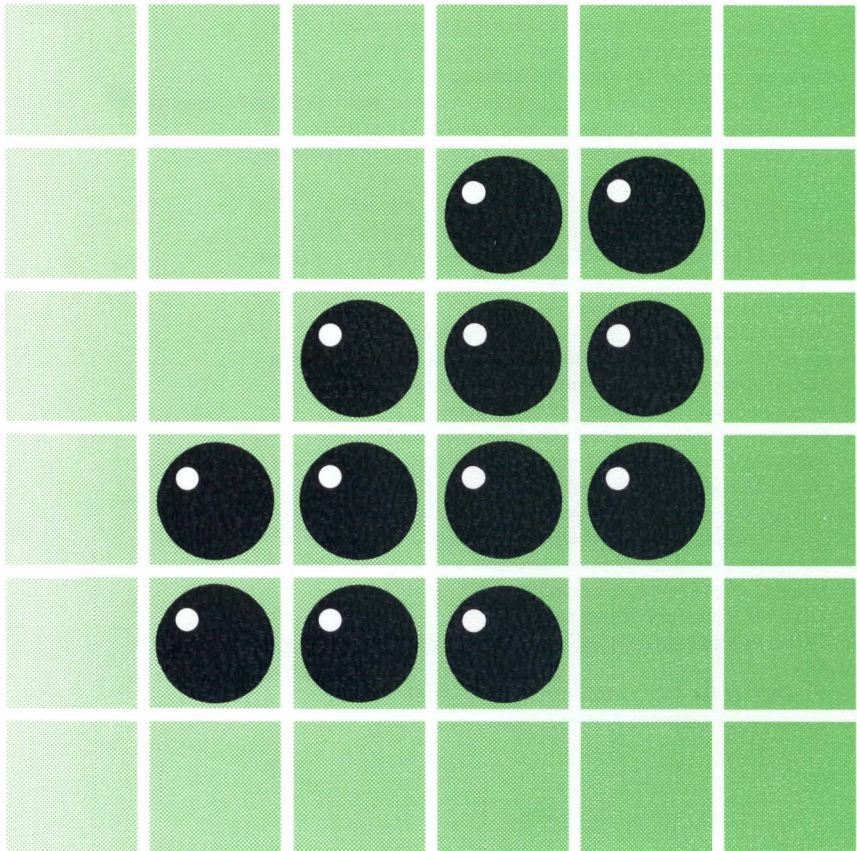


# THE COMMON AGRICULTURAL POLICY AND ITS REFORM



# **The common agricultural policy and its reform**

*Fourth edition*

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# Foreword

The reform of the Community's agricultural policy has become a burning public issue. Twenty-five years after its inception, the difficulties now besetting the policy require changes to be made. The permanent surpluses of the main items, the rising cost of market support and the continuing disparities within European agriculture, in a Community now of Twelve, means that solutions must be found and must be found quickly. Without such solutions, it is not only the CAP but also European integration as a whole which could be threatened.

How has this come about? What assessment can be made of the impact of the policy, with its gains and losses? What is the outlook for agriculture in the Community? What form and shape will the policy have in future years? These are all questions to which this booklet attempts to provide answers.

The starting point of this analysis is the end of the 1950s, at the beginning of the Community itself. At that time, the 'founding fathers' of Europe decided, rightly and irrevocably, to include agriculture in the economic activities that should be covered by the future common market. Their choice led to the setting up of the common agricultural policy. Its machinery — varied, specific and sometimes complex — and its operation are described in the following chapters. The final part of this document is devoted to an examination of the results of a quarter of a century of this policy and to the key aspects of the reform that has now started.

# **Introduction — Towards a common agricultural policy — The reasons and the background**

## *I — Why is an agricultural policy necessary?*

### **An economic sector of strategic importance**

Farming is one of the most ancient of human activities. Its products, which are mainly destined for human consumption are vitally important. This is the reason why communities have always striven to develop and safeguard their agricultural production. The primary objective is to cover the highest possible proportion of food requirements from one's own resources, in order to reduce external dependence and to forestall the risk of shortages. This does not exclude trade in food with other countries, but such trade must be balanced and not lead to one-sided trade or critical dependence. Agricultural policy should, therefore, be seen as a precaution — and as a contribution to the security of the Community.

### **An economic sector with special conditions of production**

Despite all the technical and biological progress achieved, particularly in the last few decades, most agricultural production continues to depend to a large extent on natural conditions such as the nature of the soil and the climate. For this reason output of some products fluctuates widely from year to year, and the risk is increased by diseases and pests. While supply fluctuates in this way, demand, at least in most of today's developed nations remains virtually constant. Without some sort of control the result would be wide variations in consumer prices and unsatisfactory incomes for farmers. One of the functions of an agricultural policy is, therefore, to regulate prices and marketing in order to achieve the stability which is in the interests of all concerned.

### **A contribution to the protection of the environment**

Agriculture not only produces food or raw materials such as wool, cotton or flax, but it can also make an important contribution to the preservation of the count-

TABLE I  
Community agriculture in 1980

Aggregates	Unit	B	DK	D	GR	F	IRL	I	L	NL	UK
Share of agriculture in GDP	%	2.3	4.4	2.0	15	4.2	13.7 <sup>1</sup>	7.5 <sup>1</sup>	2.8 <sup>1</sup>	3.7 <sup>1</sup>	2.1
Number of people working in agriculture, forestry and fisheries	1 000	112	208 <sup>1</sup>	1 518	1 016	1 871	220	2 925	10	230	637
Proportion of the working population engaged in agriculture	%	3	8.3	6	30.3	8.8	19.2	14.2	6.6	4.6	2.6
Number of farms of more than 1 ha	1 000	91	116	797	732	1 135	225	2 192	5	129	249
Proportion of farms of less than 10 ha	%	48	29	51	92	35	32	86	30	44	24
Average utilized agricultural area (UAA) per farm	ha	15.4	25.0	15.2	4.3	25.4	22.5	7.4	27.6	15.6	68.7
Livestock numbers per owner											
— all cattle	number	37	45	27	5	33	32	13	56	57	75
— dairy cows		17	23	12	—	14	14	6	21	32	53
— fattening pigs		116	127	41	13	30	114	9	44	205	225

<sup>1</sup> Figures for 1979.



TABLE 2  
Community agriculture in 1984

Aggregates	Units	B	DK	D	GR	E	F	IRL	I	L	NL	P	UK	EUR 12
Utilized agricultural area (UAA)	m ha	1.4	2.8	12.1	9.2	27.3	31.6	5.6	18	0.1	2.0	4.4	18.7	132.9
Value of final production of agriculture <sup>1</sup>	m ECU	5 027	6 706	28 144	8 040	15 725	39 991	3 905	32 893	158	13 736	2 188	20 203	176 716
Share of agriculture in GDP <sup>1</sup>	%	2.6	4.7	1.8	16.5	5.9	4.0	10.7	6.4	3.1	4.4	6.5	2.1	3.7
Employment in agriculture, forestry, hunting and fishing	1 000	106	205	1 370	1 028	1 947	1 659	182	2 426	7	248	975	622	10 775
Share in total civilian employment	%	2.6	7.4	5.1	27.0	17.9	7.1	14.0	10.6	4.5	4.6	23.1	2.3	8.8
Number of agricultural holdings <sup>2</sup>	1 000	103	99	768	959	2 213	1 130	221	2 832	5	138	782	262	9 512
Utilized agricultural area per holding (average) <sup>2</sup>	ha	13.6	28.8	15.5	3.6	10.7	25.5	22.8	5.6	27.9	14.5	5.6	64.5	12.5
Share of food expenditure in all household consumer expenditure <sup>3</sup>	%	18.3	16.7	14.6	35.6	31.5	17.5	23.1	25.6	16.3	15.1	37.0	14.7	20.5

<sup>1</sup> 1981 for Portugal.

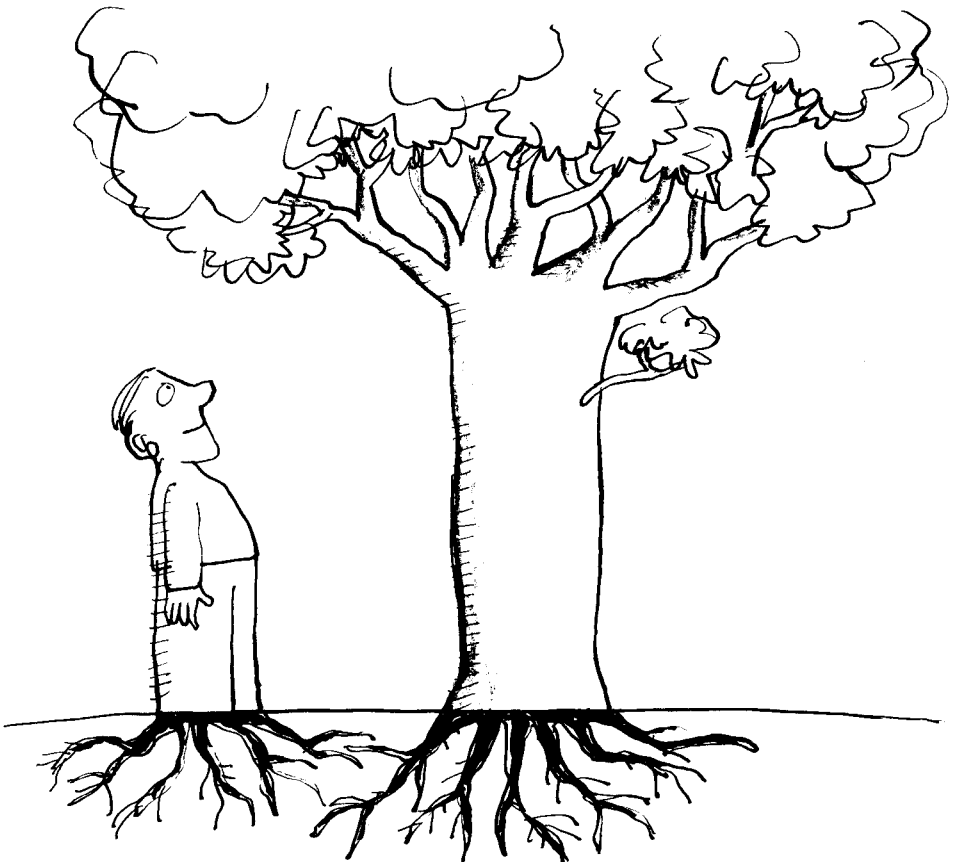
<sup>2</sup> 1982 for Spain and 1979 for Portugal (mainland Portugal only).

<sup>3</sup> 1982.

ryside. In some regions with poor soils and harsh weather conditions, agriculture is indispensable if the region is not to be abandoned by its inhabitants. Agricultural policy can thus also constitute a policy for protection of the environment.

### A way of life

The close relationship with nature, the ties with the land and the dependence on climate explain another fundamental characteristic of farming: agriculture was for centuries, and still is, just as much a way of life as an economic activity. Hence changing jobs and moving to the city often constitute a major upheaval for the farmer and his family. The older the farmer, the more daunting the change. Again, there is often no other employment available in rural areas. Many farmers must go on working the land, as the only alternative is unemployment. Many carry on until they are forced to give up at retirement age.



Together these factors hinder the adaptation of agricultural production structures to economic and social change, which is often quite rapid. Nevertheless, if agriculture is still to have genuine development prospects and is to perform its different functions in society, intervention may be necessary to promote structural change and to enable farmers to enjoy a fair share of the general prosperity. However, it is clear that the problem cannot be solved by forcing hundreds of thousands of farmers onto the dole. All these considerations bring out the need for an agricultural policy in our society and also show the complexity of its task.

## *II — The right approach: a common policy*

For centuries, the countries which are now members of the European Economic Community sought to solve their agricultural problems individually. Widely varying natural conditions of production and economic and political situations meant that they had divergent agricultural policies, which were also reflected in quite different production structures.

### **Diversity and contrasts**

In the mid-1950s, the six-country Community had about 65 million hectares of utilized agricultural area, from the North German plains, through the high mountains of the Alps, to the coasts of southern Italy. About 17.5 million people were employed on the farms (33% of the working population in Italy, 35% in France, 10% in Belgium). Holdings larger than 0.5 hectares but smaller than 5 hectares accounted for 85% of all Italian holdings, 55% of all German holdings and 35% of all French holdings. The structure of agricultural production also varied from one Member State to another: in general, livestock production was dominant in the northern areas while crop production was preponderant in the South.

The share of agriculture in total merchandise production was 36% in Italy, 30% in France and only 15% in Germany. Its contribution to the gross national product ranged from 8.4% in Belgium to 23% in Italy, the largest contribution being three times the smallest. However, a Belgian farmer enjoyed an average income (expressed in dollars) almost three times that of Italian farmers. In the Netherlands and Belgium yields per hectare, expressed in value terms, were highest; they were two-and-a-half times the yields obtained in Italy. Furthermore in these two countries farm incomes were closest to non-farm incomes: the gap between the two was not even half as wide as in Germany, France or Luxembourg.



*Sheep on a farm at Glenshiel in Scotland. This area is famous for its lamb and wool.  
(Photo: Central Office of Information, London)*

### **No common market without agriculture**

Despite the differences, it would have been inconceivable to set up the European Economic Community without including an economic sector as important as agriculture. In order to create a large single market, sweep away tariff barriers and other obstacles to trade, it was necessary that the more agriculturally developed countries should benefit just as much as those centred on industrial activities.

### **A common agricultural market — more than the sum of its parts**

The introduction of a common market for agriculture also held out the prospect of a number of important advantages to the Community, which would have been virtually impossible to secure within the narrow geographical confines of individual Member States:

- (i) For the farmers, it meant a larger market with new sales potential. However, it also meant increased competition, which it was hoped would encourage them to specialize in order to turn regional production advantages to good account;
- (ii) For the consumer, it meant a fuller and more varied supply of food. Specialization and production in large quantities were also important prerequisites for

TABLE 3

Share of each Member State in the Community's potential consumption (inhabitants), potential production (land) and actual production 1984

(%)

Member State	Inhabitants: share of population	Land: share of UAA	Final production of agriculture
Belgique/België	3.1	1.1	2.8
Danmark	1.6	2.1	3.5
BR Deutschland	19.2	9.1	16.1
Ellas	3.1	6.9	4.3
España	11.9	20.6	9.4
France	17.7	23.8	22.6
Ireland	1.1	4.2	2.0
Italia	17.1	13.2	19.0
Luxembourg	0.1	0.1	0.1
Nederland	4.5	1.5	7.7
Portugal	3.1	3.3	1.3
United Kingdom	17.6	14.1	11.3
EUR 12	100	100	100

more efficient production and comparatively favourable prices. Finally a common agricultural market guaranteed the indispensable stability which only a large geographical area can offer, being less dependent for its supplies on the vagaries of world markets.

People remembered all too well the food shortages of the immediate post-war years and there was a fear of even worse things to come as Cold War tension mounted. A stable basis of supply in the Community was obviously vital to the future development of Europe.

Even before the Treaty of Rome was signed in 1957, trade in agricultural products between the founder States had perceptibly increased. On average between 1953 and 1957 it already accounted for about 40% of their total agricultural trade. It was, therefore, seen to be in everyone's interest to strengthen existing trade relations and make them permanent by establishing a common agricultural market.

