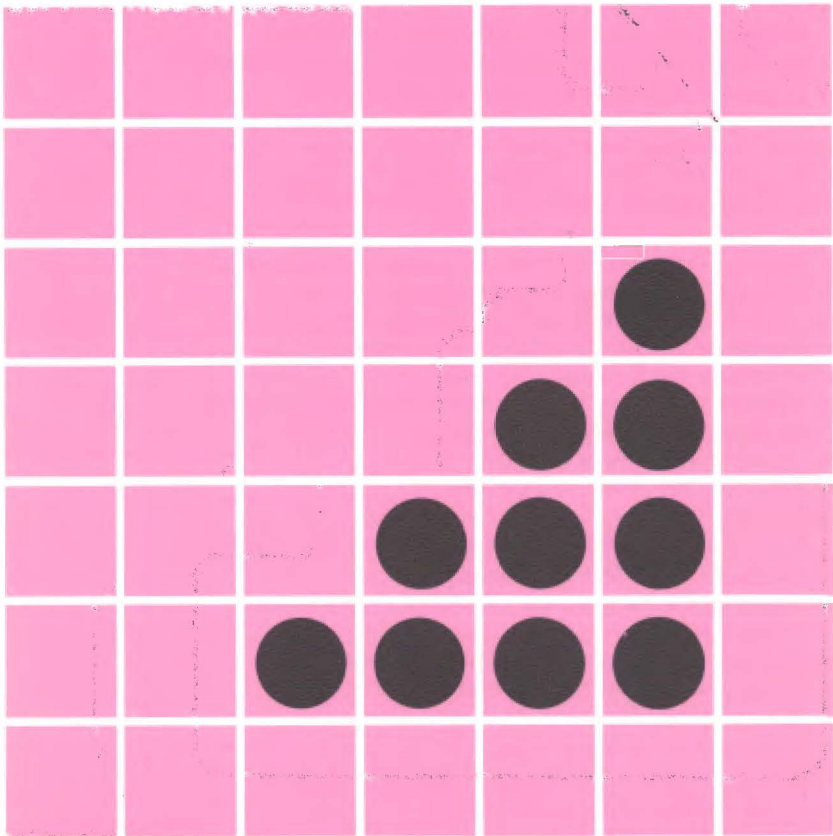


THE AGRICULTURAL POLICY OF THE EUROPEAN COMMUNITY



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Contents

Introduction — In favour of a common agricultural policy - the reasons and the background	
I. Why an agricultural policy in industrial States?	5
II. A common policy - the better way	6
Part One — The common agricultural policy in practice	
I. The common agricultural policy: objectives and guiding principles	13
A. Demanding tasks	13
B. Clear principles	14
II. Market and prices policy: the principal mechanisms	15
A. The basic model: a 'classical' example	16
B. The main types of market organization	18
III. Agricultural prices - a story by itself	20
A. At the focus of interest: the price decisions	20
B. Common prices - high prices?	20
C. Different currencies - common prices?	23
IV. External agricultural policy: markets protected but not closed	27
A. Open to the world on a sound foundation - the Community as the world's largest agricultural importer	27
B. Promoting worldwide exchanges of goods: the agricultural trade policy	28
C. Cooperation instead of confrontation: agricultural trade with the Third World	30
D. The common agricultural policy - a troublemaker in world trade?	31
V. A new dimension: the common structural policy	33
A. Structural diversity - a difficult starting point	33
B. The Mansholt Plan and its consequences	34
C. Modernization, training and information: aid for the farmer and his farm	34
D. Structural improvements in the marketing and processing of agricultural products	36
E. Major tasks ahead: the dismantling of regional disparities	36
F. Economic crisis; need for coordination; long-term action - the image problems of structural policy	39
VI. The expression of solidarity: financing of the common agricultural policy	40
A. Common policy - common funding: the EAGGF	40
B. A common policy - an expensive policy?	43
VII. Helping the CAP to work smoothly: supplementary measures	45
VIII. Novel in many respects: the institutional framework	48

Part Two — A quarter of a century after Rome - the common agricultural policy in the 1980s	
I. Worthwhile achievements	51
II. The changing face of agriculture	54
III. Problems of today - challenges for tomorrow	58
A The problem of market imbalances	58
B Differences in incomes in agriculture	60
C Enlargement of the Community	62
IV. Policy for the 1980s: guiding principles of the Commission	63
A Adaptation of markets	63
B Reorientation of the structural policy	65
C Production alternatives: prospects for the future	66
<i>European prices: a short glossary</i>	69
<i>Further reading</i>	71

Introduction — In favour of a common agricultural policy - the reasons and the background

I. Why an agricultural policy in industrial States?

An economic sector of strategic importance

Agriculture is one of the oldest of all human occupations. Its products are intended principally for human food — i.e., they are essential to life. Advances in productivity (or, more precisely, increases in the productivity of labour) in agriculture are, especially in the early stages of social development, an important prerequisite for the unfolding in other spheres of human activity: only where agriculture produces more than those engaged in it consume can man devote himself to tasks other than the securing of food.

This strategic importance of agriculture explains why all peoples since the dawn of history have set great store by the expansion and safeguarding of their agricultural production. The aim here is to cover a high proportion of the food requirement from one's own resources, thus reducing external dependence and forestalling the risk of shortages. This does not preclude trade in food with foreign countries, but such trade must be balanced and must not lead to one-sided and hence critical dependence. From this point of view agricultural policy is also a precaution — and thus forms part of a comprehensive security policy.

An economic sector with special conditions of production

For all the technical and biological progress achieved particularly in the last few decades, the majority of agricultural production continues to depend crucially on natural conditions such as the nature of the soil, climate and weather. For this reason, certain products are subject to considerable fluctuations in the volume of production from year to year, and this risk is further increased by diseases and pests. While the supply fluctuates for the reasons stated, the demand, at least in most of the developed nations today, remains substantially constant. If unchecked, this would result in big variations in prices for the consumer and serious uncertainty on the part of the producer about his income. One of the functions of an agricultural policy is therefore to regulate prices and marketing in order to bring about the stability which is desirable for all concerned.

An economic sector for environmental protection

However, agriculture does not only produce foods and other raw materials such as wool, cotton and flax. It can also — in effect as a 'byproduct' — play an important part in preserving and looking after the landscape. In some regions with poor soils and harsh climatic conditions, the constant contribution of agriculture is for this reason simply indispensable if the depopulation and desertion of the countryside is to be avoided. Agricultural policy is thus also environmental protection policy.

An economic sector as a way of life

The close relationship with nature, the ties with the land and the dependence on climate explain another characteristic feature of agricultural activity: agriculture was for centuries, and still is to a great extent, just as much a way of life as an economic activity. Hence a change of occupation and migration to the city often constitute a radical change for the farmer and his family. The older the farmer, the more difficult is any change. Again, there is often no other employment available in rural areas. Faced with the threat of unemployment, many farmers therefore prefer to stay in their occupation and retain their property even if their incomes lag far behind what they could earn in other sectors. Particularly at times of economic difficulty, farmers therefore often carry on until they are forced to give up by old age.

All these factors together impede the adaptation of agricultural production structures to the sometimes rapid pace of economic and social change. If agriculture is nevertheless still to have genuine prospects of development and is to be able to perform its many different functions in society, intervention may be necessary to promote structural change in this sector and to enable those engaged in it to share in the general prosperity and its evolution. However, the problem can obviously not be solved by simply consigning hundreds of thousands of farmers to unemployment. An agricultural policy which aims at equalization is thus quite plainly also a social policy.

These few considerations already show how many-sided, important and at the same time difficult the function of agriculture is in our society. They indicate the reasons why we need an agricultural policy. And they illustrate the complexity of the tasks facing this policy.

II. *A common policy — the better way*

For centuries the member countries of today's European Community endeavoured to solve agricultural problems individually. Differences in the natural conditions of production, as well as economic and political divergences, led over the years to different kinds of agricultural policies and were reflected in widely varying agricultural production structures.

Community agriculture in 1980

Aggregates	Unit	B	DK	D	GR	F	IRL	I	L	NL	UK
Share of agriculture in GDP	%	2.3	4.4	2.0	15	4.2	13.7 ¹	7.5 ¹	2.8 ¹	3.7 ¹	2.1
Number of people working in agriculture, forestry and fisheries	1 000	112	208 ¹	1518	1016	1871	220	2925	10	230	637
Proportion of the working population engaged in agriculture	%	3	8.3	6	30.3	8.8	19.2	14.2	6.6	4.6	2.6
Number of farms of more than 1 ha	1000	91	116	797	732	1135	225	2192	5	129	249
Proportion of farms of less than 10 ha	%	48	29	51	92	35	32	86	30	44	24
Average utilized agricultural area (UAA) per farm	ha	15.4	25.0	15.2	4.3	25.4	22.5	7.4	27.6	15.6	68.7
Livestock numbers per owner	number										
— all cattle		37	45	27	5	33	32	13	56	57	75
— dairy cows		17	23	12	—	14	14	6	21	32	53
— fattening pigs		116	127	41	13	30	114	9	44	205	225

¹ Figures for 1979.

It is therefore not surprising that, when the Community was formed, European agriculture should have presented an extremely multifarious, non-uniform and in some respects also contradictory picture.

Diversity with contrasts

The six original countries of the Community cover an area of 117 million hectares. About 60% of this is agriculturally usable, but the natural conditions of production vary enormously, ranging from the plains of northern Germany, through the high mountains of the Alps, to the coasts of southern Italy. While Belgium has 0.19 ha of agriculturally usable land per head of population, France has over 0.77 ha per capita (for comparison, the figure for the USA is 2.3 ha). In the mid-1950s, some 17.5 million people were employed in the agriculture of the Six. Agriculture accounted for over a third of the gainfully employed population in Italy (well over half in southern Italy), a quarter in France, but only a tenth in Belgium. Farms — disregarding holdings of less than 0.5 ha — averaged 15 ha in France, but only a third of this size in Italy. In Italy, 85% of all farms were between 0.5 and 5 ha, the equivalent proportions for Germany being 55% and France less than 35%.

Not only the structure of production but also the product structure of Italian agriculture was very different from that of the other founder States. Cereals accounted for a quarter of the total value of production, compared with a tenth in the other countries and as little as a twentieth in the Netherlands. The production of fruit (10%) and wine (11%) was also more important in Italy than in the other countries, even including France. In the latter country, however, beef and veal production was more important than in the other five original Member States, while milk and pigmeat production (each accounting for a quarter of the total value of production) was predominant in Germany. In general terms, the situation in the northern regions (Benelux, Germany and the northern part of France) was substantially determined by animal production, which accounted for over two thirds of total production by value, while plant products (also accounting for some two thirds of the total value of production) were preponderant in the south.

Of the total production of goods in the mid-1950s, agriculture accounted for 36% in Italy and 30% in France, but only 15% in Germany. Its contribution to the gross national product (GNP) ranged between 8.4% in Belgium and 23% in Italy — a factor of three. On the other hand, a farmer in Belgium had an average income (expressed in US dollars) nearly three times as high as his Italian counterpart. Yields per hectare (by value) were highest in the Netherlands and in Belgium — two and a half times those obtained in Italy. In those two countries, agriculture lagged behind the other sectors of the economy least in terms of income, the differential being less than half that of Germany, France and Luxembourg.

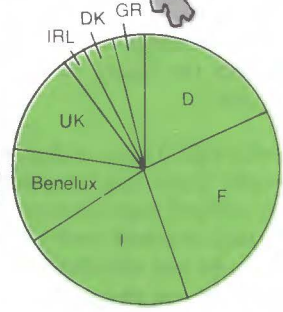
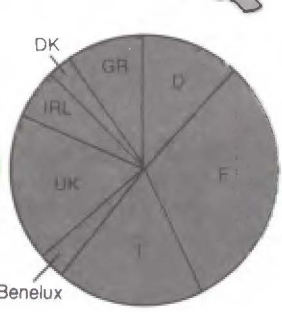
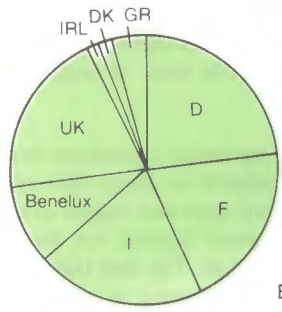
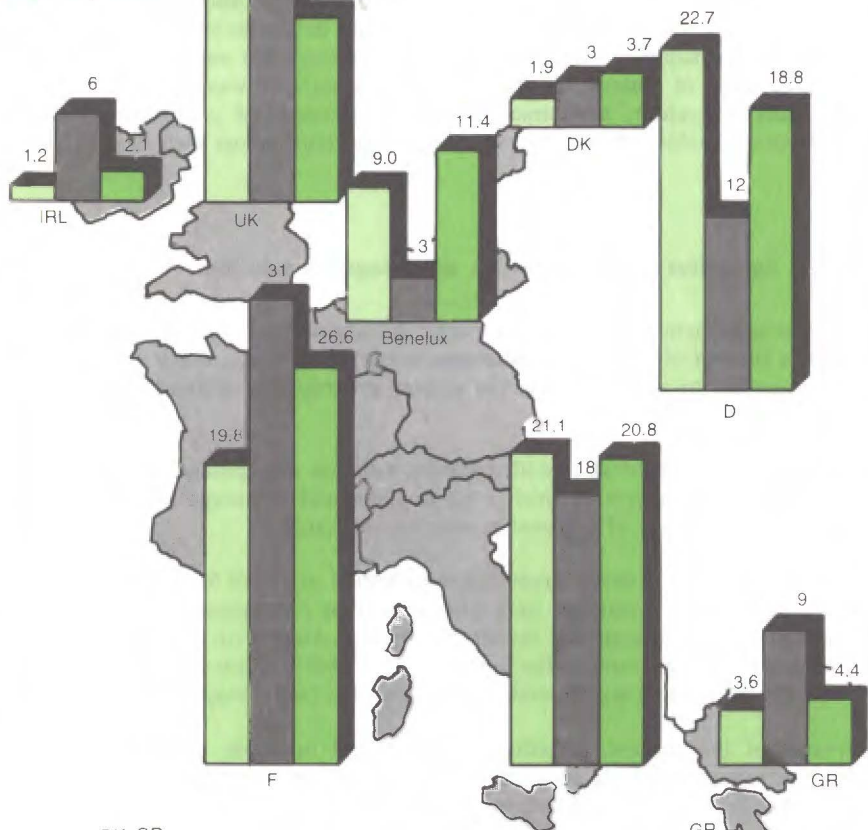
No common market without agriculture

Despite the differences and contradictions which existed, it would have been inconceivable to set up the European Economic Community without including such a strategically important economic sector as agriculture. If it was intended to create a common market, to

Figure 1

Share of each Member State in the Community's potential consumption (Inhabitants), potential production and actual (1980)

- Inhabitants:
% of population
- Land:
% of UAA
- % by value of
final production



open the borders and to eliminate existing barriers to trade, then it had to be possible for the more agricultural countries to benefit just as much as their partners in which the emphasis was more on industry.

Again, the retention of different national agricultural policies would at the outset have called into question the implementation of the economic community in other fields. For instance, it is not possible to try to introduce a common market for the food industries — agriculture — without risking serious distortions of competition. Should the food industries therefore also be excluded? And what about the other industries connected with them or with agriculture as suppliers or customers? Furthermore, the variation of food prices influences the trend of costs in all other economic sectors by way of the workers' wage claims. Clearly, therefore, economic integration, freedom of competition and social progress cannot be achieved on a lasting basis if important sectors such as agriculture are excluded.

A common agricultural market — an advantageous solution

After all, the introduction of a common market for agricultural products also held out the prospect of a number of important advantages to the Community, which would have been virtually impossible to achieve within the narrow geographical confines of the individual Member States:

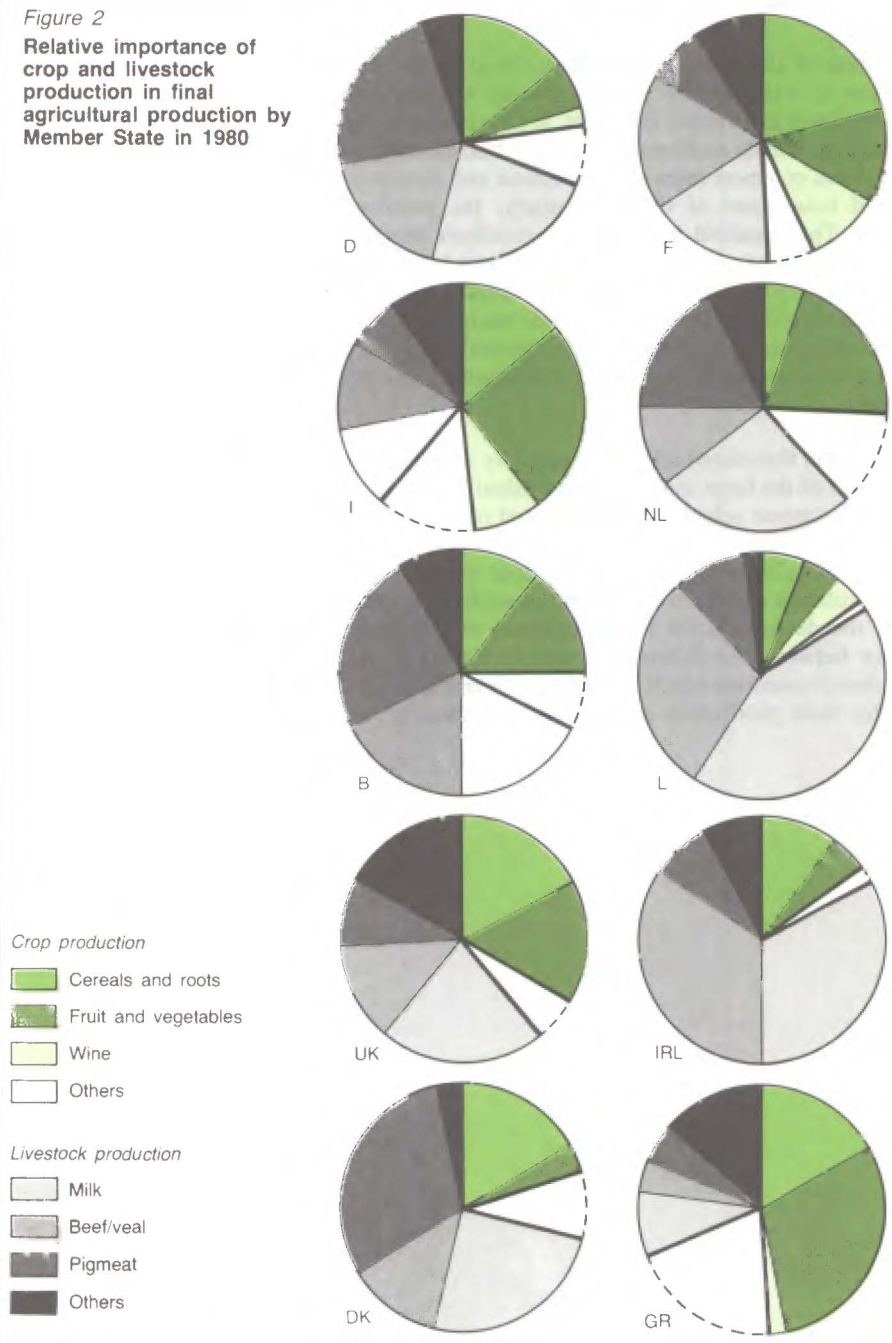
- i. For the farmers, it meant an extended market with new sales potential. However, it also meant increased competition, which it was hoped would encourage them to specialize in order to make full use of regional production advantages.
- ii. For the consumer, it meant a larger and more varied supply of food. Specialization and production in large quantities were also important prerequisites for more efficient production and comparatively favourable prices. Above all, however, a common agricultural market guaranteed the indispensable stability which only a large geographical area can offer, being less dependent for its supplies on the vagaries of world markets.

