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A future for Community agriculture

Commission guidelines following the consultations
in connection with the Green Paper

(Communication of the Commission to the Council
and to the European Parliament)

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On 13 July 1985, the Commission adopted a Communication (COM(85) 333 final) on the perspectives for the common agricultural policy ("Green Paper") which was intended to serve as a basis for consultations with the Community institutions and other interested parties. Part I of the Green Paper is a descriptive section in which the Commission discusses extensively the main features of European farming, its contribution to the economic and agricultural development of the member countries and the role it has played in the integration process in the Community. The Commission then considers the problems now arising in connection with the common agricultural policy and recalled the constraints which, in coming years, will have to be complied with, i.e. the general economic context, with low growth rates, limited budgetary resources and a world market which is tending to grow narrower and on which competition is steadily growing. As for possible solutions, the Green Paper suggests subjects for study and a range of possible options.

This document contains tentative guidelines which the Commission has worked out on the basis of the opinions expressed in the course of the consultations and study of the matter over the last few months.

In some cases more analysis and study is required before formal proposals can be drawn up, while in others the situation calls for urgent action. Therefore, in order to ensure that the various measures taken at different times are consistent with one another and that those involved understand their interrelationship and significance, at this stage the overall framework and the objectives to be attained must be indicated clearly.

Defining this overall framework was indeed one of the main reasons for the Green Paper and the ensuing consultations. The Commission is aware that a realistic appraisal of the perspectives for the common agricultural policy in the years ahead is a necessity for farmers who took up farming when the market situation was fundamentally different from what it is at present and who now have to make a great effort to adjust to the changed circumstances. Such an appraisal is also vital for young people who are wondering about their future and the possibilities which agriculture still has to offer.

As regards certain particularly important aspects, this Communication is supplemented by the proposal for a Regulation fixing compensation for the definitive discontinuation of milk production (COM(85) 583 final), the Memorandum on the adjustment of the market organization for cereals (COM(85) 700 final). The Commission is also finalizing a memorandum on beef/veal, and it has put in hand a detailed study on policy concerning food supplies for developing countries, with a view to proposals in the near future.

As regards forestry policy, the Commission is preparing a consultative paper on certain questions relating to agriculture and forestry. It plans to conduct a consultation which will be as comprehensive as possible on the questions raised in this document and on the ideas put forward.

I. The consultations

Very intensive consultations have been held in the last few months; they have enabled the Community's institutions and the other parties involved to express their views on the analysis of the problems and the various options set out in the Green Paper, to express desiderata and underline points of concern.

While the views expressed sometimes diverge, in particular on the practical aspects of action to be taken, they do reveal a broad consensus on certain fundamental questions which are proving crucial for the definition of the main lines of an overall strategy.

In the first place, there is very broad agreemment with regard to the analysis of the situation. All the parties concerned agree in this connection with the Commission; they are therefore aware of the seriousness of the problems and of the urgent need for resolute, sustained and effective action. Their receptiveness may therefore be counted on for action on these lines.

Secondly, all parties agreed that farming in Europe has a special character, the key features being the central importance of family farms and the very wide range of structures and production conditions. As the Commission noted in the Green Paper, the special nature of European farming is such that approaches such as those adopted in the United States of America, where farms are very large and farmers few in number, is neither feasible nor desirable.

Thirdly, there is a growing awareness of the fact that agriculture, beyond its economic function, also has an increasingly important role in regional development, contributing to the maintenance of the socio-economic fabric or to the safeguard of the environment and the countryside. These services to society as a whole are of key importance in regions which, because they are so far from urban centres and because of difficult natural conditions, face the danger of progressive desertification and impoverishment in both economic and cultural terms.

Lastly, the consultations have shown that both the farmers and the other parties involved reject any unduly static approach to farming. Farmers in particular are fearful of being forced out of the mainstream of society, and they are anxious to take part in current developments in the technical, economic and social fields; they are ready to make their contributions to this process, and, while emphasizing certain specific aspects peculiar to farming, look forward to growing integration into the rest of the economy.

The Commission has examined carefully all the points of view expressed during the consultations and has taken them into account in its own study work and when defining the guidelines set out in this Communication. It has constantly borne in mind the three main principles underlying the common agricultural policy: a single market financial solidarity and Community preference.

II. Nature of the problem

The imbalance between the supply of and the demand for certain agricultural products is the crucial problem now hampering the proper conduct of the common agricultural policy.

In the Green Paper the Commission pointed out that current trends in many sectors of agriculture are leading inevitably to a growth of surpluses which are becoming increasingly difficult and costly to dispose of both within the Community and on the world market. This results in a waste of resources which is difficult to justify, particularly in the present economic situation and at a time when the Community should be concentrating its efforts on a strategy for the future. It also produces a climate of uncertainty inhibiting Community farmers in their work and decisions. Lastly, it leads to growing tension in our relations with countries outside the Community.

This situation arose mainly as a result of the open-ended guarantees which have gradually isolated farmers from market forces. It is also the result of institutional prices being set at very high levels to deal with the income problems of structurally weak holdings. These holdings make a very small contribution in terms of production but in terms of numbers they predominate in the Community. The causes of the problem have been known

for a long time: in 1968, in the first of a long series of memoranda dealing with the problems affecting Community agriculture, the Commission pointed to the dangers of a trend which was already discernible. The fact is that it is not easy to remedy the situation without at the same time creating income problems which are socially and therefore politically unacceptable for a very large number of farmers who are marginal in terms of production but whose function, at least in certain cases, is essential for preserving the social balance, for land use planning and for the preservation of the environment. The task is made more difficult by the fact that enlargement from a Community of Ten to a Community of Twelve will have the effect of increasing the structural diversity of Community agriculture.

