

EUROPEAN FILE

The Community's
agricultural policy
on the threshold
of the 1990s

In Europe, as elsewhere, agriculture is an important industry, both in its own right, and for its contribution to other sectors of the economy¹.

- Its main purpose is to satisfy a basic and permanent consumer need. An effective agricultural policy must guarantee regular and adequate supplies at stable and reasonable prices to the food-processing industry and to the consumer. The interest of the European consumer can be gauged by the fact that they still spend on average 21 % of their household budget on food.
- It plays a fundamental role in safeguarding the socio-economic vitality of rural areas, as well as, in protecting the natural surroundings which it exploits and maintains.
- It provides the main source of income for 10 million workers (8 % of the Community's working population) whose alternative job prospects are severely restricted by the current economic situation.

Green Europe – why?

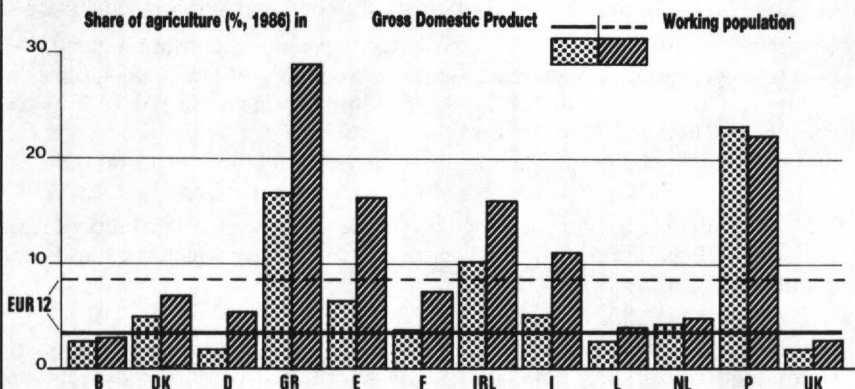
Throughout the world public authorities find a need to intervene in agriculture in order to guarantee food supplies, regulate markets, guide production and improve farm facilities, balancing the social and economic needs of farmers with the interests of consumers. The European Community and the United States of America are no exception. They spend large sums on this politically 'sensitive' sector, which is both economically fragile and difficult to manage.

The treaty which created the European Economic Community gave special attention to agriculture. However, when it was drawn up in 1957, the agricultural situation in the founding States differed very widely from one country to another. The natural and economic circumstances, — and hence the structures and the relative importance of agriculture, vary considerably from the north of Europe to the south. In addition, some countries had developed free trade systems, others were fiercely protectionist. This diversity — destined to increase with the enlargement of the Community — did not deter the authors of the Treaty of Rome from creating a common agricultural policy.

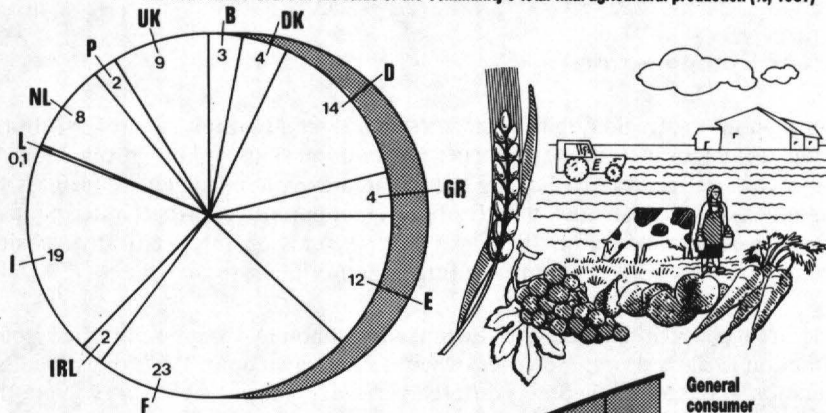
- It would have been, and remains, unthinkable to have a common market for industrial goods which excludes agriculture. The opening up of frontiers implies a balance of trade flows and economic benefits between Member States, some of which are more agricultural and others more industrial.

¹ This file replaces our No 2/86. Further information, see *A common agricultural policy for the 1990s*, one of the 'Deadline 92' collection in the series 'European Documentation', published by the European Commission.

