

NEWSLETTER ON THE COMMON AGRICULTURAL POLICY

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# STOCKTAKING

of the  
COMMON AGRICULTURAL POLICY

On March 4 the Commission presented its "balance sheet" of the CAP to the EEC Council of Agriculture Ministers.

This document - called for by the agriculture ministers last October - is in effect a complete inventory of the common agricultural policy over the ten years of its existence. It shows how the CAP has successfully coped with internal changes, with changes in the world food markets and the new situation created by the enlargement of the Community.

The Balance sheet - designed to form the basis of detailed discussion by the Council and the European Parliament - is divided into three parts.

The first deals with the evolution of the CAP. The second part examines how effectively the market mechanisms have achieved the objectives of the CAP. In the third part, the Commission recalls its recommendations of November 1973 and suggests how these can be further developed to improve the working of the internal food market in the future.

So that readers of the "CAP Newsletters" may have a complete understanding of the stocktaking they will find here a full text similar to the publication on the Agricultural Memorandum 1973-1978 issued in November 1973. The examination of these two complementary documents will give all those interested a round base for study and discussion.

COMMISSION OF THE EUROPEAN COMMUNITIES

STOCKTAKING OF THE COMMON AGRICULTURAL POLICY

(Communication from the Commission to the Parliament and the Council)

Brussels, 26 February 1975

## CONTENTS

	<u>Page</u>
<u>PART ONE:</u> <u>THE DEVELOPMENT OF THE COMMON AGRICULTURAL POLICY</u>	3
<u>PART TWO:</u> <u>ANALYSIS OF THE EFFECTIVENESS OF THE INSTRUMENTS</u> <u>OF THE COMMON AGRICULTURAL POLICY IN RELATION TO</u> <u>ITS OBJECTIVES</u>	10
<u>CHAPTER I:</u> <u>ANALYSIS BY OBJECTIVE</u>	11
(a) The extension of the common market to agriculture	11
(b) The increase of productivity	14
(c) The provision of a fair standard of living	16
(d) Market stability	18
(e) The security of supply	20
(f) Reasonable prices for consumers	21
(g) The harmonious development of world trade	23
(h) The protection of the environment	27
<u>CHAPTER II:</u> <u>THE BUDGETARY COST OF APPLYING THE INSTRUMENTS OF</u> <u>THE POLICY</u>	27
<u>CHAPTER III:</u> <u>EVALUATION OF THE EFFECTIVENESS OF INSTRUMENTS</u>	34

STOCKTAKING OF THE COMMON AGRICULTURAL POLICY

Contents (continued)

	<u>Page</u>
<u>PART THREE:</u> <u>PROBLEMS AND PROPOSALS FOR IMPROVEMENTS</u>	41
<u>CHAPTER I:</u> PROBLEMS CONCERNING THE EQUILIBRIUM OF MARKETS AND THE SECURITY OF SUPPLY	42
(a) <del>Across-the-board</del> instruments	42
(b) Improvements concerning the various agricultural markets	47
 <u>CHAPTER II:</u> PROBLEMS RELATING TO PRODUCTIVITY AND FARM INCOMES	 50
 <u>CHAPTER III:</u> PROBLEMS CONCERNING THE UNITY OF THE MARKET	 53
(a) Monetary compensatory amounts	53
(b) Distortion of competition	54
(c) Technical and administrative barriers	56
 <u>CHAPTER IV:</u> PROBLEMS OF EXPENDITURE CONNECTED WITH THE COMMON AGRICULTURAL POLICY	 56

PART ONE: THE DEVELOPMENT OF THE COMMON AGRICULTURAL POLICY

8. The authors of the Treaty, in providing for the inclusion of agriculture in the common market, wished to involve this sector in the pursuit of the general objectives of the Community as set forth in Article 2 of the Treaty. A common agricultural market seemed an essential condition for the balancing of trade between the economies of the Member States; to have excluded agriculture from the common market would have led to distortions in other sectors of the economy, since the pursuit of national agricultural policies would have had a direct effect on the competitiveness of industry; lastly, agriculture was considered as one of the areas where the opening up of the frontiers between Member States would have the most substantial effect in bringing about a better division of labour and, consequently, on the standard of living of both producers and consumers.
  
9. Unlike the common industrial market, however, where the Treaty provided for the elimination of most of the obstacles to intra-Community trade in accordance with a prearranged timetable, the common agricultural market was to be brought about gradually over a transition period, through the establishment of a common agricultural policy; for the varying importance of agriculture in the economies of the Member States, the great differences in natural, structural, social and commercial conditions and highly divergent traditions in the matter of national agricultural policy had led to the introduction, in each of the original Member States of the Community, of instruments of agricultural policy which differed widely in their scope and intensity.
  
10. The development of the common agricultural policy over the first ten years of its existence falls into two main phases:
  - (a) the transitional phase, when the basic principles of the marketing and pricing policy were fixed (single market, Community preference, financial solidarity, centralized management) and an attempt was made to coordinate structural policies (1962-1967);
  
  - (b) the single market phase; through the fixing of common prices and the application to the agricultural sector of the rules of competition contained in the Treaty, it proved possible to establish the single market gradually from 1967 onwards;

numerous refinements were made to the common agricultural policy, mainly as a result of the introduction of a common structural policy; the common agricultural policy also adapted itself to the new dimensions resulting from the enlargement of the Community.

11. The introduction and development of the common agricultural policy took place, until 1969, in an economic environment characterized by general prosperity and great stability. Since 1969, and especially since 1971, monetary instability first and then general economic instability, as illustrated by the energy crisis, and increasing employment difficulties and the sharp rise in the prices of numerous primary products on the world market, have made the common agricultural policy increasingly subject to uncertainties and dangers. Moreover, the generally favourable climate in which the common agricultural policy developed during its first years of existence has been replaced by one of public distrust, attributable partly to a lack of political will and partly to inadequate information on agricultural problems.
12. In 1962 three fundamental principles were laid down and have held together the common agricultural market ever since: the principle of the unity of the market which has been implemented through the gradual harmonization of farm prices in the Member States; the principle of Community preference implemented by the introduction of a system of variable levies and the common customs tariff; the principle of financial solidarity, which was reflected in the setting up of the European Agricultural Guidance and Guarantee Fund (EAGGF). The implementation of these three principles made centralized management essential and this task naturally fell to the Commission, which cooperated closely with the Member States (Management Committees).
13. During the transitional phase the emphasis was almost exclusively laid on the objective of the common agricultural market (Article 38). The common organization of markets, which in 1962 covered only 52% of agricultural production was gradually extended to most farm produce (91% today). The type of common market organization selected has, of course, been adapted to the nature of the products. Four main types of organization were used:

- (1) the support price, covering about 72% of production<sup>1</sup>, was chosen where there were historical reasons (type used in the past in most Member States),

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<sup>1</sup> Cereals, rice, sugar, milk, beef and veal, pigmeat, table wine, certain fruit and vegetables and fishery products.

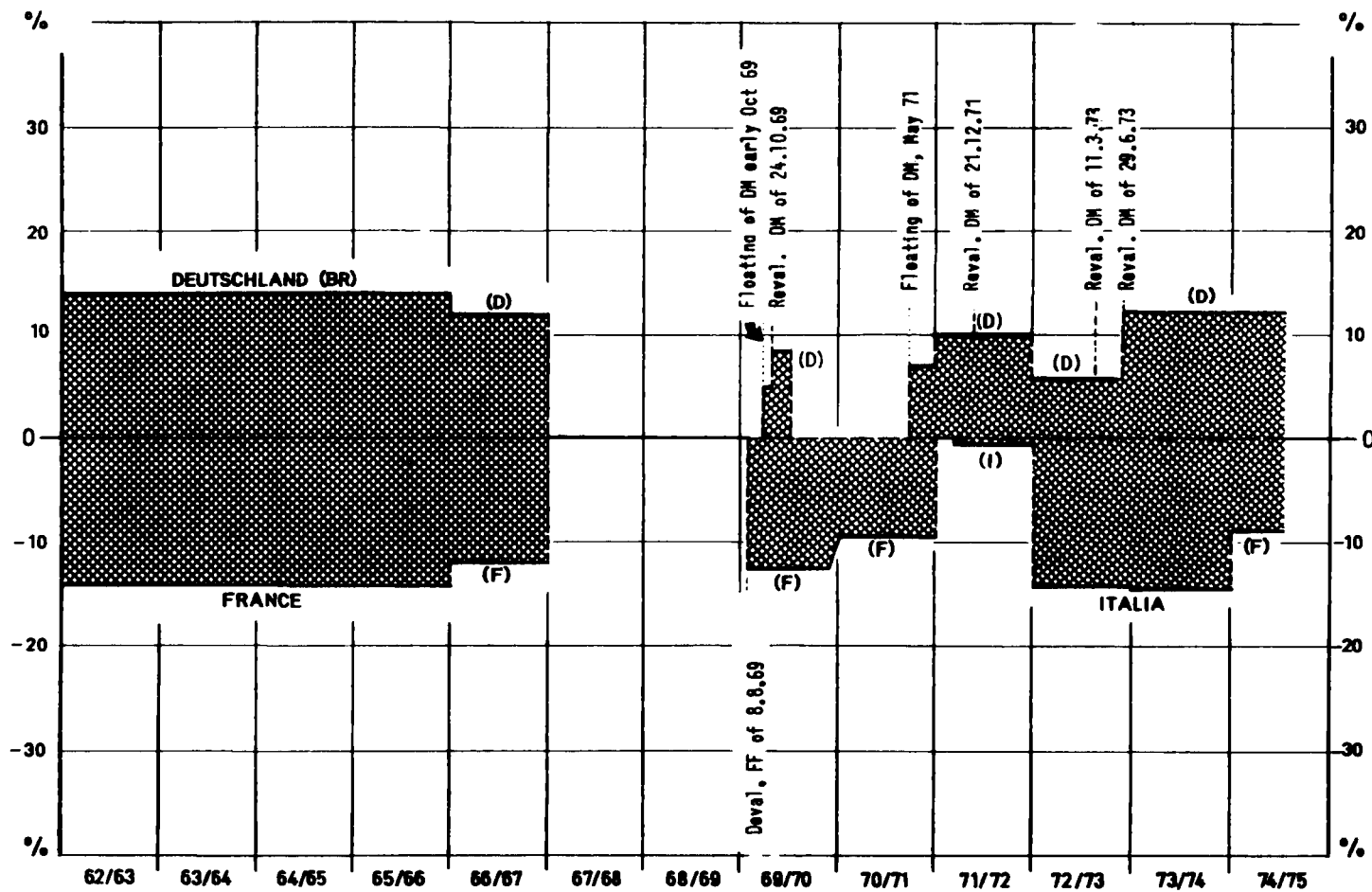
where there was a very high degree of self-sufficiency (cost to be borne by the consumer) and where production was substantial, regionally dispersed and in the hands of many undertakings.

