

# European Communities

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EUROPEAN PARLIAMENT

# Working Documents

1973-1974

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6 February 1974

DOCUMENT 337/73

## INTERIM REPORT

drawn up on behalf of the Committee on Agriculture

on the Memorandum from the Commission of the European Communities to the Council (Doc. 251/73) for the improvement of the common agricultural policy

Rapporteur : Mr James SCOTT-HOPKINS

PE 35.083/



By letter of 6 December 1973 the Committee on Agriculture requested authorization to draw up a report on the Memorandum of the Commission of the European Communities to the Council for the improvement of the Common Agricultural Policy.

Authorization was given by the President of the European Parliament.

The Committee on Agriculture appointed Mr J. SCOTT-HOPKINS principal rapporteur.

It considered the draft report at its meetings of 4 and 5 December 1973, 20 December 1973, 8 and 9 January 1974 and 17 January 1974, and adopted the motion for a resolution by 8 votes to 2 with 4 abstentions at its meeting of 17 January 1974.

The following were present: Mr Laban, Vice-Chairman and acting Chairman; Mr Scott-Hopkins, principal rapporteur; Mr Creed, Mr Della Briotta (replacing Mr Cifarelli), Mr Früh, Mr Gibbons, Mr Héger, Mr John Hill, Mr De Koning, Mr Liogier, Mr Martens, Mr Nielsen (replacing Mr Lefebvre), Lord St. Oswald, Mr Schwabe (replacing Mr Frehsee).

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A

The Committee on Agriculture hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the communication of the Commission of the European Communities to the Council concerning improvement of the Common Agricultural Policy

The European Parliament,

- having regard to the communication from the Commission to the Council (Doc. 251/73),
  - having regard to the interim report of the Committee on Agriculture (Doc.337/73),
  - bearing in mind the fact that when the decisions were taken on agricultural prices for the 1973 - 1974 marketing year, the Council had instructed the Commission to undertake a thorough study of the problems arising in the context of the agricultural prices policy and of the desirability of taking further measures to ensure an equitable and proper growth of agricultural incomes without aggravating the market situation,
  - reaffirming the soundness of the three fundamental principles on which the common organization of the agricultural markets is based, i.e. the existence of a single market, the Community preference system and financial solidarity,
  - having noted the recent trend of the world market for the main agricultural primary products, states that the Common Agricultural Policy aims, as it always has, at stability of prices and security of supplies,
1. Welcomes the broad guidelines announced in the Commission memorandum but expresses reservations on a number of the implementing measures put forward;
  2. Believes the Commission is correct in asking the farmer to assume a measure of joint responsibility for the disposal of surplus production, but considers that the yield from products normally to be placed on the market should not be affected;
  3. Considers that pursuant to Article 39 of the EEC Treaty and paragraph 30 of the Commission memorandum, the price proposals should be made compatible with the general anti-inflationary policy of the

Community as stated by the Council on 4 December 1973 and the objective of the comparability of incomes on modern farms, but recognizes that restraints against inflation should be applied to all prices and not to agricultural prices alone;

4. Recognizes that it would be an error, to use the Common Agricultural Policy alone for social ends and that recourse is required to structural policy, parallel to market policy, to increase the efficiency of the less viable farms;
5. Considers that the Commission must act more resolutely than proposed in this memorandum to move expenditure under the EAGGF from "Guarantee" to the "Guidance" section;
6. Does not believe that price policy alone can bring about the balance required between livestock, milk and cereal production, and in regional variations in income;
7. Believes that in respect to the common agricultural policy, a balance needs to be achieved between measures designed to improve agricultural incomes, and the interests of the consumer so that he would benefit from a wider choice of agricultural products at reasonable prices;
8. Calls for a strengthening of the machinery for consulting professional organizations, especially in connection with price fixing;
9. Supports the proposals to encourage the production of fodder crops and proteins and asks that these measures be extended to the consumption of liquid milk;
10. Welcomes the proposal of the Commission seeking to further improve prices for the various cereals according to their nutritive value, by means of a progressive increase in the price of barley, maize, and by progressively eliminating denaturation of soft wheat when a better balance on the cereal market is achieved;
11. Supports the Commission's plan for the implementation of a comprehensive and coherent stocks policy for soft wheat;
12. Agrees, furthermore, with the proposal to change the butter fats solids to non-fat ratio to 50/50, as against 58/42 at the moment;
13. Questions whether the Commission's proposals give sufficient information for informed conclusions to be drawn as to the balance between regional policy on the one hand and the agricultural production sector on the other. Therefore requests the Commission to bring forward proposals clearly defining how it intends to achieve this necessary balance;

