

Brussels, July 1979

SPEECH BY MR. F.O. GUNDELACH, VICE-PRESIDENT OF THE
COMMISSION OF THE EUROPEAN COMMUNITIES AT THE CONFERENCE
ON THE PROSPECTS FOR AGRICULTURE IN THE EEC,
ORGANISED BY THE "COLLEGE D'EUROPE", BRUGES, 16.6.79.

(The proceedings of the Conference will be published
by the Collège d'Europe probably towards the end of
1979. For further information, please contact the
secretariat of the Collège d'Europe : address :
8000 BRUGES,
Dijver 10-11)

MR. GUNDELACH's Speech

(Courtesy introduction; replies to summing-up of Congress results
by Prof. BRITTON)

Europe's role in world agriculture

The Community's stand in the GATT negotiations has been criticised as being somewhat closed on agriculture, and not entering into more far-reaching agreements with other countries, in fact not placing agriculture closer to the basis on which industrial trade issues are being settled. Some critics also recommended that we increase our endeavours in the export field, where we already are practically at war with our trading partners, the difficulty in GATT being exactly that we are exporting too much, and picking up the markets of our partners - in fact a bigger share than we have ever had before.

We cannot have it both ways. You can't both tell me "be open in GATT negotiations, accept division of labour in agriculture" and then come and tell me "export more", which can only be done with the use of the taxpayers' money, i.e. with export restitutions. Not a single product of importance can be sold without a sacrifice - and often a very heavy sacrifice - by the consumer. I take this as an example to demonstrate how difficult it is to try to make both ends meet, and how discussions of the common agricultural policy inevitably run into these contradictions.

My view on the common agricultural policy, in short, runs as follows:

All industrialised countries introduced protectionist measures, in the field of agriculture at least, in the thirties, and increased them in the post-war years, when the countries of both camps of that terrible struggle were in great trouble, and had to depend for their survival on their own farmers. There was, consequently, in every industrial country a great deal of political sympathy for the farmer. And the "security of supply" concept was born - for citizens not just of Europe but of other countries of the world had learnt that they could not survive without their own farmers.

As the reconstruction of the world, including Europe, proceeded in the post-war years, we came to the creation of the European Community, which was an essential step from the point of view of political reconciliation. The Community also arose from an urgent realization of the need for economic survival. I am not impressed by any statement about the natural resources of Europe, whether referring to some North Sea oil or to the land itself which, of course, has to be used. We do not have natural resources worthwhile talking about in comparison with other parts of the world. We have a thousand year-long tradition of processing primary and semi-manufactured commodities into more and more sophisticated new products, which we trade among ourselves and with the rest of the world. On that ability to process, to use our only real raw material, the human factor, and to trade in a world which is reasonably open, rests our whole democratic social system. May that never be forgotten. If we destroy

that, either by making ourselves uncompetitive on world markets due to the way we develop our social or economic policies - or rather by not developing them, which seems to be the case at the present time, or by excluding ourselves from that world market by our attitude to international cooperation - we shall cease to exist as free nations. These are perhaps big words, but they are not too big. And you cannot make a distinction between industry and agriculture in this broader context.

We do have to live, with our special characteristics in the agricultural field, with the rest of the world. We cannot have a free-trading philosophy with regard to industry, and when we come to agriculture suddenly become self-sufficient, and refuse to accept the concept of division of labour. If such is our attitude, our endeavour to secure markets for our industrial commodities, which often have to be sold in countries which are also major exporters of agricultural commodities, will not be credible. A country like Australia, which is being hard put by the increasing exports of sugar from the Community, has a bigger trade deficit with the Community than our own trade deficit with Japan, about which we read in the newspapers every day. Do we ever read about Australia's deficit towards the Community? This is one small element of European hypocrisy, but also a demonstration that we cannot avoid the link in international economic politics between agriculture and industry, even if each often has to be dealt with in a different way.

