Opinion of the Economic and Social Committee on the 'Proposal for a Council Regulation (EC) on the common organization of the market in beef and veal' [1]

(98/C 407/32)

On 3 July 1998 the Council decided to consult the Economic and Social Committee, under Articles 43 and 198 of the Treaty establishing the European Community, on the above-mentioned proposal.

The Section for Agriculture and Fisheries, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 16 June 1998. The rapporteur was Mr Strasser.

At its 357th plenary session of 9 and 10 September 1998 (meeting of 9 September) the Economic and Social Committee adopted the following opinion by 101 votes to two with six abstentions.

1. Introduction

1.1. In the summer of 1996 the European Commission published its Long Term Prospects on individual agricultural product sectors, including a detailed study on the situation and possible future development of the meat markets in the internal market.

1.2. In the light of falling consumption as a result of the BSE crisis (beginning in the spring of 1996), the European Commission based its study covering the period 2000 to 2006 on the following assumptions:

— as a consequence of GATT export restrictions on beef and veal, there would as of 2000 be a ceiling on exports subject to refunds of 822 000t.;

— accession of most of the CEEC by 2005;

— significant increase in production after 1999 as a result of cyclical trends in stock rearing;

— consumption trends continuing static or falling slightly, as a result of 1) the BSE crisis; and 2) the rise in intervention quantities to as much as 1,5 million t. by 2005; and 3) loss of manoeuvrability in market.

1.3. The BSE crisis has put the whole beef and veal sector in the EU Member States under massive pressure. These problems have still not been surmounted. European statistics show that over the last few years incomes of cattle farmers have been below the Community average. And they, together with all upstream and downstream activities connected with beef and veal production, are particularly hard hit by the reform measures.

1.4. The European Commission maintains that compensation of approximately 80 % is sufficient.

1.5. However, the recitals of the proposal define one of the major objectives of the existing and future market order as follows:

> 'Whereas the aim of the common agricultural policy is to attain the objectives set out in Article 39 of the Treaty ... to stabilise markets and to ensure a fair standard of living for the agricultural community ...'.

1.6. The proposals for reform of the beef and veal CMO are intended to improve the competitiveness of European beef farming both in the internal and international markets. Quantitative intervention in the market is to be restricted and direct compensatory payments to producers to be developed at the expense of market support mechanisms.

1.7. The new focus of direct payments in the beef CMO is intended to even out incomes to some extent, with fairer distribution, and at the same time to achieve greater flexibility at national level and to introduce stricter ecological requirements. The European Commission also argues that the reform will secure the long-term financing of the CMOs.

1.8. The resumption of negotiations on the further liberalization of international agricultural markets in the framework of the World Trade Organization (WTO), and probable enlargement of the EU to the CEEC and Cyprus are further important reasons for substantial changes to the development of the common market policy. With the reform of the CMO for beef and veal, the Commission is also attempting to move some way towards the satisfaction of consumer demand for healthy and environment-friendly production methods and quality products, as well as to safeguard diverse forms of agriculture, rich in tradition, and performing many functions.

1.9. The Committee comments below on the main changes proposed to the beef and veal CMO. These include a number of changes, such as the disappearance of intervention, its replacement by private storage and

[1] OJ C 170, 4.6.1998, p. 13.

the establishment of a basic price in 2002 to replace the existing intervention price system, the operation of which is virtually impossible to assess from today's perspective.

2. Commission proposals

2.1. In order to strike a better balance between supply and demand, the Commission proposes that the market price support level be reduced by a total of 30 % in three equal steps, starting in 2000. The intervention price will then be replaced from 2002 by a new basic price to be set at ECU 1 950/1 000 kg beef. The existing intervention system will be replaced by a private storage system, inspired by that applied in the pig meat CMO.

2.2. Direct support will also be increased in three steps:

— from ECU 135 per head to ECU 220 for bulls,

— from ECU 108,7 per head to ECU 170 per age bracket for steers,

— from ECU 145 per head to ECU 180 for suckler cows.

Extensification payments are to be increased from ECU 36 to ECU 100 per head and year. The deseasonalization premium for steers would be retained in its present form, subject to minor changes, where steer production in the Member State in question is significant. Another innovation is that up to 20 % of suckler cow premium rights for individual farms can be claimed for heifers.

2.3. A dairy cow premium of between ECU 27.6 and ECU 45,4 per head and year (depending on the level of milk production in the Member State in question) is to be introduced on the basis of the dairy cow premium units, in order to offset the proportional loss per head and year arising from the reduction of the meat price. This premium is to be based on 'virtual cows', the number of which will be derived from the milk quota, with an assumed average annual yield of 5 800 kg. per head.

