Europe's Common Agricultural Policy

European File

In all countries, however industrialized, agriculture is a key sector.

- Agriculture responds to the basic but permanent consumer need for food. All farm policies aim to guarantee a sufficient and regular supply. Demand and supply rarely coincide however — farming is particularly sensitive to atmospheric and biological factors — and shortages can easily occur. Retail prices are also affected by supply problems as in turn is the consumer who, in Community countries, spends an average of 26% of his budget on food. The percentage of income spent on food is decreasing, however, as the standard of living rises. Food prices no longer appear to be the decisive determinant of consumption levels. Prices also depend greatly on commercial and industrial costs — it is now exceptional for a product to pass directly from the farmer to the consumer.

- For the 8 million full-time workers in European agriculture, the land is the principal source of income. Through technical progress and productivity increases, earnings have risen but have not always kept pace with other sectors of the economy.

Public authorities have been obliged to intervene to support agricultural markets and improve the organization of production whilst taking account of the social and economic problems as the same time. This type of intervention — more or less transparent — is now common place throughout the world. All governments give great attention to this sensitive sector which is both difficult to manage and often politically very important. Agriculture's contribution to national wealth and to

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exports is continuously declining, however, though its importance for rural management is growing.

Green Europe — Why?

The founding Treaty of the European Economic Community gives much attention to agriculture. When it was drawn up, however, the agricultural picture in the six founding countries was very different:

- ☐ the percentage of the workforce employed in this sector, the contribution of agriculture to GNP, its productivity, the proportion of foodstuffs in external trade, all differed greatly from country to country;

- ☐ the agricultural policies of the Six were themselves very different, and even contradictory. They had been developed to suit natural and economic situations as different as the extremes of southern Italy and northern Germany. Some countries opted for more liberal mechanisms, others introduced more protectionist systems.

This diversity did not dissuade the authors of the Treaty of Rome from introducing a Common Agricultural Policy:

- ☐ it was unthinkable to set up a common market and leave out such an important economic sector and thereby exclude some 15 million people at the same time. The agricultural countries could not be denied the advantages which industrial countries would reap from opening up frontiers and removing barriers to trade;

- ☐ maintaining divergent agricultural policies would have created serious barriers to the realization of various aspects of the Treaty: the creation of a common market for industrial goods and services (including the food industry), free competition, social progress etc., and the ultimate objective of the Six was not only to liberalize trade but also to fully integrate their economies.

Inevitably, the Common Agricultural Policy was seen as vital because of its potential advantages:

- ☐ it offered farmers a vast market in which to sell existing products and to launch new ones;

- ☐ by increasing competition it would encourage specialization and bring about greater complementarity between member countries: northern Europe would supply most animal products, southern countries would supply most fruit, vegetables, wines etc.;

- ☐ it would offer consumers the benefit of a greater supply of food products and large scale production would make prices more attractive. Above all, it would guarantee stability which could make a whole geographical area less dependent on supplies from a very unstable world market.

To realize the common industrial market it appeared sufficient just to lower customs barriers, remove non-tariff barriers to trade, to introduce competition rules and to set up a single customs barrier at the Community's external frontiers. For agriculture the problem was more complex given the particular constraints, some natural (difficulty of raising productivity, of shortening production cycles, of changing products etc.) and others more socio-economic (rigidity of agricultural structures, the need to preserve farms in certain zones to prevent depopulation etc.) not to mention the almost impossible task of harmonizing the divergent national policies.

It was necessary to return to the basic problem and draw up a new agricultural policy, a European policy. This policy had to be adapted in 1973 to the requirements of a Community of nine countries in which the voice of the consumer was becoming more prominent.

Principles and mechanisms

Article 39 of the Treaty of Rome defines the five fundamental objectives assigned to the Common Agricultural Policy:

- to increase productivity by promoting technical progress and by assuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labour;

- to ensure a fair standard of living for the agricultural community;

- to stabilize markets;

- to assure the availability of supplies;

- to ensure that supplies reach consumers at reasonable prices.

To best meet these objectives, various markets for farm produce have been progressively organized, based on three fundamental principles: the single market, Community preference and joint financial responsibility.

- *The single market* implies total trade liberalization and therefore the removal of customs duties and non-tariff obstacles and the harmonization of administrative, health and veterinary regulations. It also implies common management rules, common prices, identical competition rules and uniform protective arrangements at Community frontiers.

