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of the report by Mr PROVAN

drawn up on behalf of the Committee on Agriculture,  
Fisheries and Food

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OPINIONS of the various committees

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O P I N I O N

(Rule 101 of the Rules of Procedure)

of the Committee on Budgets

Draftsman: Mr John TOMLINSON

On 23 January 1986, the Committee on Budgets appointed Mr TOMLINSON as draftsman of the opinion.

The Committee considered the draft opinion at its meetings of 20 March and 3 April. At the latter meeting, the Committee adopted the draft opinion by 25 votes in favour, 5 against and 1 abstention.

The following were present at the vote: Mr COT, chairman; Mr RYAN, vice-chairman; Mr TOMLINSON, draftsman; Mr ABENS, Mr ARIAS CANETE, Mr BARDONG, Mr BATTERSBY (deputising for Sir James SCOTT-HOPKINS), Mrs BOSERUP, Sir Fred CATHERWOOD, Mr CHAMBEIRON, Mr CHRISTODOULOU, Mr COLOM I NAVAL, Mr CORNELISSEN, Mr DANKERT, Mr EYRAUD (deputising for Mrs HOFF), Mrs FUILLET, Mr GARCIA RAYA, Mr GLINNE (deputising for Mr ARNDT), Mr HACKEL, Mr LUIS PAZ, Mr LUCAS PIRES, Mr MARQUES MENDES (deputising for Mr LALOR), Mr MIRANDA DA SILVA (deputising for Mrs BARBARELLA), Mr MIZZAU, Mr NORMANTON, Mr PAPAKYRIAZIS (deputising for Mr PAPOUTSIS), Mr PÖTSCHKI (deputising for Mr SCHÖN), Mr PASTY, Mr d'ORMESSON, Mr TOPMANN (deputising for Mr PITT), Mr WAWRZIK (deputising for Mr LANGES).

## AGRICULTURAL EXPENDITURE AND OWN RESOURCES

1. Notwithstanding the clear, traditional opinion of the Committee on Budgets that Agricultural Guarantee expenditure should not increase at a faster rate than the increase in own resources, this wish has not been fulfilled since 1981.

Table 1

Comparative development of 'own resources' and agricultural expenditure  
(million ECU)

	Maximum available own resources	Increase over previous year	EAGGF Guarantee expenditure	Increase over previous year
1980	18,177.8	-	11,314.9	-
1981	20,702.3	(+13.9%)	10,980.2	(-3%)
1982	22,149.8	(+ 7% )	12,405.6	(+12%)
1983	23,041.1	(+ 4% )	15,811.6	(+27%)
1984	24,880.0	(+ 8% )	18,346.5	(+16%)
1985	26,190.8	(+ 5% )	19,787.4*	(+8% )

\* Commission estimate

Sources: Annual Report for 1984 of the Court of Auditors p.11 and  
Agricultural Situation in the Community, 1984 Report p.105, and  
1985 Report p.163.

Thus the imperative guideline for the possible attainment of a fair balance of budgetary resources for the various areas of Community policy has not been observed.

2. Equally there has been a tendency since 1981 for Agriculture Guarantee expenditure to form an increasing proportion of both total payments and of maximum own resources.

Table 2

EAGGF Guarantee expenditure as a percentage of:

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>198</u>
a) Total Payments	69.5%	61.7%	60.7%	65.0%	66.8%	69.
b) Maximum available						
'own Resources'	62.2%	53.0%	56.0%	68.6%	73.9%	75.

\* figure based on total payments entered in adopted budget.

Source: ibid

Comparison with 1980 shows that the pattern of increase is not entirely predetermined. A major difficulty has been that the level of expenditure has been heavily influenced by external factors and notably the relationship between the US dollar and the ECU. These factors however cannot mask the fact that there is also a major policy responsibility for this pattern of expenditure.

3. The present agricultural price proposals underline the difficulty of establishing a financial environment in which all Community policies - non-obligatory as well as obligatory - can develop, as is clearly the wish of Parliament when one sees the enthusiasm with which parliament established the majorities necessary for the use of its margin for manoeuvre.

It is of particular importance for the European Parliament to take note of the information given by the Commissions Services to the Working Party of the Committee on Budgets on 19th February 1986 that the resources needed in 1986, additional to those provided in the 1986 Budget, to ensure the proper functioning of the structural funds is about 1 billion ECU.

SUPPLEMENTARY EXPENDITURE IN 1986

4. The continuing fall in the value of the dollar against the ECU obliged the Commission at the beginning of February to foresee a request for a 790 mECU Supplementary Budget for Guarantee expenditure beyond the 21,012 mECU already included in the 1986 Budget. Within six weeks, however, it had increased its forecast of the expenditure necessary to 1,500 mECU.

