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Report

drawn up on behalf of the Committee on Agriculture

on the proposals from the Commission of the European Communities to the Council (Doc. 2-1747/84 - COM(85) 50 final) for regulations fixing the prices for certain agricultural products and related measures (1985/86)

PART B : EXPLANATORY STATEMENT

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EXPLANATORY STATEMENTI. INTRODUCTION

1. By the agreement of 31 March 1984 the Community imposed significant sacrifices on farmers without any compensation with the aim of reducing agricultural production and expenditure.

The price review for the 1985-86 farm year should contribute to rectifying this imbalance and should form part of a more general approach to the future of the CAP and offer Community farmers proper prospects for the future.

This will be the assumption made by the rapporteur of the Committee on Agriculture, Fisheries and Food.

II. THE AGRICULTURAL SITUATION IN 1984A. Production trends

2. The year 1984 was characterized by a significant increase in production in various sectors.

There was a sharp increase in crop production in numerous sectors: cereals + 22%, oilseeds + 34%, sugarbeet + 13%. Wine production, on the other hand, was below average (- 9%).

The trend in animal production was more varied - beef and veal + 5% after a 3% increase in 1983, milk - 2%, sheepmeat + 3% and no change for pigmeat, poultry and eggs.

B. Market trends

3. In its report on the agricultural situation in 1984, the Commission states: 'demand for many agricultural products is either stagnant or declining while the productive potential of European agriculture continues to increase' ... in order to justify the pressure on agricultural prices and the introduction of guarantee quotas and thresholds.

Can this analysis be accepted when one considers that the EEC imported 50,300 million ECU worth of agricultural products in 1983 with a trade deficit of 23,700 million ECU?

The analysis has to be taken a step further by taking greater account of the derogations from Community preference, export possibilities and degrees of responsibility for 'over-production'.

C. Price and cost trends

4. The agreement of 31 March 1984 on prices provided for an average price decrease in ECU of 0.5%, which corresponded, taking various monetary adjustments into account, to an average increase in national currency of 3.3%. The average increase in producer prices is put at 5.6% in nominal terms (compared with 7.6% in 1983) but with considerable disparities:

- between Member States: decrease in real terms for France, the FRG, the UK, Italy, Belgium and Ireland, no change for the Netherlands and an increase for Denmark and Greece,

- according to type of production: crops + 7%, animals + 4.3%.

5. The price 'squeeze'¹, which was narrowing, has widened again with a price increase for intermediate products of 7.6% more than the increase in agricultural producer prices. Inflation slowed down again in 1984 with an average rate of 5.1% compared with 6.3% in 1983 but with marked disparities according to Member State (from 1.9% to 18.3%) (see Annex 1).

D. Trend in incomes

6. Despite the only moderate increase in prices and thanks to exceptional production levels in certain sectors, average agricultural income should increase by 3.8% in 1985 according to the Commission's figures.

But there are major differences according to Member State: Belgium - 7%, Italy - 0.8%, France - 1.6%, FRG + 5%, Ireland + 6.4%, Netherlands + 7.6%, United Kingdom + 9.7%, Denmark + 20%.

It should also be stressed that this increase follows a sharp fall in income in 1983 and that the 1984 income is below that received during the period 1973-1974-1975 (see Annex 2).

7. The average increase in income in 1984 does not mean very much since it conceals profound disparities according to type of production. It is mainly due to the record cereals crop and the decapitalization of livestock in compliance with the milk quotas. Stagnation or falls in income have affected in particular wine-growers and livestock farmers who have suffered from a considerable deterioration in the market mechanisms.

¹ The 'squeeze' results from dividing the change in the price implicit in the value of final agricultural production by the change in the price implicit in the value of intermediate products.

8. The major income inequalities in 1984 will not help to rectify the substantial disparities which the Commission attempted to measure in an interesting study published in its annual report on agriculture.

- the disparity between the weakest 'average' farmer and the strongest is 1 to 5,
- the Community 'range' between the average income of the 25% 'richest' farmers and that of the 25% 'poorest' farmers is from 1 to 20,
- depending on the type of farming the range can be 1 to 15,
- the income disparity between regions is 1 to 8.

If the 'region', 'type of farming', 'economic size' and 'management' effects are combined the range is widened to 1 to 40. The Commission is forced to recognize that this disparity is tending to increase: poor farmers remain poor and rich farmers are getting richer.

9. It would be interesting if the Commission were to continue and intensify this study in order better to explain the phenomena observed, analyse the causes of the disparities and measure their respective effects on agricultural incomes.

In the immediate future measures could be taken to rectify these disparities:

- by taking greater account of the proposals in the MAHER report (Doc. 1-327/82)¹ on the level of incomes in agriculture,
- by more differentiated implementation, to the advantage of the smallest farmers, of the structural and income support measures, if necessary by making the allocation thereof subject to a certain ceiling.

III. THE CAP AT THE CROSSROADS

10. The Council decisions of 31 March 1984 constituted an important turning point for the CAP with:

- the confirmation of guarantee thresholds and their extension to new products,
- the introduction of milk quotas,
- a virtual price freeze
- the rationalization of aids and premiums for numerous products, but also with the dismantling of MCAs, the only really positive aspect. At its meetings in Fontainebleau and Dublin the European Council did not correct this line of approach. On the contrary, it extended and broadened it. The agreement of 31 March has therefore clearly left its mark on the development of Community agriculture and the 1985-86 price review must, this year more than ever, form part of a more general approach to the whole future of the CAP.

