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The development and future of the common agricultural policy

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The development and future of the common agricultural policy

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Preface

When the common agricultural policy was agreed in 1962, a primary objective of the Commission and the six original Member States of the European Community was to attain self-sufficiency in food production. They also identified as other main priorities a fair standard of living for farmers, stabilized markets, secure supplies of food and reasonable prices for consumers.

As we approach 1992, the world we live in is vastly different from that of 30 years ago. The common agricultural policy has been successful, arguably too successful, in ensuring sufficiency of food supply in a Community now enlarged to 12 Member States.

Its success has led to the costly storing of food surpluses. We have 20 million tonnes of cereals in intervention and that is predicted to rise to 30 million tonnes. We have almost one million tonnes of dairy products in stock. We have, also, 750 000 tonnes of beef in intervention which is rising at the rate of 15 000 to 20 000 tonnes a week. As no markets can be found for these products, they are being stored at taxpayers' expense; and we have run short of storage space.

Clearly, the continuation of such a policy is not sustainable physically or from the point of view of the budget. The status quo cannot be defended or maintained. It is also important to point out that even with a 30 % increase in the farm budget, from 1990 to 1991, farmers' incomes in all Member States are set for further decline.

Our policy has not prevented large numbers of farmers leaving the land. Furthermore, 80 % of resources go to 20 % of farmers because of the system's linkage of price support to food volume.

Public opinion is also becoming more critical of how recent trends towards intensive farming have done damage to the environment. In addition, we have international responsibilities linked especially to the need to stabilize world markets in the interest of all major producing and exporting countries.

In February 1991 the Commission, accordingly, began a Community-wide debate on agricultural policy with the publication of a Reflections Paper. In July, the Commission presented proposals to the Council of Ministers and the European Parliament for the development and future of the common agricultural policy.

I believe that these proposals amount to the most fundamental reform to date of the mechanisms of the CAP, while keeping intact its trinity of principles — market unity, Community preference and financial solidarity.

The Commission believes that the only viable option open to the Community in the long run is a competitive price policy. This will enable the Community to meet the inevitable competition on its domestic market and on world markets.

The revised policy should encourage farmers, through changed input/output price relationships, to switch to less-intensive farming methods, thereby reducing the risks to the environment and curtailing surplus production.

In the short term, new supply controls must be introduced, some existing ones will be strengthened and incentives will be provided to encourage more extensive types of production.

The Commission recognizes the need to compensate farmers for price cuts and quota reductions. It also appreciates the need to maintain economic and social cohesion by safeguarding the position of the vast majority of farmers in the 12 Member States.

The Commission is convinced that the substantial compensation envisaged for farmers — along with the greater stability inherent in the proposed system of direct payments — provide the basis for a more attractive future for the Community's 10 million farmers. In any event, it is clear that existing policies cannot continue unaltered. Without the reform, farmers will face more restrictive measures without the prospect of compensation.

Important improvements in agri-environmental and forestry measures, as well as improvements in early retirement arrangements, complement the Commission's approach to market organization. They are also important in the context of the Community's evolving approach to rural development.

In the negotiations with the Member States, the Commission will be flexible in seeking practical solutions to any problems raised. I invite Ministers and farm leaders to look at the proposals in their totality. This is not an 'à la carte' menu. It is a carefully chosen menu designed to nurture a good, sound European Community agricultural policy for the 1990s and into the 21st century. It is an approach which, I believe, will bring substantial benefits to farmers and consumers; in fact to all Community citizens.

Ray Mac Sharry
Member of the Commission
of the European Communities

Part one

Reflections Paper of the Commission

I. Background

1. The common agricultural policy was created at a time when Europe was in deficit for most food products. Its mechanisms were devised to meet this situation. In essence, they support internal prices and incomes, either through intervention or border protection or, where no frontier protection exists, by variable aids (deficiency payments) to processors using agricultural products from the Community which have to be paid for at more than the world price.

The policy has made an important contribution to economic growth and has been successful in providing European consumers with a wide range of quality food products at reasonable prices. Nevertheless the system, which corresponded well to a deficit situation, has revealed a number of deficiencies as the Community has moved into surplus for most of its agricultural products. These deficiencies can be analysed briefly as follows.

(a) The prices and guarantees provided through intervention and production aids stimulate output at a rate increasingly beyond the market's absorption capacity; between 1973 and 1988 the volume of agricultural production in the EEC increased by 2% per annum whereas internal consumption grew by only 0.5% per annum.

This development has led to a costly build up of stocks (valued at ECU 3.7 billion in the 1991 budget). It has led also to the Community having to export more and more on to a stagnant world market. This goes some way towards explaining the tension between the Community and its trading partners.

(b) A system which links support to agriculture to amounts produced stimulates production growth and thus encourages intensification of production techniques. This development, if unchecked, leads to negative results. Where intensive production takes place nature is abused, water is polluted and the land impoverished. Where land is no longer cultivated because production is less dependent on surface area, abandonment and wilderness occur.

(c) Income support, which depends almost exclusively on price guarantees, is largely proportionate to the volume of production and therefore concentrates the greater part of support on the largest and the most intensive farms. So, for example, 6% of cereals farms account for 50% of surface area in cereals and for 60% of production; 15% of dairy farms produce 50% of milk in the Community; 10% of beef farms have 50% of beef cattle. The effect of this is that 80% of the support provided by the European Agricultural Guidance and Guarantee Fund (EAGGF) is devoted to 20% of farms which account also for the greater part of the land used in agriculture. The existing system does not take adequate account of the incomes of the vast majority of small and medium-sized family farms.

(d) The per-capita purchasing power of those engaged in agriculture has improved very little over the period 1975-89. The development is all the more worrying in that over the same period the Community's active agricultural population has fallen by 35%.

(e) This situation is particularly difficult to accept in the context of ever-increasing expenditure. In 1975 the EAGGF-Guarantee budget was ECU 4.5 billion; this had risen to ECU 11.3 billion in 1980 and to ECU 31.5 billion in 1991 (i.e. ECU 11.5 billion at constant 1975 prices).

The contrast between, on the one hand, such a rapidly growing budget and, on the other, agricultural income growing very slowly, as well as an agricultural population in decline, shows clearly that the mechanisms of the CAP as currently applied are no longer in a position to attain certain objectives prescribed for the agricultural policy under Article 39 of the Treaty of Rome, namely to ensure a fair standard of living for the agricultural community, stabilize markets, ensure reasonable prices to consumers, take account of the social structure of agriculture and of the structural and natural disparities between the various agricultural regions.

Notable socio-economic features are:

(i) over half the Community's farmers are over 55 years of age;

(ii) large contrasts in income levels between Member States; the best placed having three times the per-capita income of the least favoured;

(iii) one in three farmers working part-time;

(iv) significant differences (ranging from 4 to 65 hectares (ha)) in size of holding per Member State.

II. The reforms undertaken

1. The above analysis is not new. It has already been made on several occasions, notably in 1985

when, on the basis of its Green Paper, the Commission launched a wide debate on the future of agriculture in Europe. At the end of this debate the Commission adopted a number of guidelines (Memorandum of 18 December 1985) which can be summed up as follows:

(a) progressive reduction of production in surplus sectors, by means of a price policy reflecting market demand;

(b) taking into account the income problems of small, family farms in a more effective and systematic manner;

(c) supporting agriculture in areas where it is indispensable from the point of view of regional development, maintaining social balance and protecting the environment;

(d) promoting an increased awareness among farmers of environmental problems.

2. Based on these guidelines, the market organizations were reformed. The essential elements (the stabilizers) were an important part of the conclusions of the European Council of February 1988. While using different techniques adapted to the characteristics of each market organization, these reforms had the common aims of lowering of price when the quantity produced exceeds a given threshold, increased participation of producers in financing expenditure (e.g. cereals) and reducing the guarantees provided by intervention. A ceiling was placed on agricultural expenditure, so as to link it to trends in the Community's GDP.

3. This market policy, based essentially on price policy, was to be accompanied, according to the conclusions of the European Council, by measures having a double objective:

(a) to reduce the volume of production through set-aside, extensification, conversion of production and pre-pension aids linked to non-utilization of land freed on retirement;

(b) to cushion the effects on the incomes of the most vulnerable farmers of falls in price and increased co-responsibility. Aid schemes for small producers and the reduction of co-responsibility in certain market organizations (milk and cereals) were intended to meet this concern.

III. Overall evaluation

1. The market measures taken have had some impact in so far as the rapid expansion in production has been halted. The most notable example has been in the oilseeds sector where production seems to have stabilized around 11 or 12 million tonnes.

This trend, accompanied by a relatively favourable world market situation in 1988 and 1989, allowed the Community to go through two marketing years without any great problem, while reducing stocks and budgetary costs. But this should not give rise to any illusions. Some markets are already well out of balance or threaten to become so rapidly.

(a) Production of beef is increasing and stocks in this sector are some 700 000 tonnes, i.e. approaching the record level of end-1987.

(b) Stocks of butter and of skimmed-milk powder are increasing and have attained a level of 278 000 and 335 000 tonnes respectively.

(c) Production of sheepmeat is increasing constantly and budgetary requirements have doubled over a four-year period.

(d) Production of tobacco is now some 30 000 tonnes in excess of the maximum guaranteed quantity and the cost of the regime has risen by over one-third in recent years.

(e) As regards wine, the underlying production potential coupled with the continuing decline in consumption of table wine risks adding further to the public stocks (eight million hectolitres at present) of alcohol.

(f) The need to maintain the competitive position of sugar and coherence with other regimes requires that the present arrangements be reviewed.

(g) The trend on the cereals market is especially worrying. While total production has remained at around 160 million tonnes, two major problems remain. Because of competition from substitutes, consumption of cereals in animal feed is declining constantly by between 1.5 and 2 million tonnes annually. In addition, over the last three years, wheat production has increased by 10 million tonnes while the world market has been largely stagnant over the last 10 years. Intervention stocks of cereals are rising sharply (now 18 million tonnes compared to 1.5 million tonnes at the beginning of the marketing year).

Early indications are that stocks could increase by 10 million tonnes by the end of the next marketing year (1991/92).

These developments are reflected in budgetary costs. Initial work on the 1992 budget shows that EAGGF spending could increase by ECU 4 billion or 12.5% compared to the budget of 1991, itself an increase of 20% compared to spending in 1990.

Without doubt a significant part of this increase in agricultural expenditure is due to external factors (fall of the US dollar and of world market prices) but the fundamental problem — internal to the Community — arises from the growth of surpluses which, as the figures show, has not been resolved.