  Applied uniformly throughout the Community, these management rules differ according to the characteristics of the different products. Four main types of market organization exist:

  - the first is that concerned with intervention measures. For the principal cereals, sugar, milk products and beef and veal, an intervention price is used. When market prices fall below this level the Community intervenes to acquire a certain quantity which is then stored and when the market corrects itself is resold. For other products — pigmeat, certain fruits and vegetables, table wines — market support comes via other more flexible measures such as storage assistance, withdrawals of produce from the market, aid for distillation;

- secondly, 25% of production — other fruit and vegetables, flowers, wines other than table wines, eggs and poultry — is subject to an external protection system. Action, here is limited to protecting Community production from world market fluctuations using instruments such as customs duties or levies of a temporary nature. Both can only be applied during certain periods of the year.

- thirdly, additional product aid covers only 2.5% of production: durum wheat, olive oil, certain oleaginous products and tobacco. Reserved for products in which the Community is a net importer, it helps maintain relatively low prices for consumers whilst guaranteeing a certain income for producers.

- fourthly, flat-rate aid per hectare or aid determined by the quantity produced, only covers a limited segment of production: cotton-seed, flax and hemp, hops, silk-worms, seed and dehydrated fodder.

The uniform operation of these mechanisms requires, of course, that the guaranteed prices used are common throughout Member States. These prices are fixed each year by the Council of Ministers.

☐ *Community preference* is the indispensable corollary for the single market. Protection for the European market against low-priced imports and fluctuations on the world market is assured by customs duties or by levies which act as a 'sluice gate' at Community frontiers. If prices of imported products are lower than those in the Nine, a levy is imposed equal to the difference between the two prices; free access to the Community market is maintained without distorting competition in the Common Market. If on the contrary, world levels are higher than in the Nine, a levy is imposed to dissuade sales to the world market, in so far as it is necessary to guarantee supplies to European consumers.

☐ *Joint financial responsibility* arises logically from the two preceding principles. It formalizes the solidarity between the regions of the Community and enables the system to operate practically. Management of the system is the responsibility of the European Commission and for practical reasons expenditure and revenue are also the Community's responsibility. This common financial responsibility is embodied in the European Agricultural Guidance and Guarantee Fund (EAGGF) which is an integral part of the Community budget. As a sign of the importance of agriculture in the process of European unification, this financial instrument provided for in the founding Treaty and set up in 1962, represents two-thirds of the Community budget. It has two sections: guarantee and guidance.

- The 'guarantee' section finances all public expenditure arising out of the implementation of the common organization of the market:

- a variety of interventions aimed at regularizing the internal market (4 200 million EUA in 1978 [1]): purchases by intervention bodies, storage costs of these bodies, direct income assistance, subsidies to facilitate the marketing of products competing with low-priced imports etc.;

- export refunds (3 000 million EUA in 1978), financial aid which compensates for the difference between Community and world market prices.

- The 'guidance' section contributes to the financing of the common policy to improve agricultural marketing and production structures by:

  - supporting individual farm improvement projects;

  - partially reimbursing general modernization work;

  - giving assistance to farms in the naturally worst-off regions;

  - financing actions to reorganize markets (for example, the reconversion of vineyards).

  This policy has progressed much more slowly than market policies and European 'aid' has often only supplemented national subsidies. Annual credits from this section have been limited to 325 million EUA since 1973, but expenditure has increased regularly over the last ten years and should soon reach 6 to 700 million EUA per year. On 20 March 1979, the European Commission recommended the Nine to give a new boost to structural policy, by using existing instruments and by introducing new measures of a regional nature.

Balance-sheet and proposals

□ The five Common Agricultural Policy objectives fixed by the Treaty of Rome when examined on their own reveal that agricultural productivity has increased very rapidly, from 8.8% per year on average from 1961 to 1971, and 6.2% per year since then. This has been due to technical progress, farm rationalization and the reduction of the total number of farm workers by about one-third between 1968 and 1978, a reduction which has been induced by the productivity gap between industry and agriculture.