### A new approach

As a result of these considerations, the principle of a common agricultural market and of a common agricultural policy was enshrined in the Treaty of Rome. With the setting up of a common market in manufactures, it was felt that it would not be enough to dismantle customs barriers and eliminate other obstacles to trade, enact common rules of competition as well as introduce a uniform customs tariff at the external boundaries of the Community, since the problem for agriculture was much

TABLE 4

**Relative shares of crop production and livestock production  
in final agricultural production, by Member State, 1984**

	Cereals and beet	Fruit and vegs	Wine	Other crop products	Milk	Beef/veal	Pigmeat	Other livestock products	Final agricul- tural pro- duction
Belgique/België	11.1	13.7	—	9.1	16.0	20.2	22.3	7.6	100
Danmark	19.3	12.1	—	9.7	22.3	9.8	28.5	7.3	100
BR Deutschland	14.6	6.1	3.4	—	25.4	16.8	18.4	6.0	100
Ellas	13.6	30.8	2.1	23.5	8.5	3.5	3.6	14.5	100
España	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	100
France	22.8	10.2	7.9	7.8	17.2	16.0	6.6	11.5	100
Ireland	9.3	2.3	—	4.9	32.4	36.7	5.8	9.4	100
Italia	13.8	26.4	6.7	11.5	11.8	10.2	6.5	12.5	100
Luxembourg	6.3	2.5	7.0	—	44.9	25.9	8.9	1.3	100
Nederland	4.0	11.2	—	20.7	26.5	10.8	17.5	9.3	100
Portugal	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	100
United Kingdom	22.8	8.7	—	—	19.8	14.0	8.5	15.2	100

n.a.: not available.

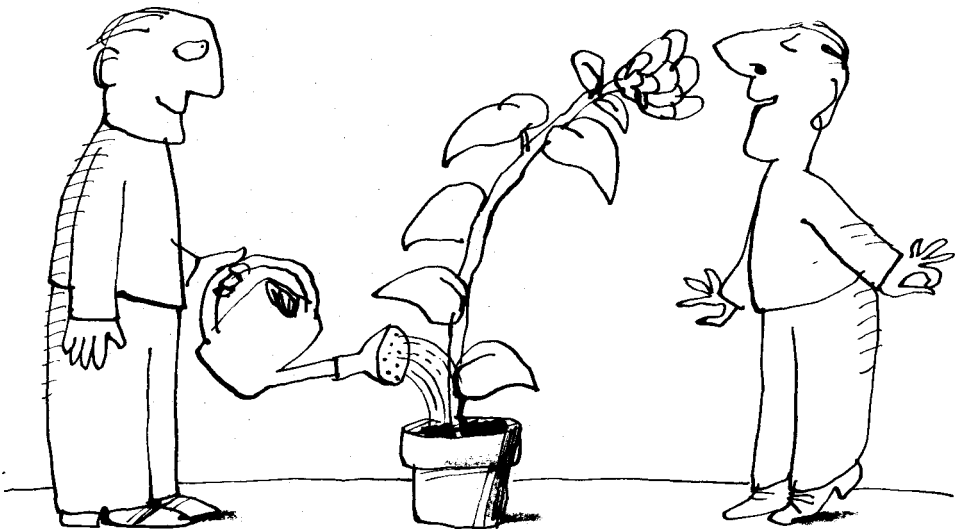
more complex. On the one hand the various social functions of agriculture and specific problems of economic and social adaption had led to the development of agricultural policies differing from one country to another. On the other hand there were major structural differences between the Member States. Therefore, on the basis of geographic and economic circumstances, a new system had to be worked out distinct from the existing national systems but reconciling the various interests. This was the basis of the common agricultural policy.

# Part One — How does the common agricultural policy work?

## *I — Objectives and guiding principles*

The setting up within the Economic Community of a common agricultural market can be properly appreciated only in the context of the post-war Europe of the 1950s.

### **A — Demanding tasks**



### *The Treaty of Rome*

The principal objectives of this policy were defined in the Treaty of Rome (March 1957), which established the Community. The policy was to increase agricultural

productivity, to ensure thus a fair standard of living for the agricultural community, to stabilize markets, to assure the availability of supplies and to guarantee reasonable prices for consumers (Article 39).

The policy is thus concerned with consumers as well as with producers. Closer consideration shows that the simultaneous achievement of these objectives can lead to conflicts. Some of them can be attained — at least beyond a certain point — only at the expense of the others. Hence, compromises must be worked out and priorities set.

However, this also shows how ambitious the goals of the common agricultural policy were from the outset. The Community had just 65 million hectares with which to employ its 17.5 million farmers and feed its 150 million inhabitants. At the same time the USA had over 400 million hectares for a population of 200 million and the USSR more than 600 million hectares for just under 250 million inhabitants. The average American farmer had 100 hectares of land at his disposal —



*French wine is appreciated all over the world. Our photo shows vineyards in the area of Meursault (Côte d'Or), which is where burgundy wines are made.*

*(Photo: Pierre Britégé, photolibrary of the French Ministry of Agriculture)*



nearly 20 times as much as his European counterpart. Each American farmer fed an average of 50 inhabitants, while a European farmer fed only 10, and the Community produced only about 85% of its food requirement.

In addition to the objectives, the Treaty mentions some of the instruments for the implementation of the common agricultural policy: a common organization of the markets, a uniform price policy, and the establishment of one or more Community funds. It was left to the institutions of the Community to further flesh out this broad framework following procedures laid down in the Treaty.

### *The Stresa Conference*

In July 1958 the Stresa Conference brought together the signatories to the Treaty, and the representatives of farmers' federations in the six countries. The initial guiding principles of the future common agricultural policy emerged from a comparison of the existing national policies and of common resources and requirements. The conference added some details to the objectives set out in the Treaty. For example the structures of European agriculture were to be reformed to make it more competitive, but without undermining the family character of the farm unit. Agricultural prices were gradually to be brought to a uniform level in all Member States. Since production costs in the Community were higher than in the other major producing countries, prices had to be above the world market level, but should not encourage overproduction. The aim of the common agricultural policy should not be total self-sufficiency. Instead, the Community should participate in a balanced manner in world trade, but it was important to protect the internal market from distortions arising from competition from outside the Community.

This was the basis on which the Commission submitted proposals, in June 1960; in December the Council adopted the principles creating the CAP.

#### **B — Clear principles**

Essentially, the policy is based on three principles: the single market, Community preference and joint financial responsibility.

### *The single market*

A single market means the free circulation of agricultural goods between Member States. The common agricultural market, therefore, forms one great domestic mar-

ket without customs duties, other barriers to trade or subsidies interfering with competition. The single market, however, requires common prices and rules of competition, the harmonization of administrative, health protection and veterinary legislation, and stable exchange rates. It must be organized on the basis of the same instruments throughout all the member countries and requires centralized Community management. Finally it requires uniform protection at the Community's external borders.

### *Community preference*

Community preference is a logical consequence of the establishment of a single agricultural market. It is the application at Community level of the priority given to the sale of home produce on national markets. All producer countries give their own agriculture this kind of preference. In the case of Europe, in order to uphold Community preference the internal market must be protected against low-price imports and excessive price fluctuations on world markets. This is achieved by measures which, for imports and exports, operate like a system of sluice-gates and absorb price variations outside the Community.

### *Financial solidarity: joint financial responsibility*

Every policy costs money. In the case of a common policy, the costs must be borne in common. For this reason, financial solidarity is one of the bases of the EEC's agricultural policy. In order to put this principle into practice, the Member States set up the European Agricultural Guidance and Guarantee Fund (EAGGF). This fund works on a common basis irrespective of the product or of the Member State concerned.

## *II — Policy on markets and prices: the main mechanisms*

Once the objectives and principles of the policy had been agreed, the market organizations were set up. In the early days, the organizations covered just over half the farm output of the Six. By 1970, the proportion was 87% and, by 1986, 91%.

There are two exceptions: the Commission's proposals for market organizations for potatoes and agricultural alcohol have not yet been adopted by the Council.

## A — A 'classical' example

One of the first market organizations to be introduced was that for cereals, in 1962. It was regarded from the beginning as a model. It has since been adjusted in many respects, but for our present purpose we may confine ourselves to a basic outline to explain the principal mechanisms. Milling wheat has been chosen to illustrate its workings.

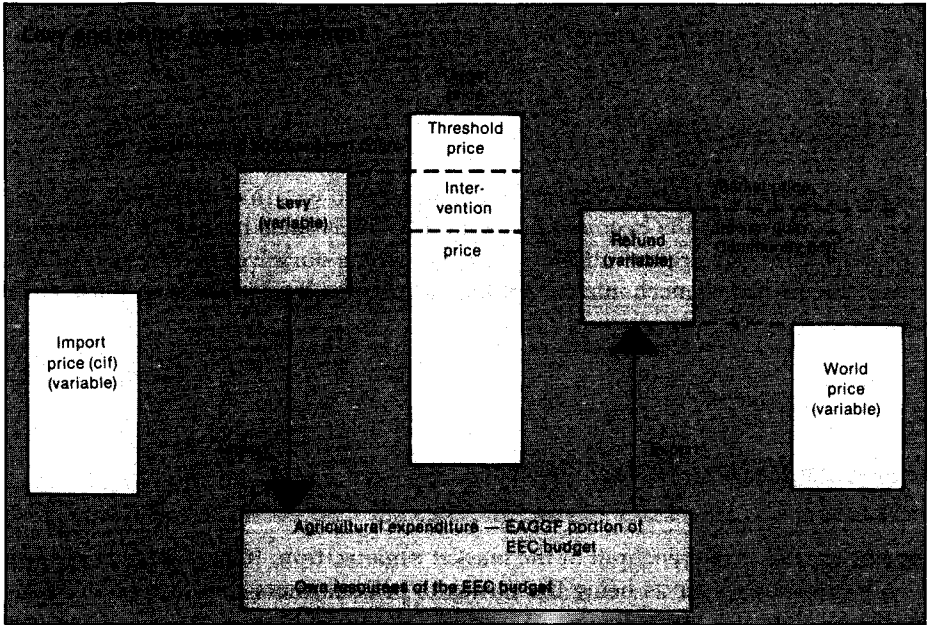
### *Target and intervention prices*

The target price is the lynchpin of the market organization. It is set at the beginning of each marketing year as being the farmgate price farmers should receive in consumption areas. If internal supply exceeds demand, the market price, i.e. the price received by farmers, generally falls below the target price. If it falls below a certain limit, the Community intervenes to stabilize the market by offering to buy the cereals at a price fixed in advance — the intervention price. This is the price at which the authorities buy in cereals without limit as to quantity through agencies set up for that purpose. During 1984/85, the Community bought in nearly 9 million tonnes of common wheat in this way, which it later sold. In accordance with the principles of joint financial responsibility, the cost of this operation was borne by the Community.

The intervention price is well below the target price. It forms a lower limit for internal prices and represents a kind of guaranteed minimum price for Community farmers. It is one of the cornerstones of the system.

### *Threshold price, levies and refunds: a sluice-gate system at the frontiers*

Community prices for common wheat are generally well above the prices charged by the other main wheat producers (United States of America, Canada and Australia). In order to prevent the Community market from being flooded from outside, which would result in the complete collapse of European production, and to enable Com-



munity producers to participate in world trade, regulatory measures have to be taken at the boundaries of the Community.

A threshold price is set for imports on which the lowest import price (world market price + transport to Community frontier) is aligned. The threshold price is calculated so that the price of the imported wheat at the major consumption centres of the Community, including transport and unloading costs, roughly corresponds to the target price. The difference between the threshold price and the import offer price is charged as a 'levy' and accrues to the Community budget as a contribution to the Community's own financial resources.

Conversely, for exports Community exporters are 'refunded' the difference between the market price in the Community (including transport costs to the Community's port of export) and the sales price that can be obtained on the world market. The refunds are chargeable to the agricultural part of the budget of the Communities.

### *A flexible system*

The sluice-gate system formed by the import levies and export refunds is the second cornerstone of the market organization. Its big advantage is its considerable flexibil-



*Large areas of France are eminently suitable for growing cereals. Our photo shows the barley crop in the region of Montereau (Seine-et-Marne).  
(Photo: P. Dewarez, Documentation française)*

ity as a market stabilization instrument. This can be illustrated by the following three examples:

- (a) Let us assume that the market price for one tonne of wheat in the Community is between the target price (100) and the lower intervention price (70) at 80. The import price is 60 and the threshold price 95. This situation is illustrated in the figure on page 20. The import price is increased to the threshold price by the levy ( $95 - 60 = 35$ ). The addition of transport costs to the main consumption centres of the Community brings the price of the wheat there roughly up to the target price (100). Since wheat produced in the Community is offered here at the domestic market price (80), Community production enjoys a clear advantage — a Community preference of  $100 - 80 = 20$ .
- (b) Let us now assume that supply in the Community becomes tighter, so that the market price increases to the level of the target price. The import price is still below the threshold price. As in the first example, it is increased so that imported wheat becomes as expensive as Community wheat. The latter no longer enjoys a competitive advantage. Supply is increased by the imports, demand is satisfied, and the market stabilizes at the target price level. In this way the system has a stabilizing effect to the advantage of the consumer in the event of a shortage in internal supply.

- (c) However, the flexibility of the system is even greater. If supply on world markets weakens so that world market prices rise above the threshold price, the Community can charge levies on its own exports, thus preventing a drain of European agricultural produce on to world markets and ensuring supplies to consumers in the Community at reasonable prices. Such a situation has arisen at times in the past for wheat, barley and maize, and also for olive oil and sugar.

## **B — The main types of market organization**

Market organizations cover all the Member States. They are not the same for all products. On the contrary: as far as possible the specific characteristics of different products, as well as of their production and market, have been taken into account. The basic model described above has accordingly been adapted, modified, simplified or supplemented for other products, depending on the situation. In a few special cases indeed, completely different solutions had to be found.

By way of simplification four types of market organization can be distinguished.

### *Support price and intervention*

For over 70% of agricultural production, the relevant market organizations assure Community farmers a minimum price on the internal market (the support price). If the market price falls to the minimum price level, intervention mechanisms become operative. However, these take different forms in the individual market organizations. In addition, the Council can, where appropriate, restrict intervention periods, fix time periods for payment and determine quality criteria which products must meet if they are to be bought.

For most cereals, sugar, milk, beef and veal, and mutton and lamb (known in Community jargon as 'sheepmeat'), they operate as described in our example: intervention agencies buy in the quantities offered to them at the fixed minimum price (the intervention price). They resell these quantities when the market has improved, or seek other possible outlets — e.g. export to non-Community countries.

For other products — pork, known as 'pigmeat', some fruit and vegetables, and table wine — the intervention mechanisms operate less automatically. More flexible measures, such as storage or distillation aids, usually suffice to stabilize the internal markets.

For all products in this first group, support on the internal market is completed by external trade protection.

## *External protection*

For a second group, which covers about 25% of production, the market organization is essentially limited to external protection. These are the market organizations for wines other than table wine, fruit and vegetables other than those in the first group, flowers, eggs and poultry. These products are either not staple foods or can be produced more or less independently of the soil. Special support schemes are not necessary for these products.

The external protection may take the form of levies, which are calculated differently for each market organization, or customs duties, or a combination of the two.

