

---

---

August 3, 1983  
EC News No. 12/83

**BACKGROUND NOTE:**

Adapting the European Community's  
Common Agricultural Policy

In June 1983, leaders of the 10-nation European Community (EC), asked the EC Commission to review the Community's Common Agricultural Policy (CAP) and to propose an action program for its reform. The request grew out of concerns over the rapidly rising cost of EC farm programs and the problem of surplus agricultural production. On July 29, 1983, the EC Commission submitted its report on the CAP, recommending a number of changes that would enable the EC to curb agricultural spending without compromising social and economic policy goals or international obligations. The Commission's findings were as follows:

General Background

Since its establishment over 20 years ago, the CAP has helped to knit together the social and economic fabric of the Community's Member States. In 1960, over 17 million of the EC's citizens worked the land for their livelihoods. In 1970, Europe was still dependent on overseas suppliers for many basic foodstuffs. However, today's Community--while still the world's largest importer of agricultural products--has become self-sufficient in most basic farm commodities and even a net exporter of wheat, dairy products and sugar. Given the general economic situation and developments in the agricultural sector itself, the EC has no choice but to adapt its system of agricultural subsidies to reflect the realities of both its domestic and international farm product markets.

In 1980, the EC imported \$59.8 billion worth of agricultural products, including over \$9 billion worth of farm products

from the US. EC farm exports during that year totaled \$28.1 billion, including significant quantities of grains, sugar and dairy products.

The recent proposals put forth by the Commission for reform of the CAP will be politically difficult to implement and will require that concessions be made on all sides in the interests of the Community as a whole. These reforms may result in some transfers of farm program costs between farmers, taxpayers, consumers, processors and EC Member States. In addition, the far-reaching measures to curb EC domestic farm price supports and limit agricultural spending will not be possible without corresponding cuts in some of the EC's farm product imports. However, any action planned with respect to imports would be taken in full conformity with the rules governing international trade.

## **Internal Reforms**

### Price Policy

The Commission proposed the acceleration of progressive EC efforts to narrow the gap between EC internal farm prices and world market prices be accelerated. It said this would not only help make EC grain production more competitive but would also help eliminate the price advantage now enjoyed by imported grain substitutes in comparison with domestic grains.

The current disparity between high EC domestic prices and lower world farm prices makes it necessary for the EC to provide export subsidies so that its farm products can be sold on international markets at the going world price.

The Commission also said it may propose that common prices for farm products such as milk and grains be set for a longer duration, e.g. over two marketing seasons. At present such prices are adjusted each marketing year.

### Guarantee Thresholds

The Commission has proposed continuing and, in some cases, expanding the EC's system "guarantee thresholds" for surplus commodities. These thresholds set a strict ceiling on the amount of a given commodity EC farmers may produce during each marketing year without being forced to contribute to the cost of disposing of surpluses. Although the guarantee

threshold mechanism may work in one of several ways, depending on the commodity involved, the threshold system as a whole was designed to reflect the Commission's view that it is no longer possible or reasonable to provide open-ended price guarantees to EC farmers in cases where adequate market outlets for their products simply do not exist. The thresholds serve to discourage crop surpluses by penalizing farmers for over-production.

The Commission said the introduction of a production quota devised so as not to unduly penalize small producers was the only realistic solution for stabilizing milk production--the EC's most pressing farm problem. It also recommended a special levy on milk produced under very intensive farming conditions.

For oilseeds, the Commission said production thresholds should be introduced for sunflower seeds in 1984-85 and thresholds for rapeseed should be continued. It also proposed implementing a guarantee threshold in 1984-85 for durum wheat (in which the EC is nearing self sufficiency) and continuing thresholds for other grains--coupled with measures limiting imports of cereal substitutes.

### **External Aspects**

The Commission said the Community's future agricultural trade policy should be based on three principles:

- international cooperation with the main exporting countries to prevent deterioration of world market prices.
- a Community policy for promoting exports that could lead to establishment of long-term contracts with non-EC countries.
- a revision of the EC's farm product import regime for certain products of which the EC is asking its own producers for greater discipline in an effort to control production. Such a revision would be made in accordance with the EC's international obligations and in conformity with rules set out by the General Agreement on Tariffs and Trade (GATT).

The Commission said it considers an effective system for controlling imports of grain substitutes such as corn gluten feed and citrus pellets as prerequisite for implementing the guarantee threshold system. The Community has already taken steps to stabilize imports of manioc and bran. The EC has agreed to allow imported corn gluten feed, most of it from the US, duty free access to the EC market. However, since the EC agreed to that zero duty binding, its corn gluten imports

have jumped from 37,000 tons in 1973 to 3 million tons in 1981. The EC has maintained these sky-rocketing imports have displaced home-grown grain and thus forced the EC to increase its grain exports. The EC previously has proposed a 3-million-ton ceiling on duty-free imports of US corn gluten feed and has indicated that the EC would compensate the US for any losses in corn gluten sales above that duty free ceiling, according to guidelines set down in the GATT.

The Commission also is proposing an EC consumption tax on oils and fats, excluding butter. Details of the proposal are expected to be made public in September 1983. The move is designed to redress the growing imbalance between the supply and consumption of fats and vegetable oils. In its report, the Commission said such a tax would conform to the EC's international commitments. It identified duty-free vegetable oil imports as one of the primary reasons for the Community's difficulties in that sector.

\*\*\*\*\*