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REVIEW OF ACTION TAKEN TO CONTROL THE AGRICULTURAL MARKETS

AND

OUTLOOK FOR THE COMMON AGRICULTURAL POLICY

(Communication from the Commission)

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## I. INTRODUCTION

1. In the Programme it presented when it took office in 1985, the Commission stressed its intention to press forward with the reform of the common agricultural policy: "The Commission intends to stick to the chosen path. There is no realistic alternative to tough action as long as massive imbalances persist for most agricultural products". It added that "rigorous rationalization of the common agricultural policy, necessary though it may be, is not enough. New prospects must be opened up for European farming."

It proposed the organization of a comprehensive discussion among the Community institutions and with the farming organizations, and this was held on the basis of a "Green Paper" it presented in July 1985. The Green Paper had the great merit of presenting the problem of the common agricultural policy in the setting formed by the other Community policies and operations, and of involving the farming community and the other groups and categories concerned in a general policy review of European agriculture, its place in society and its future.

The action then taken, reflected in each decision forming part of, or supplementing, the prices package, was implemented step by step, making proper allowance for the points of view expressed when the Green Paper was discussed.

2. The document released by the Commission early this year entitled "Making a success of the Single Act: a new frontier for Europe" (COM(100)) provided the Commission with an opportunity to relate the common agricultural policy to the world context and to emphasize the outlook for the future of European agriculture, indicating the framework in which it could work (supporting measures and Cohesion).

3. Alongside the process of internal adjustment of the CAP, the need for reform of agricultural policies has been generally perceived at international level as well.

This was formally confirmed by the Ministers at the OECD in Paris, and then by the Heads of State or Government in Venice. Last June, the European Council in Brussels noted that the approach adopted in the work of the Agricultural Council was in line with the commitments accepted in these international forums, stressing "the need for better adjustment of supply to demand through measures enabling the market to play a greater role".

With a view to "completion of the modernization of the common agricultural policy", the Council called for "a review of all the adjustments made to the policy" so that, on this basis, "the requisite supplementary measures" could be adopted, including action to ensure full compliance with budgetary discipline. This Memorandum constitutes a response to the European Council's request.

## II. REVIEW OF THE REFORMS

4. In some respects European agriculture has altered almost out of recognition in recent years, and this, with the far-reaching change in the general economic context of which agriculture is a part, including that in world agricultural markets, has necessitated adjustments to the policy.

The adjustments have been related to the following four objectives:

- control of production and expenditure,
- reduction of stocks,
- preservation of the European pattern of agriculture and a definition of the outlook for European agriculture,
- international concerted action.

5. In the course of the drive launched to control production and expenditure, the Commission has consistently stressed that it was in the interests of the farmers themselves that this goal should be achieved: a balanced market, unencumbered with surpluses, will ensure the best outlook possible for European farmers, for it will offer them more satisfactory remuneration for their work and more freedom of manoeuvre. Without such control, given the scope for increasing productivity and the cost of disposing of surpluses, the policy could well break down altogether, simply because it is too expensive, dragging down with it the other common policies.

Nor should it be forgotten that since the inception of the policy the Community has emerged as the world's second largest exporter of agricultural products. Its future as an exporter could well be threatened if action is not taken to restore equilibrium between supply and demand.

The rigorous policy now introduced affects farm incomes only in part, as farmers' earnings are not solely dependent upon the official prices agreed in Brussels.

Farm incomes are in fact determined by a wide range of factors, including the volume and cost of farmers' inputs, land prices and rents, taxation, and social security and welfare schemes. Also, for much of the Community's production, there is only limited support (pigmeat, eggs, poultry, fruit and vegetables) or even no support at all (potatoes, certain vegetables, and certain types of meat).

At all events, since 1980, farmers' incomes, expressed in real terms, have either held steady or actually shown an improvement; the index of net value added at factor cost, expressed per work unit, was 104.9 for 1985 and 106.5 for 1986 (1979-1981 = 100).

Differences from year to year are partly a matter of the impact of the weather on harvests. The maintenance of farm incomes is all the more remarkable if we bear in mind that the farmers in the main countries competing with the EEC on the world markets have fared far less well: their incomes have dropped by 15 to 20% in a single year.

6. The corrective measures adopted by the Council since the early eighties with a view to bringing production and expenditure under control have affected almost all the market organizations. They can be classified under the following three main headings:

- (a) More restrictive pricing

Since self-sufficiency for most products was achieved or even exceeded, the Community has tightened up its policy on prices. Thus, in recent years, the support prices as expressed in national currencies for all agricultural products coming under market organizations have, on average, been reduced by 0.5% per year in real terms. The rate of reduction has gathered momentum since the end of the seventies, and the cuts in institutional prices over the last four marketing years have totalled about 10%. These have thus more than offset productivity gains.

(b) Less permanent and more restrictive intervention

Intervention, which was once meant to be a "safety net", had gradually developed into something else: it had become an outlet in its own right, particularly attractive because it spared the farmer all effort and risk involved in actual marketing, but particularly harmful since it constituted an artificial, open-ended incentive to production.

