

NEWSLETTER ON THE COMMON AGRICULTURAL POLICY

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The Commission of the European Communities has just sent the Council a Memorandum on the reorganization of the common agricultural policy. To avoid all misunderstanding on the nature of such a document it should be made clear that a Memorandum is a consultative document designed to act as a basis for discussion and to be studied carefully by all relevant Community institutions and by all the socio-professional categories in the Member States, especially by representatives of agricultural circles. These discussions and the resulting conclusions will guide the Commission when it makes proposals for the reorganization in the required legal form, on the basis of which the Council will take its decisions.

It can be stated here and now that the reorganization will be carried out gradually over a period lasting until 1978. The Memorandum is being published at a time when two important facts for the development of the CAP arise :

- 1) the first three directives on agricultural reform are about to be implemented in all the Member States, on 1 January 1974;
- 2) Community actions in other common policy areas are about to get under way.

1- Application of these directives represents an essential stage in attaining the objectives of the common agricultural policy of which the most fundamental are a fair standard of living for farmers, keeping the

markets in order and reasonable consumer prices.

The common agricultural policy, initially based in the main on a prices and marketing policy involving Community preference and financial solidarity has not of itself been able to solve the problem of income disparities as between agriculture and the other economic sectors and, above all, within agriculture itself. Hence, on the basis of the 1968 Memorandum, a first batch of structural reforms, affecting production structures, will be implemented and will have to be followed as quickly as possible by an improvement of the marketing structures for agricultural products.

These developments in socio-structural policies, rounded off by a policy of aids to farmers in poor areas, will make it possible to extend the overall development of modern society to agriculture as well.

2. But agricultural policy alone cannot solve all the problems of agriculture, which is heavily dependant on general economic policy, and this includes other specific policy areas such as regional and social policy.

Consequently, the development of an economic and monetary union is indispensable if the common agricultural policy is to achieve all

its aims. The reestablishment of the single market will be possible only in a common monetary system free from national manipulations. Such a system, in its turn, can work only if the economic policies of the Member States are aligned and harmonized.

Furthermore, the socio-structural reform of agriculture can only have its effects if regional policy, by creating better infrastructures in poorer farming areas and by creating new employment there, and by an effective social policy involving vocational retraining, offers genuine alternatives to persons wishing to leave agriculture and to those inhabitants of mountainous regions who need to supplement their incomes from farming.

In this way it will become possible to develop a modern and efficient agriculture capable of accepting certain responsibilities as to the quantities produced and an agriculture whose prime function will be to contribute to maintaining the ecological equilibrium of the Community.

From now to 1978

This is the spirit in which the 1973 Commission Memorandum has been drafted.

It appeals to all those who understand that a short-term effort pays off better in the medium-term in

creating a healthy, balanced situation than a series of expensive palliatives of limited effect which are incapable of solving the problems facing agriculture.

The attached full text of the Memorandum will enable readers of the Newsletter on the Common Agricultural Policy to become aware of how that policy is to be overhauled. It would indeed be unfortunate if discussions began without those who are directly affected having first examined the Memorandum.

COMMISSION OF THE EUROPEAN COMMUNITIES

Improvement of the Common Agricultural Policy

(Commission Communication to the Council)

Brussels, 31 October 1973

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INTRODUCTION

1. In the past ten years, the common agricultural policy has at all times held a key position in the process of European integration, from both the economic and political points of view. Agriculture will continue to play a key role in European integration. But, given the outlook for the Community's development, it will be much more closely dovetailed into overall Community policy than in the past.

This consideration, undoubtedly valid in the general political context, is of special relevance to the future development of the common agricultural policy itself. For the policy cannot be properly consolidated and developed unless other Community policies, such as the Economic and Monetary Union, the regional policy and the social policy, make further progress. The implementation of those policies was advocated at the October 1972 Summit Conference and the Commission has therefore laid before the Council a number of communications and proposals the purpose of which is to enable the objectives endorsed by the Heads of State or Government to be achieved.

2. In its proposal to the Council concerning prices for certain agricultural products and certain related measures (COM(73) 445 fin. of 2 March 1973), the Commission commented that the agricultural price policy is affected to a growing extent by the limits set by the essential requirements of general economic policy and that although it does contribute to a general improvement in agricultural incomes, the price policy cannot alone dispel all the difficulties arising from disparities prevailing within the farming sector itself. The Commission therefore advised the Council of its intention to carry out a thorough review of the problems arising and to examine the case for introducing supplementary measures designed to make possible fair and appropriate growth of farm incomes without this leading to an aggravation of the market situation.

The Commission felt that these difficulties should not be treated in isolation, but should be considered in the political and economic context of the further development of other Community policies: it

has never been claimed that the agricultural policy could settle all the problems of European agriculture through its own instruments. Some of the problems cannot be solved unless a coherent set of Community measures is implemented, as part of the gradual integration of other policies, as well as under the common agricultural policy.

The present Memorandum, which sets out the Commission's findings, is guided by this overall approach. With regard to the sections concerning the common agricultural policy proper, the approach is in harmony with the views expressed by the Commission throughout the period when the policy was being worked out. However, the policy has not been a static one. Since its inception, additions and changes have been made, a principal objective being to adapt it to developments - whether economic or social - in European farming. In addition, the interests of the consumer are growing in importance among the considerations underlying agricultural policy.

The programme for improving the common agricultural policy, as envisaged by the Commission in this Memorandum, must be seen as a contribution and adaptation to this process of change.

The programme, which refers to the period 1973/78, is designed to improve price and market policy, to strengthen and amplify socio-structural policy, and to provide support for efforts being made in these two fields by introducing practical measures to be implemented under other common policies.

In addition, the Commission proposes that the contribution the common agricultural policy is making in areas outside food production - for example, protection of the consumer and of the environment - should be strengthened

5. During its first ten years, the common agricultural policy's main instrument was the common organization of the markets. This instrument is therefore the oldest and the most fully worked out. The Commission believes that the price and market policy - using the modern farm as point of reference - remains the chief instrument for incomes policy

in agriculture.

