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common agricultural policy

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## Preface

The Commission considers it opportune to publish now its reflections on the common agricultural policy, in which it examines the principles and results of the policy and presents its orientations for the overhaul of the policy which must now be undertaken. The way is thus prepared for the important proposals which will be submitted by the Commission early in 1981 for adoption by the Council.

These reflections do not pretend to be exhaustive. The adaptation of the agricultural policy is a continuing process. But the Commission believes that the presentation of this document will assist the discussion, already engaged in the Community institutions and in the Member States, on the future guidelines for the adaptation and consolidation of the common agricultural policy in order to confront the challenge of the coming years.

These reflections on the common agricultural policy will be taken into account in the broader examination which the Commission is undertaking as a result of the mandate, conferred on it by the Council of 30 May 1980,<sup>1</sup> concerning the development of Community policies and the question of structural changes. That mandate, which is to be fulfilled by the end of June 1981, will cover not only agriculture but the other common policies, without calling into question the common financial responsibility for them, or the basic principles of the CAP. The discussion which must take place in the Community institutions on the present document, which is limited to the agricultural sector, will contribute to the Commission's further reflections concerning the overall relation between the common policies and their budgetary aspects.

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<sup>1</sup> Council conclusions on the UK contribution to the financing of the Community budget, para. 7 (OJ C 158, 27.6.1980; Bull. EC 5-1980, point 1.1.7).

## General considerations

1. When one reflects on the future of the common agricultural policy it is essential to bear in mind the reasons which led to its creation and to assess the results of the policy in terms of the objectives of the Treaty. It is only against this background that the problems facing the common agricultural policy and the solutions required for them can be properly analysed.

### **The reasons for the CAP, its principles and its results**

#### *Reasons*

2. The common agricultural policy was set up with the objective of permitting free trade in agricultural produce within the newly-created common market. While the freeing of trade in industrial products was to be based essentially on the removal of customs barriers and quantitative restrictions, for agricultural products it was necessary to put an end to the multiplicity of State aids, market organizations and income support systems which existed in all Member States.

Furthermore, the maintenance of different agricultural systems would have led to distortions of competition which would have impeded trade and produced differences in the cost of food, and hence in the cost of living and in wage costs, which would have been prejudicial to true economic integration.

For the above reasons the founding Member States considered that there should be free trade in agricultural products as well as a common market in industrial products and that therefore there should be a common policy for agriculture. Agricultural policy and free trade in industrial products thus remain indissolubly linked and together constitute the very basis of the Community.

#### *Principles*

3. The common agricultural policy has been based since its inception on three principles:

- freedom of trade and Community preference;
- the creation of market organizations based on common prices;
- the sharing of the cost of this common policy.

These three principles are interdependent and cannot be dissociated from the objective to be achieved. In order for there to be free trade, it is necessary to have a common support policy and a single price level. Once prices are decided on in common it is not only natural but essential for the financial consequences of that common agricultural policy to be borne jointly.

*Single price.* The experience of the last ten years since the introduction of compensatory amounts has shown how difficult it is to avoid distortions of production and distortions of trade once the concept of price unity is set aside. The introduction of the European Monetary System in 1979<sup>1</sup> and the close relationship between the currencies maintained since then have caused this 'sickness' of compensatory amounts to recede. It was high time, because their continuation and their increase would certainly have led to the break-up of the common agricultural policy.

*Cost-sharing.* Once there is a Community decision on the fixing of prices, and hence indirectly on the development of budgetary expenditure, it is only natural for the consequences to be borne by the budget of the Community.

Without a common system of financing there can be no certainty about the fixing of single prices. We need only consider the following examples, which are not exhaustive but will serve as illustrations for readers who are acquainted with the nature of discussions in the Council of Agriculture Ministers: Would Ireland accept high prices for beef and veal if it had to bear the consequences from its own budget? Would France have agreed to high prices for cereals and

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<sup>1</sup> Bull. EC 2-1979, preliminary chapter; Bull. EC 3-1979, point 2.1.1.

sugar for fifteen years if it had to meet the expenditure itself? Would Italy have subsidized olive oil or processed fruit and vegetables to the same extent if the Italian Parliament had had to vote the necessary appropriations each year?

The answer is clearly no.

4. If we look closely at the internal structure of the common agricultural policy it is evident that these three principles, or pillars erected by the architects of the policy, are not merely decorative features. They are essential foundations for the insertion of any common agricultural policy into a common market based on freedom of trade. Calling these principles into question would affect the balance between the agricultural policy and the free circulation of industrial products and could thus lead to a change or a weakening in the rules applicable to the latter.

The common agricultural policy may be characterized as a system of support of farmers' incomes mainly through support of market prices with certain elements of direct aid to incomes. For political, financial and administrative reasons, one could not envisage a radically different model for the Community's agricultural policy than the support of market prices. But this does not mean that, in future, problems of a special regional nature or concerning particular commodities cannot be solved by Community measures involving direct income support, as indeed has already been done in certain specific cases.