14. Regrets that the memorandum does not yet contain concrete proposals for a marketing organization leading to the establishment of a fund for promoting the disposal of dairy products;
15. Cannot accept the measures proposed to deal with surpluses in the dairy sector, and in particular the levy on quantities of milk exceeding 10,000 litres delivered to dairies;
16. Considers that the Commission's proposals to reorientate production from milk to beef and veal whilst welcome need further stimulation;
17. Seeks a Commission undertaking that the common organization of the sheepmeat market will be reappraised within the next two years for the purpose of stimulating both efficient production and marketing of sheep meat as a source of red meat which is appreciated by many consumers;
18. Welcomes the Commission's proposals for afforestation and requests that the Commission include in its proposals tax provisions for private forest owners;
19. Approves the Commission's intention to submit early in 1974 proposals for common action in the sphere of market structures;
20. Calls for a re-examination of the Commission's conclusion concerning the rejection of direct grants to improve agricultural incomes by restricting them to specialized aid by region or certain products to be developed, particularly to help farmers in underprivileged areas who bear responsibility for soil preservation and environmental protection;
21. Requests the European Commission to consider whether the structural directives of 1972<sup>1</sup> correspond to 1974 norms, and if in its opinion this is -no longer the case, to introduce proposals to adapt them, and, furthermore, urges the Commission to request Member States to promote the rapid entry into force of these measures;
22. Considers that the Commission should initiate research and introduce proposals to develop the recycling of what are considered to be waste materials;
23. Welcomes the Commission's proposal for the publication of codified texts of the applicable acts relating to the common agricultural policy in the belief that this will improve the accessibility of Community legislation and so facilitate its implementation by official departments, producers and dealers;
24. Instructs its President to forward this resolution and the report of its committee to the Council and the Commission of the European Communities.

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<sup>1</sup>OJ No. L 96/72



EXPLANATORY STATEMENTSubject of the Communication

1. The present Commission communication to the Council proposes an outline of improvements to be made to the Common Agricultural Policy in the form of three principal objectives:
  - a simplification of the administration of the CAP;
  - a reduction in the imbalances existing in certain agricultural markets by an adjustment of intervention prices and the introduction of production levies on particular products;
  - a reduction at the end of the 1973/78 improvement period of expenditure of 1,050 million u.a. under the 'Guarantee Section' of the EAGGF, of which:
    - 580 million u.a. would represent savings on cereals;
    - and 470 million u.a. savings on dairy products.

On the other hand, measures to organize the sheep meat and reorientate the protein sectors would add an additional 100 and 30 million u.a. to expenditure. No expenditure is anticipated for the common organization of the potato market.

2. General Remarks

The simplification of the administrative procedures of the EAGGF, involving a reduction of the basic regulations from 200 to 30, can only be welcomed, especially if it were to be accompanied, as it must be, by a more precise supervision of the provisions of the CAP and expenditure under the EAGGF.

3. A final judgement on the Commission's proposals to reduce existing imbalances on certain agricultural markets and expenditure under the 'Guarantee Section' of the EAGGF is to be given in the report of the Committee on Agriculture on the price proposals for 1974/1975.

In general, however, the Committee on Agriculture welcomes the broad guidelines announced in the Commission memorandum, even while expressing reservations on a number of the implementing measures put forward in that document and seeking clarification of the methods to be used.

4. The Committee on Agriculture agrees with the Commission's belief that future Council decisions in the agricultural field ought to be based more fully on objective criteria and that proposals should be framed more and more in the light of trends in the general level of prices and costs on modern efficient farms.
5. However, the relationship is far from clear between these objective criteria, concerning the general level of costs and disposable income on a modern farm in relation to an earned income comparable to that received for non-agricultural work, and the Commission's intention that the supply and demand situation of each market will be taken into account as regards the prices for individual products.

The Commission's intention appears to be one of drawing up theoretical general prices to be modified later in each individual sector. The difference between the two would appear to be sufficient to allow for the full interplay of the non-economic and political factors that have contributed to the disturbance of the equilibria of the agricultural markets in the past.

6. The Commission's proposals raise, without giving an answer, two important general questions, namely:
  - the degree to which the Commission believes agricultural production in the Community ought to increase production beyond levels necessary to keep up with consumption. The average yearly increase is 1% -2%. Nor is the question answered as to whether the Community should attempt to become more self-sufficient;
  - the level of agricultural populations to be maintained in the Community in relation to the safeguarding of the environment and the quality of life on one hand and the necessity to limit expenditure under the EAGGF on the other, bearing in mind that it is not part of the CAP to cope with social or the wider environmental problems.
7. The Commission's memorandum must be examined in the light of the impact of proposals in one area of agricultural policy upon other areas. The proposals must conform to the more general aims, particularly the fight against inflation.

