

Newsletter on the Common Agricultural Policy

No. 2

February 1971

TOWARDS A HIGHER STANDARD OF LIVING AND INCOME LEVEL IN THE AGRICULTURAL SECTOR

	<u>Page</u>
I. The initial situation	1
The present situation	1
II. How to overcome existing difficulties and achieve common objectives	3
1. Modernization of farms	3
2. Proposals concerning farmers leaving the land	4
3. Socio-economic information and vocational training	4
4. Reduction of agricultural area	5
5. Supplementary proposal for a directive on modernization of farm units, promotion of farm closures, and improvement of agricultural structure	5
6. Marketing improvements	5
Modification and extension of the proposals of 29 April 1970	5
Unity between measures taken under the prices policy and the structural policy	5
Joint measures for structural improvement	6
1. Measures to help persons intending to leave farming	6
2. Measures to help persons remaining in agriculture	7
III. Financing the common agricultural policy	8
IV. Market and price policies	9

TOWARDS A HIGHER STANDARD OF LIVING AND INCOME LEVEL
IN THE AGRICULTURAL SECTOR

I. The initial situation

The agricultural situation in the EEC has undoubtedly reached a critical phase which calls for a speedy solution, taking both present and future needs into account.

The EEC Commission has constantly tried to remedy the structural stagnation in agricultural policy and implement the necessary adjustment to overall economic development. It should be sufficient to mention the Commission's memorandum of 21 December 1968 and the directives on agricultural policy of 29 April 1970 which, after lengthy deliberations, finally led to changed views on agricultural policy.

The decision-making institution of the Community, however, has still not brought itself to face the consequences of the changed situation and to handle the matter on a European level. This hesitant attitude has gradually precipitated a crisis which has shaken farmers' confidence in the prospects for a satisfactory development of the Community's agricultural policy.

The lid on the common agricultural policy was at last lifted on 10 February 1971, when the European Parliament passed a resolution welcoming the Commission's proposals consisting of five directives on structural reform and a regulation on producer groups.

The present situation

A feature of the existing situation is that it calls not only for economic measures in order to accomplish an improvement but mainly for large-scale social measures. This is not a mere assertion. It is a logical conclusion from the fact that only some ten per cent of a total of about 4 800 000 farms in the Community come up to modern standards of management and economic efficiency while 2 500 000 units are run by farmers over 55 years of age. Seventy-five per cent of the latter group have no potential successor.¹

.../...

¹ From Vice-President Sicco L. Mansholt's speech to the European Parliament on 11 February 1971.

Expressed purely in terms of figures, the problem does not appear as serious as is usually suggested. At the same time, however, the figures show that emphasis should be laid on social and human measures. All objections raised against a common policy on agricultural structure seem to be nothing but pretexts to retain full national control over these matters. Opponents of a common agricultural programme claim, for example, that there is too much divergence between the initial situations in the six Member States, that there is no adequate regional policy to create new jobs for farmers leaving the land, that it is too difficult to incorporate common rules into national legislations, and that existing instruments of structural and social policies cannot be changed overnight.

Economic measures have to be taken to solve remaining problems; such measures should not aim at driving even more people off the land but at keeping efficient farmers in European agriculture.

The search for adequate solutions to the agricultural problem is rendered all the more difficult by its present intricate and extensive nature, unfortunately reaching far beyond internal questions of common agricultural policy. In this context, agricultural problems arising during the negotiations with the four applicant countries have to be taken into consideration too, especially price problems, as well as the consequences of the Community's enlargement from six to ten member countries.

- (i) The price of British cereals, for instance, will have to go up by 28% in order to reach the current price level of cereals in the Six.
- (ii) Britain's producer prices of milk are about 10% below those of the Community.
- (iii) Britain's consumer price of butter has to be raised by 120% in order to come up to the present Community level.
- (iv) Denmark's producer price of milk amounts to DM 0.23/kg and has a fat content of 3.7%.
- (v) Both British and Danish agricultural structures are superior to those of the Community countries.

These points constitute only a tiny portion of the problems to be discussed in the course of the enlargement negotiations.

But there is more to be considered. The impact of the ever-growing number of preference areas (spheres of influence) of an enlarged Community on trade in farm products is a call to arms for the countries whose interests are threatened by the Community's preferential agreements. Even now the EEC almost every day meets with severe political criticism from these countries.

