Europe's common agricultural policy

European File

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In Europe, as elsewhere, agriculture is an important industry, both in its own right, and for its contribution to other sectors of economy:[1]

☐ Its main purpose is to satisfy the basic and permanent consumer need for food. An effective agricultural policy must guarantee regular and adequate supplies at stable and reasonable prices to the food-processing industry – and to the consumer. A large part of every household budget is still taken up by food bills. The increase in the standard of living has encouraged other forms of consumer spending. The food share of the consumer budget in developed countries, which stood at 30% in the 1960s, is nevertheless still just under 20% of the total.

☐ Agriculture exploits but also continually renews natural resources which are amongst the most significant of the relatively meagre 'raw materials' which Europe possesses. The countryside, as we know it, is largely a product of agricultural working of the land. Agriculture has a vital role to play in the management of the remaining open spaces.

☐ It is the main source of income for many people whose alternative job prospects have been severely restricted by the economic crisis. Consumer demand for food has stabilized and often taken new forms in recent years with the slowing of growth in population and income. The standard of living of 11 million farmers in the enlarged Community can only be improved through technical progress and greater productivity.

Green Europe — Why?

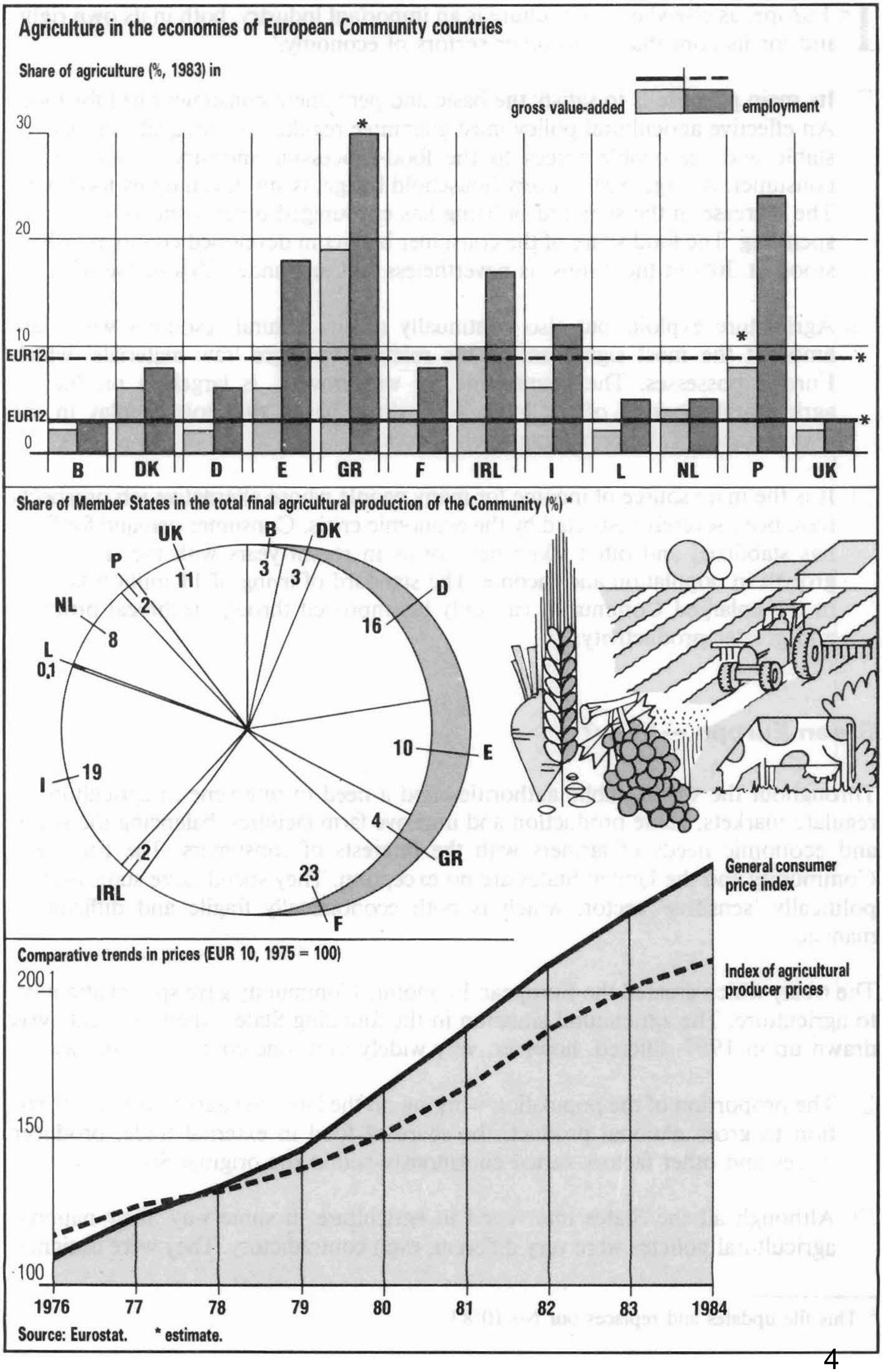
Throughout the world public authorities find a need to intervene in agriculture to regulate markets, guide production and improve farm facilities, balancing the social and economic needs of farmers with the interests of consumers. The European Community and the United States are no exception. They spend large sums on this politically 'sensitive' sector, which is both economically fragile and difficult to manage.

