

# COMMISSION OF THE EUROPEAN COMMUNITIES

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Mandate of 30 May 1980

## GUIDELINES FOR EUROPEAN AGRICULTURE

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Memorandum to complement the Commission's report on the Mandate of 30 May 1980

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# Guidelines for European agriculture

**Memorandum to complement the Commission's report on the mandate of 30 May 1980**

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## Preliminary remarks

1. In its report on the mandate<sup>1</sup> the Commission recommended that future decisions on the common agricultural policy should be based on the guidelines set out below:

- a price policy based on a narrowing of the gap between Community prices and prices applied by its main competitors in the interest of competitiveness and a hierarchy of prices designed to improve the balance of production;
- an active export policy which would honour the Community's international commitments;
- a modulation of guarantees in line with Community production targets;
- an active structures policy tailored to the needs of individual agricultural regions;
- the possibility of income support subsidies to certain producers in specific circumstances;
- improved quality control at Community level and tighter financial control by the Community in the management of EAGGF expenditure;
- stricter discipline in relation to national aids to avoid undermining Community policies.

2. The Commission presents this memorandum to the Council in order to provide a more detailed analysis and indications of these guidelines.

3. It considers that the Community should now make a major attempt to integrate the common agricultural policy more adequately into an overall policy for general economic recovery. This necessitates the efficient use of physical resources in agricultural production, but also the maintenance of agricultural employment at an appropriate level in view of the difficulties of employment in other sectors.

4. In this memorandum the Commission has taken account of the resolution on possible improvements to the common agricultural policy adopted by the European Parliament on 16 June 1981.<sup>2</sup>

<sup>1</sup> Supplement 1/81 — Bull. EC.

<sup>2</sup> OJ C 172, 13.7.1981.

## Part I

### Background for guidelines

5. After twenty years of existence the common agricultural policy needs to be adapted to the new realities both of general economic conditions and of the agricultural sector itself.

#### *General economic development of the Community*

6. Designed in a period of unprecedented economic growth, the common agricultural policy is now developing in an economic situation marked by the energy crisis, a slowdown or even a decline in growth, unemployment and monetary instability. In the base projection used by the Commission in the fifth medium-term economic policy programme, which takes as its horizon the year 1985, the annual rate of growth of the Community's GDP in the period 1980-85 is put at 1.9%, compared with 2.2% in the period 1973-80, while the increase in purchasing power of the *per capita* wage in 1980-85 is put at only 0.8% compared with 2.0% in the period 1973-80. Demographic growth in the Community in the period 1980-85 is estimated at only 0.17% per year. This outlook implies that the increases in overall food consumption in the period between now and 1988 will be lower than in the 1970s, and particularly that the growth in demand for certain livestock products such as beef, which is closely associated with growth in incomes, will be less marked than in the past decade.

As regards employment, there are now over 9 million people out of work, which means that any drift from the land is inopportune and also that the unemployment situation has to be taken into account in the allocation of public resources.

Lastly, although held in check by the establishment of the European Monetary System, international monetary disorder has repercussions on the operation of the common agricultural policy. The introduction of monetary compensatory amounts remains a threat to market unity, despite the efforts to eliminate them.

This general economic situation in its entirety prompts anti-inflationary policies characterized

by strict control of public expenditure and the need for efficient use of the Community's financial resources in all fields, and particularly in the agricultural sector.

### *Development of the agricultural situation*

7. Irrespective of the economic outlook, which calls for a re-examination of the common policies, the actual development of agriculture over the past twenty years would necessitate such an examination.

Without losing sight of the successes achieved by the common agricultural policy in attaining the objectives laid down in Article 39 of the Treaty, we should make the necessary adjustments in time to safeguard these achievements.

8. The creation of the common market with a spectacular development of agricultural trade has improved the consumption of foodstuffs in both quantity and quality. It has shielded the Community from physical shortage of foodstuffs, and has stabilized agricultural markets by protecting them from speculative movements affecting world markets in raw materials. The CAP has encouraged the modernization of agriculture, and through the considerable growth in productivity it has enabled non-agricultural sectors to grow by providing them with the necessary labour. It has contributed to the development of the food processing industry, which is closely linked to agriculture. European agriculture has also contributed to satisfying world demand for food.