Fortunately in this area progress has in fact been made. The multilateral trade negotiations are coming to an end, and for the first time since the Second World War, agreements have been concluded between the Community and practically all major agricultural exporting countries - Canada, the United

States, Uruguay, Argentina, New Zealand and Australia. This has not happened before in the post-war period. I will not pretend that they are major agreements, but they were mutually accepted, and have brought a different climate and a different type of cooperation in international agricultural trade. This development is of almost historic importance. Countries like Australia, which have felt it their duty to attack the common agricultural policy with ever-increasing vehemence for the last five years, have turned around and accepted it - i.e. accepted that this policy is politically, economically and socially absolutely necessary for Europe, their only demand being that it be conducted in such a way that they can live with it as well. They see in the way in which the multilateral trade negotiations have been conducted by the Community that there is reasonable hope that the necessary flexibility is available, and that a new page will be turned in the history of the relationship between us.

Europe's Responsibility

But it follows - and now we come to the main issue - that we must be conscious of our responsibilities in the way in which we behave on third country markets. Of course, we have a vocation to export. Each individual European country exported agricultural commodities long before the existence of the common agricultural policy. That vocation continues today. It is highly important for the balance of payments of a number of our Member States; there can't be any doubt on that issue. The question is, under what conditions, to what extent, and at what cost can it be continued? Sometimes the view is advanced that agricultural commodities are a sort of "green petrol" in world trade. They are not. It is true that there is a marked shortage of foodstuffs in the world, but not essentially of the types for which we are in surplus. Secondly, we must

not forget, when making our prognoses for exports or food aid, that the right policy for the developing world is for themselves to develop their agricultural production. This is important not only for their own security of supply, but also for the building of those structures which can make a meaningful society function. The problem of development is not just a matter of transferring money, but of building a human society which hangs together and which can function as a coherent whole. And the developing countries cannot bring this about unless they develop their own agricultural production.

Our role in helping to remedy the world shortage of foodstuffs is to stand by and to be available when required to supply what is needed during this transitional period or in situations of great need, and to supply the commodities which they need, rather than those we ourselves want to get rid of! That means cereals, to a large extent. Consequently, I am not of the opinion that we are confronted with a serious problem with regard to cereals at any rate. We have increased our production and exports - admittedly at the cost of the taxpayer, but this, I feel, is defensible by both Council and Commission towards the public. With this money we are meeting a real need in the world, and should not be overly concerned by the cost, because the latter is an investment justified by politics and ethics, towards peace and proper development in the world.

Europe's Mountains

The picture is entirely different when we come to commodities like dairy products and sugar. The developing world does not need these products. We have increased our exports, and still the comment is made that our strategy

in this field must change or improve. Unfortunately, over the last couple of years every possible agricultural item has been sold, often with an export restitution amounting to more than its value. We have reached the point of saturation. There is no more butter or milk powder which can be got rid of in this way, because the world market is saturated just like our own. That goes for sugar as well, and a number of other commodities; for cereals as I have said there is some margin still available, but not to be exaggerated. We are conducting an effective export policy, going to the utmost limits of what the European taxpayer is willing to pay - and in the case of butter and sugar, beyond them. Here some holding back will be necessary, and if those who conduct the common agricultural policy do not do it themselves, it will be done for them by the Heads of State and Government and the Ministers of Finance. Why? Because of Community's total expenditure, some 70% is currently accounted for by agriculture, and of that amount 42% by the dairy sector alone. Our finances from "own resources" which, subject to the decisions of the Council and the Commission, can be used without any further fund-raising by the Ministers of Finance, national parliaments, or the European Parliament (up to an amount equal to 1% of value added tax receipts, plus the proceeds of industrial tariffs and agricultural levies) are running out. Even without any price increases, the budget will, under the sheer weight of increases in production, be so much increased this year that we will already use up 85% of that 1% of VAT, which means that we will hit the ceiling of our "own resources" next year or, at the very latest, the year thereafter. When that happens, a new financial arrangement will have to be negotiated, not simply as a Council regulation, but something to be ratified by national parliaments.

Does anybody really believe that more money can be raised from taxpayers in order to stock more than the 400 000 tonnes of butter we already have in stock, or to export more than the three million tonnes of sugar we are exporting with restitutions higher than its value? Can any Prime Minister or Minister of Finance explain away the necessity of chalking up more billions of ECUs in order to finance operations of this kind? The answer is pretty obvious.

It is stated that there is a great untapped reserve of productivity in Europe in the agricultural field. As we have seen in the case of milk, production of a cow can increase nearly ad infinitum. If we were to introduce in the middle and Southern parts of Europe these yields per cow, we should soon be confronted not with a problem but with total collapse. Unfortunately, time left in which to redress the situation is running out. Before the end of next year, we shall have to have brought the market under control at least to the extent required to regain credibility.

