

Common agricultural policy

Commission report and proposals

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Introduction

1. The common agricultural policy constitutes one of the major achievements of the Community. In this domain, to a greater degree than in most others, competence for the execution of the common policy lies with the Community institutions, in accordance with the objectives of Article 39 of the EEC Treaty; and since a common policy implies common financial responsibility, its cost is borne to a large extent by the Community budget.

2. Agriculture plays an important role both in supplying food and in promoting development in poor and rich countries alike. The common agricultural policy has had considerable success. But Europe must adapt its agricultural policy. The adjustment of regulations adopted after difficult political compromises will require a firm political will. It will demand difficult decisions on the part of all the Community institutions, and an acceptance on the part of all the social and professional groups involved.

The adaptation of the CAP is not a technical affair, but a political challenge. Europe is entitled to demand the necessary efforts of its rural community and its food industry, provided that it offers them a well-defined and stable framework for their development. Moreover, the adaptation can be successfully accomplished only if the charge is distributed equitably between the different Member States, the different market organizations, and in general between the various interested parties.

3. It is normal that, in view of the future development of the Community, the agricultural policy should be examined and adapted, so that it can adequately fulfil its aims in the changed conditions now prevailing. The agricultural policy, like other policies, must respond to the need for the most efficient use of the Community's financial resources.

However, it must be emphasized that the budgetary costs of the CAP are a consequence of the measures adopted to implement its social and economic objectives. Those objectives, which include the assurance of a fair standard of living for the agricultural community, and the availability of supplies to consumers at reasonable prices, are common to agricultural policies in all developed countries of the world. The Community

should pursue these objectives at a cost which is reasonable, and not disproportionate to the costs experienced in other countries.

4. It must also be understood that the specific conditions of agriculture distinguish it from other sectors in a number of ways. For example, the fact that agricultural markets, within and outside the Community, are subject to fluctuations outside the control of the Community means that expenditure can vary unexpectedly.

5. For these reasons, the adaptation of the policy cannot be made according to exclusively budgetary criteria, but rather with the aim of fulfilling the fundamental objectives in the most cost-effective way. A cost-cutting exercise, conducted without regard to the social and economic consequences, would render no service to the development of the Community. It would lead to the fragmentation of the common policy, and to the reappearance in national budgets of expenditure now assumed by the Community.

6. The aim must therefore be to rationalize, not renationalize, the common agricultural policy. Only such an approach can give a good assurance of positive results.

7. It is in this spirit that the Commission has for a number of years advocated the adaptation of the agricultural policy. Already in October 1981 in its memorandum 'Guidelines for European agriculture'¹ the Commission outlined a programme for adapting the CAP to the new realities, both of general economic conditions and of the agricultural sector itself: this programme included a number of measures, and in particular the establishment of guarantee thresholds taking account of the long-term prospects for production, consumption and trade.

More recently, in June 1983, the Commission presented a further statement of its views in its communication 'Further guidelines for the development of the CAP'.² The Heads of State and Government, meeting in the European Council on 18 June 1983, requested that there should be an examination of the agricultural policy, taking account of a number of elements, and resulting in concrete steps to ensure effective control of

¹ Supplement 4/81 - Bull. EC.

² Bull. EC 6-1983, point 2.1.135; COM (83) 380.

agricultural expenditure (see text in Annex I). The Commission submits the present document in response to that request.

The general context

8. During the last two decades, since the creation of the common agricultural policy, the advance of technical progress and productivity in agriculture has been rapid. The long-term trend of increase in the volume of agricultural production in the Community has been 1.5 to 2.0% a year, while consumption has increased by about 0.5% a year. Consequently the Community has become more than self-sufficient for many of the principal products, and has come to rely increasingly on exports, or on subsidized sales within the Community, for the disposal of its production.

9. Meanwhile, the reduction in agricultural employment has also been rapid. There are now approximately 8 million persons employed in agriculture in the 10 Member States, and 5 million farms of one hectare or more. This development has been accompanied by an increase in part-time farming, in different ways in the different Member States. The Community must take account of this factor in taking its decisions concerning agriculture.

10. Despite the support afforded by the common agricultural policy, incomes from agricultural employment have increased less rapidly than other incomes since 1973. There remain large differences in the level of agricultural incomes between types of farming, between regions, and between Member States. The high rates of inflation, and the divergences of inflation between Member States, have also created problems for the CAP.

