

COMMISSION OF THE EUROPEAN COMMUNITIES

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FINANCIAL CONSEQUENCES OF THE PROPOSALS
FOR MEASURES TO ASSIST MEDITERRANEAN
AGRICULTURE

(Communication from the Commission to
the Council)

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I. INTRODUCTION

One of the Community's fundamental problems is that some regions are lagging behind others in economic development, which hampers the process of integration.

The Mediterranean regions, which account for roughly one fifth of the Community's agricultural output, suffer from an unbalanced economy, compared with the rest of the Community, which is all the more noticeable in that agricultural production accounts for two thirds of final production. While the Commission is aware that any improvement in the situation must come from an integrated campaign of economic development, it takes the view that the complexity of the problems involved demand in the short term, and on a priority basis, a particular effort in the agricultural sector.

(a) The problems of the Mediterranean regions

Generally speaking, these regions are characterized by inadequate economic development, which a southward expansion of the Community threatens to aggravate. Industrialization efforts have not always been successful and Community measures, particularly regional ones, were launched late and on a modest scale. In the agricultural sector the socio-structural Directives are only now beginning to be applied and the price and market policy has had too small an impact.

The result is that there are grave imbalances:

- too many of the working population engaged in agriculture;
- low labour productivity;
- substantial underemployment, and
- many undersized farms.

The result is a low labour income, particularly in some regions.

In view of the preponderance of agriculture in these regions, the need to take action to remedy these problems is therefore vital.

(b) The objectives

The nature of the problems cited suggests the main lines of approach:

- to improve the situation of agriculture and thereby economic conditions in general;
- to preserve the income and social situation of the working agricultural population.

This must be achieved without evading the constraints of maintaining balance on the agricultural markets:

- structural surpluses must be reduced and no new surplus stocks allowed to build up;
- no recourse to protectionist measures.

The methods proposed for achieving these objectives affect both structures and markets.

(c) The methods planned

1. For market policy, the measures should make it possible:

- to improve the organization of the market for fruit and vegetables, wine and olive oil with the aim of rationalizing and improving production and making the market more transparent;
- to guide production by developing certain activities, in particular the food processing industry.

2. In the field of structures, the actions will be concerned with:

- the development of new joint actions in respect of infrastructures and technical agricultural advice;
- strengthening of existing structural measures and
- prolongation and development of some special actions aimed at improving production.

The Commission has accordingly sought to propose measures likely to promote efficaciously the development of the Mediterranean regions without losing sight of possible effects in an enlarged Community.

II. THE COMMISSION'S PROPOSALS FOR THE COMMON MARKET ORGANIZATIONS

1. THE MEASURES PROPOSED

A. Olive oil

The olive oil market has been experiencing a decline in consumption since the beginning of the decade, due to the fact that olive oil is more expensive than other oils in competition with it. The Commission's proposal will therefore have the effect of promoting the consumption of olive oil in the Community.

The main measure proposed is to alter the existing system of aid. The proposed system comprises two types of aid:

- production aid based on production potential;
- and a variable marketing aid, the methods of calculating which will depend on the market price of olive oil which in turn depends on the price of oils competing with it.

B. Fruit and vegetables

The main objectives of the proposal are:

- (a) the granting of aid to the fruit and vegetable processing industry to make Community products more competitive.

Under the new system the minimum import price for tomato concentrates will be abolished and production aid to make up the difference between Community prices and non-member-country prices will be introduced.

- (b) to improve the usability of products;
- (c) to reinforce Community preference by calculating the reference prices on a different basis.

C. Wine

The Commission informs the Council that it expects to put forward proposals for new measures before end-January 1978.

D. Peas and field beans

Community production of peas and field beans has been falling since the sixties. The high protein content of these products - higher than that of the soya bean - is a cogent reason for encouraging their cultivation, all the more so since the Community is highly dependent on vegetable protein imports for animal feed.

The system envisaged entails granting aid to expand production.

2. FINANCIAL IMPLICATIONS

The total cost to the Budget of the Commission's proposals concerning the management of the common market organizations is 168 m u.a. for a full year and 76.7 m u.a. for the financial year 1978.