III. Objectives to be attained

The production processes in agriculture are linked to biological cycles which in most cases extend over one or more years and in the case of "permanent" crops (vines, olives, fruit trees, etc.) may even cover several decades. In addition, in agriculture we often have to deal with cyclical movements of the market and the unforeseeable and sometimes drastic consequences of climatic factors. It would therefore be illusory to seek to give farmers a more responsible attitude to production and the market by means of radical or abrupt measures or to expect spectacular results immediately or in the very short term.

Radical and abrupt measures would, moreover, be unfair. As the Commission has already pointed out in its memorandum on the adjustment of the market organization for cereals (COM(85) 700 final of 14 November 1985), in choosing the solution to be adopted it must be borne in mind that the present situation on the agricultural markets, while it is partly the result of the free choices made by farmers in the running of their holdings, is also the result of the agricultural policy guidelines laid down by the Community institutions over more than 20 years of the CAP and the measures - some fully consistent with the CAP, some less so - adopted under the national agricultural policies. This shared responsibility must be recognized and accepted by both sides.

The Commission considers that in order to achieve the desired aim there is a need for measures extending over several years and that consistency and continuity are at least as important as the scale of the measures adopted in any given year. In order to avoid disappointment it is also necessary to be aware that results will only be achieved gradually.

It is therefore essential to state the objectives very clearly at the outset. There must be as broad a consensus as possible on these objectives. The means to achieve them can be adjusted along the way to the extent that they prove insufficiently effective.

In the light of the analyses performed and the opinions expressed by the various bodies in the course of the consultations, the Commission, in the framework of and with due regard for Article 39 of the Treaty of Rome, has identified the following priorities:

- gradually to reduce production in the sectors which are in surplus and to alleviate the resulting burden on the taxpayer;

- to increase the diversity and improve the quality of production by reference to the internal and external markets and the desires of consumers;

- to deal more effectively and systematically with the income problems of small family farms;

- to support agriculture in areas where it is essential for land use planning, maintenance of the social balance and protection of the environment and the landscape;

- to make farmers more aware of environmental issues;

- to contribute to the development in the Community of industries which process agricultural produce, and thus involve agriculture in the profound technological changes which are taking place.

IV. Methods

The seriousness of the problems calls for urgent and sustained action; the various instruments of the CAP must therefore be used to contribute to the search for solutions whereby the objectives can be achieved.

The policy on prices and markets and the policy on structures constitute an inter-related whole having the same objectives, i.e. those of Article 39 of the Treaty; it is therefore important that they should act along co-ordinated and convergent lines. It would be abnormal that two instruments of a single policy should have the effect of offsetting each other.

This applies also in respect of action taken under agricultural policy schemes organized in the member countries themselves, which, especially for schemes relating to structures, account for the bulk of funds spent. The data mustered in a study published by the Commission early in the year on public expenditure on agriculture show that total national expenditure broadly matches total Community expenditure on guidance and market guarantee.

Efforts made under the policy on prices to control the expansion of production and instil in farmers a greater awareness of the market should not be hampered by measures the direct or indirect effect of which is the opposite, e.g. on-farm investments that may lead to the expansion of production of products already in surplus by more intensive use of land.

The Commission will be particularly watchful with regard to this danger, especially in its approach to State aids. It takes the view that improved consistency in this field is indispensable, were it only to ensure that the rigour which is required and is being imposed at Community level is not allowed to become an excuse for increased flexibility in action taken at national level, and therefore the occasion for the beginning of a gradual process of "renationalization" of agricultural policy.

The nature of the problems and especially their links with changes in production and in the markets also require increased flexibility in the use of the various instruments made available under Community Regulations. It must be possible to wield these instruments in harmony with current circumstances and in compliance with the role originally assigned to them, under the market organizations to which they relate. This objective, which is a matter of efficiency, can be achieved by further extension of the delegation of powers granted to the Commission as the body responsible for management, in particular by a strengthening of its responsibility for all decisions relating to the disposal of products.

A. Price and markets policy

In the Green Paper the Commission set out two extreme basic options for achieving a better balance between supply and demand:

- a rigorous prices policy accompanied where necessary by direct aids to overcome the income problems which such a policy could entail for the structurally weaker holdings;

- the introduction of production quotas.

The first solution gives the farmer an entrepreneurial role; he is free to make his own choices but also more responsible as regards their consequences at market level. It is also designed to ensure that a clearer distinction is made between economic and social considerations when price decisions are taken in the framework of the CAP.

The second solution foreshadows a trend towards an increasingly "managed" agriculture.

In the course of the consultations, farmers declared their opposition to quotas and increased bureaucratic control of agriculture; they also expressed their distrust of a generalized system of direct aids to incomes. They believe that in agriculture, as in all other sectors, it is the market, and therefore prices, which should provide the yardstick of the profitability of the farm, and they cannot accept an arrangement which would leave many of them "on welfare". Some Community farmers, however, were prepared to share financial responsibility for disposing of surpluses but on condition that the funds were used to develop new outlets and farmers were associated in managing them.

The Commission has taken note of these views. They deserve the greatest attention when it comes to defining a strategy which, in order to achieve its objectives, will require a whole-hearted commitment on the part of farmers, particularly those who have chosen to engage in farming in the full knowledge of what was involved, who intend to continue farming and for whom farming is the principal source of income.

The Commission, however, wishes to stress that it would be illogical to refuse the status of a welfare recipient and at the same time reject the idea of shared responsibility. Co-responsibility is a justified and fair solution in view of the increasing burden on the Community budget, and hence on the taxpayer, which results from disposing of production which has expanded and keeps expanding while shielded, at least in part, from the realities of the market-place and which, in addition, greatly exceeds the requirements of the internal market.