11. In these difficult economic conditions, the Community nevertheless remains the world's largest importer of food. It has maintained for several agricultural products a particularly liberal import system (entry at zero or reduced rates).

12. After a relative stabilization of expenditure from the Guarantee Section of the EAGGF in the period 1980-82, during which less was spent than provided for in the budgets, mainly because of the

favourable conjuncture on world markets, an abrupt change has been experienced in 1983, when expenditure is expected to be about 30% higher than in the preceding year. The tables in Annex II show the development of this expenditure, including the share represented by each product sector, and by each type of expenditure. The rate of growth of agricultural expenditure, taken over a period of years, is now higher than the rate of increase in the Community's own resources.

13. The Commission underlines that the situation cannot be remedied by short-term palliatives, or economies of an *ad hoc* nature. Only determined action to adapt the CAP in a rational long-term framework can serve to place the agricultural policy in a sound economic and financial context for the coming years.

14. The adaptation necessary in European agriculture is only part of the general adaptation of our society, faced with technological progress and a rate of economic growth lower than in earlier years. The diverse structure of agriculture in the Member States is the inheritance of many generations, and its well-being is essential to the fabric of rural life. But its well-being can be ensured only by a better integration into the economy as a whole, not by its isolation from the underlying factors which are affecting modern society.

Two factors of particular importance are the following :

- Because of the lower rate of increase of population, overall demand for food in the Community will increase less rapidly than in the past. On world markets the capacity to pay – that is, effective demand – will depend on economic growth and credit possibilities, which are uncertain. The Community must continue to play an important part in food aid, but it must also encourage the developing countries to satisfy more of their food requirements from their own resources by the development of food strategies.

- Thanks to scientific research and development, there is a constant improvement of crops and breeds of animals, machinery and techniques which mean that the factors of production can be combined more and more efficiently and at lower real cost. These trends will continue and even accelerate in the coming years.

The development of new technology has led, particularly in the case of animal production, to the setting up of agricultural enterprises for which land is no longer a limiting factor. There is a risk that this development may aggravate the problems of overproduction which have been experienced in the milk sector. The Commission has taken account of this aspect in the proposals which it makes on the subject.

15. The adaptation of the CAP must not ignore the consequences of agricultural activity for the industries upstream and downstream of agriculture itself. The development of agriculture must necessarily be integrated more fully into the overall chain of economic activity which first provides the requisites for production and then carries food and raw materials from the farmgate to the factory, the shop and the table. In modern economic conditions, a common agricultural policy can hardly exist except within the broader concept of a common food policy. It must be remembered also that the Community's agricultural exports are increasingly in the form of processed products, rather than basic agricultural products. This trend, which means that a greater share of value added (and therefore employment) is generated within the Community, must be encouraged.

16. Another development which has manifested itself in the last decade is the use of agricultural materials as a source of organic chemical products. The development of biotechnology represents an important challenge for the future, and if this activity is to be developed within the Community, it is essential that the provision of Community raw materials should be assured in the same conditions of competition as for its external competitors.

Other domains where the Community must promote the most efficient use of its resources of land and labour are the development of materials for use as energy (biomass) and the production of the forestry sector. Since the Community is deficient in both energy and wood products, these two domains represent real possibilities for alternative activity and employment in the rural regions.

The Commission intends to make suggestions on the relationship between agricultural policy and fundamental research. For this purpose, what is required is a system for forecasting the fundamen-

tal changes which may take place in the medium and long term, and also an examination of the possibilities for new outlets for agricultural production, particularly for products in surplus.

17. Agriculture, as the inheritor and guardian of the rural environment, contributes to the well-being of the vast majority of the population who live in urban conditions but wish to enjoy and preserve Europe's traditional landscape, flora and fauna. For these reasons the development of agriculture must continue to be made in a way which reconciles the interests of human recreation, and the protection of habitats and species, with the economic interests of those who live and work in the country.

18. It cannot be the Community's aim to stop the development of its agriculture. But in view of the future perspectives, the Community has no choice but to adapt its policy of guarantees for production. If Community agriculture is to succeed – as it should – in expanding its exports and maintaining its share of world markets, it must increasingly accept the market disciplines to which other sectors of the Community's economy are subject. In this dynamic approach, which rejects any Malthusian limitation of agriculture's potential, the accent must be placed more and more on production at a competitive price. Hitherto, the price guarantees for most products have been unlimited in nature. This situation cannot continue if the CAP is to develop on a rational basis.