□ Agricultural incomes have increased since the creation of the Common Market, but the increases have not been even. The situation vary greatly from country to country, between product and product, between farm and farm. The greatest divergence has been recorded between the regions of the north and the south of the Community. In addition the gap between the net value added per farm worker and non-farm worker varies on average between 10% and 70% depending on the country. Much remains to be done in this area.

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[1] 1 European unit of account = approx. £ 0.66 (average value in 1978).

☐ Supply security has been assured and Europe no longer suffers from shortages even though self-sufficiency in all products has not yet been reached. For certain products such as protein feeds for animals, and tropical products, Europe will always depend on outside suppliers. The regularity of supplies from the price and quantity viewpoint, results from the links established between the Community and supplier countries.

☐ The assurance of reasonable prices for consumers has been established for the majority of products. The price index has risen at a speed comparable to that for foodstuffs and for services, whilst being slightly higher than that for manufactured products. Europe was sheltered from the price inflation which hit the world sugar market in 1974, and the cereal market in 1974-75.

☐ Market stability has also been realized: over the last 15 years, European prices have been little influenced by the world market and have scarcely deviated from the objectives set by the Nine. But the prices policy has had repercussions at the production level and, in certain sectors, surpluses have emerged which have had to be dealt with by generally expensive and unpopular means. Some of these surpluses have been conjunctural and arise from the risky nature of farming which sometimes imposes production targets above normal demand. But the other more serious ones, are those of a structural nature, which are massive and permanent. Each year the EAGGF finances stocks of butter and milk powder which are difficult to sell, and sugar production outstrips domestic needs. In these sectors, the Common Agricultural Policy is subject to other constraints. In the worst off regions, milk production has a social dimension since it is practically the only source of income for the small farmers. The competition between butter and margarine which is made from cheap imported products, is linked to the absence of an overall policy on the supply of fats. European sugar production has had to cope with the importation of 1.4 million tonnes of sugar taken on by the Community through its Third World cooperation policy.

☐ One of the principles of the Common Agricultural Market — the single market, — has been disrupted by monetary disorders. To offset the effects of monetary movements on the agricultural industry, Community countries introduced in 1969 the 'green' exchange rates to translate the common agricultural prices, expressed in European units of account, into national currencies. 'Monetary compensatory amounts' were introduced to balance out the difference between the green rates and commercial rates and the effects of exchange rate fluctuations. The objective is to ensure that Member States do not lose any export competitivity. But despite all the attention given to the introduction and management of this system, competitive distortions have appeared, benefiting those countries least affected by inflation, and the guidance role of the common prices has not been able to play its role fully. The cost of the system has also risen greatly and in 1978 was close on 900 million EUA.

☐ Finally, farmers in the south of France and in southern Italy are being threatened by the prospect of the enlargement of the Community to bring in largely agricultural competitor countries: Greece, Portugal and Spain. The Community must now give greater attention to the problems of Mediterranean agriculture — often poor and backward — and to some of its produce such as table wine, and certain fruit and vegetables. Significant actions were undertaken in this direction in 1978, particularly in the fruit processing sector.

Faced with various difficulties, the European Commission is recommending an overall strategy based on the following principles:

□ The single Common Agricultural Market should be a basic rule, through the European Monetary System which came into force in March 1979, we can hope for greater stability, which will reduce the need for introducing new compensatory amounts. We need to go further that this and progressively dismantle the existing compensatory amounts. On the other hand the common organization of the market should be extended to cover alcohol, potatoes and sheepmeat.

□ It is no longer possible to finance production surpluses indefinitely. Market balance: must be re-established by a more rigorous price policy which would still enable producer incomes to rise. The first corrective measures have already been taken in the milk sector (a co-responsibility levy imposed on producers, premiums for the non-marketing of milk and for the reconversion of herds) and for wine production (wine quality policy). These measures must be strengthened and completed. Selective social aids can possibly be granted to those small farmers who are unable to reconvert.

□ The agricultural structural modernization policy must be amplified and the credits available increased from 325 to 700 million EUA per year. Whilst taking account of the problems specific to certain markets, the European Commission proposes to concentrate its assistance on those types of farms where structural change incur special difficulties. The Commission also proposes to adapt structural measures more to the needs and possibilities open in the regions, where income levels and economic prospects are alarmingly low. Apart from the action already decided on to help Mediterranean regions, agricultural development programmes — some specific and other integrated into general regional development programmes — should be launched to help the worst-off regions ■

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