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"REFORM OF THE CAP IN A CHANGING EUROPE"

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The main sources for this Communication are, on the one hand, official documents of the European Commission (e.g. the reports on agricultural situation in the Community, "the Green Paper", the Communications on "The Future of Rural Society" and "The Development and future of the CAP", the explanatory memoranda to proposals on "The introduction and the maintenance of agricultural production methods compatible with the requirements of the protection of the environment and the maintenance of the countryside", on "Organic production of agricultural products", on "The protection of geographical indications and designations of origin for agricultural products and foodstuffs" and on "The prices for agricultural products and related measures (1991/1992)") and on the other hand recent studies such as the report of the CEPS (Centre for European Policy Studies) "New Directions for European Agricultural Policy" arising from the work of an expert group chaired by Claude Villain, former Director General of the Directorate for Agriculture in the European Commission and member of the International Policy Council on Agriculture and Trade, and the paper commissioned by the "Land Use and Food Policy Inter-group" of the European Parliament entitled "A future for Europe's farmers and the countryside" by Professor John Marsh, Professor Green, Professor Kearney, Professor Mahe, Professor Tangermann and Professor Tarditi.

I N T R O D U C T I O N

Diversity in european agriculture

1. The Common Agricultural Policy (CAP) has received much negative publicity as the most expensive, complex and problematic of the European Economic Community's policies. Suggestions for its reform, however, have met with limited success, owing either to entrenched political factors or to the intellectual inadequacy of the ideas themselves. A short-sighted perspective of European agriculture has inevitably prevailed.

2. **Of all economic sectors in the European Community (EC), agriculture is one of the most heterogeneous and there is a great variation across the different Member States in resource endowments. One should therefore guard against making generalisations because the great diversity of European agriculture is reflected not only in the variations in the size of farm holdings but also in differing types and methods of production which give rise to different economic results ; these in turn reinforce the need for a differentiation of policy on a regional level.**

- 2.1. In the EC of the 12 in 1990, there were about 8,4 million farms, of which 7 % are larger than 50 ha but 61 % smaller than 5 ha. The average size ranges from 4 ha in Greece to 65.1 ha in the United Kingdom. At Community level, the average is at present 13.2 ha. The diversity in the structure of holdings is compounded by the high proportion of elderly farmers on smaller farms. The structure of holdings is, in turn, reflected in the size, structure and distribution of farm enterprises. The diversity in European agriculture is ultimately reflected in the incomes earned by the agricultural labour force.

2.2. Certain Northern Member States - Netherlands, Denmark, and Belgium - have more than twice the European Community average income per labour unit (in agriculture) while in Ireland, Italy, Greece and Spain incomes are between 10 and 30 per cent below the Community average, with Portugal even further behind at the bottom of the income league. Great differences also exist between the different regions within these Member States.

3. In 1960, when the Common Agricultural Policy was introduced, the EC was not self-sufficient in a number of areas of agricultural production. The overall policy objective was to become 100 % self-sufficient and to have an export potential. Looking back from 1991 we could well conclude that the policy was too successful.

3.1. The successive enlargements of the Community have led to an increase in the diversity of agricultural structures and skills. While agriculture is still of major importance, particularly in the newest Member States, it has become a less significant part of the total EC economy. Thus, while employment in agriculture still plays an important role in the most recently-joined Member States, it is continuing its downward trend in the rest of the Community.

Previous reforms

4. The EC is now facing problems related to its budget, to production surpluses and environmental questions caused by what has been an otherwise successful policy and it has become absolutely essential to adjust this agriculture policy for the end of the century.

5. Until recently, the reform of the Common Agriculture Policy was at the top of the European Community's political agenda. The reform initiatives of the "Green Paper" of the European Commission in 1985 and the conclusions of the European Council of February 1988 were a direct response to the Community's budgetary problems, of which agricultural support spending was identified as the major cause. The policy changes of 1988, in particular the introduction of expenditure "stabilisers", were designed to deal with the intolerable and growing surpluses in the major agricultural commodities identified as the main source of the unbearable increase in the costs of the CAP.

6. While using different techniques adapted to the characteristics of each market organisation, these reforms had the common aims firstly, of lowering prices when the quantity produced exceeded a given threshold; secondly, increasing the participation of producers in financing expenditure and, thirdly, reducing the guarantees provided by public intervention. A ceiling was placed on agricultural expenditure, so as to link it to the evolution of the Community's GDP.

7. This market policy, based essentially on price policy, was to be accompanied, according to the conclusions of the European Council, by other measures having a double objective :
- to reduce the volume of production through set-aside, extensification, conversion of production and pre-retirement aids linked to non-utilisation of land freed on the retirement of the producer ;
 - to cushion the effects of price reductions and increased financial coresponsibility on the incomes of the most vulnerable farmers. Aid schemes for small producers and the reduction of coresponsibility in certain market organisations (milk, cereals) were intended to meet this concern.
8. The aim of these modifications was to maintain the status quo within a tight budgetary limit. The market measures taken have had some impact insofar as the rapid expansion in production has been halted. The most notable development has been in the oilseeds sector where production seems to have stabilised after a trend of dramatic increases. This development, accompanied by a relatively favourable world market situation in 1988 and 1989, allowed the Community to get through two marketing years without any great problem, while reducing stocks and budgetary costs.
9. While the situation of European agriculture was overshadowed by other domestic and international events, the measures applied solved the budgetary crisis for 1989 and 1990, but they did little to improve the economic and social efficiency of the CAP. Most significantly, the changes did not deal with the increasing divergence of incomes within the agricultural sector. The income gap between the highly-productive minority and the economically less efficient, but socially-important majority of farmers, continued to widen.

Present and future factors

10. Technological development continues to increase productivity and European agriculture is increasingly affected by developments in biotechnology and genetic engineering relating to both plant and animal production.
11. The international context of European agriculture has also changed. New markets are opening up and new competitors emerging, particularly in Eastern Europe and the Mediterranean region. Pressure for policy change is being applied by other countries outside the EC and by non-agricultural sectors, as the current GATT negotiations demonstrate.
12. Increasing ecological concerns are leading to growing calls for sustainable agricultural production, more effective management of environmental resources and better nature-conservation. Environmental considerations must be integrated into the overall policy framework.
13. Within the Community, it is important to define the role of agriculture in the development of rural areas, both in highly developed and economically-vulnerable regions. Despite increasing uncertainty and anxiety among Europe's farmers, agriculture in Europe does have a future but the challenge is to develop positive prospects for farming in a more competitive environment and as part of a coherent rural development strategy.
14. Primary agricultural products now account for a much smaller proportion of final expenditure on food by consumers. At the same time, consumer demand for what is perceived to be high-quality and "healthy" food is growing. Agriculture is becoming more and more closely integrated into other economic sectors and the completion of the internal market will enhance this process.

