

Speech by Mr. Poul DALSGER, member of the Commission responsible for Agriculture, to a group of Community journalists visiting Greece to study the problems of Mediterranean agriculture.

ATHENS, 22 November 1982

MEDITERRANEAN AGRICULTURE :
PROBLEMS AND PROSPECTS

Minister

Ladies and Gentlemen,

Let me begin by saying how glad I am to be here with you today. It is not every day that I get a captive audience of leading agricultural journalists from all ten member States. I think it is a very good idea to bring specialised agricultural correspondents mostly from the Northern countries of the Community and brief them on the specific problems of Mediterranean agriculture in Greece, where these problems are particularly acute. It is also a very good idea to give Greek journalists, who know the problems of Mediterranean agriculture only too well, the opportunity to meet their colleagues from the rest of the Community.

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My task today is to tell you how the problems of Mediterranean agriculture are seen by the Commission in Brussels. I should like to begin by describing the overall economic and political context in which decisions about the development of the common agricultural policy have to be taken. Then I want to say something about what the Community has already done to help the farm population in the Mediterranean regions. Finally, I want to tell you how the Commission would like to see the common agricultural policy develop in the not so distant future when the Community will have been enlarged to include not only Greece but also Spain and Portugal.

Adapting the CAP to changed circumstances

In May 1980, the European Council decided to initiate a far-reaching review of the common agricultural policy as part of a general review of the Community's activities. In its report to the European Council, the Commission concluded that the CAP had brought many advantages.

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The creation of the common market with a spectacular development of agricultural trade has improved the consumption of foodstuffs in both quantity and quality. The CAP has shielded the Community from physical shortage of foodstuffs, and has stabilised agricultural markets by protecting them from speculative movements affecting world markets in raw materials. The CAP has encouraged the modernization of agriculture, leading to a considerable growth in productivity. This has in turns enabled European agriculture to make a substantial contribution to satisfying world demand for food. Last but not least, the CAP has to a large extent shielded the farm population from the consequences of the general economic crisis.

BUT - and this is a very big "BUT" - the common agricultural policy now needs to be adapted to the new realities both of the general economic situation and of European agriculture. When the CAP was set up in 1962, there were 17 million people on the land in the Nine, farms were generally much smaller and levels of productivity were much lower than they are now, while the Community was a net importer of nearly all agricultural commodities. Twenty years later,

the farm population in the Nine has fallen to less than 8 million. Farm structures have improved, modern methods of production have been introduced and yields have risen. This has led to a substantial and continuing growth in production in practically all sectors. Meanwhile consumption has failed to rise at the same rate and in some sectors has even declined. As a result the Community has not only achieved self-sufficiency, it has become a major exporter of several major commodities. These include wheat and barley, beef and veal, butter and skimmed milk powder, sugar and wine.

As you know, the common agricultural policy was based originally on market organisations designed to support farmers' incomes by means of open-ended price guarantees. In other words, the CAP established guaranteed prices or direct production subsidies for unlimited quantities not necessarily geared to the needs of the market. With the continued growth of agricultural production, we have run into a series of problems:

- a growing reliance on export markets where prices are frequently much lower than in the Community;

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- difficulty in disposing of surplus stocks, for example butter and sugar;
- conflicts with other agricultural exporting countries with whom we compete on the world market.

The Commission has accordingly come to the following conclusions, which I quote from our report to the Council on the Mandate of 30 May 1980¹⁾:

- farm income considerations, important though they may be, cannot be the sole point of reference for fixing guaranteed prices;
- it is neither economically sensible nor financially possible to give producers a full guarantee for products in structural surplus;
- given the Community's degree of self-sufficiency for most agricultural commodities, prices must reflect market realities more than they have in the past.

We have already begun to apply these ideas in our price policy. The Commission is committed to a policy for cereals which will narrow the gap between EEC internal prices and US prices, though this can only be achieved gradually. We have also established the principle of guarantee thresholds. In other words, when production of certain commodities exceeds a certain level taking account of demand in the Community and on export markets, then producers must expect either to see their guaranteed prices reduced or to have to help pay for the disposal of the excess production. This principle has already been written into the market organisations for cereals (except for durum wheat), sugar, milk and tomatoes for processing.

