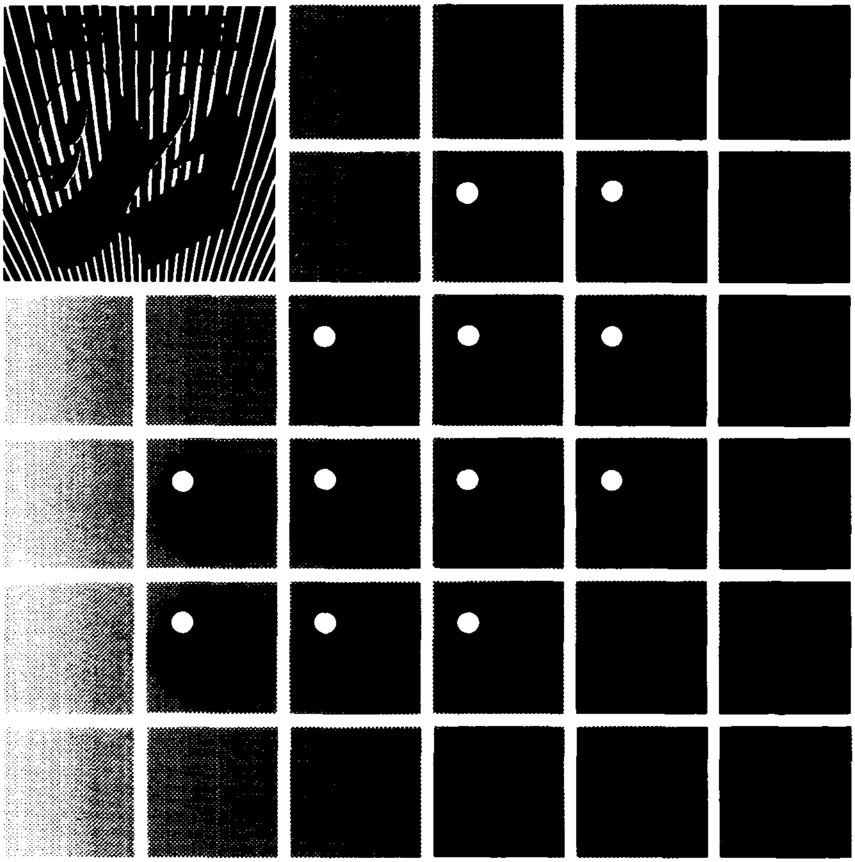
Periodical 5/1989

A COMMON AGRICULTURAL POLICY FOR THE 1990s



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A common agricultural policy for the 1990s

(Fifth edition)

Manuscript completed in July 1989

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I — Introduction: Farming and agricultural policy in a new setting

A. Agriculture in a Europe without frontiers: the outlook for 1992

For many years farming and agricultural policy have played a pioneering role in the unification of Europe. Agricultural policy was one of the first areas in which the Member States transferred some of their sovereignty to the Community so that uniform rules could apply to all. The agricultural sector was quick to recognize the advantages offered by a common market without national frontiers. Now, however, new challenges face the common agricultural policy as Europe looks towards 1992 and the creation af a real internal market within which goods, services, individuals and capital will be able to move freely.

European agriculture has greatly changed over the past 25 years. In many Member States and regions farming has changed from a traditional activity into a modern economic sector maintaining close links with its suppliers and the processing industry, a change which must continue in the years to come if farmers are to make full use of their opportunities.

These challenges include the elimination of the barriers to trade in farm produce resulting from monetary compensatory amounts, certain plant health measures and the disparities between Member States as regards taxation. In addition the common agricultural policy has to be adjusted so as to eliminate any provisions which are such as to hamper the process of integration of agriculture at Community level, thus encouraging more balanced and efficient use of the human and natural resources and capital which are devoted to farming.

Yet the production of food and raw materials is only one aspect of European agriculture. Over large areas of the Community agriculture plays a fundamental role in maintaining balanced social and economic structures and in providing a healthy natural environment. In the less prosperous Member States and regions in particular, agriculture is still crucial to the rural balance.

If the Community hopes to integrate still further and to improve social and economic conditions in the backward regions, new initiatives will be needed in the countryside to ensure that development is not restricted to the agricultural sector alone. Economic alternatives to create new jobs and new sources of income are essential to the continued improvement of agricultural structures and thus to the balanced development of rural areas generally.

B. The changing face of European agriculture

European agriculture has changed more rapidly and more radically than almost any other economic sector. In 1960 some 15.2 million people were still employed in agriculture in the Community of Six. By 1987 their numbers had dropped to 5.2 million, i.e. by almost two-thirds. Since the accession of Spain and Portugal, however, the Community of Twelve has had an agricultural work-force of just over 10 million. On average this represents more than 8 % of the working population, but there are considerable differences from one Member State to another: whereas in Greece almost 30 % of the working population is in agriculture, the corresponding figure for such countries as the Federal Republic of Germany, Luxembourg, Belgium, the United Kingdom and the Netherlands is less than 5 %.

The numbers employed in agriculture declined rapidly in the years up to 1973. The expansion of the industrial and service sectors provided the necessary jobs for those leaving the land. Since the mid-1970s the rate at which the agricultural population is declining has slowed down, from about 4.5 % to less than 2 % per year.

At the same time the number of farms has been greatly reduced. In the Community of Six there were 6.4 million farms in 1960 but 20 years later there were only 4.8 million, whilst between 1960 and 1986 the average size of a farm rose from 12 ha to just under 20 ha. In the Community of Twelve, however, the average size is only 9 ha, since there are very considerable differences from one Member State to another. Whereas farmers in Greece and Portugal have less than 5 ha on average, their counterparts in the United Kingdom are farming on 65 ha.

The drift from the land has led to a considerable fall in the number of farms and thus to an increase in the size and degree of specialization of existing structures.

Farmers are increasingly concentrating on the one or two lines of production which offer the best chance of success in view of the natural conditions or available sales outlets. Capital investment in terms of machinery, buildings and plant has shown a sharp increase; the volume of production has risen thanks to technical progress and specialization. Farmers are now using more fertilizer, pesticides, high-quality seed and feedingstuffs than ever before. Higher yields, rather than any increase in the areas farmed, have been

Basic data on European farm structures, 1986

	Unit	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR 12
Utilized agricultural area	million ha	1 412	2 823	12 000	5 741	27 213	31 418	5 676	17 445	128	2 025	4 532	18 612	129 023
Value of final agricultural production	million ECU	5 391	6 701	26 859	7 887	20 356	41 062	3 815	33 964	164	14 162	—	19 429	179 789
Agricultural contribution to gross domestic product	%	2.5	5.0	1.8	16.6	6.1	3.7	10.2	5.0	2.6	4.2	—	1.8	3.5
Numbers employed in agriculture, hunting, forestry and fisheries	1 000 persons	103	178	1 348	1 026	1 742	1 536	168	2 242	6.5	248	890	619	10 104
Working population engaged in agriculture	%	2.9	6.8	5.3	28.5	16.1	7.3	15.8	10.9	4.0	4.8	21.9	2.6	8.3
Number of agricultural holdings	1 000	98	92	740	952	1 818	1 057	220	2 801	4	136	769	258	8 947
Average size of farm	ha	14.1	30.7	16.0	4.3	12.9	27.0	22.7	5.6	28.6	14.9	4.3	65.1	8.9

the main reason for the rise in the volume of production over the last 20 years. In fact, between 1973 and 1986 the area sown to cereals fell by more than 3%, but rising yields per hectare had the effect of increasing production by 27%. Table on p. 7 provides some basic data on European agriculture.

II — The common agricultural policy — the reasons and the background

A. *Arguments for a common agricultural policy*

1. Why is an agricultural policy necessary?

Does Europe in fact need an 'agricultural policy'? Are the customary instruments of economic policy not sufficient to regulate the economic aspects of the agricultural sector? Many people must have pondered over this question whenever public attention has focused on the 'sins' of the common agricultural policy, with its surpluses and high market-organization costs. It is all too easily forgotten, however, that farmers undertake, for society as a whole, a wide range of tasks which would be difficult to perform without intervention by the Community authorities, given the special nature of the agricultural sector.

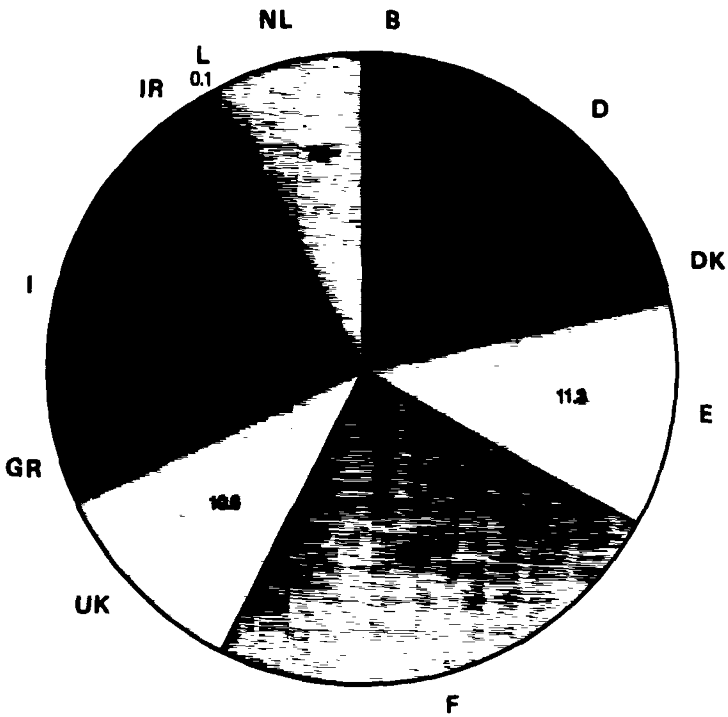
Security of supply

Agricultural products are mainly intended for consumption as food, which is one of humanity's basic needs. Most civilizations have therefore placed great importance on developing and safeguarding agricultural production. In Europe, on the other hand, reliable food supplies are now taken for granted, largely thanks to a farm policy which has made it possible to expand agricultural production. Self-sufficiency in foodstuffs does not, of course, rule out trade with the rest of the world but such trade must be kept in balance and must not lead to one-sided and therefore potentially dangerous dependence on other countries.

Stable prices for farmers and consumers

Despite all the technical and biological progress made in recent years, agriculture continues to depend on natural conditions such as the soil and the weather, under the influence of which production may fluctuate widely from one year to another, not to mention the threat posed by diseases and pests. The demand for agricultural products and foodstuffs, on the other hand, remains at a fairly constant level in most industrial countries. The fluctuations in supply, if not offset by regulatory measures, would lead to sharp

Individual Member States' shares in the value of final agricultural production (%)
(EUR 12 = 100)



(Excluding Portugal.)

Source: Eurostat.

price swings which would be in the interests of neither the farmer nor the consumer. One of the tasks of agricultural policy is, therefore, to regulate prices and markets, thereby ensuring the stability desired by all concerned.

Agriculture and environment

Agriculture determines the very appearance which a country presents. Over the centuries farmers have shaped the European countryside which we see today. It is important to the farmers' own survival that the soil should be fertile and the environment in balance. Over the past 30 or 40 years, however, the pressure on the rural environment has become much greater, not only as a result of increasing industrialization, heavier traffic and urban growth but also as a result of ever more intensive farming. In many areas modern farming is now approaching its ecological limits: the pollution of groundwater with nitrates and pesticides is assuming dangerous proportions, the number of wildlife species is shrinking and the appearance of the countryside is changing for the worse. In regions handicapped by poor soil and a harsh climate moreover, agriculture has an essential part to play in preventing the depopulation and dereliction of the countryside. It will therefore become an increasingly important task of the common agricultural policy to maintain a sensible balance between economy and ecology and between environmental and agricultural requirements.

Problems of adjustment

The close relationship with nature, the ties with the land and the dependence on the weather help to account for another feature of agricultural production: for centuries agriculture has been, and still is, not just an economic activity but also a way of life. Since there is frequently no other employment available in rural areas, a change of job usually entails a move into the city and means a radical upheaval for the farmer and his family. This is one reason why many farmers remain on the land for as long as possible, even after they find their income inadequate. Moreover, there is often little prospect that other employment can be found for elderly farmers who have had either a purely agricultural training or none at all. For this reason, farmers and farm workers often continue working on the land until retirement.

All these factors, jointly and severally, impede the adjustment of agricultural production structures to the rapid changes in economic and social conditions. Obviously, the solution cannot be to force thousands of farmers into unemployment. If agriculture is to have a real chance of developing and is to perform its many and varied functions within society as a whole, agricultural policy must promote structural change and enable farmers and farmworkers to benefit from general prosperity and development.

Close links with the rest of the economy

Although in an industrial society agriculture may account for only a small share of the gross domestic product, its importance within the economy as a whole is not as small as it would seem. The agricultural sector has many links with its suppliers and customers.

For example, farmers buy in machinery, plant, pesticides and fertilizers and produce raw materials for a wide range of processing industries. Developments in agriculture are not therefore without implications for the rest of the economy and the rest of the working population.

2. A common agricultural policy: the best solution

A wealth of contrasts

In the mid-1950s the Community of Six had some 65 million ha of utilized agricultural area ranging from the north German plains over the Alps and down to the coasts of southern Italy. The farming population consisted of some 17.5 million people (33% of the working population in Italy, 25% in France, 10% in Belgium). Holdings with between 0.5 ha and 5 ha of land represented about 85% of all farms in Italy, as compared with 55% of all farms in the Federal Republic of Germany and less than 35% in France. The breakdown of production also differed from one Member State to another. In northern regions stockfarming predominated, whilst in the south crop production was more common.

Agriculture accounted for 36% of all the goods produced in Italy and 30% in France, but only 15% in the FR of Germany. Whereas the agricultural sector provided 8.4% of the gross domestic product in Belgium, the figure for Italy was almost three times as high, at 23%. At that time a Belgian farmer was earning, on average, almost three times as much as his Italian counterpart. In terms of value, yields per hectare were highest in the Netherlands and Belgium, being two-and-a-half times greater than those achieved in Italy. The difference between agricultural and non-agricultural incomes was also narrowest in Belgium and the Netherlands; in the FR of Germany, France and Luxembourg the gap was more than twice as wide.

Impossibility of a common market without agriculture

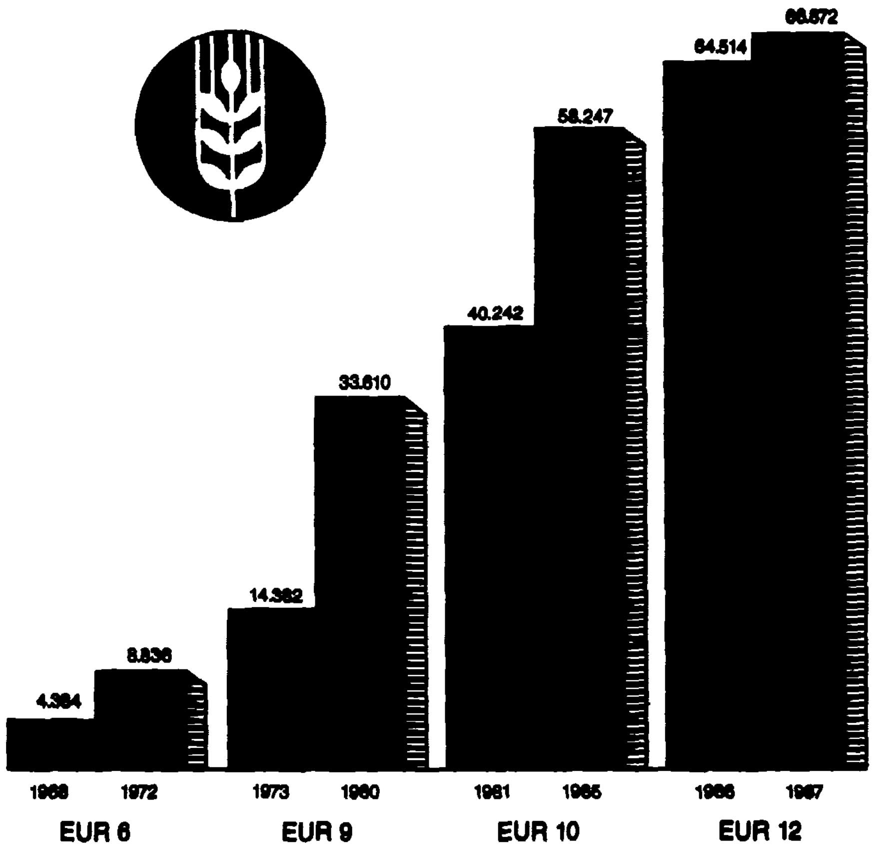
Despite all these differences it would have been unthinkable to set up the European Economic Community without including such an important area of economic activity as agriculture. If a common market was to be established and if the frontiers were to be opened and the obstacles to trade removed, then countries with a large farming sector had to reap the benefits in the same way as countries with a more industrial economy.

An advantageous solution for farmers and consumers

The introduction of a common market in agricultural products promised a number of substantial advantages to the whole Community, advantages which could hardly have

Intra-Community trade in agricultural products (excluding fishery and forestry products) based on exports

(million ECU)



Source: Eurostat, United Nations.

been available within the narrow goegraphic boundaries of the individual Member States. The common market provided the farmer with prospects of new outlets, but it also meant keener competition, which was to encourage farmers to specialize in the products best suited to their particular region. For the consumer it meant that a wider and better choice of food became available. Specialization and large-scale farming were also prerequisites for more rational production and relatively cheap prices. Lastly, the common agricultural market held out the promise of the urgently needed stability which could only be offered in a large geographical context where regional fluctuations in supply balanced each other out and where food supplies were less dependent on the vagaries of the world market.

The arguments in favour of a common agricultural policy (expansion of markets, stability of supply and optimum use of regional advantages within a large market) fell on fertile soil in postwar Europe. the food shortages of the early postwar years were still fresh memories, and the increasing tensions of the Cold War made a stable supply base seem all the more desirable. Even before the European Economic Community was established in 1957, trade in agricultural products had significantly increased between the future Member States. It therefore seemed only logical to extend and consolidate the existing trade relations within a common agricultural market. This would entail more than the gradual elimination of tariff barriers and other obstacles to trade, the adoption of common rules on competition and the introduction of a uniform customs tariff at the Community's external frontiers. If the common market was to operate smoothly and be given a chance to demonstrate its advantages, it would be necessary to construct, on the basis of the agricultural rules and regulations of the Member States, a single framework for European farming: the common agricultural policy.

3. The beginnings of the common agricultural policy

From the beginning, the common agricultural policy has had ambitious aims. In the late 1950s the Community's 17.5 million farmers had only 65 million ha from which to feed a population of 150 million. At that time the United States had over 400 million ha to feed 200 million inhabitants, and the Soviet Union over 600 million ha for just under 250 million inhabitants. The average size of farm in the USA was 100 ha, almost 20 times larger than the average European farm. Each American farmer could feed 50 inhabitants on average, whereas the European farmer could feed only 10. The Community produced only some 85% of its own food requirements.

The Treaty of Rome

The Treaty establishing the European Economic Community was signed in Rome in March 1957. The main objectives of the common agricultural policy, as defined in Article 39, are to increase agricultural productivity, to ensure a fair standard of living for the agricultural community, to stabilize markets, and to ensure that supplies are available to consumers at reasonable prices. The policy thus takes account of both farmers' and consumer's interests. The simultaneous pursuit of all these objectives must inevitably lead to conflicts, however, since beyond a certain point some objectives can only be achieved at the expense of others. Compromises must therefore be worked out and priorities must be set.

The Conference of Stresa

In July 1958 the Stresa Conference laid down the first guidelines for the future common agricultural policy, on the basis of the objectives set by the Treaty of Rome. Of particular significance for later developments was the call for the progressive approximation of agricultural prices. Since production costs were in general higher in the Community than in the other main producing countries, prices had in many cases to be above the world market level if Community production was to be guaranteed. The aim for the Community was to achieve not self-sufficiency but a proper balance in its trade with the rest of the world. To improve the competitive position of the Community, European agricultural structures were also to be improved, without jeopardizing the future of the family farm.

