

ECONOMIC AND SOCIAL COMMITTEE
OF THE EUROPEAN COMMUNITIES

PROGRESS REPORT ON THE COMMON AGRICULTURAL POLICY



STUDY

Brussels 1975

The European Communities' Economic and Social Committee, chaired by Mr Henri CANONGE, approved this study at its 125th plenary session, which was held on 28 November 1974.

The preliminary work was done by the Section for Agriculture and the Rapporteur was Mr François BOUREL.

**ECONOMIC AND SOCIAL COMMITTEE
OF THE EUROPEAN COMMUNITIES**

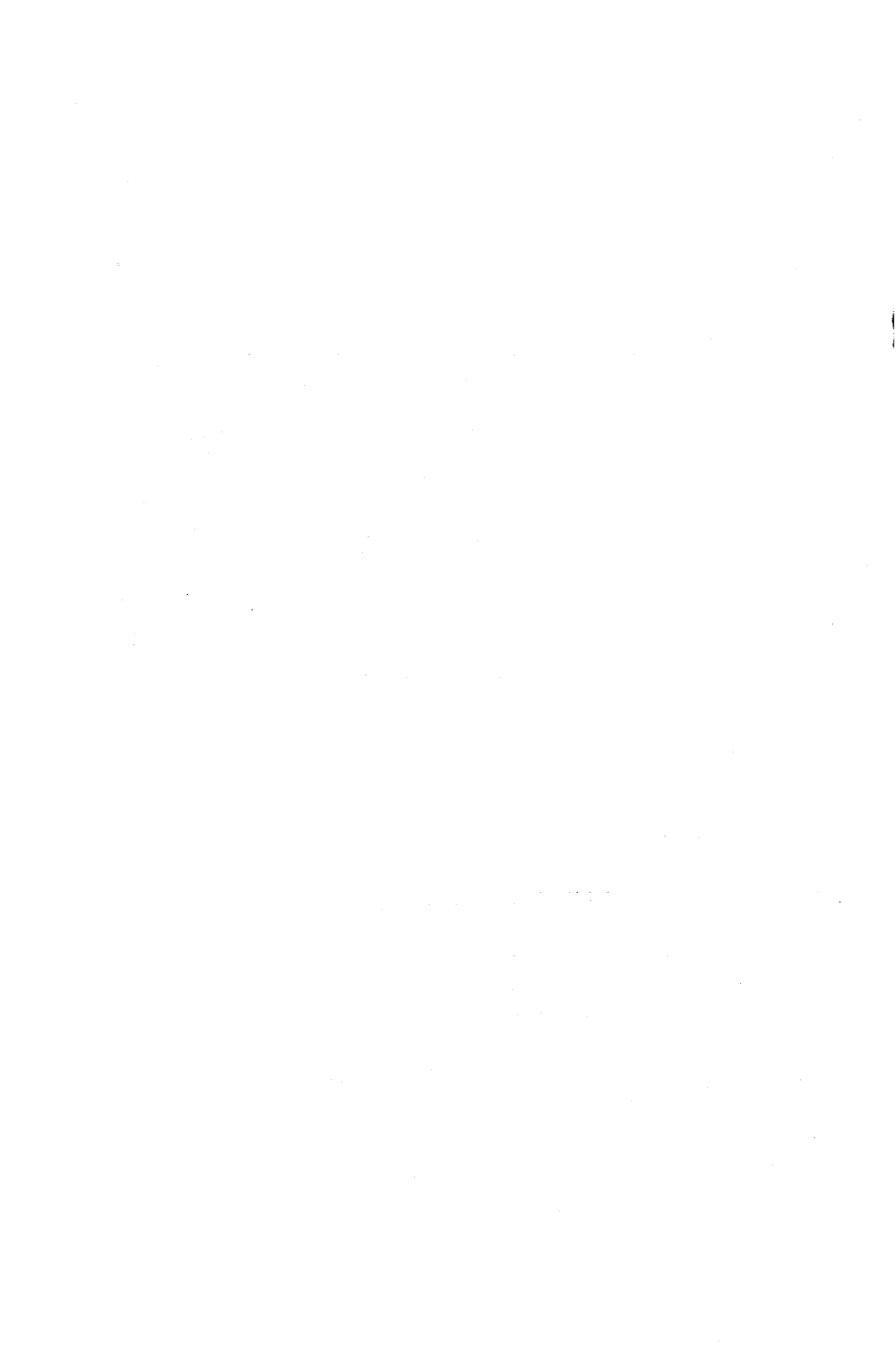
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on the common agricultural policy**

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I. INTRODUCTION

A. Preliminary comments

On the initiative of its Section for Agriculture, under its then Chairman Mr Vincenzo Visocchi, the Economic and Social Committee, acting under Article 20 (second paragraph) of the Rules of Procedure, decided in June 1973 to draw up a progress report on the CAP. The Committee had reached the conclusion that, after 15 years of close cooperation with the other institutions, it was essential to make a major appraisal in the light of all the decisions taken—or not taken—in the agricultural sphere between 1958 and 1974. The main purpose of this detailed stocktaking exercise was to offer valid replies to a number of views and judgements which are generally ill-justified but are, nevertheless, frequently put forward in the original six Member States and in the three new Member States. The Committee also wished to make its contribution towards the imaginative approach which will have to be rapidly forthcoming from the decision-making bodies of the Community, if the common agricultural policy, and the Community in general, are to be extricated from their present transitional situation.

The Committee's Section for Agriculture appointed a study group, with Mrs June Evans as Chairman and Mr François Bourel as Rapporteur. In November 1973, after this group had already started its work on the progress report, the Commission published its memorandum on the improvement of the common agricultural policy. In February 1974, the Economic and Social Committee, exercising the right of initiative obtained at the Paris Summit Conference in October 1972, issued a detailed Opinion on the memorandum.¹ The present study must, of course, be read in conjunction with that Opinion; the two documents are, in fact, complementary.

The Committee's study is in complete accord with the special role assigned to its Section for Agriculture by Article 47 of the Treaty, and the Committee is pleased that it has been able to make this contribution available at the right time to the relevant Community authorities.

The Committee would also underline the value of the discussions held during the preparation of this study with representatives of the various socio-occupational groups concerned and Commission officials. The fruits of these discussions will stand the Committee in good stead in the future exercise of its function of advising the decision-making bodies of the Community.

B. General introduction

For various and sometimes inconsistent reasons, the common agricultural policy gradually evolved and implemented by the Member States has seldom been out of the economic and political headlines since the Treaty of Rome entered into force. The various assessments of the CAP, be they favourable or adverse, testify at least to its position in the drive for European integration which began almost 25 years ago.

¹ OJ No C 115, 28.9.1974.

No review of the common agricultural policy can confine itself to the question of whether its goals have been achieved. We must also consider the situation which existed at the inception of the policy, so as to be better able to gauge the changes which have taken place. Another question to be asked, which is relevant because our subject is only one of those covered by the Treaty of Rome, is how the common agricultural policy has generally furthered the global objectives of the Treaty.

Furthermore, the political and economic map of the world has changed over the past 15 years. The European Community was enlarged by the admission of three new member countries at a time when monetary upheaval was seriously complicating world business activity. The international balance of political power has shifted, and recent events have shown that the distribution of economic wealth is likewise capable of rapid change.

The point of taking stock of the agricultural policy in the Six, and now in the Nine, is not to speculate on what other form agricultural policy could have taken over the past 15 years. It is far more important to assess the results achieved and thus gain a better idea of what course the Community should take in years to come, in the light of the new political and economic map.

a) The introduction and development of the CAP

While it is not the intention to review the various past attempts at international normalization of trade in farm produce and foodstuffs, we should note that after emerging from the shortages caused by the Second World War, and its aftermath, the large industrialized countries still saw a need to pursue national farm policies.

As regards their aims, these purposeful national policies had a number of general features in common, though the means employed were extremely varied and, in some cases, divergent. These policies were characterized *inter alia* by:

- government intervention to support farm incomes, by means of market organizations and guaranteed prices for farm products;
- usually, a marked degree of protectionism at the frontiers, which meant that the national food markets were, to a certain extent, sealed off from one another;
- measures to deal with regional disparities in the economic situation of agriculture in each country.

The situation on the eve of the signing of the Treaty of Rome was thus one of basically national agricultural policies existing side by side. Furthermore, the same situation existed at the time of the accession negotiations with the new Member States. It is hardly surprising that the various attempts at European level to encourage trade in farm produce, and thereby make common approaches to agriculture possible, had not met with success.

It is significant that the countries which declined to join the Common Market in 1957 and instead set up the European Free Trade Association (EFTA) left agricultural produce out of their free trade agreement. This showed that farm produce, because of its production and marketing characteristics, cannot be made the subject of a simple free trade agreement, on pain of disrupting the national farm systems, with all the economic, social and political consequences that would entail.

It marked a completely new approach, and one with fundamental political and economic implications, when in the Treaty of Rome the signatory countries declared their intention of fully integrating agriculture into the overall economy of the Community. Article 3 of the Treaty gives as one of the steps to be taken by the Community in pursuit of the general objectives set out in Article 2:

'd) the adoption of a common policy in the sphere of agriculture.'

The Treaty goes on to state, in Article 38, that:

1. The common market shall extend to agriculture and trade in agricultural products...
4. The operation and development of the common market for agricultural products must be accompanied by the establishment of a common agricultural policy among the Member States.

Thus, the benefits to both producers and consumers of a wider market with the same features as a large domestic market were to cover farm produce as well as industrial goods. This was clearly a grand design which only unflinching common political will could realize, and which demanded that time be taken over the necessary adjustments. Is it surprising that the results after 15 years do not entirely conform to the original plans?

It must also be remembered that the section of the Treaty on agriculture, unlike that on the establishment of the customs union, contained only a list of aims of the common agricultural policy, an indication of the various forms the organization of the markets could take and provision for setting up Community agriculture support funds. Instruments of Community farm policy which were capable of achieving the goals thus had to be devised in the light of the various national situations existing in 1958.

Mention must be made here of the major part played by the Commission in efforts to define the instruments of the European agricultural policy. It is undoubtedly due to the Commission fulfilling the role assigned to it in this field by the Treaty, that the common policy did indeed take shape, that foundations with a solidity that may today seem surprising were built, and that progress has been made towards its goals.

Since three new countries joined the original Six on 1 January 1973, the Community's farm policy has, under the Accession Treaty, been back in a transitional period. Leaving aside the possible effects of the monetary situation, it will now be 1977—nearly twenty years after it was first discussed—before we can again talk of the 'agricultural common market'. Should not this transitional period be spent giving the policy further thought and working out how it needs to be adapted to the agricultural situation in the Nine?

b) *The farm policy and the development of the EEC*

Before assessing the results of the common agricultural policy in terms of the specific goals which it was set by the Treaty, we must make some general points.

Firstly, the common agricultural policy has definitely furthered a number of the general aims of the Treaty. This is true, for example, of the goals set out in Article 3:

'the elimination, as between Member States, of customs duties and of quantitative restrictions on the import and export of goods'—

Trend in imports of agricultural products and foodstuffs

(in millions u.s.)

