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EC COMMISSION SUBMITS MAJOR DETAILED PROPOSALS ON THE DEVELOPMENT AND FUTURE OF THE COMMON AGRICULTURAL POLICY

The EC Commission yesterday adopted proposals on the development and future of the Common Agricultural Policy presented by Ray MacSharry, Commissioner for Agriculture and Rural Development. The EC Council of Agriculture Ministers will take their first look at the proposals at their next meeting July 15 and 16.

These proposals, which follow broadly the approach set out by the Commission in February in its Reflection Paper, represent the most fundamental reshaping of the Common Agricultural Policy (CAP) since its inception 30 years ago. They are to be introduced from 1993 and to be fully operational by 1996.

The Commission makes these proposals to help redress the problems of declining farm income, unstable markets, build up of surplus food stocks, increasing budgetary costs and damage to the environment caused by intensive production. They are presented also in the context of a wide measure of agreement that the status quo cannot continue.

The proposals will be of benefit to

- Europe's farmers through greater stability of earnings and competitiveness, more balanced markets domestically and internationally, and a more equitable distribution of support.

- consumers, through reduced prices.

- the environment, by encouraging less intensive methods of production and better care of the countryside.

- the international trading environment.

The main features are:

- major reductions in prices (cereals - 35 percent, milk - 10 percent, butter - 15 percent, and skim milk powder - 5 percent, beef - 15 percent). Prices for pork, poultrymeat, eggs and of processed agricultural production should experience corresponding reductions.

- Supply control measures (set-aside in cereals, lower milk quotas, tobacco quotas, upper limits on sheep premia, calf disposal premium for beef).

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- Substantial compensation for price reductions and supply control measures through payments to farmers of premia based on extensive farming in the case of cattle.

- Measures to better direct support towards small and medium sized farmers e.g. exemption of small cereal producers (20ha) from set-aside requirements and mechanisms to allow milk producers (with less than 200,000 kg. per year) to avoid quota cuts; also by limits on beef and sheep premia.

Accompanying measures covering:

- Special agri-environment program linking premia to extensive production methods and programs to reduce damage to the environment and to protect countryside, flora and fauna.

- An accelerated program to encourage afforestation of agricultural land.

- New measures to facilitate early retirement.

Cost of the proposals

The cost of the reformed policy is estimated at 38,800 million ECU in 1997 at 1992 prices, representing an increase of 3,700 million ECU or some 10 percent over the level of expenditure in 1992; of this increase 1,500 million ECU is accounted for by the "accompanying measures". The cost of the new policy, when fully operational is compatible with the prolongation of the agricultural guideline for expenditure.

DETAILS OF REFORM PROPOSALS

Cereals

Cereals production in 1991/92 is expected to increase to about 180 million metric tons contributing further to the already excessive level of intervention stocks of 20 million metric tons. On current trends production could reach 187 million metric tons in 1996. Domestic use would remain static at 140 million metric tons, thereby leaving an annual surplus well in excess of foreseeable outlets (exports in 1990/91 some 30 million metric tons).

Proposals

1. The principles and instruments of market organization of the cereals regime will be maintained. A new target price will be established at 100 ECU/metric ton, i.e. the expected price on a stabilized world market which is 35 percent below the existing average buying-in price.

2. The existing stabilizer arrangements will expire once the new market regime comes fully into effect.

Oilseeds and protein crops

Oilseeds and protein crops are generally grown on farms producing cereals and usually in the higher yield regions. Farmers can switch between oilseeds and cereals depending on their relative profitability; the measures will be implemented so as not to provide a particular incentive to opt for one crop as opposed to the other.

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Proposals

1. Support for these crops will be in the form of a payment per hectare direct to producers. In the case of oilseeds, this payment will assume a relationship between support levels for oilseeds and cereals and a world market reference price; for proteins the aid will be the same as for cereals.

2. The stabilizer measures will expire with the full implementation of the new regimes.

Compensatory payments

1. Payments will be introduced to compensate fully for the loss of income arising from reductions in prices, i.e. from 155 ECU to 100 ECU a metric ton and will apply to all producers irrespective of size. Payment will be on a per hectare basis.

2. In the case of cereals, aid will be at the rate of 253 ECU per hectare on the basis of average Community yields. Regional yields based on plans presented by member states showing historic yields will be used to establish the level of per hectare aids in individual regions.

For oilseeds a per hectare aid will also be paid taking account of the expected world market price and an estimated relationship between oilseeds and cereal supports (2.1 : 1).

As in the case of cereals, aid will be readjusted to take account of regional situations.

3. An additional aid of 300 ECU/ha will be paid to durum wheat producers in traditional production zones.

Supply Control - Set-aside

1. To benefit from the compensatory payments, producers must set-aside a predetermined percentage of the area under cereals, oilseeds and protein crops. This percentage will be set at 15 percent initially and will be reviewed annually to take account of production and market developments.

