



COMMON MARKET FARM REPORT

BELGIUM, FRANCE, FEDERAL REPUBLIC OF GERMANY, ITALY, LUXEMBOURG, THE NETHERLANDS

More on "Agriculture 1980"—Milk, Butter, and Other Problems

Common Market Memorandum on the Reform of Community Agriculture

The last issue of the Common Market Farm Report (Number 39—December 31, 1968) contained an outline of the statement on "The Reform of Agriculture in the European Economic Community" made by Vice President Sicco Mansholt of the European Communities Commission to the Communities' Council of Ministers. This issue of the Farm Report gives further details of the Memorandum itself which sets out the Commission's 10-year reform program.

CAP Success — A Balance Sheet

The common agricultural policy (CAP) of the European Community so far has made an effective contribution to Community integration. The barriers which divided the six markets have been abolished for almost the whole range of agricultural products and has led to a great increase in intra-Community trade; prices of the main agricultural products are fixed by the Community institutions entrusted with management of the markets; the Community has assumed financial responsibility for its agricultural policy; and trade in agricultural products with non-member countries is subject to Community arrangements.

These successes of the common agricultural policy are remarkable, as agricultural policy is generally acknowledged to be a field where national governments intervene on a large scale. This was certainly the case with the six member countries of the Community. The common policy for agricultural markets has helped improve the position of farmers. On the other hand, although price policy, especially, has had a favorable influence on farm incomes, the latter still lag badly behind the incomes of other social and occupational groups.

Now, however, European agriculture is on the point of breaking with its time-honored, traditional structure so that it can adjust to modern industrial society and the large, dynamic market it has been thrust into. "There is probably no other branch of the economy where people have clung so long to the traditional structure of production, chiefly because, for lack of massive aid from outside, they have been prisoners of that structure. But today a very large part of the farming community is ready to make the effort and adapt itself to the modern world."

There is, however, no denying that there has been progress in the matter of mechanization. Farm incomes are higher today than they were fifteen years ago, and there has been a considerable improvement in the social situation of the farming community. The main worry, however, is that the gap between agriculture and other sectors of the economy has widened and there seems to be less hope of farmers coming to share in the general improvement in economic and social conditions.

Given existing production and marketing structures, the limits to expansion are becoming more and more apparent.

The markets for many farm products are expanding only at the same rate as the increase in population, and farm prices have scarcely risen at all because of continuing, or impending, surpluses. The result is that farm incomes are stagnating.

The Commission has drawn attention to this situation in its Memorandum. It has departed from the normal procedure of submitting proposals to the Council and has chosen to present a memorandum outlining the critical situation in agriculture and suggesting steps which might be taken to relieve it. This method appeared to the Commission to be the quickest way of making known its views on what must be done to overcome existing difficulties.

Six Documents...

The Memorandum does not, then, contain "proposals" in the Treaty sense. The relevant legislative texts are to be submitted to the Council at a later stage when the Memorandum has been widely and thoroughly discussed. The Commission has departed from normal practice only in the case of the Memorandum proper — the "Agriculture 1980" program of structural reform. This central document is supported by five others, some of which are in fact normal proposals; but the six form a coherent whole. In addition to the Memorandum, with its ten-year "Agriculture 1980" program, there are:

- statistical annexes to the Memorandum
- medium-term measures, which include Commission proposals as to what must be done to restore satisfactory order and balance — particularly on the milk, sugar, fruit and vegetables, and vegetable oils and fats markets
- the Commission's agricultural price proposals for 1969/70
- the "Report on the situation of agriculture," a survey of the state of agriculture in the Community and the effect that the single market organizations are having on markets for individual products
- a "Report concerning policies on the structure of agriculture followed by Community countries."

The Memorandum and the Medium-term Measures

These documents have been prepared to comply with a Council request that an overall approach to agricultural policy be developed. According to the Commission, the financial aspects of the common agricultural policy can no longer be discussed on a piecemeal basis. Nor can the growing unrest in the farming community be dealt with any longer by arrangements for individual prices and individual markets.

There are two ways to meet the growing income gap: one is to reduce production costs drastically and the other is to increase producer prices. Given the enormous cost of the common agricultural market and the huge surpluses that are accumulating, higher producer prices are out of the question.

Production of many farm products has already reached a

ceiling; but overproduction of milk, in particular, has risen to astronomical heights. The figures show that at the present time, intervention agencies are holding 300,000 tons of butter in stock. The problem is not so much that the butter has to be disposed of, but that production and sales trends are so alarmingly different. The present increase in production means that stocks rise by 200,000 tons each year. However, once total stocks reach the 450,000-ton mark, available storage capacity in the Community will be exhausted, and this technical limit to storing surplus butter stocks will be reached in the course of this year.

