The agricultural policy of the European Community

EUROPEAN DOCUMENTATION

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The Agricultural Policy of the European Community

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The provision of adequate food supplies for production is the main aim of agricultural policy in every country in the world. It implies the existence of an efficient, flexible agricultural industry within the country and balanced trade in foodstuffs with foreign countries.

For centuries, the Member States of the present European Community tried to carry out this task for themselves. They began with widely differing natural, economic, historical and political situations, and this led in time to highly divergent agricultural policies and, in particular, very different agricultural structures in the various countries.

The establishment of the European Communities created, for the first time, the necessary conditions for ensuring the supply of foodstuffs for consumers within a common agricultural policy.

The agricultural policy which the Community of Six, and subsequently Nine, was to implement had to be such as to permit the transition from the various national agricultural policies to a common agricultural policy and, in particular, to take account of the special features of agricultural production and the problems involved in adapting agriculture to the process of economic growth which is taking place in all Western industrialized countries.

1. Why an agricultural policy?

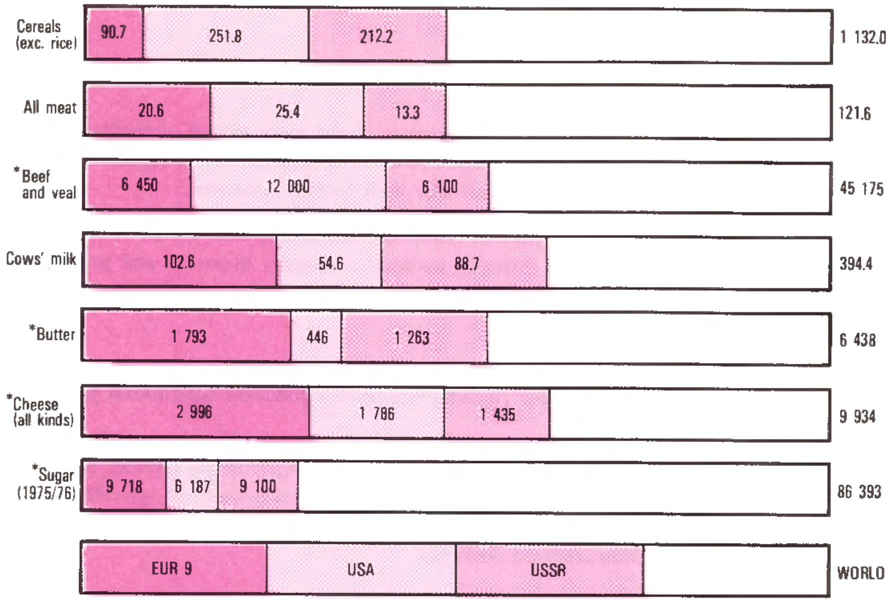
The most striking difference between agricultural production and industrial production is the dependence of the former on the natural phenomena which determine the growth of plants and animals. The greater part of agricultural production depends directly on natural conditions such as the type of soil, the weather and the climate: diseases and pests are also involved and these may further increase the risk of substantial variations in yield. Security of supply depends, therefore, on the formation of buffer stocks to help make up production shortfalls and overcome supply bottlenecks. Apart from being in the Community's own interest, this security of supply also makes possible international food aid in case of unexpected shortage.

But production shortfalls and surpluses can give rise to enormous price fluctuations which in turn lead to substantial variations in income for farmers.

Another characteristic of agriculture is the difficulty it has in adapting rapidly to the changing economic conditions caused by growth. The share of agriculture in gross national product (GNP) falls as economic development takes place. A comparison of the Member States of the European Communities reveals that the significance of agriculture still varies very substantially (cf. Table 1).

1. The World and the EEC - production comparisons (1976)

million t *1000 t



An essential element in this process of adaptation—this is the third characteristic of agriculture— is the extent to which the incomes of those working in agriculture tend to lag behind the incomes of those working in other sectors; this is caused by a combination of factors. There are also several economic factors which often make a change of profession difficult: lack of jobs in the area, risk of unemployment, limited opportunity to make a living outside agriculture.

Very often only age alone—especially in the case of owner occupiers—causes farmers to leave the land. This, plus the other economic factors working against movement of workers out of the farming sector, makes it difficult to carry out the rationalization and modernization the sector requires.

2. The changing face of agriculture

Nevertheless, the size of the agricultural labour force is decreasing. In 1958, in the nine countries of the present Comunity, 19 million people were employed in agriculture whereas in 1975 there

TABLE 1

EEC agriculture in 1976

	Unit	D	F	IT	NL	B	L	UK	IRL	DK	EUR 9
0	1	2	3	4	5	6	7	8	9	10	11
Share of agriculture (1) in GDP	%	2.5	4.6	8.6	4.4	2.8	3.1	2.4	14.4	5.3	4.0
Number of people engaged in agriculture, forestry and fisheries	1000	1714	2263	2929	295	128	9	660	243	223	8464
Proportion of the active population engaged in agriculture	%	7.0	10.9	15.5	6.5	3.5	6.1	2.7	23.8	9.3	8.4
Number of farms of more than 1 ha [2]	1000	904.7	1209.0	2146.2	143.8	105.6	5.6	271.5	260.1	129.8	5176.0
Proportions of farms of less than 10 ha [2]	%	54.2	35.8	85.9	46.2	52.0	31.4	26.8	35.4	31.3	59.8
Average UAA per farm [2]	Ha	13.8	24.3	7.5	14.4	13.9	23.5	64.4	20.5	23.6	16.9
Average number per owner of :											
— all cattle	Number	22	28	10	46	31	43	68	27	37	25
— dairy cows	Number	9	12	5	24	13	18	41	10	17	11
— fattening pigs	Number	14	10	4	85	58	19	119	38	32	11
Member States' share in :											
— final crop production	%	17.4	29.6	28.0	7.2	3.5	0.1	10.6	0.8	2.9	100
— final livestock production	%	26.4	24.8	13.5	9.2	4.4	0.2	12.8	2.7	6.0	100
— final total agricultiral production	%	22.8	26.9	19.2	8.3	4.3	0.1	11.8	1.9	4.7	100

Source : EUROSTAT.

1 Gross value at factor cost at current prices (excluding forestry and fisheries).

2 In 1975.

were only 8.5 million, representing 8.4 % of the active population (Table 1). However, this figure conceals some considerable variations between national regions and between the various Member States.

Another feature of the Community's agricultural labour force—linked to the problem of leaving the land—is its high proportion of older workers. Whereas only 19 % of the total active population is over 55 years of age the corresponding figure in agriculture for 1974 was over 25 %. This top-heavy age structure alone explains why the agricultural labour force will continue to shrink.

(a) Although the demand for many consumer good grows fairly vigorously with increase in incomes, the demand for food drops as a proportion. As the human stomach has only a limited capacity, consumers devote an ever-smaller proportion of their expenditure to food. Only the increased demand for higher quality products limits this tendency somewhat; and here the sector which benefits is not so much agriculture itself as the food-processing industry. Overall consumption of food is also limited by the fact that the population is now growing only slowly.

(b) But this limited demand for food products must be seen against the background of a sharp growth in supply. This trend is explained by the great technical and biological advances which continually help to boost agricultural production, causing the supply of agricultural produce to increase more rapidly than the demand for food. Although this trend may be to the advantages of the consumer by boosting supplies, it causes problems for producers on the price front. In an over-supplied market, prices of agricultural products cannot go up to the extent required in order to guarantee to persons working in agriculture incomes comparable to those enjoyed by the population working in other sectors. Another factor is the particular nature of the agricultural market, where there is a large number of workers each apparently unaware that his output has an effect on prices. This reinforces the tendency of production to grow.

(c) An improvement in farm incomes is accordingly possible only if some of those employed in agriculture find other permanent employment. However, the special qualifications required for farming and the numerous psychological difficulties entailed by a switch to other job sectors explain why moves in this direction are extremely hesitant.

In all countries, the reduction in the number employed in agriculture has levelled off appreciably compared with the figures for the beginning of the seventies, on account of the slowdown in economic growth.

The average size of farm also varies considerably. In 1976 the United Kingdom was at the top of the league with 64 hectares and Italy at the bottom with 7.5 hectares. The size of farms is below the Community average (17 hectares) in Germany and Belgium, and above the average in Ireland, Denmark and France.

Between 1960 and 1975 the number of farms fell by an average of 2.3 % per year. In 1975 there were still altogether some 5.2 million farms in the Community, but only some 3 million of these were farms where agriculture was the main occupation. These two figures show how significant agriculture is in the Community as a secondary activity.

At the same time as the change in the structure of agriculture there has been a technical revolution. Livestock and crop yields have been substantially increased (Table 2). The differences in yield from country to country between the main agricultural products show that technical advances have not yet reached everywhere and that a further increase in supply can be expected. On the other hand, the pattern of per capita consumption remains fairly steady and no appreciable change in the volume of demand can be expected in the years to come.

TABLE 2

Production and consumption

	Year	D	F	I	NL	BLEU	UK	IRL	DK	EEC 9
0	1	2	3	4	5	6	7	8	9	10
A. Production per ha										
1. Cereals 100 kg/ha	1970/71	39.9	38.9	28.9	43.2	40.9	39.3	40.9	40.0	37.3
	1975/76	40.0	36.9	32.2	44.8	36.2	38.1	40.7	36.3	36.9
2. Sugar beet 100 kg/ha	1970/71	458	475	346	490	523	416	415	409	442
	1975/76	428	396	455	434	411	247	433	365	399
3. Milk kg/dairy cow	1970/71	3737	2954	2499	4300	3522	3889	3248	3884	3369
	1975/76	4006	3207	3061	4614	3632	4091	2752	4352	3648
B. Per capita consumption, kg										
1. Cereals	1970/71	66.0	76.1	131.0	63.3	78.7	7.8	89.5	65.4	85.2
	1976/77	64.2	74.6	(120.0)	64.1	71.4	72.4	85.8	61.6	(83.5)
2. Sugar	1970/71	34.3	36.4	27.6	45.6	38.4	45.7	50.0	48.5	37.0
	1976/77	35.6	35.3	26.8	40.9	37.2	45.6	44.6	47.6	36.5
3. Butter (fat)	1970/71	6.7	6.9	1.6	1.9	6.9	6.7	10.6	7.7	5.5
	1976/77	5.4	7.9	1.8	2.1	7.8	6.2	10.4	6.4	5.3
4. All meat	1970/71	81.8	87.2	55.2	61.1	76.1	68.4	70.7	55.7	72.1
	1976/77	87.0	91.7	64.0	68.1	83.3	66.2	76.6	65.3	76.8

3. A common European policy

The Treaty of Rome devoted a lot of space to defining an agricultural policy. A common agricultural policy was introduced in 1962, and has unfortunately remained to date the only truly joint policy in the Community. The importance attached to an agricultural policy is partly explained by the inherent characteristics of farming itself. Production is not dynamic since it is subject to natural conditions, and it is difficult to balance supply and demand. To these difficulties are added the social requirements, more and more clearly felt, to keep a certain level of population in the countryside, and the economic need to achieve a more rational distribution of production within the Community (i.e. giving more efficient producers a greater role). This made it impossible to stick to the basic principle of the Community, namely the free circulation of goods, and required a genuine common agricultural policy.