Although the CAP has to a large extent shielded the agricultural population from the consequences of the general economic crisis and ensured the continued growth of the sector, agricultural incomes have fallen sharply in real terms in the past two years. The drop averaged 2% for the Community in 1979 and 9% in 1980.

This average also reflects the differences between Member States depending on their rate of inflation.

It is of primordial importance in any examination of the common agricultural policy to recall that the decisions taken in this framework have a direct effect on the incomes of 8 million persons employed in agriculture, who together with their families represent 40 million persons;

this is a responsibility which the Community institutions must always have in mind, particularly in implementing the measures advocated in this memorandum.

Lastly, although regional disparities of agricultural income persist, it is the general economic climate and in particular the existence or otherwise of alternative employment that is the principal cause of such disparities, and the mechanisms of the market organization have not reduced them.

9. As a result of the common agricultural policy, the Community's degree of self-sufficiency for many of the principal agricultural products has increased. However, this development has been accompanied by its own problems due to the fact that the common agricultural policy is essentially based on regulatory mechanisms supporting farmers' incomes by means of guaranteed prices or direct product subsidies for unlimited quantities not necessarily geared to the needs of the market.

Because of the continued growth of agricultural production, with a less rapid growth of food consumption within the Community, there have been increased difficulties of market management and a growing reliance on export markets, often with the aid of refunds paid from the Community budget. In the period 1974-79, expenditure from the EAGGF Guarantee Section increased more rapidly than the Community's potential own resources.

10. The Community has therefore been obliged in recent years to follow a more prudent policy for agricultural prices. The Commission included in its 1981/82 price package proposals aiming at the development of instruments for the participation by producers in the cost of disposing of additional production. At the same time, the Commission in its management of the markets, as regards both domestic markets and external trade, has placed renewed emphasis on vigorous and timely action to expand outlets, including an active export policy which has permitted the Community's agricultural exports to increase more rapidly than its imports.

11. These measures, helped by the good conjuncture of the markets, are now beginning to bear fruit. Expenditure from the EAGGF Guarantee Section in the period 1979-82 is estimated

mated to increase less rapidly than the Community's potential own resources. The picture is most striking in the milk sector, for which expenditure from the Guarantee Section will actually decrease from 4 752 million ECU in 1980 to 3 675 million ECU in 1981; in this sector the Community has succeeded in reducing a large part of stocks and expanding exports, while at the same time raising the level of prices on the world market, in such a way as to achieve considerable savings for the Community budget.

### *Need for medium and long-term decisions*

12. The Commission considers that the Community should now take advantage of these favourable developments to form a long-term view of the future perspectives of agricultural production, consumption and trade, and to introduce the adaptations necessary for the better guidance of the agricultural policy in a multiannual context. The nature of agricultural production and markets is such that decisions based on a horizon of one or two years are often inadequate. The Commission believes that a horizon of five years would be desirable for the determination of long-term objectives. Since any new measures taken now would not begin to have their effect on production and consumption until 1982/83, it is appropriate therefore to take 1988 as the horizon for the guidelines developed in the present document.

13. Another factor to be taken into account is enlargement of the Community. During the period concerned by this study it is expected that Spain and Portugal will join the Community and that the agricultural policy will apply to twelve countries. This new enlargement will not only change the market situation for most agricultural products, but will require changes in the common agricultural policy itself. The Commission has already indicated in separate proposals the main changes in the common agricultural policy which would be needed for a Community of twelve, and these are taken into account in this document for the products mainly concerned (wine, fruit and vegetables, olive oil). But, in order to set reasonable limits to the analysis, the projections and forecasts have been made principally on the basis of a Community of ten.

14. But any reorientation of the common agricultural policy must be subordinated to certain fundamental considerations:

- any changes must respect the basic principles of the agricultural policy, and permit the Community to honour its obligation under Article 39 of the EEC Treaty to ensure a fair standard of living for the agricultural community; no adaptations which fail to respect these conditions could be politically viable;
- there can be no question of imposing an artificial limit on agricultural production, or of determining the level by administrative dictate; what are envisaged are objectives of Community production, beyond which the Community's guarantee would be reduced or adjusted in an appropriate way;
- the adaptations should take into account the impact of agriculture on the environment and the need to preserve the natural resources that form the basis of agricultural activity, and to ensure the preservation of wildlife and natural habitats.

