

# GREEN EUROPE

NEWSLETTER ON THE COMMON AGRICULTURAL POLICY



## TWENTY YEARS OF EUROPEAN AGRICULTURE



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## II – Twenty years of European agriculture

1. On 4 March 1966 the Commission of the European Economic Community presented to the Council of Ministers its 'proposals with a view to establishment of common price levels for milk and milk products, beef/veal, sugar, rice, oilseeds and olive oil as from the 1967/68 marketing year'.

Europe thus entered the era of the common agricultural policy, the main feature of which is the annual review by the Council of Ministers of common prices applicable throughout the Community.

2. Since 1966 the building of Europe has been influenced by important events such as three successive enlargements of the Community and participation in major international negotiations. Agriculture, now subject to Community rules, has continued to develop, adapting itself to the new scale of the market. The purpose of this article is to review developments over the past 20 years and summarize the main lessons to be learned therefrom.

### **Before common prices**

3. At the end of the Second World War, farmers in the countries which were to form the European Community were working along traditional lines and employing large numbers of family helpers. Frequently left to their own resources, they were still backward and incapable of meeting Europe's food requirements on their own.

4. Faced with the growth in demand and aware of the need for more rapid modernization of the agricultural sector, each country adopted its own measures to assist farmers. The effect of these measures was to encourage and develop agricultural production, on the one hand, and to improve facilities in the countryside and on farms, on the other hand, so that agriculture could develop in harmony with other economic sectors.

National policies, whilst pursuing comparable objectives, used various ways and means, usually giving priority to the establishment of market organizations and the encouragement of production. (1)

The introduction of such policies rapidly brought about a recovery in European farm production and the reports published by the OECD (at that time the OEEC) show that by 1956 the index for the volume of agricultural production in the six original Member States of the EEC was rising at an average annual rate of more than 3.9%.

From 1950 onwards, encouraged by these early successes and under the impact of the drift from the land prompted by economic expansion, European agriculture as a whole began to undergo a series of changes which are still in progress to this day.

5. In 1958 the European Economic Community as established by the Treaty of Rome took over responsibility for the development of agriculture and for the two major concerns of the Member States. One of these concerns was security of supply, since the Six were still not self-sufficient in certain essential products and there was an urgent need to improve economic conditions in farming and thus make agriculture less backward as compared with other sectors in terms of development and incomes.

The pursuit of these objectives, however, raised certain problems which Sicco Mansholt, the Commission Vice-President with responsibility for agricultural matters, summed up in his closing speech at the Conference of Stresa.

‘At first we see great diversity but we also see that in many respects farming is old-fashioned and far from capable of the task with which it will be faced, and that many improvements are needed in the technical, economic and social spheres.

... the reforms will take many years, involving not only the reform of agriculture but also that of the western world as a whole, in which we must assume our responsibilities as a reliable and dynamic force.’

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(1) Generally speaking, priority was given to support for agricultural prices, for which purpose various means were employed (intervention, direct aid, equalization etc.)

At the same time structural and guidance measures were implemented in order to develop agriculture: for example, Germany gave priority to the modernization of farm structures, whereas the Netherlands and Belgium favoured intensive and specialized production. France and Italy, for their part, undertook in-depth reforms, tackling the problems of land ownership and the rationalization of production.

6. The final resolution adopted by the Conference of Stresa takes up the idea of agriculture as an integral part of the economy, with production being geared to the Community's potential outlets.

It thus provided the framework for a market but also stressed the need for structural change and improved productivity, endorsing the objectives defined in Article 39 of the Treaty of Rome.

EXTRACTS FROM THE FINAL RESOLUTION  
OF THE CONFERENCE OF STRESA <sup>(1)</sup>  
(3-12 JULY 1958)

The Agricultural Conference of the Member States

III. Takes note, at the conclusion of its work, that general agreement was recorded on the following points:

...

1. 'Agriculture must be regarded as an integral part of the economy and as an essential factor in social life.'
2. 'The implementation of the Treaty must lead naturally to a progressive expansion of trade within the Community; at the same time account must be taken of the need to maintain both trade and contractual, political and economic links with non-member countries and also the possibility of providing safeguards against unfair external competition.'

...

4. 'A balance must be sought between production and potential outlets in the light of export and import possibilities and of a specialization adapted to the natural conditions within the Community and to its economic structure.'
5. 'The efforts thus made to increase productivity should render possible the application of a price policy which will avoid over-production while enabling goods to remain or to become competitive. At the same time a policy of assistance to handicapped areas or undertakings will make possible the necessary conversions.'

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<sup>(1)</sup> Recueil des documents de la Conférence de Stresa. Publishing Services of the European Communities No 2116/2/59/5.

## IV. ...

Draws the attention of the Commission of the European Economic Community to the urgency of the proposals to be made in connection with the common organization of markets under the terms of Article 40, paragraph 2, of the Treaty.

Draws the attention of the Commission of the European Economic Community to the importance of the following problems:

1. Progressive approximation of the prices of basic products, particularly coarse grains ...

'Article 39 of the Treaty of Rome

1. The objectives of the common agricultural policy shall be:
  - (a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labour;
  - (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
  - (c) to stabilize markets;
  - (d) to assure the availability of supplies;
  - (e) to ensure that supplies reach consumers at reasonable prices.'

## **The steady increase in agricultural production**

7. The main feature of European agriculture over the past 20 years has been the steady rise in production.

The indices for final agricultural production in volume terms show that production has been increasing annually by 1.9% on average in the six original Member States of the Community.

The rate of growth has varied from country to country. The highest rate has been recorded in the Netherlands (4.1%) and the lowest rates in Belgium (0.6%), Luxembourg (0.9%) and Italy (1.3%), whilst France (1.8%) and Germany (1.7%) have run close to the Community average.

Over a shorter period (1973-85), the annual growth rate for the Community of Ten was slightly lower (1.8%) (See Graph 1a).

8. Since the FAO calculates indices of agricultural production on the same basis for all countries, these can be used for a rough comparison between the trends in the Community and those in other industrialized countries. Throughout the period 1966-84 Community agriculture advanced at virtually the same rate as agriculture elsewhere in the industrialized world. Although the growth rate in the Community is currently somewhat lower than in Canada, it is still higher than in Japan or Eastern Europe and practically the same as in the United States of America.

As compared with the trends observed worldwide, the increase in the Community's agricultural production has not been out of the ordinary. With a growth rate slightly below the world average, the Community is outstripped by countries such as Brazil, China, India and Indonesia, where production is expanding twice as rapidly.

Although a cautious approach must be taken to such comparisons between agricultural systems which are so different in nature, the trends in agricultural production in the Community are very similar to those observed elsewhere in the world, and in the United States in particular.

9. Statistical studies and surveys carried out at Community level show that the increase in agricultural production is attributable neither to an expansion of the areas under cultivation nor to any rise in the agricultural workforce. It has stemmed mainly from a very substantial improvement in productivity (achieved by better use of the factors of production), from increased recourse to capital and inputs and from the substantial progress made in agricultural research, the results of which have been widely disseminated.

#### **Use of land and labour**

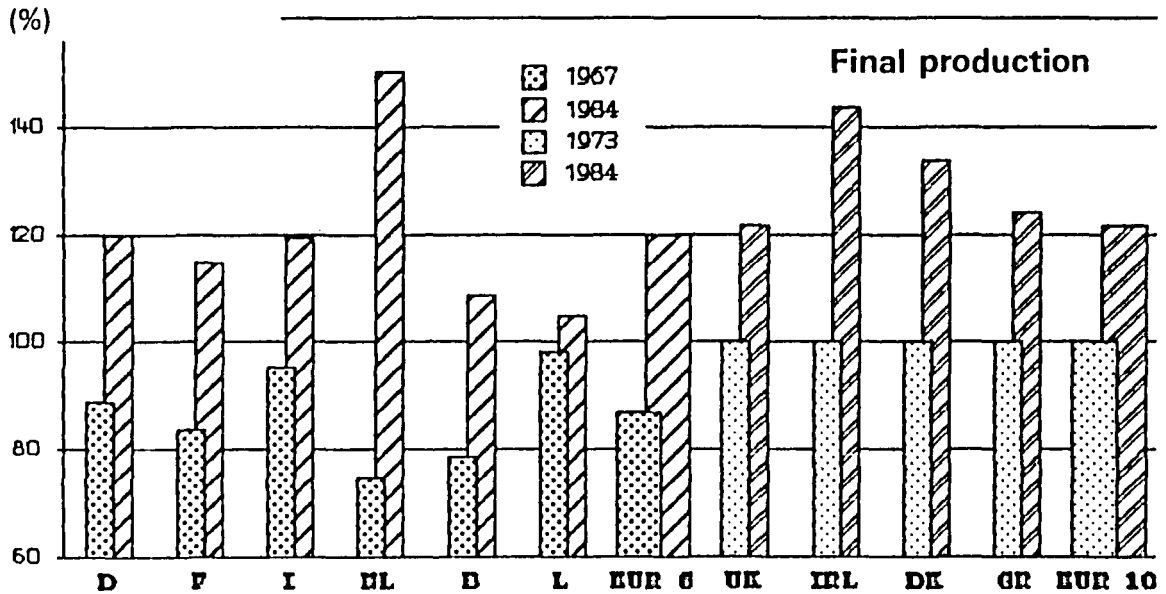
10. In the Community of Ten the area used for farming has shrunk by just over 6 million hectares in 19 years (see Table A).

This is a relatively small decrease (corresponding to an annual decrease of 0.3%). The rate of decrease has been more rapid in the highly-industrialized regions and in those areas which have undergone large-scale industrial change (Germany – 0.8% per year, Italy – 0.6% per year); in the United Kingdom, however, where the strong industrial traditions go back much further, the decrease has been much slower (– 0.1% per year).

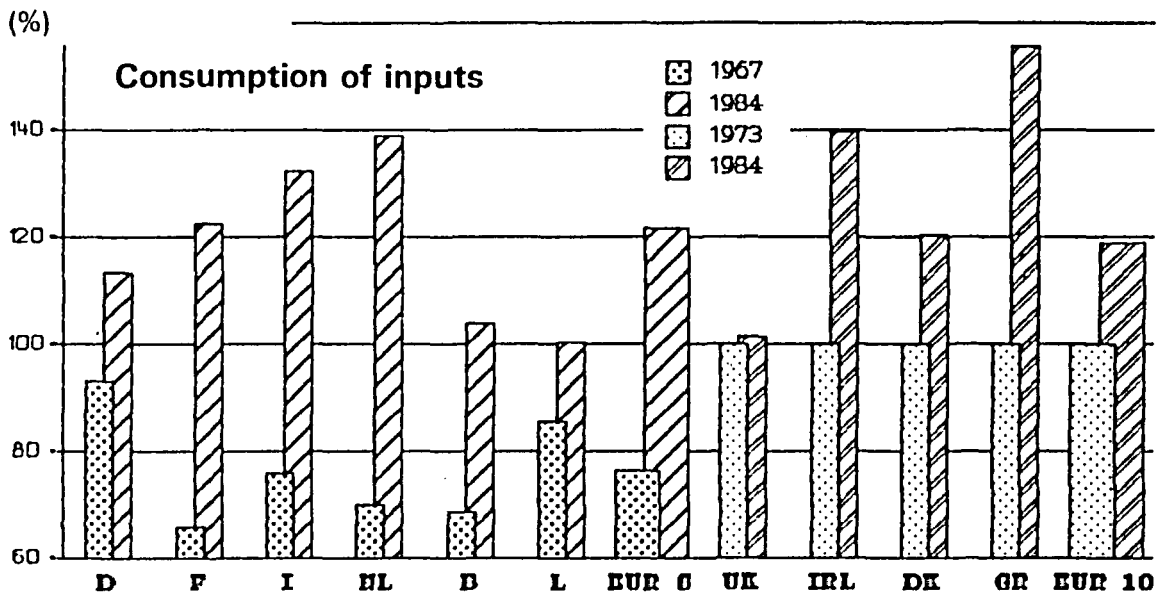
In two highly agricultural countries, Greece and Ireland, the situation has been quite different and the area under cultivation has in fact increased, as a result of the policies on soil improvement and land use. This is unlikely to continue, however, since gener-



### INCREASE IN FINAL PRODUCTION AND IN CONSUMPTION OF INPUTS (in volume)



Graph 1a



Based on the figures for 1967-84 in the case of the Community of Six and 1973-84 in the case of the other Member States, including Greece.

Source: Eurostat.

Graph 1b

*TABLE A*  
Utilized agricultural area in the European Community

(1 000 ha)

	1966	1970	1980	1985
Belgique/België	1 646	1 598	1 446	1 418
BR Deutschland	13 825	13 578	12 248	12 019
France	33 741	32 543	31 737	31 340
Italia	19 856	19 712	17 879	17 521
Luxembourg	134	135	130	128
Nederland	2 260	2 208	2 029	2 023
EUR 6	71 462	69 774	65 469	64 449
Danmark	3 019	2 968	2 905	2 873
Ellas	8 960	9 234	9 234	9 234
Ireland	4 754	4 794	5 705	5 686
United Kingdom	19 179	18 853	18 920	18 690
EUR 10	107 379	105 627	102 236	100 932
España	—	—	27 302	27 230
Portugal	—	—	4 379	4 379
EUR 12	—	—	133 917	132 817

Source: Eurostat.

ally speaking the Member States of the Community have no agricultural land in reserve, given the age of their civilization and the relatively small size of the countries concerned.

The decrease in farmland now seems more attributable to the acquisition of land for infrastructural purposes than to its abandonment by farmers. Only a small percentage reverts to the status of fallow land or woodland (in the Community of Ten the total woodland area is increasing by only 0.1% per year).

