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O P I N I O N

of the Committee on External Economic Relations

for the Committee on Agriculture, Fisheries and Rural Development

on the Commission proposals for 60 Council regulations fixing the prices of agricultural products and certain related measures for 1991/92

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O P I N I O N

(Rule 120 of the Rules of Procedure)

of the Committee on External Economic Relations

for the Committee on Agriculture, Fisheries and Rural Development

Draftsman: Mr Artur da CUNHA OLIVEIRA

At its meeting of 29 January 1991 the Committee on External Economic Relations appointed Mr da Cunha Oliveira draftsman.

At its meetings of 18-19 March, 29-30 April and 13 May 1991 the committee considered the draft opinion.

At the last meeting it adopted the conclusions as a whole unanimously.

The following were present for the vote: De Clercq, chairman; Cano Pinto, Stavrou and Moorhouse, vice-chairmen; da Cunha Oliveira, draftsman; Hindley, Marck (for Braun-Moser), Peijs, Randzio-Plath, Rossetti, Sonneveld (for Lemmer), Spencer and Visser (for Junker).

The opinion of the European Parliament's Committee on External Economic Relations on the Commission proposals must take account of:

- the urgent need for a fundamental reform of the CAP;
- the situation on the agricultural products market;
- the European Parliament's views on the GATT negotiations on agricultural matters;
- the prices of certain significant products proposed for the 1991/92 marketing year.

1. The need for a fundamental reform of the CAP

1.1. The CAP was created to meet the needs of a time when Europe was in deficit for most food products and to guarantee farmers a comparable income with other sectors.

Its mechanisms support internal prices and incomes either through intervention or border protection or, where no frontier protection exists, by variable aids to the processing industries.

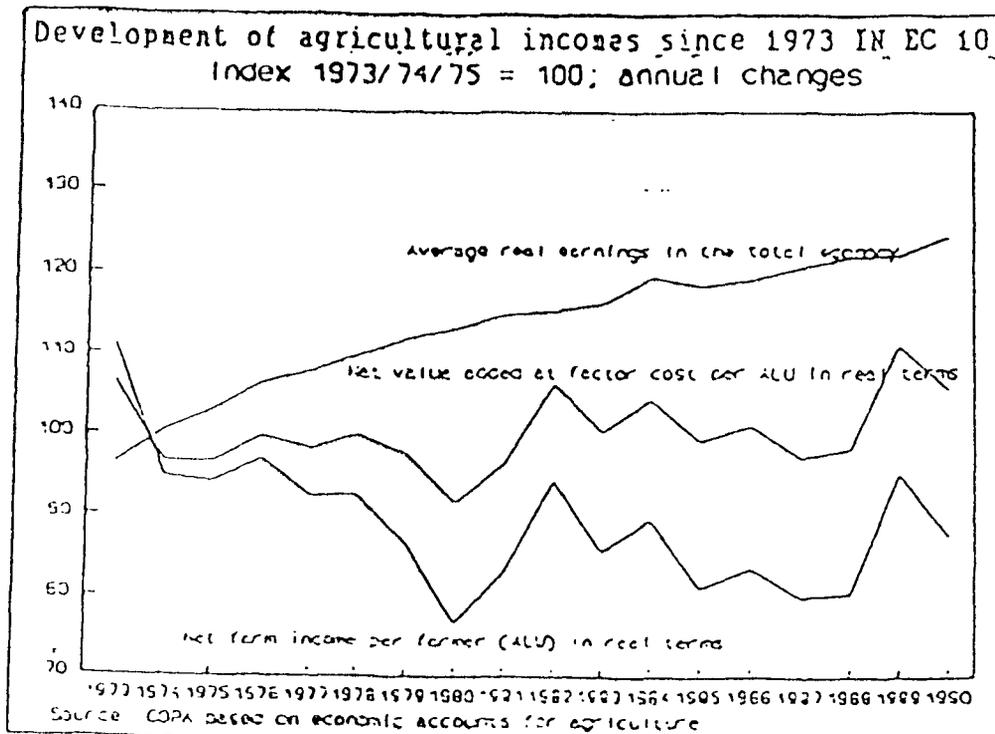
When the Community moved increasingly into surplus for most of its agricultural products, deficiencies became apparent:

