

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(85) 333 final

Brussels, 15 July 1985

PERSPECTIVES FOR THE COMMON AGRICULTURAL POLICY

(Communication of the Commission to the Council and the Parliament)

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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

transition to a market-orientated price policy will show its full impact; it therefore has to be pursued consistently over a longer period of time.

If these two conditions are not fulfilled the risk is high that the price policy will fail to have its effect on production.

4. During the last decade, in view of the difficulties on the markets, the Community has developed a number of instruments to complement the price policy. Already in 1977 a mechanism of 'coresponsibility' was introduced in the milk sector in the form of a linear coresponsibility levy paid by producers, with certain exceptions; however, this was not effective in checking the increases in milk production. In 1980 the Commission advocated that a general principle of coresponsibility should be introduced whereby all or part of the cost of production in excess of a certain quantity - to be fixed in the light of internal demand in the Community and its external trade - should be borne by farmers themselves. In 1981 the concept of 'guarantee thresholds' was elaborated; if these thresholds, which are fixed in terms of overall Community production, are exceeded, producers cannot expect to obtain the full guarantee for their production. In the following years guarantee thresholds were fixed for a number of products (milk, cereals, processed fruit and vegetables, oilseeds): in most cases, the action to be taken if the threshold is exceeded consists of an indirect limitation or reduction in the general level of prices or aids.

4.a. In 1984 the Council not only approved the Commission's guidelines for guarantee thresholds, but underlined the need to introduce them for products in surplus or for which budgetary expenditure is liable to increase rapidly. However, in the case of milk, in the face of continuing increases in production, the Council decided to apply the principle of guarantee thresholds by means of a system of quotas at the level of dairies or individual enterprises. In this way, the system of collective responsibility (reduction of average returns for all producers) was modified in favour of a system of individual responsibility (reduction of marginal returns for production in excess of the quota) in the milk sector, as indeed had already been the case for the sugar sector since the inception of the market organisation, which represented the first application of the principle of coresponsibility.

4.b. The advantages of a quota system include its immediate effect in restraining production, and the possibility in principle of relieving the Community budget of the cost of disposal of production in excess of certain levels (however, this has not proved to be the case in practice in recent years under the system of sugar quotas because of the dramatic fall in world market prices). In the case of milk, quotas were perceived as a 'lesser evil' as compared with the alternative

option of a reduction in producer prices of as much as 12 %. The disadvantages of a quota system include the problems of negotiation, management, control and revision of the quotas; the freezing of production structures, which inhibits the development of productivity and hinders regional specialisation within the Community; the conferring of a capital value in the sense of a 'right to produce'; and the risk of renationalisation.

5. It is sometimes claimed that a quantitative limitation of the price guarantee, at the level of the individual producer, would permit a higher level of prices for production within the guaranteed quantity; and thus even a differentiation of price guarantees according to the size of the enterprise. But the argument that a quota system would allow prices to rise more rapidly and thereby improve incomes does not really hold when it is closely examined. For if the limitation of quantity is compensated by higher prices for producers, that in turn reduces demand on the home markets, sets incentives for substitution, makes Community production less competitive, and diminishes the opportunities agricultural products could have as raw materials for industrial purposes. As a result, further reductions of quotas become necessary, with a negative impact on incomes.

6. These considerations suggest that quotas cannot be more than a palliative. The only sound approach in the medium and long term is to give market prices a greater role in guiding supply and demand. Such an approach would apply to products where market imbalances exist, or threaten to develop; it should however be modulated to take account of the severity of the market imbalances, of specific market situations, and of the need for a rational hierarchy of prices and the role of different products in the formation of agricultural incomes.

B. Incomes and employment - The consequences

7. Whatever approach is chosen for adjusting supply and demand, it will have consequences for incomes and employment which cannot be ignored. Improved yields through technical progress on one side, slowdown of production increases and incomes on the other side, will create a pressing need for structural adjustment in the agricultural sector.

8. European agriculture is a kaleidoscope of diverse situations - situations which will become even more diverse after enlargement. A part of the holdings, with good structures and favourable conditions, could well survive a strict price policy. In other cases various adjustment processes would take place : from full- and part-time farming into other sectors or into the labour market (in or outside

the region), but also from full-time farming to part-time farming combined with other activities. In some zones outmigration could lead to a significant depopulation together with some abandonment of land. In other regions there is a risk that underemployment ("hidden unemployment") in agriculture would increase, particularly in those regions where a relatively high proportion of the active population is working in agriculture, where farm structures are bad, where regional unemployment rates are already high and where demographic pressures are growing (most regions of Southern Italy, Greece and Ireland). The negative impact of diminishing purchasing power of the farming population on the regional economy could well amplify the problem.

9. Income pressures would be particularly strong on marginal and sub-marginal holdings. These might, however, react in quite different ways. Many of them are part-time holdings and in many cases the holder, his wife, or other household members have outside gainful activities. Where the agricultural income represents only a small proportion of the total income there could well be no reaction at all or a reaction with a considerable time lag (inter-generation adjustment). But there would also be a big number of smaller holdings with no off-farm incomes which would experience growing difficulties of economic survival. Finally, debts and a possible decrease in the value of land (which often serves as a guarantee) could lead even highly modernized holdings into difficulties.

10. All these considerations lead inevitably to the key question of the maintenance of the rural fabric, and the alternative or supplementary income and employment possibilities. Such possibilities exist, partly in the agricultural sector itself, partly outside agriculture. But they have to be promoted. The Commission therefore considers it necessary to examine these possibilities and to indicate a number of options for action.

C. Reorientation of production

11. The Community must adapt its agricultural production so that supply is brought more in line with demand. This process has already been engaged for many of the products subject to a common organisation of the market, for which the guidelines advocated by the Commission in earlier documents remain valid : see, for example, the important memoranda "Guidelines for European Agriculture" of October 1981 (COM(81) 608) and "Common Agricultural Policy" of July 1983 (COM(83) 500).

12. In the present document, which is selective in nature, the Commission does not attempt to review all the market organisations, despite the fact that several of them will in the coming months and years be the object of significant proposals. For example :

- Oils and fats : adaptation of the market organisation will be necessary after enlargement of the Community.
- Sugar : proposals will soon be made for the arrangements to be introduced after the present system of quotas expires at the end of the 1985/86 marketing year.
- Tobacco : the cost to the Community budget of varieties for which there is little market demand requires the continuation of efforts to reorient production in this sector.
- Milk products : there is still a grave imbalance between supply and demand in this sector; the system of quotas recently introduced must be carefully monitored, and if necessary proposals for improvements will be made; the Commission intends to submit proposals before November 1985 for a Community system of premiums for cessation of milk delivery, and will make a general report on the operation of the quota system at the end of the 1986/87 marketing year.
- Beef : the Commission reserves the possibility to make further proposals for adaptation of the regulations in this sector, where a serious market imbalance continues.

Without underestimating the problems to be resolved in these and other sectors, the Commission considers it desirable in the present document, for the reasons already explained, to consider the cereal sector in more detail. Because of the interrelationship between cereals and other crop products, and between the prices of cereals and the costs of livestock production, the policy to be pursued in this sector has profound implications for the common agricultural policy as a whole.

1. Cereals - a keystone of the agricultural policy

13. While the area of land devoted to cereals in the Community has not increased, there has been a switch of production from barley to soft wheat, and the spectacular increases in yields made possible by

new varieties and techniques have led to higher production, particularly of wheat (average increase of 3 % per year). The Commission has repeatedly drawn attention to the divergence of the trends of supply and demand; the exceptionally large harvest of 1984, resulting in a very high level of public stocks, has highlighted the problem. Extrapolation of the development of yields in the Community of Ten suggests that the very large harvest of 1984, which amounted to 155 million tons, could be a normal level of production by 1990, compared with the level of 125 million tons which was the average in the period 1980-1983. Although Community exports of cereals have increased to record levels, the future prospects for world demand - even on optimistic assumptions - do not suggest that export markets can be relied on to absorb the future increases in Community production. As for domestic markets, if there was a significant reduction in the level of internal prices, a maximum of 12 million tonnes more Community cereals could perhaps be absorbed by 1990, taking account of enlargement, and on the most optimistic assumptions concerning existing and future outlets for animal feed (and in this context it would mean assuming success in partially replacing imported cereals substitutes), the production of starch for the chemical and pharmaceutical industry, and the production of ethanol.

14. In such analyses, the future level of Community cereals prices is a key factor affecting both supply and demand, and the cost of subsidies for disposal. The Commission has advocated for several years that European cereals prices should come more into line with those of our competitors on world markets, and the Council in 1982 introduced a system of guarantee thresholds, which should result in the price being reduced if the threshold is exceeded. But the experience of the 1985/86 price negotiations showed how difficult it is for the Council to put such a policy into practice, if it is not complemented by other measures concerning farm incomes.

15. The Community therefore now faces a real dilemma. The prospect is for supply of cereals to grow significantly faster than demand, and for the surplus to become impossible for the Community to manage or to finance. The choice is therefore between significant reductions in cereals prices in real terms, or the introduction of additional measures of supply management (gestion de l'offre). The Commission has already made clear its preference for action through the price mechanism, but it considers it necessary also to analyse in this consultative document the panoply of other possible measures.