11. The change in the numbers engaged in agriculture, on the other hand, has been very spectacular, the agricultural workforce having virtually halved over a period of 20 years. In the Community of Six between 1965 and 1975 one farmer was leaving the land every minute. This brought about certain structural changes in the number and size of holdings and in the life and habits of rural communities, but it had no effect on the expansion of agricultural production since it was offset by productivity gains.

It should also be mentioned that concealed unemployment, albeit difficult to quantify, has always existed in the agricultural sector. Whilst the decrease in the workforce has been partly due to the elimination of such underemployment, it has necessitated better utilization of the remaining workforce and sometimes longer working hours.

### **Increase in use of inputs and farm capital**

12. During the period under consideration, under the combined effect of easier credit arrangements and guidance campaigns advocating the use of the latest techniques, Community agriculture has increasingly called on outside help to make full use of its production potential.

Use of inputs (purchases of feedingstuffs, fertilizers, pesticides, energy and services) has risen very significantly, as can be seen from Graph 1b.

On closer study, two periods may be distinguished. From 1966 to 1980 consumption of inputs rose steadily and rapidly, although at a more sustained rate in the technologically backward countries.

13. From 1980 onwards, the trend in use of inputs enters a new phase. It has been rising steeply in Ireland and Greece, at annual rates of 2.6% and 2.9% respectively, and has continued to rise in France and the Netherlands, but at a slower rate. On the other hand, use of inputs has remained at the same level or has even started to fall slightly in Germany, Italy, Belgium, Luxembourg, the United Kingdom and Denmark.

In Greece, France and Italy the volume of inputs has been increasing at a faster rate than the volume of agricultural production since 1973. It must be remembered, however, that in these three countries crop production is more important than livestock production (see Graph 1b).

14. For lack of sufficiently homogeneous data covering the entire period concerned, no detailed study of the trends in farm capital is possible.

An examination of national accounts indicates, however, that in most cases gross fixed asset formation (livestock, deadstock, permanent crops and working capital) represents between 15% and 38% of the gross value added, depending on the country and the year concerned.

In 1973 the corresponding figure for the Community economy as a whole was 28%, but the trend has since been downwards, and the figure now stands at 22%. The conclusion could therefore be drawn that the level of investment in farming has been higher than in the overall economy.

15. Gross fixed asset formation does not always mean additional capital, however. Although the national accounts indicate that, allowing for depreciation, the annual increase in net capital may have reached between 6% and 10% of final agricultural production in some countries such as the Netherlands, Ireland and Greece, this has scarcely been the case since 1980, and net capital formation is currently on a very small scale.

During the 1970s Community farmers seem to have made substantial investments. The result was a net improvement in farm capital but nowadays the renewal of facilities and equipment accounts for a very high percentage of gross asset formation.

Although lagging slightly behind other sectors, farming mirrors in this respect the general trend in the European economy. The steady expansion in the 1960s and the satisfactory profits achieved provided a strong incentive for investments and borrowing.

Agriculture continued along these lines until 1977-78, whereas expansion had already tailed off in other sectors. From then on, however, smaller profits and high interest rates prevented European farmers from adding to their capital.

## **Final agricultural production**

16. The composition of final agricultural production has been altered under the combined effect of the increase in the quantities produced (although this increase has varied from one sector to another), the choices made by farmers and, most important of all, the successive 'enlargements' of the Community (see Table B).

In 1985 stockfarming was still the most common type of farming and accounted for 53.5% of gross profits, although in 1966 this figure had been 57%. Milk is still the most common product and represents between 18% and 19% of agricultural production. Beef/veal has increased in importance (from 11.3% to 14%) but eggs, poultrymeat and pigmeat now account for smaller percentages of profits despite increases in the quantities produced.

The most common type of crop is cereals (rising from 11.6% to 13.9%). Of the various cereals grown, wheat is the most common and provides 44% of the total tonnage of grain harvested. Twenty years ago wheat accounted for only 41.6% of this tonnage but it is now frequently grown in preference to barley or rye.

The importance of maize has also increased slightly: it now accounts for 14% of the cereals harvest, as compared with 13% in 1966.

These changes and the increased importance assumed by certain types of production show that there have been definite trends (such as the greater interest in wheat and maize and the continued popularity of dairy farming) but there has been no spectacular restructuring of final agricultural production.

Such restructuring would require profound changes in land use and in the size of herds. There has, however, been little change in the percentages represented by arable land, vineyards, orchards or permanent pasture (livestock numbers) within such recognized geographical frameworks as the individual Member States, the Community of Six or the Community of Ten (see Table C).

17. On the other hand, the successive enlargements of the Community have resulted in far-reaching changes, not only in the volume of agricultural production but also in its composition and its relative significance within the Community economy.

After three new countries joined in 1973, the value of final agricultural production increased by 26%. The accession of Greece in 1981 and that of Spain and Portugal have had less impact (16%) but the arrival of these Mediterranean regions with their strong agricultural tradition has had the effect of increasing the relative importance of agriculture and the agricultural workforce in the general economic context.

The new accessions and in particular the incorporation of extensive Mediterranean areas have somewhat altered the image of Community agriculture and the relative importance of its various products.

With the accession of the United Kingdom, Denmark and Ireland, for example, winegrowing became less important in the agricultural context as a whole but has regained its former position with the arrival of Spain and Portugal. Cotton became a Community agricultural product with the accession of Greece and then Spain. The growing of citrus fruit increased in importance when Greece and then Spain and Portugal joined the Community.

Thus, the changing face of European agriculture reflects the way in which integration has progressed since 1950.

**TABLE B**  
**Composition of final agricultural production in the European Community**

*(percentage breakdown)*

	1966 (Community of Six)	1984 (Community of Ten)
<i>Crop production</i>	42	45
of which: cereals	11.6	16.8
fruit and vegetables	13.8	11.8
wine	6.6	4.1
sugar beet	2.4	3.3
<i>Livestock production</i>	56.9	54.7
of which: milk	19.3	18.8
beef/veal	11.3	14
pigmeat	11.7	11.1
sheepmeat and goatmeat	0.2	1.8
eggs and poultrymeat	8.5	8.5

**TABLE C**  
**Agricultural area, by type of use**

*(1 000 ha)*

	1966 (Community of Six)	%	1984 (Community of Ten)	%
Arable land	38 868	55.7	49 109	48.5
of which: cereals	20 762	29.7	27 722	27.4
beet	1 039	1.5	1 724	1.7
oilseeds	869	—	2 030	2.—
potatoes	1 726	2.5	1 067	1.1
Pasture	26 503	38.—	45 554	45.—
Orchards	1 277	1.8	1 318	1.3
Vineyards	2 613	4.7	2 485	2.5

Source: Eurostat.

### Trend in certain agricultural products

18. The features and the scale of change in European agricultural production can be clearly appreciated from a closer examination of the trends in certain products subject to market organization.

*Cereals*

19. Cereals, which currently represent almost 14% of European agricultural production, have always had a symbolic value in political and farming circles alike and the price of wheat has often served as a reference point for the definition of agricultural policies.

In 1962, when the EEC cereals market organization was set up, the Community took account of the shortfall in production at that time. It introduced a system of prices and guarantees which encouraged cereal-growing and established arrangements for external trade based on variable levies to provide a proper safeguard.

Given the differences between national prices (the French price represented 75% of the German price), a compromise could be reached only by setting the price at a high level, with a substantial difference between wheat and other cereals. These arrangements had to be reviewed in 1975 to take fuller account of utilization values but generally speaking they represented an incentive for the growing of cereals, and wheat in particular.

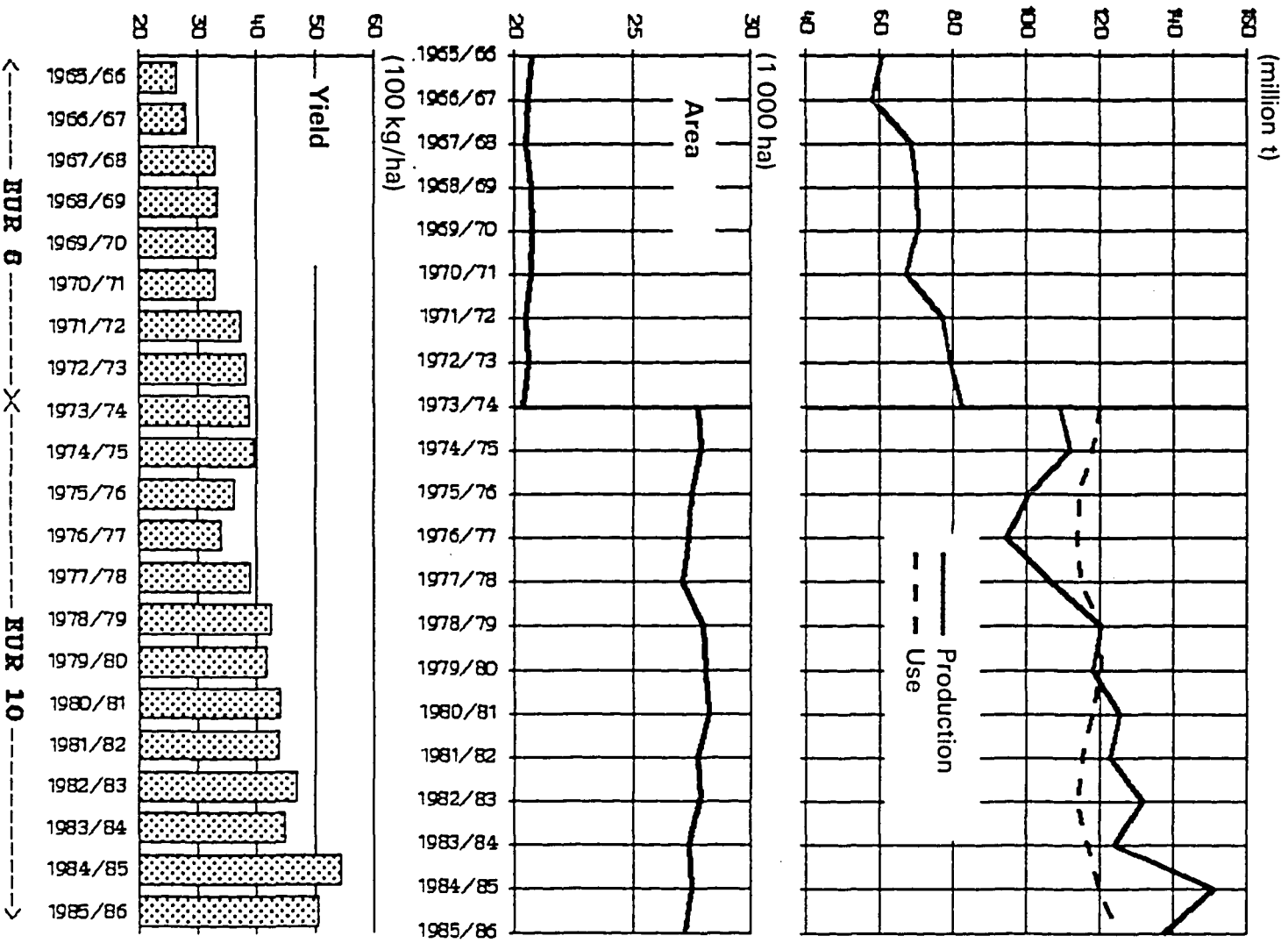
20. Over the 20-year period under consideration, the areas sown to cereals in the six original Member States shrank by 1 million ha, or 5.5% of the area under cereals in 1966. Two opposite trends, neither very pronounced, lie behind these figures: there has been a slight increase in France, the country with the largest area of farmland, whilst in the other five countries the growing of cereals has been declining slowly but surely, with the largest drop being recorded in the Netherlands. Over the same period, despite the decrease in the areas sown, harvests have increased by 65%.

The enlargement of the EEC from six to nine and then ten Member States made no difference to these trends. The decline in the area under cereals has been slower (- 2.3% in 12 years), however, partly because farmers in the United Kingdom and Ireland have followed the French example and have increased the acreage sown to cereals. Over the same period cereal-growing has been in decline in Denmark and has shown little change in Greece. Between 1973 and 1985 the cereals harvest in the Ten increased by 26%, that is, at an annual rate of 2.3%.

21. Yields have shown a more spectacular upsurge, increasing from 27.9 quintals per hectare in 1966 (average for the Community of Six) to 50.5 q/ha in 1985 (average for the Community of Ten), the highest figure being recorded in 1984 at 54.5 q/ha.

Apart from a slight tendency in Northern Europe (traditionally a stockfarming area)

**CEREALS**  
(excl. rice)



Source: Eurostat.

Graph 2



to replace cereal-growing by other forms of production, farmers appear on the whole to be keen to maintain or even increase their cereal-growing potential.

Because of the steady increase in yields, harvests are becoming larger and larger but there has not yet been any attempt at self-regulation to maintain or improve the internal market balance. In 1986, therefore, while holding back from the imposition of quotas the Community decided for the first time to introduce a co-responsibility levy, the effects of which will be to make producers bear some of the cost of market support and thus encourage them to tailor production more closely to the Community outlets available.

