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SPEECH TO THE BRITISH ASSOCIATION FOR THE
ADVANCEMENT OF SCIENCE BY MR. CHRISTOPHER TUGENDHAT,
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EUROPEAN AGRICULTURE: THE WAY FORWARD

I should like to begin by saying how honoured I feel to have the opportunity to address the British Association for the Advancement of Science.

I would also like to say how pleased I am that the Association should have seen fit to devise a programme of speeches around the theme of Britain and the European Community. It is in my view an important national interest that everyone concerned directly and indirectly with public affairs should have the opportunity to broaden their knowledge and understanding of the opportunities and problems involved in British membership of the European Community. Britain's political and economic future lies in Europe. It is therefore essential that there should be the widest possible understanding of how the Community might be changed and developed and of the issues at stake.

/ My task today

My task today is to focus upon the Common Agricultural Policy, to analyse and comment on certain of its characteristics and to indicate ways in which it might be improved.

Before getting immersed in this subject however, I should like to start by tackling the question of why the Community applies an agricultural policy, common to all Member States. I will deal with two basic points: first, the need for agriculture to be subject to specific policy measures and secondly, why they have to be common throughout the Community.

Before the Common Agricultural Policy was introduced, all European countries took specific measures with respect to their own agriculture. The policies applied differed, sometimes markedly, from one country to another. But in all of them, including Britain, regulation of one sort or another was considered necessary in order to strike balances between economic, social and political pressures and objectives. Nor should it be thought that the regulation of agriculture is a phenomenon unique to the countries of the Common Market. The industry is regulated in all countries where it is of any importance at all, regardless of political and

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economic creed - the United States, Switzerland and Japan provide three diverse examples to prove my point.

I would only add that in the West, the combined effect of Agricultural Policy and the efforts of the farming community invariably seem to produce surpluses, whereas in Russia, and Eastern Europe, they equally invariably seem to produce shortages. Both give rise to difficulties but as anyone who remembers the rationing and austerity of the War and post-War years will attest, the problems of plenty however intractable are greatly to be preferred to the problems of penury.

When the E.E.C. was formed, it was understood from the outset that free trade in agricultural produce could not take place in a harmonious manner if each Member State retained responsibility for its own independent agricultural policy. Free trade and divergent national regulatory systems are simply incompatible. Were national policies to be applied, each country would feel obliged to prevent its own system from being undermined by the effects of policies carried out by its partners.

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Again this is not a problem peculiar to the Community. For example, the member countries of the European Free Trade Association also recognize that trade between them in agricultural produce cannot be free in the absence of a uniform agricultural policy. They decided not to apply such a policy and agricultural trade is excluded from the provisions of EFTA. Furthermore, the General Agreement on Tariffs and Trade recognizes that the objectives of liberalising trade have to take special account of differences in agricultural support mechanisms. This is shown by the fact that the GATT incorporates specific derogations and waivers for agriculture from what are otherwise general rules.

Theoretically, the Community, like EFTA, could have developed a common market in industrial goods without a Common Agricultural Policy. Politically, however, that was impossible. Because of the balance of interests between the original Member States, the two were regarded as two sides of the same coin and they remain so still.

/ There are other

There are other practical reasons why a common market in agricultural goods is in the general interest. Although agriculture contributes less now to gross domestic product than it did when the Community was set up, it is still important. Taking the Community as a whole, the figure is just under 4% of the combined GDP. In France it is 4.2%, in Germany 2.0%, in Denmark 4.4%, and in Britain 2.1%. Over eight million Community citizens or around 7% of the working population are involved directly in agriculture, or around 20% of the total employed in manufactured industry. There are also many others who supply goods and services to agriculture who depend on the industry for their livelihoods. In Britain, the figure for those directly engaged in agriculture is 2.8% with, of course, many more working in related activities.

In recent years, intra-Community trade in agricultural and food produce has grown rapidly - the annual rate of increase was about 14% during the 1970's and the total is now valued at about £20bn or about £80 for each Community citizen per annum. The performance of British exporters is one of the unsung success stories of our economy.

/ The need for

The need for a common policy for agriculture cannot of course be invoked to justify any given common policy measure. It is important to draw the distinction between the need for, and the nature of the common policy. Debate at all levels is often made unnecessarily difficult when suggestions for changes in the nature of the policy are misrepresented as an attack on the need for a common policy. Conversely, there is nothing inconsistent in supporting the view that a common policy is needed but simultaneously to advocate that changes should be made in the operation of the policy.

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In order to put into context the changes that I consider should be made, I would like to say a few words about the manner in which support may be provided. Basically, the choice is between the extent to which the burden of support falls on tax-payers or on consumers. The debate then fans out to cover such matters as the relative merits of selective forms of income support, the reasonableness of prices paid by consumers, and the burden of the policy on the Community budget.