In setting up the industrial common market, all that was really needed was a progressive elimination of customs barriers between the member countries and the setting up of a single customs tariff at the Community frontier. For agriculture, however, there were different problems and the agricultural common market had accordingly to embody different arrangements, even if only to restore the balance between the industrial countries and the agricultural countries, both of which wanted to enjoy the advantage of the enlarged market.

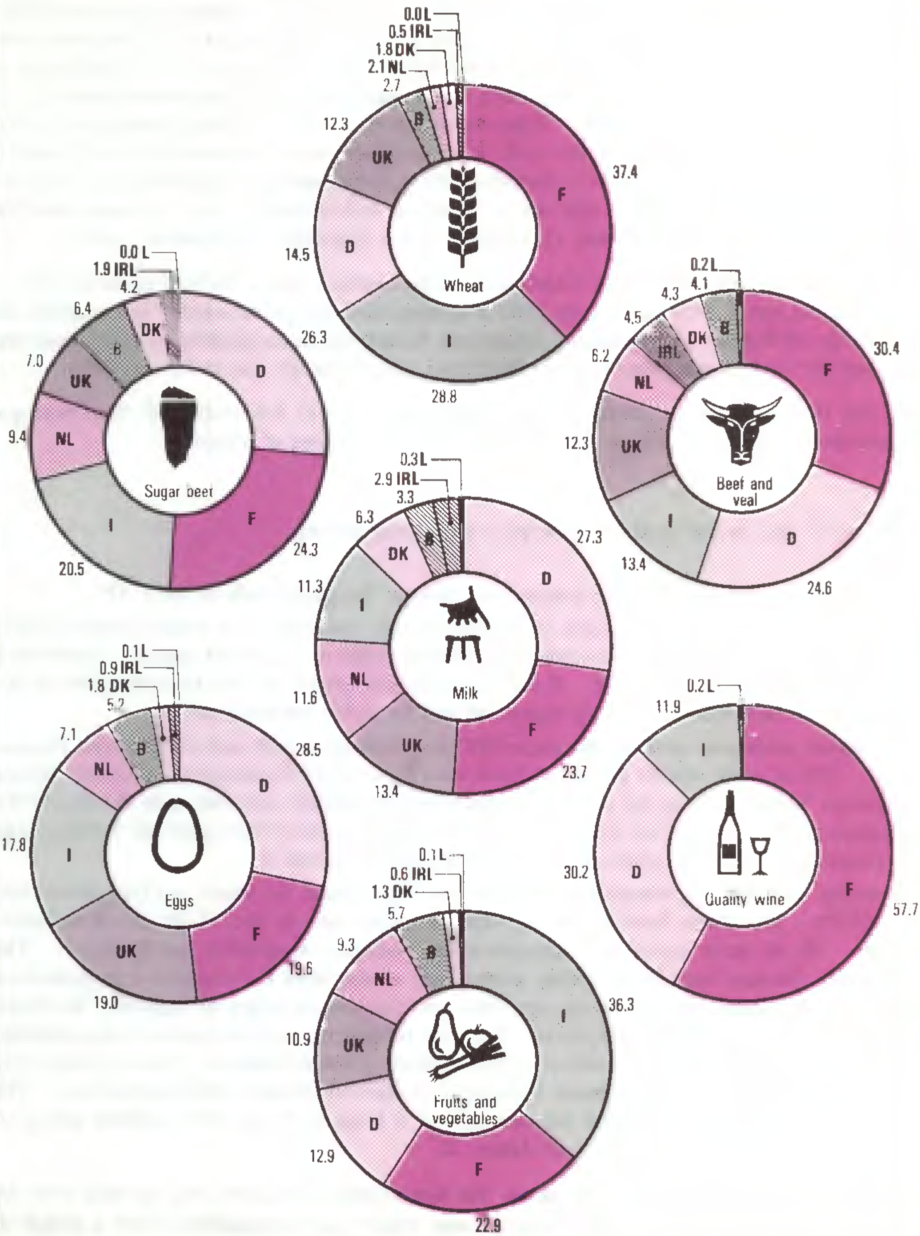
When the Treaty of Rome was signed, the agricultural policies of the six signatory countries were highly divergent, and even contradictory, since they were adjusted to a wide range of economies and farming conditions stretching from the North Sea to the Mediterranean (Graph 2). Some countries relied on the free-market mechanisms of supply and demand, while others had introduced protectionist systems. The widely differing contribution of the Community to world production of differents products (Graph 1) had also to be borne in mind.

In practice it was not possible to unify all the divergent policies, so that a new start had to be made. The Treaty of Rome laid down only objectives and procedures and it was left to the Community institutions to work out a new common agricultural policy for all the Member States which would avoid the pitfalls which had brought the 'Green Plan' to grief in 1950-1951. This plan—Europe's first attempt at integration—had been concerned only with agricultural produce and proved politically and economically unacceptable for the six countries concerned. What was now seen to be needed was a balance between those industrial countries interested in customs union and those with a more agricultural vocation seeking a new dimension for their production and their producers.

4. The main lines of the Common agricultural policy

The Treaty of Rome (March 1957) looks to the creation of an economic community rather than a mere customs union and lays down five objectives for the common agricultural policy: increased

2. Member States' share in final agricultural production in the Community, by product (1976), %



agriculture productivity; a fair standard of living for the farm population; stable markets; guaranteed security of supplies; and an assurance of reasonable prices to consumers.

In July 1958 the Stresa Conference brought together the signatories to the Treaty and those professionally concerned with agriculture in the six countries to define the governing principles policies and an inventory of resources and requirements there emerged something akin to a European farm code. The Conference also filled in some of the blanks left in the provisions of the Treaty of Rome. European agriculture was to be reformed and made competitive, but without prejudice to the family character of the farm unit. Agricultural prices, which were progressively to become common prices in the six countries and settle down somewhat above prices on the world market, were to be adequately remunerative to farmers without encouraging over-production. EEC agricultural policy, it was argued, could not be based on self-sufficiency, but protection must be provided against foreign competition, operating only too frequently on an unfair basis.

The Commission's first drafts of the common agricultural policy were submitted to the Council of Ministers at the end of 1959 and in June 1960 final proposals were put forward. In December the Council rejected the strict organization of trade and markets based on quantitative restrictions and laid down the fundamental principles on which agricultural Europe was to be organized.

From this time onwards the common agricultural policy (CAP) has embodied three principal components—markets and prices, external relations and questions of structure.

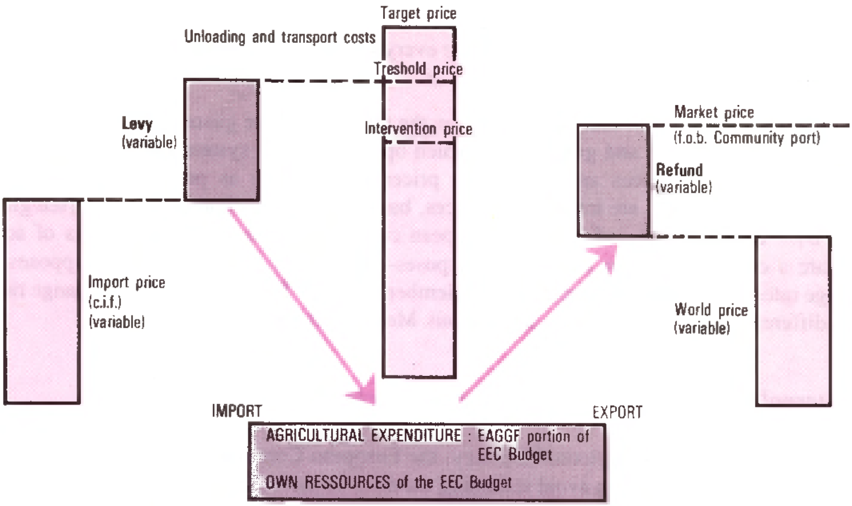
(a) Markets and prices policy: principles and mechanisms

The three principles underlying this policy have become the golden rule of the CAP.

1. The *single market*. The inclusion of all the member countries in a single market enables produce to circulate freely. This rules out customs duties or equivalent charges, or subsidies which might distort competition. It calls for common prices, for the harmonization of administrative, health and veterinary legislation and for stable currency parities.
2. *Community preference* protects the single EEC market from imports and world market fluctuations. When world market prices are lower than those of the Community, a variable charge known as 'the levy' brings the produce bought from non-member countries up to the level of the common prices. When EEC proces are below world prices, the systems goes into reverse, so as to project European consumers by discouraging exports (Graph 3).
3. *Financial solidarity* is embodied in the European Agricultural Guidance and Guarantee Fund (EAGGF). This fund finances the agricultural policy and is one of its essential instruments. As its name indicates, it comprises two Sections—Guarantee and Guidance. The Guarantee Section finances the public expenditure arising from the common organization of agricultural markets; that is, on the one hand, intervention measures to regularize the Community agricultural markets and, on the other, the refunds payable on exports to non-member countries to enable European produce to find an outlet on world markets. These refunds cover such differences as may exist between Community market prices and world market prices. The Guidance Section has a different function in that it helps to finance the common policy of improving agricultural structures (see Annex A).

   These principles having been laid down, the Commission proceeded step by step with the definition of the necessary market organizations which were subsequently, over a period of years, adopted by the Council of Ministers. These organizations came into operation succes-

3. Levy and Refund system for wheat



sively, beginning in 1962. At that time they covered little more than half the agricultural production of the Six, but by 1970 the proportion covered had risen to 87 %. At the beginning of 1978 the Nine were negotiating regulations on three lines of production which were still national—mutton and lamb, potatoes and alcohól. Whan the Council of Ministers has agreed on these, practically all farm production will be covered by Community legislation, though this is not in itself unifrom.

The common market organizations fall, in practice, into four main categories, differing from one another in the machinery brought to bear :

(a) *The support price*, which covers over 70 % of production (most cereals, sugar, milk, beef and veal and pigmeat, certain fruit and vegetables, table wines and fishery products).

(b) *External protection*, which affects 25 % of production (flowers, other wines, rice, other fruit and vegetables). These are not products of prime necessity, and included in the same class are eggs and poultry, which are more or less industrial products and which call for no special official intervention.

(c) *Additional product aid*, which is not unlike the former UK system of 'deficiency payments'[1]. This covers only 2.5 % of production and enables prices to the consumer to be kept comparatively low. The products affected are, in the first instance, durum wheat and olive oil (production of which is limited in quantity and area) and, secondly, certain oilseeds and tobacco, the customs duties on which are bound under GATT at nil or comparatively low levels.

[1] Before the United Kingdom became a member of the Community, UK farmers were able to claim deficiency payments to cover the difference between market prices (which were lower by about 30 % than those of the Community) and the government guaranteed prices.

(d) *Flat-rate aid* per hectare or determined by the quantity produced. This system covers only 0.6 % of production—cotton-seed, flax and hemp, hops, silk worms, seed and dehydrated fodder.

As the market organizations were set up, product prices were gradually brought closer together in the member countries, until they were the same everywhere. Each year the common prices for the coming season are fixed by the Council of Ministers on a proposal from the Commission.

These prices are of different sorts, depending on the product and the guarantees sought. There are norm prices, target prices and guide prices which operate under a system internal to the Common Market and threshold prices and sluice-gate prices which serve as protection against external markets. Added to these are intervention prices, basic prices and withdrawal prices (see glossary, Annex B). In the absence of a single European currency, prices are fixed in units of account, which are a common unit for calculation purposes—the proper use of which presupposes stable exchange rates between the currencies of the Member States. The lack of stable exchange rates has meant differences in price levels in the various Member States.