2. The accompanying measures envisaged by the European Council of February 1988 have been applied to a limited extent only, as the following figures illustrate:

(a) only 800 000 ha, or 2% of the cereals area, have been set aside; most often it is the land with low yields that has been withdrawn;

(b) the extensification scheme has now begun to be applied but, apart from one Member State, it operates essentially on an experimental basis; no payment was made by the EAGGF in 1990 which shows that, up to the end of 1989 at least, the scheme did not operate;

(c) the income aid arrangements are beginning to be applied in three Member States (3 000 beneficiaries in the Netherlands, 55 000 in France and 80 000 in Italy): no payments have been made by the EAGGF in 1989 and 1990;

(d) the pre-pension scheme applies in one Member State only.

3. The following factors help to explain developments relating to the markets and the accompanying measures.

(a) In the first place the stabilizers policy has not involved — and indeed did not have as an objective — a fundamental reform of the CAP. As its description suggests, it was a policy to stabilize production and spending, through a largely automatic mechanism whereby the price and the guarantee were reduced beyond a certain production threshold.

This policy did not attack the underlying problems already identified, namely that support through the EAGGF remains proportionate to the quantity produced; this factor preserves a permanent incentive to greater production and further intensification. The reductions in prices needed to re-establish market balance cannot be achieved unless accompanied by significant compensation measures not connected with the volume of production.

(b) Although the European Council had envisaged compensating measures, they have played only a marginal role since, in a sense, they have been tacked on to a system whose mechanisms have not changed. To be effective, measures covering direct aids, on the basis of area or livestock units and linked to temporary fallow or extensification requirements, should be part of the market organizations themselves. They should indeed constitute the substance of the market regimes.

(c) Having been applied to a limited degree only, the accompanying measures have not played their expected moderating role. This has made it more and more difficult to operate the market policy and have it accepted by producers.

The reforms of the years 1985-88 have not been implemented and are themselves incomplete. It is not surprising that under these conditions the CAP finds itself once again confronted with a serious crisis. First of all a crisis of confidence internally. Farmers are confused and worried; they find that their situation is worsening, that the markets are again out of balance, that new restrictions threaten, without any prospects for the future, without which no economic activity can be continued on a lasting basis. There is also a crisis externally where criticisms and conflicts are becoming more frequent. Our trading partners, many of which heavily support their agriculture, accept less and less a common agricultural policy whose increasing surpluses weigh more and more heavily on world markets.

4. It appears in these conditions that the Community's agricultural policy cannot avoid a succession of increasingly serious crises unless its mechanisms are fundamentally reviewed so as to adapt them to a situation different from that of the 1960s.

The Commission considers, therefore, that the time has come to stimulate a reflection on the objectives of the Community's agricultural policy and on the principles that should guide the future development of the CAP.

IV. The objectives

1. Sufficient numbers of farmers must be kept on the land. There is no other way to preserve the natural environment, traditional landscapes and a model of agriculture based on the family farm as favoured by the society generally. This requires an active rural development policy and this policy will not be created without farmers. The Commission confirms then the approach taken in the Green Paper and in the communication on the future of rural society.

2. As far as agriculture is concerned this choice has consequences that must be evaluated and accepted. It implies a recognition that the farmer fulfils, or at least could and should fulfil, two functions; firstly that of producing and secondly that of protecting the environment in the context of rural development.

The activity of producing has traditionally been focused on production of food. While this will remain the primary focus of production, growing emphasis must be put on supplying raw materials for non-food uses. Concern for the environment means that we should support the farmer also as an environment manager through use of less-intensive techniques and the implementation of environmentally friendly measures.

3. Rural development is not only concerned with the development of the primary sector. Other forms of economic activity which help to maintain rural populations and strengthen the economy of rural areas will be promoted. The examination of the adequacy of structural Fund intervention in support of rural development under the 1988 reform (while recognizing the particular importance of Objectives 1, 5a and 5b) will be part of the overall review of structural policy to be carried out in 1991. In this exercise account will be taken of the impact in the regions of implementing the guidelines set out in this paper taking into account their dependence on agriculture and available economic alternatives.

4. In order to avoid a build-up of stocks and excessive growth in spending on agriculture, a key objective of the agricultural policy has to be that of controlling production to the degree necessary to bring the markets back into balance.

5. While the traditional instruments of price policy and quantitative controls will continue to have a central role in the attainment of market balance, the market organizations should also encourage extensification with the object of:

(a) reducing surplus production;

(b) contributing to an environmentally sustainable form of agricultural production and food quality.

This approach would be complemented by more specific measures on the environment, to be tailored to the situation in individual Member States.

6. The Community must recognize the existence of international interdependence and accept its responsibilities as the leading world importer and second leading exporter. The Community will continue to play an important role on the world market both as regards imports and exports. This requires pursuit of a policy objective which guarantees the competitiveness and efficiency of Community agriculture. Such a policy would encourage also growth in consumption including the development on a sound economic basis of agricultural production for non-food uses.

7. The CAP must continue to be based on its fundamental principles: a single market, Community preference, and financial solidarity but these principles must be applied as originally intended. This means correcting the excesses which have developed over the years. In particular, financial solidarity implies the need also for a better distribution of support while taking into account the particularly difficult situation of certain categories of producers and certain regions. Also, the support instruments used must have a more direct impact on the returns to producers and take account of environmental requirements as well as those of production.

8. The agricultural budget should then become an instrument for real financial solidarity in favour of those in greatest need. That implies that the support provided by the market organizations should be redirected so as not to relate almost exclusively to price guarantees.

Direct aid measures, based generally on the livestock numbers or area of farms and modulated in function of factors such as size, income, regional situation or other relevant factors, should be integrated into the market organizations so as to guarantee the producers' income.

Existing arrangements in the livestock sector already include a significant degree of modulation. The regional aspects, especially the impact on the less-favoured areas, should be considered in the context of further modulation in this sector.

9. Where quantitative arrangements apply, or may be brought into effect (quotas, temporary fallow,

etc.), the resulting constraints should be modulated in function of the factors mentioned in paragraph 8 above.

Thus, it should be possible to carry on a price policy which ensures the competitiveness of European agriculture, an increased level of consumption and the development, in healthy economic conditions, of the use for non-food purposes of agricultural products.

V. Guidelines for the future

The object of this communication is not to present reform proposals in detail. At this stage, the Commission's concern is to present for general reflection certain guidelines capable of implementing the objectives of the agricultural policy as indicated above.

These guidelines are underpinned by the principles of the common agricultural policy namely the single market, Community preference and financial solidarity; they take account of the need for competitiveness and market balance, better distribution of support, recognition of the dual role of farmers as food producers and guardians of the countryside, and promoting extensification, both in the interests of market balance and of the environment.

As regards the time-scale for implementing these guidelines there are good reasons for introducing the new arrangements at the earliest possible opportunity. However, in order to give Member States and producers the opportunity of adjusting to the new situation under conditions that will facilitate their smooth application throughout the Community, the measures involved would be established as far as practicable on a progressive basis.

Guidelines for individual sectors

1. In the cereals sector, prices could be reduced to a level which would guarantee, in a more satisfactory way than at present, their competitiveness with substitutes.

The resulting loss of income would be compensated on an equitable basis by an aid per hectare to be paid to all producers. Full compensation would apply up to a certain level of area and partial compensation thereafter on a degressive basis. Beyond a certain size the payment of the aid per hectare would be conditional on the withdrawal from production of part of the area devoted to arable crops, as defined each year in function of the state of the market. The land withdrawn from production could be used for non-food production.

The level of aid per hectare would vary each year in function of developments on the market and of productivity.

A corresponding regime would apply to oilseeds and proteins so as to ensure the coherence of the market organizations for arable crops and implementation of the conclusions of the GATT 'soya panel'.

These new arrangements should introduce a greater degree of coherence between the different support arrangements for arable crops; they would replace the existing stabilizers including the co-responsibility levy.

2. The reduction in cereals prices would allow an adjustment of prices in the livestock sector. Direct aid through premiums would, in future, have a more important place in the market organizations in order to compensate for income losses and discourage intensification. The premiums would be linked to extensification criteria, for example through prescribing stocking rates per hectare.

3. Having regard to the market situation in the milk sector, quotas will have to be reduced; the reductions in quota would apply beyond a certain level, on a modulated basis.

4. Other sectors, notably sugar and tobacco, would be reformed also in the immediate future on a comparable basis to ensure the coherence of the general approach.

5. It is necessary also to enhance the role of the farmer in the protection of the environment and preservation of the countryside. Measures should be taken to encourage farmers in the use of methods less damaging to the environment and to remunerate the contribution of farming towards preserving the countryside and the fabric of rural society. These measures would, in future, be implemented through coherent multiannual programmes, to be negotiated between the Commission, the Member State and the farmers, which would aim at significant cuts in the use of polluting inputs and the promotion of the diversity and quality of the countryside.

These arrangements would be complementary to the approach in the arable-crops sector which would operate so as to discourage intensification. In addition, in cases of environmental problems directly attributable to intensive farming, consideration could be given to linking payments of direct aid to environmentally sound farming practices to be defined locally.

It would be necessary also to introduce a long-term set-aside programme aimed at promoting afforestation of agricultural land and the protection of the natural environment.

6. Finally, the present pre-pension scheme would be improved by means of increased premiums, greater flexibility in the conditions of eligibility, especially as regards the freeing of land becoming available; the new arrangements would be implemented in the context of pluriannual programmes agreed with the Member States.

The overall approach suggested may be challenged. Two aspects are likely to dominate the discussion; that is why the Commission considers it necessary to respond to them at this stage.

(a) *'Modulation of support in function of the size of holding would be discriminatory and non-economic'*

The argument that the modulation measures are discriminatory is somewhat misleading in so far as it is based on a rather strange concept of equality. The diversity of agricultural structures in the Community is such that farmers are not on an equal footing. In such conditions the logic of support through public funds should aim at correcting inequalities by supporting those who derive fewer advantages from the market organizations. This aim is reflected in Article 39 of the Treaty.

It is the market organizations as they function now that are discriminatory, in so far as the bigger and more intensive the farm the greater the support, a situation which should not apply were competitiveness to be the object.

The argument in relation to the anti-economic nature of the modulation of support measures is not valid either. The Commission remains committed to providing a framework which recognizes the role of efficient farms especially in relation to competitiveness on world markets. After 30 years of the CAP, competitiveness can no longer be measured in function of receipts from the EAGGF. It is precisely because the larger farms are now in a position to produce with reduced support that it is possible to envisage the development of the policy as suggested. This is not a question of penalizing and blocking their development but of introducing a better balance between support from public funds and economic capacity.

The object is to make farms with the necessary capacity even more competitive. This will be reflected in somewhat less support for these farms and in a new balance between price support and direct aid.

(b) *'The guidelines outlined above may lead to higher budgetary cost in so far as part of the support now provided by the consumer (by virtue of high prices) would be henceforth charged to the budget'*

These reforms will have budgetary consequences whose significance will depend on the parameters to be chosen, especially in connection with the terms and extent of compensatory aid. Developments on the markets in the longer term will be an important factor also. The following considerations are essential.