### **Additional aid**

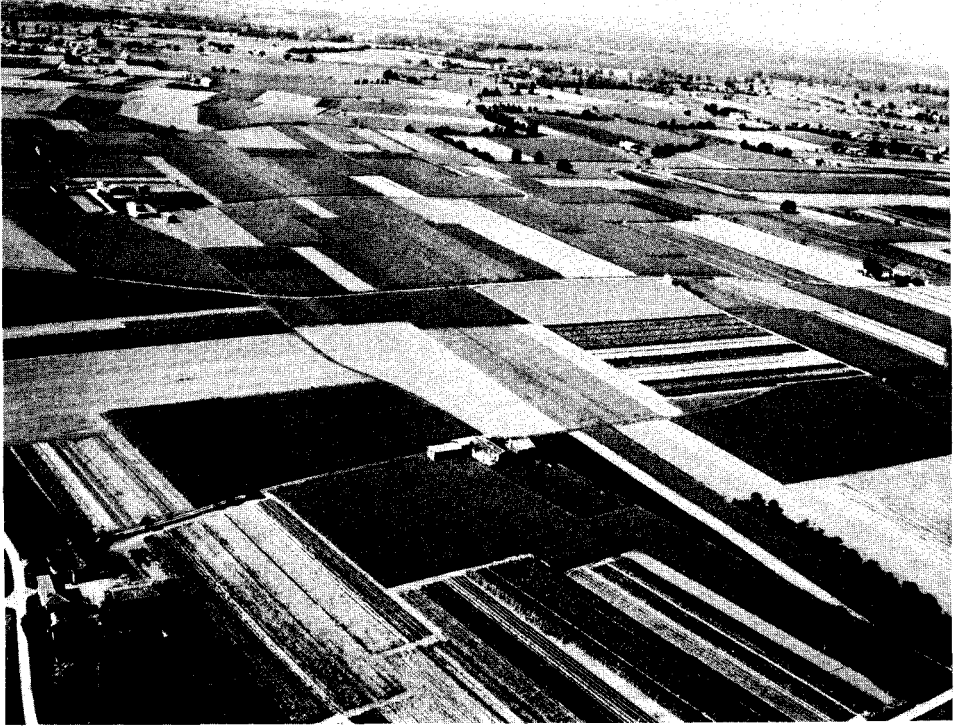
For certain products, which account for only a very small proportion of all production, the market organizations include direct aid, additional to the other instruments. For durum wheat and olive oil, the aid is combined with instruments similar to those of organizations involving support prices. For certain oilseeds (rapeseed, sunflower seed, etc.), cotton and tobacco, the purpose of the aid is to offset the weakness or even the absence of external protection. This system assures relatively low consumer prices whilst providing income support for farmers.

### **Flat-rate aids**

Lastly, certain market organizations include flat-rate aids which are granted by the hectare or by quantity produced. This is the method used for supporting producers of flax and hemp, hops, silkworms and seeds. These are very special products which, taken together, account for a very small percentage of total Community agricultural production.

The different types of market organization have entailed the formulation of differing price notions (target price, intervention price, threshold price, etc.), which may be confusing. The main terms have been defined in a short glossary at the end of this booklet.

The four types of market organization outlined above provide a general framework. They have been adapted to the specific characteristics of each sector, making allowances for the relevant market situation and its development (see, in this connection, in Part Two — 'Problems of today, challenges for tomorrow').



*Mixed crops in the valley of the Garonne in France.  
(Photo: Mopy, Documentation française)*

### *III — The agricultural prices — the policy in action*

With the gradual introduction of the market organizations, prices were harmonized by stages in the various Member States until common prices were reached. Since then, these prices, applicable throughout the Community, are reviewed annually by the Council, acting on proposals from the Commission.

#### **A — A crucial decision once a year**

Each year, at the time of price review, agriculture hits the headlines. For the price decisions have a crucial impact on the incomes of more than 10 million farmers in the Community. Taking into account their families, this means that more than 40 million individuals are affected by the negotiations in Brussels. But it is not only the interests of the farmers which are at stake. Changes in the prices affect food prices in



the shops, and this affects the 320 million consumers in the Community, who spend about 20% of their incomes on food.

Other questions are also taken into consideration: how have farm incomes developed in the past? Have production costs increased in recent years? What will be the effect of price increases on market equilibrium as well as on imports and exports? What additional expenditure or savings will arise for the agricultural budget? Should the prices be increased to an equal extent across the board for all products or should different increases be used to provide incentives to reorientate production? What are the products whose market organizations require adjustment? Given the complexity of these questions and the many conflicts of interest, it is not surprising that the final decisions concerning the prices usually take a long time. The outcome is, of course, bound to be a compromise, i.e. a balancing of interests, acceptable to all those involved.

## **B — Common prices = high prices?**

When the first market organizations were introduced in 1962, there were still just under 14 million people engaged in agriculture in the then Community of Six — nearly 20% of the total employed population. The vast majority of these people worked on small or medium-sized family farms. Their incomes were low — considerably less than those in industry and services.

### *An important aim from the beginning: raising agricultural incomes*

In these considerations, one of the most urgent tasks under the policy was to increase farmers' incomes.

Incomes can be increased either by direct financial aid to low-income farm heads or by higher prices. The founder members of the Community chose the second approach for most products. This, in view of the large number of farmers and the confusing multiplicity of their economic conditions, was judged less expensive and less bureaucratic than the first method. It was also much the commonest practice on the Continent, thus avoiding radical change.

Within Europe, the other approach was used primarily by the United Kingdom before joining the Community. The UK guaranteed the incomes of its farmers by means of 'deficiency payments', which were a kind of additional production aid. The

deficiency payments made up the difference between market prices (which at the time of accession were on average 30% below the prices of the common agricultural market) and the government-guaranteed prices. It must, however, be remembered that the situation in the United Kingdom was fundamentally different from that in the Community of Six. The number of farmers at the beginning of the 1960s was very small (about a million), accounting for just 4% of the total employed population. Production structures were clearly more efficient than in the Six, and much of the country's food was imported from the Commonwealth at very low prices.

### *World market prices — an unreliable yardstick*

Amounts freely traded on the world market are often very small compared with total production (e.g. in the case of sugar, cereals and milk products), sometimes merely reflecting short-term variations in the production of the main producer countries. For this reason the prices are liable to fluctuate widely. For products such as beef and veal, wine and tobacco, a true world market is virtually non-existent and prices differ according to the destination of exports. European consumers could therefore not be supplied at low and stable world market prices for any length of time if supplies in the Community were largely dependent on imports.

### *The trend of agricultural prices — reasonable and stable*

For a number of reasons, then, producer prices in European agriculture are generally higher than world market prices — which very often cannot be established precisely. However, two other comparisons are particularly revealing here. Table 5 shows the variation of agricultural producer prices, food prices and the cost of living in the Community as a whole since 1975. The picture is as follows: farmgate prices have risen appreciably more slowly than food prices, which in turn have lagged behind the overall cost of living. Agricultural prices have therefore had a stabilizing effect on the cost of living since the beginning of the economic crisis of the 1970s.

Figure 4 compares the variation of agricultural and food prices with the disposable per capita income in the Community. Once again the picture is clear: agricultural and food prices have risen more slowly than disposable income. It is thus possible to conclude that the consumer is supplied at reasonable prices.

TABLE 5  
Prices in the Community of Ten

	Index of prices of agricultural products	Indices of consumer food prices	General consumer price index	Net disposable income per inhabitant
1975	100	100	100	100
1976	117	114	111	115
1977	125	129	123	127
1978	130	138	132	141
1979	138	150	145	158
1980	149	165	165	177
1981	167	185	186	192
1982	186	205	205	207
1983	199	220	222	222
1984	208		236	238
Average annual growth 1975-84 (%)	+ 8.5		+ 10.1	+ 10.1

**Expenditure on food as a percentage of total household consumption 1982**

(%)

Belgique/België	18.3
Danmark	16.7
BR Deutschland	14.6
Ellas	35.6
España	31.5
France	17.5
Ireland	23.1
Italia	25.6
Luxembourg	14.7
Nederland	15.1
Portugal	37.0
United Kingdom	14.7
EUR 12	20.5

**C — Different currencies — common prices**

As long as there is no single European currency in all Member States, the common agricultural prices are first set in Community units and then translated into the different national currencies. Until 1979, the common unit was the 'unit of account'. After the introduction of the European Monetary System in March 1979, this was replaced by the ECU (European currency unit),<sup>1</sup> which is a kind of Community cur-

<sup>1</sup> In 1985, 1 ECU had an average value of BFR 36.36, DEM 44.91, DKR 8.02, DM 2.23, DR 109.50, ESC 135.34, FF 6.80, HFL 2.51, IRL 0.73, LIT 1 447.33, PTA 134.28, UKL 0.59, USD 0.75 (rounded figures).

rency used for accounting purposes. It is made up of a 'basket' of the various national currencies.

### *A missing requirement: stable rates of exchange*

The system of common agricultural prices can work smoothly only if the rates of exchange between the national currencies remain stable. This was largely the case until 1969. Later, however, the parities were changed, first between the French franc and the German mark and then between all the currencies.

It is true that the European Monetary System has helped to cushion the impact of the parity adjustments, but it has not prevented them. Exchange rate fluctuations constitute a lasting threat to the very existence of the common agricultural market. In view of this threat, it was necessary to set up a correcting mechanism, the monetary compensatory amounts.



*A large number of regions of Europe rank as less-favoured agricultural areas. Many of these are hill or mountain areas. The Community has set up special schemes to discourage the drift to the lowlands and the cities. Our photo shows a farmer and his wife gathering hay in the Alpes de Maurienne, Savoy, (France).*

*(Photo: Documentation française).*

## *The correcting mechanism: monetary compensatory amounts*

When a country revalues its currency, the prices paid to its farmers (i.e. the common prices expressed in national currencies, but fixed in ECU) should be reduced by the same rate. In the case of a devaluation, farmgate prices need to be raised. However, fluctuations as immediate and sharp as this are not acceptable for most of the countries as they undermine the stability of farmers' incomes and of food prices. Hence it has been agreed that the necessary changes should be phased in gradually, using special 'representative rates', also called the 'green parities', which are different from the official parities. But if the difference between the official rates and the green rates were not bridged, there would be distortions in intra-Community trade. As a result, a system of monetary compensatory amounts has been introduced, which cover the differences between the official parities and the green parities. A country which revalues its currency pays compensatory amounts on exports and charges them on imports; the opposite is the case for a country which has devalued its currency.

### *A typical example*

The problem of fluctuating parities and the working of compensatory amounts can be better explained by means of an example. Let us take Germany and France and assume that the exchange rates are initially stable at  $1 \text{ ECU} = \text{DM } 2 = \text{FF } 6$  and that the price for one tonne of wheat is set at 200 ECU, or DM 400 and FF 1 200 when translated into the national currencies.

Let us now assume that the DM is revalued, the new rate being  $1 \text{ ECU} = \text{DM } 1.60 = \text{FF } 6$ . If this new rate of exchange were applied, one tonne of wheat on the German market would cost only DM 320, representing a loss of income to the German farmer of DM 80 per tonne of wheat. It goes without saying that there would be corresponding losses for all other products with common prices fixed in ECU. A change on this scale could have serious consequences for German farmers and would therefore be unacceptable in terms of both social and agricultural policy. The Member States generally agree to maintain, initially, the old parities as 'representative parities' or 'green parities' for the common agricultural market and to adapt them gradually to the new official parities.

At first, therefore one tonne of wheat continues to cost DM 400 in Germany. But the difference between the green rate and the official rate raises a new problem. Because goods can move freely in a single market, French producers, for example, can now sell their wheat in Germany for DM 400 per tonne, exchange their currency at the offi-

cial central rate and thus pocket FF 1 500 instead of the FF 1 200 which they would have received in France for the wheat. Conversely, the French market becomes totally unattractive for German producers. They would still receive FF 1 200 for one tonne of wheat there, as before, but when exchanged at the official rate this would yield only DM 320.

In short, all Community producers would try to sell their products on the German market (or to German intervention agencies), intra-Community trade flows would be totally distorted, and the common agricultural market would be threatened with collapse.

Monetary compensatory amounts (MCAs) were introduced to prevent this. In our example, an MCA of DM 80 is granted to the exporter of a tonne of German wheat. In this way, it can be offered for sale in France at DM 320, or, after conversion at the official rate, FF 1 200, without the Germany producer suffering loss. Conversely, French deliveries to Germany attract a charge of FF 300, so that after conclusion of the sale in Germany (DM 400/tonne = FF 1 000/tonne at the official rate), only FF 1 200 remains. This prevents the French producer making a profit on the exchange. In the event of a devaluation, the situation would be exactly reversed and the same reasoning applies in reverse.

This is how the principle works in simplified form. In fact, many corrections are made in practice (including the 'neutral margins') and these complications, set out in the regulations, are one of the weaknesses of the system and a further reason for dismantling the MCAs.

### *A mechanism with shortcomings: dangerous effects in the long term*

On the whole, the compensatory amounts have so far made it possible to maintain unity of the market, in spite of the differences in prices when expressed in national currencies, and thus ensure the survival of the policy. However, the mechanism has shortcomings. For one thing, it is very expensive. About 12% of agricultural expenditure went on monetary compensatory amounts in 1977, when there were big currency movements. But it is the long-term effects of the system which are perhaps the most important. Persisting differences between the official parities and the green rates tend to distort competition, hamper structural adjustment of agriculture and jeopardize the optimum allocation of available resources in the Community.

The application of the green rates to agricultural prices in a country which has re-valued, expressed in the national currency of that country, at first maintains prices



*There is scope in livestock farming for alternative agriculture. Our photo shows a Danish mink, much admired by connoisseurs.  
(Photo: Lars & Bo, Copenhagen)*

at the pre-revaluation level. However, imported farm inputs, not subject to MCAs, are paid for at the official (revalued) rate of exchange and thus cost less. A devaluation has the opposite effect.

The unequal treatment of inputs and agricultural products has important effects in some sectors of production (e.g. pork, poultry, eggs and to some extent also milk and beef and veal). If the differences between the official and green rates remain fixed for too long or are increased owing to frequent revaluations and devaluations, serious distortions which could undermine the policy itself may occur.

For these reasons, the Commission is urging the Member States to align the green rates on the official rates and thus 'squeeze out' the MCAs altogether. However, despite efforts and commitments undertaken by the Council, there is still some reluctance to dismantle the amounts, especially in those Member States which have revalued their currencies (positive compensatory amounts), as elimination of the MCAs would mean lower farmgate prices.

#### **An important agreement: the new method of calculating the monetary compensatory amounts**

In 1984, the Community took an important step towards the elimination of the MCAs. When the agricultural prices were reviewed, a new mechanism was adopted whereby, for a three-year trial period, the monetary compensatory amounts were to be calculated in connection with devaluations or revaluations, on the basis of the currency revalued most. In practice, the effect of this mechanism is that positive amounts can no longer be created. The negative compensatory amounts which are created are to be dismantled as soon as possible. This is a much easier arrangement for the farmer, since negative amounts entail higher farmgate prices when expressed in national currency.

#### **The real solution: economic and monetary union**

The device adopted in 1984 has the merit of dealing for the time being with a delicate problem in connection with the operation of the common agricultural policy. However, the only lasting solution to the emergence of monetary compensatory amounts is the gradual achievement of economic and monetary union.

The introduction of the European Monetary System in 1979 was a major advance in this direction. By establishing an area of stability in a world-wide monetary system which has been particularly turbulent in recent years, it has curbed both the frequency and the scale of parity changes between European currencies. Clearly this effort must be further pursued. To begin with all Community currencies must participate fully in the machinery set up under the European Monetary System, but especially the economic and monetary policies of each Member State must be effectively harmonized.

#### *IV — The Community and world trade in food: the common agricultural policy and relations with non-member countries*

As far as goods are concerned, the Community is the world's leading importer and exporter: it is thus the leading trading power in the world. This is also true for ag-



riculture: Europe is the leading importer and the world's second ranking exporter of food and other agricultural products.

### A — Agricultural Europe: active involvement in international trade

The Community remains, by far, the leading world importer of food and other agricultural products. Its share in world food and other agricultural imports, which has been declining slightly in recent years, is about 20%. In comparison, that for Japan is about 11%, that for the United States 10% and that for the USSR 9%; Canada imports about 2% of the total, and Australia 0.6%. Thus, the improvement in internal food supplies which the agricultural policy promoted, has not prevented the Community from maintaining its position as a major food importer.