There have been many adjustments to the intervention rules, varying according to product. They are described in more detail in Chapter III, "Existing stabilizers and new machinery".

(c) Restriction of support by the establishment of binding quotas and guarantee thresholds, strengthening the co-responsibility of producers

There have been three phases:

- the first, with the assignment of quotas for sugar, and the introduction, ten years later, of a co-responsibility levy on milk;
- the second, from 1982 onwards, with the introduction of guarantee thresholds for a number of surplus products. From 1982 to 1984, almost half of the final agricultural production coming under market organizations, accounting for about two-thirds of EAGGF guarantee expenditure, has thus been made subject to guarantee thresholds or similar systems;
- the third, with the introduction of the quotas for milk and tomatoes and the adjustment of intervention arrangements for major products.

The action taken is also described in detail in Chapter III, "Existing stabilizers and new machinery".

Also, the support measures (differentiated measures, compensation, and socio-structural measures) adopted since 1985 whenever corrective action has been taken in respect of production are recalled below (p. 23 et seq.).

7. In view of the adjustments made since 1984, it is fair to say that at least one stabilizer designed to curb production and limit the cost to the budget has now been built into most of the EEC market organizations.

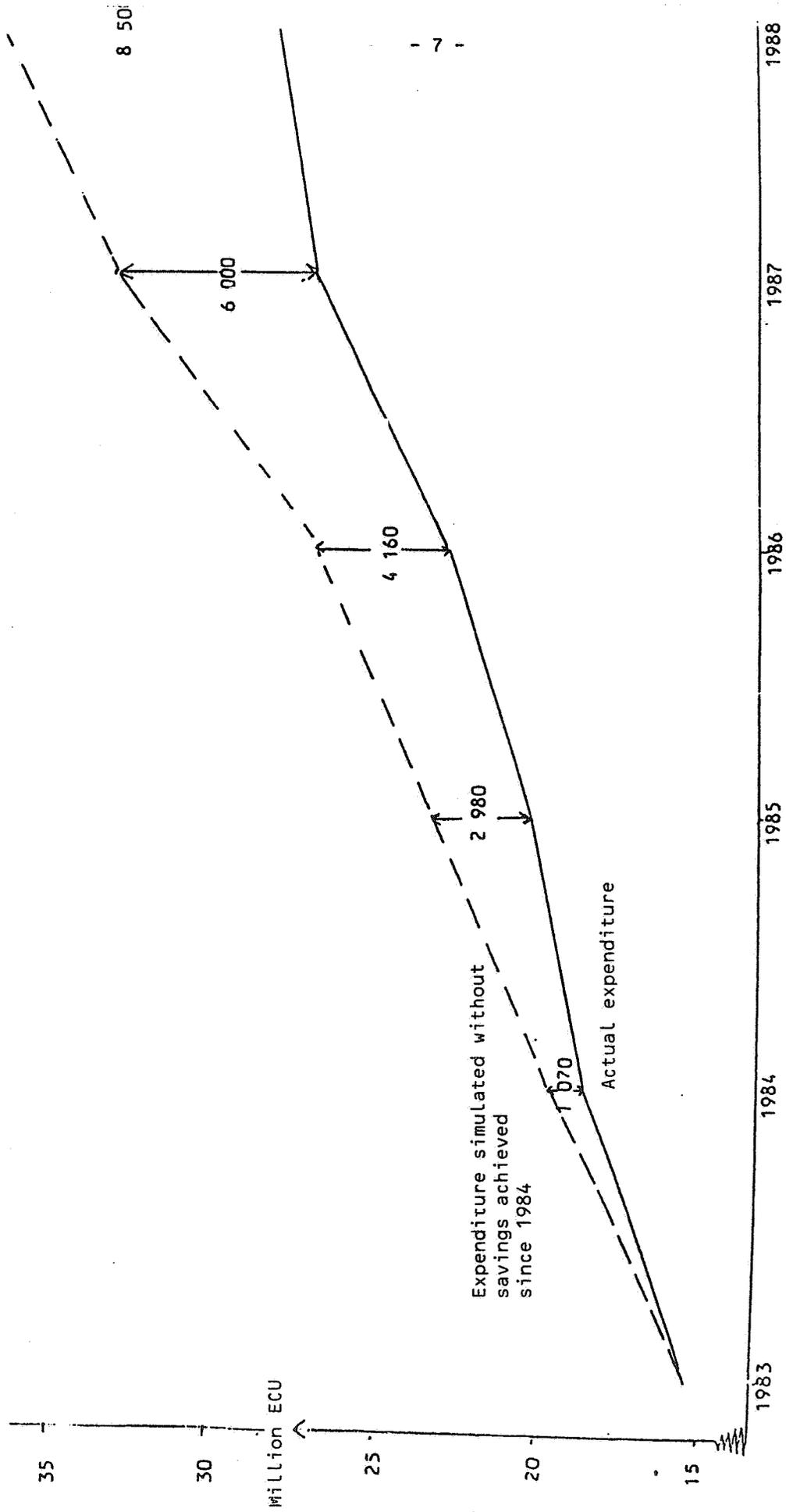
As regards the impact of the budget, a great deal has been achieved. The savings, actual or expected (see graph), are the following:

- 1984: 1 070 million ECU
- 1985: 2 980 million ECU
- 1986: 4 160 million ECU
- 1987: 6 000 million ECU
- 1988: 8 500 million ECU

It is none the less a fact that between 1984 and 1987, EAGGF guarantee spending rose from 18 371 million ECU to 27 305 million ECU, i.e. by more than 40%. However, the figure for 1987 is an estimate and includes a carryover of 693 million ECU from 1986, appropriations for that year having run out.