This underlines, with a clarity not previously seen, the fictional character of the so-called 'budgetary discipline' adopted by the Council for controlling agricultural expenditure. For Parliament, this failure of 'budget discipline' serves to underline the extent to which the Parliament is being obliged to shoulder the burden of controlling expenditure by limiting the increase in non-obligatory expenditure.

5. Furthermore, in calculating the February figure of 790 mECU, the Commission made a number of assumptions which while long on optimism appear to the Committee on Budgets to be short on realism (see Table III).

On the side of extra expenditure (see annexe 4 of Volume II - Financial Implications) it supposed that of the total amount of 2121m ECU that it proposed to add to the 1986 Budget, 750m ECU would suffice to cover the depreciation of the dollar. Yet, by the beginning of March the dollar had already fallen from the assumed rate of 1.12 ECU to the dollar to 1.02 ECU to the dollar. This would add almost a further 1,000 mECU to the Budget should this additional fall be confirmed for the rest of the year.

6. When it comes to consideration of savings the Commission is likewise sanguine. It supposes that it can save 408m ECU by the adoption of the price proposals and related measures. What reliability can be placed on such a supposition when 330m ECU of this 'saving' rests on the adoption of the co-responsibility levy on cereals by Council - a likelihood which looks somewhat less than certain. If anything recent history has taught us to expect the Council of Ministers to add to rather than subtract from the costs of Commission proposals.

Moreover the Commission envisages savings of 200m ECU in specific market management measures, 300m ECU in restrictions on reimbursement in relation to storage, and the use of 423m ECU envisaged for the early depreciation of stocks disposed of in 1986. On the first of these, one wonders what makes it possible to take such measures now, unless it is by putting off expenditure till a subsequent year; on the second, it is clear that this is not a saving, but rather a transfer of costs from the European to national budgets; and on the third, the 'saving' comes from using resources for a purpose other than that for which they were originally allocated.

Table III

THE ARITHMETIC OF THE SUPPLEMENTARY BUDGET REQUIREMENT FOR 790m ECU

Additional Costs

New estimate including 'current situation'	961m	
Beef/Veal Memorandum	5m	
Stock Disposal	1,155m	
	-----	2,121m

Offset by

Market management savings	-200m	
Restriction on reimbursement of technical and financial costs of public storage	-300m	
Early depreciation of stocks which will be disposed of in 1986	-423m	
Cost of price proposals and related measures	-408m	
		-1,331m
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Stated requirement for Supplementary Budget		790m
		-----

Source: Volume II, Annexe 4 Commission Proposals



## THE REPETITIVE UNDERESTIMATION OF AGRICULTURAL EXPENDITURE

7. In general terms, the Commission appears to have a tendency to consistently underestimate the extent of agricultural spending. This is confirmed by the regularity in the recent past of submissions of supplementary budgets for this sector.

What therefore the Committee on Budgets would like to see is an attempt at medium term financial planning which is not prone to such underestimation and which makes it possible to achieve a rate of increase in agricultural spending below the rate of increase of own resources.

Such financial planning should ensure that at an early stage reports are made on any major deviation from the planned pattern of expenditure in order to ensure that adjustments can be made to policies in sufficient time to prevent agricultural expenditure running further out of control.

Unfortunately the Commission's proposals do not provide a basis for such longer term planning. In particular this conclusion arises from the proposals on de-stocking which the Commission presents.

## STORAGE AND DE-STOCKING COSTS

8. The extent of the problem is dramatic. Since 1981 the value of stocks held in storage has increased from 2 billion ECU to 10.5 billion ECU. Moreover, it appears difficult to forecast accurately how the volume of public stocks increases. As late as last September (at the time of the Christophersen seminar) the surplus production held in storage was valued at 9 billion ECU - 1.5 billion ECU less than the valuation for the end of 1985.
9. The Commission now proposes a Budget scheme to seek to reduce, to manageable proportions, the level of stocks. It admits (volume 1, p54), that such a scheme will cost 'several thousand million ECU'. Already in 1986 the cost is estimated at 1,155 million ECU. In this context the Commission 'savings' towards the cost are those mentioned in Para (6) and the criticisms should still be born in mind as they rest on the assumption that Member States will agree to the measures proposed.

10. There is, however, a much more fundamental objection. Notwithstanding the Commission's de-stocking scheme, its price proposals do not provide a basis for preventing stock levels from rising again after the scheme is completed. The inbuilt tendency to over production has to be combatted rather than just the consequences of that over-production. Hence the Commission must consider more seriously other alternatives for supporting farm income beyond those achieved through the pricing mechanisms.

An additional factor which should be born in mind is that the effects of current policies produce regional disparities which may conflict with our regional policies. When one considers that the major areas of surplus production and high storage costs are the cereals and dairy sectors, an example illustrates the above point; the 1984 Court of Auditors Report shows that milk products account for 29.7% of total EAGGF payments in 1984. Four Member States, Germany, Netherlands, France and the UK received 81.7% of the total payments in this sector.

