

Relaunching Europe: Agricultural policy, target 1988

European File

The common agricultural policy, one of the best developed and best known European policies, has five main aims:

- to increase productivity in the agricultural sector by promoting technical progress, ensuring a rational development of production and the optimum use of the factors of production, in particular labour;
- to ensure a fair standard of living for farmers;
- to stabilize markets;
- to ensure the availability of supplies;
- to ensure that supplies reach the consumer and the food industry at reasonable prices.

How are these objectives achieved? The various markets for agricultural products have been progressively organized following three basic principles:

- unity of the market: products must be able to circulate freely within the Community and agricultural markets must be organized according to common rules;
- Community preference: European products must be protected from low-cost imports and fluctuations on the world market;

- common financial responsibility: in order to strengthen solidarity between the various Community regions, the European Agricultural Guidance and Guarantee Fund finances, through its guarantee section, all public expenditure on common market organizations, and through its guidance section, the improvement of agricultural structures.¹

The need for reform

In its Communication 'Guidelines for European agriculture' published on 23 October 1981, the European Commission notes that, despite certain drawbacks, the common agricultural policy has achieved its initial aims. Although these aims must be safeguarded, it is nevertheless necessary to adapt the policy to present-day realities, to the change in the economic situation and to developments within the agricultural sector itself. The modernization of the common agricultural policy is one of the key elements in the regeneration of the Community proposed by the Commission in response to the mandate assigned to it by the Council of Ministers on 30 May 1980.² It is shortly to be the object of new discussions between ministers and heads of government of the Ten.

All countries, in some way or another, give agriculture a particular role and special treatment compared with other sectors of the economy. It is impossible to rely solely on world prices, which fluctuate wildly since they only apply to residual, and often very small quantities after domestic demand has been met. OECD figures show that public spending on agricultural price and income support varies considerably from one country to another. In 1977, the amount of expenditure in comparison with agricultural value added ranged from 7.5% in New Zealand to 21.4% in Norway and 27.3% in Switzerland. The Community figure of 11.9% was at the lower end of the scale, close to the United States (9.1%) and Austria (10.6%).

This does not, however, render reform of the common agricultural policy any the less necessary.

- The establishment of the common market and the extraordinary development of agricultural trade resulting from it have increased both the consumption and quality of foodstuffs; the Community has been protected from shortages; the European market has escaped the speculative movements affecting the world market; modernization of the agricultural sector has been stimulated. Nevertheless, this has in turn provoked a number of problems: the quantities produced have not always been matched to the needs of the market and, up until 1979, EAGGF spending increased faster than the Community's own resources.
- The common agricultural policy, which was conceived in a period of unprecedented economic growth, is now developing in the context of the energy crisis, a slowdown in growth, high unemployment, monetary instability and rising inflation. The crisis

¹ See *European File* No 4/81: 'Europe's common agricultural policy'.

² See *European File* No 16/81: 'The 30 May mandate and the relaunching of the European Community'.

makes it hard for farmers to find alternative employment and imposes strict management of public spending.

- There are many factors behind the increase in Community agricultural spending: inflation, the increase in the level of self-sufficiency, extension of the area covered by the common agricultural policy (particularly in the fruit and vegetable and sheepmeat sectors), the granting of concessions to various trading partners, evolution of world market prices, the accession of Greece, etc. The rate of increase has not been regular: there was a sharp downturn between 1973 and 1974, followed by a steady growth until 1979 and then a marked slowdown between 1979 and 1982, largely thanks to action taken by the Community institutions. This action must be continued and expanded.
- Output of many agricultural products is forecast to continue to rise faster than consumption between now and 1988, without always sufficient export openings to absorb the surplus. It is worth noting that in 1980, Community farm exports represented 8% of world agricultural trade (while imports accounted for 17%). Given world food needs, it seems reasonable to plan a policy aimed at increasing European exports, so as at least to retain the Community's current share of world trade. This policy could include long-term supply contracts, particularly with developing countries, which took 51% of Europe's farm exports in 1980. But the fight against hunger in the world must primarily be carried on by developing the Third World's own food resources and the Community intends to contribute more and more to this. Indefinite increases in exports and food aid can no longer be counted upon.

Market organizations: What must be changed

The main measure for reform of the market organizations are as follows.