The treaty which created the European Economic Community gave special attention to agriculture. The agricultural situation in the founding States when the treaty was drawn up in 1957 differed, however, very widely from one country to another:

☐ The proportion of the population working on the land, the agricultural contribution to gross national product, the share of food in external trade, producer prices and other factors varied enormously within the original Six;

☐ Although all the States intervened in agriculture in some way, their national agricultural policies were very different, even contradictory. They were designed

[1] This file updates and replaces our No 10/83.


Agriculture in the economies of European Community countries
Share of agriculture (%, 1983) in
gross value-added
employment
30
20
10
0
EUR12
EUR12
*
B
DK
D
E
GR
F
IRL
I
L
NL
P
UK
Share of Member States in the total final agricultural production of the Community (%) *
UK 11
B 3
DK 3
P 2
D 16
NL 8
L 0,1
E 10
I 19
GR 4
IRL 2
F 23
Comparative trends in prices (EUR 10, 1975 = 100)
General consumer price index
Index of agricultural producer prices
200
150
100
1976
77
78
79
80
81
82
83
1984
Source: Eurostat.
* estimate.

to cope with natural and economic circumstances which varied considerably from the north of Europe to the south. Depending on their overall economic philosophy, some countries had developed free trade systems, others were fiercely protectionist.

This diversity — destined to increase with the enlargement of the Community — did not deter the authors of the Treaty of Rome from creating a common agricultural policy.

- ☐ It would have been, and remains unthinkable to have a common market for industrial goods which excludes agriculture. The opening up of frontiers implies a balance of trade flows and economic benefits between Member States, some of which are more agricultural and others more industrial.

- ☐ The preservation of conflicting national agricultural policies would have made free trade in agricultural goods impossible. It would also have impeded the realization of other aims of the Treaty of Rome: the creation of a common market in industrial goods and services (including the food-processing industry), free competition and social progress. A common policy was no less necessary to promote the Community's other objectives: the convergence of the economies of Member States and the unification of the peoples of Europe.

A common agricultural policy was also seen as desirable because of the advantages offered by a continental-scale market:

- ☐ For farmers, the prospect of a swifter spread of knowhow and new techniques, the launching of new products on a bigger market, the opportunity to specialize and to develop a certain complementarity between Member States, according to their natural advantages, such as soils and climate, or economic circumstances.

- ☐ For consumers, stronger guarantees of stable prices and secure food supplies. A large geographic unit with a rich variety of produce provides a sound base for the development of food industries. It is less subject to the vagaries of the world market, whose apparently low prices are somewhat misleading. The amounts available on the world market are, in truth, uncertain and the prices fluctuating.

To establish a common market in industrial goods, it was sufficient to dismantle internal customs barriers, to abolish non-tariff obstacles to trade, to introduce competition rules and to impose a common customs tariff at the Community's external frontier. For a common market in agricultural produce — the pre-condition of a common market in manufactured goods — it was necessary to face still more complex problems. Agriculture was, at the time, scientifically and technically backward. It suffered from a range of constraints, both natural (the difficulty of shortening production cycles or finding alternative crops) and socio-economic (the rigidity of structures, the need to keep farmers on the land to prevent de-population in some areas). These problems have obliged the Community institutions and

Member States to develop a common policy involving a far greater degree of integration than has been achieved by the Community in any other area.