- (ii) supplementary production aid, covering about 2.5% of production, was chosen for those products for which the degree of self-sufficiency was low (reduced financial costs) and whose production was limited and highly localized; this type of aid also keeps consumer prices at a relatively low level (durum wheat, olive oil) or depends on the binding, under GATT, of a low or zero-rated customs duty (oil-seeds, tobacco);
  - (iii) aid at a fixed rate per hectare or per quantity produced covers only 0.6% of production<sup>1</sup> and was chosen because of the marginal or localized character of such production;
  - (iv) external protection alone, covering about 25% of production, was chosen for products which are not a prime necessity (flowers, other wines, other cereals, other fruit and vegetables), or which are assimilable to industrial products and the supply of which can be easily controlled without direct State intervention (eggs, poultrymeat).
14. Following the agreement of 15 December 1964 on common prices for cereals, the common agricultural policy was able to set about the creation of a large single market from 1966-67 onwards, a market characterized not only by the free movement of agricultural products but also by an active economic policy in the agricultural sector. Among the main instruments of economic policy used, mention should be made of the fixing of a level of prices and price relationships whereby, for most products, a single support level on the internal market and a single level of protection against the external market were introduced. The management of the markets was facilitated by a whole range of instruments of stabilization, acting not only on production potential and supply but also on demand. Lastly, the free interplay of market forces was encouraged by the application of the rules of competition contained in the Treaty.
15. While the principles of Community preference and financial solidarity were able to play their full role, the unity of the market, which had been achieved with great difficulty in 1966-67, was greatly affected by monetary events (see graph on page 6), without any solution to these problems having so far been found through the price policy as such.

<sup>1</sup>Cottonseed, flax and hemp, hops, silkworms, seeds, dehydrated fodder.



MAXIMUM DIFFERENCES IN TARGET PRICES FOR COMMON WHEAT IN NATIONAL CURRENCIES IN THE ORIGINAL COMMUNITY  
 since the 1962/63 marketing year, taking into consideration monetary  
 fluctuations since 1969<sup>1</sup>



<sup>1</sup> In the case of floating currencies, average difference per marketing year, except for Germany (from 1.10.69 to 1.9.71)

16. The development of agriculture has shown the insufficiency of the structural instruments used during the transitional phase (coordination of national policies on agricultural structures and contributions from the Guidance Section of the EAGGF towards the financing of individual investment schemes). The structural development of agriculture has been characterized by its slowness. Despite the high percentage of labour leaving the land in the original Community (4.4% per annum during the period 1963-73 and even 4.6% during the period 1968-73), the average size of farms has increased by only 3 hectares since 1958, bringing the average area to 13.3 ha in 1973. The structural weakness of agriculture, especially evident in the case of production dependent on land, is demonstrated by the fact that 78% of farms (those of 1 to 20 hectares) occupy only 30% of the total UAA in the enlarged Community. Admittedly, the profitability of farms has often been improved by the intensification of production, but this development is limited by the number of market outlets available.

17. Acting on the basis of the Commission memorandum of December 1968 on the reform of agriculture, on 25 May 1971 the Council adopted new guidelines for the common agricultural policy, the institutional framework - in the form of common measures - having already been created in 1970 by the new Regulation concerning the financing of the common agricultural policy. Thus, the Community introduced the necessary complement to the price and market policy, with a view to solving the fundamental problems of European agriculture, which are essentially structural.

Since 17 April 1972 the Community has had at its disposal three common measures serving as a basis for the reform of agriculture: these provide for the modernization of farms (Directive 72/159/EEC), offer incentives for the cessation of farming and the reallocation of utilized agricultural area for the purposes of structural improvement (Directive 72/160/EEC), and provide for socio-economic guidance for and the acquisition of occupational skills by persons engaged in agriculture (Directive 72/161/EEC). Unlike the price and market policy, which by its very nature requires uniform legislation and centralized management, the common measures constituting the socio-structural policy leave Member States a greater choice of method, within the Community rules, so that the varying needs of the different regions in the Community can be taken into account.

18. A further Community instrument of socio-structural policy came into being on 21 January 1974 with the adoption by the Council of the Directive on hill farming and farming in certain other less favoured areas, supplemented on 13 February 1975 by implementing directives. This Directive, when applied in the Member States, will cover more than a quarter of the utilized agriculture area and almost 20% of farms in the Community. In addition to its purely agricultural objectives, this common measure is designed to ensure that enough people remain on the land to keep it in good heart.
  
19. The implementation of the three basic directives on the reform of agriculture was at first hesitant. At the present time two Member States have still not adopted the legislative and administrative provisions for the full application of any of these directives. Seven Member States have introduced provisions relating to Directives 72/159 and 72/160, two Member States have fully implemented Directive 72/161 and four others have partially implemented Directive 72/161. Since 1974 the coordination and promotion of agricultural research activities in the Member States have been assured under the terms of Regulation (EEC) No 1728/74 of the Council on the coordination of agricultural research.
  
20. The enlargement of the Community lent a new economic dimension to its relations with the rest of the world. In the world trade in farm produce and foodstuffs the enlarged Community occupies a very important position, accounting for 33% of such trade. In certain sectors its importance is even greater. The Community has shown a great deal of flexibility in facing the problems arising from the accession of three new Member States. The Treaty of Accession provided for special arrangements (particularly Protocols 17 and 22 on sugar and Protocol 18 on milk products respectively) and for a series of transitional measures (in particular Articles 52, 54 and 63); by the extensive application of these provisions, the Community has been able to alleviate the difficulties inherent in enlargement.
  
21. The enlargement also changed the economic character of Community agriculture, which is now producing for an internal market of more than 260 million consumers; the potential productive area has increased by almost 50% to 94 million ha; the number of farms has increased from 4.7 million to 5.4 million. The average size of farms has increased to 16.3 ha and final agricultural production has risen by 25%. Furthermore, in a certain number of products the Community, from being in its original form more than 100% self-sufficient, has now become deficient.

22. The Community has succeeded in adapting the common agricultural policy to the new trends on the world market: by establishing a system of export levies (cereals, sugar) and import subsidies (sugar), the Community has been able to ensure security of supply and prevent certain high prices on the world agricultural markets from having too severe an effect on internal prices and thereby worsening inflation. The common agricultural policy has thus shown that it looks after the interests of both farmers and consumers.

PART TWO: ANALYSIS OF THE EFFECTIVENESS OF THE INSTRUMENTS OF THE COMMON  
AGRICULTURAL POLICY IN RELATION TO ITS OBJECTIVES

23. Apart from the general objectives laid down in Article 2, the Treaty assigned to the common agricultural policy the specific objectives set out in Articles 38, 39 and 110. A number of these objectives were subsequently amplified, in particular at the Paris Summit Conference in October 1972 which laid stress, inter alia, on the regional policy and environmental protection.
24. Since its inception the common agricultural policy has been successfully adjusted within its objectives, to the economic and social development of the Community. Under the Treaty, the objectives pursued are the following:
- (a) the extension of the common market to agriculture and trade in agricultural products (Article 38(1));
  - (b) the increase of agricultural productivity (Article 39(1)(a));
  - (c) the provision of a fair standard of living for the agricultural community (Article 39(1)(b)), including those farming in the less favoured regions;
  - (d) the stabilization of markets (Article 39(1)(c));
  - (e) security of supply (Article 39(1)(d));
  - (f) reasonable prices for consumers (Article 39(1)(e));
  - (g) the harmonious development of world trade (Article 110) and the Community's contribution to the solution of the problem of world famine;
  - (h) the protection of the environment.

In working out the common agricultural policy, account was taken of the particular nature of agricultural activity, which results from the social structure of agriculture and from structural and natural disparities between the various agricultural regions (Article 39(2)(a)).

25. In the following pages, this document will attempt to make a systematic examination of the instruments of the common agricultural policy in the light of each of these objectives to see to what extent they have been achieved in the past and to see what gaps still have to be filled in the future.

A preliminary remark is necessary, however. The basic philosophy of the Title of the Treaty dealing with agriculture consists in the full and complete integration of the agricultural sector in the economy as a whole.

This means that the rules of the common market are applicable to agriculture and that the only exceptions allowed are those which are very clearly justified by the peculiarities of the agricultural sector. These peculiarities explain the difficulties met with in the simultaneous pursuit of all the objectives of the Treaty. On the one hand, the interaction of a very fluctuating and seasonal supply and a very rigid internal demand is a source of short-term instability on agricultural markets. On the other hand, the rapid growth in productivity leads to increased production in the longer term; given that internal demand increases only slowly in relation to population growth, the result over the longer term is a tendency for agricultural prices to decline. Phenomena of this kind, which are peculiar to agricultural production, clearly show that the objectives of the Treaty cannot be achieved in the end without a better combination of the factors of production, implying the need for profound structural reorganization. It should however be realised that the common agricultural policy - being a sectoral policy - cannot on its own solve all the economic and social problems with which agriculture is faced. To solve these problems, the active support of other policies - such as the regional and social policies - remains indispensable.

#### CHAPTER I: ANALYSIS BY OBJECTIVE

##### (a) The extension of the common market to agriculture

26. This objective does not mean only that the obstacles to the free movement of agricultural products must be removed. More than this, it means that production must be located according to the principle of the optimum allocation of resources and the need for specialization foreseen in Article 43 of the Treaty. Accordingly, it implies that, in the context of the creation of a large market including for example northern regions and Mediterranean regions, there should be a division of labour reflecting the comparative advantages of such widely differing areas.

27. It has to be admitted that the instruments used by the Common Agricultural Policy have only partially achieved this objective. It is true that the rate of increase in intra-community trade in agricultural products has been, since 1963, higher (409%) than that of the trade in "all products" (335%). The proportion of intra-community exports represented by agricultural products covered by common rules increased considerably between 1963 and 1973 for Germany (from 4.6 to 13.5%), France (from 27.7 to 33.3%) and the BLEU (from 11.6 to 13.3%), while it decreased considerably in Italy (from 16.1 to 9.0%) and the Netherlands (from 40.0 to 30.6%). It is also true that the relative importance of the various national agricultural sectors in Community agriculture has changed since the creation of the common agricultural market; while remaining stable in Germany (25.8%), it has decreased slightly in France (from 34.7 to 34.3%) but more sharply in Italy (from 27.0 to 25.4%); in contrast, it has increased in Belgium (from 4.5 to 5.1%) and has increased very sharply in the Netherlands (from 7.7 to 9.2%).
28. The analyse carried out in respect of individual products does not, however, always confirm the trend towards the relocation of production within the common market on the basis of the requirements of an improved division of labour. A certain amount of rigidity can be seen in the regional location of certain major agricultural products, particularly crops which benefit from an effective guarantee and protection system which is sometimes accompanied by machinery which may constitute an obstacle to the process of specialization. In contrast, it appears that the location of the production of eggs and poultry, which is independent of the nature of the land, has moved progressively towards the areas of consumption both in Northern Europe and in the South. At present, however, the studies that have been made at regional level are insufficient for valid conclusions to be drawn on this matter.
29. Some serious obstacles remain which are capable of restricting not only the free movement of agricultural products (where there are no barriers of any sort) but also the regional specialization of agricultural production. As examples may be cited certain inadequate price ratios, e.g., between common wheat and the secondary cereals, imbalances in external protection, e.g., between two similar sectors such as animal and vegetable oils and fats, and support prices fixed above the level which ensures the structural balance of the market.

In addition, one may note a certain rigidity in production which, in the absence of a genuine Community socio-structural policy, accompanies the structural rigidity in the less-developed regions.

