

# 'A BIGGER MARKET OFFERS SCOPE TO EVERYONE'

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The Common Agricultural Policy dates from the 1960s. Under it the European Union has moved from being a net importer of food, to being a net exporter. European consumers enjoy a variety of food and a level of food security that they never had before.

Different products are supported in different ways.

In the sugar and dairy sectors there is a system of production quotas which limits supply, keeping prices high for those fortunate to have quotas. Quotas freeze the pattern of production and are not conducive to long-term efficiency or sound fairness. They have however, been very effective in reducing surpluses.

In cereals and beef the situation is different. Support prices are being lowered, market intervention reduced and producers are being compensated for the income loss by direct income payments related to the size of their enterprise.

Commencing in 2005, the milk sector will begin to move in this direction, with lower prices and compensating direct payments. The Berlin Summit decided also that the milk regime would be reconsidered in a mid-term review in 2003 "with a view to eliminating quotas after 2006".

Removal of quotas would be an exceptionally difficult exercise politically, because quotas, although officially created, have become a form of private property which will not be given up without a fight.

Those who would gain from the removal of quotas are a disparate group of consumers, young farmers, and food processors, all of whom are uncertain of how much they would gain. On the other hand, those who would lose are a tight and well-organised group who have a very clear idea of what they might lose.

Expenditure on the Common Agricultural Policy represents about 40% of the European Union's budget, and this budget may not exceed 1.27% of the Union's overall GDP. When the European Union enlarges to bring in the countries of Central and Eastern Europe this will, of itself, reduce the overall average GDP per head in the enlarged Union. This will make the 1.27% overall limit more restrictive in terms of absolute money amounts. I did, however, hear a senior EU Commissioner official say at a meeting I attended recently that, even if the EU 15 system of direct payments to farmers is extended to the new countries, expenditure can still stay within the 1.27% limit up to 2013.

Enlargement, raises some contentious political issues. At the moment

regions qualify for maximum structural fund assistance (Objective One Status) if their GDP per head is 75% or less of the EU average. On that basis, ten of Spain's 17 regions this year obtained 63% of the EU structural funds budget of Euro 31.5 billion. If that 75% rule is unchanged, and if the EU's average GDP per head is reduced by enlargement, only two of Spain's poorest regions would then continue to qualify for aid. That is not easy for Spain or for the Spanish Government.

While it is true that the Common Agricultural Policy uses up 40% of the EU budget, it is important to point out that this still is less than 3% of all public expenditure by all Governments throughout the Union. Spending on the Common Agricultural Policy tends to get undue negative publicity because it is one of the few areas of public expenditure which takes place at Union level, rather than at the level of the nation-state or of the province. It is also worth pointing out that agriculture is subsidized in practically every country in the world. India, hardly a rich country, subsidizes its agriculture to the tune of 2.5% of its GDP.

The United States has recently increased the level of aid it is giving to its farmers. The Bush administration announced a \$5.5 billion farm rescue package in August, and some would argue that United States farmers are now getting more subsidization than EU farmers.

There are three main areas from which pressure for the reform of the Common Agricultural Policy is coming.

These are :

1. The World Trade Negotiations recently launched at Doha, and other bilateral trade commitments the EU has.
2. Food Safety concerns.
3. The Enlargement of the EU include ten or more new members.

I will say a word or two about each of these.

The European Union is under pressure in the World Trade Talks to make progress in three areas of agriculture - opening up its market to imports, reducing the aggregate support to production, and reducing export subsidies.

Domestic payments to farmers, that in any way distort trade, are under pressure. So also are closed market systems like those applying in the dairy and sugar sectors.

Export subsidies are particularly important to some countries - such as France and Ireland - as they are relied upon to dispose of production that cannot be absorbed inside the EU market. The existence of such subsidies does, to some extent, distort the pattern of production insofar as it encourages the production of types of product that can only be sold with the aid of subsidy.

There is no long-term assurance of a secure income for farmers from that approach. Export subsidies also inhibit the development of domestic agriculture in the countries in receipt of the subsidized exports.

Food safety crises have had a very high profile in Western Europe recently. The BSE and foot and mouth problems in Britain, and the dioxin crisis in Belgium, led to trade restrictions within the European market itself, something which goes against the whole spirit of the Common Agricultural Policy.

Those crises have been used by some to attack the whole philosophy of the CAP. Others have said that those food scares emphasise the need to switch to wholly organic or to less intensive forms of production.

There is not very strong scientific evidence for these concerns. Neither foot and mouth, nor BSE, can be blamed on the CAP. Either could have happened whether there was price support for agricultural products under the CAP or not. Nor is it valid to say that a move towards larger farms increases danger to the environment or to animal welfare. These sort of problems can arise on farms of any size, and there can be infection problems on organic farms, just as there can be on non-organic ones.

Food safety is, however, a key issue that will have to be faced in the accession negotiations.

Given the level of consumer concern, it is hard to see how any applicant country, wishing immediately to send agricultural goods into other parts of the EU, could expect a transition period in regard to the application of EU laws on sanitary issues, on food safety or on GMO use.