### *Prospects of production and consumption*

15. The analysis of forecasts for 1988 of Community production and consumption of the main agricultural products for the coming years shows that, in many cases, production will continue to increase more rapidly than Community consumption if there is no change in present measures and price structures. (Details of these forecasts are given in Part II of this document and in the graphs in Annex 5.)

16. In any case, the presence of the Community on external markets makes it necessary to analyse the evolution of Community trade and to compare agricultural prices in the Community with those existing on world markets and with prices prevailing in other countries.

### *Evolution of Community trade*

17. In 1980 exports to third countries of agricultural products covered by Annex II to the EEC Treaty represented 8% of world agricultural trade, whereas the share of Community imports of agricultural products was 17%. This

shows the Community's important role and responsibility on the world market. In the past both imports and exports of these products have shown a considerable increase (respectively 75% and 164% in value terms during the period 1973-80). The exports of these products concern dairy products, cereals, sugar, beef, beverages and tobacco and fruit and vegetables. In 1980 34% was exported to industrialized countries, 51% to developing countries and 15% to State-trading countries. In particular exports to developing countries have in the past shown a considerable expansion (271% from 1973 to 1980). Imports relate mainly to fruits and vegetables, oilseeds, grains, beef, beverages and tobacco. In 1980 46% of these products came from industrialized countries, 49% from the developing countries and 5% from State-trading countries.

18. Cereals imports have been showing a downward trend, which is due to the progressive increase in Community production and imports of cereals substitutes other than proteins, imports of which have almost doubled since 1974. The import conditions applicable to most of these products in the Community are particularly favourable: exemption from all protection at the frontier or a fairly low rate of customs duty.

As far as exports are concerned, there has been a particularly marked increase in Community exports of sugar, cereals, milk products, beef and veal and a wide range of processed products.

19. When assessing the prospects for Community exports of agricultural products in the 1980s, one must take account of the situation in which the Community finds itself in several sectors, e.g. milk products, sugar and meat in particular, and the possible development of other exports. In addition, it must be borne in mind that the Community will be required to continue and perhaps increase the volume of its food aid, particularly in the form of milk products and cereals and possibly sugar. The countries likely to become the Community's main customers are the East European countries (including the USSR), a number of developing countries and Japan.

20. In the context of the overall policy presented by the Commission the objective of Community export policy should be, in view of

world import requirements, to increase its agricultural exports so as to maintain its share in world exports in 1988 at least at the level reached in recent years. To that end, the Community may prefer, or even be compelled, to use a wider range of mechanisms in the export field. The Commission has already proposed the establishment of long-term contracts with non-member countries for the supply of agricultural products, and other formulas could also be considered.

The Community must also see to it that processed products win a growing share of its agricultural exports, in the interests of job creation in its agri-foodstuffs industry.

### *Comparison with world markets and third countries*

21. In general, differences in price levels reflect differences in industrial and social development. Farm price and price support levels in particular depend largely on the stage in the evolution of agricultural structures which are a determinant factor for the cost of production. Since the structural situation differs considerably among countries, it is evident that agricultural price levels in the world also vary significantly. The strong demographic density in the Community as compared to many other developed countries in the world is one of the principal causes why farm structures in the Community are generally less favourable than in these countries.

22. It is difficult to make accurate price comparisons. Different support systems, differences in statistical measurement, differences in quality, unstable exchange rates for conversion of prices in a common denominator, and the fact that exchange rates do not coincide with differences in purchasing power mean that any price comparison can only be of a global nature.

23. Comparisons with world market prices may easily lead to misleading conclusions. It is highly unlikely that European consumers could be supplied for long at low and stable world prices if Community supply, because of reduction in production, would depend to a greater extent on imports. World market prices are notoriously volatile because the quantities



involved in international trade are often marginal in relation to total production (e.g. sugar, cereals, dairy products) and may reflect short-term fluctuations in production. For several products (e.g. beef, wine, tobacco) there is no real world market and prices vary according to the destination of exports.

Therefore the Commission is convinced that a generalized and systematic alignment to world market prices would not be a practical policy guideline. On the other hand world market prices influence the level of export refunds and therefore budgetary costs. In many cases, the export market will in future be the only outlet for additional production exceeding internal consumption, and such production will therefore realize no more than the world price. This element must be taken into account in considerations concerning producer participation in financial costs.

