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IN BRIEF

Common agricultural prices for 1980/81

— The facts

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The agricultural "trilemma"

The Commission's price proposals try to meet three conflicting constraints. The income needs of the Community's 8 million farmers and their families call for price increases, which cannot be justified on either market or budget grounds. A valid compromise must be sought. The milk sector is the main market and budget problem. It has long been recognised throughout the Community that there is no market for extra milk production except at a cost which is unacceptable to the Community taxpayer. The Commission insists that this problem must be tackled this year. Decisions taken in the 1980 price fixing will have their main effect on the budget in 1981 and subsequent years. Failure to take effective action in the milk sector will lead to a quick exhaustion of the Community's own financial resources.

I. The need for Budget Restraint

1. The need for budget restraint is not something invented by the Commission. Heads of State and Government decided in Dublin in December 1979 that the present ceiling on Community resources should not yet be increased. The European Parliament rejected the draft 1980 budget in December, one of its reasons being disproportionate expenditure in the milk sector. As a result of this decision the Community is still operating without a budget. The Council of Economic and Finance Ministers on February 11, 1980 stressed the need for substantial savings and a prudent price policy in the agricultural sector. It also said that the growth of agricultural expenditure should be slowed down so as to free money for other policies without exhausting present Community resources.

Ever since the Commission proposed a 1980 budget calling on only 68 % of the VAT contribution, the need for budget restraint has not been taken seriously. The Commission remains convinced that if the necessary savings are not decided now the Community is in danger of running out of money as soon as 1981.

- Expenditure in the milk sector accounts for more than a quarter of the total Community budget. Each 1 % increase in milk production results in 40 000 tonnes of butter and 80 000 tonnes of skimmed milk powder being added to Community surpluses.
 - Failure to introduce measures to break the back of the milk surplus (for instance, the additional coresponsibility levy or something with the same effect) will cost about 175 mio EUA for each 1 % increase in milk deliveries to dairies. Failure to act now will cost an additional 350 million EUA in 1980 and in each of the following years on the assumption that deliveries of milk to dairies increase by only 2,0 % in 1980. In the past three years, deliveries have increased by 3,3 %, 4,6 % and 2,4 %.
 - Getting rid of additional milk becomes more and more costly as world milk markets become saturated. Onto these saturated markets the Community has to sell an extra 100 000 tonnes of butter a year, at the present rate of production increase. Yet Community butter exports are already close to the physical limit. Already it has to cut milk product prices by $\text{ƒ } 3$ out of $\text{ƒ } 4$ in order to sell on world markets. On the internal market, the Community subsidises for each man, woman and child one cut of every three kilos of butter consumed.
 - Out of every ECU that taxpayers contribute to the Community, more than 25 cents goes on milk. While this continues, the Community will not have the money to tackle the income problems of poor dairy farmers or the real needs of other sectors of the economy. Each % point of price increase brings an additional expenditure of 140 million EUA a year for ever. A price rise of 3 %, without effective measures in the milk sector, loads all future budgets from 1981 with an extra 1 billion EUA.
2. Agricultural expenditure is increasing at twice the speed of budget income. Since 1976 expenditure on agricultural market support has almost doubled. Inflation has played a large part but agricultural expenditure is still disproportionately high due to the misuse of resources on the disposal of structural surpluses.

EEC/A Guarantee Section Expenditure

		(Billions ECU)					Net sugar
		Total expenditure	Milk	Beef	Cereals	Sugar	expenditure (3)
1975		4.5	2.2	0.9	0.6	0.3	0.2
1976		5.6	2.3	0.6	0.7	0.2	0.1
1977		6.8	2.9	0.5	0.6	0.6	0.3
1978		8.7	4.0	0.6	1.1	0.9	0.5
1979		10.4	4.4	0.7	1.6	1.0	0.5
1980 ¹⁾	a)	11.2 ²⁾	4.9 ²⁾	0.8	1.6	1.1	0.6
	b)	10.4	3.9	1.2	1.6	0.9	0.4
1981		(-)	(-)	(-)	(-)	(-)	(-)

3. The Commission's agricultural price proposals ease the budget constraints. The 1980 budget rejected last year by the European Parliament called on 89 % of the possible VAT contribution. The new budget proposal - put forward by the Commission in February - calls on only 68 % of the possible VAT contribution. The difference of 21 % is largely due to :

- a new forecast of increased customs duties (equal to a 5 % reduction of the possible VAT contribution);
- decreased agricultural expenditure of about 800 million ECU mainly due to Commission savings in the milk sector as well as its proposed 1980/81 price package (equal to an 8 % reduction in the possible VAT contribution);
- decrease of expenditure in other sectors (equal to another 8 % reduction in the possible VAT contribution).