Enlargement of the market, stability of supply and optimum utilization of regional production advantages in a big economic area — these arguments in favour of a common agricultural policy could not be rated too highly in post-war Europe. People remembered only too clearly the food shortages of the immediate post-war years, while there was a fear of even worse things to come as Cold War tensions increased. It was therefore considered essential for the future development of Europe to have a stable basis of supply in the Community.

Even before the Treaty of Rome was signed in 1957, trade in agricultural products between the founder States had increased perceptibly. It already accounted for about 40% of their total agricultural trade on average for 1953 to 1957. It therefore appeared logical to extend the existing relations and to confer on them the permanence desired for European agriculture by the establishment of a common agricultural market. The fact that regional specialization was encouraged at the same time could only be regarded as an additional advantage: the more the major regions of the Community complemented each other, the more favourable this was to achieving the objective of economic integration.

Figure 2

Relative importance of crop and livestock production in final agricultural production by Member State in 1980



A new approach

As a result of all these considerations, the principle of a common agricultural market and a common agricultural policy was expressly enshrined in the Treaty of Rome. However, whereas it was in principle sufficient, for the achievement of a common market for industrial products, gradually to dismantle customs barriers and to eliminate other obstacles to trade, to lay down common rules of competition and to introduce a uniform customs tariff at the external boundaries of the Community, the problem for agriculture was much more difficult. The manifold functions of agriculture in society and its inherent economic and social problems of adaptation, which had long before resulted in the evolution of individual national agricultural policies, had, of course, also to be a central aspect of a common agricultural policy. The task was made more difficult by the big differences between the agricultural structures of the Member States when the Community was founded. Furthermore, it was practically impossible to harmonize the different kinds of national agricultural policies.

The problem therefore had to be tackled by a completely fresh approach. It was a matter of getting rid of the large number of individual States' subsidies, market organization systems and price support schemes (these existed in each member country) and evolving in their place a new, common European agricultural policy. From the beginning, of course, all that would be possible would be a compromise between the interests of all concerned, both in the formulation of objectives and in the stipulation of the principal instruments. Again and again, the decisive factor in the progress of economic integration was the striking of a balance between the industrial countries interested in the customs union and the more agricultural countries which looked to a 'green Europe' for new prospects of development both for their production and for their producers.

Part One — The common agricultural policy in practice

I. *The common agricultural policy: objectives and guiding principles*

It is only against the background of the post-war Europe of the 1950s that it is possible fully to understand what a unique experiment it was for European agriculture at that time to establish a common agricultural market as an integral part of a European economic community. A common agricultural market necessarily entails also a common agricultural policy.

A. **Demanding tasks**

The Treaty of Rome

The principal objectives of this policy were defined in the Treaty of Rome (March 1957), which established the Community. The policy was to increase agricultural productivity, to ensure a fair standard of living for the agricultural community, to stabilize markets, to assure the availability of supplies and to ensure that supplies reach consumers at reasonable prices.

The objectives of the common agricultural policy are thus directed equally towards the interest of producers and consumers. Producers are to obtain reasonable incomes from improved productivity and effective stabilization of markets. Consumers are to be reliably supplied with food at reasonable and stable prices.

Closer consideration shows that the simultaneous achievement of all these objectives can lead to conflicts. Some of them can only be attained — at least from a certain point onwards — at the expense of the others. The agricultural policy thus has the task of arriving at compromises and setting priorities.

However, this also indicates how ambitious the intentions of the common agricultural policy were from the beginning. The Community had just 65 million hectares with which to employ its 17.5 million farmers and feed its 150 million inhabitants. The USA at the same time had over 400 million hectares for a population of 200 million and the USSR more than 600

million hectares for just under 250 million inhabitants. The average American farmer had 100 hectares of land at his disposal — nearly 20 times as much as his European counterpart. Each American farmer fed an average of 50 inhabitants, while a European farmer fed only 10, and the Community produced only about 85% of its food requirement.

In addition to the objectives, the Treaty already mentions some of the fundamental aspects on which the common agricultural policy was to be constructed: common organization of agricultural markets, a uniform prices policy, and the establishment of a Community fund (or several such funds). It was left to the institutions of the Community to flesh out this wide-ranging framework at a later date. The relevant procedures are also laid down in the Treaty.

The Stresa Conference

In July 1958 the Stresa Conference brought together the signatories to the Treaty and those professionally concerned with agriculture in the six countries. The initial guiding principles of the future common agricultural policy emerged from a comparison of the old national policies and an inventory of resources and requirements. The Conference added some details to the objectives set out in the Treaty. For example, the structures of European agriculture were to be reformed to make it more competitive, but without prejudicing the family character of the farm unit. Agricultural prices were gradually to be brought to a uniform level in all Member States while allowing farmers adequate remuneration. Since production costs in the Community were higher than in the other major producing countries, prices had to be above the world market level, but should not encourage overproduction. The aim of the common agricultural policy should not be total European self-sufficiency; instead, the Community should participate in a balanced manner in world trade, the internal market, however, being protected from distortions of competition of external origin.

The Commission's first drafts of the common agricultural policy were submitted to the Council of Ministers on this basis at the end of 1959. The final proposals were put forward in June 1960 and in December of that year the Council laid down the fundamental principles for the organization of 'Green Europe'.

B. Clear principles

The common agricultural market is based on three principles which have become the golden rule of the common agricultural policy: the single market, Community preference and financial solidarity.

The single market

A single market means free and unrestricted circulation of goods among the Member States. The common agricultural market is a single large domestic market in which, for example,

the 'French' or 'German' markets have become merely regional markets. This rules out customs duties, other barriers to trade or subsidies which might distort competition. The single market must, however, be based on the introduction of common prices and rules of competition, the harmonization of administrative, health and veterinary legislation and the maintenance of stable currency parities.

The unity of the market results from the application of identical instruments of market organization throughout the area of the Community. It calls for common management of the market carried out centrally by the Community. Another prerequisite for the single market is uniform protection at the external boundaries of the Community.

Community preference

Community preference is a logical consequence of the establishment of a single agricultural market. If the aim is to achieve a Europe-wide agriculture which, even if production conditions are sometimes unfavourable, is to secure stable supply to over 270 million consumers — this being the population of the Community since the accession of Denmark, Ireland and the United Kingdom in 1973 and of Greece in 1981 — it is only logical for European production to be given preference on the internal market, other things being equal. For similar reasons, as it happens, virtually every important producer country nowadays grants preference to its own agricultural sector.

In Europe, if the Community preference system is to operate successfully, it is essential to protect the internal market from low-price imports and excessive world market fluctuations. This is achieved partly by regulating machinery, which operates like a sluice gate for imports and exports and absorbs price variations at the external boundaries of the Community. In addition, Community preference can be achieved direct by customs duties and also internally by production subsidies within the Community.

Financial solidarity

Every policy costs money. In the case of a common policy, the costs must therefore be borne in common. For this reason, financial solidarity is one of the foundations of the common agricultural policy. It is embodied in practice in the European Agricultural Guidance and Guarantee Fund (EAGGF), set up by the Member States. This Fund is used for the common financing of the agricultural policy irrespective of the relevant product or of the Member State concerned.

II. Market and prices policy: the principal mechanisms

Once the objectives and principles of the common agricultural policy had been established, the necessary market organizations were gradually constructed and implemented. Initially they covered over half the agricultural production of the Six. By 1970 the figure was 87%.

and today, in 1982, there are common market organizations for nearly all important agricultural products. The Commission's proposals for potatoes and alcohol only have not yet been passed by the Council of Ministers.

A. The basic model: a 'classical' example

One of the first market organizations to be introduced was that for cereals, in 1962. It was regarded from the beginning as, in effect, a 'model'. It has since been revised in many respects, but for our present purpose we may confine ourselves to a simplified basic model to explain the principal mechanisms. The situation for wheat has been chosen for illustration.

Target price and intervention

The target price is the linchpin of the market organization. It is set at the beginning of each year as being the producer price desirable in terms of agricultural policy. If the domestic supply exceeds demand, the market price — i.e., the actual producer price — usually falls below the target price. If the fall in price reaches a certain critical point, the Community intervenes to stabilize the market, purchasing the producers' cereals at a predetermined price. This is called the intervention price, because public authority 'intervenes' on the market at this price through intervention agencies set up specifically for the purpose. For instance, in the economic year 1979/80, the Community purchased and later resold just under 1.6 million tonnes of common wheat; in accordance with the principle of financial solidarity, the associated storage costs were met by the Community.

The intervention price is well below the target price. It forms the lower limit for domestic prices and represents a kind of guaranteed minimum price for Community producers. It is a cornerstone of the system.

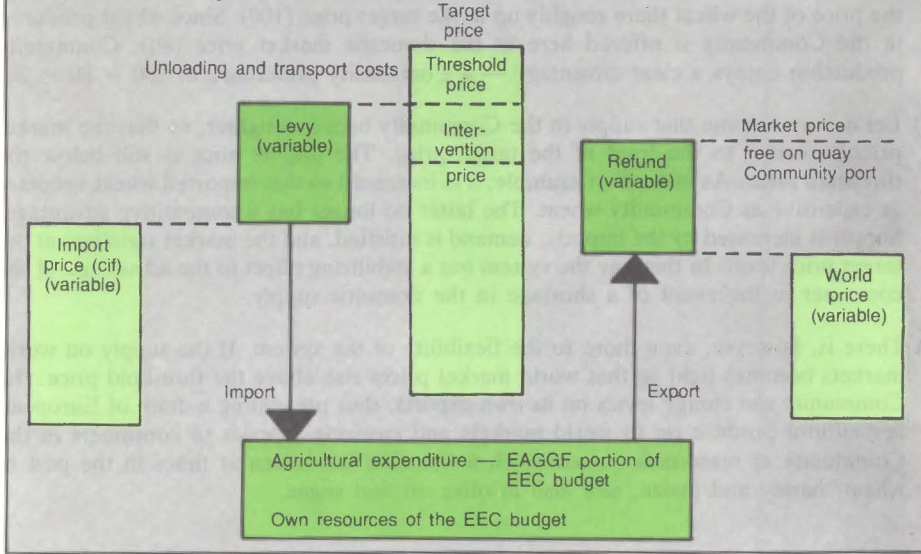
Threshold price, levies and refunds: a sluice-gate system at the frontiers

During the 1970s the Community each year imported an average of 4-5 million tonnes of wheat — mostly high-quality buckwheat — and exported an average of 6-7 million tonnes of ordinary wheat. A new problem arises at this point: the intra-Community prices for wheat are usually much higher than the prices of the other major world producers of wheat (USA, Canada and Australia), whose production conditions are much more favourable. The wheat price in the United States, for example, is appreciably below that in the Community.

To prevent the Community market from being flooded from outside in this situation, which would result in the complete collapse of European production, and to enable Community producers to participate in world trade, regulatory measures have to be taken at the boundaries of the Community.

Figure 3

Levy and refund system for wheat



For this reason, a threshold price is set for imports and the lower import price (world market price + transport to Community frontier) is increased to that level. The threshold price is calculated so that the price of the imported wheat at the major consumption centres of the Community, including transport and unloading costs, roughly corresponds to the target price. The difference between the threshold price and the import price is charged as a 'levy' and accrues to the Community budget as a contribution to the Community's own financial resources.

Conversely, when European producers export, they are refunded the difference between the market price in the Community (including transport costs to port of export in the Community) and the possible selling price on the world market. The refunds are met from the agricultural budget of the Community.

A flexible system

The sluice-gate system of import charges (levies) and export subsidies (refunds) is another cornerstone of the market organization. Its big advantage is its extreme flexibility in the stabilization of the market. This can be illustrated by the following three examples:

- (a) Let us assume that the market price for one tonne of wheat in the Community has settled between the target price (100) and the lower intervention price (70) at 80. The import price is 60 and the threshold price 95. This situation is illustrated in Figure 3.

The import price is increased to the threshold price by the levy ($95 - 60 = 35$). The addition of transport costs to the main consumption centres of the Community brings the price of the wheat there roughly up to the target price (100). Since wheat produced in the Community is offered here at the domestic market price (80), Community production enjoys a clear advantage — a Community preference of $100 - 80 = 20$.

- (b) Let us now assume that supply in the Community becomes tighter, so that the market price increases to the level of the target price. The import price is still below the threshold price. As in the first example, it is increased so that imported wheat becomes as expensive as Community wheat. The latter no longer has a competitive advantage. Supply is increased by the imports, demand is satisfied, and the market stabilizes at the target price level. In this way the system has a stabilizing effect to the advantage of the consumer in the event of a shortage in the domestic supply.
- (c) There is, however, even more to the flexibility of the system. If the supply on world markets becomes tight so that world market prices rise above the threshold price, the Community can charge levies on its own exports, thus preventing a drain of European agricultural produce on to world markets and ensuring supplies to consumers in the Community at reasonable prices. Such a situation has arisen at times in the past in wheat, barley and maize, and also in olive oil and sugar.

B. The main types of market organization

The above example relates to only one product. Common market organizations for all Member States, however, do not mean that the market organizations are the same for all products. On the contrary: every effort has been made to take account of specific product characteristics just as of particular production and market conditions. The basic model described above has accordingly been adapted, modified, simplified or supplemented for other products, depending on the situation. In a few very special cases, indeed, completely different solutions had to be found.

For the sake of simplicity, the types of market organization existing can be classified in four main groups:

Support price and intervention

For over 70% of agricultural production the relevant market organizations assure the Community producers of a minimum price on the internal market (the support price). If the market price falls to the minimum price level, intervention mechanisms become operative; however, these take different forms in the individual market organizations.

For most cereals, sugar, milk, beef and veal, and mutton and lamb, they operate as described in our example: intervention agencies buy up the amounts offered to them at the stipulated minimum price (the intervention price). They resell these quantities when the market has improved, or seek other possible outlets — e.g., export to non-Community countries.

For other products — pigmeat, certain fruits and vegetables and table wine — the intervention mechanisms operate less automatically and are less comprehensive. More flexible measures, such as storage or distillation aids, usually suffice to stabilize the internal markets.

For all products in this first group, support on the internal market is supplemented by protection relating to imports and exports.

External protection

For a second group, which covers a further 25% of production, the market organizations are substantially confined to external protection. The relevant market organizations are those for wines other than table wine, fruit and vegetables other than those in the first group, flowers, eggs and poultry. These are mainly products which are either no staple foods or can be produced more or less independently of the soil in relatively short production cycles. Particular support measures for the internal market are not necessary for these products.

The external protection may take the form of levies, which are calculated differently for each market organization, or customs duties, or a combination of the two. There are also various special measures to deal with particularly critical situations.

Additional production aid

The market organizations provide for additional production aid for a few products, although only about 2.5% of total production is affected. The additional production aid allows relatively low consumer prices but at the same time supports producer incomes. This approach was chosen firstly for durum wheat and olive oil, whose production is limited both geographically and quantitatively, and secondly for some oilseeds and oil plants and tobacco, for which international agreements allow little (if any) external protection — the customs duties at very low rates or zero. Strictly speaking, the market organizations for durum wheat and olive oil are composite forms made up of intervention, external protection and additional product aids. Some oilseeds also receive additional protection from intervention mechanisms.

Flat-rate aids

Finally, some market organizations provide flat-rate aids which are granted per hectare or in accordance with the quantity produced. The producers of cottonseeds, flax and hemsps, hops, silkworms, seed and dehydrated fodder are supported in this way. These are very specific products, which together account for less than 1% of the Community's total agricultural production.

Because the market organizations are of several different types, there are a variety of different kinds of prices (e.g., target prices, intervention prices, threshold prices); these are often felt to be confusing and are understood only by specialists. For this reason the principal types of prices are listed and explained in a short glossary at the end of this booklet.

III. *Agricultural prices — a story by itself*

With the gradual introduction of the market organizations, the prices in the individual Member States were progressively approximated until a common price level was attained. On proposal from the Commission, the Council of Agriculture Ministers each year fixes the prices applicable to the following marketing year.

A. At the focus of interest: the price decisions

At such time the common agricultural policy is always at the centre of public interest. The price decisions largely determine the incomes of over eight million farmers in the Community. Including their families, over 40 million people watch the negotiations in Brussels, sometimes hopefully and sometimes with anxiety. But not only the interests of the farmers are at stake. The variation of agricultural prices is reflected in food prices, and, after all, the 270 million consumers in the Community spend some 20% of their money on food. They therefore take a critical view of any price increases.

Other questions are also on the agenda. How have agricultural incomes varied in the past? How much have production costs risen in the last few years? How will price increases affect market equilibrium, and how will they affect imports and exports? What additional expenditure will have to be met by the agricultural budget, or might it be possible to effect any savings? Should agricultural prices be increased across the board for all products or should prices be graduated so as to encourage changes of emphasis in production?

Considering how complex these problems are and how involved the conflicts of interest which may be concealed in them, it ceases to be surprising that it usually takes a long time for the final price decisions to be taken. It is not for nothing that the marathon sessions in Brussels in the final stages of the price negotiations have become famous. Their outcome can, of course, only be a compromise. A compromise means a balance of interests acceptable to all parties. A truly common policy is possible only as long as this willingness to compromise exists.