15. It seems clear that in view of the continued uncertainty in world markets and the greater diversity in policy goals, there is a need for considerable flexibility. The CAP began with the multi-purpose goals set out in Article 39 of the Rome Treaty. It is quite clear that if future needs are to be met, its aims and instruments must become more precise. The sort of rural development policies which are required will not be accomplished within the confines of agricultural policy alone.
16. The sharp improvement in the agricultural situation experienced in 1989 in the Community has been largely offset by a serious deterioration of the markets in 1990 especially during the second half of the year. This reversal of the situation was certainly influenced by special events, such as the drought in some Mediterranean regions, the health problems in the animal sector, the embargo on trade with Iraq, German unification, changes in Eastern Europe, the weakness of the dollar, etc. But the main reason was in fact the persistent structural imbalances on most markets, which were only temporarily reduced in the late 1980s. This conclusion seems to be confirmed not only by the depressed market situation in 1990 but also by the worrying short and medium-term outlook for both the Community and the world markets.
17. Due to the high levels of guaranteed production, the production thresholds (MGQ's - maximum quantity) fixed for 1990/91 were exceeded in many sectors and budgetary stabilisers brought into action. (This is the case for rapeseed, sunflower, soya beans, peas and field beans, cotton, wine, sheepmeat, certain varieties of tobacco, certain fruits and vegetables). As a result of the overrun of the MGQ's in 1989/90, institutional prices for the 1990/91 marketing year were reduced for many products. For cereals, the intervention price fell by 3 %. Compared to the previous year, target prices dropped by 13.0 % for rapeseed, 16.0 % for sunflower, 13.4 % for soyabeans and 12.4 % for peas and field beans.

18. Another sign of the growing of market imbalances for most products is the recent growth in public stocks in the major sectors, after the sharp reduction in previous years. By the end of January 1991 cereal stocks amounted to about 16.1 million tonnes (including 1,2 million tonnes ex-GDR stocks). If the amounts on offer to intervention are added, the total comes to 18.6 million tonnes. Stocks of butter and skimmed-milk powder which had practically disappeared in 1989 are now rising worryingly (253.000 and 333.000 tonnes respectively by the end of January 1991). Beef stocks exceeded 700.000 tonnes in January 1991, which is more than 570.000 tonnes above the level of January 1990.

18.1. The trend on the cereals market is especially worrying. While total production has remained at around 160 million tonnes (without ex GDR), two major problems remain. Because of competition from substitutes, consumption of cereals in animal feed is declining constantly by between 1.5 and 2m tonnes annually. In addition, over the last 3 years, wheat production has increased by 10 million tonnes while the world market has been largely stagnant over the last 10 years. Intervention stocks of cereals are rising sharply. (Early indications are that stocks could increase to 28 million tonnes by the end of the next marketing year in June 1992.)

18.2. As regards beef production, the European Community is facing a huge build-up of stocks (likely to reach 1 million tonnes before the end of this year), plus a 2 or 3 % increase in production, plus a drop in consumption and a number of other problems :

- additional quantities coming on the market as a result of developments in Eastern Europe;
- disappearance of traditional export markets in countries involved in the Gulf War;
- some markets have become very restricted internally as a result of Bovine Spongiform Encephalopathy (BSE) or externally because of BSE implications;
- some of the export markets have not had sufficient resources to buy produce even though prices are relatively low.

19. These developments are reflected in budgetary costs, worsened by the low exchange rate of the US dollar related to the ECU. Initial work on the 1992 budget shows that the Farm budget (known as EAGGF) will increase to 35 billion ECUs, including the cost of the German unification, compared with the 31,5 billion ECUs in the current budget for 1991, which itself is an increase of 20 % compared to 1990, and likely to be further increased before the end of the year, up to the maximum ceiling authorised by the "Budgetary Discipline" i.e. 32,5 billion ECU.
- 19.1. If action is not taken rapidly, according with the Commission's estimates, the continuation of the current policies and measures will lead to a requirement of more than 37,5 billion ECU in 1992, exceeding by more than 2 billion ECU the ceiling authorised by the Budgetary Discipline, entailing an increase of 50 % compared with spending in 1990.
20. Independently of the need to act as rapidly as possible in correcting this trend in the current price-fixing negotiation for the 1991/92 marketing year, it is now time to develop new orientations for the Community's agricultural and rural policies, since the context in which these policies have been drawn up has changed radically.
21. In the longer-term an overall reform is necessary to make further improvements in the efficiency of the Community's food and agriculture policy. We have to wait and see the Commission's detailed proposals which will then be negotiated in the Council.

C h a p t e r I : T H E C H A L L E N G E S

A. AGRICULTURE IN A GROWING ECONOMY

22. The Community has from the outset recognised the importance of agriculture. The creation of a common policy was a reflection of not only its economic importance but its social significance and the need to assure people that their food supply was secure. **Agriculture remains politically a very important activity.** There exist considerable differences within member countries but everywhere governments treat it differently from the way they treat most other industries.
23. Part of the reason for this concern is still the **large proportion of the population which derives its income from farming.** In the south of the Community, agriculture is still the main source of employment for vast numbers of local communities. However, the agricultural population of the Community as a whole has declined and is now only 7.7 % of civilian employment.
24. **Agriculture, as the largest land user in Europe, has also to come to terms with growing public concern about its effect on the rural environment.** The Utilised Agricultural Area covers around 75 % of the total land area. State support for the sector, linked with technological and biological developments, have enabled many of the old constraints to production to be overcome. Mechanisation, fertilisers, pesticides, herbicides, new varieties of crops and animal breeds, advisory and veterinary services, product specialisation, more continuous cultivation and larger scale systems have all contributed to greater yields per unit area and, in places, to the bringing of previously infertile, waterlogged, or otherwise unworkable land into production.

25. This success in increasing production has been achieved at considerable environmental and social cost. Traditional agricultural systems created and maintained environments rich in wild-life, landscape and recreational opportunity which were generally better suited to the long-term sustainability of the land than the modern systems which have replaced them. Product support systems have distorted this relationship. Thus, for example, land has been ploughed which is best suited to grass, and wetlands important in regulating river flows, have been drained. As a result environmental problems such as erosion, flooding and pollution have ensued, biodiversity has decreased and the amenities of the countryside declined.
26. **Community agriculture also has to come to terms with major changes in its market.** The food industry, which is its main direct customer, has become increasingly concentrated and sophisticated. Large retailers and processors now exercise considerable market power. Rich consumers are better able to insist on quality and seek greater variety in the food they eat. The new methods of food production have led to greater anxieties about food safety and about the implications of production methods for the nutritional quality of food. Current medical advice also implies changes in the diets which characterise much of northern Europe, indicating a need for less animal fat and more vegetables.
27. To succeed in this challenging environment, **Community agriculture will have to cope with a period of relatively rapid and uncomfortable structural adjustment.** There can be no doubt that, without some special assistance, this would mean hardship for many farmers, especially those who are poorest and have fewest resources. The Common Agricultural Policy must face new developments to assist this process of adjustment and to shield those who are most at risk.

28. Ever since the Community came into existence agriculture has been experiencing a cumulative downward adjustment in its share of employment and of GDP. These trends continue. In the next decade agriculture has not only to cope with the consequences of a reduction in the level of economic protection but also with the continuing change in its economic circumstances which stem from the growth of the EC economy itself.
29. Real incomes within the Community have been rising considerably. As incomes rise in rich countries, spending on food increases at a smaller rate than spending on consumer goods in general. Further, much of the additional money spent on food is used to buy convenience and diversity. These characteristics are more commonly provided by food processors and distributors than by farmers. There is little demand for extra quantities of farm products. As a result farmers' incomes tend to rise less rapidly than do incomes in general. At the same time, the purchases which farmers make from the rest of the economy, for labour for manufactured inputs and for services, have to be paid for at prices which reflect the general level of income growth. The consequence is a squeeze on farm profits. There is then a downward pressure on profits which may be relieved in per capita terms only if enough farmers leave the sector.
30. A second reason for the relative decline in agriculture's share in employment and GDP has been the introduction of productivity-increasing technology. Farm mechanisation, the control of pests and diseases, the use of fertilisers tailored to the needs of plants and the application of techniques which have enhanced the yield of crops and animals have enabled farmers to increase production with less manpower and less land. This additional output comes to a market which, for most products, is price inelastic. If the quantity which farmers place on the market is increased prices fall so much that total revenue declines.

