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## THE AGREEMENT ON AGRICULTURE OF 16 DECEMBER 1986



THE AGREEMENT ON AGRICULTURE OF 16 DECEMBER 1986

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On Tuesday, 16 December 1986, the Ministers of Agriculture adopted a set of fundamental reforms of the EEC market organizations for milk products and beef/veal.

The Council also approved political guidelines designed to implement, before the end of February 1987, a socio-structural policy more closely adapted to the present situation in rural areas and approved a set of decisions on a number of questions outstanding.

This political agreement, which is probably one of the most important reached since the inception of the CAP, is in line with the Commission's proposals and with the efforts it has been making for years to restore sound conditions on the agricultural markets and curb the growth of surpluses and the resulting costs to the Community budget.

When adopting these decisions, the Council was particularly attentive to the specific agricultural characteristics of certain Member States and to the need to cushion the impact of the measures on farm incomes, particularly those of small farmers. The socio-structural support measures which the Council has undertaken to adopt by the end of February 1987 also have this objective.

The measures adopted constitute a major step towards the control of overall agricultural expenditure by 1989, which is a key aspect of the debate on the future financing of the Community.

In view of the importance of these decisions, not only for the areas more directly concerned but also for the common agricultural policy as a whole, and, indirectly, for the other common policies, we have felt that the main points of the decisions taken on 16 December by the Agricultural Council should be presented in this brochure.

## I. Milk

The Council's decisions of 16 December 1986 entailed, firstly, a reduction in milk output by 9.5% over two years, as follows:

- (a) 3% by an equivalent reduction in milk quotas, already approved in April 1986 by the Council;
- (b) 5.5% by the temporary suspension of quotas of the same percentage;
- (c) 1% through the tightening up of certain rules relating to the application of the quota scheme.

Secondly, the Council's decisions entail a restriction of the intervention arrangements designed to cut back the quantities of milk products sent to intervention.

### (a) Reduction in milk quotas

1. Last April the Council had decided to reduce overall guaranteed quantities by 2% from 1 April 1987 onwards and by a further 1% on 1 April 1988. To achieve these objectives, a Community financing scheme was set up on 1 May 1986 to cover the definitive cessation of milk production (equivalent to a system of "buying up" milk quotas). This arrangement provided for the allocation, to any farmer, at his request, provided he met certain eligibility conditions, of an allowance against an undertaking on his part to cease producing all milk definitively. The maximum allowance chargeable to the Community budget had been fixed at 4 ECU per year per 100 kilograms of milk or milk equivalent, for seven years.

The Member States may contribute to the financing of this scheme by increasing the allowance. They may also go on operating national quota buying-up arrangements organized in most of the Member States following the introduction of the quotas.

2. The Council confirmed on 16 December the 2% reduction in the quota agreed last April, to be implemented, as agreed, by a scheme for the voluntary cessation of milk production. The allowance granted to farmers discontinuing production was also increased from 4 to 6 ECU per year per 100 kg. As had been planned in the April decision, in so far as the objective of buying up 2% of the overall guaranteed quantities can be achieved by the granting of an allowance below the maximum level indicated above, residual EAGGF funds may be used by the Member States for restructuring purposes.

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<sup>1</sup> The reimbursements of the 2 additional ECU by the EAGGF will be made against the 1988 budget.

3. Production will be further reduced by 4% on 1 April 1987 through a temporary linear suspension (and not by the definitive elimination) of the quota. The EAGGF will, however, pay compensation of 10 ECU per 100 kg of reduction of output for two years.

Member States so desiring may, none the less, increase this amount to 12.5 ECU per 100 kg, but only for 1987/88.

4. It has also been decided to apply an additional reduction in output of 2.5% for 1988/89, the last marketing year during which the present five-year milk quota system will operate. The reduction will be achieved by:
  - a further reduction of 1% in the quota approved in April 1986, on the same terms as those referred to at point 2 above;
  - a further temporary suspension of 1.5% of the quota similar to that of 4% decided from 1987/88 onwards. It will be offset either through an allowance of 10 ECU per 100 kg for two years or through an appropriate reduction in the coresponsibility levy.
5. To accommodate particular problems in certain Member States in implementing these measures, special provisions have been approved which, while complying with the quantitative objectives mentioned above, will allow of greater flexibility in the way the decisions are implemented.

In view of the particular difficulties that an immediate reduction in output would cause in Spain, especially the very recent introduction of greater restrictions on quotas for the first time in that country, a system of partial and voluntary buying back or suspension of quotas will be introduced, with compensation in line with the procedures indicated above. This programme will be executed with a view to achieving the objectives referred to at point 3 and point 4, second indent, above.

Also, in the Member States which, like Italy, apply or will be applying, in accordance with Article 4(1) of Regulation (EEC) No 857/84, a programme for the voluntary cessation of dairy production, this programme will be executed with a view to achieving the objectives set at points 3 and 4, second indent, above. However, this must not jeopardize the restructuring referred to in Article 4(1).

