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COMMUNICATION OF THE COMMISSION TO THE COUNCIL

THE DEVELOPMENT AND FUTURE OF THE CAP

Reflections Paper of the Commission

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Subject: The Development and Future of the CAP - Reflections
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I. Background

1. The Common Agricultural Policy was created at a time when Europe was in deficit for most food products. Its mechanisms were devised to meet this situation. In essence, they support internal prices and incomes, either through intervention or border protection or, where no frontier protection exists, by variable aids (deficiency payments) to processors using agricultural products from the Community which have to be paid for at more than the world price.

The Policy has made an important contribution to economic growth and has been successful in providing European consumers with a wide range of quality food products at reasonable prices. Nevertheless the system, which corresponded well to a deficit situation, has revealed a number of deficiencies as the Community has moved into surplus for most of its agricultural products. These deficiencies can be analysed briefly as follows:

- the prices and guarantees provided through intervention and production aids stimulate output at a rate increasingly beyond the market's absorption capacity; between 1973 and 1988 the volume of agricultural production in the EEC increased by 2% per annum whereas internal consumption grew by 0.5% only per annum.

This development has led to a costly build up of stocks (valued at 3.7 billion ECU in the 1991 budget). It has led also to the Community having to export more and more on to a stagnant world market. This goes some way towards explaining the tension between the Community and its trading partners.

- a system which links support to agriculture to amounts produced stimulates production growth and thus encourages intensification of production techniques. This development, if unchecked, leads to negative results. Where intensive production takes place nature is abused, water is polluted and the land impoverished. Where land is no longer cultivated because production is less dependent on surface area, abandonment and wilderness occur.
- Income support, which depends almost exclusively on price guarantees, is largely proportionate to the volume of production and therefore concentrates the greater part of support on the largest and the most intensive farms. So, for example, 6% of cereals farms account for 50% of surface area in cereals and for 60% of production; 15% of dairy farms produce 50% of milk in the Community; 10% of beef farms have 50% of beef cattle. The effect of this is that 80% of the support provided by FEOGA is devoted to 20% of farms which account also for the greater part of the land used in agriculture. The existing system does not take adequate account of the incomes of the vast majority of small and medium size family farms.
- The per capita purchasing power of those engaged in agriculture has improved very little over the period 1975-89. This development is all the more worrying in that over the same period the Community's active agricultural population has fallen by 35%.

- This situation is particularly difficult to accept in the context of ever increasing expenditure. In 1975 the EAGGF (Guarantee) budget was 4.5 billion ECU; this had risen to 11.3 billion ECU in 1980 and to 31.5 billion ECU in 1991 (ie 11.5 billion ECU at constant 1975 prices).

The contrast between on the one hand such a rapidly growing budget and on the other agricultural income growing very slowly, as well as an agricultural population in decline, shows clearly that the mechanisms of the CAP as currently applied are no longer in a position to attain certain objectives prescribed for the agricultural policy under Article 39 of the Treaty of Rome, namely to ensure a fair standard of living for the agricultural Community, stabilise markets, ensure reasonable prices to consumers, take account of the social structure of agriculture and of the structural and natural disparities between the various agricultural regions.

Notable socio/economic features are

- over half the Community's farmers over 55 years of age
- large contrasts in income levels between Member States; the best placed having three times the per capita income of the least favoured
- one in three farmers working part-time
- significant differences (ranging from 4 to 65 hect) in size of holding per Member State

11 The reforms undertaken

1. The above analysis is not new. It has already been made on several occasions, notably in 1985 when, on the basis of its "Green Paper", the Commission launched a wide debate on the future of agriculture in Europe. At the end of this debate the Commission adopted a number of guidelines (memorandum of 18 December 1985) which can be summed up as follows:

- progressive reduction of production in surplus sectors, by means of a price policy reflecting market demand
- taking into account the income problems of small family farms in a more effective and systematic manner
- supporting agriculture in areas where it is indispensable from the point of view of regional development, maintaining social balance and protecting the environment.
- promoting an increased awareness among farmers of environmental problems.