B. Common prices - high prices?

When the first common market organizations were introduced in 1962, there were still just under 14 million people engaged in agriculture in the then Community of Six — rather less

than 20% of the total gainfully employed population. The vast majority of these people worked on small or medium-sized family farms. Their incomes were extremely low — considerably less than those in other sectors of the economy.

An important aim from the beginning: improvement of agricultural incomes

In the circumstances, one of the most urgent tasks of the common agricultural policy was to increase farmers' incomes; this was in fact one of the main concerns of most member countries.

Incomes can be increased either by direct financial aid to low-income farm heads or by higher prices. The founder members of the Community in principle chose the second approach. In view of the large number of producers and the confusing multiplicity of economic conditions within which they work, it appeared less expensive and less bureaucratic than the first method. This system was also more or less in line with the usual practice on the continent, so that radical change was avoided.

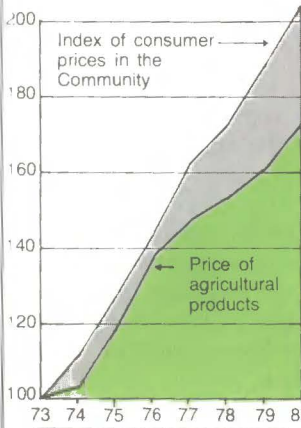
Within Europe, the other approach had been chosen principally by the United Kingdom before it joined the Community. The UK guaranteed the incomes of its farmers by means of deficiency payments, which were a kind of additional production aid. The deficiency payments made up the difference between market prices (which at the time of accession were on average 30% below prices on the common agricultural market) and the government-guaranteed prices. It must, however, be remembered that the situation in the United Kingdom was fundamentally different from that in the Community of Six. The number of farmers at the beginning of the 1960s was very limited (about a million), accounting for just 4% of the total gainfully employed population. The agricultural structures of production were appreciably better than in the Six, and a high proportion of the country's food requirements were imported from the Commonwealth at very low prices.

World market prices — an unreliable yardstick

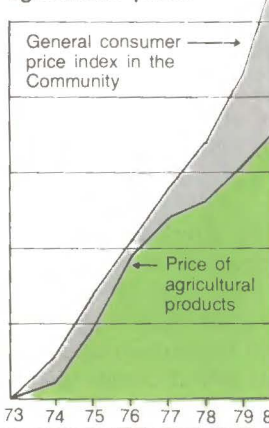
For these reasons, the prices policy of the Community resulted from the beginning in prices perceptibly above world market levels. However, it would be wrong to attach too much significance to this comparison. Amounts traded freely on the world market are often very small compared with total production (e.g., in the case of sugar, cereals and milk products), sometimes merely reflecting short-term variations in production in the main producer countries. The prices are accordingly subject to considerable fluctuation. For other products, such as beef and veal, wine and tobacco, a true world market is virtually non-existent, prices differing according to the destination of exports. It is therefore extremely unlikely that European consumers could be supplied at low and stable world market prices for any length of time if supplies in the Community were largely dependent on imports owing to a lower level of self-sufficiency.

Figure 4

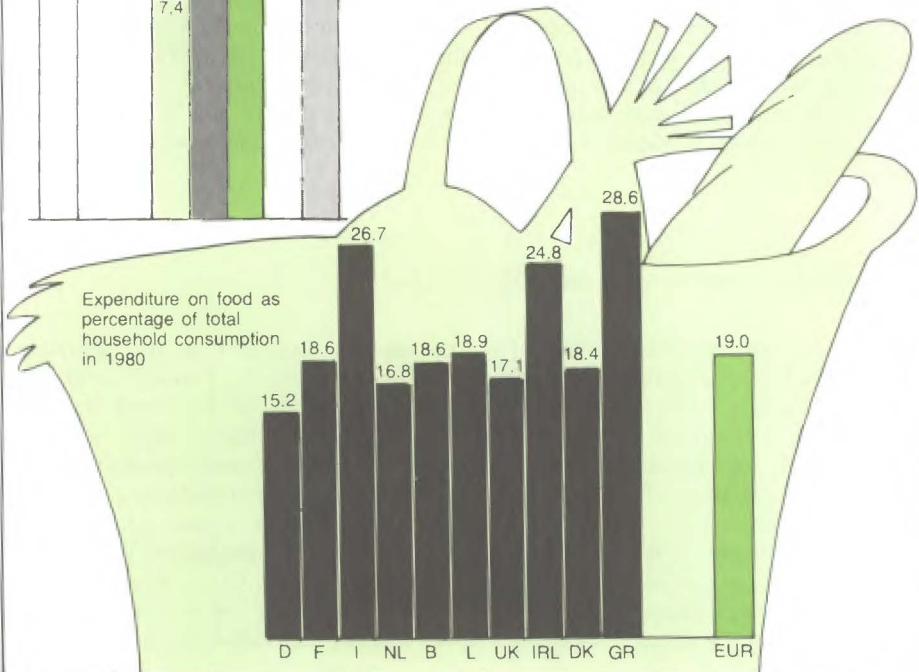
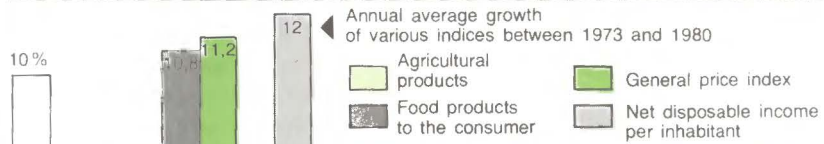
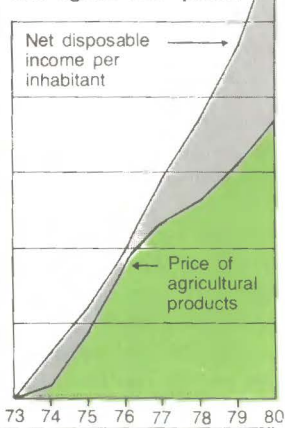
Growth of agricultural and food prices



Growth of food prices in general and of agricultural prices



General net disposable income per inhabitant and agricultural prices



The trend of agricultural prices — reasonable and stable

There are therefore a number of perfectly respectable and comprehensible reasons why producer prices in European agriculture are generally higher than world market prices — which cannot always even be determined precisely. However, two other comparisons are particularly relevant here. Figure 4 shows the variation of agricultural producer prices, food prices and the cost of living in the Community as a whole since its first enlargement in 1973. The result is unequivocal: producer prices have risen appreciably more slowly than food prices, which in turn have lagged behind the overall cost of living. Agricultural prices have thus had a stabilizing effect on the cost of living since the beginning of the economic crisis of the 1970s.

The second comparison is shown in Figure 4, in which the variation of agricultural and food prices is plotted against that of disposable per capita income in the Community. Once again the result is unequivocal: agricultural and food prices have risen appreciably more slowly than disposable income. It is therefore justifiable to say that the consumer is supplied at reasonable prices.

C. Different currencies — common prices?

As long as there is no single European currency in all Member States, the common agricultural prices are first set in (fictitious) Community units and then translated into the different national currencies. Until 1979, the common unit was the 'unit of account'. After the introduction of the European Monetary System in March 1979, this was replaced by the ECU (European currency unit),¹ which is in effect a Community currency used for accounting purposes. It is made up of the various national currencies and the term 'currency basket' is therefore also used for it.

An unsatisfied condition: stable rates of exchange

Since different national currencies exist, however, the system of common agricultural prices can work smoothly only if the rates of exchange between the national currencies remain stable. This was in fact substantially the case until 1969. But from then on, exchange rates began to move, changes taking place first between the French franc and the German mark and later between nearly all the currencies.

The Member States of the Community had to wait for the introduction of the European Monetary System before stability returned. In view of the worldwide economic and currency crisis, however, this stability can only be relative. The various revaluations and devaluations which have become necessary even within the EMS in the last few years bear witness to this.

¹ 1 ECU (1 September 1982) = BFR/LFR 45.22; DKR 8.24; DM 2.35; DR 66.82; FF 6.62; HFL 2.57; IRL 0.68; LIT 1 329.54; UKL 0.54; USD 0.94.

The exchange rate fluctuations of the 1970s presented a constant threat to the continued existence of the common agricultural market. To avoid the worse effects and maintain its unity at least in principle, corrective machinery had to be introduced: border or currency equalization.

Repairs to the system: the monetary compensatory amounts (MCAs)

When a country revalues its currency, its agricultural prices (common prices expressed in national currency but fixed in ECUs) ought normally to be reduced by the same proportion; on the other hand, they ought to be raised in the event of a devaluation. However, such abrupt and radical variations were unacceptable to many Member States, because they would have called into question either the stability of producers' incomes or that of food prices. It was therefore decided to make the necessary changes gradually in small steps. Special 'representative rates', the 'green rates of exchange', differing from the official or central rates of exchange were therefore introduced.

To limit the resulting distortions of intra-Community trade flows in agricultural products and to prevent the fragmentation of the common agricultural market, a system of monetary compensatory amounts (MCAs) was introduced. Their level depends on the difference between the central and green exchange rates. A country whose currency has been revalued pays the compensatory amounts on exports and levies them on imports. A country which has devalued does the opposite.

For illustration: a simplified example

The problem of fluctuating parities and the principle of monetary or border compensation are explained in simplified form below using the example of two countries, Germany and France. Let us assume that the exchange rates are initially stable at $1 \text{ ECU} = \text{DM } 2 = \text{FF } 4$ and that the price for 1 tonne of wheat is set at 200 ECU, or DM 400 and FF 800 when translated into the national currencies.

Let us now assume that the DM is revalued for reasons unconnected with agriculture, the new rate being $1 \text{ ECU} = \text{DM } 1.60 = \text{FF } 4$. If this new rate of exchange is applied, 1 tonne of wheat on the German market would now cost only DM 320. However, this would represent a loss of income to the German farmer of DM 80 per tonne of wheat, and there would of course be corresponding losses for all other products with common prices fixed in ECU. Such shock therapy could have catastrophic consequences for German agriculture and is therefore unacceptable in terms of both social and agricultural policy. The Member States have therefore agreed initially to retain the old rates as 'representative rates' (or 'green rates') for the common agricultural market, adapting them only progressively and in small steps to the new central rates.

At first, therefore one tonne of wheat continues to cost DM 400 in Germany. But the difference that has arisen between the green rate and the central rate raises a new problem. Because of the freedom of movement of goods, there being a single market, French producers, for example, can now sell their wheat in Germany for DM 400 per tonne,

exchange their currency at the official central rate and thus pocket FF 1 000 instead of the FF 800 which they would have received in France for the wheat. Conversely, the French market becomes totally unattractive for German producers. They would still receive FF 800 for 1 tonne of wheat there, as before, but when exchanged at the official rate this would yield only DM 320.

In a nutshell, everyone would try to sell his products on the German market (or to German intervention agencies), intra-Community trade flows would be totally distorted, and the common agricultural market would be threatened with collapse.

Border compensation was introduced to prevent this. In our example, an MCA of DM 80 per tonne would be applied to German wheat at the border, thus enabling it to be sold in France for DM 320, equal to FF 800 at the central rate, without loss to the German producer. Conversely, French wheat supplied to Germany would be charged by an MCA of FF 200, so that the transaction in Germany (at DM 400 per tonne, or FF 1 000 at the central rate) would produce a net yield of only FF 800. The French producer could not therefore make a profit on the exchange.

In the event of a devaluation, the situation would be exactly reversed. Let us assume that the DM has been devalued so that $1 \text{ ECU} = \text{DM } 2.50 = \text{FF } 4$. If the central rate were immediately applied, 1 tonne of wheat (common price 200 ECU) would suddenly cost DM 500 in Germany. Such an abrupt price increase may perhaps be welcome to the farmers as an improvement to their incomes, but would constitute an unacceptable blow to the stability of food prices.

However, if the old rates again retained for the time being as representative (green) exchange rates (so that one tonne of wheat continues to cost DM 400), all German producers would suddenly wish to sell in France (one tonne of wheat for FF 800, converted at the new central rate to DM 500, producing an exchange profit of DM 100), while no French producer would wish to continue supplying wheat to Germany, where he would still receive DM 400 per tonne of wheat (giving FF 640 when converted at the new central rate — i.e. an exchange loss of FF 160). To offset the difference between the central and green rates, monetary compensatory amounts are charged on German deliveries to France and deducted from French deliveries to Germany.

Repairs with defects: dangerous long-term effects

On the whole, the monetary compensatory amounts have so far made it possible to preserve the single market, at least in principle, in spite of non-uniform prices in national currencies (i.e., non-uniform when translated at the central rate), thus ensuring the survival of the common agricultural policy. However, this repair is itself not without defects.

Firstly, it costs a lot of money. Some 9% of total agricultural expenditure was accounted for by monetary compensation in 1976. This proportion rose to as much as 12% in 1977, falling again to 10% in 1978.

The dangerous long-term effects are, however, perhaps even more important. Persistent differences between the central and green rates of exchange may distort competition,

impede structural change in agriculture and prevent optimum utilization of the resources available in the Community.

By the application of the green rates in a country which has revalued, agricultural prices in that country, expressed in national currency, at first remain at the pre-revaluation level instead of falling. However, imported agricultural raw materials are paid for at the official (revalued) central rate of exchange and thus become cheaper. A devaluation has the opposite effect.

The unequal treatment of raw materials imports and agricultural produce may have important effects in certain sectors of production (e.g. pigmeat, poultry, eggs and to some extent also milk and beef and veal). Hence if the differences between the central and green rates remain fixed for too long or are even increased over the years owing to frequent revaluations and devaluations, this may give rise to serious distortion which may in turn call the common agricultural policy into question.

For these reasons the Member States, urged on by the Commission, do their best to approximate the green rates to the central rates and decrease the MCAs. But this is difficult as long as the central rates are subject to frequent and substantial changes.

An important step in the right direction: the European Monetary System (EMS)

The nub of the problem is that as long as full economic and monetary union has not been achieved in the Community, differences in economic trends (in particular, differing inflation rates) in the Member States will necessitate exchange rate adjustments.

Since the central rates fluctuate and farm prices in the member countries for various reasons cannot always be fully adjusted immediately, green exchange rates are necessary.

Since the difference between central and green rates would give rise to total distortion of trade flows in agricultural products, monetary compensatory amounts are unavoidable.

If the problem is to be tackled at its root, there is only one solution: European economic and monetary union must be implemented fully in all spheres. The introduction of the European Monetary System in March 1979 was an important step in the right direction. The following were agreed when the EMS was introduced:

- i. Gradual dismantling of existing MCAs in the context of the annual common price determinations.
- ii. Elimination within two years of new MCAs becoming necessary in the future owing to changes in central rates (valuations or devaluations) within the EMS, unless this leads to reduced prices.

For all the difficulties, the EMS has hitherto worked satisfactorily, even if it has not yet been possible to integrate sterling within the system. It has actually proved possible to create a European area of relative stability in an otherwise turbulent monetary world.

However, although considerable progress has been made, exchange rates within the system have not remained completely stable. Differences in economic trends in the Member States have compelled a number of revaluations and devaluations, whose consequences for the common agricultural market have not been fully overcome at the time of writing (July 1982).

The EMS can ensure the stability of exchange rates which is so desirable for the common agricultural market, as well as, of course, for the Community as a whole, only if the economies of the Member States develop at the same rate and in the same direction. For this purpose, national economic policies must be carefully coordinated with each other with the aim of gradually integrating them in a truly Community-wide economic policy.

If the European Monetary System is to provide long-term stability, it must be strengthened and extended. But this in turn calls for solid flank protection, in the form of European economic union.

IV. External agricultural policy: markets protected but not closed

The common agricultural market was created to give the agricultural sectors of the Member States better chances of development than would ever have been possible within narrow national boundaries. This could not be achieved without protective measures at the external boundaries of the Community. These were introduced in the context of the market organizations and may differ according to product characteristics and production and market conditions.

A. Open to the world on a sound foundation — the Community as the world's largest agricultural importer

Levies, refunds and Community preference have in no way prevented the Community from participating actively in world trade. Indeed, the Community is today by far the largest agricultural importer in the world. About a quarter of all the world's agricultural exports go to the Community. What better proof could there be of the openness of the common agricultural market to the world?

On the export side, the common agricultural policy has made a decisive contribution to enabling European farmers to take an active part in international trade. The Community today is the world's second largest exporter of agricultural products, after the United States, which is also the main supplier to the European market. Nevertheless, the Community (in 1980) accounts for only about 11.5% of world agricultural exports, and has thus remained a net importer in overall agricultural trade. Its deficit was just under 23 000 million ECU in 1980. The variation of agricultural imports and exports since 1973 is shown in Figure 5 and compared with the variation of intra-Community trade.

Active participation in world trade provides the European producers of many farm commodities (dairy products, meat, poultry and cereals) with new markets and hence additional sources of income. It also enables the Community to cover the demand of its 270 million consumers for products which cannot be produced in the Community, or can be produced only to a limited extent — e.g. tea, coffee, cocoa, exotic fruits, citrus fruits and fresh fruit and vegetables, especially during the low season for these products in Europe. Such products as hides, skins, furs, rubber, timber, cork and natural textile fibres — i.e., raw materials important to the manufacturing industries of the Community — are also imported. Finally, imports include products such as maize, soya and cassava, which are mainly used to make animal feedingstuffs.

An important aim of the common agricultural policy is to increase the efficiency of European agriculture and thus expand the internal supply base. Its endeavours to achieve this objective have not prevented the Community from remaining open to the world. On the contrary, it is only improved self-sufficiency with goods of vital necessity that makes it possible to participate in world trade on a truly free basis — i.e., without excessive unilateral and hence critical dependence on the outside world. The Community has from the beginning demonstrated by its trading policy that it accepts this openness.

B. Promoting worldwide exchanges of goods: the agricultural trade policy

Liberal principles from the beginning

In working out its common agricultural policy, the Community has been concerned from the beginning not to isolate itself. Even before the Community was formed, all Member States had concluded trade agreements for agricultural products with third countries. In addition, they belonged to international organizations such as the Food and Agriculture Organization of the United Nations (FAO) or the Organization for Economic Cooperation and Development (OECD); they had also acceded to the General Agreement on Tariffs and Trade (GATT). One aim was paramount in all cases: the promotion of as free as possible international exchanges of goods, including agricultural products.