30. The most serious obstacle to the unity of the common agricultural market is the existence of monetary compensatory amounts, the effect of which is the reintroduction of different price levels within the Community. When this mechanism is applied, the farmer benefits and the consumer is penalized in the countries which revalue their currencies, and the situation is reversed in the countries with downward floating currencies. This problem which itself gives rise to distortions of competition within the agricultural sector is considerably aggravated by the fact that since 1969 certain currencies such as the French franc, the lira and the pound sterling have been devalued in relation to the German mark by an amount (between 27 and 40%) that is far in excess of the devaluation that would have resulted from the difference in inflation rates alone; in contrast, the exchange rates of the currencies of the countries in the "snake" (Benelux and Denmark) have been tied more closely to the German mark.
31. In the case of Germany, the mechanism of monetary compensatory amounts tends to produce further trade surpluses and presents an obstacle to the optimum allocation of resources within the agricultural sector and between agriculture and other sectors. In the case of countries with downward floating currencies, this mechanism has the opposite effect.
32. Monetary compensatory amounts have proved to be a useful instrument for cushioning the short-term effects of changes in exchange rates. But as far as their structural effects are concerned, they have proved to be incompatible with the basic principles of the common agricultural market.
33. The free movement of goods has served to underline the effects of technical barriers, which are particularly numerous in agriculture. In addition, there are the measures adopted by Member States which constitute infringements of Community rules and which the Commission has endeavoured to check by means of investigations and action under the established procedures. Such action cannot solve all the problems on its own and harmonization has been the tool most used. A cursory



assessment shows that the results obtained are far from negligible in a number of sectors (seeds and seedlings, the veterinary sector, animal feedingstuffs) but that overall they are clearly insufficient.

34. The establishment of the common agricultural market has been impeded by distortions of competition, the effects of which extend to both the free movement of goods and the optimum allocation of resources. The competitive position of farms can be affected by factors connected with the structures of related sectors and especially by the influence exerted by the public authorities on costs via the measures they adopt in the form of laws, regulations and administrative action. These measures may vary considerably from one country to another and, because of these differences, it is impossible to make an exhaustive comparison. However, it is probable that, taken overall, such measures to some extent balance each other out.

(b) The increase of productivity

35. Article 39(1)(a) states that the first objective of the Common Agricultural Policy is "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".
36. The increase in yields has been greater in recent years in the crop sectors (cereals: + 4% per annum) than in the livestock sectors (milk: + 0.7% per annum). It might appear unwise to attempt to determine the extent to which these increases may be ascribed to the existence of the Community, but they may be justly attributed, at least in part, to the creation of a large market; this allows competition to operate freely, which in turn promotes technical progress when accompanied by rules to ensure fair play, and facilitates the spread of technical knowhow. It must be pointed out however that competition has as yet been very imperfectly achieved and that, as far as research and development are concerned, it was only in 1974 that the first decisions on Community coordination were adopted.

37. To seek to attain the objective of improved productivity solely by the operation of market and pricing policies is not only vain but, in the last analysis, involves a contradiction, for, in order to support incomes, it is necessary to fix prices at a high enough level to provide a living for the marginal farms. Productivity on these farms is low since they are too small to use an optimum combination of production factors. Thus, action is necessary in respect of the factors of production themselves, and the Commission has always attached priority importance to this action (cf. the document of 30 June 1960 which also formed part of the document "Agriculture 1980" and was finally implemented under the socio-structural directives of 1972).
38. The progress recorded in labour productivity (GDP per person employed) was greater in agriculture in the original community than in industry. Between 1961 and 1971, the productivity index rose from 100 to 188 in agriculture and from 100 to 166 in industry. However, this remarkable increase in labour productivity was possible principally as a result of the departure from the land of 5.5 million farmers over this ten-year period. From the economic standpoint, these departures have a doubly beneficial effect on productivity; firstly, they increase the land/man ratio and, secondly, it can be assumed that it is the marginal farms that disappear first.
39. The Directive on the modernization of farms, by encouraging the keeping of accounts, by the stimulus given to the execution of farm development plans and by the preferential system of reallocation of land released, should have a very positive effect on productivity, as also the measures provided for in the directive concerning the improvement of the farming knowledge of those engaged, or intending to engage, in agriculture.
40. However, the increases in productivity which are recognized as necessary for overall economic growth and which are induced through implementation of the Common Agricultural Policy may give rise to difficulties in the attainment of other objectives:
  - (i) the increases in productivity often give rise to increases in production which are liable to disturb the equilibrium in certain markets. Therefore, any action to promote increases in productivity

must be accompanied by action to control production, in particular by influencing the factors of production;

- (ii) increases in productivity are generally the result of a significant increase in inputs (cattle feed, fertilizers, pesticides, machines) some of which (such as machines) can be amortized only over a long period.
- (iii) thus, increases in productivity also greatly increase the vulnerability of agriculture to short-term fluctuations in the economy as a whole or in international trade (soya, fertilizers) which it cannot pass on to the next links in the economic chain.
- (iv) increases in productivity obtained by the use of certain products (pesticides; fertilizers) may increase pollution and endanger certain ecological balances.

(c) The provision of a fair standard of living

41. Article 39 (1)(b) of the Treaty is worded as follows: "thus (i.e. by increasing agricultural productivity) to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture".

The Treaty does not define "a fair standard of living"; in Article 4 of Directive 72/159/EEC, however, the Council has defined a comparable income in agriculture as "the average gross wage for a non-agricultural worker" in the region in question.

42. The situation as regards agricultural incomes exhibits great diversity. Apart from the year-to-year differences which are characteristic of the farming profession, differences in income are observed between Member States, between regions of the same Member States, between regions of the Community (the difference can vary in the ratio of 1 to 5 among the 55 regions considered in the original Community), between farms of the same size within the same Member State (a difference of more than 50% was recorded between farms engaging in general agriculture and those engaging in stock rearing) and between farms of

the same type but of a different size (the difference ranges from one to three between farms of five to ten ha and those of more than 50 ha). Furthermore, there is a difference which varies according to Member State from 10% to almost two-thirds between the net added value per person employed in agriculture and in the other sectors of the economy.

43. Agricultural incomes increased between 1964 and 1973, but their rate of increase has at times been slightly lower than that of the other sectors of the economy, particularly in Germany, France and Italy. With regard to regional disparities, the difference in incomes in absolute terms has widened in each of the Member States although the dispersion decreased in three Member States. It has to be admitted that the beneficial effects on farm incomes of the common agricultural policy have been felt to a differing degree in each region, to the detriment of those with weak farming structures. This trend raises particular problems, since the regions concerned are generally those already experiencing difficulties in relation to their overall economic structures, and consequently offering few alternative occupations. If one seeks to view the problem from the standpoint of individual farms, the findings of the Farm Accountancy Data Network are too recent to provide any information concerning farms for the initial stage of the implementation of the common agricultural policy; it may be said, however, that the introduction of a large European market increased productivity, especially on large farms, and, consequently, widened the gap between the incomes of large and small farms; this helps to explain the decrease in the number of small farms (between 1960 and 1970 almost 1.5 million farms of 1 to 20 ha disappeared in the original Community).
44. Although hourly wages are lower in agriculture than in the other economic sectors, they have at times increased more quickly than industrial hourly wages, thus reducing the disparity between the two sectors. Contractual hourly wages still differ among Member States (Germany and Benelux on the one hand and France and Italy on the other). Lastly, it should be pointed out that opportunities for farmers to obtain general and vocational training - and thus social advancement - are far from satisfactory.
45. The incomes of persons engaged in agriculture are also affected by factors which are not directly linked with the process of agricultural production. In 1966/67 about 27% of farmers received non-agricultural income. The influence of direct and indirect taxation is also important, as is that of social security schemes. As to the latter, the disparities between Member States mean that agricultural income is differently affected from one Member State to another, either in terms of social security protection, which in all Member States affords less coverage to farmers than to those

in other economic sectors (industry and commerce) or as regards transfers from other sectors of activity to agriculture, the proportion which farmers' contributions bear to receipts ranging from about 10% in Italy to almost 90% in the Netherlands.

46. A description of the various factors likely to affect agricultural incomes is sufficient to demonstrate that a large number of these factors cannot be directly controlled by the common agricultural policy. It has been consistently stated that a prices policy is the main instrument of an incomes policy. This instrument has two main limitations, however: the necessary equilibrium of markets and the considerable structural differences in agriculture in the Community.

(d) Market stability

47. Article 39(1)(c) specifies that one of the objectives of the common agricultural policy shall be "to stabilize markets". **The considerable and scarcely predictable variations in the volume of agricultural supply, in contrast to the rigidity of demand, present an obstacle to the achievement of this goal. As regards animal production, the production process rules out any rapid adjustments to market trends.**
48. **Between 1968 and 1974, however, the monthly variation in market prices during the year was much less in the Community than on the world market or even on the United States market. While the monthly prices for common wheat varied by only 3% in the EEC, this figure was 11% on the world market and 13% in the United States. The connection between the degree of stability of the short-term market and the degree of intervention through the common agricultural policy is demonstrated by the fact that those markets in agricultural products which were subject to a price support system (common wheat, butter, bovine animals) were more stable than the markets in agricultural products which were subject to a supplementary aid system (durum wheat, olive oil) or simply to external protection (eggs, poultrymeat).**

49. The common agricultural policy established support prices accompanied by intervention measures for a number of products, while protecting agriculture in the Community from the fluctuations on the international market by means of a series of variable levies. It maintained this stability, in normal circumstances, by a policy of phased supply (monthly increases, storage), disposal of surpluses (refunds, denaturing) or, conversely, increased supply (imports of beef/veal and sugar) and in time of crisis by drastic actions ranging from the prohibition of imports or exports to the withdrawal from the market of a certain proportion of production or even a cut-back in the factors of production. Mention should also be made here of the efforts made to urge producers to help in maintaining market stability, particularly through producer organizations (fruit and vegetables, fishery products).
50. Although the methods applied to stabilize the market have in general been successful in offsetting short-term fluctuations, the stability of markets in the short-term cannot always be complete, for, like any economic activity, agriculture is affected by the usual variations resulting from the free play of supply and demand and inherent in farming are certain instabilities which cannot be altogether countered. Moreover, 28% of the value of final agricultural production in the Community is not governed by a market organization of the "price support" type. Short-term stability can either be the beginning of long-term stability or so encourage production that structural surpluses are created which, in themselves, could lead to long-term market instability.

(e) The security of supply

51. Article 39(1)(d) includes among the objectives of the common agricultural policy "to assure the availability of supplies", but it does not specify the instrument or instruments for assuring such availability. Possible instruments include an increase in the degree of self-sufficiency, an intensive storage policy and a stable short- or long-term import policy. Experience in recent years has shown that an import policy generally works well as an instrument in normal times but, in time of crisis, the fulfilment of commercial contractual obligations tends not to be treated as an absolute priority.
  
52. Since 1959/60, self-sufficiency rates have increased for most agricultural products subject to the common organization of markets, in particular for sugar, butter and cereals. This represents some progress in the security of supply. On the other hand, the dependence of the EEC upon other countries for its supply of oilcake, in particular soya and fish-meal, has greatly increased. This problem is all the more serious in that it has not been possible to achieve diversification in the sources of supply, another factor making for security of supply. Although it has been possible to achieve a slight degree of diversification for soya, this has been offset by an increase in imports of starch (maize) residues, with the result that the EEC continues to depend on a single supplier for 62% of its supplies of oil seeds and fruits, oilcake and starch residues.
  
53. In the present situation, the security of supply is fairly well ensured for vital products required for human consumption. The dependence of the EEC upon other countries for products required for animal feeding, other than cereals, is, however, about 80% for protein-rich concentrates, and almost 50% for maize. This dependence is of a technological nature and results from the

development of production not dependent on land (pignest, eggs, poultrymeat). If, by some chance, it were no longer possible to guarantee supplies to the EEC on the same conditions as at present (both as regards volume and price) then the pattern of feeding could be endangered in the short term; in the long term this could to a certain extent lead firstly to a return to more traditional methods of animal production and secondly to a more rapid increase in the use of synthetic feedingstuffs. This latter development would in addition cause a shift in dependence at the level of human nutrition, since under present technological conditions these synthetic products are largely soya-based.