### *Oilseeds*

22. Oilseeds are still to be a marginal crop in Europe and represent only 1.5% of agricultural production.

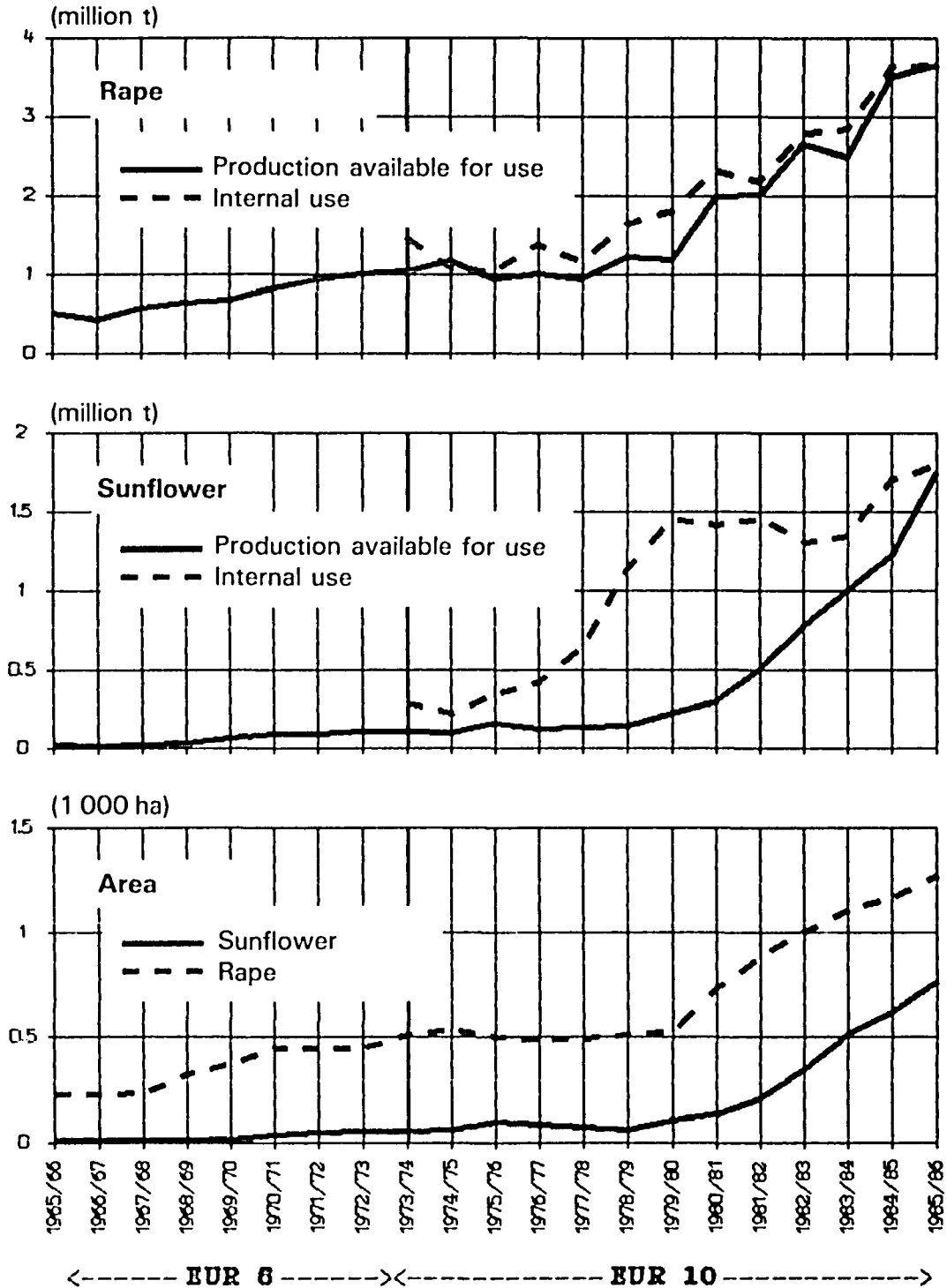
Production is insufficient to cover the needs of the internal market in oil and oilcakes and until 1956 the growing of rapeseed and flax seed was in decline. Farmers' interest in these crops was revived, however, as a result of technical progress, the breeding of new varieties and more widespread use of sunflower seed in Europe and the establishment of a market organization for oils and fats.

The Community rules ensure that producers receive a minimum price, which is obtained by granting variable direct aid to supplement the market price. The areas under oilseed crops have expanded rapidly as a result.

23. Between 1966 and 1985 the said areas increased by 9% per year on average in the Six, whilst production increased by 11% per year. The enlargement of the Community has not impeded this development since between 1973 and 1985 the areas sown to oilseeds increased at an annual rate of 9.7% and the quantities harvested at a rate of 11.3%.

The rapid expansion of oilseed-growing, the adoption of new techniques and the use of new varieties show the dynamic side of Community agriculture. It should not be forgotten, however, that these developments were possible only because of a market organization which provided total security as regards prices obtainable by the farmer in the forthcoming season.

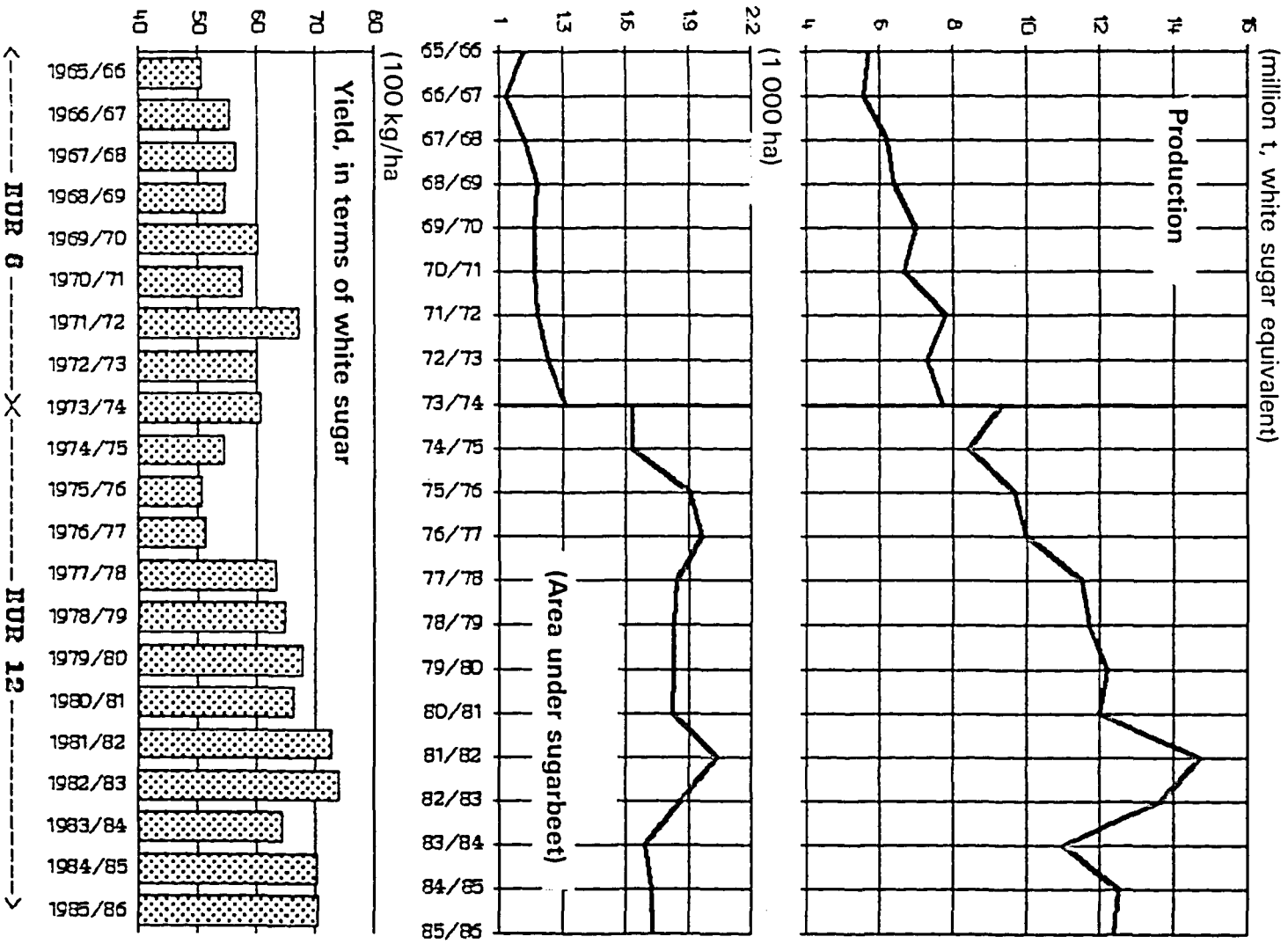
**OILSEEDS**



Source: Eurostat.

Graph 3

### BEEET SUGAR



Source: Eurostat.

Graph 4

*Sugarbeet*

24. Sugarbeet has always been considered as the typical industrial crop, being economically attractive because of the income it obtains and its soil-improvement function.

Beet production, most of which is delivered to the sugar-manufacturing industry, has always been subject to strict rules. The policy of the European Community, following on from the various national policies, has involved the determination of a quantity (known as the A quota) for which the price is guaranteed and which corresponds to average Community consumption.

The Community also fixes an additional quantity (the B quota) to which only a limited price guarantee applies, producers being partly responsible for bearing the cost of marketing such sugar.

Producers are entirely responsible for any quantities produced in excess of these quotas and must themselves bear the cost of exporting the sugar concerned.

25. Under such a system beet-growing would be expected to remain within the guaranteed limits. Over the period 1966-85, however, the areas sown to beet showed a sharp increase, rising from 1 000 000 ha to 1 375 000 ha in the Community of Six. In the Community of Ten the area under sugarbeet increased by 6.2% between 1973 and 1985.

In other words, the areas under sugarbeet have varied considerably between 1966 and the present day; peaks were reached in 1975, 1976 and then again in 1981. In 1975 this was in response to a 15% increase in the quota and very favourable economic circumstances. The 1981 peak was attributable to a production incentive due to a combination of guarantee reinforcements, favourable weather conditions and to a buoyant market.

26. Beet growers, who are mostly to be found in the fertile plains of northern Europe, can rely on the guarantee covering their A quota and sometimes take the risk of producing additional quantities, since they think in terms of the farm economy and the average price which they will receive. It should be pointed out that, as a means of regulating supplies to the market, reductions in the areas sown have a delayed effect and are insufficient to ensure any proper market balance. It must also be said that certain non-economic factors influence the behaviour of growers: advantages of retaining sugarbeet in the rotation of crops, carry-over policy, weather considerations.

Even so, growers are free to act as they do only because of the present guarantee system.

27. The quantity of sugar produced per hectare has been rising very steadily, the average Community yield having risen from 55.4 q/ha in 1966 to 70.5 q/ha in 1985.

Lastly, it may be mentioned that the areas sown have increased mainly in the traditional beet-growing regions, whilst in the southern parts of the Community (e.g. Italy) the areas under beet have tended to decrease and the Italian sugar industry has encountered restructuring problems.

### *Pigmeat*

28. Pig-farming is generally described as an 'intensive' type of farming since it does not require large areas of land and is in effect a form of processing, the meat being produced from the feed (starches and proteins) which the farm can buy elsewhere.

In terms of weight, more pigmeat is produced in the Community than any other type of meat but in terms of value pigmeat takes second place behind beef/veal and represents 11% of the gross agricultural product.

29. Four trends are discernible in Community pig-farming:

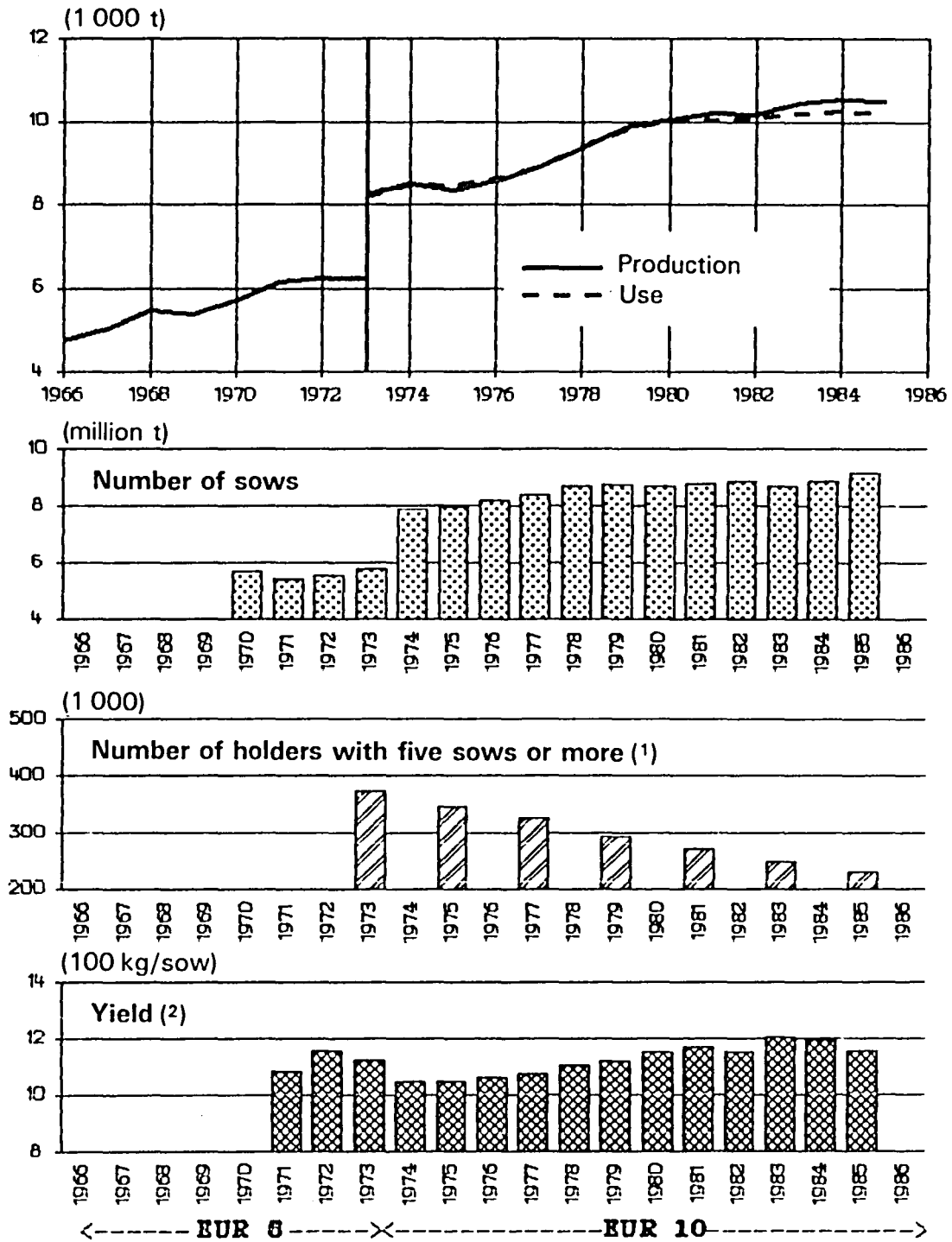
- (i) a steady increase in production, closely following the upward trend in consumption;
- (ii) a decrease in the number of farms and an increase in the number of pigs per farm;
- (iii) a slight increase in the number of breeding pigs;
- (iv) a very substantial improvement in the average yield per breeding pig and in the conversion ratio (feed/meat production).

