THE FUTURE OF AGRICULTURE IN THE EUROPEAN COMMUNITY

Address presented

by

Derwent RENSHAW

Secretary for Agriculture

Delegation of the Commission

of the European Communities

Washington, D.C.

at the

WORLD FOOD PRODUCTION CONFERENCE

Honolulu, Hawaii

30 October, 1984

I would first of all like to say how grateful and appreciative I am to you Mr. Chairman and to the International Minerals and Chemical Corporation for the warmth of your hospitality, the excellence of your conference organisation and for giving me this opportunity to share a few thoughts with such a distinguished gathering on a topic not only of vital importance to 8 million European farmers and their families and to 270 million European consumers but a topic also with considerable implications for World Food.

I refer, of course, to the subject of European agriculture, the outlook for its future and to its place in international trade. This is the subject on which I would like to concentrate this morning.

Anyone from Europe who goes about and speaks in the United States quickly realises that mentioning the European Community's farm policy does not always lead to a burst of wild and enthusiastic cheering from the back of the hall. But I have never allowed this to put me off, so let me start by first describing where our farm policy has got to.

As a number of you will know, the European Community has operated its own farm policy - the Common Agricultural Policy or CAP - for the last 20 years or so, and I imagine that some of you will also realise that its objectives are set out in Article 39 of the Treaty of Rome, our founding Constitution,and can be summarised as follows :

./...

- to increase productivity through technical progress ;
- to give the farmer a fair standard of living ;
- to assure the supply of sufficient food at reasonable prices, and
- to stabilise markets.

Goals which are not very different - I would have thought - from farm policies in the United States and elsewhere.

Very broadly, the objectives of the Treaty have been achieved by fixing common prices for the major part of our farm production. Some, but by no means all, of these prices are at higher levels than those in other countries. But, assurance of supply like any insurance policy costs money. And the European consumer is prepared to pay this small premium for food security. For many, security has as much to do with food as it has with missiles. But here, let me emphasise that the CAP should not be looked at in a purely economic context but against a social and political background as well since we believe that the well-being of agriculture is essential to the fabric of rural life.

Let us now look briefly at what the effects of achieving these objectives have been - both inside and outside the Community.

We are frequently accused by our critics of spending limitless sums of money to encourage our farmers to produce enormous surpluses which are then off-loaded onto world markets by means of unfair subsidies. But let us examine the facts.

First. As a result of the support we give our farmers, our wheat production, for example, increased by 29% over the last decade - slightly more than the world average of 27%. The increase in the U.S. was 73%. This latter increase is 2½ times the world average. I say this in no accusatory sense, but in an attempt to set the record straight. Furthermore, the increase in Community production was achieved through higher yields on an acreage that has remained virtually unchanged for the last ten to fifteen years.

Second - the extent of our expenditure. The total Community budget for 1983 and which represented less than 1% of Community GNP amounted to some $23 billion. Not our deficit Mr. Chairman but our total budget. Of this, $15 billion - an all time record - was spent on agriculture. This compared with almost $30 billion in the US - PIK included - for about one quarter the number of farmers.

And, unlike all national governments that I know of, there is a rigid limit strictly enforced by our Member States as to the amount we can spend, since our Constitution forbids us to run a deficit. We do not have the doubtful advantage of being able to print money as though we were playing Monopoly.

As to the impact of the CAP and our much criticised exports refunds on world markets, just two points. Since I get the distinct impression that there is a feeling among less well informed groups than this one that agricultural subsidies are an invention of cunning Europeans and the work of the devil.

First. Yes, it is a fact - and a very visible one - that we give export refunds. These compensate for the difference between the world price and our internal price - when this is higher - and are part of the cost of maintaining farmers incomes.

But, international trading rules formalised in the GATT (the General Agreement on Tariffs and Trade) to which both the EC, the US, Japan and 90 or so other nations are signatories, specifically permit the use of export refunds or subsidies, provided they are not used to gain more than and equitable share of the market, nor to undercut the going price. We maintain, and trade statistics support our view, that we have kept to these rules. But what, our American friends ask, is equitable ?