4. It must be concluded that a combination of depressed world agricultural markets (reduced prices, saturated outlets), worsening internal imbalances, and increased Community expenditure for policies other than agriculture would cause the Community to make a dramatic jump towards the ceiling of its own financial resources. If the Council and the

(1) a) = budget rejected by the European Parliament

b) = budget proposed by the Commission on February 25 1980

(2) Including the provision of 236 mio ECU for milk written into Chapter 100

(3) Total Sugar Expenditure less production levy and Stock levy

European Parliament do not heed the priorities set out in the Commission's proposals - and accepted by the Finance Ministers and the Parliament itself - there is a real risk of hitting the financial ceiling as early as 1981.

The Commission remains convinced that sooner or later its own financial resources will have to be increased - that a dynamic Community must not be suffocated under a strict financial ceiling. But an increase in Community resources cannot be achieved merely to finance the disposal of surplus agricultural production that has no market inside or outside the Community.

II. The case for the farmer is being distorted by an indiscriminate income argument

5. Agricultural incomes rose in 1979 in money terms. But they rose more slowly than inflation. Real agricultural incomes, therefore, fell slightly (by 1,7 % using net value added per labour unit as an indicator). Comparison with the rest of the economy is made difficult by the need to take account of the 6 million people without jobs. Real incomes in the total economy rose in 1979 by 2,4 % - taking as a measuring rod real net value added per head of the active population, which sidesteps the problem of unemployment.

A comparison of income evolutions in agriculture and the economy shows upward trends in both cases but different patterns of development. In 1978, 1975 and 1973 incomes per head rose more quickly in agriculture than in the total economy while in 1977, 1976 and 1974 they showed a less favourable development. The picture can be changed, however, if factors having nothing to do with the common agricultural policy are excluded - for example, income from potatoes and national subsidies varies sharply from year to year.

6. There are wide differences between Member States. In 1979 even real agricultural incomes rose in France (by 2,5 %) and Italy (by 4,7 %). Five million or more than half of Community farmers operate in these two Member States. In France real agricultural incomes have risen through each of the last four years while in Denmark and Italy they have risen in three out of the last four.

Income disparities within the agricultural sector remain important between regions, between farms and between types of production. A farmer in the Paris basin is six times better off than a farmer in the Limousin. The 300 000 farmers with more than 100 hectares are obviously better off than the 1 million farmers with 15 hectares each. Their relative income becomes even greater if they produce cereals and sugar beet.

These ever-present income disparities show that price increases cannot solve the income problems of small farmers. Only an active structural policy can provide a long-lasting improvement - for this reason the Commission is proposing a series of major initiatives providing substantial Community aid for poorer regions and farmers.

7. Income difficulties are more acute for small dairy and beef producers. But across-the-board price increases help the big farmer more than they help the small farmer.
 - The beef and milk market cannot support big price rises. In these sectors, price increases mean only increased budget spending and accelerated decrease of demand.
 - The Commission is not demanding that milk production should be drastically reduced. The additional coresponsibility levy only operates on additional milk production (1979 - 1 %) and exemptions from the basic coresponsibility levy are widened to include farmers in mountain regions, the South of Italy and the first 60 000 litres of milk produced on farms in less-favoured areas throughout the Community.
 - Increasing prices for cereals, sugar beet and pigmeat, for example, is not an effective way to help poor dairy farmers raise their incomes. For this reason the Commission is proposing significant alternatives to price increases. Besides improving the present early retirement pension for dairy farmers and continuing premiums for the non-delivery of milk and the conversion of milk herds to beef production, it is proposing to pay a 60 ECU premium for the first 15 cows in every specialised beef herd. These proposals are in complete agreement with the Commission's view that price policy cannot solve the income problems of poor farmers. This view is also clearly reflected in its reworking of structural policy which concentrates aid on poorer farmers and regions in special need. The first step was the adoption in 1979 of substantial measures to improve the conditions of Mediterranean agriculture.

