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Priorities in agricultural and trade policy

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Ladies and gentlemen,

It's a pleasure to be with you today and to share a platform with such a range of expert speakers.

I am particularly pleased to have been asked to speak about "priorities" in domestic and trade policy. It's always good to ask ourselves what our priorities are.

Our agrifood sector is the third-largest employer in the European Union. When it functions well, it not only provides us with a plentiful supply of safe food but also helps to sustain the rural areas which we value so highly. When the stakes are this high, it goes without saying that the policy framework must have clear and appropriate goals. Our policy must never become simply an exercise in spending public money and reacting to crises – though of course, when crises come, we have to respond.

For many years the EU has had a clear sense of direction and priorities in its policies for agriculture and trade, and this will continue to be true in the years ahead.

Today I would like to speak first about external aspects of our policy – in particular, the Doha Round of WTO trade talks.

I am sure you know the current situation. We set the end of April as a deadline for agreeing "modalities" for two areas of the negotiations: agriculture, and non-agricultural market access (or "NAMA"). That deadline has come and gone. We have missed targets before in the Doha Round, but now things are becoming more serious. The period of validity of the US administration's fast-track negotiating powers is slipping away and still, the outline of an overall deal is not yet in sight.

Under these circumstances, people are starting to question the commitment of many of the parties involved, including that of the EU. "Is the Doha Round really a priority for the EU?" they ask. "After all, doesn't everyone know that the EU has a lot to lose and little to gain in these talks?" they say.

I can tell you today that the Doha Round has always been very high on the EU's list of priorities. We want to get a deal; and we want to get the right deal. That is as true now as it has ever been.

We want to get a deal because we firmly believe that multilateral trade agreements are the best way of maximising the benefits of trade for everyone. They deliver much more than bilateral agreements: they cover a much wider range of issues and they make possible more comprehensive trade-offs. They also provide a context within which the strong cannot pick off the weak one at a time.

But as I have already said, the high priority which we attach to getting a deal does not imply accepting any deal available. It has to be the right deal – a balanced deal.

This balance must be clear, first, within the agricultural section of the talks. There must be recognition that what the EU has already put on the table is very substantial.

Our offer of tariff cuts to improve market access is significant in itself: it means a halving of our average tariff from 23% to 12%. For us, every reduction to the bound level of a tariff will mean a reduction to the applied tariff: there is no "water" in the system.

But as I have tried to explain to many audiences over the last few months, the true value of what the EU has offered on agricultural market access becomes clear only when we look at it in conjunction with our offers on domestic support and export competition. Our proposed cut of 70% to the ceiling for trade-distorting domestic support would lock in changes to the CAP which, over time, will leave more room on our market for our competitors. And the abolition of export refunds would, of course, leave more room for others on third-country markets.

In return for this, we need more movement from some of our trade partners. There have to be real disciplines on food aid, export credits and state trading enterprises. There must be no loopholes on domestic support. We have heard positive noises on some of these issues, but we need to build on that progress very quickly indeed.

It is also very important to lock in adequate concessions for poorer developing countries. Preference erosion is in many cases a real threat to their economies, and we must do everything we can to make sure that this Round is genuinely a "Development Round": not a smash-and-grab raid.

Furthermore, it is essential that our trade partners offer something meaningful outside the area of agriculture. With regard to industrial goods, this means cuts to *applied* tariffs. I cannot sell to the people of the EU a final Doha package which forces very concrete adjustment on our farm sector in return for purely abstract gains in industrial market access. Nor would this be justified by the declaration from the Hong Kong ministerial of last December, which committed all WTO members to equal ambition in the two areas.

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Quite emphatically, I am hoping for a successful outcome to the Doha Round. In any case, there is no doubt that the EU's domestic agricultural policy is based partly on the premise that we are working within a global system in which protective barriers will diminish over time, not increase.

This discipline is a great help to us when we are trying to set priorities. It forces us to ensure that our farm sector is in a fit condition to compete effectively – on a sustainable basis.

What does this mean in more specific terms?

First, it means extending the reform process begun in 2003 to product sectors not yet covered – wine, and fruit and vegetables. The Commission intends to put proposals on the table for both this year.

Secondly, it means making sure that our reforms work as intended in those sectors already covered – that they really do foster a greater market-responsiveness and a greater respect for the environment, as we intended when we agreed them. The proof of the pudding is in the eating; and in this case we are committed over the next few years to checking whether the recipe has turned out well.

An important question which currently faces us is the extent to which we link a review of our reforms – a "CAP health check-up", if you like – to the general review of the EU budget which will be launched at the beginning of 2009.