2. Based on these guidelines, the market organisations were reformed. The essential elements (the stabilisers) were an important part of the conclusions of the European Council of February 1988. While using different techniques adapted to the characteristics of each market organisation, these reforms had the common aims of lowering of price when the quantity produced exceeds a given threshold, increased participation of producers in financing expenditure (eg cereals) and reducing the guarantees provided by intervention. A ceiling was placed on agricultural expenditure, so as to link it to trends in the Community's GDP.

3. This market policy, based essentially on price policy, was to be accompanied, according to the conclusions of the European Council, by measures having a double objective.

- to reduce the volume of production through set-aside, extensification, conversion of production and pre-pension aids linked to non-utilisation of land freed on retirement.

- to cushion the effects on the incomes of the most vulnerable farmers, of falls in price and increased coresponsibility. Aid schemes for small producers and the reduction of coresponsibility in certain market organisations (milk, cereals) were intended to meet this concern.

III Overall evaluation

1. The market measures taken have had some impact in so far as the rapid expansion in production has been halted. The most notable example has been in the oilseeds sector where production seems to have stabilised around 11/12 million tonnes.

This trend, accompanied by a relatively favourable world market situation in 1988 and 1989, allowed the Community to go through two marketing years without any great problem, while reducing stocks and budgetary costs. But this should not give rise to any illusions. Some markets are already well out of balance or threaten to become so rapidly:-

- production of beef is increasing and stocks in this sector are some 700.000 tonnes, ie approaching the record level of end-1987.
- stocks of butter and of skimmed milk powder are increasing and have attained a level of 278.000 tonnes and 335.000 tonnes respectively
- production of sheepmeat is increasing constantly and budgetary requirements have doubled over a four year period.
- production of tobacco is now some 30.000 tonnes in excess of the maximum guaranteed quantity and the cost of the regime has risen by over one-third in recent years.
- as regards wine the underlying production potential coupled with the continuing decline in consumption of table wine, risks adding further to the public stocks (8 million hectolitres at present) of alcohol.
- the need to maintain the competitive position of sugar and coherence with other regimes requires that the present arrangements be reviewed.
- the trend on the cereals market is especially worrying. While total production has remained at around 160 million tonnes 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 (now 18 million tonnes compared to 11.5m tonnes at the beginning of the marketing year).

Early indications are that stocks could increase by 10 million tonnes by the end of the next marketing year (1991/92).

- These developments are reflected in budgetary costs. Initial work on the 1992 budget shows that FEOGA spending could increase by 4 billion ECUs or 12.5% compared to the budget of 1991, itself an increase of 20% compared to spending in 1990.
 - Without doubt a significant part of this increase in agricultural expenditure is due to external factors (fall of dollar and of world market prices) but the fundamental problem - internal to the Community - arises from the growth of surpluses which, as the figures show, has not been resolved.
2. The accompanying measures envisaged by the European Council of February 1988 have been applied to a limited extent only, as the following figures illustrate:-
- Only 800.000 hectares, or 2% of the cereals area, have been set-aside; most often it is the land with low yields that has been withdrawn.
 - the extensification scheme has now begun to be applied but, apart from one Member State, it operates essentially on an experimental basis; no payment was made by FEOGA in 1990 which shows that up to the end of 1989 at least, the scheme did not operate.
 - the income aid arrangements are beginning to be applied in three Member States (3.000 beneficiaries in the Netherlands, 55.000 in France and 80.000 in Italy). No payments have been made by FEOGA in 1989 and 1990.
 - the pre-pension scheme applies in one Member State only.