- growth in production at a rate which is no longer in line with the market's absorption capacity;
- costly build up of stocks;
- intensification of production leading to abusive exploitation of nature and the degradation of land and the environment;
- the method of income support based on price guarantees is proportionate to the volume of production and favours the largest and most intensive farms;
- unlimited growth in the agriculture budget, while the number of farmers continues to fall and the purchasing power of those remaining on the land is unchanged.

The current situation can be summarized as follows: 18 million tonnes of cereals in storage at the end of January 1991 (11 million tonnes the previous year); 700 000 tonnes of meat; 260 000 tonnes of butter; 335 000 tonnes of powdered milk, which in storage costs alone will amount to ECU 3.7 billion. Between 1973 and 1988 production increased by 2% a year while consumption increased by only 0.5% per year.

The Community budget for the EAGGF/Guarantee section has also increased rapidly from ECU 4.5 billion in 1975 to 11.3 billion in 1980, 19.8 in 1985 and 28.3 in 1990, and has reached ECU 31.5 billion this year, which some consider to be insufficient and in real terms represents ECU 11.5 billion relative to 1975.

Moreover, not only have the prices of intermediate goods risen, but the price ratio for agricultural products/intermediate goods fell from 116.7 in 1973 to 94.6 in 1985, whilst Community taxpayers and consumers ended up paying ECU 1.45 for each ECU received by the farmer. The farmer for his part did not see his income increasing to the same extent as incomes in other sectors of the economy.



1.2. Aims of the reforms initiated

- Progressive reduction of production in sectors in surplus, using a price policy reflecting market demand;
- more effective attention for the income problems of small family farms;
- support for such agricultural activity as is essential to regional development, the maintenance of social balance and environmental protection.

1.3. Practical implementation of these reforms - examples relating to major sectors

1.3.1. Cereals

Prices could be reduced to a level which would guarantee greater competitiveness with substitutes.

The loss of income could be compensated for by an aid per hectare paid to all producers. Full compensation would be paid up to a certain area and thereafter partial compensation on a degressive basis.

1.3.2. Oilseeds and protein plants

A similar system would be applied to ensure coherence in the market organizations for arable crops and the implementation of the conclusions of the GATT 'soya panel'.

1.3.3. Milk sector

Quotas will have to be reduced to take account of the market situation. Reductions in quotas would apply above a certain threshold and on a modulated basis.

1.3.4. Livestock

Direct aid through premiums should have a more important place in the market organizations in order to compensate for income losses and to discourage intensification.

1.4. Consequences for the 1991 prices

In most sectors the Commission wishes to renew the current provisions for one year. The proposals for reforms could thus be discussed, adopted and implemented under the best possible conditions.

The reduction in prices for certain agricultural products and the related measures referred to in the Commission proposal for the 1991/92 marketing year will be required only for budgetary reasons.

The Community budget for 1991 makes provision in its Titles 1, 2 and 3 for a sum of ECU 31 516 million for agricultural appropriations, which includes ECU 100 million for set-aside, ECU 1315 million for related measures such as those connected with German unification and ECU 97 million for the second stage of Portuguese accession.

But everything indicates that this year EAGGF Guarantee expenditure could reach ECU 32 991 million, exceeding the budgetary provisions by ECU 1475 million and the agricultural guideline, set at ECU 32 511 million, by ECU 480 million. Hence the economic need for a reduction in the prices for the marketing year for some agricultural products and in subsidies.