8. Some price increases have already been decided. Current discussion is about price increases in ECU. In recent years there have been additional very large increases in agricultural prices in national currencies in certain Member States through changes in green currencies. Even since the 1979 price fixing, green rate adjustments have brought the following price increases in national currencies.

Price increases through green rate adjustments

Denmark	9.0 %	France	1 % (4.6 %)
Italy	6.5 %	Ireland	1 %
United Kingdom	6.4 %		

These increases will become fully effective in raising incomes in 1980. For France the 1 % increase will be made greater by a 3.6 % increase due to a green franc devaluation which was agreed in the 1979 price fixing but has not yet been implemented.

III. Market conditions rule out substantial price rises

9. Production is rising. With the assured support provided by the common agricultural policy the volume of the total output of Community agriculture has been increasing substantially. It has risen by about 2,2 % a year since 1968 and this trend may be accelerating. Increase in production is widely spread over almost all the major commodities.

Increase in volume of final production
(% change on previous years)

	<u>1977</u>	<u>1978</u>	<u>1979</u>
Milk deliveries	3.3	4.6	2.4
Sugar	15.3	2.1	4.3 (*)
Beef	0.0	2.9	6-7
Cereals	20.2	20.2	- 3
Pigmeat	4.3	4.8	4.8
Wine	- 13.5	- 7.8	20.8

(*) preliminary

10. Total food consumption in the Community tends to be static, partly for demographic reasons. The nutritional standard of the European population is already very high.

Less than one-fifth of total household expenditure, everywhere in the Community, goes on foodstuffs, except in Ireland and Italy.

Consumption per head is declining for foods rich in fats (butter, margarine) and starch (cereals, potatoes). Consumption per head is static for sugar and high priced meat (beef).

Despite a battery of costly measures the total consumption of butter in 1979 was still below the 1977 level.

	<u>1977</u>	<u>1978</u>	<u>1979</u>
Total butter consumption (tonnes)	1 727 000	1 591 000	1 686 000
of which,			
Consumption at reduced prices (tonnes)	433 000	608 000	663 000
Cost (mio EUA)	250	500	500

In the world sugar market, prices are falling. In 1974 the Community concluded a five-year arrangement in the midst of an exceptional sugar shortage - a shortage which was a rare exception to the general picture of over supply. The Commission is convinced that the recent high prices were a short-lived phenomenon which does not justify changing its sugar market proposals.

11. The Community has a vocation to export agricultural commodities but prospects for 1980 and beyond are extremely limited for some products. Community agricultural exports are increasing at an average rate of 12,5 % a year. Over the last three years the Community has made a great effort to increase its exports of all agricultural commodities towards all available markets. This effort has been pursued despite a state of world over-supply for many commodities and rapidly increasing financial costs.

The Community is now the world's second largest food exporter.

Community exports (including food aid) of selected commodities

	<u>1977</u>	<u>1978</u>	<u>1979</u>
Total agricultural and food exports (mio EUA)	12 300	13 300	15 000
Cereals Cost (mio EUA)	365.7	831.9	1 209.4
Quantity (000 t)	10 420	14 300	13 400
Milk Cost (mio EUA)	1 417.4	1 565.0	2 082.9
Quantities			
- butter (incl. butteroil (000 t))	270	277	495
- skimmed milk powder (000 t)	420	419	660
- cheese (000 t)	208	219	250
Sugar Cost (mio EUA)	490.1	640.4	751.8
Total quantity exported (000 t) (1)	3 434	3 240	4 133 (⌘)

(1) Campaign years; ⌘) preliminary

12. The total financial effort of the Community for exports of agricultural commodities has increased substantially :

	<u>1977</u>	<u>1978</u>	<u>1979</u>
Million EUA	2 287	3 539	4 699
Index	100	155	205

13. Neither commercial exports nor food aid is a solution for the milk surplus.

- Community exports of milk products have already been pushed to the limit. The Community spent 2,1 billion EUA in 1979 in order to export 495 000 tonnes of butter, 660 000 tonnes of skimmed milk powder and 250 000 tonnes of cheese.
- Butteroil is not an ideal product for food aid. The world's hungry demand cereals and rice. However, the Community has done its utmost to increase its food aid in the form of dairy products.