Debates over who should pay - tax-payers or consumers - for agricultural support in the Community, especially in the United Kingdom context, are not infrequently put in terms of extremes. The CAP is sometimes misleadingly depicted as putting the entire burden on consumers. Although it is quite true that for certain products the burden of support falls essentially on consumers, this is not true in all cases. Indeed for an increasing number of sectors, the Community system places little or no burden on consumers. For those products such as cereals, milk, beef and sugar, where there is a consumer burden reflected in the application of import levies, this burden must be put into perspective. For example, the consumer price of bread

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in the United Kingdom increased by 17.9% per annum from 1973 to 1980 but during this period the annual increase in wheat prices fixed under the Common Agricultural Policy in the United Kingdom was far lower at only 5.3%. A similar result is found with other important products such as milk where the corresponding figures are 18.8% and 5.8%, for beef 14.6% and 7.6% and for sugar 19.5% and 5.8%. In other words, by far the largest part of the increase in consumer prices is due to factors such as distribution charges which have nothing to do with the Common Agricultural Policy. Consequently, great care should be taken when assessing the impact on consumers of the CAP to attribute to the policy only that for which it is responsible. Unfortunately, the public has often been led to believe that the CAP is the culprit and consequently unjustly labelled as such.

In this connection it is salutary to note that in the period 1973 to 1980 the annual rate of increase in consumer prices of potatoes in the United Kingdom was more rapid than for beef. Why do I choose these products as examples? There are two reasons: the first is because the increase in the price of beef is often cited as some form of proof of the burden of the CAP on consumers; the second because potatoes are the one main agricultural product where national, rather than Community, measures apply.

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In other words, for potatoes where policy is in British hands, the increase in consumer prices, and incidentally in producer prices, has been higher than for a product the price of which is often criticised and for which the Community is responsible.

Whilst on the point of consumer prices, I would just like to say a word about the price of butter which is also often used, or rather misused, as an indicator of what is wrong with the Common Agricultural Policy. It is claimed that butter is far too expensive. It is implied that were it not for the Community we could return to pre-1973 prices. I do not think a return to pre-1973 prices for butter is under any form of agricultural policy any more likely than, for example, the price of a British Leyland Mini, which incidentally has increased far more rapidly than butter, also returning to pre-1973 levels. To those who are not persuaded that a return to pre-1973 prices is possible, but who nonetheless feel that the price of butter is too high, I offer the following figures: they were collected in November 1981 by the United States Department of Agriculture. They show the price of butter in ten capital cities in various industrial countries including the United States, Australia, Canada, Japan, Switzerland / and Spain.

and Spain. The highest price was over eight dollars per kilogramme and the average of the remainder well over five dollars. I wonder if anyone would care to guess where on this scale the London price came? I will tell you: it was second lowest with only Australia recording a cheaper price. This is a very satisfactory rating, particularly as prices far higher than in the United Kingdom were recorded in countries noted for their criticism of the Common Agricultural Policy.

There is of course a world of difference between the relevance of the various mechanisms employed in the Common Agricultural Policy and the precise ways in which these measures are applied. Agreeing to support markets by, for example, intervention, does not mean either that the price at which intervention takes place, or that the level of protection against third countries is appropriate. Several indicators cast doubt on the correctness of the way in which some of the instruments of the Common Agricultural Policy have been applied. For example, the degree of self-sufficiency - in other words, the proportion of what we consume which is produced in the Community has for a range of products increased significantly over the past decade.

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The increase in self-sufficiency reflects two phenomena. First, there is the dynamism of agricultural output. Scientific advances in animal and plant breeding, in disease and pest control and in husbandry have often been output increasing and so production has risen significantly year by year. Farmers have proved far more adept and rapid at applying new technology than most manufacturing industries.

In many cases, increases in output are far more rapid than consumption increases. Thus, milk production in the United Kingdom has increased since 1973 by getting on for 2% a year despite an annual reduction in cow numbers of nearly 1%. These figures may sound small. Perhaps they are, but their consequences are not. Dairy output throughout the Community is increasing at about the same rate as in the United Kingdom equivalent to over two million tonnes of milk a year, whereas consumption is virtually static.

It is in a way fortunate for the Community that productivity in some member countries lags well behind the average. Again taking the dairy sector, output per cow is in some countries only about 75% of the Community average. If those below average achieved the current

/ average performance

average performance, something they are quite capable of doing, the Community milk surplus would shoot up by some eight million tonnes per year - or by nearly 50%. The dairy sector is not alone in recording massive increases in output. Yields of wheat have, for example, shot up by about 30% over the past decade.