Two sectors largely account for this rise in agricultural expenditure: olive oil and fruit and vegetables.

The following table, which shows the costs of the Mediterranean proposals, is separate from that giving the effects of the price proposals and related measures (see doc. COM(77)639).

IMPACT ON EAGGF, GUARANTEE SECTION EXPENDITURE OF THE PROPOSALS CONCERNING MEDITERRANEAN AGRICULTURE

Sector and budgetary nomenclature	COSTS	
	1978 Budget	over 12 months
(1) Olive oil	-	37
(2) Fruit and vegetables		
- fresh fruit and vegetables	-	token entry
- processed fruit and vegetables	72	120
(3) Wine	-	token entry
(4) Peas and field beans	1	3
Total market organizations	73	160
Dual rate	3.7	8
Grand total	76.7	168

A. OLIVE OIL

The cost to the budget of the proposed changes to the common market in olive oil is 37.3 million u.a. in a full year.

Two concomitant phenomena account for the increase. Assuming an average of 500 000 tonnes produced and 440 000 tonnes marketed per year expenditure on production aid would be reduced by 54.4 million u.a. while additional expenditure of 100.2 million u.a. would be incurred for the new marketing aid.

A reduction in the market target price which in the present economic situation would be about 1 300 u.a./t and the new buoyancy in demand as a result of the abovementioned measures will lead to destocking and a cut-back in intervention expenditure of 8.5 million u.a.

Detailed calculations are given in the table below:

million u.a.

	Aid	Other interventions	Total
EXPENDITURE			
A. <u>Present system</u>			
. Production aid 500 000 t x 458.7 u.a./t	229.4		
. Storage		15	
. Production refunds		5	
Sub-total A	229.4	20	249.4
B. <u>New system</u>			
. Production aid 500 000 t x 350 u.a./t	175		
. Marketing aid 440 000 t x 227.8 u.a./t	100.2		
. Storage (15 x 1/2)		7.5	
. Refunds for use by the preserves industry		4	
Sub-total B	275.2	11.5	286.7
C. TOTAL COST B - A	+45.8	-8.5	<u>+37.3</u>

(B) Fruit and vegetables

The financial implications of the measure for fruit and vegetables are the net effect of the cost of the aid which will be granted and the reduction in the estimated cost of refunds.

1. Aid

- The products concerned by this proposal are mainly tomato concentrates and peeled tomatoes and to a lesser degree peaches, apricots and prunes.
- The quantities qualifying for aid would be about 750 000 tonnes of tomato concentrates and peeled tomatoes and 100 000 tonnes of other products.
- The amount of aid is fixed in such a way as to make up the difference in price between Community products and products from non-member countries.
- Prices in non-member countries vary considerably and the aid will be fixed at a later date. However, on the basis of the information at present available and the quantities given above, the total expenditure in a full year would be in the region of 139 million u.a., comprising 126 million u.a. for processed tomatoes and 13 million u.a. for fruit and prune preserves.

2. Refunds

The corollary of this aid is expected to be an almost complete elimination of export refunds for these products, amounting to 18 million u.a. in a full year.

These measures will therefore cost 121 million u.a. in a full year and 72.3 million u.a. in the 1978 financial year.

(C) Peas and field beans

The introduction of a production aid for peas and field beans applicable to 45% of the difference between the world price and the activating price of soya will mean 3 million u.a. in a full year and 1 million u.a. in the 1978 financial year.

It is estimated that the difference in prices will average 75 u.a./t for a production of about 100 000 tonnes in the year.

III. STRUCTURAL PROPOSALS

1. THE PROPOSED MEASURES

(a) Proposal for a Council Decision on a programme for speeding up and providing expert guidance for collective irrigation schemes in the Mezzogiorno

Agricultural production in the Mezzogiorno is seriously affected by the very unbalanced water supply situation. The capacity of existing reservoirs and major channels is much greater than that of the irrigation networks. It is estimated that this water capacity would enable the irrigation networks to supply a further 200 000 hectares.

