

Address given by Emile Schaus on agricultural policy in the Grand Duchy of Luxembourg (23 February 1961)

Caption: On 23 February 1961, Emile Schaus, Luxembourg Agriculture Minister, delivers a speech to the Luxembourg Chamber of Deputies in which he describes the objectives of the national agricultural policy and sets out the arrangements for its integration into the European common market.

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Gentlemen,

It is routine, when the agricultural budget is being debated, for us to hear many criticisms of the Government's farm policy. These criticisms are voiced by representatives of all groups in the economy — farmers, workers, craftsmen or businessmen. In most cases, they are prompted by self-interest.

Some people, for example, accuse the Government of having established controls over the way in which the farming industry is organised and of preventing it from establishing the institutions needed to allow the agricultural economy to develop to full effect.

Others accuse the Government of having taken insufficient account of the general interest in implementing its agricultural policy, of having surrendered some of its powers to the benefit of one occupational group and, in the process, of jeopardising the survival of some sectors of the economy which depend on agriculture.

These two conflicting views of one and the same agricultural policy are ample proof of the Government's concern to reconcile, as far as possible and for the well-being of all, the opposing interests which exist all too often within the various branches of the economy.

This fact gives the lie to casual allegations that the Government has no proper agricultural policy and that the various measures taken by the state are simply a way of preserving a system of agriculture which is outdated and which does not help the interests of the national economy.

The criticisms echo those repeatedly heard in the Chamber of Deputies. How many times has the Government been accused of lacking an agricultural policy? Hardly ever, however, have we heard constructive and specific proposals aimed at remedying this alleged omission. The various speakers have usually made no more than general statements or have become bogged down in matters of detail of limited interest.

The Government has outlined its policy and objectives for agriculture to the Chamber on several occasions. It is accused of having no programme. This word 'programme' seems to hold a real fascination for some people who like things to be methodical and recognise the validity only of measures which are part of a pre-determined programme, preferably one which indicates exactly when these measures are to be implemented.

The Government sees no need to be so formalistic. It believes that what is important is not to have a programme which is inflexible and usually impossible to implement in practice but to take measures within a general context of efforts to improve agriculture. The Government would like to take this opportunity of drawing the Chamber's attention to the fact that most of the measures proposed require the Chamber's assent. Our experience with the Deferred Wages Bill, which the Chamber did not approve, and with the Land Consolidation Bill, which has been before the Council of State for a year now, shows how protracted and complicated the legislative procedure can be and how dangerous it is to set precise deadlines for the completion of various measures. The Government is well aware of these difficulties, but it will, nevertheless, press on with its attempts to improve the position of agriculture. A review of the agriculture budget proves that the Government has intensified its efforts in a number of areas, that new appropriations have been entered for land consolidation and small farm specialisation. The Government knows full well that all these efforts are still not enough. It very much hopes that the Chamber of Deputies will not withhold its support from special measures which the Government will be putting forward in the months and years to come.

No one can deny that the question of agriculture is a very difficult and highly complex one. Nor is this fact exclusive to Luxembourg — it is the same in all the industrialised countries. The USA is a prime example of a country wrestling with this problem.

The question of agriculture is especially serious in Luxembourg, however. Luxembourg's agriculture operates

in production conditions which are naturally unfavourable. This handicap will be made worse by the gradual implementation of the Common Market of which Luxembourg is a member. As the rest of my speech today will show, the Common Market will create new and extremely serious difficulties for Luxembourg's agriculture. At the same time, it will also provide it with new opportunities.

Accordingly, faced with a future which holds many new difficulties but also many promises, we need to review our agriculture as it stands at present, to chart the way ahead and the problems which will present themselves along the way, to work out solutions to the various problems, to decide how far state action can go, to decide how much responsibility the farmers themselves must bear in implementing the measures proposed and to identify clearly the responsibility which the Chamber of Deputies must bear in enacting legislation and framing the budget.

I. — Current situation of Luxembourg's agriculture

I will spare you a recital of the many statistical tables tracing the development of Luxembourg's agriculture since World War II. Perhaps the President will be kind enough, however, to ensure that they are included in the analytical annex to today's proceedings. In fact, I think that this is the first time that such a concentrated body of figures and statistics has been presented in a budget debate which is tantamount to a green paper.

I shall restrict myself to a few notes and observations. In round figures, Luxembourg's agriculture still has 9 200 holdings each with a land area of 2 hectares or more. Holdings smaller than 2 ha are not really commercial farms any longer. These 9 200 holdings cultivate 136 000 ha, i.e. 53 % of the country's total land area.

It is hard to establish exactly what proportion of these 9 200 holdings are engaged solely in agriculture. In 1958 the *Jongbaueren- a Jongwenzerbond* (Young Farmers' and Vintners Association) conducted a survey of 3 600 farming households. This revealed that, of all the households surveyed, 70 % made their living exclusively from agriculture, whilst 30 % earned additional income from non-agricultural activities. These percentages seem sufficiently realistic to be applicable to the farming population as a whole. It is, therefore, probable that Luxembourg has 6 500 agricultural holdings subsisting on farming activity alone. It is precisely these holdings whose situation and future need to be addressed. That is not to say that the Government has no concern for agricultural holdings which draw additional income from non-farming activities. On the contrary, the Government regards the combination of farming and non-farming activity as a particularly felicitous way of rural life, a formula which it is seeking to establish for numerous other small agricultural holdings which are too small to provide an adequate income from farming activity alone. These holdings will also benefit from all Government measures in support of the country's agriculture, notably structural improvements. Their position is not as serious as that of holdings subsisting solely on agriculture, however, since, for most if not all of these holdings, the question of a reasonable income has already been resolved.

