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PERSPECTIVES FOR THE COMMON AGRICULTURAL POLICY

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PERSPECTIVES FOR THE COMMON AGRICULTURAL POLICY

INTRODUCTION

The common agricultural policy has sustained the development of Community agriculture over more than twenty years, with results that are substantial and positive. However, with the changes that have taken place in the European economy, and at the world level, the agricultural policy is faced with new challenges and must now look towards the year 2000. In the coming years, the rate of change of technical and economic factors affecting the agricultural sector will accelerate : the development of biotechnology, which has profound implications not only for the utilisation of agricultural products, but also for production techniques, is only one example.

It is duty of the Community institutions, taking account of the views of the professional organisations concerned, to develop a global strategy which will permit Europe's agricultural population - to whom the Community has specific obligations under Article 39 of the Treaty - to face these challenges in the best conditions. It was for that reason that the Commission decided, soon after taking office in January 1985, to launch a general debate on the perspectives for the common agricultural policy.

For that purpose, the Commission has decided to put its reflections in the form of a consultative document ("green paper") which it now transmits to the Community institutions and other parties concerned at the Community level. This document presents a number of basic options for the future development of the agricultural policy. The Commission invites the institutions and other organisations to formulate their own reflections and comments in the coming months. Taking account of the views expressed in the course of the debate, the Commission will present its conclusions in an appropriate form towards the end of 1985.

The Commission underlines that the present document is not intended to prejudge the conclusions which it will reach, and that it will take full account of the views to be expressed in those consultations. It also underlines that the present document is complementary and selective in nature : complementary, since it follows and completes the line of reflection already made by the preceding Commission; and selective, since it tries to identify the principal fields in which political choices are required, without implying that other aspects of the common agricultural policy can be neglected.

The Real Problem

The common agricultural policy is a cornerstone of the European construction. It was in this sector, from 1962 onwards, that a profound effort towards economic integration was commenced by the original Six Member States, in parallel with the creation of a common market in industrial goods. In this sense, the CAP was and remains part of the 'marriage contract' of the European Community; it was accepted by the new members who joined the Community in 1973 and 1981, and will be adopted by the new members who are to join in 1986.

During its life, the CAP has passed through different stages of development, as regards both the markets policy and the structures policy : it has experienced continual adaptations, to meet new situations which were not foreseen by the 'founding fathers' who met at Stresa in 1958. In the first 15 years, technical progress in agriculture and good conditions in other sectors of the economy permitted a rather rapid rural exodus. Since the mid-1970s, the economic crisis has slowed down the outflow of labour from agriculture, and the high level of unemployment has created conditions in which an acceleration of the rural exodus would be intolerable; however, the demographic structure of Community agriculture is such that a certain decline in numbers working in agriculture can in any case be expected.

The European Community therefore is already confronted with the question whether it wishes to maintain a substantial number of workers in agriculture. To that question there can be only a positive reply. The need to maintain the social tissue in the rural regions, to conserve the natural environment, and to safeguard the landscape created by two millennia of farming, are reasons which determine the choice of society in favour of a 'Green Europe' which at the same time protects employment possibilities for those in agriculture and serves the long-term interest of all Europe's citizens. The enlargement of the Community to include Spain and Portugal will accentuate the diversity of European agriculture, and its specific nature by comparison with agricultures elsewhere in the world. An agriculture on the model of the USA, with vast spaces of land and few farmers, is neither possible nor desirable in European conditions, in which the basic concept remains the family farm.

If this choice is confirmed by the Community institutions - and it is already the choice of the Commission - the challenge which must be faced is how to ensure the maintenance of a significant number of persons in agriculture by means which do not result in unacceptable waste of economic and financial resources. Agriculture, like the rest of the economy, is subject to the laws of supply and demand. A

continuing accumulation of surpluses, due to the imbalances of prices and markets, is not a satisfactory option for the CAP. The agricultural export vocation of the Community cannot be served by assimilating it to an instrument of surplus disposal; and the problems of the third world, in which many millions of persons remain hungry, cannot in the long term be resolved by the agriculture of the developed countries.

For these reasons the Commission has already tried, over a number of years, to adapt the instruments of the CAP, so that Europe's farmers are no longer encouraged to produce for public intervention - that is, for markets which do not exist. The Council and the Parliament have accepted the need for such a reorientation of the CAP. What remains now is to complement the decisions already taken, in such a way as to create the economic, social and political conditions in which the reforms already begun can be successfully achieved.

Such diversification of the instruments of the CAP, by complementary measures concerning both the market organisations and the structural and social objectives of the policy, should be made in conformity with the basic principles (unity of the market, Community preference, financial solidarity) and without abandoning the reforms decided by the Council in 1982-1984 (restrictive price policy, guarantee thresholds, etc.).

The economic environment

The advance of technical and economic progress in agriculture is not limited to Europe; it is transforming agriculture in all parts of the world - in the agricultural exporting countries, who are the Community's competitors on the world market, and in the developing countries, who are faced with the need to implement their own food strategies. Since the Community wishes to maintain its role in international trade, this implies that the CAP must take account of the international realities.

At the same time, agriculture is by no means the only sector of the European economy undergoing rapid mutation, with the resulting social problems of adaptation; the high level of unemployment is only a symptom of the difficulties which the European economy is experiencing in adapting to the new environment. There are many demands on public expenditure, both at the Community level and the national level, to ease the problems faced by the sectors in difficulty and to encourage new sectors to develop. Since budgetary resources are limited, this implies that the CAP has to take account of financial constraints.

