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Brussels, July 1983

THE ADAPTATION OF THE CAP (1)

The Commission has now completed its review of the Common Agricultural Policy as requested by the European Council, and has sent its report to the Council with a programme of action for the adaptation of the Common Agricultural Policy.

B A C K G R O U N D :

The European Council at its meeting in Stuttgart on 18 June 1983, decided that there should be a review of the Common Agricultural Policy, which should result in concrete steps to ensure effective control of agricultural expenditure.

From 1974 to 1979, expenditure on supporting agricultural markets and guaranteed prices grew at 23% a year, almost double the rate of growth of the Community's own resources. After a relative stabilization of EAGGF Guarantee expenditure in 1980-82, largely because of the favourable situation on world markets, expenditure has increased abruptly by about 30% in 1983. Taken over a period of years, expenditure on agricultural support is once again rising faster than the rate of increase in own resources.

Nevertheless, the adaptation of the CAP cannot be made on the basis of exclusively budgetary criteria, but rather with the aim of achieving the objectives of the policy in the most cost-effective way. A cost-cutting exercise, conducted without regard to the economic and social consequences, would be likely to lead to the fragmentation of the CAP, and the reappearance in national budgets of expenditure now assumed by the Community. The aim must therefore be to rationalise, not renationalise, the CAP.

(1) COM(83)500

The reasons for the adaptation of the CAP

There is no doubt that changes have to be made in the CAP which was established over twenty years ago when conditions in agriculture were very different. In 1960, over 17 million people worked on the land.

By 1983, less than 8 million were employed in agriculture. In 1970, Europe of the Ten was still dependent on overseas suppliers for many basic foodstuffs; by 1983 the Community has become more than self-sufficient for most of the major agricultural commodities. As the Commission stated in its 1981 Memorandum on the future of European agriculture, the CAP must be adapted to changed circumstances irrespective of the broader negotiations over the Community's budget and its future enlargement.

Given the general economic situation and developments within the agricultural sector itself, the Community has no choice but to adapt its system of price guarantees. There are three main reasons for this.

In the first place, one has to take account of the rapid advances in productivity and technical progress in European agriculture over the last twenty years. Thanks to scientific research and development, there has been a continuing improvement in crop varieties and animal breeds, as well as in equipment and production techniques. This has resulted in a constantly expanding output produced at lower real costs. In these conditions, agriculture must increasingly accept the market disciplines to which other sectors of the European economy are subject.

In the second place, the market balance in most of the major sectors of European agriculture has markedly altered in the course of this period, largely as a result of the increase in productivity. The long-term trend of the growth in the volume of agricultural production has been from 1.5 to 2% a year, while consumption has only been rising by about 0.5%. As a result, the Community has now become more than self-sufficient for most of the major products - cereals, meat, dairy produce, sugar and wine. It has also come to rely increasingly on subsidized exports, or on subsidized sales within the Community, for the disposal of its production. In the dairy sector for example, between a half and two-thirds of the total Community production of butter and skimmed milk powder - the two basic products which benefit from guaranteed prices - are disposed of in this way at higher and higher rates of subsidy.

The situation can only get more acute in the future. On the demand side, overall food consumption in the Community is likely to increase less rapidly than in the past because of the lower rate of increase in population. On world markets, effective demand is determined by the capacity to pay which in turn will depend on the resumption of economic growth and the availability of credit, both uncertain. Meanwhile the forces making for increased productivity and hence increased output are if anything likely to accelerate. As the Commission said in its October 1981 Memorandum, it is no longer either possible or reasonable to provide unlimited guarantees of support at a given price, when the outlets do not exist except at an intolerable rate of subsidy.

Europe's farmers must realize that if production exceeds a certain threshold, they will have to accept lower prices or aids, or pay for the costs of disposal.

Last but not least, agriculture must be better integrated into the overall chain of economic activity, particularly the food processing industry. It should be remembered that, an increasing share of the Community's exports are now in the form of processed foodstuffs (meaning higher value-added and employment) rather than basic commodities. Another factor to be borne in mind is the use of agricultural materials as a source of organic, chemicals and energy. The development of these outlets, which is vital for the future prosperity of European agriculture will depend on the provision of the necessary raw materials at competitive conditions.