2.1. The Community

The Community market situation worsened in most sectors in 1990. The deterioration was exacerbated by external factors such as the fall in the US\$ exchange rate (this was fixed at US\$ 1 = ECU 0.85 under Article 90 of the Council Decision of June 1988 but fell in the last 5 months of 1990 to US\$ 1 = ECU 0.74) and the fall in world prices, resulting in increased budget costs. Expenditure on market support for 1991 could be 32% higher than in 1990 unless corrective measures are taken, and expenditure for 1992 will be even higher.

The medium term prospects are hardly encouraging, in particular following German unification. An increase in production of the main agricultural products (except for potatoes) can be expected, as well as a medium-term fall in all livestock production.

To return to the examples quoted earlier:

- Cereals production will increase considerably during the next five years and reach 187 million tonnes in 1996/97, while consumption will continue to fall, in particular for animal feedingstuffs. The surplus will be 45 million tonnes in 1996 as opposed to about 30 million tonnes in 1990/91.

- Community oilseed production is likely to increase from 12 million tonnes in 1990 to about 15 million tonnes by 1996/97.
- For milk and dairy products, the dairy herd (currently 24 500 000 cows) will have to be reduced by at least 2 500 000 cows to avoid exceeding production quotas. Consumption is likely to stabilize at its current level of 99 million tonnes.
- Beef production could increase slightly to reach 8 300 000 tonnes in 1997, with per capita consumption remaining unchanged. Total consumption will alter only in relation to population growth and is expected to be about 7 700 000 tonnes in 1997.

2.2. World markets

The recovery of the world market, which was marked by an increase in prices in 1988 and their stabilization in 1989, is now being followed by a rapid and severe period of deterioration. The main causes are the sharp increase in world production for several commodities and the rebuilding of world stocks. As a result export prices are well below prices at the same time last year.

- cereals production is 6% higher than in 1989. For the first time in five years world wheat production will be higher than demand. Since April-May 1990 international wheat prices have fallen by almost 20%. Forecasts suggest depressed prices and trade tensions.

- oilseed production reached record levels of 217 million tonnes, which approximates to expected consumption. Stocks should not increase.

- dairy products : in OECD countries milk supplies are 0.6% higher than in 1989. The United States and New Zealand have announced significant increases in production.

Sales of butter have fallen sharply as a result of a fall in consumption in Western countries and a drop in demand in the USSR and Eastern European countries. The prices for dairy products have fallen by 33% since the end of 1989. The net export availability of milk fat in the OECD area will increase by 3% over the next five years.

- beef production increased in 1990 but the world market was depressed (general slowdown in economic growth, Gulf crisis, political developments in Eastern Europe, health problems). The OECD countries' net export availabilities should increase in the medium term from about 430 000 tonnes in 1990 to almost 1 million tonnes in 1995.

2.3. Relations with Central and Eastern Europe

Since 1989 the Community has been providing aid to the countries of Central and Eastern Europe.

For example, tariff quotas were introduced for certain agricultural products of special interest for Poland and Hungary.

For these countries and also Czechoslovakia, Bulgaria and the former GDR sheepmeat quotas which were not subject to duties were increased.

Community aid under the PHARE programme for Poland included a phytosanitary protection programme, a technical assistance programme, a programme to provide animal feedingstuffs and a line of credit to assist in the acquisition of material and equipment imported by private farmers totalling ECU 100 million. In addition the Commission, in close cooperation with the World Bank and the Polish Government, drew up a detailed study of Polish agriculture with the aim of helping to define an agricultural strategy for that country.

For Hungary an aid programme has been planned to develop private agriculture involving a sum of ECU 20 million.

In addition the Community has supplied food aid to Poland of 300 000 tonnes of wheat of breadmaking quality, and to Romania of 250 000 tonnes of feed grains, 20 000 tonnes of beef, 5 000 tonnes of butter and 5 000 tonnes of olive oil, at a total cost of ECU 41 million charged against the EAGGF.