Luxembourg's agriculture is dominated by small and medium-sized family farms. The average size of farms bigger than 2 ha is 14.8 ha. Compared with the average size of farms in the other Common Market countries, the position in Luxembourg seems fairly favourable. The average size of agricultural holdings is 15.7 ha in France, 9.7 ha in the Netherlands, 8 ha in Germany, 6.8 ha in Belgium and 4.5 ha in Italy. We must remember, however, that these figures are not fully comparable, since the averages for the other countries are for *all* agricultural holdings, including those smaller than 2 ha. The Luxembourg average for farms bigger than 1 ha is 13.4 ha. Quite apart from this statistical reservation, we must be careful not to draw premature and mistaken conclusions from this comparison. In absolute figures, Luxembourg's agriculture seems to be well placed vis-à-vis that of the other Common Market members. However, this figure needs to be appraised in relation to the natural, structural and economic conditions in which our agriculture has to develop.

Natural conditions in Luxembourg are very unfavourable. The climate is known for late frosts and an uneven pattern of rainfall. Take, for example, the many wet summers we have had in recent years, which have seriously reduced the harvests. Most farmland is of mediocre quality. As a result, Luxembourg yields of a given crop are broadly smaller than those of our neighbours, where natural conditions are far better overall.

Nor is the economic environment favourable. Whilst it is true that Luxembourg's high standard of living has also benefited the country's agriculture, through higher consumption of agricultural and food products, particularly processed products of animal origin, the low absorption capacity of the Luxembourg market has not, hitherto, allowed the country's agriculture to focus on specialist types of production which generate high yields from small areas of land, such as fruit and vegetables, eggs and poultry. Luxembourg's agricultural revenues come almost entirely from livestock farming and wheat. Potatoes are also important. In percentage terms, Luxembourg's agricultural revenues in 1959 were as follows: milk 35 %, beef and veal 19.6 %, pigmeat 22.6 %, wheat 10 % and potatoes 4.4 %. The remaining 8.4 % came from a variety of products (rye, eggs and poultry, increase in livestock). There is virtually no fruit and vegetable production. To some degree, this is also true of egg and poultry production. In our neighbouring countries, however, these sectors are almost exclusively the province of small farmers for whom they are the main source of agricultural income. The question of specialisation will be an important item in my report to you today. For the moment, I shall simply say that the less specialised a country's agriculture is — as is the case with Luxembourg — the bigger the average area of its farms needs to be. Traditional types of production such as cereals, milk and meat are, to varying degrees, determined by the amount of land available. This is entirely true for vegetable crops. For livestock farming, this interdependence also exists, though to a lesser degree, at least in our current view of agriculture. Area yield of these products is relatively small. This is particularly true of Luxembourg, where area yield is also strongly influenced by natural production conditions which are extremely unfavourable. As a result, under the current structure of agricultural production, agriculture in Luxembourg needs more land to generate sufficient revenue than is the case in our neighbouring countries. Looked at from the point of view of average farm size, Luxembourg's agriculture is thus worse off than that of our neighbours, with the possible exception of Italy.

This is one structural weakness in Luxembourg's agriculture, but there are others.

The small average size of agricultural holdings already works against Luxembourg agriculture, and this disadvantage is accentuated still further by the excessive fragmentation of agricultural land. Average parcel size in Luxembourg is just 0.63 ha compared with 1.08 ha in Belgium and 2.46 ha in the Netherlands. You do not have to be an expert to see the economic drawbacks of that. In addition to the time lost in cultivating these scattered parcels, there are also losses of yield due to the excessive length of field borders. The output of both men and machinery is reduced. It is harder, and sometimes impossible, to use farm machinery. It also hardly needs saying that the many problems entailed in improving the rural road system are a direct result of fragmentation. It hardly needs saying, either, that little or nothing has been done so far to remedy this state of affairs — the Hentgen Act has achieved little to date — in contrast to the situation in neighbouring states, which are consolidating hundreds of thousands of hectares a year and have been doing so for many years. I shall come back to this issue later.

Since the last war, *technical progress* has burst upon the agricultural scene in Luxembourg. To the uninitiated, technical progress simply means the mechanisation of agriculture. The figures here say a lot. The growth in the number of tractors and combine harvesters alone after 1950 is striking. In 1950, 1 332 tractors were in use in Luxembourg agriculture, a figure which had risen to 6 046 by 1959. In 1950, there were 7 combine harvesters and 355 in 1959. It is not possible to make a comparison with our neighbours on the basis of absolute figures, but we can compare relative figures based on the number of hectares worked. In Luxembourg, there is one tractor for every 23.0 ha of useable farmland compared with 45.7 in Belgium, 49.0 in France, 40.2 in the Netherlands, 18.3 in Germany and 93.4 in Italy. Luxembourg has one combine harvester for every 147.0 ha of cereals compared with 265 in Belgium, 183 in France, 168 in the Netherlands, 160 in Germany and 178.6 in Italy. Luxembourg is a clear leader here. This fact may invite criticism from some who see these figures as proof of excessive capital spending and an inadequately developed spirit of cooperation amongst our farmers. It is true that there is not enough cooperation amongst our farmers at farm level, a point to which I shall return later on, and it is also true that cooperation in agriculture faces particular difficulties because everyone needs to be using the same machinery at the same time, but the fact remains that Luxembourg's agriculture became mechanised so rapidly because of a number of specific factors. Agricultural mechanisation is not usually the result of an economic calculation. Other factors play a part and can upset all the calculations. Part of the reason

for such rapid mechanisation was the persistent bad weather of recent years. Thanks to state-of-the-art machinery, the losses avoided were far greater than the annual cost of that machinery, including depreciation and interest. There is, however, a further reason for mechanisation, and one which stems very much from the structure of our agricultural holdings. The shortage of labour in our agriculture led farmers to increase labour output significantly, with a view to maximising profits. Mechanisation was the only way to achieve this. By increasing their labour potential, farmers were also able to cultivate a larger area than in the past and so increase their income. Unfortunately, some of these economic benefits have been cancelled out by higher land and farm rents caused, in part, by mechanisation. I shall return later to this question of the cost of land and rents.