These various trends have been brought together on the same diagram to give an overall view of Community pig-farming.

In 1985 some 32% of pig-farmers held 65% of the total headage (this being the pig population of four Member States: Germany, the Netherlands, Denmark and Belgium).

30. Pig-farming provides a good example of a highly-specialized type of farming, given the rapid rotation of the factors involved (investments, livestock, feed, etc.). Practically all outmoded farming structures have been gradually eliminated from this sector and the number of production units has been steadily reduced. These remaining

### PIGMEAT



(1) Sows owned by holders with five sows or more account for 95% of the total.

(2) Pigmeat production divided by the total number of sows.

Source: Eurostat.

Graph 5

units are heavily dependent on external supplies, but their operations are highly sophisticated.

Nevertheless, Community surveys indicate that a large number of farmers still hold a very small percentage of the breeding stock, which is evidence that the trend towards larger units, which has not been uniform throughout the Community, is not yet completed.

31. The pigmeat market appears to be relatively self-regulating, since the production curve never strays far from the consumption curve. On several occasions production has slightly exceeded demand, but the effect of this has been to halt the increase in breeding stock. Community management of the market does not involve buying in or public storage but simply encourages private storage if the market is sluggish, with the result that farmers react to falling prices by reducing their output and have so far succeeded in avoiding any serious crisis.

### *Milk*

32. Dairy production represents between 18% and 19% of the value of total agricultural production in Europe.

It has always been considered as one of the traditional forms of farming because, although it was not spread uniformly throughout the Community, it was an activity pursued by one farm in three some 20 years ago.

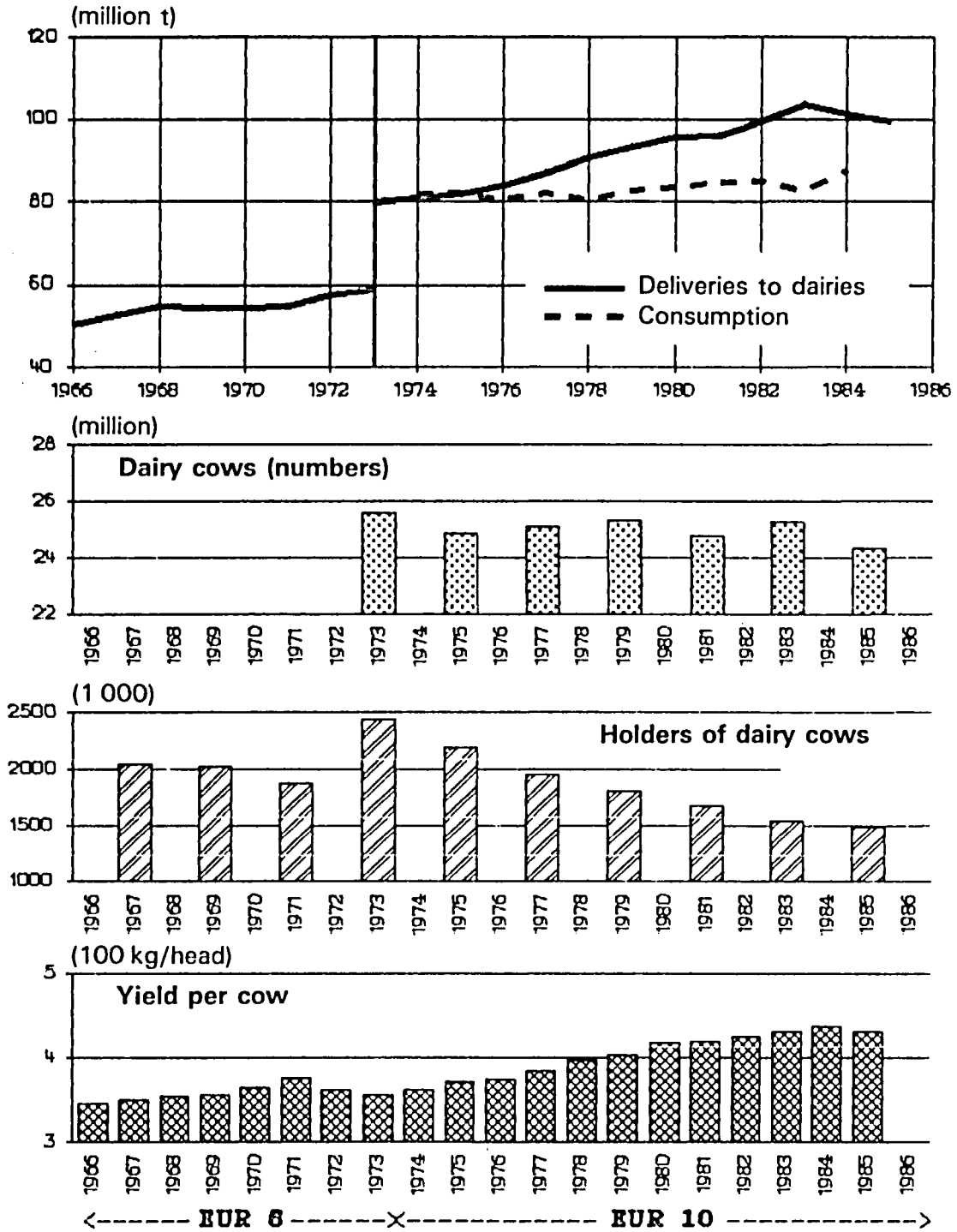
Over the past 20 years, four main trends have been discernible in the dairy sector:

- (i) a steady increase in production and, more particularly, in the quantities of milk collected;
- (ii) fairly constant dairy-cattle numbers until 1984;
- (iii) a rapid decrease in the number of dairy buildings;
- (iv) an all-round increase in yields from dairy cows.

33. Statistics on the quantities collected (rather than the quantities actually produced) show that between 1973 and 1983 deliveries to dairies rose from 80.4 million tonnes to 103.2 million tonnes (excluding Greece). This was equivalent to a 28.3% increase in milk deliveries in 10 years, or an average annual increase of 2.5%.

This increase has been accompanied by a definite improvement in the quality of milk and by the rationalization of production, collection and processing. These develop-

MILK



Consumption is calculated on the basis of the overall supply balance for milk (expressed as milk equivalent, based on the butterfat content).

Source: Eurostat.

Graph 6



ments may be attributed to competition for a market where the supply of milk products has almost always exceeded demand.

The steady increase in production may be explained by the price guarantees provided over the past 20 years by means of permanent intervention on the market.

34. When the Community rules were introduced, it was planned to support only the price of milk fats through direct purchases on the butter market, but the Member States accustomed to providing support for milk proteins felt that skimmed-milk powder should also be bought in.

Given this situation and the resulting market imbalance, the Commission has on several occasions drawn the attention of other Community institutions to the need to restore balance to the market by freezing prices and converting dairy herds to beef production.

35. Since these measures have had only a limited effect, they have been supplemented by the introduction of a co-responsibility levy charged on the quantities collected and determined in the light of the quantities produced. Although the Commission had hoped to restore balance to the market by this means, the legal setting of this measure was not rigorous and no improvement was achieved. In 1984, therefore, a quota system had to be introduced under which the quantities of milk collected may not exceed 98 million tonnes.

Only when this scheme was started did producers begin to adjust their herds as the decrease in numbers in 1985 would indicate.

The milk problem has shown how difficult it is for the Community to maintain the balance of a market to which permanent intervention arrangements are applied in order to guarantee prices and farmers' incomes.

### **Community agriculture and agricultural prices**

36. Since 1967 the system of common agricultural prices has applied to almost all farm produce in the six original Member States. Beginning in 1973, it was gradually extended to cover production in the United Kingdom, Ireland, Denmark, Greece (from 1981) and, most recently, Spain and Portugal (from 1986).

## Institutional prices

37. The trends in institutional prices (i.e. the prices decided at Community level and fixed in European monetary units, originally in units of account and then in ECU) indicate that the increases in such prices have usually been kept below the average level of inflation for the Community as a whole.

The prices expressed in European currency units do not tell the whole story of agricultural prices, however. These prices have to be converted into national currencies at certain exchange rates and the changes in the latter have caused wider variations than those resulting from the fixing of prices in European currency units. Even so, the

**TABLE D**  
Average increase in the agricultural prices (target or equivalent prices fixed by the Council of Ministers)

Year	Annual rate of change (%)		
	u.a. or ECU (1)	National currency (1)	
		in normal terms	in real terms
<i>Community of Six</i>			
1967-1968			
1968-1969	-1.3	-0.7	
1969-1970	0	0	
1970-1971	0.5	1.5	
1971-1972	4	4	
1972-1973	4.7	4.8	
<i>Community of Nine</i>			
1973-1974	6.1	7.2	2.2
1974-1975	15.5	17.8	6.9
1975-1976	8.6	12.2	-2.3
1976-1977	9.1	12	3.4
1977-1978	4.9	7.5	-0.6
1978-1979	2.4	7.5	0.1
1979-1980	1.2	7.4	-2.9
1980-1981	4.9	4.5	-3.9
1981-1982	9.3	13.3	0.9
<i>Community of Ten</i>			
1982-1983	10.3	10.5	0.6
1983-1984	4.3	6.6	-2.5
1984-1985	-0.4	3.3	-3.5
1985-1986	+0.1	1.8	-4.5 (2)
1986-1987	-0.3	2.2	

Source: DG VI.

(1) This is an average rate calculated on the basis of the actual increase in each agricultural price and the relative importance of each product in the final agricultural production of the Six, then the Nine and lastly the Ten.

(2) Estimate.

average increase in prices in national currency has still lagged behind inflation rates, except in 1974/75, 1976/77 and over the period 1981-83 (see Table D).

38. The way in which the currencies of the various Member States have fluctuated in relation to each other must be seen as a consequence of substantial differences in inflation rates throughout the period 1971-81.

The use of the 'green' rates (i.e. a specific set of rates adopted each year at the same time as the agricultural prices so that the latter can apply in the various Member States) cushions farmers against the immediate impact of fluctuations of exchange rates. Generally speaking, the Member States have made wide use of this facility to delay the direct effects of devaluations or revaluations, thus depriving the common prices of some of their meaning and guidance value.

### **Producer prices**

39. The indices for actual producer prices reflect the same trends, with variations from one Member State to another. They make it possible to trace the impact of certain factors (e.g. price increases in Ireland as a result of its accession to the EEC, the effect of successive revaluations of the DM in the Federal Republic of Germany) but they also show that there are not necessarily any strict parallels between the increases in the institutional prices and the rises in market prices. In 1974 and 1975, for example, the institutional prices were increased by fairly substantial amounts but the indices for producer prices showed only a slight upturn. The same applies to 1981 and 1982. This is because agricultural prices do not all receive the same degree of support and, when plentiful supplies produce a glut on the market, support measures are not always sufficient to ensure that the price increases adopted are fully reflected in producer prices (see Table E).

40. Generally speaking, given the overall trend in agricultural prices, the application of Community prices has made it possible to keep the increases in agricultural prices at a lower level than the increase in prices as a whole.

When a comparison is made between producer prices and input costs, the trends in the farmers' 'terms of trade' show that, whereas the situation was on average favourable to Community agriculture over the period 1973-79 (excluding 1974), it has been deteriorating steadily ever since.

*TABLE E*  
Indices showing the trend in agricultural prices in real terms <sup>(1)</sup>

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
BR Deutschland	100	96.6	100.7	100.9	91.1	97.3	102.2	97.4	90.5	88.3	86.2	88	86.9	83.4	81	76.1
France	100	98.4	105.8	109.1	103.2	99	102.9	102.6	97.4	94	88.4	89.2	87.7	84.5	84.6	81.1
Italia	100	97.6	101.6	113.7	111.5	107	111	112.3	108.5	102	96.1	92.8	92.7	85.9	83	81
Nederland	100	95.2	94.2	96	84.2	84	87.3	80.5	73.2	71.6	70.6	72.7	70	71.2	70.7	67.2
Belgique/België	100	96.1	99.7	105.9	91.1	93.5	101.4	90.4	83.2	81.1	80.8	84.8	88.9	89.5	86.8	81.1
Luxembourg	100	103.9	110.1	107.7	90.9	102.4	99.1	100.3	94.2	90.9	88.5	88.2	92.4	93	86	85.2
United Kingdom	100	98.2	96.6	115.9	114.4	107.2	122.6	111.9	103.6	99.8	88	87.2	87.6	87.7	84.2	78
Ireland	100	96.7	100.7	112.5	106.1	112	116.7	125.8	128.1	118.5	100.9	100.6	93.7	90.4	86.5	79.7
Danmark	100	93.1	96.3	112.9	101.4	98.9	102.4	97.9	94	89.1	91.2	92.8	93.1	90.3	87.7	82.1
Ellas	—	—	—	—	—	100	104.8	105.9	106.7	106.1	110.2	114.2	111.9	109.8	110.2	108.9

Source: Eurostat.