(b) External policy: markets protected but not closed

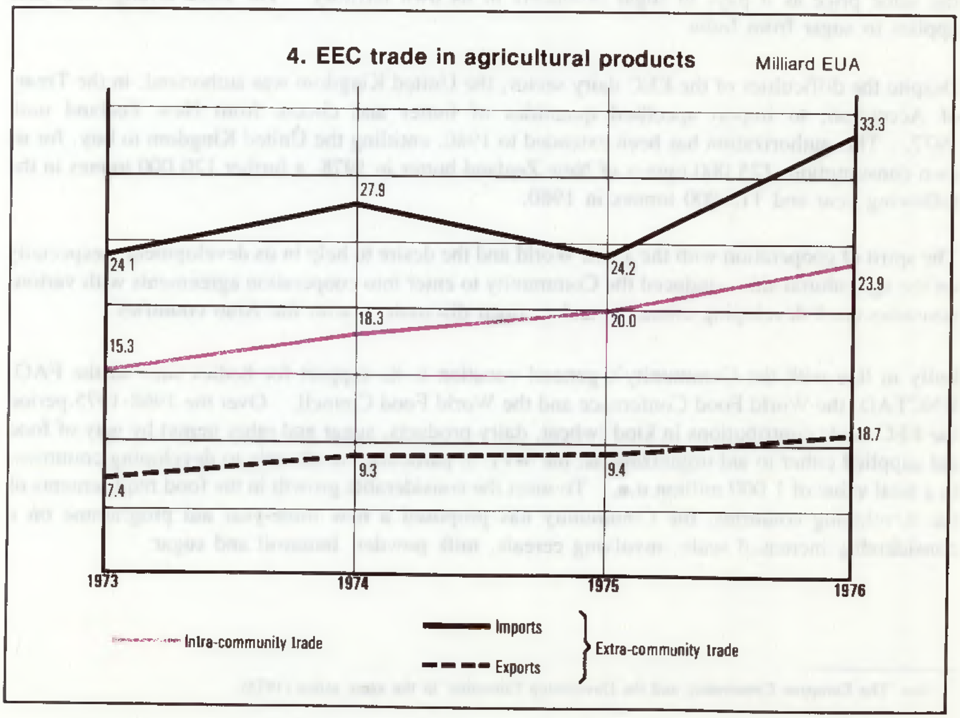
In working out its common agricultural policy, the European Community was careful to remember its global responsibilities and to avoid slamming the door on the outside world. This was especally desirable since all the member countries were parties to bilateral agreements with non-member countries specifically affecting trade in agricultural produce, and all of them were members of GATT, FAO an the OECD which have among their main objectives the fostering of international trade.

These were obligations which the Treaty of Rome could not ignore. It accordingly stipulates in Article 110 that the Member States intend to contribute to the smooth development of world trade, the progressive elimination of international trade restrictions and the lowering of tariff barriers. These are provisions of a general character, applying of course to trade in agricultural produce.

In implementation of these principles, the Community has already entered into bilateral agreements with various countries (the EFTA countries, Argentina, Uruguay, Brazil, Yugoslavia) as well as with some countries of the Mediterranean. With the latter group, the negotiations concluded, or currently in progress, are part of an overall strategy designed to set up a genuine Mediterranean policy. The aim is a gradual movement towards total free trade in industrial products, to which has been added liberalization affecting practically all agricultural trade between the partners. The negotiations are proving very arduous, because of the interests of the fruit, vegetable and wine producers in the southern Community regions (Italy and southern France), where income levels are in any case among the lowest in the Common Market. Nevertheless, despite these difficulties the EEC has already been successful in reaching agreements with Israel, Algeria, Morocco, Tunisia, Malta, Egypt, Jordan, Syria and the Lebanon. The agreement with Portugal existing since 1973 was broadened in 1976. Portugal is now a candidate for the Community membership.

Another example of the Community's open-door policy is its participation since 1963 in the GATT multilateral trade negotiations and its respect for its resulting contractual obligations. It is in this body, which is designed to further new international trade agreements, especially for agricultural products, that the EEC has become a target for criticism from the United States. The formation of the European Community was welcomed by the United States as a political fact but the CAP very quickly provoked criticism because of what the Americans termed its protectionist tendencies. Some groups of United States producers were especially vocal in their criticism and it is worth remembering the 'chicken war' and the pressures brought to bear by US citrus growers. The figures in fact prove the opposite. The US trade surplus in agricultural products has steadily increased and over the period 1968-1976 trebled in value, rising from 1 400 million dollars to 5 200 million (US exports to the EEC: 6 400 million: US imports from the EEC: 1 200 million). In 1976 US exports to the Community were worth 7 300 million dollars and US imports from the Community worth 1 700 million dollars. Soya is a very significant import item. Imports from the US rose by 118 % between 1968 and 1976. World markets are very sensitive to quite small shifts in supply and demand. Compared to world production, world trade is small (12.8 % for cereals, 23.1 % for sugar, 8.1 % for wine, 7.9 % for butter, 19.1 % for milk powder, 3.8 % for beef and veal and 15.6 % for oil seeds, of which soya represented 26.1 % in 1974).

The Common Market, far from being hermetically sealed off, is insulated only from the erratic disturbances and low prices affecting world trade. Over the period 1963-1976 Community imports of agricultural produce from the rest of the world more than doubled, though this is partly explained by higher world prices and by the enlargement of the Community. The Common Market has thus become the world's biggest importer of agricultural and food products—its imports represent 26 % of world trade— and second only to the United States (its principal supplier) as an exporter of goods in the same category (Graph 4).



The Community has given further evidence of its progressive attitude towards a new world economic order by granting generalized preferences to a very large number of developing countries. Nearly 300 processed agricultural products now (1978) benefit from system for the reduction of customs duties, set up on 1 June 1971. Community imports under this scheme in 1978 amounted to 1 250 million u.a. in the agricultural sector alone.[1]

During the multilateral trade negotiations the EEC also offered tariff reductions on the basis of the most-favoured nation clause for certain tropical products (coffee and cacao in particular) and provided for this to be put into effect as soon as possible in accordance with the Tokyo Declaration. The reduced rates of duty were put into effect as from 1 January 1977 and they cover imports to the value of 1 800 million u.a. from developing countries not associated with the EEC. While the countries of the Community were liberalizing their own trade, they did not wish to ignore the fate of the countries with which some of them had special relationships. For this reason, special arrangements, which are a model of their kind and relate particularly to agricultural produce, were brought into operation between the Community and a number of non-member countries: initially the 19 associated African states and Malagasy (AASM) and, since 1975, 46 countries in Africa, the Caribbean and the Pacific (ACP). An important innovation in the Lomé Convention signed with the ACP countries is that the Community has undertaken to guarantee these countries' export earnings from 12 specified products or groups of products, most of which are agricultural. These exports will thus be partly freed from the hazards of normal market fluctuations, which are all too often caused by speculation. Under the Sugar Protocol to the Lomé Convention, the Community committed itself on 1 March 1975 to buy 1.2 million tonnes of cane sugar annually from 13 ACP countries at prices to be agreed each year. In effect it pays producers in these developing countries the same price as it pays to sugar producers in its own territory. The same arrangement also applies to sugar from India.

Despite the difficulties of the EEC dairy sector, the United Kingdom was authorized, in the Treaty of Accession, to import specified quantities of butter and cheese from New Zealand until 1977. This authorization has been extended to 1980, entitling the United Kingdom to buy, for its own consumption, 125 000 tonnes of New Zealand butter in 1978, a further 120 000 tonnes in the following year and 115 000 tonnes in 1980.

The spirit of cooperation with the Third World and the desire to help in its development—especially on the agricultural side—induced the Community to enter into cooperation agreements with various non-associated developing countries and to open discussions with the Arab countries.

Fully in line with the Community's general vocation is its support for bodies such as the FAO, UNCTAD, the World Food Conference and the World Food Council. Over the 1968-1975 period the EEC made contributions in kind (wheat, dairy products, sugar and other items) by way of food aid supplied either to aid organizations, the WFP in particular, or directly to developing countries, to a total value of 1 000 million u.a. To meet the considerable growth in the food requirements of the developing countries, the Community has proposed a new three-year aid programme on a considerably increased scale, involving cereals, milk powder, butteroil and sugar.

[1] See 'The European Community and the Developing Countries' in the same series (1975).

(c) Socio-structural policy: the Mansholt plan and its sequel

In accordance with the aims set out in the Treaty of Rome, EEC agriculture is required to attain a satisfactory level of economic efficiency. This implies organizational development, general as well as agricultural: all-round economic growth which will create jobs outside agriculture; dynamic regional development to set up an infrastructure which will be the indispensable focus for economic, social and cultural life; training or re-training schemes for farmers; increasing the size of farms; better agricultural equipment, whether for individual or collective use.

As early as 1968, EEC Commissioner Sicco Mansholt, who was responsible for European agricultural policy in this period, made a public statement that, though the organization of markets and prices had created an agricultural common market, this did not mean that the problems of agriculture had really been solved.

In the following years, a dynamic policy of structural reform was put forward for those farmers who were willing to cooperate in its implementation. Among the stated objectives was that of enabling farmers and farm workers to secure levels of income and living conditions comparable to those available in other occupations. The memorandum envisaged the granting of a special system of aids, including priority in land acquisition and subsidized interest rates on money borrowed for farm modernization, to farmers who were willing to implement farm development plans; it also envisaged measures for encouraging the retirement of elderly farmers and the reallocation of land liberated by them to farmers who were engaged in modernization programmes. In addition, it proposed the implementation of training programmes for those who remained in agriculture, as well as for those who left it to assume other occupations. Measures were also put forward to encourage reafforestation and the improvement of existing woodlands, and to protect the natural open spaces needed for environmental improvement.

After much discussion, the Council of Ministers adopted three socio-structural directives in April 1972. These directives concerned

— the modernization of farms (Directive 72/159/EEC);

— encouraging the cessation of farming and the reallocation of utilized agricultural area for the purposes of structural improvement (Directive 72/160/EEC);

— the provision of socio-economic guidance for and the acquisition of occupational skills by persons engaged in agriculture (Directive 72/161/EEC).

These directives are functionally interrelated and interdependent and constitute a single approach to a common objective. The essence of this objective is to inform, help and train as many farmers and farm workers as possible to make a real living in agriculture.

Conscious of the fact that the effectiveness of this venture was likely to be very limited in mountain, hills and in other less favoured farming areas, the Community adopted a further directive (75/268/EEC) in 1975. The aim of this directive is to compensate farmers for the permanent natural handicaps which they have to contend with, thus ensuring the continuation of farming and, as far as a possible, farm modernization, the maintenance of a minimum population level and the conversation of the countryside in such areas.

These four basic directives were followed subsequently by a further common measure relating to improving the conditions under which agricultural products are processed and marketed (Regulation (EEC) No 355/77).

Under this regulation Community aid is given for marketing and processing projects which are part of approved regional, national or Community programmes. Finally, a proposal for a special aid measure for young farmers who have been farming less than five years and who are implementing a farm development plan is still awaiting decision by the Council.