But this instrument should be refined and improved in the light of experience. The improvements to be made have three objectives: to scale down disequilibria on certain agricultural markets, to simplify some of the machinery of the common organization of the markets, and to cut back expenditure under the Guarantee Section of the EAGGF.

The Commission wishes to emphasize this third objective in particular. In this Memorandum, it has made a considerable effort to achieve a major reduction in expenditure under the Guarantee Section of the EAGGF, while maintaining the fundamental principles of the price and market policy pursued so far. It has achieved this objective through concrete proposals in the various sectors, involving both better price relationships and specific action.

6. The price and market policy can be completely effective only if it is supported by a dynamic socio-structural policy. The effective implementation of this policy is absolutely indispensable if the deficiencies still persisting, particularly in the field of incomes, are to be made good.

The Commission thus proposes that socio-structural policy should be pressed forward vigorously, supplemented by other measures, including its proposals regarding aids to problem areas.

7. Action in these two fields will nevertheless require increased support under other policies. If the objectives of the common agricultural policy are to be fully achieved, simultaneous action is necessary under price and market policy, policy on structures and the other policies forming part of economic and monetary union. These three fundamental policy areas form the setting in which the action and the measures proposed by the Commission in this Memorandum are to be implemented.

8. The 1973/78 improvement programme proposed in this Memorandum consists of an interrelated set of measures and steps which should be gradually phased in over the relevant period; this will necessitate immediate decisions and policy choices in each of the three fields.

The Commission has also reached the conclusion that additional measures in the form of more or less generalized direct aid to farm incomes might well form an obstacle to the structural changes needed in agriculture, engender major administrative difficulties in most of the Member States, and entail unduly heavy expenditure for official budgets.

It believes that, taken as a whole, the work already begun in the socio-structural field and new measures being discussed at Council level in the agricultural and other fields, combined with certain contributions indicated in this Memorandum, will make possible a fair and appropriate increase in farm incomes without aggravating the market situation.

9. The Commission realizes that the implementation of the proposed improvement programme will require specific action by each of the Community's Member States.

It calls for this effort in the short term in order to bring about, in the medium term, a sound and balanced situation from which European farming would be the first to benefit.

I. The common agricultural policy: progress so far

10. Agriculture may be regarded as one of the sectors of economic activity in which the process of European integration has been taken furthest. This fact is all the more significant if it is borne in mind that in all industrialized countries the agricultural sector has always been the subject of government intervention, though the scale of intervention and its nature and the procedures used have not been uniform from country to country.

In achieving this breakthrough the Community has proved that economic integration is feasible in an area which has often proved an obstacle to economic cooperation, and in a sector regarded as among the most delicate; the implementation of a common agricultural policy is therefore an achievement of symbolic importance as well as of practical value.

This achievement also helped to bring the Common Market through the major stages of the transitional period laid down in the Treaty establishing the European Economic Community; it has sometimes helped to speed up progress; but it has also shown that integration of only one sector of economic activity is insufficient and that a more comprehensive economic and monetary union is required.

11. Starting from agricultural systems that differed widely in more than one way, the common agricultural policy, mainly by a common organization of the agricultural markets, supplemented latterly by a socio-structural policy, and supported by the implementation of the competition rules of the Treaty, has been the instrument both within the Community and outside it of a number of measures which have yielded constructive results.
12. Within the Community, these measures made it possible to establish a large agricultural market covering, in 1972, about 193 million consumers and 8.4 million persons working in agriculture on 67.4 million hectares of land. Since the enlargement of the Community, the number of consumers has risen to 260 million and the number of persons working in agriculture to 9.6 million, cultivating 94.6 million hectares of land. Despite its imperfections, this large agricultural market has offered definite advantages to the consumer as well as to the farmer.

13. For the establishment of a common agricultural market has brought with it a very sharp increase in trade between the Member States. In 1972, intra-Community trade in agricultural and food items was running at 2.3 times the level recorded in 1963.
14. Through intervention at the external frontiers, the common agricultural policy has helped to stabilize the internal market; the latest disturbances on the world market have made stabilizing power of the policy even more obvious. But the policy has not prevented the expansion of trade with non-member countries: imports of agricultural and food items into the Community increased by 48% between 1963 and 1972. The growth of imports of items subject to common regulations was slightly faster than the growth of imports of other agricultural and food products.
15. The increase in trade has brought with it a more diversified and steadier supply of food: free movement of agricultural and food products has meant a substantial enlargement of the range of items offered to consumers. It has been estimated that the number of food items offered has increased threefold in the last five years. Such diversified choice has led to keener competition between products, and the consumer has benefited from this.
16. The process of structural improvement in agriculture has also continued in respect of the farms themselves. From 1960 to 1967 the number of farms fell at an annual average rate of about 1.7%; from 1967 to 1970 this rate was higher - 3.9%. Between 1960 and 1973 the working population in agriculture fell by about 7 million persons. The number of workers who left agriculture during this period to move to work in industry or services is put at 2.5 million. The process of structural improvement has been accompanied by a steady increase in labour productivity in farming.
17. The common agricultural policy, which, in the early stages, has been based mainly on the common organization of the agricultural markets, has not solved all the problems arising in Community agriculture.

For example, it has not prevented the persistence of wide income disparities within the farming sector. Incomes vary particularly widely as between the different types of farming, but also, within one and the same type of farming as a function of the size of the farm. In addition, the regional dispersion of agricultural incomes is a good deal wider than it is, from region to region, for non-agricultural work.

18. It is partly because of these disparities in incomes that it has been felt necessary to broaden the range of instruments now being used, the aim being to speed up the process of agricultural reorganization, whilst taking into account the broader social interests. The implementation since 1972 of a socio structural policy represents, in this context, a beginning; the work must go on and other measures must be taken. In this connection, implementation of the measures planned for mountain and hill farming and **problem areas is** of particular importance.
19. As for the market and price policy, its implementation has not enabled certain disequilibria on the agricultural markets to be avoided. For example, the Community has had to cope, on several occasions, with heavy surpluses in the dairy sector, while there was at the same time a shortage of red meats. Similarly, there have been surpluses of bread cereals coinciding with deficits of certain fodder grains.
20. Disequilibria in certain sectors have been partly responsible for appreciable increases in the expenditure of the Guarantee Section of the EAGGF; a substantial proportion of this expenditure has been accounted for by certain intervention measures on the internal market (denaturing of soft wheat, special arrangements for marketing butter).
21. Nor has the common agricultural policy prevented monetary events from breaking up the single market. At the present time the common market has been split into five sub-markets linked together by "monetary" compensatory amounts.