Another indicator of technical progress is increased fertiliser use. Expressed in tonnes by class of compound, consumption grew as follows between 1952 and 1959:

Fertiliser (tonnes)	1952	1959	Index 1952 = 100
N	3 607	4 480	124
P2O5	5 158	6 328	123
K2O	4 740	6 174	130

Compared with our Common Market partners, however, Luxembourg is well down the list. Only France and Italy use less fertiliser than Luxembourg. In kg of compound per hectare of useable farmland, the 1959 figures for the EEC are as follows:

Fertiliser (kg/ha)	Luxembourg	Belgium	Netherlands	Germany	France	Italy
N	31.7	56.2	90.7	40.4	16.2	17.2
P2O5	44.8	54.5	48.5	44.5	29.3	22.7
K2O	43.6	88.6	63.4	70.6	23.7	4.7

Unsurprisingly, the country with the highest yields of all the six Common Market members, the Netherlands, also applies the most fertiliser per ha.

Luxembourg has a lot of ground to make up here. The low levels of fertiliser applied in our country show that a lot of progress can still be made towards improving productivity.

Crop yields have been significantly boosted by the use of varieties better suited to our weather and soil conditions, but we achieve nothing like the yields obtained in Belgium and the Netherlands. Improvements have also been achieved in the bread-making quality of wheats.

Major advances have also been secured in livestock production. In the dairy sector, wider use of artificial insemination, more careful breeding-stock selection, better feed and the control of animal diseases have helped us increase considerably the yield from our dairy cattle. Here too, though, we lag far behind the yields obtained in Belgium and the Netherlands. The clearest gains have been made in the control of animal diseases, where collaboration between farmers and veterinarians has enabled us to wipe out bovine tuberculosis altogether after a few years of organised control measures. We now have to tackle bovine brucellosis. The relevant Grand Ducal Decree was published recently. It is reasonable to predict that all the country's cattle will be immune to this disease within a few years' time.

The efforts made in agricultural production have brought an increase in output so that Luxembourg now has a surplus in the main agricultural products. Wheat production in a normal year is now 30 % above domestic demand. The butter surplus is 25–30 % of domestic consumption. 15–20 % of pigmeat has to be exported. The same goes for beef. Luxembourg is a net importer of veal and eggs, however. Imports of these two products currently cover 40 % and 35 % respectively of demand.

But, as the comparison made earlier shows, Luxembourg's agricultural production has by no means exhausted its capacity for expansion. There is no doubt that, if Luxembourg's agriculture wants to come anywhere near the productivity levels of our neighbours, it will have to expand production still further. Any increase will thus necessarily, for a certain time, also mean higher surpluses.

Export markets have to be found for these agricultural surpluses. Prices paid on these markets are well below official Luxembourg prices. One thus has the paradoxical situation whereby, in order to be competitive, Luxembourg's agriculture has to increase its production still further, whilst the losses from exporting ever-greater surpluses largely, if not totally, cancel out the benefits of improved productivity. We all still remember the tragedy for our farmers in 1958 when they were unable to offload their butter surpluses. If that situation had continued, it would have meant total ruin for our agriculture.

This is the weak point of our agriculture. Any pricing policy which gives a fair reward to farmers is doomed to failure unless a proper solution can be found to the problems of surpluses. The Common Market will offer possibilities here. We shall talk about these later.

The weaknesses that I have just outlined are all inherent in the very structure of Luxembourg's agriculture. There are others, but their causes are extraneous to agriculture itself.

Luxembourg's agriculture has to import virtually all its means of production. As a result, it has to spend more on this than other countries. On top of the cost of the goods, there are numerous other costs such as transport costs, import duty, etc.

Wages in Luxembourg are higher than in her Common Market partner countries. This also makes the production costs of Luxembourg products more expensive.

I cannot wind up this chapter on the current situation of our agriculture without looking at how agricultural incomes have declined in recent years. The Research Department of the Ministry of Economic Affairs calculates that agricultural incomes, as a percentage of national incomes, were 9.85 % in 1953, 9.32 % in 1954, 8.85 % in 1955, 8.51 % in 1956, 8.00 % in 1957 and 8.34 % in 1958. Figures for 1959 have not yet been published.

If we compare the figures for farming incomes with figures showing the size of the farming population (farming population = 15 % of the total population, working farming population = 22 % of the total working population), we see that there is a marked disparity between agricultural incomes and those for the other sections of the population. We all know how long and hard our farmers work. I agree with the Council of State that 'no one would dream of suggesting that everyone in a country should be paid the same'. Whilst, in general, I agree with the principle of being paid according to how productive one is, I do think that some exceptions must be made to this rule, specifically in agriculture. Farm work is hard work and cannot, by its very nature, aspire to be productive in the same way that work in small businesses and industry is productive. Agriculture is outside the laws of economics, governed also, and above all, by laws of nature and biology which cannot be forced to accommodate methods of labour division. The Council of State deplored 'the dangers of industrialising agriculture to the point where it loses much of its usefulness', in particular as a factor in the country's economic and social stability. Accordingly, the laws of economics cannot be applied with the same impact as in the other sectors of the economy.

The figures that I have given reflect the relative decline in agricultural incomes. Official agricultural prices have remained at the same level since 1952. Real prices affected by agriculture have steadily declined, however. At the same time, many consumer goods have gone up in price, as regular increases in the cost of living index indicate.