Trade in agricultural products with the three countries is as follows:

Imports into the EC

| Countries | ECU m. | | | % of total EUR 12 | | |
|-----------|--------|------|------|-------------------|------|------|
| | 1987 | 1988 | 1989 | 1987 | 1988 | 1989 |
| Poland | 785 | 801 | 1003 | 1.5 | 1.5 | 1.7 |
| Hungary | 619 | 666 | 881 | 1.2 | 1.2 | 1.4 |
| Romania | 153 | 135 | 128 | 0.3 | 0.3 | 0.2 |

Exports from the EC

| Countries | ECU m. | | | % of total EUR 12 | | |
|-----------|--------|------|------|-------------------|------|------|
| | 1987 | 1988 | 1989 | 1987 | 1988 | 1989 |
| Poland | 276 | 346 | 784 | 1.0 | 1.1 | 2.2 |
| Hungary | 126 | 124 | 138 | 0.4 | 0.4 | 0.4 |
| Romania | 56 | 54 | 108 | 0.2 | 0.2 | 0.3 |

This table shows that trade in agricultural products is increasing between the EC and these countries (with the exception of imports in the case of Romania) and will continue to increase in future.

3. The European Parliament's position on the GATT negotiations (on agricultural matters)

The European Parliament has had several opportunities to outline its position with regard to the role of GATT in the agricultural field, and in particular in the report by Mr Stavrou submitted on behalf of the Committee on External Economic Relations and adopted on 11 October 1990 (A3-215/90 - minutes of 11 October 1990, pp. 42 ff.) and most recently in a resolution adopted on 13 December 1990 (minutes of 13 December 1990, pp. 28-29).

- Parliament considers that an overall agreement must guarantee a dignified and decent standard of living for farmers and reduce the pressure on world agricultural markets including the EEC (paragraph 5).¹
- Such an international agreement should allow equilibrium to be restored on the world markets for major agricultural products (paragraph 7)².
- The European Community, without disturbing the world agricultural markets, must protect its agricultural structures, which are typified by a large number of small family farms, farming as a means of protecting disadvantaged and peripheral areas and a substantial deficit in certain products (paragraph 10)³.
- The European Parliament considers that agreement could be obtained on a balanced and reasonable package containing specific commitments that will not lead to an unacceptable loss in farm incomes so long as it is accompanied by appropriate income support measures and sufficient safeguards against import surges (paragraph 11)⁴.
- It considers that account must be taken of the differences in the structures of agricultural holdings in the various countries (paragraph 61)⁵.
- It calls on the United States and the Cairns Group to drop their demands for the elimination of all subsidies distorting agricultural trade by the end of the 1990s (paragraph 62)⁶.
- It calls instead for all the participants in the negotiations to take part in a constructive dialogue so that the signatories can agree on the definition of a yardstick for assessing support, including all internal support affecting agricultural external trade and all external protection measures so that comparability of support measures is attained and a balanced adjustment can be undertaken at international level (paragraph 63)⁷.

The possibility of a collapse of the GATT negotiations would involve considerable long term risks for not only the Community and European economy but also for the world economy.

In a recent interview in the Paris newspaper Le Figaro, the President of the Commission, Jacques Delors, stated that the reform of the CAP was a matter of urgency as the essential way of preventing the decline in farmers' incomes.

Furthermore, Jacques Delors compared the agricultural subsidies war between the EEC and the USA in the GATT negotiations to a battle of the giants in which everything was destroyed in the process. 'We control 20% of the cereals trade', said Delors, 'but we are prepared to go down to 17% if the difference benefits the Third World'.

¹ Resolution of 13.12.1990

² Resolution of 13.12.1990

³ Resolution of 13.12.1990

⁴ Resolution of 13.12.1990

⁵ Stavrou report

⁶ Stavrou report

⁷ Stavrou report

Indeed in any possible, and necessary, reform of the CAP and in the agricultural sector negotiations in GATT, account must be taken of two other aspects as regards the future which can easily escape even close observers of the situation.