2. Small producers, i.e. producers of up to 92 metric tons of cereals per annum (20 ha on average) are exempt from the set-aside obligation.

3. Compensation for set-aside will be at the same rate as compensatory aid per hectare for cereals. It will be limited to the set-aside obligation (15 percent) for an area equivalent to the production of up to 230 metric tons of cereals (50 ha on the basis of average Community yields).

4. Set-aside land may be used for non-food purposes.

Evaluation

The new regime should increase the competitiveness of cereals with cereal substitutes and thereby result in an increased use of Community cereals. It will also make a significant contribution towards reducing the cost of livestock production and in turn reduce food prices. The environment will benefit due to the reduced incentive to intensify. Ninety-six percent of the Community's arable crops producers produce less than 230 metric tons of cereals.

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Milk

There are 1.5 million farmers in milk production in the Community with an average of 16 dairy cows per holding. Three-quarters of these produce less than 100,000 kg per annum while less than 15 percent produce over 200,000 kg, but account for almost half of the Community's milk output.

The dairy market continues to be in surplus despite special internal disposal measures (costing some 2000 million ECU in 1991). The falling demand for butter is particularly serious. While the Community has maintained its share of the world market, this market is declining. These factors have contributed to a build up of stocks now amounting to 900,000 metric tons.

Proposals: Supply Control

1. Quotas will be reduced by 4 percent with 1 percent being redistributed to special categories of dairy farmers (e.g. extensive holdings, small farmers, producers in less favored areas etc). This gives a net overall reduction of 3 percent.

2. Member states will be required to set up a special voluntary cessation scheme to be financed by the Community at the rate of 17 ECU/100 kg annually for a three year period. This will allow member states to create a milk pool which should enable small and medium sized producers (less than 200,000 kg per year) to avoid compulsory quota cuts.

3. All farmers whose quotas are reduced will be fully compensated at the rate of 5 ECU/100 kg annually for a period of 10 years..

4. Member states may continue the buy-up scheme on a voluntary basis in order to allow milk reserves to be built up on an ongoing basis. The Community would co-finance this scheme at a rate of 50 percent.

Prices and Premia

1. Prices for dairy products will be reduced by 10 percent (15 percent for butter, 5 percent for skimmed milk powder).

2. A premium of 75 ECU per dairy cow, on the first 40 cows in every herd will be paid to compensate extensive dairy producers for the price reduction (since they will not benefit to the same degree from the reduction in price for cereals). To qualify for the premium, stocking rates must not be greater than 1.4 livestock units (l.u.) per hectare of forage in less favored areas and 2 l.u. in other areas.

3. The milk co-responsibility levy will be abolished.

Evaluation

These measures are designed to restore balance to the dairy market and improve the competitiveness of dairy products, especially of butter. The redistribution arrangements should allow producers with less than 200,000 kgs, i.e. 90 percent of dairy producers, to avoid quota cuts while the permanent buy-up scheme will provide a channel for milk becoming available from farmers who wish to leave production, full compensation is available for quota cuts and the reduction in prices is compensated by the reduction in cereals costs and by the dairy cow premium.

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Beef

Cattle rearing takes place on 2.6 million holdings with 32 animals on average (over 80 percent have fewer than 20 animals). Many farms are involved in both beef and milk production.

Beef production is increasing while internal consumption and external demand have weakened resulting in an unbalanced market. This has led to a build up in stocks (750,000 metric tons) and a substantial budgetary expenditure - over 4 billion ECU annually.

Proposals: Prices and Premia

1. The intervention price will be reduced by 15 percent. Of this price cut, 10 percent reflects the lower prices for feed, while a further 5 percent cut is required to maintain the competitive position of beef.

2. As the more extensive beef producers will not gain full benefit from the feed price cuts, the special premium for steers is increased to 180 ECU, payable on the first 90 animals at 60 ECU a head annually.

3. The annual suckler cow premium will be increased to 75 ECU (this can be supplemented by 25 ECU at national level) for a maximum of 90 cows.

4. Extensification criteria similar to those applying to the dairy cow premium will apply to both the male beef premium and the suckler cow premium.

5. A special premium, to be fixed initially at 100 ECU per head, will be introduced to facilitate early disposal of young male calves from dairy herds.

Promotion

Special Community promotion and marketing programs for beef and dairy products will be established, financed by a levy on sales to intervention.

Evaluation

These measures should help the beef market to return to equilibrium by reducing production (through the calf disposal scheme and the application of extensification criteria) through increasing consumption. Producers' incomes will be protected either through the reduction of feed costs or the increase in premia.

Sheepmeat

There are approximately one million farmers raising sheep, half of whom have less than 50 ewes. Less favored areas and mountainous areas account for 70 percent of the flock Although sheep numbers increased rapidly in recent years, they are now stabilizing. Increased production with resulting low market prices have led to a rapid increase in spending.