(i) A reform of this kind would have advantages for the economy, especially for consumers. This point should not be forgotten in the balance sheet of the entire operation.

(ii) Money spent would be better used having regard to what should be the objectives of the agricultural policy; namely maintaining a sufficiently large number of farmers with a decent income, protecting the environment and the countryside, and developing quality-based production.

Nevertheless, the fundamental question has to be asked. Is the Community prepared to make a contribution in the budget context to resolving its agricultural problems, internally and externally?

The overall economic impact of changing the system of support has to be an important consideration in this respect.

An agricultural guideline must of course be maintained as an instrument for ensuring budgetary discipline. Consideration could be given also to combining the new arrangements with overall pluriannual planning of the CAP. This would have the advantage of allowing farmers to have a medium-term planning basis on which to make their decisions.

The introduction of new support mechanisms, especially aids on a per hectare basis, may require that existing control and anti-fraud systems be reorganized.

Experience outside the Community suggests that such reorganization can, to a degree, help to make control more simple and, indeed, more effective thanks to the use of new techniques.

Furthermore, having regard to the requirements of subsidiarity the Community implementing rules would be limited to those absolutely necessary. This would allow Member States the flexibility to put measures into effect with due regard to their individual situations while subject to monitoring by the Commission.

Conclusion

These are the elements that have shaped the Commission's analysis of the policy so far. The Commission hopes that a wide debate will take place within the Community on the perspectives outlined in this paper. If, as the Commission hopes, the Council considers that the approach suggested deserves to be pursued further, the Commission will present proposals rapidly.

The Commission wishes to emphasize that the status quo is the one option that it does not consider viable. If the present policy is not changed rapidly, the situation on the markets and, as early as the current year, the budget position will become untenable.

In these circumstances the choice is between fundamental reform of the present mechanisms of the CAP and a new package of restrictive measures offering no future prospects and which would be unlikely to attract support from farmers; without this support no policy can be carried out successfully on a lasting basis.

Part two

Proposals of the Commission

Introduction

1. In its communication COM(91) 100 of 1 February 1991 the Commission set out its reflections on the present state of the common agricultural policy and on the need for fundamental change.

It concluded that:

(a) existing price guarantees, through their direct link to production, lead to growing output;

(b) this extra output could be accommodated only by adding to intervention stocks, already at excessive levels, or by exports to already oversupplied world markets;

(c) the in-built incentive to greater intensity and further production, provided by present mechanisms, puts the environment at increasing risk;

(d) rapidly rising budgetary expenditure, devoted in large part to a small minority of farms, provides no solution to the problems of farm incomes generally.

2. Against the background of this analysis the Commission suggested objectives and guidelines for future policy. A more competitive agriculture through continuing action on prices was considered essential. It was recognized that farmers should be compensated for lower prices, that there would be advantages in doing this in a manner which would reduce production and reflect greater concern for the environment, that there should be a better distribution of support among farmers taking into account the difficulties of some categories of producers and regions, that more specific incentives towards environmentally friendly farming should be available, that there should be greater recognition of the dual role of the farmer in producing food and managing the countryside, that non-food use of agricultural products should be encouraged and that better incentives should be available for farmers to take early retirement.

3. As regards the budgetary implications of the new approach, the Commission recognized that reasonable compensation to producers for lower prices would give rise to additional budgetary costs. But it considered also that additional budgetary costs could be justified — while maintaining a budgetary discipline framework including an agricultural guideline — if, as a result, the common agricultural policy were placed on a sounder footing, giving benefits internally, for example to producers and consumers and to the environment, and externally, by contributing to the stabilization of world markets.

4. All Member States, many professional organizations and private individuals have given their views on the Reflections Paper. There has been a large consensus on the Commission's analysis and on the need to adapt the existing mechanisms. While initially some Member States and farming organizations were very opposed to change, there has been growing support for reform even from those quarters. The Commission recognizes that the decisions by the Council on these proposals will be the result of negotiation and compromise. In these negotiations, the Commission will adopt a flexible approach with a view to meeting the legitimate concerns of the Member States.

5. Two aspects in particular have given rise to widespread comment in the course of reactions to the Reflections Paper, namely the role of price policy and modulation.

There has been strong support from some Member States, consumer representatives and economic analysts for the Commission's approach to price policy. Other Member States and farming organizations have argued that maintaining existing institutional prices, coupled with more effective supply control on a voluntary basis, and the reduction of imports, would bring about a more stable situation for Community agriculture, without prejudicing other essential Community interests.

Many farmers and their representatives have stressed the need for a stable multiannual framework for agricultural policy which would replace the present year-by-year approach. This would offer farmers a more solid basis for rational planning and remove the uncertainty inherent in annual decisions as part of the price fixing arrangements.

The farming organizations have emphasized also that any curtailment of Community output in the interests of a more balanced world market, must be part of a coherent international effort under which all the major world producers accept comparable commitments.

6. The second aspect relates to modulation of support. Concern has been expressed by some Member States and farming organizations about what is seen as discriminatory treatment of certain classes of producer and the impact of severe modulation using Community criteria on agriculture generally in individual Member States. Other Member States and farm-

ers' representatives have taken the opposite view arguing that modulation should feature as a prominent element in the new approach.

7. The Commission considers that sufficient time has elapsed for all interested parties to have presented their views and to have had them considered. To avoid uncertainty, proposals should now be presented. The proposals herewith follow broadly the approach in the Reflections Paper, adjusted where necessary to take account of the various concerns expressed.

8. The Commission believes that the prospect of maintaining existing prices through voluntary restraint on supply and increased restriction of imports is not a viable option. Community price policy must be based on the need to meet inevitable competition on its domestic market and on world markets.

Nevertheless, more effective supply control is an important feature of the present proposals. Indeed, the success of the mechanisms proposed is dependent on their influence in reducing supply in the interest of more balanced markets. The Commission agrees with the farming representatives on the need for corresponding efforts by other agricultural producing and exporting countries.

9. The Commission shares also the concern of the farming organizations that the system should provide greater stability for farmers. It points out that the substantial compensation envisaged for farmers in these proposals and the greater stability inherent in a system of direct payments provide an attractive prospect for the farming community. In the case of arable crops, the direct aids are independent of levels of production; the premiums in the livestock sector are linked to a closely defined extensive form of farming. In the absence of reform, farmers can expect to be faced with continual adaptation of existing policies and uncertainty about returns from the market.

10. The proposals meet many concerns on the issue of modulation in that they provide very substantial compensation to all farmers for price cuts and quota reductions. At the same time the approach is designed to maintain economic and social cohesion to the benefit of the vast majority of farmers who are less-well placed to fully avail themselves of the benefits of the policy.

11. The present proposals, which cover the principal sectors and account for some 75% of the value of agricultural production subject to the common market organizations, involve a significant and far reaching change of approach which will bring substantial benefits to the Community and its citizens.

There are limits to what can be achieved in the short term by way of reform. The market organizations and farm practices in the Member States differ significantly and this can give rise to difficulties as regards overall coherence and balance. Besides, it is not opportune to propose changes in some market organizations that have been decided recently or are working reasonably well.

In preparing these proposals the Commission has been aware of these problems and has sought to overcome them in an equitable way, for example through developing the premium system in the cattle sector. This approach is designed to compensate farmers practising traditional extensive grass-based systems of production which would otherwise be penalized by price reductions for beef and milk.

The substantial shift in policy approach recommended may give rise to unexpected reactions and side-effects in the practical operation of new measures. The Commission will keep this aspect under review and will take the required counter-balancing action within its own powers or make proposals to the Council as necessary.

12. Apart from the changes in the agri-environmental and forestry measures and the improved early retirement arrangements — which complement the approach to the market organizations — the Commission is not proposing further changes in measures of a structural nature at this stage. The development of rural communities, while closely linked to agriculture, will increasingly depend on other sectors for new opportunities. As foreseen in the Reflections Paper, a review of rural development policies will be carried out in conjunction with the mid-term review of the structural Funds later this year.

13. As indicated in the 'budgetary implications' (see p. 39), once the new arrangements come into effect fully the additional annual budgetary costs to the EAGGF-Guarantee of a reformed policy would be ECU 2 300 million. This is some ECU 1 000 million less than the agricultural guideline based on existing rules and taking into account predictions of likely growth in GNP over the next five years.

If, as proposed, the new arrangements are fully operative by 1997 projected expenditure in that year would be substantially less than that likely to arise on the basis of continuing past trends of EAGGF-Guarantee expenditure over a representative period.

Expenditure can be expected to decline after 1997 as the corrective measures and improved world market prices take effect.

14. As for the agri-environmental, forestry and early retirement programmes, the estimated budgetary expenditure (at constant 1992 prices) would be of some ECU 4 000 million in total over a five-year period.

15. The Commission considers the extra costs to be well justified and that, in the context of these proposals and taking into account German unification, an increase in the base of the agricultural guideline of some ECU 1 500 million is warranted. The new approach will lead to a more balanced Community agriculture conferring substantial additional benefits on producers and consumers and in harmony with the environment. While the principal benefits will be internal, the approach now proposed will be helpful also at the international level.

Market organizations

I. Cereals, oilseeds and protein crops

A. Overview

1. There are some 4.3 million holdings growing cereals, oilseeds and protein crops in the Community. In quantitative terms (36 million ha, 172 million tonnes in 1990/91) cereals represent by far the most important crop of the three. The average area under cereals is about 8 ha. The great majority of cereals producers (88% or 3.7 million holdings) have less than 20 ha under cereals. They account for 40% of the total cereals area and for one-third of cereals output. The average yield in the Community is between 4.5 and 5 tonnes per ha, but varies greatly (from less than one to more than 10 tonnes per ha) depending on agronomic conditions and farm structure.

Half a million farmers are engaged in producing oilseeds on nearly 5.5 million ha. Production reached 11.7 million tonnes (oilseed rape, 5.9 million tonnes; sunflower seed, 3.9 million tonnes; and soyabeans, 1.9 million tonnes) in 1990/91 and is expected to increase to 13 million tonnes in 1991/92 (including the five new German *Länder*).

2. Oilseeds and protein crops are generally grown on farms that produce cereals and have cereal yields above the Community average. In determining land-use, a farmer can switch between oilseeds and cereals depending on the relative profitability of the crops and on weather conditions.

Oilseeds are used for the production of cake for animal feed and of oil for human, animal and industrial use. The Community's degree of self-sufficiency in all vegetable oils (including olive oil) is about 65% (rapeseed oil, 125% and sunflower oil, 107%). In the case of cake, self-sufficiency is around 20% (80% for rapeseed cake, 61% for sunflower and 7% for soya). The Community's crushing capacity is roughly double its oilseeds production.

3. The area under protein crops is stable at around 1.3 million ha with production at some 5 million tonnes (1.5 million tonnes in excess of the guaranteed threshold). The crop is particularly suited for rotation purposes. Its principal market is the animal-feed industry.