1. Prices

Price policy is the main instrument for guiding the development of agriculture in the medium and long term while taking account of demand within the Community and outlets on the world market. In the present market situation, and in view of the outlook for the next few years, the Commission takes the view that a restrictive price policy is necessary. It is aware, however, that this policy will have to work within certain limits.

Even a drastic reduction in institutional prices would affect the level of production only gradually and would probably have only limited effects on consumption because of the relative inelasticity of demand for agricultural products.

A rigorous policy, with across-the-board price cuts, would also have a very uneven impact on incomes, because farming structures vary so widely within the Community, a factor that will be further accentuated when Portugal and Spain join. The options listed in the Green Paper to overcome this disadvantage include direct aids, e.g. aids to supplement the incomes of farm households, or aids having a more structural character for farms which have a fair prospect of viability in the long term. But serious difficulties stand in the way of generalized deployment of aid schemes of this kind, given the very diversified economic and structural situations in the Community at the present time, for administrative and budgetary reasons; on the other hand, direct aids of a more specific character could well form a valuable adjunct to market management or could help to temper certain structural problems.

Consequently, the Commission believes that the policy on prices must be supplemented by other machinery enhancing the effectiveness and sharpening the selectivity of the action taken. An important consideration is this connection is the need to allow more fully for the special income problem arising for small farms and, by this approach, also to allow for the problems of the regions in which there are heavy concentrations of farms handicapped by weak structures.

2. Production quotas

Provided they can be administered properly and effectively, production quotas have the obvious advantage of exerting a rapid and direct influence on the quantity produced. In the Green Paper, the Commission has already pointed out the many disadvantages of this approach, which represents the culmination and institutionalization of a systematic separation of the production process from the realities of the market-place. It finds comfort in the fact that farmers share its reservations and prefer responsibility to constraint. The Commission remains convinced that the dangers of increasing bureaucratization of agriculture, factor immobility and an increasingly marked isolation of agriculture from the general economy must be avoided at all costs.

Although at first sight it gives the illusion of security, such a course would be fundamentally opposed to farmers' interests, especially young farmers and those who regard farming as a genuine entrepreneurial activity.

This unambiguous attitude adopted by the Commission may seem inconsistent with the fact that it has in the past proposed the introduction of quotas for milk. It should, however, be remembered that it accepted this solution only when it ascertained that, because of special features of the dairy sector, the scale of the problem, the time available to solve it and the failure of the machinery then available, it had no choice to use this last resort, on a temporary basis.

It should also be remembered that should there be a new application of quotas, it would be difficult if not impossible, if the aim was to avoid shifting problems from one sector to another, to confine their scope to any given product. But the management of a quota system covering a large part of Community agriculture would raise virtually insoluble administrative problems, particularly if it came to attempting to control the development of crops harvested on an annual basis.

3. Producer co-responsibility

The principle of co-responsibility, implemented in a wide variety of forms adapted to the various market organizations, has been applied for a number of years under the common agricultural policy. Its purpose is to ensure that farmers pay part or all of the costs of disposing of production exceeding a given quantity, this quantity being normally referred to as the "guarantee threshold".

In 1984, the Council stressed the need to apply "guarantee thresholds" to all products for which there are surpluses or for which budgetary expenditure may rise very sharply.

Co-responsibility can take different practical forms. It may involve reductions in the common prices or the intervention prices, or a reduction in aids, or curtailment of aids related to maximum quantities, or again the payment of a levy designed to cover certain budget costs for disposal, or again quota restriction of guaranteed production; it is now applied in respect of most products, including sugar, milk, cereals, rape, sunflower, cotton, tobacco, tomato-based processed products, and wine.

In budgetary terms and as means of controlling production, the various forms of co-responsibility have been found to be all the more effective if they are managed in association, and co-ordinated, with the policy on prices and if there is a direct link between the level of co-responsibility and changes in production (as is, for example, the case for cotton) or the expenditure occasioned by disposal (as is the case for sugar).

The Commission takes the view that co-responsibility must remain an essential adjunct to the policy on prices, and must be applied on the basis of proper procedures allowing for the economic, budgetary and social situations arising in respect of the products concerned; for example, for cereals, the Commission has just indicated its intention to adjust the market organization by means of several instruments, including a co-responsibility levy which can be modulated to allow for production structures.

4. Intervention

(a) Making management more flexible

Intervention is one of the basic elements in most of the market organizations. It was introduced in order to flatten out the excessive short-term price fluctuations and the accompanying production trends harmful to both producer and the consumer. It sometimes also helps to increase the farmer's bargaining power vis-à-vis dealers and the various users of agricultural products.

As far as the first aspect is concerned, the original function of intervention as a "safety net" has been gradually lost as the Community has passed from deficit to surplus in the various sectors.

As a result of the gradual decline of prices, intervention has become an outlet in itself, particularly attractive in that it avoids the efforts and risks of marketing. Under these circumstances, instead of reorientating production in line with demand it becomes an instrument stimulating an artificial supply for which there is no real possibility of disposal.

In a market generating a structural surplus, the regulatory role falls rather to exports, which also have their limitations. A gradual adjustment of the balance between intervention and exports is necessary therefore in order to secure a more rational orientation of production.

The role of intervention in increasing the bargaining strength of farmers is undoubtedly losing its importance as the agricultural world organises itself and creates machinery, cooperatives for example, that eliminate the disadvantages of wide dispersal of supply confronted with fairly highly

concentrated demand. The Commission considers that the trend towards better organization of the agricultural world is highly desirable and it intends to help resolve the problem by encouraging this trend and not by consolidating a distorted intervention system.