We have tried over the past two years to pursue an entirely different price policy. This has had effects on the stability of a number of markets, such as beef, which posed great problems at the beginning of this decade, but which is now in balance. There are no wine lakes any longer. One might mention a number of other commodities as well as cereals which are not really in any immediate difficulty. But as far as dairy products are concerned, the figures do not lie. This year will be a moderate year compared with last year, when production increased between 4% and 5% for all milk products, but milk production this year will increase by about 3%, which is higher than the trend prevalent until the year before last, namely

1.7%. That increase could be accelerated even further due to untapped productivity reserves. Consumption will probably continue to fall at a steady 1/2% or a little more, month by month; here we are evidently confronted with a situation where we have to prop up consumption by being extremely prudent with our price policy, and perhaps take additional measures, as was done in the past in order to maintain a reasonable level of consumption of dairy products. We are already taking considerable steps as regards milk powder, skimmed milk powder, and skimmed milk; stocks of skimmed milk powder have been kept down to a reasonable level, but at high cost.

The situation looks far grimmer for butter. We may conceivably prevent consumption of dairy products from falling even more dramatically by promoting consumption of cheeses, yoghurts and other products, but these do not weigh sufficiently to outbalance the fall in the consumption of butter. Production has to be stopped. There must be no further increases, in fact a decrease in a very short time if the common agricultural policy is not to lose its credibility. If that happens, possibilities of developing other urgently needed Community policies will almost certainly collapse.

In seeking a solution to this problem we are hampered by the current overall lack of economic growth - we cannot expect this situation to change dramatically in the very near future as we are confronted with new difficulties in energy resources which will spill over onto the whole of the economy. We are also hampered by the increasing belief that the nation itself can solve its own problems. It surely does not take any explanation from my side to indicate that a Europe which is living next to North

America, the well-organised group of developing countries, Japan and the state-trading countries, cannot survive by behaving like newly-hatched chickens running around in panic. It can only survive by sticking together, and this resurgent nationalism is the symptom, I hope, only of a passing malaise in European politics. It cannot and must not be taken seriously. Central issues such as those I have raised can only be solved if we stand together.

Without wishing to single out any particular Member State, I note however that the United Kingdom has been cited as a case in point. This Member State, in my view rightly, takes the view that Europe cannot regard self-sufficiency as a realistic aim. I agree. But it is also a much-vaunted British ambition to be self-sufficient in agriculture.

I fail to understand how anyone in the United Kingdom can reconcile these two points of view. For example, some UK opinion regards the "Continent" as being responsible for the butter problem. Butter production in the United Kingdom has increased by more than 200% over the last five years - but according to these people the UK is not responsible for and has not added to the problem. It is revealing to examine how much United Kingdom public money has been put into making its already highly efficient dairy industry more efficient! I have already said that I did not wish to single out the United Kingdom, and of course I could say other things about other Member States, but the point about "efficiency" must unfortunately be taken with a pinch of salt. If the UK industry was all that efficient, why is there then such vehement opposition to my proposals first made two years ago, and repeated last year and this year, to the effect that transfer of public money for investment in the dairy sector should be brought to a

halt? If it was so efficient why the need for such transfusions of public money? I have not yet received an answer to that question. I shall continue to demand that public money, apart from that required by social necessity and for the financing of improvements in working conditions and marketing, should not be put into an industry which is in permanent structural surplus. I shall continue to insist that there be a prudent price policy because otherwise the bottom will go out of consumption. But even this will not be enough. Steps will have to be taken to stop the continual rise in production. And here I must make one thing very clear. The deterrent measures have to be borne by the more efficient producers, for the simple reason that this milk surplus is not produced by the small farmers with precious few alternatives to milk production. About 33% of our dairy farmers are currently producing less than 12% of the total milk production, and a falling share. They constitute the social problem. To tell them, in effect, by imposing heavy taxes, that they had better go elsewhere, we would be throwing them out of whatever employment they have, and for which they have to work longer hours than anyone - except perhaps politicians. This must be seen against a background of a sluggish economy with low growth, which will increase urban instability and public expenditure for social purposes. We should not re-commit the mistake made by the United States in the '20s and '30s. These small farmers are not creating the notorious butter mountain. It is being created by the more efficient producers who, as I already said are receiving economic encouragement by investment aids from public funds, and who have been benefiting from low-priced imported foodstuff such as manioc and soya since the fall of the dollar. Thirdly, they are resorting to a higher use of energy,

which is of course no longer a cheap raw material, but one which we have to save; it follows that we cannot compensate for higher energy use by charging higher prices - since it is now realized that, at least for most currently available energy sources, supply has definite limits.