16. In such an analysis, one must not forget the large number of farms growing cereals - 3,75 million - and the diversity of their situation. In 7 Member States, more than 50 % of farmers grow some cereals, but a large part of Community production comes from a few farms. At one extreme we can distinguish "specialists", notably in the

Paris basin and the East of England, with large and efficient businesses; at the other extreme, throughout the Community, many farmers produce cereals as part of a mixed farming system, frequently with livestock. An intermediate group of medium-sized farms is dependent on cereals, to a high degree in certain regions. Generally incomes for cereals growers are relatively favourable, compared with other agricultural incomes, in most Member States; specialist cereals producers on suitable land enjoy incomes markedly above the average for their region.

Nor must one forget that there are several types of cereals, with complicated interrelationships between their different markets and prices. Although the principal difficulty is the surplus of soft wheat, there are over-supply problems for durum wheat, while maize is in deficit.

17. Before analysing the options concerning prices, it should be remarked that the institutional prices of cereals, fixed by the Community institutions, have decreased in recent years in real terms (after taking account of inflation), but not by very much; and if these prices are expressed per hectare (rather than per ton) they have even increased in real terms. However, such institutional prices represent only a theoretical level of support, and the gap between institutional prices and market prices has in fact increased for a number of reasons (limitation of intervention, increased delay in payment for intervention, etc.) since 1983.

i) The price instrument

18. If the use of the price mechanism is intensified in the cereals sector, with significant reductions in prices in real terms over a period of time after taking account of increases in yield per hectare, one could still expect a modest continuing increase in production; this could however be absorbed by the expansion of outlets, as Community prices become more competitive. This approach would optimise internal Community utilisation, and reduce the cost of export restitutions. Such a price policy would however affect small and big producers to the same extent, and could not be envisaged without some form of income aid for the most vulnerable producers, who would appear to be the middle-sized group rather dependent on cereals production.

Such aid would have to be selective, for a classic "deficiency payments" system in the cereals sector would be unacceptably expensive: one interesting option would be a limit of aid per hectare, as the Commission has in the past proposed for durum wheat.

ii) The guarantee threshold system

19. The system of guarantee thresholds in the cereals sector has not so far been permitted to operate as originally intended. An option would be to apply the price reduction immediately in the season when the threshold is exceeded, rather than in the following season. From the point of view of agricultural incomes this approach would be more logical, since prices would be reduced at the same time as an increase in quantities; however, it would increase risks on the market at the beginning of the season.

iii) Intervention mechanisms

20. An option worth examining is to confine intervention for cereals to the end of the season (April-May); this would avoid the competition between intervention purchases and export sales, which is sometimes experienced at the beginning of the season. It is through the intervention system that the Community can act to halt or reverse the trend of production towards lower quality cereals, generally associated with higher yields. It is in any case necessary to consider differentiating intervention prices at purchase and sale, to avoid the accumulation of unmarketable stocks of lower qualities.

iv) A coresponsibility levy

21. A levy could be charged on cereals, preferably at the first point of sale, to create additional resources for financing new outlets for cereals, or as a contribution towards the cost of export restitutions. Whether such a levy should be differentiated according to the size of farm, in order to take account of different income situations, would have to be considered, as would the question of its application to imported products.

v) A Cereals Board

22. The possibility of a Board in the cereals sector, including representatives of the economic interests concerned, merits examination, particularly if a financial contribution by producers to the cost of exports is envisaged. One option would be a regulatory body (office, bureau) exercising a development role in the export field, and a coordinating role in supply management within the Community.

vi) Quotas

23. It should not be supposed that a quota system could not be applied in the cereals sector : if the administrative difficulties could be overcome for sugar and milk, many of the practical problems could no doubt be overcome for cereals. Unlike milk and sugar, cereals are easily stored and transported, and a major part is used for animal feed; nevertheless, despite the problems of control, a system of quantitative restrictions could in principle be envisaged at the point of first sale. The objections to quotas are more fundamental, and have already been enumerated in an earlier part of this document : higher prices, lower demand, and the prospect that incomes would not improve.

vii) Diversion of land for other uses ("set-aside")

24. One option for reducing the supply of cereals would be to pay farmers to leave their land fallow, or to use their land for other crops, or for non-agricultural purposes. But the cost of such subsidies would be high, and satisfactory monitoring would require an administrative infrastructure which does not exist in all Member States. Even in the United States, where conditions for such "set-aside" measures are more favourable than in Europe, their efficacy has been questioned.

25. The Commission observes that these different possibilities should not be considered as exclusive of each other, but could be applied in combination. What is clear, however, is that unless the Community pursues in the cereals sector the option of a rigorous price policy outlined under i), it will be obliged to introduce one or more of the other measures for management of the supply of cereals.

2. Alternative production

26. The combined effects of marketing difficulties and a cautious price policy will oblige farmers increasingly to seek out new or alternative lines of production, depending on technical and economic factors at regional level and the structures of individual holdings.

27. Agricultural research, the dissemination of knowledge and the counselling services have for some time been providing the various farming interests with a wide range of data.

28. However, even if the scientific data available are adequate, it is nonetheless true that the farmer's final decision to switch to another line of production depends on a number of economic factors

(cost of conversion and effect of such conversion on income in relation to labour involved) and socio-technological factors (proper training, adjustment in standard of living, etc.).

In this context, it must be pointed out that, with few exceptions, the changeover to alternative crops has been a slow process, and may be even more slow in future.

29. There are in fact at least three factors the combination of which determines the rate of change in productive farming:

- a) the technical and economic effectiveness of research and counselling services;
- b) market demand and the adaptation of production, processing and marketing structures to new requirements;
- c) the extent to which agricultural policy guarantees support, or fails to provide such support, for the new line of production as compared with that which is to be replaced.

Factors relating to research and counselling

30. As regards the first factor, it is necessary to strengthen research and counselling services so that the farmer is provided with as complete a technical-economic inventory as possible of all the possibilities for conversion.

In this respect, the initiatives taken by the Community ⁽¹⁾ will make a substantial contribution towards the establishment of this inventory. Taking account of factor b), the inventory must be more particularly concerned with the alternative crops which, in certain economic circumstances, are likely to be fairly easy to market, depending on the rate of supply in the Community and the outlook for demand.

31. In this connection it should be noted that in the Community - whose own supplies of raw materials used for making feedingstuffs fall well short of its need - demand for such inputs goes far to determine the crops farmers grow and their disposal.

1) Decision of December 1983 on the common research programme.

32. Alternative crops should also be listed and classified in relation to the existing surplus crops which they are to replace, namely:

- those using extensive areas of farmland (cereals and milk);
- fruit growing (fruit in general, citrus fruit, olives);
- specialized crops (tomatoes for processing, vineyards, certain varieties of tobacco).

Agronomic factors and alternative types of production

33. In view of the various agronomic factors which restrict and condition the choice made by farmers (nature of the soil, weather, resistance to diseases and pests, farming techniques, current and foreseeable yields), the following would appear as possible alternatives:

a) extensive types of farming :

- oilseeds and protein crops (such as bitter lupins and cuphea) are the ideal and natural replacement for surplus products (particularly cereals). They make for a better rotation of crops. There are no major problems as regards production techniques.
- certain areas currently under cereals or permanent grass could be replaced partly or wholly by wood crops, either densely or widely spaced, for the production of bulk wood fibre for pulping (poplar, eucalyptus, willow and ash), small diameter wood biomass for the production of energy (poplar, willow, eucalyptus), single stem wood products for quality wood including veneer (oak, beech, maple, cherry, walnut). This would involve a fundamental change in the timescale of farming operations and, in certain cases, necessitate changing the size of holdings to accommodate this change in timescale. Where such tree crops are widely spaced, they could be combined with grazing.

b) Fruit growing :

Generally speaking, the natural replacement would be other fruit-producing ligneous species, either species the produce of which could be marketed more easily or some new type of production.

In the first category, mention may be made of almonds, hazelnuts, carobs and pistachio nuts; in the same category, there is the jojoba, for which the production technique now seems to have been perfected.

It should be noted that in the case of vines and perhaps even olive trees, if grown on level ground, there are other alternatives (such as annual crops) which would seem agronomically feasible.

c) Specialized crops :

These are intensive crops which require a plentiful supply of water. Here the natural replacement would consist of other intensive crops e.g. medicinal plants. The scope for replacement would seem relatively limited, however, given the relative lack of demand for such products.

In certain regions, cotton could conceivably be a valid alternative.

34. There are some other valid alternatives which would, however, have relatively little impact on the solution of the problems in question.

These would be small-scale replacement crops which could provide an appreciable income at local level. They include traditional small-fruit crops, small-scale stockfarming (beekeeping) and fish-farming.

These secondary types of production which, for historical or socio-economic reasons, have either been abandoned or become marginal activities, yield products which are in short supply within the Community. Encouragement for these products would involve the harmonization of marketing conditions and the provision of processing facilities.

35. Conversion to new varieties is another alternative. In the very short term it would enable certain uncommon (but highly marketable) varieties to be included in the rotation of crops as a replacement for products in structural surplus.

36. Lastly, there is scope for new methods of production. This would mean departing from those types of mass production which are heavily dependent on agricultural policy and turning towards new types of

production requiring fewer raw materials and even, in certain cases, reintroducing finished products for direct consumption which can be marketed from the farm itself. In this context particular thought should be given to the marketing aspects and the possibility of coexistence with "classical" agriculture.