¹ OJ No. C 184, 11.7.1983

11. We are now at the cross-roads and are faced with certain decisions:

- should we continue in the direction set by the agreement of 31 March with new production limits and a price freeze?
- or should we try to change course and ensure the full utilization of the Community's farming potential?

The rapporteur considers that the CAP still has a future in the EEC provided that its defects and shortcomings are corrected and that it is given a new impetus and new objectives in order to offer farmers, especially young farmers, proper prospects for the future.

12. On 14 January the President of the Commission stated before the European Parliament: 'It is time to recall the three principles of the Treaty and to add the commercial policy'. These declarations of intent are not borne out by the price proposals submitted by the Commission on 30 January.

13. In conjunction with the observations and proposals of the rapporteur on the 1985-1986 farm prices, the priority guidelines which might help to restore and improve the CAP in the coming years are set out below.

A. Respect for the fundamental principles of the CAP

14. The excessive number of derogations from the principles of the CAP are a major cause of the current difficulties of Community farming.

Community preference is flouted with increasing frequency. While recognizing the value of mutual trade and commercial relations with other countries, one may wonder whether it is normal that 51% of the Community's imports, worth 25,700 million ECU in 1983, concern agricultural products subject to market organization, i.e. products which the EEC is able to produce itself. Is it right also that 53.2% of imports from industrialized countries are duty free? These are all questions which deserve to be looked into and for which suitable answers should be found. The best answer would in fact seem to be to ensure better respect for Community preference and thus achieve substantial budgetary savings (the cost of these derogations is estimated at between 2,000 and 4,000 million ECU by the European Court of Auditors) and to promote the development of sectors where there is a production shortfall.

B. Agriculture, an economic and social asset

15. Between 1970 and 1983 Community agriculture lost 4 million jobs (total employment in this sector falling from 12 to 8 million), which represents the loss of one agricultural job every two minutes. After this heavy drain on manpower, it is essential to prevent any further loss of agricultural jobs and to take greater account of the economic and social importance of farming, especially as regards foreign trade and the employment it provides in industries upstream and downstream and in services.

Farming also constitutes an essential activity to keep certain regions alive, especially the most disadvantaged of them, and to defend the environment.

C. Exploitation of the assets of agriculture

16. The EEC must exploit its agricultural potential to maximum effect by food uses but also non-food uses.

The following priority measures are needed in the short-term:

- develop products in which there is a shortfall,
- encourage energy crops, in particular with a view to replacing lead in petrol,
- boost research and progress in the field of biotechnology,
- promote modes of development based on the use of the farm's natural resources and reduced production costs in the interests of more economic and autonomous farming,
- take greater account of the type of farming in which no chemicals are used, commonly known as 'organic farming'.

D. New trade relations with non-member countries

17. With a 20% share of world food imports, the Community is still the world's leading importer of agricultural products.

Between 1981 to 1983 Community exports stagnated while its imports continued to increase (+ 12.6%). As a result, its agricultural trade deficit, at 23,600 million ECU in 1983, is still very considerable. There is a positive balance only for cereals, beverages, milk products and wine. It is negative in all other sectors: fruit and vegetables - 5,800 million ECU in 1983, wood - 5,400, animal feed - 4,200, oilseeds - 3,600, oils and fats - 1,000, tobacco - 800, meat - 300 (see Annex 3).

18. The biggest imports concern animal feed which represent the equivalent of 10 million ha, i.e. the combined UAA of Denmark, the Netherlands and Ireland (10% of Community UAA). 18% of animal production in the EEC is based on imported feed.

These imports represent a risk of dependence for the vital livestock rearing sector and cause substantial distortions of competition since they vary in amount according to Member State (see Annex 4).

This being the case, the Commission must negotiate within GATT for a reduction in all taxes on imports of oil and protein products whilst encouraging their development in the EEC. It must also promote the use of Community products in the manufacture of animal feedingstuffs.

19. The decisions recently taken and those about to be taken by the United States are a matter of concern for farmers. All of these measures - the withdrawal from international agreements on milk products, the pressure for renegotiation of the GATT agreements and the new 'farm bill' - will have substantial repercussions on agricultural markets and farmers' incomes.

Experience has shown that concessions and gestures of goodwill by the EEC serve only to encourage the United States, whose hyperliberalism towards the rest of the world is often matched by domestic hyperprotectionism, to adopt an aggressive trade policy.

A firmer stance is required from the Community authorities, both in seeking trade agreements and in implementing, where necessary, retaliatory measures. Such measures are clearly possible when one considers that the EEC's agricultural deficit towards the United States was 5,700 million ECU in 1983 and that 66% of US products are imported duty free. To quote one significant example, imports of maize gluten increased six-fold between 1974 and 1983.

20. A firm line on this matter will be all the more effective if it is accompanied by a proper export policy. The Community must assert itself more vigorously as an exporter by strengthening its common commercial policy with specific instruments for world markets (long-term contracts, export credits, etc.), which producers and their organizations might contribute to managing.

E. A more active contribution to international solidarity

21. The EEC should provide the developing countries with more help in fighting hunger and in attaining self-sufficiency in food. The fight against hunger necessitates immediate aid in the form of the products most suited to the needs of the people concerned when the situation demands it. This is the case at present and both the EEC and the Member States must do their utmost to respond to the appeal from the FAO, which estimates the emergency requirements of the 21 worst-hit African countries at 6.6 million tonnes of cereals.