#### OTHER WAYS FORWARD

11. It will be recalled that in its document "Perspectives for the Common Agricultural Policy" (com (85) 333) the Commission presented a variety of possible forms of income aid. It noted that 'such systems of income aid already exist at present. The most important one is that of farmers in mountain and other less favoured areas covering about 37% of the agricultural area and 38% of the holdings in the Community' (p.56).

At a time when it is clearly useful for the Commission to follow up its own expressed view there is little evidence that the extension of systems of direct income aid has been seriously considered in the present price proposals.

It would be particularly useful were the Commission to go further in examining the possibilities of wider application of direct income aids. Such aids would make it possible to put a stop on the present open-ended and unlimited price guarantees. In particular they would offer a protection to the small farmer while giving a clear signal to larger producers of the limits of the protection they would receive from the Community.

## CONCLUSIONS

The Committee on Budgets, therefore:

- i) Re-affirms its support for the principle, recognised by both Commission and Council, that agricultural expenditure must increase at a slower rate than the own resources of the Community;
- ii) Regrets that this principle has not been respected and will not be so respected under the Commission proposals;
- iii) Points out the fictional character of the operation of the Council's 'budget discipline' and refuses to accept the notion that Community policies other than agriculture should be blocked pending necessary agricultural reforms;
- iv) Noting that the 790 mECU originally foreseen as a Supplementary Budget for EAGGF Guarantee in 1986 has already been revised to a new estimate of 1,500 mECU, does not believe that the Commission's price proposals begin to address the underlying problems of Community agricultural policy;
- v) Calls on the Commission to report on methods of introducing a financial planning system which ensures that, at an early stage, reports are made on any major deviations from the planned pattern of expenditure and on the measures for corrective action it anticipates but which is nevertheless sufficiently flexible to cushion the effects of uncontrollable factors extraneous to the Community;
- vi) Expresses concern that the Commission's proposals do not provide a basis of preventing stock levels from rising again on the completion of a programme of de-stocking and believes that over production itself needs to be combatted rather than the consequences of over production;
- vii) Calls on the Commission to examine the possibility of a pluri-annual system of price fixing, in connection with an extended use of direct income aids; points out that only by linking such aids with pricing policy can an agricultural policy be achieved which no longer primarily helps large concerns but rather the small and medium sized ones; considers that such reforms are necessary if the interests of consumers are to be adequately taken into account.

O P I N I O N

(Rule 101 of the Rules of Procedure)

of the Committee on Economic External Relations

Draftsman: Dame Shelagh ROBERTS

On 22 January 1986, the Committee on External Economic Relations appointed Dame Shelagh Roberts draftsman of the opinion.

The Committee considered the draft opinion at its meetings of 24-25 March and 2-3 April 1986. It adopted the draft opinion on 3rd April 1986 unanimously.

The following took part in the vote: Dame Shelagh ROBERTS, Chairman and draftsman; Mr HINDLEY, Vice-Chairman; Mr CANO PINTO, Mr ESCUDER CROFT, Mr GRIMALDOS GRIMALDOS, Mr HITZIGRATH, Mr MOORHOUSE, Mrs Tove NIELSEN (deputizing for Mr DE WINTER), Mr PEGADO LIZ, Mr RINSCHÉ (deputizing for Mr COSTANZO), Mrs van ROOY, Mr ROSSETTI (deputizing for Mr GALLUZZI), Mr SEELER, Mr SILVA DOMINGOS, Mr ZAHORKA, Mr ZARGES.

1. The opinion of the Committee on External Economic Relations should bear in mind the analysis carried out by the European Parliament both in the PLUMB report on CAP reform<sup>1</sup> and in the CATHERWOOD report on the impact of the CAP on the external relations of the European Community<sup>2</sup>. The Committee also had the opportunity of dealing with this subject while examining the Commission's 'Green Paper' on the future of the CAP<sup>3</sup>, and while adopting its opinion for the Committee on Agriculture, Fisheries and Food<sup>4</sup>.

A series of amendments to the TOLMAN report<sup>5</sup> were tabled by the draftsman of this opinion, in order to take into account the positions adopted by the Committee on External Economic Relations on that occasion. Although the TOLMAN report was rejected by the European Parliament on 15 January 1986, it seems useful to recall which of those amendments were adopted in plenary (see Annex I).

