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Centre for Agricultural Strategy

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5 Industry response - agricultural production

David Naish

I find myself much in agreement with Dr Davenport's analysis of the world situation and the pressures that are developing, but as a result of the deliberations we have had so far, I have tried to consider whether to allow common sense to triumph over complacency or the reverse, because we have, I think, been presented with the absolute extremes of the situations and conditions against which farmers have to take their decisions.

The most significant UK farming industry response to the CAP reforms and the GATT settlement has been the launching of a thoroughgoing debate on the direction in which farmers themselves want the industry to move. I welcome the opportunity to be part of that debate through the publication of our own discussion document entitled *Real choices* (NFU, 1994); appreciation of the impact of the further enlargement of the European Union (EU) with the addition of the central European countries has furthermore instigated yet another National Farmers' Union (NFU) review of how that expansion is likely to affect the future of our industry. I am convinced that farmers can no longer sit back and let others determine their future for them and I am pleased and proud that the NFU was in the vanguard with *Real choices* which was designed to set out the issues without attempting to reach conclusions, thus encouraging farmers themselves to participate fully in the debating process. The document focused the thinking of farmers in broad terms on the choice between increased reliance on production restraints, such as milk quotas or land set aside, or ending reliance on price support through intervention using either bonds or decoupled payments. More specifically the options offered for consideration are:

- output quotas - for: can control production;
 - against: complicated to administer and can
 act as a barrier to new entrants;
 - conclusion: they would be impractical.
- bonds - for: facilitate the rapid restructuring of
 the EU farming industry to compete
 in world markets;
 - against: the cost of fully compensating EU
 farmers would be very high and
 restructuring could lead to further
 social costs; to whom would the
 bonds be paid - landlord or land
 occupier?;
 - conclusion: too rapid structural changes and
 high costs would be totally
 unacceptable to many EU
 governments.
- input quotas - for: allow prices to be maintained above
 world levels;
 - against: undermine international competi-
 tiveness of agriculture and the food
 industry;
 - conclusion: could be environmentally friendly
 and they already exist in the
 reformed CAP.
- decoupling - for: reduce the risk of over-production
 by breaking the link between
 production and support;
 - against: if farm incomes are to be sustained
 they could mean higher public costs
 which would be unattractive to the
 EU;
 - conclusion: international competitiveness of the
 food industry would improve and
 there could be environmental
 benefits.

My own view, which is wholly in line with Dr Davenport's approach, is that the GATT settlement has created a watershed. The downward pressure on prices and on government support becomes a politically international policy within the EU which now puts a total limit on the amount of export subsidies that any member country can apply. I am sure that at some point (and I recognise that we disagree with Government on precisely when that will be) the capacity of farmers within the Union to increase production will mean that the industry is producing more than can be consumed or permitted to be exported

with subsidy. There will then be only two choices - either to restrain support by taking more land out of production through further Set-aside and similar measures like ratcheting back milk quotas; or to bite the bullet and accept that our prices are going to reduce further and further so that we do not need to subsidise exports and then look for some form of decoupled compensation to help us to adjust to the new situation.

I have to say, however, that this choice is no choice. Although the idea of cutting back production to keep up prices has a superficial attraction to many farmers, it offers no long-term future either to them or the industry. The only perspective it offers is ever-increasing rates of Set-aside and further quota cuts as greater productivity increases our output levels, and further GATT rounds increase our imports and further lower our right to subsidise exports. Our costs of production will subsequently increase, we will become less globally competitive, and there will always be a risk that the supply management mechanisms will be biased against the larger structure of agriculture in the UK. (I was however delighted by the Minister's response to a question on this issue, in which he strongly defended the efficient structure of UK agriculture). This kind of policy could furthermore be really dangerous in the context of further enlargement of the EU to include Central and Eastern European countries, since the effect would be to raise farmers' prices, provide signals for increasing production, and prevent them from exporting on to world markets.

The other choice - lower prices and decoupled support mechanisms - is no easy route, especially, for the NFU President in addressing the issue to a farming audience! Much as I would like to think there would be, there can be no guarantee of total compensation as prices come down. Competition would be fierce between farmer and farmer, and country and country, and further structural change would be inevitable largely in Europe, but also in the UK with some loss of farming businesses. I was obviously pleased to hear Commissioner Steichen's report to us that the changes in CAP policies had in the current year achieved a saving of 3 billion ECUs, but I feel this must be seen in the context of strong world markets and a weak US dollar.

So the question that has to be put is where should we be aiming with this option? Our goal should I think be to eliminate Set-aside, recognising of course that this cannot happen overnight. The 3% reduction, which we urged for market reasons, is a useful signal to farmers that no mechanism is set in stone, and its use as a market tool rather than as a long-term measure, encourages me to turn to the sensitive topic of milk quotas. This form of constraint has been generally popular with those who already hold them, but it is becoming evident that some of these farmers are now questioning whether they are in the long-term interest of the UK dairy industry. It is

also significant that the NFU Potato Committee now considers that the quota policy accepted in the past may not be in the interests of producers having regard to likely future developments; and similarly in the light of the possible direction of further CAP reforms, the questions are starting to be asked and debated in respect of suckler-cow and ewe quotas.