3. The following factors help to explain developments relating to the markets and the accompanying measures:-

- In the first place the stabilisers policy has not involved - and indeed did not have as an objective - a fundamental reform of the CAP. As its description suggests, it was a policy to stabilise production and spending, through a largely automatic mechanism whereby the price and the guarantee reduced beyond a certain production threshold.
- This policy did not attack the underlying problems already identified viz that support through the EAGGF remains proportionate to the quantity produced; this factor preserves a permanent incentive to greater production and further intensification. The reductions in prices needed to re-establish market balance cannot be achieved unless accompanied by significant compensation measures not connected with volume of production.
- Although the European Council had envisaged compensating measures, they have played only a marginal role since, in a sense, they have been tacked on to a system whose mechanisms have not changed. To be effective, measures covering direct aids, on the basis of area or livestock units and linked to temporary fallow or extensification requirements, should be part of the market organisations themselves. They should indeed constitute the substance of the market regimes.
- Having been applied to a limited degree only, the accompanying measures have not played their expected moderating role. This has made it more and more difficult to operate the market policy and have it accepted by producers.

- The reforms of the years 85/88 have not been implemented and are themselves incomplete. It is not surprising that under these conditions the CAP finds itself once again confronted with a serious crisis.

- First of all a crisis of confidence internally. Farmers are confused and worried; they find that their situation is worsening, that the markets are again out of balance, that new restrictions threaten, without any prospects for the future, without which no economic activity can be continued on a lasting basis.

There is a crisis also externally where criticisms and conflicts are becoming more frequent. Our trading partners many of which themselves heavily support their agriculture accept less and less a Common Agricultural Policy whose increasing surpluses weigh more and more heavily on world markets.

4. It appears in these conditions that the Community's agricultural policy cannot avoid a succession of increasingly serious crises unless its mechanisms are fundamentally reviewed so as to adapt them to a situation different from that of the sixties.

The Commission considers therefore that the time has come to stimulate a reflection on the objectives of the Community's Agricultural Policy and on the principles that should guide the future development of the CAP.

IV The Objectives

1. Sufficient numbers of farmers must be kept on the land. There is no other way to preserve the natural environment, traditional landscapes and a model of

agriculture based on the family farm as favoured by the society generally. This requires an active rural development policy and this policy will not be created without farmers. The Commission confirms then the approach taken in the "Green Paper" and in the Communication on the Future of Rural Society.

2. As far as agriculture is concerned this choice has consequences that must be evaluated and accepted. It implies a recognition that the farmer fulfills, or at least could and should fulfill, two functions viz firstly that of producing and secondly of protecting the environment in the context of rural development.

The activity of producing has traditionally been focussed on production of food. While this will remain the primary focus of production, growing emphasis must be put on supplying raw materials for non-food uses. Concern for the environment means that we should support the farmer also as an environment manager through use of less-intensive techniques and the implementation of environment-friendly measures.

3. Rural development is not only concerned with the development of the primary sector. Other forms of economic activity which help to maintain rural populations and strengthen the economy of rural areas will be promoted. The examination of the adequacy of structural fund intervention in support of rural development under the 1988 reform (while recognising the particular importance of Objectives 1, 5a and 5b) will be part of the overall review of structural policy to be carried out in 1991. In this exercise account will be taken of the impact in the regions of implementing the guidelines set out in this paper taking into account their dependence on agriculture and available economic alternatives

4. In order to avoid a build up of stocks and excessive growth in spending on agriculture, a key objective of the agricultural policy has to be that of controlling production to the degree necessary to bring the markets back into balance.

5. While the traditional instruments of price policy and quantitative controls will continue to have a central role in the attainment of market balance, the market organisations should also encourage extensification with the object of

- reducing surplus production.
- contributing to an environmentally sustainable form of agricultural production and food quality.

This approach would be complemented by more specific measures on the environment, to be tailored to the situation in individual Member States.

6. The Community must recognize the existence of international interdependence and accept its responsibilities as the leading world importer and second leading exporter. The Community will continue to play an important role on the world market both as regards imports and exports. This requires pursuit of a policy objective which guarantees the competitiveness and efficiency of Community agriculture. Such a policy would encourage also growth in consumption including the development on a sound economic basis of agricultural production for non-food uses.

7. The CAP must continue to be based on its fundamental principles: a single market, community preference, and

financial solidarity but these principles must be applied as originally intended. This means correcting the excesses which have developed over the years. In particular financial solidarity implies the need also for a better distribution of support while taking into account the particularly difficult situation of certain categories of producers and certain regions. Also, the support instruments used must have a more direct impact on the returns to producers and take account of environmental requirements as well as those of production.