2. The Commission's proposals for the 1986/87 agricultural prices review and related measures<sup>6</sup> try to deal with a series of problems affecting the CAP: the increasing gap between internal consumption and production (due mainly to increases in productivity), high budgetary expenses, (caused both by intervention and export restitutions), high level of stocks for several important products, in a context of severe competition on the world markets and sinking prices (in ECU terms). The basic principle adopted by the Commission is an overall freeze in price levels (modulated to a certain extent for the different sectors according to specific market situations), and relies on a variety of different approaches in order to solve some of the long-standing problems of the sector:

- linear coresponsibility is introduced for the cereal sector (at a 3 % level for wheat and with a 25 t franchise) and maintained for milk (2 %);
- direct payments to producers are introduced for beef and increased for durum wheat
- maximum guaranteed quantities are introduced for oilseeds;
- quotas are maintained for milk;

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1 OJ C 172, 13.7.1981

2 OJ C 242, 12.9.1983

3 COM (85) 333 final

4 Doc. A 2-185/85/Ann.

5 Doc. A 2-185/85

6 COM(86) 20 final

- new market management measures will include stricter quality criteria and reduction of the period of intervention (cereals), as well as outright abolition of intervention in normal circumstances (beef);
- reductions in prices will apply mainly to some of the Mediterranean products (durum wheat, tobacco, fruits and vegetables, olive oil), as well as butter.

3. The Commission has also announced a special programme, details of which are not officially known at the time of drafting, designed to reduce the level of stocks for a **series** of products, and in particular cereals, butter, beef, skimmed milk powder.

The cost of such a programme would be around 3 000 million ECU<sup>1</sup>, spread over three years, and would ensure that the stocks reach a "normal" level by the end of 1988. According to the press<sup>2</sup>, this would entail the sale, mainly on world markets, and by means of export restitutions of 13.8 million tonnes of cereals, 325 000 tonnes of skimmed milk powder, 817 000 tonnes of butter, 700 000 tonnes of beef/veal, 12 400 tonnes of tobacco.

If part of these quantities were sold on internal markets, they would not significantly reduce surpluses but simply replace normal sales.

4. The main conclusion we can draw from an analysis of the 1986/87 price proposals and related measures is that there is a strong probability that the production of surpluses in several of the main sectors will continue, that prospects for disposal of surpluses on international markets are not favourable, and that consequently, intervention stocks, although reduced at heavy costs by the special programme, will tend to increase again beyond "normal" levels.

5. This is true, in particular, for the cereal sector: the Commission itself considers that a coresponsibility level of 6 % would be necessary in order to finance disposal of cereal surpluses, which are estimated at 12 million tonnes for 1986<sup>3</sup>: the Commission, however, opted for a 3 % level, despite previous experiences in the milk sector which have shown that the effect of linear coresponsibility on output is often quite small.

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<sup>1</sup> Press conference given by Mr ANDRIESSEN on 5 February 1986

<sup>2</sup> Agra Europe, no. 1385, 24 January 1986

<sup>3</sup> COM (86) 20 final

As far as international markets are concerned, the following factors have to be taken into consideration: world demand for wheat has been assessed at less than 100 million t in 1985/86, compared with 105 million t in 1984/85; in addition, the USSR and most traditional importers are expecting better harvests and "the other exporters have reacted by adopting more aggressive export policies that have provoked a fall in world prices". This, combined with the fall in the value of the dollar<sup>1</sup>, will raise the cost of exports.

6. With regard to dairy products, the Commission considers that "in the actual situation of production/external trade/internal consumption, it is likely that the persisting market imbalance at given prices is of the order of 2 - 4 million tonnes of milk, without counting the impact of existing stock levels"<sup>2</sup>. Prospects on the world markets are not good, since "the US milk production could increase by 4 - 5 % in 1985" and, in addition, "USSR and the countries in Eastern Europe, in continuation of their expansion in 1984 and 1985, will probably produce 6 - 7 million tonnes of milk more in 1986 than in 1983"<sup>3</sup>. The continuation of the quota system, with overall 99,4 million tonnes of deliveries, will therefore also continue imbalances for the 1986/87 marketing year, with parallel effects on the butter market and milk powder market.

The possibility of reducing the output of dairy products depends therefore on the Council adopting the milk quota buy-scheme<sup>4</sup> now under discussion.

7. With regard to beef and veal, prospects are slightly better: the Commission remarks that the effect of the milk quota system on slaughterings, which had led to a sharp increase in supply in 1984, is now weakening, and the outlook on the internal market is therefore improving slightly.

In taking world markets into account, we must note that there has been a sharp drop over the last few years in per capita demand for beef/veal in most major countries involved in world trade in meat, with the exception of Japan and the EC Member States. On the other hand, production in the southern hemisphere has been sluggish and therefore "the economic recovery now taking place in certain countries such as the USA and Japan, combined with the still reduced export capability of the southern hemisphere countries, may well lead to an increase in world market prices in the medium term"<sup>5</sup>.

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<sup>1</sup> COM (85)722 final, p. 35

<sup>2</sup> " " " , p. 138

<sup>3</sup> " " " , p. 137

<sup>4</sup> COM (85)583 final

<sup>5</sup> COM (85)722 " , p. 150

8. The Community has been widely criticized, in recent years, by some of its trading partners on the ground that export restitutions for CAP products depress world agricultural prices and allow the Community to take more than an "equitable share" of world markets for such products.

