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Centre for Agricultural Strategy

# Priorities for a new century – agriculture, food and rural policies in the European Union

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## Address - Pressures on the CAP

**The Rt Hon William Waldegrave, MP**

### INTRODUCTION

I am delighted to be here in such a distinguished gathering of experts on the Common Agricultural Policy (CAP). After four months in the job and three Agriculture Councils, I am far from being an expert. The trouble is I sometimes suspect that the CAP, with its relation the Common Fisheries Policy (CFP), is so complicated and takes such an effort to understand, that those who do understand it fully are inclined to protect their investment by resisting further change! But reading the programme for today's conference it seems that there is beginning to be an underlying assumption in the United Kingdom (UK) at least that the CAP must change - and that is surely right. It is impossible to think of the European Union (EU) moving into the next century with today's policies which in large measure still reflect the priorities of the 1950s and 1960s. Encouragingly that is not now just a British view. European farming has changed dramatically over the last three decades and it will continue to develop rapidly in the next. It falls to the politicians to ensure that the right policies are in place to assist that development.

CAS is to be congratulated on an extremely well-balanced programme, covering the range of issues which farmers, their leaders and politicians need to address. I should like to focus on where I, as a politician, see the pressures for change coming. The CAP has shown itself uniquely resistant to change over the years. There is massive inertia to be overcome. So it is vital to understand from where the pressures for change will come. Only then can we build a strategy to ensure that those changes are the right ones.

It is as well to be clear about one thing. The EU and the UK within it, need to have a common agricultural policy. The British food and farming industries benefit enormously from the single European market, of which a common policy for agriculture is a vital part. Our food, feed and drinks exports to the single market area in the first 6 months of this year rose by £391.7 million compared with the first six months of 1992. Some sectors have achieved spectacular success - for example, sheepmeat exports rose by 177% and beef exports by 100%. Renationalising the CAP means nothing if it means competitive subsidy and renewed barriers to trade. I want to see a common European framework within which British agriculture - and European agriculture - can take on the world in fair competition. That is the goal we seek to achieve. We will succeed only if we - as a Union - understand the pressures and find the right responses. Those pressures come from the international community. They come from the market place and from the public whose support for agriculture is essential to its future. And they come from the Union's own intentions for its future size and scope, and the practical consequences which flow from those intentions. I shall look at these pressures in turn.

#### GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

First, the international community. The completion of the Uruguay Round one year ago was a major achievement which looked like it might never happen. Failure to agree would have been disastrous for the EU, entailing the risk of a general trade war and reopening highly damaging legal challenges to the CAP. The Peace Clause, which formed part of the agreement, protects the CAP from challenge for nine years. Most importantly, the GATT agreement set the CAP on an inexorable new course - in the direction of the market. Firstly, because GATT provided the catalyst for the 1992 CAP reforms, the EU made an important shift away from price support, through the significant cuts in prices for cereals and beef, and towards supporting farmers by direct payments; and secondly, because the reductions in support are now embodied in legally binding commitments on internal support, subsidised exports, and market access laid down in GATT. These apply until 2000 and beyond if no successor agreement has been reached. And the Peace Clause only remains valid if CAP support for individual sectors does not exceed that decided in 1992. So there are real constraints on the market support provided by the CAP. And the clear intention when the new round of GATT negotiations opens in 1999 is that those commitments will be taken further. Thirdly, the GATT agreement has given an important boost to world trade,

opening up new markets and creating new opportunities. Agricultural industries around the world must now respond to this and it is the efficient who will be best able to compete. So it must be in the interests of the Community to ensure that its efficient farmers are able to exploit their advantages internationally. That means not imposing unnecessary costs on businesses or hampering their ability to respond flexibly to the market with supply controls. And it means not importing into policy a bias against holdings of an efficient size. This all points to a CAP under pressure to move closer to the market.

#### CONSUMER AND TAXPAYER PRESSURES

Pressures from consumers and taxpayers are also pointing in the same direction. The shift to supporting farmers through direct payments has, paradoxically, made the diminished amount of subsidy being spent on agriculture much more transparent. To a much greater extent, support now falls on farmers' doormats in the form of large cheques and is not routed through millions of consumer transactions. Many farmers themselves feel rather uneasy about this. And not surprisingly, the general public want to know why farmers should receive these handouts when other, in their eyes equally deserving, sectors of industry do not. In other member states where subsidising certain parts of industry comes perhaps more naturally, there is less outrage. But even there, questions are now beginning to be asked. The public might accept the large transfers more readily if they felt it was the price they had to pay for cheap food. But they know that even now, after the 1992 reforms, the CAP still keeps food prices too high. It is easy to criticise the figures produced by the Organisation for Economic Co-operation and Development (OECD) which suggest that the CAP costs the average family of four £20 per week. We all know that if the CAP did not exist, world prices would not be so depressed and that these figures therefore exaggerate the real cost to consumers. But that does not change the fact that consumers are paying an unacceptably high price and they know it. So pressures from the public are increasing because they know that the CAP costs them too much. The all-too-frequent stories about CAP fraud only exacerbate the public's doubts.