Firstly, there is the excessive consumption of water involved in the intensive cultivation of the land, and water is becoming rarer and more precious all the time. Secondly there is energy. It is hard to understand why it is still necessary to use 10 calories of fuel in the Mid-West, in the Netherlands or in the Ile de France to produce one calorie of food while in Third World countries, for example in Africa, one calorie of food can be produced with less than one calorie of fuel.

4. Prices of certain significant products for the 1991-1992 marketing year

4.1. Cereals

It is proposed that the intervention prices for all cereals except durum wheat should be fixed at the level applied during the 1990-1991 marketing year.

Total cereal production should not be much different from 1989/90, but German unification will cause an increase in Community production of 11.8 m. tonnes and in consumption of 9 to 10 m. tonnes, which could mean that intervention stocks of cereals would be at a higher level than ever before at the end of 1990/91, concentrated in a small number of Member States.

PRICE PROPOSALS CEREALS

| | 1990/91 price ecus/t. | 1991/92 proposal ecus/t. | % change 90/91 - 91/92 |
|--------------------------------------|-----------------------------|--------------------------------|---------------------------------|
| 1. Intervention price | | | |
| - Common wheat | 168,55 | 168,55 | 0,00 |
| EC except Portugal | 168,55 | 168,55 | 0,00 |
| Portugal | 210,80 | 210,80 | 0,00 |
| - Barley, rye, sorghum | 160,13 | 160,13 | 0,00 |
| - Maize | 168,55 | 168,55 | 0,00 |
| - Durum wheat | 235,96 | 219,44 | - 7,00 |
| EC except Spain | 235,96 | 219,44 | - 7,00 |
| Spain | 212,71 | 208,63 | - 1,92 |
| 2. Target price | | | |
| - Common wheat | 234,22 | 233,26 | - 0,41 |
| - Rye, barley, sorghum | 213,29 | 212,33 | - 0,45 |
| - Maize = barley | 213,29 | 212,33 | - 0,45 |
| - Durum wheat | 287,38 | 268,01 | - 6,74 |
| 3. Aid for durum wheat per ha | | | |
| - EC except Spain | 171,14 | 187,66 | + 9,65 |
| - Spain | 110,79 | 149,23 | +34,70 |
| 4. Monthly increases | | | |
| (a) Intervention price | 1,50 | 1,50 | |
| - durum wheat | 2,03 | 2,03 | 0,00 |
| - other cereals | 1,50 | 1,50 | 0,00 |
| (b) Target price and threshold price | 1,50 | 1,50 | |
| - durum wheat | 2,03 | 2,03 | 0,00 |
| - other cereals | 1,50 | 1,50 | 0,00 |
| 5. Special increase | | | |
| - Breadmaking common wheat | 3,47 | 3,37 | - 2,88 |
| - Breadmaking rye | 8,43 | - | - 100 |

4.2 Oilseeds

For 1991/92 the main elements of the existing market organization for oilseeds and proteins should be retained, with no changes except where these are necessary either to improve the system or to facilitate transition towards a new system. The reforms as regards plantings will be made from the start of the 1992/93 marketing year. At present the Commission views the current year as the final year of the system.

OILSEEDS

| | ECU/100 kg | | | |
|-----------------------|---------------|---------|--------------|---------|
| | <u>EUR-11</u> | | <u>Spain</u> | |
| <u>Rapeseed</u> | 1990/91 | 1991/92 | 1990/91 | 1991/92 |
| Target Price | 44,94 | 43,59 | 42,03 | 41,33 |
| Intervention Price | 40,69 | 39,47 | 37,78 | 37,21 |
| <u>Sunflower seed</u> | | | | |
| Target Price | 58,25 | 56,50 | 49,71 | 49,88 |
| Intervention Price | 53,38 | 51,78 | 44,84 | 45,16 |
| <u>Soya Beans</u> | | | | |
| Guide Price | 55,75 | 54,08 | 47,62 | 47,77 |
| Minimum Price | 48,86 | 47,39 | 40,73 | 41,08 |

4.3 Milk and milk products

Although milk production has been fairly stable, butter and skimmed milk powder production increased by almost 4% and 15% respectively in 1990. The most worrying fact is linked to the steady increase in milk fat content. Milk fat production is rising despite the existence of a high penalty under the milk quota system.