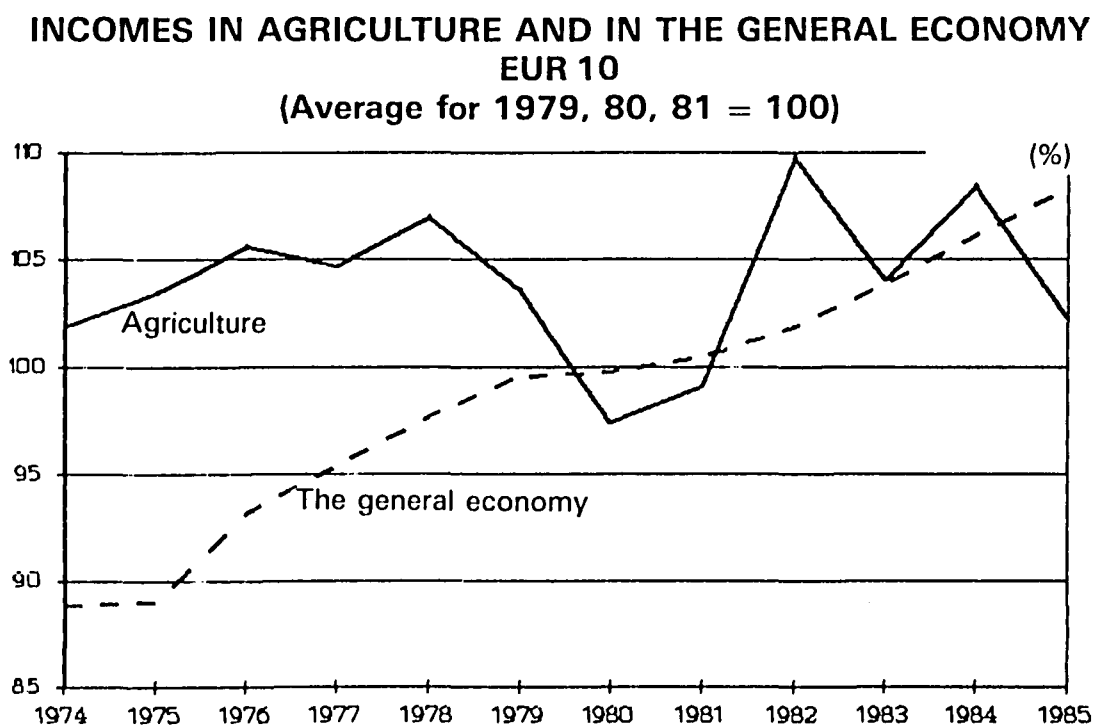
<sup>(1)</sup> Ratio between the farmers' price index for agricultural products and the inflation index (GDP prices).

### Agricultural prices and incomes

41. The overall effect of the trends in prices, volume of production and input costs was that in 1985 the value-added at factor cost per work unit was the same as in 1973, despite a considerable downturn during the period 1979-81. The use of 1973 as a reference year means, however, that no account is taken of earlier developments which enabled the value-added in the agricultural sector to rise more rapidly than in other sectors of the economy during the period 1965-75.

It would seem, therefore, that after a relatively favourable period during which some leeway has been made up, agricultural incomes have remained relatively stable, although the average Community figures conceal wide differences from one Member State, region or farm to another.

Moreover, because of the importance of the weather factor, the same income level was not attained each year. A comparison between the net value-added per agricultural work unit and the net domestic product per person in gainful employment reveals



Agriculture: Real net value-added (at factor cost) per work unit.

The general economy: Real net domestic product (at factor cost) per person employed.

Graph 7

that, whereas the agricultural sector was in a relatively favourable position until 1979, the situation has changed substantially since that date. It should also be pointed out that the increase in the net value-added per agricultural worker has been mainly the result of the drop in the number of jobs in farming (see Graph 7).

## Community agriculture and the agri-foodstuffs market

42. From 1966 onwards the application of common prices and the gradual elimination of barriers to trade led to a great expansion in the quantities of agricultural products traded within the EEC (see Table F).

Between 1968 and 1984 intra-Community trade in agricultural and food products (excluding fishery and forestry products) increased in terms of current value from 4 900 million ECU to almost 55 000 million ECU. This was attributable to three factors: the increase in the value of the goods, the enlargement of the EEC and the growth of internal trade. In terms of constant ECU, intra-Community trade has been increasing at an average rate of 8.2% per year.

**TABLE F**  
**Intra-Community trade in agricultural products excluding**  
**fish, timber and cork on the basis of exports**

*(m ECU)*

Year	EUR 6	EUR 9	EUR 10
1968	4 384		
1969	5 567		
1970	6 226		
1971	7 176		
1972	8 836		
1973	10 491	14 382	
1974	12 386	17 349	
1975	13 383	19 619	
1976	16 743	23 461	
1977	18 611	26 283	
1978	20 144	28 908	
1979	22 445	32 160	
1980	23 379	33 610	
1981	27 132	38 947	40 242
1982	30 619	43 844	45 482
1983	32 725	46 652	48 642
1984	37 240	53 001	55 476
1985	38 974	56 169	58 633

Source: Eurostat — Comtrade.

Such trade now accounts for 33.7% of the value of final agricultural production. Taking account of the value-added by industry and judging only by the volume of agricultural produce traded, it may be assumed that some 20% of agricultural production is not consumed in its country of origin but enters into European trade. In a real sense, therefore, there has been a move towards a 'Community market', for which the European farmer is now producing without always being conscious of the fact.

43. As a result of the increase in agricultural production, the technical advances in the storage and transportation of foodstuffs and the expansion of intra-Community trade, supplies to the European market are now satisfactory and the food shortages experienced during the period 1945-50 are a thing of the past.

Apart from tropical products such as coffee, tea, spices and certain fruits, the only foodstuffs for which the European Community was still dependent on the outside world in 1985 were rice, certain oilseeds, vegetable oils, citrus fruits and various basic ingredients of animal feed, including oilcakes and products rich in vegetable protein.

44. The importation of large quantities of protein products has raised the question of whether Europe should be dependent on external suppliers for feedingstuffs and, consequently, livestock products. Technical and economic considerations influenced the political choice made in 1962 when the Community agreed that such products could be imported on preferential terms.

At the time there was no evidence to indicate that European agriculture could ever become self-sufficient in this area at a reasonable cost. Nowadays the situation has changed, mainly because of the enlargement of the Community towards the south and the advances achieved in agricultural science, but the political problem still remains.

45. Alongside this purely quantitative aspect, however, changes in consumer habits and tastes place additional constraints on European farmers as regards the harvesting, quality and standardization of products.

Increasingly, agricultural products reach the consumer only after processing. The food industry is by far the largest purchaser of agricultural products. In 1985 about three-quarters of all agricultural production was purchased and processed by the various types of food manufacturer.

46. The agri-foodstuffs industry, the farmer's main customer, has a Community-wide turnover of almost 300 000 million ECU, or almost double the value of final agricultural production. It employs over 2 million people and encompasses both the small businesses which used to be so numerous but are now dwindling in importance and over 2 000 firms employing a staff of at least 20.

The farmer's main customers are nowadays to be found in 12 industrial sectors, the most important being, in decreasing order, milk processing, meat processing, brewing, baking and the storage and processing of fruit and vegetables.

47. Since their manufacturing lines are automated and since they endeavour to provide the consumer with a range of products tailored to specific and constant tastes, the processors are imposing increasingly strict conditions as regards delivery dates and product quality. Even on the market for fresh products, certain concepts such as 'early crops' are tending to disappear since, thanks to advances in transport, storage and growing techniques, the buyer finds that equivalent products are available throughout the year.

The farmer is no longer supplying the same traditional markets on which selling times and quality differences played an important role. Except for one or two specific products and the top qualities for which there is a certain restricted clientèle, production has to be adapted to industrial demand, which is constant and sets carefully determined quality standards.

The present size of the food processing sector and the need to ensure free trade in the numerous products of that sector have necessitated the adoption of a wide range of standards relating to presentation, labelling, quality and health requirements. Gradually new Community rules are replacing national legislation. This is a long and delicate task but it is particularly important if consumers are to be properly informed and protected where the use of hormones, preservatives, colouring and additives is concerned.

## **Community agriculture and the external markets**

48. The increase in agricultural production which has resulted from the wider implementation of technological advances and from the price support arrangements has compelled the Community to boost its exports and it has now become the world's second-largest exporter of agricultural products after the United States.



Table G shows the Community's external trade related initially to the Six, then the Nine and finally the Ten, and indicates a steady rise in both imports and exports.

49. In 1984 exports represented 18% of the value of final agricultural production. The Community is now the world's largest exporter of numerous products, including butter, milk powder, condensed milk, cheese, wheat flour, egg products, poultrymeat and wine. The Community now exports almost as much sugar as Cuba and more beef than traditional exporters such as Argentina or Australia.

50. In addition to its commercial exports, the Community has stepped up the free delivery of agricultural products to countries suffering from food shortages or actual famine, in accordance with its commitments under the Food Aid Convention. In 1985 the total value of such shipments, at world market prices, was 600 million ECU. The quantities shipped included 1 650 000 tonnes of cereals, (including 500 000 tonnes shipped directly by the Member States), 110 000 tonnes of skimmed-milk powder, 30 000 tonnes of butteroil, 11 000 tonnes of sugar and smaller quantities of olive oil and dried vegetables.

TABLE G  
External trade in agricultural products  
(excluding fishery and forestry products)

(m ECU)

		Imports	Exports	Cover rate (%)
<i>Community of Six</i>	1968	8 822	2 950	33
	1969	9 702	3 079	31
	1970	10 583	3 557	33
	1971	10 634	3 851	36
	1972	11 560	4 446	38
<i>Community of Nine</i>	1973	19 755	6 895	35
	1974	22 593	8 655	38
	1975	21 807	8 851	41
	1976	27 428	9 997	36
	1977	32 610	12 041	37
	1978	31 025	12 760	40
	1979	33 354	14 524	44
	1980	33 945	18 424	54
<i>Community of Ten</i>	1981	37 366	25 146	67
	1982	40 175	24 557	61
	1983	41 620	25 275	60
	1984	48 623	29 957	61
	1985	48 812	31 138	63

Source: Eurostat - Comtrade.

51. At the same time, imports of agricultural products have increased substantially and the Community, which purchased goods to the value of 49 000 million ECU in 1985, is the world's largest importer, taking 46% of its imports from the developing countries and 13% from the associated countries in Africa, the Caribbean and the Pacific.

By its purchases of tea, coffee, cocoa, spices, tropical fruit, oils and fats, tobacco, manioc, latex, tropical timber, textile fibres, etc., the Community provides a considerable proportion of the earnings of the developing countries and absorbs 30% of their agricultural exports, there being no direct competition between the latter and European products. In fulfilment of international commitments, however, the Community also imports meat, milk products and cane sugar, in respect of which it has provided various guarantees.

52. The trends in Community production and the attainment of self-sufficiency for various products have considerably influenced the pattern of external trade. Since 1980 the Community has become an exporter instead of a net importer of beef. The same has applied to cereals since 1981 (see Table H).

53. The rise in the overall value of imports is primarily due to the increase in purchases of products which Community farmers do not produce and of livestock foodstuffs. To a certain extent the latter, which is imported at low or zero rates of duty, competes with European cereals and compels the Community to subsidize grain exports. As already pointed out, however, considerations of efficiency and policy on trade both enter into play. If purchases of manioc and other cereal substitutes were to be discontinued or scaled down, feedingstuff prices would be affected, forcing up stockfarmers' costs, and making it more difficult for livestock products to compete on the internal and external markets. Any such changes in the pattern of trade could be envisaged only if negotiations had been held with the Community's trading partners.

Given its position as the world's largest importer and second-largest exporter of agricultural products, the European Community attaches the highest importance to the organization of world markets and to compliance with international trade agreements. This is reflected in the relations which the Community maintains with numerous non-EEC countries, and in particular its signing of the Lomé Convention with the 64 ACP countries and its active participation in all international negotiations.

54. Community agriculture will certainly be unable to maintain its present rate of growth unless it finds new markets.

TABLE H  
The Community's external trade in certain agricultural products

	Year	Cereals <sup>(1)</sup> (1 000 t)			Beef/veal (1 000 t) <sup>(2)</sup>			Milk products (m ECU)			Livestock products and high-protein products (1 000 t) <sup>(3)</sup>		
		Import	Export	Balance	Import	Export	Balance	Import	Export	Balance	Import	Export	Balance
EUR 6	1968	17 134	6 447	-10 687	499	35	-464	97	372	272			
	1969	14 202	6 994	- 7 208	613	40	-573	91	345	254			
	1970	17 640	7 124	-10 516	595	67	-528	111	441	330			
	1971	17 363	4 670	-12 693	562	68	-494	122	602	480			
	1972	15 314	7 114	- 8 200	887	23	-864	129	575	446			
EUR 9	1973	23 825	6 833	-16 992	990	86	-904	255	885	630			
	1974	19 843	5 449	-14 394	455	200	-255	245	1 132	887			
	1975	23 504	7 105	-16 399	289	237	- 52	308	976	668			
	1976	26 742	5 152	-21 590	415	209	-206	331	1 169	838	18 300	800	-17 400
	1977	26 397	2 057	-24 340	379	152	-227	365	1 595	1 230	17 500	900	-16 600
	1978	20 687	6 055	-14 602	415	168	-247	420	1 744	1 324	20 900	1 000	-19 900
	1979	18 393	8 012	-10 381	412	338	- 74	401	2 230	1 829	23 100	1 000	-22 100
	1980	16 442	12 363	- 4 079	356	642	286	460	2 856	2 396	23 900	1 500	-22 500
EUR 10	1981	16 150	16 567	417	364	662	298	582	3 671	3 089	22 500	1 800	-20 700
	1982	13 303	12 211	- 1 092	440	480	40	681	3 766	3 085	24 800	1 900	-22 800
	1983	9 514	15 575	6 061	448	603	155	695	3 316	2 621	25 200	2 900	-22 300
	1984	8 480	16 537	8 057	437	790	353	622	3 763	3 141	22 300	1 800	-20 500
	1985	6 181	18 333	12 152	466	805	339	628	3 601	2 973	25 300	2 200	-23 100

Sources: Eurostat — Comtrade and Commission DG VI (beef/veal protein products).