The Council announced on 4 December 1973 its support for the Commission's intention to submit proposals fixing prices for the 1974/75 marketing year which will be compatible with the Community's general inflation control policy<sup>1</sup>.

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<sup>1</sup> Council of the European Communities, Press Release, 4 Dec. 1973 ; p.6.

The Commission's present proposals must be considered in the light of this general goal and their repercussions on the income of those working in the agricultural sector, both farmer and farm workers, the interests of the consumer and the equilibria of the various agricultural markets.

#### Agricultural Incomes

8. There remain considerable variations in agricultural incomes between Member States and between regions within states. These variations are greater than those in the non-agricultural sectors.

In general, agricultural incomes are not keeping up with the evolution of non-agricultural incomes (taking net value added at factor cost per working person by sector as a guide - see Annex A for greater detail).

9. There are two main areas of lower agricultural incomes:

- (a) the Atlantic regions;
- (b) the Mediterranean; South France, North Italian coastal regions, Southern Italy and Alpine Regions,

This follows logically from four observations:

- there is a positive correlation between the size of farm and income;
- in general poorer farms have benefitted least from the measures in the price support area<sup>1</sup>;
- arable farms are on richer land, more easily worked and better structured;
- revenue from farms orientated to livestock (either principally or predominantly) has been little more than half that of those farms orientated to cereal agriculture. The disparity is much greater for beef than milk production (revenue being one third of that enjoyed by the cereal farmer) and continues to increase the smaller the farm.

10. Moreover, while accepting the Commission assertion in its "Annex" to the present proposals that there has been a generally favourable development in agricultural incomes in 1972<sup>2</sup>, it must be remembered that there is a wider range of factors to be considered than is the case with most non-agricultural incomes, for example, work done by

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<sup>1</sup> One side effect of the CAP is to force up agricultural rents and so push the smaller producer off the land.

<sup>2</sup> COM (73) 1850 final ANNEXES, PART I - SYNTHÈSE; p.30

members of the family. Only on a very few of the most modern and favourably structured big farms is the return on capital invested anywhere near that of industry. There is also the hazard of animal disease and bad weather to be counted.

11. The Commission, in its communication, gives no indication of the general effect of its proposals on agricultural incomes, especially those of the smaller farmer. It is true of course that this vital factor will be clarified when the price proposals are received on 15 January 1974.

In the cereals sector, the Commission intends, for example, to favour the production of barley over that of wheat. Yet the yields of barley are between 10% and 20% less than those of wheat in some regions. The incidence of disease are greater entailing higher prophylactic costs.

Furthermore, the Commission wishes to encourage the production of maize but does not take into consideration the required heavy investment in new machinery. It is difficult to estimate from which sector, permanent pastures, annual grass leys or cereals, this extra acreage will come.

12. The costs of substituting livestock production for cereals, or even between different forms of livestock production, are great. The Commission has started along this road but greater incentives may be necessary.

Furthermore, there are a number of proposals in the Commission's memorandum which will act to push up costs and so reduce farmer's income.

These measures include proposals to encourage sunflower seed production by a relative increase in price compared to colza and rape, to develop the soya beans and to increase relatively the price of barley and maize. All these will give a very strong twist to the inflationary spiral, either directly or indirectly through increases in the costs of the milk, livestock, pig and poultry producer.

13. It is not clear whether the skim milkpowder (referred to in the proposal to alter the butterfats solids to non-fat ratio from 58,42 to 50/50) is intended for human consumption or animal feedstuffs or both. In the latter case, an increase in livestock input prices would result, particularly for pigs.
14. The proposal to end denaturing while welcome in itself does have a number of implications for the costs of the farmer and may even lead to investment losses.

Non-denatured wheat will be more expensive as fodder than denatured.

Denaturing equipment has involved a heavy investment for farmers and merchants. Unless the Commission envisages compensation for the suppression of denaturing, they are likely to suffer considerable losses. If future surpluses cause denaturing to be reintroduced, what will be the position of the farmer in relation to investment in equipment? But in principle this must be a correct decision.

