

# EUROPEAN BACKGROUND INFORMATION COMMUNITY

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BACKGROUND NOTE/AGRICULTURAL

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## THE EUROPEAN COMMUNITY'S COMMON AGRICULTURAL POLICY -- A BALANCE SHEET

*Washington, D.C.* -- After 10 years, the European Community's common agricultural policy (CAP) has done many of its original jobs well but still needs some improvements.

This was the conclusion of the EC Commission's "balance sheet" on the CAP's first 10 years, submitted to the Council of Ministers and the European Parliament February 26. The document evaluates the CAP step-by-step, weighs the effectiveness of the CAP's policy instruments, and suggests some improvements.

The Community has considered the CAP central to the European political and economic integration process, and the CAP's development has consistently molded long-term strategy. The EC Commission considers that the CAP has consistently adapted both its goals and its means to the political, economic, and social realities of a developing European Community. Most recently, the CAP adapted to world market changes and to the Community's new dimensions after the United Kingdom, Ireland, and Denmark became members on January 1, 1973.

### Positive Findings

The CAP has protected the Community's supply of farm goods, the Commission noted. The Community produces most of the agricultural goods it consumes and is highly dependent on imports only of animal feedstuffs. The CAP has managed to maintain reasonable consumer prices. In 1974, for example, food prices in the original six Community countries increased by only 10.4 per cent, as compared to rises of 14.6 per cent in the United States and 29 per cent in Japan.

The CAP has helped maintain stable markets. As a result, between 1968 and 1974, Community market prices fluctuated much less than did prices on the world market or in the United States. For common wheat, price rises averaged 3 per cent in the Community, 11 per cent on the world market, and 13 per cent in the United States during that time period.

The Community has helped alleviate world hunger by providing food aid of nearly 550 million units of account (UA) in 1968-74. (One UA equals \$1.20635 at current rates.) Since 1967, the Community has increased its distribution of food aid, although world food aid was not an original CAP goal.

The CAP has fostered the growth of world farm trade. Between 1963 and 1972 in the original six Community countries, the index of farm imports from non-member countries rose from 100 to 150, and of farm exports to non-member countries from 100 to 200. During the same period, the world agricultural trade index rose from 100 to 159 (excluding trade between the six EC countries).

### Areas for Improvement

Despite the CAP's proven effectiveness, the Commission did find some flaws:

1) *The CAP has not achieved a single market for all agricultural goods.*

The preconditions for a single market -- the removal of all trade barriers and the specialization of various agricultural regions -- were not met. The Commission attributed this setback to the delay in structural reform and to pricing problems. Competition distortions, resulting from restrictive national laws, have interfered with free movement of goods and best use of resources.

The Commission thought monetary "compensatory amounts" the greatest obstacle to the unity of the common agricultural market. Compensatory amounts reintroduce different price levels in the member states, benefiting farmers and penalizing consumers in countries which revalue their currencies. This mechanism distorts competition.

2) *The CAP has not increased productivity to the utmost.*

The presence of too many small, "marginal" farms has prevented the use of large scale production techniques and has kept output down, according to the Commission. The Commission plans to improve agricultural structures and to give special aid to backward regions. The Commission directive on farm modernization should help increase productivity by encouraging farmers to keep accounts, giving a push to farm development, and putting the preferential system into operation in order to reallocate land which was formerly part of marginal farms. Measures will also be taken to encourage young people to stay in the agricultural sector and to provide further training for farmers and potential farmers.

3) *The CAP has not eliminated differences in farm and industrial income.*

Incomes in the agricultural sector have increased, but more slowly than incomes in other sectors of the economy. Farm incomes themselves varied not only from one member state to another, but also in different parts of the same country. The Commission attributed these variations to structural differences in farming and noted that many agricultural income problems cannot be solved by the CAP alone. Increasing vocational training opportunities for farmers is a main feature of the Commission's plans to alleviate income discrepancies.

4) *The CAP did not achieve optimum harmonious development of world trade.*

The Commission found that solutions were needed for the problem of the disposal of agricultural surpluses on the world market. The report also cited a need for greater diversification of supply sources to assure delivery of certain products, and a need for accurate methods of analysis and forecasting to improve the management of markets.

5) *The CAP did not specifically provide for environmental protection.*

The CAP should give attention to mitigating damage to farmland from the use of certain fertilizers and pesticides and other potentially soil-impoverishing modern farming aids.

#### Response to Criticism of the CAP Financing Mechanism

Responding to criticism that the CAP cost too much and was prone to fraud, the Commission emphasized that the CAP cost averages only 0.4 per cent of the Community's gross domestic product. Fraud was relatively infrequent, the Commission noted, and stressed that the member states should assume greater individual responsibility for preventing, tracing, and repressing such activity.

The report said that a "budgetary dashboard" could be set up to assess the budgetary impact of certain decisions in the agricultural sector. The dashboard would also allow the respect of budgets. The Commission pictures a mechanism for the "automatic" updating of budgetary estimates, the inclusion of provisions for price rises, and, if necessary, supplementary budgetary procedures linked to price decisions for individual cases.

CORRIGENDUM

Background Note No. 10/75, "Way Cleared for British Referendum on Community Membership," page 2, line 17, should read: "...agreements, serves to protect the interests of Commonwealth and developing countries."