Europe's common agricultural policy

European File

In all countries, however industrialized, agriculture is a key sector.[1]

- 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 surpluses or 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 25% 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.

- From Ireland to Greece, the soil is the principal source of income for the 9 million full-time workers in European agriculture. Though technical progress and productivity increases, earnings in this sector 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 at the same time. This type of intervention — more or less transparent — is now

[1] This file updates and replaces No 9/79.

Commission of the European Communities
Directorate-General for Information,
Rue de la Loi 200 - B-1049 Brussels

4/81
February 1981

commonplace 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 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 differed greatly from country to country as did the contribution of agriculture to gross national product, its productivity and the proportion of foodstuffs in external trade;

- ☐ the agricultural policies of the Six were themselves very different, and even contradictory. They had been developed to suit natural and economic variations 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 would have been unthinkable to set up a common market and leave out such an important economic sector. In 1980 as well, it was clear that a move away from the free movement of agricultural produce would also signal the end of free trade in industrial goods between Community countries. The opening up of frontiers and the removal of barriers to trade implies a certain balance of trade flows between Member States, some of which are more agricultural and others more industrial.

- ☐ Maintaining divergent agricultural policies would have created serious barriers to the realization of various other 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 Community's objective is not only to liberalize trade but also to fully integrate the economies of member countries.

Inevitably, the common agricultural policy was seen as vital because of its potential advantages:

- ☐ it would offer 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, wine, 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 relatively tight and 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 its 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 an enlarged Community in which the voice of the consumer was becoming increasingly heard.

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 ensuring the rational development of agricultural production and the optimum utilization of the factors of production, labour in particular;

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

- ☐ to stabilize markets;

- ☐ 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 concerned. Four main types of market organization exist, covering together more than 95% of European production.

- Some 70% of produce benefits from a system which guarantees both the market and the prices. For the principal cereals, sugar, milk products, beef and veal and, since 1980, sheepmeat, 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 resold when the market recovers. For other products – pigmeat, certain fruits and vegetables and table wines – market support comes via other more flexible measures such as storage assistance, withdrawals of produce from the market, and aid for distillation.

- About 25% of production – other fruits 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.

- Additional assistance 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.

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

The uniform operation of these mechanisms requires, of course, that common guaranteed prices are fixed each year by Community ministers for all Member States. Given the monetary fluctuations experienced since 1969, 'monetary compensatory amounts' (MCAs) had to be introduced to compensate different member countries for the effect on the common prices of changes in national currencies. Prolonged use of MCAs has led to certain distortions in competition but the MCAs have enabled the common price principle and system to be maintained intact and has protected the single market. With national currencies kept within a narrow band of fluctuation, this mechanism also allows automatic return to a more fully integrated market and to prices which are a better guide for production. Thus the European monetary system set up in 1979 has greatly reduced and even eliminated a large proportion of the MCAs.

□ 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 Community, 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 those in the Ten, 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 is 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 and comprises two sections: guarantee and guidance.

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

  - a variety of intervention systems aimed at regularizing the internal market (about 5 600 million ECU in 1980) [1]: purchases by intervention organizations, storage costs incurred by these bodies, direct income assistance, subsidies to facilitate the marketing of products competing with low-priced imports, etc.;

  - export rebates (about 5 300 million ECU in 1980), financial aid which compensates for the difference between Community and world market prices.

- The 'guidance' section contributes to the financing of common policies to improve agricultural organization:

  - support for individual farm improvement projects;

  - partial reimbursement for general modernization work;

  - aid for farms in the naturally worst-off regions;

  - financing actions to reorganize certain markets (e.g. the reconversion of vineyards).

  Such European aid has a five-year budget ceiling of 3 600 million ECU. It normally only covers part (25-60%) of expenditure and is supplemented by national subsidies. In 1979, given the difficult situation in certain markets and the relatively slow change in agricultural organization in the context of a general economic crisis, the European Commission proposed to Member States that a new boost be given to structural policy, in part by implementing existing measures and part by introducing new actions of a regional nature.

Results

☐ Taking one by one the five objectives for the common agricultural policy set by the Treaty of Rome, it can be seen that agricultural productivity has increased rapidly: by

---

[1] 1 ECU (European Currency Unit) = about £0.54 or Ir. £0.69 (at exchange rates current on 15 January 1981).

an average of 6.7% per year from 1968 to 1973 and from 2.5% since then. Such progress is the result of technical improvements and the rationalization of farms, but is also due to the reduction — by one-third since 1968 — of the total number of farmers.

☐ Agricultural incomes have risen parallel with other incomes: by 3% per year between 1968 and 1979. But this growth has slowed considerably since 1974 and has left large gaps between the income levels of farmers and other workers and between farm workers themselves depending on the types of farming they are engaged in and of region in which they live (average farm income between regions varies by a factor of 6 within France).

☐ Supply security has been assured and Europe no longer experiences shortages, even though self-sufficiency has not been achieved everywhere. For certain products, such as animal feeds (e.g. maize and soya) and tropical products, Europe is reliant on outside suppliers, which explains its position as the world's leading importer. The regularity of supply, from the point of view of price and quantity, is a result of the links established between the Community and supplier countries.