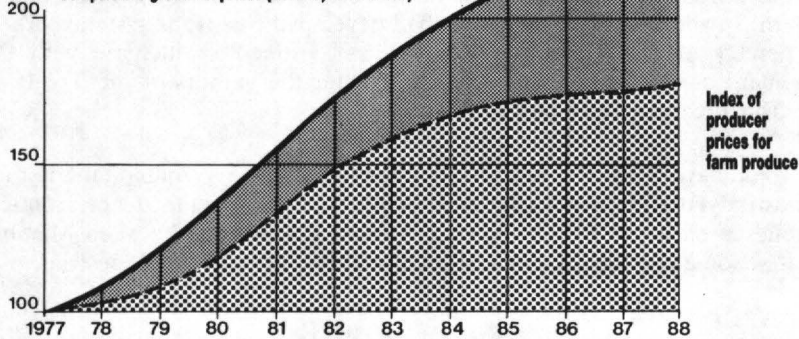
Agriculture in the economies of European Community countries



Member States' share in the value of the Community's total final agricultural production (% 1987)¹



Comparative growth of prices (EUR 12, 1977 = 100)



Source: Eurostat ¹ Estimate.

- The preservation of conflicting national agricultural policies would have made free trade in agricultural goods impossible. It would also have impeded the creation of a common market in industrial goods and services, including in particular the food-processing industry.

- A large, continental-scale market enables farmers to benefit from a more rapid spread of know-how and new techniques, to launch new products on a bigger market, to specialize and develop a certain complementarity between Member States according to their natural advantages, such as soils and climate, or economic circumstances.

- A large geographic unit with a rich variety of produce provides a sound base for the development of food industries and offers the consumer stronger guarantees of stable prices and secure food supplies. It is less subject to the vagaries of the world market, on which apparently low prices are somewhat misleading — the quantities available are uncertain and the prices fluctuate widely.

To establish a common market in industrial goods, it appeared to be sufficient to abolish barriers to trade, to introduce competition rules and to impose a common customs tariff at the Community's external frontier. For a common market in agricultural produce, the problem was more complex because of different national policies in operation before countries joined the Community and because of a range of constraints, both natural (the difficulty of shortening production cycles or finding alternative crops) and socio-economic (the rigidity of structures, the need to keep farmers on the land to prevent depopulation in some areas, etc.). These problems encouraged the implementation of a common policy involving a far greater degree of integration than has been achieved by the Community in any other area.

This pioneering aspect has made the agricultural policy one of the main binding forces of the Community. It helps to explain why agricultural spending absorbs nearly two thirds of the total Community budget, although it only represents approximately 0.7 % of the gross domestic product of the Member States and 3 % of what European consumers spend on food.

The common agricultural policy lays down principles, guidelines and mechanisms with regard to agricultural markets and structures, and veterinary and health legislation (currently the subject of harmonization measures intended to abolish the remaining barriers which stand in the way of the large single market of 1992). Member States jointly continue to play an important role in the implementation of this policy and in monitoring its operation. National aids are allowed, so long as

they have no direct impact on prices and markets. The European Commission ensures that they do not distort competition or infringe the principles of a common market.

Objectives and principal mechanisms of 'Green' Europe

Article 39 of the Treaty of Rome lays down the five fundamental and inalienable aims of the common agricultural policy: to increase productivity by promoting technical progress and the rational development of agricultural production, with an optimum use of resources, including labour; to ensure a fair standard of living for the agricultural community; to stabilize markets; to guarantee food supplies; to provide food for consumers at reasonable prices.

The different markets for agricultural products have been gradually organized to meet these objectives, while taking account of the Community's international obligations and its determination to cooperate in the development of the Third World, develop its less-favoured regions and better protect the environment and safeguard the consumer. The basic principles upon which the market organization mechanisms of the common agricultural policy are founded are the unity of the European market, Community preference and financial solidarity.

- Unity of the market means complete freedom of trade and therefore abolition of customs duties and non-tariff barriers and harmonization of administrative procedures and of the health and veterinary rules which protect consumer and producer alike. It involves, throughout the Community, the application of common rules for market management, common prices, identical competition rules and a single system of protection around the Community's external frontiers. Market management rules vary from product to product, but there are four principal types of market organization, which between them cover 94 % of all Community farm produce.
 - About 70 % of products (including soft wheat, barley, rye, maize, rice, sugar, dairy products, beef, sheepmeat, pork, some fruits and vegetables and table wine) benefit from a support price system which provides, when necessary under certain conditions, a guarantee of price and disposal. When market prices fall below a certain level and other conditions are fulfilled, the intervention authorities buy up the produce offered to them and store it or dispose of it (by means of export assistance, distribution for social purposes, aids for consumption, denaturing, etc.) according to Community rules. The market can also be supported by more flexible means, such as storage aids, subsidies for the distillation of wine and the buying-in of surpluses by producer organizations.
 - 21 % of produce (other fruits and vegetables, as well as eggs and poultry) is protected only by measures to prevent low-price imports from outside the Community.