22. The fight against hunger also requires that the EEC help the developing countries to produce the food base indispensable to their peoples and to shake off the neo-colonial type of relationship which obliges them to continue to be or to become suppliers of cheap raw materials to the industrialized countries. This should induce the EEC to play a more active role in international negotiations to counter the deterioration in world commodity prices and to improve the terms of trade.

23. The Community possesses financial, material and human resources with which to achieve and reconcile these objectives.

At the present time the Commission goes no further than to announce 'a serious discussion on the future of the CAP' but does not initiate any practical measures in its price proposals. Its main objective is to attempt to attenuate the shock of its price proposals and related measures, which we shall now proceed to analyse.

IV. PRICES AND RELATED MEASURES

A. The price proposals

24. The rapporteur feels it necessary to stress that the price policy must continue to be a basic means of orientating production and providing a fair income to farmers pursuant to Article 39 of the Treaty, the relevance of which is all the more evident in a period of crisis.

25. The Commission's price proposals, which reflect the same approach as the Council's decisions of 31 March 1984, are totally unacceptable in their present form, given their negative effects on farmers' incomes, the production outlook in the sectors where there is a production shortfall, world food requirements and the new requirements which are just beginning to emerge, in particular in the field of biotechnology.

26. The Commission is proposing an average reduction of 0.3% in agricultural prices, expressed in ECU, which follows the price reduction of 0.5% decided by the Council in 1984.

This is a serious proposal inasmuch as it would lead to a fall in farmers' incomes of between 4 and 6% in 1985 if it were adopted by the Council of Ministers. Furthermore, this proposal could lead to the renationalization of the common agricultural policy through national aid, since the governments cannot for long turn a deaf ear to the rightful demands of farmers whose very livelihood is threatened by these cuts in their income.

In this connection the 5% VAT refund granted by Germany to its farmers in exchange for the initial stage in the phasing-out of its positive monetary compensatory amounts is the most flagrant example of this. The average price reduction adopted in 1984 could only lead to such an arrangement if German farmers were not to be made to bear an intolerable burden in terms of their income situation, which has been even further aggravated by the decisions taken in the milk sector.

27. For the reasons set out above, the Committee on Agriculture, Fisheries and Food cannot endorse the Commission's proposals and puts forward its own proposal for an average increase in common prices of 4.5%, graduated according to product to take account of each particular situation. An increase of this order, in addition to the positive effects it will have on producers' incomes, will help to speed up the phasing out of positive MCAs without any loss to the farmers in the countries concerned.

The committee also wishes to see the introduction of specific measures for the countries with the highest rates of inflation.

B. Agri-monetary measures

28. As far as MCAs are concerned, the Commission is proposing that

- (a) the positive MCAs applied in Germany and the Netherlands in respect of milk and cereals should be aligned on the level applied to the other products (+ 1.8%),
- (b) the negative MCAs still applied in France and Greece should be eliminated (leaving the neutral margin unchanged),
- (c) the negative MCAs applied at the present time to the United Kingdom because of the performance of sterling should be the subject of a subsequent decision when it has become clear whether the fall in the British currency is permanent or only a short-term phenomenon.

29. Thus, in the light of the agreement of 31 March 1984, the only positive aspect of which was the decision on MCAs, outstanding positive MCAs should be abolished by the 1987/88 marketing year at the latest. The Committee on Agriculture, Fisheries and Food approves the Commission's proposal for the dismantling of positive MCAs and asks for the total abolition of negative MCAs, including the neutral margin, in order to return to price unity in the Community and thus ensure respect for one of the basic principles of the common agricultural policy.

30. In order to forestall any recourse to national aid as a result of earlier abolition of positive MCA's, farmers must be offered suitable income prospects through the common price system, subject to the principles set out in Article 39 of the EEC Treaty.

31. The Committee on Agriculture, Fisheries and Food requests further that the role of the ECU should be strengthened in the context of the common agricultural policy in order to maintain price and market unity. Attention should be drawn to the fact in this connection that the Council decisions of 31 March 1984 - positive though they may be as regards MCAs - in fact amount to the creation of a 'green' ECU, which may not be conducive to strengthening the role of the ECU in the European Monetary System (EMS).

32. For the above reasons the Committee on Agriculture, Fisheries and Food would like studies to be carried out on these matters, in particular by the Commission, to determine, for example, whether it would be possible to use the ECU both in intra-Community trade in agricultural products and in trade with non-member countries. The European Parliament might take the initiative in this connection and submit a report on these matters which are so crucial to the future of the Community and consequently the common agricultural policy.

C. Related measures

33. The related measures, like the price proposals, are also totally unacceptable since they would only aggravate the harmful effects of the latter on farmers' incomes.

34. Moreover, these measures will not suffice to halt the deterioration of certain markets, such as the citrus fruit market, at a time when negotiations on Community enlargement to include Spain and Portugal are in progress, with the negative consequences that can already be foreseen for the Mediterranean products of the present Member States.

35. The Committee on Agriculture, Fisheries and Food therefore proposes that the related measures submitted by the Commission should be rejected. The latter should therefore submit new proposals enabling Community preference to be respected and the guarantee systems to operate more satisfactorily. These measures must also help to ensure that Community funds really benefit farmers.