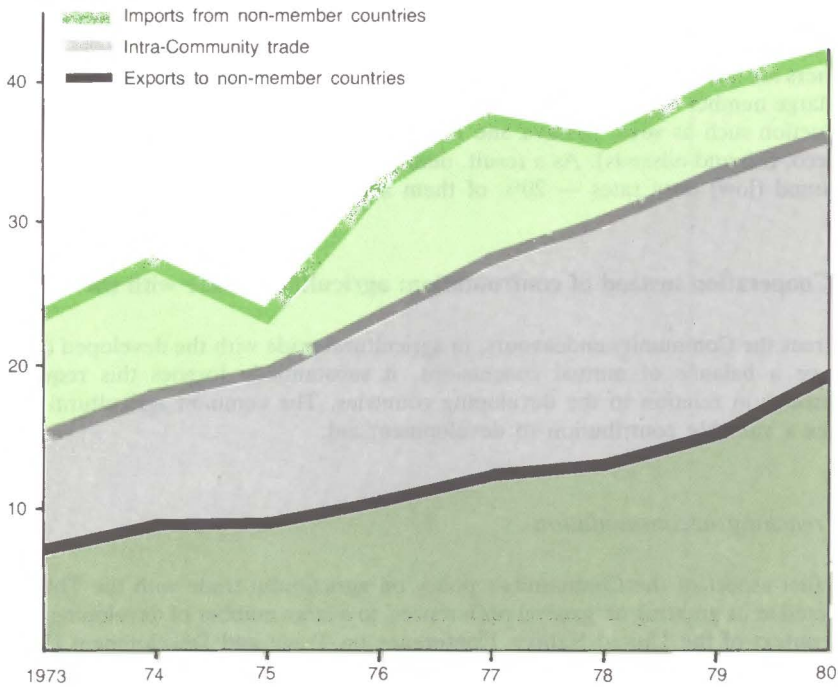
When the Community was founded, the commitments entered into had, of course, to be taken into account. Indeed, as a newly arisen economic power of world importance, the Community also had to assume new responsibilities in the international interplay of forces. For this reason the Treaty of Rome explicitly emphasizes the intention of the Member States to contribute to the harmonious development of world trade, to the gradual elimination of obstacles to international trade and to the dismantling of customs barriers. This general intention naturally applies also to trade in agricultural products.

A close network of trading relations

In accordance with its liberal principles, the Community has consistently expanded its trading relations throughout the world. In Western Europe, the member countries of the

Figure 5

Community trade in agricultural products ('000 million ECU)



European Free Trade Area (EFTA) which did not join the Community as did the United Kingdom and Denmark have concluded special bilateral trading agreements. Such agreements have also been concluded with a number of South American States, Yugoslavia and many Mediterranean countries. The agreements with the Mediterranean countries form part of an overall strategy aimed at achieving a true Mediterranean policy. Increasing free trade in industrial products, economic and technical cooperation, and also greater liberalization of trade in agricultural products are central features of this policy. However, owing to the in some cases vital interests of the fruit, vegetable and wine producers in the southern regions of the Community, whose incomes are already among the lowest in the common market, special arrangements have to be sought again and again for strongly competing products.

In addition to its bilateral trading relations, the Community takes an active part in the work of the GATT, which it joined in 1963. Since it came into being in 1947, the GATT has constituted the 'classical' framework for multilateral trading relations in the world. The negotiations of the last 30 years have been concerned primarily with the dismantling of customs duties and the binding (consolidation) and elimination of quota restrictions. It was, however, difficult to find a place in this system for the common agricultural policy's levy

scheme for certain important agricultural products. After all, one of the main advantages of such a scheme is in its great flexibility in terms of protecting the internal market from fluctuations on world markets. For this reason it cannot readily be compared with traditional customs duties, and a binding of customs duties becomes impossible for the relevant agricultural sectors. In order nevertheless to gain the acceptance of its GATT partners for the levy system, the Community had to make substantial concessions in respect of a large number of other important products (in particular, raw materials for animal feed production such as soya, cassava and maize gluten, as well as fruit and vegetables, rice, tobacco, fish and oilseeds). As a result, nearly 70% of agricultural imports are now subject to bound (low) duty rates — 20% of them zero rates.

C. Cooperation instead of confrontation: agricultural trade with the Third World

Whereas the Community endeavours, in agricultural trade with the developed countries, to achieve a balance of mutual concessions, it substantially forgoes this requirement of reciprocity in relation to the developing countries. The common agricultural policy thus makes a valuable contribution to development aid.

Far-reaching accommodation

The first aspect of the Community's policy on agricultural trade with the Third World is reflected in its granting of 'general preferences' to a large number of developing countries in the context of the United Nations Conference on Trade and Development (UNCTAD), duties having been appreciably reduced for about 300 agricultural processing products. Agricultural imports worth more than 2 500 million ECU were affected in 1980. Particular benefits are accorded to the poorest developing countries, which may enjoy arrangements coming very close to a system of duty-free imports without restrictions.

The Lomé Convention

One of the cornerstones of the Community's relations with the Third World is the Lomé Convention, which now covers more than 60 countries in Africa, the Caribbean and the Pacific (the ACP States). This provides for true trading cooperation to the clear advantage of the ACP countries in terms of their development. They can export almost all their products to the Community duty-free. In addition, there is the important innovation that the Community guarantees them minimum prices for the export of certain primary products to the Community under the 'Stabex' system. This guarantee covers 44 products, including many agricultural raw materials such as cocoa, coffee, groundnuts, tea and sisal. The Community has also undertaken — in spite of its high degree of self-sufficiency in this product — to buy 1.3 million tonnes of sugar per year at a price corresponding to the internal market price in the Community.

All these exports from the ACP countries will thus be substantially freed from the vagaries of the world raw materials markets which are so subject to speculative influences. This is of

great importance to the countries concerned, for which it can provide stability of development. These arrangements are supplemented by intensive technical and financial cooperation, especially in the field of agriculture.

The Lomé Convention can in many respects be regarded as a model of cooperation between industrialized and developing countries. It shows that the development policy of the European Community is guided by the objective of instituting a cooperative world, and that the common agricultural policy is making its contribution to this goal. It is therefore not surprising that agricultural imports from developing countries have in the last few years risen much faster than those from the developed countries (see Figure 6).

Food aid

Similarly, the Community plays an active part in international bodies such as the FAO, UNCTAD, the World Food Conference and the World Food Programme. From 1975 to 1980 alone, it supplied a large number of developing countries confronted with particular problems with food worth a total of more than 2 500 million ECU (mainly wheat, dairy products and sugar) as food aid, either direct or through aid organizations. Food aid is intended to cover the most urgent demand in emergencies. It can help to raise the standard of nutrition in the recipient country. And if correctly applied, it can also contribute to the country's economic development.

D. The common agricultural policy — a troublemaker in world trade?

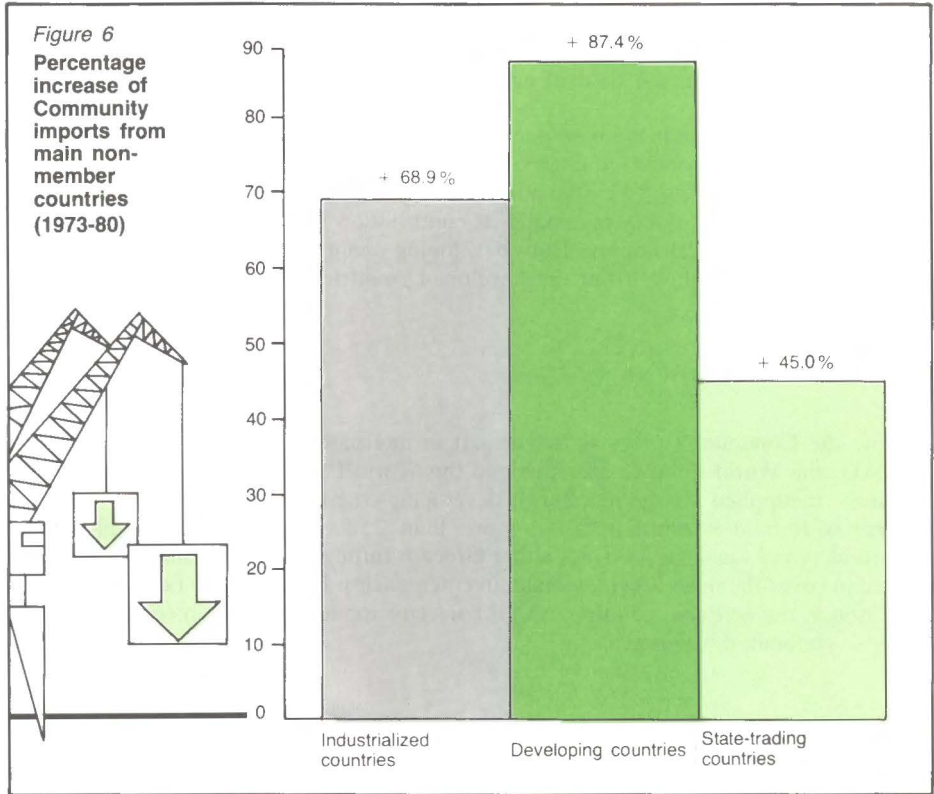
Neither a protectionist bulwark against the outside world...

Overall, then, the common agricultural market is by no means as hermetically sealed off as it is all too often presented as being. It is true that it is insulated from erratic fluctuations outside it, but even so, the Community's agricultural imports from the rest of the world rose by as much as 73% in terms of value between 1973 and 1980 despite the world economic crisis and were still more than twice as high as exports in 1980. Can there still be any question of protectionism?

If protectionism means that a country endeavours to assure its own basis of supply of foods of vital necessity, then the answer to this question must perhaps be 'yes'. But in this case, practically every country with a developed agriculture would be protectionistic — including those who never cease to criticize the common agricultural policy.

If, however, protectionism means that a country systematically seals off its markets from imports from the outside, the figures show that the opposite is the case with the Community.

In both cases it is very difficult to uphold the criticism which is levelled again and again at the Community by the major agricultural producer countries — and in particular the United



States. On the one hand these countries basically promote and support their agricultures just as the European countries do, although sometimes by other means. On the other hand, they have for years been among the Community's principal suppliers and their agricultural trade balances show considerable surpluses in trade with the Community. In 1980 alone, United States agricultural exports to the common market exceeded 8 000 million ECU, while the Community exported agricultural produce worth just under 2 000 million ECU to the United States. That represents a trading advantage for the USA of over 6 000 million ECU. And the situation was no different in the years before 1980. Is this a sign of protectionism? Hardly.

... nor aggressive expansion of exports

Owing to its agricultural exports, the Community is occasionally accused of deploying an aggressive export policy in an attempt to drive other producing countries off the world market. This criticism is directed principally at the export refunds which the Community grants to producers and which could be regarded as subsidies. However, subsidies or other

corresponding measures to support agriculture exist in a wide variety of forms in the world's other main producer countries, many of these aids being much more obscure than the Community's export refunds.

The big international trading agreements — especially GATT — allow such subsidies provided that they are not abused in the form of aggressive, superseding competition. However, the proportions of world trade accounted for by the main agricultural producing countries have remained surprisingly stable in the last 10 years. The proportion of world agricultural exports accounted for by the (enlarged) European Community increased slightly between 1973 and 1980 from 9.5 to 11%; the share of the United States, one of the main critics of the Community's agricultural exports, fell just as slightly, from 19.8 to 19%. This variation can hardly be regarded as a sign of superseding competition. It is not an aim of the common agricultural policy to oust others from the world market, but rather to provide European farmers with a reasonable share of world trade and its growth.

V. *A new dimension: the common structural policy*

The common market organizations, the common prices policy and the common trading policy — these are the principal instruments for implementing the common agricultural market and linking it to the outside world. However, the problems of European agriculture are by no means solved by these instruments alone.

A. **Structural diversity — a difficult starting point**

Structural diversity in every respect has from the beginning been one of the main features of European agriculture: differences in natural production conditions (soil and climate); differences in farm sizes, specialization and production methods; differences in age and educational level of the farmers; and differences in development outside agriculture — in the economic and social context. All these differences had arisen and become intensified and consolidated over the centuries in the isolation of Europe's individual nation States. They have not, of course, vanished with the introduction of the common agricultural policy. They still persist today to a substantial extent and have indeed been exacerbated by the enlargements of the Community in 1973 and 1981.

It is practically impossible to do justice to this diversity by the common market and prices policy. On the contrary, if one and the same policy were applied uniformly to different situations, there is absolutely no reason why it should produce equally good results everywhere. It might even run the risk of accentuating the differences that exist.

For example, if the price of milk is increased by a uniform 10%, this is not likely to make very much difference to a hill farmer eking out an exiguous living with 12 cows on a few hectares somewhere in the Apennine Mountains. But for his colleague with 50, 100 or 500

cows on a farm with modern equipment on the north German coastal plain, this measure may be of great economic importance, appreciably increasing his income and allowing him to extend his farm. A farmer who has another job outside agriculture and produces milk only to supplement his income will also regard such a price increase differently. Finally, its significance will again be different for a farmer engaged in intensive milk production close to a large commercial port using imported feedingstuffs and the latest technology.

Now the Treaty of Rome requires that the efficiency of agriculture be increased, and if this is to be possible in these circumstances, a uniform market and prices policy is not enough. Instead, what is required is a process of economic, social and organizational change — i.e., structural change in the widest sense: enlargement of farms; improvement of production equipment for both individual and collective use; training and further training programmes and regular technical and economic advisory services for farmers. However, this also calls for comprehensive economic development of the rural environment — firstly, to establish a progressive infrastructure which is in turn a prerequisite for economic, social and cultural stimulation; and, secondly, to create alternative earning opportunities outside agriculture.

B. The Mansholt Plan and its consequences

Until the beginning of the 1970s, virtually every member country tried to tackle its problems of agricultural structure individually. At Community level, efforts were concentrated on merely coordinating the various national policies. In addition, some individual projects were financed from a common fund (the 'Guidance' section of the EAGGF).

An initial outline for a truly common structural policy was only drawn up towards the end of the 1960s. It was the brainchild of the then EEC Commissioner for agriculture, and the result came to be widely known as the Mansholt Plan.

However, it took nearly four years of laborious negotiation in the Council of Ministers before the Plan was eventually translated into political decisions — at least in its major aspects — in 1972. Since then, the structural policy of the Community has centred on three main fields: the farmer and his farm, the marketing and processing of agricultural products, and the reduction of regional discrepancies.

C. Modernization, training and information: aid for the farmer and his farm

If the aim is to ensure that prime necessity supplies reach consumers at reasonable and stable prices while at the same time improving incomes in agriculture, there is only one possible long-term approach: utilization of technical progress, modernization of farms and rationalization of production. This, however, also implies improved training and further training of farmers and the provision of effective information and advice. Consequently, these were the points on which the common structural policy first concentrated.

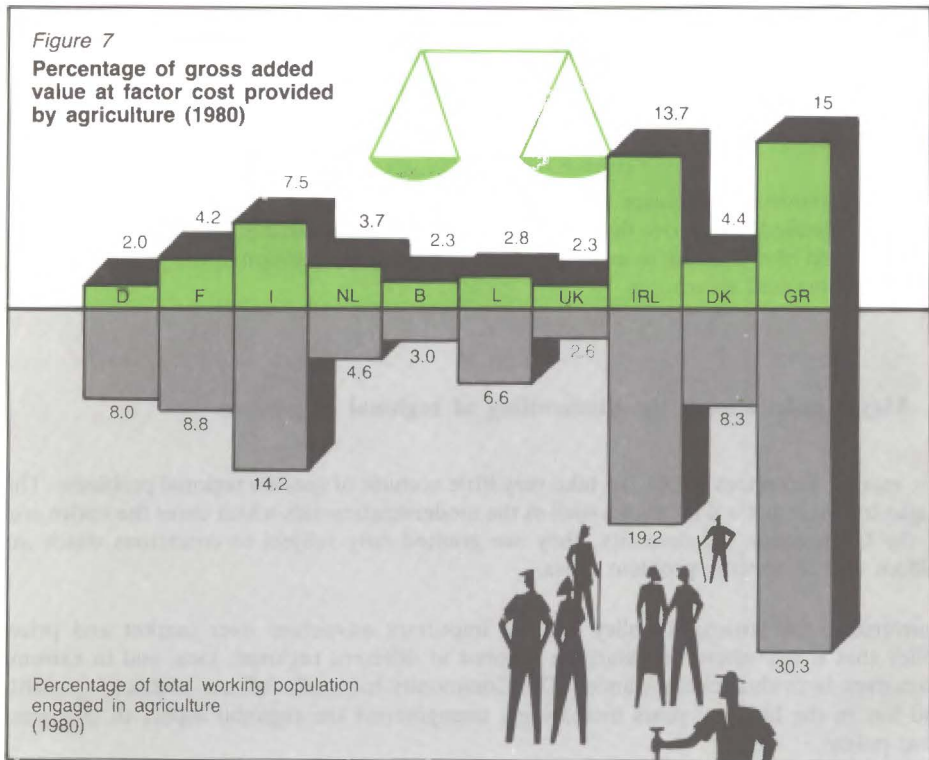
The Community helps farms by interest rate reductions or capital grants for modernization. Of course, such public aids must clearly be confined to farms which have a real chance of

economic survival, and a number of conditions are therefore attached to them. For example, the person in charge of the farm must have farming as his principal occupation, he must show evidence of an appropriate vocational qualification, and he must submit a development plan normally extending over six years. At the end of this period the farm must be capable of yielding an income comparable with the average incomes of other sectors in the same region.

For young farmers submitting a development plan in the first five years of their professional activity, there are special benefits to help them get started.

Older farmers (from age 55) are helped to retire early by pensions and conversion premiums. The land thereby released is intended to go as a matter of priority to farmers wishing to modernize and extend their farms. After all, modernization often calls for larger farms, to enable modern equipment such as tractors, combine harvesters, milking facilities, etc., to be used as efficiently as possible.

All farmers are given the opportunity of vocational training and further training. Farmers wishing to leave the land and take up a different occupation can take part in retraining



courses. A network of agricultural information and advisory services is also being set up and expanded. These will inform the agricultural population about possible ways of improving their social and economic situation and help those in need of advice on adaptation to new economic conditions.