EU enlargement itself is the third area of pressure on the CAP. The CEEC's have improved their agricultural productivity considerably since 1990, partly with the aid of foreign investment. Accession to the CAP would lead to substantial local price increases in beef, sugar and coarse grains.

It would be difficult to extend the existing milk or the dairy quotas regime to the CEEC's. Restricting CEEC producers to quotas based on historic levels of production would permanently prevent CEEC's from catching up with the other EU existing members, by freezing the CEEC pattern of production in its historic, post-Communist, shape. A solution would be to give new EU members extra quota to take account of the previously underdeveloped state of their industry, but this will not be easy to agree.

The extension of direct income payments to farmers in the CEEC's under the CAP would be questioned by some on the basis that these payments were only introduced in the EU 15 in the first place to compensate for a fall in farm prices, but farmers in the CEEC's will not be experiencing any fall in prices. It will also be claimed that these payments would introduce serious distortions in rural incomes between those in the CEEC's who would qualify for them and those who would not, and that some of the beneficiaries would even be city dwellers who own rural land. This sort of problem is not, of course, confined to Central and Eastern Europe. One of the biggest recipients of EU headage payments is Her Majesty Queen Elizabeth II of England, who lives in the centre of London!

The introduction of direct income payments in the enlargement countries would change the distribution of income within their societies quite markedly in favour of those in agriculture relative to those outside agriculture and this could inhibit the normal structural adjustment that would otherwise take place.

In any event, direct payments to farmers are evolving from their original price compensation role towards a wider role of protecting the rural environment and lifestyle.

This brings us back to one of the more difficult issues concerning the move in the reform of the CAP away from supports for farm prices, towards direct income support for farmers.

Should there be, on social grounds, an upper limit per farm on eligibility for direct payments ?

And if there is a limit, should it distinguish between fulltime farmers with no other income and part-timers who do have another income ?

Obviously a farmer with a small farm, but a big income outside agriculture, does not need the direct payments, as much as a full-timer with a bigger farm but a smaller overall income does. It could be argued, that a person who spends most of the working day away from his farm, and is only there full-time at weekend, does not make the same contribution to rural life as someone who is working in the rural area seven days a week.

If we move away from direct payments to farmers, related to the number of stock they have, and relate the payments instead to good farming practice on issues like animal welfare, landscape management, and environmental enhancement, some questions arise. If animal welfare, landscape management and environmental enhancement are things that we really value in themselves, it is difficult to justify logically putting an upper limit on the amount any one farm can receive so long as that farm is meeting the welfare and environmental criteria.

Likewise, if we want to encourage efficiency and economies of scale, and wish European agriculture to compete internationally without subsidy, we should not introduce payment systems that put artificial barriers in the way of amalgamating farm units and of using manpower more efficiently.

From a farmer's point of view, there are a number of other worries about the trends of reform in the CAP.

As we move away from price supports towards direct payments to farmers, there has to be a worry that, if money runs short, other citizens will question whether payments should be made to people just because they are in a particular occupation. And if these payments are related to countryside maintenance, there will be increasing public insistence on public access to all parts of the countryside in a way that could interfere with good farming practice.

There is also a worry about whether a direct payment system will attract young people into fulltime farming. This worry springs from two considerations.

First, young people, with exciting job opportunities outside agriculture, will be unwilling to invest their lives in an occupation where their income will be dependent on payments from a fickle taxpayer under a Common Agriculture Policy that appears to be in a state of "perpetual reform", with little long-term stability.

Second, young people wishing to enter full time agriculture, who want to buy or lease extra land, will face artificially high purchase and lease prices if direct payments are still being made to landowners, not dependent on agriculture for their main income, who will be able to use those direct payments to bid up land prices and lease values or who will be enabled to hold onto land that they would otherwise have to sell.

There is a trend towards substituting support for "Rural Development" for conventional agricultural support under the Common Agricultural Policy. There is room for debate as to what activities constitute rural development. The activities must be ecologically sustainable and consistent with the character of the area. These are cultural issues upon which there is room for value judgement and debate. It is important that rural development programmes do not generate bureaucracies which are difficult to sustain. It is important that the objectives of rural development be specific and capable of objective monitoring. The Commission has adopted, in October 2001, the last two of the 68 rural development programmes submitted by member states, and these will run up to 2006.

To conclude, I know that there are worries in some applicant countries, notably in Poland, about EU membership leading to the purchase of Polish farms by so-called "foreigners" from other EU countries. Obviously such purchasers would not be "foreign", they would be fellow EU citizens. But, apart from that, these fears are probably groundless.

I am old enough to remember the time before Ireland joined the European Union - during my first term in Parliament from 1969 - 1973. There was a big concern then that, once they were free to do so, the Germans and other continentals, with their big cheque books, would buy up the Irish land we had fought so hard to wrest from the "British" landlords during the nineteenth century. It did not happen. Irish land prices rose very quickly after EU membership. But few farmers were willing to sell, and most of those did sell, sold it to other Irish farmers. In fact, within a very short time, Irish land prices were higher than in neighbouring countries and some Irish farmers started buying land in Britain !

That is the way to look at it. EU enlargement is an opportunity, not a threat! A bigger market offers scope for everyone.