Economic factors and alternative types of production

37. As already pointed out, the farmer's final decision depends not only on agricultural factors but also on a number of economic factors. Moreover, account has to be taken of the costs to be met from public funds (EAGGF or national budgets) if a decision was taken to provide sufficient incentive for the development of the alternative crops concerned. The options have to be considered with a rigorous economic approach, taking account of the possible markets, and whether production could be continued on a long-term basis after some initial financial encouragement, or would entail continuing budgetary cost.

38. In view of the foregoing, consideration may be given to the following :

a) Extensive types of farming :

An expansion of oilseed and protein crops would pose no problems as regards production techniques, the necessary investments, labour, storage and marketing.

Except in the case of rape, the potential for expanding demand is very considerable. Even in the case of rape, the new double-zero varieties should help to increase demand from compounders. Community support is already available, except for safflower. Thanks to such support production is expanding (or has already expanded) to a substantial extent.

To make such crops more attractive to farmers, and to speed up their development, only a very slight increase in support (in relative or absolute terms) would be necessary. But a significant problem exists; because of the absence of external protection, the oilseed and protein crops are a very heavy burden on the Community budget.

Encouragement (such as temporary compensation for loss of income) would also be necessary if certain areas currently under permanent grass or cereals were to be replaced by ligneous crops. Given the

trade deficit of the Community in wood and wood products, afforestation of marginal land must be examined as an alternative production system for farmers. In this regard it is necessary to identify the products actually consumed in the Community, where deficits exist and to determine what can economically be produced in greater quantities on land released from agricultural production.

Such measures could be very costly to the budget. There is also reason to think that only the less productive land would qualify for incentives.

b) Fruit crops

The types of fruit crop which could replace those currently in surplus or likely to be in surplus receive scant protection on the whole and qualify for little or no support at the moment. Their introduction means a period when the farmer receives no return for 10 to 15 years. Compensation would have to be granted if these types of production were to have any chance of development.

It should be noted, however, that the Community demand for such fruit, which is not satisfied by current production, is extremely limited. Thus, the new areas which could be taken over by such crops would be very small.

As regards jojoba, a new line of production for which there would seem to be a considerable market, its development appears to depend on the solution of the problems relating to its introduction, including the question of how to make optimum use of the product. Here again, temporary incentives could be necessary.

As regards the possible replacement of vines and olive trees by annual crops, it should be noted that in the present circumstances there is a risk that farmers may opt for other surplus types of production.

Lastly, there is also the possibility of replacing fruit trees by ligneous crops but in this event the non-productive period for which some compensatory income would have to be provided would be at least as long as in the cases examined earlier.

c) Specialized crops

Cotton-growing is already supported in the Community. If it is to be promoted in regions other than the traditional areas to replace surplus crops, a processing and marketing infrastructure at present entirely lacking must be built up.

In most cases, the same considerations are valid for quite a large number of other products, each having modest expansion potential but the development of which is at the present time hampered by the lack of proper marketing and processing facilities.

Necessary adjustments of the CAP

39. Should the Community decide to review the general direction of its agricultural production, the action to be taken would depend on the products to be encouraged.

There is no space here for an exhaustive analysis, but, depending on the specific situation peculiar to each product or region, it is reasonable to go on the assumption that one or more of the following measures could be envisaged :

- 1) adaptation of the EEC market organizations for the products having such organizations;
- 2) aids to encourage farmers to switch to other products (within firm limits, and restricted in time);
- 3) incentives for the creation of the processing and marketing facilities needed;
- 4) creation of the legal framework needed for the harmonization of the quality standards for these products, to facilitate their marketing and consumer information (e.g., labelling);
- 5) incentives to applied research and to technical and economic counselling on ways and means of switching products.

40. From the angle of the budget, decisions would have to be taken to determine what overall appropriation could be assigned to implementing these new guidelines.

A last point is that the final cost to be budgeted for will depend on the support still being paid out for surplus products and on policy with regard to external trade (imports).

D. Diversification of outlets - new uses for agricultural products

41. The idea of promoting new uses for agricultural products (mostly industrial uses), like the idea of developing alternative production, has gained growing importance in the debate about future prospects. In fact, agriculture always has produced - although to a very limited extent - raw materials for non-food uses : wood, wool, cotton, hemp or flax are such products. A relatively new development which has manifested itself in the last decade is the use of agricultural materials as a source of organic chemical products. There are a number of possibilities in these fields which could lead to new market outlets for agriculture and help to maintain income and employment capacities in rural regions, both in the agricultural sector and in processing industries. The development of bio-technology represents an increasing challenge for the future : for industry, for agriculture as a potential supplier of raw material, and for the cooperation between the two.

42. Still another domain where the Community must find a coherent strategy to promote the most efficient use of its resources of land and labour is the use of agricultural products as raw materials for energy production. The use of bio-ethanol in motor cars has often been suggested. The debate on this issue has sometimes been quite hot-tempered and a realistic appreciation of existing possibilities and limitations is necessary.

1. Bio-ethanol as an alternative source of energy : opinions are divided

43. The Commission has on several occasions put forward the suggestion that agriculture could help in the development of the new sources of energy.

Bio-ethanol is often presented as a future alternative source of energy. Being of agricultural origin it is, unlike fossil fuels, renewable. It is obtained by fermentation, viz. the direct fermentation of plant sugar (beet, molasses, etc.), or the indirect fermentation of raw materials containing starch (wheat, maize, potatoes, etc.). Agricultural alcohol cannot, however, be used to power all the cars on the Community's roads, since that would require major changes in engine design. Brazil, a heavy producer of bio-

ethanol, has already brought in those changes, but in the Community, such a step could only be introduced very gradually. The information at present available suggests that in the Community, bio-ethanol could be envisaged mainly as an additive (5 %, without manufacturers having to indicate the actual quantity used) or as an auxiliary solvent (2 to 3 %) in petrol, to help it meet the technical and energy specifications of European engines. Used in this way, bio-ethanol would be technically acceptable because of its ability to raise the octane rating and thus partially replace lead in petrol.

The policy on the protection of the environment ⁽¹⁾ calls for unleaded petrol to be made available to consumers in the Community as from 1989 and it is also recommended to reduce the present permitted lead content of petrol.

44. As a matter of fact, the cost of ethanol (mainly that of agricultural origin) is a limiting factor. Present figures show that the costs of competing products fall within a range of 20-35 ECU/hl, i.e. about 25-70 % less than bio-ethanol's costs; this gives an idea of the subsidies required in order to make the fermentation of basic agricultural products into alcohol a viable proposition economically. Any such programme for the incorporation of bio-ethanol into gasoline would require the financing of the gap between the costs of bio-ethanol and of competing products. In present conditions a complete compensation of the cost gap by the budget would require large-scale subsidies and thus involve a very considerable budgetary expenditure. It would, however, be hazardous to put forward precise estimates as to the sums involved.

45. Marketing large quantities of bio-ethanol by incorporating it in motor fuel would, however, present a number of advantages for agriculture. It would provide fresh outlets for products which are often in surplus. Although the new biofuel industry's raw materials would initially consist of sugar beet and, to a lesser extent, cereals and potatoes, they could at a later stage be replaced by vegetable products which can yield more alcohol and which can be grown in regions situated further to the south (chicory, Jerusalem artichokes, etc.).

46. Setting up a bio-ethanol production industry will require suitable processing facilities and, above all, appropriate legislation and incentives, thus placing an additional burden on the Community budget. Few sugar refineries are currently capable of producing low-cost ethanol; in the case of other raw materials such as wheat, there are few processing plants, if any. The development of such a

1) Directive 85/210/CEE of 20 March 1985.

production therefore would imply the setting up of a network of processing undertakings; these would have to be large enough to achieve economies of scale and would have to be given guarantees regarding the supply of raw materials.

It has to be remembered that some Community financial means have already been devoted to developing facilities for production of bio-ethanol in the framework of the Commission's energy demonstration projects.

47. The gap between agricultural alcohol's selling price and its offer price tends to be fairly large (the figure per tonne currently exceeds the level of EAGGF spending on the disposal of the basic products concerned, both within the Community and elsewhere). Of all the raw materials concerned, it is sugar beet which appears to carry the lowest costs.

48. As for this budgetary aspect, different options could be considered :

- defraying in full the difference between bio-ethanol's offer price and its selling price : the budget cost would doubtless be fairly high and would be difficult to estimate because of the possible sudden changes in the market prices for fuel;
- defraying part of the price differential : the advantage with this type of aid is that the cost would partly be borne by the farmers and would, on the whole, be lower.

It would, however, be necessary to avoid distorting competition between the various basic products (sugar, wheat, etc.); and between bio-ethanol and other oxygenates.

49. It must be emphasized that the prices of raw material is an important element in those calculations. A reduction in these prices would evidently make the budgetary cost lower.

50. It must be stressed, however, that the volume of agricultural products which could find an outlet in the bio-ethanol sector would in any case be relatively limited. Bio-ethanol is by no means the only octane-enhancer, for there are other competitive products on the market (for example, MTBE, TBA).