At the end of the 1987/88 and 1988/89 marketing years, the Commission will proceed to an assessment of the results obtained in the countries concerned, and will, if appropriate, submit proposals to the Council.

(b) Strengthening the quota system

6. The waiver allowing the Member States to allocate unused reference quantities to farmers or purchasers in the same region, and, where appropriate, other regions, already in force for the first three annual periods of implementation of the quota system (Article 4a of Regulation (EEC) No 857/84), has been extended until the expiry of the present quota system (1988/89). Formula B of the quota system, which provides for the application at the level of the purchaser (dairies) of the levies on quantities exceeding the reference quantity, is also retained until the expiry of the quota system.

With a view, however, to achieving a fairer arrangement for the additional levy which is also a stronger deterrent, the levy rate has been raised to 100% of the milk target price (as under Formula B) for Formula A as well (application of the levy to the individual producer).

7. The provisions governing the application of Formula B and Article 4a of Regulation (EEC) No 857/84 will be amended to ensure that, in respect of the producer, production exceeding the quota, adapted to allow for quantities not used by others, will attract the full rate of the additional levy. This means that from now on unused quotas will be reallocated in a way which ensures that the levy is more effective as regards producers who have far exceeded their own individual quotas.

(c) Adjustment of the intervention system

8. Intervention for skimmed-milk powder has been suspended from 1 September to 28 February (six months), it being understood that the Commission will take appropriate action to maintain the stability of the skimmed-milk powder market during that period.

The Council also noted that the Commission maintains its proposal (COM(86)510) in which it had proposed that it should be given the right to suspend temporarily, in exceptional circumstances, buying-in of butter and skimmed-milk powder at any time of the year.

9. On the basis of criteria to be adopted by the Council before the end of February 1987, the Commission may, during the period of application of the present quota system, modify the permanent arrangements made with regard to intervention for butter and skimmed-milk powder from 1 March to 31 August by adopting other measures the effect of which would be to reduce the volume of products bought in while maintaining market stability. Such other measures will be applied on a Community basis and must not entail discrimination as between Member States.

10. Should the new arrangements with regard to milk interfere with balanced supplies to dairies (under-supply of dairies which are major market suppliers, over-supply of dairies sending excessive quantities to intervention), the Commission will take appropriate action, using the management committee procedure, to discourage undue use of the intervention facility.
11. Well aware that Ireland depends more than any other Member State on its dairy sector, the Council asked the Commission to give particular attention to the impact of intervention with regard to butter on market stability and on dairy farmers' incomes in this Member State, and noted the Commission's intention to take full account of this in any decision.
12. The Council noted the Commission's intention to discontinue the extra time-periods for taking over for intervention as soon as the general arrangements referred to above enter into force.

(d) Other points in the agreement

13. The Community will ensure that, in future international trade negotiations, the quota reductions already agreed are not simply taken for granted and that full advantage is taken of the temporary suspension of quotas in negotiations designed to ensure that other exporters take matching action to help underpin the stability of the world dairy market.
14. The Community will adopt an approach ensuring consistency between its dairy policy and policies on related sectors and between measures concerning its internal market and its policy relating to world markets.
15. The Council welcomed the Commission's expression of its firm intention to pursue a vigorous programme for running down stocks as explained in the Commission document concerning the stabilization of the market in milk and milk products, which provides the framework within which the Council's decisions must be considered. An appropriate financial proposal will go to the Council for approval.

16. The Commission's proposal for an improvement in the arrangements concerning sales of intervention butter at reduced prices to welfare beneficiaries was also adopted.
17. The Commission has undertaken to study the problem of the protein content of milk and milk products, in particular drinking milk. When this has been done, a proposal will, as appropriate, be laid before the Council with a view to harmonizing the minimum protein content of these products.
18. The Member States have been authorized to make the necessary arrangements to ensure that quota reductions made through buying-up are, as far as possible, spread evenly among the regions and collection areas of each Member State.
19. The Council noted that the Commission intended to make appropriate allowance for special problems arising in Greece with regard to liquid milk.

## II. Beef/veal

20. The Council's decisions tighten up the arrangements with regard to intervention, the aim being to ensure better control of the beef/veal market, and introduce a temporary compensatory premium for all beef/veal producers not qualifying for the calf premium or the variable premium. These decisions are interim decisions, since they cover a period up to 31 December 1988. In the meantime, the Commission will continue its efforts to ensure adoption by the Council of permanent alterations to the beef/veal market organization, to be applied after the transition period referred to above, in accordance with its February 1986 proposals (COM(86)31 final), which are still on the Council's table.

The Council has thus taken a period of respite, in particular because of the difficulty of assessing accurately the implications for the markets of the review of the intervention system and the impact on the beef/veal sector of the action taken with regard to milk.