Thus the accent of the socio-cultural policy is clearly laid on the need for effective farm planning, on the improvement of farm structure and on the development of farm products industries. This policy is, however, of recent vintage and its effective application is only just beginning. Furthermore the onset of the economic recession which coincided with the first application of the three basic directives, has militated substantially against the effective implementation. Moreover, this implementation encountered special difficulties in the Mediterranean regions of the Community where an excessive proportion of the farm population is engaged in agriculture, where a high degree of underemployment prevails and where labour productivity and incomes are excessively low.

Conscious of the fact that the serious and complex situation in the Mediterranean regions called for urgent action which could only effective if carried out with Community resources, the Council of Ministers recently adopted a set of special common measures designed to improve this situation. These measures relate to

— amending Regulation (EEC) No 355/77 on common measures to improve the conditions under which agricultural products are processed and marketed (Regulation (EEC) No 1361/78).

  In effect, under this regulation a more attractive financial participation by the EAGGF in the processing and marketing of agricultural products is available for the regions concerned than what applies otherwise under Regulation (EEC) No 355/77.

— the acceleration and guidance of collective irrigation works in the Mezzogiorno (Regulation (EEC) No 1362/78);

— improving of public amenities in certain rural areas (Regulation (EEC) No 1760/78);

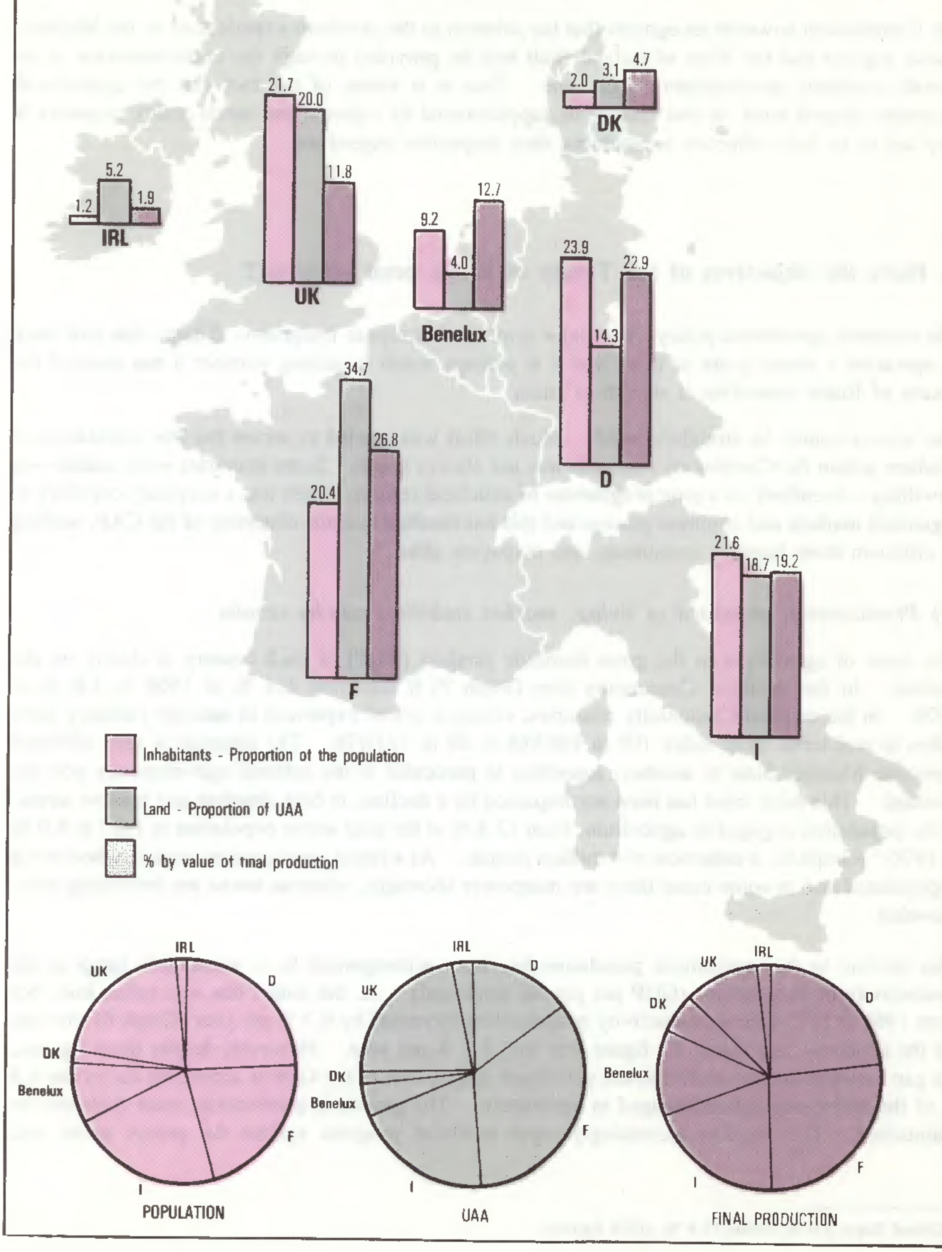
— accelerating the restructuring and conversion of vineyards in certain Mediterranean regions of France (Directive 78/627/CEEC).

A further common measure which also relates to the Mediterranean regions, thought not exclusively so insofar as it is also applicable for certain products in Belgium and in the French overseas departments, is that concerning the establishment of producer groups and associations thereof (Regulation (EEC) No 1360/78). This regulation is intented to strengthen the bargaining power of farmers through a better organization of farm production and a greater concentration of supply of farm products.

In a similar vein, a further common measure has been adopted by the Council in order to improve production conditions in another less favoured region of the Community. This measure relates to the acceleration of drainage operations in the less favoured areas of the West of Ireland (Directive 78/628/EEC).

Further proposals for common measures put forward in the context of the Mediterranean programme, but which still await decision by the Council relate to

5. Consumption potential (inhabitants), production potential (land) and potential for agricultural production in the Community (1976)



(a) forestry development in certain dry Mediterranean areas of the Community;

(b) the development of an agricultural advisory service in Italy;

(c) flood protection in the Hérault valley;

(d) the acceleration and guidance of collective irrigation works in Corsica.

The Commission however recognizes that the solution to the problems experienced by the Mediterranean regions and the West of Ireland shall best be provided through the implementation of an overall economic development programme. Thus it is aware of the fact that the agricultural measures adopted must, in due course, be supplemented by regional and social policy measures if they are to be fully effective in attaining their respective objectives.

5. Have the objectives of the Treaty of Rome been achieved?

The common agricultural policy—the major symbol of European integration to date—has now been in operation a dozen years or more and it is perhaps worth enquiring whether it has secured the Treaty of Rome objectives it set out to attain.

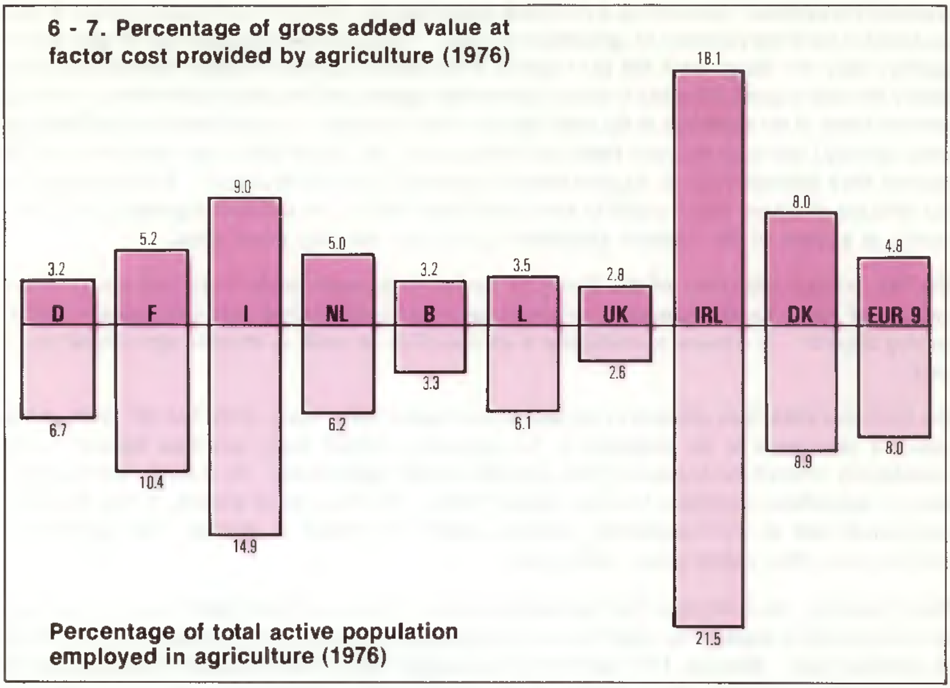
The answer cannot be straightforward. Much effort was needed to secure the free circulation of produce within the Community, and this was not always made. Some countries were unable—or unwilling—to embark on a joint programme of structural reform, which was a necessary corollary to organized markets and common process and this has resulted in some distortion of the CAP, leading to criticism from farmers, consumers and taxpayers alike.

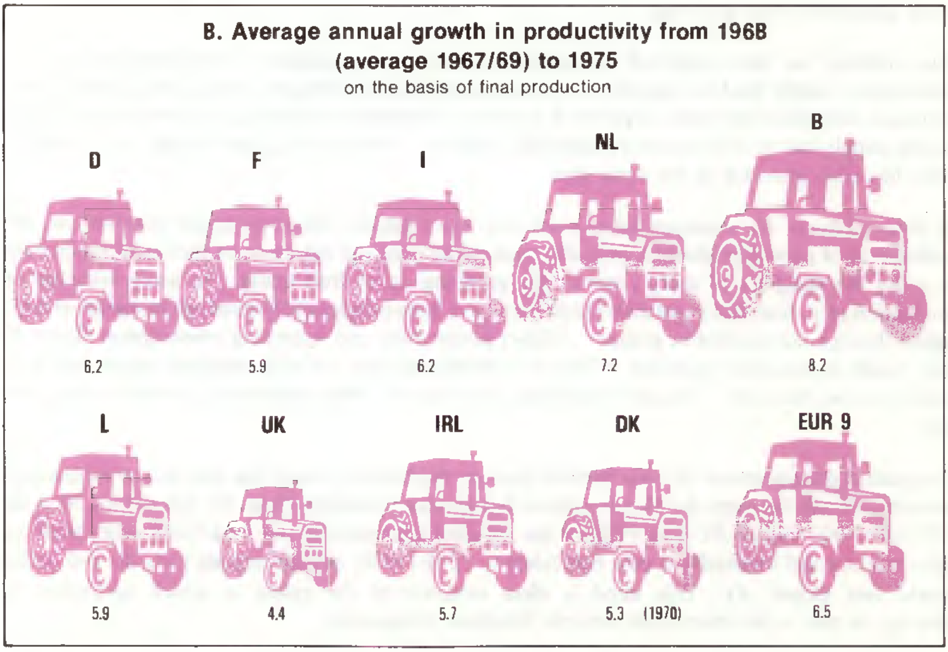
(a) Productivity, standard of living, market stability: patchy results

The share of agriculture in the gross domestic product (GDP) of each country is clearly on the decline. In the enlarged Community (see Graph 7) it fell from 6.4 % in 1968 to 4.8 % in 1976. In the original Community countries, common prices expressed in national currency have fallen in real terms from index 100 in 1967/68 to 89 in 1977/78. The situation is very different from one Member State to another, according in particular to the national agri-monetary policies pursued. This price trend has been accompanied by a decline, in both absolute and relative terms, in the population engaged in agriculture, from 12.8 % of the total active population in 1967 to 8.0 % in 1976 [1] (Graph 6), a reduction of 4 million people. As a result some country areas are becoming depopulated and in some cases there are manpower shortages, whereas towns are becoming overcrowded.