D. Structural improvements in the marketing and processing of agricultural products

It is not possible to promote the development of a modern agriculture without at the same time considering the next stage on the way to the consumer: the processing and marketing of the products. Nowadays, only a negligible proportion of production is still sold direct by the farm to the consumer. Products are processed and marketed by a sometimes very complicated system of dealers, middlemen and processors. In the interests of both the consumer and the farmer, this system must operate as smoothly as possible. The step from modernizing the agricultural production apparatus to improving marketing and processing structures is therefore a logical one.

For a long time the Community had confined itself to the isolated funding of individual projects, but in the second half of the 1970s, it began increasingly to concentrate on the promotion of comprehensive and coherent sectoral or regional development programmes in the Member States. Community grants can be made available in respect of measures for the marketing of agricultural products (e.g., packaging plants for fruit and vegetables) and the processing of these products (e.g., slaughterhouses and wineries) covered by such programmes.

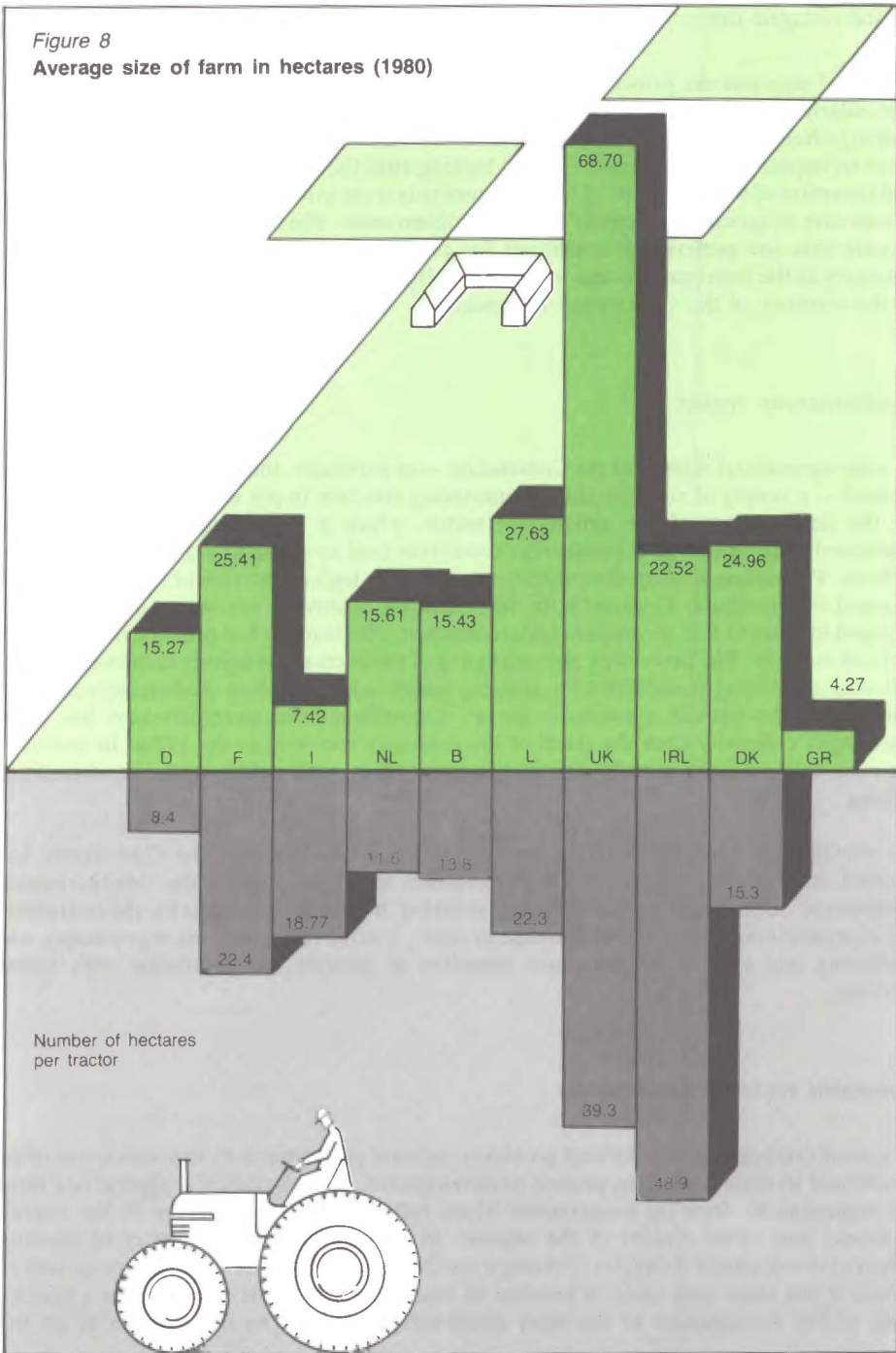
The establishment of producer groups and associations of such groups has a similar aim. They are intended to improve the organization of agricultural production and to increase the concentration of marketing so as to improve the bargaining position of the farmers *vis-à-vis* the processors and merchants.

E. Major tasks ahead: the dismantling of regional disparities

The market and prices policy can take very little account of specific regional problems. This is also true of structural measures such as the modernization aids which cover the entire area of the Community. Of necessity, they are granted only subject to conditions which are seldom met in specific problem areas.

Conversely, the structural policy has the important advantage over market and prices policy that it can where necessary be tailored to different regional, local and in extreme cases even individual circumstances. The Community has made full use of this adaptability and has in the last few years increasingly strengthened the regional aspect of the structural policy.

Figure 8
Average size of farm in hectares (1980)



Disadvantaged areas

An initial step was the provision of specific aid measures for agricultural areas which are particularly disadvantaged by natural conditions (climate or altitude). In these areas, farming often has a much wider-ranging function than mere agricultural production. It also plays an important part in preserving and looking after the countryside. If the depopulation and desertion of whole regions of the Community is to be avoided, it is essential to maintain a minimum of agricultural activity in these problem areas. For this purpose there are direct income aids and preferential conditions for capital grants and reduced interest rates — measures at the interface between social, agricultural and environmental policy. Over 20% of the territory of the Community is concerned.

Mediterranean region

In some agricultural regions of the Community — in particular, the Mediterranean, and also Ireland — a variety of unfavourable circumstances combine to put an almost complete stop on the development of the agricultural sector, which is so important for the regions concerned. Adverse natural production conditions (soil or climate) make the work more difficult. Production is often dangerously one-sided. A high proportion of the population is engaged in agriculture. Frequently the farm sector is positively 'overmanned', while those engaged in it are in fact chronically underemployed. The result is low productivity of labour and low incomes. The processing and marketing of products are relatively undeveloped. For this reason, existing possibilities for creating added value are often inadequately utilized. Attractive jobs outside agriculture are at a premium, and unemployment has risen alarmingly, especially since the onset of the economic recession in the 1970s. In addition, the rural infrastructure is sadly deficient in many cases, with public services and facilities lacking.

To eliminate at least the most serious obstacles to development, the Community has decided on a whole package of special measures for these regions: the 'Mediterranean Programme'. Depending on the individual situation, it includes initiatives for the restructuring of production, irrigation and drainage projects, specific improvements in processing and marketing and various infrastructure measures to provide the population with better facilities.

Integrated regional development

In agricultural regions with difficult problems, sectoral programmes by themselves are often insufficient to initiate a lasting process of development. In such cases it is appropriate from the beginning to draw up programmes which fully 'integrate' agriculture in the overall economic and social context of the regions. In other words, it is a matter of devising coherent development strategies covering a number of sectors. Such integrated programmes should at the same time make it possible to channel the available resources on a priority basis to the development of the most disadvantaged regions by combination of all the

relevant financial instruments (the EAGGF, the Regional Fund, the Social Fund, etc.). Integrated regional development programmes are currently being implemented for several regions.

F. Economic crisis; need for coordination; long-term action — the image problems of structural policy

The common structural policy is sometimes accused of having had very little effect so far, leaving the major structural problems of European agriculture unsolved.

Investment-type measures

Measures under the market and prices policy and the trading policy can have immediate effect and often yield spectacular results after only a short time. This is not true of the structural policy. In most cases its actions have the character of investments, and are accordingly designed on a long-term basis. It takes a long time — sometimes five, 10 or 20 years — before they come fully to fruition.

Need for coordination

Again, especially in the case of regional measures, as decentralized as possible an approach is necessary in both planning and implementation. On the one hand, the existing problems and problem inter-relations are most obvious at national and regional level, and on the other, the only solutions likely in the long term to gain acceptance and prove successful are those which the local population approves and collaborates on. At the same time, however, the measures in the individual regions and Member States must be coordinated with each other. For example, when specific productions are promoted, it is important to prevent a consequent expansion of production in excess of the likely demand, and development in one region must not take place exclusively at the expense of neighbouring regions. Hence, constant coordination is essential from the beginning at all levels — the region, the Member State and the Community. Such coordination processes usually take a long time. Years may pass between the first proposals for a measure and its implementation on the spot.

The economic crisis as a brake

Another major handicap for the common structural policy is the worldwide economic crisis which has persisted since the early 1970s. Owing to the dearth of attractive alternative employment in other economic sectors, and the threat of unemployment in the event of a change of occupation, many farmers prefer to stay on the land even if the productivity of labour and incomes are low. This means that modifications in the agricultural production structure are rendered more difficult precisely in the areas where they are most urgently needed.

For all these reasons, the structural policy can only produce results slowly. It lacks spectacular successes. But there is no alternative. European agriculture must — particularly at a time of crisis — adapt its production structure to changed conditions of production and marketing. For this purpose it requires the aid of a structural policy which creates incentives for change and provides safeguards while this change is in progress. This can be achieved neither by simple laissez-faire nor by revolutionary and violent acts. What is needed above all else is perseverance along the path chosen.

VI. *The expression of solidarity: financing of the common agricultural policy*

Every policy costs money. The agricultural policy being a common policy, it is logical for its cost to be borne in common. For this reason the Treaty of Rome already provided for the establishment of a common fund for the agricultural policy. Since its formation, this European Agricultural Guidance and Guarantee Fund (EAGGF) has accounted for the largest part of the Community budget (60-70%). This is why it is recurrently the focus of the deliberations of the Council of Ministers and the European Parliament, both of which are responsible for budget decisions. The European Court of Auditors, as an independent supervisory institution, also monitors the correct application of the funds voted. After all, the Fund administers a budget comparable in volume with the balance sheet total of an average bank (just under 12 000 million ECU in 1981).

A. **Common policy — common funding: the EAGGF**

Financing the market and prices policy: the 'Guarantee' section

As its name indicates, the EAGGF has two sections: Guarantee and Guidance. The 'Guarantee' section finances the public expenditure arising from the market and prices policy. This includes, firstly, the intervention payments for regulation of the agricultural markets in the Community. Then come the refunds paid in respect of exports to non-Community countries, enabling European agricultural products to be sold on world markets. This heading includes the contribution of the Agricultural Fund to food aid in the form of food donations (314 million ECU in 1980). Finally, expenditure by the 'Guarantee' section of the EAGGF also includes the monetary compensatory amounts which had to be introduced in the 1970s owing to changes in the rates of exchange between the European currencies.

Total expenditure has risen from 4 500 million ECU in 1975 to over 11 000 million ECU in 1981. This represents an average annual increase of about 16% — a little more than the average rate of inflation in the Community over the same period.

In the last few years the Community has made strenuous efforts to contain the increase in costs of the agricultural policy. And it has succeeded: cost-conscious drafting of the marketing policy, a cautious prices policy and strict control of the market have proved to be effective brakes, enhanced by world market trends relatively favourable to the Community.

Whereas the increase in Guarantee expenditure by the EAGGF between 1975 and 1979 averaged over 23% — i.e., above the average inflation rate in the Community — it fell back in the period 1979 to 1981 to about 10%, a level appreciably below the rate of inflation. Indeed, in 1981 there was an absolute fall of 3% in expenditure compared with the previous year. Expenditure is expected to increase again, although modestly, in 1982.

When expenditure is broken down by sector, the high proportion accounted for by dairy products is immediately obvious. These are followed by cereals, beef and veal, sugar and fats. Together these headings absorb more than three quarters of expenditure. This reflects a problem which will be discussed in more detail later: the problem of market imbalances or, more precisely, of structural surpluses in the supply of certain agricultural products.

Not only expenditure but also revenue

However, the market and prices policy does not lead only to expenditure for the Community budget. By virtue of the import levies and a contribution from the sugar producers (the sugar levy), the Community budget also receives revenue under the various market organizations. This amounted in 1980 to just over 2 000 million ECU. However, import levy revenue in particular is increasing much more slowly than expenditure. From 1978 to 1981, this revenue even fell slightly. There were various reasons for this: relatively high world market prices (resulting in low levies), and stability of imports, as well as increasing concessions granted in particular to Third World countries for imports to the Community.

Individually tailored financing under the structural policy: the 'Guidance' section

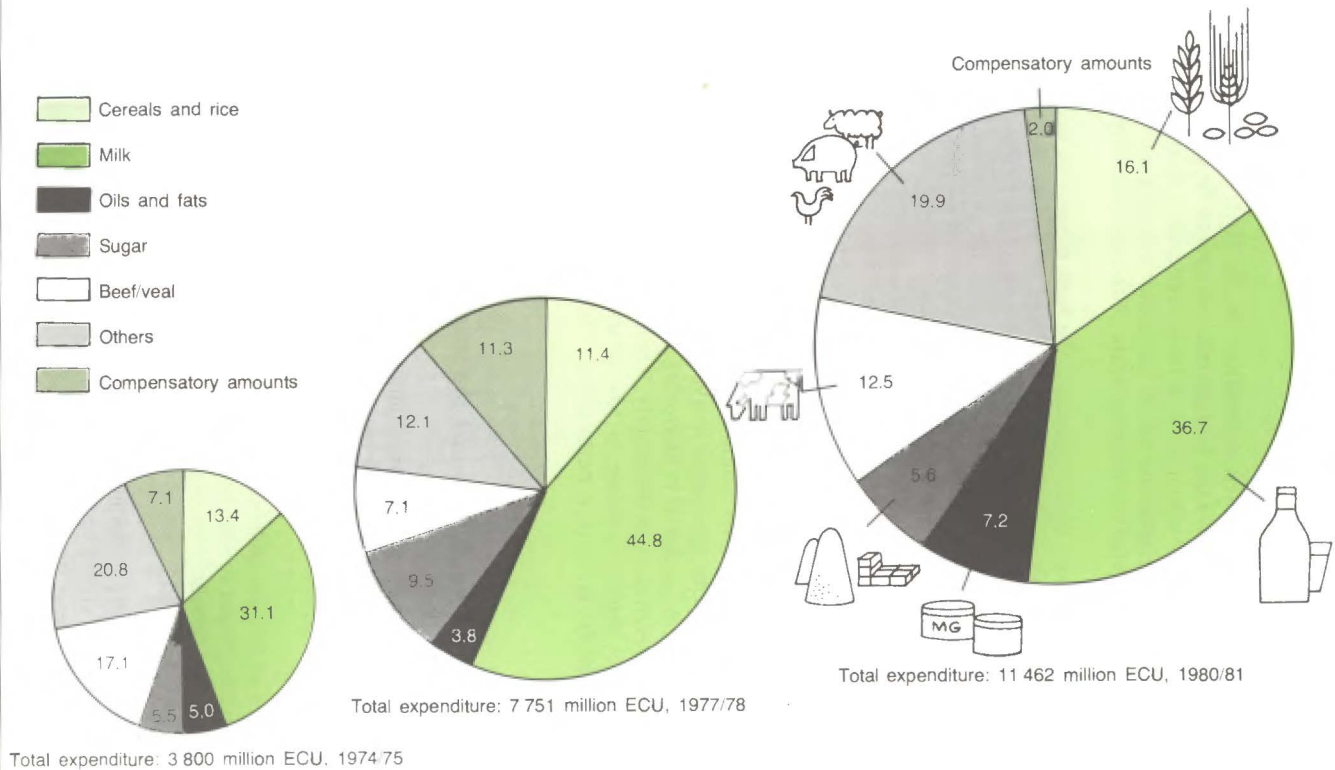
The 'Guidance' section administers Community funds intended for structural policy measures. These measures are mostly planned and implemented on a decentralized basis in collaboration with the individual Member States, with the regions and in a few cases even direct with those concerned.

With this form of division of labour, it is appropriate for the Member States or regions to bear a reasonable proportion of the cost themselves. In the case of investment aids, it is also appropriate for the beneficiaries — whether farmers, cooperatives or enterprises — to make their contribution too and thus assume economic responsibility.

As a rule the Community contributes 25% of the expenditure of common measures such as farm modernization, vocational training or the Mediterranean Programme. In special problem cases, however, the Community proportion is very much higher, covering 50 or even 65% of total agricultural expenditure. This is the case with various programmes in

Figure 9

EAGGF — Guarantee expenditure (in millions of ECU and as a %)



Ireland and Italy. The Community also contributes to the financing of various special measures, which usually apply to a specific sector of production and have a precisely limited duration. These include, for example, aids for producer organizations, dairy cow slaughtering programmes and the grubbing-up of fruit trees and vines.

Finally, until 1979 the EAGGF helped to finance individual projects. These extended from land consolidation via electrification and road-building to the construction of facilities for the processing and marketing of agricultural products. Over 7 500 such projects were financially assisted by the Community between 1964 and 1979. The total volume of investment involved amounted to just under 10 000 million ECU. The Community contributed over 2 000 million ECU to this amount through the Guidance section of the EAGGF.

Unlike Guarantee expenditure, expenditure under the Guidance section comprises mainly co-financing. This explains at least partially why expenditure under the 'Guidance' section is appreciably less than under the 'Guarantee' section. The former amounted to just under 480 million ECU in 1980, or rather more than 4% of the total expenditure of the EAGGF. However, with an average annual growth rate of over 21%, Guidance expenditure has risen considerably faster than Guarantee expenditure since 1975.

B. A common policy — an expensive policy?

Expenditure on the common agricultural policy has in the last few years increasingly become a focal point of public interest. Extended political debates and countless more or less critical expressions of opinion bear witness to this. At a time of general economic difficulty, when growing budgetary deficits are necessitating cuts everywhere, it is perfectly reasonable for agricultural expenditure to be kept under close scrutiny. Is the common agricultural policy too expensive?