### *Results*

5. If we are to judge the results of the common agricultural policy after fifteen years of existence, we should look to see, objectively and on the basis of statistics, whether the objectives set have been attained.

6. Since the creation of the common market the consumption of foodstuffs has improved in both quantity and quality to an extent never before known. This development, to the advantage of consumers, was helped by the spectacular development of agriculture and of intra-Community trade in agricultural produce.

7. Similarly, if we look at agricultural production, which has increased by 2.5% a year over the last twenty years, the growth in productivity and the optimum use made of production factors, we can see that the common agricultural policy has encouraged the modernization of European agriculture.

The growth in productivity revealed by the figures shows the extent to which agriculture, supported by the common policy, contributed in the 1960s and 1970s to the remarkable boom in the industrial and tertiary sectors by providing them with the necessary labour: between 1958 and 1979 more than 10 million members of the working population left agriculture, i.e. at the rate of one a minute.

In 1980 the agricultural policy enables 8 million persons to be directly employed in agriculture. If we add the employment 'upstream' (fertilizers, equipment) and 'downstream' (foodstuffs processing), agriculture and agri-business form one of the major branches of economic activity in the Community.

8. The common policy has enabled agricultural income to keep on growing and at the same time it has protected the sector from the recessions which have affected the economy since 1974. Since 1968 real income in agriculture has on average increased by 2.8% a year, a rate equal to the increase in the other branches of the economy over the period 1968-76.

9. As regards security of supply, Europe has not only been shielded from any physical shortage of foodstuffs but it has also been protected from the speculative movements which sometimes affect the world markets in raw materials. We need only think of the dependence of Europe as regards energy and of the vulnerability of supplies from overseas in order to understand that an entity such as Europe, with a population of 260 and perhaps soon more than 300 million, cannot afford to rely on others for its food supplies and has the duty to exploit the richness of its soil.

10. On the subject of exports, it should not be forgotten that the CAP has facilitated the export of agricultural products both within the Community and to non-member countries and has thus

had important consequences for the trade balance of the Member States. Neither should we forget the contribution of European agriculture to satisfying world demand for food, including the demand from those parts of the world unable to pay for it. If the FAO's forecasts are correct, the world will need all its available resources in order to meet its future food requirements.

Any change in the CAP which substantially disturbed these trade flows would seriously upset the balance which has existed within the common market since its inception. One cannot expect to have a common market for the sale of one's industrial goods, or to take advantage of the free movement of capital and services, and at the same time refuse to provide the instrument which is essential to the free movement of agricultural produce.

### **Difficulties encountered by the CAP: possible solutions**

#### *Criticisms*

11. The main difficulty encountered by the common agricultural policy, after fifteen years of operation, is the lack of sufficiently effective regulatory mechanisms whereby the development of production is geared to the needs of the internal and external markets. As the common agricultural policy is based essentially on mechanisms which support farmers' incomes by means of guaranteed prices or direct product subsidies, the continual increase in production engenders an uncontrollable rise in expenditure.

Of the EAGGF chapters which have shown rapid increases over the last three years, it is evident that those for milk, beef and processed fruit and vegetables represent rises in expenditure which can no longer be kept under control as the rules stand at present. For wine, although the development of expenditure from year to year is strongly influenced by the ups and downs of the harvest, the trend is for output to rise while consumption continues to fall. Similarly for cereals and sugar, despite annual variations, the trend has been for Community production to increase rather faster than consumption. The difficulty with regard to

the milk surpluses stems from the fact that there is no internal market or external market that can pay where disposal is possible at a reasonable cost, and that the scope for increasing food aid is limited. To get rid of stocks it has proved necessary to grant even higher export refunds or subsidies for internal disposal, sometimes equivalent to 80% of the product's value.

Similarly, the aid for processed fruit and vegetables may exceed the price received by agricultural producers, since the aid is in fact a deficiency payment to cover the difference between the production cost of the European industry and the world market price.

This being the case, it is clear that, unless prices are drastically readjusted, any guarantee arrangements applicable to unlimited quantities are bound to result in further increases in production. This is only common sense: without physical or economic control, no system can function properly in the long term.

12. The second criticism which may be directed at the common agricultural policy concerns the way in which the common market organizations, based as they are on price guarantees or product subsidies, work to the advantage of the largest producers, who already have the most favourable production structures.

It is not really surprising that, in a market economy, farms should tend to become larger and larger. In the long term, there is no valid reason why agricultural production should not follow industry in the trend towards larger and more rational economic units with better allocation of resources and economies of scale.

Criticism centres round those situations where prices (i.e. incomes, to a great extent) receive direct support from public funds. In other words, in a Europe facing, because of the energy crisis, a long slowdown in its economic growth, voices are being raised in protest against public money being used, for the most part, to support the incomes of the richest farmers.

13. The view that this system whereby incomes are supported by prices is a source of social inequality, under the cloak of economic equality, is akin to a third criticism, namely that the