15. Moreover, while it can be admitted that recent increases in meat prices have helped to restore the balance in favour of the livestock orientated farms, these producers have faced, and will face if the Commission's proposals on fodder cereals are put into effect, an increase in their input prices. The more intensive they are, the higher the cost increases. The increase in prices of animal feeds varies considerably, from only 6% in the Six and to as much as 90% in Great Britain.
16. The overall increase in costs resulting from these proposed measures could have serious implications for the future development of agricultural incomes and raise doubts as to whether the incentives proposed by the Commission to achieve a better balance between the different agricultural sectors will be sufficient to achieve the goals announced. Increased fuel prices and the impact of inflation on the cost of farm machinery are two additional questions that need to be taken into account when considering farming incomes. Is it not possible that the energy crisis will force a fundamental review of farming practices. Can we afford intensive units in energy terms. This also raises the much broader and increasingly important question of the recycling of waste materials.
17. While the impact of these proposals on future agricultural incomes is to be dealt with more fully in the context of the price proposals, in general it can be said that unless attempts are made to deal with the existing socio-economic problems through the appropriate instruments, not CAP, the proposals of the Commission will only marginally furnish aid to the smaller farmer. In any case it would be wrong to use the CAP as a means to artificially keep the small farm in existence. More suitable methods must be employed for this purpose.
18. In the past the Commission has stated categorically that while an increase in the general level of common prices for agricultural products continues to be necessary to enable modern farms to keep up with the trend of wages and salaries outside the agricultural sector, account must be taken of the declaration of intent made in the Council Resolution of 31 October 1972 on measures to be taken against inflation. The Commission stated that it is still convinced that the problem of low incomes in agriculture must be resolved

principally by effective measures of structural policy and specific measures for supporting very low incomes.

Therefore the Committee on Agriculture supports the Commission when it bases its proposed improvements to the CAP upon the price mechanism. This follows logically from the Commission's decision to opt for a division of labour and base its price proposals on the real income needs of the profitable farms and to leave structural policy to take care of bringing as large a proportion as possible of the other farms up to this stage.

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The Commission is correct in its determination that farmers should assume some degree of financial responsibility for production surpluses. It is a requirement for the maintenance of the EAGGF within acceptable bounds. Nevertheless it is bound to have serious implications for the revenue of producers in particular regions. However, the Commission is correct in believing that the socio-structural problems of European agriculture cannot be solved by price policy. This would merely result in over-stimulation of many sectors and an increase in inflationary pressures. In view of the disparities in regional endowments, structural investment and technical development, it is difficult to imagine that price policy alone can answer the needs of each agricultural sector and all types of producers.

19. The Commission asserts that action in socio-structural policy will require increased support from other policy fields, principally regional, social and monetary<sup>1</sup>. This statement clearly reflects the reality of the situation.

The Commission recognises that the common organization of markets has not, and cannot, solve the problems of regional differences in agricultural incomes, and seeks to rely on structural policy (and in particular measures planned for mountain and hill farming and problem areas) and the awaited Regional and Social Funds. What is required is direct assistance to improve the levels of structural investment, technical efficiency and marketing capability.

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COM 73) 1850 fin., p.3.

It is doubtful if the agricultural industry can wait that long; aid will only be marginal, in any event, for the first 5 years. Meanwhile the need is pressing particularly for increased direct aid to improve structural investment, not only the size of farm but also permanent assets (such as buildings) and the quality of the land farmed by such means as drainage). Technical efficiency must be pursued by incentive both to those now on the land and also training courses and centers. Finally marketing of farm products is woefully weak. Therefore direct aid and encouragement must come from the Commission.

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### Consumer interests

20. Article 39 of the Treaty includes amongst its objectives:

- (c) to stabilise markets
- (d) to ensure the availability of supplies
- (e) to ensure that supplies reach customers at reasonable prices.

21. The main purpose of the Commission's memorandum is to ensure a better equilibrium between the different agricultural sectors. This may be considered to be in the long term interest of the consumer if the Commission adheres to its decision to formulate its future proposals more and more in the light of trends in the general level of prices on modern farms and the demands of the market.

22. There are more specific measures which are intended to bring to the consumer agricultural products at a more reasonable price or of a better quality:

- (a) measures to improve the stability of agriculture prices:
  - the reduction in the intervention price of butter;
  - encouragement to red meat production and a simplification of the beef veal importing arrangements;
  - the continuation of sheep meat imports which make up the substantial shortfall in Community production;
  - a proposal to temporarily not increase the price of soft wheat;
  - a coherent cereals stocking policy;
- (b) measures to improve the quality of agricultural produce:
  - a discontinuation of intervention for cereals of low quality and encouragement to production of high quality foods;
  - the exclusive use of butter fats in dairy products sector, and, for example, ice cream;
  - incentives to research on the effects of the consumption of various fats on human health.

23. While the first set of proposals would tend to reduce the inflationary pressures on prices, the second would tend to increase prices to the consumer and might limit his freedom of choice, e.g. how many old age pensioners would prefer low quality wheat bread or vegetable oil ice-cream to no bread and no ice-cream.

The exclusive use of butter fats in the dairy products sector will result in a particularly sharp increase in retail prices. The Commission should indicate the likely effectiveness of such a measure in limiting future butter fat surpluses. It is open to doubt as to how far the Commission intend to go in this field. For instance, will all filled milk be prohibited today? Today, most large catering establishments use this skim and vegetable oil reconstituted milk rather than pure milk because of price. There are many more examples of this kind. In all these areas, prohibition would inflate prices.