2. Sugar and starch : guaranteed but limited outlets

51. Industries in the non-food sector are already major users of sugar and starch. This is especially true in the case of starch, since they take up about 50 % of the total quantity produced (1.7 million tonnes). The biggest users include the paper and cardboard industry, which accounts for 50% of the total quantity of starch supplied to industry, and the chemicals and pharmaceuticals industry (e.g. the manufacture of penicillin) and textiles and glues and pastes. The industrial biotechnology used consists mainly of fermentation, and some traditional or enzymatic synthetic processes. Glucose and sugar are in many cases interchangeable as raw materials in particular in the chemical industry; it is only in the final stages of the development of the industrial process that the decision is taken as to which agricultural substrate should be used, a choice which is obviously largely dictated by the purchase price concerned and by the price received for by-products. Accordingly, since glucose produced from starch and the sucrose found in molasses (imported levy-free) are sold at a lower price than sugar, they tend to be used in various fermentation processes. Under the Community rules which are now in force, the EAGGF pays a production refund (at present 30-40 ECU/tonne) in respect of Community-produced sugar and starch supplied to processors, in order to reduce the costs which they face as a result of the high price of the raw material. The refunds currently paid offset only part of the difference between the Community and world market prices for the basic substrate (50 % in the case of wheat and 10 % in the case of sugar).

52. The non-food use of starch, potato starch, or sugar could well expand thanks to recent advances in biotechnology. Clearly, if the Community does not allow these expanding industries to obtain competitively-priced carbohydrates of agricultural origin, much of the investment will go to non-member countries. It is estimated that by the year 2000 the industrial consumption of starch will have doubled (to 3 million tonnes), while that of sugar will rise from its present low level to 0.5 million tonnes. These estimates are based on the assumption that the Community price for the raw material will be at an acceptable level, and that industry will by then be using processes which at present are still at the research stage. The highest growth in non-food use would be in the chemical industry (e.g. the manufacture of biodegradable plastics).

52.a. The production of proteins for use in feedingstuffs represents a special case. Lysine, an amino acid which is a vital part of the food intake of monogastric animals in particular, can be produced on an industrial scale via the fermentation of carbohydrates obtained from starch, beet or molasses. It can be added to cereals, for instance and can in some cases replace soya-bean cake. Its production can be

increased, provided processors are able to obtain their raw materials at competitive prices (in relation to the world market). The Community market could, once this is achieved, absorb an estimated 40 - 60.000 tonnes of lysine in the 1990s (as against about 15.000 tonnes at present), thus providing an outlet for about 90 - 130.000 tonnes of carbohydrates, the raw materials used. Moreover, incorporating lysine in feedingstuffs would help dispose of an additional 1,3 - 2 million tonnes of cereals.

53. The non-food use of starch and sugar will continue to increase over the next five years. In this respect, processors feel that they should be allowed freely to negotiate the terms on which they obtain their raw materials, since in such matters reliability and continuity of supply are just as important as price.

54. The Commission has presented to the Council modifications to the existing regime. For starch the production refund would be eliminated for the protected food use, but for non-protected uses would compensate for the difference in Community and world prices of raw materials. For sugar non-protected users would have access to C (world price) sugar.

It is desirable that a decision is reached swiftly on a simple and transparent system to ensure the access by Community industries to raw material supplies at world prices.

The Council is currently discussing those proposals. There remain, however, a number of problems concerning :

- the continuity of sugar supplies (sugar quotas);
- the rules for fixing the refund;
- the relationship between sugar, starch and potato starch prices;
- the various circumstances in which a production refund is/is not payable.

3. Future uses

55. Bio-ethanol and the sugar and starch used in the processing industry are two types of bio-industrial products for which there is some potential of development; the new outlets will be mainly for

agricultural products which are at present in surplus, viz. wheat and sugar beat. Discussions should now take place as to how to encourage this new type of demand.

56. For other types of bio-industrial products, however, the potential increase in the demand for basic agricultural raw materials cannot be estimated on the basis of the results produced by the research carried out so far. This concerns :

- the production of substances which have a high level of added value (e.g. enzymes, vitamins and amino acids) and which command prices in excess of 3 000 ECU/tonne. Europe's chemicals industry should in any case move increasingly towards the processing of such substances from sugar and starch, given that there is now stiffer market competition from organic substances produced in non-member countries from fossil hydrocarbons;
- the search for plants capable of producing greater quantities of starch and sugar - if demand rises - at lower cost. This is obviously a long-term task, but it could be speeded up thanks to genetic engineering.

In addition, studies should be carried out, in coordination with the agro-food industries, to review possible developments in human consumption in the 1990s and whether there are real outlets inside and outside the Community for certain surplus productions (for example, grape juice instead of wine).

E. External trade - a balance to be restored

57. The increase of production through technical progress, with a quasi-stagnation of the internal demand for traditional agricultural products, raises the question of the conditions under which the Community could increase its agricultural exports.

58. Although it would appear to be difficult to make any precise forecasts over the next ten to fifteen years, different analyses come to the conclusion that demand for agricultural products in the Community and most other industrialized countries will expand only very slowly. Nevertheless, these markets will evidently remain very important. Demand in less-developed countries will still increase, but at a lower rate than in the past. A forecast for East European countries and the USSR is difficult to make. Competition for available export markets will thus become stronger.

59. In these circumstances, although there is a real prospect of the Community being able to participate in the foreseeable expansion of world trade in agricultural produce, this will only be possible if suitable adjustments are made to its external trade arrangements so as to enable the Community to conduct its export policy on a sound economic basis.

External trade arrangements adapted to the demands of the future

60. Two major questions arise as regards the Community's external trade arrangements for agriculture :

- What adjustments must be made to the Community's present export arrangements if it is to go on supplying the world market with its exports of food and other agricultural products ?
- Would it be possible to adjust the existing import arrangements so that they were better balanced commercially and caused less of a drain on the budget ?

61. Examination of these questions is based on the assumption that the Community :

- will maintain its position on world markets for import and export;
- will retain a system of variable import levies and variable export refunds as a mechanism for stabilizing its internal market in accordance with the Treaty objectives;
- will keep Community preference, which is a transposition at Community level of the priority given to domestic produce on national markets.

Exports : are they the responsibility of the Community or the producers ?

62. The Community's expanding role in world trade in agricultural produce gives it a responsibility towards the world market. It has become the major exporter of dairy produce and beef and the second exporter of cereals and sugar and is a leading exporter of wine, spirituous beverages and processed products.

63. This situation is certainly a reflection of the continuing increase of European agricultural production, but it also derives from the maintenance of export arrangements made at a time when the Community normally was less than self-sufficient for most agricultural products, i.e. its exports of any given product generally fell short of corresponding imports.

Under this system, export refunds were merely the corollary of a system designed to support and stabilize the internal market.

64. The Community has now become a net exporter, on a structural basis, of most staple items, and the unrestricted maintenance of export refunds has meant that exported products enjoy the same price and disposal guarantees as the product sold on the internal market. The price gap as between internal and world markets and the export risk have thus remained entirely a charge on the Community budget.

At the same time, Community producers have been isolated from price movements on the world market, which have thus been unable to influence production, even though a growing share of Community production is now exported.

65. If the Community is to retain a substantial share of world exports of foodstuffs and other agricultural products, and if its exports are to be the expression of a real export policy rather than the mere disposal of surpluses, it is necessary to review the present mechanisms, which were introduced in other circumstances (when the Community was an importer).

In so far as new export surpluses emerge or old ones increase (in structural terms), an increasing share of the export risk may have to be borne, in one way or another, by the producers themselves.

66. Indeed this is a development that has already started. In the particular case of sugar, the market organization has facilities enabling the export risks to be charged to the producers themselves, a certain quantity being at the charge of all producers, and the surplus (C sugar) being at the charge of the individual who produces it.

For other products, guarantee thresholds and quantitative or qualitative limits on intervention, introduced in recent years, enable the supply/demand relationship to be allowed for to some extent when prices and aids are being fixed.

67. As for exports, arrangements whereby the producers themselves can take over export risks, if they were to be systematically introduced, could be incorporated into the market organizations through the following approaches, expressed in simplified terms :

- a) by restricting to specified quantities the price and disposal guarantees granted by the Community at levels above world prices. Beyond these quantities, disposal would be the responsibility of the producers themselves, at world market prices.

This approach could normally be implemented in two ways :

- i) quota restriction of production qualifying for a guarantee, all excess production being compulsorily exported at world market conditions, i.e. without refund. However, machinery of this kind would entail strict monitoring of production and marketing - in fact the introduction of a quota system, an option which for the reasons already discussed in this document is not considered to be desirable for all sectors.

- ii) a levy paid by the producer to cover some or all of export refund costs. Such a mechanism should be designed to avoid intervention of quantities normally exported.

The degree of producer co-responsibility could be varied and there could be different ways of applying these principles (2).

- b) Perhaps in the longer term, support prices could be fixed at a level close to those of other exporting countries, especially wherever, for a given product, the world market accounted for a significant share of Community production.

This is, however, a practical proposition only where average world market prices are regarded as sufficient for the European producer (which does not exclude combination with the payments which European producers would receive independently of their production). Here too, the detailed articulation of the instruments used for such an approach could be varied.

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- 2) It should be noted that the system applied to sugar combines the two forms (C sugar and B quota), but in the case of sugar it was relatively easy to solve the problem of distributing the quotas among producers and the problems associated with control.

- c) For products for which there was little or no external protection, support for production would be only in the form of production aid.

In this case, the extent to which market changes affect the producer is determined by the limits set with regard to quantities and/or aid amounts. Export refunds would apply, but only as an equivalent to internal aid. The present arrangements for rapeseed are an example of such a scheme.

68. The choice between the various options set out above must allow for the current situation of each market organization and for the Community's international rights and obligations with regard to import protection against identical products or substitutes and subsidies which have the direct or indirect effect of increasing exports and reducing imports.

69. The options to be chosen with regard to export arrangements must therefore differ from product to product and be developed in proper relationship with measures taken with regard to the fixing of prices, guarantee thresholds, coresponsibility or intervention.