Balancing the agricultural markets

Since the beginning of the 1980s, the Community has taken a number of steps to adapt the policy of prices and markets, in view of the structural surpluses in several sectors. In an important series of decisions in 1984, the Council accepted the need for a restrictive price policy, with the application of guarantee thresholds for products in surplus or for which budgetary expenditure may increase rapidly.

Unless the Community succeeds in giving to market prices a greater role in guiding supply and demand within the agricultural policy, it will be drawn more and more into a labyrinth of administrative measures for the quantitative regulation of production. It cannot be in the long-term interest of Europe's agriculture, wishing to exploit its productive potential, to extend the empire of quotas. If higher prices were envisaged within the framework of quotas, there would be the risk of resistance from consumers and of the development of substitute products. Such an approach would also tend to threaten the unity of the agricultural markets and the solidarity of the agricultural policy. That is why, in its price proposals for 1985/86, the Commission concluded "there can be no alternative to pursuing a price policy more adapted to the realities of the internal and external markets but taking account of the Community's obligations to the agricultural population".

This approach also implies that more attention should be paid to the demands of consumers in terms of quality (as well as quantity) of food at reasonable prices, and to the requirements of the food industry.

The need for perspectives

But if the agricultural policy does not provide farmers with positive perspectives, and with the hope of a sounder framework for the next generation, it will not fulfil the role which the Community has assigned to it. In such a case, the policy would inevitably undergo a process of renationalisation, with all the attendant consequences for European integration, and this must be avoided.

There is no "miracle solution" to these problems. But there are possibilities which can be exploited, provided that the agricultural sector is willing to accept the challenge. If the constraints of a more market-oriented policy for prices and markets are accepted, it should be possible to release new resources, to diversify the instruments of the CAP, and to create new outlets for agricultural

production. With this approach, farmers would be asked to accept a role not only as technicians, but as managers and entrepreneurs. Employment possibilities for the agricultural workforce could also be better secured.

The purpose of this consultative document is to indicate a number of the options which may be considered :

- * At the level of production : although there are difficulties on a number of markets, for which reforms of the market organisations must be pursued, the sector most urgently in need of review is that of cereals to which an important part of this document is devoted. At the same time, the possibilities of alternative production have been considered, with a view to promoting existing and even novel crops; although a rebalancing of the price hierarchy would help to facilitate such developments, budgetary resources may also be needed.

- * At the level of outlets : the development of modern technology makes possible new uses for agricultural products, particularly for industrial and energy utilisations; the analysis in this document shows that there is a potential for increased demand, but that under present conditions, it is of limited scope, and raises important questions of financing. In this context the document also examines the Community's role in external agricultural trade, where a number of options should be considered; it is evident that exports must be made under competitive conditions, and in this context the question of the financial coresponsibility of producers also arises.

Diversifying the instruments of the common agricultural policy

Up to now, the CAP has been characterised by an emphasis on the instrument of price support, an emphasis which is reflected in the share which the Guarantee Section takes of the Community's Agricultural Guidance and Guarantee Fund. This imbalance between price support and other measures is not what the original designers of the CAP intended, and has resulted in the policy using one principal instrument for the achievement of diverse objectives. Since the limits of this approach have now been reached, the question is inevitably posed which complementary instruments should be developed.

Important steps have recently been taken in this sense with the Council's decisions on the new agricultural structures policy, and Integrated Mediterranean Programmes. Further reflection is necessary

on the means by which the place of agriculture in society can be better assured, taking account particularly of the situation of family farms. This is all the more necessary because of :

- * the impact of a restrictive price policy on agricultural incomes;
- * the risk of a growing polarisation between the different agricultures in Europe, ranging from those with a good structure in favourable economic conditions, to those with natural handicaps in the context of a poorly developed regional economy;
- * the challenge of enlargement.

The Community must ensure that the social and economic conditions of those working in agriculture are not prejudiced by these developments, and that the social fabric of the rural regions is not destroyed by an accelerated departure of the agricultural workforce. In some regions, agricultural employment and activity, even if maintained by subsidies, is simply indispensable if depopulation of the countryside is to be avoided. The maintenance of a significant number of persons in agriculture is not, however, incompatible with the development - which should be encouraged - whereby a part of their income is derived from non-agricultural sources (part-time farming).

That is why in this consultative document the Commission sets out a number of options to be considered in the following fields :

- * the role of agriculture as a protector of the environment; in our industrialised society, this role is perceived to be increasingly important, and if agriculture were willing to accept new disciplines in this context, society should recognise it by providing financial resources;
- * the better integration of agriculture in regional development; since not all the problems of agriculture can be resolved by agricultural policy alone, it is imperative to consider what contribution other policies can make; in fact, agricultural policy has to be seen in the broader perspective of overall rural policy;
- * the question of direct income aids for agriculture; in the context of a restrictive price policy, it is necessary to envisage complementary measures in the form of income aids.