For all these reasons, the system of unlimited price guarantees cannot be allowed to continue in its present form. This is no Malthusian policy designed to stop the future development of Community agriculture. On the contrary, it is a dynamic approach, which recognizes that if European agriculture is to develop on a rational basis, the accent must be placed more and more on production at a competitive price.

This does not mean to say that the adaptation of the CAP should ignore the economic and social situation in the Community. Despite the support provided by the CAP, agricultural incomes have on the whole increased less rapidly than other incomes. There remain large differences between types of farming, between regions and between member States, accentuated in some cases by high rates of inflation.

It is clear that more competitive prices will cause difficulties in certain cases for small producers and farmers in less favoured areas, and special measures may have to be taken. The diverse structure of agriculture in the different 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 forces of change.

In the long run, it would be a mistake to think that the problems of the less favoured rural areas of the Community can be solved essentially by market intervention and price support. Indeed, if the Community is to find enduring solutions to these problems, it must put relatively more emphasis on long-term structural action, involving an integrated strategy for the less favoured regions, and less on guaranteed prices and income support. This is the only approach which can provide a rational long-term framework for the common agricultural policy in the coming years.

Main guidelines

The Commission's programme for the rationalisation of European agriculture is based on five key elements :

- the continued application and extension of the guarantee threshold principle, including the introduction of a system of production quotas for milk through a supplementary levy on additional quantities;
- a prudent and in some sectors restrictive prices policy including an accelerated reduction in the gap between cereals prices in the Community and in its main competitors;
- a review of the existing aids and premiums, particularly in the dairy, beef and sheepmeat sectors;
- action to deal with market imbalances arising from imports of cereals substitutes and vegetable oils matching the efforts to control Community production;
- the automatic dismantlement of MCA's within a fixed time-scale.

The Commission's proposals can be summarised as follows :

1. Guarantee thresholds

These constitute the centrepiece of the Commission's proposals. As the Commission stated in its "Guidelines for European Agriculture" of October 1981, it is no longer reasonable or possible to provide unlimited (open-ended) guarantees of price and intervention when the outlets do not exist. The stagnation or decline in demand, both in the Community and on external markets for dairy products, wheat, beef and wine since 1981, merely confirms this diagnosis. Farmers must understand that they will have to participate in the cost of disposal of production exceeding a certain threshold.

Guarantee thresholds can be, and are, applied in different ways :

- (a) by abating the increase in target or intervention prices if production exceeds a global quantum. This approach was followed by the Council in the 1983/84 prices package for milk, cereals and colza.
- (b) by limiting the aid paid under the market regulation to a global quantum. This rule has been applied in the market organisation for cotton. A similar limit is also applied to aids for processed pears and has been proposed for dried raisins (1).
- (c) by means of a levy to ensure the participation of producers in the cost of disposing of additional production (or net exports). This is already done in the case of the sugar market organisation, while the co-responsibility levy for milk introduced in 1977 is a step in that direction.
- (d) by means of quotas, whether at the national level or that of the individual enterprise. A quota system has existed for sugar since the market organisation was first set up.

The most urgent problem as regards the implementation of guarantee thresholds is what to do about milk. Given the unremitting and accelerating divergence between production and consumption, the Commission considers that the only realistic method of stabilizing production without aggravating the income problem of small producers is the introduction of a quota system, based on 1981 deliveries and enforced by means of a supplementary levy on deliveries in excess of this quantity (2). A special levy on milk from very intensive farms should also be introduced.

As regards cereals, the Commission proposes to continue applying the present guarantee threshold, accompanied by measures to ensure the effective limitation of imports of cereals substitutes (see below). The Commission will also propose the application of a guarantee threshold as from 1984/85 for durum wheat, in which the Community is now approaching self-sufficiency.

As regards oilseeds, the guarantee threshold for colza and rapeseed, with abatement of the price if production exceeds the threshold, should continue to be applied, while a threshold will be introduced for sunflower seed as from 1984/85.

The Commission is proposing no change in the other guarantee thresholds, whether existing (tomatoes) or proposed (raisins). As regards beef, the Commission reserves the possibility of proposing a guarantee threshold at a future date, if the risk of market unbalance materialises.

(1) See Commission proposals for a revision of the processing aids for fruit and vegetables (P-19 of February 1983).

(2) The annual increase in deliveries of milk to dairies, which averaged about 2.5% in the period 1973-1981, has accelerated to about 3.5% in 1982 and 1983. Meanwhile, consumption of milk products, which showed an annual increase of 0.5% in the 1970's, is now tending to stagnate.