The rise in expenditure despite the reform of the market organizations has been mainly due to events occurring outside the area of the CAP, such as the deterioration in world markets (the costs of market organizations not enjoying external protection, like oilseeds, increasing substantially) and particularly the decline in the ECU rate of the dollar. A calculation at constant dollars (USD 1 = 1.10 ECU) shows that, at that rate, expenditure would have been 1 170 million ECU higher in 1984 but 1 600 million ECU lower in 1987. Thus, if the dollar had held steady, the growth in expenditure from 1984 to 1987, would not have been 40%, but only 24%.

But further savings must be made if the Community is to comply with the principle of budgetary discipline in 1988 and thereafter.



8. One of the purposes of adapting the market organizations was to curb buying-in.

But heavy stocks were already - and still are - in the silos and warehouses. These stocks, because of an outdated accounting system and lack of appropriations, are still valued in the books at cost when bought in, although on sale they could not fetch much more than a quarter of this figure.

By the end of 1986, the situation was as follows:

	<u>(m ECU)</u>
- value of stocks shown in the accounts	11 419
- value in accounts of "normal" stocks	2 351
- value in accounts of surplus stocks	9 068
- value on market of surplus stocks	<u>2 258</u>
Loss	6 810

Half of this loss is accounted for by stocks of butter. For this product, the Council has approved a special disposal programme for 1 million tonnes for a total cost of 3 200 million ECU, to be reimbursed to the Member States in four instalments of 800 million ECU over the period 1989 to 1992.

To cover the rest of the loss on stocks, the Commission has proposed in the preliminary draft 1988 budget an amount of 1 240 million ECU, and is contemplating, for future years, a flat-rate sum of 700 million ECU per year for depreciation.

By these means, provided stocks do not build up further in the future, it should be possible to eliminate the "weight of the past" by 1992.

9. As regards developments concerning quantities taken into store in the last two years, the following observations must be made.

The new rules on the buying-in of butter and milk powder, and especially the reduction in milk quotas, have cut sharply the quantities offered to the agencies.

	<u>Bought in, January-June (tonnes)</u>	
	<u>1986</u>	<u>1987</u>
- butter	433 000	250 000
- milk powder	390 000	40 000

On the other hand, quantities of beef bought in have not so far declined. Rather more beef was bought in during the first six months (228 000 tonnes) than in the first six months of 1986. This is due to the "milk-quota effect" (slaughtering of cows). However, it is expected that in the second half of the year there will be a decline of 100 000 tonnes compared with the same period of 1986. In order to reduce the effect of slaughterings of dairy cows, a special direct meat disposal scheme has been included in the preliminary draft budget for 1988 (370 m ECU).

As regards cereals, it is too early to estimate the effect of the decisions adopted on sales to the agencies. But the stocks have not increased in the last marketing year.

10. Action to control production and agricultural expenditure and measures to reduce stocks taken in recent years have not been isolated operations.

They have dovetailed into a coherent policy making proper allowance for considerations concerning farmers' incomes, the maintenance of family farming in all the regions, the cohesion of the Community, and the need to ensure that European agriculture is properly related to the world context. Action taken in this connection is described in the Chapter IV, "The preservation of the European pattern of agriculture and the outlook".

### III. EXISTING STABILIZERS AND NEW MACHINERY

11. Over the years, the machinery used for the management of the common agricultural policy has undergone major changes, although the fundamental principles on which the policy is based have been maintained unimpaired.

The changes have been made in response to a single objective, that of ensuring that farmers assumed a greater share of responsibility in respect of output and markets; the long-term aim has been to achieve a better balance between supply and demand and to ensure that producers bear part of the cost of disposing of surpluses. Moreover, they have been in line with the objective which the Ministers have set themselves - namely "no longer ..... to provide unlimited guarantees of price and intervention when there is doubt about the possibility of outlets...".

12. Although the concept of co-responsibility in agriculture had been mooted more than 10 years ago, it was only in 1981 that the Commission put forward the idea of a budgetary stabilizing system (viz. its proposed production guarantee thresholds, firstly for milk and later for crop products). The proposal was only gradually taken up by the Council and did not prove very effective.

Starting in 1984 but mainly much more recently, a number of reinforced stabilizers have, however, been introduced, aimed at bringing both agricultural production and budget expenditure under control. For some groups of products the stabilizers thus introduced are both binding and definitely effective in controlling expenditure.