The Commission makes no mention of the related problem of the exclusive use of butter fats in cheese. Perhaps it is excluded.

24. The increases in costs to the farmer of a number of the measures proposed, be it the levies on milk or the price increases of animal feedstuffs, will certainly be passed on to the consumer, either directly or indirectly.

On balance, given these price increases, the narrowing of the choice for the consumer and the likelihood that the measures proposed will not stimulate meat production sufficiently, the Commission's proposals may be considered unfavourable to the consumer.

#### Structural Policy: Production

25. In the sphere of the reform of the structures of production, the Commission confines itself largely to reference to policies previously introduced.

There are, however, three new proposals included in this communication:

- a strengthening of the premium system for the conversion of dairy herds to meat production;
- a possible extension of certain measures of the Directive on mountain and hill farming to cover sheep farming in other suitable areas;
- a proposal for a directive to encourage afforestation.

26. No estimate is given of expenditure for these items, particularly the aids to afforestation. The statement that no increase in expenditure of the Guidance Section is anticipated, seems to imply they will be drawn from present appropriations under the Guidance Section, probably from the substantial resources built up under M. Mansholts previous directives.
27. These proposals on afforestation recommend themselves but the Commission should provide information on their estimate of the acreage to be taken over by this activity, (will it be land in production now or will it be scrub land?), include tax provisions for private forest owners in view of the 20-30 year forestry cycle, and indicate whether hard or soft woods are contemplated.
28. Given the increasing shortage of wood and wood products, the Commission should initiate research into the optimum forms of afforestation to meet this problem<sup>1</sup>.
29. There has already been occasion in this report to indicate that price policy should not be used as an alternative to structural reform, since price measures cannot solve the problems created by the existence of too many inefficient and non-viable farms. The Commission must act more resolutely than proposed in this memorandum to move expenditure under the EAGGF from the 'Guarantee' to the 'Guidance' Section and stimulate the elimination of non-viable holdings by greater incentives.

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In Sweden, for example, the eucalyptus tree has been introduced very recently because of its short growth cycle

Structural Policy: Marketing

30. The Commission proposes in this communication two new measures to improve marketing structures:

- the use of the yield from the levy on milk production for measures facilitating the domestic marketing of the milk surpluses with particular emphasis on the liquid milk market;
- joint action with the Council in developing and rationalising the field of agricultural marketing and processing equipment.

31. The farming community is the weakest of the marketing forces in the 'Six'. Measures must be taken to improve their position.

There are two ways of tackling the problem:

- (a) encouraging cooperation between farmers by means of producer groups and cooperatives, with a strengthening of financial structures;
- (b) Reliance on the private sector of the food processing industry including animal feeding stuff industry. Help in this field would need to be economic.

At the moment in the 'Six', the balance is tipped heavily in favour of the former method, to the detriment of the consumer.

In the 'Three', the reverse is true. In the Community as a whole, a balance needs to be achieved and so allow the consumer to benefit from a wider choice and cheaper products. It will make a contribution to restoring equilibrium to agricultural markets, and in particular by increased promotion of those products that have caused imbalances in the past, such as milk and butter<sup>1</sup>, and products of special interest to problem areas, such as sheep meat and olive oil.

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<sup>1</sup> per capita butter consumption is decreasing by 0.4% per annum.

32. Marketing is extremely important for the maintenance of the equilibrium of the agricultural sector, to safeguard the income of the farmer and improve the availability and price of the agricultural produce for the consumer. The necessity for an improvement in the promotion and distribution of agricultural produce is made clear by a comparison of the consumption per capita in the Member States of the Community of two products responsible for surpluses, butter and liquid milk:

Kg per head per year

| 1970/71 <sup>1</sup> | Butter | Liquid Milk |
|----------------------|--------|-------------|
| Germany              | 7.0    | 77.4        |
| France               | 7.3    | 71.3        |
| Italy                | 1.6    | 66.6        |
| Netherlands          | 2.2    | 107.0       |
| Belgium )            | 8.5    | 78.0        |
| Luxembourg )         |        |             |
|                      | 5.3    | 74.7        |
| U.K.                 | 8.5    | 139.7       |
| Ireland              | 10.2   | 212.6       |
| Denmark              | 7.5    | 112.5       |
|                      | 8.8    | 154.9       |
| EEC - 9              | 6.1    | 91.4        |

The equilibrium of the agricultural markets

33. One of the purposes of the Commission's proposals is to improve the equilibria of the agricultural markets by means of price policy. Another purpose is to bring farmers to accept some degree of financial responsibility for surpluses.