There are proposals to reduce quotas initially by 2% and later by 5% in order to reduce the milk supply.

Special measures are proposed with regard to the intervention system for butter in order to discourage milk product manufacturers from regarding intervention as a normal method of disposal. It is also proposed that the price level of 92% should be used in future as the trigger for the introduction of intervention buying by tender.

Measures relating to Spain and Portugal are intended to reduce intervention prices for butter by 1.9% to ECU 302.5/100 kg and for skimmed milk by 3.7% to ECU 202.7/100 kg. For Portugal, the price of butter is nevertheless at full Community level and the price of skimmed milk would be reduced to ECU 202.7/100 kg.

With regard to prices for the whole Community, no change is proposed for intervention and target prices as the Commission has proposed making adjustments to the quota system.

For the 1991/92 milk year, the target price for milk and the intervention prices for milk products shall be as follows:

(ECU/100 kg)

| | Community of Ten | Spain | Portugal |
|---|------------------|--------|----------|
| (a) target price for milk: | 26,81 | 26,81 | 26,81 |
| (b) intervention price: | | | |
| butter | 292,78 | 302,49 | 292,78 |
| skimmed-milk powder manufactured using the | | | |
| - spray method | 172,43 | 202,67 | 202,67 |
| - roller method | 163,81(*) | - | - |
| Grana padano cheese: | | | |
| - between 30 and 60 days old | 379,67 | | |
| - at least 6 months old | 470,43 | | |
| Parmigiano reggiano cheese at least 6 months old | 519,21 | | |

(*) For skimmed -milk powder manufactured in the territory of the former German Democratic Republic only.

4.4. Beef (adult bovine animals)

In Regulation (EEC) No. 571/89 the Council introduced a new intervention system which it is not necessary to describe here. Purchases under this system were restricted to 120 000 tonnes, then increased to 235 000 tonnes to take account of German unification.

For the 1991-1992 marketing year the guide price for adult bovine animals is set at ECU 200/100 kg liveweight.

For the 1991/1992 marketing year the intervention price is set at ECU 343/100 kg carcass weight for the carcasses of male animals of Class R3 of the Community scale for the classification of adult bovine animals laid down by Regulation (EEC) No. 1208/81.

5. Conclusions

The Committee on External Economic Relations

1. Draws attention to the development of trade relations with Eastern Europe and the possible future effects if a new market in agricultural products is to develop in Europe and if it is to be accompanied by specific conditions with regard to market organization and market prices;

2. Considers, taking into account the great importance of the negotiations already undertaken within GATT, that the discussions on the 1991/1992 agricultural prices and on certain related measures should make a contribution to the efforts made by the Community to eliminate subsidized surplus production;
3. Calls on all the main exporting countries of agricultural products to take steps to end surplus production;
4. Supports the principles implemented by the Commission to reform the common agricultural policy, bearing in mind the successive enlargements of the Community (and possible future enlargements), trends in European agriculture both as regards quality and quantity, the changes in the structure of the European population working on the land and the increase in expenditure caused by the application of the CAP in its present form;
5. Draws attention to the fact that any reform of the common agricultural policy should take into account not only the balance between production and the market, safeguards for a fair income for agricultural producers and in particular for family farms, but also safeguards for the environment, a balanced use of land, the saving of water and energy and the possibilities for developing trade in agricultural products with the countries of the Third World.