A solution to existing difficulties should, therefore, not be sought in a step backward, i.e. in the direction of the 'renationalization' of agricultural policy by national price fixing or other national measures. What is needed is a step forward on the road towards closer coherence.

Obviously, it is no use talking of the prospect of an enlarged Community while at the same time relapsing into traditional national actions. After all, the Commission, the Council, and agriculture itself are all in the same boat. If the common boat were wrecked, much more damage would be done to agriculture as well. It would be better to steer onto the right course and join forces to find a common solution, even though it is not likely to satisfy all (national) wishes. The ultimate objective should be to raise the standard of living and the level of incomes in European agriculture.

II. How to overcome existing difficulties and achieve common objectives

"Agricultural reform is a task for the Community. It involves the interests of the whole of the Community. The Community's financial contribution to the reform programme is therefore justified and conforms to the principle of solidarity. The Community's contribution may range from 25-75%, depending on the level of economic development of individual regions and on the difficulties they are confronted with, as well as on the kind of measures to be taken.

"All considerations should centre upon man and his destiny. The entire structural changeover has to be implemented with the utmost regard for social justice.

"The aim of structural reform is to create appropriate conditions for a progressive and lasting improvement of the level of agricultural incomes."¹

The European Parliament, made up of representatives from the six national parliaments, therefore holds the view that the agricultural problem can only be solved on a European level.

In principle, the five directives and the modified regulations on producers' organizations proposed by the Commission on 29 April 1970 will remain valid. The following is a brief survey of their contents.

1. Modernization of farms

The Commission intends to restrict future assistance to viable farms which, in order to be eligible, have to fulfil three conditions:

- (a) The head of the farm should have sufficient vocational skill.
- (b) The farm should employ a proper accounting system.
- (c) The farmer should draw up a development programme for his farm.

.../...

¹ From the resolution of the European Parliament on the Commission's proposals to the Council concerning five directives, and on an amended proposal for a regulation on agricultural reform, of 29 April 1970.

The farm's objective should be to provide two experienced workers with 2 300 hours of labour per worker per year, i.e. 48 hours per week. Once the development programme has been fully implemented, the farm must achieve for each worker a net working return of 10 000 - 12 500 u.a. (1 u.a. = US \$1).

The farm's development programme should, with certain exceptions, be completed within six years. For carrying out the programme, farmers can obtain loans at interest rates reduced by up to 6% over a period of fifteen years. In certain cases, the State will stand guarantor for the farmer.

Apart from these, a number of additional facilities will be made available.

2. Proposals concerning farmers leaving the land

- (a) A bonus of 1 000 u.a. per year will be granted to farmers above 55, as well as an adjusted compensation for relatives and labourers working on the farm.
- (b) All farmers under the age of 55 who give up farming and place their land at the disposal of the reform programme are to be given a closure grant amounting to at least eight times the rental value of their land.

The areas freed should preferably be allocated to viable farm units. Long-term leasehold (18 years) seems to be the most adequate means of enlarging holdings.

3. Socio-economic information and vocational training

In the future, persons working on farms should be highly skilled. To this end, modern advisory services for agriculture are to be set up covering the following fields:

- (a) Socio-economic, technical and structural changes in the agricultural sector.
- (b) Transfer to other occupations.
- (c) Migration from the land.

The advisory services should help to obtain a better insight in social evolution and to eliminate or diminish resistance against social change. Whether such services are run by government departments or by agricultural organizations is of secondary importance. What is important, however, is that this kind of consultation (management consultancy) will actually take place and will be provided by organizations enjoying the confidence of the farming population.

Additional training for heads of farms, finally, should be given by recognized institutions.

4. Reduction of agricultural area

The Commission has proposed to use part of the areas freed for other purposes provided they are not needed for the enlargement of other farm holdings.

5. Supplementary proposal for a directive on modernization of farm units, promotion of farm closures, and improvement of agricultural structure

The directive aims at avoiding new surpluses by providing better guidelines for agricultural output with a view to maintaining market equilibrium. Farmers may receive 'guide premiums' if, for example, they decide to concentrate on beef and mutton production.

In its farm modernization programme, the Commission opposes the industrialization of agricultural enterprises which have no crop production of their own. Investment assistance to pig, egg, and poultry producers can only be granted if at least half of the fodder needed can be produced on the farms in question.