- Direct subsidies apply to only 2.5 % of production (hard wheat, olive oil, certain other oils and tobacco). This system is used for products predominantly imported by the Community. It helps to keep prices down for the consumer but guarantees a minimum income for the producer.
- Flat-rate aid according to hectares planted or quantity produced covers only 0.5 % of production (cotton seed, flax, hemp, hops, silkworms, seeds and dehydrated fodder).

Developments in the exchange markets since 1969 have brought about the introduction of 'monetary compensatory amounts', to provide compensation in the various Member States when common prices are affected by fluctuations in national currencies. This system safeguarded the common prices and cushioned farmers from the effects of monetary changes. However, the prolonged application of the system can cause certain distortions in competition and create barriers to trade which must be eliminated for the completion of the large market of 1992.

- Community preference is the logical extension of unity of the market. European farmers are protected against low-price imports and world market fluctuations by customs duties or levies imposed at the Community's external frontiers. These duties are calculated according to the difference between the selling price on the world market and the price fixed internally by the Community. The levy is intended to bring the world price up to the Community price, where the latter is higher than the former. Free access to the Community market is assured but competition within the Community is protected. If, on the other hand, world prices are higher than Community prices, Community producers face an export levy to dissuade them from selling on the world market to the detriment of European consumers.
- Joint financial responsibility is also a natural extension of the two preceding principles. In practice it means that all common agricultural policy spending and receipts pass through the Community budget. Within this budget, the European Agricultural Guidance and Guarantee Fund (EAGGF) has two sections:
 - The 'Guarantee' section (ECU 27.5 billion in 1988)¹ finances all public expenditure arising from the common organization of the market. This in turn breaks down into two sections. Expenditure on regulating the internal market covers purchases by intervention boards, storage costs, income aids and marketing subsidies, etc. Expenditure on external sales covers the export rebates which bridge the gap between Community and world prices.

¹ 1 ECU (European Currency Unit) = about £ 0.71, Ir £ 0.77 or US \$ 1.11 (at exchange rates current on 16 November 1989).

- The 'Guidance' section helps to finance Community policy on agricultural structures, mainly through funding projects for improving farms, rural facilities, processing and marketing, as well as incentives to switch to alternative crops and compensation granted to certain regions or types of farms. The section finances a range of general measures and also programmes in support of certain less-favoured regions or regions slow to develop (for example, the integrated programmes for Mediterranean zones). Between 1985 and 1989, the Guidance section had a five-year budget of ECU 6,35 billion. Depending on the region, Community aids cover 25 % to 75 % of public expenditure decided by Community regulation. In accordance with provisions for the reform of the European structural funds, the EAGGF Guidance budget is to be gradually increased until 1993.

Since 1986, Community agricultural policy has been gradually incorporating the agricultural sectors of the Community's two latest members, Spain and Portugal: customs duties have been eliminated in stages and the new members are coming gradually up to Community price levels, in the meantime 'accession compensatory amounts' are being used at the frontiers to bridge the temporary price gaps. For the most part, the transition period will end by 1992. However, to ensure that integration is as harmonious as possible and to avoid disrupting 'sensitive' markets, the transition period for Spain has been extended until the end of October 1995 for olive oil, fruit and vegetables, soft wheat, dairy products and beef. A transition period of 10 years is also envisaged for almost all Portuguese production, where in the mean time farm structures are to be reformed with the help of ECU 700 million in Community aid. In almost all cases, there will be annually adjusted import guidelines as an additional safeguard throughout the transition period.