The aim of this five-year project is to speed up the construction of this irrigation system with the help of Community funds. The Community will finance 50% of the cost of constructing this irrigation network, up to a maximum of 3 000 u.a. per hectare irrigated. The programme is also intended to encourage more efficient farming in the irrigated areas of these regions; this will be done by providing expert assistance to farmers. It is thought that 280 qualified advisers will be needed to advise and assist farmers in the existing and new irrigated areas. The Community will finance 65% of the cost of providing these advisers up to a maximum of 12 000 u.a. per year per adviser.

(b) Proposal for a Council Decision on a programme for speeding up restructuring and conversion in the wine sector in the Languedoc-Roussillon region

This common measure has two aims. The first is to expand and speed up structural improvement schemes in the wine sector in the Languedoc-Roussillon region. The restructuring programme will be carried out by groups of farmers. They will make vineyards larger, harmonize the alignment of vineyards, standardize the spacing of the lines of vines and improve vine varieties. This operation will facilitate the mechanization of production and improve the quality of the wine. It is estimated that 50 000 hectares will be reorganized under this five-year programme. The Community will finance 50% of the costs of the restructuring premium, which will be 2 600 u.a. per hectare.

The second aim of the programme is to encourage conversion from wine-growing in areas which are more suitable for switching to other crops by collective irrigation schemes for areas previously under vine.

With better irrigation in these areas, farmers could turn over to other products. It is estimated that some 25 000 hectares could be converted under a five-year programme. The Community will reimburse 50% of the Member State's expenditure on irrigation schemes and 50% of the conversion premium, which will be 2 000 u.a. per hectare in the first year, and will be cut by 200 u.a. each subsequent year to encourage rapid application of this programme.

(c) Infrastructure improvement projects in some rural areas.

In the less-favoured agricultural regions of Italy and southern France and in the whole of the Mezzogiorno, there are many villages and isolated farms which are not yet connected to the public electricity and potable water supplies; the rural road network is also inadequate in large parts of these areas, and some isolated farms have no proper access road.

This situation makes working and production conditions on these farms particularly difficult and has a very adverse effect on living conditions.

These infrastructure shortcomings must be removed or at least alleviated if agriculture in these areas is to be developed.

A system of individual projects is planned under which:

- (a) the financial contribution of the beneficiary must be no less than 10%;
- (b) the financial contribution of the Member State must be no less than 20%;
- (c) the grant provided by the Fund will be no more than 50%.

(d) Proposal for a Council Regulation amending certain conditions of application in the Mezzogiorno and Languedoc-Roussillon regions of Regulation No 355/77 on common measures to improve the conditions under which agricultural products are processed and marketed

In the Mezzogiorno and Languedoc-Roussillon, the marketing and processing of agricultural products are generally under-developed and inefficient. The development and rationalization of these activities is accordingly of vital importance for the agricultural economy. An efficient marketing and processing structure for agricultural products would make it possible not only to develop and rationalize outlets for agriculture, but also to influence production.

The sluggishness of general economic growth in these regions and the difficulty in obtaining finance severely discourage any viable economic measures for the processing and marketing of agricultural products. The Commission thus feels that it is essential to step up in these regions the stimuli provided for in Regulation No. 355/77 by:

- (a) increasing the Commission's possible financial contribution from 25% to 50%;
- (b) reducing the beneficiary's minimum financial contribution from 50% to 25%;
- (c) deferring the compulsory application of these programmes by one year in these regions.
- (e) Common measure to encourage the afforestation of dry Mediterranean regions

In the dry Mediterranean regions forests are essential to prevent erosion and help conserve soil and water. They are also a source of timber and provide employment.

The EAGGF will contribute by reimbursing to the Member States 50% of the costs of this common measure, which covers:

- (a) the construction of service roadways in forests;
- (b) the conversion of non-productive forests to productive forests;
- (c) afforestation to prevent erosion;
- (d) an inventory of the forests;
- (e) forestry research.

(f) Common measure to set up a service of technical agricultural advisers in Italy

The aim of this programme is to set up a service of agricultural advisers who will provide farmers with information and advice and show them how to exploit it to their advantage.