(f) Reasonable prices for consumers

54. According to Article 39(1)(e) of the Treaty one of the objectives of the common agricultural policy is "to ensure that supplies reach consumers at reasonable prices". The Treaty does not, however, define "reasonable prices".

55. Quantitative analysis shows that:

- the effect of changes in the common agricultural prices on the general consumer price index is often overestimated. Purchases of foodstuffs account for 26% of total consumer expenditure by households and this percentage has been falling steadily. Food prices to the consumer consist of 3 elements: the distribution component, the industrial component and the agricultural component, although the latter has been decreasing in relation to the first two for some time and now only represents slightly more than a third of the total. If a 10% increase in farm prices were entirely passed on to the consumer, which is not the case at present, the automatic effect of a 10% increase in the common agricultural prices would be a rise of about 1.9% in total household expenditure on consumer goods.

At a time of unprecedented increases in world prices, the common agricultural policy has proved to be a stabilising factor on most food prices rather than a source of inflation. Thus, the 1974 increase in consumer prices for foodstuffs was 10.4% in the original Community, 14.6% in the United States and 29.0% in Japan.

- although there is a certain correlation between the trend of production prices and that of consumer prices, the extent of the two trends is not the same; between 1967 and 1973 the price of bread in France rose by 143% while the market price of common wheat rose by only 28%, which moreover in real terms represents a fall in price;



- sometimes, indeed, a time lag in trends has led to a fall in production prices and a rise in retail prices (beef and veal);
  - whereas production prices appear to settle at comparable levels from one Member State to another variations can be observed both between trading margins for foodstuffs within one Member State and also between trading margins for the same product from one Member State to another. These margins also vary in the short and medium term and have tended to increase throughout the period 1973/74;
  - supplies to consumers have been ensured on improved terms in respect of products for which agricultural producer groupings and contractual arrangements are in operation; it must be said, however, that not enough effort has been made along these lines.
  - in view of the rigidity of demand an interruption of supplies brings about a rapid rise in consumer prices; on the other hand, production surpluses do not yet benefit the consumer sufficiently owing to the intervention system and the excessive rigidity of distribution systems;
56. Any assessment of the effects of the common agricultural policy on the level of consumer prices must be based on long-term developments and a thorough knowledge of the facts. When world market prices are lower than Community prices, it is difficult to explain why the consumer cannot receive the benefit of those lower prices while home produce is being exported sometimes at considerable expense. On the other hand, when world prices are high, as they have been in recent years, it is also difficult to explain the benefits conferred by the common agricultural policy.

Lastly, when high prices are falling back to a more normal level, this drop is not automatically reflected in consumer prices, since marketing margins are slow to increase.

(g) The harmonious development of world trade

57. Article 110 is worded as follows:

"By establishing a customs union between themselves Member States aim to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers.

The common commercial policy shall take into account the favourable effect which the abolition of customs duties between Member States may have on the increase in the competitive strength of undertakings in these States."

In essence, therefore, Article 110 contains one objective: the harmonious development of world trade, and two instruments: the progressive abolition of restrictions on international trade and the lowering of customs barriers. The common commercial policy and the common agricultural policy may, in their implementation, conflict with each other from time to time. It is

necessary, therefore, to ascertain how far the aims of Article 39 and the objectives of Article 110 have been reconciled.

58. Quantitative analysis shows that, between 1963 and 1972 in the original Community,
- the index figure for intracommunity trade in agricultural products governed by common rules rose from 100 to 435, in accordance with the acceleration effect which is characteristic of economic integration; at the same time, however, the index figure for imports from non-member countries rose from 100 to 150 and that for exports to non-member countries rose from 100 to 200, thus invalidating fears that integration could have an autarchic effect, for over the same period the index period for world trade in agricultural products, leaving aside intra-Community trade, rose from 100 to 159 (in 1972);
  - the percentage of world trade accounted for by agricultural products and foodstuffs has decreased; the percentage accounted for by such products in Community trade with non-member countries (imports and exports), however, has shown much less of a decrease than at world level;
  - the proportion of imports from non-member countries accounted for by agricultural products and foodstuffs, expressed as a percentage of world imports, has dropped from 22.5% to 21%; that of exports to non-member countries has risen from 6.4% to 7.6%, which represents little difference in terms of world trade.

59. Quantitative analysis leads to the conclusion, at least at overall level, that in normal times the implementation of the common agricultural policy has not been at variance with the objectives of Article 110.

This finding is based essentially on the fact that the Community is a net importer of agricultural products and foodstuffs and that its deficit on such trade rose from 7 milliard u.a. in 1963 to 12.4 milliard u.a. in 1973. The stabilizing machinery of the common agricultural policy also plays a very important role on the world market; this stability benefits not only Community producers but also suppliers, at least in normal times. In times of crisis it must be said that the Community, like other trading powers, has tended rather to give priority to its

internal supply; the Community has, however, respected its contractual obligations under GATT and when the Community introduced export levies on cereals, it nevertheless honoured its obligations in respect of food aid.

60. Community imports have, however, appeared to meet residual needs left unsatisfied by internal production, thus insulating the internal market from outside competition. In practice, it has been observed that:

- over the last two years world market prices for numerous products have been higher than those obtained on the Community market and that for such products it would have been against the interests of European consumers to have allowed competition a free rein;
- the common organization of markets has been accompanied by the systematic opening up of markets through the abolition of quotas and measures having equivalent effect;
- the customs duty on certain products (particularly soya) has been zero-rated, at the risk of producing imbalance not only on the market for fats (butter) but also on the market for feed grains;
- through the policy of association and generalized preferences and through the Lomé Convention, the common agricultural policy has opened up Community markets to certain competing products;
- certain market organizations, which are not of the "market support" type, make possible a greater degree of confrontation between the internal and international markets.

It is true, however, that, where market organizations are of the "market support" type, the opening of the market has meant a stabilization of imports and the development of home production with a view to satisfying internal demand; this judgment, valid in general, would however call for qualification on product-by-product analysis.

61. The principal inadequacies affecting external trade in agricultural products are as follows:
- certain difficulties are sometimes caused on the world market by the disposal of surpluses on it;
  - conflict may possibly occur between the objectives of the common agricultural policy and the development aid policy, for example where an increase in certain types of internal production reduces the need for imports from developing countries; this seems improbable, however, when it is borne in mind that the 46 countries which are signatories to the Lomé Convention have been offered preferential treatment for most of their products;
  - the need for greater diversification of sources of supply in order to guarantee a sure supply of certain products, especially high-protein products;
  - the need for accurate methods of analysis and forecasting becomes increasingly obvious if a medium-term policy on international trade is to be followed, but such a policy also requires international cooperation to introduce a measure of order into the more erratic international markets.
62. The Community's contribution to the solution of the world problem of hunger is not mentioned explicitly among the objectives of Article 110. It should be pointed out, however, that from 1968 to 1974 total food aid from the Community as such amounted to 547 million u.a. in actual payments and that in 1974, out of a total commitment of 227 million u.a., 218 million u.a. were actually paid out, including 141 million u.a. in the form of cereals, 39 million u.a. as dried milk and 36 million u.a. as butteroil. The common agricultural policy can thus make a considerable contribution towards the solution of the problem of hunger, provided that this is part of a long-term development aid policy, such as has been proposed to the Council by the Commission.

(h) The protection of the environment

63. The agricultural policy must also take account of the direct connection which exists between agriculture and the problems of the protection and the improvement of the environment.

Through their activities farmers already fulfil the useful functions of maintaining the soil and the landscape. For this reason it is advisable to keep up a minimum of agricultural activity in areas where the countryside needs to be maintained from an ecological point of view. This aim can be achieved either by means of direct subsidies to encourage farmers to farm in a given area, or by the creation of new activities (connected with tourism for example) which can provide additional income or new jobs for some farmers.

Under the first heading comes the Directive on hill farming and farming in certain other less favoured areas which should in addition help to preserve the historical and cultural heritage of farm buildings and landscapes which are characteristic of these areas. The draft Directive on forestry measures could also represent a worthwhile contribution by the Community towards the improvement of the natural environment. At the same time, agriculture can also have certain unfavourable effects on the natural environment. In particular efforts should be made to mitigate the dangerous consequences of certain modern production techniques, for example cultivation methods which impoverish the soil or alter its properties, the intensive use of certain fertilizers, the excessive use of pesticides or intensive animal production.

CHAPTER II: THE BUDGETARY COST OF APPLYING THE INSTRUMENTS OF THE POLICY

64. Basically it is the rapid increase in agricultural expenditure and the still preponderant share of the Community budget taken by agriculture which is seized on when the question of the budgetary cost of the common agricultural policy is raised. A further subject of criticism is the discrepancy between estimates and actual costs principally with reference to the supplementary budgets required by the Guarantee Section and the putting to reserve of Guidance Section appropriations. Finally the supposed extent of frauds and irregularities is a fertile field for surmise and complaint.

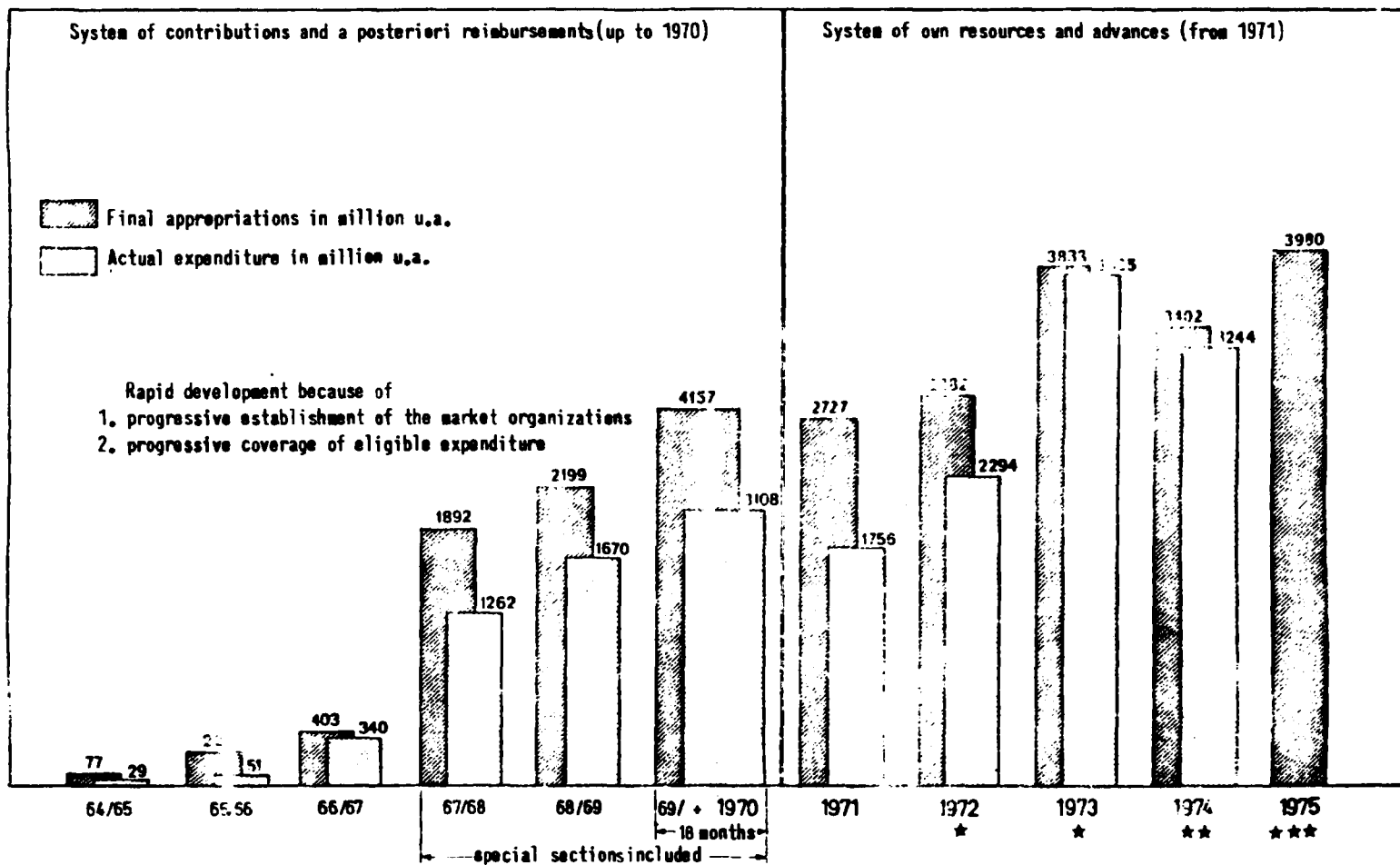
(a) Estimate of the actual cost of Community expenditure on agriculture