Even though income from farm product sales has risen somewhat, as a result of increased production, agriculture has benefited very little from the general growth in Luxembourg's economy. In small- to medium-income economies, part of any increase in income is spent on food. In high-income countries like

Luxembourg, where consumption is already high, increases in income are no longer matched by an increase in consumption. Where incomes are high, the elasticity of demand for agricultural products in response to increases in income becomes zero, or even negative. This is the case in Luxembourg. The pattern of demand has shifted. People are eating less bread, fewer potatoes and slightly less butter. There has, however, been a marked increase in demand for high-quality fruit and vegetables. The loss to agriculture is thus twofold. Not only is it not expanding like the rest of the economy, it is also suffering a decrease in sales of its products.

As a result agriculture, left to its own devices and without the support of the national community, is doomed to go under. Yet agriculture is essential to the economic, political and social balance of our country. If it should disappear, the whole of the national economy would be seriously affected and plunged into crisis.

That is why all Luxembourg governments have pursued a policy of support for the country's agriculture. This policy of support means that official production prices are fixed, and the domestic market is reserved for home-produced farm products only. Luxembourg has managed to have a special clause favouring its agriculture included in all the treaties to which it is a signatory: BLEU, Benelux, EEC and GATT.

Price support is given only to quantities consumed within the country. The cost of surpluses is borne by the farmers. The purpose of this restriction of the state guarantee was not only to keep government spending within acceptable treasury limits but also, and above all, to stop too wide a gap from opening up between output and market capacity.

To stop the policy of agricultural price support from pushing up the general cost of living, the Government introduced the dual pricing system which allows consumer prices to be kept at a sufficiently low level and production prices at their official fixed level. The difference between production and consumer prices is offset by structural subsidies which are currently running at some LUF 350 million. It should be noted, however, that some structural subsidies are consumer subsidies, which keep food prices lower than they would be if the product in question were made using goods imported at world prices. A case in point is bread.

I shall end this first part of my report with a summary of the main difficulties facing Luxembourg's agriculture.

1) Notwithstanding serious efforts to improve agricultural productivity, Luxembourg's agriculture still lags far behind that of our neighbours.

Much of this problem results from structural deficiencies. Some results from deficiencies in production methods. Causes extraneous to agriculture also play a part.

2) Greater productivity, at the present stage of agricultural development, will very largely mean increased output. But the country already produces more than it needs. The fact that production surpluses have to be exported at very low export market prices cancels out some of the profits gained from increased productivity.

3) The excessively constricted economic environment has not allowed Luxembourg's agriculture to focus on areas of specialist production.

4) Luxembourg's agriculture is dependent on other countries for virtually all its means of production requirements. It has to pay for these (machinery and fertiliser) at higher prices than farmers in the other EEC Member States.

5) The Government's policy of price support has not eliminated the disparity between farm incomes and incomes from other economic activities. Agriculture has not benefited from the general economic growth of recent years.

II — Agricultural policy objectives

The Government's view, backed by the Council of State, is that we need to preserve a strong agricultural population not only for economic but also for social and national reasons. To that end Government policy has so far sought to protect agricultural incomes.

The gradual establishment of the Common Market is creating new and very difficult problems for Luxembourg. How will the Government respond to these problems? On no account may we abandon the fundamental objective of our agricultural policy, which is to provide a fair income. The EEC Treaty includes special arrangements for Luxembourg's agriculture, but this is hardly an answer to the country's agricultural problems. The sector's survival depends on its ability to sell its production surpluses. If Luxembourg imposes import quotas for agricultural products she may, by way of retaliation, be denied access to the markets of her EEC partners.

We therefore need to eliminate all remaining barriers which prevent us from selling our surpluses, otherwise we shall jeopardise all our chances for growth and, hence, all our chances of improving productivity. This is what the Government must bear in mind in its approach to the Common Market. Its attitude has to be positive. Luxembourg's agriculture must play a full part in the Common Market. It will benefit from a market of 180 million consumers, it will be able to break out of the narrow confines which have restricted it to date, and it will be able to focus on specialist crops. It goes without saying that this attitude is no longer reconcilable with the principle of protecting the Luxembourg market against foreign competition, with price support of the kind that the Government has employed hitherto and the structure of agricultural markets which has developed here over the last twenty years. Just like our other Common Market partners, Luxembourg will have to open up its market to imports one day and will no longer be able to discriminate against foreign producers.

Luxembourg's membership of the Common Market will immediately raise the issue of farm incomes. No one can reasonably expect future Common Market prices to be anywhere near the current price levels in Luxembourg. Agricultural incomes, universally accepted as inadequate even now, will fall further as a result. The Government must respond to that. New answers will have to be found to the problem of agricultural incomes. Solutions may be possible under Article 42 of the EEC Treaty, through direct or indirect aid to agriculture. Article 42 says that the Council of the EEC may authorise 'the granting of aid for the protection of enterprises handicapped by structural or natural conditions'. Such aid may no longer operate through agricultural product pricing, however.

The Government will therefore have to reconsider completely its policy on prices and agricultural support. Obviously, farmers will endorse this new policy only if they are given real and adequate guarantees that they will be able to make a decent living from agriculture.

Accordingly, the Government intends, during the present session if possible, to lay before the Chamber of Deputies a framework Farm Bill setting out the principles of its new policy on agricultural incomes. The aim of this legislation is not simply to maintain the *status quo*. The Bill will include provisions which allow those involved in agriculture, too, to benefit from the advantages of general economic growth and enjoy a standard of living close to that of other comparable economic groupings. It goes without saying that the Bill will include other provisions on improving agricultural productivity, and I shall come back to those in the next chapter.

Under the new Act, the Government will present an annual report on the state of agriculture similar to the green papers published in other countries, so that interested parties and the Chamber may have a clear picture of the situation and plan for the various sectors of agriculture. I see this report of mine as a kind of prototype of this future annual report.