Given the above considerations, adjustments should be made in the system to eliminate certain rigidities and ensure that intervention is restored to its original function. The continuity and the stability of the progress made can be ensured by safeguarding this original function, through adaptations necessitated by changes in market conditions, avoiding consolidation of machinery as established at a given moment in time on the basis of circumstances which since have undergone far-reaching change.

(b) Quality standards

The policy on quality is directed towards two objectives which are both necessary at the present time. Firstly, there is an effort to match production more accurately to the requirements expressed on by the market and by users, and, secondly, there is an attempt to limit quantitative increases in production since very often quality can be achieved only at the expense of reduced yields.

It must be stressed that in certain cases where a surplus exists it is a surplus of certain qualities or varieties only within the sector and is not in fact an overall surplus.

The Commission intends to pursue its efforts in this area by all available means and in particular by differentiating the intervention price in line with the differentials recorded on the market for different qualities, such differentiation being indispensable when, as is the case at the moment for many sectors, the intervention price is close to the market price and is a very strong pole of attraction and orientation for the producer.

Moreover, the increasingly important role of exports as an outlet for and stabilizer of the market makes it more and more necessary to stress quality in the policies followed.

(c) Disposal of stocks left over from the past

A large volume of intervention stocks is not only a considerable strain on the budget but reduces bargaining power vis-à-vis possible purchasers and thus helps depress the market and create a climate of instability.

Developments in the last few years have led to a build-up of intervention stocks creating, particularly for butter and beef, problems that are all the more acute in that these are perishable products.

The stocks of butter were largely accumulated before the introduction of milk quotas and those of beef are at the moment being indirectly affected by the introduction of these quotas, which has led to heavy culling. In both cases a large proportion of the stock has been in the warehouses for more than a year.

The Commission is aware of the gravity of the problem and of the resulting consequences; it has therefore taken initiatives with regard to reducing stocks which should help to ensure that the situation is gradually restored to normal. It has also proposed the allocation of funds to reduce the price of perishable intervention products, when taken into storage, which would help to improve budget "transparency" and facilitate disposal of products in store.

5. Consumers

In the Green Paper, the Commission recalled the advantages that have accrued to consumers from the common agricultural policy, in particular stabilization of the markets and secure supplies. It also pointed out that during the last few years official prices have generally lagged behind inflation.

Consumers are now becoming more and more sensitive about the "naturalness" or otherwise of the products they buy and about their dietary qualities. Genetic manipulation, hormones, pesticides, additives and preservatives are all disturbing concepts often featured in the media. The Community has already made great efforts in response to these worries by prohibiting the use of harmful substances, encouraging production of healthy varieties, fighting against contagious disease, standardizing qualities, harmonizing legislation etc. This work must be pursued and the consumer must be

informed about it and, above all, given the necessary assurances. Re-establishment of a climate of confidence will undoubtedly encourage consumption and efforts in this direction are in the interest of both producers and consumers.

The same attitude must be adopted to the aspirations of the steadily growing number of consumers who wish to be able to purchase organically grown products even if they have to pay more for them. This is a demand that Community farmers would find it in their interests to satisfy before farmers outside the Community do so. The Commission intends to take action to promote such production by introducing a legislative framework that will ensure free movement and give satisfastory guarantees. The rules on labelling may in this case as in others be a means of responding to the requirements of both consumers and producers.

Consumers in our society are bombarded with publicity material promoting foodstuffs many of which compete with traditional agricultural products. If agricultural products are to compete on equal terms with these products, action should be taken, without interfering with competition, to organize Community or national information campaigns providing fuller knowledge for the consumers to guide their decisions in the shops. Funds, usually accruing from the various producer co-responsibility schemes, have been earmarked for this purpose, and some action along these lines has already been taken. The experience already gained in the organization of these compaigns should be turned to good account with a view to their improvement and intensification.

6. Diversification of production

The diversification of production still has a contribution to make to improving the Community's agricultural potential whilst avoiding the creation or increase of surpluses.

As already pointed out in the Green Paper, the products offering the best prospects in this connection are oil and protein plants, of which the Community consumes far more than it grows, products such as certain types of fruit which are now quite uncommon but which could well prosper in the future, and timber products.

For oleaginous and protein products, past and prospective development is being hampered by cost problems connected with the nature of the present Community support arrangements. The present schemes are a heavy burden on the budget because, in the absence of

adequate protection from non-member countries, the Commission has been forced to make deficiency payments without which farmers would simply not grow them.

In the chapter on external relations in the Green Paper, the Commission suggested that this difficulty could be resolved by a more balanced form of external protection. This would, however, require difficult negotiations with our trading partners, and it would be unrealistic to think that a solution could be found in the short term.

In the meantime, provided that the cost to the budget arises from the nature of the system set up and not from the development of surpluses, this sector should not be treated in the same way as those adequately protected in respect to external competition.

In addition to these two groups of products, there are a number of other types of production not widespread at the moment (berries, medicinal plants, herbs and spices, almonds, minor forms of stockfarming etc.) which could under appropriate circumstances be developed to a certain extent without it being necessary to introduce burdensome and costly support mechanisms. The very marked polarization of production that is now characteristic of certain types of farming has come about at least in part from the existence of the absolute guarantees afforded by rigid intervention mechanisms. The gradual introduction of more flexible intervention mechanisms should bring about an increase in sensitivity to market demand on the part of farmers and encourage some diversification and reorientation of production.

The Commission intends to take the initiative on measures relating to research, experimental work and the provision of advisory services, since these are the best means of supporting this trend.