	EUR-6					UK 1973	IRL 1973	DK 1973	EUR-9 1973
	1963	1968	1971	1972	1973				
	Within EC (EUR-6)	2 491	4 557	7 791	9 427				
Outside EC (EUR-6)	9 665	10 343	13 027	13 983	19 073	—	—	—	
Within EC (EUR-9)	—	—	—	—	12 701	3 127	230	219	16 277
Outside EC (EUR-9)	—	—	—	—	17 695	7 267	264	780	26 006
of which:									
Industrialized countries	4 332	4 671	6 209	6 639	8 127	—	153	—	—
Developing countries	4 351	4 637	5 510	5 874	7 707	—	104	—	—
State-trading countries	720	1 016	1 301	1 464	1 853	—	6	—	—

Exports of agricultural products and foodstuffs

(in millions U.S.)

	EUR-6					UK 1973	IRL 1973	DK 1973	EUR-9 1973
	1963	1968	1971	1972	1973				
	2 487	4 616	7 784	9 440	11 194				
2 464	3 039	4 134	4 688	8 218	—	—	—	—	
—	—	—	—	12 862	1 060	791	1 223	15 736	
—	—	—	—	6 750	1 553	170	792	9 265	
of which:									
Industrialized countries	1 559	1 965	2 556	2 544	2 652	—	—	—	
Developing countries	683	852	1 255	1 365	1 898	—	—	—	
State-trading countries	207	209	304	437	656	—	—	—	

'the establishment of a common customs tariff ...'—

'the abolition, as between Member States, of obstacles to freedom of movement for persons ...'

Statistics clearly show that the expansion of trade within the Community has not been confined to industrial goods, but has included agricultural products as well. The same can be said of trade with non-member countries.

Trade in processed foods, which before the advent of the common market was running at a very low level owing to the national protectionism which was then a feature of agricultural policies, has also increased considerably, thanks to the introduction of common prices for the primary foodstuffs used by the processing industry.

We can thus say, leaving aside the effects of the recent currency upheaval, that the introduction of the common agricultural policy has played a decisive part in the progressive achievement of overall economic integration in the Community.

We must also stress at the outset the role played by the common agricultural policy in the strictly political field. For fifteen years it has been practically the only major force for political integration in the Community. However justified some of the criticisms of the common agricultural policy may be, they must not obscure the political impact which the policy has had over this period, and which it still seems to have in full measure today, in the midst of all our economic and monetary troubles. The Economic and Social Committee has always maintained that the common agricultural policy has a political role, most recently in its Opinion of 27 February 1974 on the Commission's memorandum to the Council of Ministers on the improvement of the common agricultural policy, where it said: 'The Committee is alive to the imperfections of the European edifice and the difficulties hampering the Community's endeavours to achieve smooth progress in the various fields of economic, political and social activity. But it nevertheless feels that the existence of the CAP and the rules for its application has been, and continues to be, an extremely important force of integration. This despite the fact that some of the rules may be open to criticism... The political process of European integration would doubtless have made still less progress without the crucial role played by the agricultural policy.'

Were it not for the joint efforts by the Member States to find solutions to the problems of European agriculture, efforts which often impinged on other areas too (e.g. the customs union, the Kennedy Round), one could legitimately ask what evidence the peoples of Europe have had that their leaders were sincere in their intention to apply the Treaty of Rome, and more generally to build Europe.

The gradual evolution of the common agricultural policy has represented a force for progress towards European integration and this policy must be continued and adapted. For reasons which will become apparent later in the study, however, the common agricultural policy is in serious danger, unless significant advances are made in other fields of the European economy.

II. THE IMPACT OF THE CAP WITH SPECIAL REFERENCE TO THE OBJECTIVES SET OUT IN ARTICLE 39 OF THE TREATY

The Economic and Social Committee considers that an objective progress report on the CAP which gives at least a partial answer to the questions posed must take as its starting point the goals which the Treaty assigns to the CAP and examine to what

extent each individual goal has been attained. An idea could then be formed of the policy's good and bad points, which is essential if the overall verdict is to be as dispassionate and fair as possible.

Article 39 of the Treaty states that:

'The objectives of the common agricultural policy shall be:

- to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labour;
- thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- to stabilize markets;
- to assure the availability of supplies;
- to ensure that supplies reach consumers at reasonable prices.'

The formulation of these aims lacks precision and it can be argued that as regards content they do not form a completely coherent whole. Our observations will therefore be hedged about with qualifications, since it will in some cases be difficult to evaluate results in terms of an exact goal to be achieved.

It will also be noted that, independently of the specific terms of its individual paragraphs, Article 39 as a whole represents, at least for farmers, an overall definition not only of the goals to be achieved but also of the basic aspirations of the farming community. It therefore has considerable psychological significance, which should not be disregarded in a general appraisal of the results of the CAP and of the attitudes and judgments which this policy has given rise to or may yet give rise to.

A. To increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labour

One purpose of the common agricultural policy is to increase agricultural productivity, *inter alia* by means of the three methods referred to. 'Agricultural productivity' can be taken to mean the overall productivity of Community agriculture. But what exactly is 'overall productivity'? As far as the assessment of agricultural productivity is concerned, the opinions expressed in the course of the Committee's work have been qualified, if not cautious.

Technological progress is certainly an important factor in increasing productivity, but it has to be remembered that production increases as a result. This statement is particularly pertinent in the case of a large number of farmers who consider that they have no other way of increasing their income. They are aware, however, that such an attitude cannot always be reconciled with the overall objectives of the common agricultural policy or an economic analysis of the results of higher productivity.

Moreover, the application of technological progress involves considerable investment, and it is debatable whether all farms are structurally suited to make rational use of such advances.

A final consideration is that new techniques are in the majority of cases tailored to the farming methods used in the most common agricultural and geographical situations. In a large number of Community regions soils, topography or even climatic conditions are such that technological advances cannot be introduced without adaptation.

It is regrettable that the Conference of Member States held in Stresa in July 1958 only tackled the issue of the optimum use of labour from the viewpoint of the family farm, without giving any special attention to paid workers in agriculture, although the Commission has since studied this question.

These considerations can serve as the starting point for a number of assessments.

It is no reflection on any Community institution that technological advances in agriculture have occurred independently of Community action. Like technological advances in any sector, the new methods, techniques and equipment made available to farmers are the result of research and development carried out by institutes, laboratories, industry and so on. The Member States have on occasion addressed themselves to the question of what broad lines should be laid down for the application of these advances, but it seems that no action has been initiated by the Community in this field.

Publicity from the private sector has had a much stronger influence on the desire of farmers to keep up with progress. Such publicity has been appropriately supervised, coordinated and supplemented with advice by government services and agricultural organizations, which have paid particular attention to the implications of certain products and techniques for pollution and conservation of the natural environment.

To take one productivity criterion, there has definitely been an increase in efficiency, which some describe as spectacular, in all branches of agriculture.

**Annual rates of increase in productivity in agriculture
over the period '1967' (av. 1966/67/68) to '1971' (av. 1970/71/72)¹**

(in %)

Member State	Increase in labour productivity calculated on the basis of ²		Increase in productivity per ha of UAA calculated on the basis of	
	final production	gross value added	final production	gross value added
Germany	+ 8.4	+ 8.2	+ 2.8	+ 2.6
France	+ 6.3	+ 4.8	+ 2.9	+ 1.5
Italy	+ 7.4	+ 6.6	+ 3.0	+ 2.3
Netherlands	+ 8.3	+ 7.2	+ 6.1	+ 5.1
Belgium	+ 10.2	+ 8.5	+ 5.2	+ 3.6
Luxembourg	+ 4.1	+ 0.4	+ 0.5	— 3.0
EUR-6	+ 7.7	+ 6.6	+ 3.2	+ 2.2

¹ No figures available for the new Member States.

² In the absence of more complete statistical data, account has been taken of end production and gross value added in agriculture on the one hand and of total employment in agriculture, forestry and fisheries on the other.

Source: SOEC — Agricultural accounts.

Can the conclusion be drawn that all this has been in no way influenced by Community action? This would seem to be the case, since it was not until 1974 that the first common decisions on research and advisory services became operative. However, the CAP, by opening up markets, generating more widespread competition and progressively bringing home to farming interests the reality of the Community, has played a perhaps indirect, but nonetheless unmistakable, part in encouraging farmers' willingness to innovate.

Of course, increasing efficiency has boosted output, at least in certain branches. But there are too many factors involved for an assessment to be made solely in terms of productivity. The market organizations and price policy also have a not insignificant influence on total output. We shall return to this point later.

To confine ourselves to the objectives of the CAP as laid down in the Treaty, it must be acknowledged that the goal of increased productivity has only an indirect bearing on agricultural structures. However, it is held by some that the factors of production whose rational development has to be ensured should include the farm itself. Apart from smallholdings worked on a part-time basis, there are a very large number of farms in the Community whose size is a major obstacle to the introduction of modern farming methods or satisfactory returns from such methods.

It is therefore necessary, as was urged in the resolution of the Conference of Member States, that a close relationship be established between policy on structural adaptation and market policy. It was a long time, however, before the Community took any action on this; in fact not until 1972 did the Council issue three Directives on common measures eligible for financial aid from the EAGGF.

Nevertheless, for some years now there has been a trend towards the disappearance of small farms and this has enabled other farms to expand. Some Member States have moreover encouraged this trend through special financial measures. But on the whole it has happened without even a minimum of official direction and without the retraining of farmers and farmworkers being organized. On balance the trend produced some improvement in Community regions where the demand for labour was heavy, but progress has however been very slow in many regions, where the situation is in some cases critical and cannot be blamed on farmers.

The result is that productivity increases still lie in the uncertain future for too many farms, and that these farms are lagging further and further behind the farms which are structurally more suited to the best modern farming techniques.

A lot of ground has thus to be made up by the common measures set out in the three Directives mentioned above. To be successful these measures must be vigorously pursued by public authorities in the Member States as well as by the Community institutions. In this field, where EAGGF financial aid is a not inconsiderable factor, the results achieved will largely depend on the total amount of money which is available, and thus on financial solidarity between Member States as well as on the assistance procedure which is embarked on.

These measures will also have to be coordinated with regional development and the judicious use of production factors.

B. Thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture

The European Commission only started issuing a report on trends in farm incomes two years ago. The Economic and Social Committee discussed the 1971-1972 report in its study of March 1973.

The following general facts emerge:

- Agricultural incomes have shown a definite overall rise, due to a combination of factors of varying importance according to sector of production, type of farm, area and individual farmer. These factors are price policy, increased productivity, increases in the quantities produced thanks to the free movement of goods and a marked reduction in the agricultural population;
- The gap between the per capita incomes of agricultural producers and those of other sections of the working population has not closed since introduction of the CAP. In some countries and regions in the Community it has even widened;
- This situation showed a considerable improvement in 1971 and 1972;
- The higher rate of inflation since 1973 and particularly in 1974, which has been hitting agriculture hard by steadily pushing up the intermediate costs of farms, has again distorted the relativity between agricultural and non-agricultural incomes;
- But income disparities seem to have arisen primarily between different sections of the farming community, and unpalatable though it is, these disparities have increased as the CAP has developed. This deterioration has three sets of causes: firstly, the actual price trend and the price policy, the effects of these two factors having varied according to production sector; secondly, regional disparities, which have increased in the Community; thirdly, the continuing existence of fundamentally different agricultural structures, which means that farmers do not derive equal benefit from increases in productivity.