31. Agricultural policy in the EC and many other countries has sought to offset this effect and to seek to maintain farm incomes by underpinning prices. This has created a situation in which output has been able to grow regardless of market forces. Despite this there has been a **continuing squeeze on the profitability of farming**. For example, an index of the real value of EC agricultural output fell between 1983 and 1988 from 109.4 to 87.2 ⁽¹⁾. Budgetary expenditure on sustaining prices rose rapidly leading to the imposition of budgetary ceiling and the introduction of quotas on milk and stabilisers for most other important products.

32. In an unprotected industry supplies reaching the market would be reduced by the exit of those producers who were least able to compete. This route to the restoration of profitability raises acute social problems. It requires a rate of exit from agriculture which more than offsets the effect of technological improvement. Those regions which were least well-equipped to compete, often the poorest and more remote regions of the Community, would be particularly hard hit. However, an agricultural policy which keeps in business farmers who are not competitive, merely conceals and postpones the problem, it does not resolve it. As the economy continues to grow and technology to improve, it will reappear.

(1) CEC "The Agricultural Situation in the Community" 1989 edition p T/34.

33. The factors outlined above suggest that **agriculture as a whole is likely to continue to contract in terms of its share of GDP and total employment** but they do not mean that the individual level of farm incomes for those who remain need be lower than earnings in other sectors. This will only be the case as long as too many resources remain in the industry. Thus any durable solution requires the development of alternative income opportunities for some of those who currently farm but cannot earn satisfactory incomes by doing so.
34. Between 1960 and 1985 the proportion of people working in European agriculture fell from 21.1 % to 8.6 % ⁽¹⁾. In addition, many of those who continue to work in agriculture do so on a part-time rather than a full-time basis. By 1980 equivalent full-time workers recorded in the EC were only 50.8 % of the total. The rate of movement is greatly affected by the general health of the EC economy. In the 1960s when the economy was growing rapidly many more people were able to leave farming than in the 1980s when the Community economy tended to stagnate.
35. The changes which are now in view are thus a continuation of a long term trend, which may be accelerated by agreement in GATT, rather than some dramatic break with past tradition. If, as is to be expected, a successful outcome of the GATT negotiation and the achievement of the internal market in 1993 leads to an improved rate of economic growth in the Community, it may be seen as part of the solution of the agricultural problem rather than simply as an additional burden.

(1) CEC "The Agricultural Situation in the Community" 1989
Edition pp 276

B. THE GATT

36. In all developed countries agriculture has enjoyed protection from the rigours of open competition in the market. The degree of protection has varied but work by OECD and others suggests that it has been very considerable in the European Community as well as, for example, in the US and Japan. This protection has led to a substantial distortion in the use of resources. More agricultural output has been produced than the market is able to absorb at its cost of production. Receipts to farmers have been increased by payments from budgets (in the form of intervention purchase, storage subsidies and export subsidies or deficiency payments) or by forcing consumers to pay more for agricultural products, through restricting the quantity of food reaching the market.
37. Whilst the effect of this has been very costly for the world as a whole, its consequences have been unevenly distributed amongst countries. Countries which are able produce at low cost have found their markets displaced by higher cost production from other parts of the world where governments have been willing to provide more generous support for their farmers. This loss of market has occurred initially in the form of the lost exports to the countries which protect their farmers most, but, as production has increased in these countries, markets to third countries have also been lost as a result of export subsidies.

38. The Community is a major force in world agricultural trade. It accounted for some 13 % of world exports and 23 % of world imports in 1987. Between 1980 and 1988 its exports had risen by 23.3 % but its imports rose by only 0.8 %. In 1988 the Community spent some 9.7 billion Ecu in export restitutions and a further 15.9 billion ECU in intervention purchase designed to keep prices up within the EC market.

39. Lower-cost exporting countries argued that this represented unfair competition and made it a central part of their agreement to a further round of negotiations in GATT that there should be "substantial, progressive reductions in agricultural support and protection".

40. These negotiations offered the prospect of substantial economic benefit to the Community as a result of further liberalisation of trade in goods and by the introduction of agreements relating to intellectual property, services and international investment. In pursuit of these gains the EC was implicitly accepting that agreement would require a reduction in the protection it afforded to its own farmers.

40.1. As yet it is not clear how large a reduction will result from the current negotiation but the Council of Ministers has agreed that the Community should negotiate on the basis of a global approach offering to reduce the level of total support by 30 % by 1996 compared with 1986 in connection with a rebalancing of treatment between, on the one hand, cereals and, on the other hand, cereals substitutes and oilseed products.

40.2. It is possible that a larger reduction in support will have to be conceded if the negotiations are to succeed but that will simply increase the need to adjust the CAP to the new situation.

41. In a "post GATT" world, in which support were significantly reduced, Community agriculture would not necessarily face a disaster. In part this is because the volume of world trade in farm products is expected to increase. It is also because world price levels for commodities like cereals, beef and milk, in a situation in which all countries observed the same rules, would be higher than those which have prevailed in the past when countries dumped on the market surplus agricultural products.

41.1. The ability of Community agriculture to compete in a post GATT world stems from the high quality of its farming, both in terms of available natural resources and the accumulated traditional skill of the farming community. It is reinforced by its position as supplier to one of the richest markets in the world and the access which this provides to capital and to the products of advancing technology.

41.2. In general, trade creates profitable opportunities for specialisation and this is also true for agriculture. In a situation in which international trade were freed from many of its past distortions, imports would certainly displace some domestically produced farm products. In other areas, the Community could retain its home market and develop a significant share of world markets.

42. The real success of the GATT negotiations shall be determined by the extent to which the wealthy, industrialised countries will be able to adapt their agricultural production structures and markets to a new global trade situation in which poorer and less-developed countries could increase their agricultural production while at the same time protecting their natural rural environment. The latter's aim would be to achieve as much self-sufficiency as possible in basic foodstuffs and to export agricultural commodities in such a way as to earn the hard currency necessary for their development.

43. While maintaining their capacity to sustain both a certain degree of self-sufficiency and a capacity to meet the needs of international trade, the industrialised countries could guide their agriculture towards high-quality production with a high level of added-value, using production methods respectful of the environment and in a rural world in which agricultural activity would be properly integrated with forestry and natural resources and in a context of a range of economic activities other than agriculture.

C. GERMAN UNIFICATION

44. Since October 3 1990, five new German "Länder" are part of the Community of 12 ; its agricultural sector, which is different from that of the rest of the Community, will therefore come under the CAP.
45. The agricultural situation in East Germany has been profoundly shaped by 40 years of central planning. Three successive land reforms between 1945 and 1960 wiped out a dual structure of quasi-feudal properties (situated mainly in the north) and family farms, replacing it with an almost universal system of large-scale agricultural holdings working on an industrial basis. In 1988, 1,159 "Agricultural Production Cooperatives" (Landwirtschaftliche Produktionsgenossenschaften) specialising in plant production with an average size of 4,540 ha and 350 members were responsible for 95 % of plant production ; 2,696 separate cooperatives specialising in animal production with on average 1,654 cows or 11,340 pigs and 120 members accounted for 77 % of total animal production. Approximately 10 % of the East German work force was employed in agriculture.
46. Although steps are already being taken towards integrating plant and animal production and scaling down the operations of cooperatives, the basic structure of East German agriculture is unlikely to change quickly. There will probably not be a mass re-introduction of family farms because there is no basis for it at the moment. The concept of the independent farmer with an entrepreneurial mind and without a fixed salary, paid vacation or maternity leave does not seem appeal to most East German agricultural workers. However, with changing political and economic conditions, attitudes may well change in the long term.