D. Proposals by product

Cereals

36. The Commission is continuing with its policy of aligning the prices of Community cereals on those obtaining in the main competitor countries, that is to say principally the United States.

Thus, for cereals other than durum wheat, the Commission is proposing a price reduction of 3.6%, taking into account the 5% reduction resulting from the exceeding of the guarantee threshold in 1984, and an adjustment of the end-of-year carry-over payments. It also states that it does not intend to fix a reference price for wheat of minimum bread-making quality.

Thus prices and aid for this product will remain unchanged.

Furthermore, the Commission proposes a single guarantee threshold for the whole cereals sector amounting to 126 million tonnes for 1985 (compared with 121.32 million tonnes for cereals other than durum wheat and 4.6 million tonnes for durum wheat in 1984). The Commission explains this measure by pointing to the inconsistency which would result between the price fixed for durum wheat and those fixed for other cereals, which might accentuate the imbalance on the durum wheat market.

37. The Committee on Agriculture, Fisheries and Food cannot endorse this approach which, contrary to the Commission's hopes, has not contributed to either to opening new markets for Community cereals or to reducing imports of substitute products.

Consequently, the committee rejects the proposed price reduction which is merely the result of an exceptional harvest that led to the implementation of the guarantee threshold. Moreover, this threshold does not take sufficient account of maize gluten, imports of which have still not been slowed down owing to the failure to reach an agreement with the United States.

38. Furthermore, it should be stressed that the tightening of the quality criteria for standard quality common wheat, durum wheat, maize, sorghum, rye and barley with a view to reducing the maximum rate of humidity of the cereals in question sent into intervention, in fact amounts to an additional price reduction of the order of 0.3 to 0.4%, which cannot be accepted.

39. The Committee on Agriculture, Fisheries and Food also proposes incentive measures for the production of ethanol based on cane sugar and beet sugar.

40. As regards application of the guarantee threshold, durum wheat - a crop of which there is not a surplus - should not be integrated within the guarantee threshold for cereals generally. On the other hand, the Commission ought to adopt appropriate measures to encourage production of the qualities of durum wheat required by the Community market in order to make imports unnecessary.

41. The Commission must also take measures to improve the rate of utilization of Community cereals for animal feed, which fell from 44.9% in 1972 to 33.5% in 1982 owing to the low or zero-duty importation into the Community of substitute products.

42. Finally, in the light of the energy outlook and the advent of unleaded petrol, the incorporation of 5% ethanol in petrol as an anti-knock substance will provide an outlet for 15 million tonnes of cereals at least, while supplying a number of high-protein by-products, which would enable the Community to improve its trade balance in this area.

43. Generally speaking, the Commission should encourage initiatives in the non-food uses of cereals, while bearing in mind the priority need to meet food requirements in the Community and in the world.

Sugar

44. The Commission is proposing a price freeze for sugar following the freeze for this product in 1984/85. The Committee on Agriculture, Fisheries and Food cannot endorse this freeze, the effects of which will be aggravated by the raising of the ceiling for the levies provided for under the market organization. As regards the latter, the quota system should be continued after 1986.

45. The price of ACP sugar should be the subject of due negotiations in order to take account of inflation and freight costs.

46. Finally, the production of cane sugar is important for the economy of the French Overseas Departments despite the fact that compared with beet sugar this crop is unfavourably placed from the cost point of view. This being the case, greater account should be taken in the present common organization of the market of the specific characteristics of sugar cane production.

Wine

47. Since the related measures in the wine sector have already been submitted in documents COM(84) 515 final, COM(84) 539 final, COM(84) 714 final and COM(84) 775 final (see the report by Mr Gatti - Doc. 2-1575/84), the Commission confines itself to proposing a freeze on the prices of table wines; this follows the Council's reduction of 1% in the price of these wines for the last marketing year. The Committee on Agriculture, Fisheries and Food opposes the freezing of wine prices and insists that the price and intervention arrangements contribute to establishing a minimum guaranteed price.

Fruit and vegetables, citrus fruits

48. The Commission's proposals in this area constitute nothing less than a provocation to producers at a time when enlargement is approaching.

49. For citrus fruits, for example, the Commission is proposing a 6% reduction in the basic prices. It explains this drastic measure by referring to withdrawals, which have now risen to excessive levels (25% of overall production in the case of oranges, 47% in the case of lemons and 60% in the case of mandarins in 1983/84). This situation would seem to indicate that the intervention system no longer plays the role which it is supposed to play under Community rules, and that withdrawal has become an important outlet for producers. The Committee on Agriculture, Fisheries and Food acknowledges that this situation is abnormal.

The Commission is also proposing a 3% reduction in the basic prices of peaches and apricots since in 1983/84 withdrawals reached 14% and 12.5% respectively of total production.

50. As regards tomatoes, the Commission is proposing a 6% reduction in the basic price of the fresh product. Moreover, not only is aid to tomato processing for the 1985/86 marketing year to be reduced under the guarantee threshold mechanism but the granting of this reduced aid is to be limited to the amounts currently fixed as guarantee thresholds, i.e. 4.7 million tonnes in all. The Commission stresses that the production of tomatoes is

constantly increasing, especially tomatoes intended for processing which could reach 7.4 million tonnes in 1984/85, representing an increase of 33% over the previous year and 67% in the last two years.