As regards income aids, the Commission emphasises that the options described in this consultative document require careful examination and discussion. Although certain measures of direct income aid already exist within the CAP (for example, compensatory payments in mountain and less-favoured areas) their extension on a wider scale would pose important political, administrative, and financial questions, particularly in view of the selectivity which would be a necessary feature of such a system. The complexity of this problem - including the resistance of the agricultural population to measures of the character of 'assistance' - requires much reflection. Therefore the options described are not to be considered as proposals, but as the basis for a better-informed debate on the subject. Two points are to be particularly emphasised :

- * an essential element of any system of income aids would be a financial participation of the Community, in accordance with the need for solidarity particularly towards the poorer regions; this would be the logical counterpart of the burden of income support being partially shifted from the markets policy;
- * there would be a complementarity between any system of income aids and measures for regional development designed to create other possibilities of income for agriculture; without a more dynamic regional policy the need for specific income aid for agriculture would be greater.

The need for choices

As has already been stated, the acceptance of the constraints of a more market-oriented policy (which in any case is more or less imposed on the Community by the realities of economic life) could liberate financial resources for the development of new instruments of agricultural policy. As regards outlets on the internal and external markets of the Community, there is also the question of a possible financial participation by producers.

But a certain number of choices will have to be made, taking account of the fact that expenditure under the CAP will have to respect the limits that follow from application of the financial guidelines, which mean that the rate of growth in agricultural expenditure must be less than the rate of growth in own resources.

Some of the options mentioned in this document have been quantified in budgetary terms (for example, options concerning income aids) but in other cases quantification is by nature extremely difficult (for

example, external trade options). It need hardly be emphasised that, if the Community were to embark on new categories of expenditure in favour of agriculture (for example, income aids) or to increase significantly existing categories (for example, subsidies for outlets), then compensatory economies would need to be effected. In general, it may be remarked that :

- * A restrictive price policy implies lower expenditure on market measures (intervention, restitutions, aids for products) and this would take effect in two phases - a first phase in which certain prices would either be reduced or increase less than they would otherwise have done, and a second phase in which production of certain surplus products would either be reduced or have a lower rate of increase.
- * Other options mentioned in this document would go in the opposite direction both in the budgetary sense (higher expenditure) and in the social sense (measures to help agricultural incomes through alternative production or outlets, measures of direct income aid, etc.).

The choices to be made concern essentially the balance between these two factors, and the time-period over which they could be expected to operate, taking account of the fact that during a transitional period - because of the time-lags inherent in the agricultural economy - they could result in higher overall expenditure, leading later to lower expenditure.

The choices also concern the financial effort to be devoted to structural policy, and the balance between such efforts at the Community and national levels respectively; in this context, it is evident that there arise fundamental questions of financial solidarity and the North-South balance within the Community.

* * *

The approach outlined in this consultative document, which engages the Community institutions and organisations in a debate on the options for the CAP, requires political courage and realism.

In face of the aspirations of Europe's agricultural population, it would be equally unjust to present false perspectives as to offer no perspectives. But the Commission considers that if the task of adapting the Common Agricultural Policy is approached with rigour as

regards the analysis, and prudence as regards the choices to be made, there can be hope as regards the perspectives for the future of European agriculture.

PART I

AGRICULTURAL POLICY AT A TURNING POINT

A. Economic and social objectives of the CAP

1. The objectives of the Common Agricultural Policy, as laid down in article 39 of the EEC Treaty, remain as valid today as when the Treaty was signed in 1957. The task of the Community is not to revise or reinterpret those aims, but to ensure that the means of putting them into effect are adapted to the realities of the present day. The objectives of the CAP are both economic and social in nature.

2. The economic objectives have in many respects been well achieved. Over the last 25 years, the modernisation of European agriculture has continued, and even accelerated, with the application of modern equipment and techniques to farming, often with the help of investment aids from the public authorities at regional, national and Community level. This spectacular advance has been assisted by the opening up of a common European market, through the removal of national barriers to trade in the Community, and by the stable environment of market and price guarantees created by the Common Agricultural Policy. The resulting increases in food production have given a reinforced security of supply for Europe's consumers, at prices which by comparison with those prevailing in other developed economies are reasonable and stable.

2.a. However, this development of production has outstripped the increases in consumption of agricultural products within the Community and the outlets on world markets; the resulting imbalances on the agricultural markets have led to growing surpluses in many sectors, whose disposal is expensive to the Community budget, and in terms of the allocation of economic resources. The CAP has to demonstrate that it can make the most efficient use of the economic and financial resources at its disposal.

2.b. In the development of the common agricultural policy, attention has to be paid not only to the stabilisation of agricultural markets but also to the demands of consumers in terms of quality of food, and to the changing requirements of the food industry which is responsible for processing a large part of the Community's agricultural production. It is therefore necessary to take into account the interests of consumers and the food industry, and to reassess on a continuing basis the factors which influence demand both in terms of

quantity and structure so that policies can be adopted accordingly. The most important of these influences are : advances in technology leading to the introduction of new products, changes in population levels and age structure, consumer preferences, particularly those influenced by health concerns, and trends in catering and marketing of foods.

3. Europe has also played an increasing role in world trade, being not only the world's first importer of food, but its second exporter. Our increasing dependence on world markets brings both responsibilities and risks, obliging us to take more and more account both of the state of the world economy and of the position of our trading partners. If it was at one time possible to view the Common Agricultural Policy as insulated from the influence of world markets, that is no longer the case, as the forces of international competition more and more determine the framework in which European agriculture must operate.