47. At present, East German agriculture does not seem to be competitive on a European scale. Investments have been neglected for too long, most cooperatives are overstaffed - although their members are usually highly-trained - and the quest for self-sufficiency on the part of the former Communist government has resulted in a sub-optimal product mix and the cultivation of large stretches of marginal land. However, East German agriculture does have inherent potential. There are strong possibilities that within a relatively short period of time and given substantial investment, its cooperatives will form part of the above-mentioned agricultural growth pole in the Community.

48. Problems may arise from the fact that it will be difficult to apply an agricultural support system at present geared towards the maintenance of family farms, to a whole region where such farms have been replaced by a generalised system of agro-industrial holdings. Structural measures such as the 'set-aside' scheme, for example, designed to alleviate market pressures, might lead drastically to the opposite effect if such funds are used for more efficient production and for further intensification. This may soon oblige the new all-German government to move away from the outlook on agricultural policy held in recent years in Bonn and put additional pressure on the CAP.

D. CENTRAL AND EASTERN EUROPE AND NON-EC MEDITERRANEAN COUNTRIES

49. The international environment is as important for the evolution of European agriculture and for the CAP as are the internal, economic, political and technical forces which have been shaping it for more than three decades.

49.1. In the context of this external environment, there are two regions which merit particular interest on the part of the Community because of their geographical proximity and historical links : firstly Central and Eastern Europe and, secondly, the non-EC Mediterranean region. The political as well as economic importance of these regions is self-evident, especially when their medium-term development perspectives are taken into account.

50. Developments in Central and Eastern Europe represent a new source of potential economic pressure on Community agriculture. Some Central and Eastern countries are already net exporters of agricultural products. Others, although short of food at the moment, have the potential in a suitable market environment to become so. For the Community, which wishes to encourage these new "market" economies to prosper, it is essential to open access to EC markets. However, any additional imports of agricultural produce will make even more urgent the changes already confronting the CAP.

50.1. It is considered necessary to facilitate this evolution by opening the possibility of the integration at some stage in the future of certain Central European States into a wider Community.

51. The dramatic and positive changes which are taking place in Eastern Europe create a completely new environment for the agricultural and food sectors of these countries. The outcome of these reforms is difficult, if not impossible, to predict. However, they raise important questions for the future of agricultural policies in Western Europe. In particular, will growth of food demand in Eastern Europe outpace domestic production, with the result that there could be expanding markets for agricultural exports from Western Europe ? Or will East European agriculture seek markets in Western Europe ? In the first case, GATT agreement on agriculture may be less urgent, in the second it would be even more important.

52. Food consumption in Eastern Europe is relatively high, compared to the general standard of living. As a result of current reforms, aggregate food demand in Eastern Europe may decrease, rather than grow. One reason is that governments of East European countries are pressed to reduce their budget deficits, and as consequence they will have to cut food subsidies. Moreover, the opening up of markets will make a wider choice of consumer goods available, and demand may turn away from food. On the other hand, demand for certain types of food may grow significantly, in particular for citrus and tropical fruits, tropical beverages, superior types of meat, and processed foods. However, such demand does not create a market potential for most of West European agriculture.

53. As far as production in Eastern Europe is concerned, there are reasons to expect that the ongoing reforms will, after an adjustment period, increase productivity and probably also production levels. Some of the major factors will be : improved resource allocation with the removal of bureaucratic central planning ; strengthened incentives as a result of privatisation ; more appropriate price structures ; better availability of inputs and capital goods and more ready credit facilities ; improved efficiency in the livestock industry as a result of more appropriate feeding practices ; availability of better genetic varieties and breeds ; reduction of losses and waste as a result of improvements in the logistic infrastructure. The difficulties of achieving such improvements are enormous, and it will take quite some time before they become effective. But there is now hope that such changes will occur.

54. In this scenario, there is no case for the European Community to meet a rapidly-growing food demand in Eastern Europe. On the contrary, as far as agricultural primary products (as opposed to processed foods) are concerned, there may be less demand for some commodities which the European Community exports (cereals and sugar), and more export competition for others (meat). Hence, the urgency of agricultural policy reform in the EC is confirmed. In addition, the European Community must also assist the process of reform in Eastern Europe by further improvements in market access for agricultural products exported from East European countries.

55. This analysis may appear to be at odds with the fact that in some East European countries there is an apparent shortage of some types of food, as evidenced by food rationing, empty shelves and queuing in front of shops. Moreover, it may appear to be inconsistent with the perceived need for (and actual recent practice) providing food aid to some East European countries. However, one must be careful to distinguish different types of apparent food shortage which require different responses.
56. Food aid can play a role in the case where a drop in domestic production or an acute shortage of foreign exchange for financing necessary food imports is the root cause of the food shortage. But it cannot solve the problems resulting from domestic price reforms or from monetary difficulties in East European countries. Hence the European Community must be prudent in any future considerations regarding possible food aid to Eastern Europe.
57. In the non-EC Mediterranean region ⁽¹⁾ some countries have a population growth rate exceeding 3 % per year. Within the space of one generation, the Mediterranean countries outside the Community could equal the EC in terms of population. This means that the political, strategic, economic and socio-cultural significance of this region will grow. In addition to the worrying demographic growth rates which could only be slowed down in the long-term, these countries display very low food intake figures, especially in terms of 'high value' calories.

(1) By which is meant those countries on the shores of the Mediterranean stretching across North Africa and around to Turkey.

58. In other words, any improvement in the standard of living of the population of these countries will result in a very rapid growth in food demand, which cannot be satisfied by local agriculture in its present state. This impasse exists in several countries, and this is why, in the medium-term, these countries are likely to become important markets for European agricultural production, notably for cereals, milk products and meat.
59. The improvement and modernisation of the agricultural and agro-industrial system is one of the first necessities in non-EC Mediterranean countries. This implies technical training as well as the creation of institutions in the Mediterranean region which are capable of stimulating the modernisation process. As well as training, the process will necessitate large investments and a price and market policy capable of promoting desirable initiatives in the farming and industrial sectors - private as well as co-operative. In those cases where necessary investments cannot be provided through national means, investments by foreign countries, especially those of the EC, would appear indispensable.
60. Agricultural development in non-EC Mediterranean countries is important for several reasons : increasing domestic production for local consumption, increasing local employment opportunities, contributing to the economic development of rural areas and improving the balance of trade and payments. Here the Community might assist by opening up its markets to products from these countries. It does not seem to be an easy task, however, for the Community to provide guaranteed access for exports from other countries, when one takes into account increasing production in the EC and the quasi-saturation of its demand.

61. Taking into account the political and psychological shock following the events in Eastern Europe and the USSR, it is conceivable that priority will be given to these countries, which are very close to Western Europe from a political, ethnic and cultural view-point. This trend is all the more probable because economic operators in Western Europe see possibilities for substantial profits in the medium-term in these countries because of their material and human potential. In the long run, however, Eastern Europe can be expected to become a competitor with the EC.

