

# EUROPEAN COMMUNITY PERSPECTIVE OF PRODUCTION SUBSIDIES AND CONTROLS

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## I. INTRODUCTION

Agriculture is a vital element of the European economy. With substantial and positive results the Common Agricultural Policy [hereinafter CAP] has sustained the development of agriculture in the European community. However, with the changes that have taken place in agriculture in Europe and at the world level, the agricultural policy is faced with new challenges. This article attempts to survey the perspective of production subsidies and controls as proposed by the Commission of the European Community.

In July, 1985, the Commission of the European Community adopted a consultative document—"Perspectives for the Common Agricultural Policy"—known as "The green paper of the Commission."<sup>1</sup> This document has become the framework for a dialogue and a political debate among the professional organizations and the member states in order to indicate the future prospects for European agriculture.

## II. AGRICULTURAL POLICY AT A TURNING POINT

The objectives of the CAP, as laid down in Article 39 of the European Economic Community [hereinafter EEC] Treaty, are both economic and social. The economic objectives have in many respects been well achieved. With the application of modern equipment and techniques to farming, often with the help of investment aids from the public authorities at regional, national, and community levels, the modernization of European agriculture has accelerated over the last thirty years. This evolution has been assisted by the opening up of a common European market and by market and price guarantees. The resulting increases in food production have given security of supply to Europe's consumers at reasonable and stable prices.

However, the development of production has outstripped the increases in consumption of agricultural production within the Community and the outlets on world markets. The resulting imbalances on the agricultural markets have led to growing surpluses in many sectors, whose disposal is very expensive. The CAP has to demonstrate that it can make the most efficient

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1. Agricultural Information Service of the Directorate-General for Information, European Community Commission, Brussels, Belgium, European Community Newsflash No. 33 (July 1985).

use of the resources at its disposal. In the development of the CAP, attention has to be paid not only to the stabilization of agricultural markets but also to the new demands of consumers in terms of quality of food and to the changing requirements of the food industry.

Europe has also played an increasing role in world trade, being not only the world's first importer of food, but also its second exporter. The growing dependence on world markets obliges the EEC to take more and more account both of the state of the world economy and of the position of the trading partners. The forces of international competition determine more and more the framework in which European agriculture will operate.

The challenge for the Community is to reconcile the success of the CAP in achieving its economic objectives with the need to continue to fulfill the social objective of ensuring a fair standard of living for the agricultural population. In recent years the increase in farmers' incomes has been more and more affected by the market imbalances which have obliged the Community to pursue a more rigorous policy with respect to the prices of agricultural outputs. Thus, in recent years the increases in agricultural prices have been less rapid than the increases in agricultural costs.

The CAP is therefore at a turning point. The old model of agricultural policy, in which increases in income could be obtained by increases in the volume of production at ever higher guaranteed prices, can no longer be reconciled with the economic and financial realities. An agriculture which does not produce for the market has no sound long-term prospects.

Relatively speaking, the economic importance of agriculture has been declining over the last decade, as has been that of industry. Its contribution to the domestic product decreased both at the Community level and in the individual member states. This contribution varies considerably, however, from one member state and from one region to another.

Agriculture's role in the economy extends beyond its contribution to domestic product and the employment which it provides. Economic activity in agriculture is closely linked with activities in the industries on which it depends for supplies and in the food industries for which it produces the raw materials.

There is substantial intervention in the agricultural sector on the part of the Community and member states to assist the incomes of the agricultural population. The subsidization of agriculture is normally justified by social policy objectives (*i.e.*, wider distribution of wealth and ownership, maintenance of people in independent situations), by the unstable nature of world agricultural markets, and by reference to Article 39 of the EEC Treaty. But it is also justified by environmental considerations. In fact, agriculture can play an important part in preserving and looking after the countryside. In some regions with poor soils and harsh climatic conditions, agricultural activity—even if maintained by subsidies—would appear to be simply indispensable if the depopulation of the countryside is to be avoided and a minimum of social infrastructure is to be maintained.

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

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

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

European agriculture is extremely heterogeneous, and incomes, structures, natural conditions of production, and the economic environment vary considerably from one region to another. One must always keep in mind the regional dimension of the agricultural problem, which makes necessary the modification of the agricultural policy according to regional situations.

The accession of Spain and Portugal has appreciably altered the scale of Community agriculture, causing an increase of the number of holdings of more than 50% and of the number of farmers and farm workers of 35%. The immediate increase in final agricultural output, however, is only 13%, since productivity is lower in these two countries.