In the light of these facts, it is necessary to recall the elements of farm incomes which the CAP uses as instruments to guarantee the income of the agricultural population.

1. Farm prices

Price policy has so far been the key instrument used by the Council to guarantee farm incomes.

The main feature of this policy is the fixing, for a certain number of agricultural products, of target prices—set at a level which is considered to be satisfactory—and guaranteed minimum prices. These are backed up by intervention arrangements intended to ensure that the products in question can always be sold at the minimum intervention conditions. Market prices, which are not controlled, should normally stand at a higher level than the guaranteed minimum prices. It follows that, in the cases of products covered by intervention systems which do not function absolutely automatically, the price policy has not always had the anticipated results. It should also be pointed out that certain products are not covered by this price system.

Index of agricultural income¹ per agricultural labour unit (ALU)² in monetary terms

1968 = 100

Member State	1964	1965	1966	1967	1968	1969	1970	1971	1972	Percentage increase in 1972 over 1971
Germany	79.5	86.1	91.3	93.0	100	101.9	107.0	119.6	142.9	+ 19.5
France	70.3	78.1	82.6	93.6	100	107.3	126.1	136.5	164.7	+ 20.7
Italy	—	—	—	—	—	—	—	—	—	—
Netherlands	74.3	81.6	81.0	88.9	100	118.0	120.9	123.1	147.9	+ 20.1
Belgium	73.1	84.5	83.6	87.9	100	121.2	115.2	130.9	166.3	+ 27.0
Luxembourg	92.8	93.2	100.8	108.2	100	102.6	123.6	120.5	145.3	+ 20.6
EUR-6 ³	74.3	81.7	86.0	92.9	100	106.4	118.0	129.0	155.6	+ 20.6
United Kingdom	—	—	—	—	100	—	—	—	—	+ 8.6
Ireland	—	—	—	—	100	—	—	—	—	—
Denmark	—	—	—	—	100	—	—	—	—	—
EUR-9	—	—	—	—	—	—	—	—	—	—

¹ 'Wages of paid workers' plus 'other income'—net value added at factor cost less tenant farming and share-cropping' and 'interest paid'. Indices are calculated on the basis of amounts-expressed in national currencies.

² Except Italy. To avoid errors arising in the figures as a result of currency fluctuations, the Community index has been obtained by weighting the indices of Member States on the basis of the number of ALU's per country.

³ Estimate based on figures from the Community survey on the structure of farms 1966/67, applying the annual rates of variation in agricultural employment.

Sources: SOEC — Agricultural accounts.

Annual indices of agricultural producer prices
(1968-1973)

1970/71 or 1970 = 100

Year	Germany	France	Italy	Netherlands	Belgium	Luxembourg	EUR-6	United Kingdom	Ireland	Denmark
	1 2	3						1 4		
1968	101.7	88.7	88.2	92.3	95.2	95.2	—	90.8	92.9	84.8
1969	106.6	94.5	97.3	99.8	100.1	99.8	97.4	94.7	95.6	94.4
1970	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1971	108.6	104.4	104.0	99.8	97.7	100.6	100.0	104.1	107.0	101.6
1972	120.9	118.0	115.6	108.8	106.7	111.2	113.4	—	129.9	113.6
1973	121.0	129.9	139.0	121.5	126.5	122.5	—	146.3	165.3	147.2

1 Marketing year 1970 = 1970/71, etc.

2 Incl. VAT.

3 Excl. VAT.

4 Price of all intermediate consumption.

Source: Central Statistical Office, Annual Abstracts of Statistics.

Sources: SOEC.

The idea of a price policy is mentioned in the Treaty. Article 40 gives regulation of prices as one of the possible elements of the common organization of markets, and goes on to say that 'Any common price policy shall be based on common criteria and uniform methods of calculation'.

Community decisions on the fixing of common prices were necessary to enable agricultural products to move freely between the Member States. The features of agricultural production were such that to establish the customs union a common policy on farm prices had to be worked out.

However, experience has revealed the limitations of the price policy, the difficulties involved in its application and its unsuitability for certain situations. Let us consider the reasons for this.

a) Price policy should generally have a twofold aim: firstly, to guarantee the earnings of producers in the various branches of the industry by covering their production costs, including equitable remuneration for labour and an equitable return on capital; secondly, to maintain a balance between the supply of and the demand for agricultural products.

The first aim presupposes full knowledge of the factors which go to make up production costs, and here it was only recently that, partly thanks to the introduction of a farm accountancy network, the Commission devised the 'objective criteria' method. The second goal can only be achieved if a sufficiently exact picture has been formed of: (a) the demand for agricultural products over the period in which the prices to be decided by the public authorities will apply; and (b) the influence of price levels on production trends.

In fact, neither of these two elements has been fully taken into account since the introduction of the common price policy. At the Council of Ministers, where the final decision on prices is taken, every year sees the emergence of various factors which tend to ensure that these elements are lost sight of, or at least that the defence of national political interests, which are usually difficult to reconcile, is taken into consideration.

On the one hand, the fact that economic and monetary policies—together with other important policies—are still national means that the covering of agricultural production costs cannot be judged from a Community standpoint. On the other, without a minimum of production targets it is not possible to plan the rational marketing of farm produce.

So it is not surprising to find that, in the final analysis, neither of these two components of the price policy has ensured an overall balance between supply and demand or a normal steady improvement in the per capita incomes of the agricultural population.

Quite naturally, this state of affairs has aroused dissatisfaction: firstly, among producers, who feel that they are not receiving a just reward for their efforts, even though, as we have seen, they have continually endeavoured to increase their productivity; secondly, among the population at large, to which agricultural production is represented all too often as causing a succession of gluts and shortages, with all the consequences this has, both in the Community and in the sphere of international trade in agricultural produce.

b) As regards the relationships between the prices of the various agricultural products, price policy has not eliminated a number of disparities which are bad both for the farmers themselves and for the economy as a whole. According to recent surveys, the trend in farm incomes has been fundamentally different from one sector of production

to another. The grain sector, and more generally the crop sector, was taken as the starting point for implementation of the common price policy. No doubt the economic conditions in this sector lent themselves to practical application of this price policy better than did those in other areas of production, and the political compromises arrived at by the Council of Ministers have resulted, on the whole, in price levels in this sector which make production more profitable in certain Member States. It can fairly be asked, however, whether this sector was a suitable starting point in as much as it has failed to provide a model which could be applied to the other sectors of agriculture. Indeed animal products, whose economic characteristics are very different, were not as easy to fit into the common price policy mould. The same was also true of a large number of specialized sectors, for which individual solutions had to be sought. Such solutions are, moreover, often very severely criticized (for example, fruit and vegetables).

Closely linked with the foregoing is the statistically demonstrated persistence of income disparities between Community regions. Owing to differences in climate and geography, the regions of the Community are given over to different types of agriculture and often have very dissimilar production conditions. A common price policy applied uniformly over the whole Community was thus unable to satisfy the specific needs of the regions by itself.

c) All global measures—such as wage increases and implementation of a price policy—inevitably have a differing impact on incomes, depending upon the prior situation of the beneficiaries. It must, therefore, be stressed straightaway that it is difficult for a common price policy to cover farms with fundamentally different structures. Such a policy can have diametrically opposed effects, depending on the features of individual farms, in one and the same sector of production. It is fair to ask whether a vigorous policy directed towards changing and adapting the structures of agricultural production should not have been introduced before common prices. Up till now the price policy has been a Community instrument, while the policies on structural adaptation of the agricultural sectors have remained national. This distortion has inevitably brought about dissatisfaction and setbacks, both in agricultural production and in the economy as a whole.

2. The market organizations

The organization of the agricultural markets is provided for in Article 40 of the Treaty establishing the European Economic Community, and is based on four overall principles:

- freedom of movement for agricultural products,
- uniform prices,
- financial solidarity,
- Community preference.

The market organizations which have been instituted for the staple agricultural products conform to the above principles. But owing to the differences between the products, they vary in a number of respects and thus create disequilibria in farm incomes.

As will be seen later, certain elements of the market organizations have been jettisoned, permanently or temporarily, as a result of developments within and outside the Community.

Also certain agricultural products, such as alcohol, sheep, potatoes and certain vegetables, are still governed by national rules, and not by common market organizations whether on a voluntary basis or otherwise. This imposes a burden on certain Community regions where these products are particularly important.

The failure to achieve certain objectives is attributable to the fact that the Member States have not had the political will to solve a number of technical problems. One of the most striking examples is the lack of harmonization as regards technical regulations and laws, plant health rules, etc., which still represent a major barrier to the free movement of agricultural products.

But the effectiveness of the market organizations also depends on the way in which they are administered. This administration posed a difficult problem, because, on the one hand, the national authorities concerned had gradually to transfer their administration responsibilities to the Community and, on the other, a Community method for managing the markets had to be developed. Perhaps inevitably, the result was a highly-centralized management system which is often complex and cumbersome and has difficulty in operating through the national authorities. The ability of the men running this system at Community level is not in question; Community-wide administration from a central point was bound to create difficulties in certain instances, such as those encountered in easing pressure on the market in dairy products and in applying the clause concerning beef and veal shortages.

It is also a pity that the market organization policy has not made for a gradual organization of production specialization in agriculture.

We should nevertheless recognize that overall the market organizations have done their job satisfactorily. They have ensured that the prices fixed by the Council of Ministers are adhered to and have thus made an indisputable contribution towards farm incomes.

The functioning of the market organizations could no doubt be improved, but limits are imposed here by the wish that a competition policy for agricultural products should go hand in hand with an evolution of production and structures.

3. Aids

In farming in the Community, aids very often take a variety of forms. We shall restrict ourselves at this juncture to those which have a direct bearing on farm incomes. Aids of this sort granted in the European Community—leaving aside purely national aids—can be classed in three types:

- *Price supplements* of the type which have been introduced for certain specific products. It is sometimes argued that such price supplements are not really aids. Administration of this machinery—akin to the deficiency payments system which used to be operated in the United Kingdom—is no simple matter, since a large number of producers are involved. However, price supplements have certainly helped guarantee farm incomes in the sectors concerned (olive oil, tobacco, hops, durum wheat, etc.), and they have probably been a factor in the improvement of productivity in these sectors;
- *Production aids*. The Community had hoped to harmonize these aids, but for a number of reasons, above all the need to reach a political compromise at the annual meetings at which agricultural prices are agreed, most are still on a national basis;

- *Direct income aids.* Special features of these aids are their selectivity and the fact that in principle they do not affect product prices. The European Commission must be given credit for repeatedly attempting to gain acceptance for the principle of such aids as an adjunct to price policy. However, as a general rule, the Council of Ministers has turned down proposals for a Community system of such direct aids.

This is a delicate subject. On the one hand, it would be unreasonable to want to turn farming into a vast supported industry. On the other hand, the opportunities and choices available to producers differ so greatly that in a whole series of cases price policy must be *backed up* by direct income aids if it is to retain any economic significance.