1) COM (81) 300, para 20

The economic crisis

In addition to the changes that have taken place in the agricultural sector, we also have to take account of the general economic crisis which I have no need to describe to you.

Farmers in all Member States are feeling the effects of this crisis, which hits them in three main ways.

1. Inflation

Inflation rates vary from 4% in the Federal Republic of Germany to around 20% in Italy and Greece, with the average about 10%. Farmers in nearly all Member States find themselves caught between fixed prices and rising input costs. This is a particularly severe problem for farmers in countries like Greece and Italy, where the rate of inflation is above the Community average.

2. Interest rates

High interest rates, stimulated by US monetary policy over which we have no control have caused difficulties for agriculture and industry. Small farmers who have borrowed money from the banks to enlarge their holdings or buy modern equipment have been the worst hit of all. This problem has been particularly acute in the country I know best - Denmark - where there have been an unprecedented number of bankruptcies.

3. Monetary instability

Frequent exchange rate adjustments have also caused problems for European agriculture. This is because the CAP is based on the principle of common prices expressed in a common currency. The system of green parities which are introduced in order to avoid sudden changes in agricultural prices as the result of monetary adjustments, also creates difficulties. It delays the necessary structural adjustments, it sometimes distorts competition between Member States, and last but not least, it complicates the annual price-fixing process.

4. Budget pressures

During the period 1974-79, EEC expenditure on agricultural market support (including direct production aids or consumer subsidies but excluding structural measures), grew by 23% a year, that is more than twice as fast as the Community's budget resources. Since then, as a result of more favourable conditions on world markets and improved market management, the annual rate of increase in expenditure has been brought right down. In 1981 it actually fell, and in 1982 it will be only just above expenditure in 1980.

This achievement has not been recognized as widely as it should in certain Member States. But public expenditure in all Member States is under pressure as a result of the recession. It is unrealistic

to think that the Community's budget can remain immune from the new constraints and priorities which the Commission itself is preaching to Member States.

Although farm incomes fell in real terms throughout the Community for three successive years (1978, 1979 and 1980, the CAP has to a certain extent shielded the farm population from the effects of economic recession. But it would be unrealistic to think that the CAP can insulate farmers from the effects of the crisis - for example, by guaranteeing all farmers everywhere price increases

in line with inflation. That is simply not possible. It is up to the Community and national governments to implement policies to deal with the problems of inflation, monetary instability and high interest rates at their source. Agriculture will then benefit along with the rest of the economy. But the CAP itself cannot solve these problems.

The North - South problem

I have spoken about the consequences of the Community's growing dependence on export markets, I have spoken about the consequences of the economic crisis, now let me turn to the third great problem facing the CAP : the imbalance between agriculture in the North and in the South of the Community.

This problem can be analysed at three levels :

1. Living standards

Incomes in Greece, Italy and Southern France, are on average much lower than in the rest of the Community.

2. Farm structures

Holdings are much smaller with correspondingly low yields and productivity.

3. Market organisations

Farmers in the South typically produce wine, fruit and vegetables, olive oil or other "Mediterranean" produce for which the price support machinery is said to be much less effective than that provided

for "Northern" products such as wheat, sugar, milk and beef. It is claimed that Northern producers get guarantee prices and complete protection from imports by means of variable import levies and unlimited intervention buying. Mediterranean products, on the other hand, are exposed to competition from imports as a result of Community's preferential trade policy for the Mediterranean countries. At the same time, the machinery for intervening to support prices on the internal market is less effective.

Let me say straight away that the Commission recognized the existence of a North-South problem in European agriculture. We see it essentially as a problem of structures and income levels. If I repeated the argument about market organisations, this is not because I necessarily share it, but because I wanted to tell you that I am fully aware that this is how many people in the South of the Community see these things.

Mediterranean agriculture : what has been done

In the course of the last few years, the Community has done much to adapt the CAP to take account of the special requirements of Mediterranean producers.

If one looks at the so-called "Northern" market organisations, one finds a series of special measures in

favour of "Mediterranean" producers.

- In the cereals sector, there is a special premium (deficiency payment) for the durum wheat grown in Italy and Greece, in addition to the full guaranteed price; durum wheat is also excluded from the guarantee threshold system.
- In the beef sector, a special premium was introduced in 1976 to enable Italy to build up its herd. The suckler calf premium was extended this year to Greece (and Ireland).
- In the dairy sector, milk producers in mountainous and backward areas, eg. the South of Italy and Greece, are exempted from the co-responsibility levy.