22. It would, however, be wrong to blame the common agricultural policy for some of these deficiencies, for which it definitely cannot be held solely responsible. The full and entire integration of the agricultural sector into the general economy can be achieved only if a set of inter-related Community measures are implemented involving, in particular, economic and monetary policy, regional policy, and social policy. In any record of the common agricultural policy over the last ten years it is essential to emphasize the serious deficiencies still to be made good in these various fields at a time when, after the accession of three new Member States, the Community has taken on a new dimension.

II. Market and price policy

A. General principles

23. During its first ten years, the common agricultural policy has been mainly based on the common organization of the agricultural markets. Through the policy on markets and prices, the fragmentation of agricultural markets within the Community was eliminated. Trade in agricultural products with non-member countries has been brought under a Community arrangement; this shelters the Community's internal market from excessive fluctuations on the world market and ensures some measure of priority for Community farmers in the provision of supplies to consumers. The Community institutions are responsible for the management of the agricultural markets and the expenditure incurred is covered from the Community's own resources.
24. The common organization of the markets is thus based on three fundamental principles the validity of which has not been affected in any way by the accession of the three new Member States: unity of the market, Community preference and financial solidarity. It is true that the principle of market unity has been seriously undermined by the introduction of "monetary" compensatory amounts. The return to a unified market is heavily dependent on monetary stability which, in its turn depends on the completion of the economic and monetary union. Now that the economic and monetary union provided for in the Council resolution of 22 March 1971 and confirmed at the October 1972 Summit Conference is a firm policy goal, the restoration of the single market not later than 31 December 1977, the date on which the "accession" compensatory amounts will have been phased out, must remain a fundamental objective of the common agricultural policy.
25. A number of criticisms of the common agricultural policy in general, and the market and price policy in particular, are becoming more and more frequent. These criticisms mainly concern the following three points: the imbalance on a number of agricultural markets, the high cost of the price support policy, and the rigidity and administrative complexity of the machinery of management.

26. The Commission has acknowledged that a number of criticisms of the market and price policy are well-founded, and it has endeavoured to find suitable ways of making the necessary improvements to this policy. In the light of experience gained during the ten years in which the common agricultural policy has been in existence, it considers that such improvements must have three main objectives:
- (i) reduction of the disequilibria prevailing on a number of agricultural markets;
 - (ii) reduction of expenditure under the Guarantee section of the EAGGF, estimated at 3 800 million units of account for 1973, and partial revision of the lines on which this expenditure is made;
 - (iii) simplification of certain mechanisms in the common organization of markets.
27. The Commission feels that several methods -- of general application or for specific products -- of achieving these objectives are particularly appropriate:
- (i) establishment of better price relationships between agricultural products;
 - (ii) assumption by the farmers of some degree of financial responsibility for structural surpluses and stronger machinery for consultation of farming community organizations;
 - (iii) greater flexibility in the machinery of the common organization of the markets, particularly through their simplification and a more rigorous supervision of measures taken; and
 - (iv) improvement as far as possible of budgetary forecasts.
28. The Commission believes that the publication of codified texts of the applicable acts relating to the common agricultural policy could well help to improve considerably the accessibility of Community legislation in this field and thus facilitate its implementation by the official departments and the producers and dealers.
29. By far the greater part of agricultural products are already subject to a common organization. These remaining gaps which lead to imbalances must be filled in rapidly where necessary, by the early adoption of proposals for the common organization of the market in products such as mutton/lamb, and potatoes.

30. As regards the price policy to be pursued in the 1973/78 period, the Commission considers that the Council's annual decisions ought to be based more fully on objective criteria, while complying with the limitations imposed on price policy by structural surpluses. Accordingly, the Commission intends to formulate its future proposals more and more in the light of trends in the general level of prices on modern farms¹: these are the farms which, under the general farm price policy, should be ensured an income comparable to that received from non-agricultural work, account being taken, on the one hand, of a satisfactory return on invested capital, and, on the other hand, of trends in the prices of the means of production and in productivity. However, as regards the prices of individual products, the Commission will, in its proposals, take account of the supply and demand situation on each of the markets concerned. The Commission believes that this price policy is compatible with the Community's general anti-inflation policy.

With regard to the time table laid down in Community regulations for the establishment of the farm prices, the Commission proposes to the Council that it postpone the deadline to the date of 1 January preceding the relevant marketing year. Such a postponement will enable the Commission to include more up to date information in the annual report on the situation in agriculture which accompanies its proposals and to take better account of the Declaration on the Community system for determining farm prices which is annexed to the Act of Accession.

¹ These are farms which already have the comparable earned incomes referred to in Article 4 of Council Directive No 72/159/EEC of 17 April 1972 on the modernization of farms. (OJ No L 96, 23 April 1972, p. 3. For English version, see OJ Special Edition, 1972 (II), p. 324).

B. Measures for particular agricultural markets

(a) Milk

31. The dairy sector accounts for 18% of the value of the final agricultural production in the enlarged Community. The area devoted to fodder crops and permanent grassland, providing general grazing including grazing for dairy livestock, represents 57% of the total agricultural area. The dairy herd comprises 24.5 million cows in 2.7 million shippon-units; 65% of farms have less than 10 dairy cows and account for 29% of the total herd; 2% of dairy farms have more than 50 cows each and account for 14% of the herd.

32. Given the need to maintain some reserves in effect on a permanent basis, the need for a more effective link between milk producers and the markets which they supply, and consumer requirements, the following improvements to the common organizations in the markets for milk and milk products are proposed:
 1. In view of the existence at the present time of large surpluses, introduction of a temporary levy on production, on milk delivered to the dairy, chargeable to the farmer and not reflected in the consumer price. Every farm would be granted a levy-free quota for the first 10 000 litres delivered. Dairies selling a certain percentage (to be determined) of their output to intervention agencies would pay a supplementary levy. The levy would be fixed at a specified amount, its rate varying, up to not more than 2% of the milk target price according to procedures to be defined on the basis of the size of the surpluses. The yield from the levy would be used, after representatives of the farming community had been consulted, for measures facilitating the marketing of the surpluses on the internal market.