4. In spite of a slight decrease in output in 1990/91 due to drought, the continual reduction (at an annual rate of about 1.5 million tonnes) in the use of cereals in animal feed, static use for human consumption and industrial purposes, together with a reduced export demand have contributed to a sharp rise in cereals intervention stocks (currently at the record level of some 20 million tonnes).

Cereals production in 1991/92 is expected to increase again (in terms of yields and of area) and to reach some 180 million tonnes. With a continuing upward trend in yields, total cereals production could reach 187 million tonnes by 1996. Any growth in human and industrial consumption would be offset by the continuing decline in animal-feed use. Domestic use is expected to remain at around 140 million tonnes, leaving a surplus for export of more than 45 million tonnes (compared to about 30 million tonnes in 1990/91). The annual surpluses would be well in excess of foreseeable export outlets. The temporary set-aside arrangement adopted as part of this year's price proposals (15% of arable land with reimbursement of the increased co-responsibility levy of 5% together with payment of a set-aside premium) is designed to limit the serious disposal problems expected from the 1992 harvest but not to resolve the longer-term difficulties.

5. Although cereals, oilseeds and protein crops are interdependent in terms of land-use and in terms of their use in animal feed, the common market organizations (CMOs) have little in common. The cereals regime is based on maintaining prices to producers through a high level of protection at the border, intervention purchasing at guaranteed prices and export refunds to bridge the gap between the Community and world market prices. The oilseeds and protein regimes are essentially deficiency payments to the industry reflecting the difference between the price paid to the producer and the world price level. A system of guaranteed thresholds with a reduction in the guarantee when production exceeds specified quantities applies in both cases.

In the absence of reform cereals production would almost certainly exceed the guaranteed threshold (160 million tonnes without counting the five new *Länder*) in most years, giving rise, in turn, to an additional co-responsibility levy and price cuts of 3% annually.

Production of oilseeds is normally in excess of the guaranteed thresholds and can give rise to sharp price reductions, e.g. of 15.5, 21 and 30% for rape, sunflower and soya respectively in 1990/91.

6. Following the conclusions of the GATT 'oilseeds panel' the Community has committed itself to

reforming the oilseeds regime. As the cereals sector is affected also by serious and growing problems (surplus production and growing use of substitutes), the Commission proposes to reform all the sectors concerned. This should bring about a more coherent policy for the major crop sectors. Given that these products are major inputs for milk and meat production, the reform has important implications for the livestock sector.

B. Reform proposals

1. Common market organizations and institutional prices

(a) Cereals

(a.1) The basic principles and instruments of the common market organization for cereals will be maintained. The target price will be ECU 100/t, that is some 35% below the existing average buying-in price for cereals. ECU 100 represents the expected world market price on a stabilized world market. The intervention price will be 10% below, and the threshold price 10% above, the target price.

(a.2) These prices will apply to all cereals. A special corrective factor will be introduced for rice in order to provide an equivalent system.

(a.3) The existing stabilizer arrangements, including co-responsibility levies and the maximum guaranteed quantity, will be withdrawn once the new market organization comes fully into effect.

(b) Oilseeds and protein crops

(b.1) As outlined below (see points 2 (b) and 2 (c) support for oilseeds and protein crops will be provided fully in the form of a standardized, compensatory payment system with per-hectare aids paid direct to the producer. In this context, the traditional institutional prices will no longer apply. A reference price for the world market will be established for the purpose of calculation of the compensatory payments.

(b.2) In line with the requirements of the reformed market organization, new market management instruments will be developed by the Commission to facilitate the orderly marketing of each crop. For oilseeds, these will be set out in the Commission proposals which will be tabled before the end of the month (see transitional arrangements, point C.2 below).

(b.3) The current maximum guaranteed quantities and their associated stabilizer mechanisms are based on the traditional system of institutional prices. These mechanisms should expire with the full implementation of the new common market organization.

2. Introduction of a system of compensatory payments

A system of compensatory payments will be introduced for existing holdings to compensate the loss of income caused by the reduction of institutional prices. The payments will be on a per-hectare basis and will not be related to current levels of output. Participation in the aid scheme will be voluntary.

(a) Cereals

(a.1) The income loss for cereals will be the difference between the new target price of ECU 100/t and the current average buying-in price of ECU 155/t, i.e. ECU 55/t. The compensatory payment will be reviewed periodically to take into account the development of productivity as well as expected developments on domestic and world markets.

(a.2) For the purpose of establishing the aid to be paid per hectare each Member State will draw up a regionalization plan for its territory which must be approved by the Commission. For each region a historical three-year average yield will be calculated; this will be based on the average of three of the last five marketing years (1986/87 to 1990/91), i.e. after eliminating the lowest and the highest figure. This regional average yield will be the basis for translating the compensatory payment into a regional per-hectare aid (regional average yield in tonnes/ha × ECU 55/t).

When drawing up the regionalization plan, specific structural characteristics that influence yields (soil fertility, irrigation, etc.) should also be taken into account, in order to define more homogeneous subregions and zones.

(a.3) All reliable statistical data available should be used for the purpose of drawing up plans. It is to be expected that the weighted average of regional (or subregional) yields in this plan should be comparable to a national reference amount calculated according to the same procedure on the basis of a national average yield. The weighted average of the national average amounts should correspond to the Community average.

As an illustration of what the system may give, the three-year average yield for the Community has been calculated at 4.6 t/ha. The indicative Community reference amount would therefore be ECU 253/ha (4.6 t/ha × ECU 55/t).

(a.4) A special aid for durum wheat of ECU 300/ha will be paid as a supplement in the traditional production zones as currently defined. This would fully compensate durum wheat producers in these regions for the income loss due to alignment on the reduced price for other cereals.

(a.5) The compensatory cereals aid per hectare and the special aid for durum wheat will be paid during the first half of the marketing year.

(b) Oilseeds

(b.1) For the purpose of calculating the aid for oilseeds a Community reference amount will first be determined. It will take account of two elements:

(i) a reference price for the world market, corresponding to the expected medium-term equilibrium price on a stabilized world market; this price is estimated at ECU 163/t;

(ii) an estimated equilibrium price relationship between oilseeds and cereals, i.e. which would not provide a particular incentive to opt for one crop as opposed to the other.

Taking a relationship of 2.1:1, for illustrative purposes the Community reference amount for the oilseeds aid would be set at ECU 384/ha based on a Community average yield for oilseeds of 2.36 t/ha.

(b.2) At a second stage the Community reference amount will be regionalized for each region identified in the regionalization plans presented by the Member States (see point 2 (a.2) above). The calculation of the aid for oilseeds and its regionalization is illustrated in Annex I.

(b.3) The aid will be the same for all oilseeds.

(b.4) The aid for oilseeds will be paid in two parts. The first part is paid in advance on the basis of area cultivated and on condition that the crop is under contract to an approved buyer. The second part will be paid as a complement at the end of the marketing year and will take account (with a franchise to be determined) of the evolution on world market prices as compared to the reference price. Where the crop is not under contract, the whole aid (basic amount plus variable supplement) will be paid at the end of the marketing year.

(b.5) As foreseen in the Treaties of Accession, special provisions will continue in the case of Spain and Portugal notably in relation to sunflower seed, until the end of the transitional period, i.e. the end of the marketing year 1995/96.

(b.6) Should acute regional imbalances arise as a result of the operation of the new arrangements the Commission will take the necessary remedial measures.

(c) Protein crops

(c.1) The aid for protein crops will be fixed initially at the level of the cereals aid and regionalized on the same basis.

(c.2) The same level of aid will apply to all protein crops, other than dried fodder where the aid is being withdrawn.

(c.3) The aid will be paid in two parts under the same conditions as for oilseeds.

3. Simplified aid scheme for small producers

This approach will facilitate administration and control. It does not confer a particular entitlement to compensatory payments, which apply to all producers irrespective of size. Small producers in this scheme are exempt from the set-aside obligation.

(a) Definition of small producers

It is proposed that small producers be defined on the basis of an area equivalent to an annual production of not more than 92 tonnes of cereals. On the basis of average Community cereals yields this corresponds to a holding of 20 ha. The yield averages for cereals in the different regions, subregions or zones, which have been defined in the regionalization plans for the aid (see point 2 (a.2) above), will be used to determine eligibility of individual producers. The limit defined for each region would refer to the combined area under cereals, oilseeds and protein crops.

Producers who do not fall under the definiton of small producers are considered to be professional producers. However, it is open to a small producer to opt for the professional scheme (see point 4 below) should it be to his advantage.

An illustration of how a small producer is defined is given in Annex II.

(b) Operation of the small producers' scheme

(b.1) Small producers can benefit from a simplified aid scheme, subject to accepting certain administrative procedures to facilitate control.

(b.2) In the framework of the small producers' scheme, the (regionalized) cereals aid will be paid on a per-hectare basis for the area under cereals, oilseeds and protein crops, independent of the mix of crops sown.

(b.3) There are no set-aside requirements under this scheme.

4. Aid scheme for professional producers

In order to benefit from the compensatory payments described under point 2 above, those who do not qualify as small producers (as well as small producers who opt to do so) can take part in the scheme for professional producers.

(a) Supply control requirements

(a.1) Every farm participating in the scheme must set aside a predetermined percentage of its area under cereals, oilseeds and protein crops. For environmental reasons, the set-aside should be organized on the basis of a rotation of surfaces and the land set aside would have to be cared for so as to meet certain minimum environmental standards.

(a.2) The set-aside requirement would be fixed initially at 15%. It would be re-examined on a yearly basis to take account of production and market developments.

(a.3) The areas set aside as temporary fallow can also be used for non-food purposes provided effective control systems can be applied.

(b) Compensation for set-aside

(b.1) Participants in the professional scheme will receive limited compensation for the obligation to set aside and for keeping set-aside land in an environmentally acceptable condition. The amount of the compensation for the area set aside will be the equivalent of the compensatory aid per hectare for cereals calculated at the regional level.

(b.2) The compensation will apply to the set-aside obligation, i.e. 15% applicable to an area equivalent to production of up to 230 tonnes of cereals. On the basis of the Community average cereals yield, 230 tonnes is the equivalent of 50 ha. This means that each participating farm of 50 ha or over would receive compensation for 7.5 of the hectares set aside. Participating farms of below 50 ha would receive compensation on a proportionate basis, unless of course they qualify as small producers in which event no set-aside obligation applies.

The yield averages for cereals in the regionalization plans will be used to determine the upper area limit for compensation for set aside at the corresponding regional level.

The limit for compensation applies to the sum of the areas under the three crops.

C. Transition

1. Cereals

The reduction in institutional prices and the introduction of the compensatory payment system would be carried out in three phases:

First phase: beginning from the first marketing year of implementation of the reform. The new target price (reference price for the calculation of the aid) will be ECU 125/t. The compensatory payment will be ECU 30/t. This corresponds to an aid of about ECU 138/ha on the basis of Community average cereals yield.