Elsewhere the effect, though real, has been patchy and has not provided sufficient certainty that spending will in fact stop increasing, if only because of import commitments, which are constraints preventing the achievement of complete control over production and expenditure.

13. The Commission has undertaken to make additions to the market-organization regulations "with a view to ensuring that the planned overall levels of budget expenditure are not exceeded". The relevant measures are summarized below.

However, a number of general points must first be made.

There is doubtless room for stricter application of most of the mechanisms, but, the limits to more rigorous Community action are determined not only by technical or economic considerations peculiar to agriculture, such as climate, production cycles, and capital tied up, the effect of which is that farmers cannot react promptly or automatically to policy developments. Nor are these limits determined solely by the need to ensure that farmers do not react merely by shifting their operations from one farm enterprise to another, thus relieving difficulties in one sector only to create them in another. They are also, indeed mainly, determined by political imperatives, and depend on what it is felt should be or can be imposed on Community farmers, given the present circumstances with regard to incomes and employment.

Secondly, stabilizers are bound to differ according to the type of market support. Products covered by market intervention must be dealt with in a different manner than those supported by direct subsidies; likewise, products for which a production-quota system is applicable are less likely to need additional budget stabilizers, especially if the quotas in question are at the market-balance level.

Also, different arrangements are sometimes needed in the case of "multiannual" products.

Accordingly the measures which have been introduced include production quotas (sugar, milk), production-guarantee thresholds (oilseeds, cotton), processing-guarantee thresholds (for certain fruit and vegetables) and intervention thresholds (fresh tomatoes, butter and milk powder).

A system of direct financial co-responsibility has been introduced for certain groups of products. It is applied in full in the case of sugar but only partially (about 10%) to milk and cereals. Moreover, the system of guaranteed intervention has been somewhat restricted for beef, milk products, cereals and oilseeds. For "multiannual" products (e.g. wine), there are grubbing premiums and restrictions on replanting rights, in line with the decisions of the European Council of December 1984.

Stabilizing mechanisms are generally compulsory in character. Both they seldom prove effective in the short term because of the way in which the decisions are taken (Council) and time-lags before actual implementation, and this severely hampers effective control of expenditure during the same marketing year.

To ensure that the planned overall budgets are not exceeded, the respective powers of the Council and the Commission should, as pointed out in doc. COM(101) (and later endorsed in the conclusions of the European Council of 30 June 1987), be adjusted, in certain cases, to allow sufficient flexibility as regards management and to enable the institutions to comply with budgetary discipline. The adjustment of the respective powers of the Council and the Commission is set out in detail in the Communication on "Budgetary discipline".

The proposals set out below in respect of each product group also refer to this. Their particular objective is to enable the Commission, under rules to be defined by the Council, to adapt the financial co-responsibility facilities and/or the regulations relating to intervention.

In the light of these considerations and of results obtained so far as regards the stabilizers, the Commission is planning, in as far as is necessary, to amplify and improve as follows existing regulations for all the agricultural product groups, allowing for constraints that must be complied with as regards timing.

14. Proposals (by product group)

Sugar

This is the only product group which, apart from the costs arising from preferential imports from ACP states, operates under a system of full financial autonomy.

Under the present arrangements, financial autonomy is ensured only into the medium term, however, which is why the Council has in recent years had to introduce "elimination" levies.

The Commission feels that financial autonomy should be ensured on an annual basis. It is therefore proposing that the rules be amended to allow the Commission to adjust the levy during the marketing year, in the light of expenditure trends.

Moreover, the slump on world markets calls for a lower level of sugar production, something which, at Community level, can be considered only if it can be achieved jointly with the world's other producers, under the International Sugar Agreement.

The Commission is proposing adoption of this course and, in September, it will put forward amendments to the regulations in line with this approach. The proposals will also cover other changes in the market organization.

### Milk

The changes in policy on milk which have been introduced since 1984 will, for the first time, enable market balance to be achieved, from 1989 onwards.

Moreover, the stabilization mechanisms introduced - the co-responsibility levy and the intervention thresholds for butter and milk powder - already allow some reductions in expenditure.

The 1984-89 aggregate reduction in deliveries to dairies resulting from these measures is roughly equivalent to a year's production.

Thanks to the decisions taken as regards the financing of destocking operations, the Community has been able to launch a major storage reduction programme, thus helping to alleviate pressure on the market and, hence, reduce current operating expenses.

In September the Commission will lay before the Council a report on the operation of and outlook for the quota system.

The Commission feels that, under the arrangements applicable from 1989 onwards, the production cuts resulting from the suspension of the quotas must be consolidated.

It feels that any additional reduction should be counterbalanced by a similar commitment at international level by all the Community's partners. This would also call for a very real effort on their part to match what has already been done by Community producers.

In the light of the experience gained under the present arrangements during the last two marketing years the Commission will, moreover, propose any improvements to the intervention system which may prove necessary.

#### Oilseeds and olive oil

Expenditure on vegetable oils and fats has soared in recent years as oilseed production has forged ahead and world market prices have plummeted, the latter development impacting in full on the Community's expenditure since there is no external protection.

