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Working Documents

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DOCUMENT 2-1770/84 /CII

REPORT

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

on the proposals from the Commission of the European
Communities to the Council (Doc. 2-1747/84 - COM(85)
50 final) for regulations on the fixing of prices
for agricultural products and related measures (1985/1986)

PART CII: OPINION OF THE COMMITTEE ON BUDGETS

Rapporteur: Mr P.-B. PRANCHERE

PE 95.626/fin./CII

At its meeting of 23 January 1985 the Committee on Budgets appointed Mr James ELLES as draftsman of the opinion.

During its meeting of 28 February 1985, the Committee on Budgets adopted the amendments which follow.

According to Article 101, paragraph 5 of the Rules of Procedure, the Committee on Budgets authorised the draftsman to table these amendments in plenary session.

In the course of adopting the amendments, the following were present:

Members: Mr COT, chairman; Mr RYAN and Mrs BARBARELLA, vice-chairmen; Mr James ELLES, draftsman; Messrs ABENS, ARNDT, BARDONG, BONDE, Mrs BOSERUP, Sir Fred CATHERWOOD, Messrs CHIUSANO, CHRISTODOULOU, CORNELISSEN, DANKERT, Mrs FUILLET, Messrs LALOR, LOUWES, MIZZAU, NORMANTON, PAPOUTSIS, PFENNIG, PITT, Sir James SCOTT-HOPKINS, Mrs SCRIVENER, Messrs TOMLINSON and VON DER VRING

Substitutes: Messrs DE VRIES, GATTI, MOTCHANE, PÖTSCHKI, PRICE, ROMEOS, SCHREIBER, TOPMANN and VAN DER WAAL

Art. 93.2: Messrs ADAMOU, DUPUY, FITZGERALD, KILBY, SAKELLARIOU, TOKSVIG

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I. AMENDMENTS ADOPTED BY THE COMMITTEE ON BUDGETS TO THE RESOLUTION OF THE
COMMITTEE ON AGRICULTURE, FISHERIES AND FOOD (Doc. 2-1770/84)

PREAMBLE

Indent H

Delete the final phrase; text now to read:

- H. Whereas the productivity gains achieved in recent years by farmers by dint of their work and their investment have been greater than those achieved in the economy as a whole;

Indent I

Replace with the following:

- I. Whereas the financial situation of the CAP is abnormal and very serious; recalling there is no 1985 budget and an estimated overrun to be covered of around 2 billion Ecus on the basis that the Commission proposals are agreed;

Indent L

Replace with the following:

- L. Whereas the present developments in the political sphere, such as the introduction of restrictive market mechanisms e.g. levies, quotas and guarantee thresholds, to which the Community institutions have agreed, do not as yet take full account of the need to maintain a satisfactory level of farm income for all producers, particularly on small agricultural holdings;

Indent 0

Add the following as a new indent:
Considering that profound reflection is still needed as to the future course of agricultural policy to integrate it more into the economy as a whole and therefore welcomes the Commission's intention to initiate a wide ranging debate on the future prospects for the CAP:

GENERAL OBSERVATIONS

Par. 1 Replace with the following:

1. Notes that the Community, in particular in the agreement of 31 March 1984 endorsed at the European Council meetings in Fontainebleau and Dublin, has taken measures to limit agricultural production and expenditure in several sectors through such means as levies, guarantee thresholds or quotas;

Par. 2 Delete the final phrase, text now to read:

2. Takes note of the statements by the President of the Commission before the European Parliament on 14 January 1985 on the CAP to the effect that it was time to recall the three great principles of the Treaty and to add thereto the common commercial policy;

Par. 3 Replace with the following:

3. Welcomes the initiative of the Commission to open a wide debate on the medium to long term prospects of the CAP, in particular to integrate agriculture more into the economy as a whole;

Par. 4 Replace with the following:

4. Considers that the price proposals for the 1985/86 year should provide continuity to this policy as part of the continuing process of bringing supply and demand into better balance, whilst seeking to ensure a satisfactory level of incomes for farmers in the future;

Par. 6 Replace with the following:

6. Deems it necessary to retain the fundamental principles of the CAP;

Par. 7 Add the words underlined;

7. Points out that 51% of the Community's imports of agricultural products involve agricultural products subject to market organization (i.e. products which the EC is capable of producing itself) but recognises this will significantly decrease after enlargement of the Community to include Spain and Portugal;

Par. 8 Replace with the following:

8. Considers that priority be given to sectors in deficit for food production but also for other uses (energy, biotechnology etc.) so long as the measures taken are cost effective:

Par. 10 Delete the final clause and add the words underlined:

10. Points out that any reduction in farming activity will have serious implications in terms of employment at a time when the Community already numbers 13 million jobless; notes that since 1960 one person has left the land every minute; notes that the cost of unemployment is roughly equivalent to that of total agricultural expenditure in the Community;

Par. 14 Amend as follows:

14. Stresses that there must also be help to remedy the serious disparities between Community regions;

BUDGET AND RESOURCES:

Par. 16 Replace with the following:

16. Notes that the burden of net Agricultural expenditure for the EAGGF guarantee fund represented 0.55% of the Community GDP in 1983 and a comparable amount should be added for expenditure on agriculture by Member States; this total expenditure is still a comparable figure to other developed countries when judged on expenditure per producer;