The Chamber of Deputies will be required to give its verdict on the new farm price policy and approve the proposed action for maintaining agricultural incomes at the desired level.

III — Agricultural policy action

As I said earlier in the first part of this report, Luxembourg's agriculture still lags behind on productivity because of structural deficiencies. It has also been shown that, as a result of natural production conditions, which are very unfavourable, our agriculture can probably never be as productive as that of other countries where natural conditions are kinder. As part of the Common Market, we shall also face the problem of adapting the economic infrastructure of our agriculture to new market conditions.

Government action will thus be directed towards

- 1) improving agricultural productivity;
- 2) adapting and strengthening the economic infrastructure of our agriculture; and
- 3) offsetting income losses which cannot be made good by higher productivity.

1) *Improving agricultural productivity*

The first requirement is to eliminate the *structural deficiencies* in Luxembourg's agriculture.

Priority here must go to the *consolidation of agricultural land*. Average parcel size in Luxembourg is just 0.63 ha. According to official figures, 100 000 ha of agricultural land need to be consolidated. This will also require the draining of at least 7 000 ha of wetlands, improvements to the rural road system, the straightening of watercourses and the necessary structural works.

The main obstacle to land consolidation is that there is no law covering it. The Government's Bill has now been before the Council of State for almost a year. The Council says that it cannot deliver an opinion until it knows the views of the farming community, which have not yet been forthcoming. I urge the farming community to give its opinion as swiftly as possible so that this Bill, which is vitally important to agriculture, may be debated in the Chamber before the year-end.

Nevertheless, I would caution against the excessive hope which some people seem to be placing in agricultural land consolidation. Adoption of the Bill will not solve the problem; it will simply create the conditions required for a solution thereto. Consolidation will be a long-term undertaking, the effects of which will take a long time before they become apparent. Government departments estimate that no more than about 3 000 ha can be consolidated each year. This figure is based on the experience of our neighbours and takes account of the many formalities, inquiries and procedures which are needed before consolidation operations can be carried out. Consequently, in Luxembourg, where 100 000 ha need to be consolidated, the process will take 30 to 40 years to complete. It is also unlikely that the target of 3 000 ha can be met immediately. We have hardly any of the qualified specialists needed to oversee consolidation operations. Inevitably, it takes time to train them. From our neighbours' experience, we know that 70 specialists, including assistant specialists and clerical staff, are needed to consolidate 3 000 ha a year. So we have to consider whether it is not a better idea to use private companies specialising in land consolidation. This is routinely done in the Netherlands. Moreover, it seems that statutory (conventional) consolidation will not be feasible in every case and that we shall have to settle wherever possible for simplified forms of agreed land consolidation or reorganisation.

Whatever the formula ultimately adopted, lack of budget funds must not be allowed to slow down the pace of operations. The cost to the state will be LUF 30–40 million a year, including staff costs. This cost reflects the portion of the overall cost which the state has undertaken to bear. The cost to producers will be at least LUF 10 million a year.

Land consolidation takes a lot of preparation, and the less amenable the farming community is to the idea of reform, the longer it will take. Much of the farming community does, in fact, seem well disposed towards consolidation. But I should not wish to fail to take this opportunity of urging the farming community and all progressively minded farmers once again to create the climate required for our endeavours to succeed.

As regards structural improvements, there is another very important issue which I must address here. This is the question of *increasing the size of agricultural holdings*. This is a topic of hot debate at the moment, not only in Luxembourg but in all countries which have a preponderance of small and medium-sized holdings and where governments are facing price demands from the farmers. A lot of ink has already been expended on this question, and a lot more undoubtedly will be in the future.

Two opposing views of the situation are heard. Both are exaggerated and, as such, are unlikely to provide a valid solution to the problem.

Some see the problem solely in terms of economic return. Only agricultural holdings offering conditions in which production factors can be deployed to optimum effect are economically justified. Small farms are relics of an outdated economic structure and have to go.

Others dismiss all economic considerations and emphasise only the social, demographic and political aspects of the problem. All holdings must be preserved, even the smallest and even those operating in the most unfavourable conditions. A farm cannot be valued by how much it contributes to national output. Every farm closure has to be seen as an irreparable loss to the fabric of the nation.

It hardly needs saying that the Government will not espouse either of these extreme positions. Agricultural policy cannot ignore economic considerations, but neither should it forget that economic considerations are not the only ones which count in agriculture. Agriculture is both an economic activity and a way of life. Agricultural policy has to take account of these twin aspects of the problem.

The Government does not want to see the creation of large industrial-scale agricultural units. The Council of State, in its opinion, warned against a policy of that kind, which would destroy the intrinsic values which agriculture represents in our national way of life.

The Government realises that not all existing farms can be preserved either, but it would not wish the absorption of small farms to be a formal objective of its agricultural policy.

The last ten years' agricultural surveys show a fall of 200–250 each year in the number of agricultural holdings smaller than 2 ha. Almost all the units lost are small farms. So the process of merging small farms is already happening. This process, more marked in the south of the country, will doubtless continue in future.

Small-scale agricultural holdings are not ceasing operation because the Government is encouraging them to do so. On the contrary, they are doing so as the result of personal decisions freely taken by each farmer. The Government does not seek to influence those decisions. It knows too well the very special bonds which tie the farmer to land handed down through the generations. It knows that in most cases the farmer is motivated by sentiment rather than money. It has respect for this attitude and thus understands the human tragedy behind most farm closures. Old farmers remain on the land for as long as they can. It is usually when the time comes for the sons to take over that the decision is taken to give up. Young people, unlike their parents, are no longer prepared to put up with the modest lifestyle of the small farmer. They seek a higher standard of living, to which they feel entitled like anybody else, through other activities.

