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MEETING OF THE COUNCIL AT MINISTERIAL LEVEL

12th and 13th MAY 1987

**GREECE**

Statement by

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Mr Chairman,

I have examined with great interest the main points emerging from the well founded analysis of the current crisis in agriculture and the world food system in general as well as the courses that are being proposed for cautious exploration in order to overcome current difficulties. I certainly would like to compliment the Secretary General and OECD's Secretariat for the preparation of the meeting.

I think we would agree with the observation that the agricultural situation in the world has been deteriorating. The fierce competition among exporters, their bitter disputes at a time of stagnating international markets, the piling up of surpluses, the ever increasing difficulty in supporting farmers incomes, the relatively low standard of living of many of our farmers, all these among other are observations which give us a clear indication of the intensity of the problem and the dangers that the prevailing situation implies.

Certainly, the outlook for individual member countries remains uneven and the imposed restrictions either of an international or of a national nature do not affect all farmers the same way.

The causes of the present situation are undoubtedly to be found in the growing disequilibrium between demand and supply and the national policies which are being pursued. Nothing much can be added to the consideration expressed in the documents as far as the demand side is concerned. We agree with the analysis presented. The future developments in world demand of agricultural and other commodities will greatly depend on whether a solution to the problem of the financial debt characterizing the less developed countries is found.

However, knowledge about the effects of prices and policies on farm output is much inferior to that about demand characteristics. Here the degree of responsibility to be shared by each one of the Member States varies according to policies pursued and the specific characteristics prevailing in its agricultural sector.

Long lags commonly occur before unobstructed production adjustments fully work themselves out even when technology is constant. Agricultural technology of course has been anything but constant. Farmers adoption of new methods is itself subject to lags and is influenced by price both through their financial ability to invest and the natural endowment available to them.

Price support along with several other policy programs, since it usually must be accompanied by storage, production control or disposal programs, creates incentives for increased production.

The conclusion that price supports lead to misallocation of resources and the reduction of welfare seems obvious to those who think in terms only of the perfect competition model and believe that the free market closely corresponds to it.

But agriculture has been in chronic disequilibrium because it has specific characteristics which make it difficult for the model to function. The prevalence of low rates of return on farm resources is a symptom of a more basic problem the lack of resource mobility. Farm resources do not adjust to an allocation that would make returns comparable among sectors and reduce the total cost.

Large farms are earning an adequate return on resources. Prices are determined at the margin by large farms and it follows that resources-means of production-are priced too high for the majority of farmers who operate small less efficient farming units. Though price support raises the extremely important questions about economic efficiency and equity, the questions are not answered simply by appeal to a theoretical model. They must be answered by an analysis of the actual different situations.

Proposals to return to substantially free markets should recognize a severe income problem for farmers in making the change as well as a necessary transitional period to complete it.

Direct payments are suggested to ease the transition but in order not to influence production adjustments payments would not be dependent on recipient's current production. We favour programs to adjust land use and we emphasize measures to upgrade human skills as well as to increase labour mobility.

The adjustment of direct payments of the supplemental type should be such that small growers received proportionately more than large growers. This reasoning is based on the facts that

- 1/ small farmers need help more than large farmers,
- 2/ large scale farmers are not necessarily more efficient than well organized family farms in order to be further encouraged and
- 3/ huge payments to the few very large farms would undermine public (national) and international support for the program.

It is obvious that income benefits of simple price supports are shared among the members of the target farm groups approximately in proportion to the value of sales.

The strong tendency of benefits of price and income programs to be capitalized in land values implies that the long run benefits accrue to those who owned land at the time of its value appreciation. Some of the land owners, however, have no other connection with farming.

We must also make an attempt to separate commercial farm policy from policies to overcome rural poverty and enhance rural development. No clear line separates the two. No matter how high farm prices are there will always be some farmers who badly need to have prices just a little higher.

Agricultural policy should be designed in such a way as to direct enhanced income where it is most needed without destroying the policy's effectiveness in managing excess capacity or in stabilizing the markets.

The proposed structural reform of Agricultural Policies would imply reestablishing a proper agricultural resource allocation

policy in the framework of the European Economic Communities along with the corresponding changes in the mechanisms and control.

The price system is again here an irreplaceable instrument and a useful element in the allocation of resources but its usefulness is not beyond limits.

The optimal price level is not remotely as high as that maintained by the CAP at present. The situation is certainly characterized by serious imbalances and phased reductions should be made over a period of years. However, major product categories should seek a thorough economic analysis.

One should allow for incentives in order to make more viable farming units which might be seen as marginal from the point of view of the Community as a whole but important in their regions and sometimes in their country.

The importance of agriculture as measured by its share in the Gross Domestic Product as well as the percentage of people employed should also be taken into consideration as to avoid uneven sacrifices and cost sharing.

An other dimension of concern is formal or informal administrative and economic controls currently implemented by nations which continue to struggle against inflation. In such cases guidelines are being applied to agriculture and the sector is being brought into an integrated inflation control effort with enormous implications with respect to income and production.

As far as the GATT negotiations are concerned we agree that a number of issues of outmost importance have to be collectively recognized.

All countries have a share of responsibility for present difficulties hence all governments should contribute to the framework of a realistic approach in solving the problem of agriculture.

The necessary adjustments and concessions should not concern only a member of countries or groups of countries. Since certain countries already take unilateral measures aiming at production control and the elimination of surpluses, it should be recognized that such efforts should be acknowledged and shall be taken into account when the time for striking a general balance comes.

Lastly, the idea of flexibility with respect to measures to be taken in bringing about the necessary adjustments is fundamental.

I would conclude by stating that rapid progress can be made with respect to certain actions of immediate nature. Among such actions I would mention ;

- An agreement according to which the implementation of measures which would worsen the situation would be avoided.
- An agreement for actions which would lead toward the stabilization of the markets.
- An agreement against export restitutions of an offensive nature.
- An agreement for a rational management of surpluses in stock.

Thank you.