Second phase: the second marketing year of implementation of the reform. The target price will be reduced to ECU 110/t. The compensatory payment will be fixed provisionally at ECU 45/t. This corresponds to an aid of about ECU 207/ha on the basis of Community average cereals yield.

Third phase: beginning from the third marketing year of implementation of the reform. The target price will be reduced to ECU 100/t. The compensatory payment will be fixed provisionally at ECU 55/t. This corresponds to an aid of about ECU 253/ha on the basis of Community average cereals yield.

The set-aside compensation will be calculated on the basis of ECU 55 per tonne multiplied by the regional cereals yield and will be paid in full from the first phase.

2. Oilseeds and protein crops

The reform will be implemented in one step in the first marketing year of implementation of the reform. However, in order to comply with commitments by the Community in connection with the oilseeds panel, a transitional scheme will be proposed before 31 July 1991 for oilseeds. This scheme will contain some of the features of the reform, and will cover the period from the 1991 sowings (for the 1992/93 marketing year) to the date of implementation for the reform. The transitional scheme will be based on direct compensatory payments to producers with appropriate safeguards to ensure production remains under control.

3. General

The new mechanisms proposed should be effective in bringing about a significant reduction in production leading to better market balance. In practice this will mean that existing stabilizer mechanisms will become redundant. The Commission will keep these aspects under continual review with a view to ensuring that the mechanisms in place achieve the results required.

While the Commission believes that a transitional period could be useful in enabling Member States and producers to adapt to the new system, it draws attention also to the substantial benefits that would derive from the immediate application of the new cereals arrangements in line with the approach to oilseeds. This is an aspect that can be kept under review in the course of the negotiations.

D. General rules for cereals, oilseeds and protein crops

1. The aid will be paid once a year for a given area, whatever the crop. Areas previously not cultivated will not be eligible for aid, with the exception of an area that has been set aside in previous years under the existing voluntary set-aside arrangements. No aid will be granted for a second crop following or preceding the main one.

2. The aids for cereals, oilseeds and protein crops and the aid regime foreseen in the framework of the new agri-environmental programme (see page 35) are complementary. Where aids are being provided and in the case of production for non-food use on land set aside as temporary fallow, participants will be reminded of the need to respect existing environmental legislation.

3. The new arrangements proposed will replace the existing voluntary five-year set-aside scheme. However, suitable transitional arrangements will be made to protect the position of producers who have taken commitments under the present scheme, and to ensure that they are not at any financial disadvantage compared to aid available under the new arrangements. A system of long-term set-aside will remain as part of the agri-environmental arrangements and an equivalent measure will apply for the purpose of afforestation.

E. Sugar

The Commission will review the sugar regime in the light of the reform of the arable crops sector and in connection with proposals on the future of the existing regime which expires at the end of 1993. Account will be taken also of the Community's international commitments especially in relation to the ACP countries.

F. Evaluation

1. The proposed regime for arable crops is a radical departure from existing arrangements. In future the guarantee to the farmer will no longer relate primarily to the volume produced. At farm level the reduction in prices, for which farmers will be fully compensated, will bring about significant changes in the relationship between input prices (fertilizers and pesticides) and the price of the product. These changes should lead progressively to benefits to the environment through a lessening of intensification and to

lower production. In the short term, reduction in production will be achieved through set aside. The annual set-aside requirement will be adjusted in the light of the market situation and having regard to the development of production in the Community. The mechanism proposed gives the Community a flexible and guaranteed instrument for influencing overall output.

2. Having a significant part of their annual income guaranteed in advance gives farmers greater certainty, stability and security.

3. As regards use of cereals in animal feed the gradual decline should be arrested and there should indeed be a greater take-up once the reform is implemented. It is to be expected that the price of cereals substitutes will fall also though not to a point to offset the benefits from the substantial improvement to be brought about in the competitive position of cereals.

4. Lower cereals prices should benefit producers of pigmeat and of poultry and eggs. In the case of milk and beef producers, the benefits will vary depending on the use of cereals and concentrates in animal feed. The wide variation in the degree of utilization of these inputs, together with concern for the environment has led the Commission to propose increased aids for extensive farming practices since the farmers concerned will derive limited benefit from lower cereals prices.

5. The consumer should benefit also from the changes proposed as cereals is a key ingredient in most staple foods and the knock-on effects in the livestock sector should lead to lower prices for meat and milk.

6. Production restraint on the part of the Community especially if matched by other major world suppliers, should contribute to a better balance on the world market and to improving prices generally.

7. In the case of oilseeds the new arrangements conform to the conclusions of the 'soya panel' and also provide greater simplification and clarity.

8. The limited success of the non-food policy to date can be attributed in large part to the high cost of raw materials for this purpose. Bringing this cost to world market levels together with the facility to produce for non-food use on set-aside land should help to open up new opportunities for non-food production, including energy-related products.

9. As regards the budgetary aspect, since part of the cost of supporting cereals will be transferred from the consumer to the Community budget, agricultural spending for the sector will inevitably increase in the short term. This increase will be partly offset by:

(a) the expected decrease in production as well as increased demand in the cereals sector itself; this should have the effect of reducing intervention and export refund costs;

(b) savings in other sectors (livestock and processed products) where, following the reduction in input prices, expenditure on market supports can be reduced in consequence.

II. Tobacco

A. Overview

Some 200 000 holdings with an average production area of 1 ha each are producing annually around 400 000 tonnes of tobacco in the Community. Production takes place mainly in Italy (49%), Greece (31%) and, to a lesser extent, in Spain (10%), France (7.5%), Germany, Portugal and Belgium (3.5%).

Overall consumption in the Community stands at 600 000 tonnes of which 64% is imported. Therefore out of an annual 400 000 tonnes of Community production, 220 000 tonnes are consumed internally and 180 000 tonnes or 45% are exported.

General health concerns combined with shifts in taste among smokers have induced a preference for light, less toxic varieties (flue-cured tobacco). This trend, coupled with sharp increases in production of some varieties without any outlet, have lead to structural imbalances in the market resulting in increased budget expenditure and growing intervention stocks (currently around 100 000 tonnes).

Tobacco imports are GATT bound and not subject to any import levy. Community support should be essentially a deficiency payment type for 34 different varieties, consisting of per-kilogram premiums paid to first processors responsible for baling tobacco leaves bought from producers under certain conditions. However, over the years the premium has lost its character of a deficiency payment; this development is reflected also in the introduction of export refunds and intervention.

B. Reform proposals

1. Premium system

(a) The 34 varieties produced in the Community will be regrouped into:

(i) five groups of varieties according to the type of curing;

(ii) three Greek varieties that are distinctly different.

(b) A single premium per group of varieties will be introduced.

(c) In the context of cultivation contracts between first processors and producers a bonus of 10% can be added to the premium if the cultivation contracts are signed with producer associations. In order to improve the quality of the tobacco delivered, the producer association can apply a 'bonus-malus' coefficient both to the premium and to the association bonus.

(d) A Control Agency will be established, financed by an advance deduction from the premium. Controls will come into force when the tobacco is delivered by the producer to the first processor. The Agency will control the payment of the premium and perhaps also could have a role in the administration of the quota system to ensure that producers are treated in an equitable way.

(e) The establishment of interbranch organizations will be authorized in order to streamline contacts through the production and marketing chain (producers, first processors and the tobacco industry).

2. Quota system

A system of production quotas per group of varieties will be introduced at Member State level. Total quota level will be reduced significantly to become 340 000 tonnes and no premiums will be payable for production beyond the quota level. The quotas will be distributed between the producers/producer groups or, as the case may be, the processors, as a general rule on the basis of the average quantities produced or processed over the past three years. However, adjustments will be made to take account of the sharp increase in poorer quality varieties during the period, in order to ensure that production of the more marketable varieties is not reduced. Community rules will be introduced to ensure equitable treatment of producers where quotas have to be operated through processors.

3. Other measures

(a) Support to the producers will be assured by means of the premium. Intervention and export refunds should be no longer necessary.

(b) A research programme will be launched to develop further and identify less-toxic varieties of tobacco with a low tar content. The programme will be financed by a deduction from the premium, to be matched by direct Community funding.

(c) An important conversion programme for Tsebelia and Mavra varieties will be funded.

C. Evaluation

The set of measures proposed will be effective in reducing production and in adjusting supply to varieties in demand. At the same time the role of producer associations in market management will be strengthened and the Control Agency will play an important part in overseeing the proper disbursement of expenditure.

As long as demand for tobacco exists it is reasonable that the product should be supplied and supported at producer level in the Community. Apart from the market aspect, the socio-economic position of tobacco producers, who are located in the least-developed parts of the Community and have few economic alternatives, requires that worthwhile support continues to be available. On the other hand, the emphasis in the support system must be on encouraging varieties, usually of low yield, that can find a place in the market. Research programmes to develop less-toxic varieties and an effective conversion programme must be pursued vigorously.

III. Milk

A. Overview

There are some 1.5 million farmers in milk production in the Community with an average of 16 milk cows per holding. Less than 15% of farms have an annual production of over 200 000 kg but account for nearly half of the Community's milk output.

Milk yield per cow has been increasing by 1.5% per year and the Community average currently stands at some 4 700 kg. With a total dairy herd of 24.5 million cows (including the five new German *Länder*) the Community's productive capacity is some 115 million tonnes.

Milk production has not declined by as much as necessary to maintain market balance. This is partly due to the attribution of new quotas to SLOM producers, partly to the redistribution in 1990 of part of the quotas frozen in 1988, and partly due to some exceeding of current quotas.

On the demand side, butter consumption is decreasing continually. Despite this decrease, consumption of milk and milk products (including consumption due to special subsidized disposal measures) is expected to stabilize globally at just under 99 million tonnes, leaving an excess over internal requirements of over 15 million tonnes. In the absence of the special internal disposal measures (costing over ECU 2 billion in 1991), the potential milk surplus would amount to 25 million tonnes.

With an almost constant share of around 50% of world market trade in dairy products but with a less-favourable development of world demand (dropping from a high of 30 million tonnes in milk equivalent in 1988 to 26.8 million tonnes in 1990) the Community's stocks of butter and milk powder have been building up again and currently stand at over 900 000 tonnes.

For the medium term, internal consumption is expected at best to remain stable, whereas export prospects, in particular for butter, are not promising. Under these circumstances, the quota reduction of 2% decided in the 1991/92 price package will not be sufficient to avoid a further increase in intervention stocks. A further reduction of at least 3% is considered necessary to avoid such increases.

B. Reform proposals

1. Quota system

The quota regime which expires in 1992 will be extended.

(a) Quota reduction and redistribution

(a.1) In addition to the 2% reduction decided in the 1991/92 price package, the global quota will be reduced by a further 3%.