2.4. In addition to these premiums, Member States will be able to allocate additional payments within the limits of fixed global amounts financed from EU resources. Payments would be in the form of an additional amount per head and/or hectare of pasture. A set of Community criteria, including specific stocking density requirements, will be applied at national level to ensure a reasonable level of production control and to prevent discriminatory effects.

2.5. The maximum stocking density for male bovine animals and suckler cows will (taking dairy cows into consideration) continue to be 2 livestock units (LU) per hectare. No maximum stocking density is provided for exclusively dairy herds. Producers with a stocking density (based on all cattle more than 6 months old and ewes) of less than 1,4 LU/ha, and practising pasture grazing , may qualify for an additional payment of ECU 100 per head. The 90-animal limit on male bovine animals will remain in place.

2.6. For male bovine animals, suckler cows and dairy cows the existing national or individual reference amounts will continue to apply, with different levels of cuts for male bovine animals. For suckler cows a cut of over 10 % is provided as an EU average.

2.7. The granting of the premiums provided for will require an operational central data base of cattle in accordance with EC Regulation 820/97, and a full inventory of a holding's stock and changes in that stock.

2.8. A mechanism is provided, in accordance with the procedure laid down in Article 43 of the EC Treaty, for adjusting direct support to production, productivity and market trends.

3. General comments

3.1. The Committee shares the Commission's view that the changes to the CMO for beef and veal are necessary to make it possible to cope sufficiently with the challenges facing European cattle farming, such as WTO restrictions, further liberalization of agricultural markets and eastward enlargement of the EU. A central plank of the Commission's proposed reform of the CMO for beef and veal is a 30 % cut in the official price level and partial compensation for lost income by means of higher direct payments to producers. The Commission suggests that, as well as the existing premiums, the additional premiums could also be classified within the 'blue box' or otherwise made permanent. But this is open to doubt. The Committee stresses that any price cut will require full compensation; the Commission must also now offer the farmers affected a credible explanation as to whether, and if so how, the measures it plans as compensation for loss of income will comply with existing WTO rules and can thus be guaranteed beyond the next WTO round.

3.2. At all events, the Committee considers it necessary for European farmers to be able to have confidence in a reliable, long-term production environment.

3.2.1. Despite any further development of the market order, producers must ultimately be able to share in a standard of living commensurate with that of the non-farming population.

3.3. Cattle farming in many ways plays a very important part in the management of rural and disadvantaged areas. A naturally high proportion of pasture in most cases points to a lack of alternative uses for the land. Reform of the market order for beef and veal cannot be carried out without taking this important factor into account, as the incomes of cattle farmers, and particularly those in disadvantaged and mountainous areas, are extremely low in many regions of the European Union. A deterioration in the profitability of rearing suckler cows and of beef and veal production would hit producers in disadvantaged areas particularly hard, above all as a result of falling prices for calves. This must be taken into account in setting the reference quantities for suckler cows.

3.3.1. The need for, and scope of, the reform depend however to a great extent on trends to be expected in the internal market and third-country markets after 2000. The Committee points out that assessments of future market and production trends by experts from the main producer organizations and marketing enterprises in some cases differ markedly from the Commission's analysis.

3.4. The Committee does not believe a cyclical recovery in beef and veal production on the scale of that experienced before the 1992 CAP reform to be likely, as measures to guide production (e.g. introduction of individual and national quotas, headage payments, extensification payments etc.) only took full effect in lasting way from 1995. The calf premiums which have been effective since the end of 1996 have relieved the pressure on production to a noticeable degree.

3.4.1. The European Commission has submitted two reports on the operation of these measures applicable to calves. The processing premium has had a very positive impact on the market as a whole, whilst the positive effects of the early marketing premium have been felt more at individual farm level. The short and medium-term benefits of these two measures for beef and veal production as a whole have thus justified the cost to the general budget. These measures have made it possible to counter effectively the accumulation of expensive intervention stocks, with significant consequential savings. These measures received only cursory treatment however in the Long Term Prospects.

3.4.2. In assessing future developments, it should in particular be borne in mind that, as a result of the proposed continuation of the milk quota policy to 2006 on grounds of rising yields per cow, shrinking dairy herds and restrictions on suckling cow stocks will encourage a trend towards falling production of calves. [1] Thus, between 1996 and 1997 the total number of cows fell by 340 000 (Eurostat census of December 1997). Over the next few years, dairy cow stocks are expected to fall by about 7-10 % from their present level of about 21,5 million (Eurostat 1997, EU 15) as a result of annual yield increases, and stocks of suckling cows to fall by about 10-20 % from their present level of about 11,7 million by 2005, as a result of cuts in quotas and the inclusion of female calves. This will have a major impact on meat production volumes and thus on the market.

