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THE FUTURE OF EUROPEAN AGRICULTURE: E.C. COMMISSION OUTLINES OPTIONS

The Common Agricultural Policy (CAP) is a cornerstone of the European Community's efforts to build a united and prosperous Europe. By removing national barriers to farm trade and establishing a system of market and price guarantees, the CAP has brought stability and productivity to European agriculture.

However, the CAP is now at a turning point. Its very success in increasing food production has created a new challenge for European policymakers: how to insure a fair standard of living for the agricultural population at a time when the supply of E.C. farm goods outstrips demand--on both Community and world markets.

A new E.C. Commission "green paper" (discussion paper) explains that under the old model of agricultural policy, European farmers could for the most part increase their incomes by producing an unlimited amount of goods at guaranteed prices. "It is now widely accepted," the paper states, "that agriculture which does not produce for the market--that is, with a view to the domestic and external outlets--is agriculture which has no long-term prospects."

Soon after the new Commission took office in January, it decided to promote a dialogue aimed at defining European agriculture's future prospects. Farmers, the Commission said, need a stable and well-defined framework in which they can make medium- and long-term plans.

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The green paper outlines options for the future development of E.C. farm programs, focusing on such issues as price policies, external trade, outlets for agricultural products, the environment and income aids. It reflects the Commission's view that the CAP must adapt to changing economic and technical conditions, while remaining faithful to its founding principles.

The Community since 1981 has adopted a number of measures, including production quotas and price-support restrictions, designed to make the CAP more market-oriented. It must now create the economic, social and political conditions under which such reforms can be successful, the green paper says.

The Commission supports a reform policy that recognizes the value to the E.C. of maintaining a substantial number of farm workers—to preserve the rural social fabric, conserve the environment and protect the centuries-old landscape. "Agriculture on the model of the U.S.A., with vast spaces of land and few farmers, is neither possible nor desirable in European conditions, in which the basic concept remains the family farm," the green paper states. The challenge facing the Community is how to support a large number of farms without wasting financial resources.

The Commission has invited other E.C. institutions and organizations to participate in the debate over the CAP, which will require "political courage and realism." It said it will consider all viewpoints before it presents its conclusions at the end of 1985.

A summary of the Commission's green paper follows.

AGRICULTURAL POLICY AT A TURNING POINT

The objectives of the CAP as established in the E.C.'s 1957 founding Treaty of Rome—to increase productivity by promoting technical progress and rational farm production, to insure a fair standard of living for farmers, to stabilize markets, to guarantee food supplies, to provide food at reasonable prices—are still valid. But they must be adapted to modern conditions.

The CAP's economic objectives have in many respects been achieved—European agriculture has modernized, food supplies are secure, and consumer prices are reasonable. However, productivity increases have led to surpluses whose disposal costs strain the Community budget and jeopardize the CAP's ability to insure a fair agricultural standard of living.

Real farm incomes have not kept pace with incomes in the rest of the European economy. Yet over the last 10 years, Community real spending on agriculture grew on average by some 7 percent a year—compared with a 2 percent annual increase in the gross domestic product.

"It is clear that Community expenditure on agriculture cannot grow at rates comparable with those in the past," the paper states.

Traditionally, the Community has been able to export an increasing proportion of its agricultural output. Further export increases are possible, but not necessarily for the same products, or at the same rate as in recent years. Demand in the industrialized world is growing slowly, while demand in less developed countries will depend on their economic growth and capacity to pay.

Even if world markets showed more promise, there are risks involved with further intensification of competition for those markets. Many countries that imported food in the past, such as India and China, are beginning to develop their own agricultural potential.

The Community must make considerable efforts to restrain its agricultural spending, but in a way that does not cause grave political stress. That could lead to a "renationalization" of agriculture, with individual member states increasing their farm aids or setting up protectionist barriers.

AGRICULTURE IN THE ECONOMY

The relative economic importance of agriculture has declined over the last decade, along with that of industry. Agricultural employment in the Community fell by some 60 percent between 1960 and 1983.