51. Finally, the Commission is proposing that the methods of monitoring the application of Community regulations should be strengthened, in particular as regards observance of quality standards and the recording of market prices.

52. The Committee on Agriculture, Fisheries and Food rejects the price proposals, which would weaken producers in Mediterranean regions even further. Instead it proposes graduated price increases of up to 5%.

53. As far as the related measures are concerned, the committee would like the new 'fruit and vegetable' regulation to be accompanied by schedules for imports between Member States in order to achieve a better organization of intra-Community trade, since given the respective geographic locations of the producer regions and varying climatic conditions, emphasis should be laid on the complementarity of, rather than competition between, identical products.

54. Finally, the Committee on Agriculture, Fisheries and Food approves the Commission's proposal to strengthen monitoring arrangements and hopes that the latter will be further strengthened by graduating aid according to the scale of withdrawals.

Oil seeds and protein crops

55. The Commission proposes a reduction in prices of 3.6% for rapeseed, applying the machinery of the guaranteed threshold. In 1984, the Commission emphasizes, production even passed the threshold fixed for 1990 which has led it to propose a very prudent price policy. The production of sunflower seeds has considerably increased (fourfold since 1979) and the Commission proposes a reduction of 1.5% in the target price which it believes should be in the interests of producers while ensuring that production grows only within the limits laid down by the guarantee threshold.

The Commission proposes a small increase in the price of soya beans of approximately 1.5% whereas there is a reduction of 1% in the price of dried fodder, peas and field beans and the price of lupins remains unchanged. Is it necessary to recall the Community's enormous shortfall in vegetable protein products?

As for olive oil, the Commission proposes a price reduction of 1%. This is certainly a very peculiar way of preparing for enlargement!

56. The Committee on Agriculture, Fisheries and Food protests at this Malthusian view which takes no account of the Community's large shortage of protein oils. It points out that sunflower seed production has been penalized even though the guarantee threshold which had been fixed has not been reached.

57. By way of example, during the 1983/84 marketing year the Community imported, to take the place of rape, 326,000 tonnes of cereals and 300,000 tonnes of oil cakes, and, for sunflower, 368,000 tonnes of cereals, 150,000 tonnes of oil and 750,000 tonnes of oil cakes.

58. Consequently the Committee on Agriculture, Fisheries and Food asks the Commission to encourage the growth of oil and protein vegetables in the Community by establishing a genuine policy in this sector.

Tobacco

59. The Commission's proposals for tobacco comprise a range of prices and premiums from 0 to - 5% depending on the variety.

This is hardly encouraging to producers as tobacco can provide some of them with a not insignificant addition to their income.

60. The Committee on Agriculture, Fisheries and Food rejects these proposals and demands, on the contrary, a price increase of 5%.

Seeds

61. Although the Community still does not produce enough of certain varieties of fodder seed for its requirements, the Commission proposes a freeze on prices for the whole of this sector.

62. The Committee on Agriculture, Fisheries and Food asks the Commission to review the market organization for this sector on the basis of the recommendations contained in the report by Mr Diana (Doc. 1.223/84 - OJ No. C 184, 11.7.1983) in order to take greater account of the strategic importance of this sector for Community agriculture.

It also requests that appropriate measures should be taken against imports of hybrid maize seed (protective measures, modification of the tariff concession accorded in the framework of GATT).

Flowers

63. Although this sector is not included in the price proposals it is nevertheless of economic importance. The Council should adopt the Commission's proposal for a regulation, as approved by the European Parliament, to provide better protection for the Community market from imports.

Oils and fats

64. Despite repeated injunctions by the European Parliament the Community does not have a comprehensive policy on oils and fats. The Council should at last adopt the Commission's proposal, as approved by the European Parliament in the report by Mr Goerens (Doc. 1-1507/83 - OJ No. C 104, 16.4.1984), to introduce a tax on vegetable oils and fats.

65. If such a tax were to be introduced, it could not only have beneficial effects for the Community budget (income is estimated at 600 million ECU), but would also encourage the consumption of butter in the Community.

Milk

66. Following the introduction of the supplementary levy, and in view of the trends in incomes in this sector, the Commission proposes an increase in the target price of milk, albeit of no more than 1.5%, to take account of the market situation and the existence of large stocks. At the same time the coresponsibility levy should be reduced from 3% to 2% and aid to small producers maintained. The Commission states however that this price increase can only be granted on condition that the supplementary levy scheme is fully respected and that in particular the reference quantities are kept at the levels already decided by the Council.

In order to make the marketing of butter easier the Commission proposes a new adjustment in the fat/protein ratio. The reduction in the intervention price for butter which should result from this and which should be compensated for by an increase in the intervention price for skimmed milk powder, would make it possible to remove aid for the consumption of butter without modifying consumer prices in the four Member States concerned, viz. the United Kingdom, Ireland, Denmark and Luxembourg.

67. The Committee on Agriculture, Fisheries and Food takes note of the significant omissions in the Commission's proposals for the dairy sector. For example, the Commission makes no mention of the fact that milk producers were subject to a three-fold penalty in 1984 in the form of quotas, the imposition of the coresponsibility levy and the drop in producer prices.

68. Although the Committee on Agriculture, Fisheries and Food realizes the need for controlling production, account should nevertheless be taken of the responsibility of the different types of farm for expenditure since there does exist, for example, a direct link between the utilization of compound imported feeds and the growth in milk production. Instead of imposing a uniform penalty on all milk producers the Commission should conduct a policy which would benefit the natural production of milk based on the conversion of fodder produced on the farm itself.