70. In the case of processed products, for which export refunds are based on the difference between Community and world market prices for the basic products, there is also the question of how to relate the producers' share in the export risk to the amount of basic product incorporated. The export of high value added products is making an increasing contribution both to the demand for agricultural raw materials and to economic activity in the Community. The availability of raw materials of sufficient quality at competitive prices is essential for the maintenance of this activity. Whilst preserving the possibility of inward processing arrangements any reform of the export system should continue to assure the adequate compensation to the industry for the difference between Community prices and world prices of the raw materials incorporated in exported products.

Imports: more balanced external protection ?

71. When the Community set up its import system twenty years ago, the Community opted for a protection arrangement based on variable levies for the staple Community farm products, and for little or no protection against products in which it was very far from self-sufficient (products equivalent to and competing with certain European products, and items which it did not produce or could not produce at all).

72. The Community negotiated this overall arrangement within GATT, the concession of freedom to impose protection on some items being thus offset by the "binding" of low or nil protection against other items. A result of this is that any change in bound protection for the latter category of products must be negotiated with the other countries against compensation. There is thus little or no external protection against, in particular, vegetable fats, vegetable proteins and certain energy products for livestock feed. This situation has had two main consequences.

73. The Community has had to include in the relevant market organizations either aid schemes enabling the price-supported Community product to compete with the same or corresponding import product or production aids (deficiency payments) designed to cover the farmer's revenue gap. Thus, aids had to be introduced for olive oil, oilseeds and even butter, the disposal of skimmed-milk as animal feed, and casein, to name only the main items.

74. Secondly, imports of products subject to low or zero protection, especially various feedingstuffs, have expanded considerably because of their price advantage and have resulted in a discouragement of the use of Community cereals in animal feed, and have contributed to growing surpluses of certain livestock products, particularly milk products and beef, and have thus contributed to increasing the Community's exports of these products.

75. As agricultural output in the Community has increased, these aids and export refunds have become more and more costly. The disequilibria in the Community's external trade arrangements have also contributed to the artificial maintenance both of certain production structures and certain trade flows owing their existence largely to the differences in prices for equivalent and competing products brought about on the Community market by internal price support measures.

76. Is there any way of changing this situation? One approach might be to establish some kind of trade-off between high protection and low protection without increasing the general average level of protection of European agriculture. This would make it possible to :

- a) provide more scope for diversifying agricultural production and the uses made of products in the Community;

- b) achieve budget savings on a number of aid schemes;
- c) facilitate a reorientation of the common price policy and consequently an orientation of production more closely related to market forces.

77. At the international level, changes of this kind would call for difficult negotiations since increasing some of the currently bound low or zero rates of protection is likely to have adverse effects on those trading partners who would not see sufficient benefits from any reductions in high tariffs which the Community might offer in return. However, it is not impossible that comprehensive multilateral negotiations on agriculture involving major alterations to the concessions granted each other by the main partners could produce some progress towards a better balance in the Community's external trade arrangements; moreover, the Community could make use of the fact that it has initiated an adaptation process of the CAP, concerning particularly increased disciplines for producers (see document COM(83) 500, paragraphs 3.14-16) and that this creates certain rights and derogations from GATT obligations.

78. Against this, it must not be forgotten that the adjustments implicit in a more balanced framework of external protection compared with the present situation would have a varying impact on different types of production within the Community. For this reason, too, any change serving to restore the balance of external protection, however desirable, must also be gradual.

Streamlining and diversifying external trade policy instruments

79. Apart from the fundamental options concerning external trade arrangements, many ideas could be entertained as to the adjustment, improvement or diversification of the external trade arrangements.

80. Leaving aside certain adjustments to the mechanisms of import protection which could form the subject of bilateral or multilateral trade negotiations, leading to compensating concessions, it is mainly on the export side that the possibility of adjusting and diversifying policy instruments arises.

81. The objectives, in respect of the adjustment of present export instruments, would be :

- to manage the system in such a way as to minimize budget cost and to avoid disrupting the world market, which of course the Community has no interest in disturbing;
- to enhance the awareness of exporters and of the managers of the system of the rapid developments on the world market, so that they can respond to them in their decision-making.

With this in mind, the approach to adjustment could include :

- . The use of tendering procedures for products other than wheat, barley, sugar, would make it easier to control the management of refunds under more competitive conditions.

- . Adjustments to the way refunds are calculated, with a view to meeting several criticisms :

- the main criticism is that if the Community is one of the leading exporters of a product in the world (beef, sugar, meal, malt, milk products), it is difficult if not impossible to determine the representative world market price on which to base the rate of refund. Here the adjustments should reflect tighter management and discipline on the part of the Community;

- specific criticisms :

- . in some cases refunds might not be necessary,
- . in other cases refunds might be reduced.

It should also be considered whether refunds should be varied according to quality and intended use or destination.

82. In the context of a Community which has a real wish to make an agricultural export policy, the diversifying of export policy instruments, is import. The aim should be to enable the Community to adapt more closely to the diversity of financial situations in those areas of the world where demand for agricultural products is likely to grow in the years to come.

83. Accordingly, it may be advisable to seek ways and means of combining the fixing or advance fixing of refunds and the use of export credits to make the most of the advantages available on the markets yielding continuity in export flows.

84. Community intervention with regard to export credits could take a number of forms, including :

- traditional credit-insurance, i.e. assumption of the risk of failure to repay loans, either through the harmonization of existing intervention schemes at national level, or through the establishment of a specific fund built up for example by contributions from the exporters themselves;
- the reduction of exchange risks by the encouragement of the use of the ECU in export credits;
- interest subsidies, a measure applied to industrial products in accordance with the code of the OECD, and for which a tendency already exists in Member States in respect of agricultural products.

The availability at Community level of export credits, combined with solvency guarantees, could also enhance the attractiveness of "multi-annual" supply contracts (cf. the Commission's 1981 proposal on which the Commission requests a decision to the Council).

85. Although a careful distinction should continue to be made between gifts of food aid and sales on commercial terms, it must be recognized that there are countries which are not among the poorest but which still lack the financial resources to meet all their food requirements.

The provision of food aid is often advocated by the agricultural organisations; and public opinion also finds it difficult to understand that the Community is overloaded by surpluses, while a large part of the world's population suffers from hunger. However, this problem of food aid goes far beyond the confines of agricultural policy; it is the task of society as a whole to reflect on the matter and to find adequate solutions.

There may therefore be a good case for setting up, particularly within the framework of the national food strategies of the developing countries, an intermediary facility which would help them to purchase foodstuffs commercially on concessionary terms without this being allowed to interfere with development policy priorities. The establishment of such a scheme would have to be in conformity with the

international arrangements in this matter and should not be allowed in any way to hamper the drive to greater food self-sufficiency among the developing countries.

PART IV

A ROLE TO PLAY - AGRICULTURE IN SOCIETY

1. Emphasis has often been placed on the role which agriculture plays in supplying the population with food. In this respect European agriculture has achieved some notable successes, even if Europe's ever decreasing dependence on food imports has been partly offset by its farmers' dependence on energy and feed imports.

It is clear that the supply of food will in any case remain the essential function of European agriculture, not only for the population of the Community but also for other countries which need such supplies, be it on the basis of market transactions.

2. Much has already been said, too, on the role of agriculture as a sector of economic activity which makes a contribution to the domestic product, provides employment, contributes to the formation of national assets, has close links with other sectors of economic activity and, through its exports, has a positive effect on the Community's trade balance. Thus, agricultural activity is of crucial economic importance for a number of regions and countries in the Community.

3. In considering the future development of the agricultural policy, one must not forget the nature of agriculture also as an activity of enterprise, in which individual farmers have the liberty and responsibility to adjust their production in the light of the changing economic environment and the commercial realities. It cannot be the role of public authorities to substitute themselves for the independent farmer in this context, so as to eliminate the advantages and risks of the entrepreneur. On the contrary, the policy must be developed in such a way as to encourage the responsibility of farmers and to make full use - within the limits of their socio-economic situation - of their capacity for innovation, both in their individual decisions as managers, and in the context of cooperative ventures.

4. With this in mind, the Commission nevertheless considers it necessary, in view of the indications already given concerning the development of markets and prices, to examine certain wider aspects of the place of agriculture in society.

4.a. It is not to be supposed that the principal result of the new orientations adopted by the Common Agricultural Policy in the last two or three years could be the large scale movement of people out of farming into unemployment, the impoverishment of small farmers, the giving up of family farms, and the abandoning of the countryside. Since agriculture in its diverse forms is at the heart of the European model of society, it is necessary to reflect on the role of agriculture in Europe.

4.b. Against this background, it is desirable to take account of the following aspects :

- The need for agricultural policy to take more account of environmental policy, both as regards the control of harmful practices, and the promotion of practices friendly to the environment; in this way agriculture, which is itself a victim of pollution from other sources, can expect other sectors to make a greater effort to protect the environment.
- The fuller integration of agriculture into the general economy, particularly by means of regional development plans for the rural zones of the Community.
- The possibility of new forms of income support for the agricultural sector, which would permit the price and market regulations to perform the function of regulating supply and demand more efficiently, without causing unacceptable social problems for the agricultural population. Selective specifications would help to protect the special character of the Community's agriculture, its regions and its family farms, taking account of the problems posed by social and geographic disparities.