#### CONSUMER CHOICE

Just as important a pressure comes from changing consumer demand. In an affluent society, with a decreasing proportion of household expenditure spent on food, consumers demand choice

and variety. They demand new products, and new uses of traditional products. It is no longer enough for agriculture simply to produce bulk commodities without any regard for the market. The agriculture and food industries must respond to demand. They must tailor production to the consumers' needs. They can only do that if they are responsive to the market. That means they need clear signals from the market. We policymakers must ensure that we avoid policies which interfere with these signals and encourage farmers to produce something other than what their customers want. Our food processing industry in the EU, and particularly here in the UK, is amongst the most dynamic in the world. It is our farmers' principal customer. If we go on forcing our food processors to pay high prices for their raw materials, or limiting their supply through quotas, or depriving them of the quality of product they need, we should not be surprised if the investment goes elsewhere. And that means loss of jobs. In the interest of the European economy as a whole - but no less in the interests of our farmers - our agricultural policy must create the conditions in which our food industry can prosper.

#### ENVIRONMENTAL AND WELFARE PRESSURES

But the pressures on the CAP are not just economic. Here and elsewhere, the public demand that agricultural policy should also take account of the environment. The UK has been at the forefront of the pressure for change in the CAP to make it more environmentally friendly. I certainly intend to continue that. But despite our successes, such as the agri-environment programme, there is still only 1% of the CAP budget spent on environmental schemes. The main problem of the CAP for the environment comes back to the central issue - that levels of support have been too high. So farmers have had economic incentives over many years to intensify production, with familiar consequences - loss of habitats, pollution and landscape change. One response to this problem is by building environmental considerations into CAP support arrangements. Incentives to manage the land in particular environmentally-friendly ways are another. But the single most important change we could achieve for the benefit of the environment would be to reduce the levels of market distorting support. This would encourage farming at a lower level of intensity, with fewer inputs. And it might enable us to redirect some of the resources swallowed up by the CAP towards positive environmental ends.

As well as having one of the most vocal environmental lobbies, we in the UK also have the most active animal welfare lobby. That

is no bad thing. It is not acceptable for animals to be treated inhumanely and, as all good farmers know, it does not make economic sense either. But there is no doubt that the massive media and public interest here in the whole issue of animal welfare ensures that farming remains in the spotlight, and can only increase the pressure on the CAP.

#### CENTRAL AND EASTERN EUROPE (CEE) ENLARGEMENT

But perhaps the most important pressure on the CAP comes from the Union's own vision of its future - and in particular from its plans to expand eastwards to embrace the former Communist countries of central and eastern Europe. This is the major challenge now facing the Union. Enlarging the EU to the East is the best guarantee of future democracy and stability in Europe. It is of fundamental importance to Europe's future. No-one is under any illusion that it will be easy. There is massive development and restructuring to be done in the CEE countries first and the EU itself must also adapt if it is to make the transition to a Community of twenty or more member states. This is true in many areas, but particularly so for agriculture.

Western European agriculture would face many challenges in adapting to a single market stretching from the Atlantic to the borders of Russia and the Ukraine. The CEE countries have enormous potential to increase their output of agricultural products directly competing with those of the current EU. The Union's farmers will need to prepare themselves for the extra competition from this production, as well as for the opportunities which the new CEE markets will create. They will not want to be shackled by a high cost base, output quotas or an outdated and inefficient farm structure. It cannot moreover make sense to spend Western taxpayers' money encouraging CEE producers to expand their production beyond that which is economically justified only to exacerbate the problems. But that is what applying to them the mechanisms of the present CAP - as some have suggested - would mean. In addition, the surpluses which would result from applying the present CAP to the CEE countries would put unbearable pressure on the Union's budget. And extending support at current high levels to CEE production would be incompatible with the Union's commitments under the GATT. It is of course inconceivable that fundamentally different support regimes could apply to the CEE countries, once they become Union members, at least for very long. The CAP itself will therefore need to be adapted to ensure EU enlargement can take place without these adverse effects. Enlargement to the East is an unprecedented opportunity

for the EU which it cannot afford to miss. But for the reasons I have spelt out it also makes further CAP reform a necessity. As the Prime Minister has already made clear, it must be a root and branch reform. We need to establish the right framework for a CAP which would be appropriate to the needs of an enlarged EU. The pressures are compelling. And the *status quo* is not an option. We shall need to make those changes before the CEE countries are admitted to full membership. And as I have made clear, there is only one way forward - towards the market. Building protectionist walls and insulating our farmers from ever-changing market forces by quotas, Set-aside and other supply controls cannot be realistic options for the 21st century.