62. The outlook for the Mediterranean countries is somewhat different. Only in the long-term will the potential benefit to Western Europe be realised, and only on condition that the latter contributes in a significant way to the economic development of Mediterranean areas. The EC has recently formulated a new Mediterranean policy. It is desirable that this policy be implemented quickly and effectively. Aid to Mediterranean countries should not suffer as a result of the assistance directed towards countries of the East, nor should it be drowned out by a vast aid programme for developing countries. Strategic, political and economic interests point in favour of great support for Mediterranean neighbours of the EC.

E. COUNTRYSIDE AND ENVIRONMENT

63. Despite the relative decline in the economic importance of agriculture in the EC, the latter still plays a significant role in the maintenance of the countryside and rural environment shaping cultural landscapes and protecting natural resources. In the face of increasing pollution and environmental damage on the one hand, and growing public demand for a healthy environment on the other, this dimension of agricultural production is gaining in importance.
64. Unlike that of other continents, rural environment in Europe is determined by man-made cultural landscapes which are the result of a specific type of agricultural land-use. The natural vegetation of Europe, which once consisted predominantly of woodlands with a relatively small number of animal and plant species, was modified as a result of agricultural activities and the conditions were provided for greater ecological variety. However, during the last three decades, this positive relationship between agriculture and the environment has been disturbed through the introduction of modern, more intensive agricultural techniques, which have led to environmental problems in many parts of the EC.
65. Changes in agriculture have already led to impacts on the environment which cause public concern. There is an increasing recognition that policies, including agricultural policies, will have to take more careful and explicit account of their implications for environmental goals.

66. From the point of view of the farming economy, this is likely to impose additional costs. Reduced rates of fertiliser use, limits on the use of pesticides and herbicides and measures to control the pollution resulting from intensive livestock husbandry all seem likely to depress farm profits.
- 66.1. Policies of this nature, for example "set-aside", have so far been of a piecemeal character, and often confused environmental concern with the desire to limit production. There is at present a move towards a strategy in which environmental policies are part of a pattern of incentives to farmers which will accurately represent to them the social value of their activities.
- 66.2. In the context of oversupplied food markets, lower prices for food products may help to steer some farm resources to new uses more friendly to the environment. There is, nevertheless, concern among some environmental groups that price pressure might lead to the abandonment of some land and the further intensification of farming on better quality soils. To avoid any risk of this, it is necessary that there should be effective regulatory instruments to protect important environmental resources.
67. It is not right to blame the individual farmer for the loss of many traditional features of our landscapes and for the massive degradation of our environment. Farmers already are the managers and guardians of the environment and we should acknowledge this role and pay them for it. But then, on the other hand, there is a minority of farmers who, because of intensive use of pesticides, herbicides, slurries and fertilizers, have destroyed the environment. They should be penalised.

68. **Public concern has focused particularly on soil and water pollution from fertilisers, organic effluents, pesticides and heavy metals. Methane from ruminants and nitrogen oxides from fertiliser also make a significant agricultural contribution to global warming and ammonia from manures to acid rain. Such pollution, together with the ploughing of marginal lands and land consolidation, has led to serious declines in wildlife habitat and in flora and fauna and to the creation of barren open landscapes of little scenic or amenity value. Abandonment of land has helped increase scrub, but in places increase the risks of fire and avalanches.**
69. **The concentration of farms, land and livestock, the specialisation in a limited range of products and - as mentioned earlier - the intensification of the use of fertilisers, pesticides, feedstuffs and energy have been responsible for the greatest environmental damage. They have constituted part of an adjustment process to technological and economic developments which has been reinforced by agricultural policy.**
70. **Structural changes in agriculture have been strongly influenced by a policy which has induced or strengthened undesirable effects on the environment. Structural policy, which includes measures such as drainage, land consolidation and investment aids, has been the focus of environmental analysis and criticism. However, environmental damage has also been reinforced by the agricultural price policy - the main feature of the CAP. The most important effects on the environment have resulted from the distortion of price structures.**

71. Distorted price relationships exist between the EC market and the world market, between output and input, between products with market regulation and those without, between domestic and imported products. Cheap world market prices for soya have had a major influence on intensification and concentration processes in milk production in the Community, which shifted from Europe's upland and grassland areas to the North-Western coastal regions where producers have a competitive advantage because of imported feedstuffs and low transport costs.

72. The same holds true for pig and poultry production in the Community, which has also been concentrated in these areas. Since 1970, pork production in the Netherlands has increased by 87 % and egg production by as much as 138 %. This happened mainly because of distorted cost structures. In France, the main feedstuffs used for livestock production are still cereals with prices set by the CAP, which are higher than world market prices. In the Netherlands, however, cereals are replaced by livestock feed which is imported either duty-free or at very low duty.

72.1. Aside from entrepreneurship and technology, the economic advantage caused by the use of imported feed inputs, which are cheap in comparison to domestic ones, has allowed intensive animal production to expand continuously in North-Western and coastal areas of the EC. This has also led, however, to growing environmental problems.

73. In addition to the possibilities of decreasing support for cereals or increasing tariffs on imported feed, the integration of environmental costs into the costs of production would in particular make traditional locations for livestock production more competitive again and reduce nitrate pollution.

74. Europe is currently in the middle of the greatest changes in agricultural policy for half a century or more. Overcapacity and measures to bring food supply more in line with demand create unprecedented opportunities for controlling pollution, remedying past environmental damage, restoring lost ecosystems and developing a rural environment which is not an accidental by-product of the agricultural industry, but is designed specifically for the social, economic and ecological needs of the late twentieth century. Ultimately over-capacity in agriculture can be reduced by either taking land out of production, or producing less-intensively than technology permits.

75. The nature of the future rural environment will depend on which of these strategies, or mix of them, is favoured. We thus need, above all, some consensus on what kinds of rural environment are desirable. This is not easily achieved, even within any one country, let alone in the European Economic Community which includes countries with rural economies as disparate as those, for example, of Greece and Ireland or Denmark and Portugal.

C h a p t e r I I : T H E A N S W E R S

A. S U P P L Y M A N A G E M E N T A N D R E D U C T I O N O F T H E L E V E L O F S U P P O R T F O R C O M M O D I T Y

76. The CAP has to enable the EC's agriculture to adjust to a cut in the level of support and to do so within the changing economic and political context of the sector. There are basically two ways by which support might be cut. Prices might be allowed to fall closer to world levels. Alternatively, quantitative limits less than current output might be placed on production, so that any supplies in excess of these limits received no protection at all. For most products the Community has so far relied on price adjustments as a means of controlling output. For milk and for sugar it uses quotas.

77. Reductions in prices would mean that the least competitive parts of the farming industry would bear the brunt of the cuts. Agriculture as a whole would thereby become more efficient. There can be no illusion that this would be an easy or painless process. Apart from the misfortunes of those forced to leave farming, there would be a consequent restructuring of the farming industry. Part of this might be to larger units, which already produce most of the agricultural output of the Community and part of it would be a shift to more part-time farming.