65. The habit of referring only to appropriations exaggerates the budgetary cost of the common agricultural policy: in fact between 1965 and 1974 the EAGGF used only 68% of its appropriations; appropriations of 21.6 milliard u.a. gave rise to actual expenditure of 14.9 milliard u.a.
66. The main growth of the EAGGF took place between 1965 and 1970. Between 1965 and 1975 the initial appropriations included in the Community budget under the heading of the common agricultural policy rose from 103 million to 4.3 milliard u.a. The rapid increase in expenditure during that period originated largely in the gradual transfer to the Community of the market support expenditure hitherto borne by Member States. This transfer took place in two ways:
1. the gradual establishment of the common organization of markets (cereals in 1962, milk products in 1965, oils and fats in 1967) and the progressive use of the supplementary aid system for various products;
  2. the gradual assumption by the Community budget of expenditure eligible under Guarantee : from one sixth in 1962/63 to 100% at 1 July 1967 (1969 budget).

On the other hand, since 1971, appropriations have tended to stabilize; however considerable variations continue to characterize actual expenditure thus bringing into sharp relief the problem discussed below of discrepancies between estimates and actual expenditure.

67. The financial burden resulting from the common agricultural policy for the Community as a whole and for each Member State in particular can be assessed in familiar economic terms: i.e., the market support expenditure as a proportion of European expenditure on foodstuffs and total agricultural expenditure as a proportion of the Community gross internal product. However, this financial burden is not to be confused with the transfers which take place from consumers to producers and vice-versa.

DEVELOPMENT OF THE GUARANTEE SECTION OF THE EAGGF



EEC DG VI 6/2-7502-12

NB: Size of shaded areas is in proportion to quantities indicated.



Relative magnitude of EAGGF  
expenditure in the individual Community

Years	Expenditure of Guarantee section of the EAGGF as a percentage of expenditure on foodstuffs	Total EAGGF expenditure as percentage of gross internal product
1968	1.73	0.34
1969	2.16	0.40
1970 <sup>1</sup>	3.64	0.65
1971	1.98	0.35
1972 <sup>2</sup>	2.35 <sup>3</sup>	0.40 <sup>3</sup>
1973 <sup>2</sup>	-	0.45 <sup>3,4</sup>

<sup>1</sup>The 1970 financial year covers 18 months.

<sup>2</sup>Financial years adjusted to 12 months.

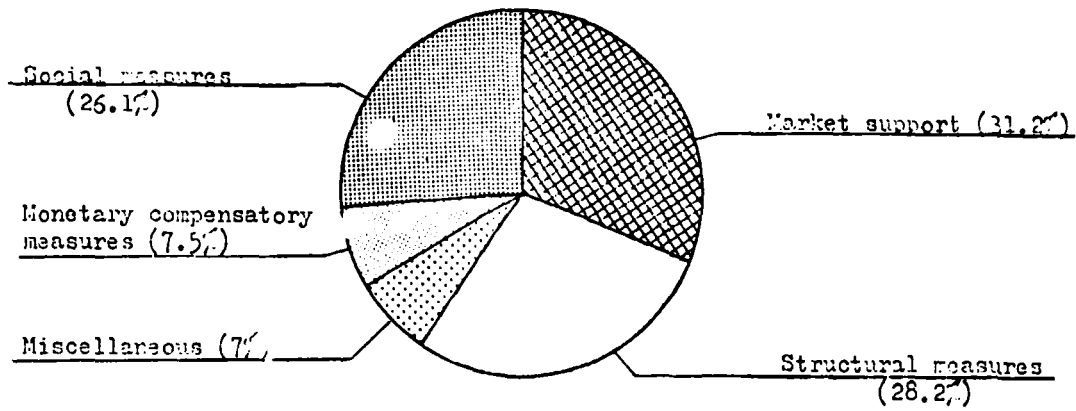
<sup>3</sup>Estimate.

<sup>4</sup>Enlarged Community.

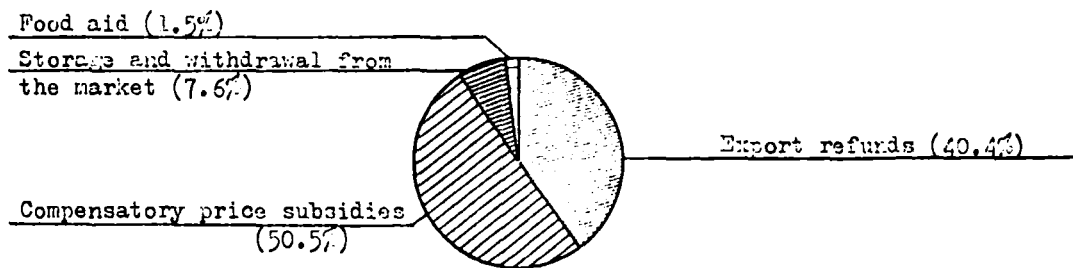
68. Up to the present the greater part of Community resources earmarked for the Common Agricultural Policy was used to support markets. The proportion of structural expenditure represented by appropriations for commitment on Guidance account amounted between 1965 and 1974 to 10.4% of total EAGGF commitments and nearly 80% of it was earmarked for individual projects. The modest share of Community agricultural expenditure taken by Guidance is partly due to the fact that the Community budget finances the whole of the market support policy whereas it only contributes partially - most often 25% - to the financing of structural measures, most of which is borne by national budgets; however, the Council's delays in adopting the Commission's proposals on structural policy have played a decisive role in the slow development of the Guidance section.

NATIONAL AND COMMUNITY PUBLIC EXPENDITURE  
ON AGRICULTURE IN 1973

I. OVERALL TOTAL  
(11.5 milliard u.a.)



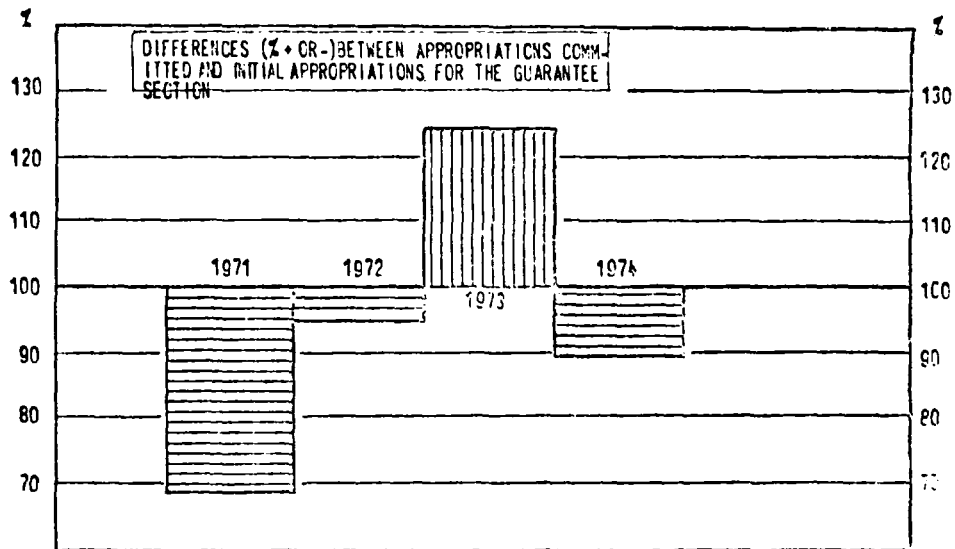
II. EAGGF - GUARANTEE SECTION  
(3.8 milliard u.a.)



The implementation, at present in progress, of the 1972 socio-structural Directives and the implementation of the Directive on hill farming and farming in certain other less favoured areas, open up new vistas and indicate that the structural side of EAGGF will be subject to rapid development.

(b) Differences between actual expenditure and estimates

69. Though substantial, the differences between estimates and actual expenditure recorded during the initial period have no great significance for the future; indeed under the system of budget clearings through contributions which applied until 1970 the method of recording appropriations was totally different from the present method, in use since 1971, of advances offset in part by own resources. The differences observed since then were fairly considerable in 1971 and 1973. In 1972 the budget was spent practically as submitted. In 1974 the overall limit was respected in spite of substantial variations which were reflected in very considerable transfers of appropriations.



70. On the other hand, since 1971 the rate of use of the adjusted appropriations (after transfers and supplementary budgets) has been much higher each year: 83.2% on average against 65.7% up to 1970. Aside from certain circumstantial factors, the financial effects of which were difficult to foresee - in particular the enlargement and monetary developments in 1973, there are certain built-in factors which illustrate the difficulty of agricultural forecasting;

1. Unreliability of agricultural forecasts

It is almost impossible to forecast agricultural production because of the variability of crop areas, labour and yield, the latter alone varying by about 5% for cereals and 2% for milk. Moreover, these variations in production produce still greater variations in expenditure, especially in sectors with structural surpluses: thus an increase of 1% in milk production today would mean additional expenditure of 88 million u.a., or 6.3% of the appropriations for milk products in 1974;

2. obsolescence of the original forecasts in relation to the voted budget as a result of the lengthiness of budget procedure;
3. the absence of any provision concerning price adjustments for the following season;
4. the unpredictability of monetary compensatory amounts;
5. delays in payments by Member States (for example Italy in relation to olive oil and durum wheat).

(c) Fraud and irregularities

71. If the financial effects of fraud are, potentially, unlimited, on the basis of reported cases of fraud discovered up to the present the problem is a more modest one: 14.8 million u.a. between 1971 and March 1974 for the Guarantee Section, of which 9.4 million have been recovered and 5.4 million are expected to be recovered; 0.5 million u.a. for the Guidance Section, of which 0.2 million have been recovered.

In this connection it should be recalled that the Member States - through whose intermediary EAGGF payments are made and the amounts corresponding to own resources are levied - have a major responsibility for the prevention, detection and punishment of fraud.

Pursuant to Regulation 293/72, whose enforcement it is seeking to intensify, the Commission has taken active steps to strengthen the Community anti-fraud machinery. The conclusions reached by the Special Committee of Enquiry have proved exceptionally valuable for the pursuit of this endeavour.

### CHAPTER III: EVALUATION OF THE EFFECTIVENESS OF INSTRUMENTS

#### (a) Principles

72. An analysis of budget expenditure is a necessary basis for assessing the effectiveness of any policy, whether agricultural or other. Nevertheless, it must always be situated in the context of a broader economic evaluation. Since none of the instruments are really specific to the various objectives, in each case the point to be examined is the manner of reconciling the various interests at lowest cost for the human grouping concerned.
73. Interventions to influence market prices lead to net losses for the Community economy as soon as the price bracket chosen as a target diverges from the price at which internal supply and demand would be in balance, bearing in mind the related objectives and the import and export trade situation.