Par. 17 Replace with the following:

17. Notes that between 1973-83 the nett cost of EAGGF Guarantee section increased in real terms at a rate of 1.9% per year but also notes the nett cost of the EAGGF guarantee section increased by 22% in 1983; by 14% in 1984; and by an estimated 10% in 1985;

Par. 18 Delete final phrase of the para and add the text underlined:

Considers, however, that the other policies should not be strengthened at the expense of agriculture; underlines the importance of ensuring that the growth in agricultural spending must grow less rapidly than the increase in own resources; calls for the Community's resources to be increased;

Par. 19 Delete second part of the para, text now to read:

19. Is in favour of controlling and restoring balance to agricultural spending while safeguarding the basic principles;

Add the following para after Par. 19

Considers that restoring this balance should lead to an improvement in the quality of the expenditure which should be gradually and increasingly directed towards intervention of an instrumental nature (e.g. integrated Mediterranean programmes).

Par. 20 Replace with the following:

20. Draws attention to the need for financial control of agricultural expenditure in the light of the current imbalance on the major agricultural markets and the recent steep rise in agricultural expenditure; observes that greater presence on world markets inevitably leads to fluctuations in agricultural expenditure;

Par. 21 Replace with the following:

21. Points out, however, that where as a result of overproduction, costs are not evenly shared, this may lead to undesirable re-nationalisation of the Common Agricultural Policy and urges the Commission to ensure that aids in support of their producers do not accumulate as individual national measures;

Par. 22 Delete the second and third clause; text to read as follows:

22. Welcomes the rejection of the 1985 Budget as it did not cover expenditure for a 12 month period;

Par. 23 Add the words underlined:

23. Expresses the desire, however, that the 1985 budget be adopted rapidly in accordance with the wishes of the European Parliament and with new resources covering needs for the whole of the financial year, without recourse to another inter-governmental agreement;

Par. 24 Replace with the following:

24. Notes that decisions on the US Farm Bill as well as movements in the dollar value could have profound effects for the future financing of the CAP: observes that the effect of a 10% fall in the dollar, according to the Commission, over one year can be put at 1000 million ecu;

COSTS AND INCOMES

Par. 26 Amend the text and add the words underlined:

- 26 Points out that the costs of . production rose faster during the period 1979-1983 than producer prices and that this trend is even more marked if account is taken of the increase in these costs in 1984 by comparison with 1983; notes that the net impact of a linear 1% price increase on the EAGGF Guarantee is estimated to be 94 MEcu in 1985 and 271 Mecu in 1986;

AGRICULTURAL PRICES

Par. 31 Replace with the following:

31. Emphasises that although pricing policy must remain one of the instruments of agricultural policy, it cannot provide adequate support for farmers' incomes and at the same time restore real equilibrium to the market; urges, therefore, that other policy instruments (like a really effective structural policy) should be devised and applied so that both these goals can be achieved;

Par. 33 Amend the text and add the words underlined:

33. Notes that the Commission's price proposals are directly in line with the agreements of March 31 1984 and represent a price reduction or price freeze for a large majority of products; recalls that the average increase in farm prices for 1981/82 to 1984/85 was 23.7%;

Par. 34 Replace with the following:

34. Recommends that a market oriented price policy be pursued, in conjunction with related measures where necessary to regain control of market balance, combined with a proper structural policy, to tackle the income problems of producers, particularly small farmers who do not have the economies of scale to cope with lower prices in real terms;

Par. 35 Replace with the following:

35. Agrees to the majority of the Commission's price proposals, particularly for the major product sectors, which will lead to a freeze in common prices for 1985-86, and a small increase in prices in certain national currencies;

Par. 36 Add the words underlined:

Urges the Council to ensure that farm prices are fixed before 1 April 1985 ;
demands that the Council should take, at the same time, a decision on the modification of structural agricultural policy and on the adoption of the Integrated Mediterranean Programmes. These last should constitute a meaningful and substantial addition to structural funds and in no case should be either symbolic or a mere re-naming of existing programmes,

Par. 37 Delete

RELATED MEASURES AND MANAGEMENT OF MARKETS:

General

Par. 42 Replace with the following:

42. Stresses that the related measures proposed by the Commission are small in number and should be implemented to enable proper control of production in surplus sectors;

Par. 44 Replace with the following:

44. Stresses, moreover, that these measures are in line with policy decisions already taken in the Council of Ministers in the 1984- 85 price package;

Par. 45 replace with the following:

45. Accepts the related measures package with minor alterations and suggests ideas to overcome the problem of farm incomes;

Par. 46 replace with the following:

46. Regrets there are not sufficient measures taken on structural policy to ensure a satisfactory level of farm incomes, particularly for the small producer;

Par. 47 replace with the following:

47. Urges that the Commission investigate in detail how direct aids can be utilised to compensate for the loss of farm income, looking, in particular, at the social, economic and financial effects of such a policy;

Specific measures

Par. 50 delete

Par. 51 replace with the following:

51. Requests the Commission to provide Parliament with a list of aids which have a direct or indirect effect on production, as well as their costs; proposes that these production linked aids should be phased out of the CAP;

Par. 53 Add the words underlined:

Notes that in 1981, 70% of agricultural spending went to agri-businesses; desires that the intervention mechanisms should ensure that the real beneficiaries thereof are farmers; underlines the essential need to provide a satisfactory income, particularly for small farmers; encourages further actions by the Community for less-favoured areas and strongly requests the Commission to equate such injections of funds, which help farm incomes, to the policy itself;

Par. 54 Replace the words "by the Member States" with the words
"in the Member States"

PROPOSALS BY SECTOR

CEREALS

Par. 55 Replace with the following:

55. Recognises that the import of cereal substitutes into the Community has stabilised at around 15 million tons owing to greater domestic use in the United States of corn gluten feed;

Par. 56 Replace with the following:

56. Agrees with the Commission's proposals on cereal prices for 1985/86 and particularly underlines that price policy cannot be the only instrument used in the future; takes the view that the Commission's proposed alignment of Community prices for cereals must go hand in hand with support measures for small producers based, for example, on a per hectare supplement and limited to a maximum of, say, 12 hectares;

Par. 57 Replace with the following:

57. Considers that despite the application of the guarantee threshold to durum wheat, a 1.5% increase for this specific product is acceptable; calls on the Commission to take steps to direct the marketing of durum wheat away from those areas in which there is a surplus towards those in which there is a shortage; welcomes the inclusion of durum wheat in the guarantee threshold system applicable to other cereals for 1986/87;

Par. 58. Delete final clause and add the text underlined:

Asks the Commission to propose measures with a view to improving the rate of utilisation of Community cereals in animal feed which has fallen sharply in recent years (from 44.9% in 1972 to 33.5% in 1982); requests that the Commission examine in detail and draw up a report on the introduction of a system of direct aids in the cereal sector to compensate for any loss of income suffered by producers as a result of the rigorous price policy;

Par. 59. Replace with the following:

59. Takes the view that the tightening up of control standards must be rapidly introduced; notes that, owing to a steady increase in yields, and stagnant internal demand, the Commission expects total grain output (not counting durum wheat) to reach 148 million tonnes by 1991, or an imbalance between production and internal use of 33 million tonnes (31.8 million tonnes more than 1983/84);

Par. 60. Delete

SUGAR

Par. 61. Replace with the following:

61. Approves the freezing of the basic price for 1985/86, particularly in the light of the serious world situation;

Par. 63. Delete

Par. 64. Replace with the following:

64. Demands that the effect on world sugar prices of the impact of a future crystallate form of isoglucose be taken into account when proposals are discussed for the prolongation of the quota system after 30 June 1986;

OILSEEDS AND PROTEIN PRODUCTS:

Par. 71 Replace with the following:

71. Approves the Commission's price recommendations for rapeseed in view of the triggering of the established guarantee threshold and need for compatibility with the cereals sector; but points out that sunflower seed production has not exceeded the guarantee threshold and therefore urges that the target price or intervention price be frozen for 1985/6;

Par. 72 Delete final clause and add the words underlined:

72. Requests that the Commission promote the development of plant proteins in the Community, in particular by drawing up research programmes in this field; approves the Commission's price proposals for protein crops with the exceptions of the minimum prices for soya beans and field beans which should be set at 3% and 0% respectively;

TOBACCO

Par. 73 Replace with the following:

73. Accepts the Commission's price proposals;

Par. 74 Replace with the following:

74. Agrees that differential prices and premiums must be maintained in order to encourage the conversion of production to the most sought-after varieties;

OILS AND FATS

Par. 78 Delete second clause and amend text to read as follows:

78. Insists on the need to introduce an overall oils and fats policy to the Community;

Par. 79 Amend text to read as follows:

79. Notes that in 1984 milk producers had to come to terms with the introduction of quotas, an increase in the co-responsibility levy and a fall, in real terms, in producer prices;

Par. 80 Add the words underlined:

80. Is in favour of controlling production and rationalising support mechanisms but feels that greater account must be taken of the responsibility for expenditure of the various types of farm; demands that all Member States should apply the super levy which should have no exceptions in its application;

Par. 83 Replace with the following:

83. Observes that extreme caution should be taken in fixing prices in view of the internal market situation, the high level of intervention stocks and the unlikelihood of significant demand growth on world markets in the next few years;

Par. 84 Replace with the following:

84. Recommends that the Commission's proposal on prices and co-responsibility levy be accepted;

Par. 85 Delete

Par. 86 Add the words underlined:

86. Welcomes the Commission's decision to consider Community support for outgoers; calls on the Commission to give urgent consideration to the provision of new incentives for milk producers to cease milk production;

Par. 87 Replace with the following:

87. Notes that a five year agreement exists to reduce the import of butter from New Zealand; favours the maintaining of the suspension of IPT for 1985/86;

Par. 88 Delete the final clause; text to read as follows:

88. Expresses its surprise that the Commission is encouraging the production of milk powder and requests it to propose instead measures to encourage the use of national milk for the feeding of calves;

Par. 90. Amend and add the words underlined:

90. Draws attention to the danger of imitation milk products made from imported raw materials not subject to tax and requests the Commission to make a report on the effect of such imports;

Par. 91 Replace with the following:

91. Requests the Commission to follow the guidelines set out by the Parliament on its first reading of the 1985 draft budget concerning food aid programmes;

BEEF AND VEAL:

Par. 92 Replace with the following:

92. Agrees to the Commission's proposals on prices;

Par. 93 Replace with the following:

93. Urges that periods of intervention buying be limited as far as possible, in the light of the market situation;

Par. 94 Delete

Par. 95 Replace with the following:

95. Recognises that the Community has become a net exporter for beef and veal since 1980 on the world market where prospects could well deteriorate in the longer term once the world's traditional exporting regions resume normal production; imports should not, therefore, increase above present levels;

Par. 96 Replace with the following:

96. Welcomes the retention of the suckler cow premium.

Par. 97 Replace with the following:

97. Notes the Commission proposals on the calf premium applied in Italy, Greece, Ireland and Northern Ireland, as well as its suggestion for the variable premium applied in the United Kingdom;

Par. 99 Delete

SHEEPMET AND GOATMEAT:

Par. 100 Replace with the following:

100. Supports the Commission's proposal to freeze the basic price of sheepmeat to 31 December 1985 in view of the very marked increase in the total cost of premia;

Par. 101 Replace with the following:

101. Requests the Commission to keep the operation of the sheepmeat regulation under review, taking into greater account the seasonal characteristics of production;

Par. 102 Delete

Par. 104 Replace with the following:

104. Welcomes the retention of the compensatory premia for ewes;

PIGMEAT:

Par. 105 Replace with the following:

105. Approves the Commission's proposal to freeze the basic price;

Par. 106 Delete second clause; text to read as follows:

106. Notes that the pigmeat market may be seriously disturbed by imports from non-member countries;

BEEKEEPING

Par. 113 Delete the words "with a view to increasing consumption and stimulating exports".

RELATIONS WITH NON MEMBER COUNTRIES

Par. 115 Replace with the following:

Observes that the Community is the world's biggest exporter of animal products and a leading exporter of arable products - its agricultural trade deficit reached 23,600 Mecu in 1983 compared to 31,700 Mecu in 1980;

Par. 117 Replace with the following:

117. Invites the Commission, therefore, to continue negotiations within GATT with a view to stabilising the import of oilseeds and protein products;

Par. 119 Replace with the following:

119. Invites the Council to intensify discussions with the United States with a view to co-ordinating agricultural trade policies in order to reduce the risk of trade conflicts from which neither party can benefit;

Par. 120 Replace with the following:

120. Urges the Commission to review, as discussions progress on the role of export subsidies in the next multilateral trade round in the GATT, the best means of financing an export policy and examine the likely trends in import obligations;

Par. 123 Replace with the following:

123. Believes that the Community must ensure the maximum exploitation of its agricultural resources in the most cost-effective manner examining a range of instruments designed to meet the specific requirements of world markets (long term contracts, export credits etc); calls on the Commission and Council to explore seriously the scope for long-term export contracts in the cereals sector;

Par. 128 Delete second clause and add the words underlined:

128. Calls on the Commission to draw up proposals for the removal of a substantial quantity of cereals from the market to provide aid for areas of the world affected by famine; demands that the Commission put forward proposals for the release of more grain from intervention stocks should the demand from the famine stricken areas in Africa, estimated at 2 million tonnes, be greater than originally expected;

OTHER CONSIDERATIONS

Par. 135 Add the words underlined:

Invites the Commission to submit proposals designed to encourage the production of commodities in deficit, such as timber, proteins, fibres and fuel crops; asks also that the Commission look into the possibility of supporting farmers to undertake alternative activities in the interest of better conservation and improved land use; and encourage initiatives in the non-food uses of cereals;

Par. 136 Delete final clause; text to read as follows:

136. Calls on the Commission to submit to Parliament and the Council a report on the possible development of energy crops, in particular with a view to the introduction of lead free petrol;

Par. 139 Replace with the following:

139. Is concerned about the amount of centralisation of decisions taken at Community level;

Par. 140 Delete second part of the para.; text to read as follows:

140. Hopes that co-operation with professionals will increase and that its' efficiency will be improved;

Par. 141 Add the words underlined:

141. Requests that the Community institutions organise, as soon as possible, consultations on the future of the CAP; welcomes the Commission's intention to establish a multi-annual programme for anticipated expenditure and strongly urges that full cooperation should take place between the agricultural and budget directorates in drawing up such a document;

Par. 142 Replace the words "draw up" with the word "publish"

Par. 143 Replace with the following:

143. Insists that, should the Council alter the Commission's proposals in negotiations, the Commission must re-consult the Parliament under Article 149.2 of the Rome Treaty; underlines the absolute necessity to ensure not only that the financial implications of the farm price proposals are verified, but also that the consequences of motions for resolutions on agriculture are regularly costed in future years;

II. ESTIMATE OF BUDGETARY EFFECTS OF THE RESOLUTION OF THE COMMITTEE
ON AGRICULTURE, FISHERIES AND FOOD

ESTIMATE OF BUDGETARY EFFECTS OF THE RESOLUTION OF THE AGRICULTURAL COMMITTEE
ON AGRICULTURAL PRICES FOR 1985/86 IN COMPARISON TO THE COMMISSION'S PROPOSALS
SET OUT BY SECTOR