This decline in the agricultural population has been accompanied by a remarkable jump in the productivity of farm labour (GDP per person employed). At the outset this was rather low, but from 1968 to 1975 labour productivity in agriculture increased by 6.3 % per year (Graph 8) whereas for the economy as a whole the figure was only 3.1 % per year. However, despite these figures, the gap between the two sectors is not yet closed: only 4.0 % of the GDP is accounted for by the 8.4 % of the active population engaged in agriculture. The growth in productivity must therefore be maintained. This implies increasingly rapid technical progress against the proper social and

[1] United States 2.6 %; USSR 19.9 %; (1976 figures).


6 - 7. Percentage of gross added value at factor cost provided by agriculture (1976)
D
F
I
NL
B
L
UK
IRL
DK
EUR 9
3.2
5.2
9.0
5.0
3.2
3.5
2.8
18.1
8.0
4.8
6.7
10.4
14.9
6.2
3.3
6.1
2.6
21.5
8.9
8.0
Percentage of total active population employed in agriculture (1976)


B. Average annual growth in productivity from 1968 (average 1967/69) to 1975
on the basis of final production
D
F
I
NL
B
6.2
5.9
6.2
7.2
8.2
L
UK
IRL
DK
EUR 9
5.9
4.4
5.7
5.3 (1970)
6.5

structural background, representing a good deal more than the mere price and market policy which has failed to solve the problems of agriculture by itself. It is clear that the disparities in agricultural incomes have not disappeared but have grown more marked in every respect: between Member States, between regions (incomes in some Community regions are five times higher than in others), between farms of the same size in the same Member State (incomes on mixed farms are half those in cattle farming) and even between farms of different sizes but of the same type (those of over 50 hectares have incomes twice as large as those of between 10 and 20 hectares). It is also apparent that division of labour which ought to have taken place among the different regions of the Community as a result of the common agricultural policy has not fully come about.

The two primary objectives of the Treaty of Rome (to increase productivity and ensure a fair standard of living for the farming population) have thus been attained only incompletely and to varying degrees. It remains essential that a special effort be made to improve agricultural structures.

The economic crisis is an obstacle in the path of this improvement since, in the last few years, it has caused a slow-down in the reduction in the agricultural labour force, not least because it has considerably reduced the number of jobs available outside agriculture. As a result, the improvement in agricultural structures has also slowed down. As there is, at present, a very high unemployment rate in the Community, emphasis should be placed on retiring older agricultural workers rather than redeveloping young ones.

Market stability, the third objective, has indeed secured, at any rate in the short term. It has been more successful in markets for which there is price support than in those which depend on a system of additional aid. Between 1973 and 1977, for example, the month-to-month fluctuations in the price of wheat were four times greater on the United States markets than on the Community markets. Price fluctuations on US markets were about two times greater for pigmeat and three times greater for beef and veal.

This stability has been achieved by means of intervention measures. Depending on the circumstances, supply has been spread over a longer period by providing for storage and monthly price increases, surpluses have been disposed of by means of refunds to encourage exports or denaturing, or else supply has been increased by additional imports. Protection against world market fluctuations has been provided at the same time.

In times of crisis, the measures taken have been more drastic: import or export prohibitions, the withdrawal of part of production from the market and even the reduction of factors of production (e.g. by the slaughter of dairy cows or the grubbing up of fruit trees). In some branches of production (e.g. fruit and vegetables) producers have been progressively involved in market stabilization through the creation of groups. Higher productivity and stagnating consumption (Table 2) may result in structural surpluses. This is currently the case for milk products, sugar and, to a certain extent, for wine. The risk of surpluses exists also in other sectors (e.g., certain fruits, olive oil).

The gradual disappearance of trade barriers between the Member States has also helped to stabilize markets. Trade between the Member States has increased steadily (from 15 300 million EUA in 1973 to 23 900 million EUA in 1976 for the enlarged Community) and intra-Community trade in farm produce and foodstuffs is now equivalent to 72 % (1976) of their imports from the rest of the world (see Graph 4). This trend is clear evidence of the extent to which agriculture is playing its part in the movement towards European integration.

Agricultural integration, however, has not been easy to achieve. In the absence of monetary union it is very difficult to safeguard the single market, which is one of the main principles of the common agricultural policy.

(b) Agricultural policy: a victim of the currency crisis

When some Member States changed the parity or the central exchange rate for their currencies it became necessary to set up a system which would override the immediate effects of this on common prices and consequently on trade in agricultural produce, so as to avoid deflections of trade. As we know, the introduction of the CAP had brought common prices. Community financing of the market-support expenditure and structural improvements. There had, therefore, to be a common denominator for the currencies of the six and later of the nine Member countries. It was for this reason that the Community's unit of account was introduced in 1962—a fictitious currency, or better a standard of measurement, the value of which was defined by reference to a weight of 0.88867088 grams of fine gold. This corresponded at that time to the gold parity of the US dollar as declared to the International Monetary Fund.

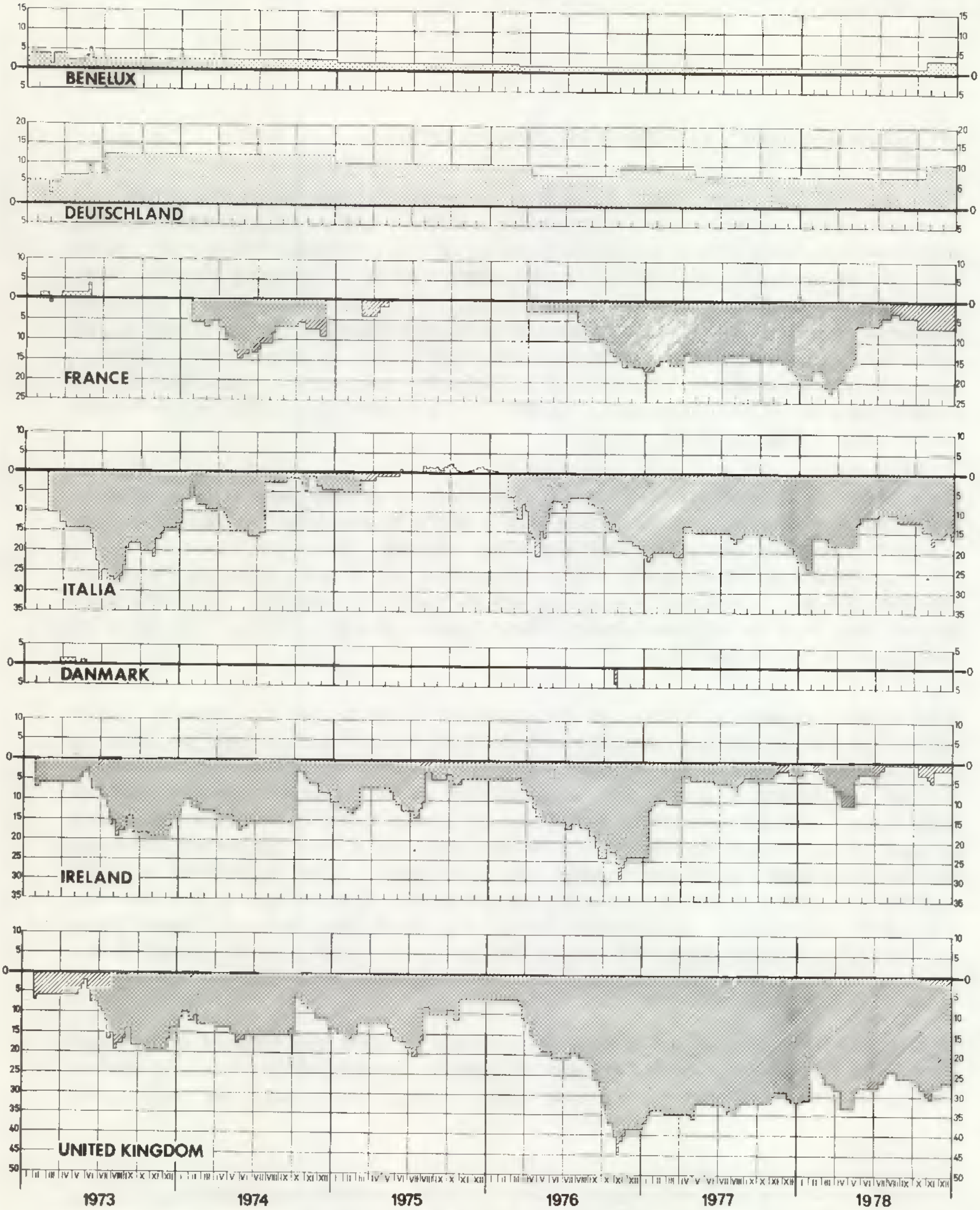
Since each of the national currencies in the Community had a declared parity in the books of the IMF, it was now possible for common prices fixed in units of account to be converted, the receipts of each Member State collected and their expenditure refunded. The system was, however, put into a state of disorder by the various changes in exchange rates occuring within the Community from 1969 onwards, in particular in connection with the floating of currencies. All sectors of the economy have borne the full consequences of these changes, with the exception of agriculture for which a special system was set up.

When a country revalues its currency, its agricultural prices (common prices expressed in national currency) should normally decrease to the same extent; they should increase when its currency is devalued. The majority of Member States, wishing to protect either producers (e.g. Germany, Benelux) or consumers (e.g. the United Kingdom) were unable to bear the consequences of this phenomenon. This led to the introduction of rates of exchange for the agricultural unit of account into national currencies which differed from the rates quoted on the exchange markets, these new rates becoming known as the representative rates (green rates). When the common prices are maintained in national currencies without any adjustment at the frontiers, exports from a country with a depreciated currency will be cheaper and may well disturb the economy of a country where the currency has remained stable or has been revalued upwards. On the other hand, exports from a country which has revalued cannot be competitive in a country where the currency has depreciated.

To limit deflections of trade and to avoid the otherwise inevitable dissolution of the Common Market, the Community introduced a system of 'monetary compensatory amounts'[1], the level of which depends on the differences between the market exchange rates or central rates and the green

[1] These amounts should not be confused with accession compensatory amounts, the purpose of which was to bridge the gap between Community prices and the prices of agricultural products in the three new Member States (United Kingdom, Ireland and Denmark) during the transitional period following the enlargement of the Community.

9. Rates (%) used for calculating monetary compensatory amounts*
1973 - 1978



*Minimum rates used.

rates. At the end of May 1978, these differences were as follows depending on the product: Germany + 7.2 to 7.5 %, Benelux + 1.4 %, Denmark 0 %, France —6.2 to 14.4 %, Italy — 11.2 to —24.7 %, United Kingdom —27.9 to —38 % and Ireland —2.8 to —9.4 %. The aim of the system is to counteract the effects on trade in agricultural products of parity or central rate changes which, otherwise, would affect common prices expressed in national currencies, pushing them either up or down.