As an example, studies quoted by the Australian Bureau of Agricultural Economies maintain that, if the EC liberalized trade in agricultural products, world market prices would rise by 9.2% for wheat, by 5 to 11% for sugar, by 17% for ruminant meats<sup>1</sup>; moreover, if all protective devices and barriers to trade dairy products were eliminated, world prices would rise "to a level approximating the support prices ruling in both the EC and the United States"<sup>2</sup>.

9. In fact, some of the Community's trading partners have also been heavily subsidizing their agricultural sector, and in particular agricultural exports; the US "BICEP" program, as an example, is mainly directed towards traditional Community markets in the cereal sector: the Commission considers that "the implementation of the BICEP programme and the comprehensive use of a credit policy by the US have made it increasingly difficult for Community exporters to remain competitive, and they have lost important markets, particularly in the Mediterranean countries"<sup>3</sup>.

10. Mr Andriessen expressed the opinion, in his press conference on 5 February 1986, that the sales of the surpluses would not start a trade war with the EC's partners because the Community would choose its markets with care. The quantities involved in the de-stocking program are however such, that the hope of finding these markets may prove to be an illusion, if the Community does not undercut world prices for the goods exported.

It should also be added that the suspension of intervention (for cereals) and the abolition of it, as from end 1987 (for beef), will put pressure on the Commission to grant export restitutions for higher quantities in these sectors.

11. The European Parliament has adopted, on 13 December 1985,<sup>4</sup> a resolution concerning protectionism in US/EC trade relations, urging for "a simultaneous

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<sup>1</sup> "Agricultural policies in the EC" pages 156-158

<sup>2</sup> "Agricultural policies in the EC" page 158

<sup>3</sup> COM(85) 722, page 34

<sup>4</sup> PE 102.715



process in the US and the EC in order to obtain the synchronized abolition of surplus production and subsidies", and expressing the opinion that, in view of the next GATT round, special consideration should be given to "the tightening of GATT discipline for the agricultural sector". On 15 January 1986, the EP also adopted an amendment to the TOLMAN report on the future of the CAP, stating that "a negotiated effort by the major agricultural producers to curtail subsidized surplus is likely to raise world prices, thus possibly encouraging local production in developing countries and reducing budgetary costs in subsidizing countries".

12. In view of the preparation of the next GATT round, a massive increase in Community subsidized exports could have a negative impact on trade relations between the contracting parties: the need for a negotiated approach, both in bilateral consultations and in the GATT Committee for trade in agricultural products, is therefore imperative.

### 13. Conclusions

The Committee on External Economic Relations:

- a) takes the view that when the Community's agricultural prices are being fixed, greater importance than hitherto must be attached to developments on world markets, so that a more realistic price level may be established;
- b) believes that the 1986/87 price proposals and related measures tabled by the Commission will prove insufficient to reduce output, in particular for sectors such as cereals and dairy products, leading therefore simply to a continuation of surpluses at present levels;
- c) notes that a programme for reducing intervention stocks to normal levels by means of an active export policy could lead to serious problems on the world markets as a result of increases in the Community's subsidized exports as well as hostile reactions by other exporting countries;
- d) points out in this context to the need for a negotiated effort by the major agricultural producers to curtail drastically subsidized surpluses, in order possibly to raise world prices, encourage local production in developing countries and reduce budgetary costs in subsidizing countries;

- e) stresses the need for strengthening GATT discipline on trade in agricultural products, the first approach being that all exporting countries discontinue or at least scale down export refunds and other measures to promote exports; reaffirms therefore that issues connected to trade in agricultural products should be discussed in depth in the next multilateral trade negotiations in GATT;
- f) considers that in view of the emphasis placed by the Community on exports in the agricultural sector and its resultant dependence on access to markets in third countries, the degree of protection established by the Community (Community preference) should not be further increased.

AMENDMENTS

tabled by Dame Shelagh ROBERTS on behalf of the Committee on  
External Economic Relations

Report by Mr TOLMAN - Doc. A 2-185/85

COMMON AGRICULTURAL POLICY  
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AMENDMENT No. 27

Motion for a resolution

Recital M

Delete this recital

M. whereas imports of products in competition with the output of the  
European Community, in violation of the principle of Community preference,  
have helped to create surpluses,

AMENDMENT No. 38

Paragraph 19a (new)

After paragraph 19, add the following new paragraph:

19a. Assumes that existing commitments to import basic products and processed  
agricultural products from developing countries would be taken into account  
when fixing 'global Community quantum'.

AMENDMENT No. 29

Paragraph 45:

At the end of this paragraph, add the following:

"urges, in the light of the increased significance of credit arrangements  
for international trade in agricultural products, that OECD export credits  
be harmonized, with a view to preventing distortions of competition"

AMENDMENT No. 30

Paragraph 48:

At the end of this paragraph, add the following:

"considers that the priority objectives of such an agreement should  
comprise the simultaneous reduction of surplus production and subsidies and  
the strengthening of the GATT dispute settlement procedures".