4. The challenge for the Community now is to reconcile the success of the CAP in achieving its economic objectives with the need to continue to fulfil the social objective of assuring a fair standard of living for the agricultural population. The continuing outflow of labour from agriculture to other sectors of the economy, where growth of demand has led to the creation of new jobs, has contributed to a long-term increase in labour productivity. Those working in agriculture and sharing the overall income of the agricultural sector, have been able to enjoy an increase in incomes.

5. However, the increase in incomes in money terms has been more and more affected not only by general price inflation, which increases the costs of agricultural inputs, but by the market imbalances which have obliged the Community to pursue a more rigorous policy for the prices of agricultural outputs. Thus in recent years, the increases in agricultural prices have been less rapid than the increases in agricultural costs, and agricultural incomes in real terms have not kept pace with incomes in the rest of the economy. To some extent, the cost/price squeeze has been offset by technical progress, as the basic factors of land, equipment and labour combine to provide an increased volume of outputs for the same volume of inputs.

6. This advance of productivity will even accelerate, as new breeds of animals, new varieties of crops, and new machinery and techniques are introduced into agriculture. The agricultural labour force will continue to decline, but the rate at which it does so will be tempered by two limiting factors : the availability of employment in other sectors of the economy, and the need to maintain a minimum viable population on the land in the rural zones of the Community. The point

has already been reached in some regions of the Community where the maintenance both of the social structure and of the natural environment is threatened by rural depopulation.

6.a. In the present conditions of limited economic growth in Europe, and taking account of the ever-increasing importance of the conservation of nature and the maintenance of the fabric of rural society, there is a need to maintain a significant number of farmers on the land; the basic question is therefore whether this aim can be pursued without leading to a waste of resources and an accumulation of surpluses.

7. The Common Agricultural Policy is therefore at a turning point, particularly as regards the achievement of its social objectives. The old model of agricultural policy, in which increases in income could be obtained by increases in the volume of production at ever higher guaranteed prices - and prices guaranteed, moreover, for an unlimited quantity of production - can no longer be reconciled with the economic and financial realities. It is now widely accepted that an agriculture which does not produce for the market - that is, with a view to the domestic and external outlets - is an agriculture which has no sound long-term prospects. That is why the present Commission, like its predecessors, has insisted on the need for a more market oriented approach for the CAP, which will permit it to live within the constraints of the present situation.

B. Agricultural policy faces constraints...

8. The constraints which the agricultural policy faces are not different in nature from those facing other sectors of Europe's economy. On the one hand agriculture, like most other sectors, is using inputs of manpower, raw materials, energy and equipment for the purpose of producing outputs which are placed on domestic markets and external markets in competition with other suppliers. It should be underlined in this context that the sectors downstream of agriculture perform an increasingly important role in processing and marketing the products of agriculture. The processing industry and the distributive trades, which create added value and employment comparable in importance to agriculture itself, function in an intensively competitive environment.

9. On the other hand, agriculture, like other sectors, is the beneficiary of substantial amounts of budgetary aid from the public authorities for the stabilisation of markets, for the improvement of production structures, and for the assistance of incomes. An effort from public finances is justified, in view of the special

circumstances and role of the agricultural sector, and the problems of adjustment which it experiences; by comparison with public expenditure on agriculture in other developed countries, the volume of Europe's expenditure on agriculture is not abnormal, particularly if account is taken of the cost per head of the agricultural population and the fact that some of the expenditure is attributable to non-agricultural considerations (such as trade policy and development policy).

10. But, like public expenditure for other sectors, it must be subject to overall budgetary constraints. This is as true for agricultural expenditures at the Community level as it is at the national and regional level. Indeed, it is an error to view the Community's European Agricultural Guidance and Guarantee Fund in isolation from the agricultural expenditures of Member States. What counts is the effective coordination and orientation of the overall public effort in favour of agriculture within the Community.

Such considerations illustrate two of the principal constraints to which the Common Agricultural Policy must adjust in coming years :

- . external commercial conditions, and
- . the availability of public financial resources, particularly the Community's own resources.

The international constraint - The agricultural economy world-wide

11. The developments of recent years have demonstrated, sometimes dramatically, the interdependence of agriculture in different regions of the world, and the increasing imbalance between demand and supply.

The long-term trend in the increase in the volume of agricultural production in the Community has been 1.5 to 2 % per year, although internal demand has increased by only about 0.5 % per year. This spectacular surge in agricultural production in Europe will continue and could well gather momentum in coming years, especially in regions where important productivity reserves still exist.

12. On the other hand, demand for agricultural products in the Community and most other industrialised countries is expected to grow only very slowly. Needs in the developing countries and in some Eastern European countries are high, but their effective commercial demand will be a matter of availability of foreign exchange. In some cases (oil exporting developing countries, newly industrialised countries, the USSR) the capacity to pay exists and may well lead to

increases in demand. In other cases (most ACP countries and a number of less developed countries in Asia and Latin America) the future development of demand will depend on the development of agricultural production and economic growth in the countries concerned and their scope for obtaining credit.

Although the Community has succeeded in exporting a growing share of its agricultural production on world markets, the question arises whether it can continue to provide a full guarantee of prices and markets for this production if consumers in third countries are not prepared to pay the Community price.