24. Another yardstick for judging the Community price level is the price level which is applied in other countries and in particular in other major competitive export countries of agricultural products. Here also cautiousness is needed since in many cases the low-cost producers in the world could only satisfy a part of demand for food in the world, so that the production of other higher-cost producers is necessary in order to satisfy demand. The Community is not alone in maintaining a system of agricultural support and guarantees of markets and incomes for its farming population. Almost without exception, other countries have agricultural support systems of various kinds, with differing mechanisms of support and differing hierarchies of prices.

In countries with agricultural structures similar to that of the Community, the price level is frequently higher. For example, although the producer price for milk in New Zealand is 55% lower than in the Community and in Australia 15% lower, in the USA it is 15% higher, in Canada 18% higher and in Switzerland 55% higher. For beef, although producer prices in competitor countries such as Australia and Argentina are much lower than in the Community, they are only slightly lower in the USA, and they are more than twice as high in Japan. For wheat the price gap in 1980/81 between the Community and the USA was 30% and in comparison to Canada 27%. For maize, the price gap between the Community and the USA was 34% in 1980/81.

25. Almost all countries, in one way or another, place agriculture in a special position and give special treatment to agriculture compared with the other economic sectors. Without giving an exhaustive list, it is sufficient to cite the example of two major products (cereals and milk) in two leading producer countries (the United States and Canada).

In the United States measures include the fixing of a target price for the various cereals — which enables farmers to claim deficiency payments when the market price falls below a certain level — accompanied by a system of seasonal and medium-term loans, the rates of which are fixed each year by the Government at a very low level, a system of disaster payments and, more recently, new machinery for adjusting supply: the producer storage programme, the aim of which is to encourage producers to stockpile or to run down their stocks, as the market requires. In addition, there are a series of measures for regulating production, including the 'setting aside' of land. In Canada the Government pays producers the difference between the world price and the internal price fixed by the Government for supplies to the mills. There is also a centralized system for the management of the market in wheat and barley and an income stabilization system for cereal farmers in the west.

26. As regards milk, in the United States income support is ensured by a parity price for milk, reflecting production costs and aimed at ensuring a level of agricultural income which will enable an appropriate production capacity to be maintained. The Commodity Credit Corporation buys in milk and milk products to enable the milk price to reach a level somewhere between 80 and 90% of the parity price. Production is regulated by marketing orders, and imports are restricted by quotas.

In Canada there is a system whereby the market in milk is split into milk for processing and that part of the milk supplied by producers of drinking milk going for processing. Each producer receives a market price, which is based on the support price, for deliveries not exceeding his market share quota. Over and above the quota the price received reflects the prices of milk surpluses on the world market. An equalization scheme for losses incurred in exporting surpluses chargeable to the producers has also been introduced. The Federal Government

bears only those export account deficits resulting from major unforeseeable changes in the world market situation. A system of income adjustment is also now in operation, designed to adjust the target support price for producers of milk for processing and cream in the light of production costs, the cost of living and other economic factors (incomes, processing costs, etc.) relative to the other main producing countries.

27. As regards public expenditure on price and income support, OECD estimates show that the levels of support vary considerably from one country to another. In 1977, the only year for which data are available for each of the countries in question, price and income support as a percentage of the value added of agriculture at market prices ranged from 7.5% in New Zealand to 27.3% in Switzerland. The Community comes quite near the bottom end of the range with 11.9%, which is very close to the levels in the United States (9.1%) and Austria (10.6%), but considerably lower than the Norwegian figure (21.4%).

### *Community spending on agriculture*

28. As is shown by the table in Annex 7, there was a sharp fall in EAGGF guarantee expenditure from 1973 to 1974, followed by rapid growth until 1979 then much slower growth from 1979 to 1982.

The growth rate during the period 1975 to 1979 was 23.3% a year, whereas it falls to around 10% a year for the period 1979-82,<sup>1</sup> and even lower when established for a constant number of Member States.

On the other hand, during both these periods the annual growth rate of the Community's 'own resources' (agricultural levy, sugar and isoglucose levy, customs duties and up to 1% of the common basis of assessment of VAT) has remained about 12% on average.

29. The following factors have brought about the increase in expenditure:

- general inflation forcing agricultural prices up;

<sup>1</sup> On the basis of amending budget No 2 for 1981, and for 1982 the draft budget and letter of amendment.