(a.2) This cut will be achieved by a 4% cut in individual reference quantities. However, Member States will be required to set up a special cessation scheme open to all producers with a view to creating a milk pool so that small and medium-sized producers (producing less than 200 000 kg per year) will have the opportunity of avoiding a cut in quotas. The voluntary cessation scheme will be on attractive terms with cofinancing by the Community, up to an annual amount of ECU 17 per 100 kg for each of the three years. The premium system will be administered by way of guaranteed bonds, as described under point (b.2) below.

(a.3) Member States will redistribute 1 out of the 4% cut in individual reference quantities to special categories, namely:

(i) extensive dairy holdings in mountain areas;

(ii) extensive dairy holdings in other less-favoured areas where milk production plays an important role in the agricultural economy and where little alternative exists. (The areas will be selected by Member States and presented in a redistribution plan to be approved by the Commission.)

Redistribution may also take place according to other priority criteria (e.g. extensive holdings outside the less-favoured areas; young farmers; producers with high-quality products for direct marketing, participants in an agri-environmental programme, etc.) as identified in the redistribution plan.

(b) Compensation for the quota reduction

(b.1) Farmers whose quotas are reduced will receive an annual compensation of ECU 5 per 100 kg over a period of 10 years. Member States can add a national supplement.

(b.2) The compensation arrangements will be operated through a bond issued to the farmers concerned, on the basis of which the Community would make annual payments over its lifetime (10 years). The farmers could choose to keep the bond and receive the associated annual payments or could sell it on the private market.

(c) Voluntary buy-up programme

Once the new quota arrangements are in place, Member States would be free to continue the buy-up/redistribution scheme on a voluntary basis. Farmers would then be able to sell quotas to national authorities and in exchange to receive bonds (guaranteed by the Community and by the Member State). This would allow quota reserves to be built up on an ongoing basis. The reserves could be used to redistribute milk to priority farmers (as identified under point (a.3) above) or otherwise dealt with having regard to the market situation at the time.

The programme would be cofinanced by the Community at a rate of 50% and up to a maximum annual amount of premium of ECU 2.5 per 100 kg over 10 years.

2. Prices and premiums

(a) Institutional prices for dairy products will be reduced by 10% (15% for butter and 5% for skimmed-milk powder) to take account of, *inter alia*, the reduction of production costs following the price decrease for cereals and concentrates.

(b) Since the price decrease for inputs will mainly benefit intensive milk production, an annual dairy cow premium (ECU 75) will be introduced to avoid penalizing the producers concerned and to encourage extensive dairy farming. The premium will be paid for the first 40 cows in every herd on condition that the following stocking rates are fully respected:

(i) less-favoured areas: 1.4 livestock units (LU) per hectare of forage;

(ii) other areas: 2 LU per hectare of forage.

For the purpose of complying with the extensification criterion, the numbers of dairy cows, suckler cows, male bovines and ewes, will be taken into account.

(c) Payment of premium to producers with annual deliveries of less than 24 000 litres would not be subject to the stocking rate requirement.

(d) The milk co-responsibility levy (currently payable outside the less-favoured areas at a rate of 1.5% of the target price for over 60 000 litres and 1% up to 60 000 litres) will be withdrawn.

(e) A Community programme for the promotion of dairy products will be established. It will be cofinanced by producers, market operators and the Community. A levy on sales to intervention will provide part of the financing.

C. Transition

1. The reduction in quotas will take place in three steps: 2% reduction, of which 1% may be redistributed, from the beginning of the first marketing year of the reform, and 1% (without redistribution), from the beginning of each of the following two marketing years.

2. Institutional prices will be reduced in three steps: 4% reduction (6% for butter and 2% for skimmed-milk powder) from the beginning of the first marketing year of the reform, 3% (4.5% for butter and 1.5% for skimmed-milk powder) from the beginning of each of the following two marketing years.

3. The new dairy cow premium will be introduced in three equal steps of ECU 25 per cow from the beginning of the first marketing year of the reform. The stocking rate conditions apply fully from the beginning.

4. The milk co-responsibility levy will be withdrawn from the beginning.

D. Evaluation

1. A quota system by definition implies that production under quota should bear a close relationship to disposal opportunities. Despite a 2% reduction in quotas agreed as part of this year's price package, existing levels of expenditure (over ECU 6 billion this year) and the build-up of intervention stocks require further corrective action. The degree of action required must take account of the consequences for the beef sector where prices are already weak. Hence, the gradual approach suggested. The rate of aid and payment method for the cessation programme, i.e. through bonds, will provide an attractive opportunity to milk producers who wish to leave the industry on a voluntary basis. Where producers have to accept a cut in quotas full compensation will be available.

2. The redistribution arrangements proposed in order to avoid, where possible, quota cuts for farmers

with less than 200 000 kg are designed to maintain the output of small to medium-sized farmers — covering some 90% of total dairy producers — thereby encouraging greater economic and social cohesion.

3. The permanent buy-up programme, 50% of the costs of which are met by the Community, is designed to provide a mechanism for enabling milk, coming available regularly from producers wishing to cease production, to be redistributed to priority categories or otherwise disposed of in the light of market requirements.

4. The buying-up and redistribution arrangements apply at the level of the Member State. This should meet fully any concern that these reforms might have lead to the overall quotas in Member States being altered.

5. The approach to price reductions for milk involves larger price cuts for butter due to the difficulties of maintaining its competitive position.

6. The cow premium is introduced to provide encouragement of extensive-based production systems which would otherwise incur price cuts for milk but with little corresponding benefit by way of reduced prices for inputs. While the stocking rates system proposed as a condition for eligibility for premium is strict, in that beyond these levels no aid is payable, environmental considerations require that farmers be actively encouraged to accommodate themselves to more extensive systems.

IV. Beef

A. Overview

Cattle (beef and dairy) rearing which takes place on 2.6 million holdings with 32 animals on average accounts for about a third of total farm production in the Community (beef/veal, 15%: milk, 17%). The vast majority of farms (between 80 and 90%) have less than 20 beef cattle and account for 45% of beef output. Many farms are involved in both beef and milk production.

After reaching a trough in 1989, beef production is in the upward phase of the production cycle. Output increased by 6.3% in 1990 to 7.927 million tonnes and is expected to increase further this year to 8.040 million tonnes (8.349 million tonnes including the five new German *Länder*). Several factors have influenced a rapid resumption of output, e.g. the switch to beef production on dairy holdings, a rise in slaughterweights due to the switch from veal to beef, and increased imports of calves, in particular from Eastern Europe (now subject to the safeguard clause to prevent market disturbance). The new reduction in the milk quota decided in the 1991/92 price package will again increase slaughterings and may aggravate the situation. Hence the phased approach to further milk quota reductions.

At the same time internal consumption and external demand have weakened as a result of several developments related to changing consumer preferences and difficulties in third country markets. Intervention stocks have risen to a level of some 750 000 tonnes. Budgetary costs for this sector have increased rapidly over the last two years and now exceed ECU 4 billion annually.

B. Reform proposals

1. Prices and premiums

(a) The intervention price will be reduced by 15%. Of this price cut, 10% reflects the lower prices for inputs and the remaining 5% is considered necessary to maintain the competitive position of beef.

(b) In order to compensate for the loss from this price reduction for more extensive beef producers, who will not be in a position to profit from the decreases in the price of cereals and concentrates, the current special premium for male bovines will be increased to ECU 180 per animal. The premium will be for the first 90 animals of every herd in three annual payments of ECU 60 during the life of the animal: i.e. between six and nine months, between 18 and 21 months and between 30 and 33 months.

(c) The annual suckler cow premium will be increased to ECU 75 per cow (with, as at present, the possibility of a national supplement of up to ECU 25. As in the case of the beef premium, the aid will be limited to the first 90 animals of every herd, and will be paid for beef or dual purpose (beef/milk) breeds only.

(d) Extensification criteria will be introduced for the special premium for male bovines and the suckler cow premium. Payment of premium is on condition that the following stocking rates are fully respected:

(i) less-favoured areas: 1.4 LU per hectare of forage area;

(ii) other areas: 2 LU per hectare of forage area.

Dairy cows, suckler cows, male bovines and ewes will be included in the calculation of the stocking rate.

2. Special disposal scheme for young male calves from dairy herds

The Commission will closely monitor the evolution of the calf herd with a view to early identification of developments that could lead to surplus production later. In this connection a processing/marketing premium will be introduced for the early disposal of young (8/10 days) male calves from dairy herds. The premium will be fixed initially at ECU 100 a head.

3. Promotion programme and controls

A special Community promotion and marketing programme for quality beef will be launched. This programme will be cofinanced by producers, the industry and by the Community. A levy on sales to intervention will provide part of the financing. In addition, a programme will be established to give reassurance in relation to the absence of hormones and other forbidden substances from beef production.

4. Transition

(a) Price reductions will be introduced in three equal steps of 5% beginning from the first, second and third marketing years of implementation of the reform.

(b) The special premium for male bovines will be phased in in three steps as follows:

First step: beginning from the first marketing year of the reform, a premium of ECU 40 per animal will be paid — under the conditions set out under point 1 above — for each animal of six to nine, 18 to 21 and 30 to 33 months.

Second step: beginning from the second marketing year of the reform; the premium is increased to ECU 50 per animal.

Third step: beginning from the third marketing year of the reform, the premium is increased to ECU 60 per animal.

(c) The suckler cow premium will be phased in in three steps as follows:

First step: beginning from the first marketing year of the reform, the premium will be increased to ECU 55 (plus existing supplement) per cow, limited to the first 90 animals of a herd and paid only for cows of beef and dual-purpose breeds.

Second and third steps: beginning from the second marketing year, the premium will be increased to ECU 65 (plus existing supplement), per cow and beginning from the third marketing year ECU 75 per cow.

(d) The stocking rate requirements will apply from the beginning of the first marketing year of the reform.

C. Evaluation

1. The reform proposals are intended to reduce beef production by:

(a) providing a mechanism, i.e. the calf disposal scheme, to regulate a source of supply, and

(b) encouraging extensive production through increased premiums but with the introduction of strict stocking limits.

2. The reduction in institutional prices should help maintain the competitive position of beef in the face of additional cost reductions available to the pigmeat and poultrymeat sectors as a result of the fall in the price of feedingstuffs.

3. Effective support prices for beef have been reduced continually over the last decade. The changes proposed should help beef consumption to recover. Much depends on the prospects for restoring consumer confidence; hence the proposal for a promotion programme and greater guarantees about the quality of the product. The situation as regards key third country markets is an essential factor as is the need also to maintain Community preference.

4. The headage limits proposed for premium purposes are consistent with the limit already in application for the purpose of the existing beef premium, i.e. 90 animals.

V. Sheepmeat

A. Overview

There are approximately one million farms raising sheep in the Community. Seventy per cent of the flock is in the less-favoured or mountainous areas. Half of the holdings have less than 50 ewes.