We shall come back to this point in our conclusions. Here we shall merely note that in recent months the Community has, after a good deal of hesitation, moved in this direction—in the measures adopted by the Council of Ministers to assist *certain poorer farming areas*, in particular mountain areas.

This example shows, incidentally, how in reality direct aids often transcend the strict bounds of farming to encompass other aspects of economic and social activities (conservation of the countryside, protection of the environment).

Generally speaking, aids are an area in which the Community has not yet come to a harmonized approach and in which there is strong resistance to any erosion of national initiative. If aids are to play a role alongside price policy in European farm incomes, the Community will have to resolve these two problems.

4. *Comments*

This discussion of producers' incomes should take in two aspects which have been disregarded by the Community:

- *Firstly, product quality.* On the whole, neither price policy nor the market organizations have had an ultimate impact on the quality of agricultural products. It would, however, make good economic sense if producers who make the effort to improve product quality could reap a reward in the form of additional income.
- *Secondly, the groupings for the production and supply of agricultural products.*

Although provision has been made for the organization of growers into producers' groupings in certain fruit and vegetable sectors, this does not alter the fact that the draft instrument on producers' groupings in general has not yet been adopted by the Council of Ministers. This is another case in which it would have been perfectly logical for producers to be given the prospect of improved incomes in return for their accepting constraints on the production and marketing of their produce. Furthermore, provision has been made for temporary, tapering aids to encourage the formation of such groupings.

5. *Paid farmworkers*

The situation and problems of farmworkers must not be disregarded when discussing the per capita income of those engaged in agriculture. European agriculture is passing through a period of considerable change and farmworkers are in a particularly difficult situation, since in general they are neither able to benefit from the changes taking place nor, and perhaps above all, to prepare themselves for them.

With regard to farmworkers' incomes, it is important to respect the autonomy of national collective agreements, but at the same time an effort should be made to ensure consistency between the agreements in the various Member States. The existence at Community level of a joint farmers' and farmworkers' committee is therefore to be welcomed. The work of this committee has already led to a number of agreements, but to date these only concern the working hours of farmworkers.

The question of vocational training is of crucial importance for farmworkers, owing to the constant progress of agricultural technology. *A training and promotion centre—run jointly by agricultural organizations and partly financed by the Commission—is already in existence at Community level, and it is necessary to encourage the joint measures carried out by this centre in respect of farmers and agricultural instructors. But vocational training is still run on a national basis and the relevant conditions and the certificates granted should be harmonized.*

In the individual Member States vocational training is all too frequently dealt with by a multiplicity of bodies without sufficient attention being paid to coordinating their activities. The Commission should consider it to be part of its responsibility towards farmworkers to provide them, through their organizations, with detailed information on the vocational training opportunities open to them.

C. To stabilize markets

Stabilization of the markets for agricultural products—one of the objectives set out in Article 39—is above all a goal that we must constantly strive after, in the knowledge that it is liable to be frequently jeopardized.

The instruments of agricultural policy must therefore be constantly directed towards achieving this stabilization, in particular by trying to make output coincide as far as possible with estimated demand. The concept of stabilization takes on different aspects, depending on the production structures and their characteristics.

To obtain a full picture, we would have to examine, with the help of statistics, the development of each agricultural market. The Committee has not felt obliged to carry out such an analytical exercise. But in general terms we can say that if 'market stabilization' is defined as the prevention of price fluctuations caused by excessive variations in domestic or external supply, then the CAP has achieved this aim for those commodities which could be described as 'homogeneous'. In the main these are products which can be easily exported (such as grains, sugar, dairy produce).

On the other hand, the market organizations and the price policies pursued within their framework have not ensured such a high degree of stabilization for products which have special production cycles (eggs, poultry, beef, pigmeat).

Finally, the market organizations for fruit, vegetables, wine and other products which are very sensitive to climatic conditions are much less capable of compensating for the effects of crucial changes in the weather. Other factors which seem to make for market instability, so that it is harder to intervene effectively, are the non-transparency of the relevant markets and inadequate knowledge of market conditions.

In certain instances, a greater degree of stabilization would doubtless have been achieved if the market organizations had been reinforced by supplementary measures. Examples here are a better organization of producers—particularly within the framework of the

producers' groupings which have just been discussed—and the development of contractual relationships between the producers and buyers of agricultural produce.

However, it should be stated—and we shall revert to this point later—that in recent months the international monetary upheaval has seriously hampered market stabilization, and may even have made it impossible. Compensatory amounts are a particularly significant example.

It could be asked whether market stabilization has achieved anything in the way of better product quality. We have already pointed out that the market organizations have had very limited effects in this area.

Lastly, the stabilization of Community markets must also be viewed in the light of the situation on the international markets for agricultural products. It must be acknowledged that the CAP machinery has on the whole shielded the European Community from the harmful effects of the instability which has for many years reigned on the markets for the major agricultural products.

Of course, the Community's desire to be open to the world means that very skilful management will be needed to keep its markets stable in an unstable international environment. In particular, both a continuous flow of information and certain long-range forecasts in commercial policy matters will be needed if we are to achieve a judicious combination of the three components:

- intervention;
- levies or price reference system;
- refunds.

It has been seen that in some instances the Community has had difficulties with this management. The future prospects for stabilization will be dealt with when the common agricultural policy is discussed from the viewpoint of the international situation.

At all events, in the final analysis neither speculation nor the uncertainties entailed by fluctuations of supply and demand are in the interests of farmers or consumers.

D. To ensure the availability of supplies

On the whole, an examination of the trends in agricultural production and in the consumption of agricultural produce suggests that the European Community has very largely achieved this goal. This is an important fact, since it must not be forgotten that excessive dependence on non-member countries or international markets for supplies of agricultural commodities can have serious consequences in certain cases—as, for instance, when the products needed are not available in sufficient quantity or when they are so expensive that the resultant outflow of currency upsets the Community's overall balance of payments.

The soya bean supply crisis and recent—or current—world prices for certain other agricultural products are illustrative of the danger of systematic dependence.

However, this desire to ensure the availability of supplies must take account of several very important considerations in agricultural policy.

Firstly, it is important to respect Community preference in this sector. Secondly, changes in the output of agricultural products and in the demand for these products are always possible; as a result, the search for security of supply can lead to the production of surpluses whose presence on the market is a source of dissatisfaction among producers and consumers alike. Thirdly, the European Community must resist the temptation to opt for agricultural self-sufficiency. Finally, it must be remembered that employment in the Community hinges very largely on industrial activity.

For all these reasons it is in the Community's interest to maintain certain agricultural imports. Should it prove necessary to change the import flow of certain products, due caution should be exercised.

Degree of self-sufficiency

Product	1965-1980	1971-1972		1972-1973
	EUR-6	EUR-6 ¹	EUR-9	EUR-9
Cereals	85	98	91	89.8
Rice	83	112	92	67.0
Sugar	104	122 ¹	100 ¹	(92.4)
Vegetables	104	100	—	93.7
Fresh fruit	90	87	—	(76.0)
Citrus	47	52	—	—
Wine	89	95	93	—
Whole milk	100	100	100	100
Cheese	100	102	101	101.8
Butter	101	117	98	115.5
Meat	95	93	94	—
Fish	86	74	91	—
Fats and oils	36	44	—	27.2 ²

¹ Including French overseas departments.

² EUR-6.

Source: SOEC — Yearbook of agricultural statistics.

To date, the Community has not always succeeded in reconciling these various factors. Furthermore, the Community does not yet appear to have worked out a product-stockpiling policy which could play an important role in ensuring the availability of supplies. One of the reasons for this is doubtless—as we have already noted—the failure to define short- and long-term production targets for European agriculture as part of a minimal organization of the world agricultural markets laid down, in particular, by international agreements.

E. To ensure that supplies reach consumers at reasonable prices

This objective—assigned to the CAP under Article 39 of the Treaty—is, of course, one of the aims that generates the most controversy. 'Reasonable prices' can be defined in many ways. Also, it can be argued that farm prices can only be assessed in relation to quality.

From the standpoint of the economist, it seems acceptable to say that a reasonable price is one which tends to balance out supply and demand. It follows that reasonable prices are not always the lowest prices.

Generally speaking, the percentage of consumers' incomes spent on food has been constantly declining in the Member States of the European Community. Currently, to give a very broad average, consumers spend 25%-30% of their income on food; the prices of agricultural products, representing farm incomes, account for only part of this figure.

On the other hand, as far as producers are concerned, reasonable consumer prices must at all events cover production costs.

Consumer price index Foodstuffs, beverages, tobacco

1970 = 100

Country Year	D	F	I	NL	B	L	UK	IRL	DK
1967	95.3	86.2	92.9	87.8	90.7	88.3	—	—	—
1968	95.3	88.8	93.2	89.9	92.6	91.7	—	—	—
1969	97.2	94.4	95.8	95.7	96.7	95.1	93.8	—	—
1970	100	100	100	100	100	100	100	100	100
1971	104.3	105.6	103.9	103.5	102.0	103.4	110.1	—	—
1972	110.8	114.7	110.7	111.5	108.7	109.7	118.8	—	—
1973	117.5	125.6	125.6	121.2	117.3	117.3	133.5	139.2	128.0

As a general rule, the farm produce market must enable this double requirement to be satisfied. But it is clear—as can be seen at present—that cases can arise where it will be difficult, and perhaps on occasions impossible, to strike a balance at market level between what consumers can pay and what producers should receive. For instance, it may be asked whether the beef situation in many Member States is not an example of this problem—demand is falling off because of high consumer prices, whilst an examination of production costs shows the need for increased prices.

In order to be able to alleviate this type of situation, the Community must continue its efforts to devise systems which, where necessary, differ from the traditional market organizations.

Two final comments. The first is tied up with previous remarks and concerns the actual operation of certain market organizations. It is difficult for the Community consumer to accept that the price demanded of him for a product is reasonable when he sees thousands of tons of fruit being destroyed or butter surpluses being sold at a very low price to non-member countries with a level of economic development comparable to that of his own country. The Community should in situations of this type consider letting consumers—or at least certain groups of consumers—benefit from the surpluses, although not to such an extent as to cause structural or commercial disruption of the markets for the products in question.

The second comment concerns the difference noted in certain cases between the price the farmer receives and the price the consumer pays. This is certainly a very complex issue and care should of course be taken to avoid drawing hasty conclusions which will in many cases be erroneous. At all events, it is clearly desirable and in the interests of all to modernize and rationalize to the maximum extent all aspects of the relations between farmers and their markets. Here, without a shadow of doubt, progress of all kinds and in very varied directions should be possible.

It may therefore be asked what overall impact has the CAP had on consumers. The latter may have felt that they were in an unfavourable position, particularly when they compared the Community prices of certain products with world market prices at certain times. However, it must be realized that, when certain world agricultural product prices were below Community prices, in most cases the quantities available at these low prices would definitely have been insufficient to satisfy consumers' food requirements. Furthermore, if account had been taken in one way or another of these low external prices, this would undoubtedly have weakened Community agricultural production and thus helped to make it difficult to supply consumers in the Community. Indeed, as is shown by the table below giving food prices for 1972/73, the CAP machinery can protect European consumers from high prices on the world markets. The 1974 figures would bring this out even more clearly.