A country with a depreciated currency grants these compensatory amounts on imports, and charges them on exports, while the system is reversed for a country with a revalued currency. For countries with a floating currency which has moved outside the Community 'snake' linking stable currencies, the monetary compensatory amounts are, in principle, calculated not for a marketing year but every week, on the basis of exchange rate changes and subject to a minimum difference of 1 %.

These monetary compensatory amounts have enabled the common agricultural policy to continue to operate, despite the breakdown in the unity of prices expressed in national currencies, which is such a serious strain on the unity of the market itself. Unfortunately these amounts are an obstacle to the necessary adaptation of agricultural structures and generate administrative red tape which may, in the long run, have its impact on prices and trade. The stake is far from being negligible. It has, for example, been noted that in 1978 the discrepancy offset by the compensatory amounts between the price of cereals in the country with the strongest currency (Germany) and the price in the country with the weakest currency (United Kingdom) was bigger than the gap existing before the Common Market between the highest and the lowest prices (Germany and France).

Efforts by the Community to reduce the monetary compensatory amounts have not met with great success. Expenditure arising out of the monetary situation, in particular that in respect of compensatory amounts[1], has thus been increasing steadily in recent years: 406 million u.a. in 1975, 505 million u.a. in 1976, 860 million u.a. in 1977. These amounts correspond to 9 % of total Guarantee Section expenditure in 1976 and to 12 % in 1977.

This relatively large proportion of expenditure is due principally to the steady depreciation of the Italian lira and the pound sterling in recent years, which has forced the Commission gradually to increase the rates of compensatory amounts.

Furthermore, from 1 January 1977 the financial impact of the existence of representative rates in the agricultural sphere and of different rates for budget entries is recorded for the first time in the Community budget separately from expenditure on agricultural markets. It should be noted that for 1977 this category of expenditure, referred to as the 'dual rate effect' amounts to 510 million u.a.

Since 1975, the Community has pursued a policy of standardization of the units of account used in the different areas of Community activity by adopting the European unit of account (EUA) for its various financial operations. The EUA is adopted in the budget with effect from 1 January 1978. It should also be introduced in the common agricultural policy, but to date the latter continues to apply the agricultural unit of account (AUA). The value of the AUA is linked to the currencies of the 'snake' countries. Consequently, the calculation of monetary compensatory

[1] These amounts should not be confused with accession compensatory amounts, the purpose of which was to bridge the gap between Community prices and the prices of agricultural products in the three new Member States (United Kingdom, Ireland and Denmark) during the transitional period following the enlargement of the Community.

amounts is also linked to these currencies. In the present circumstances, the introduction of the EUA would raise fundamental problems for the common agricultural policy, in particular the problem of the future level of common agricultural prices and, consequently, the distribution of monetary compensatory amounts between the Member States.

(c) Surpluses and food prices: more complex problems than is often realized

The lack of a common economic and monetary policy leads to fundamental difficulties for the common agricultural policy and entails expenditure which is an increasingly heavy burden on the EAGGF. The common agricultural policy is in no way responsible for this, but the taxpayer often throws the blame on it, arguing that the destruction of surpluses is costing too much and that the policy enriches the big farmers without ensuring an adequate living standard for the majority. A satisfactory solution to the problem of surpluses must undoubtedly be found. Yet expenditure on market support to no more than 0.5 % of the Community's gross domestic product, or 3.1 % of its expenditure on food or 11.2 % of final agricultural production. The first two percentages are, despite a widely held belief to the contrary, well within Europe's capacity. This is the price of independence in matters of food, though by eliminating the structural surpluses this price could be reduced.

There has been special criticism, sometimes very harsh, when surpluses have been exported at a loss (200 000 tonnes of butter to the USSR in 1973) rather than giving the benefit to Community consumers. However there are situations where it is less costly for the Community—and for its consumers—to export at low prices. This is notably true when normal, commercial markets are not being disturbed by such action.

On the other hand it should be noted that it is the deliberate policy of the Community to give EEC consumers the possible advantages of surplus situations, through the use of consumer subsidies, when this policy is economically justified in terms of increased consumption and budgetary consequences.

A distinction must be made between surpluses which are structural and those which are merely short-term. Any adequate policy has necessarily to absorb the former while the latter are the inevitable result of substantial fluctuations in production. This is one of the fundamental differences between agriculture, with its dependence on biological factors, and industry, for which production plans can be laid in advance.

The fourth Treaty of Rome objective was guaranteed security of supply and this has, in general, been secured [1]. However, as regards the animal feedingstuffs (soya, fishmeal, maize) required for intensive breeding (pigmeat, eggs and poultry), the Common Market has increased its dependence on external supplies. Moreover, more than half the soya supplies come from a single country—the United States. This is not without its dangers, as was seen in 1973 when Washington banned soya exports.

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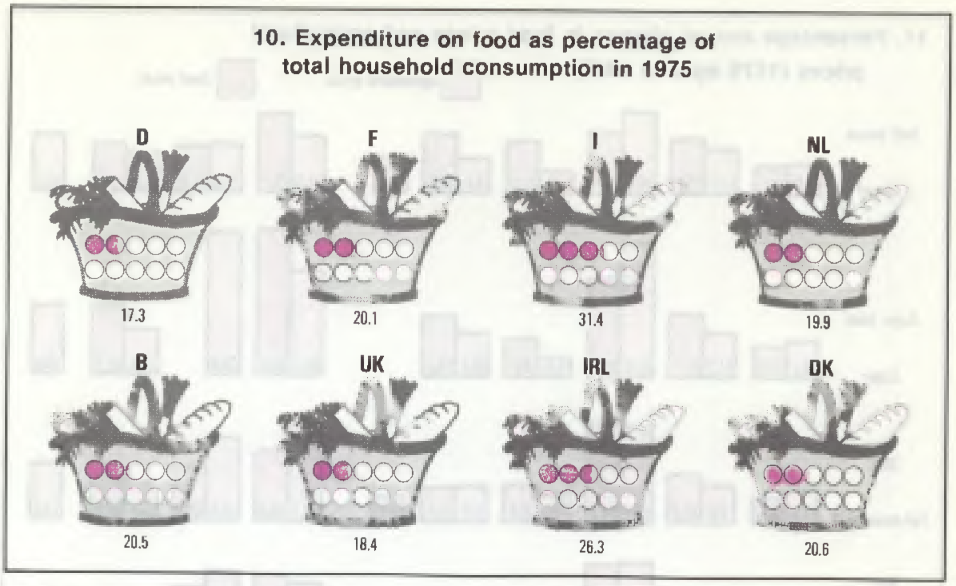
[1] The degree of self-supply in the nine-nation Community 1973/74 - 1975/76 was as follows:
- Above 100 per cent: cheese, barley:104; all types of wheat: 106; poultrymeat: 103; condensed milk: 142; wine: 103
- 100 per cent: potatoes, fresh milk products, eggs, beef and veal, pigmeat;
- Below 100 per cent: fresh vegetables: 94; rice: 86; fresh fruit: 79; sheepmeat: 65; maize:56; citrus fruit: 43; vegetable oils and fats: 24.



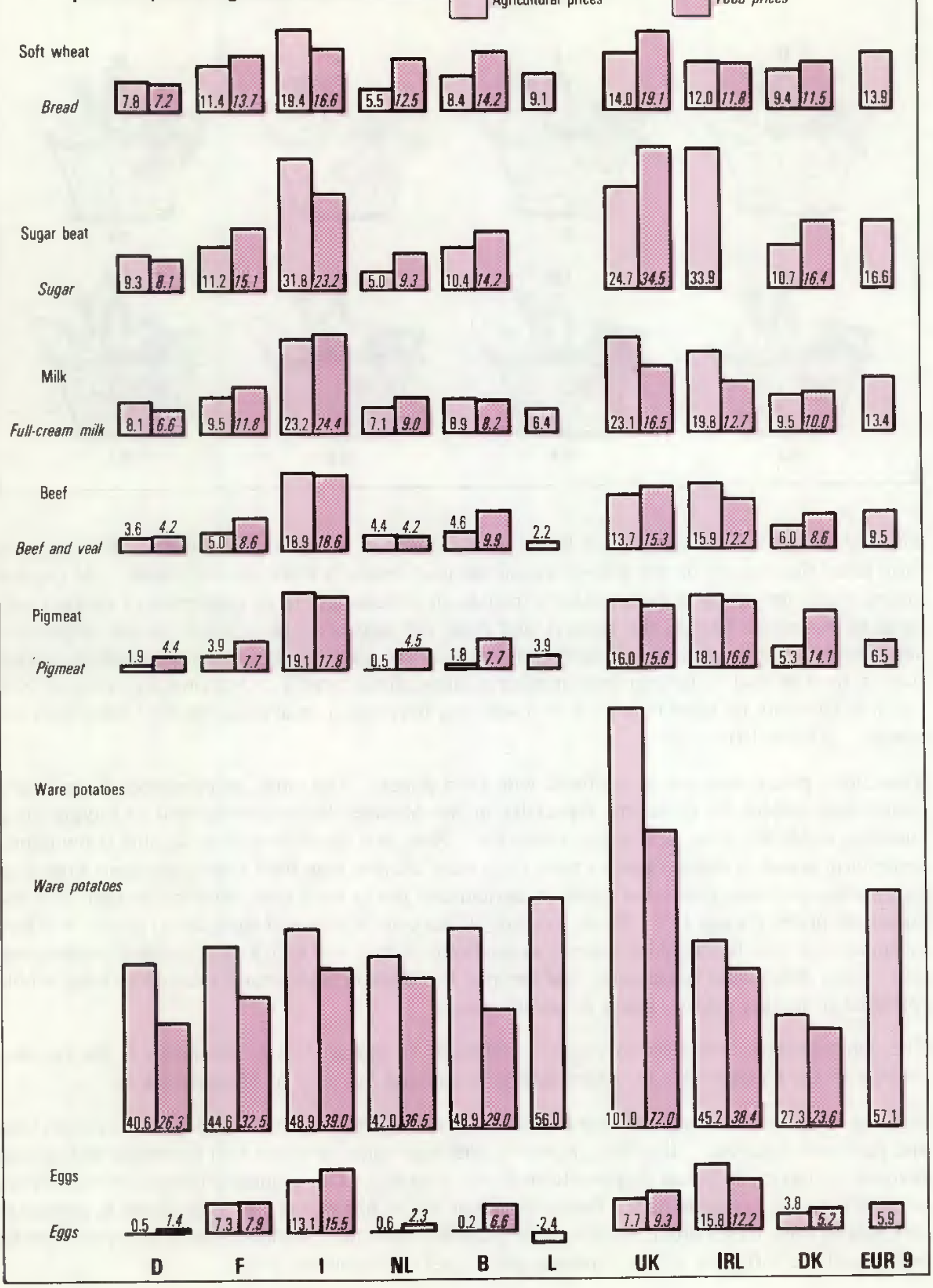
The fifth objective of the Treaty of Rome is to ensure fair prices for consumers. The impact of farm price fluctuations on the general consumer price index is often overestimated. At the marketing stage, the prices of food products include an increasingly large proportion of charges unrelated to the prices paid to the farmers and thus, the impact of farm prices on the housewife's shopping basket is much less than is often imagined—more especially as the proportion of expenditure on food in total household consumption is diminishing steadily. Varying according to country, it is currently no more than 21.6 % (excluding beverages) on average for the Community as a whole. (Graph 10).