I have to say that UK farmers are fortunate to be in a relatively good position to confront these very difficult challenges. Their economic position, with the current exception of the pig sector, is good. We have had two years of benefit from the devaluation of sterling and the removal of the green pound, and I believe we can probably look forward to one or two years' breathing space during which we can look closely at the position of our businesses and make certain that we are in a position to compete with the new challenges. May I stress to farmers the vital importance of using that respite wisely, in particular by reducing their input costs, improving their productivity, and by strengthening their position in the agri-food chain.

This new situation brings exciting challenges which we have not had before. We can no longer look at farming in isolation - if we want a competitive industry we must have a competitive food chain. There is still much to be done within the NFU; our objectives will be:-

- to convince farmers that they must strengthen their position in the food chain, forging links upstream and downstream - recognising the needs of their customers and planning their farming businesses accordingly; and developing meaningful partnerships with retailers, caterers and manufacturers;
- to urge the Government to look at all its policies from the standpoint of the competitiveness of the UK farming industry; recognising that the Farm Tenancy Bill and milk deregulation are steps in the right direction, but pressing for more to be done to reduce the burden of legislation and remove unnecessary costs which limit our competitive position across Europe and into world markets generally;
- to encourage greater involvement in the fruits of science and technology through better understanding of the technologies of biotechnology, genetic manipulation, and biodiversity;
- to emphasise the importance of reaction to changing nutritional standards and to the changing market requirements to meet consumer demands and tastes.

Finally I would like to turn to several other policy studies and debates, which are all warmly welcomed by the NFU and which have taken place following the publication of our own *Real choices* report - these are the *EC Agricultural policy for the 21st century* study recently issued after some delay by the European Commission, the Country Landowners' Association (CLA) policy review and recommendations

entitled *Focus on the CAP* and the Briefing Paper prepared by a high-level group convened by the European Programme of the Royal Institute of International Affairs (Franklin & Ockenden, 1994) about which we shall be hearing more from Sir Michael Franklin later in the conference.

Firstly, within the EC Report there is a suggestion relating to renationalisation of agricultural policy formulation and I can see that there may be a theoretical call for saying that if aid schemes are decoupled, they do not influence production and can therefore be left to national governments. We must, however, be extremely wary of this argument - in the long-term it may be possible, but in the foreseeable future I am convinced that it is impracticable. We are absolutely clear that there must be a common policy in the EU, the core elements of which must be centrally determined and centrally financed. The examples of some other industries are a ghastly reminder - with the best will in the world (and I am not sure that the Commission has that) it has been impossible to regulate state aids in major industries like steel and the airlines, and we must learn from these mistakes.

The second point that comes through from the EC and CLA reports is that compensation should be degressive - may I just remind this conference that the EU has just signed a GATT agreement that limits the amount that any member country is allowed to pay in subsidy to its farmers, and then reduces this by 20% over the next six years. Further GATT rounds may well impose further cuts. The NFU particularly wants European and UK farming to become globally competitive; however, as most other countries in the world subsidise their agricultural production to some extent, any cuts imposed on European farmers that are not applied in other countries, would create serious risks to our competitive position. Whilst I am willing to discuss multi-lateral cuts I must resist unilateralism in this area.

Finally, I would like to comment on a proposition frequently advocated by environmental and other organisations that much or all financial support should be withdrawn from production and applied to environmental measures. The NFU, as I have already said, is in favour of de-coupling - in other words support should not be provided simply to encourage farmers to increase production by being totally commodity-linked. But it must be realised that farmers are often not just producers of commodities, they are also providers of a service - the visual appearance of the landscape, the protection and care of the environment, and the providers of recreation and tourism facilities which for example in the Lake District are worth £500 million per year. Some farmers may well wish to concentrate on these aspects and since the market cannot reward them, there is a clear case for appropriate forms of public support. The NFU favours this type of transfer of public funds but considers that it should be available generally to all farmers

on a first-come first-served menu basis rather than available just to those who happen to farm in particular areas. Such an approach would solve many of the problems inherent in the present plethora of schemes that create confusion of administration and interpretation, and would certainly be more realistic than a policy prescribing that all or most support should be for environmental or rural development purposes which would condemn all farmers to higher costs and a loss of competitiveness.

The primary role for our industry must be the production of high-quality safe products, with proper account being taken of all reasonable environmental constraints that we well recognise will be increasingly placed upon us. Our industry has successfully completed its post World War II contract with the government and taxpayer and is ready to move on to its new wider-based contract of growing and marketing the food in response to the ever-increasing demands of the consumer, marketing the products more effectively, and maintaining the all-important rural infrastructure of which we have reason to be proud. For the foreseeable future such an industry will need some assistance to adapt and become truly competitive on a European and global scale. Our farmers are faced with opportunities they must seize, and I am confident that they will follow the lead that we and others are putting forward to ensure that they meet the challenges and remain market leaders in the world.

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