Forestry may also have a role to play, not only as a source of supplementary income, but also in the use of land withdrawn from agriculture. It could well offer certain advantages in terms of alternative production, since it is a major activity in the regions of the Community and since, in many respects, it is a valuable source of employment. It is an activity which could also be turned to good account in different ways so as to adapt to the specific features of the farms and the characteristics of the regions concerned, and it an activity which is already supported, to some extent, by the structures side of the C.A.P.

The Commission is now drafting a document on forestry with a view to discussion of certain questions concerning agriculture and forestry. The matters on which the Commission would like to prompt comprehensive discussion include the following questions: "What are the best ways and means of organizing an increase in the areas under

timber in the Community? What are the conditions which must be met to enable forestry to play a role as an alternative to surplus agricultural production? How could schemes operated under taxation arrangements or through aid systems be combined to provide effective incentives or enhancement of the value of the Community woodlands ?

7. Technical progress and new uses

Technical progress goes far to account for the expansion of production in recent years. The contribution it has been making, notably through bio-technology, may be expected to increase, not only on the supply side, but also in respect of demand: the development of bio-technology will definitely lead to wider outlets for certain agricultural products traditionally grown in the Community (e.g. sugar and cereals) and for those the production of which could be developed (e.g. certain oil-bearing plants).

Nonetheless, the actual quantities of agricultural produce that can be accounted for through these new outlets are, at any rate in the short and medium terms, relatively small.

The major obstacle standing in the way of the development of these new channels is the high cost of the agricultural raw materials. In this connection, the Commission has proposed, with a view to involving Community agriculture in these new developments and ensuring that price levels do not induce investors to locate their operations outside the Community, systems designed to enable the industrialists concerned to obtain supplies at world prices. The products covered by these systems are, at the present time, cereals and sugar.

As time goes on, productivity gains should make it possible to organize production specifically designed for industrial uses and competitive enough to obviate costly subsidies. Agricultural research must be promoted and guided on the basis of this policy goal, with the consistent principle that any further expansion of production must henceforth be justified by a real - and unsubsidized - expansion in outlets.

The Commission has also studied the problem of the use of certain Community products for the manufacture of bio-ethanol. Its preliminary conclusions are contained in its Memorandum on the adjustment of the market organization of cereals (COM(85) 700 final). This problem is particularly complex in view of its strategic and budgetary implications. At this stage the Commission plans, on the one hand, to study the question in greater depth to obtain an objective view of the various factors involved and, on the other hand, to continue to promote research programmes on this subject for the time being.

B. Policy on structures

As already pointed out in the Green Paper, agriculture has been involved in the last twenty years in the far-reaching process of adaptation which has affected, and still affects, all the industries, notably because of technical progress and the development of the conditions under which firms and operators compete.

However, declining growth rates, the lack of alternative jobs, and the build up of surpluses on the agricultural markets are all factors combining to make the old strategy of development hinging on sustained mobility of manpower and capital goods and on production growth an unrealistic one.

Thus the Council of Ministers adopted on 12 March 1985 an updating of the entire legislation in force on agricultural structures (Council Regulation (EEC) No 797/85) with a view to improving the effectiveness of the relevant instruments.

This updating allowed to some extent for the changes of context in which it is to work, in particular by refocussing investment aids on targets such as conversion of production, improvement of quality, improvement of living and working conditions, protection of the environment, and, in general, an effort to enhance productivity by cutting costs rather than by increasing production.

In the Green Paper, the Commission thus assumes that, following recent adjustments, the Community has the essential instruments for stepping up its action in this sphere; it foresaw, however, that further additions or alterations might prove necessary.

The Commission also stresses the importance of action to encourage the creation of income sources alternative to, or supplementing, agricultural income, and consequently the need for a sharp increase in the intensified action of the structural funds in rural areas, by means of additional financial resources. It was against this background that the Community decided, for example, to implement the Integrated Mediterranean Programmes (IMPs).

As for action peculiar to the socio-structural policy under the overall strategy on removing market imbalances, it could be usefully implemented in four main areas.

1. Assisting the process of change

In the first place this means helping farmers to adjust to the new realities of the market:

- by rationalization of the means of production, with the emphasis on better organization rather than on ill-considered increases in production;

- by the diversification or qualitative improvement of production;

- by actively seeking new outlets and by taking more systematic account of medium-term and long-term trends on the market.

In this context the services which provide the farmer with the technical and economic support necessary for the proper management of his business have always been a decisive factor in the development of farming, particularly where family holdings are concerned. The remarkable achievements recorded in certain countries of the Community are doubtless largely attributable to the efficiency of the support services in question. The need for such support is particularly clear when, as is now the case, the task is to guide production along new lines and to reorganize holdings in the light of far-reaching changes in the economic context and the market situation or to bring about a gradual change in the attitude of producers who have so far been rather passive in their approach to the market.

The provision of such support, which is very largely dependent on the government and the structures established by farmers' organizations, has varied greatly from one country to another. It is difficult, after all, to provide uniform and centralized encouragement for initiatives which have to be adapted to local circumstances. Experience so far has been rather disappointing in this respect. It is important, however, that further endeavours should be made to remedy certain shortcomings, in particular in the regions suffering from natural or structural handicaps.

The Commission intends to step up its commitment to the promotion and coordination of research and experimentation. Policy on agricultural research is to be strengthened. Technology transfer must be organized effectively, especially for the less developed

regions, so that the gap between them and the rest can be narrowed. The Commission is also ready to study, together with the national administrations and the farmers' organizations, the most effective means of encouraging the development of advisory and management services and of services which can provide farmers with information on the state of the market.

2. Facilitating the disposal of products

Secondly, increased support should be given to those structures which can facilitate the disposal of production by better organization of marketing and the development of processing.