Alongside the system of guarantee thresholds, the Community must follow a prudent and in some cases restrictive price policy. For certain products, eg milk, and cereals, the Commission may propose the fixing of common price for a longer period, eg for two marketing years. In certain cases where the market situation is particularly difficult, or where the effective application of the guarantee threshold requires it, the common prices expressed in ECU may be frozen or even reduced. In other words Community support prices expressed in national money may actually have to be reduced.

As regards cereals, the Commission proposes to accelerate the progressive reduction in the gap between Community prices and those of its main competitors. This will not only promote a more competitive production of Community cereals (and eliminate the advantage currently enjoyed by imports of cereals substitutes) but will also improve the economics of animal production in view of the importance of cereals in feedcosts.

The Commission may propose additional measures to alleviate the possible consequences of a restrictive prices policy for the incomes of certain small producers, or of producers in certain less-favoured regions (1). Whether financed wholly or partly by the Community budget or these measures would have to be defined according to Community criteria.

3. Aids and premiums

The Commission has reviewed the economic justification and cost-effectiveness of the various aids and premiums paid by the Community budget in order to supplement producers' incomes (in many cases to compensate for the low level of external protection) or to subsidize the disposal of production on the Community's internal markets. This type of expenditure has been increasing in importance in recent years, and has now overtaken export refunds as the largest single category of expenditure under the Guarantee Section of the EAGGF (2).

In the milk sector, the Commission is proposing to phase out the general consumer subsidy for butter, which is very expensive but has a relatively small impact on the level of consumption. The loss in consumption will be made good by the extension of more cost-effective aids for the use of butter in other manufactured foods, and by an increase in the fat content of whole milk.

In the beef sector, the suckler cow premium should henceforth be considered as the single Community premium for the encouragement of specialist beef producers. The calf premium, which was introduced 10 years ago to arrest the decline of herds in Italy, and was subsequently extended for various reasons to Greece, Ireland and Northern Ireland, will not be renewed. The economic justification of this premium is no longer valid. The market situation has changed, and there are now large public stocks of beef, particularly in Italy and Ireland. What is more, the premium also applies to calves of dairy herds, and so encourages milk production. The variable slaughter premium applied in the United Kingdom which creates problems of competition will also be ended.

In the sheepmeat sector the variable premium applied in the United Kingdom will be limited to a certain percentage of the reference price, while the ewe premium will be subject to stricter, uniform criteria, and advance payments ended.

(1) For 1982/83 and 1983/84, the Council has granted a special aid of 120 million ECU for small-scale milk producers. Farmers in hill areas and less favoured areas already benefit from special help.

(2) 44% in 1983.

4. External aspects

The Community's agricultural trade policy should be based the combination of three elements:

- international cooperation with the main exporting countries to prevent the deterioration of world market prices (for example, with New Zealand for dairy products).
- a Community policy for promoting exports which could lead to the establishment of long-term contracts with third countries.
- revision of the external protection against imports in accordance with the Community's GATT rights and international commitments for certain products where the Community is demanding greater disciplines on its own producers in order to control production.

In the case of cereals, the Commission considers that the effective limitation of imports of substitutes such as corn gluten feed and citrus pellets is a prerequisite for implementing the guarantee threshold system (1). The Community should exercise its GATT rights for this purpose under article 11 (quantitative restrictions as part of a policy for controlling animal productions), article 19 (safeguard clause) or article 28 (modification of a tariff binding), whichever is most appropriate in the circumstances.

As regards the milk sector, given the trend in consumption particularly on the UK market reduction in the volume of imports from New Zealand might be considered, though the butter thus displaced would compete with Community butter on the world market. Assuming effective cooperation with New Zealand for the purpose of stabilising world dairy prices, the Commission would be in favour of continuing the import arrangements for New Zealand butter.

In the beef sector, the quantities of frozen meat for the processing industry and of young calves for fattening fixed annually under the balance sheet procedure, and the imports of Alpine breeds should take greater account of the market situation in the Community.

As regards sheepmeat, the Commission proposes to examine the possibility of negotiating a reduction in quantities imported under the various voluntary restraint arrangements, while at the same time introducing a minimum import price. This would help strengthen the market price, thus reducing Community expenditure, while maintaining the level of export receipts for third country suppliers.