Even where none prices are chosen correctly it is impossible to prevent surpluses or shortages on a limited scale, resulting from the weather conditions or the difficulty of precise market management where considerable numbers of operators are involved; the resulting expenditure is justified, since the results are achieved at minimum cost. Losses only occur when there are sizeable surpluses or shortages, not resulting from incidental causes but from badly chosen prices or an inadequate intervention system - for example, where the length of a production cycle has not been taken into account.

74. Interventions which tend to dissociate farmers receipts from prices paid by consumers falsify economic calculation; they prevent the price system from correctly informing producers of consumer preferences, and consumers of the relative costs of the various products. The use of production

or consumption subsidies cannot be considered low cost solutions in relation to income or living cost objectives except over short periods for the purpose of correcting the effects of accidental surplus situations (meat) or shortages (sugar) in the internal supply of a given product.

75. Production quotas limit competition between producers and therefore tend to enable production to be continued in firms or in regions where costs are higher; the corollary is higher prices for consumers and a bonus for better-situated producers.
76. Income subsidy implies that optimum use is not being made of the factor labour in the farms considered. It can therefore only be justified economically as a provisional solution pending the modernization of the farms or the retraining of farmers for other types of activity. Even if used temporarily and limited to particular cases, it must fulfil certain supplementary conditions:

- the granting of aid must not be linked with specific types of production: so long as the beneficiary continues to practise farming it is preferable that he should concentrate on those products in relation to which - at market prices - his productivity is highest;
- to a certain extent aid could be varied in inverse proportion to the resources acquired by the farm; however, this should not be taken to the point of discouraging attempts at rationalization or at reconversion for other types of activity.

(b) Practices

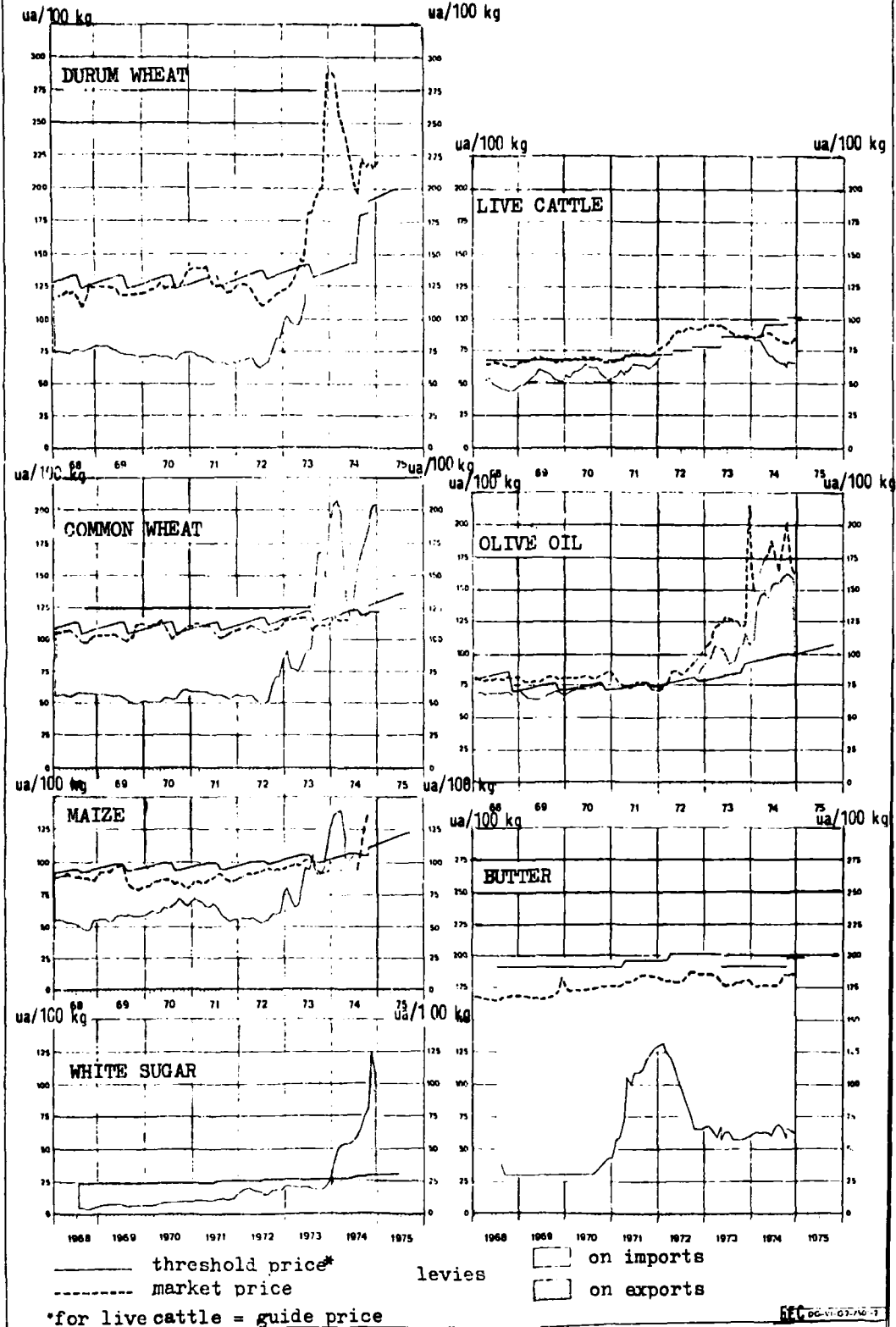
77. In general, agricultural policy has succeeded in ensuring the regularity of supply and relative price stability; but not always at lowest cost. The examples given below suggest that it might in some cases be well to reconsider the manner in which intervention instruments are employed and even, perhaps, the choice of the instruments themselves.

78. Experience between 1968 and 1971 in the milk sector showed that it was possible to reestablish the equilibrium of supply and demand by means of the price policy. The persistence and scale of intervention expenditure in the milk sector (in 1974 the total amount -- about 1.4 milliard u.s. -- probably represented almost 10% of the total value of milk production at target prices) indicates that the target chosen for producer prices was too high to bring stability to the market.
79. The Community's existing intervention system for the beef and veal sector is -- at the most -- able to cushion the effects of relatively minor fluctuations in the internal supply of beef and veal. In view of the length of the production cycle for beef and the narrowness of the international market, it is hardly possible for producers in non-member countries to adjust the volume of their offers to coincide with deficits or surpluses of any size on Community markets. Furthermore, the cost of storing meat is high. The result is that the cost of maintaining a minimum income for producers in periods of substantial surplus is high and that consumer prices are not being kept to acceptable levels during periods of substantial deficit. To reduce these costs, more precise information is needed for evaluating the factors determining supply and demand in this sector, whilst both the range and effective time scale of the instruments of intervention should be expanded.
80. Those sectors in which the Community has deficits should not normally give rise to net budget expenditure. The Community is a net importer of cereals, for example, but in certain periods the cost of refunds and denaturing premiums substantially exceeds receipts from levies. To avoid this loss, it would be advantageous to harmonize the structure of internal production more closely with that of consumption, whilst adjusting the instruments of intervention in such a way that producers can sell the types and qualities of cereals most in demand at higher prices on the internal market.

81. Price increases on world markets in recent years have resulted, in several sectors, in an automatic reduction in the cost of the common agricultural policy. In other sectors - especially olive oil and durum wheat - this has not been the case, since production subsidies are calculated at fixed rates. Consequently, these subsidies have become a form of supplementary income, adding to already high market prices, whereas they were originally intended to protect production and promote consumption of these products in the Community.
  
82. The quota system has the effect of limiting competition between producers. The resulting cost for consumers, however, may vary considerably according to the manner in which the system is managed. Sugar is the only product for which quotas have been introduced under the common agricultural policy. The results of the use of this system may perhaps be summed up as follows: **the Community price** was below the prime costs of marginal producers in regions least suited for sugar production. Consequently, production in these areas declined to some extent, thereby stimulating production in areas more suited to this crop. The Community sugar price was, however, higher (substantially so in certain periods) than the marginal costs of producers in the main areas best suited to sugar production; as a result, the price paid by consumers was higher than it would have been if the regional distribution of sugar production had been closer to the optimum.
  
83. Apart from the question of determining whether the various instruments of the common agricultural policy have been employed at minimum cost to the community as a whole, any assessment of the effectiveness of these instruments must in addition make allowance for the extent to which they have contributed to the achievement of the various objectives of the common agricultural policy.
  
84. Study of the use made of the whole range of instruments available under the common agricultural policy during the first ten years of its existence suggests that the combined effect has been primarily to **achieve market stability and to provide security of supply.**



Threshold prices, levies and internal market prices  
for certain agricultural products



All the instruments of the markets and prices policy, supported by the frontier arrangements and by the free circulation of goods have played their part in serving these objectives. The security of supply has been of benefit to the consumer who has, moreover, had the advantage of a wider range and better quality of products. However, despite their general effectiveness, these instruments have been unable in certain sectors to prevent short-term market imbalance. Nor have they been able to prevent the creation of structural surpluses in the milk products sector.

85. The continuance of market imbalance means that the use made of the various instruments has sometimes hindered the optimum allocation of resources within the Community, which is a major objective of the common market. Indeed, the establishment of an agricultural common market by the pooling of tariffs and the elimination of obstacles to intra-Community trade ought normally to lead to the removal of production to regions and farms having greater comparative advantage. However, in fact it is apparent that the instruments of the common agricultural policy, and the use which has been made of them, have led to the preservation of a certain diversity of production and have not resulted in any marked specialization. The main brakes on the optimum allocation of resources are the following: the failure to introduce in good time an effective structural policy which has led to a non-optimum use of the instrument of common prices (price levels and relationships), the quotas system for sugar, the restrained application of the competition rules and the maintenance of monetary compensatory amounts above the necessary level, the existence of which is the result of the failure to achieve an effective economic and monetary policy.
86. This non-optimum allocation of resources has worked against both the objective of guaranteeing reasonable prices for consumers and the objective of increasing the income of those working in agriculture and has given rise to budgetary expenditure which is often heavy and not well conceived for improving the ratio between costs and profits.

The fixed common prices and the greater stability of market prices favoured investment in agriculture and thus contributed indirectly to the increase of agricultural productivity, particularly on large farms.

The instruments available under the common agricultural policy have, as a whole, had a positive effect on agricultural incomes. It should be noted, however, that the internal income discrepancies have remained very high and in certain regions even threaten to increase. The failure to synchronize the standard instruments of the common agricultural policy with a genuine socio-structural policy and with other policies, in particular in the areas of regional development and social policy, suggests that from the point of view of the objective of improving agricultural incomes the instruments used have not proved sufficiently effective. Only the implementation by all the Member States of an effective socio-structural policy, supported by appropriate regional policies will make it possible to increase to any great extent agricultural productivity in order to ensure a fair standard of living for the agricultural community. These policies will also serve to increase the effectiveness of the various instruments of the markets and prices policy by bringing about a more nearly optimal allocation of resources, since the use of the various instruments of the markets and prices policy have had varying effects on the development of the less favoured regions. The delay in implementing the socio-structural policy suggests that in terms of this objective the instruments of the common agricultural policy have lacked effectiveness.