69. For this purpose the Committee on Agriculture, Fisheries and Food proposes a positive approach to the control of milk production based on the taxation of intensive farms producing over 15,000 kilogrammes of milk per hectare of forage area, graduated according to the amount of concentrated feeds used, and a ceiling on support per farm throughout the Community.

In return for these measures the committee proposes an increase in the target price for milk of 5% and the abolition of the coresponsibility levy.

70. In parallel with these measures the Committee on Agriculture, Fisheries and Food also

- (a) recommends the gradual dismantling of the import quota for New Zealand butter since the latter no longer has the same economic importance as in earlier times because of the reduction in butter consumption in the United Kingdom to the advantage of margarine,
- (b) asks that the use of whole milk for the feeding of calves should be encouraged instead of milk powder,

(c) requests genuine protection against imports of raw materials used to make imitation milk products,

(d) asks for support for initiatives to encourage greater utilization of milk products as food aid, such as the production of protein bars which do not present any particular problems as regards preservation.

71. The Committee on Agriculture, Fisheries and Food requests that mountain and less-favoured areas should be exempted from the milk quota system and that the repercussions of this system on young farmers should be studied and corrective measures taken.

Beef and veal

72. In view of the reduced prices for animal feed and the proposed reduction in prices for cereals, the Commission does not put forward any proposals for price adjustments in the beef and veal sectors. The reason it gives for this measure is the fact that after the introduction of milk production quotas much caution will have to be shown in the fixing of prices for the other sectors to which production resources could be transferred from the milk sector. So, according to the Commission, even the slightest increases in beef and veal prices would only serve to aggravate the imbalance between supply and demand.

In conformity with the guidelines concerning beef and veal which it proposed in July 1983 (COM(83) 500 final), the Commission proposes that the premium for the birth of calves and the slaughter premium should be discontinued whilst the suckler cow premium should be kept at its present level.

73. In the view of the Committee on Agriculture, Fisheries and Food, this approach does not make allowance for the need to provide alternative production prospects for producers affected by the quota arrangement.

Indeed there should be an increase in the intervention price which will take account of the erosion of the market, and, above all, preferential imports (more than 400,000 tonnes) which are a burden on the market and which cost 500 million ECU in 1984, should be limited.

74. Finally, the suckler cow premium should be increased since the level has been the same since 1982, and measures should be taken to provide more substantial support for the market in store cattle and to reinstitute the premium for the birth of calves.

Sheepmeat and goatmeat

75. As regards sheepmeat and goatmeat, the Commission repeats its proposals for the setting of a ceiling for the variable slaughter premium and for bringing the marketing year into line with the calendar year.

76. The Committee on Agriculture, Fisheries and Food believes that the prices for this sector should be increased by 7% and that, above all, there should be a fullscale revision of the sheepmeat regulation since it is not right that one single Member State, the United Kingdom, should receive 94% of the appropriations allocated to this sector.

77. In all the EEC countries, nannygoats should qualify for the same compensatory premium as ewes.

Pigmeat

78. The Commission proposes that the basic price should be maintained at its present level so as not to disturb the market. In fact this proposal does not take account of the fact that the market can be seriously disturbed by imports from third countries. The market should therefore be better protected against these imports, and exports should be encouraged.

Poultry

79. This sector which does not benefit from any price support or income subsidy at Community level, is going through a period of crisis due to a trend towards excess production. The result is large losses of revenue for producers and the closing down of many establishments. In order to restore some discipline to the sector a joint-trade organization for the poultry sector should be set up at Community level. The Commission could formulate measures to support the creation of such an organization.

Bee keeping

80. Although only a small sector, bee keeping has a definite economic and ecological value. The aid arrangement for bee keeping should be extended and the Community should give greater support to research into bee diseases.

E. Other considerations

81. The common agricultural policy should be extended to products which are not covered by it at the present time such as potatoes, flowers and certain produce from the overseas departments.

82. It should be reorientated to ensure that the produce sold to consumers is of a better quality and biological agriculture should be encouraged.

83. The machinery for distributing produce to social organizations and to the most under-privileged persons should also be improved in order to avoid the destruction of food products.

84. The development of agriculture should also be based on greater respect for the environment with less reliance on energy and greater utilization of the farm's natural resources in order to reduce production costs and make agriculture less dependent on external factors.

85. On the same basis encouragement should be given to the development of energy crops provided that this is not to the detriment of Community and world food needs.

86. Finally, the Commission should work more closely with trade organizations, without discrimination, to ensure that the common agricultural policy is carried out with the agreement of the greatest number of people possible in order to rid it of its technocratic character which is often the subject of criticism by producers.

V. THE CONTEXT

87. Negotiations on farm prices will take place in a difficult context which needs to be properly appraised: the economic crisis, enlargement negotiations and budgetary difficulties.

A. The economic crisis

88. Where agriculture is carried on intensively, as it is in the Community, any decrease in agricultural activity will have serious consequences for employment. One agricultural job less means the risk of one more person out of work and the EEC already has 13 million unemployed. It should be emphasized that the costs of unemployment (40,000 million ECU per year) are twice as high as Community agricultural expenditure.