Marketing structures which ensure the necessary transparency and a competitive processing industry are the farmer's best allies. In many cases the cause of failure or disappointment is more likely to occur at this level than at the production stage. For example, the scope for developing certain alternative lines of production depends heavily on the provision of appropriate industrial and commercial infrastructures.

The recent adjustments to Regulaton No 355/77 have further enhanced the usefulness of the instrument which had already proved itself extremely effective. The Commission intends to pursue its efforts for improvements in this area and, should the funds available prove insufficient, it is ready to take the necessary steps to have these funds increased.

3. Helping to reduce production potential and encouraging the installation of young farmers

Thirdly, measures should be adopted which will help to bring about better equilibrium in the area of production whilst helping certain types of farmers who merit special attention in connection with the present adjustments.

Technical progress will certainly enhance unit yields and therefore the supply of products to be disposed of on the market, although demand is marking time or, at any rate, increasing only slowly. Hence the need to convert some land to non-agricultural use, to forestry or to unintensive forms of farming.

Also, young people entering farming in present conditions are handicapped not only by the saturation of the markets but also by the very low degree of production factor mobility, especially of land, and have serious difficulties to contend with in their efforts to establish farms that are large enough to be really viable.

The position of elderly farmers, who started farming when the market situation was completely different from what it is now, is equally unenviable. Because of their age, training and habits acquired over many years of work, it will probably be difficult for many of them, especially those who have no successors, to make the necessary effort to revise substantially the organization of their work. For the same reasons, it is not easy to see how they could retrain for other work, particularly at a time when jobs are so hard to find.

In view of these various problems, the Commission is contemplating a scheme consisting in offering farmers aged between 55 and 65 an annual "pre-pension" supplemented by a lump-sum payment per hectare where the farmer stops farming and his land is either withdrawn from cultivation and is left fallow for a specified number of years, or is assigned to non-agricultural uses such as afforestation, sport or recreation. Thought should be given at the same time to ways in which measures taken under the social security systems for the benefit of farm workers could be fitted into this plan.

Where farmers aged between 55 and 65 stop work and hand over responsibility for the farm to a young farmer, they may also qualify for an annual "pre-pension" allowance provided that the successor commits himself to conversion of the farm, for example to alternative products, to quality production, or to a production system allowing for environmental constraints.

In order to allow for the particular circumstances in given regions and countries, and thus enhance the effectiveness of the scheme, the allowances and the Community reimbursement rates could be modulated.

The Commission is also further studying the possibility of organizing other schemes which would facilitate conversion of part of the land to other non-agricultural activities: an active and extensive policy designed to cut back production potential would be of obvious value given the present production and market situation, but related financing and audit and control problems would be by no means negligible. In this connection, what is needed in particular is a thorough review of the experience already gained in this field in a number of non-member countries.

4. Helping to maintain agricultural activities

Fourthly, there should be a further strengthening of the measures designed to take account of the irreplaceable role played by farming in certain areas of the Community and to provide a fair return for the services which farmers render to society in general in terms of land improvements and the safeguarding of the social and environmental equilibrium.

The Commission thus plans to propose that the scope of the measures on behalf of mountain and hill farming and farming in certain less-favoured areas (Title III of Regulation (EEC) No 797/85) should be broadened and their effectiveness improved. This will be done without encouraging increased or more intensive production, the sole objective being to ensure satisfactory incomes and thus help maintain, in these areas, the level of farming equilibrium.

The Commission also intends, in connection with the implementation of Article 18 of Regulation (EEC) No 797/85, to propose schemes which will be integrated with those financed by the Community's other structural funds and loan instruments, with a view to improving the economic viability of certain rural areas of the Community and, in particular, encouraging the creation of alternative opportunities for employment.

C. Protection of the environment and maintenance of the countryside

Consultations have confirmed that there is a growing interest in all matters relating to the environment and the protection thereof. As public opinion becomes more aware of the problem, a great variety of initiatives are being taken to introduce appropriate legislation. In planning the development of any form of productive activity, therefore, implications can now no longer be ignored.

Agriculture is thus increasingly affected, partly because of the measures to control the misuse of pesticides and fertilizers or to regulate certain forms of stock-farming. In this context the adoption by certain Member States of legislation on intensive stock-farming (particularly pig-farming) is now conferring some urgency on the question of common action, not only with a view to protecting the environment but also to ensure fair conditions of competition. Similarly, indefinite exemption from the principle that the "polluter pays" can hardly be given to agricultural holdings, least of all to those which, in terms of the way they are structured and operate, are to all intents and purposes industrial undertakings.

It should be remembered, however, that the introduction of certain constraints obliges the farmer to alter his habitual production techniques. Consequently, it is important that farmers in this situation should have available the necessary technical assistance and thus be able to make the change in the proper manner. The Commission intends to look into this matter and to take the necessary steps, in particular to promote research and experimentation on the production techniques best suited to achieve the desired objective along economically satisfactory lines. Appropriate planning procedures should also be introduced, including a comprehensive assessment of the impact on the environment for the main projects relating to land utilization, and the possibility should be studied of curtailing, or even, in certain cases, prohibiting, the use of public assistance to promote drainage.

Unlike other activities, however, agriculture can claim to make a positive contribution to safeguarding the environment, provided that it observes certain rules. The usefulness of a common aid scheme for farmers making such a contribution has been recognized in the new Regulation on agricultural structures (Article 18 of Regulation No 797/85). The Commission has undertaken to propose a common framework for encouraging the conservation of the rural environment and the protection of specific sites and will shortly forward the relevant proposals to the Council. Income support would be provided for farmers who maintain (or introduce) agricultural production methods which are compatible with the protection of the natural habitat and the measures taken under the CAP would be integrated with overall environmental policy. A Community financial contribution towards such income support arrangements could be envisaged.