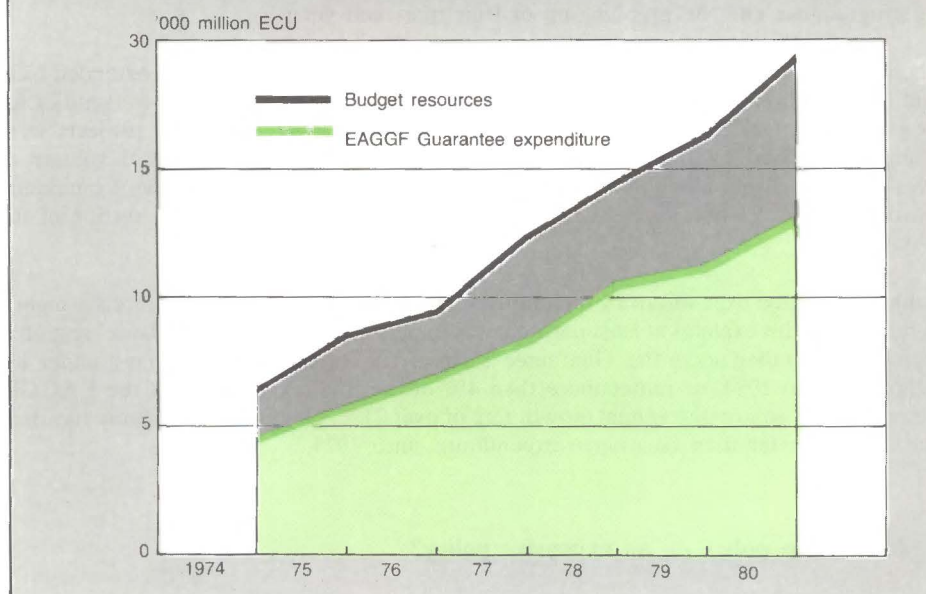
Only a minor burden on Europe's citizens and economy

A total of just under 12 000 million ECU was spent on the common agricultural policy in 1980 ('Guarantee' and 'Guidance' combined). Revenue amounted to just over 2 000 million ECU in the same year. The net expenditure in that year was thus less than 10 000 million ECU. This means that the cost of the common agricultural policy to each European citizen amounted to approximately 3 ECU (or UKL 1.85) per month. This burden, which can be regarded as a premium for safeguarding supplies to the nearly 270 million consumers in the Community, does not appear to be exaggeratedly high. Indeed, it fell slightly in 1981 compared with 1980.

In macroeconomic terms, too, the net expenditure of the EAGGF appears quite modest. Referred to gross domestic product, an important indicator of the level of economic activity in a country, it accounts for less than half of one percent. It is equivalent to less than 3% of expenditure on food by consumers.

Figure 10

Budget resources and EAGGF Guarantee expenditure



Modest in international terms

What about international comparisons? The Organization for Economic Cooperation and Development has endeavoured to compare State expenditure on price and income support in agriculture on a worldwide basis between its members. To show the degree of support of agricultural production in the individual countries, expenditure was expressed as a percentage of agricultural value added (at market prices). In 1977, the only year for which figures for all the countries concerned are available, the level of support ranged between 7.5% in New Zealand and 27.3% in Switzerland. The Community comes close to the lower limit at 11.9%, not far from the United States (9.1%) and Austria (10.6%), but well behind countries such as Norway or Japan. In other words, expenditure to support European agriculture cannot be said to be excessive even in international terms.

Overemphasis on agriculture in the Community budget — a spurious problem

At first sight it may seem astonishing that some 60-70% of the Community budget is spent on the agricultural policy. What is the reason for this apparent overemphasis on agriculture, and does it not impede the development of other policies?

The common agricultural policy is so far the Community's only truly common policy with complete financial solidarity. If it therefore occupies a dominant position in the Community budget, this is ultimately due to the hesitation of the Member States to introduce other common policies with financial solidarity or, where initial approaches to such policies have been made, to pursue them consistently. In fact the Community has never fully utilized the maximum resources available to it in its own right (customs duties, import levies, the sugar levy and 1% of value-added tax). In spite of the expenditure on agriculture, there would have been sufficient resources at least to initiate the development of other common policies. Again, the introduction of new common policies would mean, as is already the case with the CAP, that common expenditure in terms of financial solidarity would replace national expenditure. Logically, such a transfer of expenditure would have to be accompanied by a corresponding transfer of revenue.

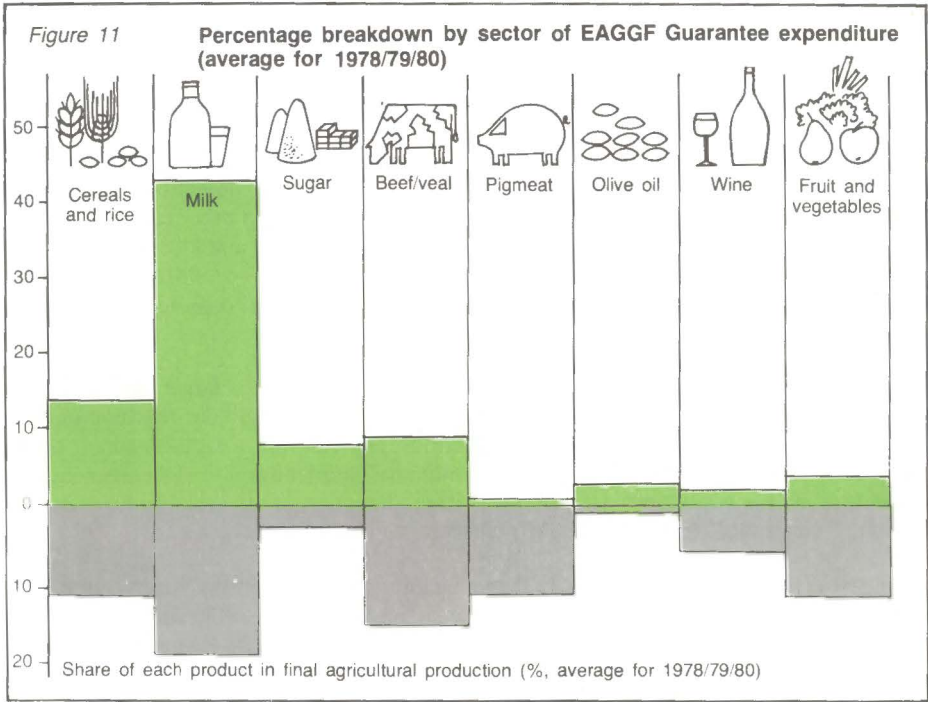
Hence the overemphasis on agriculture in the Community budget is largely attributable to the absence of other comprehensive Community policies with equally far-reaching financial solidarity, and not the other way round. Furthermore, in view of the wide-ranging functions of the common agricultural policy, the Community's agricultural budget also includes expenditure which could just as well fall within the purview of other policies (social, regional, foreign and development aid policies).

Overall, therefore, there seems to be little validity in the criticisms which present the expenditure of the common agricultural policy as intolerably high. This is, of course, no reason for the Community to relinquish control. On the contrary — precisely during a general economic crisis (but not only then), it is essential if a policy is to be credible for its cost to be monitored and for every uncontrolled growth of expenditure to be pruned. The common agricultural policy is no exception. In the last few years the rise in its cost has been perceptibly checked. As a result, the Community budget has risen faster than agricultural expenditure, the proportion of the total budget accounted for by agriculture falling from over 70% in 1978 to 60% in 1981.

VII. *Helping the CAP to work smoothly: supplementary measures*

Free circulation of goods between the Member States and Community-wide competition for the consumer's favours — at all stages of production, processing and trade — these are the ideals of a truly common market. In the everyday realities of economic life, however, the achievement of these ideals still meets with numerous obstacles. Property structures, habits, judgments and prejudices formed over the centuries and ossified, of course take a long time to overcome. This process is rendered more difficult for the common agricultural policy by the slow progress in the achievement of full economic — and indeed also political — union.

The border equalization which became necessary in the 1970s is a typical example of the difficulties with which, through no fault of its own, the common agricultural policy is confronted if it wishes to bring about the free circulation of goods and Community-wide



competition. Although the border equalization system prevented total fragmentation of the market, this rescue operation is itself by no means neutral from the competition point of view in the long term.

Clearing away the past: approximation of laws

A second important example is the multiplicity of health and veterinary regulations in the Member States. These can also constitute an obstacle to the free circulation of goods. One need only think of the 'pig war' between Germany and the Netherlands over trichinosis or the closure of the United Kingdom's borders to chickens and eggs owing to fowl pest.

In order as far as possible to avoid such incidents, the Community has endeavoured since the common agricultural market came into being to bring the existing national requirements into line with each other. This often calls for protracted and laborious detailed work by experts from the Member States and the Commission. This is, however, indispensable: identical requirements for, for example, the use of colouring agents and preservatives, examinations for epizootic diseases or the use of hormones increase the transparency of the market, simplify the circulation of goods and ultimately benefit the producer and the consumer alike.

The efforts to achieve approximation of laws have already borne fruit in many cases. It is true that Community law in these fields, which are technical rather than anything else, is not yet complete, but considerable progress has been achieved precisely in this area in the last few years.

An open question: State aids

It is still not absolutely clear what effect certain national aids granted to assist the achievement of specific national agricultural policy objectives have on competition within the Community. In a few cases in the past, the distortion of competition was so obvious that the Commission had to intervene; in other cases there are at least grounds for concern.

The level of these aids and their apportionment to the different sectors of agriculture are not uniform from country to country within the Community. The measures concerned are mostly aids to promote structural change, tax exemptions and social policy aids. However, differences in macroeconomic and agricultural situations, variations in national agricultural policy objectives and the diversity of the aids add considerably to the difficulty of harmonization in this field.

A programme for the future: research and development

Agricultural research in Europe has long been organized on an individual country basis. It has a worldwide reputation. For this reason it was not necessary for the Community to set up a completely new organization. It was rather a matter of making full use of all the advantages of international cooperation within the context of the Community and to coordinate the work of the Member States. This coordination takes place through research programmes focusing on problems of common interest. In this way the close collaboration of research workers in all Member States can make an important contribution to the common agricultural policy, by laying the scientific and technological basis of knowledge which is essential to ensure the long-term effectiveness of the policy and to adapt it to changing conditions.

The current programme (1979-83), covering 10 different themes, breaks down into four main problem fields:

- i. Improvement of sociostructural conditions (land use and rural development; Mediterranean agriculture; utilization of agricultural waste and in particular the effluent from intensive livestock systems).
- ii. Elimination of obstacles on the agricultural markets within the Community (animal diseases and their control).
- iii. Improvement of the efficiency of production (improving the productivity and quality of beef herds; integrated and biological pest control; improving plant resistance to diseases; processing of agricultural products; Dutch elm disease and its control).

- iv. Alternative products (improving the production of plant proteins and hence increasing the market value of animal feed production).

VIII. *Novel in many respects: the institutional framework*

These rules of procedure for political decision-making, of course, also apply to the common agricultural policy. The main points are as follows:

- i. Proposals by the Commission, which consists of 14 members, appointed for four years by mutual agreement between the governments but required to act independently of national governments and the Council of Ministers. The Commission is the guardian of the Treaty, the executive arm of the Community and the initiator of Community policy. It is the exponent of the Community interest and acts as a body.
- ii. Consultation of the Parliament, which, since the first direct elections in June 1979 and following the accession of Greece to the Community on 1 January 1981, now has 434 members. The European Parliament constantly monitors the work of the Commission, which is politically responsible to it. The Parliament can present a motion of censure and in this way dismiss the Commission.
- iii. Expression of opinion by the Economic and Social Committee, which has a consultative function and is made up of representatives of the various sectors of economic and social life. It must be consulted before a wide range of decisions are taken.
- iv. Debates and decisions by the Council, which is made up of representatives of the 10 Governments. When the Commission submits a general memorandum or a specific proposal to the Council of Ministers, the latter generally starts by entrusting a special committee of high officials or a permanent working group with the preparations for its deliberations. The activity of these committees and working groups is coordinated by the Permanent Representatives Committee, which acts in effect as the representative of the ministers. In the agricultural field, this function is the responsibility of the Special Committee for Agriculture.

Legal acts

The results of the decision-making process outlined above are the various forms of legal acts. There are regulations, which are binding in their entirety and directly applicable in all Member States. They have legal force. Another form is the decision. These may be addressed to Member States, to enterprises or to individuals; they have the character of an administrative act and are therefore binding on those to whom they are addressed. Finally, directives are addressed to one or more Member States. They are a kind of outline law in which an objective is laid down, the Member States being left free to decide on the means of

achieving that objective. Member States are, however, required to pass the necessary national legislation. The Court of Justice of the Community is competent to deal with disputes in matters of Community law.

Management committees

The Commission is responsible for the day-to-day administration of the common agricultural policy. However, it exercises its powers in close collaboration with the governments of the Member States. For this purpose, a number of committees of government representatives are attached to the Commission. Thus each individual market organization or sector (milk, sugar, etc.) has a specialized 'management committee', in which the Member States work together closely with the Commission. This in many respects original system has proved extremely successful in practice.

The management committees meet when necessary at the invitation of the departments of the Commission which chair them. The invitation may take place at the request of a Member State. The delegations of the Member States usually consist of expert officials with experience in the relevant field.

Before the Commission decides on a measure, a draft is submitted to the committee for its opinion. Voting in committee takes place after discussion by a qualified majority (45 votes out of 63), the votes being weighted as in the Council.

The committee's opinion is not binding on the Commission, which notes the contents but remains entirely free to decide for itself. If it decides to adopt a measure in spite of a negative opinion by the committee, it must refer the matter to the Council, which may reverse the Commission's decision within one month. The Commission may put the measure decided upon into effect immediately or wait for the reaction of the Council. In practice, it is very rare for the management committees to give adverse opinions. The process of coordination between the Commission and the governments of the Member States operates without major complications.

Part Two — A quarter of a century after Rome - the common agricultural policy in the 1980s

Where does the common agricultural policy stand today? Has the CAP, a symbol of European integration, achieved the objectives of the Treaty of Rome?

The answer cannot be straightforward. Firstly, it is virtually impossible to establish a causal relationship between the common agricultural policy and the evolution of European agriculture, because too many other factors over which the agricultural policy has no control help to mould this evolution. Secondly, the success of the common agricultural policy is also crucially dependent on the commitment of each individual Member State in translating it into practice at national and regional level. For example, the implementation of the free circulation of goods calls for efforts which have not always been forthcoming. And some Member States have been unable or unwilling to take a common step towards comprehensive structural reform, which is essential to complement the market and prices policy as well as to adapt to changed contextual conditions. This gives rise to distortions in the common agricultural policy and to consequences which are criticized by farmers, consumers and taxpayers alike.

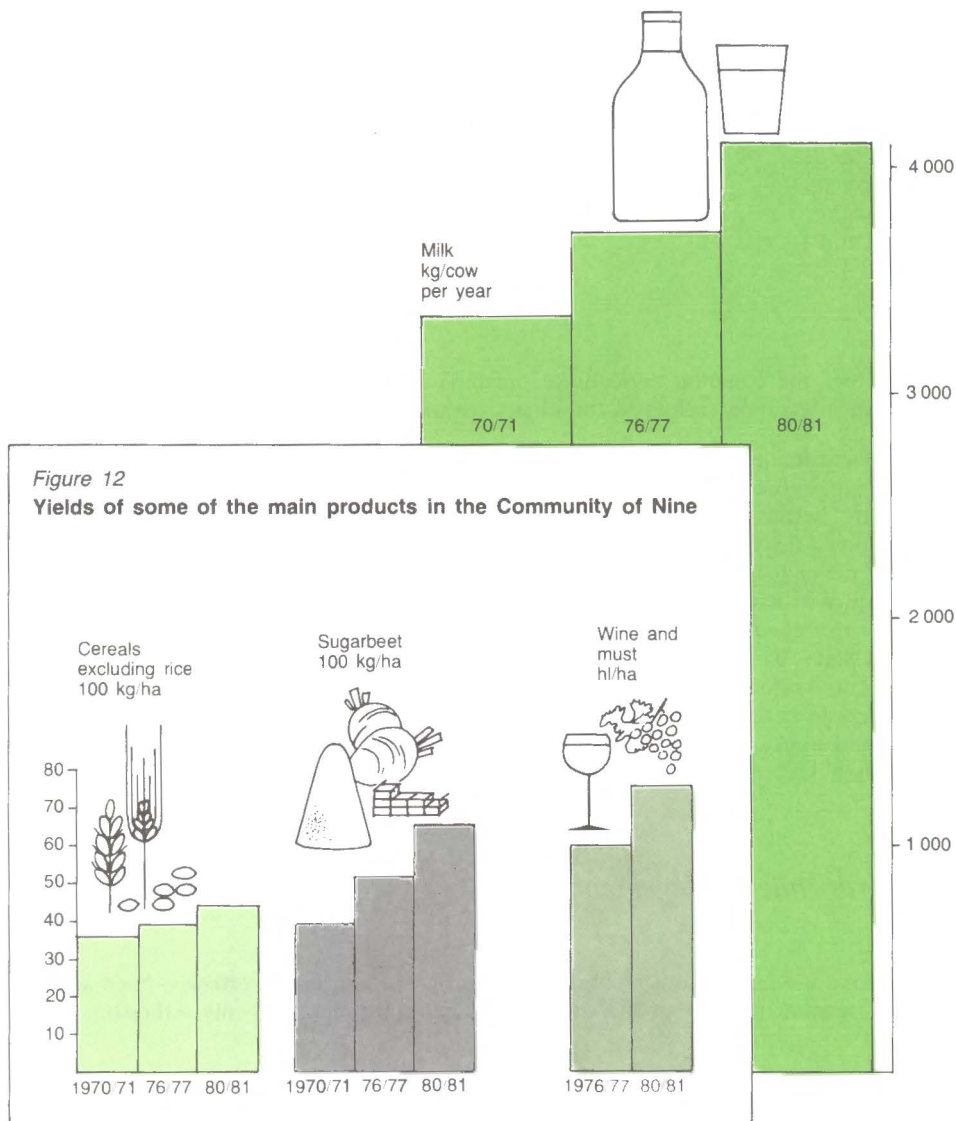
I. Worthwhile achievements

Considering the reservations mentioned, the progress that has nevertheless been achieved since the commencement of the common agricultural policy can only astonish.

Safeguarding of supplies — stability of markets

Since the foundation of the common agricultural market, food supplies in Europe have improved unprecedentedly in terms of both quantity and quality. The Community is now self-sufficient in most agricultural products of prime necessity (with the exception of tropical products and protein feeds). Shortages have been avoided and the sometimes violent and often speculative fluctuations on world markets absorbed. The food supply for the European consumer is today more plentiful and of higher quality than ever.