2. Change in the butterfat solids non fat ratio to 50/50 (as against 58/42 at the moment); such a ratio would produce the following intervention prices:

butter	153.35 units of account/100 kg (176.00 at present)
skim milkpowder	76.80 units of account/100 kg (66.00 at present)

3. Exclusive use of butter fats in the dairy products sector and, for example, ice-cream.
 4. Scaling down of support measures for farm butter.
 5. Various technical improvements will in addition be made to the common market organization in order to increase administrative flexibility (e.g. more flexible determination of aid to skim milk and powdered milk).
33. Implementation of these measures would have two consequences:
- (a) The fall in butter consumption would be halted and the production of milk would be temporarily discouraged following introduction of a production levy; this would gradually result in a more balanced supply and demand situation;
 - (b) Expenditure under the Guarantee section of the EAGGF would fall by approximately 470 million units of account at the end of the 1973/78 improvement period; even in the first year of that period the measures concerning the fat/protein content ratio, farm butter and the marketing of milk on the internal market would result in savings for EAGGF.

(b) Beef and veal, mutton and lamb

34. Meat is a high protein food which is becoming more and more important in the diet of people in developed countries. In the enlarged Community, consumption per head is at present approximately 72 kg, compared with only 56 kg in 1960. The consumption of pigmeat is the highest (37%), followed by beef/veal (32%), poultrymeat (12%), edible meat offals (7%), mutton/lamb (5%) and other meats (rabbit, game, horsemeat 4%);

In the enlarged Community some 30% of the total food bill for households is for meat. This percentage has been rising steadily during the last few years.

35. The enlarged Community has a structural deficit on trade in meat, in particular red meats, beef/veal and mutton/lamb. In 1972/73 the total deficit was approximately 1.6 million metric tons, including 800 000 metric tons of beef/veal, 380 000 metric tons of mutton/lamb and 130 000 metric tons of horsemeat. For meat overall the enlarged Community is 90% self-sufficient. Although the level of self-sufficiency is around 100% for pig- and poultrymeat, it is only 85% for beef, other meat (rabbit, game) and edible meat offals, and it is substantially lower for mutton/lamb (54%) and horsemeat (35%).

36. The external deficit of the enlarged Community has remained constant. In fact, the average annual rate of increase in production, running at 3.2% over the last ten years, is quite close to the rate of increase in consumption (3.3%).
37. The situation varies, however, according to product. Industrial meat production (pigmeat and poultrymeat) has kept very close to the consumption trend. Beef/veal production, on the other hand, rose less rapidly between 1960 and 1971 (2.0%) than consumption (2.3%); this is also the case for edible offals; mutton/lamb production remained stable, while consumption increased by some 0.4% per year; as for horsemeat, both production and consumption fell, consumption more slowly than production.
38. Thus the problem of the enlarged Community's deficit in meat supply in fact mainly concerns beef/veal, mutton/lamb.

According to the estimates at present available, this deficit can be expected to increase between now and 1978.
39. Accordingly the Commission believes that changes should be made both in the beef/veal and mutton/lamb sector and in the dairy sector, with a view to achieving a better equilibrium of the production of red meats in the Community as against the production, in particular, of milk. Such measures could usefully be associated with the premium system for the conversion of dairy cow herds to meat production and for the development of specialized cattle-raising for meat production, and with the Directive on mountain and hill farming and problem areas. Furthermore, the price policy measures to be taken during the 1973/78 period should be framed with due regard to the supply situation in the Community for red meats.

40. The beef/veal sector accounts for 15% of the end value of the enlarged Community's agricultural production. As stated at section 31 above, the area devoted to fodder crops and permanent grassland represents 57% of the total agricultural area utilized. In 1971 there were 29 million cows, of which some 4.5 million were of meat-producing breeds.
41. The present common organization of the market in beef/veal should be better adapted to the needs of a market which shows a continued imbalance between supply and demand. Import charges need to be adapted to bring them into a better relationship with the actual prices of the whole range of products imported and with the level of market prices in the Community, while ensuring that there is neutrality of external protection in relation to the present system.
42. The following improvements to the common organization of the market in beef/veal are proposed:
 1. The guide price for calves to be discontinued.
 2. The present combined system (customs duty plus a levy varying according to nature of cut) to be replaced by a single charge on imports for all cuts, fixed ad valorem, as follows:
 - (a) for live animals and fresh meat, the maximum charge to be fixed periodically in the light of average import prices, the actual amount to be adjusted according to the relative levels of the market price in the Community and the guide prices;
 - (b) for frozen meats, the import charge to be equal to the difference between the price derived from the guide price and the offer price on the world market adjusted for freighting costs.

The import charge would be levied in compliance with the Community's international obligations and with those arising from the Association Convention and the association agreements.

3. The meat production incentives to be improved.
43. Mutton/lamb represent 3.6% of the end value of the enlarged Community's agricultural production. In 1971 the Community possessed some 41 million head of sheep, including some 23 million ewes, distributed over 800 000 farms.
44. The establishment of a common organization of the market in mutton/lamb in one of the ways provided for in Article 40 of the Treaty is an economic necessity for the enlarged Community. In the United Kingdom and Ireland, the level of mutton/lamb prices is close to that of beef/veal prices. In these countries, beef/veal prices will, during the transitional period, move progressively closer to the level of prices in the old Community countries. The lack of a common organization of the markets in the mutton/lamb sector would distort the level both of producer prices and consumer prices. The development of sheep farming should also help to improve the balance of the meat market.
45. The common market organization to be implemented during the period 1973/78 would be based on the following principles:
 1. The arrangements in the enlarged Community's internal market would be based on:
 - (i) fixing compensatory amounts between the original Community and Denmark and between the original Community and the United Kingdom and Ireland, the amounts to be based on the market prices and gradually scaled down;
 - (ii) removing all quantitative restrictions and application of Articles 92 to 94 of the Treaty.