Common management of the market

It was on this basis that the Council of Ministers, meeting in December 1960, adopted the principles for the construction of a 'green Europe'. The centrepiece was to be the policy on markets and prices, which would mean uniform management of the internal market and the application of common rules at the Community's external frontiers. Then began the gradual process of planning and implementing market organizations for the various products. In the early stages these market organizations covered just over half of the six Member States' agricultural production. One of the first market organizations was that for cereals, which came into force in 1962. By 1970 some 87% of agricultural production was subject to common rules and by 1986 this figure had risen to 91%.

The policy on agricultural structures: a new departure

Over the years it became clear that the problems of European agriculture could not be resolved solely by a common policy on prices and markets. Additional measures were necessary if there was to be any significant long-term improvement in 'agricultural structures' such as production methods, farm sizes and training levels. In 1962 the first modest steps were taken towards a structural policy, although this involved little more than the coordination and partial financing of the structural measures taken at national level. A Commission memorandum of December 1968 finally provided the impetus for a real policy on agricultural structures. This took the form of the structural directives adopted by the Council in April 1972.

The two pillars on which the present agricultural policy rests were now in place: the policy on prices and markets regulates the latter and determines the economic framework for agriculture, whilst the structural policy provides selective support for the adaptation of farm structures.

4. Clear principles

The common agricultural policy is essentially based on three principles: the single market, Community preference and financial solidarity.

The single market

The 'single market' means the free movement of agricultural products from one Member State to another. Trade in agricultural products should encounter no more obstacles within the Community as a whole than it would within an individual Member State. The aim is a single large internal market in which it is prohibited to charge customs duties, to raise other barriers to trade or to grant subsidies which could distort competition. The prerequisites are common prices, common rules on competition, stable exchange rates in the agricultural sector and the approximation of administrative, public-health and veterinary rules and regulations. If there is to be a single market, it must be managed centrally by the Community and uniform rules must be applied at the Community's external frontiers.

Community preference

'Community preference' means the principle whereby priority must be given to the sale of Community produce. Since Community prices are higher than those on the world market, the common agricultural policy must protect the internal market against cheap imports and any excessive fluctuations on the world market. This is done by means of various instruments which regulate the flow of imports and exports, thus cushioning the Community from the effects of price fluctuations elsewhere. In cases where no such external protection is possible, subsidies are paid to make the prices of Community products competitive with those of imported goods.

Financial solidarity

Any policy costs money. In the case of a common policy it is only logical that the costs should be shared by all concerned. Financial solidarity is therefore an essential principle of the common agricultural policy. To put such solidarity into practice the Member States decided in April 1962 to set up a common fund, the European Agricultural Guidance and Guarantee Fund (the EAGGF). It is from this Fund that any necessary expenditure on the CAP is financed, irrespective of the product or Member State in which such expenditure is incurred.

5. The role of the national agricultural policies

The Community has gradually taken over a large share of the Member States' agricultural spending. The policy on prices and markets, for example, has now become the exclusive responsibility of the Community. The course of this policy is decided jointly by all the Member States and the measures taken are binding on all concerned. Due account is taken of national interests and particularities, thanks to the intensive bargaining between the Member States which takes place during the decision-making process and in the course of day-to-day market management.

A sensible division of labour

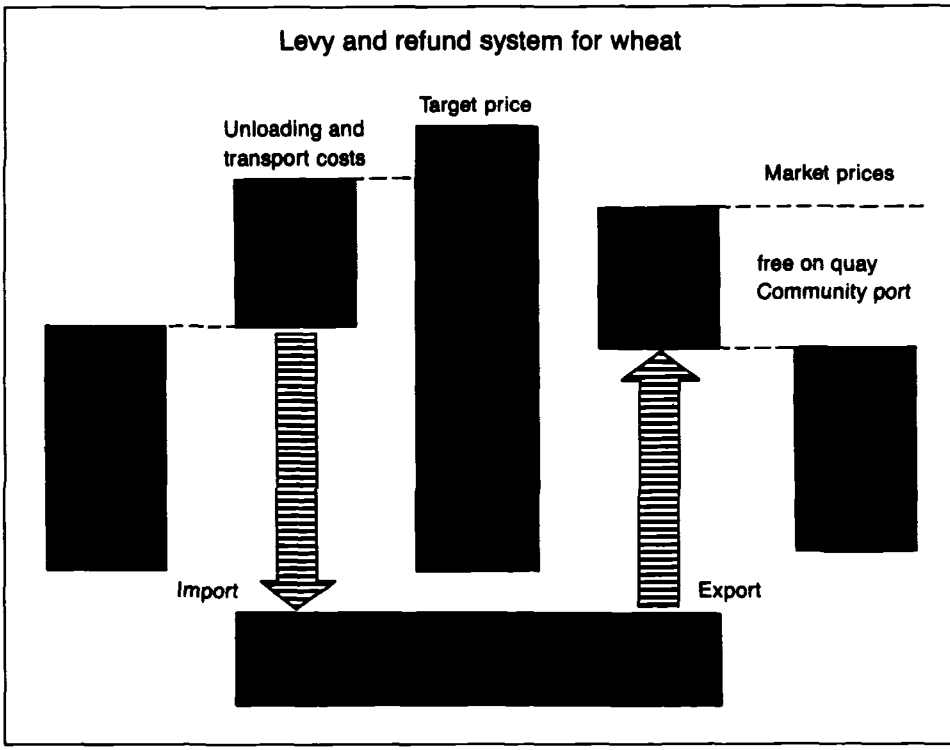
However, the scope of Community decision-making does not extend to all measures affecting agriculture: such matters as direct taxation and social security for farmers and farmworkers are still national responsibilities.

The same applies to many special arrangements designed to cope with particular conditions in a given region or a given Member State.

In any case, national administrations are left some room for menoeuvre, either where there is flexibility in the implementation of Community directives or through the temporary continuation of State aids, subject as these always are to examination by the Commission, to ensure that they are compatible with the Community's objective and to avoid any distortions of competition.

B. The policy on prices and markets

Common prices and market organizations are the basic instruments used to steer agricultural production along the desired lines and to stabilize the markets.



1. The chief types of market organization

Production and marketing conditions differ greatly from one agricultural sector to another. It would therefore have been pointless to set up a single market organization for all products. For simplicity's sake the market organizations may be regarded as falling into four different categories.

External protection and intervention

This type of market organization applies in one form or another to over 70% of agricultural production. It has two components: intervention arrangements on the internal market and a system of external protection. The aim is to prevent market prices in the Community falling below certain minimum levels.

For many products, including cereals, butter, skimmed-milk powder, sugar and beef, the Community has established special intervention agencies. When supplies are abundant, these agencies buy in the surplus production in order to stabilize market prices. The produce is sold again once the market is back in balance, or other outlets are resorted to, for example, exports to non-Community countries.

Until a few years ago the intervention agencies bought products in at a fixed price, the 'intervention price', which was fixed annually by the Council of the Community. New arrangements have since been introduced: the intervention agencies issue invitations to tender and the buying-in price reflects the market situation. On the sugar market the full intervention price is paid for those quantities which the Community needs to supply its own market. If the farmers produce more, they themselves will have to shoulder the burden of disposal.

The intervention arrangements for pork, table wine and certain types of fruit and vegetables are even more flexible. When supplies are plentiful the Community may, for example, pay aid for private storage to take a proportion of output temporarily off the market. Once the sales prospects have improved, the products are released from storage and offered for sale.

Generally speaking, minimum prices in the Community are higher than on the world market. For this reason, support for the internal market is pointless unless, at the same time, external protection is provided for the products concerned.

External protection without intervention

For a second group, which covers about 25% of production, the market organization is essentially limited to external protection. This group includes the market organizations for eggs and poultry, quality wines, flowers and many types of fruit and vegetables. These products are either not staple foods or can be produced more or less independently of the soil. Special schemes are not necessary to support the internal market for such products. The external protection takes the form of levies, which are calculated differently for each market organization, or customs duties, or a combination of the two.

Aid to complement prices

Under the General Agreement on Tariffs and Trade (GATT) the Community has undertaken to keep its import duties on a number of products at a constant level. Essentially, therefore, the market organizations for such products must do without any external protection. The products concerned include rapeseed, sunflower seed, cottonseed and protein plants such as peas and field beans. To ensure that Community growers can still sell their produce despite the competition from cheap imports, the processing industries receive a subsidy if they use Community-grown products. The aim is to make up for the gap between the Community price set by the Council and the price of imports coming in. This enables consumer prices to be kept at fairly low levels whilst providing support for farmers' incomes and Community production.

Flat-rate aids

Lastly, certain market organizations include flat-rate aids by the hectare or by the quantity produced. The products concerned are highly specialized and, taken together, account for only a very small percentage of total Community production, although they are of great importance in certain areas and to certain types of farmer. Flat-rate aids are paid to the growers of flax, hemp, hops, silkworms and seeds. In other sectors (e.g. durum wheat) such aids are combined with other market-organization instruments.

At first sight this appears a very confusing system of minimum prices combined with external protection and assorted aids, but any 'simple' solution would fail because of the great variety of agricultural production in the Community. If all the various forms and facets of agriculture are to survive, the policy on prices and markets must take due account of the diversity of conditions. Taking cereals as an example, let us explain in some detail how a market organization operates.

2. A classic example: the market organization for cereals

The market organization for cereals, which was introduced in 1962, was regarded from the beginning as a model. It has been much revised over the years, but is still based on the three main features common to most of the Community's market organizations:

(i) prices fixed each year by the Council (target, threshold and intervention prices);

(ii) a system of external trade based on a protection mechanism whose most orginal feature is a variable levy on imports;

(iii) internal market support based on direct buying-in, in certain conditions, by intervention agencies.

Prices are also supported by sales outside the Community, for which operators are granted aids called 'export refunds', to bridge the gap between market prices inside the Community and what can be fetched on the world market. The amount of refunds is arrived at either by direct logging of prices or by a tendering procedure.

3. Farm prices: a special package

Each year, at the time of the price review, agriculture hits the headlines. For the price decisions have a crucial impact on the incomes of more than 10 million farmers in the Community. Taking into account their families, this means that more than 40 million individuals are affected by the negotiations in Brussels. But it is not only the interests of the farmers which are at stake. Changes in farm prices affect food prices in the shops, and this affects the 320 million consumers in the Community, who spend about 20% of their incomes on food.

Other questions are also taken into consideration: how have farm incomes developed in the past? Have production costs increased in recent years? What will be the effect of price increases on market equilibrium and on imports and exports? What additional expenditure or savings will be entailed for the agricultural budget? Should the prices be increased to an equal extent across the board for all products or should different increases be used to provide incentives to reorientate production? What are the products whose market organizations require adjustment?

Given the complexity of these questions and the many conflicts of interest, it is not surprising that the final decisions concerning the prices usually take a long time. The outcome is, of course, bound to be a compromise, i.e. a balancing of interests, acceptable to all those involved.

Common prices = high prices?

When the first market organizations were introduced in 1962, there were still just under 14 million people engaged in agriculture in the then Community of Six — nearly 20% of the total active population. The vast majority of these people worked on small or medium-sized family farms. Their incomes were low — considerably less than those in other sectors.

Under these circumstances, improving farmers' incomes was one of the most urgent tasks facing the common agricultural policy. Incomes can be increased either by direct financial aid to low-income farmers or by higher prices. The founder members of the Community chose the second approach for most products. Price support, in view of the large number of farmers and the confusing multiplicity of their economic conditions, was judged less expensive and less bureaucreatic than direct financial aid. It was also much the commonest practice in most Member States, thus avoiding radical change.

Income support via farm prices worked quite well as long as the Community was import-dependent. In recent years this policy has reached its limits. The secure guaranteed prices encouraged producers to take advantage of all possible opportunities offered by technical progress and to produce more and more, without having to worry about selling it. The 'food mountains' thus came into being, the Community having to foot the enormous bills for their storage and disposal. Under pressure from the surpluses, both market prices and farmers' incomes fell. Since the mid-1980s the Community has thus been endeavouring to pursue a restrictive price policy in order to restore market equilibrium. Support prices have been frozen or indeed cut. Direct income aids and other support measures have been introduced to prevent the pressure on producers' incomes getting out of hand.

Consumer and food prices in the Community

	Index of prices of agricultural products	Indices of consumer food prices	General consumer price index	Net disposable income per inhabitant
1977	100	100	100	100
1978	103	107	105	111
1979	109	116	115	124
1980	116	128	131	139
1981	130	143	146	151
1982	144	159	161	164
1983	153	170	173	177
1984	158	182	184	190
1985	162	192	195	204
1986	163	198	200	215
1987	163	202	205	225
Average annual growth 1977—87 (%)	5.1	7.3	7.5	8.5

Consumer and food prices in the Community
(including alcohol and tobacco) (%)

Belgium	21.3
Denmark	23.5
FR of Germany	17.0
Greece	39.9
Spain	27.2
France	20.5
Ireland	43.0
Italy	24.3
Luxembourg	23.0
The Netherlands	19.1
Portugal	38.2
United Kingdom	18.9
EUR 12	21.0

World prices — an unreliable yardstick

The aim of these reforms is by no means, however, that the Community's farmers should in future produce at world prices. Securing common agricultural prices remains a priority objective of the common agricultural policy, not only with a view to maintaining farmers' incomes but also in order to safeguard supplies in the Community.

World prices for agricultural products are no reliable yardstick for agriculture in the Community. The quantities traded on the world market are often very small compared with total production (for example, in the case of sugar, cereals and milk products), sometimes merely reflecting short-term variations in supply in the main producer countries. For this reason prices are liable to fluctuate widely. For products such as beef and veal, wine and tobacco, a world market is vitually non-existent and prices differ according to the destination of exports. Critics of the common agricultural policy often point out that world prices for agricultural products are low. They may well be at times, but the crux of the matter is to achieve long-term security of supply at reasonable and stable prices.

Reasonable agricultural prices even by international standards

A look at the statistics shows that since 1975 farmgate prices in the Community have risen more slowly than food prices, which in turn have lagged behind the overall cost of living (see Table on p. 22). Agricultural prices have therefore had a stabilizing effect on the cost of living. That Table also compares the trend in agricultural and food prices with disposable per capita income in the Community. Once again the picture is clear: agricultural and food prices have risen more slowly than disposable income. Expenditure on food as a percentage of total consumer spending by private households has thus decreased substantially in recent years.

Even by international standards the European consumer can be quite content with food prices. We would draw attention here to some statistics of the US Department of Agriculture comparing the prices for a particular assortment of food products in various capitals (Table below). In May 1988 this shopping basket cost between USD 53 and USD 59 in Bonn, Paris, London, Rome and Madrid. This was roughly the same cost as in Washington, Ottawa or Seoul and slightly more than in Canberra. Food was substantially cheaper only in Pretoria and some South American cities, where income levels are much lower than in European capitals. In Bern, Stockholm and Tokyo consumers had to pay two to three times as much as in the Community for the same basket of shopping. Even though international price comparisons are difficult on account of differences in incomes, currencies and demand structures, these figures confirm the impression that consumer prices in the Community are quite reasonable.

Food prices in cities in the Community and outside
(in USD for a basket of 15 items)

(in USD)

Community cities		Cities in non-member countries					
Bonn	53	Bern	108	Ottawa	49	Washington	50
London	56	Brasilia	19	Pretoria	33		
Madrid	59	Buenos Aires	32	Seoul	58		
Paris	59	Canberra	40	Stockholm	98		
Rome	57	Mexico-City	31	Tokyo	139		

Source: Foreign Agricultural Service of the US Department of Agriculture, May 1988.

4. A correcting mechanism: monetary compensatory amounts

To date there is no single European currency in all the Member States. The common agricultural prices are set in Community units and then converted into the different national currencies. Until 1979 the common unit was the 'unit of account'. After the introduction of the European Monetary System in March 1979, this was replaced by the ecu (European currency unit), which is a kind of Community currency used for accounting purposes. It is made up of a 'basket' of the various national currencies.

A requirement still to be met: stable exchange rates

The system of common agricultural prices can work smoothly only if the rates of exchange between the national currencies remain stable. This was largely the case until 1969. From then on, however, the parities began to change, first between the French franc and the German mark and then between all the currencies.

It is true that the European Monetary System has helped to cushion the impact of the parity adjustments, but it has not prevented them. Exchange-rate fluctuations constitute a lasting threat to the very existence of the common agricultural market. In view of this threat, it was necessary to set up a correcting mechansim, the monetary compensatory amounts.

Their operation is unfortunately a very complex matter. The aim is to guarantee continuity in intra-Community trade should some Member States be unwilling or unable to let their agriculture bear the consequences of currency movements (devaluation or revaluation).

A mechanism with shortcomings: dangerous effects in the long term

On the whole, the compensatory amounts have so far made it possible to maintain unity of the market, in spite of the differences in prices when expressed in national currencies, and thus ensure the survival of the policy. However, the mechanism has shortcomings. For one thing, it is very expensive. About 12% of agricultural expenditure went on monetary compensatory amounts in 1977, when there were big currency movements. But it is the long-term effects of the system which are perhaps the most important. Persisting differences between the official parities and the green rates tend to distort competition, hamper structural adjustment of agriculture and jeopardize the optimum allocation of available recources in the Community.

When the green rates are applied to agricultural prices in a country which has revalued, the prices expressed in the national currency of that country remain initially at their pre-revaluation level. However, imported farm inputs, not subject to MCAs, are paid for at the official (revalued) rate of exchange and thus cost less. A devaluation has the opposite effect.

This unequal treatment of inputs and agricultural products has important effects in some sectors of production (for example, pork, poultry, eggs and to some extent also milk, beef and veal). If the differences between the official and green rates remain fixed for too long or are increased owing to frequent revaluations and devaluations, serious distortions which could undermine the policy itself may occur. This is why efforts have been made to phase out monetary compensatory amounts, and this objective has been emphasized within the context of completing the internal market.

Progress, but no ideal solution yet

By progressive adjustment of parities, the Community has managed to eliminate nearly all monetary compensatory amounts, most notably by the introduction in July 1987 of a system for automatically dismantling them, but so long as the economic and monetary policies of the Member States are not really harmonized, further changes to the parities, are only a matter of time. The introduction of the European Monetary System in 1979 was a major advance towards establishing an area of relative stability in an otherwise turbulent world-wide monetary system. Building on this, the Community must now further integrate its various currencies and genuinely harmonize its economic and monetary policy.

C. A new dimension: the structural policy

The market organizations and the policies on prices and trade are the main instruments of the common agricultural market. But these alone cannot provide a satisfactory response to the problems of Community agriculture.

1. Community agriculture: a motley patchwork

For convenience, the expression 'European agriculture' is commonly used as if this were a homogeneous entity that can be described in terms of average figures. In fact, there are tremendous differences among the 10 million holdings in the 12 Member States of the Community. These differences relate not only to natural conditions such as soil and climate, but also to the size of the farms, specialization, production methods, the farmer's age and degree of education. Equally important for the development of agriculture are the economic and social environment and the level of development of other sectors in the various regions. The differences in agricultural structures, dating a long way back and sometimes reinforced by national policies before the establishment of the common market, have not been eliminated by 25 years of the common agricultural policy. Indeed, as new countries have joined, the disparities have actually become wider.

The implications for the policy on prices and markets are obvious. Price increases are a welcome windfall for a large modern holding; they provide the big farmer with the funds for further investment and may encourage him to boost output beyond market needs. The situation is quite different for a small holding which is just managing to make ends meet. In this case higher prices may enable the farmer to survive but, generally speaking, price ajustments alone cannot tackle the real causes of his poor economic position, whether they be shortage of land, inadequate training or insufficient marketing facilities. In regions without alternatives to agriculture the farmer can do nothing but carry on, unless he gives up his farm and goes to seek work in the town.

If the Community wants to increase productivity, as the EEC Treaty requires, and thus boost the incomes of those working on the land, price and market measures alone are not enough. It needs instruments which contribute directly to an improvement in agricultural structures but the Member States were slow to accept a truly common structural policy. Structural conditions were too different and consequently so were the expectations which the Member States had of a structural policy.

2. From the coordination of national policies to a common policy on agricultural structures

Unlike its approach to the policy on prices and markets, therefore, the Community refrained at first from replacing the structural policies of the Member States by a common concept.