The co-responsibility levy serves the double purpose of putting a brake on continued and unacceptable rises in production and, secondly, of providing some of the money for the expensive disposal programmes which have begun to weigh dangerously on the budget, as I have described. An adequate co-responsibility levy would be at a level providing complete finance for the disposal actions necessary to keep up consumption and would push back a little the fatal date as regards financing from "own resources", and give us that much more time to carry out a more fundamental restructuring of our overall policy in agriculture.

There is one important comment I must make in conclusion. It has been said many times that the price policy can not alone offer solutions to Europe's agricultural problems. The Commission has never said that it could. I have simply insisted that it is a key element of the common agricultural policy in accordance with the Treaty, as well as on the basis of the ordinary laws of economics, and it should be implemented in consequence. But in order for this to be achieved other more flexible measures must be used. An absolute priority must be the tackling of certain grave structural problems related to the market situation, and in particular problems of regional agricultural development, because the real income problem in Community agriculture does not emerge from average figures, but only from a comparison between those in our richest and poorest regions.

A new orientation in the CAP exists

In this context I cannot conclude without some reference to what is generally referred to as the "Mediterranean Policy". The Council's adoption last year of the first - but nevertheless far-reaching - measures proposed by the Commission within this framework really marked a new departure. The Mediterranean policy - which in fact also concerns other parts of the Community with special needs such as Western Ireland - has been designed to be flexible, to deal with marketing as well as structural problems, and to promote proper and well-directed use of land. It is indeed true, as is often advanced as an argument for stepping up the most profitable types of agricultural production regardless of whether or not a market exists for the produce in question, that the land must be used. It is in this light, and with the real development needs of the regions concerned in mind, that in the case of the "Mediterranean package", much of the effort is directed towards re-forestation of the regions in question (drainage in the case of Irish areas).

These, then, are a few examples of how such structural policy is worthwhile. It contains those elements of wide-going flexibility, solidarity, and far-sightedness needed if the Common Agricultural Policy is to emerge from its present difficulties. Further structural proposals will be discussed by the Council in the autumn which will follow up what has been begun. This part of the policy is vital. It cannot be seen as an alternative to a sensible prudent price policy, but as a necessary complement to the latter which will lighten the burden on the price policy, and make it more tolerable from the social and regional point of view to

conduct the type of price policy which the market situation demands.

Article 39 of the Rome Treaty says that we should improve farmers' incomes by increasing their productivity, thereby also making commodities available to consumers at more reasonable prices. To me that Article seems unequivocal, and the policies we are trying to pursue will increase, in spite of great political difficulties, the impetus which we have begun; it is in accordance with the Treaty, and we shall continue to implement it.

I shall not at this stage refer to the final complication, the agromonetary arrangements, which occupy our minds very largely at the moment. Let me say in that connection that it must be the policy of the Community to bring about unity of prices. It may be forgotten, in fact, that we have already made remarkable progress. A little more than a year ago, the distance between the highest and the lowest prices was about 40%. Today it is less than 20%. No-one two years ago would have believed that this was possible. This achievement was of course facilitated by the introduction of the new European Monetary System. I mention that, together with the GATT negotiations, together with the satisfactory meat market situation, and the Mediterranean policy, in order to underline that we are not fighting trench warfare, but pursuing a flexible policy. We are not "patching up" as we go along, but developing a mobile strategy to deal with our problems in such a way that we can keep our land populated, which from an ecological and social point of view is necessary. It is necessary our agriculture should continue - for social reasons, and for reasons of the balance of payments. But it must be done in such a way as to avoid misuse of resources, and to enable us to live in constructive collaboration with those of our trading partners on whose capacity to import our own industrial goods our whole well-being is dependent.