2. The present trade arrangements with non-member countries will be subsequently reviewed in the light of the Community's relevant international obligations.
 3. Incentives for sheep farming:
 - (i) strengthening the premium system for the conversion of dairy herds to meat production;
 - (ii) measures envisaged in the framework of the Directive on mountain and hill farming and problem areas;
 - (iii) the possible extension of certain measures in this Directive to cover sheep farming in other suitable areas.
46. The implementation of these measures in the beef/veal and mutton/lamb sector would have three consequences:
- (a) better market equilibrium would be achieved progressively between milk and meat and between the various types of red meat (beef/veal, mutton/lamb);
 - (b) expenditure by the Guarantee Section of the EAGGF in respect of beef/veal production (20 million units of account) would remain unaltered and probable expenditure for mutton/lamb production would be only marginal. Expenditure by the Guidance Section of EAGGF could be expected to rise by 100 million units of account for five years;
 - (c) the machinery regulating the common organization of the beef/veal market would be greatly simplified.

(c) Cereals

47. Cereals account for 9.6% of the value of final agricultural production in the enlarged Community. The area under cereals represents 28% of the total area utilized. In 1966/67 there were approximately 4.5 million farms producing cereals in the Community; 4% of them covered an area of more than 50 hectares and accounted for 35% of the total area under cereals.
48. Since the establishment, on 1 July 1967, of a common organization in the market for cereals, the world market situation has changed considerably. As world prices for all cereals have increased, world stocks have contracted sharply.

In considering possible modification of existing arrangements it is necessary to bear in mind not only the working of the common cereal provisions since their introduction but also of recent developments on the world market.

49. The following improvements to the common organization of the market in cereals are proposed:
1. Gradual introduction of a better relationship between prices for the various cereals by temporarily not increasing the price of soft wheat and a relative increase in the prices of barley and maize. The objective in principle will be to achieve a common level of prices which takes greater account of the nutritional value of the various cereals.
 2. Phasing out of the denaturing process and, where necessary, its replacement by exceptional measures facilitating the conversion of wheat into forage.
 3. The "regionalization" of intervention prices to be superseded by a system of single intervention prices for soft wheat and barley,

valid throughout the Community and similar to that for maize, rye and durum wheat.

4. Intervention for cereals of a quality lower than the standard quality to be discontinued.
 5. Improvement in the system of production refunds (maize, starch, wheat starch, potato flour, maize grits).
 6. Implementation of a comprehensive and coherent stocks policy based on soft wheat. The amount to be stocked would be fixed in the light of the normal supply requirements of the Community market and in the light of international stocking commitments entered into by the Community. Cereals stocked would be used mainly to ensure that human and, if need be, animal requirements were met and that food aid commitments would be carried out.
 7. Various technical improvements would also be made to the common market organization in order to increase administrative flexibility (e.g. more flexible fixing of direct aid to durum wheat, new date for the beginning of the marketing year for maize in order to make barley more competitive during the period from July until September, introduction of a tendering system for export refunds).
50. Implementation of these measures would have three consequences:
- (a) The imbalances which have, at regular intervals, appeared on the cereals market would gradually disappear to be replaced by a better balance between the various cereals related to real market needs;
 - (b) expenditure under the Guarantee Section of EAGGF would fall by approximately 580 million units of account at the end of the 1973/78 improvement period; during the first year expenditure would fall, as a result of the measures, by approximately 150 million units of account;

(c) the machinery of the common market organization would be simplified.

(d) Protein

51. The development of pigmeat and poultrymeat production, as also the increasing proportion of compound feedingstuffs employed in animal feeds, has led to an increased use within the Community of raw materials rich in protein, other than green fodder. In 1971/72 the quantity of high-protein feed other than green fodder consumed in the Community exceeded 17 million metric tons. The feeds varied considerably in value, depending in particular on their protein content (18% in lucerne meal, 70% in fish meal).

52. Three-quarters of the supply of high-protein feed is provided by oilseeds (oilcake and meal) and the rest by meat and fish meal, lucerne meal, fodder legumes and powdered milk. Although cereals contain a certain percentage of protein, they are included in animal feeds chiefly as a source of energy. The use of non-agricultural sources of protein is as yet negligible.
53. The degree of Community self-sufficiency has been steadily declining; at present the Community can supply some 4% of its needs in oilcake and some 30% of its fish meal requirements. Production of fodder legumes is also declining.
54. The following conclusions can be drawn from the report on the protein supply situation of the enlarged Community:
- (a) Community demand for meat will continue to rise between now and 1977/78, even if at a slightly slower rate than in the past; meat production in the Community can be expected to rise in consequence.
 - (b) Over the last ten years the use of compound feedingstuffs has increased considerably more than that of livestock production. This trend towards more rationalized feeding will continue during the next few years, particularly in some Member States of the Community.

On the other hand, the modification in the relationship between the prices of high-protein products and cereal prices which occurred in 1973 has led to a cut-back in the use of the former. If the new ratio continues, the curtailment of the use of high-protein items could well also continue.

- (o) Under these conditions a reasonable estimate would set the increase in Community consumption of high-protein products between now and 1977/78 at 3% per year.
- (d) Demand for such products will rise not only within the Community. According to some forecasts an annual 6% increase in demand for oilcake in the United States can be expected; increased demand in the other parts of the world, particularly certain eastern European countries and Japan will probably be even higher.
- (e) Although availabilities of high-protein products should cover world demand during the 1973/74 marketing year, it may well prove difficult to produce sufficient quantities to meet demand over the following years. It seems unlikely that production of fish meal, which fell sharply in 1972, will show a recovery, and the production of oilseeds other than soya beans cannot be expected to rise appreciably. Sunflower seed is the only crop which may expand, particularly in the eastern European countries, but such additional output is likely to be needed to meet the increasing requirements of those countries.
- (f) Over the coming years the supply of additional quantities of high-protein products to meet increasing world needs will depend largely on soya beans.