Since 1973, Community food and other agricultural exports have expanded, in annual percentage terms, more rapidly than its imports. The policy has thus played a crucial role in enabling Europe's farmers to take an active part in international trade. As a world exporter of agricultural products, the Community ranks second

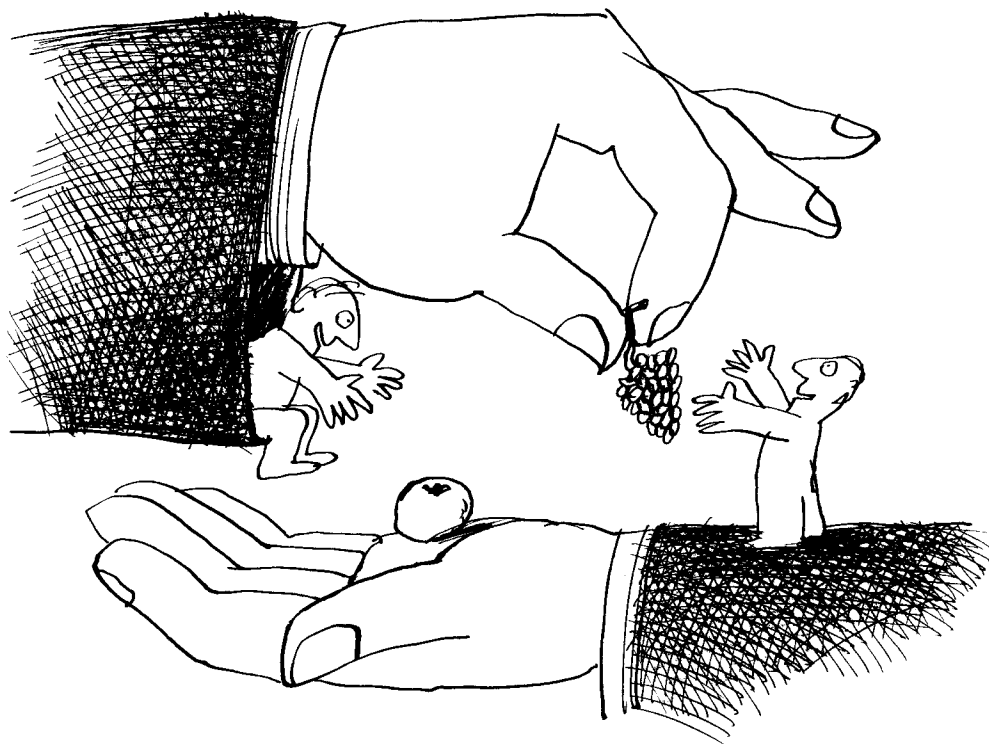


TABLE 6  
Community trade in agricultural products

*(000 million ECU)*

	Imports from non-member countries	Exports to non-member countries	Intra-Community trade
1973	24.0	7.4	15.5
1974	27.4	9.4	18.8
1975	25.4	9.5	20.8
1976	32.7	10.9	24.8
1977	38.5	13.1	27.6
1978	37.0	13.8	30.5
1979	40.8	15.6	33.5
1980	42.2	19.6	35.8
1981	45.2	26.4	41.4
1982	48.3	25.9	47.6
1983	50.7	26.8	50.7
1984	58.6	31.7	57.1

after the United States, which, at the same time, is the main supplier of the European market. The Community's share in world export of food and other agricultural products is about 10.5%. Overall, the Community's trade balance in these items shows a deficit: this was nearly 260 000 million ECU in 1984. Table 6 shows how imports and exports of food and other agricultural products have developed since 1973, compared with trends in intra-Community trade.

Generally speaking, the Community mainly imports raw agricultural products for processing or for livestock. It exports processed products and meat incorporating 'added value' produced by the Community. The exports open new markets to farmers, which give them further opportunities to improve their incomes; as for the imports, they provide the consumer with goods not produced in the Community (coffee, tea, cocoa, exotic fruit), and supply cheap feed to livestock farmers (soya, manioc) and raw materials needed by manufacturers (timber, cork, natural textile fibres, rubber, hides and leather, fur).

Therefore, despite the establishment of a common agricultural market and the resulting sharp increase in intra-Community trade, the Community has maintained its links with other countries and has taken an active part in the harmonious development of world trade.

## **B — Promoting world trade: the policy on agricultural trade**

Since the Community began to formulate its common agricultural policy, it has been careful not to isolate itself. Even before the Community was formed, all Member States had concluded trade agreements on agricultural products with non-member



*Most exports of Danish bacon go to the United Kingdom. Pig farming is an important industry in Denmark.*

countries. They also belonged to international organizations such as the Food and Agriculture Organization of the United Nations (FAO) or the Organization for Economic Cooperation and Development (OECD); and they were contracting parties to the General Agreement on Tariffs and Trade (GATT). In all instances the emphasis was on one concern, that is, promoting free international merchandise trade, including agricultural products.

The Community has gradually fulfilled the responsibilities entrusted to it by the Treaty of Rome and now acts as a single body in these international organizations. It has developed a close network of relations with its main trading partners and plays a leading role in international negotiations on agricultural trade.

In the Treaty of Rome, the Member States clearly expressed their intention to contribute to the harmonious development of world trade, to the gradual elimination of trade barriers and to the removal of customs barriers. Of course, this general declaration of intent applies to agricultural trade as well.

### *A close network of trading relations*

In accordance with these principles, the Community has expanded its trading relations throughout the world. In Western Europe, it has concluded bilateral trade

agreements with those members of the European Free Trade Association (EFTA) which — unlike Denmark, Portugal and the United Kingdom — have not joined the Community. Similar agreements have been concluded with a number of countries in South America, with Yugoslavia and many Mediterranean countries. The agreements with the Mediterranean countries are an element of a general strategy for a fully-fledged Mediterranean policy. This policy is intended to increase free trade for manufactures, enhance economic and technical cooperation and further liberalize trade in agricultural products. Because fruit, vegetables, wine and oil are often vitally important to farmers in the southern regions of the Community, whose incomes are already amongst the lowest in the Common Market, special arrangements have had to be worked out for each competing product entering the Community under low duties or even duty free. Moreover, the Community takes an active part in the work of the GATT, which it joined in 1963. Since it was set up in 1947, the GATT has been generally recognized as a framework for multilateral trade relations. Over the last 30 years negotiations have been concerned primarily with the gradual elimination of customs duties as well as the elimination or 'binding' of quantitative restrictions. It was, however, difficult to find a place in this system for the common agricultural policy's levy scheme for certain major agricultural items. The key advantage of this system is its great flexibility in protecting the Community's internal market against cyclical fluctuations occurring on world markets for raw materials.

For this reason, the levies cannot be compared to traditional customs duties, and there can be no 'binding' for such products. In order to ensure acceptance by the GATT partners of the levy system, the Community had to make concessions on a large number of major items, in particular basic products used for the manufacture of animal feed such as soya, manioc and corn gluten feed, as well as for other products such as fruit and vegetables, rice, tobacco, fish and oilseeds. As a result, nearly 70% of agricultural imports are now subject to 'bound' customs duties, that are low. On 20% of these, the duties are zero. It is important to note that the Community has made tariff reductions in favour of industrialized countries only in exchange for advantages for its exports or its production.

### **C — Cooperation, not confrontation: trade in agricultural products with the Third World**

The Community endeavours to achieve a balance by mutual concessions in agricultural trade with the developed countries. However, it largely waives the requirement in respect of developing countries. The common agricultural policy thus makes a valuable contribution to development aid.

## *Generalized preferences*

First, the Community grants 'generalized preferences' to more than 120 developing countries. Under the United Nations Conference on Trade and Development (Unctad), customs duties have been appreciably reduced, or even eliminated, for about 300 agricultural products intended for processing. In 1985, the value of agricultural imports enjoying these preferences was more than 2 200 million ECU. Special advantages are granted to the poorest developing countries, which may enjoy arrangements coming very close to a system of unrestricted<sup>1</sup> duty-free imports to the Community.

## *The Lomé Convention*

One of the cornerstones of the Community's relations with the Third World is the Lomé Convention, which 66 countries in Africa, the Caribbean and the Pacific (the ACP States) have signed. The Convention provides the basis for effective trade cooperation to the advantage of the ACP States. These countries can export virtually all their products to the Community duty free. In addition, the Community guarantees them minimum prices for the export to the Community of certain primary products, the so-called 'Stabex' system which represents an important innovation. This guarantee covers 49 products including many commodities such as cocoa, coffee, groundnuts, tea and sisal. Also, the Community has undertaken to buy up to 1.3 million tonnes of sugar per year at the Community's internal market price, despite its high degree of self-sufficiency in this product.

Thus, these ACP exports are to a large extent isolated from the fluctuations of the world raw materials markets, which are often the result of speculation. For these countries, this is an important stabilizing factor in their development. These arrangements are supplemented by intensive technical and financial cooperation, especially in the field of agriculture.

The Lomé Convention may in many respects be considered a model of cooperation between industrialized and developing countries. It shows that the development policy of the European Community aims to strengthen world cooperation, and that the common agricultural policy contributes to this goal. It is, therefore, not surprising that agricultural imports from developing countries have grown in recent years much more rapidly than those from other industrialized countries and that they now rank first among the Community's agricultural imports (see Table 7).

TABLE 7  
**Percentage increase of Community imports  
 from main non-member countries**  
 (1973-84)

Industrialized countries	:	+ 116%
Developing countries	:	+ 194%
State-trading countries	:	+ 185%

**Pattern of imports of food and other agricultural products  
 (Community of Ten)**

	1973	1975	1980	1984
Value ('000 million ECU)	24.0	25.4	42.2	58.6
Breakdown (%):				
Industrialized countries	49.0	48.3	48.2	43.7
Developing countries	40.7	42.6	44.1	49.0
State-trading countries	10.3	9.1	7.7	7.3

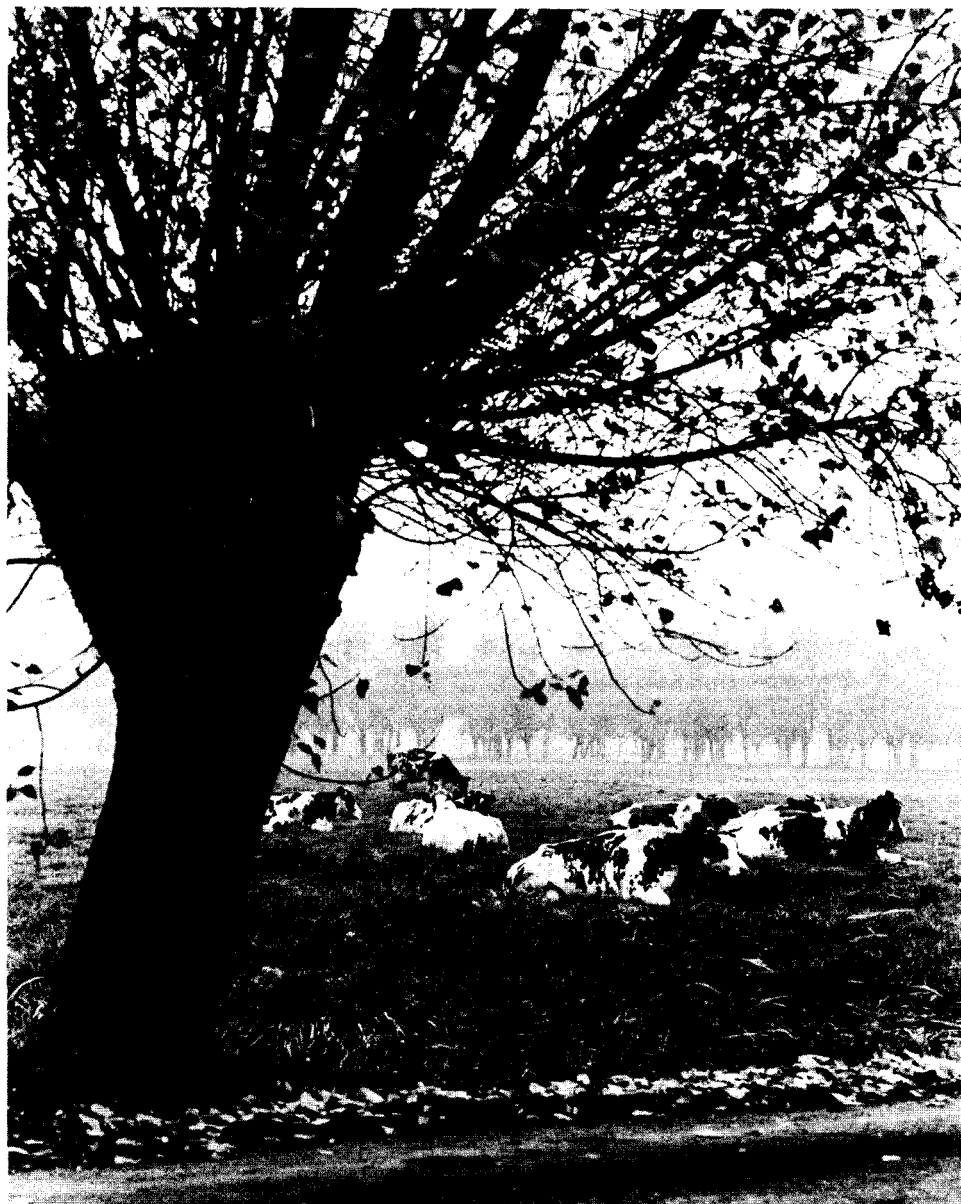
## *Food aid*

In the same spirit, the Community plays an active role in international bodies such as the FAO, Unctad, the World Food Conference and the World Food Programme. Under its own food aid programme, the Community provides nearly 3 500 million ECU worth of food products (mainly wheat, dairy products and sugar) to a large number of developing countries with particular difficulties.

The aid is either granted directly or provided through aid agencies. Where there is famine, the most urgent needs are met, but the aid can also help to raise the standard of nutrition in the beneficiary country. If it is properly administered, it can contribute to the general economic development.

## **D — The Community, a fair trading partner**

The Community system for agricultural trade with the outside world (import levies and export refunds) has always been criticized by its commercial partners. It is argued that the levies constitute an insuperable obstacle the effect of which has progressively reduced traditional purchases by the Member States. Refunds are seen as export subsidies enabling the Community to expand unduly its world market share despite its uncompetitive prices.



*Many areas of the European Community are suitable only for dairy production. Our photo shows a herd of cows in the Netherlands.*

*(Photo: Marcel Minée, The Hague)*

### **Neither a protectionist bulwark against the outside world . . .**

The common agricultural market is not hermetically sealed off. Despite the world economic crisis, European imports of agricultural products from the rest of the world increased by 160% between 1973 and 1984, and they are expanding at the same rate as Community imports taken as a whole.

The Community chose to ensure fair incomes to farmers through market prices: these arrangements for agricultural imports are the logical consequence of this choice. Shielded in this way from fluctuations in world prices, and, in particular, their decline since 1981, it has substantially improved its self-sufficiency in food, but without cutting off its suppliers.

Most industrialized countries protect their farmers in one way or another. By themselves the instability of world agricultural markets, currency fluctuations or commodity speculation enjoin special rules for agriculture. These, after all, are part and parcel of the scheme set up by GATT at its inception, 10 years before the Community was created. Community machinery has the merit of clearness and stability. It has also been recognized as complying with the rules of international trade.

### **. . . nor aggressive expansion of exports**

It is true that the Community supports its exports on world agricultural markets by paying refunds, but also other main producing countries subsidize or support farmers in order to promote exports, often by means of less readily discernible measures than those granted by the Community.

