

# COMMISSION OF THE EUROPEAN COMMUNITIES

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AGRICULTURE IN THE WORLD CONTEXT

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COMMISSION NOTE

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## The economic environment

Since the establishment of the common agricultural policy in the 1960's, profound changes have taken place in the economic environment in which agricultural policy has to fulfil its objectives. The growing imbalance of supply and demand, both within the European Community and on world agricultural markets, has led to tensions in international trade and the need for measures for the better control of production.

In its Green Paper of July 1985 on Perspectives for the Common Agricultural Policy the Commission gave its analysis of the situation, and underlined the need to integrate the policy into the world context :

"The advance of technical and economic progress in agriculture is not limited to Europe; it is transforming agriculture in all parts of the world - in the agricultural exporting countries, who are the Community's competitors on the world market, and in the developing countries, who are faced with the need to implement their own food strategies. Since the Community wishes to maintain its role in international trade, this implies that the CAP must take account of the international realities."

The analysis in the Green Paper has been largely shared by the other Community institutions, and the same themes have been affirmed in international forums, particularly at the OECD in Paris in April 1986 and at the Western Economic Summit at Tokyo in May 1986 (see texts annexed).

## The responsibility of the agricultural exporters

The world's agricultural powers have therefore a clear responsibility to reorient their policies in such a way as to permit domestic adjustment of the agricultural sector in acceptable conditions, and to reduce the risks of trade conflict.

The major agricultural exporters, particularly the European Community and the United States of America, face similar problems of over-supply and budgetary cost. The priority is no longer to stimulate production, but to bring it more into line with realistic market possibilities on domestic and external markets. As competitors on the world market-place, the exporting countries risk adopting support measures which lead to increased financial costs without corresponding benefits for the agricultural community. Therefore they have a mutual interest in cooperation to find solutions. However, the different structures of agriculture, for example the ratio of land to farmers, imply that the solutions to be developed on each side of the Atlantic will be different in nature. The adaptation of the common agricultural policy has to take account of the specificity of the European agricultural model, and of the need to maintain the social fabric of the rural regions.

The USA has taken steps, in the context of the recent Farm Bill, to adjust its agricultural policy; some of the measures are designed to restrain production, but others have had the effect of increasing tension on world agricultural markets.

The Community for its part has embarked on a reform of the common agricultural policy, particularly with the decisions taken in recent years on the level of agricultural prices, the control of production in certain sectors, and the participation of producers in the cost of surplus disposal. In agriculture, the process of adaptation is long, and such reforms require a period of time. Nevertheless, on the basis of Commission proposals since 1983, important savings have been made in agricultural expenditure, totalling more than 4 mrd ECU in 1986. However, the accumulated public stocks of agricultural products, which have to be disposed of on Community markets or by export, remain a matter of concern and require urgent action:

As the analysis in the Commission's Green Paper showed, the introduction of reform measures in the Community's price and market support implies an adjustment of the use of resources in the agricultural sector. There is therefore a greater need for appropriate structural measures, so as to provide long-term possibilities for farmers to reorient their production and complement their incomes.

The need for cooperation

In this situation, the need for concerted action in the world context is evident. Such action must concern not only the adjustment of domestic support policies in a way that is mutually coherent - and for which the Community should be prepared - but also cooperation for the stabilisation of world markets and the development of world agricultural trade. These considerations are of special importance not only in the forthcoming multilateral trade negotiations, but also in the conduct of bilateral trade relations between the major agricultural powers.

Agriculture

18. Policies of domestic support for and protection of agriculture have sometimes inhibited needed adjustment and led to increases in global supplies in excess of demand. This problem will become even more acute if technological innovation in agriculture is not matched by effective adjustment. Studies in the Organisation should contribute to a better understanding of the issues involved. Ministers asked the Organisation to intensify the work on these issues taking also into consideration the macro-economic and social implications of agricultural policies. Ministers agree that in many cases present policies entail not only heavily increasing costs but also the danger of aggravating conflicts in agricultural trade which, in turn, risk exacerbating trade tensions more generally. Particular concern was expressed over the recent escalation of tensions in trade in grains and in a number of other agricultural commodity markets. In the light of the serious situation, it is urgent that OECD countries, while taking into account the wellbeing of farmers, make strenuous efforts to reorient policies which have an effect on agriculture in order to encourage structural adjustment, to bring down budget expenditures, to correct market imbalances and to reduce tensions internationally.

Tokyo Summit , 6 May 1986

Communique

We note with concern that a situation of global structural surplus now exists for some important agricultural products, arising partly from technological improvements, partly from changes in the world market situation, and partly from long-standing policies of domestic subsidy and protection of agriculture in all our countries...This is a problem which we all share and can be dealt with only in cooperation with each other. We all recognize the importance of agriculture to the well-being of rural communities, but we are agreed that, when there are surpluses, action is needed to redirect policies and adjust the structure of agricultural production in the light of world demand. We recognize the importance of understanding these issues and express our determination to give full support to the work of OECD in this field.