The Community and its member states have provided substantial support to maintain the incomes of the agricultural population. Studies show that subsidies represent about 20 percent of the value of total E.C. agricultural production.

The family unit is the main source of E.C. farm labor; in 1979-80, only 1 million of 14 million farm workers were non-family workers. There is considerable need for structural development in the Community. Farm holdings are generally small (60 percent have less than 25 acres), and more than half of them absorb the equivalent of less than one fulltime worker. Agricultural unemployment is widespread, especially in Italy and Greece.

ENLARGEMENT

When Spain and Portugal join the Community in 1986, the number of Community farm holdings will increase by 50 percent, the working farm population by 35 percent. Because productivity is relatively low in the two countries, however, the immediate increase in farm output will be only 13 percent. Spain and Portugal are not yet at the same level of economic development as the E.C.'s present members, partly because their farm sectors are much

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larger and less efficient. However, they are efficient producers of Mediterranean products (citrus, olive oil, tomatoes), so enlargement will reduce the Community's agricultural trade deficit from 23.6 billion to 16.6 billion European Currency Units.*

PRICE POLICY

The Community each year sets common minimum prices for a major part of its agricultural production. When market prices fall below the minimum, the Community may intervene—by purchasing farm goods at a guaranteed price, or by offering storage or distillation aids, depending on the product involved.

The Commission has emphasized that a strict price policy—including price cuts, if necessary—is required to make the CAP more responsive to supply and demand conditions. It must give a clear message to producers, and balance the influence of technical progress on production.

Until the early 1970's, average annual price increases in the Community were below inflation rates. From 1972 to 1977, real prices as expressed in national currencies increased by 2.5 percent annually. This, combined with technical progress, created an incentive to produce, which placed an increasing burden on the E.C. budget. In response, price policies became stricter from 1977 to 1981.

Pressure on farm incomes, as well as a healthier E.C. budget, led to less restrictive measures from 1981 to 1984. The resulting production increases sparked a financial crisis, and the Community again restrained prices. It held average price increases for the 1984-85 crop year below the anticipated inflation rate, and it froze or cut most 1985-86 prices, imposing a controversial reduction in most grain prices.

Because there may be a time lag of several years before it shows its full impact, a market-oriented price policy must be pursued consistently over a long period. The Community will have to respond, however, to the consequences of that approach on agricultural incomes and employment.

GRAIN

The Commission urges the Community to pay special attention to reforming the grain sector. New varieties and techniques have led to higher production and growing surpluses, particularly of soft wheat. If present trends continue, the record 1984 E.C. grain harvest (155 million metric tons) could be a normal yield by 1990.

The Commission favors a price policy that brings European grain prices into line with those of competitors on world markets. Other options include

*ECU= \$.76 on Sept. 10, 1985

confining E.C. intervention buying to the end of the season, restrictions on price guarantees, levies on grain farmers, a regulatory cereals board, income aids for vulnerable producers, production quotas and land diversion.

ALTERNATIVE PRODUCTION

Farmers of surplus products should be encouraged to seek out alternative products. For example, oilseeds, protein crops (such as bitter lupins and cuphea) and wood crops could replace grain. Almonds, hazelnuts, carobs and pistachio nuts could replace fruit and olives. The Community should strengthen research and counseling services in this area, and consider providing financial incentives for the farming, processing and marketing of alternative products.

DIVERSIFICATION OF OUTLETS

Promoting new uses for agricultural products is an important ingredient of any plan for the CAP's future. The Commission has suggested, for example, that farmers could help to develop new sources of energy, particularly bioethanol.

The Community should also take advantage of the potential industrial demand for sugar and starch, which is expected to increase significantly in the coming years, partly as a result of recent advances in biotechnology.

EXTERNAL TRADE

The Community is playing an expanding role in world agricultural trade. It has a good chance of participating in any growth in world markets if it conducts its export policy on a sound economic basis.