The programme takes several forms:

- (i) a system of Community aid towards the salaries of the advisers and technical assistants, starting at 70% in the first year of service and falling by 10% each year to 30% in the fifth year;
- (ii) 50% reimbursement of the costs of basic training and further training during four years;
- (iii) a single grant for the training of 40 regional officials to supervise the instruction given and run the training centres;
- (iv) a subsidy of 50% of the costs of building and equipping the training centres.

The cost of this programme cannot be calculated until a study has been made. However, it has been initially estimated as set out below (of. 2f).

(g) Amendment of Regulation No 2517/69 defining certain measures for the reorganization of fruit production in the Community

This amendment abolishes the ban on national aids which directly or indirectly encourage the replanting of orchards and apple, pear or peach trees. No Community assistance is provided for these national aids under Regulation No 2517/69.

This amendment is justified because it will encourage the conversion of orchards to other varieties more suitable for regional production conditions.

(h) Council Regulation on supplementary measures to encourage the formation of producer groups in the fruit and vegetables sector

The Commission intends to encourage the creation of producer groups by means of additional incentives, on the grounds that in certain regions of the Community the measures currently in force have not provided the necessary stimulus to establish these groups.

The Member States are to grant degressive aid to the producer groups for a period of five years following the date of their formation; the minimum amount of this aid from the first to the fifth year will be 2.5%, 2%, 1.5%, 1% and 0.5%, with a maximum of 5%, 4%, 3%, 2% and 1% of the total value of output placed on the market. Such aid may not exceed 90%, 80%, 70%, 60% and 50% respectively of the actual costs of setting up and running the producer groups.

(i) Amendment to the amended proposal (COM(77)228 final, 27.5.77) for a Council Regulation concerning producer groups and associations thereof in the olive oil sector

It is intended to extend the principle of initial aid for producer groups, already in force in other sectors of agriculture, to olive oil.

The lack of producer groups in this sector makes it more difficult to administer the aid and to distribute the advantages of the market support policy amongst all the producers.

One amendment is aimed at promoting the formation of producer groups on the following terms:

- the aid will be granted for five years
- it will not exceed 5%, 4%, 3%, 2% and 1% of the value of the output delivered by producer members of the group, and will not be less than 2.5%, 2%, 1.5%, 1% and 0.5% for the five years following recognition of the group.
- on the same principle, it may not exceed 80%, 60%, 40%, 20% and 10% of the actual expenditure incurred in setting up and running the group.

2. FINANCIAL IMPLICATIONS

(a) Programme for speeding up and providing expert advisory services for collective irrigation schemes in the Mezzogiorno

The total cost for the EAGGF Guidance Section is estimated as follows:

in m EUA

Year	Irrigation schemes	Advisers	Total
1978	-	-	-
1979	25	1.68	26.68
1980	45	1.68	46.68
1981	70	1.68	71.68
1982	70	1.68	71.68
1983	40	1.68	41.68
Total	250	8.4	258.4

Entry in the Budget: new heading to be opened in the Guidance Section.

(b) Programme for speeding up the restructuring and conversion of wine-growing in the Languedoc-Roussillon region

The total cost for the EAGGF Guidance Section is estimated as follows: in m EUA

Year	Restructuring	Irrigation	Conversion incentive	Total
1978	-	-	-	-
1979	13	3.7	5	21.7
1980	13	3.7	4.5	21.2
1981	13	3.7	4	20.7
1982	13	3.7	3.5	20.2
1983	13	3.7	3	19.7
Total	65	18.5	20	103.5

Entry in the Budget: new heading to be opened in the Guidance Section.

(c) Common measures to improve the infrastructure of certain rural areas

The total cost for the Guidance Section is estimated at:

Annual cost = 25 m EUA

Total cost of the measures 5 x 25 = 125 m EUA.

Entry in the Budget: new heading to be opened in the Guidance Section.

(d) Proposal for a Council Regulation amending Regulation No 355/77 on common measures to improve the conditions under which agricultural products are processed and marketed

It is estimated that the additional cost of this proposal is 42 m EUA per year.

The total cost of the measures is therefore 5 x 42 = 210 m EUA.

Entry in the Budget: Chapter 82, Art. 820, Common measures concerning the marketing and processing of agricultural products.