(1) All grain cereals except rice.

(2) Carcass weight and livestock and preserved meats expressed in terms of carcass equivalent.

(3) Oilcakes, oilseeds expressed in terms of fish-meal and meat-meal equivalent.

These problems were mentioned recently in the Commission's Green Paper entitled 'Perspectives for the common agricultural policy':

'... although there is a real prospect of the Community being able to participate in the foreseeable expansion of world trade in agricultural produce, this will only be possible if suitable adjustments are made to its external trade arrangements so as to enable the Community to conduct its export policy on a sound economic basis.'

## **Agriculture and Community support**

55. A price-guarantee policy requires a financial instrument whereby the necessary action can be taken to support prices.

In 1962 the European Community, when introducing its first legislation on market organization, set up the European Agricultural Guidance and Guarantee Fund (EAGGF), which includes a Guarantee Section to which may be charged any expenditure incurred on the market policy or agricultural prices.

In the strict sense of the term the EAGGF is not a fund, since it does not have resources of its own or, consequently, financial autonomy. As an integral part of the Community budget, the EAGGF appropriations are subject to much the same rules and procedures as other Community funds, thus enabling the Community to exercise its collective responsibility for agriculture.

56. Some budgetary revenue is of agricultural origin and stems from the application of the common agricultural policy (such as the import levies and the sugar levies). Compared with agricultural expenditure, the revenue from such sources is relatively small and represents only a small proportion of the financial support which agriculture requires. The Community has also introduced co-responsibility levies, first in the milk sector in 1977 and then in the cereals sector in 1986; in 1984, an additional levy was added in the dairy sector linked with the system of guaranteed maximum quantities. Although these levies help to finance specific expenditure in the sectors concerned, they are not own resources and are treated as measures for the regulation of agricultural markets.

57. Support for Community agriculture takes two forms:

- (i) intervention measures on the internal market which, depending on their economic nature, may be subdivided into aids for public or private storage, withdraw-

als and similar operations, price compensatory measures and guidance premiums;

(ii) refunds on exports to non-member countries.

Now that the internal market is saturated as a combined result of higher productivity and the levelling-off of demand, any increase in the quantities produced entails additional expenditure since it creates the need to find either new uses or new external outlets (which is practically impossible without subsidies).

Scrutiny of agricultural expenditure will confirm that this is the case, but account must also be taken of the gradual extension of the market organizations, the enlargement of the Community to take in new Member States, the agricultural policy decisions such as the annual fixing of farm prices and, last but not least, the fluctuations in world market prices and the relationships between the various currencies.

58. Expenditure on refunds (i.e. the subsidies intended to cover the difference between internal prices and world prices) is rising each year in terms of absolute value but its share of total expenditure has been gradually falling for some years and in 1985 it represented only 34% of EAGGF Guarantee expenditure.

The main sectors receiving such aid in 1985 were milk products, beef, cereals and sugar. The refunds granted on the various products differ considerably since they depend on the sales opportunities offered by the world market, on the quantities for which the Community has to find an external outlet and on the fluctuations in world prices and the US dollar.

59. Expenditure on intervention has been increasing steadily over the years in both absolute and relative terms; in 1985 it represented 66% of total annual expenditure.

60. Price compensatory measures remain the most common type of aid. The term covers all aid granted on the Community's internal market to keep consumer prices lower than producer prices and to enable Community products to compete with those imported from non-member countries; they may be subdivided into production subsidies (mainly for oilseeds, tobacco, olive oil and sheepmeat) and subsidies for processing or utilization (essentially for milk products, fruit and vegetables). In 1985 such measures accounted for almost 39% of the total expenditure by the EAGGF Guarantee Section and had been the largest single type of support expenditure for the previous three years.

Such aids help to encourage consumption because, whilst guaranteeing minimum prices to producers, they enable consumers to obtain agricultural products at prices lower than those paid to farmers.

61. Guidance premiums are intended to exert a direct influence on the types of farming practised and are granted only for milk and beef/veal.

62. Withdrawals from the market and similar operations are most common for wine (distillation) and fruit and vegetables.

63. Storage aid covers the costs of public and private storage, including the cost of special disposal measures. The storage of agricultural products represents a relatively heavy burden on the Community, accounting in 1985 for over 22% of all expenditure by the EAGGF Guarantee Section. Milk products place the greatest strain on the Community budget because of the surpluses of butter and skimmed-milk powder, far outstripping beef/veal and cereals. As regards sugar, the storage costs are covered by a levy on manufacturers.

64. The total value of the products bought in and placed in intervention storage in the Community amounted to some 10 500 million ECU by the end of 1985. Such operations entail both technical costs (entry into storage, storage proper, release from storage, processing) and financing costs (interest charges which the EAGGF Guarantee Section reimburses to the Member States at a standard rate where national funds are tied up by the public storage of agricultural products), plus the offsetting of any losses incurred or profits made on the sale of the products stored (including price reductions for special disposal measures). Intervention storage is thus costly and relatively inefficient, in that it leads to the accumulation of products which, in some cases, drop rapidly in value and of which it may be difficult to dispose.

65. The EAGGF Guarantee Section, which is a complex financial instrument but functions effectively within the limits of the Community rules, has undoubtedly been one of the best guarantors of the development of the common agricultural policy over the past 20 years. Protecting farmers from most of the market risks and from falling prices, it has provided security and relative stability for much of the agricultural sector, although expenditure on price and market support measures rose from 8 700 million ECU in 1978 to 19 700 million ECU in 1985.

66. The Green Paper published in July 1985 outlined the Commission's thoughts on the future of the common agricultural policy. It contains an analysis of the problems

facing the said policy and a description of the economic and budgetary constraints which will determine the direction taken in future.

67. In recent years farmers do not seem to have benefited from the increasing support which they have received. One of the reasons for this relative failure probably lies in the fact that an ever-larger proportion of the financial aid granted does not directly correspond to any distribution of wealth within the sector itself.

Whereas EAGGF Guarantee Section expenditure as a whole helps, albeit with varying degrees of effectiveness, to maintain agricultural prices at the levels set by the Council, the direct effect of the export refunds and the subsidies for the use of agricultural products is to enable customers inside and outside the Community to obtain goods at less than the market price.

Since the growing expenditure on the disposal of production does not necessarily entail increased support for prices, the marketing of ever-larger quantities for which there is no demand cannot always be seen as generating additional wealth. It does therefore seem doubtful whether farmers in fact benefit from support, the effects of which are primarily felt in other socio-economic sectors. This highly topical question has been widely discussed in the context of recent Community budgets.

## **Structural changes in Community agriculture**

### **Trends in the workforce**

68. The drift from the land and the gradual reduction of the agricultural labour force have been features of European society since the end of the 18th century.

In 1968 the 'Mansholt Report' noted a decline in the agricultural workforce over the period 1961-65, at annual rates ranging from 4.8% in Belgium to 3.2% in France.

69. The Community surveys on farm structures show that in the Community of Six the numbers in agricultural employment fell by 49.3% between 1966 and 1983. On the basis of the 1975 survey, the decrease has been less marked in the Nine since it amounted to less than 20% over the eight-year period 1975-83. This may be explained by the special circumstances in the United Kingdom, where the decline in such employment took place much earlier and is now relatively insignificant, given the very small percentage of total employment (2.6%) now left on the land (see Table I).

**TABLE I**  
**Employment on agricultural holdings**

(1 000 AWU) (1)

Year	Belgique/ België	BR Deutschland	France	Italia	Luxem- bourg	Nederland	EUR 6	Danmark	Ireland	United Kingdom	EUR 9	Ellas	EUR 10
1966-1967	271.2	2 329.9	3 023.3	4 127.2	17.04	341.7	10 110.3	:	:	:	:	:	:
1975	139.6	1 233.6	1 949.7	2 826.5	12.37	253.7	6 415.5	176.7	324.7	625.7	7 542.6	:	:
1983	111.8	945.9	1 658.2	2 157.6	7.75	243.4	5 124.7	140.3	276.1	562.1	6 103.2	863.3	6 966.5

: = Not available.

NB: In Italy the survey was carried out in 1982.

Source: Community surveys on the structure of agricultural holdings — Eurostat.

(1) AWU: Annual work unit = total hours worked each year by a person employed full-time.

**TABLE J**  
**Number of agricultural holdings**

(1 000 holdings)

Year	BR Deutschland	France	Italia	Nederland	Belgique/ België	Luxem- bourg	EUR 6	United Kingdom	Ireland	Danmark	EUR 9	Ellas	EUR 10
1966-1967	1 246.0	1 708.0	2 980.5	247.0	214.8	8.61	6 404.9	:	:	:	:	991.5	:
1970-1971	1 074.6	1 587.6	2 849.9	184.6	184.0	7.61	5 888.3	326.7	277.4	146.0	6 638.4	1 046.3	7 684.7
1975	907.9	1 315.1	2 664.2	162.6	138.1	6.21	5 194.1	280.6	228.0	132.3	5 835.0	:	:
1983	767.6	1 129.6	2 832.4	138.5	102.6	4.56	4 975.3	261.9	221.1	98.7	5 557.0	958.7	6 515.7

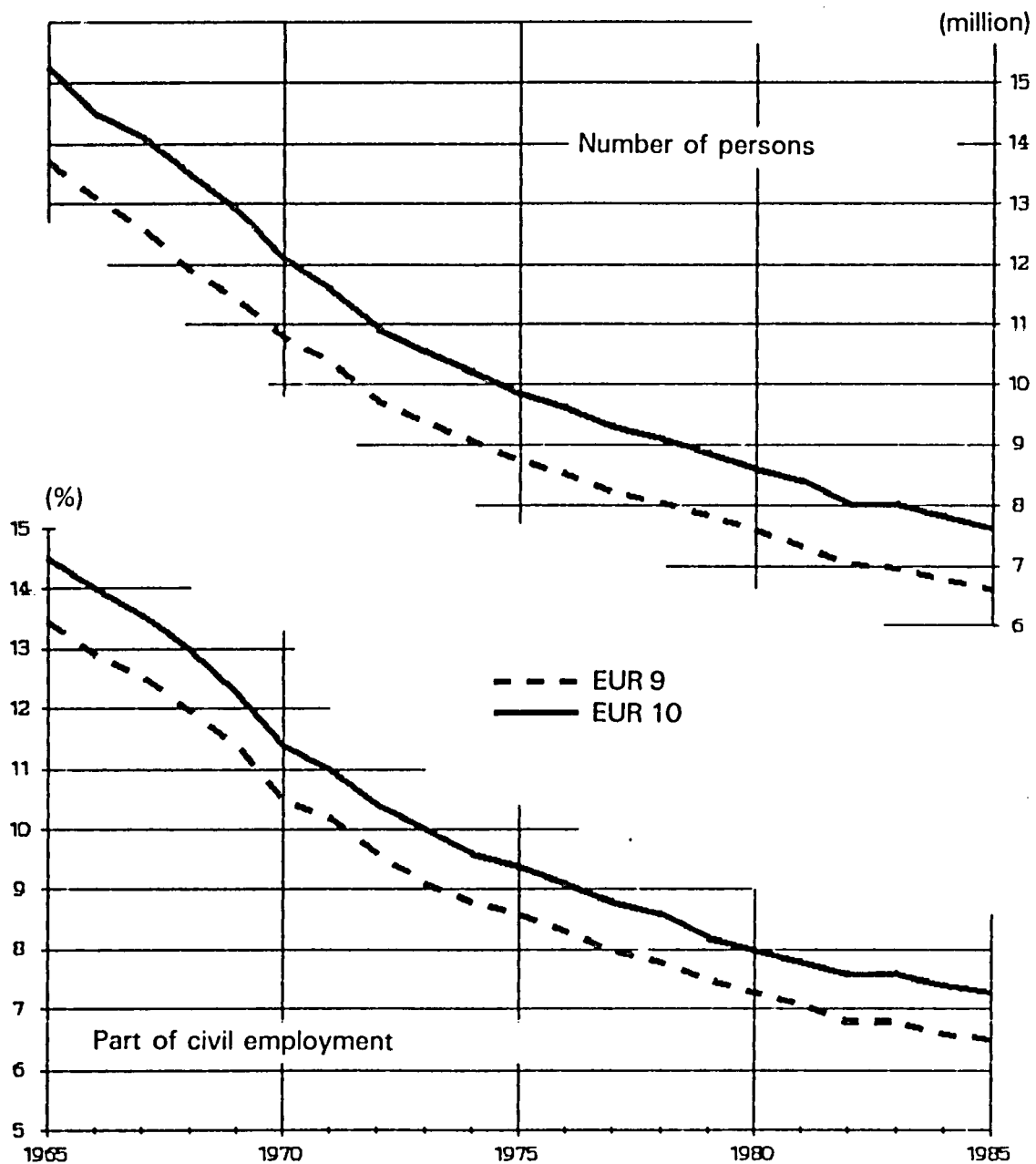
: = Not available.

Source: Community surveys on the structure of agricultural holdings — Eurostat.



### EMPLOYMENT IN AGRICULTURE 1965-85

(Persons with an occupation in the sector  
'Agriculture hunting, forestry and fishing')



Source: Eurostat. Annual figures concerning national estimates on labour force.