Thus, food prices must not be confused with farm prices. The latter, as everybody knows, are a continuous subject for criticism, especially in the Member States accustomed to buying cheap supplies, especially from developing countries. Now that the chance of doing this is dwindling, some farm prices in these countries have risen more sharply than food prices; but apart from these exceptions, producer prices and common agricultural prices have been showing smaller rises than consumer prices (Graph 11). Thus, a rise of 10 per cent in common agricultural prices, will have an impact on total household consumer expenditure of only 0.8 to 1.8 % depending on the country. Even this would presuppose that the rise in common agricultural prices had been wholly reflected in market prices, which is not the case.

The common agricultural policy must of course be so operated as to reconcile, in the common interest of the Community, the often divergent national interests of Member States.

In some Member States, agricultural production is an important factor and plays a big part in trade and payments balances. In others, however, the importance attached to it is smaller and opinion favours the buying of cheap supplies from world markets. The countries in the former group are anxious not only to maintain their farm production, but to make prices an inducement to producers, and thus to raise their output; but the other countries have their anxieties about the cost of such a policy and the influence of the common price level on consumer prices.

11. Percentage annual change in food prices and agricultural prices (1976 against 1973)



Moreover, not all member countries are concerned with the same types of produce. Cereals, milk and milk products, for example, are essentially of interest to farmers in the northern part of the Community, while the southern farmers are concerned more especially with fruit and vegetables, citrus fruits and wine. Up to the present there have been differences in the guarantees sought through the common market organizations, and this sometimes leads to claims for equivalent guarantees.

The few examples given above are not exhaustive, but suffice to show the complexity of the problems and the difficulties in reaching joint decisions.

In the final analysis, the CAP has undoubted advantages. Indeed, since it was instituted, there has been a positive farming revolution in the Community. The advantages would doubtless have been the more decisive if Europe had continued its advantage and if the common agricultural policy had not remained the only such policy to be really operational both internally and externally.

The facts make it quite clear that Europe's agriculture cannot do without an economic and monetary union. By the same token, it cannot do without a social policy or a regional policy. Without these, decisions become more and more difficult, because each country tries to use the price system to protect its own marginal lines of production (cereal farming in one country, dairy farming in another).

(d) Decision-making procedures and lack of political conciliation

The procedures for the day-to-day operation of the common agricultural policy are in many ways original and work quite effectively. The various market organizations each have their own management committees, on which the EEC Member States cooperate closely with the Commission.

The Commission appoints the chairman of each management committee, the meetings of which are held as and when necessary. It is the Commission which calls the meetings, though this may be done at the request of a Member State. National delegations are usually made up of a head of department, vested with the necessary powers, or his deputy, assisted by officials from other departments. Proposals are studied by the committees, which submit opinions. These are adopted by a qualified majority, with the voting weighted on the same system as in the Council of Ministers, a majority requiring 41 votes out of a total of 58. Opinions cannot therefore be given without the assent of at least five Member States.

If an Opinion is negative [1] the Commission informs the Council of Ministers of the measures it has adopted. It may then bring them into immediate effect, or it may suspend their entry into force for not more than a month, during which time the Council may take a different decision.

This procedure is peculiar to the European agricultural policy which, when it comes to political decisions, is subject to the procedures applying to all other aspects of European legislation. These are:

— Proposals by the Commission, a collegiate body consisting of 13 members appointed for four years by common consent of the EEC member governments, but required to act in full indepen-

[1] This occurs very rarely: in 1977, for example, of the 1 548 voting procedures 1 427 produced favourable Opinions and 119 lead to no Opinion while 2 Opinions were unfavourable.

dence of their governments and of the Council of Ministers. The Commission is the guardian of the Treaty, the executive organ of the Community, the initiator of Community policy and the voice of the Community interest.

— Consultation of the Parliament, which at present consists of 198 members appointed by the national parliaments from their own members. The European Parliament permanently supervises the work of the Commission, which is politically responsible to the Parliament only. The Parliament has power to pass a vote of censure and thus force the resignation of the Commission.

  Direct elections by universal suffrage of a European Parliament of 410 members will take place in the Member States between 7 and 10 June 1979.

— Opinion of the Economic and Social Committee, which is a consultative organ, consisting of representatives of the different socio-professional interest. A large number of decisions require consultation of this Committee before they can be adopted.

— Discussions and decisions by the Council, which consists of representatives of the nine member governments. When the Council receives from the Commission either a general memorandun or a definite proposal, it entrusts the preparation of its discussions to a special committee of senior officials or to a standing working group. The work of these groups and committees is coordinated by the Committee of Permanent Representatives, who act as deputies for ministers. As regards the agricultural policy, this task falls to the Special Committee on Agriculture (SCA).

The dialogue between Commission and Council may lead to legal acts of various types. Regulations are binding in their entirety, are directly applicable in all the Member States and have force of law. Decisions are addressed either to Member States or to firms or individuals. Their character is that of an administrative act, and they are accordingly binding on the persons or bodies to whom they are addressed. Directives are addressed to one or more Member States and are "outline-laws", defining objectives to be attained but not laying down any specific measures for their attainment.

In addition, the Council and the Commission may formulate recommendations or opinions which do not impose any legal obligation on the Member States.

The Community structures are original but in the present state of European integration their political basis is still not strong enough for optimum conciliation of the more or less latent strains and counter-strains which are an obstacle to Community development. When the agriculture ministers find it necessary to continue their negotiations through long marathon sessions which are sometimes dramatic and have become one of the traditions of Europe this is often due to the absence of any framework for political decisions, and the lack of the necessary political will.

It is thus not surprising that the CAP, the symbol of European integration, should have passed through a number of crises since it was instituted in 1962. There have been moments of exceptional gravity, such as on 1 July 1965, following the marathon session on finance policy, when France—which wanted to replace the majority voting rule by the unanimity requirement, and did not accept the strengthening of the powers of Parliament—precipitated the so-called 'empty chair' crisis by boycotting Council meetings. Nevertheless, the common agricultural policy has gradually replaced and superseded the organizations which existed in the Member States before the Treaty of Rome. The principles of Community preference and financial solidarity have come into play.

Up to 1969, the background was prosperous and stable, and by virtue of this the policy was able to develop. Since then, however, the atmosphere has become less positive, as has been seen since

1971 in the general application of the compensatory amounts system following the currency crisis. This crisis, indeed, still prevails, and the fixing of agricultural prices is becoming more and more difficult.

Free trade between Member States and competition between traders and between producers are sometimes affected by measures which are particularly apt to impede the development of a common agricultural market. Such measures are an obstacle to the specialization of production in those regions which, given their economic and natural situation, are the most likely to achieve the goal of increasing productivity in agriculture.

Quite apart from the many different ways in which the economic environment can influence undesirable developments, two sets of obstacles merit special attention:

1. Monetary compensatory amounts tend to act as a barrier between Member States and serve to protect special national interests.
2. The extent to which State aid is used as a means of achieving national agricultural policy aims is still causing concern. Closer study reveals fairly large disparities between Member States as regards the definition of these aims and the use of State aid.

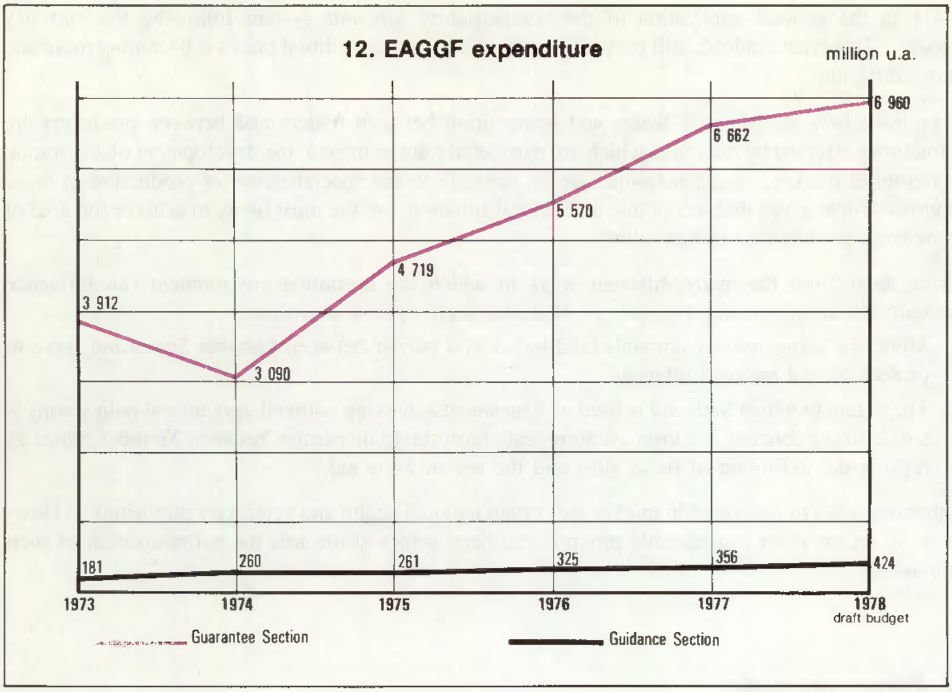
Other obstacles to the common market are certain national health and veterinary provisions. However, in recent years considerable progress has been achieved towards the harmonization of such provisions.

6. Future prospects

Recognizing the limitations of the markets and prices policy, which leaves the problem of incomes unsolved, the Ministers of Agriculture, some considerable time after the introduction of the market and prices policy, decided in March 1971 to adopt a number of socio-structural directives. These provide for the modernization of holdings, measures to assist persons who wish to retire from farming, the guidance and vocational training of farmers, measures ensuring the maintenance of a minimum population and the preservation of the environment in mountain areas and certain other less-favoured areas and, since February 1977, measures to improve the conditions under which agricultural products are processed and marketed. Some Member States have been very slow in putting these measures into effect.

While to date the major portion of EAGGF expenditure has been devoted to market support (Graph 12), things should be different in future. The proportion represented by Guidance Section expenditure on the improvement of structures, which from 1971 to 1978 was only 5 % of total Fund commitments, should increase. This should lead the Member States to step up their own efforts in this direction. But political will is required if the socio-cultural policy is to play more than just a subsidiary role.

The establishment of a common agricultural market has precipitated a very substantial increase in trade between Member States. This increase has made possible a more varied and constant food supply. At the same time, labour productivity has increased sharply. Generally speaking, the instruments deployed to stabilize the markets have satisfactorily fulfilled their task of levelling out short-term market fluctuations. However, the common agricultural policy has not be able to solve all the problems of Community agriculture. It has been unable to prevent the persistence of large



income disparities within the agricultural sector and structural progress, which is the essential basis for remedying this situation, has remained an extremely slow process.

Adjustment of the structures policy is made necessary by the profound change in the general economic climate, which is now characterized by recession and high unemployment. In such a climate the modernization of agriculture cannot be achieved to the same extent as in the past by encouraging farm labour to switch to non-farming activities.

For its part the market and prices policy has not succeeded in avoiding grave imbalances on certain agricultural markets. For several products, in particular, milk, wine and sugar, the imbalance between supply and demand is structural in nature; il appears to be increasing and is due to the fact that production is rising faster than consumption. The origins of such imbalances are manifold, varying from one market to another. Overcoming these problems is a primordial task for the common agricultural policy.