8. The agricultural budget should then become an instrument for real financial solidarity in favour of those in greatest need. That implies that the support provided by the market organisations should be redirected so as not to relate almost exclusively to price guarantees.

Direct aid measures, based generally on the livestock numbers or area of farms and modulated in function of factors such as size, income, regional situation or other relevant factors, should be integrated into the market organisations so as to guarantee the producers income.

Existing arrangements in the livestock sector include already a significant degree of modulation. The regional aspects, especially the impact on the less favoured areas, should be considered in the context of further modulation in this sector.

9. Where quantitative arrangements apply or may be brought into effect (quotas, temporary fallow etc) the resulting constraints should be modulated in function of the factors mentioned in para 8 above.

V Guidelines for the future

The object of this communication is not to present reform proposals in detail. At this stage the Commission's concern is to present for general reflection certain guidelines capable of implementing the objectives of the agricultural policy as indicated above. These guidelines are underpinned by the principles of the Common Agricultural Policy viz single market, Community preference and financial solidarity; they take account of the need for competitiveness and market balance, better distribution of support, recognition of the dual role of farmers as food producers and guardians of the countryside, and promoting extensification, both in the interests of market balance and of the environment.

As regards the time scale for implementing these guidelines there are good reasons for introducing the new arrangements at the earliest possible opportunity. However in order to give Member States and producers the opportunity of adjusting to the new situation under conditions that will facilitate their smooth application throughout the Community the measures involved would be established as far as practicable on a progressive basis.

Guidelines for individual sectors, subject to the factors mentioned at IV.8:-

1. In the cereals sector, prices could be reduced to a level which would guarantee, in a more satisfactory way than at present, their competitiveness with substitutes.

The resulting loss of income would be compensated on an equitable basis by an aid per hectare to be paid to all producers. Full compensation would apply up to a certain level of area and partial compensation thereafter on a degressive basis. 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, as defined each year in function of the state of the market. The land withdrawn from production could be used for non-food production.

The level of aid per hectare would vary each year in function of developments on the market and of productivity. A corresponding regime would apply to oilseeds and proteins so as to ensure the coherence of the market organisations for arable crops and implementation of the conclusions of the GATT "soya panel".

These new arrangements should introduce a greater degree of coherence between the different support arrangements for arable crops; they would replace the existing stabilisers including the coresponsibility levy.

2. The reduction in cereals prices would allow an adjustment of prices in the livestock sector. Direct aid through premiums would in future have a more important place in the market organisations in order to compensate for income losses and discourage intensification. The premiums would be linked to extensification criteria, for example through prescribing stocking rates per hectare.
3. Having regard to the market situation in the milk sector, quotas will have to be reduced; the reductions in quota would apply beyond a certain level, on a modulated basis.
4. Other sectors, notably sugar and tobacco would be reformed also in the immediate future, on a comparable basis to ensure the coherence of the general approach.

5. It is necessary also to enhance the role of the farmer in the protection of the environment and preservation of the countryside. Measures should be taken to encourage farmers in the use of methods less damaging to the environment and to remunerate the contribution of farming towards preserving the countryside and the fabric of rural society. These measures would in future be implemented through coherent multiannual programmes, to be negotiated between the Commission, the Member State and the farmers, which would aim at significant cuts in the use of polluting inputs and the promotion of the diversity and quality of the countryside.

These arrangements would be complementary to the approach in the arable crops sector which would operate so as to discourage intensification. In addition, in cases of environmental problems directly attributable to intensive farming, consideration could be given to linking payments of direct aid to environmentally sound farming practices to be defined locally.

It would be necessary also to introduce a longterm set-aside programme aimed at promoting afforestation of agricultural land and the protection of the natural environment.

6. Finally, the present pre-pension scheme would be improved by means of increased premiums, greater flexibility in the conditions of eligibility, especially as regards the freeing of land becoming available; the new arrangements would be implemented in the context of pluriannual programmes agreed with Member States.