Sheep numbers have increased rapidly in recent years, e.g. by some 10 million head from 1987 to 1990 and now exceed 100 million head. Since then, the flock size has stabilized, but production has continued to rise, although at a decreasing rate (6.6% in 1990 and an estimated 1.3% in 1991). Consumption has also increased but at a lower rate. Against this background the degree of self-sufficiency has risen steadily to around 83%.

Support in this sector is of the deficiency payment type, paid through a ewe premium which compensates the farmer for fluctuations in market prices. Increasing production and low market prices in recent years have led to a rapid increase in spending in this sector namely to a level of ECU 2.3 billion in 1991.

B. Reform proposals

1. A limit, based on the producer's reference flock, will be applied from the first year of the reform to the number of ewes eligible for premium. The reference flock will be the number of eligible ewes in the year 1990.

The reference flock cannot however exceed 750 ewes in the less-favoured areas and 350 elsewhere. No premiums are paid for ewes in excess of the reference flock. These requirements will be introduced in three steps as follows:

(a) beginning from the first marketing year of the reform, the limits will be 920 for the less-favoured areas and 450 elsewhere, with 33% of the premium being paid for eligible ewes in excess of these limits;

(b) from the second marketing year of the reform, the limits will be 830 for the less-favoured areas and 400 elsewhere with 17% of the premium being paid for eligible ewes in excess of these limits;

(c) from the third marketing year of the reform, the new limits of 750 and 350 will apply, with no premium payments in excess of these limits.

To simplify the scheme no specific criteria for 'eligible' ewes will be applied.

2. The existing supplement (currently ECU 5.5 per ewe) to the ewe premium in the less-favoured areas will be maintained.

C. Evaluation

1. The political sensitivity of this sector and the comparatively recent (1989) reform of the market organization places limits on the options for reform of what is a complex and relatively costly regime. The key requirement is to reduce production within the Community, maintain Community preference, and restore market prices.

2. The double ceiling to the premium, i.e. based on the individual producer's reference flock in 1990 and the reduction in the overall maximum limit to 750 and 350 ewes in the less-favoured and normal regions respectively, does bring about a fair balance between producers and should prevent further expansion of flocks. There may be some increase in slaughterings in the short term as producers reduce numbers from 1991 levels. Production and expenditure should stabilize subsequently as the market recovers.

3. The proposed elimination of the specific criteria for 'eligible' ewes should simplify administration of the new regime.

VI. Other common market organizations

The reform envisaged covers some 75% of the Community's agricultural output in value terms of products subject to the common market organizations. The principal areas not covered at this stage are olive oil, sugar, fruit and vegetables, and wine. As regards these sectors, the Commission believes that it is not opportune to reopen debate where recent decisions have been taken, e.g. the comprehensive reform of the olive oil regime in 1990 and the sugar regime in 1991.

It is proposed to terminate the dried fodder aid regime — which has experienced uncontrolled expansion of production and a corresponding explosive increase in expenditure in recent years — at the end of the three-year implementation period for reform in the crops sector.

The Commission is also preparing a proposal for the adaption of the common market organization for wine which will be presented before the end of 1991. The technical complexities involved require that this proposal should be presented and examined separately. Pending the reform of the sector, the below-average level of recent harvests and the grubbing-up arrangements now in operation should keep expenditure under control.

As for fresh fruit and vegetables, the existing stabilizer arrangements involving intervention thresholds with the reduction in basic and buying-in prices in the event of the threshold being exceeded, have been successful in bringing production and expenditure under control. At this stage there are no substantive reasons for modifying the regimes.

The regimes for processed fruits and vegetables are also subject to stabilization mechanisms involving cuts in production aid where guaranteed thresholds are exceeded; in the case of processed tomatoes a quota system applies. The current arrangements have been successful also in their objectives and accordingly no changes are envisaged at this stage.

The Commission is aware that substantial changes in particular regimes can have unforeseen effects in other sectors and that in the interest of coherence it may be necessary at a later stage to propose changes in regimes not included in these proposals. This is an aspect that it will keep under continual review having regard to the development of negotiations on the reform.

VII. Management and control

The introduction, or extension in certain cases, of support arrangements linked to factors of production, e.g. size of holdings or numbers of livestock units, may require putting together a complex series of data with a good deal of administrative checking and on-the-spot controls. The same is true for any new instrument designed to control production at individual producer level.

This will require the reorganization of traditional means of paying aids, control and antifraud measures, in the interest of a more cost-effective approach and less 'red tape'.

It is the primary responsibility of each Member State to administer the aid arrangements properly and, taking account of its particular requirements, to take the necessary measures to apply Community rules effectively, while respecting the common criteria laid down.

As regards the detailed rules for applying and controlling the new aid arrangements, the Commission will limit itself to establishing those Community rules considered strictly necessary. It will be a matter for each Member State to adopt its own detailed administrative measures under Commission supervision.

The Commission intends also to take the necessary measures to update the statistical tools that are essential to put into effect the new aid arrangements. It considers also that in the interest of simplifying the approach, the detailed rules for the management and control of these aids should be regrouped under a single mechanism. In this context it would be appropriate to establish a register for each holding giving all essential data.

The Commission will also use all the means at its disposal to promote the use of new techniques such as data processing and satellite information.

Accompanying measures

While the reforms proposed will give rise to some readjustment, they should have an overall positive effect on rural areas. They are designed to ensure that economic and social cohesion is strengthened through fully safeguarding the position of the vast majority of farmers. At the same time the very substantial compensation for price and quota reductions should minimize the burden for the other farmers concerned. The reform measures envisaged should also improve the standard of land-use and land conservation and ensure a balanced development of the countryside.

The longer-term problems of rural communities require an active and integrated rural development policy. A thriving agricultural sector is an integral part of rural development. But an effective rural development policy has to integrate wider objectives in particular those of reorienting rural economies towards new economic activities on and off the farm.

The forthcoming mid-term review of the Community's structural policies will provide an opportunity and a framework for a review of rural development policies.

Under these circumstances the Commission proposes to limit the accompanying proposals to three key measures complementary to the changes proposed in the market organizations and which offer special opportunities for rural development.

These concern a specific environmental action programme in agriculture, an enhanced programme for the afforestation of agricultural land and more attractive early retirement incentives. If the objectives of these programmes are to be achieved, it is essential that the additional resources to be provided by the Community result in supplementary action and expenditure at Member State level. Hence the rules of additionality, as laid down for the structural Funds, should apply.

As regards the financial resources to be made available, the Commission will ensure a balanced response to the programmes presented by the Member States and regions as appropriate. In this it will take account of the gravity of the problems in the areas concerned and the quality of the programmes. It will be necessary to ensure also in respect of Objective 1 and 5b areas, the coherence of the new measures with existing actions in these sectors and that the new resources are additional to the allocations available from Community support frameworks.

As regards rates of Community cofinancing, it would be the intention to provide for a basic rate of 50% with a higher rate of 75% applicable in respect of regions covered by Objective 1 of the structural Funds.

I. Agri-environmental action programme

A. Background

1. Farming takes up more than half the land area of the Community (80% if forests are included). In its Reflections Paper the Commission emphasized that the farmers' role in the protection of the rural environment and management of the landscape should be recognized more fully and remunerated accordingly. This is the basis for the agri-environmental action programme to be proposed.

B. Proposal

1. A system of aids will be provided to encourage farmers to use production methods with low risks of pollution and damage to the environment. This would involve a significant reduction in the use of potentially polluting inputs (fertilizers, pesticides and herbicides) in the case of crop production. In the case of livestock farming, reduction of numbers would be sought where damage is being caused by the overstocking of sheep and cattle.

Participating farmers would undertake to respect constraints in their farming methods and would be paid compensation in return for the associated losses. The constraints would be determined in the light of the different environmental situations and the particular needs of each region or zone concerned.

The maximum amount for Community cofinancing would be limited to ECU 250/ha in the case of arable crops and ECU 210 per LU where a reduction in numbers is achieved.

2. A system of aids will be set up to promote environmentally friendly management of farmed land in order to conserve or re-establish the diversity and quality of the natural environment (scenery, flora and fauna).

Under these arrangements farmers would receive aids where they undertook to desist from practices harmful to the environment (e.g. drainage, irrigation, ploughing up meadows, etc.) or where they replaced former natural features whose removal has been detrimental to the environment generally, e.g. for wildlife. Aid would apply also where farmers undertook to farm extensively on areas of low value in agricultural terms. The maximum eligible amount for Community cofinancing would be ECU 250/ha in the case of annual crops and pastureland.

3. Finally, an aid system will be established to ensure the environmental upkeep of abandoned agricultural land by farmers and non-farmers living in rural areas. This would consist of a flat-rate per-hectare aid paid annually. The maximum eligible amount for Community cofinancing would be ECU 250/ha.

4. The new arrangements would be managed within the framework of pluriannual programmes negotiated between Member States and the Commission. These programmes would define the measures required in the areas concerned, the amount and modulation of the premiums, conditions to be met by beneficiaries, and control procedures. The level of the various aids would be fixed within the programmes so as to be attractive in the regions or zones concerned. The aids proposed would be in the framework of contractual arrangements between farmers and recognized authorities.

5. The agri-environmental action programme will be completed by a provision allowing the set-aside of agricultural land on a long-term basis (20 years) for environmental purposes. Land set aside could be used for example to constitute a conservation reserve, for the creation of biotopes and/or small natural parks etc. In addition to the existing set-aside premium (maximum amount eligible for Community financing ECU 600), a premium additional to that for set-aside of a maximum ECU 100 per hectare (for Community financing) would be granted for maintaining the land in sound environmental condition.

II. Afforestation of agricultural land

A. Background

The Community has a considerable deficit in wood and wood products and the importance of forestry for land-use and the environment is well recognized. Experience of afforestation of agricultural land by farmers suggests that the existing aids for investment and for the compensation of the income loss pending maturity of forests are too low.

B. Proposal

1. The maximum grant for the purpose of EAGGF reimbursement of afforestation costs will be increased from ECU 1 800 per hectare to ECU 2 000 per hectare for conifers and ECU 4 000 per hectare for broad-leaved trees.

2. Apart from private individuals and associations, public authorities will be eligible for afforestation aid.

3. Aid at a maximum eligible amount of ECU 950 per hectare over five years (ECU 1 900 in the case of broad-leaved trees) will be made available for the management of new plantations on farm holdings.

4. The maximum eligible amount of the annual forestry premium of ECU 150 per hectare which compensates for the loss of income foregone by farmers pending maturity of the trees, will be increased to the level of the existing set-aside premium for comparable land in the same region (maximum eligible amount ECU 600 per hectare). The premium will be payable over a maximum period of 20 years.

5. An annual premium of ECU 150 per hectare will be payable for a period of 20 years to private individuals living in rural areas other than farmers who afforest agricultural land. This is to compensate them for part of the costs associated with their investment in forestry.