Graph 8

The decrease in agricultural employment has been partly offset by the growth of employment in the food-processing industry which, as mentioned earlier, has steadily grown in size and now employs 2.7% of the working population.

In the present day Community farming provides only 7.5% of all employment (see Graph 8). This percentage is still considerably higher than those in other industrialized countries such as the United States (3.3%), Canada (5.3%) and Sweden (5.1%), but it is lower than the figure for Japan (8.9%).

70. The distribution of the agricultural labour force is very uneven, and trends differ from one part of the Community to another. The regional figures obtained by the farm structure surveys indicate that, generally speaking, the agricultural labour force is still numerically strong in Ireland and in all the Mediterranean areas, where it accounts for more than 10% of total employment.

The agricultural labour force is also high in certain regions of France (the West and Aquitaine), Germany (Bavaria and Lower Saxony) and the Netherlands (the Northern provinces). In these regions, agriculture still provides almost 10% of all jobs. On the other hand, farming provides less than 2.5% of all jobs in most regions of the United Kingdom (Scotland, the North of England and Northern Ireland being the exceptions) and in North Rhine-Westphalia (Germany).

Despite the drift from the land and the reduction in the agricultural labour force, however, the area of cultivated land per work unit is still relatively small. Graph 9 shows that only in the Parisian Basin, the North of England and Scotland is there more than 25 ha per work unit, on average. Only Scotland and the North of England have more than 40 ha of utilized agricultural area per work unit. Admittedly, these regions are extensively farmed and are difficult to compare with other farming areas in the Community.

### **Farm structures**

71. The situation as regards farm structures is very similar: the number of farms is decreasing and is following the same trend as the number in agricultural employment, but the average area per farm is still small and has shown little increase over the past 20 years (see Tables J, K, L).

TABLE K  
Average area of farmland per holding

(ha of UAA)<sup>(1)</sup>

Year	BR Deutschland	France	Italia	Nederland	Belgique/ België	Luxem- bourg	EUR 6	United Kingdom	Ireland	Danmark	EUR 9	Ellas	EUR 10
1966-1967	10.2	17.6	6.0	9.0	7.4	15.6	10.1	:	:	:	:	4.1	:
1975	13.7	22.4	6.2	12.8	10.6	21.9	11.9	58.7	22.3	22.4	14.8	:	:
1983	15.5	25.5	5.6	14.5	13.6	27.9	12.1	64.5	22.8	28.8	15.3	3.6	13.6

: = Not available.

Source: Community surveys on the structure of agricultural holdings — Eurostat.

(1) UAA = utilized agricultural area.

72. The changes in the number of farms and in the average area per farm have nevertheless substantially altered the distribution of cultivated land according to farm size category. Farms with more than 50 ha now possess much more land than 20 years ago. This has come about because of land consolidation and the accession of the United Kingdom, where farm structures are distinctly more efficient than in the other Member States.

TABLE L

1966 Census — Community of Six			1983 Census — Community of Ten	
Size category by UAA (ha)	ha used (1 000)	% of total UAA	ha used (1 000)	% of total UAA
20- 50	19 064	29.4	25 775	25.5
50-100	8 386	12.9	17 124	16.9
over 100	7 761	11.9	22 205	21.9
Total for the 3 categories	36 211	54.2	65 104	64.3
Total agricultural area	64 681		100 932	

Source: Eurostat.

73. However, despite changes which might at first sight seem considerable (particularly the changes in agricultural employment), the typical Community farm is still a small family undertaking employing only a few work units, usually members of the farmer's family.

Given the wide diversity of natural conditions within the Community and the varying degrees of regional economic development, the concept of the 'farm' covers everything from the most intensive units to extensive holdings which have to adjust to natural handicaps.

74. Structural changes, which affect both farms and the agricultural labour force, were already occurring long before 1965. They reflect the influence of economic and social currents outside agriculture and the need for change to cope with new technological and economic conditions. Since these factors have very different effects from one

region to another, structural change reflects this diversity and amplifies the differences between Community regions.

The first few years of the period 1966-86, when economic growth was sustained and the profound effects of technological advances were being felt in all sectors of the economy, helped to speed up structural change in agriculture. An additional factor which made for greater efficiency and productivity was the fact that farmers were confronted with new market conditions as competition became keener with the opening of intra-Community frontiers and the establishment of a common agricultural market.

Not all Member States experienced in the same way this incentive to change, either because they had been late in joining the Community or because they were backward in terms of development.

### **Structural policy and structural change**

75. According to the approach taken at Stresa, the objective of a Community structural policy was to encourage the necessary change and, more particularly, to enable the most backward areas to make the necessary adjustments.

By means of their national structural policies which were geared to their own circumstances, the Member States endeavoured to promote certain reforms such as the expansion of vocational training and the establishment of farms more suited to economic realities. The beneficial effect of such restructuring was limited as a rule and often achieved little more than arranging for farmers' retirement, bringing about a measure of land consolidation and making the necessary improvements to rural infrastructures.

In most regions the small areas of farmland available made it difficult to undertake substantial reforms, despite the sharp drop in the agricultural labour force. The purpose of most of the incentives provided at national level was to develop and equip the existing structures and to introduce techniques which would boost production and increase productivity. Some Member States, however, endeavoured through their national legislation to encourage certain types of farm, by establishing or facilitating the establishment of holdings which satisfied specific standards, particularly in the case of young farmers setting up.

76. In 1964, with the creation of the EAGGF Guarantee Section, the Community took over some of the work done by the Member States. Initially, the aim was to facilitate schemes to improve production, marketing and processing structures for agricultural policies by subsidizing investments. Community aid was thus granted towards certain rural development, drainage and land consolidation schemes.

77. Only in 1972, with the adoption of the socio-structural directives was an attempt made to modernize farms, encourage retirement and promote retraining.

These measures, which followed a massive exodus of farmers from the countryside, applied uniformly to all parts of the Community, with the result that needs could not always be met, given the diversity of circumstances. Moreover, since only limited funds were allocated for structural purposes, the measures had insufficient impact, particularly in the least-favoured regions where they were most needed.

78. Since 1978 new and more appropriate measures, implemented in the form of regional programmes, have been adopted to supplement the socio-structural directives

TABLE M  
Less-favoured areas as defined in Directive 75/268/EEC

	Less-favoured areas		Total UAA in less- favoured areas (1 000 ha)	Total UAA in Member State (1 000 ha)	Less-favoured UAA as % of total UAA
	UAA (1) — in 1 000 ha				
	Mountain areas	Less-favoured areas other than mountain areas			
BR Deutschland	351.5	5 859.1	6 210.6	12 196	50.9
France (incl. overseas depts.)	4 341.9	7 617	11 958.9	31 069	38.5
Italia	5 164.2	3 289.8	8 454.0	16 537	51.1
Nederland	—	18.9	18.9	2 018	0.9
Belgique/België	—	314.4	314.4	1 438	21.9
Luxembourg	—	133.1	133.1	133	100.0
United Kingdom	—	9 859	9 859.0	18 795	52.5
Ireland	—	3 878.7	3 878.7	5 711	67.9
Danmark	—	—	—	2 888	—
Ellas	4 978.8	2 260.1	7 238.9	9 251	78.2
<b>Total EUR 10</b>	<b>14 836.4</b>	<b>33 230.1</b>	<b>48 066.5</b>	<b>100 036</b>	<b>48</b>

(1) UAA = utilized agricultural area.

and to offer new incentives for structural change and the modernization of rural facilities.

79. A review of the structural measures implemented over the period 1966-86 also reveals that both national and Community authorities have tended to emphasize the improvement of processing and marketing structures, thus giving priority to the product and the processing thereof rather than to the circumstances in which it is grown. Preference has been given, for example, to the expansion and renewal of facilities in the food-processing industry. Although such measures have made an effective contribution towards the rationalization of the food sector, they have often encouraged the development of certain types of production without reference to any guidelines and without necessarily providing any incentive for farmers to improve the economic management of their holdings.

### **The less-favoured regions**

80. Twenty years on, the structural and economic diversity of European agriculture emerges as a key political factor.

In 1975, acknowledging the social role of agriculture, the structural and natural differences between the various farming regions and the difficulties faced by certain areas in adjusting to the situation created by the opening-up of markets, the Council of Ministers adopted a directive on mountain and hill farming and farming in certain less-favoured areas.

In adopting this directive, the Community recognized that farmers in the areas concerned were unable to produce on competitive terms. There was a need to ensure the continuity of the national measures already in force and to strengthen them by involving the collective responsibility of the Community and by introducing a specific policy whereby aid would be granted to develop the areas in question and compensatory allowances to alleviate the consequences of permanent handicaps such as high altitude, steep slopes, long winters or lack of rainfall.

The introduction of a policy for the less-favoured areas marked a very important change, for it drew a distinction between the various regions of the Community and made it possible to treat each region according to its potential.

81. Under the original classification adopted between 1975 and 1983, 31% of the utilized agricultural area in the Community was listed as less favoured. In 1986 a new classification was introduced, raising to 48% the percentage of the utilized agricultural area falling into this category.

There are in fact two types of less-favoured area:

- (i) the mountain and hill regions, defined in terms of altitude or gradient, accounting for 14.8% of the total utilized agricultural area;
- (ii) the regions suffering natural handicaps and threatened by depopulation, accounting for 33.2% of the total utilized agricultural area (see Table M).

82. The position of farming in such areas is a particularly delicate problem since, as a productive activity, it cannot compete with farming in regions where conditions are more favourable, although it does represent a substantial percentage of gross domestic product at regional level.

In Greece, Italy, Ireland and to a lesser extent France, the less-favoured areas coincide with the areas where agricultural production accounts for a large percentage of regional GDP. In such areas the per capita GDP and the productivity per person engaged in agriculture are relatively low but since farming sometimes represents over 10% of the economy in depressed regions, it is still an important factor. In the less-favoured areas of Germany, Belgium and the United Kingdom, the problem is different: farming accounts for only a small percentage (between 2% and 4%) of the gross regional product but the farming population is fairly numerous and their productivity is usually low, except in the United Kingdom. The decline of agriculture would have consequences for the social fabric and for employment, although the impact on the regional economy would be less serious.

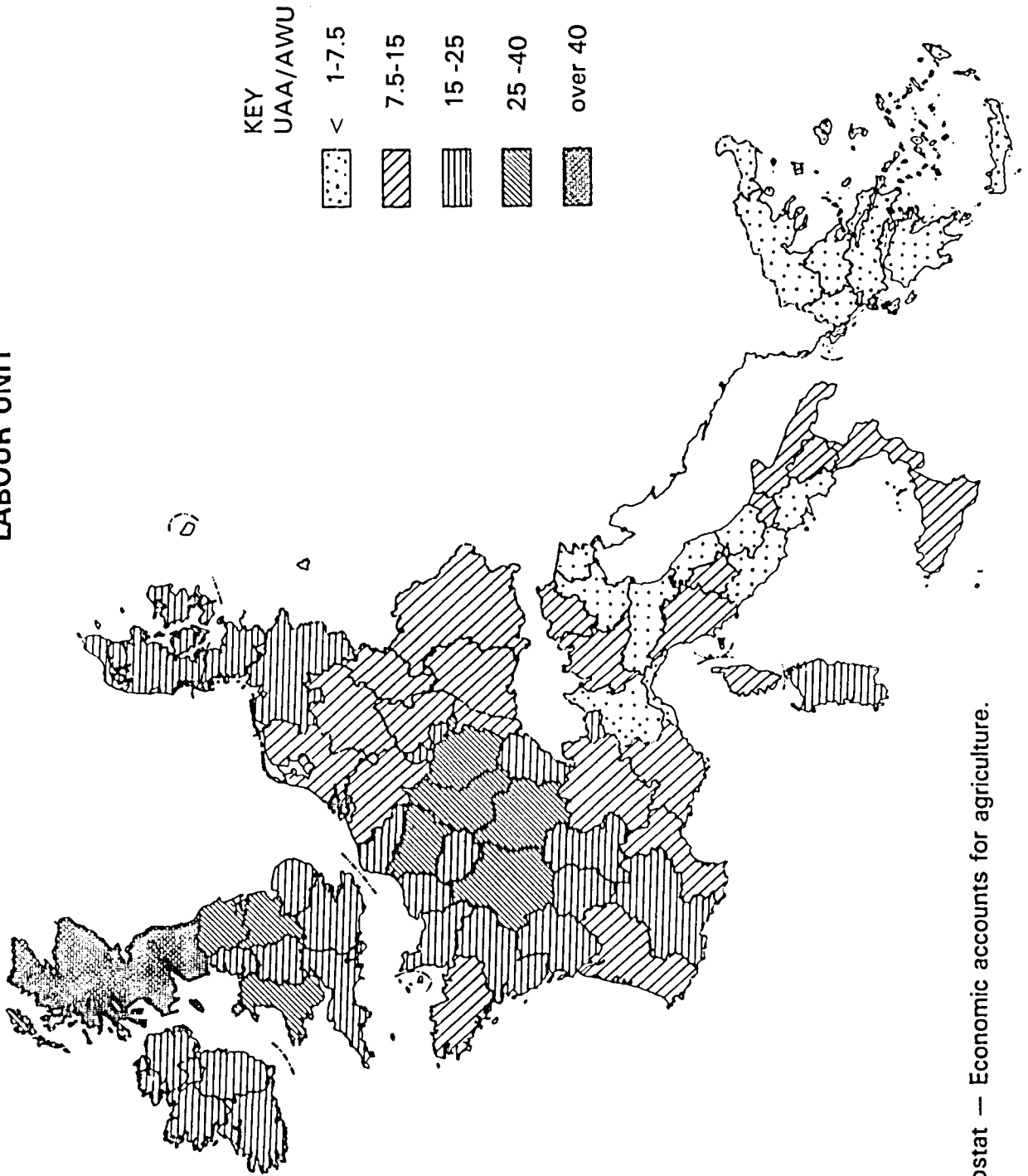
### **Regional differences**

83. The disparities within Community agriculture may be measured by three yardsticks: the land available per person engaged in agriculture, the productivity of the labour force and the contribution made by farming to the gross domestic product (see Graphs 9, 10 and 11).