An overall assessment must therefore be hedged with qualifications, and while some aspects can be criticized—and incidentally these unsatisfactory aspects are due to a number of causes—they must be set against the background of a series of economic facts both past and present.

Country	Rate of increase (%)	
	January 1973 over July 1972	July 1973 over January 1973
Germany	3.1	4.3
France	4.1	5.9
Italy	6.2	7.4
Netherlands	5.2	3.3
Belgium	4.3	3.1
Luxembourg	3.0	3.1
United Kingdom	5.8	6.3
Ireland	8.5	4.2
Denmark	2.9	9.7
Australia	3.4	10.2
Canada	5.3	9.0
Finland	4.5	8.6
Japan	4.8	7.9
New Zealand	2.6	8.1
Spain	5.1	7.8
United States	3.5	9.6
Soviet Union	?	?

Products	% increase in common prices ¹	% increase in world market prices ²
Common wheat	+ 4.0	+ 68.9
Barley	+ 4.3	+ 71.3
Maize	+ 4.5	+ 68.0
Sugar	+ 2.6	+ 61.9
Beef	+ 9.0 ³	+ 26.5 ⁴
Veal	+ 2.4 ³	+ 32.3 ⁴

¹ Increase in common prices for the 1972-1973 marketing year over the 1971-1972 level.

² Increase in import prices for August 1972-July 1973 in the case of cereals and July 1972-June 1973 in the case of sugar. These periods coincide with the marketing year for all the products concerned.

³ The marketing year for these products runs from 3 April to 1 April of the following year. Price increases for the 1973-1974 marketing year vis-à-vis 1972-1973 were 10.5% for adult bovine animals and 7.5% for calves.

⁴ Increase from 3 April 1972 to 31 January 1973. From 1 February 1973 to 31 August 1974, the increase for these products was between 15 and 20%.

F. Structural policy

First of all, one might well ask why the question of agricultural structures policy is tackled in this chapter, which is devoted to the objectives of Article 39 of the Treaty.

Apart from a statement that funds may be set up (Article 40(4)), the part of the EEC Treaty which deals with agriculture says nothing explicit about the way in which a common policy on agricultural structures is to be gradually established. But soon after the Treaty was signed, it became generally recognized that it is difficult to establish a common agricultural policy if agricultural structures differ radically from one Member State to another. The accession of the new Member States has merely confirmed this conclusion.

It is fitting here to recall the resolution of the Agricultural Conference of the Member States of the European Economic Community, held at Stresa between 3 and 11 July 1958. The following two passages are to be noted in particular:

(III, 3) 'A close relationship must be established between policy on structural adaptation and market policy. Structural adaptation must contribute to the alignment of production costs and a rational orientation of production. Market policy must be pursued in such a manner as to stimulate greater productivity.'

(III, 8) 'The improvement of agricultural structures must enable the capital and labour deployed in European agriculture to produce and maintain returns comparable to those which would be obtained in other sectors of the economy.'

Thus, it was clearly considered that it was vital for market policy and structural policy to go hand in hand, and that the just requirement of income comparability between farmers and other socio-economic groups could only be met for a large proportion of producers by pursuing a determined policy on structures.

It is right and proper to point out that at the time the first guidelines were laid down on agricultural policy, the European Commission drew the Member States' attention to the need to implement a dynamic policy on the improvement of agricultural structures. However, the Commission—especially in its proposals on farm prices—has taken insufficient account of the 'interdependence' (Article 43 (2), second sub-paragraph) of all the agricultural issues covered by Title II of the Treaty. And it must be added that in past years the Member States' interest in this problem has been conspicuous by its absence. For a number of—mostly political—reasons, the Council first endeavoured to set up a common market and prices policy, without accepting that the application of such a policy to very different structures was bound to generate dissatisfaction and inconsistencies. It was unwilling to face up to the fact that there was no such thing as 'European agriculture', only a number of agricultural sectors whose structures varied very substantially as between individual Member States and regions.

Common prices—a sine qua non for the free movement of agricultural products in the Community—are, of course, incompatible with the notion that prices can vary with production structures. Some people consider that agricultural structures should have been aligned before moving to common prices. At the very least, a structural policy should have been built up in parallel with the introduction of a common prices and market policy. But this was not done.

Individually the Member States did not remain inactive with respect to their national agricultural structures. But as there was no concertation, there was nothing to stop conflicts arising between the aims pursued by the structural policies of individual Member States. Above all, a dangerous dichotomy was created by the attempt to pursue a Community prices and market policy while allowing structural matters to be the prerogative of narrowly national policies.

It was not until December 1968, when the 'Mansholt Plan' was published, that the Member States began to adopt a constructive approach. And it was not until April 1972 that the Council of Ministers adopted the three structural Directives on the modernization of farms, measures to encourage the cessation of farming and provision of socio-economic information.

These Directives were due to take effect by April 1973 at the latest. But nearly all the Member States exceeded this deadline and implementation of the Directives did not generally begin until 1974.

This is the measure of the delay in putting into effect the structural policy which, sixteen years ago, was considered vital to the smooth functioning of the prices and market policy.

The reasons for the reticence of the Member States were doubtless the following:

In view of the sparse political progress which had been made, the Member States considered that, since policy on agricultural structures affects the future of millions

of their nationals, they alone could take the political responsibility for the changes to be brought about. They also doubtless yielded to pressure from categories of producers who were more interested in a prices policy than in a structural policy. And, some Member States were reluctant to effect the reallocations of resources entailed by the structural policy, which is inevitably a costly, long-term exercise. Furthermore, it must not be forgotten that some Member States had made major efforts to improve structures even before the establishment of the common market, and by no means relished the thought of having to pay for expenditure in Member States which had not made the same efforts.

But the overriding factor in the Community's inactivity on agricultural structure policy has clearly been the difficulty, despite the efforts made by some Member States, of promoting dynamic common policies in the non-agricultural sectors. It is perhaps in the area of structural policy and its methods and effects that agricultural policy is most entwined with the other policies.

III. BALANCE SHEET

The common organization of agricultural markets, which was agreed upon in December 1960 and launched in January 1962, involved the establishment of a European Agricultural Guidance and Guarantee Fund. The Council decision setting up the Fund is embodied in Regulation No 25 of 4 April 1962.

The commitment to a genuine common policy, under which the Member States would be jointly responsible for the cost of financing the common organization of agricultural markets, is expressed in Article 2 of the Regulation, where it is stipulated that 'Since at the single market stage price systems will be standardized and agricultural policy will be on a Community basis, the financial consequences thereof shall devolve upon the Community'.

This meant that the cost of implementing Council decisions adopted in pursuance of the common agricultural policy, including by implication measures in the field of external trade policy affecting the normal development of the common organization of agricultural markets, was to be borne by the Community budget irrespective of who the beneficiaries of the expenditure were and which Member State the expenditure arose in.

The European Agricultural Guidance and Guarantee Fund (EAGGF) is only one of the chapters of the Community budget, although in the absence of other common policies with budgetary implications it still accounts for around 70% of the Community budget for 1974.

The EAGGF, which was remodelled in 1970 by a regulation on the financing of the common agricultural policy, comprises two Sections: the Guarantee Section, which finances the cost of the organization of agricultural markets, and the Guidance Section, which under certain conditions can supplement Member State aids for improvements to agricultural structures in the widest sense of the term.

Guarantee Section

The Guarantee Section of the EAGGF meets certain expenditure arising from the management of the agricultural markets. The types of expenditure eligible for grants from the Fund are laid down in Council Regulations and include: refunds on exports to

non-member countries, storage and transport costs arising from market intervention (but not including the cost of buying in the products), the payment of premiums over the market price for certain products, the expenditure on domestic consumption refunds intended to offset the difference between Community and world prices for certain products or between a Community price and the price of substitute products. Since the enlargement of the Community and the currency troubles of recent years, the EAGGF has met the cost of the 'accession' compensatory amounts and the 'monetary' compensatory amounts.

Would the bill for agriculture now paid by the Community not have had to be paid if the Community had not been established and had not introduced the common agricultural policy with market organization as one of its main ingredients? We must not forget that the organization of the agricultural markets is the result, on the one hand, of a compromise between the systems which existed in the various Member States before establishment of the EEC and whose costs were covered by the national budgets and, on the other, of socio-economic trends in agriculture, which made the Council look for ways of reducing income disparities between the different types of producer. There is every reason to believe that without the EEC the Member States would have had to take similar measures themselves.

It can therefore be claimed that essentially the common agricultural policy has transferred expenditure from national governments to the Community.

But the analysis would be incomplete if one did not add that the farm policy and Community solidarity have also meant joint financing of expenditure on measures which are designed to help regional sectors of production and do not apply to all Member States (wine, olive oil, textile plants, durum wheat, certain types of fruit), and that they have led to a substantial expansion of the market policy instruments employed under the previous national systems.

What is the cost of the financing operations of the Guarantee Section?

The figures given in the Commission reports to the Council are:

1970	2 603 million u.a.;
1971	1 572 million u.a.;
1972	2 329 million u.a.;
1973	3 815 million u.a.;
1974	3 490 million u.a.;
1975	3 980 million u.a. (draft budget).

At first sight the cost of the organization of agricultural markets seems very high. It is frequently pointed out that the bill accounts for 70% of the Community's budget. But let us not forget that the farm policy is the only entirely common policy so far in operation. If common policies took the place of national ones in the fields of transport and energy, especially coalmining, the bill for the common agricultural policy would have to be seen in relation to the Community's bill for these sectors, which is at present divided among the national budgets.

Community expenditure under the Guarantee Section as a percentage of the EEC's gross domestic product amounted to:

0.54% in 1970;

0.43% in 1973;

and will be an estimated 0.38% in 1975.

But account should be taken of the fact that agriculture is also a source of budget revenue for the Community. The revenue from import levies on agricultural produce and foodstuffs has been considerable, and budget receipts are now accruing to the Community from the export levies in force since the reversal of the world price trend for certain commodities. Allowing for this revenue, the net cost of the Guarantee Section as a percentage of the gross domestic product works out at:

0.36% in 1970;

0.37% in 1973;

0.34% in 1975 (estimate based on the world prices for certain agricultural commodities).

The gross expenditure under the Guarantee Section as a percentage of total expenditure on food in the Community amounted to:

2.97% in 1970;

2.65% in 1973;

and will be an estimated 2.36% in 1975.

A breakdown of the expenditure according to the various types of measures gives the following picture:

- Aids to farmers, manufacturers and dealers adversely affected by the operation of the common agricultural policy to offset the difference between Community and world prices for agricultural products represent, together with the accession and monetary compensatory amounts, more than half of the expenditure under the Guarantee Section. Especially worthy of mention are aids in respect of olive oil, oilseeds, tobacco and skimmed milk powder for animal feed, and aids to manufacturers of starch from cereals and potatoes, etc.

Farmers benefit directly or indirectly from these aids. Some of them supplement the prices for agricultural products (durum wheat, olive oil, oilseeds, textile plants, etc.), whilst others allow industries to purchase their agricultural raw materials on the EEC market at domestic market prices and to sell their processed products at world market prices (milk powder for use as animal feed, starch products, etc.).