The constraints which the agricultural policy faces are not different in nature from those facing other sectors of Europe's economy. On the one hand, agriculture is using inputs of manpower, raw materials, energy, and equipment for the purpose of producing outputs which are placed on domestic markets and external markets in competition with other suppliers. On the other hand, agriculture is the beneficiary of substantial amounts of budgetary aid from the public authorities for the stabilization of markets, for the improvement of production structures, and for the assistance of incomes.

The developments of recent years have demonstrated the interdependence of agriculture in different regions of the world and the increasing imbalance between demand and supply. Demand for agricultural products in the Community, as in most other industrialized countries, is expected to grow only very slowly. Needs in the developing countries and in some East-

ern European Countries are high, but their effective commercial demand will be a matter of foreign exchange.

Over the last 10 years, the Community's agricultural expenditure grew on average by some 7% each year in real terms. Looking at the economic nature of agricultural expenditure, export restitutions have increased considerably over the last decade. To a certain extent this trend reflects growing surplus production in the Community. At the same time it introduces an element of growing uncertainty into agricultural expenditure, since the level of restitution largely depends on world market development and dollar exchange rates. In any case, it is clear that Community agricultural expenditure cannot grow at rates comparable with those of the past.

In such a context there is a risk of proliferation of national aids to agriculture, which could be more easily afforded by the richer member states, who often have a relatively small agricultural population. This could result in discrimination and distortion of competition inside the EEC.

### III. ACTION TAKEN TO CONTROL THE AGRICULTURAL MARKETS

In recent years action has been taken to control the markets. The adjustments to the CAP have been related to four objectives: control of production and expenditure, reduction of stocks, preservation of the European pattern of agriculture, and international concerted action. In the course of the drive launched to control production and expenditure, the Commission has consistently stressed that it was in the interests of the farmers themselves that this goal should be achieved since a balanced market, unencumbered with surpluses, will ensure the best outlook possible for European farmers, for it will offer them more satisfactory remuneration for their work and more freedom of maneuver.

The corrective measures adopted by the Council since the early eighties have affected almost all the market organizations. They can be classified under the following three headings:

- (1) More restrictive pricing. Since self-sufficiency for most products was achieved or even exceeded, the Community has tightened up its policy on prices. Thus in recent years the support prices have been reduced and have more than offset productivity gains.
- (2) Less permanent and more restrictive intervention.
- (3) Restriction of support by the establishment of binding quotas and guarantee thresholds, strengthening the co-responsibility of producers.

There have been three phases: the first, with the assignment of quotas for sugar and the introduction, ten years later, of a co-responsibility levy on milk; the second, from 1982 onwards, with the introduction of guarantee thresholds for a number of surplus products; the third, with the introduction of the quotas for milk and tomatoes and the adjustment of intervention arrangements for major products. In view of the adjustments made since 1984, it is fair to say that at least one stabilizer designed to curb production

and limit the cost to the budget has now been built into most of the EEC market organizations.

The still existing rise in expenditure despite the reform of the market organizations has been due mainly to events occurring outside the area of the CAP, such as the deterioration in world markets and particularly the decline in the European Currency Unit rate of the dollar. Actions to control agricultural production and expenditure and measures to reduce stocks taken in recent years have not been isolated operations. They have dovetailed into a coherent policy, making proper allowance for considerations concerning farmers' incomes, the maintenance of family farming in all the regions, the cohesion of the Community, and the need to ensure that European agriculture is properly related to the world context.

#### IV. THE COMMISSION'S PROPOSAL TO PRESERVE THE EUROPEAN PATTERN OF AGRICULTURE

In a communication the Commission of the European Community has proposed an outlook for the CAP.<sup>2</sup>

The Commission proposes additions to the market-organizations regulations with a view to ensuring that the planned overall levels of budget expenditure are not exceeded. It seems interesting to indicate the proposals for sugar, milk, and cereals. Sugar is the only product group which operates under a system of full financial autonomy. Under the present arrangements, however, financial autonomy is ensured only in the medium term. The Commission feels that financial autonomy should be ensured on an annual basis. It is therefore proposing that the rules be amended to allow the Commission to adjust the levy during the marketing year, in the light of expenditure trends.