Rationalization of the market organizations

Guarantee thresholds

19. The stagnation or decline in demand, both in the Community and on external markets, for important products such as milk, wheat, beef and wine confirms the diagnosis already made by the Commission in its memorandum 'Guidelines for European agriculture' of October 1981.¹ It is no longer reasonable to provide unlimited guarantees of price and intervention when there is doubt

¹ Supplement 4/81 – Bull. EC.

about the possibility of outlets in the coming years. In other words, Europe's agricultural producers must understand that they will have to participate more fully in the cost of disposing of production beyond a certain threshold. The measures necessary to ensure respect of such guarantee thresholds constitute the centrepiece of the Commission's proposals.

20. Guarantee thresholds can be applied by different procedures according to the product concerned. For example, thresholds can be applied by:

- (a) lowering the increase in the target price or intervention price if production exceeds a global quantum;
- (b) limiting the aids paid under the market regulation to a global quantum;
- (c) participation of producers, by means of a levy, in the cost of disposing of additional production (or in the cost of net exports);
- (d) quotas at national level, or at the level of the enterprise.

A choice is therefore necessary, in the light of the situation in each sector, as to which procedures should be applied.

All these various modalities have in fact been used, in differing degrees, in the context of the existing market organizations. For example, the approach at (a) was followed in the decisions taken by the Council concerning the common prices for cereals and milk for 1983/84; the modality under (b) exists in the market organization for cotton (and has been proposed for dried raisins); the coresponsibility levy introduced for milk in 1977 goes in the direction of (c); and quotas on the model of (d) have existed for sugar since the inception of the market organization.

Price policy

21. Alongside the introduction of guarantee thresholds, the Commission considers it necessary to pursue a restrictive price policy. Its annual price proposals will continue to take account not only of the development of agricultural incomes in the Community, but also of the agricultural market situation, the budgetary situation, and other general economic factors.

In addition, special attention must be paid to the proper hierarchy of prices between the different

products; to a satisfactory balance between the varieties produced and those demanded by users; and to the improvement of the quality of produce required by consumers.

For certain products (for example, milk and cereals) it reserves the right to propose the fixing of common prices more in advance (for example, for two marketing years) in order to make the price policy more effective.

22. As regards the level of Community agricultural prices in relation to those applied internally by its competitors on the world market, the Commission notes that in many cases (particularly for milk) the common prices are at about the same level (or in some cases lower) than in other countries. However, particularly in the case of cereals, it continues to advocate a progressive reduction in the gap between Community prices and those of its principal competitors, not only in the interest of a more competitive production of Community cereals (and the elimination of the advantage presently enjoyed by imports of cereals substitutes, for which there is a low or zero level of protection) but also with a view to the importance of cereals and feed costs in the economy of animal production.

23. The application of such a price policy in future years cannot exclude the possibility that, in certain cases where the market situation is particularly difficult, or where the effective application of a guarantee threshold so requires, the common prices expressed in ECU may be frozen or even reduced; and consequently that the Community support prices expressed in national currency may be reduced in nominal terms.

24. The Commission has given particular consideration to the consequences which this new approach to price policy could have in countries with a high rate of inflation. In this context it should be recalled that the Commission's new proposals for the dismantling of monetary compensatory amounts will contribute to a better convergence between agricultural incomes in Member States. In addition, the structural measures developed by the Community, with their efficiency strengthened by a better coordination, as suggested in the special Commission report to the Council, will also contribute to a solution to such problems in the medium term. In the third place, measures which could be taken for the

incomes of small producers (see point 27) will principally benefit farmers in countries with high inflation. Finally, the Commission recalls that a fall in the different rates of inflation must be achieved essentially by the efforts of economic policy to be pursued in these countries.

Market management

25. In the light of experience, the Commission considers that the rational management of the agricultural markets has encountered difficulties because of the automatic nature of certain instruments (intervention, etc.) which do not permit a flexible reaction to the development of the market situation. It is evident that frequent recourse to decisions at the level of the Council for the management of the agricultural markets is liable to lead to delays, or to linkage with other questions, which are detrimental to the proper execution of the common agricultural policy.