Quantities delivered for food aid

	Skimmed milk powder (000 tonnes)	Butteroil (000 tonnes of butter equivalent)
1974	47	32
1975	52	36
1976	70	34
1977	97	42
1978	125	49
1979	179	52

14. The Community as a trading bloc must import to export. The Community is the world's biggest importer of agricultural produce.

	<u>1977</u>	<u>1978</u>	<u>1979</u>
Agricultural imports (mio EJA)	37 500	36 100	36 000
of which,			
Food products (mio EJA)	22 400	21 000	22 000

Community agricultural imports are increasing at the rate of 8,2 % a year.

The Community's main suppliers are its industrial partners (48 %), Latin America (16 %), ACP Countries (15 %), Mediterranean countries (11 %), Eastern Europe (6 %). The Community must remain a fairly open Community. If the Community does not import from its trading partners, they will lack the means to buy its industrial exports.

-- The Community is now importing about 120 000 tonnes of butter a year. Because of oversupply on the butter market, imports have been steadily diminishing in recent years (1975 : 160 000 tonnes). Suppression of the present level of New-Zealand butter imports (equal to about a third of our present exports) would not solve the problems of the Community milk market but would adversely affect a friendly nation which already has a balance of trade deficit with the Community.

- The agreement to import 1,3 million tonnes of sugar each year from the ACP Countries is a form of development aid. From its domestic production, the Community has an exportable surplus of 2,6 million tonnes, half of which is produced under the existing quota scheme.
- Preferential import arrangements for beef concluded in the recent Multilateral Trade Negotiations are the result of global negotiations which gave the Community increased access to the agricultural markets of other countries. The effects of bigger Community beef imports can be offset by the continuation of an active export policy. This showed its effectiveness in 1979 when imports of about 350 000 tonnes were completely balanced by exports.
- The Community imports 9 million tonnes of soya beans. After extraction of the oil, the resulting soyabean meal plus 4 million tonnes of additional soyabean meal imports and 5,5 million tonnes of manioc is used for animal feed. A small part of the soya goes into feedstuffs for dairy cows, the rest together with the manioc is an important element in making pigmeat, poultrymeat and eggs available to consumers at low prices.

IV. The milk sector is at the root of the problems

15. Imbalances in the milk sector are as old as the Community. Milk production has risen since the early Sixties by about 2 % a year, mainly because of increasing yields. Human consumption is almost unchanged and is prevented from falling by the series of special measures to help consumption. Milk for animal feeding also has to be subsidized partly because of the difference in external protection of animal fats and proteins on the one hand and of vegetable fats and proteins (soya etc.) on the other.
16. Milk takes already more than a quarter of the Commission's total financial resources

	Total budget	Agriculture (1000 mio EUA)	Milk
1978	12.2	9.1	4.0
1979	14.4	10.8	4.5
1980 (1) a)	16.3	11.7 (2)	4.9 (2)
b)	14.7	10.8	3.9
<u>1981</u>	(-)	(-)	(-)

(1) a) = budget rejected by the European Parliament

 b) = budget proposed by the Commission on 25.2.1980

(2) Including the provision of 236 Mio EUA for milk written into Chapter 100.

17. The coresponsibility levy is an effective way of preventing further increases in expenditure for the milk market. The present basic coresponsibility levy of 0,5 % will be fixed at 1,5 % in 1980/81 because milk deliveries increased in 1979 by more than the 2 % trigger decided by the Council in June 1979.

The Commission now proposes the introduction of a supplementary coresponsibility levy, to be charged only on additional milk deliveries. The Commission insists on the following principles (not on the modalities of application) of its proposal :

- a) The Community continues to guarantee the present high level of milk production, including the substantial existing milk surplus;
- b) milk producers are free to produce more milk in 1980 than in 1979;
- c) those who do not produce more milk in 1980 will not pay the supplementary levy but those who do must pay the cost of its disposal.

The Commission wants to prevent the Community budget from being destroyed by an uncontrolled increase in expenditure due to milk production increase.

The income position of the poorest farmers will be safeguarded by exempting farmers in mountain areas and in Southern Italy from both levies. The Commission also proposes to exempt the first 60 000 litres of producers in less favoured areas from the basic coresponsibility levy of 1,5 %.