A. INCIDENCE ON EXPENDITURE

Relevant paras in resolution	Product	1985	1986
55-60	Cereals	+ 110	+ 314
65-66	Wine	+ 6	+ 45
67-70	Fruit & vegetables	+ 5	+ 33
71-72	Oilseeds & protein products	+ 32	+ 58
73-74	Tobacco	+ 4	+ 49
78	Oils & fats	- 260	- 580
79-91	Milk (1)	+ 492	+ 844
92-99	Beef (2)	+ 103	+ 160
100-104	Sheepmeat & goatmeat	+ 52	+ 231
112-113	Beekeeping	- 5	+ 5
47	Reversion to normal procedures for intervention	+ 80	+ 160
29-32	Agrimonetary	-----	-----
		+ 529	+ 1319
		-----	-----

B. INCIDENCE ON OWN RESOURCES

Total lines (including sugar)	+ 42	+ 150
Agrimonetary measures	-----	-----
	+ 42	+ 150
	-----	-----

C. TOTAL NET INCIDENCE

	+ 487	+ 1169
	-----	-----

(1) Does not include exemptions of mountain zones and unfavoured areas from the super levy: note that each ton of milk costs 205 ECUs for disposal at the marginal rate: includes aid to small producers proposed in para. 46 of Committee of Agriculture resolution estimated at 75 mECU in 1985 and 200 mECU in 1986

(2) including reinstatement of calf premium estimated at 27 mECU in 1985 and 38 mECU in 1986

III - EXPLANATION OF THE AMENDMENTS ADOPTED

1. Summary
2. General considerations on the operation of the CAP
 - farm incomes
 - market imbalance
 - (i) Domestic markets
 - (ii) External markets
 - Budgetary availability
3. The changing face of the CAP
4. Commission proposals
5. Overall Budgetary considerations
6. Parliament's record on farm prices
7. Suggestions to substitute parts of a motion for a resolution submitted by the Agricultural Committee (Rule 101 para 6)
8. Budgetary impact of the resolution of the Agricultural Committee.

1.

SUMMARY:

There have been several efforts in the past 15 years to reform the Common Agricultural Policy. Some have given an impulse in shaping its mechanisms to take greater account of the conditions of the market place: others have had little or no effect. Such words as co-responsibility, quotas and guarantee thresholds - if not well understood - have become a part of Community jargon.

Today we stand at another important crossroads. Current application of the objectives of Article 39 of the Rome Treaty setting out the fundamental framework upon which the CAP is based is becoming increasingly difficult. The reconciliation of the three central factors governing the management of the CAP is proving to be an impossible task under the existing mechanisms - that is

- (i) Maintenance of a reasonable level of farm incomes;
- (ii) Necessity to keep markets in balance;
- (iii) Availability of finance for the policy

In the interest of broadening the discussion on the Commission's proposals for farm prices for 1985/8⁶, your draftsman .. has examined the current operation of the CAP in terms of farm income levels, market balance and budget availability.

He illustrates the fragility of the budgetary situation in the Community today: no 1985 budget as yet and an overrun of agricultural expenditure of at least 2 billion ECUS to be financed/.....

Never before has it been so vital to examine the financial implications of proposals or resolutions, as the Budget Committee is required to do. As the Agricultural Committee's resolution now stands it could add about 1.3 billion Ecu to expenditure in 1986, assuming that there is no chance of the oils and fats tax being adopted in the near future and about 300 million in 1985 ; your draftsman has considered it essential to suggest the replacement of parts of the proposed resolution.

He has concluded that a rigorous prices policy is paramount in the light of serious market imbalances in the major agricultural production sectors across the Community. He proposes, therefore, acceptance of most of the Commission's proposals, particularly for the major product sectors.

And yet, it must be recognised that many farmers (particularly small ones) may be seriously affected by such a pricing policy. It cannot be in the Community's interest to add to the dole queues with 11% of the working population unemployed.

It is thus essential to find support systems which can be funded, resolving the worst problems of farm incomes without stimulating surplus production. This will have to be done through a cost effective regional, social and environmental policy, including Integrated Mediterranean Programmes which should serve as a supplement to pricing policy.

(2) GENERAL CONSIDERATIONS:

A. MAINTENANCE OF FARM INCOMES

Differing views of this problem are perceived dependent on which base years are considered; which Member States are studied and on whether production sectors are examined separately, or taken together.

(i) Base Years

Preliminary estimates of agricultural income for 1984 show a real increase of about 3.8% across the Community (compared to a fall of 6.2% in 1983). Further, a three year average (a common indicator) over 1982 - 1984 also reveals a real increase of about 9 %.

And yet, over the past decade (1973 - 1983), there has been an overall fall of farm incomes in real terms; prices have risen 40.4% while nominal revenue has only increased by 37.5%.

(ii) Member States or Community

Should figures by Member State be taken, wide variations are noted. For example, in 1983, a rise in Denmark of +20.2% is matched by a drop of -7.1% in Belgium. However, over the period 1973 - 1983, farm incomes have risen in real terms in the majority of Member States including Italy, Belgium and Greece.

(iii) Product Sectors

If 1983 was a good year for grain or pigmeat farmers, it was much worse for those in cattle farming (whether milk or beef) and wine growing.