We explain that this is rather like drafting a definition of an elephant. Difficult, but if one were to enter this room, I think most of us could guess the kind of animal involved.

Second, other exporters of farm products use export subsidies. The US, for example, in addition to supporting its agriculture at home pretty generously over recent years, also deploys a panoply of export aids - GSM-102, PL-480, Blended Credits and plain unvarnished subsidies. I offer these observations not to score easy points, but simply to register the fact that agricultural subsidies are a feature of life in the modern world, and perhaps we are all - or most of us - sinners in the eyes of the Lord.

But these explanations should not be taken to imply that everything is fine as regards European agriculture and that we have no problems whatsoever in the Community.

Those of you who follow developments in Europe, if only through your newspapers, will be well aware of the serious challenges we currently face. On the agriculture front, we, and indeed other major producers, are basically faced with the same problem : that of producing larger quantities than markets can absorb which, of course, is far from being the same as saying that there is too much food in the world.

Whilst I strongly believe that the CAP is one of the major achievements of the European Community, it must - like any other institution or policy, if it is to survive, and survive it will - adapt itself to changing conditions.

In the Community, the CAP has to a large extent been the victim of its own success. The technical advances and productivity gains sought in Article 39 have meant that output has risen more rapidly than consumption. We have achieved self-sufficiency in a number of products and have reduced our dependence on imports. In other cases, the Community has become a net exporter. But, a responsible one, supporting the principle of price stabilisation agreements and, in spite of strong internal pressures to do otherwise, building up our stocks to unprecedented levels. What is more, we are not net exporters of as many products as is sometimes alleged. It was claimed only the other day at a hearing in Washington that the Community had become a net exporter of feed grains - as though this in itself was a cardinal sin. If, however, grain substitutes are included in the calculation, as they surely must be, the Community remains a net importer. Furthermore, in spite of achieving security of supply in a number of important farm products - another of the Treaty's aims - the EC remains by far the world's largest importer of agricultural and food products purchasing, as we do, about ¼ of all world imports - and in hard cash. In fact, we have seen our overall agricultural trade deficit grow by more than 60% from $14 bio in 1973 to $23 bio in 1982.

Productivity increases have also led to a serious imbalance of supply and demand in Europe - with milk as the most glaring example. Increases in the volume of total agricultural production have averaged between 1 ½ and 2% over recent years whilst consumption has only risen by about ½ %.

./...

At the same time, we are running very low on cash - in spite of the fact that our farm expenditure represents only about ½% of our GDP. From 1974 to 1979, expenditure on supporting agricultural markets grew at 23% per year - almost twice the rate of growth in our revenue. For the next two or three years - 1980 to 1982 - expenditure remained fairly stable, largely because prices remained relatively high on world markets. But since then expenditure has increased sharply and rose by about 30% in 1983.

As I said earlier - our Community constitution forbids us to run a budget deficit. So, for the first time we are up against our financial limits.

This chilling fact coupled with that of production outpacing consumption is the background against which the Commission proposed and the Council of Ministers - that is to say national Ministers from our ten Member States - in a rare act of political courage, adopted on 31 March an essential and very tough battery of measures for the rationalisation of our agriculture.

Time does not allow me to describe in any detail the full range of measures which will hit European farmers and their families and which will demand substantial sacrifices from them. But recent demonstrations by European farmers, in England and France, for example, leave little doubt that they are being squeezed.

./...

Briefly the decisions reached in March can be summarised under six main points :

1. confirmation of the principle of guarantee thresholds, and their extension to other products ;
2. strict control of milk production by means of quotas ;
3. a return to the unity of the market, through the dismantling of monetary compensatory amounts ;
4. tough policy for prices ;
5. streamlining of aids and premiums for various products ;
6. observance of Community preference.