The Community has also made a big effort to improve price support in the main sectors of interest to Mediterranean producers.

Take fruit and vegetables, which account for about 20% of farm incomes in Greece and Italy. In 1978, the Community introduced a system of direct subsidies to enable the processing industry to compete with imports, while paying a guaranteed minimum price to the producers of tomatoes, pears, peaches and cherries. Following the accession of Greece, a similar system was introduced for raisins in 1981.

As regards fresh fruit and vegetables, the Commission has proposed a series of practical improvements to the basic regulation designed to strengthen the producer organisations, as well as the machinery for intervening on the market when prices collapse. These improvements, on which the Council has not yet reached agreement, are being discussed as part of the preparations for Spanish accession. As regards the highly sensitive citrus sector Italian and Greek growers benefit from so-called penetration premiums, that is to say direct subsidies to enable them to compete more effectively on the markets of other member States with imports from third countries. The Council has recently reached agreement on a substantial programme of assistance to the Italian citrus producers and processing industry to enable them to meet Spanish competition in an enlarged Community.

Look at wine. The provisions for distilling surplus wine have been progressively strengthened during the 1970's. Nevertheless, we became convinced that the system was not working properly, and would have to be modified

before Spain and Portugal joined the Community. Earlier this year we agreed on substantial changes which will for the first time provide wine producers with a guaranteed minimum price comparable to that enjoyed by the producers of "Northern" products.

Last but not least, olive oil, which is only produced in Greece and Italy. The market organisation provides for a system of variable import levies and intervention

buying as for cereals or dairy produce. Since the level at which prices can be set is limited by the price of competing vegetable oils, we have introduced a system of production aids or deficiency payments for the producers, combined with consumer subsidies to improve the competitive situation of olive oil. The Council is discussing how to dispose of the forecast surplus of olive oil which will emerge after Spain has joined the Community.

I should add that the Community has also accepted the financial responsibility for supporting the production of tobacco, cotton and silk. Budget expenditure is not of course the sole indicator of the degree of income support enjoyed by farmers. That depends on other things as well, particularly the level of prices on the Community market. Nevertheless, the figures are instructive. Thus expenditure on such "Mediterranean" products as durum wheat, rice, olive oil, tobacco, wine, fruit and vegetables, came to only 8.9% of total expenditure on agricultural market support in 1978. In 1982, the proportion will be around 22% of agricultural budget expenditure. This figure is actually higher than the same products' share of agricultural production in the Community.

No one denies that there are serious income disparities between farmers in different parts of the Community, particularly between North and South.

This is not a result of unfair treatment by the Community but because of the structural weakness of agriculture in the Mediterranean regions. These weaknesses antedate the CAP. However, it is worth pointing out that although farm incomes in Italy and Greece are still on average very low, they nevertheless rose in real terms during the period 1974 - 81, which is more than can be said for farm incomes in the North of Europe. ⁽¹⁾

(1) Commission Report on differential rates of inflation and the CAP (COM(82)98, of 11 March 1982)

Our policy for improving agricultural structures was originally conceived as a means of modernizing and improving agricultural structures. In recent years, the emphasis has been more on the mountainous and backward areas and on special programmes for particular regions such as the South of Italy, which I recently visited, and Greece. Italy is in fact the principal beneficiary of the Guidance Section of the European Agricultural Fund, with grants amounting to 1,389 million ECU's from the beginning up to the end of 1981. Out of a total expenditure on agricultural structures in 1982 of about 750 million ECU's, about 200 million ECU's is expected to go to Italy and 32 million ECU's to Greece. The level of expenditure in Greece is expected to rise significantly in future years.

Mediterranean agriculture : the way forward

As you know, we are already engaged in negotiations for the enlargement of the Community. The admission of Spain and Portugal is bound to have a considerable impact on Mediterranean agriculture within the Community

It will increase significantly the weight of the agricultural sector. The area under cultivation will increase by 30% and the numbers employed in agriculture will increase by 40%, but agricultural output will only rise by 12%. It is clear from these figures that the problems of structural weakness and income disparities will become even more acute in an enlarged Community.