A. A challenge for the future : agriculture and environment

5. The role of agriculture in a modern industrialized economy is increasingly perceived to include not only the strategic, economic and social functions mentioned before, but also the conservation of the rural environment. At a time when the Community is self-sufficient in many agricultural products and therefore obliged to manage its productive capacity in a prudent way, environmental considerations even gain in relative importance.

6. As a matter of fact, agriculture has a direct and profound impact on the environment of the European Community : two-thirds of the surface of the Community is devoted to agricultural production. In the last decades, agriculture - or at least some important parts of it - has undergone a technological revolution which has profoundly

changed farming practices. There is growing concern about the effects of such changes on the environment - a concern which is expressed not only among the urban population but also among those engaged in agriculture, whose basic resources are soil, water and the genetic diversity of plant and animal species.

7. Although environmental considerations have already been taken into account in the CAP in recent years, especially in the development of the socio-structural policy, it is necessary to consider what further measures could be envisaged in the perspective of the next decade. The problems are most evident in the Northern regions of the Community, where the introduction of modern agricultural techniques is more advanced, but they are manifesting themselves also in the Mediterranean regions, and sometimes in specific ways (forest fires in arid zones).

Regulation and control of practices harmful to the environment

8. Changes in farming practices and the development of modern agricultural techniques have played an important role in the increase in agricultural activity over the last decades. But they have also been identified as a cause - and sometimes even as the major cause - of the extinction of species of flora and fauna and of the destruction of valuable ecosystems such as wetlands, and in some cases have increased risks of ground and surface water pollution.

In this context, agriculture has to be considered as a sector of economic activity which like other sectors with potentially harmful activities should be subject to reasonable public prescriptions and controls designed to avoid deterioration of the environment. In general, the principle of "polluter pays" would apply, and it would not be normal for farmers to expect to be compensated by the public authorities for the introduction of such rules.

9. The expanding use of pesticides and chemical fertilisers, although crucial for efficient agricultural production, includes a number of environmental risks, especially with regard to their long term effects and in the case of excessive usage. The excessive use of fertilisers, whether of natural origin (animal wastes, etc.) or industrial origin (chemical fertilisers) results in pollution of water supplies by nitrates; the problem appears to be most serious in areas with a heavy concentration of livestock, but it is also caused by chemical fertilisers. In the case of pesticides, which are biologically active and often highly toxic chemicals, definition of product standards with respect to environmental risks, approval of products before use, restriction of product distribution to persons

with proved qualifications and facilities to advise on storing, handling and application of the products, warnings against excessive usage, are measures which could be envisaged in a first stage to limit these risks. In addition, it would be necessary that the agricultural advisory and extension services, even more than in the past, provide competent advice to farmers, and that research efforts to develop new and less harmful products or methods are supported.

10. Common action is also needed to control the problems arising from intensive livestock production - common action, not only in the interest of protecting the environment, but also with a view to ensuring fair conditions of competition. Such action could take the form of the issue of permits for the construction of buildings for intensive livestock production and for the exercise of such activities. The conditions of such permits would have to include provisions for prior evaluation of the environmental impact, hygiene standards, sufficient capacity for storing and, if necessary, for conditioning the animal wastes as well as appropriate plans for their spreading on the land or for other non-polluting uses.

11. Appropriate planning procedures, including a full environmental impact assessment, should also be introduced for major projects affecting the use of land (reparcelling, changes in the water regime, roads, etc.), especially in the case of public funding of such projects. A particular problem in this context is the drainage of agricultural land. It is encouraged in all Member States by aids from public authorities, and is assisted in some cases by Community funds. There is growing evidence, however, that the intensification and extension of drainage particularly in the wetlands has led to the degradation or loss of important habitats for wildlife. The destruction of such valuable ecosystems is generally irreversible, and the question is therefore posed whether public aids for this activity are any longer justified, particularly since the Community has passed self-sufficiency for many agricultural products. It would be desirable to conduct a review of agricultural drainage, with a view to limiting, or even in some cases or regions prohibiting the use of public aids for this purpose.

Promotion of practices friendly to the environment

12. At least as important as the "passive" protection of the environment is a policy designed to promote farming practices which conserve the rural environment and protect specific sites. Generally speaking such practices would be less intensive (and thereby less productive) and could have - to some limited extent - an effect on the growth of agricultural production.

13. Two types of action could be envisaged in this context not only in less-favoured areas or marginal zones, but in many other regions of the Community :

1. Measures in order to introduce or maintain agricultural practices compatible with the need for the protection of nature. To illustrate the point, elements of such measures could be the suspension of agricultural activity during certain periods of the year, observance of low limits on use of fertilizers and pesticides; acceptance of rules for the use of pasture; abandonment of drainage and irrigation works; change of use to other agricultural production, or planting of trees, maintainance of stone walls or hedges or ponds.

The zones for such management measures would be :

- zones where agriculture should be maintained in certain traditional forms (e.g. buffer zones adjoining nature reserves, zones for the protection of groundwater);
- ecological corridors in areas of highly developed agriculture (e.g. a strip of 5-10 m along watercourses, ponds and coasts : such a measure would protect not only habitats but water as a resource itself).

In some zones where the environmental balance is particularly threatened, practices friendly to the environment could be made compulsory by law. In other cases, they could be introduced on a voluntary basis in the form of management contracts between public authorities and the farmers concerned.

In all these cases agriculture would contribute to the conservation of the rural environment and thus produce a public good. It could well be argued that society should recognize the resulting external benefits by providing the financial resources to permit farmers to fulfil this task. Corresponding payments would at the same time support and diversify farmers' incomes and contribute to the control of production.

2. Buying out or renting out of land by public authorities for environmental purposes (protection of nature and wildlife, creation of ecological refuges or corridors, provision of recreational amenities). In many cases farmers could even be asked to stay on the land and to manage it according to its new functions. In cases where farmers definitely want to leave their land, this function could be taken over

by neighbours and allow them to diversify their incomes. In particular in Member States with high population densities and growing environmental problems such an alternative may be worth considering.

14. According to some estimates, up to 10 % of the Community's agricultural surface could be used reasonably for such purposes. The medium and long term environmental objective would be to create a coherent network of larger protected zones, interlinked by ecological refuges and corridors which would facilitate exchange of species, thus contributing to their preservation and development. At the same time, the measures suggested would - to a limited extent - supplement and diversify the incomes of the farmers' concerned and could in some cases even have a stimulating effect on rural tourism.

B. Integration in the economy - A need for regional development

15. The importance of the general economic environment - in particular at the regional level - for structural change in agriculture has been underlined in the past by numerous studies. Economic growth perspectives for the foreseeable future are perhaps better than they were in the last decade. This will certainly facilitate the necessary structural adjustments in agriculture. The extent, however, to which this positive effect will play a role should not be overestimated. First of all economic growth rates will remain relatively low as compared to those of the 1960s and early 1970s. Secondly the link between economic growth and employment expansion would appear to be less close than it has been in earlier periods. And thirdly, most regions - and in particular most agricultural regions - suffer today from high unemployment rates and a great deal of hidden unemployment the reduction of which would already require a quite considerable expansion of economic activity. In some regions (Southern Italy, Greece, Ireland) the problem may even be reinforced by growing demographic pressures.

16. Thus, without any doubt, the pressing need for structural adjustment in agriculture will make it necessary within the next 10 to 15 years to use all the possibilities available to create new employment within the agricultural problem regions. The improved prospects for overall economic growth could support such efforts but not replace them. Possibilities of alternative employment in the agricultural sector (such as, for example, relief services) should be used to the full as long as they are reasonable in economic terms. But they will not be sufficient. Therefore, job creation outside agriculture will become a key issue for many agricultural problem regions. These jobs should correspond as closely as possible to the

needs of the agricultural population in order to maintain and reinforce the social tissue of the rural regions. Two types of jobs could be envisaged for this purpose :

- Jobs that allow the farming family to stay on the farm. In this category fall first of all the more traditional forms of part-time farming with supplementary activities on the farm (agro-tourism, handcraft, etc.) or outside the farm (part-time jobs in other sectors). One may also think of new part-time jobs in other sectors that could become possible through new communication technologies. And finally there are limited possibilities for some farm families to stay on the farm, but to use the total land for non-agricultural purposes : holiday camps, leisure parks, golf courses, etc. Such possibilities should be promoted. At the moment they are often hampered by tax legislation or land use regulations.
- Full-time employment outside agriculture. One may think in this context in particular of the development of small and medium size enterprises in rural regions, the promotion of craft industries and regional tourism.

17. In most cases programmes of regional development would have to be integrated, i.e. well coordinated multi-sectoral approaches, elaborated and monitored in close cooperation between the Community and the Member States and regions concerned, and concentrating all available means on the same overall objectives. In all these cases it is not so much a question of agriculture, but rather of developing the regional economy as a whole.

18. The new structural policy for agriculture and the reform of the regional fund go into the same direction and represent a valuable framework for the coming years : greater coordination between Community and national policy at the regional level, focussing on a limited number of priorities to avoid spreading resources too thinly, concentrating the available means on the least prosperous - and mostly agricultural - regions in order to promote their economic development. The decision now adopted on the Integrated Mediterranean Programmes finally stresses once again the general philosophy the Commission favours in this context, giving preference to financing development programmes rather than individual, often widely dispersed projects and to a close coordination of the different instruments within a coherent framework.