13. Even if one remains optimistic about the prospects for the development of external demand, one should be aware of the risks of a further intensification of competition on world market. Other agricultural producers and exporters - with sometimes even better production structures - will take the same advantage of technical progress as European agriculture. Many countries which in the past imported food are trying to develop their own agricultural potential, and are beginning to succeed - for example, India, China. With such increases in production, international competition is likely to increase; and if the switch to lower prices contemplated in respect of US agricultural policy is confirmed, this could well lead to further strain on world markets. All these elements taken together suggest that there are possibilities for further increases of Community exports of agricultural products, but not necessarily at the same rate as in recent years or for the same products.

The Community must play its part to restore order and stability and avoid conflict on world markets, and expects similar action from its major trading partners.

The budgetary constraints - prospects for the coming years

14. Over the last 10 years, the Community's agricultural expenditure grew on average by some 7 % each year in real terms, whereas its economic potential - as measured by the gross domestic product - increased by about 2 % per year during the same period. The overall Community budget increased by 9 % per year in real terms, mainly due to the introduction and the development of new policies. Correspondingly the part of agricultural expenditure in total budgetary expenditure decreased and counted in 1984 for two thirds of the total budget.

15. Looking at the economic nature of agricultural expenditure, export restitutions have increased considerably over the last decade. This trend reflects to a certain extent growing surplus production in the Community. It introduces at the same time an element of growing uncertainty into agricultural expenditure, since the level of restitutions largely depends on world market developments and dollar exchange rates.

16. In the near future, restitutions will probably continue to increase, mainly due to an expected decrease of world market prices, a possible drop in the dollar exchange rate and a further expansion of exports. Storage costs in the Community would perhaps decrease in relative terms if production does not increase. On the other hand, production aids will continue to increase, since for a large part they are a function of world prices.

17. An important item of the further development of agricultural expenditure will be the effects of enlargement, in particular in the case of Spain where a number of product benefiting from quite important production aids are produced in large quantities. According to first estimates, agricultural guarantee expenditure in Spain would be relatively moderate in 1986 (520 Mio Ecu), but would then increase rapidly and double already in 1988. In contrast, guarantee expenditure in Portugal would remain at a low level in the foreseeable future.

18. In any case, it is clear that Community agricultural expenditure cannot grow at rates comparable with those of the past. To illustrate the point under present circumstances (Commission's preliminary draft budget), an increase in agricultural expenditure of 7 % in real terms (= average annual increase during the last 10 years) would already in 1986 lead to a transgression of the new limit (1,4 % of VAT) of the own resources regime which will enter into effect in that very year. The introduction of the financial guidelines, under which agricultural expenditure is to increase less rapidly than the Community's own resources, together with the new ceiling for own resources, will reduce considerably the margin for further increases in agricultural expenditure.

19. As far as agricultural expenditure in the structural field is concerned (EAGGF Guidance Section), it was initially intended when the structures policy was introduced that some 25 % of the Community's total agricultural expenditure should be devoted to structural activities. Such a proportion, however, has never been reached, and today structural expenditure for agriculture comes to about 5 % of total agricultural expenditure in the Community budget. The global

financial framework for structural policy which has been defined by the Council early this year for the period 1985-1989 would in no way allow an increase in this proportion.

On the other hand, the urgent need for structural adjustment in many agricultural regions of the Community has repeatedly been stressed during the last few years. The Integrated Mediterranean Programmes proposed by the Commission represent a valuable, though still limited, response to these problems. They will be financed partly by additional budgetary means and partly by a reallocation of means within the existing structural funds. As far as the size of the agricultural Guidance fund is concerned there must be some doubts as to whether the financial framework fixed by the Council will be sufficient.

20. The introduction of reform measures in the Community's price and market support, as decided by the Council in 1984, and their consistent application over a longer period would imply growing adjustment pressures and thus even increase the need for appropriate structural measures (modernisation of farms, creation or reinforcement of advisory networks, training and reconversion schemes, promotion of processing industries etc.). This would clearly require a fair amount of public expenditure. Thus, there will be a reinforced need for more substantial and more effective intervention by the Community's different structural funds, complemented by the financial efforts of Member States. In this way, a better balance can be achieved between the volume of public expenditure for support of agricultural prices and markets, and that for longer-term structural reforms.

C. The risk of renationalisation

21. Within the framework described above, considerable efforts will be required to maintain the level of expenditure on agricultural prices and markets within reasonable limits. The experience of the negotiations for 1985/86 agricultural prices shows how difficult is the task, particularly when the Community has accumulated large public stocks (milk products, beef, cereals, etc.), which have to be progressively reduced, not only to avoid excessive costs of storage, but also to permit a sounder management of the agricultural markets. The adjustments necessary in the coming years in the Community's price and market regulations will require a series of difficult decisions, both for the Community institutions and for the agricultural world, as producers themselves have been asked to accept more financial responsibilities for the disposal of production beyond certain limits.

Unless the Common Agricultural Policy is adapted to these different constraints in a satisfactory manner, grave political strains will be experienced, which could threaten to undo what the policy has up to now achieved.

22. In this context, it is not only a question of the risk of a proliferation of national aids to agriculture, which are known already to represent a large amount. Such aids, which could be more easily afforded by the richer Member States, who often have a relatively small agricultural population, could - depending on the nature of the aids - result in discrimination and distortion of competition, while paradoxically encouraging more surplus production. The Commission must continue to be vigilant in its control of national aids to agriculture and ensure that they are in conformity with Community rules.