Achievements and the reorientation of the common policy

In pursuing the different objectives of the common agricultural policy, the following results can be recorded:

- The Community is safe from all risk of shortage and has achieved complete security of supply. Production increases have been substantial in almost all sectors, to the extent of creating, during the 1980s, structural excesses. The reason for this expansion has been increased productivity, due mainly to technical advances and the rationalization of farm holdings. The other side of the coin is a 60 % reduction in agricultural employment since 1960. This exodus has slowed down since it became difficult to find alternative employment, but it has not ceased.
- Reasonable consumer prices and stable markets have been achieved for most products. The average prices paid to producers have increased less rapidly than prices as a whole — and more slowly than food prices, which also cover the cost of marketing and processing. European agriculture can therefore

claim to have made considerable contribution to the struggle against inflation. As far as market stability is concerned, it is significant that the Community has remained untouched by the periodic surges in world prices for sugar and cereals.

- Security of supply, from the point of view of price as well as quantity, has been favoured by Community trade relations with the rest of the world. The Community is not a sealed economic unit. It is, quite the contrary, the world's major importer of farm produce. It is a particularly large buyer of tropical produce and animal feedingsuffs such as maize and soya, etc.
- Between 1968 to 1978, farm incomes grew at roughly the same rate as other wages, about 3 % a year. Then production prices stabilized or decreased under the pressure of surpluses, so that in 1988 the real average income of farmers was less than it was in the middle of the 1970s. In addition, there are substantial income gaps within the agriculture sector between different regions, types of production and sizes of holdings.

The price of technical progress and of the very success of the common agricultural policy has been the formation of huge surpluses, which have forced the Community to change the orientation of the policy in recent years. Between 1968-69 and 1986-87, the Community's selfsufficiency has grown from 86 % to 111 % for cereals, from 82 % to 127 % for sugar, from 95 % to 108 % for beef, from 92 % to 105 % for butter (after a rate of 130 % in 1985-86). For many products, the growth of output has reached its limits — what is to be done with the surplus? On the whole, European demand for food and for farm produce for other purposes has been satisfied. External demand must not be overestimated either: some Third World countries have increased their production; others are insolvent, or can be supplied only with the aid of huge subsidies. The subsidies depress world prices and exacerbate the rivalry between the Community and other big producers such as the United States, as well as discouraging local production. Food aid, where it is implemented on a large scale and becomes permanent, has the same negative effect.

It had to be recognized that agriculture in the Community was producing with less and less regard for demand, creating structural surpluses and enormous public stocks. By the end of 1986 these stocks had reached alarming levels: 1,3 million tonnes of butter, 600 000 tonnes of beef, 15 million tonnes of cereals. Public intervention had gone beyond its traditional role of a safety valve designed to absorb seasonal and climatic fluctuations. The Community's guarantee expenditure, which had increased sixfold between 1970 and 1988, was becoming intolerably high, and still not preventing a drop in farm incomes.

The answer was obvious: it was necessary to stop guaranteeing high prices or subsidies for unlimited quantities of produce. European agriculture needed to be reoriented and learn to produce for the market. The task of the common agriculture policy was to promote this reorientation, while respecting the principles of the common agricultural market and taking account of social, regional

and ecological imperatives. The fact is that if price policy alone can no longer guarantee adequate income for farmers and sufficient agricultural earnings for certain regions, other means must be used to reduce disparities and improve regions which are in difficulty.

A series of measures have been taken in recent years, particularly following the European Commission's green paper 'Perspectives on the common agricultural policy' (1985).

- A restrictive price policy has been introduced, which has meant a gradual reduction of support prices in the sectors in surplus. Between 1983 and 1988 the average annual reduction in national currency and real value has been 2.6 %.
- The implementation of stabilizing mechanisms and in particular of a system of maximum guaranteed quantities (global product-by-product production thresholds beyond which price or subsidy reductions automatically apply). These operate for cereals, oilseeds, olive oil, tobacco, cotton, certain fruits and vegetables, wine, beef, sheepmeat and goatmeat. A similar mechanism has existed for some time in the case of sugar.
- Other particular measures for certain products: obligatory distillation for wine; milk production quotas, above which production is discouraged by means of a tax on the excess output; a levy or tax on production, variable according to volume, which ensures the co-responsibility of producers of milk, cereals and olive oil for financing costs of storage or disposal.
- Flexibility of market organization, so that public intervention ceases to be an outlet for produce and resumes its original stabilizing role: there are limits on periods of intervention in the markets for cereals and oilseeds and on public purchasing of milk powder; if prices collapse, surplus butter and beef are bought up by tender rather than at the intervention price.
- The development of a policy based on quality, which will often mean lower yields: for wine and cereals there is to be greater modulation of support prices and guarantees according to quality. An essential accompaniment to this would be the creation of a legal framework and labelling to protect quality products, particularly those produced without the aid of chemicals.
- Financial incentives for leaving certain land fallow and for afforestation and conversion to less intensive farming or alternative products. The Community has launched the research and development programme Eclair, which is intended to stimulate the development of new agro-industrial techniques based on biotechnology, particularly for increasing the number of non-food outlets for agricultural products.
- As part of the reform of the Community budget, the implementation of budgetary discipline based on multiannual guidelines which limit the increase