PART THREE: PROBLEMS AND PROPOSALS FOR IMPROVEMENTS

87. An analysis of the effectiveness of the instruments of the common agricultural policy in relation to the objectives sought shows up a number of gaps and deficiencies. These result either from the inadequacy of the instruments themselves or from ineffective use thereof. Several particularly important problems may be noted:
- (a) problems concerning the equilibrium, both short-term and structural, of certain agricultural markets and the security of supply;
  - (b) problems concerning agricultural incomes, and the disparities in incomes from one region to another, resulting from the failure adequately to increase productivity and the insufficient correlation between policies implemented (for example, price, socio-structural, regional and social policies);
  - (c) the problem of the lost unity of the Community market, caused by monetary compensatory amounts and hindrances such as persistent obstacles to the free movement of certain products or to the specialization of agricultural areas in accordance with their relative advantages;
  - (d) problems concerning the expenditure arising from the common agricultural policy (justifiability of expenditure and budgetary aspects).
88. Continuing the endeavour undertaken in its memorandum of October 1973 on the improvement of the common agricultural policy, the series of improvements the Commission believes to be necessary is given in full below. The improvements appear in the order of the four major problems listed in the preceding paragraph.

CHAPTER I: PROBLEMS CONCERNING THE EQUILIBRIUM OF MARKETS AND THE SECURITY OF SUPPLY

89. The problems of market equilibrium and supply security are closely linked, by reason of the evident interaction of many of the instruments of the common agricultural policy which serve these two objectives. Problems concerning the equilibrium of markets relate either to the short term (~~short-term~~ equilibrium) or the medium and long term (structural equilibrium); furthermore, these problems take a different form according to whether the world market is in a phase of relative abundance or relative shortage.
90. In the short term, the equilibrium of markets can be ensured by continuously adjusting the instruments of market management and by their judicious use in accordance with trends on internal and external markets. In the long term, on the other hand, equilibrium can only be obtained by adapting the structure of supply (production plus imports) to that of demand (consumption plus exports).
91. Given the complexity of actual situations and the wide variety of instruments employed, the across-the-board instruments will first be examined, followed by the general guidelines concerning a number of products and, finally, the specific improvements proposed for the common organization of the principal markets.

(a) Across-the-board instruments

92. While the prices policy must continue to be the principal instrument of incomes policy in agriculture, the Commission believes that the manner in which this policy is implemented must accord with the need to maintain and - in certain cases - reestablish the structural equilibrium of markets.

In this connection, the Commission draws attention to the guidelines to which prominence was given in its memorandum on improvements to the common agricultural policy in October 1973 (paragraph 30). Since the 1972/73 marketing year, the Commission, in preparing its price proposals, has:

- increasingly related the movement of the general level of prices to modernized farms, it being to such farms that the general agricultural price policy must aim to provide an earned income comparable to that obtainable in non-agricultural sectors, allowance being made for an adequate return on invested capital and changes in productivity and in the cost of the means of production employed;
- taken into account the supply and demand situation on each market in pricing each product.

93. However, the results obtained have not always been satisfactory.

Subsequent experience, especially in relation to the price proposals for the 1974/75/76 marketing years, has demonstrated the importance of the annual change in the general level of agricultural prices in relation to the overall balance of agricultural markets. A number of uncertainties, which the Commission intends to reduce to the minimum, are inherent in the "objective method" now employed, due to its complexity. This method yields a general indicator, which the Commission uses in combination with other indicators (market situations, economic trends, etc.) to arrive at its proposals for increases in the general level of agricultural prices consistent with the efforts being made to ensure market equilibrium.

94. If, however, during a period of frequent changes in the state of international markets in agricultural produce, the Community were to be faced with surpluses, the maximum priority would be given to disposing of these surpluses on the internal market. The Commission believes that Community consumers ought to be enabled to obtain more benefit from any surpluses occurring.

The Community already has experience in the ad hoc provision of consumer subsidies of various kinds, either generalized or for certain categories of consumer. In the light of this experience, the Commission believes that more use could with advantage be made of consumer subsidies.

On the financial side, however, such subsidies are inevitably a costly measure. The Community could contribute to the expenditure involved up to an amount equal to that of the cost of disposing of the surplus goods by conventional means. Member States should be authorized, within a Community framework, to supplement the Community contribution.

95. The Community's foreign trade in agricultural produce can also help to stabilize its internal markets and ensure security of supply. In view of the Community's position as the world's largest importer and second largest exporter of agricultural and food products, the instruments of Community policy in this field should be developed and diversified and a rational trade policy consistent with the demands of both internal and international markets should be pursued.
  
96. In this connection, the position taken by the Community in relation to the forthcoming multilateral trade negotiations should be recalled; this consists in promoting the expansion of trade on stable world markets. The means of achieving this include the establishment of stabilization machinery through international agreements covering basic food products.
  
97. The Commission also believes that certain other measures should be taken; for example, it would be of value if Community exporters could carry out longer-term operations, entering into long-term contracts for the supply of certain agricultural products to non-member countries seeking greater security and regularity of supply. The Commission will ensure that this policy, if adopted, is consistent with its position in relation to the multilateral trade negotiations.

98. Improved market management could also help to ensure better market equilibrium. In this respect, in the application of export refunds, the Community will continue to pursue its aims of adjusting their amount to accord more closely with market trends, sharpening competition between exporters (for example, by making freer use of tendering procedures) and of achieving greater stability in the pattern of export trade. As regards imports, the Commission will ensure that the application of the instruments of the common agricultural policy will be consistent with economic realities on the various markets. Recourse to exceptional measures, such as import embargoes, must be avoided as far as possible by following a cautious price policy and improving market forecasting.
99. For the years 1976 onwards, the Commission will propose multiannual food aid commitments to the Council, covering not only cereals (Food Aid Convention) but also other products - for example milk products, thus giving Community food aid greater regularity and making it possible for beneficiaries to use this aid in connection with development projects.
100. Greater transparency of markets, both at a national and regional and at a Community level, together with more thorough and more up-to-date information on market prices, would constitute valuable instruments for the short-term management of markets.
101. To reach a solution to the problems of market equilibrium, supply security and budget forecasting, projections and forecasts of the trends of the principal agricultural markets must be available. Consequently,



the Commission considers it necessary to intensify its work in this field, so that the Community can have at its disposal regularly updated projections, short-term forecasts (up to 18 months) and medium and long-term forecasts (1985). It will take appropriate measures to this end.

102. The number of measures required for the operation of common markets is such as to create an impression of over-complexity on administrations, operators and public opinion alike. The Commission is working to simplify the agricultural regulations, bearing in mind the useful suggestions contained in the German Government's memorandum of 20 June 1974. The Commission feels obliged, however, to draw attention to the limitations of this undertaking; the employment of regulations for all measures relating to the common organization of markets is a factor giving transparency to the Community's action - by virtue of compulsory publication in the Official Journal - and a simplifying factor for those concerned, due to the direct applicability of the system.

103. The Commission has set up an internal working group on which all concerned are represented - in particular, the customs administration - to carry out a thorough examination of criticisms levelled at the agricultural regulations regarding their difficulty of application.

This group, which is already at work, has prepared a systematic inventory of the observations which have been expressed. This work, when completed, will enable the Commission to present a report to the Council during the second quarter of the current year, containing proposals designed to simplify the system.

104. In addition, the Commission is engaged in codifying the legislation in force relating to the common agricultural policy - a major undertaking which will make utilization easier for those concerned. This endeavour is in accordance with the guidelines already laid down by the Commission in the Memorandum of October 1973, acceding to wishes expressed by the Council (Ministers of Justice) in its Resolution of 26 November 1974.

105. As already pointed out in its Memorandum of October 1973 (paragraph 27), the Commission believes that several measures of general application, or applicable to certain products only, are particularly well adapted for achieving better equilibrium on the markets:

- the establishment of better price relationships between agricultural products;
- the assumption by farmers of some degree of financial responsibility for structural surpluses and the improvement of the machinery for consultation between the commercial and agricultural organizations concerned;
- making fuller use of the storage mechanism, through the implementation of an active storage policy for cereals, sugar and skimmed milk powder which will enable the Community to ensure security of supply for consumers on a permanent basis, to absorb cyclical fluctuations in production and to fulfil international obligations; such a policy would not be concerned with stocks arising from structural surpluses.

(b) Improvements concerning various agricultural markets

106. The milk sector is at present the only one with a persistent structural production surplus in relation to possible outlets. It is also the one that gives rise to the highest budget expenditure. In these circumstances, the Commission believes that appropriate steps should be taken to reestablish the structural equilibrium of the market in milk and milk products. In particular, price policy should be conducted with this end in view. The principle that producers should share the responsibility for surpluses could be applied in this case. The Commission believes that an appropriate means to this end would be to apply the target and intervention prices fixed for the marketing year in two stages. The first stage would be applied at the beginning of the year and the second during the autumn; in this way allowance could be made for differences in production conditions in the summer and winter seasons, greater quantities of animal feed being needed in winter.

At the same time, price policy could be adapted more closely to market trends. The second stage in the application of the prices would be based solely on the achievement of certain quantitative norms determined in advance on proposals from the Commission (intervention purchases, trends of production and consumption, and other developments on the market). In the event of market imbalances, producer and consumer price rises in winter could thus be curbed, changing the ratio between the price of milk and the price of feedingstuffs, and reducing the incentive to production. The price resulting from the operation of this system would form the basis for determining prices for the following year.

In the event that market imbalances still persisted at the end of the marketing year, it would be possible to prolong the latter up to 30 April at the latest.

After consulting the organizations concerned with the milk trade, the Commission will place proposals before the Council relating to the establishment of the criteria and procedures necessary to implement this policy line in time for the 1976/77 marketing year.

107. Beef and veal

Following an examination of the problems encountered in this sector, the Commission has come to the conclusion that, on economic grounds, the following Community measures are required:

- intervention instruments should be made more flexible;
- in applying the various measures, allowance should be made for differences between types of beef production; i.e. beef derived from dairy cattle, beef derived from beef cattle, and beef derived from cattle fattened on battery systems (feedlots);
- the existing system should be supplemented by action to prevent largescale fluctuations on the beef and veal market from getting under way. Such action should be begun two years in advance, when farmers make their production decisions;

- a permanent information system, fast and accurate, on the state of the cattle population (breed, numbers, age, purpose), trade with non-member countries, the meat stock situation and the probable influence of milk products policy on the livestock situation, should be developed. In the beef and veal sector, the Commission believes that account should be taken of results obtained following the decisions taken by the Council in respect of the 1975/76 marketing years;

108. Cereals

The Commission would first of all reiterate the opinions which it expressed in its Memorandum of October 1973 (paragraph 49), inasmuch as the Council has failed, as yet, to take any decision on the matter.

In order to create a better balance between the various cereals in terms of real market requirements, the Community should establish a better price ratio between them. The objective would be to achieve a common price level which would take more account of the food value of the different cereals. In this way, the Community would be able to abolish once and for all the common wheat denaturing premium and would be in a better position to take into account the interests of its foreign trading partners.

The Commission repeats its view as to the importance of introducing a complete and coherent storage policy based on common wheat in the light of the Community market's regular supply requirements and possible storage obligations at international level.

With reference to the facts noted in Part II of this communication, the Commission may, at a future time, submit proposals to the Council with a view to improving the common organization of markets in the light of developments in the economic situation in the durum wheat sector.

109. Olive oil

The Commission recalls the opinion it expressed in its Memorandum of October 1973 (paragraph 64).

With reference to the facts noted in Part II of this communication, the Commission may, at a future time, submit proposals to the Council with a view to improving the common organization of the markets in the light of developments in the economic situation in this sector and experience acquired from the operation of the existing system.

110. Wine

The Commission recalls the opinion it expressed in its Memorandum of October 1973 (paragraph 64). In addition, it would refer to its proposals for amendments to the basic regulations governing the market in wine, (EEC) Nos 816/70 and 817/70 (COM(74)1785 final, 4 November 1974).