To remedy this situation, a production-guarantee threshold - applicable with effect from 1986/87 - has been introduced in the case of rape and sunflower seed: under this system, production aid is guaranteed in respect of a specified maximum quantity but is proportionately reduced if production exceeds that level.

For 1987/88 the Council has raised the existing cut-off from 5 to 10% and has introduced a similar system for soya.

The Commission asks that the Council take, before the end of 1987, a final decision on its proposals to phase out the cut-off for these three groups of products. Adopting the said proposals - they have already been given sympathetic consideration by the Council - would help to stabilize expenditure in each of the three cases.

In the case of olive oil the Council has adopted a system - superseding co-responsibility measures - whereby a limit is placed on quantities attracting full aid, the aid to be reduced where the limit is exceeded.

As regards the stabilizing mechanism, the Commission will also present, next October, its conclusions on the supplementary study and on the consultations with the Community's main partners requested by the European Council. Financial equilibrium for the oils and fats sector as a whole, including olive oil, will depend on the action the Council takes with regard to these conclusions. The Commission would recall in this connection the important implications of the failure to set up such a system, both for budgetary equilibrium and for the content of the measures of adjustment of internal policy.

#### Protein crops

Budget costs have also increased sharply in the case of protein crops (peas and field beans): they have almost doubled in two years.

No form of stabilization has so far been introduced. The Commission is proposing a production-guarantee threshold similar to that for oilseeds.

#### Cotton

There is, in the case of cotton, a guaranteed quantity in respect of which the aid - the difference between the Community price and the world market price - is payable. If production exceeds the guaranteed quantity, the price is reduced (the cut-off for the next three marketing years is 15%, 20% and 25% respectively, and will be abolished thereafter).

This system stabilizes expenditure to a sufficient degree.

### Beef/veal

While it has significantly restricted the intervention rules, the reform of the market organization does not constitute a true budget-stabilization system.

None the less, the activating threshold for intervention and the adjustment of buying-in prices have saved a good deal of money, some of which is channelled directly back to producers in the form of a premium for male animals.

Tighter milk quotas and the resulting increase in slaughterings of cows tend to mask the true impact of the reform and rule out any further adjustment of this market organization, for fear of forcing specialized farms out of business altogether.

The Commission will in good time put forward, for implementation after the transitional period, which ends in December 1988, a proposal to discontinue the variable slaughter premium and the calf premium. In parallel, it will propose the introduction, for this group of products, of an intervention threshold similar to that now in force for butter. Such a move would allow the Commission to suspend buying-in while stabilizing markets and incomes by other means (generalized single premium for male animals).

### Sheepmeat

There is no stabilizer for this group of products, of which the Community is a net importer but which is nevertheless a heavy charge on the budget. The system of premiums, which is extremely complex, keeps national markets separate within the Community while allowing certain farmers only very low margins.

The prospect for a single market in 1992 will necessitate the gradual introduction of a single system which could be based on a single premium per ewe, the amount of which would be reduced where a maximum guarantee threshold is exceeded. During September 1987 the Commission will submit a report on the operation of the system, with proposals to this effect.

In the meantime, proposals will be put forward with a view to stabilizing the cost to the budget of operating the market organization in its present form.

#### Cereals and rice

Expenditure on cereals has risen sharply in recent years and could well reach 6 000 million ECU in 1988, boosted by the effects of an increase in world production and the collapse of world market prices.

During the last two marketing years action has been taken with a view to bringing production under control and stabilizing expenditure. Significant adjustments to the intervention arrangements were accordingly introduced (quality, restricted buying-in period, smaller monthly increases, and rules on the activation and the level of intervention).

The co-responsibility levy, which has superseded the earlier system of guarantee thresholds (these were never applied in practice) brings in about 400 million ECU each year.

Although designed as a stabilizing mechanism, the system as a whole is too rigid to be really effective.

The Commission's proposal is accordingly that these measures be supplemented in such a way as to allow them to be adjusted during the marketing year and thus exert a genuine stabilizing effect on expenditure.

It is therefore proposing: (a) the fixing, annually, of a maximum production quantity (155 million tonnes) beyond which certain corrections of the co-responsibility levy and/or of prices would be activated, and (b) adjustments in the intervention rules.

In the first case, if the Commission finds that there is a risk of the maximum quantity being exceeded, it would apply the correcting adjustments in accordance with general rules to be laid down by the Council.

In the second case, if the maximum quantity is exceeded and there is a risk of sales to the agencies exceeding an intervention threshold to be specified (maximum intervention quantity), the Commission should be empowered to suspend buying-in while ensuring market stability by other means.

As stated below (paragraph 20), in the autumn of 1987 the Commission will lay before the Council a report, accompanied by precise guidelines, on the non-utilization of farmland (this will include any potentially viable set-aside schemes), which could well have some impact on the production of cereals.

As regards rice, the Council introduced the same adjustments to the intervention mechanism as for cereals. As quite negligible quantities have been sent to the intervention agencies since the inception of this market organization, there is no case, at the present time, for strengthening existing stabilizers.