26. In response to the solemn declaration adopted by the Heads of State and Government in Stuttgart on 19 June 1983,¹ which 'confirmed the value of making more frequent use of the possibility of delegating powers to the Commission within the framework of the Treaties', it is the intention of the Commission to propose, in appropriate cases, the delegation by the Council of further powers in the context of agricultural management. The objective is to make the management of the policy more flexible and less automatic, with a view to the most efficient use of the instruments and of the financial resources.

Incomes of small producers

27. The Commission will propose, in those cases where it would be necessary, further measures to alleviate the possible consequences for the incomes of certain small producers, or producers in certain less-favoured regions. Such measures, which would be defined on a Community basis and limited to producers whose principal income is from agriculture, and whose opportunity for other economic activity is limited, could be financed totally or partly by the Community budget.

It should be noted that measures of this kind are already being implemented. Thus, for example, farmers in hill areas and less-favoured areas

already receive aid under Directive 75/268,² to compensate for the natural handicaps and to maintain a farming activity which helps to protect the environment. In the milk sector, the Council adopted in respect of the 1982/83 and 1983/84 marketing years a special aid of 120 million ECU for small-scale milk producers.³

Aids and premiums

28. It is a normal feature of many market organizations that there exist aids and premiums, paid by the Community budget. As can be seen from Annex IV, this category of measures financed by the Guarantee Section of the EAGGF comprises:

- aids with the general objective of supporting producers' incomes;
- aids to offset the difference between the prices for Community production and prices on the world market;
- aids to encourage the sale of Community produce on the internal market; in most cases, these measures are applied to products when similar products are imported free of charge or at low rates of duty.

This type of payment has increased in importance in recent years, and has now overtaken the category 'export refunds' as the largest single category of expenditure from the Guarantee Section of the EAGGF.

29. The Commission has made a systematic examination of the aids and premiums under the market organizations covered by this report, in order to verify their economic justification and to see if their objectives are properly attained. In some cases, the market situation which existed at the time of the original introduction of the measures has changed, and their justification is no longer evident. The Commission therefore makes specific proposals for improvement or discontinuation, as indicated in the product-by-product examination. In addition, the Commission will pursue the examination of the other aids and premiums, particularly those under market

¹ Bull. EC 6-1983, point 1.6.1 *et seq.*

² OJ L 128, 19.5.1975.

³ OJ L 140, 20.5.1982; OJ L 132, 21.5.1983.

organizations not covered in this report, and will propose appropriate measures.

External trade

30. Faced with difficulties of disposal on its own markets, and increased competition on external markets, the Community must base its agricultural trade policy on a combination of three elements:

- international cooperation with the principal exporting countries, to prevent the deterioration of world prices;
- the development of a policy at the Community level for promoting exports on a sound economic basis;
- the exercise of the Community's international rights, particularly in GATT, for the revision of the external protection system in those cases where the Community is taking measures to limit its own production.

31. The introduction of measures permitting the observance of guarantee thresholds, particularly the participation of producers wholly or partly in the cost of disposal, should permit the agricultural exports of the Community to develop on a sound basis. This will create the necessary conditions for envisaging the conclusion of long-term contracts for the supply of agricultural produce to third countries, particularly certain developing countries which have requested them of the Community in the framework of their policies for food security.

32. As regards agricultural imports, the Community is obliged to re-examine the regimes applicable for the different products, with a view to adapting them to the market situation. In some cases, the Community has contracted international commitments concerning agricultural imports in exchange for reciprocal concessions in the agricultural sector, or other sectors; in these cases, an adjustment of the import regime must take account of the possibilities of negotiation and of the reactions of the Community's trading partners. In other cases, autonomous concessions have been granted for reasons of general commercial policy and foreign policy. Nevertheless, if the Community is to demand greater discipline of its own agricultural producers, it must be prepared to take parallel action in respect of imports and to

ensure a satisfactory observance of Community preference.

Guidelines for the principal sectors

33. The adaptation of the agricultural policy must be made in accordance with the market conditions prevailing in each product sector; the aim must be not to achieve economies irrespective of the economic and social conditions particular to agriculture, but to streamline expenditure in such a way that the financial resources available are concentrated on the areas where those resources are most needed, where the interest of Community action is most clearly demonstrated, and where budgetary intervention can be most cost-effective.