On the whole, therefore, the concern for the environment is a positive factor where the agricultural sector is concerned. It may mean additional income for the farmer under specific aid schemes and it may help to remove certain market imbalances attributable to over-intensive farming of the land.

D. External relations

The gradual transition from a situation of deficit to one of surplus means that the design and management of the common agricultural policy must take increasing account of the external dimension.

As regards the products in surplus, which now constitute the majority of agricultural products in the Community, outlets in non-member countries are both an essential requirement for the balance of the market and a fundamental parameter in the quantitative and qualitative guidance of production. It was for this reason that the Commission included a chapter on international trade in the Green Paper. It emerged in the consultations that farming circles attach special importance to this aspect and view certain adjustments to the rules governing imports as a matter of priority in any adaptations made to the mechanisms of the common agricultural policy.

In the case of products bound under GATT, the Community can only alter the rules on imports after negotiations with its trading partners. To subordinate any other adaptation of the mechanics of the CAP to a modification of these trade regimes, as some farmers would seem to demand, would be tantamount to recognizing the inability of the Community to settle its own internal problems for itself. This is clearly an approach which the Commisssion cannot entertain. The Commission feels, however, that the effort demanded community producers to adapt to present market situations and to contain surpluses must be matched by similar sacrifices from the Community's trading partners.

Pending possible negotiations, account can moreover be taken of certain imbalances in the field of external protection, and the Community preference can be ensured by other means. For example, in the recent memorandum on the adaptation of the cereals market organization, the Commission envisaged including substitute products, which are imported into the Community at a very low or zero rate of duty, in the internal consumption of cereals, entailing an equivalent reduction in that portion of production with regard to which coresponsibility would be calculated. It is also in this connection that, in the absence of adequate protection, the Community has set up, for example for oilseeds and vegetable oils, a system of processing aids accompanied by minimum prices which takes account of growers' interests.

It should be emphasized that, as pointed out in the Green Paper, stronger external protection for some products should go hand in hand with an attenuation of protection in others. More precisely, it would be inconceivable to negotiate consolidation and even the improvement of our export trade flows while at the same time sealing off our frontiers to imports. Autarchy is not a suitable model for a Community whose economy depends very much on trade and which has to import most of the raw materials it needs.

In this chapter, the Commission can, at this stage, only confirm the value of the ideas set out in the Green Paper relating to the rules governing imports and exports, which it is now considering in greater depth. The preparatory work for the next multilateral negotiations is now under way and at this state the greatest caution is to be observed.

There is no doubt, however, that the credibility of the Community and its bargaining power at the forthcoming international agricultural negotiations will depend greatly on the ability which it will have shown to solve its internal problems, particularly in the matter of agricultural surpluses.

If the Community has demonstrated the necessary determination, we may perhaps be able to convince our partners of the need for a better organization of the world market. This is a long-standing Community aim. It is admittedly one which is in its own interest but also, the Commission is profoundly convinced, in that of its partners as well, whether they are industrialized or developing countries. There is therefore reason to hope that more systematic co-operation and more refined rules for international trade will take the place of confrontation on the markets and in international organizations and that the unjustified costs of cut-throat competition can be avoided.

It is also vital that the adjustments made to the CAP allow properly for the relations the Community maintains with developing countries and for the need to ensure that the Community's policy on exports is in line with their supply needs: the Community is at the same time a major supplier and the leading customer for agricultural products. It has also established fairly extensive co-operation links with many of them and has introduced a generalized preferences system which covers a wide range of agricultural products.

As already indicated at the beginning of the Communication, the Commission has begun a thorough reassessment of its policy of supplies for the developing countries which need more in the way of agricultural products than they can produce, and it will make appropriate proposals in due course. However, it wishes to stress once again that this

policy cannot and must not in any circumstances be seen solely as a way of disposing of agricultural surpluses and that the Community must continue to assist these countries with the development of their own agricultures.

The Commission intends to confirm what it stated in the Green Paper also as regards the need to pursue an active export policy and, in that context, ensure that the instruments of the external regime of the CAP are effective. The continuing importance of the world market as an outlet for a part of the Community's production implies a twofold requirement in this connection:

- firstly, it is important that the efforts to rationalize the existing instruments be continued and that their operation be made more transparent. This could help to restore a climate of confidence with our trading partners and prevent pointless disputes which are not in the interest of Community agriculture;

- secondly, it is important that these instruments be diversified so that Community operators can be present, on an equal footing, on a market where competition is constantly increasing.

V. Budgetary considerations

The guidelines adopted allow for budgetary constraints, in particular those deriving from the budgetary discipline required in connection with EAGGF guarantee spending. This discipline, involving a growth rate for agricultural expenditure lower than the rate of growth of the Community's own resources, will necessitate difficult decisions, especially because of recent developments on agricultural markets both within the Community and outside it.

Given, however, the time needed to implement the measures contemplated, the value, indeed the necessity, of intensifying certain types of intervention, and the time required before measures intended to curtail the development of production have any appreciable impact on the volume of Community expenditure, the question does arise as to whether the objectives set can be achieved within the time limits fixed whilst remaining within the "normal" framework of the present financial rules and of the appropriations which these rules place at the disposal of the two EAGGF sections.

Although it is not possible at the present time to answer this question on the basis of precise figures, it is, however, clear that certain measures contemplated, or that could be contemplated, in respect of the policy on markets and/or the policy on structures will have the effect of slowing down the growth of agricultural expenditure in the medium and long term, but could well, in the immediate future, tend to boost EAGGF costs.

This is an effect which the Commission has already had to contend with when preparing the proposal for the buying in of milk quotas, and it will again arise for a number of specific schemes contemplated with a view to eliminating the supply/demand gap which lies at the heart of the present difficulties besetting the CAP.