#### Wine

No budget-stabilizing mechanism as such has so far been introduced in respect of this group of products, the budget expenditure for which is expected to reach about 1 500 million ECU in 1987.

A number of measures do, however, help indirectly to bring expenditure under control: the premium for the abandonment of wine-growing land, the ceiling set on "voluntary" distillation operations, and the reduction in the price for compulsory distillation on the basis of the volume to be distilled.

In order better to control expenditure and solve the problem of wine surpluses, the Commission is proposing that the degressive scale applicable to the price paid for wine covered by compulsory distillation should tail off more steeply, even beyond the limit set at present.

It is also proposing that some measures introduced with a view to stabilizing short-term fluctuations should be discarded because of their cost and relative inefficacy (aid to wine relocation, special special price support guarantee for long-term storage contract holders).

The Commission also feels that the Council should, on the basis of a report it will be submitting, consider whether chaptalization (the addition of sugar) and the aid to concentrated must are justified.

Finally, the proposal to restrict replanting rights should be approved by the Council without delay.

#### Fruit and vegetables

There are guarantee thresholds for certain processed fruit and vegetables (e.g. tomatoes and some types of fruit). A withdrawal threshold (with a cut-off of 20%) was recently introduced for fresh tomatoes.

This has significantly reduced expenditure on the relevant products. The Commission is proposing that similar stabilizing mechanisms be introduced for other products in this group.

Accordingly, the system of withdrawal thresholds, accompanied by a proportionate reduction in prices, should be extended to other fresh products which are in surplus (e.g. cauliflowers) and certain types of tree fruit (apples, pears, apricots, peaches and citrus fruit).

In the case of processed products, a production threshold should be introduced for all products not yet covered by this device.

#### Tobacco

Although the basic regulation allows the buying-in price to be reduced if the quantities sent to the agencies rise above a certain level, this is a stabilizer which is not applied in practice, since buying-in is made unnecessary through (costly) premiums.

The Commission is proposing the introduction of a maximum guaranteed quantity for each group of varieties, which would be similar to that proposed for oilseeds and which would allow for the specific regional characteristics of tobacco-growing.

The Commission is also proposing a clearer demarcation of the areas of production of the varieties eligible for the premium, with a view to confining the production of certain varieties to certain areas.

15. This set of - interrelated - proposals shows that, for many products, budgetary expenditure can and should be further stabilized.

A financial assessment of the adjustment measures proposed in this document depends on a large number of hypotheses concerning future developments on the agricultural markets - not only within the EEC but also outside (including changes in exchange rates). In many cases, essential parameters lie entirely outside the Community's control. For these reasons, it is impossible to produce entirely reliable budget estimates for agriculture.

The Commission will provide guidance as to the effect of the new measures proposed when it submits its practical proposals in the autumn.

But special attention must, none the less, be given to the problem of stable incomes for farmers, which could well be depressed by the schemes planned.

#### IV. THE PRESERVATION OF THE EUROPEAN PATTERN OF AGRICULTURE AND THE OUTLOOK

16. The reform of the common agricultural policy may well entail more than reductions in output and in the burden on the budget. The reforms may have an impact, of no small importance for European society, on farming, on the way farming changes and especially on its preservation in all the regions of the Community.

In its Green Paper, released in July 1985, the Commission had posed two questions: that as to what type of agriculture Europe should seek to establish, and that as to whether the policy of the European Community should be the retention of a large number of farmers. The Commission has already given a clear answer: loyal to the pattern of farming approved at Stresa, it has opted for the maintenance of the family farm. It has also insisted on the "need to maintain a social fabric in rural areas, to conserve the natural environment and to safeguard a countryside created over two millenia of farming", stressing that this need is "crucial in determining a major social option in favour of a Green Europe which protects employment and agriculture and, at the same time, serves the long-term interests of all European citizens".

Since 1985, the Commission has not been content simply to repeat these statements. Whenever necessary, and in any case whenever rural equilibrium was at threat, it has proposed and elicited adoption by the Council of appropriate measures of protection.

There have been many such measures and they have been very effective, so that it has become clear that the difficulties farmers have had to contend with have less to do with the reform of price support and market policy since 1984 than with other constraints over which the Community has little or no influence.

This is the action the Community has taken:

17. In the first place, in the application of some of the adjustments made to the CAP mechanisms, the mechanisms have been differentiated to allow for the special conditions some farmers work in or which prevail in certain regions.

For example, the co-responsibility levy on milk products has been "modulated", aid schemes have been set up for small grain farmers, small winegrowers have been exempted from compulsory distillation schemes, the special circumstances of certain regions or countries have been accommodated as regards the arrangements concerning the milk quotas, and no limit has been set to the production aid, which has even been increased, for small olive-oil producers. All these measures are designed to underpin the future of small farmers.

Secondly, compensation in the form of direct payments has been approved for cases in which the effort of reorganization demanded of the farmer might cost him too much or cause undue hardship for the first year. For the suspension of the milk quotas, an allowance of 10 ECU/100 kg has thus been accorded, for a total amount of 400 million ECU.