- Refunds on exports of agricultural produce and foodstuffs, which accounted for roughly 40% in past years, will only represent about 20% in 1974 and 1975.
- Storage costs covered by the Fund (which do not represent all the expenditure actually incurred) take about 10%.

**Breakdown of expenditure and forecast
expenditure by common market organization for the years 1970-1975**

millions u.a.

Sector	1970	1971	1972	1973	1974 (fore- cast)	1975 (budget estimate)
Cereals	894.4	473.6	908.2	1 029.5	420.0	630.0
Rice	59.6	49.8	50.4	11.4	2.0	29.7
Milk products	991.5	566.0	573.7	1 497.0	1 390.0	1 526.8
Fats and oils	281.2	113.0	335.8	368.7	224.0	342.0
Sugar	192.8	110.3	151.7	136.5	102.0	112.1
Beef and veal	30.8	19.1	7.4	16.6	300.0	395.0
Pigmeat	43.4	52.3	49.5	96.7	75.0	130.0
Eggs and poultrymeat	16.5	11.9	11.8	23.3	15.0	26.0
Fruit and vegetables	56.5	53.9	61.4	34.9	68.0	83.5
Wine	—	28.2	57.7	12.4	70.0	99.2
Tobacco	5.0	73.8	88.5	129.6	176.0	166.4
Fish	—	0.2	1.1	1.3	2.0	2.5
Miscellaneous products	6.4	0.7	10.7	25.9	40.0	50.8
Products not included in Annex II	24.8	18.5	21.3	26.2	15.0	32.2
Totals for common market orga- nizations	2 602.9	1 571.3	2 329.2	3 410.0	2 899.0	3 626.2
Accession compensatory amounts	0	0	0	264.3	340.0	248.8
Monetary compensatory amounts	0	0	0	140.3	163.0	105.4
GRAND TOTALS	2 602.9	1 571.3	2 329.2	3 814.6	3 402.0	3 980.4

A breakdown of the amounts paid and received by each country might be considered desirable with a view to a more precise knowledge of the advantages accruing to farmers in each Member State. The Committee found, however, that it would be difficult to effect such a breakdown and it queried the value of any economic conclusions drawn from bookkeeping figures, since these would entail too many estimates and adjustments. At all events, the Committee thinks that any analysis made should assess the overall results, i.e. it should take into account the overall economic advantages gained from the functioning of the common market.

Several further points need to be made:

The enlargement of the Community has also had its effect on the expenditure of the Guarantee Section, and largely explains the jump from about 2 300 million u.a. in 1972 to around 3 900 million u.a. in 1973.

The three new Member States have benefited in full from EAGGF financing. In 1973, the first year of membership, this was reflected in extra expenditure totalling 530 million u.a.

In addition, the first year of the transition period entailed temporary extra expenditure of about 250 million u.a. for accession compensatory amounts to allow the other eight Member States to sell farm produce on the relatively low-price United Kingdom market.

The system of monetary compensatory amounts in intra-Community trade introduced in response to the currency upheavals of recent years is costing the Community between 140 and 160 million u.a. annually.

Finally, we must not forget that, whatever the standard of market management, the level of production has a considerable impact on expenditure: a 1% increase in the cereal harvest boosts expenditure by about 40 million u.a., 1% more dairy production costs 80 million u.a. And who can forecast production to within 1%?

The market management which accounts for part of the Guarantee Section expenditure is admittedly not above criticism. Some operations have been thought excessively costly. In most cases it is the unwieldiness and slowness of the Community procedures that is to blame. These procedures must be made more sensitive to the constantly changing trends on world markets.

We conclude by recalling the findings of an internal study made by the Commission in 1960 on the probable cost to the Community of a deficiency payments system of the kind operating in the United Kingdom at that time. It was estimated that on the basis of the world prices at that time, and prices in the Federal Republic of Germany, which were overall the highest in the Six, a deficiency payments system covering the production quantities then guaranteed in all the Member States would cost about 15 000 million u.a. On the basis of French prices it was estimated that some 8 000 million u.a. would be needed. Consumer prices as a whole would, of course, then be lower.

Guidance Section

There was no common policy for agricultural structures until 1972, and the EAGGF Guidance Section, which did not involve financial solidarity in the way the Guarantee Section did, was only able to allocate grants to individual schemes for improvements to agricultural structures (in the wide sense of the term).

From the outset the Council has allotted an aggregate appropriation to the Guidance Section. This has gradually risen to the present figure, after the enlargement of the Community, of 325 million u.a.

Between 150 and 170 million of this 325 million u.a. is paid out in grants to individual schemes. The Guidance Section now also contributes towards measures stemming generally from the markets policy, as for example the grubbing of fruit trees to prevent overproduction, and the slaughter of dairy cows.

In future, aid from the EAGGF Guidance Section will normally go to 'individual schemes' which fall under common measures agreed by the Council. To provide for the future implementation of this concerted policy, the Commission has since 1969 been placing large amounts of the appropriations in reserve, and these reserves now exceed 500 million u.a.

At all events, only individual schemes which are submitted through the governments and which the governments are already committed to assist financially, are eligible for aid from the Guidance Section.

Since 1972 the Council has issued a number of directives on common measures in the field of structural improvements in agriculture, which allow financing to be placed on a Community basis. The main ones concern farm modernization, voluntary cessation of farming, information and training.

The basic value of the 'common measures' is that they define and harmonize the scope of the action to be taken and that the requirements for the grant of national and Community aid to individual schemes are clearly established.

It is to be expected that by 1976 or 1977 only schemes coming under common action programmes adopted by the Council will be eligible for grants from the Guidance Section.

This prompts the following comments:

The reserves of 500 million u.a. will very probably be spent in the coming five years. Also, with the rate of inflation as it is, will the present appropriation of 325 million u.a. be enough? This problem has to be faced up to now.

In 1972 the six Member States spent 2 500 million u.a. on their national policies in respect of agricultural structures. The Community's contribution to total spending on structures has thus been under 10%.

Under these circumstances there is justification for asking whether the Member States will accept the principle of financial solidarity, so as to enable a genuine Community structural policy to be pursued on the basis of a sufficiently large appropriation. The obvious need to do everything possible to induce and help farmers to modernize ought to lead the Member States to opt for financial solidarity, which would appear to be the most effective method and the one most consonant with the spirit of the Treaty.

IV. RELATED POLICIES

Even less than other sectors, agriculture—which has plainly been a test area for the achievement of the common market and a Community spirit—cannot develop properly solely on the basis of market organization regulations.

Owing to the specific features of Community agriculture and the measures which have been taken in respect of its markets and, subsequently, in respect of its production structures, the pattern of development in this sector has been, and will continue to be, determined by Community measures taken pursuant to EEC policy in general.

Firstly, it must be noted that basically the agricultural market organizations have sought to phase in the free movement of agricultural products, while ensuring that producers have the fairest possible incomes thanks to Community prices.

But the whole system—worked out in a period of monetary stability—was disrupted when exchange rates began to fluctuate against each other.

This is true even though compensatory amounts have been introduced in a bid to counter the adverse effects of the monetary fluctuations on the movement of goods.

Notwithstanding the complexity and occasional anomalies of the current systems, and despite the administrative and financial complications they cause, it is fair to say that on the whole the common agricultural market has, if not made progress, at least not regressed too much.

It must be admitted, however, that differences have arisen between the situations of farmers. Movements of national currencies in relation to the agricultural unit of account have caused price rises and decreases in the Member States.

Countermeasures have been taken, but in the absence of a Community monetary policy, farmers in the Member States are no longer in comparable positions as regards competition and development, although their products can still circulate freely. This state of affairs, if left unremedied, is liable to threaten the common agricultural policy—and consequently the EEC as a whole—with disintegration.

Although the Community was initially at pains to set up a turnover-tax system which would be neutral in respect of intra-Community trade, the practical application of the system in the Member States, the tax rates levied and the diversity of the other taxation systems applied in the Member States have had significant effects on agriculture in all the Member States. Agriculture is, of course, not the only sector to be affected, but the fact remains that the common agricultural policy will be imperfect as long as the present fiscal disharmony continues to exist.

One of the immediate consequences of the structural improvement of farms—an essential factor in the economic progress of agriculture—is the exodus of manpower, which has to be able to find new jobs elsewhere. This is one of the major problems impeding the development of a dynamic agricultural policy.

In most cases, the regions where there has been a rational development of agricultural structures are regions of overall economic growth. In such regions, people leaving farming have been absorbed by other sectors, provided they have been able to obtain the requisite training. The absence of Community regional measures has clearly had detrimental effects on this important aspect of agricultural policy.

Regional policy—whose development should enable jobs to be created—would afford surplus farmers and farmworkers prospects of changing their type of employment, without too many of them having to leave their native regions. This change of employment must, of course, take place under conditions that are acceptable and tolerable for the persons concerned. Unfortunately, in many cases too many former farmers and farmworkers have been unable to find suitable re-employment because of the lack of retraining facilities. Community and national arrangements in this field are clearly inadequate when measured against the sheer number of people who have already left farming for good (more than 2 000 000 in the last decade) and those who will probably do so over the next few years. This state of affairs is liable to discourage voluntary departures from farming, and thus help to keep uneconomic farms in being and to retard the structural improvement of agriculture, despite the crucial need for the fastest possible progress in this field.

Similar comments could be made about industrial policy. The provision of various types of work aimed at resolving the problems of given regions is not enough and the

delay in establishing the 'single industrial base'—to borrow the expression used at the 1972 Paris Summit Conference—has, undoubtedly, hampered progress towards a dynamic policy on the improvement of structures in agriculture.

In the social field—which can hardly be divorced from the points which have just been mentioned—the Treaty only aims at harmonization of the Member States' policies. The delay in harmonizing social policy has had its effects on agriculture. National budgets provide for transfer payments to the farming population and the establishment of an overall common agricultural policy should have brought national policies in this field closer together. However, the Community is still a very long way from uniform social security systems for farmers and farmworkers. And it is essential to any attempt to improve agricultural structures that, for example, attention be paid to the lot of elderly farmers and farmworkers after they have given up farming. A conference of representatives of the Member States has considered social problems in agriculture. But progress in any shape or form in this area is bound to be contingent on what advances are made in the Community on social legislation in general.

V. THE CAP AND INTERNATIONAL PROBLEMS

Trade in agricultural products falls under EEC commercial policy. Nevertheless, and this applies especially to agriculture, commercial policy has close ties with policy on production and, to a large extent, flows from it. Furthermore, as they took shape as a political and economic unit, the Six, and later the Nine, were bound to be called to account by other countries and groups of countries.

This has, of course, given rise to awkward confrontations in which discussions have always centred around the common agricultural policy, at present the sole genuinely Community structure.

1. Bilateral agreements

The EEC has signed a number of bilateral agreements and it will continue to be its policy to do so.

As a rule, the association agreements—whether of the type concluded with Greece and Turkey (preferential and leading up to membership), the type concluded with Spain, Morocco and Tunisia (preferential, but not geared to ultimate membership), or the type entered into with Yugoslavia and Argentina (non-preferential)—prescribe reductions in customs duties and/or levies in EEC imports of olive oil, citrus fruit and other agricultural produce.