AMENDMENT No. 31

Delete the following paragraph:

50. Calls for greater account to be taken of Community preference, since the imbalance between production and sales is to a large extent accounted for by the import of goods of which the Community already produces a sufficient amount;

AMENDMENT No. 34

Paragraph 53:

At the end of this paragraph, add the following:

"notes, however, that this will be possible only if the Community is prepared to offer equivalent compensation"

AMENDMENT No. 36

Paragraph 59a:

After paragraph 59, add the following new paragraph:

"59a. Considers that the policy of the Community and of the Member States should give preference to the exportation of industrially manufactured goods and processed agricultural products which cover their costs, and on which the Community therefore depends, rather than the exportation of basic agricultural products which require heavy subsidies in relation to their value".

AMENDMENT No. 35

Paragraph 60a (new):

After paragraph 60, add the following new paragraph:

"60a. Considers that a negotiated effort by the major agricultural producers to curtail subsidized surplus is likely to raise world prices, thus possibly encouraging local production in developing countries and reducing budgetary costs in subsidizing countries"

OPINION

(Rule 101 of the Rules of Procedure)

of the Committee on the Environment, Public Health and Consumer Protection

Draftsman: Mr MERTENS

At its meeting of 19 December 1985 the Committee on the Environment, Public Health and Consumer Protection appointed Mr MERTENS draftsman of the opinion.

The committee considered the draft opinion at its meetings of 21 January and 25 February 1986. It adopted the conclusions on 18 March 1986 by 29 votes to 1.

The following took part in the vote: Mrs SCHLEICHER, vice-chairman and acting chairman; Mrs BLOCH von BLOTTNITZ and Mr COLLINS, vice-chairmen; Mr MERTENS, draftsman; Mr ALBER, Mr AVGERINOS (deputizing for Mr BARRAL ARGESTA), Mrs BANOTTI, Mr COTTRELL, Mr ELLIOTT (deputizing for Mr BOMBARD), Mr GAIBISSO, Mr GARCIA (deputizing for Mr NORDMANN), Mrs GREDAL (deputizing for Mr SCHMID), Mr IVERSEN, Mrs C. JACKSON, Mr HUGHES, Mr MADEIRA (deputizing for Mr TOGNOLI), Mrs MARTIN (deputizing for Mrs VEIL), Mr MUNTINGH, Mrs LLORCA VILAPLANA, Mrs LENTZ-CORNETTE, Mr PEARCE, Mr V. PEREIRA, Mrs PEUS (deputizing for Mr PARODI), Mrs RENAU I MANEN, Mr ROELANTS du VIVIER, Mr SHERLOCK, Mrs SQUARCIALUPI, Ms TONGUE, Mrs VAN HEMELDONCK (deputizing for Mrs WEBER) and Mr VITTINGHOFF.

## A. INTRODUCTION

1. The main thrust of the Commission proposals for 1986/87 is to freeze the prices of the most important farm products, with a 0.5% reduction in the intervention price of olive oil. There will, however, be substantial falls in major prices as a result of the introduction of a co-responsibility levy on cereals after the first 25 t, sweeping curbs on intervention on the beef and veal markets, the tightening of quality standards for wheat and barley and the adjustment of the fat-protein content standard for milk.

The positive MCA for the Federal Republic of Germany and the Netherlands remains unchanged.

Negative MCAs are reduced:

from over 30% to 14.4% for Greece

by 2.5% for Italy and

by abolishing the remaining 1.5% for France.

2. According to Commission calculations, national price levels both in ECU and in national currency as calculated using green rates will remain unchanged under the 1986/87 farm price proposals in West Germany, the Benelux countries, the United Kingdom, Ireland and Denmark.

In France prices in ECU will remain unchanged but prices in national currency will rise by 0.8%, or some 1.5% taking into account the devaluation of the green franc.

ECU price levels in Italy will fall by 0.6%, but in lira they will rise by 1.4%, or 1.9% taking into account the devaluation of the green lira and the cut in the negative MCA.

In Greece, ECU prices will fall by 0.4%, but in drachmas they will rise by 11.6% because of the reduction in the negative MCA and the devaluation of the green drachma.

Price levels in Spain and Portugal will rise in both ECU and national currency by 1.8% and 2.1% respectively.

3. Some one billion ECU will be needed to eliminate the 'most expensive' surpluses in storage, and experts estimate that around 4.5 bn would be needed to eliminate all of them. These figures graphically demonstrate that it will not be possible to eliminate surpluses merely by cutting farm prices. The structural programme announced by the Commission is therefore urgently needed to at least prevent new surpluses from building up.

4. In view of the fact that inflation in the Community is currently running at an average of 5%, production costs in all the Community countries have risen and changes in farmers' incomes last year ranged from a drop of some 35% in the United Kingdom to an increase of around 2% in Denmark, with the average being a 15% fall, the Community's special responsibility for the financial position of its farmers must be stressed.