The changes in the policy on milk which have been introduced since 1984 will, for the first time, enable market balance to be achieved from 1989 onwards. The Commission feels that, under the arrangements applicable from 1989 onwards, the production cuts resulting from the suspension of the quotas must be consolidated. It feels that any additional reduction should be counterbalanced by a similar commitment at the international level by all the Community's partners.

Expenditure on cereals has risen sharply in recent years. During the last two marketing years, action has been taken with a view to bringing production under control and stabilizing expenditure. Significant adjustments to the intervention arrangements were accordingly introduced. The actual system as a whole is too rigid to be really effective. The Commission's proposal is accordingly that these measures be supplemented in such a way as to al-

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2. Review of Action Taken to Control the Agricultural Markets and Outlook for the Common Agricultural Policy, Communication of the Commission, Brussels, August 3, 1987, COM(87)410 final.

low them to be adjusted during the marketing year.

The reform of the CAP will have an impact on farming, on the way farming changes, and especially on its preservation in all the regions of the Community. The Commission has opted for the maintenance of the family farm. It has also insisted on the need to maintain the social fabric in rural areas, to conserve the natural environment, and to safeguard a countryside created over two millennia of farming. Since 1985 appropriate measures of protection have been adopted. In the first place in the application of some of the adjustments made to the CAP, the mechanisms have been differentiated to allow for the special conditions some farmers work in or which prevail in certain regions. Secondly, compensation in the form of direct payments has been approved for cases in which the effort of reorganization demanded of the farmer might cost him too much or cause undue hardship for the first year. The Commission does not rule out the introduction of other differentiation and compensation arrangements to conserve the fabric of rural life in certain regions or to safeguard the prospects of small farmers.

The Commission has also strengthened and amplified the armory of Community schemes relating to structures. A first set of measures was adopted in March 1985, in order to improve or protect farm incomes, particularly those of farmers working in low-income areas, to improve living, working and production conditions, to maintain employment in the farm sector, to encourage productivity gains while avoiding the generation of further surpluses, and to intensify efforts at the regional level.

The policy acknowledges the need to assign greater importance to the diversification of income sources for farming families. This is the aim of the expansion of aids to tourism, the encouragement of forestry production, the measures in favor of the environment, and the measures designed to enhance value added in agricultural production. A second set of socio-structural measures, designed to help solve the income difficulties certain farmers might face and at the same time avoid the production of surpluses, was adopted in March 1987. These measures are intended to strengthen the schemes for mountain, hill, and less favored areas; to introduce aid schemes to encourage the development of "extensive" agriculture; to promote the set-aside of some farmland; and also to induce farmers to give greater attention to environmental problems.

The Commission thinks that a reform of the structural funds is necessary with a view to the following three main goals: (1) assisting the development of those regional economies which lie well behind the others; (2) encouraging rural development outside the backward regions; and (3) stimulating the adaptation of agricultural structures in line with the reform of the CAP. Discussion of the control of production and expenditure has shown that the questions of land use and incentives to set-aside merit careful study.

In the immediate future, action to adjust the CAP will have repercussions on incomes. The Commission therefore proposes the institution of a

Community scheme for aids to farm incomes, the introduction of a framework for national aid of this type, and the introduction of a Community incentive scheme to encourage farmers to leave the land.

Because of the adjustments made in the EEC, a firm attitude towards the outside world is necessary. The new situation on the world market in agricultural produce is forcing all countries, and in particular the developed countries, to rethink their agricultural policies as a whole. The Community has worked hard on the adoption of its agricultural policy since the early 1980s, and more particularly since 1984. However, the task can be continued and completed only if a joint effort is made by all producers to stabilize world markets.

#### V. POLITICAL AND LEGAL ASPECTS OF THE ACTION TO CONTROL THE AGRICULTURAL MARKET

Considering the important changes in the CAP, it is vital to explain the position of the European farmers. The Committee of Agricultural Organizations in the European Community [hereinafter COPA] and the General Committee for Agricultural Cooperation in the European Community [hereinafter COGECA] have elaborated important reactions to and comments on the Commission proposals.<sup>3</sup>

COPA and COGECA recognize the urgent need to adapt the Common Agricultural Policy in order to tackle with realism the problems which have developed since its creation and to ensure the future of agriculture and farmers in the Community. Though they consider that certain of the ideas presented by the Commission are of interest, COPA and COGECA cannot accept the general policy approach put forward by the Commission of continued and reinforced pressure on prices combined with direct income aids. The farmers firmly reject the current approach of the CAP which aims at re-establishing market balance by imposing the whole burden of the necessary adjustments only on farmers, pursuing a restrictive price policy, weakening guarantees and intervention mechanisms, and strengthening producer co-responsibility. Such systematic pressure on farm prices, taken together with the related price cutting policy, can only have catastrophic effects on farm incomes, and on the economic viability, employment, and environmental protection of large agricultural and rural regions in the Community as a whole. In the end it will destroy the CAP and put at stake free trade within the Community.