Important measures have already been taken in this area, for example in the milk sector. This sector has always been the 'black sheep' of the common agricultural policy. It is mentioned already in the initial Commission proposals of 1960, in the 'Mansholt Plan' of 1968, in the Commission memorandum of 1973. A milk action programme has been implemented, which—among other measures—provides for a coresponsibility levy paid by producers. Once again, during the discussion on the fixing of common prices for the 1978/79 marketing year, the advisability of pursuing a cautious price policy, in particular for surplus products, was emphasized.

The problem of regional under-development seriously affects the common agricultural policy. The economic situation of the Mediterranean regions requires special attention. For this reason the

Community has adopted certain measures improving the market organizations for products from these areas, and also measures to improve their agricultural structures. However, neither the prices and markets policy nor the socio-structural policy alone can resolve the problem of under-development. Only a long, intensive and comprehensive development policy is likely to have a lasting impact.

Other serious problems facing the common agricultural policy are caused by the break-up of the single market as a result of the monetary disturbances in the Community which disrupted the unity of prices and markets. At present the common market is subdivided into seven partial markets, linked together by a system of monetary compensatory amounts. Thus, Community agriculture suffers from the absence of economic and monetary union between Member States. One of the Community's aims for the future should be the gradual dismantling of these compensatory amounts.

The Commnity, which was enlarged in 1973 by the accession of the United Kingdom, Ireland and Denmark, has shown considerable flexibility in dealing with this new situation. On 31 December 1977 the transitional period accorded these new Member States ended. Meanwhile, the Community is facing a new request for enlargement. Greece, Portugal and Spain have officially requested accession to the Community. The assimilation of their agriculture will undoubtedly present the Community with new problems, related in particular to the problem of developing the Mediterranean regions of the Community of Nine. A situation whereby the common agricultural policy gave rise to surpluses of Mediterranean products should be avoided.

The conclusion from the above is simple. The common agricultural policy is the victim of the delay in laying down European policies on economic, monetary, social, regional and other matters. This cannot be allowed to continue. It is necessary to improve the Community decision-making processes and go ahead with the attempt to set up a European union. Only thus can the agricultural policy live up to its promises, for alone it is no panacea.

A. The European Agricultural Guidance and Guarantee Fund

Expenditure by the Guarantee Section in 1977 amounted to 6 662.4 million u.a. If the accession and monetary compensatory amounts and the effect of the dual rate are excluded, this amount falls to 5 118.1 million u.a. and corresponds to total expenditure on direct support of the Community of Nine's market in agricultural products.

Three sectors account for 55 % of the appropriations: milk products (2.5 million u.a. or about 38 %), cereals (586.7 million u.a. or about 9 %) and sugar (536.7 million u.a. or about 8 %).

While there has been a slight improvement in the beef and veal sector, the same cannot be said for milk and sugar. The surplus situation in the milk sector has continued and has led to a substantial increase in expenditure on disposal. As regards the sugar sector, after the world shortage of 1975 the increase in Community production, plus imports under the Lomé Convention, has led to a surplus situation in the Nine which is reflected in a substantial increase in expenditure.

Price compensatory measures represented 45.5 % of total expenditure by the Guarantee Section and refunds 37.5 % in 1977. The remaining 17 % were used mainly to finance the storage of milk product surpluses (488 million u.a.) and to pay monetary compensatory amounts in intra-Community trade (650 million u.a.).

Of the 325 million u.a. in Guidance Section appropriations available for 1977, 91.2 million u.a. were reserved to finance individual projects under Regulation No 17/64/EEC designed to improve production and marketing structures. To this amount were added the appropriations recovered following the decisions to cancel or reduce aid totalling 25.6 million u.a. already granted pursuant to Regulation (EEC) No 3171/75 and an unused 130.5 million u.a. allocated to other chapters involving EAGGF Guidance Section expenditure. The Commission was therefore able to grant 247.3 million u.a. to 802 individual projects, representing a total investment of 1 233.4 million u.a.

In all, from 1964 to 1977, the overall amount of aid granted was 1 987.7 million u.a. for total investments of 9 317.8 million u.a. in respect of 7 066 individual projects. The sector receiving the most aid from the Fund is land and hydraulic improvement with 31.2 % of the aid granted, followed by wine (12.4 %), milk and milk products (12.1 %) and meat (11.4 %). As regards the breakdown by investment category, 50.1 % of aid granted related to production structures, 43.4 % to marketing structures and 6.5 % to mixed production and marketing structures.

After a difficult start, particularly as regards the structural directives, the application of common measures made considerable progress and in 1977 77.0 million u.a. were reimbursed to the Member States for aid paid in connection with Directives 72/159-160-161/EEC on the reform of agriculture and 75/268/EEC on agriculture in mountain areas and in certain other less-favoured areas. A total of 18.6 million u.a. was allocated in premiums for the conversion of dairy herds to meat production and the non-marketing of milk and milk products, to hop producer groups, to the Farm Structures Survey and to other common measures.

Payments made up to 1977 for special measures designed to improve the functioning of certain market organizations and common measures decided on by the Council after the adoption of Regulation (EEC) No 729/70 on the financing of the common agricultural policy total 492.4 million u.a.

In 1975 the EAGGF had to cover about 35 % of total national and Community expenditure on aid to agriculture, or almost 5 000 million u.a. taking into account the supplementary budgets voted at the end of the year. Total expenditure amounted to 14 200 million u.a. in 1975, so that the Member States financed 9 200 million u.a. of which 6 000 million were for production, processing and marketing and 1 100 million for measures to boost consumption.

Since 1975, expenditure by the Guarantee and Guidance Section of the EAGGF has been financed entirely from the budget of the European Communities. Budget receipts are derived from customs duties, agricultural levies and a sugar levy and from 1 January 1979, should include a portion of VAT levied by Member States up to a maximum of 1 %. From that date the national contributions which partly funded the budget should be abolished and the budget will be made up entirely of own resources.

B. European prices: a short glossary

- *Target price.*—Price which the producer should receive under the common market organization. The produts concerned are cereals, sugar, milk, olive oil, colza and sunflower seed.
- *Guide price.*—Corresponds to the target price but concerns beef, veal and wine.
- *Norm price.*—Same as above in the case of tobacco.
- *Threshold price.*—A price calculated so that the imported product (including transport costs) can be sold at the target price. The difference between the world price and the threshold price is covered by a levy. The products concerned are cereals, sugar, milk products and olive oil.
- *Sluice-gate price.*—Corresponds to the cost price of pigmeat, eggs and poultrymeat produced in the non-member countries with the highest technical efficiency. An additional amount is added to the levies on products sold below this cost price, so as to prevent entering the Commnity at prices below the sum of the sluice-gate price and the levy (level of protection).
- *Reference price.*—Determined by reference to the producer price in the Community and comparable, to some extent, to the sluice-gate price. It is the minimum price at which a product may be imported froam any non-member country. If the reference price is not respected, an equivalent charge is levied. The products concerned are fruit and vegetables, wine and certain fishery products.
- *Intervention price.*—The price at which the intervention agencies are obliged to buy products offered to them. The products concerned are cereals, sugar, butter, powdered milk, certain Italian cheeses, olive oil, colza, sunflower seed, beef and veal, pigmeat and tobacco.
- *Basic price.*—Corresponds to the guide or target price in the case of pigmeat, in the sense that it is used to determine the level which triggers market intervention measures.

C. Structural policy measures

- *Modernization aid.*—Under this directive, Member States have introduced a selective development programme for farmers to modernize. This measure is designed particularly for farms with relatively low income per man employed which can achieve through a six-year development plan a working income comparable with non-farming incomes in the region. Holdings which are currently profitable but which are in danger of slipping behind in the next few years may also benefit.

Farmers wishing to take advantage of the programme must meet certain criteria:
— Farming must be their principal occupation.
— They must have adequate professional ability.
— They must agree to keep accounts from the start of the development plan.
— They must work out a development plan and have this approved by the competent authorities in their own country.

Under this directive the developing farmer has prior call on land released under the second directive (see below) and can receive aid in the form of an interest rebate for the investment necessary under the development plan, not including expenses incurred in purchase of land, of pigs or of poultry. A capital grant may be given instead of an interest rebate. Where there is insufficient collateral, he can also benefit from an official guarantee on the loan and interest.

Special terms are provided to encourage beef production, as well as incentives for keeping farm accounts, for machinery syndicates and production groups and for certain irrigation and land consolidation schemes.

Other national aid is restricted except on a temporary or regional basis.

For all the approved measures Community aid from the EAGGF will be given at the rate of 25 per cent, the balance being payable by the Member State.

In the UK the directive is implemented through the Farm and Horticulture Development Scheme, in Ireland as the Farm Modernization Scheme.

• *Help for giving up farming.*—This directive provides for an annual payment to farmers aged between 55 and 65 who give up farming. The payment, which may be up to 900 units of account annually for a married man or 600 u.a. for a single person, may be paid as a lump sum and can be varied according to the age or the income of the beneficiary. A contribution from the EAGGF is payable for applicants between 60 and 65, including both farmers and employees on farms. In those Member States which have an agricultural population comprising more than 15 per cent of the working population, applicants between 55 and 65 eligible. A national premium related to the size of the holding may also be paid.

The land released when an applicant opts for the retirement premium must be rented out for at least 12 years or sold to another farmer who is developing his holding or withdrawn from agricultural use, whether for forestry, for relaxation or leisure, or for public utilities. The land may also be made over for at least 12 years to special agencies set up by Member States for the purposes set out above.

The EAGGF would normally reimburse 25 per cent of the State's contribution to the scheme (known in the UK as the Farm Amalgamation Scheme). This will rise to 65 per cent in those areas where the percentage of the working population employed in farming is above the Community average and where the gross domestic product per person is below the Community average, this applying to Ireland and most of Italy.

• *Provision of information services and training facilities.*—This directive allows for the creation and development of information services with the job of giving the agricultural population general information on possibilities for improving its social and economic situation, of helping individuals to adapt themselves to new situations and of giving information and advice.

Education and vocational training of advisers for tackling related social and economic problems is foreseen in the directive and Member States are to set up a programme encouraging farmers and their employees to gain new or more advanced professional qualifications in agriculture.

The Social Fund of the Community is to take over some responsibility for financing these measures. Member States are to introduce a regime of special aids guaranteeing an income to people while they undergo training.

• *Farming in difficult areas.*—This measure provides direct help to less-favoured agricultural regions which are affected by climate or terrain and which are therefore liable to depopulation and a decline in local agriculture.

The scheme covers regions in most Member States and offers direct payments calculated on the scale of the farm (headage payments on cattle and sheep, for instance) and preferential terms for capital grant or interest rebate.

About 10 per cent of Community farm output is subject to these direct payments, which cover about a quarter of the Community's total farming area. The old hill-farming areas of the United Kingdom are included. The Community's budget pays 25 per cent of the cost.

• *Processing and marketing.*—Direct capital grants payable under a 1964 regulation for investment in food processing and marketing are now being phased out and replaced by a joint scheme under which each Member State draws up programmes of investment for particular sectors. Projects fitting into these programmes may then qualify for 25 per cent aid from the Community's budget, subject to various criteria.

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