In respect of the alteration introduced in the beef intervention rules, a single premium of 25 ECU/head has been granted, in addition to the other allowances, the total expenditure committed under this heading being close to 400 million ECU.

The Commission does not rule out the introduction of other differentiation and compensation arrangements to conserve the fabric of rural life in certain regions or to safeguard the prospects of small farmers.

18. Alongside the adjustment of market mechanisms, the Commission has strengthened and amplified the armoury of Community schemes relating to structures.

A first set of measures was adopted in March 1985, allowing for the changes which had occurred in the economic environment on which the first policy on structures had been based (low growth in the economy, high rates of unemployment, aggravation of regional disparities, etc.). The new policy was designed to:

- improve or protect farm incomes, particularly those of farmers working in low-income areas, and to improve living, working and production conditions;
- maintain employment in the farm sector;
- encourage productivity gains while avoiding the generation of further surpluses,
- intensify efforts at regional level.

In view of the scope for expanding agricultural production further, this policy acknowledged the need to assign greater importance to the diversification of income sources for farming families. This is the aim of the expansion of aids to tourism and artisan work in less-favoured regions, the encouragement of forestry production, measures in favour of the environment and those designed to enhance value added in agricultural production.

A second set of socio-structural measures was adopted in March 1987. The schemes it included were designed to help solve the income difficulties certain farmers might face and at the same time avoid the production of surpluses.

This was the thinking behind action to strengthen the schemes for mountain and hill and less-favoured areas, and behind the introduction of aid schemes to encourage the development of "extensive" agriculture, to promote the set-aside of some farmland and also to induce farmers to give greater attention to environmental problems.

19. The reform of the structural funds should make it possible to reorientate EAGGF guidance schemes in relation to the following three main goals:

- that of assisting in the development of those regional economies which - because of outdated structures - lag well behind the others (many of which are essentially rural economies);
- that of encouraging rural development outside the backward regions;
- that of stimulating the adaptation of agricultural structures, in line with the reform of the common agricultural policy.

The schemes planned are described and analysed in the Communication "Reform of the structural funds - comprehensive proposal pursuant to Article 130 D of the EEC Treaty". One of them, rural development, will be quite a large-scale task which necessarily must go beyond the farm sector itself, requiring the creation of alternative or additional jobs and appropriate infrastructure facilities.

20. For agriculture can no longer be considered solely in terms of its economic and "environmental" importance. It forms part of the Community's entire heritage, and has a fundamental role to play in society as a whole.

The Commission will be submitting in the autumn a report, with proposals, on the future of rural areas, which will cover aspects so far left unexplored at Community Level.

Also, discussion of the control of production and expenditure has shown that the question of land use and incentives to set-aside merit careful study. On this problem, too, the Commission, complying with an undertaking given in the Council, will be reporting in the autumn.

These two reports, with the proposals, should prove a valuable adjunct to the agricultural stabilizers. But they will also be designed to offer a proper response to the new challenges thrown up by the urgent need for clear ideas as to the role agriculture as a whole and the farming and rural community will play in the Europe of tomorrow: in the reform of the common agricultural policy much more is at stake than the control of production and expenditure through restrictive measures - the operation offers a real opportunity to develop new prospects for those living and working in the country in all the regions of the Community.

21. In the immediate future, none the less, for some farmers, action to adjust the common agricultural policy and further action to be taken could well, as the European Council has noted, have "repercussions on incomes".

The Commission would draw the Council's particular attention to the proposals it submitted last April for the institution of a Community scheme for aids to farm incomes, the introduction of a framework for national aids of this type, and the introduction of a Community incentive scheme to encourage farmers to leave the land. The Commission feels that these proposals should be adopted promptly.

It is obvious that the objectives with regard to prices and markets can be achieved without undue delay only by using supporting measures accommodating the political reservations expressed by the farmers and certain member Governments.

The authorities must, in this connection, be in a position to offer solutions to the income problems the structurally weaker farms have to contend with and also attractive prospects to the most dynamic farms (viable farms). As indicated above (cf. points 17 and 18), when the Council has adopted particularly tough measures as regards a given product group, it has often added compensation facilities designed to assist certain classes of farmer.

The new measures proposed relating to incomes should provide the socio-economic "buffers" needed so that the further efforts to adjust and reorganize the markets which are required can be made at rates and in conditions which are acceptable in political, economic and budgetary terms.

22. Thus the Community approach to the reform of the common agricultural policy has been to avoid disruption and hardship while preserving a pattern of European rural development based on family farming and a balanced use and improvement of the land and the countryside. This links up with one of the main points in the Single Act, the need for economic and social cohesion.

Since Ireland, Greece, Spain and Portugal joined, the Community has had a much higher proportion of areas lagging well behind the rest in terms of social and economic development. Most of these areas are essentially rural in character, with up to 20 to 30% of the labour force being made up of farmers or farm workers.

Living conditions will have to be improved and new opportunities will have to be created in these areas if their inhabitants are not to drift away to the big cities. This is why the choice of rural development - in the broad sense of the term - as one of the fundamental aspects of the reform of the common agricultural policy lies within the objective of the economic and social cohesion of the Community.