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3. See, e.g., COPA and COGECA's Observations on the Green Paper of the Commission Concerning "Perspectives for the Common Agricultural Policy," EG (85) 13—CEG (85) 13, Brussels, September 25, 1985; Comments on the "Commission Guidelines Following Consultations on the Green Paper," EG (86) 3—CEG (86) 5, Brussels, February 3, 1986; COPA's General Reactions to the Commission Proposals Establishing a Community System of Aids to Agricultural Income: A Framework System for National Aids to Agricultural Income and a Community Scheme to Encourage the Cessation of Farming, Pr (87) 16, Brussels, July 10, 1987.

COPA favors a social policy which includes the allocation of temporary aids to be granted when necessary to farmers in difficulty in all regions of the Community and, in particular, to farmers who are too old to reconvert and/or to invest in order to modernize. However, COPA rejects a general income aid policy which would totally or partly replace the price and market policy which must remain the essential element of farm income formation.

In order to ensure a satisfactory income, to improve their living and working conditions, and to maintain family farming in Europe and so to offer agriculture and farmers real perspectives for the future, the farmers propose to develop European construction by making substantial progress in the application of common policies in areas other than agriculture; to promote regional development and better balance between the various production sectors and regions in the Community; to maintain the price and market policy linked to the structural policy as the essential element for the provision of agricultural income; and to realize the Community's agricultural potential by establishing a clear and coherent policy with respect to production and uses of European Community farm products which takes due account of the short-term and long-term positive effects with regard to farm incomes, the use of the land, the environment, employment, and the balance of payment, and not only its short-term costs. This policy will be based on development of the international market, promotion of alternative productions, development of new uses for agricultural products, implementation of a real and coherent Community trade policy on imports and exports, protection and conservation of the environment, and a better market balance.

In order to avoid serious political difficulties and considerable social problems resulting from the policy currently pursued by the Community, the Commission seems to rely on member states to support the income of farmers who take the full blow of this policy and are not able to become viable in the long term ("social cases").

COPA does not accept that the income support for these farms would be transferred from the Community to the national authorities, thereby increasing the current trend toward renationalization of the CAP. Furthermore, the necessary framework proposed by the Commission will in no way ensure that farmers are treated equitably in practice throughout the Community.

The Commission proposals establishing a Community scheme to encourage the cessation of farming form a positive step. It is, however, appropriate that the scheme provides for the possibility either of withdrawing farmland from production or of releasing the land for restructuring. It must also be ensured that the scheme does not lead either to a depopulation and desertification of rural areas or to a global aggravation of market imbalance in production sectors which are already in surplus. Moreover, proper account must be taken of the situation of the spouse of the farmer. Aware of



the need to prepare for the future, COPA is of the opinion that the scheme should include provisions to encourage the initial setting-up of young farmers.

A new agricultural policy with binding production quotas and set-aside programs has important legal consequences. Since this new policy has negative effects on the income of the farmers, the first legal point to be determined is whether or not the European rules are according with the EEC Treaty (art. 38-47). Until now the European Court of Justice has considered that the European rules were in conformity with the EEC Treaty. The second question is how to control enforcement in the various legal systems of each of the twelve member states. The basic principle is the avoidance of any discrimination between farmers as defined by art. 40, par. 3, of the EEC Treaty.<sup>4</sup>

A specific legal problem exists when the farm is run by a tenant. The question is how to find out the exact rights of the tenant and the landowner. This problem is important in many European countries where a large number of farmers are tenants. The quota given to a farm is in the first place a right given to the farmer as a farmer. His rights prevail over the rights of the landowner. However, in a certain way a tenant has to take into account the fluctuations in value of the land following the existence of production quotas. The new socio-structural policy, with pre-pension schemes, set-aside programs, and more extensive ways of production, could also occasion legal problems in the relationship between tenant and landowner.

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4. Cases 201/85 & 202/85, E. Comm. Ct. J. (Nov. 25, 1986).