Some of the EFTA countries which did not apply for accession (Portugal and Iceland) have an agricultural section in their agreements with the EEC. All the EFTA countries' agreements cover processed agricultural products, even those which exclude agricultural produce as such.

Such agreements provide for reductions of the common customs tariff.

2. *The regional approach*

The Yaoundé convention and the Arusha agreement granted the AASM countries and the three East African states customs preferences for agricultural products. These preferences range from the non-application of customs duties to the non-application of levies and also include various forms of abatement.

The character of these agreements triggered off reactions in other developing countries, and the Community consequently proposed and introduced a system of generalized preferences.

In the search for an 'overall' approach to the problems of the Mediterranean basin agricultural products have again been a central topic of discussion. Disputes about the line to be taken on agricultural issues held up the negotiations for a long time, and even now certain problems have not been settled.

It is fully appreciated that the creation of a straightforward free-trade area covering the Nine and the Mediterranean countries would be dangerous for the CAP, since it would impair Community preference, especially in those sectors where that preference is least assured (such as fruit and vegetables).

3. *Relations with the United States*

Relations between the Community and the USA been fraught with confrontations on agricultural issues. There has been no lack of sources of friction, from the 'chicken war' to the soya-bean crisis.

The United States constantly criticizes the CAP for artificially supporting non-competitive European farmers, and for being protectionist, unfair and aggressive because of the way it uses refunds and so on.

In reply, the European Community quotes statistics which reveal increases in American exports to Europe and the effectiveness of support measures for farmers in the United States.

The Economic and Social Committee has already expressed its views on this matter.

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Some conclusions are to be drawn from this brief summary of international confrontations on agricultural issues. On the one hand, the fact that negotiations are held in rapid succession or even concurrently clearly brings with it a risk of constant out-bidding. The arrangements in force at the Community's borders for agricultural products are an integral part of the CAP and the whole edifice may be threatened once its walls have been breached and are in danger of disintegrating.

On the other hand, agricultural exports are important for the economic take-off of the less-developed countries. The European Community cannot afford to remain indifferent to such needs. This point will be taken up again in the conclusions.

VI. CONCLUSIONS: RECOMMENDED LINES OF APPROACH

It is necessary to deduce from past experience and the various findings a number of principles and lines of approach which would improve the impact of the common agricultural policy on all those directly or indirectly affected. The search for such lines of approach is not easy. It must on no account lead to questioning of fundamental principles. It must find its way through an economic situation which holds dangers for us all. And in our search we must be constantly mindful of the need to further the European venture started 15 years ago.

A. Political importance

Of all the efforts made towards European integration, the common agricultural policy has been, ever since its introduction, the only area in which the Community has shown a genuine political will to achieve common results. This is not saying that the results have always been satisfactory, or that the political will has not all too often led to shaky compromises. The farm policy of the Nine is certainly not at the moment a flawless model of Community achievement. The attitudes of the Member States and the liberties they all take from time to time with Community rules may give rise to doubts about the political will. Some circles even see reason to believe that continued application of the farm policy on a Community basis will break the political will.

The Committee has repeatedly expressed the view that the transformation of six, and later nine, agricultural units into one large common agricultural market was a venture without precedent in history. It was inevitable that this challenging undertaking would meet with difficulties, setbacks and failures. It was also predictable that a resurgence of general economic problems would make progress more difficult, if not impossible at times.

Nevertheless, if the Member States are still convinced—as almost all of them say they are—that their only chance of finding solutions to the problems besetting us in this present age lies in the construction of a fully-fledged Community, then they cannot but acknowledge also that the only instance to date of their managing to achieve this political will has been in the field of agricultural policy.

The highly political character of the common agricultural policy is thus of cardinal importance and serves as an example for other common policies. But it must also be regarded as a key factor in any search for ways of improving the common agricultural policy itself.

B. The international context

As has been pointed out above, the development of the common agricultural policy has run into problems, precisely because this policy is so important. The EEC is potentially capable of supplying with agricultural products the most densely populated economic bloc in the world, apart from China. The world environment in its agricultural, food supply, industrial and political aspects thus now has a crucial bearing on EEC policy, of which the common agricultural policy is a part. This is certainly truer today than it was at the inception of the Community.

These international realities should, therefore, be reconciled with the need to promote a European agricultural policy conforming to the principles laid down by the Treaty. To do this, a basic distinction should be drawn between the developing countries and the countries which have a level of general economic development comparable to that of the EEC.

1. The danger of a food shortage and the consequences thereof for Europe

The world food situation will be discussed at the international conference to be held in Rome from 5 to 16 November 1974. The Economic and Social Committee attaches paramount importance to this conference.

According to all the studies currently available, two-thirds of the world's population is suffering from the effects of food shortages. FAO experts estimate that present world agricultural production would have to be doubled by the year 2000 to meet—on an average basis—the minimum food requirements of the world's population at that point in time. Agricultural production has, however, never before been doubled in 25 years. (The EEC has now been in existence for 16 years.)

Moreover, the forecasts made by the FAO experts are categorical: world food production will decline again in 1974 and 1975 and the shrinkage of world food reserves will be further exacerbated if there is an international shortage of fertilizers and pesticides.

It is clear that the food shortage is affecting and will continue to affect mainly the poor developing countries. It is, however, equally clear that the answer to this crisis lies primarily in these countries themselves.

This state of affairs poses major problems for all EEC policies, but particularly for agricultural policy. Faced with these problems, the Community must not simply disregard the attacks of the poor nations, or merely note their requests for assistance. This would be the surest way to bring about the degeneration of the common agricultural market into a free trade area, which is held to be incompatible with the CAP.

The Community must accept the consequences of its international responsibilities and embody them in its approach to agriculture and other fields. Action should be along the following lines:

- a) In addition to taking measures in the industrial field, the Community must use every means at its disposal (financial aid, technological assistance, supply of fertilizers, etc.) to assist the poorest of the developing countries to reach the take-off point in agriculture. In particular, the Community must help these countries to expand the output of products which are suited to their soil and climate and capable of meeting the food requirements of the regions concerned.
- b) It is, however, obvious that these countries, whose agricultural resources will thus doubtless be the first to be exploited, will have to be able to export primary or processed agricultural products to economically developed areas, since they need to import capital goods or energy. We have seen that the EEC is one of these areas for several reasons.

The Community must therefore seek agreements with these countries on the whole range of industrial and agricultural products and raw materials. Such agreements must be based on criteria which permit the full use of all physical and human resources

in industrialized and developing countries. In particular, as regards agricultural products, the Community will have to stand firm against outbidding and pressures and will have to try, under conditions which are bound to be difficult, to give the developing countries access to its markets. In other words, protective measures—which are features of the market organizations—will have to be altered so as to allow the Community to control access to its markets.

Such a policy will have the following repercussions:

- a) Community products will be affected eventually by such measures. But since these measures reflect the political and social will of the whole European Community, it would be unacceptable if the adverse consequences only affected certain farmers or regions. The Community will therefore have to agree to special support policies, on structural adjustments for example, with all the financial consequences which this implies.
- b) If such an overall policy is to be implemented, it must be planned by the economists and politicians responsible. Such planning is possible, since, unfortunately, the basic situation is obvious.
- c) At the same time, however, the poor countries will need food aid from the developed countries and the FAO experts believe that this will remain the case for many years. The EEC must have a planned policy on food aid and cease to regard food aid merely as an outlet for its agricultural surpluses.

The tonnages required for this aid must be included in the production targets of the Community's agricultural industry, a subject which will be taken up again later. This will be a fundamental responsibility of the EEC in the years ahead.

It should be noted that the Economic and Social Committee has already commented on the 'Memorandum on the food aid policy of the European Community' and on the 'Financing of the expenditure on food aid'.¹

2. Relations with the developed countries

This is fundamentally a question of commercial policy, which, in the case of agriculture, is particularly difficult to divorce from production policy.

The goal is, of course, to eliminate barriers to trade in agricultural products. But in view of the economic intervention practised by all States, this goal cannot be achieved by a simple unregulated liberalization.

This is why the Community has proposed international agreements. For its part, the Economic and Social Committee has supported this proposal and has outlined the form such agreements could take.² In particular, it is accepted that protection arrangements should be revised—within the framework of world agreements which are genuinely capable of regulating international trade in primary and processed agricultural produce—in the light of criteria which take account of social and production conditions in European agriculture.

¹ Opinion of the Economic and Social Committee, published in OJ No C 109, 19.9.1974.

² Opinion of the Economic and Social Committee on GATT (Doc. CES 215/74), 28.2.1974.

3. State-trading countries

Certain Community products face real competition from State-trading countries.

The products which are most affected are often very specialized and poorly protected by the market regulations.

In the case of the agricultural products of the State-trading countries, however, supply and demand are unpredictable in terms of both prices and quantities. The special provisions governing trade in these products only allow *ex post facto*—and therefore ineffective—checks to be carried out.

As a result, some markets can be affected without it being possible to take counteraction under present Community regulations.

Having worked out common rules which will resolve these difficulties, the Community should, in conjunction with the State-trading countries, strive to implement a commercial policy which will further general expansion of the economies of the two sides.

4. Observations

The whole of this discussion on the international context of the common agricultural policy shows that it is more than ever necessary for the European Economic Community to introduce a genuine stockpiling policy using appropriate instruments and methods without encroaching upon the responsibilities of the Member States. Community stocks of the staple agricultural products, which are fundamental to food supplies, have never been so low as they are today. These stocks must be built up again.

Moreover, stocks are of fundamental importance in the context of world stabilization agreements on tropical products and the international agreements which are to be sought in respect of staple agricultural products, and as a means of achieving an effective food aid policy. It goes without saying that building up, financing and managing such stocks raises delicate problems, problems which should be solved not only at Community level but also, and above all, at world level since the stability of prices and world markets depends to a large extent on how these problems are resolved.

At the same time as buffer stocks are being built up, international production planning involving all the countries concerned will be needed in order to achieve the best possible balance between production and demand and by so doing help to stabilize prices throughout the world market in the common interest.

C. Conditions for and features of the new lines of approach

Some of these lines of approach clearly impinge on the strictly agricultural aspects of the CAP. But it must be stressed here and now that if the European Community is genuinely anxious to put the common agricultural policy on a stable footing, it will have to make major efforts in a whole series of other fields.

a) *Agricultural aspects*

a.a.) Policy on agricultural prices

The prime role of price policy in agriculture must be noted. As in the other sectors of economic activity, the role is a multiple one. One purpose of the common price policy is to guarantee the level of the incomes of those working in agriculture; another is to be an instrument for steering production and, in general, ensuring adaptation of supply and demand. It must be stated that the Community has never made a clear choice between what could be termed the 'economic' price concept and what could be termed the 'social' price concept. Perhaps it would have been premature to make such a choice. Doubtless there were insufficient scientifically-based data. At all events, the result was that the Community was reduced to putting the emphasis on political factors.

The Committee considers—and it has already stated this on various occasions—that if the aim is still to make modern agriculture an integral part of the modern economy, then price policy must fulfil the functions described above in respect of efficiently-run, rationally-structured farms. It will be immediately appreciated that such a concept of price policy is of necessity tied up with the need for rational changes in farm structures.