This advantageous situation is attributable just as much to the spectacular increase in the efficiency of European agriculture as to the constant and consistent expansion of intra-



Community trade. Between 1973 and 1980 alone, trade in agricultural products in the enlarged Community increased by a factor of nearly 2.5 in spite of the general economic crisis. On average in the last five years, the individual Member States exported about twice as much agricultural produce to their partners in the Community as to the rest of the world. The common market with its continental dimension (270 million consumers) has thus proved to be a stabilizing element in the sales of the European producers precisely at a time of economic uncertainty.

Reasonable prices

In spite of the perceptible improvement in the food supply, the increase in food prices to the consumer has remained behind that of consumer prices as a whole. This has been possible because agricultural producer prices — an important cost factor for the food industries, although not the only one — have increased at an appreciably slower rate than prices in general. In other words, the prices of agricultural products have remained relatively stable compared with the general trend of prices. Agricultural and food prices overall have also risen considerably more slowly than the disposable incomes of households. On this basis, it is justifiable to state that the consumer is supplied at reasonable prices.

Major progress in productivity

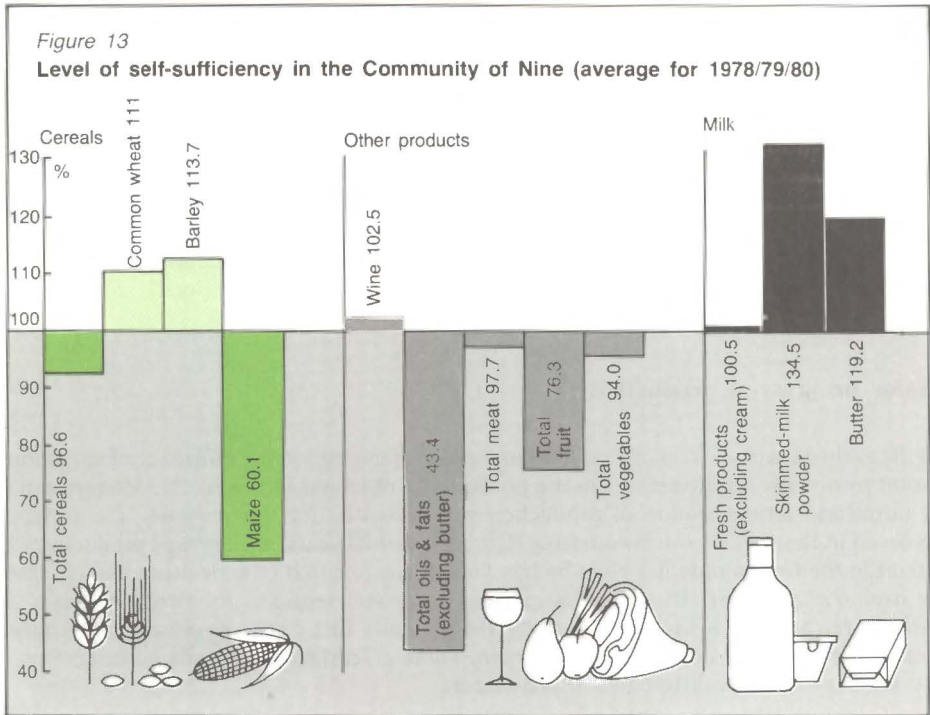
In the early days of the common agricultural policy, increases in the efficiency of agriculture meant principally improvements in the productivity of labour in this sector. Modernization of farms and rationalization of production were essential for this purpose. The progress achieved in these fields is truly amazing. Over the last 20 years, the average productivity of labour in the Community has risen by less than 4%, while that of agriculture has increased by over 6% per year. In 1970, 220 persons were still required to earn 1 000 ECU in agriculture, but this figure had fallen by 1980 to only just over 150 persons. Of course, considerable regional differences still remain. These at least partially explain the increase in the regional incomes differential in agriculture.

Inconsistencies in income trends

In the first 10 years of full operation of the common agricultural policy (1968-78), real incomes in European agriculture, on the basis of net value added per agricultural working unit, have risen perceptibly but unevenly. If the average for the three years 1967, 1968 and 1969 is taken as the basis, three phases can be distinguished: a spectacular increase in real incomes up to 1973 (+ 42% compared with the reference period); a steep fall in 1974 with a decline in real incomes; and a further, but appreciably slower, increase in real incomes from 1975 to 1978. Overall, incomes in agriculture in the 10 years have improved in real terms by an average of 2.8% per year, thus roughly keeping pace with the trend in other economic sectors.

However, real agricultural incomes fell again in the period from 1979 to 1981, by 3% in 1979, 7% in 1980 and 2% in 1981. But these overall averages conceal differences — in some cases considerable ones — in the variation of incomes between the individual member countries and regions of the Community.

Contrary to the in general unfavourable trend of incomes in the last few years, it has hitherto been possible — thanks not least to the CAP — substantially to protect the agricultural population from the consequences of the general economic crisis and to make it possible for agriculture to continue to grow.



Active participation in world trade

The establishment and protection of the common agricultural market have not prevented the Community from being open to the outside world. It is the largest agricultural importer in the world. Between 1973 and 1980, imports of agricultural produce into the Community rose by a further 75% by value (in ECU) in spite of the already high initial level. On the export side, the common agricultural policy has decisively helped European farmers to participate actively in international trade, enabling them to secure new markets and hence additional income prospects. The Community's agricultural exports increased by about 164% between 1973 and 1980 (although the initial level was admittedly modest). In addition, outside the commercial sphere, the Community makes a substantial contribution to combating world hunger through food aid.

II. The changing face of agriculture

The metamorphosis which European agriculture has undergone since the beginnings of the common agricultural policy can be regarded in many respects as a 'silent revolution'. The main aspects of this revolution are a rapid decline in the number of persons engaged in agriculture, the restructuring of major sectors of production under the pressure of

unremitting technical and biological progress, increasingly close links with other economic sectors and, as a consequence of all these aspects, an enormous improvement in the efficiency of European agriculture. These headings can at best give an idea of what has happened.

Rapid decline of the labour force

In 1960, 15.2 million persons were employed in the then Community of Six. This figure fell to only 8.2 million in 1973. The number of persons earning their living from agriculture was thus practically halved over this period. This is expressed tellingly by the fact that on average between 1960 and 1973, one person left the agricultural sector every minute. Many of these people were absorbed by other economic sectors (industry and services), which urgently required additional labour.

In the period from 1973 to 1980, after the first enlargement, the number of persons employed in agriculture in the Community fell by a further 1.5 million, from 9.4 million to 7.7 million, or 7.4% of the total gainfully employed population. However, the rate of abandonment of agriculture has slowed down appreciably. It has averaged about 2.8% over the last 10 years. In view of the general economic crisis, accompanied by high unemployment, this slowdown is, of course, not surprising. It would also be wrong to assume that all the working population leaving agriculture transfers to other sectors. In the present situation, the main factors are no doubt death, retirement without succession and failure to enter the agricultural sector as a source of income at all.

In spite of the sharp decline in the number of persons employed, the economic power of agriculture, measured by the development of gross value added, has risen, the increase averaging more than 7% per year over the last 20 years (in nominal terms). This growth rate is lower than that of the economy as a whole over the same period (+ 10.5%), but in conjunction with the sharp decline in employment, it has led to a spectacular increase in the productivity of labour in European agriculture.

Specialization, intensification and concentration

The rationalization of agricultural production is also reflected in a restructuring of the factors of production in this economic sector. An inevitable corollary of the fall in the number of persons working in agriculture is a decline in the number of farms. Between 1960 and 1980, this — based on today's Community of Ten — fell by an average of 2% per year. There were still about 5.5 million farms altogether in 1980.

This process of contraction has affected mainly small farms with less than 20 hectares of land. Their land is largely taken over by bigger farms. In consequence, the number of farms with 50, 100 and more hectares tends to increase accordingly, and average farm size in the Community increased from 12 ha in 1960 to just under 18 ha in 1980.

For all the substantial restructuring which has already taken place or is in progress, the agriculture of the Community has not yet attained its optimum production structure. Even today, over 40% of farms cover less than 5 hectares. They cultivate just under 7% of the utilized agricultural area, while the approximately 6% with over 50 ha work more than 40% of the total area.

In parallel with the change of farm structures, the agricultural production process itself has been 'revolutionized' by important technical and biological progress. This has taken the form of increasing specialization and intensification of agricultural production, which, together with the major structural changes, were a prerequisite for the vast increase in productivity. The substantial mechanization of agriculture, the intensive use of fertilizers and pesticides (phytosanitary products, weed killers, etc.), the use of selected seeds and plants and livestock raising on concentrated feeds — these are important manifestations of these developments.

Growing interdependence

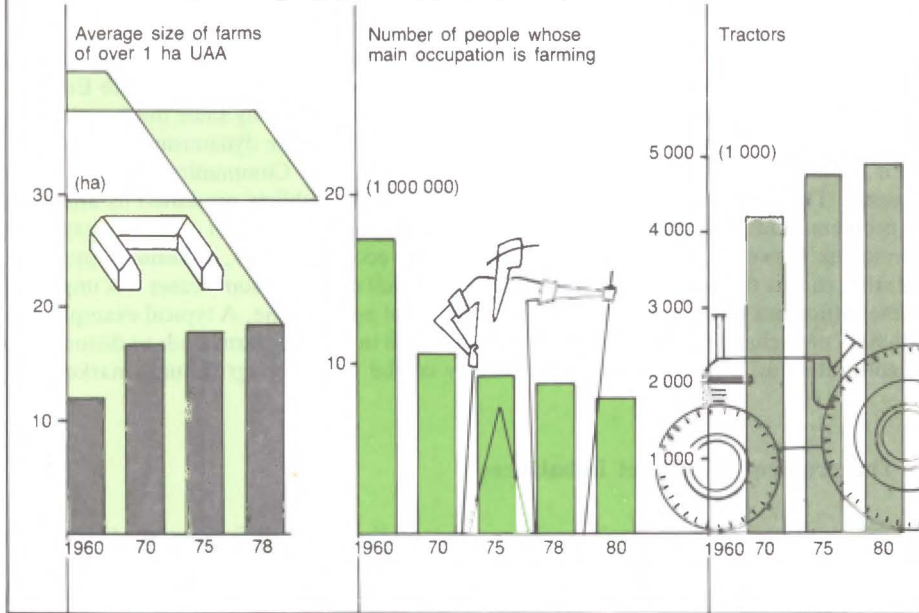
With the increasing specialization and intensification of agricultural production, the interrelationship of agriculture with the economic sectors upstream and downstream of it has also steadily been tightened. Agriculture now obtains far more goods and services from outside than it did, say, in the 1960s. This applies to both capital goods (buildings, plant, agricultural machinery) and inputs (animal feedingstuffs, fertilizers, plant protection products, fuels, electricity, plant maintenance and repairs, etc.). The principal suppliers are the chemical industry, the energy sector, mechanical engineering and services. In the case of feeds, however, one may wonder whether this is merely a case of an agricultural product returning to agriculture by an indirect route with increased value.

But the situation is not so simple, because apart from the fact that modern feeding-stuff technology has spawned an industry of its own, many of the primary products used to make animal feeds do not originate from the agricultural sector of the Community. Products such as maize, soya, cassava and maize gluten are imported on a large scale from non-Community countries, as are also some chemical products (trace elements and antibiotics).

The interdependence between agriculture and the 'downstream' stages of production is often even more pronounced. Fewer and fewer agricultural products are consumed in their original condition. More than two thirds of agricultural production is no longer processed and marketed by agriculture itself but goes to other economic sectors for this purpose or is exported. In this way, many commitments have been entered into in a relatively short time, some of them enshrined in longer — or shorter — term contracts or property rights. In their interrelatedness, agriculture and the food industry thus form an important economic complex with a dynamic development potential of its own, accounting today for about 7.5% of the gross domestic product of the Community and providing employment for over 10 million people.

Figure 14

Structural changes in agriculture in the Community of Nine



Change without disruption

It is sometimes maintained that, however considerable the development of European agriculture, it is proceeding much too slowly, and that in absolute terms the achievements of agriculture lag behind not only the peak results attained in some other sectors but also the average growth of the economy as a whole. For instance, the share of agriculture in gross value added at market prices in the Community was halved between 1960 and 1980, falling from 7% in the former year to 3.5% in the latter.

But this argument overlooks the starting point for the development of agriculture in some Member States, where it was isolated from the rest of the economy for decades, before coming under the responsibility of the common agricultural policy. Considering this difficult initial situation with all the associated national and regional particularities, it must on the contrary be a source of amazement that the far-reaching changes in European agriculture since the beginning of the common agricultural policy have taken place without the severe social disruption suffered by many other sectors. The common agricultural policy, with its stability-oriented market organizations, its well-considered price decisions and the backup measures to promote structural change, must certainly take much of the credit for this.

III. *Problems of today — challenges for tomorrow*

The achievements of which the common agricultural policy can boast are considerable. However, the evolution of the last 20 years has not been without problems. Both European agriculture and its macroeconomic context have changed substantially since the foundation of the Community. If the common agricultural policy is to retain the dynamism it has displayed so far, it must be adapted to the changed conditions. The Community is aware of this necessity. The Commission has on a number of occasions publicly presented its analysis of the problems and submitted proposals for their solution. A number of measures have since been taken. However, in view of the present, severe economic crisis, a cautious approach is essential, so that they can only gradually have their full effect. In some cases it is impossible for the difficulties to be eliminated by the agricultural policy alone. A typical example is the instability of exchange rates in the Community, which in the long term leads to distortions in agricultural trade, thus jeopardizing the unity of the common agricultural market.

A. The problem of market imbalances

According to the Commission's analyses, one of the main difficulties confronting the common agricultural policy is 'that there are no sufficiently effective regulatory mechanisms to match production to demand on both the internal and external markets. Since the common agricultural policy is largely based on support for agricultural incomes in the form of guaranteed prices or direct product aids, the continued expansion of production results in a flood of expenditure which can no longer be controlled'.

Limited demand

While the demand for many consumer goods grows fairly vigorously with increasing incomes, the demand for food drops in relative terms. Since the human stomach has only a limited capacity, consumers devote a smaller and smaller proportion of their incomes to food. Only the increased demand for very high quality products limits this tendency somewhat. However, it is the food processing industry which benefits more from this than agriculture. Overall food consumption is also limited by the fact that the population is growing slowly. A significant increase in the volume of demand in the next few years is therefore unlikely.

Growing supply

Although the demand is limited, the supply of some agricultural products has sharply increased. This is largely due to the great technical and biological advances achieved in agricultural production, which have led to important increases in productivity. The supply of agricultural products is thus increasing faster than the demand for food. Such a trend raises

no problems as long as demand is not fully satisfied. In broad terms, this was precisely the situation when the common agricultural policy was introduced. Difficulties arise, however, if supply exceeds demand and there is a lack of markets. Then any guarantee system of unlimited applicability merely induces still more production, thus exacerbating the problem of surpluses.

'Structural' and 'cyclical' surpluses

A distinction must, however, be made between structural (systematic) production surpluses and ones attributable merely to fluctuations in the harvest. The former must be eliminated by an appropriate policy, while the latter are unavoidable with many products. Agricultural production is largely determined by biological factors and is in many cases heavily dependent on external agencies. For this reason, strict production planning as in industry is not possible. 'Cyclical' production surpluses are, however, not the real problem. The market organizations for the individual products are flexible enough to absorb these effectively and to stabilize the markets.

An example: milk

Milk is at present a typical example of a structural production surplus. There are virtually no longer any internal or export markets on which the milk surpluses could be sold, and the possibilities of increased food aid are also limited. To reduce stocks, export refunds or even more expensive subsidies for sales on the internal market had to be granted, sometimes amounting to up to 80% of the value of the product.

There has sometimes been harsh criticism when surpluses have been exported at a loss instead of giving the benefit to Community consumers (e.g., low-price butter sales to the USSR). However, there are situations where it is less costly for the Community — and hence ultimately for the European taxpayer and consumer — to export the surpluses at low prices. This is true particularly where, as in the case of the deliveries to the Soviet Union, the normal commercial markets are not thereby disturbed.

Other products

Owing to annual variations in the harvest, the situation for wine is very different from that applicable to milk.

Here, too, however, production is tending to increase, while consumption continues to fall. The production of cereals and sugar, notwithstanding annual fluctuations, likewise continues to grow faster than consumption. And according to the Commission's forecasts of production and demand, there will be growing surpluses of beef and veal in the 1980s.

B. Differences in incomes in agriculture

Because of the worsening economic crisis of the last 10 years, the increasing production surpluses and consequent heavy expenditure have made a cautious prices policy essential. On the other hand, production costs in agriculture have increased appreciably owing to the energy crisis, resulting in the last few years in a disquieting deterioration of agricultural incomes averaged over the Community.

Advantages for the big farms

However, the average income variation figures conceal another serious problem to which the Commission draws attention in its analysis: the growing income differentials in European agriculture. In this connection the accusation may be levelled at the common agricultural policy 'that the common market organizations with their price guarantees or product aids privilege the large farms which already have the best production structures'.

Now it is not surprising in itself that a certain concentration of agricultural holdings has taken place. On the contrary, from the long-term point of view there is no good reason why agricultural production, like industrial production, should not evolve to give types of units operating on a more rational economic basis, making better use of available resources and benefiting from the advantages of large-scale production. Such a trend could be in the interests of producers and consumers alike. Again, comparison of average farm size in the Community (just under 18 ha) with that in other large producer countries (e.g., the USA at about 150 ha) indicates that the Community still has some structural ground to make up in this respect.

But criticism begins 'where prices — and hence also incomes — are supported directly from public funds. In other words, in a Europe confronted by the energy crisis with a long period of reduced economic growth, criticism is directed towards the fact that public money is being used mainly to support the incomes of the most prosperous farmers'.

Regional disparities

Analysis of regional differences in incomes in European agriculture yields a similar result. The regions of the Community are, of course, endowed with different natural resources and structural disparities have always existed between them. These were reflected even before the foundation of the Community and the introduction of the common agricultural policy in considerable differences in productivity and incomes. These differences, however, were further exacerbated in the 1970s, despite some signs of catching-up in certain parts of Ireland and north-east Italy.