B. MARKET IMBALANCE:

(i) Domestic markets:

Agricultural production, over the period 1975 - 83, has been rising at a steady rate of about 2%. Table I below illustrates the percentage increase by major products over this time span with 1984 alongside:

TABLE I

Product	% increase over 1975 - 1983	% increase in 1984
Cereals	3.2	22
Milk	2.5	-1
Beef and Veal	1.1	5

Given a free rein, production potential is considerably through modern equipment and new technologies. For example, the average yield per cow per annum in the Community was 4416 kg: it is now quite possible to produce, with a Holstein cross, 14000 Kg/cow/year.

Consumption has not kept up with demand: worse, it has, for most temperate products, declined. This is a common phenomenon in developed countries. As a result, as the Commission indicates in its' introduction to its' price proposals, self-sufficiency is over 100% for most products (see Table II) and the European Community has become a major exporter on world markets. Present trends, if continued, will aggravate the imbalance.

TABLE II

Degree of self supply (%) of major agricultural products

	1973	1982	1990 (est'd)
Total cereals	90	105	127
Sugar	92	154	122
Wine	90	94	123
Total meat	92	100	100
Total Beef and Veal	85	102	103
Pigmeat	101	101	101
Sheepmeat and Goatmeat	61	72	89
Poultrymeat	103	112	108
Milk products	108	118	113
Eggs	99	103	102
Tobacco	-	48	63

Source: Agricultural situation in the Community 1984 P. 151

In the past 2 years, as world markets have contracted and domestic production has increased without a compensating increase in consumption, intervention stocks have grown, as has their value (See Table III)

TABLE III

Value of products in public storage over the years 1978 - 1984 in Mecus.

Product	31 December 1978	31 December 1979	31 December 1980	31 December 1981	31 December 1982	31 December 1983	31 December 1984
Common wheat	184.2	322.7	830.1	515.6	1273.6	1278.7	
Barley	29.8	12.2	181.3	130.0	304.9	322.5	
Rye	111.4	108.7	93.6	65.0	57.9	63.1	
Durum Wheat	29.8	27.8	29.8	59.2	199.2	186.6	
Skimmed milk powder	708.6	230.8	253.6	350.8	854.4	1457.8	
Butter	580.5	723.3	331.8	30.6	467.0	2474.6	
Olive Oil	126.1	62.5	95.2	220.6	287.8	174.5	
Colza	0.3	3.5	22.7	6.8	14.8	-	
Beef carcasses	235.8	383.1	414.6	289.2	337.7	762.3	
Boned Beef	189.2	206.2	267.5	159.9	166.3	280.2	
Preserved Beef	74.6	5.7	-	-	-	-	
Tobacco	39.5	56.0	62.3	92.4	39.3	31.2	
	2309.8	2142.5	2583.3	1828.6	4010.6	7034.5	

Source: Agricultural situation in the Community (1980, 1982, 1984)

(ii) External markets:

The Community has, over the past decade, increased its presence on world markets as Table IV below illustrates. In 1977, it was already a net exporter of wine, sugar, eggs, poultrymeat and dairy products. By 1981 it had also become a net exporter of cereals, beef and veal and pigmeat.

The Community thus is today the world's biggest exporter of animal products, and one of the leading exporters of arable products.

TABLE IV

NET EC SHARE OF WORLD TRADE (EUR 9)

in 1977, 1979 and 1981 for the major agricultural products (1)

	1977	1979	1981
Total cereals (except rice) (1)	-11.5	- 5.0	2.1
of which:- total wheat	0.1	- 0.1	9.6
Seed grain (except rice) (2)	-21.0	- 8.8	- 5.1
of which:- maize	-26.5	-16.0	-12.0
Oil seeds (by weight produced)	-45.2	-46.2	-40.8
of which:- soya	-45.6	-45.4	-41.8
Milk	5.4	11.3	18.8
Sugar	1.7	7.1	9.6
Total Milk	61.9	61.7	57.2
butter	13.3	40.9	40.7
cheese	20.5	28.4	33.4
Milk powder (skimmed and whole)	49.4	57.8	56.5
Total meat (except offal) (3)	-10.2	- 5.7	5.5
of which:- beef and veal (4)	- 2.3	5.6	12.9
pigmeat (4)	-10.1	- 0.9	6.0
poultrymeat	20.3	22.8	25.8
Eggs	5.9	12.3	23.3

Source: Agricultural situation in the Community (p 202 1980; p 266 1982; p 268 1984)

(1) Excludes process products

(2) Cereals as grain

(3) Including salted meat

(4) Excluding salted meat

(a) Increase in uncontrollable factors:

This increased presence on the world market means that the financing of the Agricultural policy is more open to factors outside the control of the managers or the policy making processes of the Community institutions.

Firstly, the rise in the value of the dollar has enabled considerable savings to be made in those product areas where exports are normally done in dollars (e.g. cereals). Conversely, a drop of 1% in the dollar value could add up to 100 million Ecu to CAP cost.

Secondly, we must look closely at the policy decisions which the United States are about to take this year concerning the Farm Bill over the next five years. All the administration's pressures are for cutting back subsidies and lowering prices for farmers. Whilst this reformist zeal is unlikely to be fully implemented, any lowering of the major cereal prices in the US will have a significant depressant effect on the world market and in consequence, on EAGGF funding.

(b) Community Preference:

With regard to the principle of Community preference, there is a tendency to believe that a magic wand can be waved allowing the farmers a much bigger slice of the domestic market without any repercussions whatever.