There would also be the risk of 'self-defence' measures at national frontiers, for the protection of national agricultural markets, which could set in train an irreversible process of disintegration of the common market.

Such a development must above all be avoided. The Community must reinforce, not weaken, its internal market, and is now in fact embarked on creating a real internal market by 1992, which includes the dismantling of technical barriers to agricultural trade. The elimination of monetary compensatory amounts also remains a continuing preoccupation of the agricultural policy.

D. The basic principles...

23. The Commission reaffirms that the adaptations to be made, in the light of the foregoing considerations, must respect the basic principles of the Common Agricultural Policy and the objectives of the Treaty. At the same time, the progress which has been made in recent years in reforming the mechanisms of the policy must be consolidated: in fact, it is not so much a question of inventing a new course for the CAP, as of creating the economic and political conditions in which the reforms already commenced can be successfully achieved.

24. It is well to remember that the efforts now being undertaken were already in the minds of the representatives of the original Member States of the Community, when they adopted a declaration at the Conference of Stresa in 1958 in the following terms ;

"A close correlation should be established between the policy for adapting structures and the policy for markets. Structural adaptation should help to bring about a convergence of costs of production and a rational orientation of production. Market policy should be conducted so as to encourage the improvement of productivity. A balance should be sought between production and the possibilities for outlets, taking account of the exports and imports which can be made, and of the specialisation appropriate to the economic structures and natural conditions of the Community. The effort thus made to increase productivity should allow the application of a price policy which avoids excess production and allows agriculture to remain or become competitive.

The improvement of agricultural structures should allow the capital and labour employed in European agriculture to attain or maintain a level of remuneration comparable with those which they would receive in other sectors of the economy. Given the importance of the family structure in European agriculture, and the unanimous desire to preserve its family character, every means should be employed to increase the economic and competitive capacity of family farms. Professional retraining of the agricultural work force, and a greater industrialisation of the rural regions, should allow a gradual solution to the problems otherwise posed by marginal farms which cannot become economically viable".

25. The decisions of the Council in recent years on agricultural prices and markets, and the further decisions on agricultural structures policy in 1985, represent an important step in this direction. It remains to complete them with a longer-term review of the prospects for the common agricultural policy.

... and prospects for the future

26. A longer-term perspective is necessary for a number of reasons in agricultural policy. First of all, farmers have to take their decisions on a pluriannual basis. When they decide to rear animals, to plant crops, to purchase machines, to construct buildings, they do so on a horizon of several years. That is why they need an agricultural policy providing a well defined and stable framework in which they can make their plans.

27. Sometimes, these plans are even made with a view to the next generation. Most farms in the Community are family farms and the transition from one family generation to another is very important. Long-term investment decisions, choices for education and training, and the decision whether to remain in farming, largely depend on the prospects expected for the next generation.

28. Finally, the agricultural sector cannot be separated from the rest of the economy. Its activities are closely linked to activities in other sectors, industries and services. Europe is the world's biggest importer and second biggest exporter of agricultural products. All this requires that the Community integrates its agricultural policy into its overall scheme for the development of its economy, having in mind the need for a prudent use of resources and Europe's responsibilities in the world.

PART II

EUROPEAN AGRICULTURE TODAY

A. Agriculture in the Community of Ten - An Overview

Agriculture in the Economy

1. Relatively speaking, the economic importance of agriculture has been declining over the last decade, as has been that of industry. Its contribution to the domestic product decreased both at the Community level and in the individual Member States. This contribution varies however considerably from one Member State and from one region to another. And much the same holds true for employment in agriculture, which decreased between 1960 and 1983 by some 60 %. However, the decrease in employment has slowed down in the last 10 years, mainly because of the deterioration of the general economic environment. It must be recalled that the relative decline of the agricultural sector affects the various regions to a different extent. The consequences of this decline are particularly serious when agriculture still represents a major sector of the regional economy, unless developments are encouraged in other sectors such as to offset the negative effects.

2. Agriculture's role in the economy extends beyond its contribution to domestic product and the employment which it provides. Like other sectors, it requires investment and thus also contributes to the formation of national assets. Agricultural products are exported and imported, sometimes in large quantities. Economic activity in agriculture is closely linked with activities in the industries on which it depends for supplies (farm machinery, agricultural chemicals) and in the food industries for which it produces the raw materials. Finally, incomes created in the agricultural sector lead to consumer demand and thereby support the general economic environment, especially in regions with a high proportion of the working population employed in agriculture.

3. As compared to most other sectors, there is a substantial intervention on the part of the Community and Member States in the agricultural sector to assist the incomes of the agricultural population. According to provisional results of studies by the OECD, it would appear that the different forms of subsidies (in form of market intervention) represent some 20 % of the value of total agricultural production in the Community. But subsidies that are intended to help agriculture do not necessarily go fully to the

sector. They may be lost by market processes to other sectors which supply agriculture and can profit from higher prices. These suppliers may even be located outside the Community. Finally, intervention in the agricultural sector has had quite uneven regional effects, favouring to some extent the strong producers in the richer regions.