The medium-term measures proposed by the Commission for the various agricultural markets must be implemented very soon. They are designed to pave the way for a reorganization of the markets. They include measures to:

- balance the milk market,
- adapt Community sugar production,
- improve equilibrium on the fruit and vegetables market in the Community,
- increase stability on the oils and fats market.

Balancing the Milk Market

For milk, the Commission has put before the Council proposals for very radical measures:

- It proposed to slash the price of butter to the consumer – in other words, the intervention price – by 30 per cent: from \$173.50/100 kg in 1968/69 to \$111/100 kg in 1969/70. Since the present milk price is derived almost wholly from the intervention price for butter, the producer price for milk would fall by the same amount. Consequently, subsidies for the protein content of milk would have to be correspondingly increased.
- It proposed a higher intervention price for skim milk powder: from \$41.25/100 kg in 1968/69 to \$71.25/100 kg in 1969/70. This means that subsidies for skim milk in liquid form and skim milk powder for feed will also be increased, as follows (in \$/100 kg):

	1968/69	1969/70
Liquid	1.50	4.25
Powder	8.25	38.25

These measures are not enough, however, to reduce the number of dairy cows in the Community sufficiently to ensure a lasting equilibrium between supply and demand; this would mean reducing the existing dairy-cow population of 22 million by approximately 3 million head over a period of five years. Therefore, the following special medium-term measures would be introduced:

- A subsidy of \$300 for each dairy cow slaughtered to be paid to farmers abandoning dairy farming. This would only be paid during the period from January 1 to August 31 in 1969 and 1970.
- A fattening subsidy of \$10/100 kg live weight to be paid for specified grades of beef and veal, on condition that the entire herd is disposed of and not replaced; the fattened cattle must have been on the farm for at least six months, not be more than eighteen months old, and weigh at least 450 kg.

These medium-term measures are to be followed by others:

- For farmers who own at least two dairy cows, the "structural reform grant" – payable if they surrender their land or rent it on long lease – would be raised by an amount calculated on the number of dairy cows, on condition that these farmers cease all agricultural activity within three years.
 - Farmers who own at least two dairy cows and who, within three years, set up or join a "production unit" for cattle fattening would be entitled to subsidies for a period of four years; these would be over and above the specific investment subsidies payable to farmers establishing a cattle herd:
1. A grant of \$75 per year and per dairy cow disposed of
 2. A fattening subsidy of \$10/100 kg live weight of slaughtered cattle, provided that all dairy cows on the farm are disposed of and not replaced, and that the animals slaughtered

for meat have been on the farm for at least six months.

The grant to encourage farmers to slaughter dairy cows has come under particularly heavy fire. The Commission is convinced that – despite its imperfections – it is the cheapest and most effective way of restoring equilibrium on the milk market.

The Commission has decided not to change the producer price for milk because a reduction in the milk price would only mean that the vast majority of farms would try to step up production, thus increasing rather than reducing the volume of milk. A price reduction that would be severe enough to send production down would be politically and socially unrealistic. The only solution is to offer farmers an alternative source of income.

The Commission's ideas as to how this is to be done are based on three important policy guidelines:

- The program would have to be decentralized. Community legislation would be enacted in the form of outline texts to be supplemented by the member states' own legislation. The Commission is thinking in terms of a supervisory agency which would check that Community policy was faithfully translated into domestic legislation. Implementation would be left in the hands of the member states.
- Allowance would be made for regional differences in the Community. There can be no question of picking and choosing among the various measures because if there were, one member state would select this project and another that one for implementation.

Measures for Adapting Sugar Production in the Community

Because of the imbalance between sugar consumption and production in the Community, immediate measures for sugar production are needed. The Commission proposed that the minimum price for beet within the basic quota be reduced from \$17 to \$16 per ton, and from \$10 to \$9 per ton for beet production between the basic and maximum quota. The basic quotas themselves are to be reduced by 5 per cent, from 6,480,000 to 6,156,000 tons.

In conjunction with this price policy, sugar production should be managed so that from 1970/71 onward it will not exceed human consumption by more than 600,000 tons a year. By 1970/71, the European Agricultural Guidance and Guarantee Fund should not have to spend more than \$45 million on the sugar sector.

Measures for Fruits and Vegetables

The fruit and vegetable market is faced with two major problems; production of some products (apples, pears, peaches) is expanding faster than consumption, and seasonal surpluses of certain products.

The Commission intends to propose measures to: influence supply by placing a ceiling on the amounts marketed or produced, unify the conditions of intervention, keep products of satisfactory quality from being so frequently withdrawn from the market, and develop a number of uses for withdrawn products so that they do not have to be destroyed.