The Community remains the world's largest importer of food and after agricultural products, its share of total world imports being around 20%. However, the Community imports only small quantities of the products where it is a large producer and exporter; meat and cereals are exceptions to this rule. (See Table V)

- Concessions granted to developed countries are matched, mostly under GATT negotiated arrangements, by access concessions to their markets. It would be unwise, therefore, to take further protectionist measures in the Community without expecting retaliation e.g. from the United States.
- Should imports of temperate products be further restricted, then there will be a cost generated by export of an equivalent quantity (e.g. cost of export of 1 ton of beef is about 1,500 ECU).
- The imbalance in EC agricultural trade was \$19.8 billion in 1973: it was \$20 billion in 1983.

TABLE V.

Agricultural situation in the Community (p 159 source)Community imports, exports and external trade balance for
'organised' agricultural products in 1983

Product	% EAGGFF Guarantee sector (1983)	% final agricultural products (1983)	Imports	Exports	External Trade Balance
Oilseeds & oleaginous fruit, fats & oils, residues & cakes	10.7	2.2	8774	1354	(7420)
Fruit & vegetables	7.5	12.1	4354	1417	(2937)
Cereals & rice, manioc, preparations of cereals	15.9	13.2	3230	4320	1100
Fish, crustaceans, molluscs	0.2		2726	859	(1867)
Raw tobacco	4.2	0.7	1686	240	(1446)
Sugar & honey	8.3	2.4	937	1428	491
Pigmeat	0.9	11.9	811	882	71
Cattle, beef & veal	10.9	14.6	802	937	135
Milk products	27.6	19.2	650	3336	2786
Wine	4.1	5.8	609	1394	785
Sheep & goatmeat	1.9	1.8	501	16	(485)
Flowers	/		284	507	223
Seeds	0.3		151	162	11
Eggs & poultrymeat	0.8	7.4	145	713	548
Flax hemp & hops	1.0	0.3	49	135	86
Dehydrated fodder	0.4		34	1	(33)
			75753	17701	(8052)

(iii) Budgetary availability:

This section deals with the funds currently available for agricultural expenditure and examines briefly the manner in which funds are directed. The overall budgetary situation is covered under point 5.

The following specific points are relevant:

- (a) Expenditure on the EAGGF section for 1984 is equivalent to 0.55% of GDP in the Community. This figure should be doubled to have an idea of total agricultural expenditure as Member States fund an equivalent amount for actions in the agricultural sector from their own Treasuries;
 - (b) Expenditure on the Guidance section (structural policy) over the past 5 years has been about 3.8 billion Ecus or about 6% of the EAGGF Guarantee section over the same period;
 - (c) The major product sectors of cereals, milk and cattle, accounting for 47.0% of total agricultural production (1), used up 54.2% of the EAGGF Guarantee section in 1983. The major Mediterranean products - fruit and vegetables, wine, tobacco and olive oil - utilised 20% of the EAGGF Guarantee section while accounting for about 21% of total agricultural production (see Table V);
 - (d) About 55% of the 1984 budget was spent on export refunds and storage payments to support the agricultural markets. It is estimated that about 20% of the budget is spent on direct aids, the large majority of which are production-linked;
 - (e) It should be noted that agricultural expenditure rose by 22% in 1983; 14% in 1984 and is likely to rise by over 10% in 1985.
- (1) 1982 figure as 1983 is unavailable

In general terms, the objective of the Commission is that the growth in agricultural spending should grow more slowly than own resources. Table VI below illustrates that this objective has not been attained over the past 5 years:

Table VI

Current year	1980	1981	1982	1983	1984
Three years	79-80-81	80-81-82	81-82-83	82-83-84	83-84-85
% increase in agricultural spending	+8.6	+6.1	+12.5	+15.0	+11.1
% increase in own resources	+9.9	+9.8	+ 7.6	+ 8.3	+ 6.8

(3) The changing face of the CAP:

Mounting pressure has been building up over the past decade on the CAP for change, particularly from the serious imbalances experienced on many agricultural markets^(eg milk) as well as the recent surge in EAGGF Guarantee expenditure. Most recently, at Stuttgart in June 1983, the European Council, while confirming the basic principles of the CAP, requested that it should be adapted to achieve its objectives more coherently.

As a result, at the time of the last price package for 1984/85, the following guidelines were agreed by the Council of Ministers which signalled a significant change in the direction of the CAP:

- Application of guarantee thresholds to markets where there is surplus production or the likelihood of a rapid increase in expenditure;
- Control of milk production by quotas;
- Realistic policy on prices;
- Dismantling of positive MCAS ;
- Rationalisation of aids and premia;
- respect of Community preference.

(4) COMMISSION PROPOSALS for 1985/6

(i) Prices & related measures:

The price proposals for 1985/86 represent a continuation of the policies already decided on in 1984 in order to adapt European agriculture to the challenges it has to face in the coming years. These challenges include, as the Commission has indicated:

- continued increase in agricultural productivity;
- greater reliance on world markets;
- New uses of agricultural products (e.g. in biotechnology, industry or energy) are still at the developmental stage;
- Public financial resources for agricultural support, both at the Community and national level, are limited.