- *Cereals*: production of cereals, mainly wheat, barley and maize, represents 12% of the value of Community agricultural production. In 1979/80, it totalled 118 million tonnes, with imports of 18 million tonnes and exports of 17 million tonnes. Without changes in existing policy, production would reach 135 million tonnes by 1988. This would lead to surpluses, particularly given the rapid increase in imports of cereals substitutes used for animal feed (in 1980, these imports represented the equivalent of 14 million tonnes of cereals). Several measures have been proposed by the Commission. Firstly, the fixing of a production target of 130 million tonnes for 1988, with intermediary annual targets fixed each year: any surpassing of the permitted ceilings would result in a reduction in European intervention prices the following year. Secondly, the gradual alignment of Community prices with those received by US cereals producers, thus eventually making imports of cereals substitutes less attractive. In the meantime, ceilings on imports of cereals substitutes would be negotiated with the exporting countries. The production of durum wheat, used in the manufacture of pasta and other foods, and not therefore as a fodder crop, should also be included in the 130 million tonnes target. In this sector, the payment of aid will be limited to the first 10 hectares for each producer.

- *Dairy products*: milk production represents 20% of the value of agricultural production and takes place on some 1.8 million of the Community's 5 million farms. The 'mountains' of surplus butter and milk powder have now largely been disposed of,¹ although strict prudence is still required. Without changes in existing policy, the annual increase in milk production will be between 1 and 1.5%. The Commission proposes that, in future, deliveries to dairies should not increase faster than Community consumption (currently around 0.5% per year). But what precisely should be done to ensure that production remains at that level? At the end of January 1982, the European Commission was still examining the problem in the light of ministers' reactions to its proposals.
- *Beef*: in value terms, beef and veal represent 16% of Community agricultural production and are produced on half the Community's farms. Here, too, the rate of increase in production over the next few years will be above that of consumption (1.5 to 2% as against 0.7%). The Commission envisages a prudent price policy to discourage surpluses, since new price rises could well lead consumers to buy other meats. The Commission proposes altering the intervention system by limiting or suspending intervention buying during certain periods of the year. Against this, new aids to support the incomes of specialist beef producers should be introduced, with a limit of aid per farm.
- *Pigmeat, eggs and poultry*: these products constitute 19% of the value of Community agricultural production. The situation in this sector, where market support is limited, does not justify the fixing of production objectives or the definition of new co-responsibility measures. Exports could be boosted by a relative reduction in the price of cereals.
- *Sugar*: the Community market organization for sugar, introduced in 1968, was renewed in July 1981 and does not require modification in the short run. The new regime applies to both beet and cane sugar and to the direct industrial substitute, isoglucose, obtained from maize. Apart from certain changes aimed at curbing surplus production, the system of production quotas and differential price guarantees has been prolonged for the next five years, with reviews in 1984/85 and 1985/86. Producers are responsible for all financial losses involved in disposing of surpluses they produce. There are also special provisions governing preferential imports from India and the ACP countries which are signatories of the Lomé Convention.
- *Mediterranean products*: to take account of the future accession of Portugal and Spain to the Community, and that of Greece in 1981, the European Commission drew up a series of measures in October 1981, designed to improve various market organizations.
 - *Wine*: production varies considerably from one year to the next and the Community aim should therefore be to avoid any widening of the gap between production

¹ See *European File No 4/80*: 'How the European Commission is tackling dairy surpluses'.

and consumption. The Commission proposes to modify the intervention arrangements¹ in order to allow compulsory preventive distillation in the event of a super-abundant harvest. Other measures envisaged concern planting restrictions, the enrichment of wine by added sugar, an increase in the minimum alcoholic content and stimulation of consumption, chiefly by the abolition of discriminatory taxes.

- Olive oil: a combined strategy is required to safeguard producers' incomes, maintain the balance between supply and demand and limit as far as possible the increase in budgetary costs, bearing in mind the interests of countries supplying other vegetable oils. The Commission has therefore proposed various measures to encourage consumption of olive oil and voluntary conversion of producers to other forms of farming, to negotiate a freeze on imports of other vegetable oils at their current levels and, as a final resort, a non-discriminatory tax on imports. In addition, a production target of 3.3 million tonnes by 1988 has been fixed for colza.
- Fruit and vegetables: the Commission plans to strengthen the role of producer organizations and tighten controls on quality standards. It also suggests improving the intervention system for dealing with cases of market disruption and extending the minimum import price system. Production targets should be fixed for apples (6 million tonnes) and processed tomatoes (4.5 million tonnes). For citrus fruits, where the accession of Spain would alter the present balance appreciably, the Commission proposes to extend and modify the existing restructuring plan, making it both more effective and more directly centred on those regions most in need of Community aid to meet increased competition. In addition, measures will be taken to improve sales outlets in non-producer member countries.