Measures for Oils and Fats

During the past few years, oils and fats have encountered mounting difficulties on the world market and, because of the absence of appropriate frontier measures, also in the Community. This situation has aggravated the Community's crisis in animal fats. The situation in the oils and fats sector helps neither the exporting countries, particularly the developing countries, nor the Community, which is the biggest importer of these products and uses them largely as raw materials for the manufacture of margarine.

Essentially, the Commission would like to see the world market stabilised by an international agreement. Until that time, interim steps must be taken to alleviate the situation. To this end, the Commission intends to propose a charge on certain products, notably those processed from oilseeds and oleaginous fruit, levied on both imported and Community products and on oilcakes and competing products, such as fish meal, as well as vegetable and marine oils and fats.

As the proposed fats and oils policy may create difficulties for the associated African states, Madagascar, and the overseas countries and territories, they should be given financial compensation to ensure that their earnings from these imports are adequate.

Reform of Agriculture

The concept developed in the "Agriculture 1980" program is governed by three principles:

- that the pattern of agricultural output should be adjusted so that a satisfactory income can be gained from agricultural holdings
- that living conditions should be brought up to the level in other occupations
- that the farmers themselves should have more influence on, and take more responsibility for, their markets.

These principles call for increased mobility of men and changes in land use. The Commission's Memorandum offers those working in agriculture more mobility. Older farmers are to be guaranteed an adequate life annuity on condition that they abandon agricultural reform. They would, of course, continue to be the owners of their land.

Younger farmers, farm workers, and their families are to be given an opportunity of finding work outside agriculture following thorough training, and they need not necessarily change their place of residence to do so. Those who wish to stay on the land will have an opportunity of building up farms which will ensure that the farmer, his wife, and his children will catch up with the rest of the community in the matter of incomes and living standards (leisure, holidays, replacements in the event of illness, and so on).

What the Program Offers

Farmers who are 55 and over would be entitled to:

1. An annuity for life — \$660 a year at 55, gradually rising to \$1,000 a year at 60.
2. A structural reform grant representing eight times the rental value of their land. The annuity and the structural reform grant will be paid on condition that the farmer gives up farming and that the land is used for the purposes of the reform program, which means that it must be sold or leased to "production units" or to "modern agricultural enterprises" or withdrawn from agriculture altogether.
3. Farmers in urgent need of capital (for building or converting a dwelling house or for moving to a non-agricultural occupation) but unwilling to sell their land can obtain a lump sum representing capitalization of 8 years rent.

All persons engaged in agriculture (farmers, family helpers, and paid hands) who want to find other work outside agriculture would be entitled to:

- a structural reform grant under the conditions described above
- a retraining grant for preparatory and vocational training
- where appropriate, grants to move to a new area and settle there
- a benefit corresponding to unemployment benefit, if, following retraining, they fail to find a suitable job in a suitable place at the right time; it is important that concrete measures be taken as part of regional policy to create new jobs in rural areas.

If, over the next ten years, most farmers were to take advantage of these measures, the number working in agriculture would be cut by almost 5 million people.

Furthermore, 50 to 60 million acres of farmland would be made available for agricultural reform. If this area were leased or sold to other farms, enabling these to expand and become profitable, it would be to the benefit of those farmers who have decided to stay on the land under modern conditions. In some cases, it might be more profitable to use this land for reforestation, for laying out national parks, or building holiday homes. If this were done, the owner would receive a grant which would be calculated to ensure that he gets the same income he could have obtained from leasing the land.

"Production Units" and "Modern Agricultural Enterprises"

"Production units" or "modern agricultural enterprises" are to be set up to enable farmers who stay on the land to tackle the business of modernizing their farms in greater security.

The Commission's idea is that on a farm of this type:

- earnings per worker will correspond to earnings in comparable non-agricultural occupations;
- the farmer's wife will not, as a general rule, have to work around the farmyard or in the fields;
- the farmer, family helpers, and paid hands will work regular hours — except, of course at busy periods — and will have weekends off and proper holidays;
- arrangements will be made for replacements in the event of illness.

Studies of the main types of farming have shown that labor and capital are used to the best advantage with units of the following sizes:

Dairy farming	40-60 dairy cows
Beef and veal production	150-200 cattle
Pig farming	450-600 animals
Poultry farming	100,000 birds
Egg production	10,000 laying hens
Tillage	200-300 acres

The Commission proposed that from 1975 onwards, the payment of production-structure subsidies be confined to farms which have a chance of attaining these targets and can afford the necessary investment and support the resulting burden.

These "production units" will have to meet certain minimum size specifications roughly corresponding to the economic optimum. These specifications may vary from one region to another but will definitely be a good deal higher than in the majority of farms now to be found in the Community.

From 1975 onwards, support will be reserved for "production units" which have a farm accounts system and a farm development plan.