19. It is clear, however, that programmes of regional development would have the character of medium and long term oriented investment. Measures to launch such programmes would have to be taken now. They

would require a fair amount of additional public expenditure during the take-off phase (creation of economic incentives and advisory networks, training and reconversion schemes, infrastructure investments), but their full effect in income and employment terms would only be felt in a number of years. However, if they were successful they would certainly represent the most rational solution in the long run.

C. Income aids - One problem, several answers

1. The necessity of income support

20. The adjustments in agricultural policy will create a new situation for European agriculture to which it will have to adapt. To support this adaptation the most coherent and rational solution in a medium and long term perspective would appear to be :

- facilitating structural adjustments in the agricultural sector;
- promoting alternative production and new uses for agricultural products in order to create alternative income and employment possibilities within the sector;
- stimulating the development of the economic environment in rural regions in order to create additional income and employment possibilities outside the agricultural sector.

21. Measures to attain these objectives would have to be taken now. However,

- many of them would have a character of "investments", i.e. their full impact would only be felt after a certain number of years;
- there may be a number of regional situations where the possibilities of creating alternative employment are very limited or would be extremely costly, but where a permanent agricultural activity is needed to conserve and protect the countryside and to maintain a desirable minimum economic and social tissue.

22. The following options aim at suggesting some possible answers to these problems by means of direct income aids. Although for the purpose of illustration they are presented as different concepts, they could be combined or adapted to the diversity of situations in European agriculture. It is emphasised that these options are in no

way propositions, but are presented as a basis for discussion and a means of clarification; they do not prejudge the choices which may eventually be made in this matter.

22.a. As far as direct income aids are concerned the Commission stresses that great care would have to be taken to keep, as far as possible, such schemes neutral with respect to production and compatible with market policy. Special attention would also have to be paid to the practical administrative aspects if such schemes were to be introduced.

23. Such systems of income aid already exist at present. The most important one is that of farmers in mountain and other less favoured areas covering about 37 % of the agricultural area and 38 % of the holdings in the Community. Its objective is to maintain landscape and a minimum density of population through the maintaining of agricultural activity and therefore to compensate natural handicaps with which farmers in these areas have to cope.

23.a. The Commission considers however that deficiency payments (payments per unit of output) could create new incentives to produce; such an approach would have a low degree of selectivity and could therefore become very costly.

24. Four basic types of possible aid systems are presented in this chapter as a starting point for discussion : a pre-pension scheme, a system with a structural policy component, a system with a social orientation, and a buying-out system with an environmental objective.

To indicate the order of magnitude of the financial costs involved, a budgetary estimate is given for each of the options. These estimates are based on the available statistics for the Community of Ten; it must be emphasised that in a Community of Twelve the sums involved would be substantially greater, because of the importance of small-scale agriculture in Spain and Portugal.

Already the Commission, in referring to the possibility of income aids in document COM(83) 500, suggested that such aids could be financed wholly or partly from the Community budget. Community participation is necessary since :

- income support provided by the CAP would be partially shifted from support through the market organisations to support through direct income aid;
- in any case, Community financing is the necessary complement to common rules and criteria, so as to maintain conditions of fair competition in agriculture throughout the Community;
- in the case of aids for environmental reasons, such action would be in the interest of the Community as well as that of Member States and regions.

It could not be envisaged that there should be no Community participation, for agriculture in many countries has been a central element in the creation of the Community. There are also considerations of solidarity which imply that the stronger members of the Community should not dominate the weaker; without this solidarity, the future not only of European agriculture but of the Community itself would be compromised.

While Community participation is necessary to avoid a progressive renationalisation of the CAP, the absence of a national participation would mean a lesser degree of national responsibility for control and good management of an aid system.

25. The Community participation would have to be fixed with respect to overall budgetary restrictions and in accordance with budget needs in other fields of Community activity. Also, different formulas should be examined, such as the modulation of the Community participation according to the agricultural situation in the different Member States, as well as according to the Member States' financial capacity. In any case, such a modulation would reflect the principle of financial solidarity between countries.

2. Options for action

Option A : Pre-pension for farmers of 55 years and older

26. An aid in form of a pre-pension scheme could be paid to older farmers (≥ 55 years) who would abandon their agricultural activity. Such a pre-pension could be granted up to 65 years, when the beneficiaries of the scheme would be integrated in the normal national pension systems.

27. A pre-pension scheme was already introduced in the CAP in 1972 by means of Directive 72/160. However, it did not attain its objectives. In fact, the scheme provided for an amount per beneficiary of approximately 1.000 Ecu per year, eligible for Community reimbursement provided that the liberated land was taken up by other farmers presenting development plans in accordance with Directive 72/159. The Member States were allowed to pay a higher indemnity from national funds. The insufficient amount of indemnity and the strict conditions concerning the attribution of liberated land seriously limited the impact of Directive 72/160. The number of beneficiaries fulfilling the conditions for Community reimbursement was only 5.500 for the period 1972 to 1983. In addition to this number a further 84.000 farmers benefited from retirement annuities which were not the subject of Community reimbursement due to the non-respect of the full provisions of the Directive. The vast bulk of these farmers were accounted for by two Member States namely France and Germany where the indemnity provided was about 3.500 Ecu per beneficiary per year. In the case of these two Member States the number of retiring farmers represented 10 % of farmers in the age-group 55-64.

28. Based on the experience of the past ten years, a new scheme :

- should offer an amount considerably above 1.000 Ecu per person per year;
- should not be linked to conditions too difficult to fulfil, especially in agricultural problem regions.

29. On the other hand, a pre-pension scheme of the type proposed would have to be limited to farmers whose main occupation is in agriculture. There are at present some 600.000 main occupation farmers in the age group from 55 to 64 years in the Community of Ten. However, according to past experience, only a part of them would participate in the scheme. Their final number would depend on the restrictiveness of agricultural price policy over the next few years, and of the level of the pension.

30. According to first estimates, a pre-pension of 3.000 to 4.000 Ecu per year close by 15 % of the main occupation farmers of 55 to 64 years would cost between 270 and 360 million Ecu per year.

Option B : A structural approach

31. The basic idea of this option is that there are a number of farms which in the longer run could be fully viable in economic terms and the development of which is at present promoted by the new

structural policy (farm improvement plan provided for in Regulation (EEC) n° 797/85). The consistent application of a strict price policy over several years could create immediate economic difficulties for many of them which, at the limit, could lead them into bankruptcy. In this context attention has to be drawn to the problem of indebtedness. In fact, a number of modern farms which made important investment efforts in the past and could well be viable in economic terms, would suffer from both income pressures and a possible decrease in the value of land which often serves as a guarantee for the loans obtained. In this context attention has to be drawn to the problem of indebtedness and to the question of how the Guidance Section of the EAGGF could respond to it. In fact, a number of modern farms which made important investment efforts in the past and could well be viable in economic terms, would suffer from both income pressures and a possible decrease in the value of land which often serves as a guarantee for the loans obtained. At least some of them could, however, well adapt to the new situation if they got, during a transitional period, some financial relief. At the same time, those farmers who would not be able to adjust their business would have sufficient time to "opt out" for an alternative employment or, if it exists, a pre-pension scheme (if they are 55 to 64 years old).

32. It would be in the logic of this option to limit the income aid to professional farmers, i.e. farmers who get more than 50 % of their total income from agriculture and who work more than half of their working time in this sector. In order to introduce the necessary selectivity the aid would be limited to professional farmers whose agricultural incomes fall below a certain percentage (e.g. 75 %) of the comparable income at the regional level.

33. The aid would be temporary (e.g. limited to a 5 year "period of transition"), giving the farmer a financial relief during some years in order to allow him to decide on his future and to make the necessary adjustments. Furthermore in order to avoid too abrupt a cut-off at the end of the transitional period the aid would need to be degressive.

34. To simplify the administration of the system, the aid could be calculated as a flat-rate allowance per unit of production (hectare or livestock unit). This unit rate would be modulated according to the average regional economic value per unit of production as well as according to the type of production in question.

35. According to a first estimate, some 1,9 million farmers would be concerned by such a scheme, and its cost could amount to 4.000 - 6.000 millions Ecu over the whole period of five years (depending on the concrete assumptions made).

Although its basic idea is to give financial relief during a limited period of time (5 years) in order to allow farmers who are able to do so, to make the necessary structural adjustments, the system would also apply to a large number of marginal and submarginal holdings without any prospects of economic viability in the future.

For them it would mainly represent a transitional social measure. There is a risk, however, particularly for farmers belonging to this latter category that beneficiaries would not adapt to the new situation as long as their losses are at least approximately offset by the aid, as would be the case during the first years of application of the scheme.

Option C : A social approach

36. The basic idea of this option is that although structural change in agriculture should not be hampered it has to be canalized in a way that avoids intolerable social pressures. As long as no alternative income and employment possibilities are available an income aid scheme for farmers should help to avoid social hardship, thus attenuating adjustment pressures without, however, neutralizing them completely. Such a system should be a last resort. It would therefore have to be highly selective (i.e. to concentrate on those who are really poor) and intervene only when other mechanisms of solidarity, especially the solidarity between members of the same household, have played the role one can reasonably expect them to play.

37. The total income of farmers (agricultural + extra-agricultural) would be compared to the comparable income (average gross wage income) at the regional level. Only those farmers could benefit from the aid whose total income would be X % below the comparable income or less. The difference between the total income and the X % of the comparable income would be paid in the form of an income aid, after deduction of a flat-rate calculated for family members with a gainful outside activity living in the farm household. This flat-rate should at least in some way represent their "benefits" from living in the household, but should not be high as compared to their off-farm incomes in order not to discourage the search for outside activities.