Item 8202, Marketing and processing of agricultural products.

(e) Common measures to promote afforestation in the arid Mediterranean regions

The annual cost for the Guidance Section is estimated as follows:

- forest roads	3 m EUA
- forest conversion	15
- erosion prevention	27.5
- forest inventory	0.4
- forestry research	0.4

Annual cost 46.3 m EUA

Total cost of the measures is 5 x 46 = 230 m EUA;

Entry in the Budget: new heading to be opened in the Guidance Section.

(f) Common measures to establish an agricultural advisory service in Italy

The cost of this measure cannot be calculated until a study has been made, but a provisional estimate gives the following breakdown of costs:

<u>Year</u>	<u>Salaries</u>	<u>Training</u>	<u>Instruction</u>	<u>Centres</u>	<u>Total</u>
1	-	-	-	-	-
2	2,52	0,3	0,24	1	4,06
3	4,68	0,34	-	1	6,02
4	6,48	0,38	-	1	7,86
5	7,92	0,41	-	-	8,33
6	9	0,45	-	-	9,45
7	9	0,45	-	-	9,45
8	9	0,45	-	-	9,45
9	9	0,45	-	-	9,45
10	6,48	0,15	-	-	6,63
11	4,32	0,11	-	-	4,43
12	2,52	0,08	-	-	2,60
13	1,08	0,04	-	-	1,12
Total	72	3,61	0,24	3	78,85

Entry in the Budget: New heading to be opened in the Guidance Section.

- (g) Amendment of Regulation No 2517/69 laying down certain measures for reorganizing Community fruit production

The national aid which will be permitted as a result of this amendment is not eligible for Community aid under Regulation No 2517/69. Part of this aid may be eligible under Directive 72/159 subject to certain conditions. In this case the expenditure would be entered under Item 8100.

- (h) Council Regulation on supplementary measures to promote the formation of producer groups in the fruit and vegetables sector

The additional cost of this proposal is estimated at:

Average annual cost: 2.13 m EUA

Total cost: 5 x 2.13 = 10.65 m EUA.

Entry in the Budget: Chapter 89, Article 890, Producer groups in the fruit and vegetables sector.

- (i) Amendment to the amended proposal (COM(77) 228 final of 27.5.1977) for a Council Regulation concerning olive oil producer groups and associations thereof

Assuming a marketed production of 440 000 tonnes and on the basis of a price paid to producers of 1 877.8 u.a./t the cost to the EAGGF, Guidance Section which represents 25% of Member States' expenditure will be 8 million EUA in 1979 to 1987 and 0.53 million EUA for 1979, the first year of application.

Summary of the cost of the Community contribution¹ to all the structural measures

Measure	1979	1980	1981	1982	1983	1984 and beyond	TOTAL
I. Irrigation in the Mezzogiorno	26.7	46.7	71.7	71.7	41.7	-	258.5
II. Restructuring of vineyards in the Languedoc	21.7	21.2	20.7	20.2	19.7	-	103.5
III. Infrastructure measures	25	25	25	25	25	-	125
IV. Amendment of Regulation No 355/77	42	42	42	42	42	-	210
V. Afforestation of arid regions	46.3	46.3	46.3	46.3	46.3	-	231.5
VI. Technical advisers in Italy ²	4.1	6.0	7.9	8.3	9.5	43.2	79
VII. Amendment of Regulation No 2517/69	-	-	-	-	-	-	-
VIII. Amendment of Regulation No 1035/72	2.13	2.13	2.13	2.13	2.13	-	10.65
IX. Amendment of amended proposal for a Regulation concerning olive oil producer groups	0.53	0.96	1.28	1.49	1.6	2.14	8
Total	168.5	190.3	217	217.1	187.9	45.3	1 026.15

¹The figures shown here are an initial estimate of the annual requirements in terms of commitments (they do not imply any given rate of entry in the Budget in the form of appropriations for payment). It is expected that for measures I, II, V, VI, VII and VIII the amounts entered in the Budget as appropriations for commitment and appropriations for payment will be identical. With regard to measures III and IV, however, the annual rate of payments will be slower and phased over a longer period.

²Provisional estimate.