A significant consequence of these production increases has been some extraordinary changes in the Community's place and influence upon world markets. Our exports of agricultural products have grown far faster than total world agricultural trade - in other words, our market share has increased significantly. For example, for beef in 1977 Australia exported about seven times as much as the Community, but now we export three quarters as much as they do and we have overtaken Argentina and New Zealand, which traditionally exported much more than the Community. The Community is now the world's third largest exporter of wheat. For skimmed milk powder our share of exports to the world market has increased from about one-fifth in the mid-1970's to approximately one-half now. For butter-fat the development is even more spectacular: increasing from less than one-tenth to getting on for two-thirds over the same period.

In a world where acute hunger is a continuing problem for millions, such developments might be judged as entirely desirable. But it is hypocritical to pretend that Europe is helping the third world by off-loading on to it cut price surpluses produced at high cost as a result of political and social pressures. What the developing countries require is help to enable them to grow the particular types of food their people need and that their land is best adapted to produce. Europe's role should be confined to providing what they cannot produce for themselves, to giving help until their output is increased and, of course, to assisting in emergencies.

The increase in Community agricultural output has led to a spectacular growth in Community expenditure on agriculture guarantee, or to give it its French acronym, FEOGA guarantee expenditure. In the mid-1970's, FEOGA guarantee expenditure was equivalent to about 5% of the value of final agricultural production in the Community. By 1977 it was over 7% and in 1980 about 10%. In other words, real costs per unit of output have doubled in half a decade. In addition the burden of FEOGA guarantee expenditure in relation to Community gross domestic product, although of course still very small, increased by nearly 50% during the second half of the 1970's. During this period the proportion of total

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expenditure accounted for by exports increased from a low of under 20% in 1974 to a peak of over 50% in 1980. Last year it was just below 50%.

In absolute terms expenditure on FEOGA guarantee increased in the second half of the 1970's at an annual rate of well over 20%. This rate of increase simply ran the real risk of bursting the budget because the rate of increase in resources potentially available to finance the budget - in other words import duties and levies and an amount equivalent of up to 1% VAT applied on a uniform basis developed far less rapidly.

Fortunately in recent years there has been a considerable reduction in the rate of increase of FEOGA guarantee expenditure. This is due in part to policy decisions and better management, but to a large extent to a firming up of world markets, notably for dairy products. To achieve this price change, a careful

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coordination of dairy export policy involving the Community and New Zealand, the two main exporting countries, has operated to the benefit of both. This coordination can I think be introduced for some other products, notably beef in a manner that would not only reduce budget costs but bring a desirable increase and stability in world prices.

Nonetheless, the vagaries and volatility of world markets are well known and as a greater proportion of Community agricultural production now goes on world markets, changes in world conditions have a more marked impact on the Community budget than was the case in the past. With 60% or so of the budget taken up by FEOGA Guarantee expenditure, of which about half is now spent of export refunds and thus determined by world prices, the impact on the entire Community of a possible slide in international market conditions is obviously significant. This risk of a slide is, I fear, taken more seriously by finance than by agricultural Ministers. Finance Ministers aware of the risks are now reluctant to allow what the Commission considers to be a reasonable development of Community expenditure policies in areas other than agriculture. Consequently, the current modest development in agricultural expenditure is not facilitating as much as one would expect a broadening of the Community's financial responsibilities.

The development of Community output has not only given rise to budget problems, it has also led to serious friction with our trading partners. A few moments ago I gave figures for the changed position for the Community for certain exports to world markets. For many products our share has increased rapidly. Where this increase has been due to a genuine competitive advantage of our producers over others, no criticism is called for. Praise in fact is due. But where improved performance is attributable not to an inherent competitive advantage but to the benefits exports derive from export refunds, our trading partners have cause for complaint, provided of course their hands are clean which is not always the case.

The increasingly venomous nature of trade disputes is worrying. It worries me as budget Commissioner when the Community budget is called upon to pay subsidies equivalent to a significant part of the market price for products in order to market otherwise unsaleable produce.

In the case of, for example, skimmed milk powder, these subsidies now cost up to two thirds of the market price. It also worries leaders in all countries involved either as importers or exporters of agricultural products. For example the United States considers that
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their exports to Third Countries are being undercut by unfair and aggressive trade practices carried out by the Community. They also consider that access for their exports to the Community is being made more difficult. I agree with the sentiment often voiced in the United States that nations should solve their agricultural difficulties internally and not shift the burden of domestic measures and problems on to third countries. We need to take very seriously the criticisms made concerning distortions of international trade and be aware that what may seem reasonable to us may not be so judged by others.

But the various accusations and counter-claims must be kept in perspective. No country, not even the United States, has an agricultural production and trade policy as neutral and as open as it would like other countries to apply. Australia also vigorously criticises the Community for what it considers to be excessive import restrictions. I wonder though whether Australia genuinely advocates trade freedom because when I take the important example of motor cars, I see the Community applies a 11% duty without quotas, Australia has a tariff barrier over five times this level at 57 1/2% and operates a quota system. This no doubt reflects the particular characteristics of the Australian motor industry.