Under international commercial agreements, in particular under GATT, such subsidies are allowed provided they do not enable a member country to achieve an unfair share of the market. It should be noted here that over a long period the share in world trade of the main agricultural producers has been surprisingly stable. From 1973 to 1984, the Community's share in world exports of agricultural products increased only slightly, from 9.5% to 10%. That of the United States has recently declined a little (from 19% to 17%) but this is not entirely explained by the tiny increase in the Community's market share. Nor does the common agricultural policy aim to force other producers off the world market, but simply to enable European farmers to enjoy a fair share of world trade and its development.



## V — *The long-term: a structural policy*

The market organizations, the price and trade policies are the main instruments of the common agricultural market. But these alone cannot provide a satisfactory response to the problems of Community agriculture.

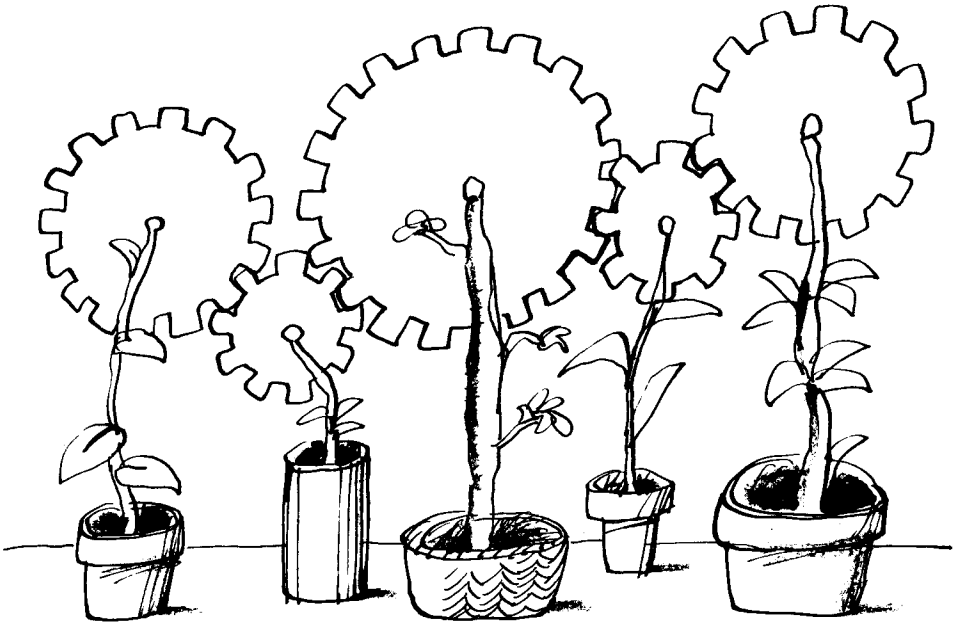
### A — Community agriculture: a motley patchwork

For convenience, the expression 'European agriculture' is commonly used as if this was a homogeneous entity that can be described by average figures. In fact, there are many agricultures and many farming systems, with wide differences among the 10 million holdings of the Community. It is true that many farms produce the same products. But there are striking contrasts between the large undertakings managed by sophisticated methods in the northern plains and the small holdings eking out a subsistence in many southern areas and hill regions.

These differences mainly relate to natural conditions (soil, climate), the size of the farms, production methods, the farmer's age and degree of education, the economic environment, and the degree of development of non-agricultural activity in the Community regions. Dating a long way back and sometimes reinforced by national policies before the establishment of the common market, these differences have not been eliminated by more than 20 years of the common policy. Indeed, as new countries have joined, the disparities have actually become wider.

The implications for the price and market policy are obvious: how can a single common price ensure a fair income to the modern efficient farmer and at the same time to a hill farmer on a traditional small holding? The same increase in the price of milk has a very different significance for farmers milking five cows and those milking two hundred. A high price enables the small man to survive, but it is windfall profit for the big farmer and could encourage them to boost output beyond market needs. Conversely, a low price makes big farms less profitable, but spells disaster for the small farmer.

Therefore, an agricultural policy centred on market organizations cannot solve all the problems Community farmers have to contend with. In order to increase the productivity and the individual incomes of those working the land — objectives specifically set by the Treaty of Rome — other measures are also required. These are designed to 'level up' the holdings which need development, to improve farming skills, and to encourage the use of modern techniques. In so far as the industries related to agriculture (rural infrastructure, marketing and processing of agricultural products, as well as the overall development of the regions) are weak and constrain agricultural development, the common agricultural policy must strive to strengthen



both the farming structure and its immediate economic environment. The policy on agricultural structures consists of schemes that aim to achieve this objective.

#### **B — Large-scale projects: the background to the Community policy on agricultural structures**

Until the early 1960s, the Member States endeavoured individually to solve the structural problems besetting their agriculture. Community action was confined to coordinating the various national policies and to financing a number of individual projects, which were not dovetailed into a binding Community framework.

#### **Modernization, rejuvenation, training: the 'socio-structural' directives**

Towards the end of the 1960s, a grand long-term design, the 'Mansholt Plan', described in detail, and for the first time quantified, a consistent set of measures which would provide a sound basis for Community agriculture. The basic documents forming the kernel of the policy on agricultural structures were adopted in 1972. These 'socio-structural directives' provided for action in three areas:

- (i) the modernization of farms; the Community could grant investment aids to farmers submitting a 'development plan' for their farm, enabling them to

TABLE 8

**Share of agriculture in gross domestic product and in employment (1984)**

(%)

Member States	Share of gross value-added by agriculture in the GDP	Share of agriculture in total civilian employment
Belgique/België	2.6	2.6
Danmark	4.7	7.4
BR Deutschland	1.8	5.1
Ellas	16.5	27.0
España	5.9	17.9
France	4.0	7.1
Ireland	10.7	14.0
Italia	6.4	10.6
Luxembourg	3.1	4.5
Nederland	4.4	4.6
Portugal	6.5	23.1
United Kingdom	2.1	2.3
EUR 12	3.7	8.8

achieve, generally within six years, an 'earned income' comparable to the average income of other industries in the same region;

- (ii) to speed up the renewal of the workforce and the restructuring of farms, early pensions could be granted to farmers over 55, thereby releasing land: this is to be allocated on a priority basis to farmers who have submitted development plans;
- (iii) to encourage the dissemination of technical and economic progress in agriculture, training grants would be given to farmers and their socio-economic advisers. Furthermore, persons wishing to leave agriculture to work elsewhere would qualify for retraining.

### From 'horizontal' schemes to specific measures

The above measures could be implemented anywhere in the Community, but the Community would make a greater financial contribution to those Member States and regions with the worst structural problems. However, experience showed that they were of limited value in certain regions because of the conditions imposed on the beneficiaries. Furthermore, because of their general character, they would not always solve local or specific structural difficulties. Hence the idea of supplementing the 'horizontal' measures by structural measures related to specific problems.

This new approach was introduced in 1975 through measures intended only for the less-favoured agricultural areas, that is mountain areas in which farming has to be protected, less-favoured areas with low-yield land, and areas with specific hand-



*Portuguese peasants harvesting beans.*

icaps. To ensure that farming survives in these regions, the Community organized direct subsidies to the farmers and preferential terms for grants and loans.

TABLE 9  
Average size of farms in hectares and  
man/land ratio (1983)

(in hectares)

Member States	Average size of farms	Hectares per farmer or farmworker
Belgique/België	13.6	13.5
Danmark	28.8	13.7
BR Deutschland	15.5	8.8
Ellas	3.6	8.8
España	10.7	14.0
France	25.5	18.6
Ireland	22.8	29.9
Italia	5.6	7.0
Luxembourg	27.9	18.3
Nederland	14.5	8.1
Portugal	5.6	4.5
United Kingdom	64.5	29.8
EUR 12	12.5	12.1

Pursuing the same logic, a large number of specific schemes were later undertaken to support some or all agricultural activities of the most vulnerable regions of Europe, mainly in the Mediterranean countries, Ireland and Northern Ireland.

### **From the farm to agro-business**

The proportion of agricultural products now sold directly by the farmer to the consumer is tiny. The chain from farm to housewife's basket involves a complex series of wholesalers, processors, dealers and shopkeepers.

In the interest of both the farmer and the consumer, this system must operate as efficiently as possible. Hence it is necessary to complement measures strengthening the structure of farms with matching provisions for the marketing and processing of agricultural products.

This new approach was launched in 1977. It provided finance in order to modernize the marketing of agricultural products as well as most sectors of the processing industry, to increase marketing and processing capacity, and to improve quality.

### **An overall approach: the integrated development programmes**

In the least-favoured areas, it is not enough to strengthen the structures of farming as well as of commerce and industry. The entire economic fabric is vulnerable and must be reshaped. Accordingly, novel provisions have been introduced since 1979 for these extreme cases. These are 'integrated' operations in that they concentrate the available funds — whether Community funds or national and regional public resources — on those sectors which can have a 'leverage effect' on regional development. These integrated programmes were implemented in the Western Isles of Scotland, in the French 'department' of Lozère, and in the Belgian province of Luxembourg. They encompass agriculture but also food-processing, tourism, and small industry, as well as training, and infrastructure, etc., aiming to create the conditions under which farming can be kept alive by breathing new life into the entire area.

### **What are the results?**

The Community's schemes to improve structures are generally limited to periods of three, five, or, at most, ten years. Accordingly, by 1985, the bulk of them were completed. This provided an opportunity to review the progress made over a period of nearly 10 years.

The directive on training in agriculture was the most successful 'socio-structural' directive, especially in Germany and in France: it manifestly met a real need. After

promising beginnings, the modernization of farms through development plans was hampered by the general recession from 1980 onwards. The investment costs met by farmers rose steadily because of inflation and the increase of interest rates on borrowed capital. This development frightened away many potential beneficiaries. Worst, most of the plans provided for an increase, and sometimes a substantial increase, in production, at a time when there were already surpluses of several products.

The early retirement system to encourage elderly farmers to leave the land, had only limited scope. The allowance payable to those handing over their farms, was never increased in value, and it failed to provide an incentive as time went on.

In theory the land released was to be handed over to other farmers presenting development plans, but the outgoers and incomers were seldom at the same place at the same time.

Among the regional or specific schemes, the policy on less-favoured areas has become the most important. It is also the Community's main structural scheme in financial terms and now covers nearly half the agricultural area of Europe. The various schemes on a smaller scale have enjoyed varying degrees of success. However, they show that alongside a general approach, a localized approach, tackling specific problems where they arise, is the right way to respond to the varied structural problems besetting Community agriculture.

The drive to improve marketing and food-processing structures opened up investment possibilities in all the Member States and in all sectors of the processing industry totalling more than 10 000 million ECU. A success in such a leading area of Community industry should be emphasized.

As for the integrated development programmes, they have generally achieved their objectives. In particular, they have made it possible to experiment in the field, a promising approach to regional development which could be extended to other regions, and to show that this was the only satisfactory response to the problems of the poorest agricultural areas.

Is there any way of measuring the impact on agricultural structures of the policy implemented by the Community? Changes in agricultural structures result from a number of phenomena: the situation at the outset, the direct influence of structural schemes, the influence of the prices and markets policy, the role played by national and other Community policies (especially regional policy), etc. It is therefore not easy to single out the structural changes due entirely to the specific policy on structures. We shall return to this question later. Here we would like to point out that the policy pursued until 1985, with its successes and reverses, clearly showed the road to be followed in the future.



*Port wine, of excellent quality and inexpensive, is transported by water in the Portuguese production areas.*

### **C — Policy on agricultural structures today: flexibility, efficiency, solidarity**

The new policy on agricultural structures was adopted in 1985 and will apply until the middle of the 1990s. It is based on a review of the measures taken so far. It makes allowances for the current constraints imposed by the economic and social context and the problems which confront European farmers.

#### **A new context . . .**

The number of the unemployed in the Community has steadily risen, and it appears unlikely that it will decline significantly in the medium term. As a consequence a key

objective must be to ensure that farmers and farm workers do not now swell the ranks of the unemployed. While many European holdings need to be modernized, over-investment, which several farmers could ill afford, must be avoided. The situation on most agricultural markets is such that income improvements must be achieved by methods other than increases in output.

Greater attention must be paid to the threat to the environment posed by some farming methods: citizens and farmers have an interest in protecting nature, which is their work tool. Finally, solidarity *vis-à-vis* the less-favoured agricultural areas, as expressed through the regional structural schemes, must be maintained and strengthened.

### . . . new responses

These principles form the basis of today's Community policy on agricultural structures. Its main features are:

- (i) replacement of the development plans system by a more flexible one of improvement plans for agricultural holdings. This aims at a lasting and substantial improvement in farm income, emphasizing lower production costs, improvements in living and working conditions as well as in the quality of agricultural products, the change to deficit products and the conservation of the environment;
- (ii) the ban on, or curtailment of, investments grants if they would lead to increased output of products which are in structural surpluses;
- (iii) the organization of schemes to help young farmers starting up, and to create services for farmers;
- (iv) more — but modified — aid for occupational training in farming;
- (v) increased support for farming in the less-favoured areas and permanent as well as appropriate measures to assist certain regions;
- (vi) encouragement of forestry and afforestation on farms.

The effective schemes for the improvement of marketing and processing have been renewed and amplified. Finally, large-scale integrated development programmes, the integrated Mediterranean programmes, are being applied in the South of France, part of Italy and in Greece. The objective is to restructure the economies of the rural areas of these regions by means of massive investments, enabling them to compete effectively with Spanish and Portuguese farmers.

Special arrangements have been made for Portugal, which has the most vulnerable agriculture in the entire Community. Even before it joined the Community, Portugal received Community aid for the modernization of its agriculture. Extending and supplementing this effort, a major and specific programme for the improvement of



Portuguese agricultural structures will be implemented during the 10 years following accession in addition to the Community's ordinary structural schemes. Its essential aim is to help Portuguese farmers reach a level of development similar to that of the agriculture of the other Member States. This would eventually enable them to take an active part in the enlarged common agricultural market. Portugal shows clearly that the price and market policy as well as the policy on agricultural structures cannot be implemented separately.

## *VI — The expression of solidarity: financing the common agricultural policy*

The agricultural policy is a common policy. It is therefore logical that its cost should be borne jointly. The Treaty itself had laid down that an agricultural policy should be set up. Since its inception, the European Agricultural Guidance and Guarantee Fund (EAGGF) has accounted for the lion's share of the Community budget (between 60 and 70%). For this reason, it always looms large in the discussions of the two branches of the budgetary authority, the Council of Ministers and the European Parliament. Also the European Court of Auditors, an independent supervisory body, monitors the use of the approved appropriations. In 1985, the EAGGF managed nearly 25 000 million ECU, as much as is handled by a medium-sized bank.

### **A — A common policy means common funding: the EAGGF**

#### *Financing the policy on markets and prices: the Guarantee Section*

As its name suggests, the EAGGF has two sections: the Guarantee Section and the Guidance Section. The Guarantee Section finances Community public expenditure resulting from the policy on markets and prices. In the first place, it funds intervention designed to stabilize the markets. Secondly, it finances refunds paid on exports to non-member countries enabling disposal of agricultural products on world markets (this heading includes the EAGGF's contribution to food aid in the form of gifts — 187 million ECU in 1985). Finally it provides funds for the monetary compensatory amounts.

In recent years, the Community has endeavoured to slow down the increase in the cost of the policy. At the end of the 1970s agricultural expenditure was growing at a

rate exceeding 20% per year, far ahead of inflation. In the long term, the EAGGF would have accounted for a growing share of Community expenditure, at the expense of other common policies. This increase varied from year to year and was the result of a number of factors, including a faster growth in agricultural output than of markets, both inside and outside the Community.