6. Marketing improvements

The Commission has emphasized the importance of the speedy establishment of producers' organizations, serving as a bridge between farm structure and improved market structure. Ultimately, modernization of farm structures can only be accomplished by an improvement in market control, the gradual realization of horizontal integration in agriculture, and even of vertical integration, implemented as much as possible by, and under the responsibility of, farmers' groups themselves.

Modification and extension of the proposals of 29 April 1970

Unity between measures taken under the prices policy and the structural policy

As it is already some time since the Commission put forward its proposals and because, in the meantime, the state of affairs has changed, the Commission has decided, after extensive consultation, that its proposals of 29 April 1970 will have to be modified or extended.

In the Commission's opinion, the Council should, together with the fixing of farm prices for 1971/72, take policy decisions on a set of joint measures for structural improvement and on granting income premiums to certain groups of farmers.

Yet, the Commission realizes that the Council needs more time to take appropriate decisions on these proposals and on a prices policy.

On 15 February, therefore, the Commission submitted only a resolution to the Council, embodying the essence of the policy decisions envisaged in the proposals for joint measures. The resolution, however, changes the order of the measures as compared to the five directives, fills existing gaps, makes adjustments and allocates a different set of priorities.

During the Council session of 15/16 February 1971, the Ministers decided to examine closely the announcement and draft of a resolution on new guidelines for the common agricultural policy as well as the proposals on the fixing of prices for various farm products. In this way, the Council hopes to be able to take decisions soon.

Joint measures for structural improvement

Under the Community provisions, Member States can:

- (i) determine the amounts of financial incentives, granted under these measures, on a regional basis;
- (ii) implement the measures in certain regions only in part or not at all.

The reason for this is that structural deficiencies in the Community's agriculture vary considerably from one region to another. Financial facilities are often greatly dissimilar too. The financial burden arising from a large incongruity between the two factors might considerably hamper the implementation of joint measures in individual regions, or make this impossible altogether. The Community must solve this problem. The Commission, therefore, has proposed to fix different levels for EAGGF financial contributions to the joint measures, according to the regions.

1. Measures to help persons intending to leave farming

Member States are to introduce an assistance scheme for farmers who give up farming and are prepared to make their land available to modernized farm units or to a redevelopment programme for non-agricultural purposes.

The allowance scheme consists of compensation payments for farmers' contributions to structural improvement.

The compensation includes:

- (i) for heads of farms over 55 and, on certain conditions, for farm labourers of the same age group, an annual income allowance of at least 1 000 u.a. Member States can, however, be authorized to replace the allowance by a lump sum payment;

- (ii) for farmers under 55, a single premium according to the size of the area freed.

Moreover, there are provisions for vocational retraining grants and income guarantees during the retraining period for farmers who wish to take up another occupation. The new Social Fund will participate in financing the programme.

2. Measures to help persons remaining in agriculture

The main objective of these measures is to give the farmer the best possible chances to expand his farm rapidly to a profitable size and to achieve an adequate degree of rationalization. Farmers intending to modernize their farms should therefore receive assistance in financing the necessary investments.

Finally, there should be assistance for farmers whose incomes are insufficient but who, because of special circumstances, cannot modernize their farms or give up their occupation right away.

Consequently, the Commission has added the following points to its programme:

- (i) income compensations to heads of farms who modernize their enterprises, in order to tide them over the financial difficulties arising in the period between investing and achieving a level of profitability;
- (ii) the introduction of individual income allowances of 400 u.a. annually for farmers in the lower income brackets between 45 and 55 years of age who neither modernize their farms nor manage to find alternative employment but who, at the same time, commit themselves to give up farming on reaching the prescribed age limit;
- (iii) scholarships for children of farmers intending to leave agriculture.

As regards the draft for a directive on farm modernization, the Commission abides by the essential conditions. Yet, the submission of a farm development programme is no longer dependent on the condition that the farm should, from the start, have a specific minimum size.

The Commission maintains its opinion that the farm under modernization should, after the six-year development period, prove to be able to provide full-time jobs for at least two farm labourers with net working returns of 10 000 -- 12 500 u.a. each.

In certain regions with an agricultural structure distinctly inferior to the Community average, Member States can, under a Community procedure, be authorized to fix a transitional net working return below the minimum amount referred to above, which takes the specific situation in these regions into account. This is done on

the condition that there is sufficient evidence to show that this yield will enable farmers to reach an income level corresponding to that existing in non-agricultural occupations in the same regions. The assistance measures proposed by the Commission include:

- (i) financial aid in the form of interest compensations for investments necessary for the realization of the development programme, excluding land purchases. This compensation will amount to a maximum of six per cent while the interest rate for which the beneficiaries remain responsible should be at least two per cent;
- (ii) similar aid for investments necessary for the application of common production and marketing provisions, in the form of interest compensations up to six per cent, has been planned for the creation of producers' organizations.