3.5. The Committee feels that supply-side pressure on the cattle markets is unlikely on the scale forecast by the Commission, as:

— in view of the 1992 CAP reforms already implemented and the currently proposed package of reform measures, a cyclical upswing in production on the scale experienced in the past will not occur,

— the continuation of existing supply guidance measures, such as premiums for calves, could further relieve the pressure,

— the BSE crisis can be brought under control, and

— a further improvement and stabilization of consumption is expected.

3.5.1. The Committee believes that, by using existing and potential instruments to guide production, the viability of the cattle market could be guaranteed with considerably less radical cuts in prices.

3.6. The Commission justifies its proposed phased 30 % reduction of the official price level in part with the argument that in this way consumption of beef and veal in the Community, which has fallen as a result of a switch to other kinds of meat, can be normalized and the competitiveness of beef and veal products on international markets improved.

3.6.1. As consumer price trends after the 1992 reform showed, lower prices are not passed on fully by the distributive trades to the consumer. Experience thus suggests that further cuts in producer prices may not boost consumption to the extent hoped for.

3.6.2. The Committee feels that, more importantly than the proposed price cut, the restoration of consumer confidence in the product is needed if consumption is to be boosted. This could be achieved by greater quality-orientation in production and marketing, a functioning system of labelling, providing all the information needed by the consumer, and the use of tried and tested marketing measures.

3.7. The Committee believes that, even with a price cut of considerably less than 30 %, beef and veal can still be made competitive for the consumer, as compared

[1] According to Eurostat, milk yields per cow have risen over the last few years as follows: 1993/94 +1.5 %, 1994/95 +2.2 %, 1995/96 +1.9 %, 1996/97 +1.8 %.

with poultry and pig meat which as a result of reforms will probably be up to 10 % cheaper, as there are other factors which determine the competitiveness of beef and veal.

3.7.1. In the course of the general discussion of the Agenda 2000 proposals for the meat sector in December 1997, the Commission agreed to carry out an analysis of the impact of the proposals on the individual meat production sectors, and of the interaction between different types of meat. This has still not been published.

3.7.2. The Committee therefore feels that an assessment should be carried out of market trends over the last 1½ years, compared with the present situation and the forecasts made at the time.

3.8. In accordance with its opinion of 10/11 December 1997 (CES 1396/97, point 3.3.5), the Committee '... considers that the EU will therefore have to tread carefully between measures designed to curb the quantities of beef produced and the reduction of official prices'.

3.8.1. The further development of the existing instruments is the surest way to maintain Europe's special hygiene standards for the production of beef and veal, which range from generally strict checks on the absence of hormones and certain growth promoting substances and compliance with comprehensive environmental requirements to the monitoring of the production chain, etc.

3.8.2. This would be far more conducive to safeguarding the European agricultural model, to which the Heads of State and Government pledged their full support at the December 1997 European Council meeting in Luxembourg.

3.9. The Committee is not convinced by the Commission's argument that the only partial compensation for loss of income is justified by the fact that the price cut will actually be much less than the 30 % headline figure. This assumption by the Commission is contradicted by its own pessimistic assessment of production trends, as well as by the forthcoming abolition of intervention, a continuing net surplus and the further fall in cereals prices. Simultaneous cuts in export refunds and the disappearance of quantity guidance measures would only exacerbate pressure on prices. Adequate compensation must therefore be guaranteed from the outset.

3.10. In contrast to the Commission, the Committee doubts that large-scale exporting is possible without refunds. The Member States' main exporters also believe that such exports are possible only to very few countries or to niche markets. Most importantly, many potential importing countries cannot afford beef or veal. It is necessary to maintain sufficient external protection.

3.11. Breaking down compensation into a basic payment and additional payments is a completely new approach. The reason given by the Commission for this proposal is to bring flexibility to the matching of resources to regional needs in the various Member States and to make the allocation of EU funds fairer by gearing it to the Member State's share of production.

3.11.1. According to the Commission, the basic payments will be derived from the amount of the subsidy before the reform, plus 50 % of the increase in the overall premium. The other 50 % of the increase will be distributed to the Member States pro rata to their share of production. The Member States will be able to allocate these amounts within certain limits and in accordance with common provisions.

3.11.2. The Committee feels that great care must be taken to ensure that this proposal, which is certainly interesting, is compatible with the principles of the internal market and to avert the danger of renationalization of the market order. There must be a requirement for funds available within the national envelopes to be paid to producers in full.