A breakdown of expenditure by product group shows that, in 1985, dairy products accounted for nearly one-third of the expenditure and thus formed the sector which received by far the greatest Community support. Next come beef and veal (14% of expenditure), then cereals, sugar, oils and fats (each representing about one-tenth of Community agricultural expenditure): these products account for more than three-quarters of the expenditure. We shall further consider this situation, which reflects the problem of structural surpluses.

### *Revenue which finances expenditure*

The market and price policy does not involve only expenditure. Through the ordinary levies and the sugar levies, a contribution by sugar producers, the Community budget also receives revenue: nearly 2 200 million ECU in 1985, accruing as the Community's own resources.

Since 1977, the Community's dairy farmers have had to make a financial contribution, known as the 'co-responsibility levy'. This levy, which is not budgeted as the Community's own resources, is used to finance directly expenditure in the dairy sector. The system of dairy quotas introduced in 1984 also lays down that when quotas are overrun, an additional levy, over and above the co-responsibility levy, is imposed. In 1985, the financial contribution of dairy farmers totalled 637 million ECU.

Lastly, a co-responsibility levy was introduced in 1986 for cereals. Here again, revenue from it finances expenditure on the product.

### *Tailor-made finance under the structural policy: the Guidance Section*

The Guidance Section administers Community funds for structural policy schemes. These schemes are mostly planned and implemented on a decentralized basis in collaboration with the individual Member States, with the regions and occasionally direct with the beneficiaries.

TABLE 10  
**EAGGF Guarantee expenditure by product group 1985**  
*(% of total)*

Cereals and rice	12.0
Milk products	30.0
Oils and fats	9.1
Sugar	9.1
Beef/veal	13.9
Other	24.9
Compensatory amounts	1.0

**Total EAGGF Guarantee expenditure**

1973 : 3 928 million ECU  
 1977 : 6 830 million ECU  
 1980 : 11 315 million ECU  
 1985 : 19 744 million ECU

With this form of division of labour, it is appropriate for the Member State or regions to bear a reasonable proportion of the cost. In the case of investment grants, it is also appropriate that the beneficiaries — whether farmers, cooperatives or processing industries — make their contribution too and thus take up some degree of responsibility.

As a general rule, the Community contributes 25% of the expenditure for structural policy measures. However, in certain special cases it contributes much more: it covers 50% and even 65% of total expenditure. This applies to some programmes implemented in Ireland, Italy, Greece and Portugal. Moreover, the Community contributes financially to aid various special schemes which are generally related to a given sector of production or which have a specified duration, as for instance grants paid to producers' organizations.

Finally, until 1979 the EAGGF helped to finance individual projects. These ranged from land consolidation, electrification and road-building to the construction of facilities to process and market agricultural products. Between 1964 and 1979 over 7 500 such projects were financially assisted by the Community. The total volume of investment involved amounted to just under 10 000 million ECU. Through the Guidance Section the Community contributed over 2 000 million ECU to this amount.

Unlike Guarantee expenditure, Guidance expenditure mainly takes the form of co-financing. This explains, at least partly, why such expenditure is a very small proportion of the total. In 1985 it came to nearly 900 million ECU, i. e. only about 4% of



*Farming in the 'Emerald isle' — a typical scene: Irish calves near a stone wall.*

total EAGGF disbursements. Clearly, such a small budget is a major constraint to the effectiveness of a common structural policy.

#### **B — Is the common policy an expensive policy?**

In recent years, expenditure for the common agricultural policy has provoked a great deal of discussion.

When economic difficulties are widespread and everyone agrees that budget deficits must be reduced, the question arises whether the common agricultural policy is too costly.

#### *Only a minor burden on Europe's citizens and its economy*

In 1985, the EAGGF's overall expenditure was nearly 20.5 billion ECU. In the same year, revenue came to more than 2 billion ECU. Net expenditure was less than 19 billion ECU. In other words, the common agricultural policy cost each European

TABLE 11  
**Budget resources and EAGGF Guarantee expenditure**

(*'000 m ECU*)

	General budget of the EC	EAGGF Guarantee Section expenditure
1975	6.47	4.52
1976	7.75	5.59
1977	8.84	6.83
1978	11.70	8.67
1979	14.36	10.44
1980	16.31	11.32
1981	17.88	10.98
1982	20.72	12.41
1983	24.82	15.81
1984	27.23	18.35
1985	28.08	19.74

citizen about 5 ECU per month. This amount should be seen as an insurance premium guaranteeing secure supplies for nearly 320 million consumers in the Community: it does not appear excessive.

In a wider economic context, net EAGGF expenditure may be regarded as very modest. It represents half of 1% of the Community's gross 'national' product — a key indicator of the level of economic activity of a country — and less than 3% of consumer expenditure on food.



*Ewes and lambs on a farm near Galway, Ireland.*

## *Modest in international terms*

The Organization for Economic Cooperation and Development (OECD) has endeavoured to compare State expenditure by its members on price and income support for agriculture on a worldwide basis. In order to show the degree of support for agricultural production in individual countries, expenditure was expressed as a percentage of the value created by agriculture (at market prices). In 1977, the only year for which figures are available for all the countries studied, the level of support for agricultural production ranged from 7.5% in New Zealand to 27.3% in Switzerland. The Community was nearer the bottom at 11.9%, i. e. very near the United States (9.1%) and Austria (10.6%), but far behind countries like Norway or Japan. In other words, even in international terms, expenditure to support European agriculture cannot be said to be excessive.

## *The real problem: getting agricultural expenditure under control*

At first sight it may seem surprising that some 60-70% of the Community budget is spent on the agricultural policy. What is the reason for this apparent over-emphasis on agriculture, and does it not hinder the development of other policies?

So far, the agricultural policy has been the only specific and properly integrated Community policy, i. e. a policy in respect of which Member States have transferred to the Community a major proportion of their national responsibilities. If the common agricultural policy takes a predominant place in the Community budget, this is ultimately due to the reluctance of Member States to set up other policies, having the same Community character and involving truly joint financial responsibility, as the common agricultural policy does. Member States are also reluctant to follow the Commission's recommendations to strengthen existing common policies on major issues which must be developed to be really effective (regional policy, social policy, transport policy, policy on research and development, etc.). In addition, some of the expenditure now chargeable to the EAGGF is justified by partly non-agricultural considerations such as the need to maintain sufficient population in the poorest areas. Logically, such an expenditure should be covered by other common policies.

The real problem is twofold: available funds should be allocated wisely and the upward trend of expenditure should be brought under control. The excessive production increase of certain items, *vis-à-vis* the trend of demand, and mounting surpluses have given the growth of agricultural expenditure its own momentum. In this situation, Community funds must be used to manage the surpluses and their disposal: obviously not a very rational use. This accounts for the introduction into market organizations of machinery designed to bring agricultural production under control. It is also the reason for an agreement — known as 'budgetary discipline' — under

which future agricultural expenditure will not be allowed to expand as rapidly as the Community's total own resources.

TABLE 12  
**EAGGF Guarantee section expenditure and agricultural production**  
 (Averages for 1983/1984/1985)

	Share in expenditure of EAGGF Guarantee Section	Share in final production of agriculture
Cereals and rice	12.2	13.7
Milk products	29.3	19.0
Sugar	8.8	2.3
Beef/veal	13.0	14.3
Pigmeat	0.9	11.5
Olive oil	4.6	1.0
Wine	5.2	4.9
Fruit and vegetables	7.2	12.7

## VII — *Helping the CAP to work smoothly: supplementary measures*

The price and market policy and the structural policy form two essential and inseparable aspects of the common agricultural policy. Are they enough by themselves to ensure the smooth operation of the agricultural common market, now and in the future? Not necessarily. While obstacles to trade such as customs barriers between Member States have disappeared, others, at least as formidable, still survive: differing rules for production and marketing of food and other agricultural products. Moreover, the subsidies the member countries grant their farmers, topping up Community measures, may confer unfair advantages and, thus, interfere with proper competition. As for the future, the Community must prepare now by further improving the effectiveness of its agricultural research.

### A — **Completing the internal market: common standards**

There is now not a single customs duty left to hamper trade in agricultural products between the countries of the Community. Yet the man in the street does from time to time hear talk of a 'trade war' between some European countries, and of merchandise which is held up at the borders.

It is true that each Community country establishes standards for the production and marketing of food and other agricultural products through its own regulations: for

instance maximum quantities of certain substances in food, lists of authorized food additives, and health protection standards which imported livestock must meet. It is obvious that these regulations enable member countries to reintroduce in another form those customs barriers which have disappeared. Under the pretext of protecting consumers, one country could adopt particularly stringent regulations which would keep out imports from another Member State.

The contracting parties of the Treaty of Rome themselves were aware of this danger and had laid down, at the outset, that the countries should work towards bringing national legislation closer together. In the agricultural field, complete harmoniza-



*Gathering tulips in a hothouse in the Netherlands. Dutch flowers are exported all over the world.  
(Photo: Stichting Public Relations Land- en Tuinbouw)*



tion has not yet been achieved, but good progress has been made. In 1984 a major programme on work still outstanding was undertaken.

Many are the standards which are fixed at Community level and are applicable on a uniform basis throughout the Community. They affect livestock farming, products used to treat crops, the maximum amounts of pesticides or toxic substances that may be contained in agricultural products, methods of controlling livestock disease, etc.

The following are two significant examples:

- (i) the adoption of an exhaustive list of colouring substances authorized for use in food;
- (ii) a ban on the use of various hormones in livestock farming.

In all cases the objective is to improve the quality of the products offered to the consumer. Thus, the interests of both producer and consumer are served by the harmonization of national agricultural legislation: the farmers are certain of being able to sell their output without hindrance and the consumer is guaranteed a quality product.

#### **B — Farmers must compete on an equal footing: monitoring of national subsidies**

Since the customs barriers were swept away within the common market, farmers have been competing not only with their compatriots but also with farmers in other Community countries. The consumer can choose the best products in terms of price and quality, no matter where they are produced. In order to meet this competition, farmers must become more competitive and specialize so as to make the most of their circumstances (soil, climate, economic and social environment).

This welcome change is profitable both to farmers and consumers, but has been jeopardized by subsidies paid by the member governments to farmers. These subsidies are liable to interfere with free trade by conferring artificial advantages to some farmers over others.

European countries grant their farmers many different forms of help on top of Community measures. Generally they are designed to promote structural change, and take the form of tax reliefs or welfare schemes. Harmonization is all the more difficult to achieve because the general and agricultural situations vary so much from one country to another and because the aid schemes vary so much. The Community's role is to ensure that operating or planned national aids to agriculture do not give advantages to some farmers when competing with others, and that they do not hinder the implementation of Community schemes, whether within the framework of market organization or structural policy.

## C — The way ahead: agricultural research

In Europe, agricultural research has for many years been the responsibility of each country. It enjoys a world reputation. It was, therefore, not necessary to set up a completely new organization for the Community, but only to coordinate the efforts made by each Member State so as to assure optimum effectiveness. This is the purpose of the research programmes on problems of common interest. Close co-operation among the research workers of the various countries is making a major contribution to the common agricultural policy. For it allows them to build up the scientific and technical knowledge needed to prepare properly a long-term policy and to adapt farming to new situations.

The present programme (1984-88) covers six main topics, which can be classified under three main headings:

- (i) conservation and use of Community natural resources: energy in agriculture, as well as use and management of land and water;
- (ii) structural problems of European agriculture: regional problems and, in particular, the food-processing sector of Mediterranean agriculture;
- (iii) improvement in productivity: livestock and crop farming.

## VIII — *The institutional framework: who decides what?*

The European Community's institutional system cannot be easily classified. It goes further than an inter-State organization, and its institutions are legal entities with major responsibilities. But it is not a federal government to which the national governments and parliaments are subordinate. The Community constitutes a new and original response to the needs of Europeans, and appropriate rules of procedure have been worked out.

### *Decision process*

The procedures for taking policy decisions in the European Community also apply to the common agricultural policy. Here are the main points:

- (i) Commission proposals. The European Commission has 17 members, appointed for four years by joint agreement among the governments. The members of the Commission must act independently of the governments and of the Council. The Commission is the watchdog of the Treaty and the executing au-

thority of the Community but, at the same time, it has powers to initiate Community policy. It presents the Community interest and acts as a single body;

- (ii) Parliament opinion. Following the enlargement of the Community to bring in Portugal and Spain, the European Parliament now has 518 members. It monitors the work of the Commission, which is politically responsible to it. It has power to vote a motion of censure requiring the Commission to resign; it also has important powers over the budget;
- (iii) Economic and Social Committee opinion. The Committee is an advisory body. It is formed by representative of the various sectors of economic and social life, and must be consulted before a wide range of decisions are taken;
- (iv) Council debates and decisions. The Council of Ministers is formed by representatives of the 12 governments. When the Commission submits a general memorandum or a specific proposal, the Council generally instructs a special committee of senior officials or a permanent working party to consider the matter first. The activities of these committees and working parties are coordinated by the Permanent Representatives Committee, which also represents the ministers. In the agricultural field, this function is mainly the responsibility of the Special Committee for Agriculture.



*A cow with her three calves on a farm in Friesland, the Netherlands. Milk production is growing steadily in the Community.*

*(Photo: Jos Lammers, Eindhoven)*

## *Legal instruments*

The results of the decision-making process outlined above are various legal instruments. There are regulations, which are binding in their entirety and directly applicable in all Member States. They have force of law. Secondly, there are the decisions which may concern specific Member States, firms or individuals. They have the character of an administrative act and are therefore binding on those whom they concern. Finally, directives are addressed to one or more Member States. They are a kind of framework law which lays down an objective, Member States being left free to decide on the means of achieving it. Member States are, however, required to pass the necessary national legislation. The Court of Justice of the Community has the power to resolve disputes in matters of Community law.

The common agricultural policy generally uses regulations for the purposes of implementing the price and market policy and directives for the structural policy.

## *Management Committees*

The Commission is responsible for the day-to-day administration of the common agricultural policy. For the various market organizations (milk, sugar, etc.), there are specialist 'management committees', on which all the Member States are represented with a Commission official in the chair.

These committees meet at the invitation of Commission staff. Such an invitation may be made at the request of a Member State. The Member States' delegations are generally made up of experts and officials specializing in the relevant area.

Before the Commission adopts a measure, a draft goes to the relevant committee for its opinion. After discussion, the committee votes by qualified majority (54 votes out of 76). The votes of the committee's members being weighted on the basis of the size of the country as in the Council.

The committee's opinion is not binding on the Commission, which takes note of it but remains entirely free to decide for itself. If it decides to adopt a measure in spite of a negative opinion by the committee, it must refer the matter to the Council, which may reverse the Commission's decision within one month. The Commission may put the measures decided upon into effect immediately, or wait for the reaction of the Council. In practice, it is very rare for the management committees to give adverse opinions. This process of coordination between the Commission and the governments through the management committees has given excellent results in several respects.

## Who decides what?

Depending on the nature of the decision to be taken, either the Council or the Commission is responsible. In general, the Council establishes the basic rules for the market organizations, policy on structures, harmonization of national legislation and the adoption of the agricultural research programme; Parliament and in some cases the Economic and Social Committee must be consulted before the Council can act. The Commission is the body which works out the procedures implementing the basic rules enacted by the Council.