#### V. EXTERNAL RELATIONS

23. In its document COM(87)100, the Commission stressed that one of the conditions for the success of the reform being undertaken, and especially in adapting the common agricultural policy, was the adoption of a firm attitude towards the outside world, which is now even more necessary because of adjustments made internally.

For there must be a correlation of some kind between the greater discipline demanded of Community farmers and the control of external parameters affecting the common agricultural policy, without which the reform of the policy would be jeopardized.

The new situation on the world market in agricultural produce is forcing all countries, and in particular the developed countries, to rethink their agricultural policies as a whole. This need has been recognized by Ministers in the OECD and the Heads of State or Government in Venice.

The Community has worked hard on the adaptation of its agricultural policy since the early 1980s, and more particularly since 1984. However, the task can be continued and completed only if the Community's partners show the same determination and adopt the same approach and only if, given the direct or indirect links between some of its policy mechanisms and the world market (export refunds, compensating aids), a joint effort is made by all producers to stabilize world markets.

In order to achieve price stabilization, which is obviously in the interests of the developing countries as well, the producer countries must take steps to control production and concert their efforts to bring their supply into line with demand.

This must mean reduced support for agriculture. The Community can agree to this, and has acted accordingly. It expects its partners to follow suit.

24. The GATT Uruguay Round could provide just the right forum at which an outline framework for a concerted stabilization of and reduction in support through adjustments to agricultural policies can be negotiated.

This is also a condition governing increased liberalization of trade in farm and food products, adopted as an objective by the Ministers at Punta del Este: if internal policies are to be rendered more sensitive to signals from the world market, and if market access and conditions of competition are to be improved and protectionism banned, world markets have to be different from what they are at present - more stable and more "transparent".

25. In early October, the Commission will be submitting to the Council an outline of the position it plans to defend in the GATT negotiations.

Based on the principles agreed at Punta del Este, in the OECD and Venice, and on the need for long-term as well as short-term action, the Commission's case will cover the present and future situation in agriculture and the world agricultural markets, in particular, the structural disequilibrium between the supply of and demand for the main items and the over-generous support schemes, which serve to distort competition.

There will be practical proposals involving:

- (i) For the short term, an effort to influence, by concerted action, the levels of supply and of demand, so as to achieve better equilibrium on the markets: as regards supply, by the adoption of practical measures concerning prices and other production incentives with a view to reversing the process of mounting domestic supply, including reductions in guaranteed prices or the imposition of quantitative limits; on the demand side, by action to improve the prospects for internal and external sales, this to include exceptional disposal schemes. The scope available under or allowed by the General Agreement will be systematically exploited so as to ensure an effective search for market equilibrium.
  
- (ii) For the long term, the aim of the proposals will be to achieve structural change in all the parameters governing world trade and agricultural policies, including domestic support policies, so as to achieve improved predictability and stability at world level.

The arrangements to be implemented for this purpose will be based:

- . on a multi-country and multi-product approach for the limitation and reduction of aids or protection accorded to agriculture where these affect trade;
  
- . on an overall improvement in access, and a re-balancing of systems of protection against imports;
  
- . on the restoration of the principle of balanced application as between the rights and obligations set out in the General Agreement;
  
- . on maintenance of the specific character of the agricultural rules in the GATT, subject to modernization and adaptation to changed conditions on the world market.

26. The Commission is well aware that satisfactory overall results cannot be achieved overnight. But this will not be an obstacle to the ongoing process of renewal of the common agricultural policy.

But throughout this process, pending the conclusion of the negotiations, the Commission will ensure that adjustments made are not weakened or offset by the practices of non-member countries. If necessary, it will make use of the regulations enacted for this purpose.

#### VI. CONCLUSIONS

- the adoption of stabilizers will enable the Community to bring agricultural expenditure under control in most areas. The future of a common agricultural policy, which is necessary if Community farming is to be carried out on a sound basis, can thus be secured;
- the steps which have been and will be taken to scale down stocks could well serve to eliminate the "weight of the past";
- it will be all the easier to curb production and expenditure if the need to underpin farmers' incomes is properly acknowledged and if family farms are protected;
- the Community is the second largest agricultural producer in the world. It therefore bears special responsibilities, but this does not mean that the Community is prepared to abandon its export markets.

Council Decisions on the four main principles defined above and on the rules relating to budgetary discipline detailed in the Commission's other Communication would enable the Commission to carry out in full the tasks it shouldered for itself when it took office in 1985.

They would correspond to the objectives set for itself by the Brussels European Council. But they would also make it possible to develop the Community's agricultural potential in a rational manner, in accordance with the objectives of the Treaty, while at the same time allowing for the need to make efficient use of the Community's financial resources, to maintain the countryside and keep people in the countryside, and to relate properly to the international context.

The proposed changes will not be easy to adopt. They involve difficult decisions and a willingness on the part of all concerned to make concessions and sacrifices. They also require imagination and political will. The Commission believes that there is, within the Community, in its present situation, a real determination to make the necessary adjustments. And that where there is a will, there is a way.

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