These figures also demonstrate, however, that it is virtually impossible to make an across-the-board forecast as to the effects of the Commission proposals on farm incomes in real terms. The average rise or fall in incomes does not only differ from one Member State to another; even within Member States it does not always give an accurate picture of the actual income situation. To illustrate this, price fluctuations are particularly hard on specialized farms, which because of their large land area or herd numbers and constantly rising prices have in the past been a significant factor in income statistics, even where a large proportion of their operating expenses has been covered by borrowed capital. Farm price cuts hit these farms proportionately harder than mixed farms with smaller borrowings, whose profits make less of an impact on income figures but which are on a sounder business footing.

5. In the light of these points the committee notes the Commission's proposals on the fixing of the prices of agricultural products and on related measures for the 1986/87 marketing year.

At the same time it must criticize the Commission for presenting its proposals so late this year that it will be virtually impossible for the relevant committees of Parliament to give them appropriate consideration and to meet the deadline laid down in the Treaty at the beginning of the marketing year on 1 April 1986.

6. The committee notes that for the third year in succession the Commission is proposing only very small increases or no increases at all - and in some cases even cuts - in the prices of the most important agricultural commodities. At the same time, however, it notes that very little has changed as yet as far as surplus production in major commodity sectors is concerned and indeed that the problems have become more acute in the past marketing year. It must therefore express concern that the present surpluses will continue to be a serious problem, as the unacceptable cost of storing intervention produce is an inadmissible drain on the budget and the produce in storage is exerting pressure on prices on both the Community and world markets. It therefore welcomes the Commission's intention to put forward a plan for reducing surpluses for 1986-1988 and considers such measures to be urgently necessary.

7. The conclusion confirmed by the circumstances surrounding this year's price review must once again be stressed: early structural reform of Community farm policy cannot be shirked! The committee can therefore only note with regret that the Commission will not be proposing such measures until later in the marketing year.

8. It is important to point out that the Commission's submission of its Green Paper and the subsequent guidelines were a step in the right direction - particularly as these documents for the first time at Community level focus special attention on environmental issues as they relate to agriculture.

9. A reform of Community farm policy that is to cater for consumer interests, the environmental dimension, health factors and farmers' interests must hinge on three principles:

- continuation of a prudent price policy, backed up by structural measures and income aid,
- high product quality, and
- greater allowance for the environmental effects of farming.



10. In support of its conclusions the Committee on the Environment, Public Health and Consumer Protection also draws attention to its own-initiative report on Agriculture and the Environment<sup>1</sup> and its opinion on the Commission's Green Paper<sup>2</sup>.

## B. CONCLUSIONS

The Committee on the Environment, Public Health and Consumer Protection therefore submits the following conclusions to the committee responsible, the Committee on Agriculture, Fisheries and Food, and requests it to take due account of them in its report:

11. The committee has no confidence that the 1986 price proposals will result in a settlement satisfactory to consumers, environmentalists, taxpayers or farmers.

12. An agricultural policy which guarantees a fair income for agricultural producers by means of a careful price policy and income supplements would serve the interests of consumers and especially those in lower income groups who are compelled to spend proportionally more of their budget on food.

13. In addition, lower prices for meat, fruit and vegetables could help to allow more consumers access to those foodstuffs which at present they often cannot afford and, as a consequence, consumption itself may be increased.

14. In many cases, however, the prices proposed for farm products may have only a limited effect on the price of the end product, because the cost of the farm product used often accounts for only a very small proportion of the final cost of the foodstuff (e.g. beer, bread, etc.).

15. Within the milk sector, the committee deplores the Commission's proposal to lower the price of milk fats and increase the price of protein matter since this will result in higher prices for low-fat milk products which benefit the health of consumers and for which consumer demand has greatly increased.

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<sup>1</sup> Doc. A 2-207/85

<sup>2</sup> Doc. A 2-185/85

16. The committee believes that the price support system, as it functions at the moment, provides no guarantee of high quality in food and that in future it will be necessary to examine the concept of quality more carefully and to integrate it with the availability of a greater variety of products.

17. The committee stresses that one of the aims of any review of farm prices is the availability of a range and variety of food conducive to a healthy and balanced diet.

18. The committee recognizes that so long as agricultural policy fails to consider seriously the idea of direct income aids for small and medium-sized farms, especially in disadvantaged areas, together with a policy of financial encouragements to farmers not to cultivate certain areas of land set aside ('phasing out'), there will be a danger that cuts in farm prices could result in production increases.

19. The committee draws attention to the fact that total EEC support for tobacco production in 1985 amounted to 841 m ECU, while the cancer research programme has been allocated 650 000 ECU and calls on the Commission to reduce aids for tobacco production by 10% per annum until they are phased out completely.