## Part Two — Twenty-five years of common agricultural policy: balance sheet and prospects

Since the inception of the common agricultural policy, fundamental changes have taken place. It is true that the key features remain. Farming is still carried out on family farms: their labour and capital are provided by the farmer and the members of his family. In relation to natural characteristics and the economic environment of farms, the geographical distribution of many types of crops is not very different from what it was 25 years ago. Beyond these general points, agricultural production, the conditions in which it is carried out, the links between agriculture and the

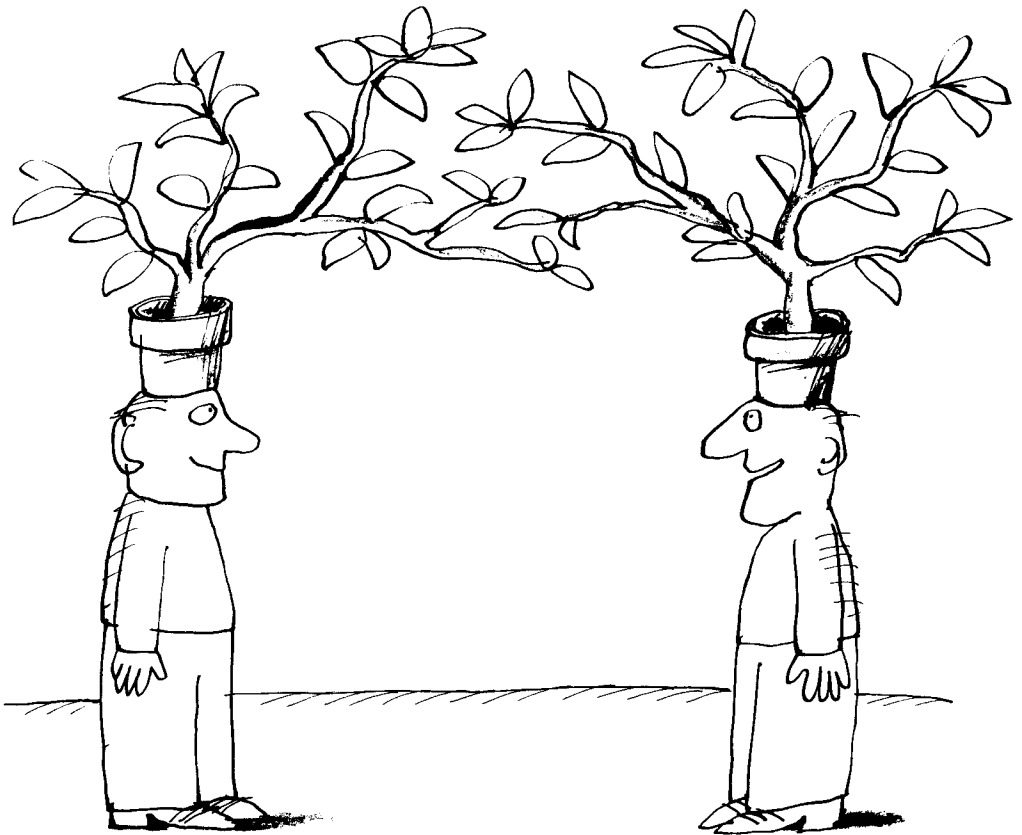


TABLE 13  
**Yields of some of the main products in the  
 Community of Ten 1970-84**

	1970	1975	1980	1984
Cereals (excl. rice) (100 kg/ha)	34.4	38.8	47.6	58.1
Sugarbeet (100 kg/ha)	410.1	411.3	471.4	515.8
Wine and must (hl/ha)	60.04	51.51	59.54	59.41
Milk (kg/cow/year)	3 648	3 708	4 186	4 242

other industries, and the way food is supplied to European consumers have changed beyond recognition. Did the common agricultural policy alone bring this about? Probably not. Other Community policies, national or regional policies in various fields, and the situation at the outset have certainly contributed just as much as the policy itself to the development of 'Green Europe'.

Over the years the policy has itself been modified by successive additions. In the 1960s and early 1970s, these changes did not alter the basic mechanism, but at the end of the 1970s and in the early 1980s the adjustments went deeper. For example, the guarantee thresholds and the milk quotas in the market organizations were introduced. Now, in the mid-1980s, the policy is being reformed. The authorities are tackling the problems which have built up over the years and which now justify a new start: they plan for European farming at the turn of the millennium.

What has the policy achieved? How has the European agricultural landscape changed over the last 25 years? These are questions which farmers, consumers and politicians have considered in order to prepare for the future.

### *I — Definite successes*

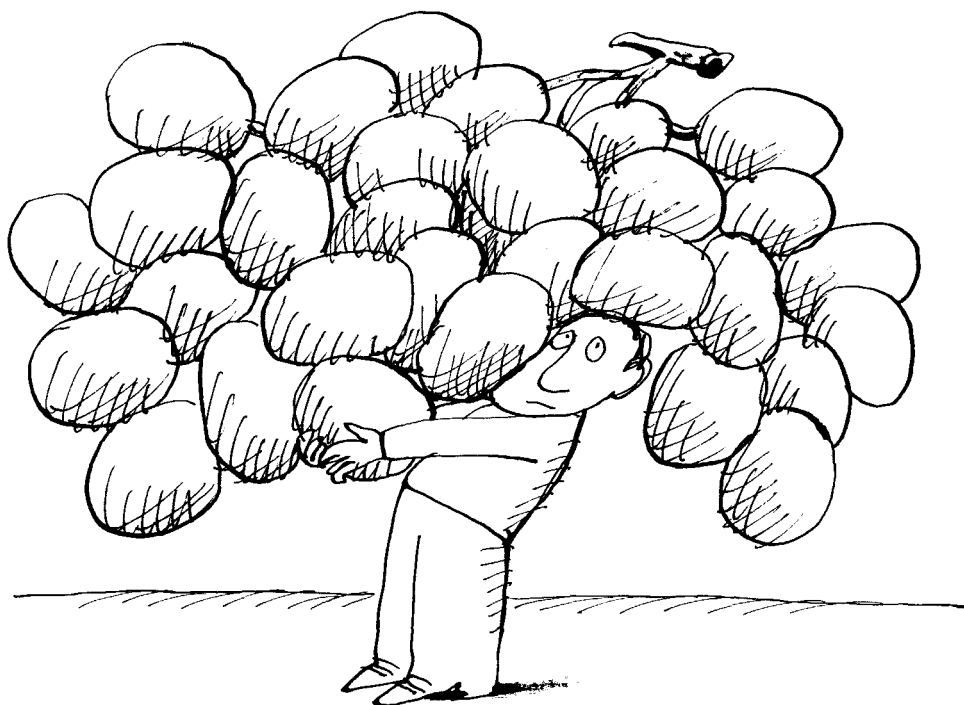
The success or failure of any policy must be judged in terms of the achievement of its objectives. The agricultural policy cannot avoid criticism, but definite successes have been achieved in essential areas.

#### **Secure supplies**

Since the creation of the common agricultural market, supplies for European consumers have improved remarkably, both in terms of quantity and of quality. Towards the end of the 1950s, there still was rationing in some countries, reflecting the

shortages during and after the second world war. Nowadays, the Community can cover all its food needs except for tropical products and protein-rich cattle feed. Supply breakdowns are a thing of the past, and consumers are now sheltered from erratic fluctuations on the world markets of basic food products. The range of products available is steadily increasing and improving.

This change is due to the spectacular growth of European agricultural production — itself a result of productivity and yield increases — and to the steady expansion of trade in food within the common agricultural market. The volume of European production increased by 1.5% to 2% per year and filled most of the Community's agricultural deficits. Despite the economic crisis, trade in agricultural products between the Member States increased fourfold between 1973 and 1985, and it is twice as big as agricultural exports to non-member countries. Given its continental dimensions, the Community has offered new outlets to its producers: first the markets of other Member States and then the world market. It also provides a broad and firm basis to food supplies for its consumers.





## **Reasonable prices**

Food prices have increased rather less rapidly than consumer prices as a whole. This is because the prices of agricultural products — one of the main factors governing food prices, but by no means the only one — have lagged behind the rise in the cost of living. Compared with food prices in other industrialized countries, food prices in Europe are reasonable and stable. This means that an important objective of the Treaty of Rome has been achieved.

## **Major progress in productivity**

Thirty years ago, agriculture was regarded as an unchanging sector of the economy: it seemed that techniques and yields could evolve no further. The situation now is completely different. Productivity gains achieved by farmers exceed those in any other industry. Production methods, economic results and links with the environment are making farms increasingly similar to small- and medium-sized manufacturing or service industries.

## **Incomes: up and down**

Since the mid-1960s, incomes have developed very unevenly. Until 1973 they grew steadily. During this period they increased by more than 40% in five years, reaching a high level. They declined in 1974 but then recovered slowly from 1975 to 1978. However the trend over the 1968-78 period (an increase of 2.8% per year) was similar to that achieved in other sectors of the economy.

From 1979 to 1981, farm incomes again declined. After rising in 1982, they fell in 1983, recovered in 1984, and fell again in 1985. Overall, in 1985 the Community average for real farm incomes was at much the same level as in 1973-75. The trends recorded reflect farmgate prices and costs, but also alternating good and poor crops. These are the result of weather conditions, which are, of course, largely outside the farmer's control.

At first sight the long-term trend in average farm incomes is apparently disappointing. It should, however, be noted that the common agricultural policy has acted during these difficult years as a 'safety net', guaranteeing fixed prices through the intervention mechanism and protecting farmers from fluctuations in world market prices by the levy system. Without this machinery, farmgate prices would have fluctuated widely together with the world market and, for the products with the biggest surpluses, would probably have collapsed. Another important point is that the averages mask wide disparities within the farming world, both in respect of farm income levels and trends.



*Cereals in England, in the area of Reading. The United Kingdom, still a net importer of cereals when it joined in 1973, is now a net exporter.  
(Photo: Farmers Weekly)*

### **A leading trading partner on world markets**

Despite the machinery protecting farmers from disorder on the world markets, the Community has not been cut off from its supply sources: it remains the leading world importer of food and other agricultural products. It is also the world's leading donor of food aid. Through active involvement in international trade it has enabled its farmers to step up their exports: sales to non-member countries increased more

TABLE 14  
**Self-sufficiency in the Community of Ten**  
(Average for 1982/1983/1984)

	(%)
Cereals (excl. rice)	108.8
Common wheat	126.0
Barley	114.3
Maize	78.5
Wine	101.7
Oils and fats (total, excl. butter)	53.1
Oilseeds	35.3
Meat	100.7
Fruit	84.5
Vegetables	99.9
Skimmed-milk powder	142.3
Butter	130.9
Fresh milk products (excl. cream)	100.7

than fourfold from 1973 to 1984. The Community has thus enhanced their prospects of better incomes.

The Community has thus established a system ensuring its independence with regard to food supplies, while respecting international commitments. At the same time it has remained open to world trade and has graduated to the rank of leading exporter of farm produce. Therefore, it has defended its interests without shirking the obligations incumbent upon the world's leading trading power.

## *II — The changing face of agriculture*

Twenty-five years on, a review of European agriculture shows that its structures have undergone profound change. A much smaller number of better trained farmers now provide virtually all the food the Community needs from modernized holdings closely dovetailed into the tight network forged between agriculture and the rest of the economy.

### **Fewer, but more efficient, farmers**

In 1960, agriculture in the six-country Community employed 15.2 million people. By 1984 the figure was down to 5.8 million, representing only a little more than a

third. All in all, the twelve-country Community has just over 10 million farmers and farm workers.

In no other economic sector has the number of people employed declined as sharply as in agriculture. The fall was sharpest until 1973, the year in which the economic crisis began. The quick expansion of industry and services created a need for labour which those giving up farming could meet. From the mid 1970s onwards, the decline in the agricultural labour force lost momentum. It is now about 2.5% per years. Obviously, mounting unemployment in other industries is a deterrent to those who might otherwise leave the land despite the difficult working conditions it involves.

The much smaller agricultural labour force is also much more efficient. Despite the millions who have left, it succeeds today in fully supplying most agricultural products to European consumers. It also provides goods for export, where as in the 1960s production fell far short of needs. There is no accurate information on the training and skills of farmers, but evidence suggests that these have improved out of recognition. This is witnessed by the increase in the use of capital in agriculture: fertilizers, products for treating crops, machinery, buildings and equipment. It is also witnessed by the emergence in all Community countries of a significant number of farmers who are real 'managing directors'. They have sufficient knowledge and experience to achieve optimum combination of production factors (land, labour, capital) and to adapt to changes in their economic environment and market prospects. These are farmers whose management skills match those of managers in industry.

### *Concentration, specialization, intensification*

In 1966 the Community of Six had 6.4 million farms; in 1983 these were 4.9 million. The drift from the land and the schemes of structural improvement released farmland, made it possible to consolidate small holdings, and help to strengthen the remaining ones. The average size of a farm in the Community of Nine increased from 12 hectares in the early 1960s to 18 hectares by 1983.

TABLE 15  
Structural changes in agriculture in the original Community  
(Europe of Six)

	Average size of farms (ha)	Land/man ratio (ha per full-time farmer or farm worker)	Utilization of fertilizers (kg/ha)
1965	10.1	6.4	145
1970	10.8	8.6	174
1975	11.9	9.7	185
1980	12.1	11.2	210
1983	12.1	11.8	205

Farming is now not only more concentrated but also more specialized. There are still a large number of mixed farms growing various crops and raising livestock, but more and more farmers are concentrating on the product or products most likely to suit best their environment, in the broad sense of the term (natural conditions, infrastructure, proximity of customer firms, etc.). Farming specialization is reflected on the agricultural map of the Community: in some regions specialization is much more marked than 20 years ago. Consumers as well as the farmers benefit from it. Specialization enables the latter group to exploit farms to their best. It also guarantees the consumer moderate food price increases, thanks to economies of scale.

As agricultural structures changed, the production process itself has been transformed. Technical progress has led to a growing productivity. For example, the area on which cereals are grown in the Community has practically not increased over 20 years but because of enhanced yield production has risen by 70%. Much more than in the past, farmers use fertilizers, crop protection products, selected seeds, concentrated feed for cattle, and machinery.



*Jersey cow, with calf. The Community encourages traditional livestock farming for reasons of quality and in order to control surpluses.*

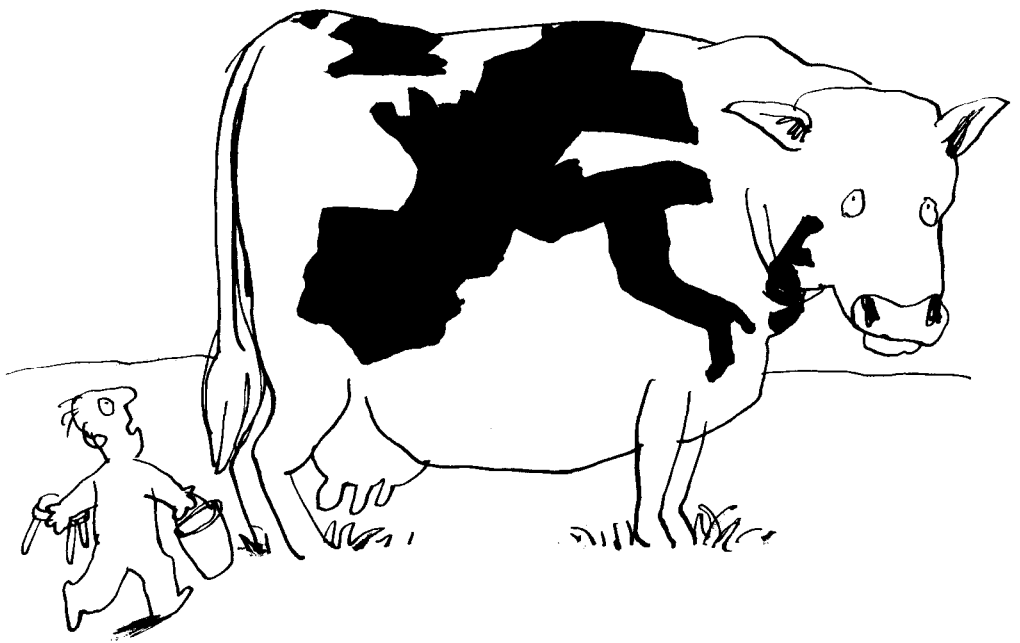
*(Photo: Central Office of Information, London)*

## Agriculture, a link in the food production chain

Today the proportion of agricultural produce directly changing hands between farmer and the consumer is negligible. Generally, farm products go through the processing industry, and, in particular processing facilities belonging to cooperatives. Here they are transformed and then offered to the consumer's choice as a growing range of products. The farmer had bought from other industries products and machinery necessary to today's ways of production.