In this field, for example, the restoration of a reasonable supply equilibrium requires not only market and structural policy measures to control production and thus curb the build-up of surpluses, but also action in respect of the present situation by the disposal of current stocks which, owing to their size, represent a major item of expenditure for the budget and also affect market prices.

In this connection, it is obvious that a special operation - which the present situation calls for - to dispose of surpluses, and action in the near future with regard to the volume of production, could not be financed from the ordinary funds available to the EAGGF Guarantee Section under the current budgetary rules.

Likewise, it should be noted that the EAGGF Guidance Section's five-year allocation for 1984-89, does not cover appropriations for the measure aimed at encouraging farmers to leave the land, since it is a new measure, nor does it provide sufficient appropriations to cover intensification of measures already in force.

The conclusion must be that, allowing for budgetary requirements, it will nonetheless be necessary, if the objectives set are to be achieved, to finance beyond the normal appropriations, specific schemes of the type outlined above for the EAGGF Guarantee Section and to increase the EAGGF Guidance Section's five-year allocation.

VI. Conclusions

Throughout the Community, the production system is now being adjusted in order to focus effort and streamline the use of resources within a strategy designed to prepare Europe for the challenges of the next decade and thus provide all its citizens with real prospects for the future. This is a process which is bound to affect agriculture as well.

That farming is a special branch of industry is, of course, a fact that cannot be ignored. Agricultural activity remains greatly dependent on biological cycles which impose constraints and particular rhythms largely escaping human control. It retains a strategic role as a supplier of

basic food products; over and above its strictly economic functions, it plays what is, in some cases at least, an irreplaceable role in land development and the safeguarding of certain social, environmental and natural equilibria.

The consultations have also confirmed a broad consensus as to the importance of safeguarding the particular character of farming in Europe. The European system, which is based mainly on family farms, is characterized by structures resulting from the high density of the population and frequently very intensive interpenetration between urban and rural areas. The maintenance of certain equilibria serves the interest of society as a whole.

These characteristics and specific features demand a stable framework of rules designed to temper the impact on prices and incomes of excessive fluctuations in production and ensure some degree of protection from the erratic swings of prices on a world market which is usually narrow, often residual and sometimes actually manipulated. Neither exclusively budgetary - and, therefore, narrow-ranging - considerations, nor self-interested pressure by certain non-member countries can compel the Community to review the basic principles of the common agricultural policy. Its aims as set out in the Treaty of Rome remain valid.

However, agriculture, like any other sector of the economy, must meet the laws of the market-place and relate to socio-economic developments in the surrounding world if it is to remain dynamic and efficient. In the eyes of the taxpayer, particular character is no reason for permanent, conspicuous wastage, least of all at a time when the economic situation is difficult and demands sacrifices from everybody.

As pointed out at the beginning of this Communication, the imbalance between supply and demand lies at the root of the present problems of the CAP. The return to a sound situation will therefore have to be achieved mainly through the policy on prices and markets.

Many instruments are available, and they all have something to contribute. They will have to be used in a coherent and coordinated manner so as to help the farmer to regain an awareness of the market and to act in consequence.

In this context, prices play a crucial role: trends in prices and in price relationships determine the long-term development of production and structural adjustments. Furthermore, prices constitute a reference factor in relation to which the other management instruments available may be deployed. On a saturated market, prices tend to ease down; if the present market conditions continue, the policy on prices can but be restrictive in the years to come.

Pending a medium- and long-term adjustment of production, the co-responsibility of the farmer is proving to be an essential complement to price policy. Insofar as it is intended to provide each farmer with an effective indicator of market dynamics, it must develop in line with the growth or fall of production or the costs sustained in disposing of the latter. The contribution made by farmers must, moreover, be distributed fairly and, therefore, be modulated to allow for certain social problems which are particularly acute in the case of small farms, but also for the relative advantages which each category of farmer derives from CAP support and the system of guaranteed prices, depending on how big their farms are and the type of farming.

Intervention must gradually revert to its original role as a safety net designed to contain short-term price fluctuations within certain limits. It cannot take the place of a structurally congested market. The rigidities which prevent this management instrument from being used effectively must therefore be gradually attenuated.

Attenuating of the structural rigidity of intervention and pursuing a more realistic price policy will automatically stimulate the diversification of production and the new uses of products. Research and dissemination of information will assist this process.

Lastly, a policy which puts the emphasis on quality as opposed to quantity, more careful and systematic consideration for the concerns of the consumer and measures to contain the harm done by a type of agriculture which, being intensive, can be prejudicial to the environment, all these are factors which constitute very useful adjuncts to the effort to achieve market balance. They contribute to containing unrestrained growth of production and help to create the conditions facilitating its disposal.

The policy on structures can and must, by means of measures which are coordinated and consistent with the price policy, also help to reach the objectives mentioned. The measures envisaged in this field will both help farmers to adapt to the new market reality and contribute to a better balance between supply and demand.

The Commission itself will deploy all the instruments and resources available to ensure that the action it takes is as fair and as effective as possible, relying, for this, on more open consultation with all those working in the agricultural sector.

The guidelines set out in this Communication result from the search for a balanced path among the numerous constraints. Their aim is gradually to encourage the farmer to return to his role as entrepreneur. This admittedly entails what for some farmers may be a difficult process of adaptation. However, it should be realized that if these adaptations are not accepted and undertaken on the initiative or with the support of the parties concerned, they will inexorably be imposed upon them by circumstances. The Commission believes that its duty is to offer the farming community prospects rather than illusions and it believes that it is proposing a way ahead which is both realistic and fair.