If the economic and social conditions outlined above are to materialize, production units of this kind must be formed from existing farms. This can be done in various ways:

- A farm which is particularly suitable for, say, dairy farming or pig production could specialize in this one form of production until it has reached "production unit" size for this type of farming. This does not mean that the farm cannot have sidelines which do not reach "production unit" standards. Sooner or later, the farm may specialize entirely in one branch of production, thus forming a single "production unit," or another line may be expanded to form a second "production unit."
- Alternatively, several farmers could agree to work together in one particular branch of production — fattening young cattle, for example. They could get together to build fattening houses with a silo and come to some agreement about providing fodder, labor, etc., each of them holding on to his own farm.

These increasingly specialized farms or "production units" do have their weak points, however. There is no spreading of the risk if, for instance, there happened to be a drought one year, or if cattle prices were low. If, however, several specialized farms which were already "production units" were to amalgamate, it would then be possible to spread the risk and ensure a better distribution of labor and more efficient organization of free time. This is how a "modern agricultural enterprise" — which could also be termed a multi-family farm — comes into being.

In the Commission's opinion, the formation of "production units" and "modern agricultural enterprises" of this kind should be encouraged. Provision has been made for:

- investment grants (applicable to investment other than in vehicles and livestock) at an average rate of 30 per cent, though this rate may vary from region to region and from one

type of production to another. This could take the form of a capital grant or an interest rebate.

- a system of guarantees to back requests for loans where sufficient tangible security is lacking
- grants or equivalent tax concessions for owners of agricultural land who help to promote the formation of "production units" on a stable basis by leasing land to them for 18 years
- an initial grant averaging \$5,000, for "modern agricultural enterprises."

The Commission estimates that 80,000 new jobs will have to be created each year.

Educational Grants

Farmers, farm workers, and family helpers will be entitled to scholarships to enable their children to continue their education beyond the normal school-leaving age. This will remove one serious obstacle to occupational mobility. The Community's financial contribution could average something like \$600 per person each year.

Retraining Grants

The Commission estimates that approximately \$480 million will have to be spent on grants. The Community already has an agency — the European Social Fund — which can help to implement retraining measures.

What It Will All Cost

A reform program of this kind is bound to involve heavy expenditure, whether it be financed solely from the budgets of the member states or partly — as the Commission proposes — from the European Agricultural Guidance and Guarantee Fund.

The question is this: will the finance ministers make the necessary funds available, now that they are experiencing budgetary difficulties. The program for the reform of agriculture will be expensive. The Commission proposes that price policy — which will still be pursued as far as possible — be stiffened by a group of measures which will give everyone now working in agriculture a chance of improving his income situation in other ways. The Commission has no wish to hide the fact that implementing these measures will call for a major financial effort from the Community's taxpayers.

Throughout the ten-year program, the average cost to the budgets of the member states and the Community will be about \$2.5 billion a year — and this does not include the cost of creating additional jobs. The question of additional employment poses many problems with regard to regional development which cannot in all fairness be placed at agriculture's

door. The effectiveness and the potency of the measures proposed depend on a steady supply of funds being maintained. A further dispersal of funds would in practice water down the results and weaken the effect of the program and jeopardize its chances of success.

In 1969, the six Community countries plan to spend \$4.5 billion on agriculture, half of this being earmarked for structure and market support. This \$4.5 billion represents 4.8 per cent of total budgetary expenditure. In the years ahead, total budgetary expenditure is expected to increase by something like 5 per cent each year. Even in the years in which expenditure will be heaviest (1973, 1974 and 1975), the Commission's agricultural program will absorb no more than 5.4 per cent of this growing volume of government expenditure. This is only a little higher than the figure for 1969 (4.8 per cent), and once the program has been implemented, it should fall back to 2 per cent.

Conclusions

The publication of the Commission's views was followed by a storm of public protest. Many people found it hard to accept that 5 million people would have to leave the land. But this is nothing more than a continuation of a trend which has been evident for many years past.

A suitable old-age pension system is extremely important for mobility in agriculture because of the disproportionate number of elderly people in the agricultural population and above all, the number of elderly farmers, more than 50 per cent of whom are over 57.

The Commission is not proposing to destroy 5 million rural lives. On the contrary. What the Commission wants is to bring some improvement to the lives of the agricultural population, which, as its leaders maintain, is lagging far behind the rest of the community in the matter of income and living standards. An income similar to that earned in industry can, however, only be realized on a fully mechanized farm run on modern lines. In years gone by, agriculture was not fully mechanized but rather over-mechanized, which meant that, on a small farm, costs per person employed went up instead of coming down.

Even those who believe that the aims of the reform program are sound often express the view that the ten-year period which the Commission has in mind is too short. Why "Agriculture 1980"? The answer to this is that the milk market situation has shown that urgent solutions are needed. The finance ministers and the taxpayers are not prepared to go on paying out more and more money year after year to support this and other agricultural markets with no hope of an end in sight.

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