This pioneering status has made the agricultural policy one of the main binding forces of the Community. The fact that agricultural spending accounts for nearly two-thirds of the Community budget is, therefore, understandable. It may seem disproportionate but is explained by the fact that spending on other policies has remained, for the most part, the responsibility of national budgets. In truth Community farm spending represents only 0.6% of the gross domestic product of the Member States and only 3% of what European consumers spend on food.

The common agricultural policy lays down principles, guidelines and mechanisms for controlling markets and shaping the development of farm structures and veterinary and health legislation. Member States jointly continue to play an important role in the implementation of the policy, watching over its operations and the preparation and financing of research and development programmes. So long as they have no direct impact on prices and markets, national aids are allowed. The European Commission ensures that they do not distort competition or infringe the principles of a common market.

Objectives and results

Article 39 of the Treaty of Rome lays down five fundamental and inalienable principles of the common agricultural policy: to increase productivity by promoting technical progress and the rational development of agricultural production, partly through an optimum use of resources, including labour; to ensure a fair standard of living for the agricultural community; to stabilize markets; to guarantee food supplies; to provide food for consumers at reasonable prices.

The different markets for agricultural products have been gradually organized to meet these objectives, while taking account of the Community's international obligations and its determination to cooperate in the development of the Third World. Other factors which have been considered include the need to develop less-favoured regions, to protect the environment and safeguard the consumer. In recent years the recession and problems with agricultural markets have led European leaders to consider the future farm policy, in particular how to achieve a better market balance by bringing supply of agricultural produce closer into line with demand from European consumers and the rest of the world. The genuine problems of the agricultural policy are, in part, the fruits of its success. It can readily be seen that:

- ☐ The Community has achieved complete security of supply. Europe has been removed from all risk of shortage. Production increases have been substantial in almost all sectors. The Community's level of self-sufficiency has, between 1973 and 1984, increased from 90% to 105% for cereals, from 90% to 101% for wine, and from 92% to 123% for sugar. Between 1973 and 1983 it increased from 92% to 102% for meats, from 104% to 147% for butter and from 197% to 317% for milk powder. The motive force behind this expansion has been increased productivity. Agricultural productivity has grown much more rapidly than that of industry, thanks mainly to technical advances and the rationalization of farm holdings. The other side of the coin is a 60% reduction in agricultural employment since 1960. The exodus has slowed down, but has not checked, in recent years as alternative employment has become scarcer.

- ☐ Reasonable consumer prices and stable markets have been achieved for most products. Since 1973 the average prices paid to producers have increased less rapidly than prices as a whole and more slowly, even, than food prices, which also cover the cost of marketing and, increasingly, processing. European agriculture, it can therefore be claimed, has made a considerable contribution to the struggle against inflation. As far as market stability is concerned, it is significant that the Community has remained untouched by the periodic surges in the world price for sugar and cereals.

- ☐ Security of supply, from the point of view of price as well as quantity, has been favoured by Community trade relations with the rest of the world. The Community is not a sealed economic unit. It is, quite the contrary, the world's major importer of farm produce. It is a particularly large buyer of tropical produce and animal feedstuffs such as maize and soya.

- ☐ Farm incomes grew at roughly the same rate as other wages from 1968 to 1979, at about 3% a year. As a result of the world recession earnings in agriculture fell from 1979 to 1981 and again, mainly because of the weather, in 1983. They picked up once again in 1984 (a 3.8% increase). Average figures disguise, however, the enormous income gaps which still exist between different types of agricultural producers, between large and small farms and between different regions.

As the figures on Community self-sufficiency show the expansion of output of many products has reached its ceiling. From over-dependancy on imports in some areas, the Community has swung over to a situation of permanent surpluses. It is undeniable that occasional surpluses through climatic circumstances cannot easily be avoided. It is also true to say that the common agricultural policy faces external constraints such as the manufacture of margarine, which competes with butter, from cheap imported produce or the Community commitment to import a quota of sugar from developing Third World countries. The surpluses have none the less become an integral part of the Community agricultural markets, permanent and massive. The main reasons are the relentless rise in productivity, the slackening of consumer demand in Europe and the recession-induced slowing of demand on world markets. Faced with this situation, a constant increase in food aid to the Third World is no solution. Apart from cases of genuine emergency, this serves only to discourage local production. Nor is it possible for the Community, with its strict financial limits, and its responsibility towards tax-payers, to spend ever increasing quantities of money on disposing of surpluses through costly means such as subsidized exports, social distribution schemes, consumption aids or destruction. European agriculture has to accept economic realities. It must, like industry, learn to produce for the market, to adapt to commercial demand and to continue to modernize. It is up to the Community agricultural policy to promote a re-orientation along these lines, while respecting the basic principles of the common market in agriculture and giving due account to social, regional and ecological needs.