Other measures

In line with price and market support measures, the Commission plans to improve the overall position of Community agriculture.

- *Structures policy*: increased attention should be paid to the quality of products and the efficiency of processing and marketing networks. Production should be reshaped and diversified and new products and systems of production developed. Agricultural research should be stepped up to help modernize farming. Finally, particular attention should be given to the poorer regions, and the Commission proposes implementing integrated development programmes for the Mediterranean regions.
- *Alternative production and energy*: it is not easy to find alternative products to replace those already in surplus. The Community is already backing increased

¹ See *European File* No 12/80: 'A future for Europe's wine'.

production of peas, beans and kidney beans, which provide protein for animal feeds. Better management of existing woodland and increased afforestation would lead to a better use of marginal farmland, improve wood and paper supplies and thus ease the Community's balance of payments and of course contribute to environmental protection.

Apart from energy conservation which should be continued and encouraged, the Commission feels that a particular effort should be made to develop new and alternative energy sources. As both a consumer and a producer, agriculture can play a greater role here: use of solar energy, use of waste and vegetable matter, etc. All this would require an increased research and development effort on the part of the Community, the Member States and farmers themselves.

- Direct income aids:* the common agricultural policy helps maintain farmers' incomes primarily by supporting prices. But sometimes direct aids to supplement receipts from the market are required. The Commission feels that new measures of this type could be introduced in certain sectors, such as beef farming, so as to concentrate spending on producers who have the most need and who are prevented from finding alternative employment in industry by the current economic situation. These measures would obviously have to take account of the evolution of farm incomes, the annual price fixing decisions and the overall budgetary situation. If they became a general rule, the expense would be far too high.
- National aids:* EAGGF expenditure is chiefly concentrated on the market organizations and certain aspects of structural policy. But national expenditure on agriculture (on structures, tax, social security, etc.) remains around twice as high as that of the Community. The European Commission is concerned that in some cases, the Member States do not always respect European competition rules on the procedures laid down for joint agreement. Certain national aids, fortunately a very small minority, provoke distortions of competition on the common market and extra expenditure. Stricter discipline is therefore required. The Commission will take systematic action in cases of infringement. To clarify the situation, the Commission intends to draw up a regulation specifying which aids a Member State must notify, which are prohibited and which are authorized.
- Improved controls:* the working of the common market organizations occasionally gives rise to abuses and frauds of varying degrees of complexity and expense. The European Commission wants to strengthen controls on the application of common Community regulations in a number of fields: quality standards for fruit and vegetables; qualitative criteria for cereals and beef sold into intervention; checking that milk powder produced for animal feed is actually used for that purpose and that growers given aid to produce olive oil actually produce the oil; respect for rules governing vineyards and wine-making. The Commission proposes a strengthening of national control bodies and would also like to establish a team of Commission officials with independent powers and entitled, for example, to carry out surprise inspections.

Together, these guidelines will serve as a basis for reform of the common agricultural policy in the years to come. The Community institutions must be able to take decisions, particularly on prices, with a long-term perspective in mind. The Commission feels that the common agricultural policy must continue to play its three major roles: organization of the market, which ensures a stable economic framework for agriculture, structural aid, which assists farm modernization, and direct income aid in special cases. But through the fixing of production objectives and the implementation of measures designed to tax producers if these targets are exceeded, farmers will in future be obliged to take account of the realities of the market, which they have not always done in the past. This does not mean that artificial limits are put on farmers' output, but it does mean letting them know that guaranteed prices will not be the same for surplus products and that they will have to participate in the cost of disposing of them. Farmers will have to act more like businessmen. Community farm spending must cover only the quantities corresponding to the Community interest, taking account of domestic needs, international trade and the Community's role in the fight against world hunger. Farm spending will therefore continue to rise at least on average slower than the Community's own resources and this will allow more funds to be spent on other European policies ■

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