It must be emphasized, however, that farms with the right potential should not only be modernized but should remain modern. In other words, price policy cannot be conceived as inevitably being fixed once and for all, but must be dynamic. In particular, price policy must ensure farmers a fair income by making due allowance for their current input-costs, which, as we all know, grow as farms are modernized. At the same time it must take into account the increases in productivity which, as a general rule, flow eventually, if not immediately, from farm modernization.

Such a price policy requires the application of objective criteria. The Economic and Social Committee has already expressed its support for the use of such criteria.

However, in setting the course to be followed, price policy must also establish effective price relationships. These price relationships must encourage the production of saleable products. Thus, price policy is very closely tied up with the need to know what should be produced. This raises again the general question of production targets, which make for a better knowledge of demand. Here it would be a matter of steering and guaranteeing investments in production sectors needed by the Community. Used to this end, price policy must be seen as one of the instruments of economic and social development policy.

Possession of an analytical tool is of paramount importance in this respect. The European Community's farm accountancy network must be expanded, and economic data on the various categories of farms must be even more detailed.

Finally, it is necessary to stress the importance of the link between the Community's price policy for agricultural products and its economic and monetary policy. How, in fact, can a price policy entailing the fixing of common prices at Community level cover current input-costs which, as a result of inflation, are doubling or even tripling in some EEC countries? How can it be thought that these prices have the same incentive effect throughout the Community, if taxes on agricultural products vary from one Member State to another?

a.b.) Agricultural prices and farmers' incomes

The outcome of the agricultural price policy sketched above will naturally be that some farmers, in view of the present structure of their farms or other factors specific to their farms (for example, natural disadvantages or regional location), will not be able to obtain an adequate income from farming. We have seen that, in relying mainly on the price policy, the Community has not succeeded in reducing disparities between farm incomes. Far from it.

It is therefore essential that the price policy which has been advocated be backed up by the introduction of a system of selective graduated aids which caters for the different needs. These aids could be along the following lines:

- They could take the form of price supplements, which already exist in some cases, as has been pointed out above. If such systems are not simply to maintain the status quo, a number of conditions must, of course, be fulfilled: for example, production of the particular product must be confined to certain areas of the Community and the number of producers must be relatively small so that this type of aid can be properly administered.

The thinking behind this type of aid ought perhaps to be scrutinized. Taking the example of beef and veal, the rises in the current input-costs for this product (feed grain, soya beans, feedingstuff, investments, etc.) probably justify increasing its price. On the other hand, the present prices for beef and veal are tending to deter consumers. And, as we know, a satisfactory solution to the problem is not yielded by an examination of the questions connected with the marketing of products like beef and veal which are subject to cyclical price fluctuations.

Only two conclusions are possible in this type of situation. Either production methods must be changed so as to reduce current input-costs, or we must face up to the fact that price policy has reached the outer limit of its effectiveness and that prices are not the only instrument which can be used to ensure producers' incomes.

- Consideration will also have to be given to types of aid which are unconnected with price policy, for example aids taking into account the role played by producers in the protection of the environment, or aids granted under a vigorous regional policy. Aids geared to the land farmed would be one possibility. In short, this is a question of an extended application of the concepts behind the measures to help farming in mountain areas and in certain other poorer farming areas, particularly hill farming.
- As a result of the drive to tailor aids to particular situations, other types of aids will be advocated: direct income aids; measures providing easier access to credit and covering bank interest charges; and finally interest subsidies. All these forms of assistance must be aimed, *inter alia*, at developing and changing farms, whilst at the same time encouraging association.

It is thus impossible to confine oneself strictly to agricultural policy when assessing what types of aid should be granted, for this assessment must take an overall view embracing environmental policy, regional policy and social policy and, in addition, must take account of the aim of securing for persons working in agriculture, incomes and living conditions comparable to those in other sectors.

a.c.) Position of farmworkers

In view of the serious features alluded to, the Community authorities will have to pay particular attention to the position of wage earners in agriculture. The Commission should aim to publish yearly reports on farmworkers' earnings with a view to subsequently proposing measures which, while respecting national collective agreements, will improve the living and working conditions by other means of a social nature. In this connection it is highly desirable that the joint committee should push ahead—with the aid of the Community authorities—with the work in hand, which must definitively and generally give farmworkers their due share of the fruits of progress in farming.

a.d.) Market organization

As we have said above, market organization has, on the whole, accomplished its purpose in a satisfactory manner, in that in particular it has allowed a normal application of the price system. But improvements are desirable and a number of important supplementary factors must be taken into account—including those arising out of the international background, which have already been considered.

— *Production targets:* We have already stressed the need for considerable progress here. It is not a matter of depriving producers of their freedom of choice, but of defining in more detail the framework within which they take their decisions, so that these are more effective economically and socially.

Neither is it the aim to lay down rigid quantitative targets. The purpose is to establish a number of general guidelines geared to the main factors to be taken into account.

Such targets will have, of course, to be balanced against the need to secure stability of employment for farmworkers and to protect farm incomes.

The factors to be taken into account include:

- . domestic consumption requirements which can be covered by Community agricultural production;
- . the Community's import needs, whether due to quantitative shortfalls or reasons of quality;
- . needs and possibilities as regards imports from poor countries;
- . the Community's need to export and its export capacity, particularly in the context of world agreements;
- . the quantities required to build up the stocks referred to above (application of worldwide arrangements, food aid, etc.);
- . the quantities the Community needs to produce if it is to make a coherent contribution for as long as is required to Community and international food-aid programmes.

These general objectives could be quantified in financial terms, which would enable forecasts to be made.

But these forecasts—like all economic forecasts—must allow for possible variations. Even if such variations are small, they have financial consequences and we must be clearheaded enough to accept them. This is a precondition for a more rational organization on the markets, one of the goals of which is still to ensure stability of supplies. In this way we will be better able to tackle the problem of surpluses.

— *Quality*: Market organization must stimulate quality. This is already the case in certain markets but it must become the general rule. Such a development will also encourage product specialization. Incentives or disincentives will have to be introduced—experience has shown that, at overall Community level, market forces alone will not ensure the requisite emphasis on quality.

— *Market management*: This plays an important role in setting the pattern of production, for instance by ensuring that Community preference is respected. It also influences the prices actually received by producers and, to a large extent, determines external trade.

In view of the above, we must first of all establish much closer links between the management committees for individual products, so as to improve coordination of the measures taken in individual markets.

Next, market management must be on as truly a commercial basis as possible, and so it is vital that those affected are involved more effectively and on a more permanent basis in market organization, that market transparency is ensured and that the associations of agricultural producers are encouraged.

Moreover, every effort must be made to see that short-term economic measures can be taken when they are required by the market situation.

Finally, a more widespread increase in the involvement of socio-occupational groups in decision-making with regard to the agricultural policy is highly desirable.

a.e.) Policy on structures

The success of the other facets of the common agricultural policy depends on structural policy being worked out and implemented at Community level.

Here again, objectives need to be clearly defined. A good, albeit late, start was made with the socio-structural directives of 1972. However, these directives now undoubtedly need to be supplemented in the light of experience, which has often been negative. They should be updated. These directives must also make it clear that vast farms are not the aim, that the characteristics of a modern farm vary according to the particular production sector and possibly the region, but that certain conditions have to be met if modern farms are to be economically efficient.

These measures must also be backed up by machinery for improving the marketing of farm produce, such as Community rules designed to encourage the establishment of contracts between agricultural producers and purchasers and consumers of agricultural products.

It should be recognized that there is still a place for small farms in modern agriculture, particularly where they help to preserve a type of countryside which the general public finds attractive. In this context it should be remembered that part-time farming is

sufficiently widespread in the EEC (roughly 5% of farms) to justify a study being made in order that this type of farming can be catered for in the CAP. The Committee feels that dynamic part-time farming is a practical possibility, particularly if cooperation and the appropriate pattern of production are encouraged.

Experience has shown that some Member States have taken the socio-structural directives lightly. A way of avoiding such difficulties in future would be for the Council to issue regulations, which would be more binding than the present instruments. This is a question of political will.

On the other hand, as regards the application of future Community decisions, it would be expedient in certain cases to leave Member States the latitude—subject to Community supervision—to tailor the implementation of such decisions to specific regional conditions.

On the financial side, we have seen the sums Member States have put into structural policy. In the Economic and Social Committee's view, it is not a question of automatically spending more all round but of making sure that disbursements are both more Community-based and more selective. In keeping with this decisively Community approach, the current concept of a ceiling for the Guidance Section of the EAGGF would have to be revised.

It is, however, well known that structural changes take place slowly and their effects are not felt immediately. This is an additional reason for taking vigorous action in this field.

Finally, the Committee stresses that structural policy, in turn, cannot be seen in isolation from the other economic aspects i.e. regional policy, industrial policy, social policy, vocational training policy for young farmers and the development of forms of continuous training. In particular, it should be constantly borne in mind that improvement of agricultural structures depends to a large extent on what openings in other walks of life are provided for farmers and farmworkers.

b) The need for other common policies in addition to the CAP

This part of the study must be regarded as an urgent appeal and perhaps as a warning.

Examination of the past shows the dangers implicit in the acceptance that the agricultural policy is the only common policy. This is a point that must be stressed.

b.a.) What is the point of a common price policy when there are divergent monetary policies and economic policies which lead, for example, to radically different inflation curves?

The monetary arrangements were supposed to serve as buffers. Contrary to what may have happened in the past, they should neither encourage deflections of trade nor become permanent subsidies, since this would lead to the creation of an artificial market situation. Under these circumstances, how is it possible to improve the market organization rules?

b.b.) How can a rational system of direct aids be developed and how can progress be made with the structural policy, except in the framework of a diversified policy applied to the regions of the Community and flanked by an industrial policy and a

social policy? How can we improve the basic and advanced vocational training of farmers and farmworkers without a social policy which channels the necessary financial resources to the social fund?

b.c.) It has already been seen that similar comments apply to tax policy and transport policy.

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The Committee has repeatedly pointed to the urgent need for a radical change in the attitudes of the Member States. Reference was made to this recently in the Committee Opinion on the Commission's memorandum to the Council on the improvement of the common agricultural policy.¹

Up to now the common agricultural policy has been essentially a price and market policy. Overall, the CAP aims have been fully achieved in the latter area, so that the underlying principles should not be called into question. Improvements must, however, be made to the machinery of the policy on prices and markets in order to give agricultural producers a better chance to maintain their indispensable position in the modern economy. This objective is perfectly compatible with the needs of consumers.

But a genuine agricultural policy covers more than prices and markets. The CAP should now be given its full Community and international dimension.

Unfortunately, these ambitions will never be fulfilled without a satisfactory economic environment. It can fairly be said that, in the Community's present state of advancement, the fields where action is most urgently required to improve the CAP in the interests of all are precisely the economic and social fields which lie outside agriculture.

The Community's agricultural policy will clearly collapse if agreement is not reached on continuing the work of building the Community. And if the agricultural policy founders, the Community itself will certainly undergo the same fate.

¹ Opinion of the Economic and Social Committee published in OJ No C 115, 28.9.1974.

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