The Commission has also considered the problem of the balance on the fats and oils market, which is deteriorating rapidly, in spite of the efforts by the Community to tackle the problems of controlling the production of milk, olive oil and rapeseed. One of the main reasons for this situation is the duty-free import of vegetable oils. The Commission is now proposing to introduce a tax on the consumption of oils and fats other than butter, partly corresponding to the remedial measures already taken in the milk sector. A non-discriminatory tax of this kind would be in conformity with the Community's international commitments, particularly since there will be an internal check on butter production in the form of the supplementary levy on excess production.

(1) The Community has already taken steps to stabilize imports of manioc and brans.

5. Monetary compensatory amounts

The Commission proposes that MCA's should be dismantled more automatically according to the following rules.

Thus new MCA's would be eliminated by the adjustment of the "green rates" in three stages :

- 1/3 at the time of creation
- 1/3 at the beginning of the following marketing year
- 1/3 at the beginning of the second year.

Existing MCA's would be dismantled in two stages, at the beginning of the following two marketing years.

To avoid negative effects on the incomes of farmers in member States with positive MCA's, where prices in national currencies will be reduced, direct aids could be introduced on a degressive basis as a transitional measure.

6. Other measures

After examining the various market organisations, the Commission has proposed a series of adjustments designed to discourage the production of certain qualities or varieties for which there is no ready market, or to discourage excessive sales into intervention. These include lower increases or reductions in the price of minimal quality bread-making wheat and certain types of rice, colza and tobacco, restrictions on intervention for skimmed milk powder, beef and olive oil, and measures to raise the alcoholic strength of wine, to ban the use of sugar (which will obviate the need for aids to encourage the use of concentrated must), and to strengthen the rules for compulsory distillation.

Parallel to the changes outlined above, action is also required in the following areas :

- more flexible market management through greater delegation to the Commission
- improved financial control as regards the application of agricultural regulations in member States
- removal of internal barriers to trade, particularly through the harmonization of legislation in the veterinary and public health areas
- stricter scrutiny of national aids, particularly since member States may be tempted to make up for reduced Community expenditure out of their national budgets.

Last but not least, the Community must put relatively more emphasis in future on long-term structural action, rather than on market intervention and price support. In this respect, it should be noted that the Commission has already submitted proposals for the introduction of integrated programmes for the Mediterranean regions, as well as for improving the effectiveness of the structural Funds (Regional, Social and Guidance section of the EAGGF), and it will shortly be making proposals for the renew and adaptation of the policy framework for improving agricultural structures.

The adaptation of the CAP on the lines set out, will not be easy. It will require a readiness by all parties to make concessions and sacrifices in the interests of safeguarding the CAP. It may result in transferring costs between farmers, taxpayers, consumers, processors, member States and third countries which will require political choices. But, if the difficulties of making adjustments, or the problems of switching from one type of measure to another, are advanced as pretexts for delaying or refusing the necessary decisions, the review of the CAP requested by the European Council will have served no useful purpose. The Commission also warns the Council that unless the necessary decisions are now taken, there will be negative consequences not only for agriculture but also for the development of the Community itself.



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Bruxelles, juillet 1983

L'ADAPTATION DE LA POLITIQUE AGRICOLE COMMUNE (1)

La Commission vient d'achever l'examen de la Politique Agricole Commune auquel le Conseil européen l'avait invitée à procéder. Elle a transmis au Conseil son rapport assorti d'un programme d'action pour l'adaptation de la PAC.

R A P P E L :

Le Conseil européen lors de sa session à Stuttgart le 18 juin 1983, a décidé qu'il faudrait procéder à un réexamen de la PAC devant déboucher sur des mesures concrètes destinées à assurer la maîtrise effective des dépenses agricoles.

En effet, de 1974 à 1979 les dépenses au titre du soutien des marchés agricoles et des prix garantis, se sont accrues au rythme de 23% par an, soit pratiquement le double du taux d'accroissement des ressources propres de la Communauté. Après une stabilisation relative des dépenses du FEOGA, section Garantie, au cours de la période 1980-82, en grande partie à cause de la conjoncture favorable sur les marchés mondiaux, les dépenses ont fait un nouveau bond en avant d'environ 30% en 1983. Mesure sur une période pluri-annuelle, le taux d'accroissement des dépenses agricoles dépasse de nouveau celui des ressources propres.