Such price proposals must, in principle, be supported as the situation on the agricultural markets has deteriorated in some cases over the past 12 months. Neither are the funds available for any significant price increases.

Nevertheless, it must also be recognised that the prospects for farmers incomes are gloomy. How can a reasonable level of farm income be maintained with a restrictive price policy together with limits on the main product sectors? To this question the Commission proposals provide no reply.

(ii) New reflection required in the CAP:

The draftsman warmly welcomes the Commission's intention to promote a debate before the middle of 1985 in the context of the Community bodies and with the professional organisations on the medium and long term prospects of the CAP.

Even if the total EAGGF Guarantee section only makes up a small percentage of the Community's GDP, it is evident that in some cases the funds are being misapplied. Surpluses are apparent in the major product sectors stimulated by incentives through prices or aids: the Community budget is under severe pressure particularly with enlargement in view. The CAP is experiencing the paradox of having met its objectives too successfully.

For continuing support of the CAP, it is essential that the available funds be utilised effectively. The following ideas are put forward as suggestions supplementing the goals outlined by the Commission for the future.

- (a) increasing productivity should not lead to further shedding of labour from the agricultural sector given the high level of unemployment in the rest of the economy;

(b)

Increased emphasis should be given to meeting a satisfactory level of farmers incomes through social, regional and environmental policies rather than the price element alone (the structural and IMP approach will be essential here). This should be done through income aids partly financed by the Community, according to EC criteria, and partly from national funds; in no case should these aids be linked to production.

(c)

Such an approach will help the convergence of economies through proper use of structural funds in the Community and bolster the incomes of small farmers affected by a restrictive pricing policy;

(d)

A link must be created between pricing policy and structural policy to calculate what a producer receives as his final income; otherwise there will always be the demand by farmers for price increases to cover their costs;

(e)

In parallel, aids which have a direct effect on production must be phased out;

(5) OVERALL BUDGET CONSIDERATIONS:

The situation today for the Community budget is very serious and abnormal:

- (i) There is no 1985 budget (thus running as provisional twelfths);
- (ii) There is anticipated expenditure for 1985 which is estimated to exceed the 1%-VAT ceiling by 0.25% VAT, thus making total expenditure coverable by 1.25% VAT;
- (iii) As a part of this, the EAGGF Guarantee section was expected to be 19315 MECUS in 1985. It is now estimated total expenditure will reach 19955 MECUS. The difference of 640 MECUS is accounted for as follows:

	<u>MECUS</u>	<u>MECUS</u>
- Price proposals (for 1985)		
Price increases	101	
Agrimonetary measures	33	
related measures	<u>4</u>	138
- Conjunctural effect on agricultural markets		450
- postponement of payments from 1984 - 85		<u>202</u> <u>790</u>
Less clearance of accounts for 1980/1981/1982		(150) 640

- (iv) There is no agreement as yet as to how the 1985 Budget should be covered and no certainty that own resources will be increased by 1 Jan 1986.
- (v) The price proposals are estimated to have a net effect of 79 Mecu\$ on the 1986 Budget mainly due to a decrease in Agricultural own resources. Even if own resources are increased to 1.4% VAT on 1 January 1986, it is already clear that the margin for expenditure in 1986 - let alone 1987 - is very narrow. It is not possible to predict the draft 1986 Budget at the present time since as yet there has been no up-to-date estimation of the net cost of enlargement for the first year of the membership for Spain and Portugal.

It is only possible to conclude that the margin of manoeuvre is very small and does not allow, from a budgetary point of view, there to be any substantial alterations in the price proposals put forward by the Commission for 1985/86.

(6) PARLIAMENTS DECISIONS ON AGRICULTURAL PRICES SINCE 1979:

1. The Parliament's record on its opinions of the Commission's farm price proposals over the past 6 years since direct elections in 1979 make interesting reading. In every case, the Parliament has voted for higher average increases in Common prices than the Commission has proposed or the Council of Ministers has finally decided upon (see Table 1 below)

<u>Marketing Year</u>	<u>Commission proposals for average increases in common prices</u>	<u>Council decisions for average incr. in common prices</u>	<u>Parliaments resolution for average increases in common prices</u>
1979/80	0	1.3	
1980/81	2.5	4.8	7.9
1981/82	7.7	9.7	12
1982/83	9.0	10.4	14
1983/84	4.2	4.2	7
1984/85	0.8	-0.6	

2. Despite the recall of Parliamentary resolutions to the contrary, emotions and political rhetoric has always triumphed over a cool, rational examination of the growing problems of market imbalance and budget availability.

As far back as the rejection of the 1980 draft budget by the Parliament on 13 December 1979, reference was made to controlling agricultural expenditure and the following statement noted:

" ... a failure to curtail agriculture market support spending would inevitably lead to the exhaustion of the Community's own resources..... and, in the not too distant future, the breakdown of the European Agricultural Guidance and Guarantee fund itself".

It has been the perfect example of incoherence, where the left hand has taken no notice of what the right hand is doing.

3.

It is time for this inconsistency and incoherence to stop.

This is why the draftsman of the Opinion of the Budgets Committee recommends that there should be a significant change to the motion for resolution put forward by the Agriculture Committee on farm prices for 1985/86.

4.

The budgetary impact of this motion for resolution put forward by the Agriculture Committee is summarised in part II above (p. 26).