The principal mechanisms of 'Green' Europe

The basic principles upon which the market organization mechanisms of the common agricultural policy are founded are the unity of the European market, Community preference and financial solidarity, within the framework of budgetary discipline, agreed at Community level.

□ Unity of the market means complete freedom of trade and therefore the abolition of customs duties and non-tariff barriers, the harmonization of administrative procedures and the health and veterinary rules which protect the consumer and producer alike. It also involves common rules for market management, including common prices applicable in all Member States, decided, often with great difficulty, through ministerial negotiation. There must also be identical rules on competition and a single system of protection around the external frontiers of the Community. Market management rules vary from product to product. There are, however, four principal types of market organization, which between them cover 94% of all European farm produce.

- About 70% of products (including soft wheat, barley, rye, maize, rice, sugar, dairy products, beef, sheepmeat, pork, some fruits and vegetables and table wine) enjoy support prices which carry either a permanent or conditional guarantee of price and sale. When market prices fall below a certain level and other conditions are fulfilled, the intervention authorities buy up the produce offered to them and stock it or sell it according to Community rules. The market can also be supported by more flexible means, such as storage aids, subsidies for distillation of wine and the buying-in of surpluses by producer organizations.

- About 21% of produce (other cereals, other wines, other fruits and vegetables, as well as eggs and poultry) are protected only by measures to prevent low-price imports from outside the Community.

- Direct subsidies apply to only 2.5% of production (hard wheat, olive oil, certain other oils and tobacco). This system is used for products predominantly imported by the Community. It helps to keep prices down for the consumer but guarantees a minimum income for the producer.

- Flat-rate aid according to hectares planted or quantity produced covers only 0.5% of production (cotton seed, flax, hemp, hops, silkworms, seeds and dehydrated fodder).

In response to the growth of permanent surpluses and the expenditure they generate, the Community has decided to pursue a policy of extremely prudent pricing and no longer to guarantee prices or subsidies for unlimited quantities of produce. Restrictive measures have been introduced to try to restore market balance: obligatory distillation in the wine sector; financial co-responsibility of producers, who pay part of the cost of storage or disposal through a tax or levy in the milk sector; production quotas, again in the milk sector; guarantee thresholds, which bring a reduction in guaranteed prices when a certain volume of production is exceeded (for cereals, colza, sunflower seeds, processed fruit and raisins); similar mechanisms have been introduced for sugar and cotton.

At the same time, developments on money markets since 1969 have brought about the introduction of 'monetary compensatory amounts' to compensate in Member States the changing common prices because of fluctuations in national currencies. This system safeguarded the common prices and cushioned farmers from the effects of monetary changes. But the prolonged application of the system caused certain distortions in agricultural competition. The Council of Ministers has therefore agreed to introduce rules which should allow the gradual dismantlement of this mechanism.

- ☐ Community preference is the logical extension of unity of the market. European farmers are protected against low-price imports and world market fluctuations by customs duties or levies imposed at the Community's external frontiers. These duties are calculated according to the difference between the selling price on the world market and the prices fixed internally by the Community. The levy is intended to bring the world price up to the Community price, where the latter is higher than the former. Free access to the Community market is assured but competition within the Community is protected. If, on the other hand, world prices are higher than Community prices, Community producers face an export levy to dissuade them from selling on the world market to the detriment of European consumers.

- ☐ Joint financial responsibility is also a natural extension of the two preceding principles. In practice it means that all common agricultural policy spending and receipts pass through the Community budget. Within this budget, the European Agricultural Guidance and Guarantee Fund has two sections:

  - The 'Guarantee' section finances all public expenditure arising from the common organization of the market. This also breaks down into two sections. Expenditure on regulating the internal market (11 800 million ECU in 1984) [1] covers purchases by intervention boards, storage costs, income aids and marketing subsidies. Expenditure on external sales (6 600 million ECU in 1984) covers the export rebates which bridge the gap between Community and world prices.