34. The Committee on Agriculture welcomes such an initiative. A certain number of measures put forward by the Commission to implement these goals are open to criticism. This applies particularly in the dairy sector.

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<sup>1</sup> Basic Statistics of the Community 1972; p. 109

35. In addition, the Commission's proposals do not give sufficient consideration to the fundamental question of the relationships between one agricultural sector and another, and particularly that between red and white meat, nor to the question of the relationship of vegetable oils, and their import arrangements, upon the equilibrium of the butter fats market.
36. Dairy products account for 18% of the value of the final agricultural production of the Community and 30% of the expenditure under the Guidance Section of the EAGGF. To improve this situation, and save 470 million u.a. by 1973, the Commission proposes:
- a double levy on milk production:
    - (a) on milk delivered to the dairy beyond 10,000 litres;
    - (b) on production sold into intervention;
  - a change in the butter fats solids to non-fat ratio to 50/50, as against 58/42 at the moment;
  - reserving butter fats for the exclusive use in dairy products, and particularly ice-cream.
37. These proposals raise two basic principles. Firstly that a producer should bear a certain responsibility for continued surplus production. Here the Committee agrees with the Commission.
- Penalties should be imposed where they are deserved: upon those products and producers responsible for the surpluses, and not in a manner which contradicts the facts of the market situation.
- Secondly the principle of not using the CAP for social purposes is breached by the exemptions.
38. The effect of the levy-free quota of 10,000 litres on the levy on milk sold to the dairy would be to penalise the larger efficient producer. This is clearly in contradiction with the general principles announced by the Commission in this memorandum and cannot be accepted.
- Moreover the burden of this levy is clearly unfair since the producer retailer will be exempt, a point all the more significant in view of the important national differences in the organization of the liquid milk market and proportions of production delivered to the dairy, which is as high as 94% for the United Kingdom as compared with a Community average of 83%.

39. Given the persistent imbalances characteristic of the dairy sector and giving rise to forecasts of butter stocks of 300,000 tonnes and skimmed milk powder stocks of 15,000 tonnes at 31 December 1973, it is doubtful if these changes in principle and method will achieve the desired objective unless there is a complete acceptance of this policy by the Agricultural industry. Today this does not exist. It may do but I feel greater incentives will be required.
40. The farmer needs to be put clearly in the marketing picture to make his decisions; the manner in which these levies would be operated and the criteria used will have to be spelled out very clearly.
41. The main Commission proposals in the cereal sector raise the following principles:
- the balance between soft wheat and fodder grains; this is to be achieved by temporarily not increasing the soft wheat intervention price, coupled to a gradual increase in the price of barley and maize, reaching parity within five years;
  - a gradual suppression of the denaturing system;
  - and an end to the 'regionalisation' of the intervention price for soft wheat and barley.
42. Past trends indicate a regression in the human consumption of cereals per head and an increase in their use for animal feedstuffs, and in particular maize.<sup>1</sup> Moreover, new techniques and varieties have led to increased yields. The 1973 harvest is estimated at 104 million tonnes as against 76.7 million tonnes for 1972.

The measures proposed by the Commission are hardly likely, in principle, to change the balance between soft wheat, on the one hand, and barley and maize, on the other. But more important, it is doubtful if there will be a switch from cereals to grass as intended by the Commission.

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Doc. COM (72) 900 final, 12 September 1972 - 1972 Report on the agricultural situation in the European Economic Community, vol. I, p.44.

In view of the good yields of most cereal farmers, particularly in the 'Six', during the last few years, does the Commission expect the position of the soft wheat sector to improve in the future, bearing in mind the capital equipment investment required for the farmer to shift production to barley and maize. The situation will be more acceptable if structural measures absorb part of the expense involved.

The Commission intends to stimulate maize production and improve the Community's self-sufficiency in fodder grains; but one can ask to what extent? If only limited self-sufficiency is aimed at, then there will be little effect overseas; but if greater self-sufficiency is the goal, reactions can be expected on the part of the United States.

The Commission makes the assumption, perhaps rightly, that high cereal prices will continue. If they do, then farmers will maintain high levels of production and there could be a continuing need for denaturing unless the Commission's proposals are adopted. But if world prices fall, then surely intervention and denaturing will become more and more attractive.

43. The Commission does not appear to have taken into account the impact of cost increases resulting from these measures upon the equilibrium of the agricultural sector. The increase in feeding costs is particularly important.
44. Demand in the Community for high protein fodder is increasing. This is accompanied by an increase in world demand, and no substantial increase in supplies can be expected. Therefore the Committee on Agriculture appreciates the Commission's proposals to encourage the production of sunflower seed production by a relative increase in price compared to colza and rape, to extend support for soya beans and to encourage the drying of fodder crops such as lucerne.