## CONCLUSION

How will we get there? There is no easy route - if there were, we would already have followed it. There will be obstacles on the way, and some reluctant travellers. We cannot ignore farmers' very real anxieties about what they see as perpetual change. But ignoring the pressures is not an option. We need to be clear about what policy framework will best enable European farming to respond to the pressures, and then to work hard to achieve it. I do not have a blueprint solution. But equally, I would be failing British farmers and the public if I did not do my best to define a clear vision for the future. It was in order to help me achieve this that I announced, last month, my intention to set up a CAP policy group which I shall chair. I want to bring together a small team of independent thinkers to pool their experience and brainstorm ideas about the future of the CAP. I do not intend to create a new bureaucracy, so the team will be small and its members will be invited to join in a personal capacity and not as representatives of any sector or interest group. It will include academics, businessmen and farming practitioners. The group will focus on real, practical ideas which can be negotiated with our partners, and not on theories which have no application in the real world. I hope to be able to announce the names of the participants shortly.

Chairman, this is an important conference looking at key issues for the future of European agriculture. The challenges which farming has to face as we move towards the next century are profound. But I know that farmers in this country in particular are willing to take them on constructively and creatively. I, as Minister of Agriculture, will do everything in my power to facilitate that. I certainly intend to make my contribution to setting the priorities for a New Century in agricultural policies in the EU.

## DISCUSSION

**Mr J Brady** (National Farmers' Union of Scotland) said that whereas the previous Minister of Agriculture, Fisheries and Food had indicated on return from Brussels three years ago that the new CAP reforms were a triumph for the Government, the Minister in his current address had implied that they were a bad deal for farmers and consumers.

**Mr Anthony Bosanquet** (Country Landowners' Association) also referred to differences of approach to CAP reforms (between the Agricultural Commissioner and the UK Minister) and stressed the importance of persuading European agricultural colleagues that significant problems remain to be addressed.

**Mr Waldegrave** in reply commented that the MacSharry reforms were the outcome of a complex and arduous round of negotiations which were rightly applauded by the NFU, especially in relation to the resistance of pressures to bias agricultural policies against the farm size structure in the UK. He considered that the reforms had worked better than predicted in bringing down production surpluses and in restraining budgetary expenditure, but in view of the further implications of the GATT settlement, the enlargement of the EU, and changing consumer demands, the Council of Agricultural Ministers do recognise that reform is by no means at an end and further issues and problems must be confronted. He recognised, however, that whilst a huge job of attitudinal change lies ahead, movement in the right direction is detectable.

**Ms Vicki Hird** (Sustainable Agriculture, Food and Environment Alliance) (SAFE) welcomed the Minister's comments on the need for further reform of the CAP and asked him to stress at meetings on the CAP and the World Trade Organisation (WTO), the need for adequate impact assessments, in relation to both environmental and social policies and mechanisms set up by the EU, in order to ensure that other countries and people do not suffer as a result of our trade policies, for instance through subsidised exports. The Minister was also asked to comment on the role of the large UK retailers, their often damaging control over the production activities of farmers and growers, and the need for some policy control of their power and dominance over the regional marketplaces.

**Mr Waldegrave's** view was that contrary to arguments made by the environmental movement, GATT is a beneficial development for Third World agricultural producers because if we can limit subsidised exports, then producers have greater incentives and

opportunities to build up their own farming businesses. On the question of the influence of retailers on the producers and processors of food, Mr Waldegrave considered that the supermarkets exercise beneficial effects by working with them to raise the quality of products and provide significant marketing opportunities both in the UK and in European countries where some larger supermarket companies have become established. Producers furthermore benefit from consumer preference for their products bearing supermarket brand names.

**Sir Simon Gourlay** referred to the Minister's statement that only 1% of the CAP budget is currently spent on environmental schemes, and invited him to speculate on what would be a realistic percentage figure for future expenditure on environmental and structural measures.

**Mr Waldegrave** felt unable to propose any precise figure but referred in more general terms to the arguments for and against the allocation of funds for 'dual agricultural/environmental' practices. He considered that such an approach may require excessive levels of inspection and monitoring and accordingly advocated working towards a more realistic supply, demand and pricing regime that would be less likely to create pressure for removal of hedgerows and habitats, and cropping of areas of upland, thus resulting in a natural process of restoration of the agricultural and environmental balance.