- 77.1. Some of the part-time farmers might be former full-time farmers supplementing their income by work away from their own farm. There are also likely to be some people who derive most of their income in urban locations who choose to farm part-time.
- 77.2. The pattern of farming which would result cannot be precisely defined in advance but it could reflect gains in economic efficiency within the industry and a shift of some resources to more productive uses elsewhere.
78. A powerful argument against allowing prices to move closer to world levels, as is implicit in a reduction of support achieved in this way, has been the distorted and volatile nature of many world markets. This is one result of protectionist policies pursued in most countries. A successful GATT negotiation would not only mean that the EC reduced its support for agriculture but that all other participants in the GATT did so too. Thus it is reasonable to expect that world prices would rise and be more stable.
79. The alternative to allowing price reductions to achieve a reduction in support could be to use quotas, and there are many ways in which quotas might be applied.
- 79.1. Certain organisations representing small farmers are lobbying for a system in which quotas would cover only part of the output of a farmer but entitle him, in respect of that amount, to a supplementary payment to increase his returns above the level of market prices.

Such a system, similar to the "Double price system" existing in certain EFTA countries like Austria and Finland, has several attractions. It enables greater protection to be given to the smaller producer. It means that additional production, above the quota quantity would only receive the price ruling in world markets. It would allow prices to consumers to fall to world levels, with considerable increases in their economic welfare.

79.2. Another possible system is a combination of supply management with deficiency payment which could vary according to the farm size and the geographical location of the holding.

Such a system, which is practised in Norway, ensures a better distribution of production and income for farmers and regions, but must be adapted to be decoupled from production.

80. Another way to reduce output, is a policy of **agricultural extensification**, which has the support of the principal UK-farmers' organisation, based on the use of lower levels of inputs, such as fertilisers and chemicals, which would, in turn, lead to lower yields and the reduction, if not the elimination, of surpluses. Allied to an appropriate expansion of the set-aside scheme, it would achieve supply management, as well as a more environment-friendly industry.

80.1. Such a policy would mean that the production of food across the EC could be controlled to the level of Community consumption ; that there would be no need for subsidised EC exports to world markets ; and no need for continuing price pressure. Coincidentally, it would also go a long way towards satisfying the demands of GATT partners.

81. Any quota scheme which entails payments in respect of continuing production maintains in use resources which are not economically efficient. It implies a continuing loss of production efficiency for the EC economy. A scheme such as this which allows consumer prices to fall and then supplements farmers' receipts from budget revenues, involves continuing, considerable and renegotiable costs to the EC budget.

- 81.1. The administration of such a scheme is complex, costly and may give scope for the misappropriation of funds, especially where farmers are small-scale and numerous. In the long run quotas, which convey the right to produce above market clearing prices, become capitalised in the value of the land to which they attach. As a result newcomers to agriculture, who may themselves be very efficient, face the penalty of additional costs of entry.
- 81.2. For similar reasons, increased reliance on set-aside is considered an inefficient way of reducing support.
- 81.3. However it is clear that the Community is politically ready to commit considerable financial resources to the maintenance of the social dimension of its agricultural sector and to the preservation of its environment, countryside and rural world.

82. **The price mechanism and any supply management system would only be acceptable for European farmers on the basis that there were a simultaneous and adequate system of compensation, which would assist farmers to adjust to the change in their fortunes brought about by change in agricultural policy.** However, the Community's partners in GATT would be unlikely to accept a change of emphasis in the CAP which entailed the payment of aids in the context of a new supply management policy, unless the EC were to give a political commitment not to pursue an aggressive export policy.

B. COMPENSATION MEASURES

83. One of the major aims of the CAP has been to provide **income support for farmers**. As has been shown earlier, it has not been wholly successful in this respect. Price supports are themselves inefficient methods of raising income. They go to the greater degree to those who produce most and whose incomes are among the highest in farming. They stimulate production to levels which exceed market and can only be sustained by continued support from the consumer or taxpayer or both.
84. Despite this there can be no doubt that a reduction in price support will lead to a reduction in farm incomes. Eventually, as structural adjustment occurs, incomes will recover but in the meantime those currently farming, especially those who recently bought or enlarged their farms, will find their incomes substantially reduced. Per capita incomes will not decrease so much. There is a continuing exodus from agriculture of some 3 % per annum. In the difficult situation facing farming over the next five to seven years, this seems likely to accelerate. This is especially likely if the GATT settlement and the Single Market process increase the rate of growth of the EC economy as a whole.

84.1. The implications for farm incomes of future developments of the CAP, including the implications of the proposals agreed by the Council of Ministers as a negotiating position in GATT, indicated a reduction of total income in EC agriculture of some 16 % in nominal and 30 % in real terms until 1995. Since migration from agriculture will continue, if not accelerate, real income per farmer may drop by 15 % over the coming 5 years. Much of this loss of real income flows from the effect of inflation on prices fixed in nominal terms. Part of it is due to the need to contain the expenditure of the CAP within the budgetary ceilings. The proportion attributable to GATT itself, on the basis of the present negotiating position, is relatively small.

85. There also remains the question as to whether and to what extent should the losers from reducing agricultural support be compensated. This question should have regard to the process of structural change which is underway in any event affecting well-defined farm categories ranging from large scale commercial farmers to 'disengagers'. If the promotion of family farming is seen to be meaningful objective it seems that policies must be designed to encourage both on and off-farm pluriactivity, especially in areas with weak labour markets. However, there is little evidence that agricultural policies targetted at on-farm diversification have any significant impact in poorer labour market areas and on small to medium farms. In these circumstances stimulating local employment initiatives should go hand in hand with on-farm or direct income supports.

86. It will be difficult however to introduce compensatory measures which are not both administratively difficult to implement and sufficiently "production-neutral" in nature. In this context it may be more politically acceptable to tie compensatory payments (eg headage) to some basic level of activity but so structured as to not alter the marginal value of subsequent units.

87. There is also a plethora of horizontal measures as well as special regional measures which aim to speed up the development of agricultural structures and less developed rural areas. One measure which is unfortunately little promoted is that of assisting retirement from farming. However strong the desire to maintain the family farm structure in European agriculture, the threshold of viability will necessarily increase and this process can be assisted by a more vigorous early retirement and land policy. While other policies, like certain forms of direct income supports tend to maintain inefficient structures, they can be modulated to expedite early retirement in appropriate circumstances.

88. Finally there is need to devise a rural development policy which should not attempt to ignore economic realities but to assist developments which promote rural viability by means of a range of policies which are mutually consistent. However assistance and support should be granted if not on strictly economic criteria then on clearly defined environmental and social grounds.

C. ENVIRONMENT-FRIENDLY RURAL POLICY

89. There is a real difficulty in trying to reconcile the desire to protect the social fabric of rural regions with the goal of achieving a competitive agriculture which inevitably means a reduction in the labour force and an increase in farming scale. At the same time we must face the reality of the existing economic, social, and demographic situation where a very high proportion of the farm population have only the skills and resources to produce food and want to remain in agriculture more or less gainfully employed - or underemployed - with a relatively high cost structure, adding to surpluses and realising low returns. Neither must we underestimate the difficulty in devising a policy response in the context of a major shift towards market-orientation, given the great diversity in the social, economic, structural, and physical features of EC agriculture.

90. From the farmer's point of view, environmental concerns have both positive and negative implications. As the potential provider of environmental goods and services, the farmer may expect to earn a revenue from their supply. As one of the industries which may cause damage to the environment the farmer must expect to encounter increased demands to improve his standards of environmental behaviour and to accept more restrictions on those farming activities which are judged to be harmful.

91. The changes which are taking place in agriculture and which seem likely to be accelerated by the cuts in support associated with the GATT, mean that there will be changes in the environmental impact of farming throughout the Community.