Let me flesh out four of those six main elements - guarantee thresholds, the action on milk, prices and Community preference :

(a) Guarantee Thresholds:

We in the Commission have been insistently warning the Council of Ministers for the last 4 years - and I quote from what we said in 1980 - that

'in the present state of agricultural technology, it is neither economically sound nor financially feasible to guarantee price or aid levels for unlimited quantities'. We argued that the Community had passed the level of self-sufficiency for many major products, and while production was continuing to rise, the increase in consumption was practically nil. In these circumstances, we said that there should be 'producer coresponsibility above a certain level of production - that is, a first stage in which Community responsibility would be total, and a second in which it would be shared between the Community and producers'.

In the following years, this idea was refined by the development of the 'guarantee threshold' concept. This term indicates the predetermined level of farm production beyond which producers have to share financial responsibility. In 1982, the Council introduced thresholds for several products (milk, cereals, colza and processed tomatoes) in addition to those where analogous measures already existed (sugar and cotton). The level of these thresholds naturally differed according to the products, as did the steps to be taken in the event of their being exceeded but, in general, they consisted of a cut, direct or indirect, in the price or aid for the product in question. In its March 1984 decisions the Council not only extended thresholds to further products (sunflower seed, durum wheat and dried raisins) but, in an important political declaration, accepted the Commission's guidelines for guarantee thresholds, and emphasised the advisability of introducing them for products in surplus or on which expenditure is likely to increase rapidly.

./...

(b) Milk:

The milk sector, with its grave imbalance between supply and demand, had to be at the centre of any plan for reform of the CAP. In 1983, the price increase for milk had already been abated as a result of the guarantee threshold being exceeded. But despite this, milk production increased by 4% in 1983, and the Commission was obliged to present the Council with a stark choice : either a drastic cut of the order of 12% in milk prices, or the introduction of quotas to limit production and maintain prices at a more reasonable level. Ministers chose the latter and fixed strict production quotas for 5 years. Harsh levies have been introduced for any milk producer who exceeds his assigned limit. The levy has been set at 75% and, in some cases, 100% of the milk target price. In other words, totally dissuasive. In addition, prices have been frozen.

(c) Prices:

Price decisions were adapted to the different market situations for the different products. For example, for sugar the price was frozen and for grains a 1% cut was applied. Overall, farm prices for the 1984/85 marketing year were cut by ½ % as expressed in the European Currency Units, compared with a forecast general inflation rate of 5½ %. And, for the first time ever, the Council's decisions meant that in national currencies there were significant price reductions for a number of products in several Member States. In addition, there will be an intensification of our efforts to narrow the gap between our prices and those of our competitors. This will apply particularly to grain.

./...

Since in politics one has to tackle one thing at a time, the Commission has made no secret of its plans to propose for the 1985/86 marketing year meaningful cuts in grain prices following this year's 1% cut. The dairy farmers caught it this year; our cereal growers know it is their turn next.

(d) Community Preference:

This brings me to an external aspect of the package which, whilst only a very small part of the whole, seems to have attracted a great deal of attention in the United States. Since our own farmers are being asked to make considerable sacrifices and to limit their production, the Commission feels that it is not unreasonable to review the treatment of competing imports provided that this is done strictly in accordance with international trading rules.

As I said earlier, we are aiming to narrow the gap between our grain prices and those of our competitors. Such a move will obviously have the effect of making much less attractive all those grain substitutes which at present displace our own feed grains and have also contributed to surpluses in the dairy and livestock sectors. But until that time and whilst we are implementing a strict guarantee threshold and requiring our grain producers to limit their own production, it is absolutely essential to have some effective stabilisation of the imports of grain substitutes, such as corn gluten feed. Corn gluten feed is a by-product of corn sweetener manufacture, the booming

./...

production of which in the U.S. is due in no small part - dare one mention this here in Hawaii - to the protective import quotas and high priced internal arrangements enjoyed by US sugar growers and of ethanol production encouraged by tax exemptions.

Imports of corn gluten feed into the EC have, in fact, soared from 700,000 tons to 3.5 million tons since 1974. Our intention, therefore, for corn gluten feed is not to ban imports or reduce them, but to stabilise these imports after discussion with the EC's major suppliers against appropriate compensation on our part for any loss of growth - and in full accordance with the GATT rules.