In view of the fact that a structural surplus situation appears to be developing, the Commission doubts the adequacy of the intervention machinery in this sector. As a remedial measure, the Commission considers that steps could usefully be taken, through the Management Committee procedure, to arrange that decisions on wine distilling are taken at the start of the marketing year. Distilling operations should not, however, be allowed to commence until availabilities (production and stocks) are considerably in excess of foreseeable requirements. The distilling premium should be fixed at a figure below the support price, to avoid providing an incentive to production; a relatively low price for distilled wine could be regarded as an assertion of the principle that the producers should share the financial responsibility.

Wine distilling cannot by itself resolve the problem of the imbalance on the wine market, as it merely shifts the problem from the wine sector to the alcohol sector. The Commission considers that the adoption of provisions aimed at limiting the planting of vineyards, allowing for the qualitative and regional problems characteristic of this sector, are a necessary part of the Community's effort to ensure a balanced market and improve product quality in this sector.

Lastly, the Commission feels that the conclusion of long-term storage contracts would facilitate the transition from one marketing year to the next; in this way the effect on prices of variations in production would be alleviated.

In view of the considerable difficulties at present being experienced in relation to the quality wines p.s.r., stricter standards should be applied in this sector.

111. Sugar

Sugar is the only sector where the common agricultural policy operates a quota and multiple-price system, which has recently been continued for the period 1975/76-1979/80. Since the system is due to be reviewed in several years' time, the Commission feels that a full study should now be made of alternative ways of organizing this sector, with a view to avoiding the drawbacks inherent in the quota system whilst more effectively ensuring free competition at the processing stage.

112. As regards the common organization of the markets in other agricultural products (mutton and lamb, cereals, oil and protein plants, potatoes), the Commission refers to the views it expressed in the memorandum of October 1973 (paragraphs 44, 45, 51-62, 65, 66).

CHAPTER II: PROBLEMS RELATING TO PRODUCTIVITY AND FARM INCOMES

113. Although the markets and prices policy is an essential instrument for farm incomes, it cannot, on its own, solve the income and standard-of-living problems associated with Community agriculture. On the contrary, the disparities in farm incomes might well be aggravated if a markets and prices policy were to be implemented on its own, unaccompanied by a dynamic socio-structural policy and effective regional and social policies.
114. The Commission would point out, in this connection, that it is the Treaty itself which stipulates that one of the objectives of the common agricultural policy should be to guarantee a reasonable standard of living for farmers by increasing agricultural productivity. In the first instance, therefore, the means of achieving this objective would be through the effective and energetic application of the socio-structural policy.
115. Nevertheless, the various instruments of the common agricultural policy, whether they be the markets and prices policy or the socio-structural policy, would be inadequate on their own. A solution to the problems associated with farm incomes and the disparity of incomes in the agricultural sector calls for the implementation of a coherent set of Community measures and, in particular, requires the continuous correlation of the common

agricultural policy and the regional and social policies. This correlation must involve all of the instruments employed, including the financial instruments (EAGGF, Social Fund, Regional Development Fund).

116. Accordingly, the Commission repeats what was said in its Memorandum of October 1973 (paragraphs 67-96). All the analyses so far undertaken point to the decisive importance, for increasing both productivity and the incomes of persons engaged in farming, of intensifying the work of restructuring agriculture and promoting vocational training. The Commission stresses the need for the complete and immediate implementation of Directives 159, 160 and 161 in all Member States. It believes that the implementation of the Directive on hill-farming and farming in certain less favoured areas is a basic element in the socio-structural policy. Finally, the Commission would urge the Council to adopt without delay the proposals already before it (producer groups, young farmers, forestry measures).

117. In addition, the Commission will shortly forward to the Council a proposal for common measures with regard to the improvement and marketing of agricultural products.

118. The Commission will consider the advisability of introducing improvements to the socio-structural policy in the light of experience of the effective application of the Directives in all Member States.

119. Lastly, the Commission is continuing to give thought to two specifically socio-structural areas:

- the problem of farmers and farm workers with insufficient training, which is often the cause of low agricultural productivity and ipso facto of inadequate earnings; the Commission intends to propose a strengthening and intensification of Community measures in this area;

- the problem of disparities in farm incomes.

120. It should be recalled that in the context of the common agricultural policy, incomes policy is based either on price policy alone or on price policy combined with subsidies on specific products (deficiency payments). This instrument has found a place in several market organizations in relation to products for which the self-sufficiency rate is low or where protection against outside competition is low as a result of the rules of the GATT (for example, oilseeds and tobacco).
121. Direct income subsidies have been granted, in the context of the common agricultural policy, for regions covered by the Council Directive on hill-farming and farming in certain other less-favoured areas.
122. However, direct income subsidies could prove to be necessary in situations other than those already covered. The Commission has already recognized this in proposing to the Council that subsidies should be granted for young farmers established for less than five years and carrying out development plans.

In addition, direct subsidies might also be granted, in economic circumstances resulting in employment problems, for farmers who - because of their age - are not yet eligible for the annuity provided for in Council Directive 72/160/EEC, or in certain regions experiencing particular structural difficulties in the form of a reorganization premium for farmers who give up certain types of farming.

It may be that the Commission will at some later date conclude that direct subsidies of a temporary nature, within the limits of reasonable budgetary expenditure, are necessary in other specific and clearly defined cases, especially where market and price policy measures together with the socio-structural and regional policies do not enable satisfactory results to be obtained within a reasonable time. For the moment all efforts must - as a matter of priority - be concentrated on the introduction, throughout the Community, of the socio-structural measures decided in 1972 (Directives 72/159/EEC, 72/160/EEC and 72/161/EEC) and in 1974 (Directive on hill-farming and farming in certain other less-favoured areas) or still to be adopted (proposal for a directive on special assistance for young farmers established for less than five years and carrying out a development plan).



CHAPTER III: PROBLEMS CONCERNING THE UNITY OF THE MARKET

123. The Commission recalls that the reestablishment of a single market must continue to be a fundamental objective of the common agricultural policy (see paragraph 24 of the memorandum of October 1973). The following improvements and other measures are designed to promote the achievement of this objective during the years to come and concern the monetary compensatory amounts, the application of rules of competition contained in the Treaty and the various technical and administrative barriers.
- (a) Monetary compensatory amounts
124. The monetary compensatory amounts have served as a transitional instrument to maintain the machinery of the common agricultural policy in operation whilst the international monetary system, together with the Community system, was changing from a fixed exchange rate system to a floating exchange rate system.
125. For the future, the Commission cannot accept the application of monetary compensatory amounts insofar as they constitute factors disrupting the unity of the agricultural market and generating distortions of competition. On the other hand, the compensatory amounts should continue to serve as instruments to prevent short-term fluctuations in exchange rates from instantaneously affecting agricultural prices expressed in national currencies. To ensure that the monetary compensatory amounts fulfil this second role within acceptable limits, the rules and procedures by which appropriate changes in these amounts are determined should be laid down.

(b) Distortion of competition

126. The Commission notes that distortions of competition resulting from the action both of Member States and of individual enterprises continue to encumber the common market in agriculture. In certain sectors (petroleum products, fertilizers), these distortions have become more acute as a result of the recent energy crisis.
127. As regards State aid, the Commission intends to define a framework for agricultural aid permitting it to concentrate on those forms of aid which are outside that framework and are thus liable to raise major problems in relation to competition, intra-Community trade and the development of Community farm structures. At the same time, where aid measures are within the framework, their supervision by the Commission could be simplified; under Article 94 of the Treaty, the obligation to inform the Commission in advance of plans to grant such aid, laid down in Article 93(3), could even be dispensed with. Such a framework for agricultural aid might comprise the following elements:

- definitions of the categories of aid which cannot be considered as compatible with the common market and the categories which, on the contrary, can be considered in a favourable light;
- the criteria on the basis of which the Commission will apply Articles 92-94 of the Treaty to general or sectoral agricultural aid not within the two above categories. These criteria may relate to the objectives that these forms of aid should or should not have, or to their form or intensity, or to the maximum expenditure which a Member State may incur in respect of them.

The definition of such a framework, and its effectiveness, imply strict observance by Member States of their obligations under the Treaty in regard to State aid. A full inventory of all existing aid measures is of course indispensable for defining this framework. The Commission therefore attaches great importance to this inventory being provided as soon as possible.

128. The Commission also intends, as one of its first priorities, to investigate cases of agreements between undertakings or dominant positions within the meaning of Articles 85 and 86 of the Treaty, which might affect trade between Member States in agricultural produce (sugar) or in the means of agricultural production (fertilizers).
129. A new problem has been created by the energy crisis; it calls for measures pertaining to energy policy and to the common agricultural policy.

In the interest of certain types of agricultural production which are heavy consumers of petroleum products, the following measures should also be taken:

- efforts to harmonize excise duties on petroleum products in general should be continued;
- greater consistency and transparency in price levels as between Member States should be sought.

The following should also be examined:

- the differences between prices of natural gas since, for certain types of production, such as crops grown under glass, this fuel is a major source of energy in certain Member States;
- the appropriate measures to be taken, if necessary, with regard to crops grown under glass.

(c) Technical and administrative barriers

130. The establishment of a single market and of free movement for agricultural produce also requires the removal of barriers to trade - especially technical barriers which are very numerous in the agricultural sector. The Commission proposes that the Council should introduce more flexible procedures in this field and should automatically place on its agenda any proposals from the Commission more than six months old. In addition, the Commission calls on the Council to issue the directives necessary to ensure that experts meeting in the various working groups adopt a less perfectionist and more community oriented attitude in these matters.

CHAPTER IV: PROBLEMS OF EXPENDITURE CONNECTED WITH THE COMMON AGRICULTURAL POLICY

131. The Commission believes that the improvements proposed in the present communication will have the effect of limiting the budgetary cost of the common agricultural policy to a level best corresponding to economic objectives concerning consumers and producers alike.

132. Certain of the improvements proposed to aspects of the common agricultural policy moreover confer immediate benefits on the financial management of the EAGGF. This is particularly the case with certain-across-the-board measures such as the provision of fuller and speedier reports on the state of markets, improvements in short and medium-term forecasts and, above all, the transfer to the Commission of increased market management responsibilities as well as the amendments put forward in respect of certain important products (in particular milk products, cereals and olive oil).
133. However, these changes are not all that can and should be done to improve the budgetary management of the common agricultural policy. A number of specific adjustments are required.
1. "Automatic" updating of the EAGGF Guarantee Section budget estimates, so as to take account of market trends.
  2. For the adjustment of the Guarantee Section budget to new decisions on prices, two possibilities can be considered:
    - Making a provision during the budgetary procedure - e.g., at the time the budget is approved - allowing for price increases in line with the Commission's proposals. If this were done, the Council would have fixed the financial limits within which its decisions on prices would be made. This would mean that an additional budget would be necessary only if the Council made decisions on prices involving, for the current budgetary year, expenditure in excess of the provision;
    - Accelerated ad hoc supplementary budget procedure during the financial year (the decision on the financial consequences to be taken at the same time as the decision on prices).
  3. Creation and regular updating of a Guarantee Section "budgetary control panel" enabling a rapid assessment to be made of the budgetary repercussions of any abrupt and substantial variations in a significant agricultural expenditure variable (exchange rate, world prices, harvests, foreign trade, etc.), with a view to appropriate measures being taken to keep wherever possible within budget limits.
  4. Continuation of present efforts to detect and prevent fraud, in close cooperation with national authorities.
  5. Periodic review of those aspects of the common agricultural policy which give rise to financial problems.