At the same time, there is a correlation at regional level between the trend of agricultural incomes and that of incomes and the economic infrastructure outside agriculture. This clearly shows how strongly the evolution of structures and incomes in the agriculture of a region is influenced by the general economic background conditions. Again, 'the prices and market policy has not been uninvolved in the strengthening of regional differences, for two main reasons. Firstly, the richer areas of the Community often receive more support owing

to the nature of their production (cereals, milk, sugar) than the disadvantaged regions — especially in the Mediterranean — where fruit, vegetables and wine predominate. Secondly, the common market organizations tend to give preference to supporting the large producers, most of whom are to be found in the richer areas. It is in fact only in the last few years that more attention has been devoted to Mediterranean-type production or, in general, to regions with economic or natural disadvantages’.

Agricultural expenditure and structure

The level of public expenditure on the common agricultural policy has already been discussed in detail above, where it was found that the criticisms to the effect that expenditure on the CAP was intolerably high failed to withstand close scrutiny. Similarly, in the view of the Commission, ‘the common agricultural policy cannot be validly appraised from the budgetary viewpoint alone, even if strict moderation must be the order of the day precisely where increased agricultural expenditure is involved. From the viewpoint of public expenditure, expenditure on the agricultural policy is a transfer of former national budget expenditure, and there is no evidence... that it has led to an increase in total public transfer payments by the Member States to agriculture. Again, the agricultural budget of the Community includes expenditure which could just as well be classified in other policies (social policy, regional policy, external policy)’.

The real problem of agricultural expenditure lies not so much in its level as in its structure. Thus, a high proportion of budgetary resources are spent on products with growing structural surpluses, although this has done nothing to reduce disparities of income within agriculture. In other words: ‘Criticism is directed less to the fact that (in 1980) 11 000 million ECU was spent on the Guarantee section of the EAGGF as a whole than to the fact that, for example (also in 1980), 4 500 million ECU was spent on milk products for which there are no better prospects of sale in the foreseeable future’. Criticism is also directed to the fact that the big producers, with better production structures and higher incomes, ultimately benefit more from this than the many small farmers in the poorest regions of the Community.

A number of investigations do in fact show that there is a very close correlation between the level of regional agricultural incomes and the level of support expenditure per farmer/farmworker. ‘On the basis of an average Community index of 100, the volume of agricultural expenditure per work unit is over 150 in most parts of the Paris basin, Belgium, north Germany, the Netherlands and Denmark. However, it is in general less than 50 in one of three Italian regions and less than 80 in the other Italian regions and in the mountainous regions of south-west France. In the regions where agricultural incomes are highest, costs are also highest’.

C. Enlargement of the Community

Greece has been a member of the European Community since 1 January 1981. Portugal and Spain have also applied for membership. Negotiations on the accession of these two countries are still continuing.

A new dimension

The change to the Community of Twelve will certainly add a new dimension to European agriculture. The number of persons engaged in agriculture would increase by over 50%, and so would the number of farms. The utilized agricultural area would increase by 40% and the value of agricultural production by 15%. In Greece, over 30% of the gainfully employed population work in the agricultural sector; the proportion is the same in Portugal, and in Spain it is still nearly 20% — more than twice as high as the average for the Community. The contribution of agriculture to the national product is also well above the Community average in all three countries. Finally, the enlargement also has a qualitative aspect: typical Mediterranean products such as wine, fruit, vegetables and olive oil will assume much greater importance in the future.

Need for transitional phases

To facilitate Greece's adaptation to the new situation and to allow possible difficulties on both sides to be eliminated gradually, a transitional period of five years has been agreed for the agricultural sector. This has even been extended to seven years for some products (fresh and processed tomatoes, peaches and preserved peaches). By the end of this period, Greek agriculture is to be fully integrated in the common agricultural market.

In the cases of Portugal and Spain, too, sufficiently long 'technical' transitional periods will be necessary. In addition, the accession of these two countries will change the face of green Europe in a way that will call for particular measures of adaptation in some fields of production. This applies particularly to vegetable fats, fruit and vegetables and wine. The Commission has already submitted appropriate proposals (outside the context of the negotiations for accession). Its prime concerns here are to avoid from the beginning serious market imbalances in the fields mentioned, which would give rise to new structural production surpluses and a new flood of expenditure, and as far as possible to defuse the problems which might arise from the accession of these countries in regard to trading relations with other Mediterranean States.

IV. Policy for the 1980s: guiding principles of the Commission

Structural production surpluses, growing income disparities, an unbalanced expenditure structure, enlargement of the Community, and Mediterranean problems — these are important challenges for the agricultural policy in the 1980s. The strength of a policy is illustrated in its ability to adapt to changed conditions. Only in this way can it effectively pursue its objectives in the long term.

However, the scope for reorientation is limited. The common agricultural policy, which was created during a worldwide economic upturn, now finds itself in an economic environment

characterized by the energy crisis, greatly reduced economic growth, unemployment, currency instability and inflation. The crisis makes the necessary changes in agriculture more difficult in that budgetary stringency is its inevitable concomitant.

Notwithstanding these difficulties, the Commission believes that the common agricultural policy must be further developed. Only if the challenges of today are successfully to be met can the agricultural policy of the Community remain credible in the long term, giving green Europe a real chance of development in the years to come. For this reason, in accordance with a mandate from the Council of Ministers in May 1980, the Commission has drawn up some guiding principles for European agriculture in the 1980s, which are outlined below.

A. Adaptation of markets

Exports not a panacea

The forecasts of production and consumption for the principal agricultural products show that in many cases production will continue to grow faster than consumption in Europe. It will not always be possible to compensate for the differences by exports. Surely it is right and necessary for the Community to continue to participate actively in world trade, to help satisfy the world's growing need for food. What is meant here is the conclusion of long-term supply contracts with the developing countries in particular. Nearly 51% of the Community's agricultural exports went to these countries in 1980. But the struggle against hunger in the Third World demands first and foremost that these countries be helped to help themselves — i.e., that they receive more and more support in the expansion of their own production potential. The Commission unequivocally espouses this view in its latest memorandum on the development policy of the Community. For this reason, exports and food aid can in no way represent a panacea to deal with structural production surpluses.

Production targets and graduated guarantees

Allowing for internal consumption and its growth and for export possibilities, the Commission has laid down medium-term (up to 1988) production targets for a number of important products (cereals, milk, beef and veal, rape, apples and tomatoes). Everything produced in excess of these targets will no longer automatically receive the same Community guarantee — e.g., as regards the intervention prices. The production targets are to be reviewed annually and amended where necessary.

Adjustment of internal market prices

In addition to the idea of production targets, the Commission proposes that the (real) internal market prices for cereals gradually be approximated to the prices applied by the other large producer countries — especially the USA — on the world market. There are



A new common agricultural policy...

many important arguments in favour of such an adjustment. Cereals are of central importance in the agricultural economy of the Community. If cereals prices fall in real terms, the production costs of beef and veal, pigmeat, poultry, eggs and milk also fall. The price support for these sectors could be set at a lower level and their competitiveness relative to non-Community countries would increase. In the medium term at least, this would also make the import of cereal substitutes such as soya or cassava, which are now used principally for animal feeds, less attractive. Finally, owing to the intensive use of available resources, cereals production in the Community is relatively efficient, so that a gradual approximation of the price level of the Community to that of its major competitors on the world market seems reasonable from this viewpoint as well. This would concern primarily the large farms which now specialize in cereals production and whose efficiency is particularly high. Smaller holdings, on the other hand, usually undertake mixed farming, obtaining a considerable proportion of their income from other crops and, in particular, livestock breeding.

B. Reorientation of the structural policy

The Commission also believes that some changes of emphasis are called for in the structural policy. The available resources should be applied preferentially where the demand appears to be most urgent — namely, on the weaker farms and in the disadvantaged regions. This is the only way gradually to overcome the considerable disparities of income in agriculture.

In some cases it will be a matter of deliberately improving the structure of agricultural production. This also includes product quality improvement, realignment and diversification of production and the introduction of new production systems. Important contributions are expected from agricultural research here.

In other cases a comprehensive improvement of the economic and social infrastructure in the country will be necessary. Integrated programmes covering not only agriculture but also the sectors immediately upstream and downstream from it must be developed here. After all, it is often precisely structural weaknesses in processing and marketing that prevent the achievement of reasonable value added at regional level.

Finally, there will be a few cases where, owing to particularly difficult conditions of production, farmers are unable to obtain a reasonable income but where their role in preserving and looking after the countryside goes far beyond matters of agricultural policy proper. Here, direct income aids should be possible, to avoid social hardship and to compensate farmers for their wide-ranging ecological functions.

C. Production alternatives: prospects for the future

The outline given in the foregoing sections is sufficient to show very clearly how complicated the tasks facing the common agricultural policy today are. On the one hand, growing production surpluses create increasing costs for the Community and necessitate a slowing-

down of production of some products or a financial contribution by the producer to the resulting costs — e.g., by way of a co-responsibility levy. On the other hand, incomes in European agriculture are at present comparatively unfavourable and alternative employment opportunities outside agriculture are substantially lacking. In this situation it is justifiable to ask whether the resources existing in agriculture could not be used, at least to some extent profitably, for alternative products in which surpluses are unlikely to occur.

Lack of traditional alternatives

However, there are very few traditional agricultural products that could be chosen as alternatives to those currently in surplus. Most of the products concerned are of secondary importance — e.g., almonds, sunflower seeds, nuts, etc. In other cases efforts are being made to change over to different product qualities (as with tobacco). But however necessary and reasonable these measures are, their overall effect is limited.

Proteins as animal feeds

A valuable alternative might be the production of protein feeds, in which the Community still has a substantial deficit. The production of peas and broad beans as protein sources for animal feeds is already being promoted. However, if this alternative were to be expanded on a broad basis, increased protection against low-priced imports of animal feeds would be necessary. Fresh expenditure on the common agricultural policy or price increases for dairy products and meat due to the increase in production costs could hardly be avoided.

Wood — attractive in the long term

The Commission also considers there to be good prospects in forestry, by increased afforestation and more efficient land use, especially with marginal soils. The clear advantages of this alternative would be better supplies of timber as an industrial raw material, a reduction of the balance of payments deficit and — as a rule — environmental benefits.

The Community is in fact increasingly short of wood, and in the next 20 years there is likely to be a worldwide shortage of wood. Of course, the afforestation alternative must be considered as a long-term prospect (20-30 years) as far as traditional woods are concerned. It would be economically justified if the prices of imported wood increased substantially up to the year 2000. Various forecasts suggest that this may well be so, but such a strategy could not be implemented without comprehensive aids.

Primary products for energy and industry: agricultural and forestry biomass

Finally, agriculture is in an exceptionally good position to produce not only its traditional products such as wood, wool, cotton, hemp and flax but also self-regenerating raw materials (biomass), either as industrial primary products or for energy generation. In this way, part of the non-renewable fossil energy sources (petroleum, coal and natural gas) could be replaced by a regenerable energy source, and agriculture would become an energy producer.

As a first phase, the waste and joint products from the production and processing of agricultural and forestry products could be burnt, fermented or gasified to produce energy. In a much more far-reaching second phase, the production of biomass for energy purposes (or as an industrial primary product) could be planned on a more or less large scale. Familiar crops such as beets, maize or rape could be used for this purpose. However, 'new' plants for cultivation have also been developed and tried and appear particularly promising as raw materials for energy generation — e.g., giant reeds, some fast-growing trees and certain types of spurge.

According to recent research, about 5% of Europe's energy requirements could be met in this way by the turn of the century from agricultural and forestry biomass. This is more than agriculture and forestry together consume today.

As with any other kind of innovative economic activity, it is very difficult to predict at present how high the biomass energy production and distribution costs will turn out to be, what form the relevant markets will take and what interdependences with other markets will arise, for both the raw materials and the end products. However, there are many indications that the use of agricultural and forestry waste and the partial turning-over of land materials, whether for energy generation or as industrial raw materials, might in the future constitute a solution meriting careful consideration. The Community is making considerable research resources available for this purpose.

European prices: a short glossary

- *Target price.*—Price which the producer should receive under the common market organization. The products concerned are cereals, sugar, milk, olive oil, colza and sunflower seed.
- *Guide price.*—Corresponds to the target price but concerns beef, veal and wine.
- *Norm price.*—Same as above in the case of tobacco.
- *Threshold price.*—A price calculated so that the imported product (including transport costs) can be sold at the target price. The difference between the world price and the threshold price is covered by a levy. The products concerned are cereals, sugar, milk products and olive oil.
- *Sluice-gate price.*—Corresponds to the cost price of pigmeat, eggs and poultrymeat produced in the non-member countries with the highest technical efficiency. An additional amount is added to the levies on products sold below this cost price, so as to prevent them entering the Community at prices below the sum of the sluice-gate price and the levy (level of protection).
- *Reference price.*—Determined by reference to the producer price in the Community and comparable, to some extent, to the sluice-gate price. It is the minimum price at which a product may be imported from any non-member country. If the reference price is not respected, an equivalent charge is levied. The products concerned are fruit and vegetables, wine and certain fishery products.
- *Intervention price.*—The price at which the intervention agencies are obliged to buy products offered to them. The products concerned are cereals, sugar, butter, powdered milk, certain Italian cheeses, olive oil, colza, sunflower seed, beef and veal, pigmeat and tobacco.
- *Basic price.*—Corresponds to the guide or target price in the case of pigmeat, in the sense that it is used to determine the level which triggers market intervention measures.

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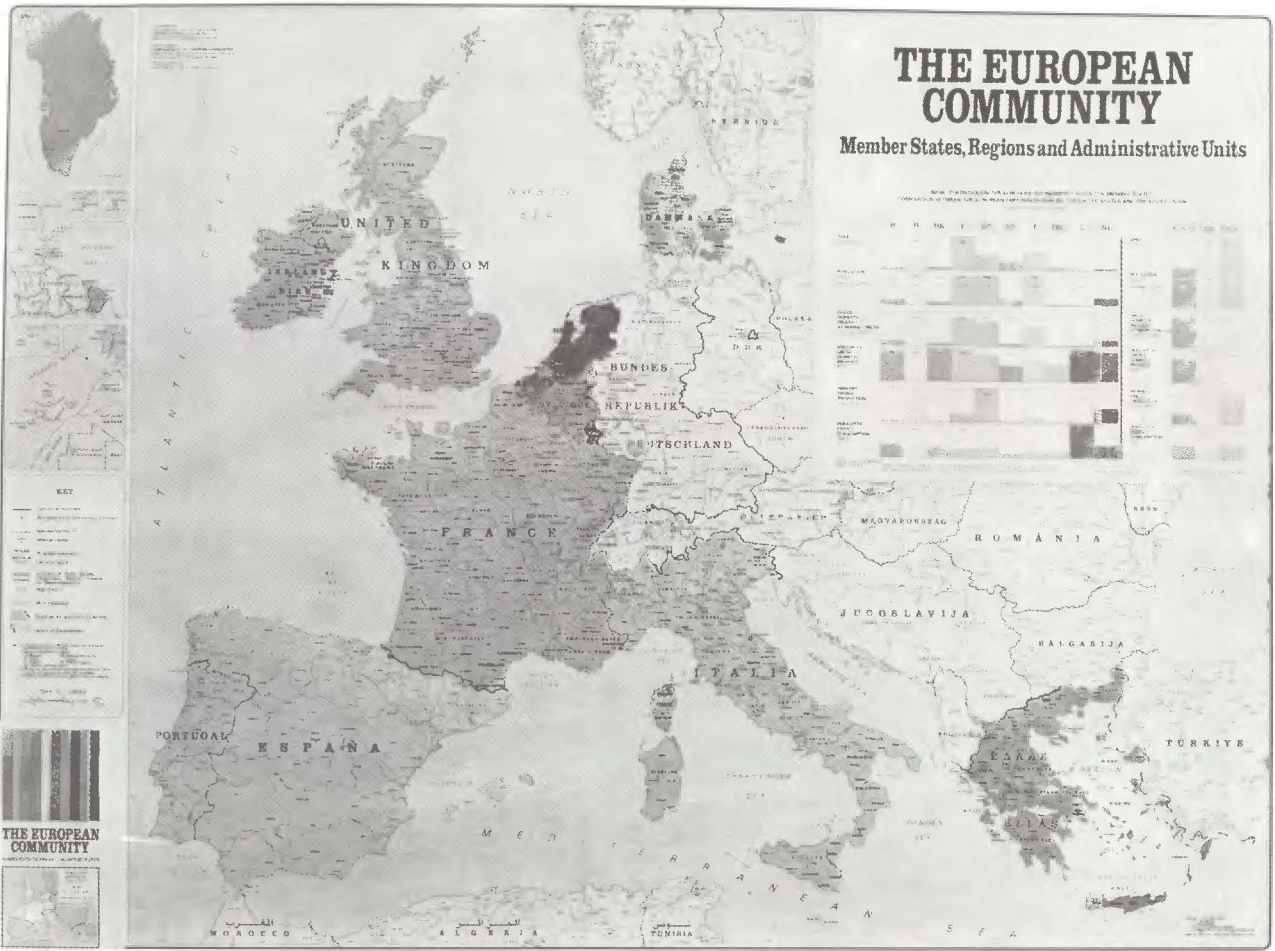
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The Treaty of Rome (1957) lays down the following objectives for European agriculture: increasing agricultural productivity, ensuring a fair standard of living for the agricultural community, stable markets, and ensuring the availability of supplies to consumers at reasonable prices.

The Stresa Conference (1958) derived from these objectives three basic principles, which have become the golden rules of the common agricultural policy: the single market, Community preference and financial solidarity.

Since the beginnings of the common agricultural policy, European agriculture has undergone a 'silent revolution'.

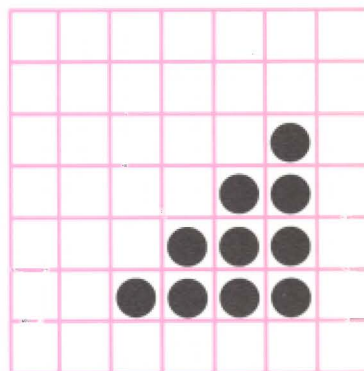
In the mid-1950s, about 17.5 million people were employed in agriculture in the six Member States of the European Community. By 1973 there were only 8.2 million. One person left the land every minute between 1960 and 1973.

Since the establishment of the common agricultural market in Europe, food supplies have improved unprecedentedly in both quality and quantity. Consumer prices for food have increased more slowly than the prices of other consumer products. In the last 20 years, the average productivity of labour in the Community has increased by less than 4%, while that of agriculture has risen by over 6%.

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