Modest beginnings

The first steps taken in 1962 were quite modest: the Commission did its best to carry out its task of coordinating national measures in order to bring them into line with agricultural market policy, general economic policy and regional policy. At the same time it took part in the funding, through the Guidance Section of the common agricultural fund. The aim in the early 1960s was that *one-third* of the funds made available for guarantee expenditure was to be devoted to the improvement of agricultural structures. It was decided as early as 1964 to tackle the major structural problems in the Community by means of comprehensive programmes, but the Community confined itself for nearly another 10 years to contributing towards individual projects submitted by the Member States for Commission approval.

Common measures in place of piecemeal action

The projects to which the Community contributed proved very successful economically and socially. In many regions farmers managed to improve productivity significantly during the 1960s. Despite all efforts of the Commission to coordinate the measures, however, there was a strong tendency on the part of the Member States to go their own way with large numbers of individual measures. It was very clear, moreover, that the structural policy was least successful where it was most urgently needed, namely in the less-developed regions with the greatest problems. The limits of the prices and markets policy were also becoming apparent: despite increasing production, farmers' incomes were still well below those in other branches of the economy, and income disparities within agriculture had increased.

In December 1968 a Commission memorandum recommended a common policy on agricultural structures to go hand in hand with the prices and markets policy. The main aim was to speed up the improvement of productivity in order to raise agricultural incomes and increase aid to the disadvantaged areas of the Community. A decision of the Council of Ministers in 1970 marked the breakthrough. The Member States agreed that in future they would decide jointly on structural measures instead of making a Community contribution towards national schemes. The way was thus clear for a genuine common policy on agricultural structures.

3. Modernization, rejuvenation and training: the 'socio-structural' directives

The Community's first socio-structural directives date from April 1972. The basic problem in European agriculture at that time was that a large number of farms were still operating very uneconomically. They either had insufficient land to use modern machinery and production methods or were not in a financial position to make the requisite investments. Many farmers had insufficient training or were reluctant to modernize their farms because of their advancing age. Others only clung to farming because they had no vocational training for jobs outside farming.

A balanced view

The Community set to work with a package of coordinated measures. Farmers who were able to submit a farm development plan received aid for modernizing and expanding their farms. Investments in agriculture are generally very expensive. They are only profitable if a holding is of at least a certain size so that a reliable income can be derived from farming in the long term. In order to qualify for modernization grants, farmers therefore had to prove that the planned investment would boost their holding to such an extent that they could earn the regional average income within a certain time-limit. Training grants for farmers and advisers were designed to help disseminate economic and technical progress and make farmers think like entrepreneurs. At the same time the Community offered early pensions to farmers over 55 years of age if they would transfer their land to expanding farms. The package was rounded off with retraining aids for young farmers interested in finding employment outside farming.

New parameters

In a nutshell, the directives were designed to encourage farmers willing to leave agriculture to give up their holdings, thus releasing land for other farms in a position to expand, and also to target aid on the development of such farms. This could succeed only if the non-agricultural parameters were favourable, however. The general economic recession and rising unemployment figures from the mid-1970s onwards made farmers less keen to give up their farms. The mobility of both farmers and land sank to a minimum, and the Community measures were powerless to change this situation. Inflation and high interest rates pushed up investment costs, which put many farmers off modernization schemes. With reduced numbers leaving farming, farm incomes came under even more pressure compared with non-agricultural incomes; the aid threshold, i.e. the comparable non-agricultural income, thus became unattainable for many farms.

New aid schemes

The Community was forced to adapt the socio-structural directives to the changed circumstances. The minimum qualifying limit was lowered, and limited investments could be approved even without proof that the comparable income could be attained. On account of the difficult situation on the labour market and also on sociological and environmental grounds, the Community also included part-time farmers in the investment aid scheme, but only in the case of rationalization measures to ease the workload and improvements in farm organization.

In view of the increasing surpluses on the agricultural markets, the rules on aid for main-income farmers also had to be reviewed. Investment aids for stockfarming have been made subject to a limit on herd size or have been completely eliminated or permitted only where no expansion of production is involved. Farm development plans have been replaced by more flexible farm improvement plans. These concentrate on cutting production costs, improving quality, switching to products in short supply and improving living and working conditions in agriculture. The Directive on incentives to cease farming lapsed and has not been retained in its old form. There is now a new scheme, which we shall examine in more detail in the chapter on the reform of the common agricultural policy.

4. Regional programmes and specific measures

The socio-structural directives could be implemented anywhere in the Community, but the Community's financial contribution was at a higher rate in the case of those Member States and regions with the worst structural problems. However, experience showed that the directives were of limited value in certain regions because of the conditions imposed on the beneficiaries. Furthermore, because of their general character, they would not always solve local or specific structural difficulties. Hence the idea of supplementing the 'horizontal' measures by special regional programmes and specific measures.

Help for less-favoured areas

In many hill-farming and other less-favoured areas agriculture is the main form of economic activity. Poor soil, climate and terrain make for very limited yields, however. Incomes are often correspondingly low. Agriculture has an important part to play, however, in conserving and tending the landscape in such mountainous areas. In 1975 the Council thus decided on a special aid programme for these regions. A special compensatory allowance (a kind of direct income aid) was introduced to compensate farmers for their difficult production conditions. The Community allows farms in mountainous and less-favoured areas to receive investment aids on special terms. The Community aims in this way to enable farmers to continue working the land despite the permanent natural handicaps. Only in this way can a minimum population density, the basic economic structure and the cultivated landscape which has developed over the centuries be maintained in many areas.

From farming to agri-business

Although the modernization of agricultural production on individual holdings is an important prerequisite for the development of the farming sector, only a very small proportion of agricultural products are now sold directly by the farmer to the consumer. The chain from farm to shopping basket involves a complex series of wholesalers, processors, dealers and shopkeepers. Since 1977 the Community has therefore also been making a financial contribution to measures to improve the marketing and processing of agricultural products, financing investments in the modernization and expansion of processing and marketing capacity. The main aim is often quality improvement and cost reduction.

The farming sector is often handicapped by production being split up among a large number of units, whereas marketing and processing are being concentrated in ever fewer. To combat this trend, and to increase farming's negotiating leverage as against other sectors, the Community has since 1978 been granting aids for the formation of producers' organizations for specific products. Here again the emphasis is on mergers aimed at the supply of high-value, good-quality products. As far as the farmer members are concerned, the producers' organization generally has the major advantage that it secures sales outlets and enables higher prices to be obtained.

Special measures in the worst-off areas

In particularly disadvantaged rural areas the Community supports agricultural development by means of supplementary regional aids. Schemes in this connection often relate to the improvement of agricultural structures or the creation of suitable sales and marketing facilities. The Community thus contributes financially to irrigation and drainage schemes, supports the development of farm road networks and grants aids for the construction of storage and processing facilities. A large number of such projects have already been completed.

In the case of Portugal with its backward agriculture, special provisions were adopted. Even before its accession to the Community, this country was receiving Community aids for the modernization of its agriculture. A large-scale special programme to improve agricultural structures is being implemented up to the mid-1990s, over and above the other Community structural measures.

An overall approach

In the least-favoured areas, it is not enough to strengthen the structures of farming and the related branches of the economy. The entire economic fabric is vulnerable and must be reshaped in order to open up job opportunities outside farming and create additional sources of income for the rural population. Accordingly, novel provisions have been introduced since 1979 under the 'integrated' programmes, which concentrate the available funds on those sectors which can have a leverage effect on regional development as a whole. Such integrated programmes covered the Western Isles of Scotland, the French department of Lozère and the Belgian province of Luxembourg. They encompassed agriculture, food processing, tourism, crafts, training and general regional infrastructures.

The integrated Mediterranean programmes

In connection with the accession of Spain and Portugal, the Community has been endeavouring since 1986 to do more to improve social and economic conditions in the Mediterranean areas of France, Italy and Greece. The integrated Mediterranean programes concentrate particularly on agriculture. In the lowland areas aids are granted mainly for fruit and vegetables and for wine-growing (sectors in which there are problems of disposal). Particular emphasis is laid on the improvement of product quality and the reduction of production costs. At the same time the Community supports the conversion of farms to the growing of crops with good market prospects, such as seeds, ornamental plants, medicinal and aromatic plants, oilseeds and protein plants. In the less-favoured areas of these Mediterranean regions the measures to assist agriculture are supplemented

Agricultural yields

Product	Unit	EUR 6	EUR 10	EUR 12
Wheat	100 kg/ha	31	55.8	50
Barley	100 kg/ha	32	48	37.7
Maize	100 kg/ha	40	70.3	67
White sugar	t/ha	54	74	72
Rape	100 kg/ha	19.5	30.5	30
Sunflower	100 kg/ha	—	22.7	16.5
Potatoes	t/ha	—	33	27.5
Wine	hl/ha	47	70	50
Milk	kg/cow/year	3 280	4 535	4 340

by aids for the development of tourism, crafts and small and medium-sized businesses. The general aim is to improve the standard of living and the basic infrastructures in order to maintain an adequate working population.

5. Ambitious aims, modest achievements

The success of the common policy on agricultural structures cannot really be measured in concrete terms. It is only one of many factors affecting the development of agricultural structures. These include the situation at the outset, the general economic context of prices and markets policy and the regional policy pursued at national and Community levels. These conditions can amplify the effect of the structural policy but may also, on the other hand, seriously hamper it.

For instance, the rising unemployment figures and general recession have had an extremely adverse effect on the implementation of the Community socio-structural directives since the mid-1970s. The number of farm modernization plans approved annually rose steadily to about 30 000 in 1978 and then fell sharply. In 1985 only 12 000 plans were approved. In all some 230 000 holdings had received modernization aid up to the beginning of 1986. The effect of these measures as regards improving structures was limited, however. On the one hand, the thresholds for aid had to be lowered on a number of occasions so that farmers could qualify at a time of falling agricultural incomes and rising investment costs. These adjustments were justified on the grounds of social and employment policy considerations; the structural improvements, on the other hand, did not measure up to expectations.

On top of this was the fact that the Directive on the cessation of farming did not function in an entirely satisfactory manner. The payment to outgoers was too small to constitute a real incentive. The land released was supposed to go to farmers implementing a development plan. In practice, however, the 'growth holdings' tended to be in different areas from the farmers taking early retirement, or the land released became available at the wrong time. Since the poor employment opportunities in industry more or less prevented younger farmers from changing jobs, many holdings lacked the land they needed to develop into larger, efficient units.

The biggest success was without doubt the aid for the training of farmers and advisers. This scheme manifestly met a real need. Tens of thousands of farmers attended basic, further and specialist training courses. Hundreds of advisers were trained or appointed. There were great differences from one Member State to another in the numbers of farmers involved. The annual average percentage of farmers attending further training courses was 5% in Belgium and France and 1% in Denmark and Ireland, while in the other Member States the figures were far lower.

Attention should also be drawn to the success of the scheme for the improvement of marketing and processing structures for agricultural products. Counting national contributions, this scheme has so far led to investments totalling over ECU 10 000 million.

The Community has fallen far short of its target of devoting one-third of farm expenditure to agricultural structures. The funds available for the structural policy represent only a fraction of expenditure on market and price support. In the budget for 1989, appropriations for guarantee expenditure total almost ECU 27 000 million, compared with just ECU 1 400 million for structural policy. The tasks of the structural policy will, however, increase in the coming years. The situation on most agricultural markets demands a prudent price policy and new approaches to income support so as to prevent agriculture as far as possible from compounding the unemployment problem. Special attention should be paid to the environmental hazards presented by certain types of agricultural production. On the other hand, society benefits in many regions from the landscape conservation services of a form of farming which is not itself remunerative.

Despite all attempts to concentrate aid on the most backward regions, there is still a development gap. The compensatory allowance granted in hill-farming and less-favoured areas has, however, managed to maintain agricultural production in these areas on the whole and to prevent a major drift from the land and the dereliction of the countryside. Specific measures and integrated regional development programmes have proved promising, but they must be built on if the Community wants to improve economic and social conditions in the problem areas. These are the lines on which the structural Funds are to be reformed.

D. A common policy and a common fund: the EAGGF

Most policies cost money, and as the Community's agricultural policy is a common policy it is only logical that its cost should be borne jointly. The original Treaty of Rome thus provided for a common fund to finance the agricultural policy. Since it came into existence, the European Agricultural Guidance and Guarantee Fund, or EAGGF, has been the biggest single item in the Community budget. It is thus a constant focus of debate when the Council and the European Parliament are taking decisions about the Community budget. The Court of Auditors is an independent supervisory body which supervises proper use of the financial resources voted. In 1987 the Fund had a budget of almost ECU 27 billion, which is rather larger than, for example, the national budgets of Greece or Ireland.

1. Financial solidarity: a basic principle of the Community

The EAGGF's resources are provided jointly be the Member States, irrespective of who will benefit most from the expenditure on agriculture. The EAGGF is a part of the general Community budget, the financing of which is essentially determined by the economic performance of the Member States. This financial solidarity between rich and less rich Member States is one of the Community's basic principles. It is a prerequisite for a greater degree of economic and social balance within the Community — an aim which is coming to play an ever greater role in agricultural policy. In addition to national financial contributions to the Community budget, there is also revenue from customs duties levied by the Community on imports from non-EEC countries. The common agricultural policy itself also provides revenue, in the form of the levies on farm trade and the sugar levy. These are also entered in the Community budget as own resources. The sugar levy and other levies amounted in 1987 to about ECU 3.1 billion.

A complicated budget procedure

Total agricultural expenditure and its allocation among the various products and measures are decided upon by the Council and Parliament under the general budget procedure. A preliminary draft from the Commission states expected requirements. All new decisions and proposals which form part of farm policy are examined as to their financial implications, but it is not always possible to avoid a gap between appropriations voted and actual requirements. Production trends in the Community, world market prices and exchange rates cannot be forecast precisely. In such cases resources may be mobilized from budget lines where there is still money left over or, where necessary, a supplementary budget may be adopted for the current financial year.

A stable framework

Spending on the price and market policy is called 'compulsory' expenditure: the Community has to make available the resources necessary for ensuring the operation of the common agricultural policy. Thus the continuity of agricultural policy is ensured, whatever financial disputes may arise from time to time. This does not of course mean that no effort need be made to put right untoward developments leading to unduly great expenditure. In that case, however, joint decisions are necessary, taking account not only of the budgetary aspects but also of farm-policy requirements. The EAGGF provides a stable framework, making possible the long-term realization of the Community's farm-policy aims.

2. The financing of the policy on markets and prices: the Guarantee Section

As its name indicates, the European Agricultural Guidance and Guarantee Fund falls into two parts. The Guarantee Section finances Community expenditure under the policy on prices and markets and the Guidance Section provides the resources for the common policy on agricultural structures. By far the greater part of EAGGF expenditure goes on the Guarantee Section — about 96% in 1987, most of this in turn being spent on the regulation of agricultural markets. The various types of intervention (such as the purchase and storage af agricultural surpluses in order to stabilize prices, production, processing and storage aids) accounted in 1987 for about 60% of total guarantee expenditure. Export refunds, to support exports of agricultural products outside the Community, accounted for about 40%.

A breakdown of this expenditure by sector shows that in 1987 over one-fifth was spent on dairy products, which thus rank as the most costly sector — although in 1984 the Community took steps to hold production back by introducing a quota system. Then come cereals with 18% of expenditure, followed by oils and fats (16.5%), beef and veal (9.3%) and sugar (8.8%). These markets together account for more than three-quarters of expenditure, and it is here that the structural surpluses are visible. Over the last few years the proportion of guaranteed expenditure going on price support for cereals, olive oil and oilseeds has risen sharply.

In the first instance, expenditure on markets and prices is defrayed by the Member States, as it is their intervention agencies which pay export refunds and storage costs, but a system of advance payments to Member States has been set up. This system was reformed in 1987 because of the difficult budget situation, and the Member States now pre-finance guarantee expenditure for two-and-a-half months before it is refunded to them by the EAGGF.

Any set of rules can give rise to fraud — in agriculture just as in other areas of activity. The Commission is responsible for seeing that EAGGF money is properly used: it has to monitor the implementation of the common agricultural policy by the Member States. Active cooperation has thus develpped between the national and Community departments concerned. A special working group has been set up to look into measures to combat fraud.

Gross EAGGF expenditure

(million ECU)

	1983	1984	1985	1986	1987
Guarantee Section	15 812	18 347	19 744	22 137	22 989[1]
Guidance Section	718	676	720	774	847
Total	16 540	19 023	20 464	22 911	23 836

[1] Expenditure up to and including October. Expenditure of ECU 4 534 million in November and December was pre-financed by the Member States and charged to the Community budget for 1988.

EAGGF Guarantee Section expenditure by sector in 1987

	(in % of guarantee expenditure)
Dairy products	22.4
Cereals	18.2
Olive oil and oilseeds	16.5
Beef/veal	9.3
Sugar	8.8
Fruit and vegetables	4.2
Others	20.6
Total	100.0

Source: Seventeenth financial report on the EAGGF Guarantee Section.

3. The financing of the structures policy: the Guidance Section

The Guidance Section administers the Community resources allocated to structures policy. Planning and execution of structural measures is fairly decentralized, in cooperation with the individual Member States or regions and in some cases even directly with the beneficiaries. Given this division of labour, it is quite normal that the Member States or regions should themselves put up an appropriate proportion of the financing. In the case of investment aid it is also quite reasonable that the recipients, whether farmers, cooperatives or firms, should also make a contribution by assuming some of the financial responsibility.

In the past the Community used to make a 25% contribution to structural measures. However, with the reform of the structural Funds, the Community has decided to increase its contribution appreciably and to vary it to cater for local needs. Thus, some regional measures or programmes in Ireland, Italy, Greece and Portugal qualify for much higher rates of contribution (50, 65 and even 75%). The Community also contributes to the financing of various special measures, usually carried out in a given field of production for a limited period. These include, for example, aid to producer organizations.

Unlike expenditure by the Guarantee Section, that by the Guidance Section thus consists primarily of co-financing. This explains, at least in part, why this Section's resources are much smaller than those of the Guarantee Section. In 1987 they amounted to ECU 847 million, or about 3.5% of total EAGGF expenditure. Such a sum naturally permits no appreciable expansion of the structures policy. The Community is therefore making efforts to concentrate the available resources on problem regions. In 1987 over half of structural expenditure went to territorially specific measures, including 24% for the less-favoured areas programme alone. A further quarter, or just under, of expenditure went on measures to improve the ways in which agricultural products are processed and marketed. General socio-structural measures (investment aid to individual farms and aid for training programmes) accounted for 14%.

4. The level of agricultural expenditure

Over the last few years there has, very rightly, been much discussion about expenditure on the common agricultural policy. The figures speak for themselves: over the last 10 years farm expenditure has almost quadrupled. Since 1975, in terms of constant prices, it has been expanding at about 7.5% per year. This rate is three-and-a-half times the increase in the Community's gross domestic product. Total expenditure on prices and markets in 1987 was the highest ever, at some ECU 27.5 billion.

The reasons for this are clear: in many sectors agricultural production has outstripped consumption and ever greater amounts of money have become necessary to buy up and store surpluses, and then dispose of them, often at less than one-third of their purchase price. Despite high support expenditure, farmers' incomes have fallen under the pressure of structural surpluses, while the unchecked increase in farm expenditure has threatened the Community's freedom of manoeuvre: farm policy has swallowed up resources which are urgently needed in other fields. As far back as the late 1960s the Commission had warned the Council of this trend, but it was only the difficulty of financing the policy in the 1980s which brought matters to a head and finally led to a series of reforms designed to restrain farm production and bring the Community's finances back onto a sound footing.

The fact that the Community's budget is so strongly weithted in favour of agriculture is also due to Member States' slowness in setting up other common policies with the same degree of integration, requiring genuine financial solidarity in the same way as farm policy. Community policies in other fields need to be expanded further in order to become effective. The first steps have already been taken in regional and social policy. It should also be mentioned that EAGGF expenditure is sometimes attributable to factors which have nothing to do with agriculture, such as the need to maintain an adequate population in the very poorest areas. It would be sensible if part of such expenditure were taken over by other Community policies.

E. The Community and its external trade in agricultural products

Farm products and foodstuffs play a major role in international trade. In 1987 farm products accounted for about 13% of total world trade. They represent about 8% of the Community's total exports, and about twice as much of its imports.