☐ Maintaining reasonable consumer prices has been assured for the majority of products. On average, between 1973 and 1979, prices paid to agricultural producers have increased by 8.5% per year, whilst the price of food produce paid by consumers as well as general price levels have increased by more than 11%. The European farmer has therefore made a considerable contribution to the battle against inflation.

☐ Market stability has also been achieved: over the last 15 years, European prices have been less influenced by the world market and Europe remained sheltered from the price inflation which affected the world sugar and cereal markets. But the European policy has had repercussions at the production level and in certain sectors, farm surpluses have arisen which have had to be eliminated through generally expensive and unpopular means. Some of these surpluses are periodic and are the result of the uncertainty of farming which is so greatly dependent on natural conditions. Others — and these are more serious — are of a structural nature, and are large and permanent: each year the EAGGF finances the storage and disposal of sizeable quantities of milk products; sugar production also exceeds domestic needs. In these sectors, the common agricultural policy is subject to a wide variety of constraints: milk production constitutes an essential source of income for a large number of small farms, particularly those in mountainous regions; competition which butter faces from margarine manufactured from low-priced imported products is related to the absence of a global supply policy for fats; European sugar producers are faced with imports of 1.3 million tonnes of cane sugar by the Community as part of the cooperation policy with the Third World.

But what is the cost of the Green Europe policy ? Agricultural expenditure in the Community represents less than 0.5% of the gross domestic product of member countries, around 2% of national budgets and 3% of consumer food expenditure. It also accounts for 70% of the Community's total budget; that may appear disproportionate but the reason for this is simple: it is the agricultural sector where European integration has gone furthest; in other sectors, the majority of expenditure is still paid from national budgets.

Directions for the future

The Community's total financial resources are limited. The growth of expenditure and of agricultural production – whilst Europe meets the majority of its needs and is sometimes in surplus – calls for a prudent pricing policy but also a strengthening of the Community's structural work.

☐ The pursuit of a market balancing policy should create the possibility to move – within the existing budgetary ceiling – towards the necessary adaptation of agricultural prices. To this end, the regularization of the sectors in surplus should be continued. It is no longer possible to increase indefinitely financial support for milk surpluses which already absorb one quarter of the Community budget. And it is becoming difficult to guarantee price levels or aid for unlimited quantities of products. Various measures have already been taken to slow down the growth of milk, sugar and wine output, and other measures will be necessary to ensure that the progressive integration of Greek farming between 1981 and 1988 and, above all, the ultimate accession of Spain and Portugal to the Community, will not result in new tensions in the wine, fruit and olive oil markets. The limitation of the Community's financial responsibility – whilst respecting the main principles of the common agricultural policy, which determines balance in the common market for agricultural and industrial products and thereby even the existence of the Community itself – implies that agricultural producers take responsibility for the expenditure involved in excessive increases in production (which they have already begun to do in the milk sector where a co-responsibility levy has been introduced, as well as in the sugar sector). In parallel, the Community must improve monitoring of imports of certain competitive products, whilst remaining open to international trade, and by developing its export policy as well as its contribution to the battle against hunger in the world.

☐ Europe must also step up agricultural specialization based on differing national conditions and promote the production of quality products (in the wine sector it already encourages the reconversion of vineyards). Since the pricing policy is not sufficient to guarantee an adequate income for farmers and to ensure a sufficient basic level of farming, the socio-structural policy must be strengthened by introducing new measures to accelerate the modernization of agriculture, to reduce income disparities and to promote the development of regions in specific difficulties: the West of Ireland, mountainous and hilly areas where a certain number of farmers must remain, the Mediterranean regions whose production is most exposed to the increased competition resulting from enlargement of the Community, etc. In these problem regions, the Community already supports numerous modernization programmes dealing with the training of farmers, the quality of output, irrigation, drainage or retimbering, reorganization, etc. But the economic decline facing most agricultural regions will not be countered by measures limited to the agricultural sector alone. Action must be undertaken in a framework of integrated development programmes comprising provisions affecting infrastructure, employment and social organization ■

The contents of this publication do not necessarily reflect the official views of the Institutions of the Community.

Commission of the European Communities

Information offices (countries fully or partially English speaking*)

Ireland	39 Molesworth Street, Dublin 2 — Tel. 71 22 44
United Kingdom	20 Kensington Palace Gardens, London W8 4QQ — Tel. 727 80 90 — 4 Cathedral Road, Cardiff CF1 9SG — Tel. 37 16 31 — 7 Alva Street, Edinburgh EH2 4PH — Tel. 225 20 58 — Windsor House, 9/15 Bedford Street, Belfast BT2 7 EG — Tel. 40 708
Canada	Association House (suite 1110), 350 Sparks Street, Ottawa Ont. KIR 7SB — Tel. 238 64 64
USA	2100 M. Street, N.W. Suite 707, Washington D.C 20037-USA — Tel. 202-862-9500 — 245 East 47th Street, 1 Dag Hammarskjold Plaza, New York, N.Y. 10017 - U.S.A. — Tel. 212-371-3804

* Offices also exist in other countries including all Member States.

Office for Official Publications
of the European Communities
Boîte postale 1003 — Luxembourg

ISSN 0379-3133

Catalogue number: CC-AD-81-004-EN-C