91.1. Economic principles and experience in New Zealand, where price support has been removed from most farm products, suggest that this might lead to a less intensive agriculture with beneficial consequences for the environment.

91.2. However, there is concern that some farmers may seek salvation through the further intensification of agriculture in order to raise their revenues. A spread, for example, of field vegetables might lead to higher rates of use of fertiliser and crop protection chemicals than the traditional agricultural products which they replace.

91.3. To ensure that no damaging consequences of this nature emerge it is important that there should exist a well defined and administratively feasible set of regulations which can check abuses before they result in irreversible damage to the environment. In other respects the environmental interest and the farmer share a concern in the development of the countryside.

92. To date the impact of CAP reform has aggravated regional income disparities as better structured regions had the capacity to diversify and a generally better economic environment. The accommodation of CAP to freer trade will however affect the bigger farms and better regions to a greater absolute extent but the incomes of smaller producers will possibly be depressed to even critically lower levels. At the same time the determination to maintain a relatively viable rural sector has found expression in a succession of Commission documents and statements. We thus have to reconcile two policy objectives : how to reduce support for agricultural production with the goal of maintaining the fabric of rural society.

93. A whole host of non-market measures are now in place or being proposed to address the latter objective but certain of them such as set-aside, extensification, and direct income aids do not require gainful economic activity as interpreted to date while others such as agri-tourism and non-farm diversification require a considerable degree of business skills and initiative.
94. A general awareness has developed in recent years of the **importance of conserving natural resources** and there is a general assumption that economic activity, and agriculture in particular, must safeguard essential ecological processes and bio-systems, preserve genetic diversity and ensure the sustained beneficial use of species and eco-systems, as the main goals of world strategy for the conservation of nature.
95. It is recognized that, over the last 40 years and acting under the pressure of intense technological development or of agricultural policies themselves, agriculture and livestock farming, the traditional allies of the environment, and farmers, who are the chief guardians of large expanses of land, are now included among those activities and agencies which, like urbanization, industrial development and transport, are harming the environment.

96. Particular attention has recently been paid to what is known as plant cover. Phenomena such as soil erosion, acid rain and forest fires - to name only the most significant - have caused a re-assessment of the historic importance of woodlands in each of their three aspects as areas for leisure and culture, sources of income and employment and support for the conservation of natural resources and forest life.
97. Lastly, it is felt that the potential for rural development no longer lies in urbanization and indiscriminate industrialization but rather in the optimum use of rural resources.
98. In particular, it is acknowledged that neither plant cover nor nature as a whole can be preserved in the absence of an adequate rural population with a proper level of amenities and income.
99. Between 1965 and 1983 the agricultural area used decreased by 11 million ha (8 %) and the extent of forestry increased by 15 % in the European Community. It seems inevitable that this process will continue and that, given deficiency in timber production (the Community being c.40 % self-sufficient and some countries much lower, eg. United Kingdom 10 %) more land will be planted with trees. There are ambitious schemes in Denmark and the Netherlands to restore forests and wetland habitats on surplus farmland and in the United Kingdom to plant large urban-fringe community forests. But most of the land will continue to be farmed.

100. Although there are some environmental issues such as the effects of some pesticides and their residues on human health and their fate in the environment which are still poorly understood, the knowledge necessary to reduce, if not eliminate many of the adverse environmental impacts of agriculture already exists.
101. There are also a wide range of both national and Community incentives and regulations to provide the means to put this knowledge into effect. Such support for less intensive environmentally-friendly farming may be the most publicly acceptable way of maintaining traditional farming structures.
102. Price cuts should lead to less inputs and new biotechnological development and integrated pest control systems will likely reduce the environmental impact even of more intensive systems. But there is concern that some farmers may intensify, especially if there is compensation for price agreements.
103. To avoid this, clear signals must be given, both to the individual farmer and the industry as a whole. There thus need to be general measures to provide a framework for environmental action, including information, extension advice, education and training to promote a widespread understanding of the needs and means of conservation and environmental management and its incorporation into "good agricultural practice".

104. In 1988, the European Commission has developed its approach to rural development ⁽¹⁾ guided by three fundamental considerations :

- economic and social cohesion, in an enlarged Community of very pronounced regional diversity;
- the unavoidable adjustment of farming in Europe to current circumstances on the markets and the implications of this adjustment not only for farmers and farm-workers but also for the rural economy in general;
- the protection of the environment and the conservation of the Community's natural resources.

104.1. The Commission has recognised that the general context in which these problems must be tackled is unfavourable : unemployment is high, economic growth is sluggish, and governments have to shoulder heavy budget deficits. But the outlook also includes the gradual completion of the large single market by 1993, which should help to further rationalize the allocation of resources and lead to a more effective division of labour in the Community.

(1) COM(88) 501

105. The incorporation of broad environmental objectives into agricultural legislation is set by the Single European Act of 1986.

105.1. The promotion and the support of **environmentally-friendly farming practices** including the extension of the already existing "Environment Sensitive Areas" (ESA), with **direct land-based payments** for environmental management by farmers and **targeted set-aside** at field, farm, district and regional levels, with secure, long-term support, should be used to provide more forest cover. Through both these and other means, buffer habitats, watercourses and other environmental features can be created. A proposal in this direction, with the purpose of better matching of crops and cropping systems to land capability, on the introduction and the maintenance of agricultural production methods compatible with the requirements of the protection of the environment (1) and the maintenance of the countryside (1) was made by the Commission in July 1990 and is still under consideration.

105.2. The marketing and promotion of low volume, high-value goods, produced by **environmentally-friendly farming** and a system similar to the "Appellation controlée" for wine, is envisaged with the purpose of minimising the need for support. The Commission has made formal proposals in December 1989 on organic production of agricultural products (2) and in January of this year for the protection of geographical indications and designations of origin (3) for agricultural products and foodstuffs

(1) COM(90) 366
(2) COM(89) 552
(3) SEC(90) 2415

106. Since such positive measures are likely in the main to be voluntary and not therefore universally adopted, there will remain the need for back-up and other reserved powers to regulate adverse environmental impacts of farming. These would include : **environmental impact assessment** of all major drainage, irrigation, afforestation and land consolidation schemes ; **regulation of the levels of use of agrochemicals** ; **planning controls**; **protection of key environmental areas** such as nature reserves or flood protection zones and **redirection of support** for agricultural schemes intended to support rural development which have proved damaging to the environment.

107. These developments inside the Community will, together, build up strong pressure to push forward the reform process and broaden the concept of the CAP. If **agricultural policy** is to meet future challenges it **must become more flexible**. This means that it must be integrated into overall macro-economic policies and must comply with social, regional and environmental objectives. This new approach has two important dimensions.

107.1. If a **viable agricultural sector** is to be maintained in the Community, it **must respond to market forces**. Therefore market developments inside and outside the Community should be reflected at the political level, with emphasis on the evolution of a market-orientated price policy. This means that internally, agricultural price levels must reflect the production costs only of competitive farms. Externally, agricultural prices can no longer be isolated from developments on the world market. Technological innovation and improved managerial skills will allow farmers to become more competitive.