Accordingly, no one can reproach the Government for wanting to guarantee a minimum income to small farmers so that they can be absorbed harmoniously and without serious social upset.

The Government believes that the objective of agricultural policy must be to create family farms which, if properly run, can provide family members with an income which compares fairly with that of other equivalent occupational groups.

The viability of a family farm cannot, then, be defined purely in terms of its size. It will depend on how productive it is. There will still be room for small farms focusing on specialist crops which produce high yields from a small area of land. For a sizeable proportion of our small farms, specialisation will be a way of

providing full employment for the family and, hence, opening the way to a permanent improvement in the way in which they live. The Common Market will remove many of the obstacles which have previously stood in the way of this approach. The Government has a duty to encourage small farms to follow this course. An initial step has been taken with the inclusion in the farm budget of a special article (Art. 703) which provides an incentive for small agricultural holdings to specialise. But this is only a start. The framework Farm Act will have to include many other measures.

Specialisation will not be the answer in every case, however. For many small farms, the availability of opportunities to expand their size will determine whether or not they continue to operate. The state must help them do this. I should emphasise here the decisive importance of the Bill introduced by the Minister for Economic Affairs which seeks to introduce and coordinate measures to improve the structure and equilibrium of the national economy and to stimulate its growth. Amongst other things this Bill provides for the creation of new industries in the economically less favoured regions. The problem of agriculture can be permanently resolved only by the creation of new jobs in the countryside. Farmers on low incomes will then have the choice either of supplementing their earnings from other activities or of giving up farming altogether. Land vacated will conveniently help to increase the size of farms which are too small and which want to continue farming. The state will have to take steps to ensure that small farms really do acquire this land. The Government does not think that this objective can be achieved by the state having a purchase option, as is the case in Sweden. It believes that an adequate solution will be the provision of a system of medium- and long-term loans, underwritten by the state, which will give small farmers the funds that they need to buy this land. The framework Farm Act will have to include provisions to that end.

It will take a very long time for the effects of structural improvement to be felt, and these effects must not be delayed for lack of budget funds. Every effort should also be made to *consolidate the result of these structural reforms*. The Government cannot afford to find itself having to start improving agricultural structures all over again in the medium or long term, and neither can agriculture. For this reason, we have to eliminate the direct and indirect causes which favour the fragmentation of land and agricultural holdings. These causes derive primarily from our *inheritance laws* and our *system of land tenure*. The Government plans to lay relevant proposals before the Chamber of Deputies as soon as possible.

Structural reform, though essential to any lasting improvement in agricultural productivity, is not the only way of making our agriculture more competitive.

I have already touched on the subject of *farmer cooperation*. I would not presume to suggest that all agricultural resources should be shared. It would indeed be hard to reconcile such a concept with the principle of freedom to operate. If farmers could cooperate more, though, especially over the use of farm machinery, that could reduce the burden of financial cost to farmers considerably. I know that there are natural limits to how far farming equipment can be pooled, but it seems to me that we have by no means made full use of the opportunities which wise and considered cooperation could offer. Too much individualism is a bad thing here. The initiative to cooperate must come initially from the farmers themselves. One of the principal tasks facing the farming community is to launch and encourage these initiatives. The state, for its part, is prepared to encourage all forms of agricultural cooperation.

Another area of vital importance is *vocational training* for farmers. The occupational skills of the head of a farm have a decisive effect on how profitable it is. In farm management, too, there are far too many structural deficiencies which better technical and financial know-how could easily eliminate. Vocational training for farmers' wives has been neglected for far too long, too. I hardly need stress their role as mothers — a role which is vital and which determines the moral and social development of the farming population — but farmers' wives have intellectual and character strengths and are increasingly playing an active part in the running of the farm. My feeling is that our farming community does not as yet value special vocational training highly enough.

The improvement and strengthening of agricultural training and farm management training will need to be a major Government priority in future. Reform of agricultural training is currently under review. A Bill

authorising the establishment of a farm management college has been laid before the Council of Government for its opinion. I hope that part of the proposed reform can begin before the end of the year.

The *agricultural advisory service* will also need to be strengthened. More than in the past, this service will have to concentrate on ways of improving business management. The *agricultural accounts service*, set up as part of the Department of Agriculture, will provide significant help here.

2) *Adapting and strengthening the economic infrastructure of agriculture*

It is not enough to produce — we have to be able to sell.

The organisation of Luxembourg's agricultural economy was designed with an eye to the special situation of our country. Since the last war, the sale of our main farm products such as milk, beef and pork, wheat and rye has been subject to very tight marketing rules. The underlying principle is that the domestic market is reserved for domestic production only. The growth in agricultural production and the build-up of surpluses which the domestic market cannot absorb led to the introduction of a system of compensation whereby the losses sustained on exports are spread over all the products marketed.

This market organisation has been beneficial not only to the farmer but to the consumer, too. It has enabled the state to keep consumer prices at a sufficiently low level, whilst ensuring that the farmer receives a fair price for his products.

The current organisation of agricultural markets will not be sustainable in the Common Market.

The form of market organisation envisaged in the Common Market will be far less rigid than the current Luxembourg system.

The guidelines set out in the proposals put forward by the EEC Commission suggest that the Common Market will allow market forces to play a bigger role in determining prices. In other words, there will be greater freedom over pricing, economic risks will not be eliminated altogether, and producers themselves will be required to show greater initiative and responsibility. Trade will be able to operate unhindered, provided there is no threat to market stability.

These changes are bound to affect the position of Luxembourg's agriculture. Its commercial infrastructure is not on a par with that of the rest of the Common Market. When it comes to competition with highly powerful commercial organisations in our partner countries, Luxembourg's agriculture may well be squeezed out of the markets of the other Member States and out of its own domestic market as well. Agriculture therefore urgently needs to acquire the commercial structures that it must have if it is to aspire to compete in the market and compete more effectively.