Ceci dit, l'adaptation de la PAC ne pourra pas se faire en fonction de critères exclusivement budgétaires, mais plutôt en vue de réaliser les objectifs de cette politique le mieux possible du point de vue du rapport coût-efficacité. Un exercice de réduction des coûts mené sans tenir compte des conséquences économiques et sociales risquerait d'aboutir à l'éclatement de la PAC, et à la reprise par les budgets nationaux des dépenses actuellement assumées par la Communauté. Il s'agit donc de rationaliser la PAC, et non de la renationaliser.

(1) COM (83)500

Il ne fait plus de doute que des changements doivent être apportés à la PAC, établie il y a plus de 20 ans, alors que la situation de l'agriculture était très différente de ce qu'elle est aujourd'hui. En 1960, la population agricole dans la Communauté a dix s'élevait à plus de 17 millions; en 1983 elle est inférieure de 8 millions.

En 1970, l'Europe des Dix était encore tributaire des approvisionnements extérieurs pour plusieurs produits alimentaires de base; en 1983 elle est devenue plus qu'auto-suffisante pour la plupart des principaux produits agricoles. Ainsi que la Commission ne cesse de le répéter depuis son Memorandum d'octobre 1981 sur l'avenir de l'agriculture européenne, la politique agricole commune doit être adaptée aux conditions nouvelles, indépendamment des discussions plus larges concernant le budget de la Communauté et son élargissement futur.

Compte tenu de la situation économique générale et des transformations que connaît le secteur agricole, la Communauté n'a pas d'autre choix que d'adapter sa politique en matière de garanties de prix accordées aux producteurs. Il y a trois raisons principales à cela.

En premier lieu, il faut tenir compte des progrès rapides en matière de productivité et d'amélioration technologiques enregistrés dans l'agriculture européenne au cours des deux dernières décennies. Grâce aux recherches scientifiques, le secteur agricole a connu une amélioration constante des cultures végétales et des races animales, ainsi que du matériel et des techniques de production, avec pour conséquence une augmentation continue de la production à des coûts réels plus bas. Dans ces conditions, l'agriculture doit accepter d'être de plus en plus soumise aux disciplines du marché qui s'imposent à d'autres secteurs de l'économie communautaire..

En deuxième lieu, l'équilibre de marché s'est sensiblement modifié au cours de cette période dans la plupart des principaux secteurs agricoles, en grande partie suite à l'augmentation de la productivité. La tendance à long terme de la croissance du volume de production agricole a été de l'ordre de 1,5 à 2% par an, tandis que la consommation ne s'est accrue que de 0,5% par an. Par conséquent, la Communauté a dépassé le stade de l'auto-suffisance dans la plupart des secteurs : céréales, viandes, produits laitiers, sucre et vin. Elle est ainsi devenue tributaire des exportations subventionnées ou des ventes à prix réduit sur le marché communautaire pour écouler un pourcentage croissant de sa production totale. Dans le secteur laitier, par exemple, entre la moitié et les deux tiers de la production communautaire de beurre et de poudre de lait écrémé - les deux principaux produits bénéficiant de prix garantis - sont écoulés de cette façon avec des subventions de plus en plus élevées.

Cette situation ne pourra que s'aggraver à l'avenir. Du côté de la demande, la consommation globale de produits alimentaires dans la Communauté augmentera moins rapidement que jusqu'à présent, en raison de la baisse du taux d'accroissement de la population. Sur les marchés mondiaux, la demande effective est déterminée par la capacité à payer des importateurs potentiels, ce qui dépendra de la reprise de l'économie mondiale, et des disponibilités de crédit : deux éléments dont l'évolution est aléatoire. En attendant, les facteurs déterminant l'accroissement de la productivité et donc du volume de production pourraient même s'accélérer au cours des années à venir. Ainsi que la Commission l'a dit dans son Memorandum d'octobre 1981, il n'est plus ni raisonnable ni possible de prévoir des prix garantis pour des quantités illimitées lorsque les débouchés n'existent pas sauf avec un taux de subvention inacceptable pour le contribuable. Les agriculteurs européens doivent se rendre compte que si la production dépasse un certain seuil, ils devront soit percevoir des prix ou des aides moins élevées, soit participer aux coûts d'écoulement.