1. Active participation in world trade

For all goods taken together the Community is the world's largest trading power. This goes for farm trade also: the EEC is by far the biggest importer and the second biggest exporter of farm products and foodstuffs. In 1987 the Community imported farm products and foodstuffs valued at over USD 58 billion. Its share of total world farm imports has admittedly fallen a little over the last few years but still amounts to 22%. Japan, the United States and the Soviet Union, each accounting for around 10%, lie far behind. Despite the improved supply of foodstuffs made possible by the common agricultural policy, the Community has by no means cut itself off from the rest of the world.

Since 1973 the annual increase in the Community's exports of agricultural products and foodstuffs has been greater than in its imports. As an exporter of such products the Community is now second only to the United States, which is also the European market's main supplier. The Community's share of world farm exports is a good 12%, while that of the USA is about 16%. Although the common agricultural policy has made possible considerable increases in production, the Community's farm trade balance is in deficit: the cost of its imports of farm products and foodstuffs in 1986 was around ECU 24 billion higher than the value of its exports.

A large part of the Community's imports is accounted for by agricultural raw materials for industrial processing. In 1985 its imports of wood, cork, natural fibres, skins, hides and other agricultural raw materials were worth nearly USD 12 billion. Inexpensive feeds such as manioc, corn gluten and soya are very important for European livestock farming. The Community is the world's biggest customer for these products: for example, around half of all the world's soya trade is accounted for by European imports. A major item in the list of imports is made up of products which cannot be produced in the Community because of its climate, such as coffee, tea, cocoa, spices and various fruits and vegetables.

The Community's farm exports are predominatly processed foodstuffs, meat and grain. Large quantities of cheese, wine, spirits, preserved food, eggs and poultrymeat are exported by Europe's farming and foodstuffs industry, providing farmers with new outlets and contributing to the health of the food-processing sector. In the case of a few other products, however, exports have been increased as an expensive emergency measure to reduce the surpluses which have arisen. Thus, the Community has had to sell large

The Community's share of world farm trade

(in billion USD)

	Total world trade in farm products	Community exports	Community imports
1973	100.1	9.6	31.2
1980	243.6	28.8	62.8
1982	220.8	26.4	50.3
1984	229.6	26.2	48.6
1986	230.1	28.3	51.9
1987	256.9	32.8	58.7

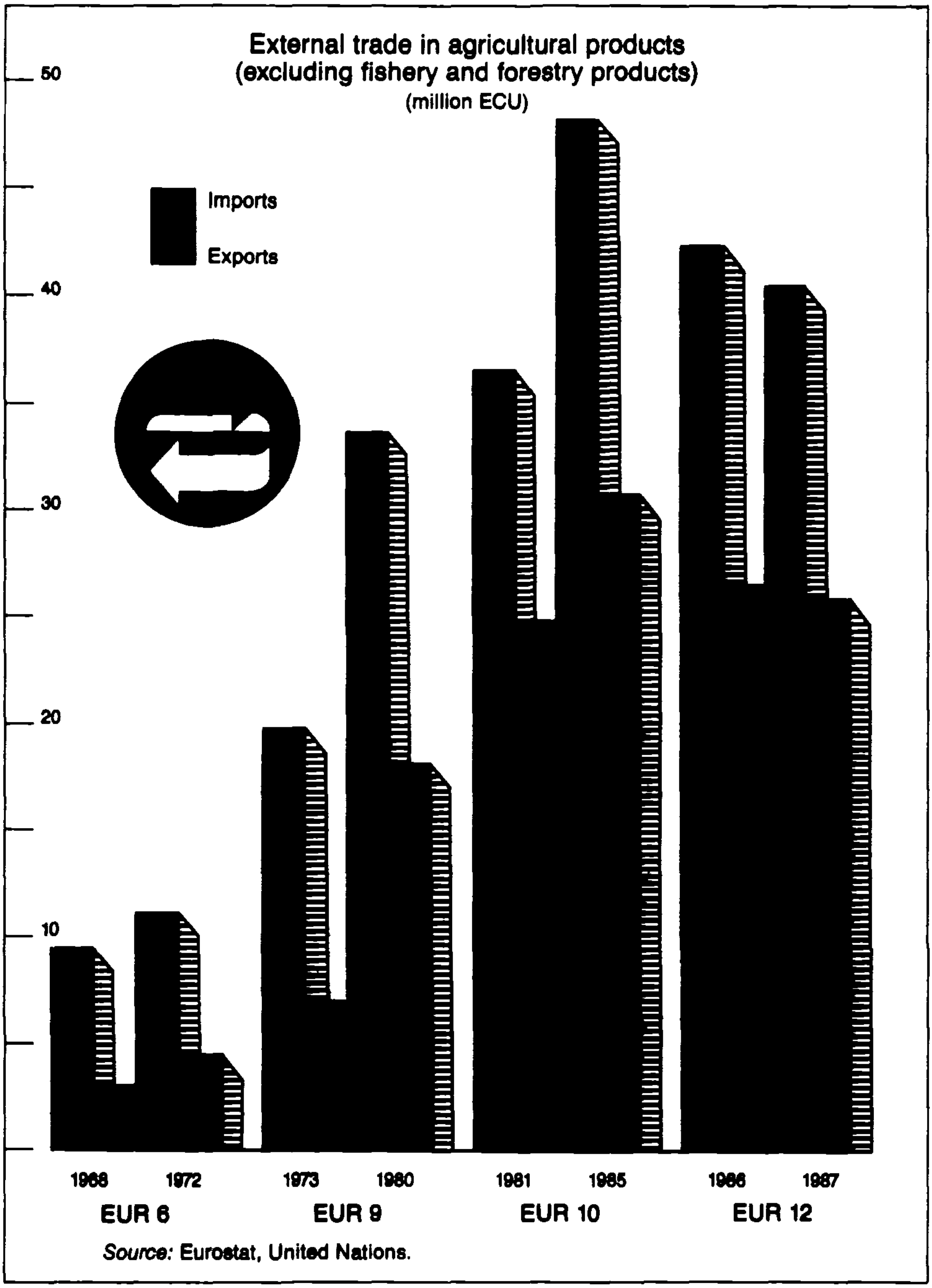
quantities of butter and beef at very low prices, in order to solve the problem of intervention stocks, but the situation on the milk market has now eased and public stocks of butter are no more. Exports of other surplus products have been falling back to something like 'normal', markets having been stabilized by the reform measures adopted.

2. Promoting world trade: the policy on agricultural trade

Even before the Community was founded, the Member States had already concluded trade agreements on agricultural products with many non-member countries. In addition, most of the founder members belonged to such international bodies as the United Nations Food and Agriculture Organization and the Organization for Economic Cooperation and Development (OECD) and all had subscribed to the General Agreement on Tariffs and Trade (GATT). With the establishment of the customs union and the introduction of a common external tariff the Community also took over responsibility for external trade policy: the international negotiation of rules to govern world trade and the conclusion of trade agreements with non-member countries are now Community matters. The priority objective is to keep international trade as free as possible — a vital matter for the Community, which imports about one-fifth of its raw materials and depends on markets outside the Community for the disposal of its industrial and agricultural products.

A network of trade relations

The Community has now concluded bilateral agreements with more than 120 non-member countries and is a participant in about 30 multilateral agreements. Under treaties with the countries of the European Free Trade Association (Switzerland, Austria, Sweden, Norway, Iceland, Finland), customs duties and trade restrictions on industrial goods have been dismantled and trade in farm products has been facilitated. Similar agreements exist with various Latin-American countries, Yugoslavia and many Mediterranean countries, for which the Community has a comprehensive development strategy.

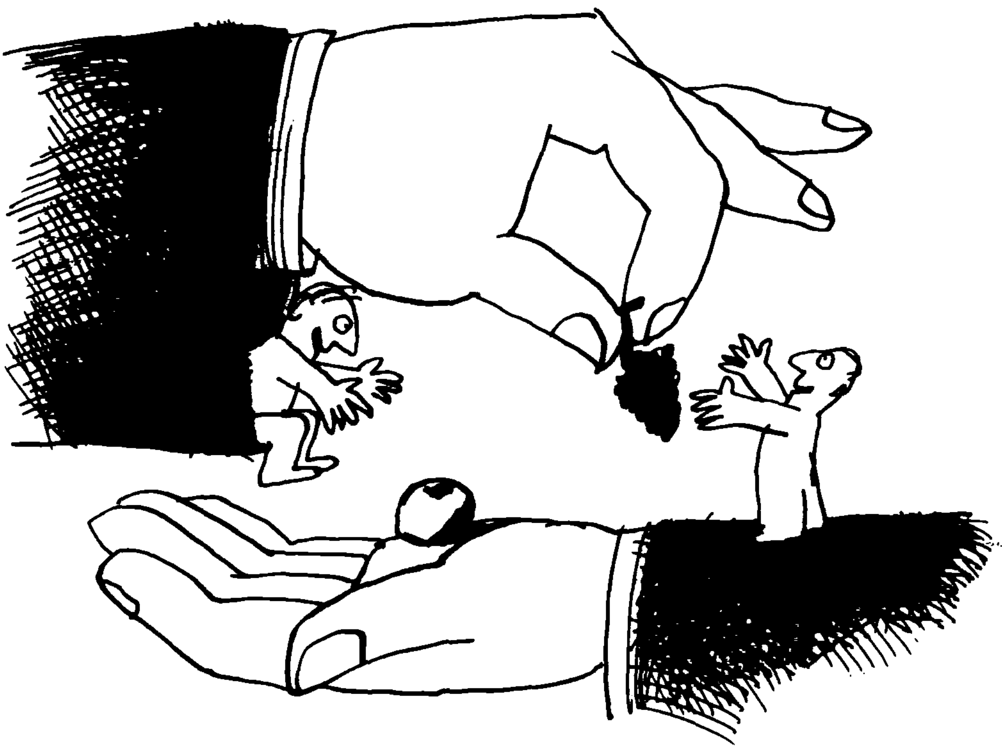

External trade in agricultural products
(excluding fishery and forestry products)
(million ECU)
50
40
30
20
10
Imports
Exports
1968
1972
1973
1980
1981
1985
1986
1987
EUR 6
EUR 9
EUR 10
EUR 12
Source: Eurostat, United Nations.

Most Mediterranean countries are able to export their industrial products to the Community free of customs duties and without quantitative restrictions, while trade in agricultural products has also been liberalized, with the Community introducing tariff concessions for many such Mediterranean products.

International cooperation under GATT

The classical framework for international trade is provided by the General Agreement on Tariffs and Trade, to which the Community acceded in 1963. Under GATT about 100 States have agreed on common rules for trade in goods and the settlement of trade disputes. In a number of negotiating rounds import duties have been considerably reduced and quantitative restrictions on imports have been substantially removed.

It has proved very difficult, however, to integrate into this context the Community's system of levies for the main agricultural products. The main feature of these levies is precisely that they vary according to prices on the world market. This flexibility is one way of protecting the Community market (and this is the purpose of the market organiza-



tions) against major fluctuations in world market prices, and thus of stabilizing it. Unlike customs duties, which are normally a fixed percentage of the import price, it has not proved possible to fix levies at any given level, or to 'bind' them, as the term is.

In order that these levies should nonetheless be accepted by the Community's trading partners in GATT, the Community had to make concessions on many other agricultural products, including such important ones as oilseeds, protein plants, various feedingstuffs, sheepmeat, rice, fruit and vegetables, to name only a few. Up to certain maximum quantities, beef, veal and live cattle may be imported without levies having to be paid . About 70% of the Community's farm imports are now subject to low, bound rates of duty or may even be completely free of any duty or levy. Many non-Community countries have adapted to this situation and greatly expanded their deliveries of those products which are free of levies.

The category of import from outside the Community which has caused most trouble for the common agricultural policy is livestock feed: such products as manioc, corn gluten or sweet potatoes, with low rates of duty bound under GATT, tend to drive expensive indigenous grain out of the livestock feed market and lead to higher surpluses on the cereals market. In its negotiations with its trading partners, the Community is endeavouring to strike the right balance in the external protection afforded to the various products concerned and to eliminate these disturbances.

3. Fairness in world trade

Despite the extensive concessions which the Community has made on imports of agricultural produce, international criticism of the common agricultural policy has not fallen silent. Many non-member countries accuse the Community of trying to insulate itself from world agricultural markets through its system of levies, for the benefit of domestic producers. They also claim that the Community has unwarrantably expanded its share of world trade by paying export refunds to offset its uncompetitive prices and that it is thus jeopardizing the outlets available to other countries exporting farm produce.

This criticism is somewhat wide of the mark. Admittedly, the Community's imports of cereals and some other products which are of particular importance in European agriculture have fallen over the last few years.

However, the Community's agricultural imports are still high enough to make the Community the world's biggest importer of farm produce. The United States (one of the sharpest critics of the common agricultural policy) had a surplus in agricultural trade with the Community of more than ECU 2.5 billion in 1986.

Aids for agricultural exports are allowed under GATT provided they do not lead to unfair changes in market share. The Community's share of world farm exports has not significantly increased over the last few years: between 1973 and 1986 it rose from around 10 to 12.3%. The Community cannot therefore be guilty of the cut-throat competititon of which it is accused, by the United States especially. Although the United States' share of world farm exports has fallen slightly over the last few years (from 19 to 17%), this cannot be explained by the increase in the Community's market share alone. This was the conclusion reached in 1983 by a GATT investigation, after the United States had made a formal complaint against the Community's export refunds on wheat flour.

The United States and other major producers also have special measures to support farm exports. These are frequently much more difficult to identify than the Community's export refunds.

4. Agricultural trade with the Third World: open markets to promote self-sustained development

For many Third World countries the export of farm produce is an important source of foreign exchange and the basis of their further economic development. In order to support this process, the Community has considerably improved developing countries' access to its markets. Unlike its trade with industrial countries, the Community does not insist on equivalent concessions from the beneficiaries. In this way, farm trade makes a considerable contribution to development aid.

Generalized tariff preferences

Nearly 130 developing countries are able to send the Community industrial goods, textiles and farm products on preferential terms: import duties are appreciably lower than in trade with industrial countries, or they may even be waived completely. During the 1970s, all the western industrial countries joined this 'generalized scheme of preferences', which stemmed from a European initiative of 1963. Since its introduction in 1971 the Community preference scheme has been considerably extended, especially for processed agricultural products. More than 400 farm products now qualify for preferences, and about 100 are imported completely free of duty. The Community has even granted the poorest developing countries complete freedom from duty on about 700 farm products. The scheme has proved very successful: in 1985 farm products worth about ECU 2.3 billion were exported by developing countries to the Community on special terms.

The Lomé Convention

A cornerstone of the Community's relations with the Third World is the Lomé Convention, to which 66 countries in Africa, the Caribbean and the Pacific (the ACP States) now belong. The Convention provides for genuine trade cooperation with the ACP States, who are able to export almost all their products to the Community free of duty. A major innovation is that the Community also guarantees them certain minimum returns on the export of certain raw materials to Europe: this Stabex system, as it is called, covers about 50 products, including many agricultural commodities such as coffee, cocoa, tea and sisal. The Community has also committed itself, despite its high degree of self-sufficiency, to taking an annual 1.3 million tonnes of raw sugar at the price obtaining on the internal Community market. In addition, the ACP countries are able to export nearly 40 000 tonnes of beef a year to the Community at a fraction of the normal import levy.

This means that all these exports by ACP countries are largely protected from the speculative ups and downs of world commodity markets and are thus ensured of a stable basis for their development. In addition, intensive technical and financial assistance is provided in the sphere of agriculture.

The Community's trade policy initiatives on behalf of the Third World are now bearing fruit: farm imports from developing countries have risen much more steeply than those from developed countries, and have moved into first place (see Table on p. 44).

Food aid

The Community takes an active part in the proceedings of international development bodies such as the FAO, Unctad, the World Food Conference and the World Food Programme. Over the period from 1975 to 1987 the Community supplied food aid, either directly or via aid organizations, to a total value of over ECU 4 billion (chiefly wheat, milk products and sugar). Food aid should, in emergencies, allow the most urgent needs to be met and help to raise the standard of nutrition in the receiving country. Rightly used, it can contribute to its economic development.

5. The agricultural negotiations in GATT: a new opportunity for world farm trade

It is not only the European Community which protects its agriculture: most industrial countries do so in one way or another. The United States, for example, spent USD 11 250 per farmer on farm aid in 1987 — almost five times what the common agricultural policy cost per farmer. Just as in the Community, farm output in the United States and other industrial countries has been increasing appreciably faster than domestic demand. By the mid-1980s, large surpluses had accumulated all over the world and had come to constitute a major obstacle to international farm trade. World market prices collapsed and the growing competition between exporters led to ever greater tensions between trading nations.

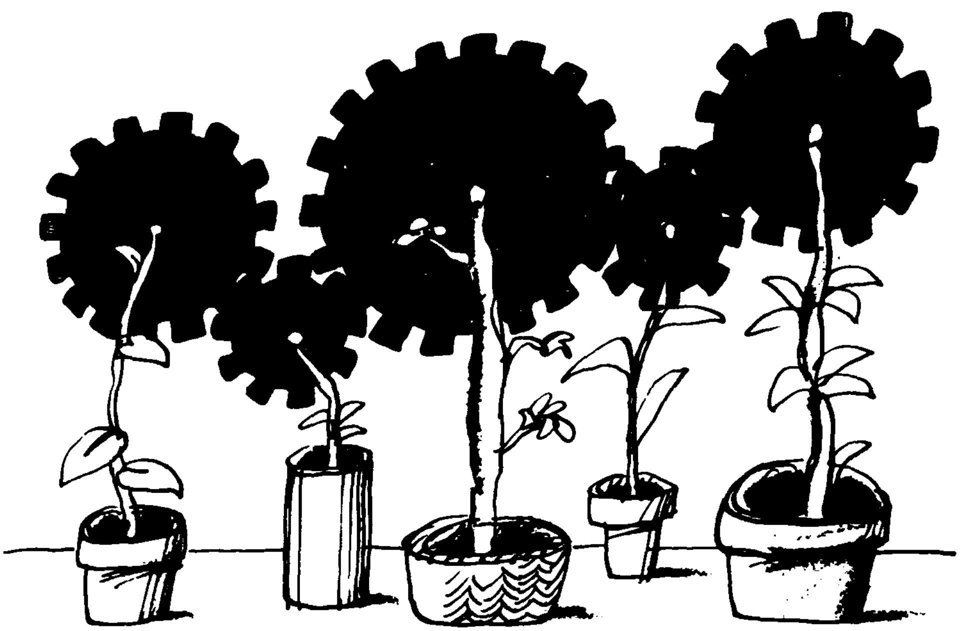
These were the main features of the international situation in September 1986 when a new round of GATT trade negotiations got under way — the Uruguay Round, as it was called after the host country of the first meeting. From the beginning, agricultural policy

Breakdown of the Community's imports of farm products and foodstuffs

	1973	1975	1980	1985	1987
Value (in billion ECU)	24.0	25.4	42.2	58.6	50.8
Breakdown in %:					
Industrial countries	49.0	48.3	48.2	43.7	40.3
Developing countries	40.7	42.6	44.1	49.0	50.6
State-trading countries	10.3	9.1	7.7	7.3	9.1

was one of the main themes of the negotiations, which are to be concluded in the early 1990s. The declared aim is freer world trade in agricultural products: existing import barriers should be dismantled, subsidies and other measures affecting trade should be limited and made subject to stricter international rules. Market forces should be given a greater role in agricultural production and trade, so that balance can be restored on the world market for farm products.

For many industrial countries, including the Community, this means that they must freeze and in the longer term even reduce their aid to agriculture — a requirement which has basically been accepted by all the negotiating parties. The only question is how far this liberalization should go, in order to avoid disturbance in farm trade. And how far can it go, without jeopardizing the aims of the agricultural policy?



For a long time the United States adopted an extreme position here, demanding complete elimination of all aids which had any impact on trade in agricultural produce. Neither the Community nor many other countries where small and medium-sized farms predominate were able to accept this suggestion, which would have meant the end of the common agricultural policy and an end to farming on millions of holdings in Europe. In the last few years the Community has shown that it is willing to make alterations to its farm policy, but the basic principles of price support with the aid of import levies and export refunds cannot be called into question.

The Community and the United States, accounting as they do for about two-thirds of world exports of such important products as milk, grain and oilseeds, have key roles to play in the GATT negotiations. Both sides will have to make concessions if the negotiations are to be concluded successfully. One feasible solution might be a two-stage model, as suggested by the Community and other negotiating partners: agricultural support would first be pegged at the level of recent years, then, after a transition period in which production and trade would stabilize, reduced in stages to a realistic level which would be in the interests of all.

