority for everyone. Farmers incomes have been squeezed in recent years, particularly in some Member States. And the financial limits of the Community have been coming closer and closer.

Against this background the Commission's price proposals represent a balanced package which seeks to take all these factors into account, giving appropriate weight to each of them. Naturally we have not satisfied everyone - it would be surprising if we had, given the harsh realities which need to be faced.

THE FINANCIAL CONSTRAINTS

The first, and perhaps the most compelling, of these harsh realities is that the Community simply cannot go on increasing agricultural expenditure at the rates of recent years if it is to be able to continue other policies at their present levels, and even less so if it is to change the balance of the budget so that a larger proportion is devoted to non-agricultural policies.

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In 1974 agricultural expenditure took up 73% of the Community Budget, but it was widely acknowledged that as the Community developed other policies, this proportion would decrease. But although we have developed other policies, such as regional policy, the proportion of the budget taken up by agriculture has not decreased. Last year it still represented over 70% of all expenditure. Between 1975 and 1979 agricultural expenditure increased by an average of over 23% a year. Last year it slowed down, increasing by some 12%. But expenditure on products surplus to Community market requirements still represented virtually half of all agricultural expenditure or some 30% of the entire Community budget.

The Commission proposals this year represent an opportunity to make real progress towards improving this situation. The "own resources" (the revenue) of the Community are expected to increase at a rate of around 14% this year, and 11% next year. This year the Community budget is expected to use up 94% of all its available own resources. If we are to improve the balance of the budget within the existing financial limits, agricultural expenditure must increase at a slower rate than that of own resources. This is what the Commission prices package, if agreed by Agriculture Ministers, would achieve.

THE PACKAGE

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We have proposed average price increases of 7.5% for all products, a relatively high price increase because of levels of inflation and the income problems of farmers. We have proposed balancing this with important savings, such as extension of the co-responsibility levy to all major sectors (a key feature of the whole package), reduction of certain aids, and stricter conditions for intervention buying. If the Agriculture Council were to accept the price increases, or even raise them, without agreeing corresponding savings, the cost to the budget could be considerable, and the opportunity of making progress could be lost.

One part of the package which has attracted particular attention in the UK is the proposed 5% reduction of "positive monetary compensatory amounts" in both the UK and Germany.

These "MCAs", as they are known, present a difficult problem of balancing conflicting interests. On the one hand we have the criticisms of a "tax on food imports",

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and the distorting effect on prices. For the UK there is also the consideration that every 1% reduction in positive MCAs reduces its net budget contribution by some £20m. On the other hand we have the problem of declining farm incomes and varying levels of inflation. Nonetheless, I think it is difficult to defend positive MCAs for the UK at levels such as 17% or 18%, which they reached recently.

THE OUTLOOK

The immediate prospects for farmers throughout the Community are not as bright as they or we might wish. But they are not unique in that. The economic recession and public expenditure controls have resulted in difficulties in many sectors.

It is important, however, that we secure the future of the Common Agricultural Policy and thereby safeguard the long-term future of our important farming industry. This can best be done by carrying through the necessary reforms and establishing a more coherent, refined and well-directed agricultural policy which can meet the needs of farmers, consumers and taxpayers in the 1980s and beyond.