However, it would seem that American soya beans production cannot be developed without increasing the area cultivated. But even at the 1973 price, soya is a less remunerative crop for farmers than other crops, for example maize and cotton. Thus it is not at all certain that American agriculture will be able to extend the area planted with soya indefinitely. It is interesting to note that available forecasts indicate that the area under soya will contract a little in 1974.

As for Brazil, internal requirements will probably account for part of any increase in production.

55. Under these conditions it would seem to be in the general interest for the Community to endeavour to prevent its dependence on imports for supplies of high-protein products from growing excessively over the next five years. It should, however, be noted that in the Community, arable land is diminishing all the time; any efforts made to extend the area under high protein crops must necessarily reduce the area under cereals.
56. Measures to develop Community production of high-protein products could take the form, in particular, of:
- (a) establishing a more satisfactory relationship between prices for colza and for sunflower seed. The object is to extend the production of sunflower seed up to some 200 000 metric tons (70 000 metric tons in 1973). There is a grave shortage of sunflower seed within the Community but if colza production were to increase yet further, it might prove difficult to dispose of the product as oil or oilcake
 - (b) extending the support system applied at present to colza and sunflower seed to cover soya beans. The system should, however, be so adjusted as not to affect the soya bean import arrangements. If these measures were applied, soya bean production could be expected to reach 100 000 metric tons by 1977-78
 - (c) encouraging the dehydration of fodder plants such as lucerne so as to increase the supply of this product on the market. To this end, provision should be made for common measures to encourage the establishment and rationalization of drying plants and for intervention measures to reduce the cost price of the product.
 - (d) reducing the price of selected seed of fodder legumes such as peas and beans both for Community-grown seed and for seed imported from third countries;

- (e) setting up a research programme to develop and produce new varieties of seed within the Community which could increase production of sources of protein, particularly as regards:
 - (i) hybrid bean seeds,
 - (ii) cereals with a high-protein content;
- (f) authorizing, subject to the same conditions in all Member States, the inclusion of urea in animal feeds: the use of urea allows of savings in proteins, which would help to prevent the Community shortage from becoming worse;
- (g) examining other techniques to develop the production of sources of protein and problems arising as regards the harmonization of legislation in this field.

57 Estimated additional EFOGA expenditure for the application of the above measures would amount to some 30 million units of account.

(e) Oilseeds and olive oil

58 In view of the fact that there is a heavy deficit in the Community protein supply situation, the measures described above will not hamper the development of trade with non-member countries and in particular with countries referred to in Protocol No 22 attached to the Act of Accession

(e) Oilseeds and olive oil

59 Oilseeds represent 1.6% of the final production (value) of the enlarged Community's agriculture. In 1971 oilseed cultivation occupied 500 000 hectares (0.5% of the utilized agricultural area), of which 400 000 hectares were planted with colza and rape seed.

60 Olive oil represents 1.2% of the final production (value) of the enlarged Community's agriculture. Olive-groves cover 2.3 million hectares (2.3% of the utilized agricultural area). About a million Community farms are involved in cultivating this crop; oil is produced in some 12 000 oil mills.

61. In view of the difficulties which have arisen in this field since 1966, the following adjustments to the common organization of markets are proposed:

1. Oilseeds

- (a) a review of price regionalization arrangements with a view to eliminating the additional aid for colza processed in Italy;
- (b) the establishment of a programme for research on and distribution of selected colza seed possessing characteristics such that its use would no longer be hindered as at present. After the 1976/77 marketing year, aid would be granted only in respect of colza produced from selected seed satisfying certain requirements as to its characteristics.

2. Olive oil

Experience has shown that the system in operation at present is not well fitted to the structure of the olive oil industry. The difficulties arising in supervising and granting aids to olive oil are the clearest examples of this. It should be possible, without completely reviewing the system, to make some substantial improvements, such as:

- (a) fixing a maximum aid equal to the difference between the producer's target price and the market target price. If the price obtained on the market appreciably exceeds the market target price, the aid would be reduced by a corresponding amount;
- (b) strengthening, for the 1974/75 season onwards, aid controls, in particular by:
 - (i) the establishment of an olive-grove register;
 - (ii) laying down strict criteria to be applied when fixing target yields;
 - (iii) making producers supply proof that their production has exceed the target yield;
 - (iv) imposing a greater degree of responsibility on producers.

62. Implementation of these measures would entail a considerable reduction in the expenditure of the Guarantee Section of the EAGGF by the end of 1973/78 improvement period.

(f) Other products

1. Wine

63. Wine represents 5% of the final production of the enlarged Community's agriculture. Vineyards occupy 2.6 million hectares, i.e. 2.0% of the utilized agricultural area. The four wine-producing countries possess some two million holdings devoted to vine cultivation.
64. It is proposed that the intervention system at present in operation should be amended so that the Commission, using the management committee procedure, would have power to decide that during the first two months of the marketing year wine should be distilled, on the basis of a buying-in price amounting to between 50 and 60% of the guide price.

2. Potatoes

65. Potatoes represent 2.8% of the final production (value) of the enlarged Community's agriculture. In 1971 potato crops occupied 1.6 million hectares (1.7% of the utilized agricultural area) on some 2.5 million farms.
66. Potatoes are not as yet subject to a common organization; in some Member States they are subject to a minimum price system.

A common organization of the market in ware potatoes in one of the ways provided for in Article 40 of the Treaty would entail the application of rules on competition and the introduction of quality standards

The improvements proposed as regards potato starch in the section on cereals should also be noted.

3. Sugar

The Commission has already laid before the Council its proposals for improving the arrangements for sugar (Document COM(73) 1177, 19 July 1973).

III. Policy on structures

67. A salient feature of recent developments in the common agricultural policy is the clear realization that market and prices policy and policy on structures complement each other and that they are closely linked. For one thing, it has become apparent that price policy in itself is no substitute for progress as regards farm structures and that in reality its "across the board" impact on categories of farms with extremely unequal structures has the effect of widening still further the income disparities between categories of farms and between the regions of the Community.

Secondly, the investments which must be made if farm structures are to be improved can be envisaged only if the price assumptions on which the investments would be based remain valid and if the investments are compatible with the economic requirements of the common agricultural policy.