89. In recent times the increased productivity realized by farmers has surpassed the figure for the economy as a whole but it has been of advantage particularly to firms 'upstream' and 'downstream' of agriculture. It would therefore be illusory and dangerous to continue the uncontrolled pursuit of productivity which would not only accelerate the agricultural exodus and the concentration of agricultural production but would also aggravate imbalances.

B. Negotiations on enlargement

90. The rapporteur shares the farmers' fears of the consequences of enlargement which could take the form of new production restrictions, extra pressure on their income and further imbalance to the detriment of the Mediterranean regions.

91. The Commission's proposals which are particularly severe in the case of Mediterranean products (wine, fruit and vegetables, citrus fruits) are a token of the way in which enlargement has been prepared: at the lowest possible cost and with little regard for the protection, already inadequate, of Mediterranean produce. The much-heralded restoration of balance between North and South is therefore nothing more than an extra decoy.

C. Budgetary questions

92. Where EAGGF expenditure has considerably increased since 1982, mainly for reasons connected with economic development, it must be stressed that the growth of agricultural expenditure has not been as great as that of own resources during the period 1979-1984 (75% as against 77%).

The burden of net agricultural expenditure represented 0.55% of GDP, a level which is comparable with that of other industrialized countries.

Public expenditure in support of agriculture amounted to \$35,000 million in the EEC as against \$55,000 million in the United States.

93. On the other hand, expenditure which can be directly ascribed to agriculture amounts to less than 60% of the Community budget. It is generally admitted that this expenditure is artificially boosted, in terms of revenue not received and expenditure incurred, by the numerous derogations from Community preference. The European Court of Auditors puts this amount at between 2 and 4,000 million ECU.

The following imports are illustrative of the net cost for the Community budget of derogations from the Community preference in 1984:

New Zealand butter:	50 million ECU
Beef and veal:	500 million ECU
Cereal substitutes:	600 million ECU.

94. At the same time, there is no question of accepting unrestricted and uncontrolled growth of agricultural expenditure. This expenditure must be brought under control and into balance to the benefit of smaller farmers and types of produce which enjoy least protection under the regulations now in force. The agricultural policy must not be allowed to become subservient to budgetary policy. To confine agricultural expenditure in a financial cage as envisaged by 'budgetary discipline' is an aberration because the amounts required depend on unforeseeable economic or climatic conditions.

95. At a time when preparations are being made to increase the rate of VAT one should not overlook the possibility of finding new sources of income in the Community budget, in particular by enforcing better respect of Community preference. For example, a tax of 100 ECU per tonne would make it possible to increase Community revenue by:

- 670 million ECU for oils and fats (except butter)
- 1,600 million ECU for imported substitute products.

CONCLUSION

96. The rapporteur's proposals for prices and related measures are designed to ensure fair incomes for farmers and at the same time full utilization of the Community's agricultural potential.

A proper price policy can contribute to this but it must be supplemented by a sound structural policy which would make it possible to correct the all-too-large disparities which still exist between regions, types of production and farms.

DEVELOPMENT OF THE TERMS OF TRADE OF AGRICULTURE

Product and input prices and inflation in 1983 and 1984

	Change 1984/83 (estimates)			Change 1983/82			Average annual change 1979-83		
	output	input	inflation (%)	output	input	inflation (%)	output	input	inflation (%)
D	- 1.4	3.6	1.9	- 1.2	0.5	3.2	2.3	5.1	4.1
F	5.1	9.5	7.5	8.9	9.7	10.0	9.4	12.4	11.7
I	6.8	10.7	10.3	9.6	12.1	15.0	12.8	14.5	17.7
NL	2.5	3.1	2.5	1.9	3.5	1.9	4.3	5.9	4.6
B	2.7	6.2	5.5	8.0	8.5	5.9	7.9	9.0	5.8
L	0.4	7.1	6.8	8.0	9.2	7.6	8.2	9.2	7.8
UK	1.6	4.8	4.1	5.6	6.4	5.1	7.2	9.0	10.9
IRL	3.5	6.4	7.6	6.5	10.1	10.4	7.4	12.3	14.9
DK	7.0	8.1	5.5	4.9	5.8	7.6	9.8	12.7	9.3
GR	19.3	14.5	18.3	17.2	22.2	19.8	21.5	22.9	21.0
EUR 10	5.6	7.6	4.7	7.6	7.9	6.4	9.6	10.7	8.8

Source: Eurostat

(%) Index of implicit price of gross domestic product.

Development of the 'terms of trade of agriculture' (1): the relationship between the development of agricultural producer prices and the price of intermediate consumption

(1980 = 100)

	1973	1976	1977	1978	1979	1980	1981	1982	1983
1	2	3	4	5	6	7	8	9	10
Deutschland	113,9	114,5	110,3	110,6	107,0	100,0	98,5	97,9	94,7
France *	127,5	114,4	114,2	112,4	109,1	100,0	98,2	98,5	98,5
Italia	106,7	96,5	100,5	106,6	105,9	100,0	92,4	94,9	94,5
Nederland	114,0	113,7	108,9	108,3	101,3	100,0	100,5	99,3	99,2
Belgique/België	111,2	111,8	103,4	106,5	102,1	100,0	98,8	97,5	97,2
Luxembourg	:	:	:	:	:	:	:	:	:
United Kingdom	119,7	121,4	109,6	107,3	106,5	100,0	100,5	99,9	97,4
Ireland *	131,5	110,3	114,8	119,6	113,8	100,0	101,1	99,8	99,7
Danmark	112,0	104,4	101,4	111,0	105,2	100,0	96,0	95,8	93,5
EUR 9	:	:	:	:	:	:	:	:	:
Ellas	112,3	108,6	110,9	117,8	111,2	100,0	99,5	107,0	104,4
EUR 10	:	:	:	:	:	:	:	:	:

Source: Eurostat.

