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PERSPECTIVES FOR THE COMMON AGRICULTURAL POLICY

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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