(a) Restriction of the intervention arrangements

21. The main effect of the decisions taken is that beef will no longer be bought in permanently and unconditionally. Intervention will, however, be allowed by the Commission on certain conditions, but will be confined to certain qualities, categories and eligible presentations. More specifically, from 6 April 1987 to 31 December 1988, the Commission will authorize intervention when the following criteria are both met:

- (i) the average market price in the Community for the quality or group of qualities to be brought in must be below 91% of the corresponding intervention price;
- (ii) the average market price at national level (or, where appropriate, regional level) for the quality or group of qualities concerned must be below 87% of the corresponding intervention price.

For each of the qualities or each of the groups of qualities to be bought in, the buying-in price will be the weighted average of the market prices in the Member States (or, where appropriate, the regions) in which the beef is bought in, plus 2.5% of the intervention price; however, the buying-in price must at least match the highest average market price in the Member States or the regions in which the beef is bought in.

In this context, the Council noted the Commission's intention, where buying-in prices settle at a level liable to trigger off a downward spiral, to lay before the Management Committee appropriate proposals ensuring that buying-in prices are brought back to the activation level.

22. For Spain, arrangements will be made to ensure that the common system of buying-in and the common price levels are also applicable in that country.

In addition to the provisions referred to above, the Commission may, where necessary, take action under the management committee procedure to stabilize the markets in the Community (or, where appropriate, the regions). In addition to the private storage aid, these measures may include provisions for buying-in in the Member States or in the regions on terms to be adopted by management committee procedure.

The Council noted the Commission's intention to lay proposals before the Management Committee with a view to harmonizing intervention prices for steers and young bulls according to the classification scale.

(b) Premiums

23. During the above transitional period, the existing premiums (variable slaughter premium, calf premium, suckler cow premium) are to be maintained. Also, the suckler cow premium will be increased from 15 to 25 ECU. Community financing of an additional amount for Greece will be ensured on the same basis as for Ireland and Northern Ireland. Also, a special temporary premium of 25 ECU for male animals raised to adult age, payable once only during life of the animal or on slaughter, may be granted up to 50 head of cattle per holding. This premium may not be paid in the Member States operating the calf premium or the variable premium, except for Ireland, where an amount of 18 ECU may be paid on the same terms. From 1 January 1987 to 5 April 1987, appropriate transitional arrangements will be adopted to ensure the continuity of the calf premium and variable premium arrangements.

III. Socio-structural measures

The Council agreed to adopt by 28 February 1987 a package of socio-structural measures with the following objectives:

- (i) that of contributing to restoring equilibrium between production and market capacity;
- (ii) that of maintaining a viable farming community, notably in mountain and hill and less-favoured areas, the importance of which the Council emphasizes in connection with the common agricultural policy;
- (iii) that of emphasizing the role of farming for the protection of the environment.

The measures to be adopted concern systems:

- of "pre-pension",
- of aids to the adaptation of farming systems with a view to their "extensification",
- of compensatory allowances,
- of protection of the environment.

The council will also adopt a decision on agricultural research, on the basis of Commission proposals.

#### IV. Agri-monetary Decisions

The Council approved a proposal altering the conversion rates for sterling, the French franc, the escudo, the drachma and the peseta, to reduce the "monetary gaps":

- in the United Kingdom by:
  - = 6 points for beef/veal
  - = 3.2 points for sheepmeat and goatmeat (entry into force: 5 January 1987),
  
- in France by:
  - = 4.8 points for beef/veal,
  - = 3 185 points for sheepmeat and goatmeat (entry into force: 5 January 1987),
  
- in Portugal by:
  - = 6 points for sheepmeat and goatmeat (entry into force: 5 January 1987),
  - = 6 points for the socio-structural sector,
  
- in Greece by:
  - = 14.5 points for sheepmeat and goatmeat (entry into force: 29 December 1986),
  
- in Spain by:
  - = 3.2 points for sheepmeat and goatmeat (entry into force: 5 January 1987),

#### V. Other measures concerning beef/veal

By qualified majority, the Council adopted regulations for:

- the opening of a Community tariff quota for 1987 of 29 800 tonnes of high quality beef,
  
- the opening, allocation and management of a Community tariff quota for 1987 for 50 000 tonnes of frozen beef/veal.

The Council also adopted a regulation increasing the volume of the community tariff quota for animals of certain mountain breeds. Volume has been increased from 38 000 to 42 600 head because of the accession of Spain and Portugal.

#### VI. National aids for sheepmeat

By a decision under Article 93 of the Treaty, the Council authorized the French Government to make, at national level for non-less-favoured areas, advance payments for sheepmeat in the same amount as that made at Community level for the less-favoured areas (75% of the foreseeable premium for the 1986 marketing year).

VII. Seasonal adjustment of the ewe premium

The Council endorsed the Commission's proposal.

VIII. Inward processing arrangements for whey

The Council approved by qualified majority an extension of the derogation granted for the Republic of Germany concerning maintenance of inward processing traffic for whey until 31 March 1987.

Pending Parliament's opinion, the Council endorsed as to substance a decision to set up a supplementary Community scheme for the eradication of bovine brucellosis, tuberculosis and leucosis.

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