38. The scheme would not be degressive in a strict sense. But it could well be limited to the present generation of farm holders and thus become self-eliminating. Since only the difference between total income and a modest proportion (e.g. 50 %) of comparable income would be covered, its selectivity would be ensured and an incentive

maintained to look for alternative employment opportunities offered at the regional level. In many cases, the income aid could also be limited to "management contracts" for environmental purposes.

39. According to a first rough estimate, about 1 - 1,5 million farmers would be concerned by such a scheme and it could imply costs in the order of magnitude of some 1.000 million Ecu per year at the beginning.

The system, as it is presented here, clearly constitutes a "last resort" social aid scheme; in this context, it is questionable whether the comparable income as defined in the framework of the agricultural structures policy would be a valid point of comparison, taking account of its different economic signification in the different Member States.

Option D : A Buying out approach

40. The basic idea of this option is that an aid should only be granted if, in return, a farmer is prepared to abandon his "right to produce" agricultural products on his land and thus make a contribution to the reduction of overall agricultural production. This would be a form of "set-aside" of agricultural land. In the strictest version of this option, the land made available could be bought or rented on a long term bases for non agricultural uses, e.g. the creation of ecological refuges and reserves, leisure parks, afforestation.

41. In the logic of this option, every farmer could participate in such a scheme although it may be expected that mainly farmers with marginal land or poor production structures would be interested. The aid would be fixed in proportion to the volume of production abandoned.

42. In a less strict version of this option, the income aid could also be granted if the farmer abandons the right to produces surplus products (or other highly supported agricultural products) and changes his production to alternative (less supported) products for which market outlets exist, but which offer in the short run less favourable income possibilities; in this case the aid would have to be degressive.

43. In all cases the fixing of the amount of aid to be granted would be a crucial question. If the farmer has to abandon his right to produce, the aid would at least have to compensate fully for his agricultural income losses, and probably it would even have to be higher in order to constitute a real incentive. If such is the case, the amounts in questions could become relatively large. Per person concerned they would probably be higher than for the other options which do not require the (full or partial) abandon of the right to produce (except in the case of pre-pension).

PERSPECTIVES FOR THE COMMON AGRICULTURAL POLICY

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Table 1 A - Agriculture in the economy - Contribution to the Gross Domestic Product and Employment

Indicator		D	F	I	NL	B	L	UK	IRL	DK	GR	EUR 10	SP	P
% part of agriculture in GDP (1) :	%	3.1	7.1	8.6	5.7	4.2	3.9	2.9	18.2	6.2	19.2	8.8		
	%	2.0	4.1	6.5	4.2	2.5	3.0	2.2	10.5	5.0	16.9	3.7	6.2	6.6
Average annual growth rate (2) 1970-1982	%	1.8	1.5	0.9	5.1	1.7	-	3.0	-	3.9	2.2	1.9 ^{a)}	1.8	0.8
	%	1.3	3.1	3.1	1.7	2.6	-	-0.8	-	2.4	4.5	1.7 ^{a)}	3.9	4.6
	%	2.4	3.2	2.6	2.3	2.8	-	1.5	-	2.3	4.1	2.5	3.2	4.4
	%													
Implicit price deflator Evolution 1970-1982 (4)	Index 1970=100	136	249	476	129	162	158	321	-	239	620	220 ^{a)}	360	520
		163	287	511	161	165	143	439	-	262	487	260 ^{a)}	430	650
		181	313	552	234	214	132	443	-	295	544	290 ^{a)}	527	630

% part of agriculture in employment	%	7.1	10.8	17.8	5.5 ^{b)}	3.8	7.8	2.9	24.6	9.4	33.2 ^{c)}	8.8 ^{c)}		
	%	5.4	8.3	12.4	5.7	2.9	5.0	2.5	23.6	7.0	29.7	7.6	18.2	25.4
	%	3.8	8.0	9.6	4.3	3.2	6.0	2.2	23.6	6.5	22.7	6.3		

GDP per person employed	1.000 Ecu	22.6	21.6	14.9	26.2	21.5	19.2	16.3	13.3	19.3	9.4	19.0	15.4	7.3
Agricultural GVA per AWU	1.000 Ecu	11.2	10.5	9.1	22.0	16.8	10.6	14.8	5.5	14.1	6.1	10.4		

(a) EUR 7 = D, F, I, NL, B, UK, DK in Ecu
 (b) 1975
 (c) 1977

(1) Gross domestic product at factor cost
 (2) National money, constant prices 1975
 (3) Gross value added at market prices
 (4) National money

Source : EUROSTAT

Table 1 B - Agriculture in the economy - Investment and Trade

Indicator	Unit	D	F	I	NL	B	L	UK	IRL	DK	GR	EUR 10
% part of agriculture in gross fixed capital formation												
• 1973	%	2.6	4.3	5.2	4.5	2.8	3.5	:	13.6	5.9	8.8	:
• ∅ 1980-1983	%	2.8	3.6	6.8	4.6	2.1	4.0	2.2	8.4	5.2	9.3	3.7
Investment rate (1)												
• in agriculture : - 1973	%	24.6	17.9	16.2	23.2	17.1	29.7	28.9	24.1	30.5	-	20.2
- 1980	%	31.6	21.4	22.0	32.7	21.6	33.7	26.7	30.4	30.1	-	24.9
- 1983	%	25.3	21.8	21.9	22.0	17.7	-	23.7	-	-	-	22.3
• in total economy: - 1973	%	17.4	17.7	15.3	17.6	17.5	19.1	15.9	19.8	15.8	-	16.9
- 1980	%	17.5	16.5	14.3	15.6	16.2	18.2	15.0	23.4	14.6	-	16.1
- 1983	%	15.5	-	12.6	13.7	15.1	-	13.5	-	-	-	-
Coverage of imports by exports (agricultural products)												
• 1977	%	21.9	45.9	19.7	46.1	20.1	20.1	26.4	110.9	91.3	-	33.2
• 1983	%	32.2	87.3	30.2	66.0	36.6	36.6	41.1	273.8	133.5	114.1	53.7
Trade balance : ∅ 1980-1983												
• agricultural food products (1983)	Md Ecu	-1.5	+1.3	-0.4	-1.0	-1.2	-1.2	-1.2	+0.7	+1.1	+0.2	+1.1
• regulated agricultural products	Md Ecu	-4.4	+1.2	-1.6	-1.9	-1.1	-1.1	-5.1	+0.3	+0.6	+3.3	-11.7

(1) Gross fixed capital formation per unit of gross value added, current prices and exchange rates Source : EUROSTAT

Table 1C - Trends in Community trade with third countries

		1973 (1)	1981 (2)	1982 (2)	1983 (2)
<u>All products</u>					
Imports	(Mrd ECU (index)	84,47 100	303,80 360	321,47 381	328,49 389
Exports	(Mrd ECU (index)	80,64 100	266,66 331	286,48 355	303,03 376
Balance (deficit)	(Mrd ECU (index)	3,83 100	37,14 970	34,99 913	25,46 665
<u>of which :</u>					
<u>Agricultural and food products</u>					
Imports	(Mrd ECU (index)	24,14 100	44,72 185	47,60 197	50,36 209
Exports	(Mrd ECU (index)	7,40 100	26,05 352	25,58 346	26,77 361
Balance (deficit)	(Mrd ECU (index)	16,74 100	18,67 115	22,02 132	23,59 141
<u>of which :</u>					
<u>Products under a common market organisation</u>					
Imports	(Mrd ECU (index)	13,28 100	23,58 178	25,01 188	25,75 194
Exports	(Mrd ECU (index)	4,90 100	18,46 377	17,22 351	17,71 361
Balance (deficit)	(Mrd ECU (index)	8,38 100	5,12 61	7,79 93	8,04 96
<u>For comparison</u>					
Index of consumer prices in the EEC	EUR-10	100	242	269	292
Index of unitary values for total exports (in ECU)	EUR-10	100	230	251	261
Index of unitary values for total exports (in \$ US)	World	100	255	245	234

(1) : EUR-9
(2) : EUR-10

Table 1 D - EC EXPORTS OF AGRICULTURAL PRODUCTS IN QUANTITIES (tons)

CCT CHAP.	PRODUITS	1974	1983	1983 : 1974
01	Live animals	42.741	221.319	517,8
02	Meat + offals	352.210	1.017.766	288,9
03	Fish, crust., mollusc.	225.696	723.459	320,5
04	Dairy produce, eggs	1.801.583	2.245.262	124,6
05	Other animals prod.	114.186	157.236	137,7
07	Vegetable	1.077.325	1.302.007	120,8
08	Fruits	804.053	933.111	116,0
10	Cereals	5.803.885	16.451.347	283,4
11	Prod. of the milling ind.	3.012.196	4.527.798	150,3
12	Oilseed, oleag. fruit	426.937	357.222	83,6
15	Fats + oils	849.843	1.302.908	153,3
16	Prep. meat + fish	261.533	252.748	96,6
17	Sugars + confection.	1.620.698	4.834.261	298,2
19	Prep. of cereals	193.447	441.527	228,2
20	Prep. of vegetable + fruit	307.878	672.574	218,4
21	Miscell., edible prep.	219.269	379.120	172,9
23	Residues from the food ind.	1.729.077	4.046.933	234,0

Source : EUROSTAT - SIENA
EUROSTAT

(*) 1974 = CEE 9
1983 = CEE 10