3.11.3. The Committee believes that this aspect will need very careful further study.

3.11.4. The proposed splitting of support into a part paid on a uniform basis throughout the EU and a part to be organized to some extent on a national basis could ultimately result in the principle of a 'common' policy in this market order area being lost, and in distortion of competition between various Member States. The European Commission must monitor use of these funds to ensure that the principle of a common market policy is respected.

3.12. The Committee considers the 80 % compensation proposed by the Commission to be unacceptable. The Committee also fails to see how further price cuts and increased competitiveness can be compatible with rising production costs as a result of stricter requirements, and falling income compensation. The Committee also believes that in no single Member State will the Commission's proposals result in 80 % compensation for loss of income for the affected sector. The continuation of the 2 LU limit will in particular help ensure that for many farms and regions compensation will be well below the 80 % mark, accentuating imbalances in the allocation of funds.

3.13. The Committee fears that the falling profitability of cattle farming, particularly in disadvantaged and predominantly agricultural regions, will result either in increased pressure to switch or diversify to other activities, or in migration and further unwelcome pressure on an already strained EU labour market. In 1997 there were more than 1.7 million cattle farms. And the upstream and downstream areas of production employ many more workers, whose future is closely tied up with the development of cattle farming.

3.14. Having critically reviewed the Commission proposals, the Committee notes that a number of the proposed measures will result in additional bureaucracy. In most areas the professed aim of simplifying matters and making rules more transparent for producers will not be achieved, as the proposed new rules are actually much more complicated. This will entail additional costs for producers and will not give a clear signal for the development of holdings.

4. Comments on individual proposals for reform of the beef and veal sector

4.1. *30 % price cut in three stages*

4.1.1. As the Commission itself points out, even after the proposed 30 % cut prices would still be above those of exporting countries like Australia, Argentina or Brazil, which strongly influence the international markets. The Committee therefore considers that, even under these conditions, the EU would scarcely be able to abandon export refunds. Moreover, a large proportion of EU exports goes to traditional markets such as Russia, the Middle East and Africa, whose rise in purchasing power over the next few years is not likely to match that of industrializing regions in Asia.

4.1.2. A certain reduction in prices is no doubt inevitable. However, for the reasons stated, the Committee considers the proposed price cuts to be far too high. Cuts on this scale are unjustifiable and cannot therefore be supported as currently proposed. Moreover, a price cut is acceptable only to the extent that funds are available for compensation.

4.2. *Abolition of intervention and introduction of private storage* (Article 24)

4.2.1. The abolition of intervention and its replacement by private storage are modelled on the market for pig meat. But the influences on this market are in some cases different from those affecting the market for beef and veal, which has a longer production cycle.

4.2.2. The Committee understands the Commission's reasons for proposing the abolition of intervention, but believes that intervention should continue to be available for severe market crises.

4.2.3. Abandonment of intervention would mean giving up the existing price system, as private storage is not a full substitute for public intervention. The Committee feels that it is at present impossible to assess realistically the effects of the move from public intervention to private storage in 2002. The question of the possible abolition of intervention should therefore be fully discussed at a later stage, once the effects of a reform can be more accurately assessed.

4.3. *Article 4(4)* (Ceilings applicable to regions and individual farms)

4.3.1. The Committee supports the continuation of a degree of quantity guidance via the retention of these ceilings.

4.3.2. All possible steps should be taken however to simplify the system. The introduction of ceilings on dairy cows applicable to individual farms, as currently proposed, will constitute an additional bureaucratic burden on producers.

4.4. *Special premium for male bovine animals*

4.4.1. The proposed new system will make the special premium for male bovine animals on the whole more complicated. The divergence between support payable in respect of individual animals, according to whether they are eligible for a single or two premiums, or none at all, or for additional or extensification payments, will grow much wider; the system of extensification payments will become more complicated; there could also be tensions and distortions of competition between individual production sectors.

4.4.2. The Committee considers that there need to be sound reasons for differences in the granting of premiums and that distortions of competition between the individual forms of production must be avoided.

4.4.3. The 90-animal limit will be a problem for producers in some Member States. A way is needed of solving this problem in the individual Member States using the national reference quantities.

4.5. *Article 5* (Deseasonalization premium)

4.5.1. The Commission should therefore spell out the positive effects of this measure on the market. The Committee considers that the deseasonalization premium should be continued only to the extent actually

necessary for market stabilization in regions with a high proportion of steers.

4.6. *Article 6* (Suckler cow premium)

4.6.1. The Committee welcomes the extension of the suckler cow premium to heifers as an instrument of production quantity guidance. This measure, together with the proposed reduction in national reference quantities, will accelerate destocking, which will impact on overall beef and veal production.