The Commission has already opted for a division of labour between the two policies, basing its price proposals on the real income needs of farms which are profitable, and leaving to structural policy the task of bringing as large a proportion as possible of the other farms up to this stage.

68. Instruments for Community action are already available within the context of structural reform. This is directly the case for Council Directive 72/159 on the modernization of farms, which requires Member States to introduce a selective system of aid to investment for farms which submit development plans, enabling farms to attain a level of earned income comparable to that received for non-agricultural work in the region in question. Directive 72/160 on the cessation of farming should have a considerable effect on agricultural structures, since its aim is to reallocate to farms in the process of modernization land made vacant when other farmers cease farming; at the same time, it plays an important role as regards the incomes of those who give up farming, as it offers either an alternative income in the form of an annuity for elderly farmers, or a premium to encourage other

farmers to move to other work.

Finally, Directive 72/161, the aim of which is to improve the vocational guidance and training of persons engaged in agriculture should help the latter to keep pace with the requirements of a rapidly developing industry and in this way to create for themselves better opportunities to improve their incomes. The parallel action by the European Social Fund for farmers leaving the land also aims at improving productivity and incomes in other industries.

69. These measures are, of course, insufficient to improve the incomes of as large a number of farmers as one would wish. In certain areas of the Community farms are able neither to take real advantage of the price policy nor to make use of the structural policy - this is for reasons relating neither to farmers' personal abilities nor to the state of their farms, but to the intrinsic nature of these areas, where major natural obstacles stand in the way of progress.

70. So as to improve the incomes of farmers handicapped in this way and thus make a direct contribution to safeguarding the areas in question the Commission has proposed a draft Directive on hill and mountain farming and farming in certain problem areas. The directive is now before the Council.
Moreover, the absence of alternative employment in certain agricultural regions constitutes a powerful brake to the modernization of farms and thus to an improvement in incomes. To remedy this situation, the Commission has submitted to the Council a draft regulation on Community regional policy measures in the Community's priority agricultural regions.

71. At the present time, the Community policy on agricultural structures has not yet been implemented throughout the Community. After a considerable delay in obtaining approval of the first common measures in this field, it proved necessary to extend the implementation period in the Member States until 31 November 1973. Although certain Member

States have already begun to implement some or all of the common measures, it is therefore still too early to be able to make a critical appraisal of the policy's effects.

72. Furthermore, referring in particular to the Council Resolution on agricultural reform of 25 May 1971, the Commission feels it is necessary to make additions to the existing arrangements and to its present proposals relating to agricultural structural policy.

73. The additions are in two fields. Firstly, the Commission intends proposing to the Council, at the end of 1973, a directive on the encouragement of afforestation to improve agricultural structures. This common action will include afforestation aids and, where appropriate, the improvement of woodlands, not only to increase the incomes of farmers concerned, but also to contribute to safeguarding the natural environment, especially in problem areas.

74. Secondly, the Commission intends to submit, early in 1974, proposals for common measures on market structures. A proposal for a regulation on farmers' associations and their federations, the purpose of which is the improvement of the conditions under which farmers market their output, has already been sent to the Council. But, the Commission believes that joint action is also needed with regard to agricultural marketing and processing equipment. It therefore intends to propose to the Council joint action to encourage development and rationalization in this field. In particular, the Commission is planning measures to encourage the preparation, at the initiative either of official departments or of relevant private-sector organizations, of action programmes for specific sectors, to be submitted for approval at Community level; assistance from the Guidance Section of the EAGGF will be gradually concentrated on investment schemes forming part of such programmes.

Until such time as these common measures can produce their full structural effects, the Commission will ensure that individual projects financed by the Guidance Section of the EAGGF are strictly in line with the principles of the market and price policy.

75. The implementation of these measures will involve no increase in the present expenditure of the Guidance Section of the EAGGF.

76. The Commission believes that the achievement of the objectives set out in Article 39 of the Treaty should be based on the market and price policy and the agricultural structures policy, implemented jointly, supported by the regional policy and the social policy, particularly the Social Fund.

Such an approach is the only one which can make a selective contribution to improving the incomes of the categories of farms at which these policies are aimed, while at the same time maintaining their ability to compete.

IV. Related policies

77. As a policy concerned with only one sector of the economy, the common agricultural policy cannot solve by itself all agriculture's economic and social problems. Agriculture is closely involved with the rest of the economy and depends not only on economic development in general but also on general economic policy and other specific policies in the regional, social, and fiscal fields, etc.
78. Although it is true that the common agricultural policy has in the past been one of the main driving forces in developing, at Community level, common policies in these various fields, it is nevertheless true that the inadequacy or lack of such common policies in the past has often constituted a major obstacle to the achievement of the objectives of the common agricultural policy. In this connection, the disruption of the common agricultural market as a result of monetary events and the persistence of income disparities within agriculture - which is partly due to the fact that no proper regional or social policy has yet been implemented - are two particularly significant examples.
79. It is for this reason that the Commission considers that its proposed improvement of the common agricultural policy during the period 1973/78 needs to be assisted by concrete developments in the other common policies. Bearing in mind their implications for the common agricultural policy the most important elements are mentioned below.
80. Finally, the Commission points out that the common agricultural policy makes a not inconsiderable contribution to the protection of the environment and to consumer protection. Since these are major concerns for our modern society, the Commission proposes that the contribution made by the common agricultural policy in these fields should be stepped up.
- A. The economic and monetary union
81. Since 1969, agriculture in the Community has been suffering the consequences of the lack of a monetary union between the Member States. The single market, achieved by means of common prices denominated in units of account, has been gradually disintegrated because of the

parity changes which have since been made. At present, the Common Market is subdivided into five sub-markets linked by "monetary" compensatory amounts. Only France and Denmark apply the common prices; prices as expressed in national currencies differ by more than 30% between Germany and Italy, which are at the two extremes of a range within which, as well as the French and Danish markets, the Benelux United Kingdom and Irish markets are located. This difference is the same as, or, for certain products, even greater, than it was in 1967, when prices were unified.