34. With this objective in mind, the Commission has made a thorough examination of the principal market organizations, and of the measures resulting in expenditure from the Guarantee Section of the EAGGF. In presenting its proposals, the Commission observes that for the most part the adaptations indicated require Council decisions; however, certain measures fall within the competence of the Commission under its own powers. The Commission requests the Council to decide on its proposals before the end of the year, so that they can be applied as from the next agricultural marketing year.

35. In some cases, the adaptations require modification of the administrative procedures and economic instruments hitherto applied by Member States. If there is resistance to making adjustments, or if the administrative difficulties inherent in any such improvements are invoked, this will be seen as an excuse for delaying the necessary decisions. The Commission emphasizes strongly that the improvement of the functioning of the CAP implies the acceptance of change by the Member States. It underlines also that its proposals represent a global package, which cannot be significantly modified without compromising its overall balance.

36. The Commission has examined the economic context of each market organization for which adaptations appear to be required, taking account of all market organizations with a share

of more than 2.0% of the expenditure of the Guarantee Section:

Milk	Oilseeds
Cereals and rice	Olive oil
Beef	Tobacco
Sheepmeat	Wine
Fruit and vegetables	

A descriptive note on each of these market organizations is included in Annex III. The Commission will pursue its examination of market organizations of a lesser importance, not covered in this report, and will, if necessary, propose suitable adaptations.

37. Before coming to the individual products, however, the Commission draws attention to the fact that the sector of milk products presents the most urgent problem. In this sector the trend of annual increase of milk deliveries was about 2.5% in the period from 1973 to 1981, but the annual increase has accelerated in 1982 and 1983 to about 3.5%; meanwhile, consumption in the Community of milk products in all forms, which showed an annual increase of the order of 0.5% in the 1970s, is now tending to stagnate; thus the milk sector is different from other agricultural sectors by virtue of the unremitting and even accelerating divergence of the trends of production and consumption. The volume of milk produced in the Community now exceeds the realistic possibilities for additional disposal, except at rates of subsidy which are hardly acceptable for the Community taxpayer.

38. In its examination the Commission has concluded that, at this stage, adaptations are not necessary in the sugar sector, whose market organization was already revised by the Council in 1981, and renewed for a period of five years.¹ It includes a system of production quotas which gives to producers themselves (beet-growers and sugar-processors) the entire responsibility for financing the disposal of sugar exceeding the Community's internal consumption.

Milk

Guarantee threshold

39. The market imbalance, already grave when the guarantee threshold was first introduced in

1982,² has deteriorated further.³ World market prospects do not indicate the possibility of further significant increases in the Community's exports. The cost of subsidized disposal on the Community's own markets has reached very high levels. Consumption of milk products within the Community shows signs of stagnation. The Community is therefore faced with the need for radical action to correct the situation.

40. It is evident that the price decisions taken over the last 10 years have not been sufficient to redress the market balance. Although the guarantee threshold has been applied in such a way as to limit severely the 1983/84 milk price increase, this does not appear to have had an effect so far in restraining production. Since milk deliveries in 1983 are now expected to increase by at least 3.5%, the threshold fixed for 1983 will be exceeded by at least 6%. The Commission estimates that, in order to offset fully the additional expenditure likely to arise from the guarantee threshold being exceeded in 1983, the milk price for 1984/85 would have to be abated by as much as 12%. A measure of this kind would evidently have grave and immediate effects on the revenues of producers, while there would be some delay before the full effect on production was achieved.

41. The Commission has considered, as an alternative, an increase in the existing co-responsibility levy in the milk sector (currently applied at the rate of 2%) but with a differentiation of the levy according to the volume produced so as to alleviate the effect on the incomes of small producers. But such a measure, to be both financially and socially efficacious, would involve a differentiation so great as to risk resulting in inequalities between Member States, and could even compromise the unity of the price mechanism.

42. In these conditions, the Commission considers that other modalities for the application of the guarantee threshold must be considered. Experience in developed countries in other parts of the world suggests that, for the control of milk

¹ OJ L 177, 1.7.1981; Fifteenth General Report, point 386.

² OJ L 140, 20.5.1982.

³ Bull. EC 12-1982, points 1.4.3 and 1.4.6; see also *The Agricultural Situation in the Community - 1982 Report* (Official Publications Office, Luxembourg).