4.6.2. The Committee calls on the Commission to assess the impact of this measure on the decline in production.

4.6.3. The Committee considers that national additional premiums should be continued by way of compensation for lost income. These payments should be made as generally available as possible.

4.7. *Articles 10 and 11* (Stocking density and extensification payment)

4.7.1. The restructuring of the extensification payment will, despite the welcome increase in the amount of the premium to ECU 100 per head and year, lead to reduced participation. In some production areas and regions producers might, as a result of the inclusion of all categories of animal and the requirement for maintenance of pasture, cease production altogether, even if the herd were below the 1,4 LU/ha limit. This would also affect the objectives of, and participants in, environmental programmes. The change in the criteria for the granting of these payments cannot therefore be supported.

4.7.2. The consequence would be further reduction of the number of recipients, which the Committee does not consider desirable, as this would have a detrimental effect on farming in problem regions.

4.8. *Article 12* (Dairy cow premium)

4.8.1. The Committee acknowledges that the granting of a dairy cow premium is supposed to compensate for lost income from meat per dairy cow.

4.8.2. The Committee points out however that the basis of the future EU average milk yield, 5 800 kg per head, will lead to a highly divergent treatment of actual dairy herds in individual Member States, quite apart from the fact that no account is taken of whether the breeds in question are primarily beef, dairy or hybrid, and that losses will therefore vary greatly.

4.8.3. The Committee feels that this rule will constitute a further bureaucratic burden for producers and that above all full income compensation will be needed for the meat components as well as compensation per head. The proposed model does not appear to guarantee this and would result in unfairness. Independently of the premium for virtual cows, rules must therefore be established governing compensation for loss of income from meat guaranteeing the actual compensation per dairy cow.

4.9. *Article 13 et seq.* (Additional payments from EU funds)

4.9.1. The granting of additional payments with a view to creating greater flexibility at national level, making the allocation of support fairer and achieving environmental objectives at national level is a completely new approach.

4.9.1.1. For this reason the Committee feels that there is a need for discussion of, and information on, the granting of additional area and/or headage payments.. But the requirement that funds be used to compensate for losses is also important.

4.9.2. The imbalances of the 1992 CAP reform have, particularly in the beef and veal sector, caused a number of Member States to call for EU funding to the beef and veal sector to be allocated entirely on the basis of the share of production of individual Member States.

4.9.2.1. The Committee therefore feels that the onus is on the Commission, in establishing the criteria for the granting of premiums, to ensure balanced distribution.

4.9.3. Whilst the Committee in principle approves the model providing for more flexible handling of EU funds in line with national requirements, it strongly doubts whether the current proposal is a suitable, or above all, adequate instrument for compensating for natural, structural or regional disadvantages.

4.9.3.1. The Committee feels that the Commission must make other measures available, particularly in the structural area.

4.9.4. The establishment of databases of cattle in the Member States will mean additional work, the value of which is not yet proven. The resulting costs must be justifiable, e.g. if the databases make it possible to trace the provenance of beef and veal. This must not however result in additional costs for producers.

4.9.5. Moreover, the Committee feels that the impression is given that the additional payments ('national envelope') could provide compensation for a particular category of producer across all areas of animal production providing the right method is chosen, for the granting of premiums (i.e. via the combination of area and/or headage payments).

4.9.5.1. The Committee doubts however that sufficient funds are available for this.

4.9.6. The premiums intended as compensatory payments apply to heifers only to a limited extent. As a general cut in beef and veal prices would affect this category too, heifers and calves should also be generally eligible for premiums.

4.10. *Article 21* (Exclusion from payment of EU premiums in event of certain substances being used)

4.10.1. The Committee fully approves the continuation of the ban on the use of substances with hormonal effects or which infringe EC Directive 96/23.

4.11. *Article 22* (Adjustment of premium payments)

4.11.1. The Commission's proposal that premiums be adjusted in accordance with the procedure laid down in Article 43 of the Treaty establishing the European Community, based on production, productivity and market trends, needs proper justification. This option would at all events be an additional source of uncertainty for cattle farms.

4.12. *Other comments*

4.12.1. The Commission's campaign to promote the sale of high-quality beef and veal has in the main been a success, and should be considered in the light of the objectives of Article 2; in relation to the BSE crisis in particular, it has made a major contribution to underpinning sales; moreover it is allowed under WTO rules.

4.12.1.1. Additional EU funds should be made available for these purposes in future. The Committee also expects a positive decision on the currently blocked funds from the Council at an early opportunity, and calls on the Commission to explain the future approach.

Brussels, 9 September 1998.

The President

of the Economic and Social Committee

Tom JENKINS