/ Criticism

Criticism must therefore also take account of the economic and political circumstances facing the agricultural sector in different parts of the world. There are real differences in circumstances that justify differences in policy. For example the policy applied in parts of the world with intense population pressures and where agriculture has been practised for centuries is likely to need different measures to those justified where land is relatively abundant and the agriculture "new".

For budgetary, trade, as well as other reasons, the Commission has advocated policies involving a narrowing of the gap between Community prices and those applied by its main competitors, coupled with modifications of the price hierarchy and a limit on the open-ended nature of agricultural support measures whereby guarantees would be diluted in the event of production exceeding set thresholds. These objectives appear to have the support of Heads of State and Governments and I hope will be applied by Ministers of Agriculture in the Community in the decisions they take in the coming years.

/ In this year's

In this year's prices' decision we saw what may well turn out to be the first real progress towards cutting off the open-ended nature of agricultural support whereby Community guarantees will no longer be totally independent of the level of production. A second innovation was to introduce direct income support measures for certain producers so that their revenues could be protected without the need for a further increase in price. This is a very positive step towards supporting conflicting demands of, on the one hand market balance and on the other income support. These demands clearly cannot be accommodated in price policy alone.

I should, however, point out that the income support measures that have been decided are more costly, in budget terms, than operating a similar degree of support through the price mechanism. In this respect the policy has been made somewhat more expensive in budget terms. Nonetheless there is widespread agreement that this type of measure is preferable to a further price increase.

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It is thus important to bear in mind that a cheaper CAP in budget terms would not necessarily be a better one. A cheaper one could be achieved by transferring a larger part of the burden of support onto consumers by reducing production and consumption aids. Measures could also be taken up to limit imports and promote exports. Both these approaches would have the effect of forcing up internal market prices. Any such development would in my view be regrettable and I am sure that few in this hall would disagree. Of course the total budget cost of agricultural support is of undoubted importance but within this constraint what matters is not just how much is spent but how it is spent. This does not however mean that the way the CAP is financed could not be improved so as to make it fairer as between the Member States. Indeed, I believe it should be. A re-nationalisation of agricultural policy would not however necessarily reduce the cost, a point I would like those who advocate a re-nationalisation of agricultural policy to bear in mind. Apart from spelling the probable end of the free market in industrial goods, it would also be extremely costly as I will seek to show in a moment.

/ Having outlined

Having outlined the possible direction in which agricultural policy in the Community may move, I would like in my concluding remarks to comment on some of the possible consequences for the United Kingdom of returning to a national agricultural policy. Those who favour British withdrawal from the Community generally talk in terms of an alternative system of agricultural support that would closely resemble the one we had before joining the Community and this is therefore the one that I intend to concentrate on.

A policy based essentially on deficiency payments would undoubtedly be extremely expensive. The actual cost would of course depend on the measures applied and on world market conditions. But in my view, the figure would be about £2bn a year. I first mentioned this figure at the Oxford Farming Conference in January and it has since been widely commented upon.

The Opposition Spokesman on Agriculture, Mr. Norman Buchan, M.P., has come forward with a lower figure : £1bn. The reason for the big difference appears to be entirely due to different but very important assumptions about world prices. I have assumed that they do not rise because I do not believe it would be in the national interest for Britain's

agriculture to contract. Thus, as total world food supplies would be unaffected by the withdrawal, world prices should remain virtually unchanged. Mr. Buchan has estimated that were the United Kingdom to withdraw, world prices would move up and close about half the gap between world and British prices. For prices to move so significantly, either supply or demand would need to change markedly. I cannot imagine that the British people would wish to eat much more simply because they had left the Common Market and I can therefore only assume that the cause of this increase in world prices would be a marked contraction in British agricultural output.

Obviously such an increase in world prices would also make it virtually impossible to achieve the significantly lower food prices which we are so often told would result from British withdrawal, especially when it is remembered that the cost of the basic raw material represents a steadily diminishing percentage of the final price to the consumer.

I make these points not in any spirit of acrimony but because I wish to bring home the fact that in this branch of economic policy as in so many others, there are no easy options. The Common Agricultural Policy

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does not provide the only means by which British agriculture can be organized. As I have explained, it can and should in any case be improved and modernized in several respects. But it should also be remembered that the most likely alternative is also expensive and fraught with difficulty. Just as the Communist countries never seem able to solve their perennial problem of increasing production to the point where it can satisfy demand, so the Western countries - the Community, the United States, Japan, Switzerland and others - are still searching for a way to bring surpluses and costs under control. I believe that if the governments of the Member States would only follow the Commission's ideas and build upon them, the Community would be well on the way to achieving that elusive goal.