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[1] One ECU (European currency unit): about £ 0.59, Ir £ 0.71 or US $ 0.88 (at exchange rates current on 2 December 1985).

- The Guidance Section helps to finance Community policy on agricultural structures, mainly through funding projects involving the improvement of farms, rural facilities, processing and marketing. Since 1981 increased priority has been given to improving productivity, balancing markets and reducing regional disparities. A variety of programmes have been introduced for less favoured regions and mountainous and hilly areas, where it is vital to keep a certain number of farmers on the land, as well as parts of the Mediterranean regions which face increased competition through the Community's enlargement to the south. The programmes include training schemes for farmers, aids to drainage, irrigation and afforestation, the improvement of product quality and incentives to switch to alternative crops, especially in wine-growing areas. In March 1985 a new regulation restated these objectives and added measures in favour of sylviculture and young farmers. Community aids in this section will have funds totalling 5 200 million ECU for the period 1985-89. Usually up to 25% of the cost of a project (sometimes 50%) is covered by the Community, matched by funds from national authorities.

In addition, the European Regional Development Fund and the European Investment Bank provide finance, the first in the form of grants and the second in the form of long-term loans at the most advantageous rates (more than 500 million ECU in 1984) which help the rural economy by improving infrastructure (irrigation, drainage, roads, electricity), developing tourism and investing in food processing, abattoirs, marketing centres and small and medium-sized businesses.

Perspectives for the future

In the next few years the Community farm policy will be affected by:

☐ The enlargement of the Community to include Spain and Portugal. The Community has attempted to ensure a fair sharing of sacrifices and benefits. The new Member States will be integrated gradually into the farm policy from 1986 onwards. Customs duties will be abolished by stages; the new countries will come gradually up to the price levels operated in the existing Community; 'accession compensatory amounts' will be used in the meantime at the frontiers to bridge the temporary price gaps. The transition will, for the most part, take seven years. A series of further precautionary measures has been agreed, however, to ensure that integration is as harmonious as possible and to avoid disrupting 'sensitive' markets; Spanish wine will be compulsorily distilled beyond a certain level of production and it will be subject to specific monetary regulatory measures; there will be a 10-year transition period for olive oil, fruit and vegetables (two sectors where Spain has a huge export potential); and there will also be a 10-year transition for dairy products, beef and soft wheat, (with which Spanish farmers will find difficulty in competing with the rest of the

Community). Almost all Portuguese production will be subject to a 10-year transition period to allow this country's farm structures to be fundamentally restructured with the help of 700 million ECU of Community aid over 10 years. In almost all these cases, there will be annually adjusted import guidelines as an additional safeguard throughout the transition period. The Community has also agreed to 6 600 million ECU integrated Mediterranean programmes over seven years to modernize agriculture, infrastructure, services and small industries in Greece and the Mediterranean regions of France and Italy. The intention is to help them to face up to increased competition resulting from enlargement.

☐ The continuing adaptation of the farm policy to meet long-term aims. It is far better that agricultural prices, not quantitive restrictions, should be the controlling factor in limiting production. But this will require considerable efforts, over a long period. The objective should be to achieve greater specialization of agriculture according to natural advantages, to develop alternative, quality produce, and to find new markets, above all in industry and on the world markets, where the Community intends to hold on to its market share and equip itself with means of action equivalent to those of its competitors. Price policy alone cannot guarantee an adequate income to farmers or sufficient agricultural activity in certain regions. The Community must encourage modernization, the reduction of income disparities and the overall development of struggling regions. In certain cases it might consider income aids and support for activities which help to preserve the environment.

Faced with the widespread changes already in progress or expected in the near future, the European Commission decided in 1985 to take the initiative by starting a wide-ranging debate within the Community institutions and with representatives of industry. To begin this process, the Commission drew up a 'green paper' which analysed the situation, suggested subjects for discussion and outlined a number of options. These analyses and consultations have led to Commission proposals seeking to achieve a concensus on the strategy needed to face up to the challenges confronting Community agriculture in the next few years and the framework within which European farmers will be expected to operate. ■

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