In the dairy sector, centralisation has enabled the industry to put in place a commercial instrument which will allow the industry to compete against foreign producers. Similar efforts have been made for bread-making cereals with the building of the grain silo owned by the farming community. The building and, even more, the operation of this silo led to bitter controversy between the farmers and the private commercial sector. The Government's position on this has also been widely criticised. Private commerce regards the building of the silo, seen by the farming community as an essential item of agricultural infrastructure, as an infringement of free trade and the principles of fair competition.

So the question of the economic structure of agriculture is very much a live issue. Whilst it is not yet possible to adopt a definitive position on it, the Government nevertheless wishes to make the following points:

Agricultural incomes are continuously being depressed, partly because of rising production costs and partly because of the capping of consumer prices by the state. No one should be surprised that, in these circumstances, agriculture tries to use every available means of improving its share of the money generated by

foodstuff sales. This attitude makes sense and is justified. In the present situation, it seems that the only way of improving agricultural incomes is to provide a role for agriculture in the processing and sale of farm products. Agriculture, let me repeat, has every right to demand a share in these activities. That share should be expanded as far as possible and not limited solely to dairy products, meat and bread-making cereals; it should also cover new sectors such as potatoes, eggs and poultry.

However, the commercial structure set up, or to be set up, by the farming community must not harm the legitimate interests of established commerce and trades which depend on agriculture. The Government agrees with the Council of State that any conflict between occupational groups would be every bit as damaging to our economy and our shared way of life as social conflicts in other areas.

In its search for solutions which will respect the interests of agriculture and of established commerce and craft trades, the Government wants to make the farming community aware of the opportunities offered by cooperation not only amongst farmers but amongst all the sectors concerned. I would remind the Chamber of what the EEC Commission said in its proposals to the Council for a common agricultural policy:

‘Efficient cooperative organisation can make a major contribution to improving production, income, employment and living conditions in agriculture. Through mutual cooperation in the area of supplies, *processing* and *sales* and in the services sector, the competitiveness of agriculture, and particularly of family farms, can be improved. Cooperative development and the operation of well structured cooperatives can help foster the *vertical integration* of agriculture.’

A formula of this kind, whereby agriculture would be allowed to play a part in commercial and craft trade activities, would not be opposed by commerce and the related trades and would give agriculture a share of the profits from these economic activities.

A formula of this kind would have to be acceptable to the farming community, and the initiative for it would have to come from agriculture, too. The state, for its part, can only encourage such initiatives. And it will happily do so. At present, a special committee is revising our laws on agricultural associations. The Government plans to introduce all the provisions needed to help and facilitate the creation and operation of agricultural associations.

I shall not dwell on the question of *product quality*, although this will be increasingly important in the Common Market.

Only quality products will have any chance of finding buyers in the merciless battle which agricultural producers in the various Member States will wage against one another. More than in the past, it will be necessary to anticipate what the consumer wants.

Presentation of a wider range of products, attractively packaged, will be a decisive weapon in the battle that we shall have to fight. *Advertising* of Luxembourg products will have to be intensified. In short, every available modern method must be deployed.

3) *Offsetting income losses which cannot be made good by higher productivity*

The general measures needed to improve agricultural productivity will bear fruit only in the medium and long term. And, as I said earlier, it is unlikely, given the extremely unfavourable natural production conditions in which our agriculture has to operate, that it can ever be as productive as agriculture in our neighbouring countries.

If this hypothesis is borne out, special aid measures will be needed to enable our agriculture to survive.

In the short term, we face another very important question for our agriculture. Should we take part in the integration of Europe’s agricultural markets straightaway, or would it be better to wait until measures to

improve our productivity have borne fruit?

Having considered the pros and cons of both options, the Government thinks that we should not delay making our agriculture part of the common agricultural market. Entry will go a long way towards solving the problem of surpluses. Luxembourg's agriculture will be able to shape its policy in response to the new conditions created by the Common Market. In this way, the risks of investment mistakes can be largely avoided.

That decision immediately raises the question of agricultural incomes, however. The farming community will accept such a decision only if it is given guarantees in respect of agricultural incomes. In other words, agriculture will not and cannot go down that road unless the state is willing to bear the income losses which will be a direct result of Common Market membership.

The Government believes that it must meet this legitimate demand from the farming community. We therefore need to determine exactly what the loss of income to agriculture will be and find ways of compensating farmers for those losses.

It will no longer be possible to guarantee incomes by setting farm prices, as was done in the past. Other ways will have to be found, and I shall describe some of them later on.

The Government's current policy of price support makes provision in the national budget for annual spending of around LUF 350 million in structural subsidies. Admittedly, this is not earmarked for agriculture alone; it also serves to keep consumer prices at a relatively low level.

If we assume that Common Market prices will be roughly the same as in Belgium at present — perhaps a rather optimistic assumption, but reasonable as things stand at the moment — Luxembourg's agriculture will lose about LUF 350 million, equivalent to the total amount set aside each year for structural subsidies in the national budget. So ways and means will have to be found in future of channelling this direct aid into agriculture. I do not propose to discuss here the question of consumer prices, which will consequently lose much of their stability. The Government will need to address this problem in the future.

There are many ways of giving direct aid to agriculture. In the first place the state might pay part of the social costs incurred by agriculture. Following adoption of the Agricultural Health Fund Act, the total social insurance cost payable by agriculture will be about LUF 70 million.