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Proposals

1. A limit (at farm level) will be applied to the number of ewes eligible for premium; this will correspond to numbers eligible in 1990. The limit may not exceed 750 ewes in less favored areas and 350 ewes in other areas.

2. The existing premium supplement of 5.5 ECU per ewe in less favored areas will be maintained.

Evaluation

The proposals should help restore market prices and stabilize expenditure.

Tobacco

Community consumption of tobacco stands at 600,000 metric tons of which 64 percent is imported. Tobacco is produced on 200,000 holdings with an average production area of 1 hectare, producing in total 400,000 metric tons of tobacco, 200,000 metric tons of which are consumed internally.

Sharp increases in production of some varieties without any real market outlet have led to structural imbalances resulting in growing intervention stocks (100,000 metric tons) and budgetary expenditure.

Proposals

1. The regime will be simplified - the 34 varieties currently supported individually will be regrouped into 8 varietal groups: a single premium will be paid per group.

2. Production quotas will be introduced. Premiums paid to producers will be limited to a significantly lower level than at present, i.e. down to 340,000 metric tons being the estimated saleable quantity of good quality tobacco to the industry.

3. Intervention and export refunds would no longer be required.

4. A research program to identify less toxic varieties will be launched as well as a conversion program.

5. A control agency will be established to control the quota and premium attribution. The establishment of producer groups and inter-branch organizations will be encouraged.

Evaluation

The proposed measures are designed to actively discourage production of unsaleable varieties. But as long as demand for tobacco exists it is reasonable that supply should continue to be sourced from within the Community. Given the socio-economic position of tobacco producers, and the absence of economic alternatives, it is necessary to continue support.

Accompanying Measures

The market reforms outlined above should have an overall positive effect on rural areas. They are designed to ensure that economic and social cohesion is strengthened; they fully safeguard the position of the vast majority of farmers, and they encourage extensive farming, with resulting benefits to the environment.

While a thriving agricultural sector is an integral objective of rural development, the achievement of other objectives, in particular a reorientation of rural communities towards new economic activities on and off the farm is also required. These issues will be addressed in the forthcoming mid-term review of the Community's structural and rural development policies.

The Commission confines itself at this stage to three key structural measures which directly complement the proposed changes in the market organizations, i.e. a specific environmental action program, an enhanced program for the afforestation of agricultural land and more attractive early retirement incentives.

These measures will be implemented through multi-annual programs negotiated between member states and the Commission.

A. Agri-Environmental Action Program

The farmers' role in the protection of the rural environment and management of the landscape should be more fully recognized and remunerated accordingly.

Proposals

1. Aid to encourage farmers to use production methods with low risks of pollution and damage to the environment. Community co-financing will be up to 250 ECU/ha for arable crops and 210 per ECU/livestock unit.

2. Measures to promote environmentally friendly management of farm land in order to conserve or reestablish the diversity and quality of the natural environment (scenery, flora, fauna). Community co-financing up to 250 ECU/ha is provided.

3. Community co-financing up to 250 ECU/ha will be available for the environmental upkeep of abandoned land in rural areas.

4. Long-term (20) years) set-aside of agricultural land for environmental purposes will be aided up to 700 ECU/ha.

B. Afforestation of Agricultural Land

The Community has a considerable deficit in wood and wood products; afforestation on a sound ecological base has an important impact on the environment, and provides an important source of diversified income. Experience has shown the existing premia to be insufficient to generate substantial new investment in forestry.

Proposals

1. Grants towards afforestation costs will be increased to a maximum of 2000 ECU/ha for conifers and 4000 ECU/ha for deciduous trees.

2. Aid for the management of new plantations of 950 ECU/ha over 5 years (1900 ECU/ha for deciduous).

3. Compensation for income foregone pending maturity of the trees will be increased to 600 ECU/ha and will be payable over 20 years.

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4. A premium of 150 ECU/ha for 20 years will be payable to private individuals (non-farmers) who afforest agricultural land.

C. Early Retirement

If rural communities are to prosper, traditional attitudes must change and new opportunities be exploited. The above average age structure of the farming population poses special problems in this regard. Two million farmers are over 65 years of age and two and a half million are between 55 and 65 years of age; half of these farmers have no successors and two-thirds farm less than 5 hectares.

Proposals

1. Full-time farmers aged 55 years or more will be eligible for a new early retirement scheme. The land released must be used by their successors or other farmers to improve production structures or used for non-agricultural purposes.

2. Community co-financing is available up to 10,000 ECU per annum: this consists of a fixed element of 4000 ECU and a variable element of 250 ECU/ha.

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ha = hectare = 2.47 acres
kg = kilogram = 2.2 pounds
ECU = European Currency Unit = $1.14 on June 21

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