The overall approach suggested may be challenged. Two aspects are likely to dominate the discussion; that is why the Commission considers it necessary to respond to them at this stage.

a) "MODULATION OF SUPPORT IN FUNCTION OF THE SIZE OF HOLDING WOULD BE DISCRIMINATORY AND NON-ECONOMIC"

The argument that the modulation measures are discriminatory is somewhat misleading insofar as it is based on a rather strange concept of equality. The diversity of agricultural structures in the Community is such that farmers are not on an equal footing. In such conditions the logic of support through public funds should aim at correcting inequalities by supporting those who derive fewer advantages from the market organisations. This aim is reflected in Article 39 of the Treaty.

It is the market organisations as they function now that are discriminatory, insofar as the bigger and more intensive the farm the greater the support, a situation which should not apply were competitiveness to be the object.

The argument in relation to the anti-economic nature of the modulation of support measures is not valid either. The Commission remains committed to providing a framework which recognises the role of efficient farms especially in relation to competitiveness on world markets. After 30 years of the CAP, competitiveness can no longer be measured in function of receipts from FEOGA. It is precisely because the larger farms are now in a position to produce with reduced support that it is possible to envisage the development of the policy as suggested. This is not a question of penalising and

blocking their development but of introducing a better balance between support from public funds and economic capacity.

The object is to make farms with the necessary capacity even more competitive. This will be reflected in somewhat less support for these farms and in a new balance between price support and direct aid.

- b) "THE GUIDELINES OUTLINED ABOVE MAY LEAD TO HIGHER BUDGETARY COST INSOFAR AS PART OF THE SUPPORT NOW PROVIDED BY THE CONSUMER (BY VIRTUE OF HIGH PRICES) WOULD BE HENCEFORTH CHARGED TO THE BUDGET"

These reforms will have budgetary consequences whose significance will depend on the parameters to be chosen, especially in connection with the terms and extent of compensatory aid. Developments on the markets in the longer term will be an important factor also.

The following considerations are essential :

- a reform of this kind would have advantages for the economy, especially for consumers. This point should not be forgotten in the balance sheet of the entire operation.
- money spent would be better used having regard to what should be the objectives of the agricultural policy; viz maintaining a sufficiently large number of farmers with a decent income, protecting the environment and the countryside, and developing quality-based production.

Nevertheless, the fundamental question has to be asked. Is the Community prepared to make a contribution in the budget context to resolving its agricultural problems, internally and externally?

The overall economic impact of changing the system of support has to be an important consideration in this respect.

An agricultural guideline must of course be maintained as an instrument for ensuring budgetary discipline. Consideration could be given also to combining the new arrangements with overall pluriannual planning of the CAP. This would have the advantage of allowing farmers to have a medium-term planning basis on which to make their decisions.

The introduction of new support mechanisms, especially aids on a per hectare basis, may require that existing control and anti-fraud systems be re-organised. Experience outside the Community suggests that such re-organisation can, to a degree, help to make control more simple and, indeed, more effective thanks to the use of new techniques.

Furthermore, having regard to the requirements of subsidiarity the Community implementing rules would be limited to those absolutely necessary. This would allow Member States the flexibility to put measures into effect with due regard to their individual situations while subject to monitoring by the Commission.

Conclusion

These are the elements that have shaped the Commission's analysis of the policy so far. The Commission hopes that a wide debate

will take place within the Community on the perspectives outlined in this paper. If, as the Commission hopes, the Council considers that the approach suggested deserves to be pursued further, the Commission will present proposals rapidly.

The Commission wishes to emphasise that the status quo is the one option that it considers not to be viable. If the present policy is not changed rapidly, the situation on the markets and, as early as the current year the budget position, will become untenable.

In these circumstances the choice is between fundamental reform of the present mechanisms of the CAP and a new package of restrictive measures offering no future prospects and which would be unlikely to attract support from farmers; without this support no policy can be carried out successfully on a lasting basis.

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