The Committee on Agriculture believes, moreover, that other fodder crops, such as grass, should have been included amongst these proposals.

45. Only one principle is involved in the livestock sector, namely the replacement of the present customs duty with a variable levy by a fixed ad valorem duty.

Another measure, important in itself, has been introduced: the guide-price for calves is to be discontinued.

46. One of the main problems of trade in beef and veal is the uncertainty over the amount to be levied on imports into the Community between the moment when orders are placed and deliveries made. At a time of world shortage, such a system discourages imports into the Community. The fixed ad valorem charge on all cuts is to be welcomed as a factor lessening this uncertainty, yet it can be noted that this levy, as presented in the Commission's memorandum, will in fact vary according to prices within the Community.
47. Consumption of beef and veal is increasing at a faster rate than production while prices on the world market have risen sharply. The measures proposed do not of course attempt to reorientate production from milk to beef. That is included in the improvement in meat production incentives.
48. Research should be undertaken by the Commission on the medium and long term trend in the production and consumption of agricultural produce in order to allow more adequate planning of measures to maintain the equilibrium of the agricultural sector. There should also be research into particular problems facing individual sectors, and possibly solutions, such as the development of non-agricultural sources of high protein animal feedstuffs.

#### Proposals for new Common Organizations

49. Proposals from the Commission for the organization of the sheepmeat and potato sectors have been long awaited and were partly delayed during the negotiations leading to the entry of the three new Member States into the Community.

The proposals now put forward must be considered the minimum required for the Commission to honour its past obligations, since they are concerned with establishing a free Community market rather than price policy.

50. For the sheepmeat market, the Commission proposes to introduce a common organization by introducing and gradually scaling down fixed compensatory amounts between the Six and the Three, the application of Articles 92 - 94 of the Treaty, and a review of third country trade arrangements, together with an extension and a strengthening of the existing and proposed structural measures to encourage sheep farming.

51. Community consumption of sheepmeat is only 5% of total meat consumption as compared with 37% for pigmeat and 32% for beef veal. The level of self-sufficiency is substantially lower than for other meats, with a figure of 54%.

Sheepmeat is an important element in the agricultural economies of the problem regions of the Community, amongst others (though this varies greatly from region to region), and can be viewed partly in terms of this wider social and regional perspective.

But more important is the balance between hill breeding farms and the lower lying fattening farms. The relationship between these two and the price differential (profit of each) is vital for a sustained economic expansion.

52. The Commission informed the Committee on Agriculture at its meeting on 4 December 1973 that more precise proposals for the organization of the sheepmeat market would be introduced at a later point. This time-lag between the initial establishment and the progressive definition of the common organization of the sheepmeat market is logical. The Commission, however, should agree to undertake a thorough reappraisal within the next two years.

53. The Commission proposals to introduce a common organization for potatoes merely entail the application of rules on competition and the introduction of quality standards. This is really a minimum step forward.

54. The cycle of surplus and deficiency in the potato sector is an alarming one for the farmer. It is to be hoped that the Commission will put forward proposals in the near future to deal with this problem, taking into account the different organizations already existing in Member States, such as quality and quantity control.

55. Particular problems of a common market in potatoes, and in particular the question of diseases, should also be included in such proposals.

## External Relations

56. The Commission gives no indication in what way trade arrangements with third countries in sheepmeat will be reviewed nor of the implications of its present measures for the New Zealand producers, except to assure us that existing contracts and undertakings will be honoured. Given the limited self-sufficiency of the Community in sheepmeat, present imports from third countries, and New Zealand in particular, should present no major problems to the European producer.
57. It will be necessary for the Commission to review the position viz a viz trade in sensitive products, such as poultry meat, with "state trading countries" where it is impossible to determine a realistic basis for costs of production.

## Observations and Conclusions

58. The Committee on Agriculture welcomes the broad guidelines announced in the Commission memorandum, but expresses reservations on a number of the implementing measures put forward.
59. Believes that the Commission of the European Communities is correct in its determination that price policy be based more fully on objective criteria.
60. Believes the Commission is correct in asking the farmer to assume a measure of responsibility for surplus production.
61. Considers that the proposals must be framed so as to contribute to fighting inflation as stated on 4 December 1973 by the Council.
62. Agrees that it would be wrong to use the common agricultural policy for purely social ends and that structural policy, and not price policy, should be used to increase the efficiency of the less viable farms.
63. Considers that the Commission must act more resolutely than proposed in this memorandum to move expenditure under the EAGGF from "Guarantee" to the "Guidance" section.
64. Does not believe that price policy alone can bring about the balance required between livestock, milk and cereal production, and in regional variations in income.