4. The subsidisation of agriculture is normally justified by social policy objectives (wider distribution of wealth and ownership, maintenance of people in independent situations), by the unstable nature of world agricultural markets, and by reference to Article 39 of the EEC Treaty. But it is also justified by environmental considerations. In fact, agriculture can play an important part in preserving and looking after the countryside. In some regions with poor soils and harsh climatic conditions, agricultural activity - even if maintained by subsidies - would appear to be simply indispensable if the depopulation of the countryside is to be avoided and a minimum of social infrastructure to be maintained. However, the development of technology in agriculture is not always positive for the environment, and its negative effects (soil and ground water deterioration) are criticized.

5. In contrast with most other sectors, the family unit clearly is the predominant source of labour in agriculture. In 1979/80 in the Community of Ten, out of a total agricultural working population of some 14 million persons (full-time and part-time together), about one million were regular non-family workers, whereas almost 13 million had some family relationship with the farm household, being either holders or related to the holder (family workers). 95 % of all holdings employ only family workers on a regular basis (70 % in the United Kingdom, 99 % in Greece).

6. Almost three quarters of the farm holders in 1979-80 were aged 45 years or more. This means that, because of human mortality and retirement, it may be expected that the majority of holdings will change hands before the end of the century.

7. There is still a considerable need for structural development in the EC. The average farm size is about 16 hectares, but more than 60 % of all holdings have less than 10 hectares. With their present pattern of production, over half of the agricultural holdings in the Community absorb less than the equivalent of one full-time worker in total as labour input. These "part-time holdings" are over-represented in less favoured areas (more than 60 % of all holdings in these areas). In many cases holders working on these holdings have no other activity and suffer from underemployment.

Employment and incomes

8. The phenomenon of underemployment or "hidden unemployment" in agriculture is widespread. It is particularly important in Italy and Greece. In particular in some regions of the Mezzogiorno more than 50 % of all holders spend less than half of a normal "work-year" engaged in agricultural work, but have no other activity.

9. On the other hand, working less than a normal "work-year" on the farm does not necessarily imply hidden unemployment. With the exception of Italy and Greece, a majority of the holders working only half-time in agriculture have a gainful outside activity, and in most cases even a major one.

10. In fact, part-time farming combined with a gainful outside activity has taken on such proportions that it would be an error to ignore this phenomenon. Despite the unfavourable economic climate it has become more and more common over the past ten years. To most part-time farmers, their non-farming activities are more important than their farming activities, both as a source of income and in terms of working hours involved. Outside activities are most common on smaller farms. Part-time farming may mark a phase of transition, but can also very well represent a satisfying way of life in its own right. Its development is closely linked to the development of the regional economy.

11. The growing importance of part-time farming with gainful outside activities corrects to some extent the overall picture of low agricultural incomes. This picture needs a further qualification in the sense that the average values normally recorded for incomes hide quite important differences in profitability between professional holdings employing at least one person full-time and other holdings. Nevertheless, and in spite of certain statistical problems of comparison, it appears true that the average agricultural income per annual work unit (equivalent of one full-time worker) is low and sometimes even very low (Ireland, Greece) and that its development has been relatively unfavourable in some countries over the last decade.

However, there exist serious statistical problems in any income comparison between agriculture and other sectors; such a comparison requires a detailed evaluation including, for farmers, such elements as non-agricultural earnings already mentioned, but also important benefits of the rural way of life (dwelling, consumption of own production, etc.).

Agriculture's heterogeneity - Regional diversity

12. European agriculture is extremely heterogeneous and incomes, structures, natural conditions of production and the economic environment vary considerably from one region to another. One must always keep in mind the regional dimension of the agricultural problem. At the regional level, the disparities in terms of the relative weight of agriculture in the economy, and of productivity and incomes, are even greater than at the national level. Together with the great diversity of geographical and climatic conditions, this factor makes necessary the modulation of the agricultural policy according to regional situations.

In many cases negative factors appear to accumulate : poorly developed economic environment (sometimes combined with high regional unemployment rates and growing demographic pressures), unfavourable natural conditions for agricultural production, and bad production structures come together and lead to poor economic performance. This is for instance often the case in certain Mediterranean regions, and certain other less-favoured regions in the Community. In most of these regions the share of agriculture in total employment is relatively high. This is more an indicator of a low level of regional economic development than a sign of an efficient regional specialisation in agriculture. It is an objective of the agricultural policy to contribute to the development of such disadvantaged zones in coordination with other structural policies; since diversification of the economy is the long-term solution for the problems of these regions, agriculture must assist it by inducing activities upstream and downstream.

B. The enlargement of the Community

13. The accession of Spain and Portugal will alter appreciably the scale of our agriculture. The number of holdings will increase by more than 50 % and the number of farmers and farmworkers by 35 %; since productivity is lower in these two countries than in the other ten countries, the immediate increase in final agricultural output (without taking account of the important reserves for increased productivity in the longer term) would be only 13 %. The impact of the new enlargement on the value of agricultural production will be much the same as that which occurred when Denmark, Ireland and the United Kingdom joined in 1973.