I can't tell you today what the exact approach will be. What I can tell you is that we will not let the interests of the CAP be undermined. My priority will be to make sure that we have the CAP that we want and need. This is a challenge which cannot be boiled down to a simple question of money, as some people may try to do.

At any rate, one sector covered by the CAP will require attention some time before other review work gets underway.

I’m sure I don’t need to tell anyone here that we are facing a significant problem in the cereals sector. At a time when the EU is proud to have run down many of the huge agricultural surpluses which burdened us for decades, suddenly cereals stocks are piling up again with alarming speed.

Certainly, this is partly because the last two harvests have been excellent. However, such things happen, and the CAP must cope with times of plenty as well as scarcity. Clearly, the Single Market is not working well in this case: surpluses in landlocked low-price areas are not easily finding their way to higher-price deficit areas in the EU, or to ports. Instead, they are pouring into local intervention stores.

At the start of 2004, intervention stocks stood at 3 million tonnes. By the beginning of this year, they had passed 18 million tonnes – their highest level in more than a decade. This is an enormous rate of growth, and the situation could worsen when Bulgaria and Romania join the EU.

I cannot tell you today exactly how we will attack this problem. But be assured: it has caught our attention. The Commission has already drawn up a list of possible solutions and is examining them carefully.

Whatever we decide, it must not be a short-term fix. We are confronted with a number of new factors:

- First, the EU has absorbed three new landlocked Member States which are significant cereal producers.
- Secondly, trade liberalisation is likely to increase import pressure in the long term.
- Thirdly, whatever happens in the Doha Round, in future the EU will almost certainly not be able to fall back on the massive use of export refunds to rescue the cereals market from crises, as it has done at times in the past.

Any new approach to intervention must take account of these factors and put in place long-term solutions.

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The final priority which I would like to mention today concerns biofuels and biomass. Any of you who read or hear my speeches regularly will know that I mention this topic often.

But let me be clear: this is not because I think this sector is a guaranteed source of easy revenue that can solve all EU farmers’ problems. Nevertheless, it does seem to hold potential, and it must be one of our priorities to position ourselves to make the most of whatever opportunities present themselves.

There are many things that we don’t know about the future role of biofuels and biomass. We don’t know exactly how the technology will develop. We don’t know how high fossil fuel prices will be a year, five years, ten years from now. We don’t know whether guaranteeing steady oil and gas imports will become easier or more difficult.

On the other hand, we do know many important things relevant to this issue. We know that global warming and climate change are serious threats. We know that the world's oil and gas reserves are finite, and are controlled by a small number of players. We know that energy policy has been quickly moving up the EU's agenda – particularly since the summit held by heads of state and government in Hampton Court Palace last October. And we know that some companies are already making money out of biofuels and biomass.

Production of biodiesel is already picking up. Last year production increased by 65% and the EU has become the world largest producer.

For the moment - and for many years to come – biofuels are the only available alternatives to oil and gas in the transport sector.

Therefore, we know enough to put in place an active policy – as set out in the Commission's recent communications on the two issues: the Biomass Action Plan and the Biofuels Strategy.

National leaders have also continued to give the EU extra momentum on these issues. As you know, at this year's spring summit they agreed to consider a new target for the role of biofuels – a share of 8% in our transport fuel usage by 2015.

Our policy is not about trying to create a market artificially. It is about taking a long-term view: supporting research within the EU, and already encouraging a certain level of biofuel and biomass use, so that when technology creates new opportunities, we can respond quickly.

Agricultural policy already makes a contribution to this approach. The decoupling of subsidy from production is making it more attractive for some farmers to grow energy crops – which can be cultivated on set-aside land and are also eligible for a special premium of €45 per hectare. Also, sugar beet grown to produce bioethanol will continue to be exempt from sugar production quotas.

We may need to do more through agricultural policy. In particular, the Commission will produce a review of the special energy crop subsidy by the end of this year. We will look at the Maximum Guaranteed Area as well as the situation in the 8 new Member States applying the Single Area Payment Scheme (SAPS). And we are always open to other ideas.

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Ladies and gentlemen, with regard to biofuels and biomass, as in all of the areas which I have talked about today, I want to help set the right conditions. Internationally, and especially within the EU, I want to see systems in place that encourage individuals and companies to look for opportunities and take them, on a sustainable and responsible basis.

I hope that operators in the cereals and oilseeds sectors will see plenty of opportunities coming their way in the years ahead.

Thank you for listening, and I wish you an interesting conference.