65. Believes that in respect to the common agricultural policy, a balance needs to be achieved between measures designed to improve agricultural incomes, and the interests of the consumer so that he would benefit from a wider choice of agricultural products at more reasonable prices.
66. Agrees with the proposals to encourage the production of fodder crops, proteins and skim milkpowder.
67. Agrees with the Commission's proposal to end denaturing.
68. Agrees, furthermore, with the proposal to change the butter fat solids to non-fat ratio to 50/50, as against 58/42 at the moment.
69. Questions whether the Commission's proposals give sufficient information for informed conclusions to be drawn into the balance between regions on the one hand and the production sector on the other. Therefore requests the Commission to bring forward proposals clearly defining how it intends to achieve this necessary balance.
70. Regrets the lack in the memorandum of proposals for a marketing organization leading to the establishment of a marketing fund.
71. Cannot accept certain measures proposed to deal with surpluses in the dairy sector, and in particular the levy on milk delivered to the dairy beyond 10,000 litres, since this would penalize the larger and more efficient producer and is clearly in contradiction with the general principle announced by the Commission in its memorandum.
72. Asks that grass and the drying of grass crops be included amongst the measures proposed for encouragement of fodder crops.
73. Considers that the Commission's proposals to reorientate production from milk to beef and veal whilst elcome need further stimulation.
74. Seeks a Commission undertaking that the common organization of the sheepmeat market will be reappraised within the next two years for the purpose of stimulation both efficient production and marketing of sheep meat as a source of red meat acceptable to the consumer.
75. Asks that the Commission introduce further proposals to deal with the problems caused by the alarming cycle of surplus and definiency in the potato market.

76. Welcomes the Commission's proposals for afforestation and requests that the Commission include in its proposals tax provisions for private forest owners.
77. Calls for a re-examination of the Commission's proposal on the rejection of direct grants to improve agricultural incomes by restricting them to specialized aid by region or product to be developed, particularly to help farmers in underprivileged areas who bear responsibility for soil preservation and environmental protection;
78. Requests the European Commission to consider whether the structural directives of 1972<sup>1</sup> correspond to 1974 norms, and if in its opinion this is no longer the case, to introduce proposals to adapt them, and, furthermore, urges the Commission to request Member States to promote the rapid entry into force of these measures;
79. Considers that the Commission should initiate research and introduce proposals to develop the recycling of what are presently considered to be waste materials;
80. Welcomes the Commission's proposal for the publication of codified texts of the applicable acts relating to the common agricultural policy in the belief that this will improve the accessibility of Community legislation and so facilitate its implementation by official departments, producers and dealers;
81. In the course of the discussion of the report drafted by Mr SCOTT-HOPKINS, certain divergences appeared within the general agreement as to the conclusions to be drawn from the Commission's memorandum concerning improvements to the Common Agricultural Policy. These concerned notably the degree of emphasis to be placed on the safeguarding of the incomes of farms not yet modernised, as the price policy of the Commission becomes progressively based on the modern farm and the existing market situation.
- Therefore, one viewpoint tended to concentrate more on the importance of the Common Agricultural Policy for the stability of prices and incomes in the Community, insisting on the need for the reconversion of the smaller producer rather than a system of penalties on those products for which surpluses had developed, and to consider measures to improve productivity in agriculture to compensate for losses in income resulting from increased production costs.

<sup>1</sup> OJ No. L 96/72

Again, certain other members felt unable to agree with proposals to end regionalization of intervention prices for non-durum wheat and barley. Others, on the other hand found it difficult to accept the proposals to reduce Community support for producers of olive oil and durum wheat, particularly since these are typical products of certain of the least favoured regions in the Community.

Annex A.

Net value added at factor cost per working  
person by country and sector

|        | evolution 1968-1971% |             | 1971 (u.a.) | 1972    |
|--------|----------------------|-------------|-------------|---------|
|        | non-agriculture      | agriculture |             |         |
| Neths. | + 4.9                | + 1.3       | 5,500       | + 17%   |
| Bel.   | + 4.7                | + 4.5       | 4,400       | + 16%   |
| U.K.   | + 2.0                | + 3.7       | 4,100       | + 6.9%  |
| Dk.    | + 4.0                | + 3.2       | 3,900       | -       |
| Fr.    | + 4.8                | + 4.8       | 3,200       | + 16%   |
| Ger.   | + 4.0                | + 2.0       | 2,600       | + 10%   |
| It.    | + 3.3                | + 4.9       | 2,300       | + 2.3%  |
| Lux.   | + 2.0                | - 0.1       | 2,100       | + 17%   |
| Irl.   | + 2.3                | + 0.8       | 2,000       | -       |
| All    | + 3.65               | + 3.5       | 3,334       | + 12.4% |