20. The committee wishes to express once again the concern voiced in its 1984 and 1985 opinions regarding the disastrous income position of many farms and the particular problems of overproduction, which clearly cannot be solved by the measures proposed to date alone - price ceilings, quotas and co-responsibility levies - and it therefore considers a complementary structural programme of the type planned by the Commission to be urgently necessary. This programme must meet the following main conditions:

(a) financial incentives for growing crops not yet in surplus in the Community, e.g. protein and fibre crops,

(b) financial incentives for growing crops that can be used as alternative sources of energy and fuel, or any other industrial outlet,

- (c) financial incentives for organic farming methods, optimum fertilizer use and integrated pesticide use to cut back the use of chemical pesticides and satisfaction of the requests made by the European Parliament in its resolution on agriculture and the environment adopted on 19 February 1986,
- (d) financial support for environmentally sympathetic farming methods on extensive holdings, non-working of unprofitable farmland and the purchase or renting of farmland for conservation purposes.

21. The committee stresses that with Spanish and Portuguese accession the problems could become more acute in certain commodity sectors and therefore believes there is an urgent need for related measures to specify prices and variations in the different countries in greater detail.

22. The committee believes that, in order to promote the work of conservation in the countryside, the Commission should examine the possibility of rewarding farms directly for nature protection.

23. The committee believes that, in order to safeguard the health of the consumer as well as to protect the countryside and the workers in it, it will also be essential to examine a variety of options to encourage the adoption of organic farming methods, the optimum use of fertilizers and the best use of chemical pesticides.

OPINION

(Rule 101 of the Rules of Procedure)

of the Committee on Development and Cooperation

Draftsman: Mr de COURCY LING

On 18 December 1985 the Committee on Development and Cooperation appointed Mr de COURCY LING draftsman of the opinion.

The committee considered the draft opinion at its meeting of 27 February 1986 and adopted the conclusions with six votes against.

The following took part in the vote: Mrs FOCKE, chairman; Mr BERSANI, vice-chairman; Mr de COURCY LING, vice-chairman and draftsman; Mr BAGET BOZZO, Mr BEYER de RYKE, Mrs CASSANMAGNAGO CERRETTI, Mr COHEN, Mr CONDESSO, Mrs DE BACKER VAN OCKEN, Mr DURAN CORSANEGO, Mr ESTRELLA PEDROLA, Mr GALLAND, Mr GARCIA ARIAS, Mr GRIMALDOS (deputizing for Mrs GARCIA ARIAS), Mr C. JACKSON, Mr MCGOWAN, Mr MUNTINGH (deputizing for Mr BALFE), Mr PONS (deputizing for Mr SABY), Mr PIRKL, Mr RUBERT DE VENTOS, Mr SIMONS and Mr WAWRZIK.

Opinion of the Committee on Development and Cooperation

The Committee on Development and Cooperation,

- A. noting that the fixing of prices for agricultural products for the marketing year 1986/1987 will occur for the first time in a Community of twelve Member States,
- B. aware that it is desirable that the opinions of the Committee on Agriculture and the Committee on Development and Cooperation should be complementary in order that the Parliament should present a coherent view,
1. Notes the Commission's intention to achieve a better balance between supply and demand in the agricultural market;
  2. Recalls the European Parliament's resolution on the impact of the Common Agricultural Policy on international trade (OJ No. C 242, 12.9.1983) with special reference to the indebtedness of the developing countries;
  3. Regrets the Community's disposal of surplus dairy products by substantial exports to the developing countries and emphasizes the serious effects of this policy on their trade balances, traditional diet and the competitive position of indigenous farmers;
  4. Requests that the Community takes account of the impact of its exports on local crop production and existing food strategies; requests that, despite its surpluses, the Community should support three-way transactions and that the Commission should urgently examine the construction of strategic food stores in areas likely to be afflicted by famine;
  5. Deplores the over-production of sugar in the Community and the world in general and recalls the commitments of the Community under the ACP Sugar Protocol and the vital nature of these commitments for certain ACP partners;

6. Reiterates its opinion on the proposal from the Commission for a Council Regulation amending Regulation no. 1785/81 on the common organisation of the markets in the sugar sector (1) ; and urges the Community urgently to ensure that the administrative provisions of the International Sugar Agreement of 1984 are complemented by appropriate economic provisions ;
7. Underlines the need to keep developing countries fully and regularly informed of the agricultural consequences of the Community's recent enlargement with particular reference to a Mediterranean policy ;
8. Recalls that any change in the common agricultural policy must take account of the needs for outlets in the Community of agricultural exports from developing countries ;
9. Reiterates that voluntary agreements, e.g. with Thailand, on the issue of substitutes - particularly the agreement on manioc - must continue to include provisions for effective Community aid for crop diversification and that, in principle, this aid should be financed out of a specific budget line ;
10. Considers that the Commission's price proposals for 1986/87 are satisfactory from the point of view of the developing countries, provided that the conditions set out above are respected.

(1) PE 101.730/fin. - 22.11.1985

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