82. The splitting up of the single market has damaging implications for agriculture and the economy in general. Commercial operations on a fragmented market are necessarily subject to very complicated administrative procedures, and this is liable to affect prices and trade. Moreover, agriculture is gradually isolated from the general economic environment emerging in the countries concerned after the monetary changes, and the result is distortions of competition between the agricultural systems of the various countries, and between agricultural products and between means of production in agriculture. These distortions are unacceptable in the long run. Specialization of production on the basis of optimum allocation of resources within the Community is being considerably slowed down as a result.
83. The lack of an internally consistent economic policy at Community level is also harming agriculture. Thus, farmers, who are not always able to hand on to distributors and consumers the production cost increases they themselves have been unable to avoid, are hard hit by inflation. Again, appreciable differences between the rates of interest farmers must pay on the loans they contract are causing obvious distortions between farmers carrying out modernization investment in accordance with Community directives.
84. Given the prospects for the implementation of the economic and monetary union provided for in the Council's resolution of 22 March 1971 and confirmed at the October 1972 Summit Conference, the Commission takes the view that, whatever else is decided, the "monetary" compensatory amounts must be phased out by 31 December 1977.

B. Regional policy

85. The drive to restructure agriculture is handicapped in many regions of the enlarged Community because economic development is not balanced. This is true in particular of regions where there is a considerable surplus in the agricultural working population owing to the modernization of agricultural structures and which, at the same time, suffer from low levels of economic development and income. This type of region constitutes approximately 40% of Community territory; the agricultural working population of these regions accounts for more than 60% of the total agricultural working population of the Community.
86. In mountainous regions and other regions less well endowed naturally, the development, and even the maintenance, of agriculture, is handicapped by the risk of under-population, due not only to unfavourable natural conditions but also to the absence of general infrastructures. Such regions, approximately half of which are of the same type as the regions referred to in the preceding paragraph, constitute 20% of Community territory; they account for approximately 20 million hectares of agricultural land and have an agricultural working population of approximately 1.6 million.
87. The Commission looks forward to the Regional Development Fund's contributing to improving this state of affairs. It trusts that by 31 December 1973, when the Fund is to be set up, the Council will also adopt its proposal for EAGGF help towards creating alternative employment in priority agricultural regions. Equally, the Commission hopes that rapid effect will be given to the provisions of the Directive on agriculture in mountain and hill areas and other problem farming areas.

C. Social policy

88. The drive to restructure agriculture has been hampered, in particular in the priority agricultural regions of the enlarged Community, by the absence of specific measures to provide vocational retraining for persons wishing to leave the land. It is estimated that approximately 2.5 million people left agriculture to take up other employment over the 1960/1972 period.

89. The operation of the renewed Social Fund will constitute a valuable contribution to the drive to reorganize agriculture over the coming years. It is estimated that 150 000 people will qualify for assistance from the Fund during the 1973/1978 period.
90. In this connection, the socio-structural measures adopted by the Council in 1972 should be supplemented by national measures regarding study grants to children of farmers with low incomes.
91. The absence of harmonized social security schemes gives rise to distortion of competition within Community agriculture. These distortions result in particular from the impact on agricultural incomes of the differences in the schemes operated, the contributions payable transfers in the individual Member States.

D. Taxation

92. Fiscal harmonization has not made sufficient progress in the Community's and this is producing distortions both in the agricultural markets and in the conditions under which farmers compete.
93. The Commission must stress the need to implement fiscal harmonization in the near future as indicated in the proposals made under the programme for economic and monetary union.

E. Protection of the environment

94. The common agricultural policy has much to contribute to efforts to protect and improve the environment. In this connection, the Council's environment action programme adopted on 19 July 1973, provides, in the

parts relating to the safeguarding of nature, for a number of measures in addition to those referred to in Chapter III of this Memorandum. (woodlands, hill and mountain farming); these measures include action to develop agricultural production and stock-raising techniques not harmful to the environment, the adoption at Community level of appropriate regulations, and the protection of certain animal species, including migratory birds.

F. The interests of the consumer

95. The list of objectives of the common agricultural policy set out in Article 39 of the Treaty includes stabilization of the markets, reliability of supplies, and reasonable consumer prices. The various common organizations of the agricultural markets have helped to stabilize prices on the Community markets and to insulate these markets to a great extent from the fluctuations - some of which have been very abrupt - in world market prices. However, although the stabilizing effect has been achieved at a price level generally regarded as fairly high, world prices for some of the most important items, like cereals, have recently risen to levels higher than those of the Community markets.
96. The Commission, bearing in mind the need to give greater attention to the interests of the consumer, wishes to emphasize the advantages which the consumer will be in a position to gain directly or indirectly from the measures announced in this Memorandum. With regard to the introduction of more specific measures, the Commission proposes the following action programme:
- (i) as part of efforts to coordinate agricultural science research, incentives to research on the effects of the consumption of various fats on human health,
 - (ii) encouragement of the production of high-quality food, and effective supervision of this type of production.

V. External commercial relations

97. The introduction of the common agricultural policy and in particular the gradual development of the various common organizations of the agricultural markets have enabled a very high degree of trade liberalization to be achieved within the short space of a few years. Virtually all quantitative restrictions and measures of equivalent effect have disappeared.

98. The agreements and arrangements with other trading countries, which the Community has entered into for a wide range of agricultural items, and particularly the price guarantee agreements, have brought economic and trading benefits to these countries.

99. Through a number of multilateral arrangements the Community has played a major role in defining and implementing a policy to reorganize the world market and with the same objectives, it has recently adopted the policy guidelines which it intends to pursue in the GATT multilateral negotiations. The Community will propose a series of world arrangements for agricultural commodities, these arrangements to include a policy, concerted at international level, with regard to stocks.

In addition, in its external relations, the Community is also engaged in many sets of negotiations - in particular, with the countries of the Mediterranean basin and the countries referred to in Protocol No 22 attached to the Act of Accession - in which agricultural questions are involved.

100. In view of the growing world demand for food, the Community must also consider that part of development aid which food aid may constitute in certain circumstances. The Commission intends to submit to the Council proposals which will dovetail into the overall development aid policy to be implemented by the Community.