The most prominent feature of the proposals is the increased flexibility of the measures, which the Commission has put forward without abandoning the principle of selection. Here, too, assistance will be restricted to farms with good development prospects.

III. Financing the common agricultural policy

In applying the decision of 21 April 1970 on financial forecasts covering several years, the Council commits itself to authorize an annual five per cent increase of the EAGGF's financial resources.

The Council thus agrees to a gradual extension of the financial participation of the Guidance Section in order to enable the Community to contribute to the proper implementation of the structural measures contained in the resolution.

For a full implementation of the entire set of measures by the Member States, the total costs are estimated at 300 million u.a. for 1972 and 2 500 million u.a. for 1977. In that case, the Guidance Section would contribute 150 million u.a. in 1972 and 1 250 million u.a. in 1977.

In order to make such expenditure possible, the Council will, when the occasion arises, act on the Commission's proposal to take the appropriate economic measures.

Up to now, Member States' contributions for the implementation of the common agricultural policy have not been too much of a burden on Member Governments' budgets. They represent only a relatively small percentage of national expenditure for agriculture. Joint agricultural measures should not only be mutually coordinated but also harmonized with general economic, regional and social

policies. Only if this is accomplished will farmers, wishing to leave the land, find alternative jobs under conditions corresponding to economic demands, especially in view of the requirements of a balanced regional development.

Their vocational reschooling could be simplified by means of the Social Fund. If the common agricultural policy were coordinated with other policies, it could effectively contribute to the balanced development of individual regions and economic sectors. Annual rates of inflation of seven per cent present the agricultural sector with considerable problems and, if they were to occur several times, would render any agricultural policy impossible. The key to success, therefore, is not to be found in agricultural policy itself but in the establishment of economic and monetary union in the EEC.

V. Market and price policies

The Commission has proposed the following price measures for 1971/72:

Cereals

- (i) A 2% rise in the target price of wheat other than durum; the present intervention price is to be maintained;
- (ii) A 5% rise in the target price and basic intervention price of barley;
- (iii) A 10% rise in the current monthly increases;
- (iv) The intervention period for wheat and rye should begin on 1 September, for barley on 1 October, and for maize on 1 November; intervention should take place at the level of the intervention price with the addition of a monthly increase.

Rice

- (i) An increase in the target price of husked rice by 0.73 u.a./100 kg (or 3.8%) to compensate for the costs of processing paddy into husked rice;
- (ii) It seems desirable to increase the difference between the intervention price and the target price in order to promote circulation in the market; this may be done by reducing the intervention price of paddy by 0.40 u.a./100 kg (or 3.2%);
- (iii) A 10% rise in the current monthly increases;
- (iv) Start of the intervention period on 1 November.

Milk

- (i) An increase in the target price from 10.30 u.a. to 10.80 u.a./100 kg (by 5%);
- (ii) To this end, an increase in the intervention price of products obtained from the albuminous constituents of milk (milk powder, cheese); an increase of aid to fodder production corresponding to half the effect of the target price increase.

.../...

Beef and veal

- (i) A 5% rise in the guide price of mature beef cattle for the 1971/72 and 1972/73 marketing seasons, making it 71.40 u.a./100 kg for 1971/72 and 75.00 u.a./100 kg for 1972/73;
- (ii) In order to promote meat production and the changeover from dairy cattle to beef cattle, a premium should be paid for each live- or still-born calf, whether or not obtained by artificial insemination, sired by a pedigree bull in whose progeny an improved meat quality has been established by an examination carried out by a nationally recognized institution. The amount of the premium has been fixed at 15 u.a. but may be differentiated according to the calf's sex.

Sugar

- (i) A reduction of the guaranteed quantity, in principle down to the present consumption level, though not below the total basic quota;
- (ii) Other price adjustments for white sugar and adaptation of the marketing regulation to allow for certain technical factors, while retaining the minimum price of sugar beet.

Oilseeds

Maintenance of price levels in production areas but with adaptation of the regionalization system.

Other products

Prices for other agricultural products remain unchanged.