E. E. C. AGRICULTURAL REFORMS

presented by

Derwent Renshaw

Secretary for Agriculture

Delegation of the Commission

of the European Communities,

Washington, D.C.

at

NEWSPAPER FARM EDITORS OF AMERICA

Hotel Washington

Washington, D.C.

17 April, 1984

The important decisions recently taken in Brussels by the European Community's Council of Ministers :

- on the rationalisation of the Common Agriculture Policy &
- on the prices to be paid to farmers in 1984/85,

mark the culmination of more than 3 years of persistent effort by the Commission to adapt the CAP to changed economic circumstances, to check farm surpluses and to control the cost of their disposal by having our farm policy more accurately reflect market conditions.

These momentous decisions can be summarised under 6 main headings :

1.- Guarantee Thresholds

Three years ago, the Commission proposed guarantee thresholds to the Council,since when they have been introduced in several sectors. If the thresholds are exceeded, producers cannot hope to obtain the same guarantee for their products.
In its latest decisions, the Council approved the Commission's Guidelines for guarantee thresholds, maintained their application for milk, cereals, sugar, colza, cotton and processed tomatoes and extended them to sunflower seed, durum wheat and dried raisins.

2.- Control of Milk Production by Quotas

The milk sector, with its serious imbalance between supply and demand, its heavy calls on the Community's agriculture budget and its enormous potential for further growth, had to be at the centre of any plan to reform the CAP. In 1983, the price increase for milk had already been abated as a result of the guaranteethreshold being exceeded. But despite this, milk production rose by 4% in 1983.

As a consequence, the Commission was obliged to face the Council with a stark choice :

- either a cut of around 12% in milk prices ;
- or the introduction of quotas.

The Council chose the latter.

1984/85 Milk prices will be frozen at their 1983/84 level and a quota system, which is to last for 5 years, was introduced with tough penalties - in the way of harsh levies on farmers and dairies - if quotas based on 1981 deliveries plus 1% are exceeded.

3.- Phasing out - over 3 years - the Monetary Compensatory Amounts

Monetary Compensatory Amounts - or MCAs as they are called in Eurospeak - is a system of byzantine complexity which provides for cross border payments and deductions designed to counteract the effect of currency fluctuations. This decision to phase out represents an important step towards the restoration of the unity of price in the agricultural market.

4.- <u>1984/85 Prices</u>

Here, the Council, in a particularly rigorous mood, decided on even lower common prices than those that had been proposed by the Commission.
They decided on an average reduction in Ecu terms of 0.5% compared with the marginal average increase of 0.8% proposed by the Commission. These are across the board averages and cover price freezes for milk and sugar, for example, price cuts for such products as grain, oilseeds and wine and some small increases for some Mediterranean products.

As a result of the monetary measures I have just described, the average increase in national currencies is 3.3% against a general inflation rate of 5.5% which will mean a fall in incomes in real terms.

5.- <u>Aids and Premiums</u>

Although the Council did not accept all the Commission's proposals in this area, a number of payments will be cut including a reduction of 75% in the consumer subsidy for butter and in aids for processed fruits and tomatoes.

6.- <u>Community Preference</u>

The burden of these reforms (price freezes, price cuts, production quotas, guarantee thresholds, cutting back on surpluses and controlling expenditure) will fall on Europeans - and, particularly, on our 8 million farmers.

But, some effect will be felt outside the Community. Ministers also took decisions designed so that the package should respect the principles of Community preference. And, in this regard, it has been decided to reduce the amount of butter and beef imported under concessionary arrangements and to open negotiations for a minimum import price for mutton and for a stabilisation of imports of grain substitutes.

The last is a topic which tends to produce some fairly brisk reaction here, so permit me to say a few words about it.

- First, the Community is making use of its rights under Article 28 of the GATT which allows renegotiation of concessions subject to certain conditions of compensation.

- Second, the Community is not taking immediate, unilateral action to prohibit or reduce the imports of corn gluten feed and other corn based by-products, but is proposing that negotiations should be opened with a view to stabilising them.

- Third, it is proposing that such stabilisation should be achieved through a temporary and partial suspension of existing concessions, by the establishment of annual tariff and levy free quotas and with appropriate compensation.

- Fourth, moves in the grain substitutes area are not aimed specifically or exclusively against corn gluten feed or against the United States. Arrangements have already been concluded and are in place as regards other important substitutes such as manioc and brans from S.E. Asia and elsewhere.

- Fifth and last, the measure has to be seen in the general framework of the far reaching decisions to reform the CAP which will result in :

- drastic limitations on financial support for its farmers;
- cutting back on milk and other surplus production (which should reduce demand for cgf and other substitutes);
- bringing our own grain prices closer to those of our competitors'.

These reform measures represent an important contribution towards a better balance of supply and demand on world markets which should be of benefit to all farmers in all trading nations. So, let us not overdramatise what is happening in the field of grain substitutes.

Finally, Mr. Chairman, it seems to me that the Council's decisions under the six main headings I have just described for you mark a turning point in the development of the CAP and vindicate the considerable efforts of the Commission over the past 3 years to promote a political consensus in favour of adapting our farm policy. However, it would be an illusion to suppose the task is completed.

The package agreed in Brussels was not a complete rescue exercise and more hard decisions will be required. Nevertheless, the long term prospects of the control of agricultural policy and its expenditure have been greatly improved. The Council has accepted three points of major importance :

- First, the principle that agricultural guarantees can no longer be unlimited in nature.

- Second, effective control of milk production by means of quotas; and

- Third, a tough price policy, including - for the first time - price cuts for several products in several countries.

The CAP is now moving in the right direction and, as a result, agriculture will be enabled to become more integrated into Europe's economic development as part of an overall plan for the renewal of the European Community.