- 107.2. **The CAP alone will not be able to solve all problems related to agriculture.** Plans for the agricultural sector in the long run must be accompanied by a rural development strategy of which agriculture is but one important element. In economically vulnerable areas rural development is geared towards agricultural development - traditionally performed by the agriculture structures policy - but also towards activities outside agricultural production, such as tourism, industry and services. Moreover, for highly developed regions in which social and environmental objectives are gaining high priority, rural development strategies are also needed.
108. Along with a **more restrictive market and price policy**, new Community and national measures have been introduced to **compensate for income losses** and economic hardship. To avoid market distortions and the risk of greater national sectoral aid, these measures should be transformed from agricultural into rural ones and made production-neutral. Such conditions provide new possibilities for rural areas to cope with the consequences of a reformed CAP and to respond with measures appropriate to their own needs, such as **countryside and resource management.**
109. The very nature of the economic, social, cultural and ecological development of rural areas suggests that **rural development concepts should be drawn up at regional rather than Community level.** The integration of production-neutral agricultural measures into such decentralised rural development plans would allow the different socio-economic conditions throughout the EC to be taken into consideration and permit the Community to link financial assistance to the wealth of the region and Member State.

110. However, the inclusion of agricultural measures in a rural development strategy drawn up at regional level requires that Community authorities have access to the respective departments in national and regional administrations. At Community level no coherent framework has so far been established to reconcile agricultural and environmental objectives. Now, **environmental objectives have to be integrated into both rural development and agricultural policy.** Environmental protection, countryside and resource management have to be integrated into a decentralised rural development concept and be adequately rewarded at regional level. On the other hand, continuing environmental degradation and increasing public awareness will force the Community authorities to become stricter in applying environmental legislation, including the "polluter pays" principle, to the agricultural sector.

111. As in other economic areas, environmental costs need to be integrated into overall agricultural production costs, the framework for which should be provided at Community level. It is necessary to express these changes in institutional terms and bring together responsibility for all aspects of a coherent policy in rural areas throughout the Community. **With a more flexible CAP as outlined above, we should be able to reconcile internal and external pressures on the Community's agricultural sector.**

C O N C L U S I O N

112. **Guidelines for achieving a fundamental reform of the mechanisms of the Common Agricultural Policy** were approved last January by the European Commission in a reflection paper presented by Mr Ray Mac Sharry, the Commissioner for Agriculture and Rural Development ⁽¹⁾.
- 112.1. The "paper" was discussed by the Council of Ministers on 4th and 5th February as part of a wider public debate and process of consultation of the far-reaching implications of the suggested reforms and in the light of the Council's discussions, the Commission has shaped formal proposals on the 1991-2 price package.
- 112.2. The "paper", which calls for an overhaul of the mechanisms of the CAP, is a response to a serious crisis confronting EC agriculture :
- budgetary costs are escalating (up 20 % in 1991 compared to 1990),
 - a number of markets are out of balance and stocks are mounting rapidly,
 - environmental problems arising from intensive farming are growing,
 - farm incomes do not reflect increased budgetary expenditure and the active agricultural population continues to decline.
113. The fundamental objectives of the reform are to reorientate policy socially and economically so as to enable a sufficient number of family farms to remain on the land and thereby preserve the natural environment and contribute to rural development.

(1) COM(91) 100

- 113.1. The guidelines cover a number of aims :
- to enable the European Community, the world's largest food importer and second largest exporter, to retain its competitive position on an international market,
 - to control production in food sectors where supply exceeds consumer demand,
 - to keep the agriculture budget within agreed limits,
 - to redistribute support by taking into account existing inequalities between different categories of producer,
 - to break the automatic link that has grown up between price support and the volume of food produced,
 - to recognise that farmers are both food and non-food producers and that they play a vital role in rural society as the guardians of the countryside and protectors of the environment,
 - to encourage farmers to respond to public concern for better quality food by the use of less intensive farming methods.

114. The core feature of the paper favours **controlling production through the implementation of substantial cuts in price support, in conjunction with a redistribution of support.**

114.1. Significant compensatory measures including direct aids would be introduced to cushion small and medium-sized farmers from the adverse effect of the price and quotas reductions. Direct aid measures would be integrated into the various market regimes.

115. Price policy and quantitative controls would continue to have a central role in achieving market balance.
- 115.1. In particular, a major effort is proposed to improve the competitive position of cereals, not only because of the problem of substitutes but also because of the pivotal role cereals play in the CAP's price structure. Cereals farmers would be compensated for their income loss by an aid per hectare, fixed annually in the light of the markets and stocks. Full compensation would apply up to a certain level of area. Partial compensation would apply thereafter. Beyond a certain size the payment of the aid per hectare would be conditional on the withdrawal from production of part of the area devoted to arable crops, defined annually in accordance with the state of the market. The land withdrawn from production could be used for non-food production. The existing stabiliser including the coresponsibility levy would be removed.
- 115.2. The reduction in cereals prices would allow an adjustment of prices in the livestock sector. Direct aid through premiums would assume a more important role in the market organisations. This would provide compensation for income losses and would be linked to extensification criteria (such as prescribed stocking rates per hectare).
- 115.3. Quotas would be reduced for milk but the reductions would apply beyond a certain level on a modulated basis.
- 115.4. Other sectors notably sugar, tobacco and sheepmeat would be reformed on a comparable basis to ensure the coherence of the overall approach.

116. The paper seeks to protect fully the position of the greatest number of EC farmers. At the same time the top 10 per cent or so of larger and more developed farmers would be asked to fend a little more for themselves. This is not a question of discriminating against the productive sector which will still be very well catered for under the Community's policy but rather to reorientating the support so as to spread the burden more fairly.

116.1. At present, about 20 % of farms produce some 80 % of total production and benefit from about 80 % of support from the Farm budget (EAGGF). Furthermore,

- 6 % of cereals producers account for 50 % of the surface area for cereals and 60 % of the production,
- 15 % of dairy farmers produce 50 % of the Community's milk and 10 % of beef farms produce 50 % of beef cattle.

117. Measures should be taken to encourage farmers in the use of methods less damaging to the environment and to reward them for efforts made to preserve the countryside and the fabric of rural society.

117.1. Such measures would be implemented through new multi-annual programmes, negotiated between the Commission, the Member States and the farmers. These programmes would stipulate significant cuts in the use of polluting inputs and would promote the diversity and quality of the countryside.

117.2. A long-term set-aside programme would be worked out.

117.3. The Commission suggests that the Community's pre-retirement scheme should be improved by introducing increased premiums and greater flexibility in the conditions of eligibility, especially as regards the freeing of land becoming available.

118. The first reaction of the Council to this paper, as to the restrictive price proposals for 1991-1992 to comply with the rules of Budgetary Discipline, was negative.

118.1. Obviously, regarding prices, in any particular year the initial response tends to be negative: Ministers put forward various national difficulties that they have, but they too have to face reality and they know that the farmer's principal enemy is surplus stocks which cannot be sold.

119.2. At the first stage of negotiations reactions are normally negative. In fact this reaction was useful because it now focuses greater attention on the longer-term reform. Some Ministers who were opposed to the longer-term reform discussed in February now are beginning to believe that reform may be necessary after all. So what is happening is a help to the longer-term objective.

119. The type of system that has been suggested in the reflections paper of the Commission envisages that the link between price and production can be broken. Prices would be reduced to respect prices of competing products on the world market. There would be full compensation to a certain level for all farmers and partial compensation thereafter.

120. At the end of the day, this is the way forward because the Community does not have unlimited resources and cannot continue to produce surpluses destined for storage, for sale at distress prices on third country markets or for physical destruction. The CAP has got to be realistic and better balanced while at the same time ensuring the continuation of the maximum number of farmers on the land with a reasonable opportunity to earn an income for themselves and their families through food production, management of the environment and other rural development measures.