in farm guarantee spending to 74 % of the growth in gross national product. Permanent monitoring of expenditure makes it possible to forestall risks of slippage by strengthening the operation of stabilizing mechanisms during the guideline period. A budgetary reserve has also been created, to cope with exchange rate fluctuations on the world market, and the dismantling of public surplus stocks has been speeded up. These have largely been reabsorbed; their size had been a heavy burden on production costs and entailed high administrative expenditure.

- Consideration for the problems of small producers, for whom it is more difficult to adapt to changing market conditions: levy exemptions or abatements for cereals, milk and olive oil; financing of national programmes for direct income aids and early retirement. At the same time the 'Guidance' section of the EAGGF helps young farmers to set themselves up and facilitates measures for training, retraining, improvement and rationalization of farming conditions — while taking care not to encourage the creation of new surpluses.
- A gradual reorientation of the Community's structural policy. As part of the reform of the Community Funds, which are to be doubled between 1987 and 1993, EAGGF Guidance now has the aims of supporting the adaption of agricultural structures and (in conjunction with the European Regional Development Fund and the European Social Fund) the improvement of rural areas and of less-developed regions. The Community's structural policy will concentrate more on the least-favoured areas; it will give more support to multiannual development programmes as opposed to individual projects. The programmes will be drawn up in cooperation with Member States and local participants and will coordinate intervention from the agricultural, regional and social policies. In this context the Commission intends to approach the improvement of agricultural structures in the framework of a general strategy for rural development. The main lines of the strategy were laid out in a 1988 report on 'The future of the rural world'. In areas close to big conurbations priority will be given to protection of the rural environment; in the more isolated regions with difficulties it will be a matter of creating autonomous growth to counter the risks of depopulation and economic stagnation, by revitalizing all local potential, both agricultural and non-agricultural. A range of measures have already been taken, or are envisaged, to encourage not only changes in agriculture but also forestry, small businesses, services, tourism, telecommunications, etc. There have also been decisions to implement systems or early retirement and direct income aids. These systems — established on a temporary basis — should enable certain categories of farmers to adapt to changes in the common agricultural policy or to get out of farming under acceptable conditions.
- Greater recognition of the essential role of agriculture in protection of the environment. The Community has approved aids for hill farming, which will ensure that a unique natural heritage is preserved. Other measures proposed or already adopted are intended to limit the ecological impact of certain

practices: grants for the installation of non-polluting forms of production; prohibition of hormones in livestock rearing and of certain pesticides; limits on pollution of water by nitrates, phosphates and plant sprays; protection standards for livestock animals, etc. Of course one should go further and encourage farmers to supplement their income by doing more to preserve a range of 'sensitive' natural areas.



Reorientation of the common agricultural policy must help farming to preserve all its hopes of a future, by adapting to the new market conditions. The stakes are high: the Community's agriculture still has an essential role in feeding 325 million Community citizens, in safeguarding our environment and in maintaining the economic, social, and human fabric of many regions which have problems of underdevelopment to overcome ■

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Commission of the European Communities

Directorate-General for Information, Communication and Culture
Rue de la Loi 200 — B-1049 Brussels

Office in Ireland 39 Molesworth Street, Dublin 2 — Tel. 71 22 44

Office in England 8 Storey's Gate, London SW1P 3AT — Tel. 222 81 22
Office in Wales 4 Cathedral Road, Cardiff CF1 9SG — Tel. 37 16 31
Office in Scotland 7 Alva Street, Edinburgh EH2 4PH — Tel. 225 20 58
Office in Northern Ireland Windsor House, 9/15 Bedford Street,
Belfast BT2 7EG — Tel. 24 07 08

Information services in the USA 2100 M Street, NW, Suite 707,
Washington DC 20037 - USA — Tel. (202) 862-9500
305 East 47th Street, 1 Dag Hammarskjöld Plaza,
New York, NY 10017 - USA — Tel. (212) 371-3804

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