The state might also act to control the price of means of production, either by artificially depressing it, as Germany has done for fertiliser, or by abolishing the taxes on these products (e.g. making agricultural fuels tax-free). Abolition of inheritance tax might also be considered. But, quite apart from the problems of principle that such a decision would entail, it has to be said that this measure would have hardly any discernible effect on agricultural incomes.

The state might also help to fund the processing, storage and marketing infrastructure which agriculture sorely needs in the Common Market.

There are other possibilities, too. I do not think that we need go into all the details. The framework Farm Bill which the Government will be laying before the Chamber of Deputies will provide more information on this subject, with particular regard to the effect that these measures will have on agricultural incomes.

It goes without saying that these aids will be gradually scaled down as progress is made in improving agricultural productivity. As has been said repeatedly, however, the Government does not believe that the need for these aids will ever cease altogether.

IV — Responsibility of the farming community itself

I would not wish to end this report without saying a few words about the relationship which should exist

between the state and the organised farming community and about the responsibility which agriculture itself must shoulder with a view to accomplishing the proposed reforms. Regarding the relationship between the state and the farming community, let me read you an excerpt from a speech which Dr F. T. Wahlen, President of Switzerland's Federal Council, gave in November 1960 to the Swiss Farmers' Association.

'Given the current situation of agriculture, I regard the relationship between farmers and the state as *the* core issue. As we know, there is no country, certainly none in the industrialised world, where the state does not find itself obliged to act to control policy on agricultural production and sales, because they need protecting. The kind of action that it takes and the instruments that it uses will largely determine whether agriculture becomes fully state-controlled or whether it is able to operate independently within a sheltered zone guaranteed by the state. *Preservation of a free and responsible agricultural sector is a prime concern of national policy and it is a matter for us all.* The harder the state tries to avoid the red tape and *dirigiste* methods which impose legal constraints on individual businesses and restrict their room for manoeuvre, the more it must be able to count on understanding and cooperation, not only from professional organisations but from all commercial operators. It needs to be confident that they will show carefully considered solidarity and self-help.'

I can think of no clearer, no more concise way of describing the principles by which our own Government is guided in its relations with the farming community.

As the Government formally assured the Chamber here during the debate on reforming the structure of agricultural activity, it has no intention of telling agriculture what institutions and organisations it must adopt.

The Government wants at all costs to preserve an agriculture which is free, independent and responsible. It is not the place of the state to interfere in activities which are a matter for private initiative and responsibility. But the state can never abrogate its own responsibility to safeguard the general interest. It is in the state's interest that perfect harmony should reign in relations between occupational groups, and it cannot allow the dominant market position of some groups to be exploited to the detriment of weaker ones. This is true for all parties concerned. In strengthening its commercial organisation, agriculture must take account of the legitimate interests of private-sector commerce. Likewise, agriculture is entitled, and must be encouraged, to equip itself with the organisations that it needs in areas where they do not yet exist and where the agricultural producer is losing out against the overly selfish interests of other occupations.

The Government needs an agriculture which is free and responsible, resolved to tackle the serious issues which will arise in the future. If it is to carry out successfully all the reforms that I have just outlined, the state must be able to count on loyal and energetic support from the farming community.

Government and farming community each have a strictly limited field of operation.

The state has a duty, after consulting the farming community, to create the necessary conditions in which the measures to be taken can be applied. However, whatever action the Government takes will be pointless if agriculture is not keen to seize the opportunity that it is being given to improve its circumstances. There is no point in drafting a law on land consolidation if farmers do not make use of it. There is no point in having better agricultural training and advisory services if farmers fail to avail themselves of every opportunity to improve their occupational skills.

The measures proposed will bear fruit only if the farming community itself uses all its influence to persuade individual producers to make maximum use of the opportunities offered to them. The farming community has a duty to create the right climate for the reforms to succeed.

The problem of agriculture is a national one and may be resolved only in a spirit of national solidarity. So it would make no sense at all if agriculture, which stands to gain from this solidarity, refused to cooperate.

That is why I would urge the organised farming community, the agricultural associations and all individual farmers to lead the way, to make the best possible use of the opportunities that they are being offered and not

to withhold their cooperation when the necessary measures are being drafted and implemented. Only in this way can agriculture remain as it was in the past — an expression of free enterprise and, as such, one of the best guarantees of our democratic freedoms.

V — Responsibility of the Chamber of Deputies as representatives of the national community

Gentlemen,

This brings me to the end. I have outlined the responsibility of the individual farmer, the organised farming community and the Government; let me now draw your attention to the fact that this House, which I have the honour of addressing today, clearly has its own part to play in the successful completion of the reforms that I have just outlined.

The gradual implementation of the Common Market creates new problems for Luxembourg's economy and, more especially, for her agriculture. New problems require new solutions. Following the example of the Minister for Economic Affairs, the Minister for Agriculture plans to lay a framework Farm Bill before the Chamber of Deputies. At the same time, the Chamber is and will be considering a number of other bills on land consolidation, reform of the inheritance laws, strengthening of the Department of Agriculture's technical services, the wine industry solidarity fund, and reform of the wine quality testing station. I would particularly stress the importance of strengthening the technical services and the need for a research department within the Department of Agriculture.

You have to have the tools to get the job done. At present, the biggest obstacle to preparation and implementation of the reforms is the lack of enough skilled personnel. When these bills are laid before it, the Chamber will have to demonstrate the truth of its determination to resolve the problem of agriculture. It will have to prove it not only by voting the bills through quickly but also, and above all, by making available the budget appropriations required for their implementation.

Drawing up a programme is merely the first, and easiest, part of the job that we have to do. It can be completed successfully only if all the parties concerned are prepared to shoulder their responsibilities. We shall all have to do our best — the Government, by proposing the necessary measures, the Chamber of Deputies, by creating the statutory framework and approving the necessary funds, and the farming community, by cooperating loyally and energetically to see these reforms through.