In a number of European countries, the food-processing industry is the leading industrial sector. In 1983 it provided employment for nearly 2 million persons in the Community of Ten and there is every reason to believe that it will take a greater share of agricultural products: either for the preparation of food, or for industrial uses like the manufacture of chemical compounds, fuels of agricultural origin, pharmaceuticals, etc.

It is clear that the future of Community agriculture is now largely in the hands of its main customer, the processing industry. More generally, the links which have been forged between agriculture, its suppliers and its customers have become so numerous that agriculture should now be seen as an essential branch of a much larger sector which produces, markets and processes agricultural products.



## A thriving industry

Twenty-five years on, European agriculture has changed: the traditional sector of the economy has become a modern thriving industry. This has also its disadvantages — we will consider these later — but it proves beyond doubt that the common agricultural policy has not fossilized European agriculture in a comfortable position. In fact, the changes which occurred dovetailed farming ever more closely into the general economy. They also encouraged competition, and the constant improvement of productivity.

Is the modernization of European agriculture complete? Certainly not. There are entire regions of the Community where agriculture needs to catch up, and within regions already restructured, holdings must be further strengthened. In these cases, the common agricultural policy must guide agriculture so as to achieve optimum results based on the experience of two decades.

## *III — Problems of today — challenges for tomorrow*

Already towards the end of the 1960s, the Commission had drawn attention to the problems which the CAP might face, if no action was taken, to control emerging trends: a build-up of permanent agricultural surpluses, and an upward drift in budget resources for market organization expenditure, etc. At the time, the difficulties were just beginning. Only towards the end of the 1970s disequilibria became more pronounced, and the need to adapt the machinery of the policy began to be generally accepted. In the last few years a number of important measures have been adopted. Guarantee thresholds and similar provisions designed to control agricultural output were introduced and gradually applied generally. A new Community structural policy suitable to the condition of the 1980s was also introduced and the expansion of budgetary expenditure on agriculture was curtailed. But the fundamental problems have not been solved.

In 1985, the newly appointed Commission submitted, as promised, a 'Green Paper' on the 'Perspectives for the common agricultural policy'. This outlined a number of options and the future of Community agriculture until the end of the century. After consulting all the parties involved (farmers, consumers, and other Community institutions), the Commission submitted a more detailed set of guidelines, entitled 'A future for European agriculture'. Then it put to the Council its chosen proposals for practical solutions. In its turn the Council implemented some of the policy guidelines of the Commission.

## A — The situation

The Commission's analysis shows that the common agricultural policy, despite its successes, faces a number of challenges. Europe must take them up, if its farmers are to operate in a stable and lasting framework.

### The central problem: the surplus

Although once it consumed far more than it produced, the Community now has sufficient supplies of almost all agricultural products. From the 1970s onwards, and even more so in the 1980s, structural surpluses have developed for most products, milk, cereals, beef and veal, etc. There is every reason to believe that yields and productivity improvements will continue and even gather momentum, thanks to the progress of agricultural research. Whereas demand, both within and outside the Community, is only increasing slowly. There is, therefore, an urgent need to bring under control Community production and to align it gradually to market demand.

Various mechanisms have already been established under several market organizations. They involve the so-called 'guarantee thresholds'. Farmers now have to



*Weed control on a farm in the Federal Republic of Germany. The degree of mechanization is very high in the Community.*

*(Photo: Aid-Steinke, Informationsdienst für Ernährung, Landwirtschaft und Forsten eV, D - Bad-Godesberg)*



finance some or all of the extra cost of production when this exceeds a given volume. That is the guarantee threshold. The aim is both to give farmers greater responsibility as producers by making them more fully aware of the realities of the markets and to lighten the budgetary burden which storing and disposing of surplus products involves.

However, after several years of operation these devices have failed to eliminate the surpluses of some products. In order to be really effective they should have the same effect as a sharp reduction in prices. But political considerations militate against this.

### **Diversity and disparities in European agriculture**

The output increase has not solved the problem of farm incomes. In fact, the range of farm incomes in the Community is very wide. While some farmers are earning a decent living, others eke out a meagre subsistence and have no alternative source of employment. Income disparities are only one aspect of a fundamental feature of European farming: its heterogeneity. The differences in natural conditions, and in production structures, have become even more marked since Portugal and Spain joined. Diversity is a cultural advantage, but it also constitutes an economic constraint. It means that the policy instruments must be adapted to a variety of situations. In particular, it means that there is a limit to the extent to which pricing can be used to control production.

### **Imports and exports: restoring balance?**

The relatively liberal import arrangements, such as those for oils and fats or for products used as animal feed, have forced the Community to export products which no longer have outlets in the Community. They have thus contributed to building up surpluses burdening European agriculture. One possibility could be to strengthen Community protection against such products, in exchange for lower protection for others. Any change to the arrangements for agricultural imports would be made only after negotiation with the Community's trading partners, in compliance with the international undertakings of the Community.

### **The discouraging economic outlook**

The future outlook for the economic environment of European agriculture is not very encouraging. Growth will remain sluggish and unemployment will persist. In such a situation those wishing to leave the land will have little prospect of finding jobs elsewhere. This constraint cannot be ignored.

## **The budget**

Any policy adjustment must take into account expenditure implications. Member countries are implementing restrictive fiscal policies and the Community cannot run counter to this rule. At the same time, new potential claimants on public expenditure are emerging. The declining industries must be reorganized, and the growth industries must be encouraged. In other words, optimum effectiveness must be sought at all times when Community funds are being allocated to agriculture.

## **B — Clear priorities**

The policy must be adjusted, not overthrown. Its objectives, set by the Treaty of Rome, must be maintained.

The basic principles of 'Green Europe' remain entirely valid. A single market, Community preference and joint financial responsibility, are as in the past the pillars of the common agricultural policy. And, European agriculture will continue to be based on the family farm. Having agreed these principles, the Commission suggests that the policy be reshaped following six priorities:

- (i) gradual reduction of the production of surplus commodities and lightening the resulting burden for the taxpayer;
- (ii) diversification and qualitative improvement of production in response to internal as well as external markets and consumer wishes;
- (iii) more effective and systematic action to support the income of small family farms;
- (iv) support for farming where it is essential to regional development, the maintenance of social stability and the protection of the environment as well as the countryside;
- (v) a drive to make farmers more fully aware of environmental problems;
- (vi) a contribution to develop in the Community industries processing agricultural products and to involve farmers in the major technical changes of our time.

## **C — Coordinated instruments**

Directing the common agricultural policy along these lines can only be a long-term task, which will yield tangible results in the long rather than in the medium run. In order to achieve the recommended objectives, the Commission suggests that the various policy instruments be coordinated, and adjusted if necessary.

## **Farmers' awareness of the market**

The Commission is opposed to the general use of quotas and drastic price reductions. It takes instead the view that a coordinated set of instruments should be used. Its effectiveness will depend on their mutual compatibility, continuity and selectivity rather than on their intensity. These instruments include:

- (i) a restrictive price policy,
- (ii) an extension of joint responsibility,
- (iii) more flexible intervention: this device must revert to the role of safety net and cease to be a permanent outlet for surplus products,
- (iv) tougher quality standards.

However, the Commission does not wish simply to restrict the terms of the price and market policy. It also intends to encourage the products and brands required by the consumer.

## **Wider outlets for agricultural products**

Thanks to a modified market policy production control must go hand in hand with diversification towards unsaturated markets and with new industrial uses of agricultural products.

Suitable products for this are some oilseeds and protein plants, medicinal and aromatic plants, certain types of fruit, and small livestock, in which the Community is still not self-sufficient. Afforestation of farms must also be promoted.

At the same time, new outlets should be sought for existing products. The progress of biotechnology allows, at least technically, agricultural products to be processed in new ways for food or other purposes. Although there are complex problems, one possibility would be the production of ethyl alcohol from agricultural products. However, the development of these new avenues presupposes the availability of primary agricultural products at moderate prices.

## **A new task for the policy on structures**

The price and market policy and the structural policy must be coordinated. The structural policy must thus underpin the effort to adapt agriculture to the new approach of the price and market policy, facilitate the disposal of products and help to reduce production capacity. It must also help young people wishing to start up in agriculture and strengthen farming where it is essential to regional development.



*Olive harvest in Italy. In the Mediterranean countries of the Community olives are harvested mainly by hand. Those that slip through the harvester's hands are caught in a net. For some medium-sized olive trees, the trunk can be shaken with a tractor and this brings down the olives into a net on the ground.*  
(Photo: Italpublic SpA)

Following the 1985 review, the structural policy should normally enable the achievement of these objectives. However, other, additional, measures may prove necessary:

- (i) increased support to technical and economic advisory services, which must help farmers to adapt to the restrictive price policy;
- (ii) schemes to encourage elderly agricultural workers to retire;
- (iii) conversion of some farmland to non-agricultural uses;
- (iv) stronger help for less-favoured agricultural areas.

### **Agriculture and the environment**

Like any industry, agriculture is concerned with the problem of protecting the environment and the countryside. Farming can occasionally harm the environment if farmers use the wrong methods, but it is also a way of protecting rural areas, which it has helped to fashion and which it maintains.

The two aspects of the relations between agriculture and the environment must be allowed for. The aim is to achieve agricultural practice compatible with environmental protection but also to reward farmers for the service they render to the community in protecting and maintaining the countryside.

### **An increased influence in international trade**

The Community will be able to re-adjust the external protection of its agriculture only after negotiations with its trading partners.

In the immediate future, it must begin by defending an improved organization of the world markets, which is profitable both to the industrialized countries and to the developing countries. It must also consolidate its position as an exporter by setting up machinery as effective as that of its competitors on world markets. Lastly, special attention must be given to the problems of the Third World, for which a new food aid policy will be formulated.

### **D — Tentative results**

The Commission's guidelines are meant to provide a general, coherent framework within which the necessary adjustments to the various policy aspects can be fitted.

In 1986, the guidelines were implemented in a number of major decisions.

## **New guidelines for the policy on prices and markets**

When the 1986/87 prices were agreed, the Council approved a reduction of 0.3% of the institutional prices expressed in ECU. Once converted into the Member States' currencies, and once allowances are made for adjustments through the 'representative rates' (see Part 1, Chapter III), this actually represented an increase, in all the Member States, but at a lower rate than the expected rate of inflation. Decisions of this kind reflect a restrictive price policy.

The sugar quotas have been renewed and the principle that sugar producers should finance their own expenditure has been strengthened. The milk quotas, operating since 1984/85, have been further reduced. Moreover, a system to repurchase milk quotas has been set up, with the aim of reducing production capacity.

Major adjustments have been made to other market organizations. As far as cereals are concerned the restrictive price policy is supplemented by incentives to improve quality and by restricting the repurchasing of grain to one period per year. Most importantly, a co-responsibility levy has been introduced on marketed cereal. Following this decision, farmers' contribution to support expenditure now covers half the agricultural products subject to market organization, which in turn accounts for two-thirds of EAGGF guarantee expenditure.

Other proposals were on the table of the Council in mid-1986, for instance an adjustment of the market organization for beef and veal, involving less beneficial intervention arrangements offset by direct aid to specialized beef farmers. A mechanism for surrendering vine replanting rights is also being studied. The objective here is the same as that of buying-in of milk quotas.

## **Adapting the structural policy**

An important set of structural measures is being prepared, following Commission guidelines. These measures, supplementing and strengthening the Community's present structural policy, make available support for the new price and market policy which is gradually being introduced.

## **A coherent policy on trade**

In the day-to-day management of the markets, the Commission keeps within the guidelines it has set, namely the defence of the Community's position on the world market (in respect of imports as well as exports), the use of levies and refunds in order to stabilize the internal market, and the compliance with Community preference.

In the international context, the Community shuns confrontation and prefers negotiations to settle differences with certain trading partners. The Commission believes that, together with a better organization of the world markets for agricultural products, this is the right approach.

The decisions taken by the Council and the Commission show that the new guidelines for the common agricultural policy are being implemented. Other provisions are being prepared. They concern, among other things, the protection and development of forestry, the environment, and food supplies for developing countries.

## European prices: a short glossary

- *Target price* — price which the producer should receive under the market organization. The products concerned are cereals, sugar, milk, olive oil, rape and sunflower seeds.
- *Guide price* — corresponds to the target price but concerns beef and veal and also wine.
- *Norm price* — same as above in the case of tobacco.
- *Threshold price* — a price calculated so that the imported product (including transport costs) can be sold at the target price. The difference between the world price and the threshold price is covered by a levy. The products concerned are cereals, sugar, milk products and olive oil.
- *Sluice-gate price* — corresponds to the cost price of pigmeat, eggs and poultrymeat produced in the non-member countries with higher technical efficiency. An additional amount is levied on products sold below this cost price, so as to prevent them entering the Community at prices below the sum of the sluice-gate price and the levy (level of protection).
- *Reference price* — determined by reference to the producer price in the Community and comparable, to some extent, to the sluice-gate price. It is the minimum price at which a product may be imported from any non-member country. If the reference price is not respected, an equivalent charge is levied. The products concerned are fruit and vegetables, wine and certain fishery products.
- *Intervention price* — the price at which the intervention agencies must buy-in products offered to them. The products concerned are cereals, sugar, butter, milk powder, certain Italian cheeses, olive oil, rape and sunflower seeds, beef and veal, pigmeat and tobacco.
- *Basic price* — corresponds to the guide or target price in the case of pigmeat, in the sense that it is used to determine the level which triggers market intervention.



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European Communities — Commission

**The common agricultural policy and its reform**

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The brochure explains in readily understandable terms the common agricultural policy, its objectives, the results obtained, the cost, shortcomings and action taken to reform the policy.

Improved productivity, fair living standards for farmers and farmworkers, stable markets and secure supplies at reasonable prices for the consumer: these are the objectives set by the Treaty of Rome in 1957 for European agriculture.

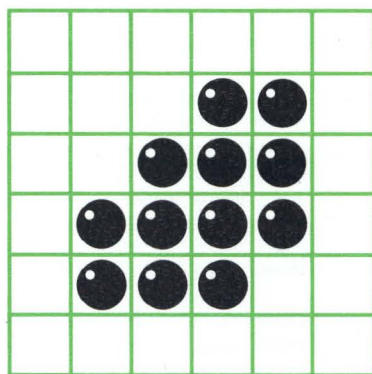
Thirty years later, it is fair to claim that they have been largely achieved. This does not mean, of course, that the agricultural policy is free from criticism.

Thanks to a spectacular increase in production, productivity and trade, supplies to the consumers are secure and more varied than ever before. The prices of agricultural products have increased less rapidly than average consumer prices on the whole. As for farm incomes, their progress has been erratic, and there have been wide disparities within the farming world.

Alas, there is the serious problem of persistent surpluses of certain commodities. These attract a great deal of attention in the media and tend to mask the real achievements. Reform is now under way to bring under control the excess production. This problem, however intractable, is one that must be solved.

Is the common agricultural policy too expensive? It costs each Community citizen 5 ECU per month, the price of secure supplies.

Does all this amount to featherbedding the farmers? Support is a little stronger than in New Zealand, rather less generous than in the United States of America and Austria, and much weaker than in Switzerland, for example.



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