At national level, the ratio between the average productivity per work unit in Greece and that in the Netherlands is 1:4. At regional level, the differences are even wider, the ratio between the least prosperous regions of Greece and the Dutch Polders being 1:10. These averages also conceal substantial differences between one farm and another within each region.



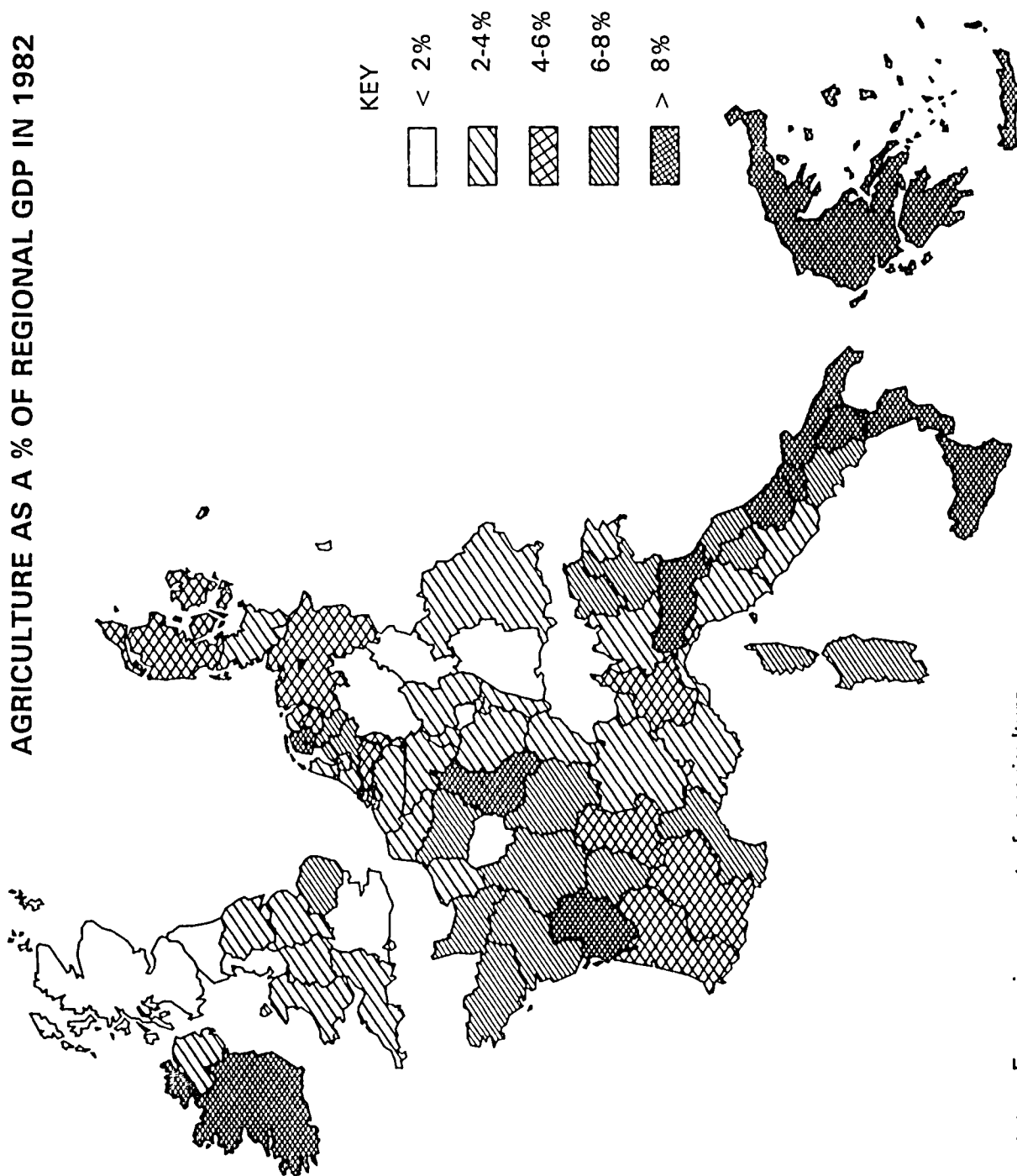
AVAILABILITY OF AGRICULTURAL LAND PER  
LABOUR UNIT



Graph 9

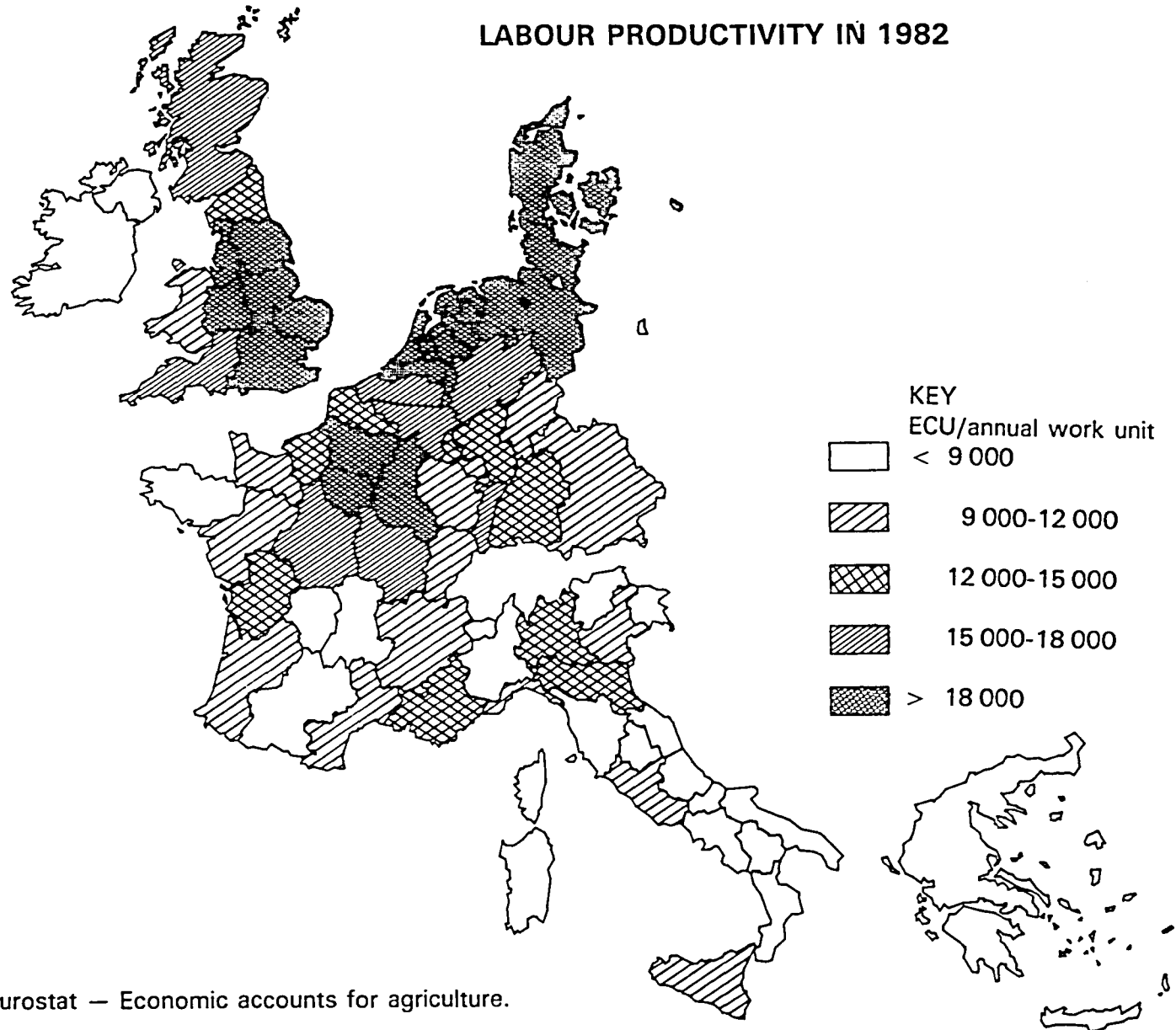
Source: Eurostat — Economic accounts for agriculture.

AGRICULTURE AS A % OF REGIONAL GDP IN 1982



Graph 10

Source: Eurostat — Economic accounts for agriculture.



Graph 11

Source: Eurostat — Economic accounts for agriculture.

84. The same applies to the availability of land, since the Mediterranean farmer has on average four times less land than the farmer in the Parisian Basin.

Given the diversity of production methods (intensive stockfarming, intensive cropping of small areas), the availability of land is not in itself the cause of economic disparities, but in fact the regions with the smallest area of farmland per labour unit are also those where the level of productivity is lowest (this is true of all the Mediterranean regions) whereas, conversely, the profitability of farms is usually highest in those areas where more land is available.

This is the case in Scotland, where extensive stockfarming is practised, but the productivity per work unit is quite satisfactory, and in the Parisian Basin, where cereal-growing is highly mechanized and very competitive.

85. When the productivity per work unit is taken as the criterion, areas which do not have the same farming structures or natural conditions may find themselves in the same category. For example, Denmark, Schleswig-Holstein, the Netherlands, England (except the North and Cornwall) and the Parisian Basin would all be in the same category.

This proves that factors such as the proximity of development areas, the provision of local facilities, the rationalization of methods, the intensification of production and farm specialization have played, and will continue to play, a key role in the development of agriculture, which is still very closely dependent on regional circumstances.

## **Progress towards modern farming**

86. Having traced the development and the major changes which farming has seen over the past 20 years, one to ask whether the process will end with a modern agricultural sector properly integrated into the economy.

A distinction is often made between agriculture of the traditional, self-sufficient and extensive type and agriculture of the technically sophisticated, production-oriented type, the latter being described as 'modern'. A more exact definition would be that 'modern agriculture' makes optimum use of the factors of production, including certain natural factors, to achieve the most economic yield from the soil, plants or livestock used.

Have the changes undergone by European farming over the past 20 years in fact led to the proper integration of the sector into the economy as a whole and is farming now, in the words of Mr Mansholt at the Conference of Stresa, '... equal to the task which it will have to perform in the future'?

87. As in the past, judicious continuation of the factors of production depends mainly on the shrewdness of the farmer as a businessman and one good criterion for modernity would be the importance attached to agricultural training, particularly as compared with 20 years ago.

Unfortunately the basic data for a comparison are lacking and it is not possible to draw up an exhaustive table showing the situation as regards training in Community agriculture. According to fragmentary information from the European Training and Promotion Centre for Farming and Rural Life and from the European Centre for the Development of Vocational Training, considerable efforts have been made in this area, particularly as regards the setting up of young farmers, but in 1985 scarcely 50% of prospective farmers had been trained for the job and, according to the farming organizations, the training received was in many cases inadequate.

To remedy these shortcomings, various special guidance and development programmes have been launched in the least-favoured regions, particularly in the Mediterranean areas. No judgment can yet be passed on these programmes, which take time to set up, and there is still a substantial gap between the most backward areas and the richer areas, which have been aware of the training problem for some considerable time.

88. Another useful criterion is the funding of agricultural research and development. Each Member State pursues its own policy through various agencies: centralized research institutes, universities, agricultural colleges, private foundations, farmers' guidance services, sectoral or professional bodies, chambers of agriculture, private firms, etc.

The funds allocated to agricultural research and development at national level usually reflect the economic importance of the farm sector, two-thirds of research expenditure being financed by Germany, France and the United Kingdom. A comparison between the funding of agricultural research and total government spending on agriculture reveals that the Netherlands attach the greatest value to research whereas in Ireland and Italy research receives the smallest percentage of the national agricultural budget.

In the Community as a whole agricultural research and development seem equal to the task of meeting farmers' immediate needs and enabling them to benefit from technical progress.

89. Lastly, as regards the quantifiable factors of production (use of energy, fertilizers, pesticides and machinery), it has already been mentioned that use of inputs in the six original Member States increased by 60% in terms of volume over a 20-year period.

In 1973, use of inputs represented 35.9% and 37.3% of the value of final agricultural production in the Six and the Ten respectively. The corresponding percentages for 1984 were 44.8% and 45.1%. That is to say, the processing function of agriculture has been on the increase and has now reached a very high level, which usually indicates the use of sophisticated techniques.

To give only a couple of examples, consumption of nitrogenous fertilizers has almost doubled in 20 years and whereas the number of tractors in use per 100 ha was 4.1 in 1970, it is now 5.3.

90. The Commission's views on agriculture, as set forth in recent <sup>(1)</sup> publications, and in particular the Green Paper of July 1985, have lost none of their relevance. The future development of agriculture and harmonization with the economy as a whole will depend on the solutions found to market imbalances, structural and regional differences, the low incomes of some farmers and the political and budgetary problems posed by the cost of financial support for agriculture.

It is also probable that, for the purposes of economic expansion, new choices will have to be made and these may lead to further changes in all economic sectors including agriculture.

As in the past, farming will therefore have to respond and adjust to new horizons.

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(1) 'Perspectives for the common agricultural policy' COM(85) 333; 'Commission memorandum on the adjustment of the market organization for cereals' COM(85) 700; 'A future for Community agriculture – Commission guidelines following the consultations in connection with the Green Paper' COM(85) 750; 'Commission memorandum on adjustments to the market organization for beef/veal' COM(85) 834; 'Report to the Council concerning the introduction of levies in the milk sector' COM(86) 645.

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