At the same time, better and more effective rules would be needed for international agricultural trade. They must prevent new crises form occurring on world markets and promote trade in farm products. The first meaningful steps in this direction have already been taken: in late 1988 the GATT countries decided on further tariff reductions for 140 tropical products, accounting for a total trade volume of around USD 10 billion, and improved the arrangements for trade disputes. These interim results show that the negotiating partners have recognized the opportunity offered by the Uruguay Round and are ready to make joint efforts to put world farm trade on a firmer basis.

F. The institutional framework: who decides what?

The European Community's institutional system does not fit into any known category. The Community is far more than an intergovernmental organization: its organs have their own personality and extensive powers. Nor is the Community, however, a kind of federal government to which national governments and parliaments are subordinate. Rather it is a new type of arrangement tailored to European requirements, for which specific rules of procedure have been developed.

1. The Community institutions

The European Parliament, the Council, the Commission and the Court of Justice frame, supervise and interpret Community decisions and regulations. They are supported in this by the Economic and Social Committee and the Court of Auditors.

Commission

The Commission is made up of 17 Members, each appointed for four years by mutual agreement between the governments of the Member States. The Members of the Commission perform their duties in complete independence both of national governments and of the Council. The Commission ensures that the provisions of the Treaty are applied; it is the executive organ of the Community, the driving force behing Community policies and the representative of the Community interest in the Council.

Parliament

Since 1979 the European Parliament has been elected directly by universal suffrage. Since Spain and Portugal joined the Community it has 518 Members. It examines the Commission's proposals to the Council and gives opinions thereon, which may include amendments. These may lead the Commission to revise its position. This procedure having been gone through, it is then for the Council to make the final decision. Parliament also supervises the work of the Commission, which is politically responsible to it. By a motion of censure it may compel the Commission to resign. Parliament has the last word in establishing the Community budget. The Single European Act of 1986 has considerably extended the role it plays in the legislative process.

Council

The Council consists of representatives of the 12 national governments. It takes decisions on proposals from the Commission, after receiving the opinions of the Economic and Social Committee and the European Parliament. Governments send the ministers competent in each case to attend its meetings and on matters of agricultural policy they of course send their Ministers for Agriculture. The Presidency of the Council is held in turn by each Member State, for six months.

Since 1974 the Heads of State or Government of the Member States have met twice a year in the 'European Council', to establish guidelines on important matters and to reflect on policy.

Court of Justice

This is the highest legal authority for resolving disputes concerning the interpretation of the Rome Treaties and Community legislation. On the basis of complaints filed by the Commission, the Court examines whether the Member States are complying with the Treaty provisions. Member States and private individuals may also apply to the Court if they question the legitimacy of a Commission or Council decision. To an increasing extent, the Court is also assisting the national courts with the interpretation of Community law in cases where it has a bearing on national judgments.

2. Decision-making processes and legal acts

According to the Rome Treaties, all decisions of general scope or major consequence must be taken by the Council of Ministers; however, except in a few cases, it is only on a proposal from the Commission that the Council can act. The Commission thus has not only a permanent right of initiative, but also a permanent duty in this respect. Without proposals from the Commission, the Council's hands are tied and the Community makes no progress. This is why the Commission is described as the driving force of Community policy.

When the Commission submits a proposal, the Council first of all instructs a special committee of senior officials or a working group to prepare the way for discussions. The work of these bodies is coordinated by the permanent representatives of the Member States to the Community, which take over the role of the ministers for this purpose. The Economic and Social Committee is also asked for its opinion on the economic and social effects of the proposal. Its opinion is not binding on the Council.

The Council may disregard a Commission proposal only by unanimous decision. In contrast, it may act on a Commission proposal by a majority decision. Thus, the Commission has genuine bargaining power with the Council. In the course of negotiations, it may amend its proposal to make it acceptable to the majority or to enable a unanimous decision to be taken.

In this context it works closely with the Council President. As soon as the Council has agreed on a common position, the Parliament votes on it and the way is open for the proposal to become law.

The outcome of this procedure may take the form of a Council directive or regulation. A directive is a kind of framework law which lays down an objective. Member States are obliged, within a given time, to adopt the necessary national legislation to translate the directive into practical measures. Directives are the legal instrument most commonly used in matters of structural policy. Regulations are directly binding in all Member States. They have the force of law. For instance, the agricultural market organizations are governed by regulations. Another type of legal instrument is the decision. Depending on the matter concerned, decisions are adopted by the Commission or the Council. They may be addressed to Member States, undertakings, or private individuals. They rank as administrative acts and are binding on those to whom they are addressed.

3. Management committees: the day-to-day management of the agricultural policy

The Council determines the broad thrust of Community policy in its regulations and directives; the Commission is responsible for the finer adjustments. It draws up the necessary detailed rules, decides on the application of Community law in specific cases (for instance, whether national aid schemes are permissible) and administers Community resources within the framework of the general budget. This distribution of the workload relieves the burden on the Council and ensures that the Community can respond swiftly and flexibly to any changes that occur. The Commission works in close cooperation with the Member States. Several committees have been set up for this purpose, comprising representatives of the national governments and the Commission.

The first management committees for agricultural policy were set up in 1962 and have proved to be both useful and efficient in practice.

They include specialists from the Commission and from the ministries of the Member States. One important duty that falls to these committees is the day-to-day management of the market; for instance, at regular intervals, the committees fix the level of export refunds, import levies and aids. The technical details of Council decisions are also decided at management committee level. In the case of markets subject to sudden changes to which the Community must react as promptly as possible, committee meetings are held weekly (cereals, sugar) or fortnightly (milk products, oils and fats); longer intervals suffice for other products. In 1987 there were 346 meetings of management committees. As a consequence of these meetings, the Commission adopted some 2 000 regulations and decisions.

How does the bargaining process between the Commission and the government representatives take place? Let us assume that the world market price for rape has altered and that the Commission has to adjust the level of processing aids. It submits a draft regulation providing for such adjustment ot the Management Committee for Oils and Fats. At a meeting of the committee, the government representatives then state their positions. This is not binding on the Commission; it takes the opinion into account but retains complete freedom of decision. Commission decisions are immediately applicable. If, however, the committee votes by a qualified majority against the Commission measure, the matter is laid before the Council, which may take a different decision within a four-week period. The management committee thus acts as a kind of warning system: an unfavourable opinion indicates a difficult situation on which the Council itself should decide. The fact that this occurs only in exceptional cases reflects the effectiveness of the system and the good understanding between the parties concerned.

4. A typical example: the farm price negotiations

Agricultural prices and related measures are adopted each year by the Council.

This often involves lengthy and complicated negotiations, but the basic procedure is as described above.

Preliminary step: Commission proposals

Generally speaking the Commission submits its proposals for farm prices and related measures in January or February. It endeavours to take account of the interests of all concerned. Determining factors are farmers' incomes, the general economic situation, the outlook for the agricultural markets, consumer prices and the budgetary implications of price changes. In recent years the related measures have chiefly consisted of essential adjustments to the intervention mechanisms and measures to improve product quality, together with agrimonetary measures.

The Special Committee on Agriculture

After the Commission has submitted its proposals and explanatory comments, the Council instructs the Special Committee on Agriculture to prepare the negotiations. This Committee is composed of senior officials from the agricultural ministries of the Member States. They study the Commission proposals to see how far they correspond to their respective national desiderata; amendments are submitted and the latitude for negotiations is assessed. The Commission is also represented at these meetings and can thus influence the course of the bargaining from the start.

On the way to compromise: negotiations in the Council

After the preparatory work, negotiations begin at Council level; the opinion of the Economic and Social Committee has often been submitted by this stage. It is only in extremely rare cases that agreement is reached at this first stage; usually, the negotiations last for several meetings and there may even be marathon sessions. Between the rounds of talks, work continues in the Special Committee, which discusses the preliminary results in greater depth and endeavours, with the Commission, to find solutions acceptable to a broad majority.

The expectations which Member States have of the farm price decisions often differ considerably, depending on their circumstances. The fact that, even so, the prices package is usually adopted unanimously is an indication of the willingness of the ministers to make compromises and reach agreement. Under the Rome Treaties it is sufficient for the prices package to be adopted by a majority vote; in practice the ministers endeavour to find a solution acceptable to everyone.

From a 'common position' to legally binding regulations

On completion of its negotiations the Council arrives at a common position. Decisions do not acquire the force of law until they have been examined by the Parliament and embodied in Council regulations. The agricultural prices are then fixed definitively for the following year. However, some details of the related measures may still need to be clarified since these cannot normally be dealt with fully in the Council decisions. The Commission, through the management committees, must then intervene once again. The Commission stipulates the necessary transitional periods by the management committee procedure, adopts the detailed rules of application, and decides on certain technicalities. It is not until these provisions have also been published in the form of regulations in the *Official Journal of the European Communities* that the price negotiations are finally completed.

III — The reform of the common agricultural policy

The success or failure of any policy should be gauged by the extent to which it attains its objectives, and at what price. After more than a quarter of a century of the common agricultural policy, the picture is very mixed. Enormous increases in production have secured food supplies; the consumer can choose from a varied range of goods at favourable and stable prices. In many Member States and regions of the Community farming has developed from a traditional activity into a modern industry. These are unquestionable achievements, but at a high cost to the Community: mounting farm surpluses and rising agricultural expenditure coupled with declining farm incomes and increasing strains on the world markets for agricultural goods have constituted the reverse side of the coin. The common agricultural policy was thus frequently and heavily criticized in the media, and divergences of view emerged between the Member States. Despite a degree of political resistance in the Council, the Community was forced, in the mid-1980s, to undertake a far-reaching reform of its farm policy.

A. Why was reform necessary?

The instruments of the common agricultural policy were conceived in the climate of the early 1960s. Since then, European farming and its context have changed fundamentally. For a long time agricultural policy was unable to adapt to the swift changes, by reason of its very success. The failure to keep pace was accentuated by the three enlargements of the Community, which changed the situation on the agricultural markets and aggravated the structural disparities within Community agriculture.

1. The main problem: farm surpluses

When the market organizations were set up, much of the Community's food requirements was supplied by imports. Increased agricultural production was something which, with its common agricultural policy, it could envisage very happily.

The external protection afforded by the levy system and relatively high farm prices did have that result: within a few years, the use of modern methods of livestock and crop production had greatly increased yields in both areas. As production expanded far more rapidly than domestic demand, the Community's degree of self-sufficiency rose substantially, reaching 100% in certain key sectors (see Table on p. 54).

Slower growth of demand

The economic crisis and increased unemployment accelerated the trend towards imbalance between supply and demand. Because of poor employment prospects outside agriculture, the drift from the land slowed down markedly; despite the stagnation or decline in farm incomes, agricultural production continued to increase at annual rates of 2%. But the growth of domestic demand continued to slow down. Furthermore, per capita consumption of foodstuffs had reached a ceiling in many Member States. And population growth had slowed notably. Although the population of the Community was still increasing at an annual rate of 0.8% in the 1970s, it dropped to about 0.2% on average in the 1980s. Despite rising incomes, domestic consumption of foodstuffs is increasing on average by only 0.5 to 1% per year.

As a consequence, supply began to outstrip demand in certain heavily protected sectors (cereals, milk and beef), giving rise to surpluses for which the Community had no purchasers. In the 1980s wheat production exceeded consumption by almost 30%, whilst the surpluses of butter, skimmed-milk powder and beef represented 34, 28 and almost 10% respectively. The world market was also amply supplied with these products. Effective demand in the Third World countries could only absorb a comparatively small part of the surpluses, and only if the Community subsidized its exports through export refunds.

An inevitable change of role

In the absence of outlets on the world market, farmers and processors had no alternative but to offer increasing proportions of their production to the intervention agencies, which were obliged to buy up these quantities at the fixed intervention price. While production had remained below the level of domestic demand, public intervention had operated, as planned, as a kind of safety net: at times of plentiful supply (such as harvest time or the peak period of milk production in the spring) the intervention agencies had taken the surplus quantities from the market in order to stabilize prices. But, as surpluses mounted, intervention was increasingly misused as the 'normal' disposal route. A guaranteed outlet at a guaranteed price, without any restriction, made the intervention agencies an attractive alternative for many producers and processing industries. In some instances, processors were even producing goods specifically for intervention instead of seeking new market outlets. The consequences were inevitable.

Public stocks rose very swiftly to very high levels: at the end of 1986 the Community's cold stores housed almost 1.3 million tonnes of butter and about 600 000 tonnes of beef,

while cereals stocks amounted to almost 15 million tonnes, skimmed-milk powder stocks to 850 000 tonnes, and olive oil stocks to 280 000 tonnes. Such quantities bore no relation whatsoever to any provident policy intended to compensate for fluctuations in production due to seasonal or meteorological factors. The common agricultural policy had indeed attained its objective of increasing farm production, but it had become the victim of its own success!

2. A flagrant paradox: mounting agricultural expenditure and plummeting farm incomes

The growth in farm surpluses became a heavy burden on the Community budget. Storage and disposal measures took an ever-larger slice of the budget and brought the Community to the verge of insolvency. In the space of a few years, between 1975 and 1988, EAGGF guarantee spending increased sixfold, reaching ECU 27.5 billion in 1988. At constant prices, guarantee spending rose by more than 160%, while gross domestic product in the Community increased by only 32% in real terms, and the volume of agricultural production rose by over 25%. Two-thirds of the Community budget (and in some years significantly more) were steadily poured into agricultural market support, to the detriment of other Community policies, which had to be pruned to a minimum because of the tight budgetary situation.

Degree of self-sufficiency in main agricultural products

(%)

	Total cereals	Wheat	Sugar	Fresh fruit	Butter	Cheese	Beef	Sheepmeat and goatmeat
1968/69 (EUR 9)	86	94	82	80	92	99	95	56
1973/74 (EUR 10)	91	104	100	82	98	103	96	66
1984/85	118	129	101	83	134	107	108	76
1985/86 (EUR 12)	119	120	126	88	130	106	106	80
1986/87	111	119	127	85	105	106	108	80

Level of public stocks in the Community

(1 000 t at end of year)

	1979 EUR 9	1983 EUR 10	1986 EUR 10	1987 EUR 12	1988 EUR 12
Cereals	2 677	9 542	14 717	8 147	8 312
Olive oil	53	121	283	299	346
Skimmed-milk powder	215	957	847	600	11
Butter	293	686	1 297	860	120
Beef — carcasses equivalent	310	410	576	776	425
Alcohol (1 000 hl)	—	—	4 026	9 000	10 556

Even so, the common agricultural policy still failed to improve or even stabilize agricultural incomes consistently.

Until 1978 average farm incomes remained approximately in step with those in other sectors of the economy, albeit with much greater year-to-year variations. However, since 1978, under the pressure of the structural surpluses, producer prices have fallen in real terms, or at best held steady. This has meant a fall in farm incomes, despite increased production, and this situation looks set to get worse. As a consequence the average real income of European farmers in 1988 was below the level of the mid-1970s.

The picture is astonishing at first sight: the Community spends billions on the agricultural policy while farmers' incomes decline steadily. The apparent contradiction is explained by the breakdown of market support spending. In 1987 about half the EAGGF guarantee expenditure was taken up by schemes solely concerned with the storage or disposal of surpluses. Almost 40% of EAGGF money was spent on export refunds and a good 15% on storage. In addition, large subsidies were granted, for instance, to reduce the price of milk products to a level at which they could be sold on the Community market. Expenditure on beef-market support was by far the least effective: 49% of all expenditure on this sector went towards the storage of unsaleable surpluses.

Intermediate consumption (seed, fertilizers, veterinary fees and other expenses)

(1973 = 100)

	1967	1973	1981	1987
Belgium	68.7	100.0	101.3	116.10
Denmark	—	100.0	119.6	124.42
FR of Germany	93.0	100.0	113.6	117.45
Greece	—	100.0	144.9	160.56
France	65.7	100.0	119.9	130.21
Ireland	—	100.0	133.4	143.03
Italy	75.9	100.0	131.3	141.77
Luxembourg	85.6	100.0	94.6	109.60
The Netherlands	69.9	100.0	133.8	149.27
United Kingdom	—	100.0	94.4	100.80
EUR 6	76.3	100.0	120.1	129.11
EUR 10	—	100.0	116.2	124.66

Source: Eurostat.

Development of basic economic indicators in real terms 1975-87 EUR 10
1975 = 100

	EAGGF Guarantee[1]	Total GDP[1]	Final agricultural	Agricultural NVA[1] production[2]	NVA per AWU[1]
1975	100.0	100.0	100.0	100.0	100.0
1976	112.4	105.1	99.9	100.6	102.5
1977	126.4	107.9	104.0	96.3	95.1
1978	148.8	111.2	109.4	96.9	97.9
1979	166.3	115.1	113.5	93.1	96.3
1980	164.8	116.5	115.3	86.2	91.1
1981	146.8	116.7	115.7	86.8	94.9
1982	151.6	117.5	121.8	92.9	104.7
1983	182.2	119.2	121.4	87.4	98.8
1984	199.1	122.1	125.3	88.6	102.1
1985	207.4	125.1	124.4	82.7	97.2
1986	223.5	128.3	127.2	82.7	98.7
1987	264.0[3]	131.3	126.5	77.5	94.9

Source: Eurostat — DG VI.

[1] In real terms (GDP deflator).

[2] At constant prices.

[3] Including expenditure for November and December 1987 carried over to 1988.

GDP: gross domestic product at market prices.

NVA: net value-added at factor cost.

AWU: annual work unit.

These figures suffice to show that one of the most urgent tasks facing the Community is to use the available budget resources more efficiently, and for the benefit of the farmers themselves. As long as the markets carry structural surpluses, the support measures can do no more than prevent market prices collapsing.

3. Growing international tension

The farm surpluses are not only a dead weight on the CAP and the Community budget; with time, they have developed into a burden on the Community's international relations.

As long as stocks and storage costs were not completely out of control, the Community relied on increasing its exports to non-member countries. For instance, between 1973 and 1985 cereal exports increased by 150% (over the same period production increased by just over 30%). In 1973 only 8% of production was exported, but 12 years later the percentage leaving the Community was twice as large. Even on the world market, however, there could only be a limited demand for such an ever-increasing abundance of agricultural produce.

Although many developing countries and East European countries have substantial import requirements, their foreign-exchange resources are grossly insufficient for them to import farm products on a large scale. Other countries, such as India and China, have succeeded in increasing production considerably in the past few years and have even become net exporters of certain products.

By the mid-1980s the world markets for farm commodities had become totally destabilized, especially because of soaring production in many industrialized countries. For instance, stocks of feed grain stood at 200 million tonnes, about two-and-a-half times the volume of world trade. With exports at 85 million tonnes, wheat reserves world-wide in 1985 stood at about 150 million tonnes, and sugar stocks exceeded potential outlets by one-third.

Under the pressure of these large surpluses there was a sharpening of competition for markets; world market prices dropped and reached an all-time low in 1987. This situation resulted in increasing tension between the major farm commodity exporters, poisoning the climate of international trade, especially relations between the Community and the United States, but also with New Zealand, Canada and Australia.

In 1985 Washington adopted a special export promotion programme for farm products, seen as a response to the Community's export refunds and directed primarily towards the solvent markets of North Africa and the Near East. All the Community could do, in order not to be left with all its stocks, was to grant higher refunds for these countries. This sparked off a veritable subsidy war simply to get rid of unsaleable farm surpluses.

Transatlantic relations also suffered severe setbacks as disputes arose in connection with the Community's most recent enlargement. Newspaper readers no doubt remember these as the 'spaghetti and maize wars'.

The disturbed situation on the world market for farm commodities also weighs heavily on North-South relations. The chief victims of the subsidy war between the industrialized countries are the developing and newly industrializing countries, whose export prospects for certain farm products (such as sugar, beef or even cereals) would otherwise be promising. On other countries, currently dependent on imported foodstuffs, the effect of the extremely low world market prices is to take away any incentive to build up their own production sector and to become self-sufficient in the long term.