C. Evaluation

In many cases agricultural land available and suitable for afforestation is not being planted as landowners are reluctant to incur the afforestation costs involved. There is a need also to avoid the abandonment of agricultural land with attendant risks of erosion and deterioration of landscapes. In these circumstances the Commission is proposing an improvement of existing incentives with the intention of promoting afforestation on a sound ecological basis and improving the rural environment. At the same time the new measures will provide an important source of diversified income for farmers and will reduce the Community's deficit in wood in due course.

III. Structural improvement through early retirement

A. Background

1. The agricultural sector faces substantial difficulties as regards changing traditional attitudes and developing new opportunities which will enable rural communities to survive and prosper. The above average age structure of the farming population poses a special problem. About two million farmers are over 65 years old and over two and a half million are between 55 and 65 years old. Half of these farmers have no successors.

Two in three of the 4.6 million farmers over 55 years of age have less than 5 ha.

2. The economic viability of many small farms is under continual threat, and the scope for availing of extra aids, e.g. through extensifying production and for other environmentally friendly practices, is limited. This has led the Commission to propose the revision of the existing early retirement arrangements.

B. Proposal

1. In the new scheme — which will be compulsory for the Member States — all full-time farmers aged 55 years or more and not yet in receipt of a pension can benefit. The land made available by farmers must be used:

(a) by their successors or other farmers to increase the area farmed with a view to improving the production structure and ensuring economic viability;

(b) for non-agricultural purposes where restructuring is not possible.

In the case of the abandonment of land by farmers opting for early retirement premiums, local authorities would be encouraged to maintain the land in an ecologically sound condition. For this purpose, aid would be available to use the land as a conservation reserve, for the creation of biotopes or small natural parks, or for afforestation depending on the local situation and needs. As a minimum the land should be subject to simple maintenance. Financial assistance would be granted for these purposes under the Community's agri-environmental action programme, and under the afforestation programme.

2. The maximum eligible amount (which may be supplemented by national payments), to be paid for early retirement will comprise a fixed element of ECU 4 000 which will guarantee a minimum income and a variable element of ECU 250 per hectare subject to a maximum total eligible amount per beneficiary of ECU 10 000 per year.

3. The new early retirement scheme will be managed in the context of pluriannual programmes negotiated between the Commission and the Member States. This should allow for maximum flexibility with regard to national and regional situations which may vary greatly. In this context, in the interests of an effective scheme the Commission will seek to ensure that the availability of Community-financed, early retirement pensions will not lead to the withdrawal or reduction of national social security payments that would otherwise continue to be payable.

4. Agricultural workers will be eligible also for early retirement pensions at the fixed rates in accordance with the terms of existing schemes.

5. In order to ensure the smooth operation of the new arrangements, the creation of information and coordination networks will be provided at local level. Aids will be available on a degressive basis for the launching of suitable agencies.

C. Comments

1. The attractive rates of aid and the flexibility in the new scheme should accelerate the adaptation and the improvement of agricultural structures and increase the economic viability of holdings. This should apply especially in regions which suffer from considerable structural handicaps due to small farm size and a high proportion of older farmers.

2. A major difficulty in previous early retirement schemes arose from the sudden fall in income at the time of transition from a favourable Community

regime to a financially less-attractive national pension scheme. The earlier schemes suffered also from a tendency by national administrations to reduce social security arrangements once Community aids became available. By managing the early retirement scheme by way of multiannual operational programmes, sufficient flexibility should exist to overcome such problems.

Budgetary implications

Any pluriannual estimate of future spending in agriculture has to be made with caution. Many unpredictable elements internally and externally including the ecu/dollar rate, will affect expenditure over the period of reform. A major change of direction for the policy involving fundamental adaptation of existing mechanisms adds greatly to the difficulty of accurate forecasting.

When the measures proposed are fully in effect the estimated additional expenditure in the market sectors, compared to that provided for in the preliminary draft budget for 1992, is of some ECU 2 300 million annually, which would be some ECU 1 000 million less than the agricultural guideline assuming continuation over the next five years of recent trends in the development of GNP, i.e. an average annual increase of some 2.5%.

As for the accompanying measures, the budgetary envelope required over the five-year period (1993-97) is of some ECU 4 000 million. The environmental programme and the early retirement programme would cost some ECU 1 800 million each and the forestry measures some ECU 300 million.

The Commission is of the view that, given the close complementarity of these accompanying measures with the new market mechanisms, and in the interest of not prejudicing the resources and actions to be financed for the purpose of the next phase of the structural Funds, there are arguments for meeting the budgetary costs of the accompanying measures from other than traditional budget chapters. This aspect will be considered further in the context of the Commission's proposals on the Community's financial and budgetary arrangements after 1992.

The Commission considers the extra costs to be well justified and that, in the context of these proposals and taking into account German unification, an increase in the base of the agricultural guideline of some ECU 1 500 million is warranted.

Illustration of the calculation of the Community reference amount for the oilseeds aid and of its regionalization

Reference amount

Expected world market price for cereals:	ECU 100/t
Cereals compensatory payment:	ECU 55/t
Equivalent EC cereal price:	100 + 55 = ECU 155/t
Equilibrium price relationship:	2.1 to 1
Equivalent EC oilseeds price:	155 × 2.1 = ECU 325.5/t
Estimated world market price for oilseeds:	ECU 163 t
Oilseeds compensatory payment:	325.5 − 163 = ECU 162.5/t
EC average yield for oilseeds:	2.36 t/ha
Oilseeds reference aid:	162.5 × 2.36 = ECU 383.5/ha

Regionalization

Average EC cereals yield:	4.6 t/ha
Regional cereals yield:	5 t/ha
Oilseeds aid =	$\frac{383.5 \times 5}{4.6}$ = ECU 416.8/ha

Annex II

Definition of small producers up to the equivalent of 92 tonnes of cereals

(a) In a region where the average cereals yield is equal to the Community average of 4.6 t/ha, a small producer would have 20 ha or less of cereals, oilseeds and protein crops; the regional per-hectare compensatory aid in this region would also be equal to the Community average (ECU 253/ha);

(b) in a region where the average yield is estimated at half the Community average, i.e. 2.3 t/ha, a producer with 40 ha or less of cereals, oilseeds and protein crops would be considered to be a small producer of these crops; the regional compensatory aid in this region would be ECU 126.5/ha.

Summary of the financial implications of the reform of the market organizations

(12 months — reform completed)

(million ECU)

I. *Cereals, oilseeds and protein crops*	
Expenditure	
(a) Aid per hectare for area under crops	+ 13 122
(b) Compensation for set-aside	+ 841
Subtotal	+ 13 963
Savings	
(a) Current expenditure (amending letter 1992)	− 10 505
Net cost	+ 3 458
Knock-on effects in other sectors	
(a) Reduction of 10% in institutional prices for dairy products and beef	
• dairy products [1]	− 880
• beef	− 520
(b) Withdrawal of refunds for products processed from cereals	
• pigmeat	− 193
• eggs and poultry	− 259
• non-Annex II (cereals section)	− 250
(c) Additional expenditure on sheepmeat (estimated 10% reduction in market price)	+ 340
Subtotal	− 1 762
Total for heading I (rounded off)	+ *1 700*

(million ECU)

II. *Milk*	
(a) Quota reduction of 3%	– 510
(b) Compensation for 4% of quotas in the form of:	
• a cessation scheme for producers producing up to 200 000 kg (ECU 170/t for three years)	
• compensation (ECU 50/t for 10 years) (calculation made for fourth year of payment)	+ 355
(c) Cessation with redistribution applicable for fourth year of reform	p.m.
(d) Dairy cow premium (ECU 75 per cow for all cows on holdings producing less than 24 000 kg and for the first 40 cows on each holding observing a stocking rate of 1.4 LU/ha of forage in the less-favoured areas and 2 LU/ha of forage in other areas)	+ 1 370
(e) Withdrawal of basic co-responsibility levy	+ 280
(f) Additional expenditure in the beef sector following the slaughter of dairy cows	+ (450) [2]
Total for heading II	+ *1 495*
III. *Beef*	
(a) Additional institutional price reduction of 5%	– 260
(b) Reduction of 125 000 t in the quantity bought in to intervention following the introduction of a processing premium for young calves	– 240
(c) Adjustment of the suckler cow premium (ECU 75 per cow for the first 90 cows on each holding observing a stocking rate of 1.4 LU/ha of forage in the less-favoured areas and 2 LU/ha of forage in other areas)	+ 320
(d) Adjustment of the special premium (ECU 60 per animal per year for the first 90 male bovines on holdings observing a stocking rate of 1.4 LU/ha of forage in the less-favoured areas and 2 LU/ha of forage in other areas)	+ 460
(e) Premiums for the processing of young calves from dairy herds (ECU 100/head, estimate 500 000 calves)	+ 60
Total for heading III	+ *340*

(million ECU)

IV. *Sheepmeat*	
(a) Limit on premium based on reference flock (ewes eligible in 1990)	– 70
(b) Payment of premium limited to 750 ewes in the less-favoured areas and 350 ewes in the other areas	– 330
Total for heading IV	– *400*
V. *Tobacco*	
(a) Introduction of quota	– 218
(b) Discontinuance of intervention	– 136
(c) Discontinuance of refunds	– 64
(d) Conversion measures	– (29) [3]
Total for heading V (rounded off)	– *420*
VI. *Withdrawal of aid for dried fodder*	– *415*
Grand total EAGGF Guarantee Section (rounded off)	**+ 2 300**

NB: (+) increase in expenditure;
(–) reduction in expenditure.

1 Including: reduction in intervention price for butter: 15%;
reduction in intervention price for skimmed-milk powder: 5%;

2 This expenditure will be incurred in the financial years immediately following the reform. For that reason the total has not been aggregated since the present financial implications are for the 12-month period following the completion of the reform.

3 This expenditure will be incurred in the first three financial years immediately following the reform. For that reason the total has not been aggregated since the present financial implications are for the 12-month period following the completion of the reform.

CAP reform — Accompanying measures

	1993	1994	1995	1996	1997	Total (five years)
Early retirement						
EAGGF contribution	29	183	411	542	635	1 800
Member States' contribution	23	146	323	427	502	1 421
Environment						
EAGGF contribution						
(a) Input reduction/organic farming/extensification	5	22	45	73	111	256
(b) Environmentally friendly farming	16	66	134	216	330	762
(c) Countryside maintenance [1]	18	77	156	252	385	888
(d) Afforestation [2]	40	45	52	65	83	285
(e) Total	79	210	387	606	909	2 191
Member States' contribution	65	172	317	496	744	1 794
Total EAGGF cost	108	393	798	1 148	1 544	3 991

1 Including land abandoned by farmers taking early retirement (estimated at ECU 16 million in 1997).
2 Of agricultural land.

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