The first priority has got to be an improved structures policy. In its report to the Council on the Mandate, the Commission already pointed out that if we are to have a more market oriented prices policy, this must be accompanied by an active policy for improving farm structures, tailored to the needs of individual regions.

The Commission is currently conducting a wide-ranging review of our existing structural programmes, which must be completed by the end of 1983.

It is clear that improved Community financing will be essential. However, this need not only take the form of increased budget expenditure on structural measures. It is rather a question of establishing priorities and a greater concentration on the regions with the greatest problems.

The Commission has identified three priorities for its future structures policy, all of which are highly relevant to Mediterranean agriculture⁽¹⁾

- 1° improving product quality and the efficiency of the processing and marketing sectors ;
- 2° Encourage the reorientation of diversification of production to meet the needs of the markets,

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(1) Guidelines for European Agriculture: memorandum to complement the Commission's Report on the Mandate of 30 May 1980.

as well as the introduction of new products and production systems. This will be particularly important in the enlarged Community. An additional million hectares of irrigated land will become available in the Mediterranean countries of the enlarged Community between by 1990, and it is very important that this should not lead to an increased production of surplus commodities;

- 3° Increased emphasis on agricultural research and advisory services. Technical training and assistance to improve the "human factor" are possibly the single most important contribution that can be made to solving the structural problems of Mediterranean agriculture.

Although an active structures policy is the precondition of raising farm incomes, it cannot by itself bring about the balanced development of the less-favoured agricultural areas. This will require action across the board to stimulate the development of these regions, not only in agriculture but also in industry and the services, including tourism.

Raising productivity in Mediterranean agriculture to make it more competitive is bound to lead to a reduction in the number of people working in

agriculture in these regions, and jobs will have to be found for them in other sectors of the economy. The Commission is already working on a set of integrated programmes for the Mediterranean regions, which my colleague, Vice-President Natali, will describe to you at the end of your visit.

Our second aim must be to try and improve the incomes that Mediterranean producers get from the market. However, I am convinced it would be a mistake to think that this can only be achieved by means of the support or intervention systems from which the so-called Northern products benefit. Let me try and explain why.

Firstly, we are currently engaged in an effort to limit price guarantees and to extend the system of producer co-responsibility for products in structural surplus such as cereals, milk and sugar. For other so-called Northern products, there is either no guaranteed price support system eg. pigmeat or eggs and poultry, or else the price support system is being applied in an increasingly selective way : that is the case for beef. We have in the course of this year introduced a new wine market organisation which will provide producers with a guaranteed minimum price. But I do not think

it is either economically sensible or politically possible to extend the traditional system of guaranteed prices with unlimited intervention buying to new products.

Market stability has to be maintained, not by buying up unwanted surpluses, but by achieving a better balance between supply and demand. This means improving farm structures, strengthening producer organisations, raising productivity, helping producers adapt to the needs of the market, and where necessary, helping them diversify out of crops in which there is a structural surplus. As I have already indicated, there will have to be adequate Community financing for the necessary diversification, as well as for research and technical assistance.

In the second place, there is the budgetary factor. As I have already indicated, market support expenditure on Mediterranean products is relatively high. There is nothing wrong with this, indeed the Community should spend more on farmers in the less privileged Southern regions. But, given the climate of budgetary austerity that we have to live with, Community finance should be used as far as possible to improve the ability of Mediterranean farmers to earn a decent income from the market, rather than to dispose of structural surpluses, which brings the CAP into disrepute in other Member States.

In conclusion, let me remind you that the CAP is based on three principles : common prices, common financing and a common market. All agricultural commodities whether they are produced in the North or South, must be able to circulate freely within our Community. The balance between supply and demand for particular commodities has to be assessed at the level of the Community, which is responsible for disposing of any surpluses. Any attempt either to isolate national markets for this or that product, or to assert that the responsibility for dealing with surpluses must be assumed by the countries where these "surpluses" are produced, would be contrary to the basic principles of the CAP. Indeed, in the long run it would mean the end of the CAP.

I am convinced that the common agricultural policy, subject to inevitable adjustments, subject to the necessary transitional arrangements for the new Member States, provides a framework in which the special problems of Mediterranean agriculture can be successfully solved with time and good will on all sides.