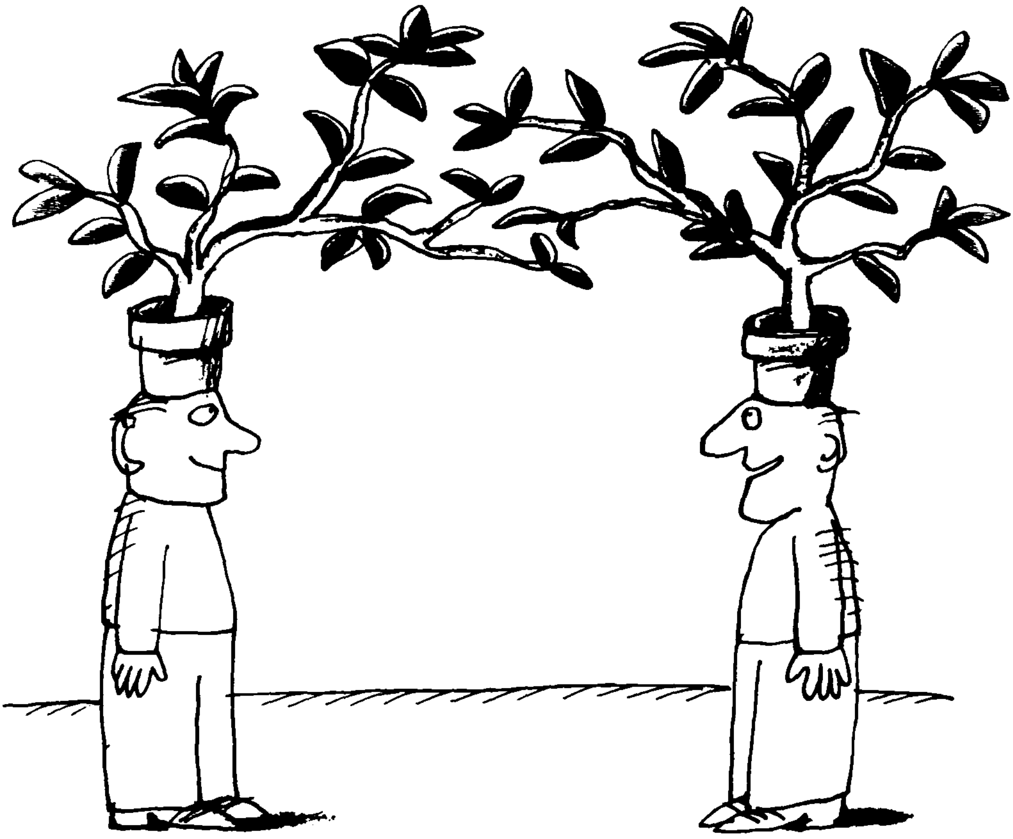
Obviously, the tensions in world trade are not solely attributable to the common agricultural policy. However, as the principal trading partner on the world market, the Community cannot deny its international responsibility. Open trading relations in a spirit of partnership are vitally important to the Community if it wishes to maintain its position as one of the world's biggest exporters. With the reform of the common agricultural policy the Community has shown that it is prepared to make a contribution towards fair world trade and to initiate a process of international agricultural reform.

4. Future tasks and challenges

For a long time the main focus of the common agricultural policy was prices and markets. The regulation of the latter was the main instrument used for achieving the agricultural policy objectives of the Community. Structure policy and related measures generally received not more than 5% of the total agricultural budget and played only a very secondary role. An 'active' incomes policy, founded on relatively high farm prices, thus remained the key instrument with which to safeguard the economic and social fabric of rural areas.

This paved the way for the subsequent build-up of surpluses. In the end the level of the common prices was determined not by market conditions, but by the problems of the economically weakest categories of farm and the regions with the lowest productivity. Although, numerically, the 'problem farms' constitute the majority, they produce only a small part of total output. Consequently, a support policy geared primarily to production bypasses the target groups almost completely.

About 80% of all farm production is now in the hands of only 20% of all farmers. Given their level of productivity these high-performance farm businesses have derived comfortable incomes from the relatively favourable farm prices and have thus been able to expand their production even further.



The fact that the old type of 'income-oriented' policy had reached its limits is clearly apparent from the increasing surpluses and budget problems of recent years. These are forcing the Community towards a restrictive pricing policy, geared more closely to the demands of the market than to considerations of income and structure. Farmers must therefore accept that market conditions are now less favourable for their products; producer prices and incomes will be under even greater pressure, at least for a transitional period, until the markets regain stability at lower prices and at a lower level of supply.

Where farms are economically healthy and of reasonable size, this adjustment process will be accompanied by a drop in earnings but their survival will not be threatened. The situation is different for the many small farms in disadvantaged areas, which are already in serious economic difficulties. Unless back-up measures are adopted, the contrasts within European farming (with large, well-structured farms on one side and low-income smallholdings on the other) will become more acute. Many small farms in regions with relatively unfavourable natural conditions will cease to be viable; agricultural production will become concentrated in the most favourable areas and large parts of Europe will be threatened with economic desolation. Such a scenario would almost certainly induce the wealthier Member States to adopt national aid schemes which could endanger the common agricultural policy in the long run.

Small farms still predominate and still play an extremely important role, both economically and in terms of employment policy, in the poorest regions of the Community. This was particularly the case after the enlargement of the Community towards the south. With the accession of Greece, Spain and Portugal, the number of agricultural holdings in the Community increased by half, while the farming population rose by 35%. In Greece, about 28.5% of the working population is employed in farming; in Portugal 22%. If a more restrictive price policy were to cause a large-scale exodus from farming, the effects would be fairly damaging for the economic and social fabric of many areas, gravely affecting their future development. Some regions have in fact already reached the stage where their social structure and the natural environment are endangered by rural depopulation.

The range of instruments deployed under the common agricultural policy must therefore be expanded and diversified if the policy is to continue to fulfil its function. Measures are needed to help farmers adjust to the new requirements set by a market-oriented price policy. Models are needed for a policy on farm incomes and social welfare, with the spotlight no longer on production but on the income of the farmer and his family. Ways must be found to maintain at least a minimum level of farm employment wherever this is necessary on economic and environmental grounds. Finally, strategies are needed for the overall economic development of the countryside, offering the rural population new prospects in non-farming sectors.

Structural data on European agriculture in 1986

	Farm size (ha)	Area per agricultural work unit	Share of agriculture in gross domestic product (%)	Share of agriculture in working population (%)
Belgium	14.1	13.7	2.5	2.9
Denmark	30.7	15.9	5.0	6.8
FR of Germany	16.0	8.9	1.8	5.3
Greece	4.3	5.6	16.6	28.5
Spain	12.9	15.6	6.1	16.1
France	27.0	20.5	3.7	7.3
Ireland	22.7	33.8	10.2	15.8
Italy	5.6	7.8	5.0	10.9
Luxembourg	28.6	19.7	2.6	4.0
The Netherlands	14.9	8.2	4.2	4.8
Portugal	4.3	5.1	23.1	21.9
United Kingdom	65.1	30.1	1.8	2.6
EUR 12	8.9	12.8	3.5	8.3

B. *The reform of the policy on markets and prices*

By the end of the 1960s the Commission had already drawn attention to the looming problems of surpluses and budget difficulties. That was the start of the problems, but it was only 10 years later, when the imbalance had become more acute, that the necessity for a reform of the common agricultural policy was generally recognized.

1. From the Commission's Green Paper to the decisions on reform

The first steps to limit farm production were taken in the 1970s, but they consisted of sporadic intervention or emergency solutions for individual markets rather than a unified approach. At the beginning of the 1980s there was gradual acceptance of the idea that guaranteed prices and outlets should be restricted to certain maximum quantities and that farmers should contribute more towards the cost of surpluses. In 1985 the Commission submitted a policy paper on the 'Perspectives for the common agricultural policy', known as the Green Paper. This initiated an extensive debate on the future of European farming and its role in society, finally leading towards practical guidelines providing a framework for the subsequent reform of the common agricultural policy.

Essential principles unchallenged

Despite all the necessary adjustments, the basic principles of the common agricultural policy have never been challenged. The basis remains the objectives written into the Rome Treaty: unity of the markets, Community preference and financial solidarity will continue to be the cornerstones of the common agricultural policy. Equally unquestioned is the special development model of European agriculture: an agricultural sector in which the family farm predominates and production structures vary widely. If the social fabric of the rural areas and the centuries-old farming landscape are to be maintained, agriculture with large expanses of cropland and very few farmers is the wrong choice for Europe.

Clear guidelines for the policy on prices and markets

Given these basic principles, the Commission has defined its priorities for imparting a new direction to the common agricultural policy. The main emphasis is on the gradual reduction of surplus production and the burden which this places on the budget. To attain this objective, two totally different courses were available: either to lay down quotas for all products or to adopt a pricing policy more closely geared to the market, possibly accompanied by back-up measures to protect the economically weakest holdings and to maintain rural stability.

The Community opted for the second approach. Production quotas do have the advantage of reducing both market organization costs and production very swiftly to the desired level. On the one hand they present certain major disadvantages: considerable administrative costs are entailed in allocating and monitoring the quotas and adjusting them whenever the range of potential outlets is narrowed; production structures become immobilized and further specialization is made difficult; finally, farmers have less freedom of choice as entrepreneurs. Production quotas can therefore be no more than an emergency solution — as they were for milk products, when the problems became pressing in 1984.

Accordingly, the Community has opted for a package of coordinated measures. The first of these is a more restrictive pricing policy, involving not drastic price cuts but a gradual scaling-down of the support prices for products in surplus. Secondly, the principle of producer co-responsibility has been settled and is to be extended to all sectors, producers being made to bear a larger share of the costs of disposing of surplus production. Finally, it has been decided to impose limits on intervention guarantees, together with a more stringent policy on quality, to oblige producers to tailor their production more closely to market requirements.

Modest initial results

The guidelines recommended in the Green Paper were followed by the first decisions at Council level, which continued firmly along the lines mapped out since the beginning of the 1980s. Farm prices were effectively reduced and several market regimes made more flexible in order to restore intervention arrangements to their original role as a safety net. Although these changes produced effects, they were not sufficient to prevent further rises in production and costs. Under the pressure of a sinking dollar and falling world market prices, agricultural guarantee expenditure rose by 40% between 1984 and 1987, plunging the Community into a severe budget crisis.

Unless the budget could be set on a stable course, however, the major aims of the Community, the creation of a single internal market and assistance for the economically less-developed regions, were doomed to failure. Limiting agricultural expenditure and intensifying budget discipline thus became an urgent task if Europe was to have any prospects in the future. Further adjustments to the policy on prices and markets were therefore unavoidable.

Budget stabilizers and flanking measures

In June 1987 the Commission presented additional proposals for the potentially most costly agricultural markets, involving a comprehensive system of 'budget stabilizers' which would automatically become effective when production and the costs of market support reached certain maximum levels. A scheme for the set-aside of arable land was to reinforce the effect of stabilizers, while providing support for farmers. At the same time the Commission recommended a 'pre-pension' scheme to make it easier for elderly farmers to retire early and to speed up the process of structural change in agriculture.

In February 1988 these proposals were finally accepted in principle by the Heads of Government of the Member States and were adopted soon afterwards. The prospect of an effective curb on farm spending was the key to the success of this summit meeting, which enabled Europe to take a big step forward by introducing a budget reform to guarantee the Community's ability to act, doubling the structural Funds for the benefit of the economically weakest regions and making a clear commitment to a more market-oriented agricultural policy, without which long-term support for agriculture would have been impossible.

2. The milk quota arrangements: a special case

The market in milk and milk products has always been a particularly awkward sector to manage. The Community reached self-sufficiency in this area as long ago as 1974, but over the next 10 years milk deliveries climbed gradually by 2.6% a year on average while demand rose by only about 0.6% annually. All attempts to halt these trends and restore market balance proved fruitless — mainly because price policy reacted far too late to the altered market situation. At last in 1984 the Community had to put on the brakes and introduce strict quota arrangements for milk production.

The guaranteed quantity was first set at around 99 million tonnes for the Community as a whole. This was some 5 million tonnes less than the volume of production in the previous year. This quantitiy was then apportioned among the Member States, which assigned production quotas to their farmers or dairies. Producers who overshoot their reference quantity must pay a heavy special levy on the excess quantities of milk delivered. The levy is now set at such a high level that production over and above the guarantee threshold is practically no longer profitable.

At first the quota system was intended to remain in place for five years, that is, until 1988/89, but the Council extended it for three years. The quotas originally set were still well above consumption within the Community. The Community therefore 'bought back' part of the quotas (3.5%) from the farmers and 'suspended' a further 5.5% of the reference quantities in return for compensation.

These measures have enabled a degree of balance to be achieved in the dairy sector. The main task over the next few years will be to consolidate this balance and apply a milk policy enabling production to be brought into harmony with the requirements of both internal and international markets.

3. Price restraint

Like any businessman, when making production decisions, the farmer takes into account the profitability of the various products. When there is a change in selling prices or production costs he will try to adjust his business to the new situation. In the case of products which, like the various types of cereals require much the same natural conditions and production techniques, this is generally no great problem. In most cases, however, conversion involves considerable expenditure. The farmer may have to buy new machines, convert livestock housing or familiarize himself with completely new production processes which only become profitable after a long running-in period. Even when their returns are shrinking, many farmers put off making such investments as long as possible. Possibly as prices sink they will even try at first to expand production so as to maintain their income. The productivity of agriculture is admittedly still increasing by 1 or 2% a year on average and should eventually, through improvements in the means of production, achieve better economic results without having to produce more. But such a strategy will take a long time, and full application will require conversion aids and income compensation for those most affected. In the 1984/85 price review the Council of Ministers for the first time in the history of the Community lowered agricultural prices in nominal terms, by an average of 0.4% for the Community of Ten. In national currency, after adjustment of the green rates in some devaluating countries, there might be a slight increase, but one in any event well below the rate of inflation, so that market support prices in the Member States fell on average by 3.5% in real terms. The picture was similar for the next few years, when institutional prices were regularly either frozen or else slightly lowered (see Table on p. 64, top).

If we look at the combined effect of all the reform measures adopted in recent years we find that agricultural price support has declined even more markedly than the trend of support prices would suggest. Since 1987, for example, grain has been bought in at only 94% of the intervention price. The periods during which intervention operates have been shortened and the quality criteria have been tightened up. Similar changes in the intervention mechanisms have led to 'indirect' price cuts on other markets, most notably for butter, oilseeds and beef (see point 4).

Guarantee thresholds: price signals to producers

One of the main items in the reform of the CAP, as far as markets go, is the introduction of maximum guaranteed quantities (MGQs), which may also be regarded as production objectives for European agriculture.

For almost all crop products (cereals, oilseeds, protein crops, olive oil, tobacco, cotton, certain fruit and vegetables, wine) and for sheepmeat and goatmeat, when production exceeds the MGQs set by the Council, price or aids are automatically reduced.

Market support prices in the Community
(annual percentage change)

	In ECU	In national currency nominal	In national currency real
1980	4.9	4.5	— 3.9
1981	9.3	13.3	0.9
1982	10.3	10.5	0.6
1983	4.3	6.6	—2.5
1984	—0.4	3.3	—3.5
1985	0.1	1.8	—4.5
1986	—0.3	2.2	—0.7
1987	—0.2	3.3	—1.1
1988	—0.1	0.6	—3.2

(1980, 1981: EUR 9, thereafter EUR 10)

Real fall in agricultural support prices including the impact of flanking measures, annual percentage change for EUR 10

	1984	1985	1986	1987	1988	1989
Cereals	—3.2	—5.6	—8.9	— 9.6	—4.7	—5.3
Oilseeds	—4.5	—5.8	—2.5	—16.8	—3.0	—2.1
Sugar	—2.2	—2.5	—3.9	— 2.7	—1.5	—4.2
Beef/veal	—3.3	—3.8	—2.0	—12.8	—2.9	—2.6
Sheepmeat	—3.6	—3.4	—2.1	+ 0.9	—1.1	—3.1

4. Making producers more subject to the market

The basic idea of guarantee thresholds is the automatic penalties involved, making the producer directly responsible.

Usually this involves a reduction in market support prices or subsidies; for cereals there is also an additional co-responsibility levy. Unlike the milk quota system and the arrangements in the sugar sector, where the Commission decided from the outset on quotas, the maximum quantities and the penalties apply not ot individual holdings but to the sector's total output. The guarantee threshold arrangements as it were imitate the market mechanism. Any 'overproduction' results in a drop in average returns for all producers. Thus, the limited sales volume again becomes a factor in production planning.

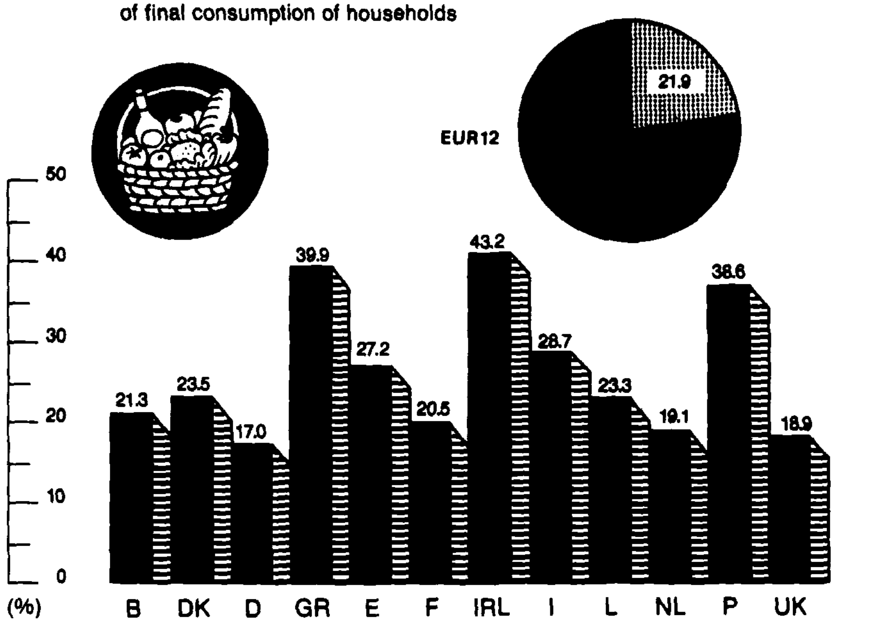
How stabilizers operate

The details of the guarantee threshold arrangements differ depending on the market organization. Two examples make this clear. In the case of oilseeds and protein crops every percentage point by which production exceeds the maximum guaranteed quantity causes market support prices to be reduced by 0.50% (0.45% in 1989/90). In the 1988/89 marketing year, for example, the sunflower harvest in the Community of Ten was 2.8 million tonnes (44% above the guarantee threshold of 2.0 million tonnes). This gave rise to a reduction in market support prices of 0.45% × 44 = 19.8% for all the sunflower produced in that year. As a result, despite the abundant harvest, the cost of market support in the Community remained within bounds. In addition, the substantial loss of income sent a clear signal to producers that they should rethink their production options for the following year.

The system operates somewhat differently for cereals. If the guarantee threshold is exceeded in the cereals sector intervention prices are cut by 3% in the following marketing year, irrespective of the extent of overproduction. If production stays above the guarantee threshold for several consecutive years, the price cuts become cumulative until production eventually declines. The impact is increased by means of a special levy equal

The household shopping basket

Expenditure on food, beverages and tobacco as a percentage of final consumption of households



Source: Eurostat.

to 3% of the intervention price, collected in 1988/89 in addition to the 'ordinary' co-responsibility levy. If it emerges in the course of the marketing year that the maximum guaranteed quantity will not be reached or will be overshot by less than 3% the Community pays back all or part of the additional levy to the farmers — which should encourage them not to allow production to rise above the guarantee threshold.

In 1988/89, the first year in which the guarantee threshold arrangements applied, the Community cereal harvest was 2.5 million tonnes, or 1.6%, above the maximum guaranteed quantity. In addition to the 'ordinary' co-responsibility levy, therefore, 1.4% of special levy was definitively retained, making a total levy of 4.4% of the intervention price. As a further consequence, intervention prices were cut by 3% from the start of the following marketing year.

Producing for the market instead of for intervention

More responsibility on the part of producers also implies that farmers and processors should step up the search for real market outlets for their products instead of relying on public intervention. The Community has therefore made some adjustments to the market rules and made them more flexible in order to restore intervention to its original role as a safety net intended to cushion excessive price fluctuations and thus contribute to market stability.