(1) The 'terms of trade of agriculture' (the 'cost-price squeeze') is the result of dividing the progression of the implicit prices of the final production of agriculture by the progression of the implicit prices of the value of intermediate consumption.

ANNEX 2EEC EXTERNAL TRADEGROWTH OF EEC EXTERNAL TRADE IN AGRICULTURAL AND FOOD PRODUCTSFROM 1981 TO 1983

	1981	1982	1983	Growth 1981-1983
Imports	44721	47595	50362	+ 12.6%
Exports	26055	25576	26766	+ 2.7%
Deficit	18666	22019	23596	+26.4%

EEC EXTERNAL TRADE BALANCE IN AGRICULTURAL AND FOOD PRODUCTS IN 1983

PRODUCTS	Balance (x million ECU)	
SURPLUS	beverages	+ 3321
	milk and eggs	+ 2829
	cereals	+ 2155
	sugar and honey	+ 670
DEFICIT	fruit and vegetables	- 5859
	wood and cork	- 5450
	animal feedstuffs	- 4228
	oil seeds and fruits	- 3597
	natural textile fibres	- 2806
	oils and fats	- 1016
	tobacco	- 810
	meat	- 327

Total: -23661

SECTORAL INCOME INDEX

Variation between 1983 and 1984 as %

Nb.	Items	D	F	I	NL	B	L	UK	IRL	DK	HELLAS	EUR 10
1	Nominal net added value at factor cost	+5.3	+7.1	+5.7	+9.5	-8.9	+3.3	+13.3	+11.6	+23.5	+27.6	+6.8
2	Labour (input) ¹	-1.5	-1.9	-3.3	-0.7	-1.0	-2.0	-0.8	-2.5	-2.6	-3.2	-2.2
3	Nominal net added value at factor cost per work unit	+6.9	+9.2	+9.3	+10.3	-1.9	+5.4	+14.2	+14.5	+26.8	+31.8	+8.7
4	Implicit price index of gross domestic product at market prices	+1.9	+7.5	+10.2	+2.5	+5.5	+6.8	+4.1	+7.6	+5.5	+18.3	+4.7
5	Real net added value at factor cost per work unit	+4.9	+1.6	-0.8	+7.6	-7.0	-1.3	+9.7	+6.4	+20.2	+11.4	+3.8

¹ Labour of all persons employed in agriculture

Real net value added at factor cost per work unit

1980¹ = 100

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
D	123,2	106,7	121,7	127,7	124,4	120,9	106,6	93,8	100,0	118,5	93,0	97,6
F	132,0	120,5	108,9	108,4	107,9	110,0	110,7	96,5	94,8	110,4	105,3	107,0
I	92,9	88,9	95,1	92,4	95,4	100,0	104,5	101,4	96,4	97,6	97,9	97,1
NL	113,7	95,4	101,9	111,3	105,4	103,0	95,6	91,7	112,1	116,4	118,5	127,5
B	118,6	94,7	99,5	113,7	92,5	101,9	93,2	98,1	108,0	119,9	123,7	115,0
L	110,5	91,8	99,4	85,4	108,4	101,5	104,1	94,8	101,7	141,2	120,8	119,2
UK	130,4	116,5	114,7	121,7	112,4	108,1	103,4	96,3	99,3	112,4	104,0	114,1
IRL	107,6	96,2	114,2	109,7	135,4	138,4	109,5	94,0	98,0	105,0	109,9	116,9
DK	109,7	102,4	83,4	86,0	98,6	106,7	91,0	98,7	108,7	131,1	110,5	132,8
GR	84,7	82,2	83,3	89,9	85,4	95,2	90,0	101,0	107,0	118,4	104,7	116,6
EUR 10	112,2	102,2	103,9	105,9	104,7	106,9	103,6	97,3	99,1	109,5	103,2	107,1

BALANCE OF EEC EXTERNAL TRADE IN ORGANIZED AGRICULTURAL PRODUCTS IN 1983

PRODUCTS		Balance (x million ECU)
	Milk products	+ 2786
	Cereals and rice, manioc,	
SURPLUS	Cereal-based preparations	+ 1100
	Wines	+ 785
	Sugar and honey	+ 491
	Meat	+ 125
	Fats and oleaginous fruits	
DEFICIT	Fats and oils, residues and cakes	- 7420
	Fruit and vegetables	- 2937
	Raw tobacco	- 1446
Total:		- 8052

AMOUNT OF FODDER IMPORTED BY MEMBER STATE

Average 1980-82	Proportion of animal production accounted for by imported feed	Area equivalent of imported feedstuffs millions of % UAA hectares	
W. GERMANY	23%	3.0	24
FRANCE	9%	1.2	4
ITALY	26%	2.2	13
NETHERLANDS	52%	2.4	117
BENELUX	38%	0.9	55
UK	17%	1.3	7
IRELAND	10%	0.2	3
DENMARK	23%	0.7	24
EEC	18%	9.7	10