The Commission's examination of potential adjustments to the E.C.'s external trade arrangements is based on the assumption that the Community will maintain: its position on world markets, its system of import levies and export refunds, and its philosophy of "Community preference" on the internal market.

Exports. The Community is the major world exporter of dairy products and beef, the second-largest exporter of cereals and sugar, and a leading exporter of wine, spirited beverages and processed products. But it is operating under an export policy established at a time when it was a net importer of most farm products.

Under this system, exporters are refunded the difference between the Community's market price and the world market price. The price gap remains almost entirely a charge on the Community budget. This isolates E.C. producers from price movements on world markets that could influence production.

As new export surpluses emerge or old ones increase, the producers may have to bear a greater share of the costs involved. The Community has already begun to implement this philosophy. Beet growers and processors, for example, pay for disposing of surplus sugar. Grains, milk, tomato concentrates and other products are subject to guarantee thresholds (restrictions on the volume for which farmers receive guaranteed prices), which allows the supply/demand relationship to have some influence.

The Community could amend its export mechanisms in two ways:

--Production beyond a specified quota could be exported at world market prices, with no refund; or the producer could pay a levy to cover part or all of the refund costs;

--In the longer term, support prices could be fixed at a level close to those of other exporting countries.

Imports. The Community protects its staple farm products by applying variable levies to bring the price of imports up to the internal E.C. level. It negotiated this arrangement 20 years ago within the General Agreement on Tariffs and Trade (GATT), agreeing to offset this protection by "binding" other imports, including vegetable fats, vegetable proteins and certain livestock feedstuffs, at low or zero tariffs.

This situation has had two consequences:

--The E.C. has had to subsidize farmers of unprotected products;

--Imports of the "bound" products, particularly various animal feeds, have expanded considerably because of their price advantage. This has discouraged the use of Community grain in animal feed, and has led to surpluses of livestock goods, particularly milk and beef, which are then forced on the world market.

One approach to this problem would be to change the mix of import protection, lowering tariffs on some products, increasing them for others. This would involve difficult international negotiations, however, because raising tariffs on some of the "bound" products could harm certain trading partners who would not benefit from tariff reductions the Community could offer in return.

AGRICULTURE AND THE ENVIRONMENT

With two-thirds of the Community's land devoted to farming, agriculture plays an important role in conserving the rural environment.

The Community should consider adopting measures to restrict agricultural practices that harm the environment, such as standards for the use of pesticides and chemical fertilizers. Farmers should also be encouraged to practice conservation measures.

In addition, land could be purchased or leased by local authorities for ecological purposes, such as recreation or nature and wildlife preserves. Farmers could be invited to stay on the land to manage it according to its new function. Some estimates suggest that up to 10 percent of the Community's agricultural area could be used in this way.

REGIONAL ECONOMIC DEVELOPMENT

The Community will have to explore all possibilities for creating new employment in problem farming regions within the next 10 to 15 years. This employment could take two forms:

--Jobs allowing the family to stay on the farm, either supplementing part-time farming with other activities, such as tourism or handicrafts, or using their land entirely for non-agricultural purposes, such as holiday camps, parks or golf courses.

--Fulltime work outside of agriculture--in small and medium-sized businesses, craft industries or tourism.

Regional development programs should be integrated, multisectoral efforts involving close cooperation between the Community, the member states and the regions concerned. They should be targeted not at agriculture alone, but at the economy as a whole.

Regional development will require a significant amount of public expenditure during the take-off phase for economic incentives, training and reconversion schemes and infrastructure, but it is the most rational solution in the long run.

INCOME AIDS

CAP reforms must take account of regions where the possibilities for creating alternative jobs are limited or too costly, or where agriculture is needed to protect the countryside and maintain the basic economic and social structure. Direct income aids could be considered for these situations, in the following forms:

--Early retirement pensions;

--Temporary assistance to fulltime farmers whose farms will be viable in the long run, but who are facing immediate economic problems;

--Assistance to poor farmers who have no alternative employment possibilities;

--Assistance to farmers who agree to abandon farming or to stop producing surplus, or heavily supported, products.

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