This is seen particularly clearly in the case of the milk market. Up until 1987 the dairies could sell butter and skimmed-milk powder into intervention throughout the year at a fixed price. This represented an easy marketing channel with no expense and no risks which finally resulted in the notorious butter and skimmed-milk powder mountains. Public buying-in of skimmed-milk powder has now been restricted to the summer peak supply period. When the quantities bought in go above a certain ceiling, intervention can even be discontinued completely.

For some time now butter has not been bought in at a fixed price but by tendering procedure, under which the lowest tender is most likely to succeed. In conjunction with the quota arrangements, this system has worked very well so far and has resulted in a sizeable cut in the quantities of butter taken into public intervention. There would only be a return to permanent intervention on the old model if market prices started to slide and fell below 92% of the intervention price. Thanks to the success achieved in reforming the market, butter prices are showing a tendency to rise and there is as yet no prospect of this escape clause being applied.

Permanent intervention for beef is also a thing of the past. As in the case of butter, the Commission can invite tenders as soon as market prices fall below certain thresholds. The quantities bought in are subject to an annual ceiling of 220 000 tonnes, with the possibility of additional buying-in or other support measures if market prices threaten to fall too far. Finally, on the cereals and oilseeds markets, intervention is no longer possible throughout the year but only outside the harvest months. The intention is to force producers to exhaust all possible marketing channels before turning to intervention as a last resort.

Quality in place of quantity

Quality considerations are playing an ever-increasing role in the marketing of agricultural produce. Consumers are becoming more choosy and traders and processors are attaching more importance to top-quality produce. This trend is reflected in the agricultural surpluses, which in many cases involve only certain quality classes or varieties. Wine is the best example. The balanced market for high-quality wine contrasts with the big surpluses of ordinary table wine, for which there is often no other outlet than the various distillation measures provided for in the market organization. For several years the Community has been stepping up its efforts to ensure that agricultural production is better geared to quality and market requirements. Since high quality is very often correlated with lower yields, this policy also contributes to curbing supply.

At the heart of the quality policy as at present applied is the differentiation of prices and of the guarantees given. Especially in the case of products whose market price very closely reflects the intervention price, such differentiation is an effective way of encouraging producers to adopt a market-oriented approach. Thus, for example, there are three different prices for common wheat depending on its quality grade. Lower qualities receive the price for feed grains, the price for breadmaking wheat of 'normal' quality is somewhat higher, while for wheat with especially good characteristics the intervention agencies pay an additional premium. There are special premiums to support the growing of varieties which are particularly sought after, such as certain qualities of rape and rice. On the other hand, the Community has considerably tightened up the minimum requirements for goods offered for intervention, by lowering the maximum moisture content for cereals, for example.

These few examples are indicative of the general trend. The common agricultural policy is shifting the emphasis from quantity to quality, which is the best strategy if Community agriculture is to keep its place on altered markets.

5. A new approach: set-aside, extensification and diversification

With its schemes for set-aside, extensification and diversification the Community has adopted a new approach to agricultural policy. These measures are not intended to replace the price and market policy. They are an attempt to exhaust all possibilities for restoring market balance and guiding production in the right direction. At the same time they provide farmers with alternative sources of income for a transitional period and therefore help to cushion the effect of the social hardships caused by market policy measures.

Set-aside: a 'wonder drug' with limited effect

The Council approved the set-aside scheme in the spring of 1988. Farmers wishing to take part in the scheme must undertake to take at least one-fifth of their arable land out of production for five years. They can either leave the land fallow, plant trees on it or use it for non-agricultural purposes. Depending on the quality of the soil and the average crop yields, the farmers receive a premium to make up for the loss of income. In addition, farmers who set aside at least 30% of their arable land are exempt from the co-responsibility levy on 20 tonnes of cereals. This scheme must be offered to farmers in all the Member States (with the exception of Portugal). Only regions with a very low population density and areas where agriculture cannot be abandoned for ecological reasons are exempt.

Set-aside is no cure-all, and on its own it cannot do away with the agricultural surpluses. This would mean taking about 11 to 13 million ha, or around one-tenth of the Community's total utilized agricultural area, out of production. Just to make up for the extra production caused by rising yields, farmers in the Community would have to set aside an additional 2% of their area every year. No miracles can be expected, therefore, but there should be a faster easing of the market in sectors where falling market prices make set-aside an attractive proposition. In regions which are already suffering from over-fertilization and groundwater pollution the scheme also contributes, albeit on a modest scale, to the protection of the environment.

Easing the situation: ecology and extensification

Under an 'extensification' scheme, the Community provides support for farmers who undertake to cut their output of products which are in surplus.

They must reduce production in a sector which is in surplus by at least 20%, without increasing production in another sector in which there are surpluses. As in the case of set-aside, the undertaking relates to a period of at least five years. There are two ways in which extensification can be achieved. Farmers can either reduce their production capacity, for example by keeping fewer fattening cattle or dairy cows, or else in crop production they can switch to less intensive farming practices. Here too, therefore, the Community is killing two birds with one stone. Fewer fertilizers and pesticides not only mean lower yields and reduced surpluses, they also cut down the environmental pollution which intensive farming inevitably brings in its train.

Aid for diversification: utilization of market niches

There is no reason why it must always be cereals, milk and meat. Natural conditions and closeness to markets give many farmers the opportunity to switch to products which offer better prospects than the traditional kinds of agricultural produce. The Community grants temporary transitional aid for a whole range of possibilities to make it easier for farmers to diversify and to exploit market niches. The list of eligible products is a long one. It includes, for instance, flowers and ornamental plants, medicinal plants, aromatic herbs, various kinds of berries and dry fruit, and plants which are intended for use in the chemical or textile industry. Even farmers who want to go in for fur farming or take advantage of the public's growing interest in horses and ponies for riding can apply for aid in order to reorganize their businesses. Obviously this scheme is no patent recipe for Community agriculture. In individual cases, however, it can help to open up new sales possibilities and provide new sources of income.

6. Greater budgetary discipline

Since the European Council decisions in February 1988, EAGGF Guarantee Section expenditure and budgeting in the agricultural sector in general are subject to strict rules. These are intended to ensure that the successes achieved in reforming the price and market policy are not a flash in the pan but contribute to placing the Community budget on a sound footing on a lasting basis.

Budgetary discipline

A key element in the new budgetary discipline is a form of medium-term financial planning which places strict annual ceilings on Guarantee Section expenditure, the so-called agricultural guideline. Under this system the annual growth in Guarantee Section expenditure compared with 1988 must remain well below the rate of increase in Community GNP. According to a forecast worked out by Parliament and the Council, until 1992 the agricultural guideline will increase by no more than 1.9% annually. This is only about a quarter of the average growth in guarantee expenditure in the period from 1975 to 1988. At the same time the Community's overall budget is to grow by some 5% a year, so that the Guarantee Section's share will have declined markedly by 1992. Even if the guideline were completely exhausted, the proportion of the budget accounted for by guarantee expenditure would be no more than 56% in 1992, compared with over 62% in 1988.

The agricultural guideline is not a 'target' which has to be used up to the last ecu, but simply an absolute ceiling on expenditure. In the 1989 budget, for example, guarantee expenditure was about ECU 1.8 billion, or some 6%, below the guideline.

Tighter budgeting

When the agricultural budget is adopted at the start of the year it is not known how high production in the various sectors will be or what will be the future level of world market prices and exchange rates. It is true that, despite these imponderables, guarantee thesholds and production quotas ensure that agricultural expenditure remains relatively stable, but the Community was forced in addition to take further measures in order to avoid unpleasant financial surprises in the course of the year.

Effective monitoring

Since 1988 there has been an 'early warning system' to ensure that agricultural expenditure stays within the budget. At regular intervals, usually once a month, the Commission compares actual expenditure on the agricultural markets with the figures in the budget. If the rate of expenditure is above the estimate it can take appropriate countermeasures. The effectiveness of this system was demostrated for the first time in the summer of 1988 when market support costs for cereals shot up. The Commission reacted by restricting cereal exports in order to bring expenditure down to its 'planned' level. If measures taken in the course of 'normal' market management turn out to be insufficient, the Council can step in and may decide on additional measures to stabilize the market.

The monetary reserve: a safety margin in the event of currency fluctuations

A major factor of uncertainty in forecasting agricultural spending is the exchange rate of the dollar. If the dollar falls in value this causes an increase in the Community's expenditure on export refunds and subsidies intended to bridge the gap between Community and world prices. Previously in such cases the Community had to mobilize all the funds necessary from other budget headings or if necessary cover the increased expenditure by means of a supplementary budget. Since 1988 the budget includes a special monetary reserve which is intended to cushion the financial impact of exchange-rate fluctuations on the world market. As soon as a given 'franchise' (ECU 400 million) is exceeded, the monetary reserve takes over the additional costs. Vice versa, 'monetary savings' are credited to the reserve.

Reserves for regulating the market

In order to ensure regulated and stable markets, intervention must continue to absorb a part of agricultural output at periods af abundant supply.

Obviously this means that new stocks will be built up form time to time — nothing too serious, provided that arrangements are then made for speedy disposal. The prices obtained on resale, whether on the world market or within the Community, are naturally lower than the buying-in prices paid by the intervention agencies. Whenever surplus produce is taken into storage, therefore, the operation gives rise to potential losses which later have to be financed from the Community budget. Under the Community's new budget rules, as soon as agricultural surpluses are bought in, appropriate reserves are created which make possible a speedy resale.

7. Disposing of old stocks

Although new budget rules and market policy measures can stop new surplus mountains from building up, this does not solve the problem of old stocks. In Chapter 3.2 we saw how by the end of 1986 alone 1.3 million tonnes of unsaleable butter, 850 000 tonnes of skimmed-milk powder and nearly 15 million tonnes of cereals had accumulated in the Community. They were placing pressure on market prices and costing the common agricultural policy huge sums every year in storage costs. In spite of this, the Community had to carry these old stocks over from year to year. It simply did not have the funds to offer them for sale so cheaply that they found buyers. The cost of disposing of all surpluses combined was estimated at ECU 7 billion at the end of 1986, about a third of the entire agricultural budget.

The butter mountain melts away

Faced with this situation, in 1987 the Member States decided to take bold action. They made about ECU 3.2 billion available for a special disposal programme to do away with the notorious butter mountain, the common agricultural policy's biggest problem. Within two years the Community succeeded in selling over 1 million tonnes of butter. Most of this was exported to non-member countries, particularly the Soviet Union, or used in the feed industry. About 130 000 tonnes were sold off very cheaply as cooking butter to consumers in the Community. The costs of this programme are to be paid back from the agriculture budget in four instalments from 1989. Thanks to the disposal programme and reduced milk production, the butter mountain has now disappeared. By the end of 1988 public stocks had fallen to 200 000 tonnes, a level which can be regarded as normal stockpiling.

Other measures to deal with old stocks

The European Council's budget decisions in February 1988 gave the common agricultural policy the means of gradually dismantling old stocks in other sectors too. Since 1988 large amounts are entered regularly in the agricultural budget for the depreciation of existing stocks of surplus produce and for current disposal measures. By 1992 these amounts will have totalled at least ECU 6.8 billion. In addition, the Community uses all unused funds from the Guarantee Section to correct the book value of agricultural surpluses and thereby anticipate the losses arising from subsequent disposal. A look at the figures (Table on p. 72) shows that at the end of 1986 stocks of surplus produce were still valued in the balance sheet at nearly ECU 11.5 billion. Two years later the book value of agricultural stocks had fallen to less than half that figure.

Public stocks — Quantity and book value (at year-end)

(Quantities in 1 000 t; Values in million ECU)

	1986		1987		1988	
	Quantity	Value	Quantity	Value	Quantity	Value
Cereals	14 717	2 977	13 764	2 937	10 752	1 509
Olive oil	283	421	325	491	408	657
Alcohol (1 000 hl)	666	65	1 092	103	2 892	140
Butter	1 305	4 285	1 085	3 524	221	584
Skimmed-milk powder	862	1 622	722	1 380	14	28
Beef	672	1 996	691	2 117	723	4 663
Total value of all stocks		11 419		10 575		4 663

8. The first interim balance sheet

In 1988 the Community spent only ECU 2.2 billion on disposing of its stocks of cereals and skimmed-milk powder. Stocks of skimmed-milk powder, which still amounted to some 860 000 tonnes in 1986, have now dwindled to practically nothing. The situation is similar in the case of cereals: in the course of two years stocks have shrunk by over 4 million tonnes. In December 1988 the Council approved a special disposal programme for draining the Community's 'alcohol lake'. As a first step, about half of this alcohol — which comes from the compulsory distillation of table wine — is to be sold off on the world market and within the Community. Further efforts are also required in the beef sector, where the Council was unable to agree on an effective way of curbing buying-in until early 1989. As a result, so much meat was placed in store that despite sizeable exports to Brazil and some East European countries since 1986 stocks at first rose still further.

Reform of the price and market policy is a long-drawn-out process. Agricultural production reacts to altered conditions with a big time lag, so that it is still too early to pass definitive judgment on the reforms.

The first big success is undoubtedly the reduction in stocks of surplus butter, cereals and skimmed-milk powder. However, positive developments can also already be discerned on some markets.

C. Aid schemes and structural measures

To facilitate adjustment to the new policy on prices and markets and to alleviate social hardship, the Community has adopted a range of accompanying measures. Together with the set-aside, conversion and extensification schemes (described in Chapter II), these provide the Community with a wide selection of instruments to provide effective back-up to its policy on prices and markets.

1. A policy for small farmers

Hardest hit by the reform of the price and market policy are undoubtedly the many small farms which predominate in the economically weakest parts of the Community. Although such farmers account for only a small percentage of production, they are frequently of great importance to the maintenance of socio-economic balance and for the protection of the environment. Alongside its regional and structural aid schemes the Commission has also differentiated its market policy to take account of the special problems facing small farmers.

Thus, farmers whose production does not exceed certain maximum limits are granted total or partial exemption from various production levies. Small cereal producers, for example, are refunded part of the co-responsibility levy paid on the sale of their products. Similar arrangements apply to the levies in the milk and olive-oil sectors.

The Community has also taken steps to ensure that certain forms of aid are paid mainly to small farmers. This is the case with the special premiums for male cattle, which are intended to offset any loss of income resulting from the reform of the market organization for beef and veal. Such premiums are paid only on the first 90 cattle per farm, so that small stock-farmers receive a relatively high degree of income support. Another advantage of such premium systems lies in the fact that there is no need to resort to market support and the inevitable losses can be avoided: the payments are made in full to those farmers for whom they are intended.

2. Direct income aids: social welfare payments for farmers?

Despite their preferential treatment under the market policy, many small farms are still encountering great economic difficulties as a result of the reform measures. In 1987 the Commission proposed that the hardest-hit farmers should receive direct income aid. It took some considerable time, however, before this proposal was implemented. Many farmers had already become recipients of social welfare and were dependent on the State for their income. Some critics accused the Commission of 'genuflecting' to the United States who had urged, in the course of the GATT negotiations, that the policy on incomes be kept separate from that on prices and markets. Others saw the Commission's proposal as tantamount to a plan which would artificially ensure the long-term survival of inefficient farms.

It was not until early 1989 that the Ministers for Agriculture, after long discussions, reached agreement on an aid package which was not seen as a long-term solution but as a way of helping farmers to adapt to changing market conditions over a transitional period. The measures concerned will thus run only until 1993. One basically new feature is the requirement that the aid should be linked neither to production nor to market prices. It must be determined solely on the basis of the income available to the farmer and his family. The aid arrangements are not binding on the Member States and it is left to their discretion whether they make such a scheme available to their farmers. They are to draw up a framework programme which must be approved by the Commission in order to prevent any distortion of competition between Member States.

In principle, farms qualify for aid only if their income form agricultural and non-agricultural activities does not exceed a certain maximum percentage of the national or regional average income. The level of the aid depends on the losses incurred by the farm as a result of changes in market conditions. The compensation paid by the Member States must not, however, exceed ECU 2 500 per work unit per year and the initial amount must be lowered from one year to the next. The total duration of the aid scheme must not exceed five years.

The Community makes a financial contribution towards that part of the aid which does not exceed ECU 1 000 per work unit per year. In the most backward regions the Community provides up to 70% of the cost but a much lower percentage in the more prosperous regions. Such differentiation was a necessary gesture of solidarity to ensure that farmers in the economically weaker Member States with limited budgetary resources could also participate in the scheme and that a further step could be taken towards the harmonization of living conditions in the various regions.

3. An alternative for elderly farmers: the early retirement scheme

Many elderly farmers, particularly those on low-income holdings without any substantial financial resources, find it difficult to adapt to the new situation on the agricultural markets. Since there are few alternative jobs available in the non-agricultural sectors, most of them have had no option but to continue farming on an ever-decreasing income until they reach pensionable age. To accompany its reforms the Community has therefore introduced an early retirement scheme for farmers who are over 55 years of age. The scheme is also open to full-time farm workers who lose their jobs as a result of the farmer taking early retirement.

As with the direct-income aids, this is an optional scheme, that is, it is left to the discretion of the Member States whether they offer the early retirement scheme to their farmers. The scheme may take one of two forms and the form selected also determines the level of the pension provided. One alternative is for the farmers taking early retirement to set their land aside or to use it only for non-agricultural purposes (for example, afforestation).

In this case the early retirement pension is supplemented by a premium per hectare. The other alternative is for the land to be sold or leased on a long-term basis to expanding farms. In this case the purchaser or leaseholder must give an undertaking not to increase his output of surplus products following the enlargement of his farm. The early retirement programme is not only of social significance but should also help to unburden the market. At the same time it assists the process of structural change by releasing areas for incorportaion into expanding farms.

The level of the early retirement pension is fixed by the Member States in the light of current income and pension levels. The maximum amount eligible for Community financing is ECU 3 000 per farm per year. As a rule the Community will pay half the cost provided that all agricultural production is halted on the land concerned. In other cases the level of Community financing depends on the level of prosperity enjoyed by the region concerned.

4. Structural policy: a change of emphasis

The problems currently facing agricultural markets must not be allowed to conceal the fact that farming requires to undergo further modernization and rationalization if it is to keep abreast of overall economic development. The improvement of agricultural structures thus continues to be an important objective of the common agricultural policy, particularly since the accession of Greece, Spain and Portugal where farming is still a relatively backward sector.

Obviously, the structural policy must not create any new incentives to production. Aid for individual farms is therefore granted mainly for investments which help to reduce production costs, to improve living and working conditions and to direct agricultural production along new lines. The Community also provides support for various forms of cooperation which make for more rational and cheaper farm production, for example, the joint use of machinery or other expensive capital goods. In many regions agricultural development and specialization cannot proceed without a substantial improvement in the level of training, both among individual farmers and among those in charge of cooperatives and producer groups.

Particular importance is attached to aid for young farmers. The Community contributes towards the cost of special settlement premiums and investment aids designed to make it easier for newcomers to farming. In view of the high average age of the farming population (in 1988 about half of all farmers were over 55 years of age) such aids are both important and necessary. On the other hand, however, it would be highly irresponsible to encourage young people to take up farming without carefully assessing their chances of success. The aid is therefore granted subject to strict requirements relating to occupational skills and the outlook for farm development.

5. Better organization of producers

In Europe, where the family farm predominates, production and supply are necessarily spread over a large number of relatively small producers. The bargaining power of the individual farmer is correspondingly weak in the face of the highly concentrated demand for agricultural products (for example, dairies or slaughterhouses) and the suppliers of inputs and capital goods (for example, the manufacturers of fertilizers or farm machinery).

Over the years farmers have developed numerous forms of cooperation in order to strengthen their position on the market. They have established purchasing associations which are able to negotiate more favourable supply prices than could the individual buyer. On the marketing side, producer groups have been formed to ensure that farm products meet standard quality requirements and that the quantities supplied by individual farmers can be brought together and sold in bulk.

These endeavours have been highly successful, partly as a result of the generous assistance granted under the common agricultural policy, which has made available since the early 1970s substantial sums to support producer groups and to improve processing and marketing structures. The next step will be to investigate ways in which cooperation between farmers, and between farmers and their suppliers or customers, can be further intensified at Community level. In this context great importance attaches to the various forms of vertical integration linking farmers, traders and processors. Such integration already works successfully in some Member States and could possibly be used as a model for Community purposes.