- upward trend of the degree of self-supply, particularly in the cereals sector (primarily by reason of substitutes) and the milk sector, although major fluctuations in either direction occur from year to year;

- enlargement of the Community to include Greece;

- widening of the scope of agricultural policy (e.g. aid for the consumption of olive oil, aid in respect of products processed from fruit and vegetables and the common organization of the market in sheepmeat);

- monetary movements;

- Community commercial policy;

- world price trends which, by the magnitude and suddenness of their fluctuations, have sometimes amplified the impact of the above-mentioned factors and sometimes cushioned or even offset their effects.

30. The reason for the difference in the growth rate between the periods 1975-79 and 1979-82 is that during the first period the principal factors tended to reinforce one another, whereas during the second factors causing downward trends have been opposing factors exerting upward pressure.

31. From 1975 to 1979 inflation and the increasing degree of self-supply forcing costs up, were strengthened in their impact by:

- the adverse effect of monetary developments, which entailed substantially higher MCAs; from about 150 million ECU before 1975 to over 700 million ECU in 1979;

- a simultaneous decline, or even collapse, of world prices for almost all the sectors of production: cereals, sugar, oilseeds and milk products;

- at the same time, imports of cereal substitutes were growing rapidly and their impact was all the greater as the refund rates were high;

- the milk sector holds a key position in the increase in expenditure, expenditure on milk accounting for a high percentage of the total spent on the market organizations (between 30 and 50%, fluctuating from year to year).

32. During the period 1979-82 the factors exerting upward pressure, such as the accession

of Greece, the extension of Community financing (the impact of which comes mainly into this period) and the development of beef/veal exports, have been counteracted by factors exerting downward pressure, i.e.:

- decline of MCAs;
- recovery of world prices for cereals, sugar and milk products;
- slower growth of milk production;
- stocks are not so high that major special measures are needed for the disposal of skimmed-milk powder or for the development of measures for the disposal of butter;
- the participation of milk producers, amounting to over 400 million ECU in 1982;
- lastly, the fact that more account has been taken of market conditions, this being reflected in a prudent price policy and the efforts of the Commission to achieve rigorous management of measures.

33. As far as the future is concerned, apart from the adjustment of prices, possible developments in the regulations and any monetary movements, two factors will affect expenditure:

- the accession of Greece, the full impact of which will not be felt until the end of the transitional period, although the major part of it will materialize during 1982;
- world prices, which are currently high, could fall back. This eventuality has in fact been allowed for in the 1982 budget.

34. Lastly, it should be stressed that not all guarantee expenditure is in fact motivated by agricultural policy considerations.

Many items of expenditure are charged to the EAGGF Guarantee Section although their real origin lies in Community trade concessions to non-member countries. For example, the Community has undertaken to import at low rates of duty or duty-free beef, New Zealand butter and sugar from the ACP countries, imports which give rise to comparable increases in exports. Moreover, imports at low rates of duty or duty-free of manioc and corn-gluten feed go far to account for the growth of expenditure on the cereals and livestock products sectors. The cost of these trade concessions (see Annex 9) can be estimated at about 1 600 million ECU in 1982;

the counter-concessions granted by other countries are difficult to quantify in budgetary terms.

### *Structural policy*

35. In its recent decisions on prices and related measures, the Council has paid particular attention to socio-structural policy; it has agreed to pursue and intensify the drive to improve structures, without interfering with measures to combat imbalance on some markets, but concentrating the available resources where the need is greatest: deficient farms and less-favoured areas. Expenditure on deficient farms and less-favoured areas should thus be able to reach two thirds of the EAGGF Guidance Section expenditure in 1981.

36. In future, and in so far as the Guidance Section's overall budget is increased, this policy will have to be strengthened all the more as adjustments in price and market policy will be unavoidable. Measures under socio-structural policy will also have to be amplified in order to:

- exploit more fully the opportunities offered by the improvement in product quality and the efficiency of processing and marketing channels;
- encourage the reorientation and diversification of production and the introduction of new products and new production systems;
- increase the contribution made by agricultural research and advisory services to facilitating the changes needed in agriculture.

However, not until the Commission has assessed the results of the operations currently under way will it be able to judge whether new proposals should be presented and to draw conclusions as regards the budget.

37. The socio-structural measures to assist less-favoured agricultural regions will also have to be continued. However, it is an illusion to believe that socio-structural policy on its own can bring about the requisite economic development of the less-favoured agricultural areas. Such development has to be planned in the context of regional development, on the basis of integrated measures supported by the