In other words, we are looking for a temporary breathing space so as to avoid the risk of sabotage to our efforts to get our grain prices lower and to limit production. Such stabilisation should also help to reduce surpluses in the dairy and livestock sectors.

However, and I must stress this, what is being proposed is not hasty unilateral action, not a banning of all corn gluten imports nor even a reduction, as one might gather from the howls of protest, but what we hope will be a calm and reasoned negotiation aimed at temporary stabilisation with appropriate compensation and this only after fully carrying out the procedures laid down in the GATT. Two meetings on this subject have already taken place in Geneva.

./...

Those briefly were the tough decisions taken in Brussels at the end of March 1984, but this was not an instant rescue package and more hard decisions will have to be taken.

Nevertheless, the long-term prospects for control of agricultural policy and its expenditure have been improved. The Council has accepted three points of major importance :

First, the principle that agricultural guarantees can no longer be unlimited in nature. Second, an effective control of milk production by means of quotas. Third, a tough price policy, including - for the first time - price cuts for several products in several countries. Meanwhile, a budgetary framework is being evolved by the Community, in which financial discipline for all policies, including agriculture, will be exercised.

But more tough initiatives will be required in the coming years to continue the rationalisation of agricultural policy on which the Community is now embarked. It would be an illusion to suppose that our task is completed. Nevertheless, the CAP is on the right path. France's Minister of Agriculture, Michel Rocard, declared :

> "The CAP will remain at the centre of the European construction, but the benefits which it gives to farmers will perhaps no longer be so exclusive, ...

./...

.... and so unlimited, as in the past. What is needed now, if the European adventure is to continue, is for the construction of agricultural Europe to be accompanied by common policies in the fields of industry, money, research and even defence."

It is this recognition that agriculture - despite its difficulties, and its differences from other sectors - must be more and more integrated into Europe's economy, and must find its place alongside other policies of the Community, that is perhaps the most important aspect of the decisions recently taken on the CAP.

In conclusion, I must stress that these decisions, which are not an attempt to shuffle off our own problems on to others but which represent an important contribution towards a better balance of supply and demand on world markets, should be of benefit to farmers in all trading nations. They were not, I must emphasise, taken purely for budgetary reasons, but to fit our farming to meet the changed economic circumstances of the mid 1980's and beyond. They will not lead to the dismantling of the CAP nor to the disappearance of European farm products from world markets. We are not, in the words of the poet Longfellow, going to "fold our tents and silently steal away". You can instead expect a leaner, more streamlined European agriculture. We have laid the foundation on which European agriculture can expand its potential.

It seems to me, therefore, that there is all the more reason for each one of us to seek cooperation rather than conflict, particularly with the prospect of ever increasing yields around the world, and for the major exporters to strive to find some way of enabling the hungry nations of the world to purchase this bounty. The EC, whilst defending its own interests, will be prepared - as it has been in the past - to search diligently with other trading nations for ways of cooperating in the GATT and in other fora such as the International Wheat Council so as to promote world trade. And here, it would be helpful if the one-sided campaign directed against the Community and its export subsidies was stopped and replaced by a more constructive approach looking at the overall support given to agriculture by all major traders - whether this be via subsidies, subsidised credit, internal aids or through import restrictions. Since, if we don't seize the opportunity to cooperate openly and honestly, we shall all be losers. It is no good individual nations trying to re-write the rules on their own.

Those who are not attracted to the far from easy but promising path of cooperation should bear in mind the ghastly alternative of returning to a situation which resembles that of the wastelands of the 1930's.

But, for such cooperation and for any other concerted measures, we shall need considerable political will not only in Brussels and Washington but in capitals around the world, to achieve rules of conduct for agricultural trade which will benefit us all.

I believe that if we keep cool and bear in mind what we can all gain and what is at risk, we can together build a more secure and prosperous world trading system for importer and exporter alike.

* * * *

22/10/84