IV — Prospects for the future

The reform of the common agricultural policy has changed the direction of European farming. The wrong turnings taken by the policy on prices and markets have been corrected; the situation on agricultural markets is becoming somewhat easier; new measures to improve structures and incomes are providing support for the economically weakest farms or are guiding them towards alternatives. These initial successes are significant and they should now be consolidated and improved upon. In the 1990s, however, the CAP must do more than simply continue the process of reorganization. New strategies are needed if the CAP is to cope with the changing economic climate, even out the structural differences within the Community and meet environmental and consumer requirements.

1. The agricultural sector as part of the general economy

As pointed out earlier, agriculture in the European Community has long since come out of its isolation and now has close links with the rest of the economy: the demand for agricultural products is determined by demographic trends and by purchasing power; income levels and job opportunities in other sectors have an important influence on the pace of structural change in agriculture, whilst improvements in farm productivity are dependent on research and technological progress. On the other hand, many non-agricultural sectors are dependent on developments within farming, either because they supply inputs or capital goods to farmers or because they obtain their raw materials from the farmer.

Although such interdependence plays only a subordinate role within the national economies of the more prosperous Member States where agriculture's contribution to the gross national product has greatly declined, the links between agriculture and industry are still important (even in these Member States) to the structure of the economy at regional and local level.

This interlocking of the sectors means, of course, that there is a close connection between the various aspects of economic and structural policy. The success of measures to improve agricultural structures, for example, depends greatly on the course taken by regional policy. If economic assistance is granted to encourage firms to set up in rural areas, this provides a new impetus for structural change within the agricultural sector itself. The better the coordination of the various policies, the more efficient will be the use made of the budgetary resources available.

2. Greater integration of Community policies: the reform of the structural Funds

In 1988 the Community therefore decided on a far-reaching reform of its structural policy. Five priority objectives were laid down for the three structural Funds (the Regional Fund, the Social Fund and the EAGGF Guidance Section) and all efforts were to be concentrated on the achievement of these objectives. The Community's other financing instruments (for example, loans from the European Investment Bank) were also to be used within this framework.

Objectives

'Objective 1', as it is known in Community jargon, is to promote the development of those regions whose development is lagging behind. These regions are to receive the combined assistance of the Social, Regional and Agricultural Funds as a step towards making living conditions more uniform throughout the Community. Objective 2 is the economic restructuring of declining industrial areas. Community assistance is granted through the Regional and Social Funds. Objective 3 is to combat long-term unemployment and Objective 4 is to facilitate the occupational integration of young people. Lastly, Objective 5 is to speed up the adjustment of agricultural structures (Objective 5(a)) and to promote the development of rural areas (Objective 5(b)). Whereas operations designed to achieve Objective 5(a) may receive assistance only from the EAGGF, the development of rural areas qualifies for assistance from all three Funds.

Target regions

Especially targeted are those rural areas with the most serious problems. Priority is given to those regions where a relatively high percentage of the population works in the agricultural sector and where both farm incomes and the level of socio-economic development are well below the Community average. Other areas can also receive special assistance as 'Objective 5(b) regions' if they have to cope with certain problems (for example, low density of population, high level of environmental pollution or sensitivity to changes in the common agricultural policy). Member States may also apply for priority treatment to be given to less-favoured areas or mountainous areas where the Community supports agriculture by means of a compensatory allowance and to rural regions where farm structures and the age structure of the farming population are particularly unfavourable.

The Community's structural policy is implemented in close cooperation with the Member States, no longer in the form of individual projects but through the joint financing of measures under comprehensive multiannual programmes. The Member States submit plans which ensure that the various measures are carefully coordinated and achieve the maximum combined effect. This is, of course, particularly important in the

Final agricultural production

(In terms of quantity 1973 = 100)

	1967	1973	1981	1987
Belgium	78.7	100.0	101.5	114.81
Denmark	—	100.0	121.7	137.33
FR of Germany	89.0	100.00	110.8	115.36
Greece	—	100.0	121.3	123.44
France	83.6	100.0	103.4	129.09
Ireland	—	100.0	120.6	133.26
Italy	95.3	100.0	118.6	125.84
Luxembourg	98.0	100.0	96.9	104.03
The Netherlands	74.8	100.0	137.2	158.78
United Kingdom	—	100.0	108.6	117.97
EUR 10	—	100.0	112.4	125.87

Source: Eurostat.

most backward regions and in those rural areas where economic and living conditions are to be improved through the coordinated application of the regional, social and farm structures policies.

3. The future of rural society

Rural society in the Community (as elsewhere in the industrialized world) is undergoing profound changes. In many areas developments have taken place which threaten the sensitive balance of the countryside and call for urgent Community action. The reform of the structural Funds reflects the importance which the Community attaches to the protection and development of rural areas. In 1988 the Commission presented a report to the Council and Parliament outlining a European model for rural development and defining Community strategies for the 1990s.

A clear diagnosis

The Commission bases its analysis on two fundamental trends. First of all there is the situation in the vicinity of the large conurbations, mainly in central and northern Europe but also in some coastal regions. Here the population of the rural areas has increased considerably in recent years. Industries and services have been moved to the periphery of the cities or into the surrounding countryside: infrastructural, recreational and residential developments compete with modern intensive farming for the use of space, which is in increasingly short supply. Industrial, housebuilding and agricultural activities have in many cases reached or exceeded the limit of what is ecologically tolerable. The task here, therefore, is not so much to speed up economic development as to provide greater protection for the rural environment.

The situation is totally different in the more remote regions. Many areas in the south and west of the Community are now suffering from depopulation and the gradual ageing of their remaining population. In such areas, agriculture is still of major importance but has to contend with many natural and structural handicaps. Small farms predominate, given the lack of alternative employment or sources of income in the industrial and service sectors; hidden unemployment is on a wide scale, as is underemployment, and many young people are forced to leave the land.

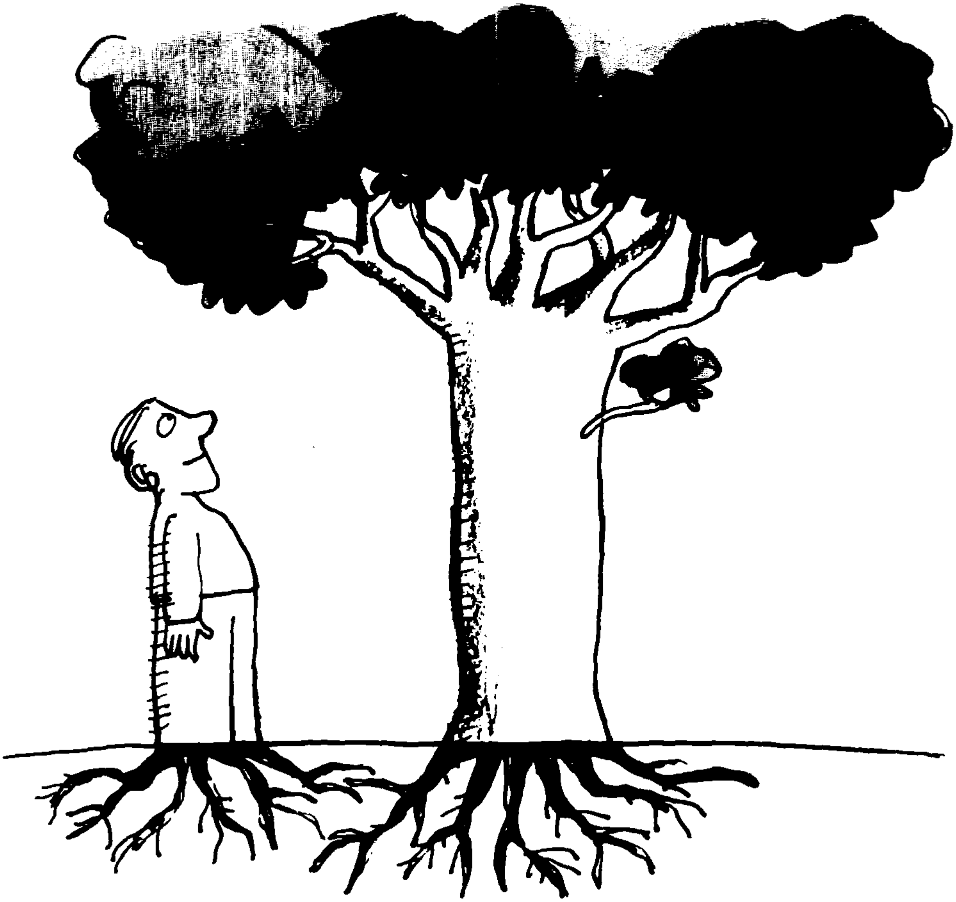
Where the soil is of relatively poor quality, farming is gradually abandoned and the threat of erosion raises its head. As farmers come under increasing pressure to adapt to market requirements, the process of agricultural restructuring is likely to speed up still further over the next few years. As yields steadily improve, less and less land is needed for agricultural production. By the end of this century the 'surplus' of agricultural land could amount to as much as 16 million ha in the Community as a whole. Over the same period there will be an increase in the number of holdings which cannot earn an adequate income from farming activities alone.

The cure: the stimulation of indigenous development potential

Measures confined to the agricultural sector will be insufficient in the regions threatened with rural decline. Action must be taken to enhance each region's overall development potential so that permanent and economically sound jobs can be created outside the agricultural sector. Given the structural shortcomings of such regions and the difficult economic context, the Community cannot place any great reliance on investments 'from outside'. It is therefore essential to activate and make full use of regional economic resources, thus setting in motion a growth process which has its own momentum and which can open up new prospects for rural areas.

Timber: a marketable commodity with beneficial side-effects

It will take a relatively long time for the measures outlined above to bear fruit, particularly in the most isolated areas. In these areas, therefore, further support will be necessary for the small and economically weak family farm if the rural population is to be maintained and if the long-term development prospects are not to be jeopardized. Although no panacea, the growing of timber and the expansion of wood-processing and related trades could prove to be profitable lines of business. The Community has in fact a wide-ranging action programme to promote the afforestation of agricultural land and the development of the timber-processing sector, which could provide an alternative to farming in many rural areas. At the same time, by virtue of their role in maintaining the water balance, safeguarding wildlife species and protecting the soil against erosion, woodlands make an essential contribution towards the conservation of the rural environment, and their role as recreational areas is steadily gaining in importance.



Small is beautiful

Apart from the 'traditional' activities of agriculture and forestry, much may be achieved through measures targeted on small and medium-sized rural businesses. The spread of new technologies, particularly in the computer and telecommunications industries, improved services and infrastructures, and easier access to the necessary investment capital could all help to make such businesses more competitive and enable new firms to move into the areas concerned. The regional policy of the Community and its Member States must no longer be focused on a small number of main economic centres but must give priority to the establishment of a larger number of medium-sized centres distributed evenly throughout the regions, to serve as 'poles of development' for the surrounding rural areas.

In no circumstances must the countryside become a technological 'Third World' doomed to underdevelopment in the long term. The Commission therefore proposes that the

Community's numerous research and development programmes should take fuller account of the needs of rural economic structures. For example, in exchange programmes and Community activities involving science and industry, preference should be given to firms and research establishments located in rural areas. Tourism is another activity which could usefully be expanded in regions with attractive scenery. For this reason alone it is essential to protect the natural environment and the cultural assets of rural areas. The Community's aim is not a featureless mix of town and country but viable rural areas whose inhabitants share in the general level of prosperity without detriment to the regional and cultural variety of Europe.

4. The farmer's role in the environment: custodian or polluter?

The effect of farming on the environment is like that of a two-edged sword. In many areas farming is essential to preserve the landscape and the natural environment. In this sense farmers perform a public service for which there is no 'market' and consequently no remuneration. Nonetheless, agricultural policy measures are possible, for instance the mountain and hill allowances which compensate for the extra costs resulting from the natural handicaps of such areas. This type of aid has certainly helped in maintaining beneficial agricultural practices in the uplands. Since 1985 the Community has also been contributing directly to the protection of sites of high environmental value, under suitable management contracts.

On the other hand, the ecological effects of increasingly intensive agricultural production cannot be overlooked. Nitrates in the groundwater, pesticide residues in food and cruelty to animals kept in intensive production units have all hit the headlines in recent years as the media have turned their attention to agriculture and the environment. The Community has already adopted a wide range of measures to make farming more ecologically acceptable. These have included Community-wide tolerances for residues of plant protection products and nitrates in drinking water, the prohibition of dangerous pesticides and Community investment aid for environmentally acceptable production facilities. Although much has been done, it is far from sufficient to ensure a healthy balance between agriculture and environmental protection requirements.

Limiting the damage

One of the priorities in the 1990s will be to control environmental pollution caused by intensive livestock production and by practices harmful to wildlife, such as the excessive use of fertilizers and pesticides. The Commission has already put forward some specific proposals. It recommends strict rules to govern the application of manure and mineral fertilizers to help prevent the leaching of nitrates and phosphates into the groundwater, rivers and seas. It plans uniform rules for the approval of pesticides, with a view to minimizing the use of dangerous substances. The Commission also has far-reaching plans for the protection of animals: minimum Community standards for the keeping of pigs and calves should ensure that production methods are appropriate to the species concerned and should prevent unnecessary suffering. In addition, the Community must make improved provision for training and counselling. The farmer must be made aware of the fact that his role is not simply to supply agricultural products but also to preserve the rural environment.

A network of biotopes

If the Community is to safeguard the natural environment and endangered animal and plant species, better use must be made of the land available. The Commission has therefore proposed that a comprehensive network of protected areas should be established by the year 2000. Between 10% and 20% of the territory of all Member States constitute biotopes which are of prime importance for the conservation of the natural environment. In the most sensitive areas agricultural use should be subject to the strictest safeguards; even in some other areas farmers should convert to more extensive farming methods. In this context consideration should also be given to making the assessment of the environmental risk compulsory when any large-scale agricultural projects are to be implemented (for example, the restructuring of farms, irrigation and drainage works, the building of farm roads).

5. The increasing demand for quality and variety on the food market

Demand for foodstuffs in the Community is undergoing certain changes which are likely to continue and become even more pronounced in the 1990s. These trends determine the outlets available to European farmers on their home markets.

Although food consumption overall is unlikely to expand much further, the demand for high-quality products is steadily increasing in line with rising income levels. Fresh fruit, green vegetables and expensive types of meat are taking the place of staple foods such as bread and potatoes. This trend is partly attributable to the fact that the public is becoming more health-conscious: the customer is placing greater importance on freshness and quality. At the same time new demands are being placed on the processing industries. As more wives go out to work, there is a greater need for pre-cooked foods which can be served quickly. Consumers are also looking for greater variety in their food: holidays and business trips have revealed the culinary delights of neighbouring countries, with the result that many foreign products are gradually being adopted as part of the national diet. This trend should become even more marked with the further integration of Europe on completion of the single market.

These developments are both a challenge and an opportunity for farmers, whose future prosperity can only be ensured by high-quality products which are acceptable to consumer taste and which satisfy the requirements of the processing industry. On the other hand, the consumer is ready to spend more money in order to obtain quality and variety, so that in several sectors prices may tend to increase.

The demand for 'organic' products bought straight from the farm

As incomes improve, so does the demand for 'natural' foods which have been grown without the assistance of chemical products such as pesticides and fertilizers. Many consumers, particularly in northern Member States, are already travelling far afield and paying high prices in order to purchase foodstuffs which they consider to have been grown by 'organic' farming methods. For many consumers, buying direct from the farm of from the farmer's stall at the weekly market has become an experience with which the sterile supermarket cannot compete. High prices and the close relationship to the consumer make organic agriculture an interesting alternative for many farmers, despite the lower yields and the labour-intensive nature of the work involved. This change of attitude is in line with the Community's endeavours to promote environmentally acceptable farming methods and to curb surplus production.

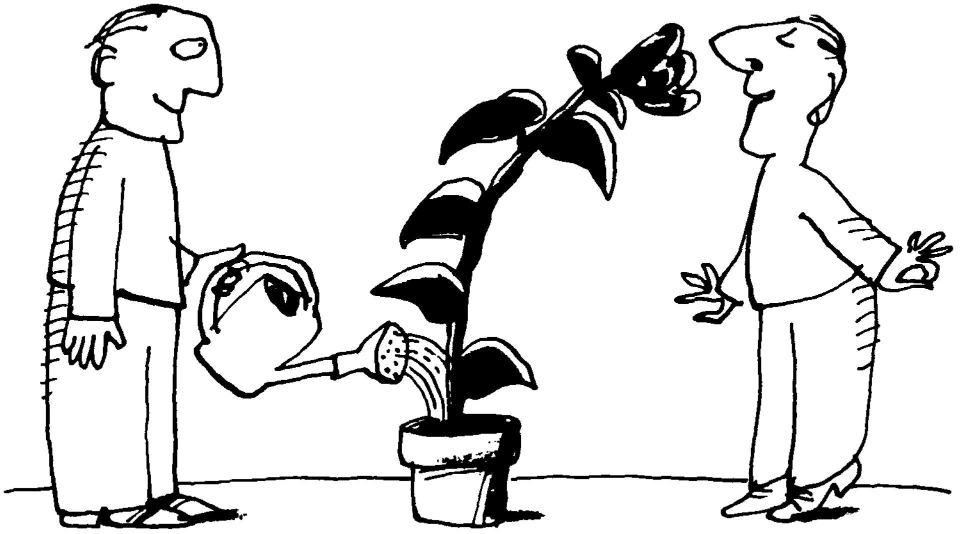
In order to prevent some operators cashing in on the customer's enthusiasm for organic foods by marketing produce obtained by methods not offering every guarantee, the Commission is drawing up a legal framework which will provide the customer with a guarantee of each product's authenticity (for example, in the form of a quality mark) whilst protecting the producer against unfair competition. The wider the range of products and the higher the quality requirements, the greater the importance which attaches to the labelling and description of foodstuffs, including those produced by 'conventional methods', especially as the single market nears completion. Products approved in one Member State can already be sold in any other Member State — this is one reason for the wide variety displayed on the shelves of supermarkets and grocery shops.

6. New industrial and biotechnological outlets

Since time immemorial farmers have been producing not only foodstuffs but also the raw materials for certain crafts and industries. Oils, fats, starch and plant fibres are among the best-known examples. In view of the difficult position on the market for some foods, the question arises as to whether farmers could find new outlets for their produce in the non-food sectors.

From the technical point of view, agricultural raw materials are suitable for a large number of applications. Two main types of use may be distinguished, i.e. as basic products for industrial processing or as biomass for the generation of power.

In both cases Community-grown raw materials have to compete with fossil fuels such as petroleum, gas and coal and with imported products such as coconut oil and palm oil.



For industrial uses in particular, petroleum derivatives are much cheaper and more versatile than agricultural or forestry products. The latter have maintained their share of the industrial market mainly in those areas where their specific chemical properties favour their use (for example, vegetable oils, starch and sugar for use in fermentation processes).

The industrial processing of agricultural raw materials in likely to acquire new momentum through the promise of biotechnology. On the one hand, scientists are rapidly developing new varieties and products geared to the requirements of industry and the market at large. On the other, biotechnologists are working on new and improved processing techniques which could make agricultural products more competitive and widen their range of uses. The Community has launched a multiannual research and development programme (Eclair) which aims to promote the agricultural and agro-industrial exploitation of new developments in biotechnology and the natural sciences.

As things stand, however, the industrial market for agricultural products is fairly limited, at least in the short term. Apart from the existing outlets, new markets could be opened up for certain specialized products, but it would be quite wrong to think that industry can solve all the marketing problems which face European agriculture. The same applies to the energy sector. Although the use of agricultural alcohol or vegetable oils as a motor fuel now presents few technical problems and is already the subject of pilot schemes financed by certain Member States, petrol from the farm is still too expensive as compared with that derived from mineral oil and it would require very considerable subsidies. It must be remembered, however, that fossil fuels are not inexhaustible. In the long term, petroleum and coal will become too expensive and precious to burn. The Community should therefore retain the option of using renewable agricultural raw materials as a possible source of energy for the future.

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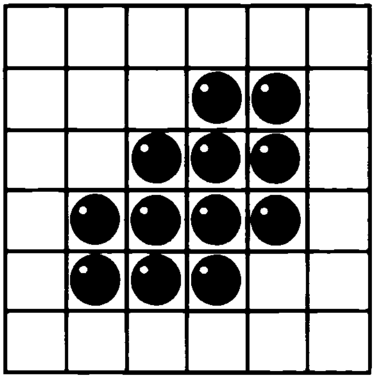

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