14. On the other hand, the third enlargement is much more important than the two preceding enlargements, in 1973 and 1981, both in terms of the size of the agricultural economies in the new countries and in terms of its impact on Community Mediterranean regions heavily dependent upon agriculture. The new expansion of the Community brings

in countries which have not yet reached the same stage of economic development as the present members. The gross domestic product per inhabitant expressed in purchasing power is 72 % in Spain and 47 % in Portugal of the Community average, partly because their farm sectors are much larger and much less efficient than in the other countries. Agriculture accounts for 18 % (Spain) and 27 % (Portugal) of the total labour force, but its contribution to gross domestic product is between a quarter and a third of this proportion (7 to 8 % of GDP); in the present Community, this discrepancy, which measures the difference in efficiency between the farm sector and the other sectors is on average much smaller (8 % of the population accounting for 4 % of GDP).

15. The two new countries both have the same difficulties in terms of climate (rainfall which is low or ill-distributed over the year) and in terms of topography (many hill areas). Also, from the point of view of production structures, the coexistence of a group of very large farms alongside very small holdings, heavily fragmented, will aggravate structural difficulties in the enlarged Community. To some extent, the Community already has to contend with some of these difficulties in certain southern regions.

16. A major consequence of these differences from the point of view of production is that the two new countries have become efficient producers of Mediterranean products while for other items (cereals, meat, milk), they are less competitive. However, the low level of yields for these products show that production could develop rapidly under favourable economic conditions. This means that the new countries and the present Community will tend to complement one another for these types of northern products, while the favourable competitive position for Spanish and Portuguese Mediterranean products accounts for the present heavy flow of exports to the Community of Ten. The accession of these countries will greatly reduce the Community's negative trade balance in agriculture; it will go down from - 23,6 to -16,6 billion Ecu.

17. The transition period has been designed, on lines which are a little different as between Spain and Portugal, in such a way as to allow them to adopt completely by the end of the period the CAP mechanisms, the free circulation of products, and a substantial improvement of agricultural structures. However, it is clear that this process of improvement of the agricultural economy of the two countries will have to be continued beyond the period of transition.

18. The transitional measures laid down in the accession Treaty will take effect from 1 January 1986 for the structural aspects of the CAP, and from 1 March 1986 for the other aspects. The Commission has tried,

during its process of reflection on the options for the future to avoid a confrontation between such options and elements affecting the negotiations, which are not therefore referred to directly in this document. In the drawing up of proposals for the future of the CAP, as soon as the analysis of this matter has been developed sufficiently, the results of the negotiations will of course taken into account.

PART III

AGRICULTURAL MARKETS - CONCEPTS FOR THE FUTURE

A. Price policy or quantitative restrictions - A fundamental choice

1. Technical progress, in particular in the biological field, will lead over the next 15 years to quite considerable increases in yields per hectare or per livestock unit, whereas demand in the Community and most other industrialised countries is expected to expand only slowly (if at all). Demand in less developed countries will still increase, but at lower rates than in the past. All these developments together will result in increases in structural surpluses if no measures are taken to achieve a better adjustment of supply to demand.

Thus, in the coming years, there will be an urgent need to ensure a better balance of markets and to eliminate structural surpluses. In other words, the Community must, for economic and financial reasons, achieve a better control of the growth of production.

2. A realistic - and this means under present circumstances and for certain products a restrictive - price policy, together with a number of well directed accompanying measures, could solve this problem at least in a medium term perspective. This would imply that the economic function (market orientation) of price policy is stressed at the expense of its social function of income support. It has become increasingly difficult for price policy over the last 15 years to fulfil this second function and there are doubts whether price policy with its relatively low degree of selectivity is the best suited instrument for such a purpose in view of the important diversity of agricultural situations in the Community.

The idea of a more market oriented price policy is not new, and it is interesting in this context to look at the history of agricultural price policy in the European Community. Broadly speaking, four phases may be distinguished :

- Until the early seventies, annual price increases remained on average below inflation rates. This real decrease in prices, however, was offset to some extent by productivity increases due to technical progress;

- From 1972 to 1977, there was still a slight decrease of agricultural prices in real terms (- 1 % on average per year) as far as price decisions in Ecu at the Community level were concerned; but due to agri-monetary adjustments, prices in national currencies increased in real terms (+ 2,5 % per year). This increase combined with continuing technical progress created an important incentive to produce, the results of which in the existing system of unlimited guarantees were :

- . a steady expansion of agricultural supplies
- . a sub-optimal factor mobility
- . an increasing burden on the budget.

- In face of these financial threats price policy became more restrictive between 1977 and 1981 (average real price decreases of 2-3 % per year in national currencies). This was accompanied by a growing gap between average agricultural incomes and average incomes in the overall economy, while reduction in production growth could not be observed during the first years. In the early 1980s the restrictive price policy combined with a more favourable situation on world markets resulted in a release from budget tensions.

- Growing income pressures and the improved budgetary situation led from 1981 to 1984 again to a less restrictive price policy, and that at a moment where first limitations in the growth of production could be observed. The following new increase of production growth resulted in the financial crisis of the Community and the price policy measures of 1984 and 1985.

3. Two main conclusions have to be drawn from these developments at the level of production :

- The development of prices (including possible decreases in real terms) in the context of a restrictive policy must be such as to give clear signals to producers; such a policy must be sufficiently marked in order not to be overcompensated by technical progress, so as to have a real effect at the level of production;
- Although in the short-term, and in certain limited cases, this may lead to increases in production, as some farmers seek to cover their fixed costs by means of higher output, the overall result of lower prices is a lower rate of increase in production; however, there may be a time-lag of sometimes several years before the

