FUTURE DEVELOPMENT OF THE COMMON AGRICUTURAL POLICY

Commission Communication of 29 November 1978 for the European Council in Brussels, 4-5 December 1978

Reproduced from the Bulletin of the European Communities, No. 11/1978

Drawn up for the Brussels meeting, it did not receive much attention. It was discussed at the European Council meeting of 12-13 March 1979 in Paris

5. Future development of the common agricultural policy

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3.5.1. The complete text of the Commission Communication of 29 November to the European Council of 4 and 5 December in Brussels is as follows:

'1. At the meeting of the European Council in Bremen on 6 and 7 July 1978, the Commission was asked to give "its reflections on the future development of the common agricultural policy, with a view to reducing surpluses which should lead to a better balance of expenditure within the Community budget."

2. *The common agricultural policy is and always has been a cornerstone in the construction of the Community.* Its objectives, as defined in Article 39 of the Treaty of Rome, have lost none of their validity. The common agricultural policy has created the conditions of a common market for agricultural commodities; it is based on three fundamental principles: unity of the market (through common prices); Community preference (mainly through variable levies); and financial solidarity (through the European Agricultural Guidance and Guarantee Fund). It ensures security of food supplies to some 260 million consumers while stabilizing agricultural markets and protecting the incomes of more than 8 million farmers. It is also a major factor in would trade. Its political, economic and social consequences range far beyond agriculture. In addition the way in which its budget is borne by the Community rather than by member governments has been an engine of European integration.

3. *In recent years the application of the common agricultural policy has met with serious difficulties.* It faces three fundamental problems. First, the imbalance between supply and demand in several major agricultural markets is worsening. Secondly, incomes disparities within the agricultural sector remain substantial. Thirdly, monetary upheavals have disrupted the common agricultural market. By itself the common agricultural policy cannot solve the agri-monetary problem. It can only partially help to eliminate income disparities. But it must accept the overall responsibility for restoring market equilibrium.

4. *The imbalance between supply and demand in several major agricultural markets is worsening.* Structural surpluses exist for milk and sugar. In 1978 milk production is expected to increase by 3.5 million tonnes and expenditure in this respect will amount to 3 200 million European units of account. As for sugar, for the second year running the Community will be left with a surplus

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equal to more than a quarter of its domestic production. This should be taken into account in the proposals for the sugar beet quota in 1979, and in the review of the quota as such in 1980. There are actual or potential difficulties for wine, olive oil and some tobacco varieties; some difficulties could be aggravated by the possible enlargement of the Community. The market balance for cereals could be threatened by record harvests in the Community and by increasing imports of competing products.

These increasing imbalances are due to a certain number of factors. A rapidly growing productivity leads to an explosion of production; this evolution is encouraged by the level and the unlimited nature of price support. Internal consumption is stagnating, while export opportunities are limited. The problem is aggravated by such extraneous factors as certain import obligations (for example, 1.4 million tonnes of ACP sugar, and 120 000 tonnes of New Zealand butter), low levels of protection against imported animal feed (for example tapioca and soya), the use of such substitutes as margarine for butter and other vegetable oils for olive oil, and the fiscal policies of some Member States (for example excise duties on wine).

5. *Incomes disparities within the agricultural sector remain substantial.* The second major difficulty arises from the continuing regional disparities between agricultural incomes and between the yield on different sorts of production (incomes from arable farming are twice those in livestock farming). At present three-quarters of the farms in the Community produce only a quarter of its output. Incomes disparities are due to numerous factors, some of which are of long standing. The problem goes much wider than the common agricultural policy. But the implementation of the Mediterranean package and the measures for Western Ireland will be a step in the right direction. No policy of structural reform could succeed in isolation. It must form part of a determined programme of regional and social development.

6. The third major difficulty arises from *the monetary upheavals which have disrupted the common agricultural market.* The system of monetary compensatory amounts and green rates, which has been introduced to cope with their effects on agriculture, has, by eliminating the normal consequences of exchange rate changes and generating artificial distortions in competition, led to a virtual isolation of the agricultural sector within the Community economy as a whole. The continuation of the system jeopardizes the common agricultural policy itself.

7. For balance of payments reasons the Community must preserve its traditional exports to world markets and conduct an effective export policy, using, among other things, the export restitution system. However, such a policy must not hamper the necessary discipline on world markets; it must take account of the limited nature of new world outlets and of the impossibility of solving surplus problems by increasing exports.

8. *The expenditure* in the Community budget on agriculture is now around 8 700 million European units of account (70% of the budget, in the absence of Community financial responsibility for other major areas). An important part of the total expenditure on agriculture is used for surplus production and for monetary compensatory amounts. The growing discrepancy between Community and world market prices makes export refunds more expensive. A better balance of expenditure would depend on measures taken to solve these problems.

9. The Commission asks the European Council to endorse the following guidelines for future policy. These guidelines should be seen in the framework of the 1979/80 price package which the Commission will shortly put forward.

a. Prices: *The Commission believes that a rigorous price policy is essential so long as major market imbalances exist.* It will propose a general price freeze for the 1979/80 marketing year. It considers that the general income situation of the farming community does not preclude such a price policy.

b. Milk: The biggest single problem is in the milk sector. From the beginning of the 1979/80 marketing year, *the Commission proposes that any increase in milk production would automatically induce either a reduction in intervention prices or an increase in the coresponsibility levy in the milk sector.* The coresponsibility levy would make additional funds available for financing key elements of our milk policy. Unbearable income effects would be alleviated by a selective scheme of income subsidies for small farmers without alternatives.

c. Structural policy: *Existing structural directives should be strengthened and adapted to take better account of regional needs, specific market difficulties, and the changing economic environment.* The structural policy must go hand in hand with the prices policy. The set of measures which has already been approved for the Mediterranean areas and Western Ireland would be complemented by other specific regional actions. If and where necessary, selective income subsidies for small farmers could also be used in sectors other than milk.

10. The Commission welcomes the introduction of a European Monetary System (EMS) and has already presented proposals to the Council to adapt the mechanisms of the common agricultural policy to it. The introduction of the new system does not mean that the present price differences in Member States will disappear. But the Commission urges the European Council to agree that the *Community should dismantle systematically all existing monetary compensatory amounts* once the European Monetary System has been fully established and become effective, taking account, where necessary, of compensations to producers or consumers.

11. The Commission believes that alongside the restoration of market equilibrium and dismantling of monetary compensatory amounts there would be a *reduction in the expenditure on agriculture*. This involves some provision of funds for transitional expenditure to alleviate the social consequences.

12. The Commission believes that the Community has an immense interest in the long-term stability of international trade in agricultural commodities. It should work towards this end through *new consultative arrangements in the current multilateral trade negotiations,* while insisting on full reciprocity and equality of obligations with our partners.