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INTERIM REPORT

drawn up on behalf of the Committee on Agriculture

on the level of agricultural incomes

Rapporteur: Mr T.J. MAHER

PE 81.065/fin.

English Edition

At its sitting of 18 June 1982, the European Parliament referred the motion for a resolution tabled by Mr MAHER and others on the level of agricultural incomes (Doc. 1-372/82) pursuant to Rule 47 of the Rules of Procedure to the Committee on Agriculture as the committee responsible and to the Committee on Budgets for an opinion.

At its meeting of 12/13 July 1982, the Committee on Agriculture decided to draw up a report and appointed Mr MAHER rapporteur.

The committee considered the interim report at its meetings of 26/27 January 1983, 10 February 1983, 16/17 February 1983 and 24/25 February 1983. At the last meeting it adopted the motion for a resolution as a whole by 21 votes to 7 with 4 abstentions.

The following took part in the vote:

Mr CURRY, chairman; Mr COLLESELLI and Mr DELATTE, vice-chairmen; Mr MAHER, rapporteur; Mr BARBAGLI, (deputizing for Mr FRÜH), Mrs BARBARELLA (deputizing for Mr VITALE), Mr BLANEY, Mrs BROOKES (deputizing for Mr HOWELL), Mr CLINTON, Mr DALSASS, Mr DAVERN, Mrs DESOUCHES (deputizing for Mr EYRAUD), Mr DIANA, Mr GATTO, Mr GAUTIER, Mr HELMS, Mr HORD, Mr JÜRGENS, Mr LOUWES (deputizing for Mrs MARTIN), Mr McCARTIN (deputizing for Mr MARCK), Mr MERTENS, Mr MOUCHEL, Mr B: NIELSEN, Mr PROVAN, Mr STELLA (deputizing for Mr LIGIOS), Mr SUTRA, Mr THAREAU, Mr TOLMAN, Mr VERNIMMEN, Mr VGENOPOULOS, Mr WETTIG and Mr WOLTJER.

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

A

MOTION FOR A RESOLUTION

on the level of agricultural incomes

The European Parliament,

- having regard to the motion for a resolution tabled by Mr MAHER and others pursuant to Rule 47 of the Rules of Procedure on the level of agricultural incomes (Doc. 1-372/82),
- having regard to the Communication from the Commission of the European Communities to the Council of 17 March 1982 on differential rates of inflation and the common agricultural policy (COM(82) 98 final),
- having regard to the interim report of the Committee on Agriculture (Doc. 1-1327/82)

A whereas rates of inflation in a number of Member States of the Community have been at exceptional levels in the last three years, with a considerable increase in the disparity between national rates of inflation,

B having regard to the limited possibilities of putting an end to the disparity between inflation rates by means of agri-monetary adjustments,

C whereas agricultural incomes have declined relatively, and even absolutely, in a number of Member States over recent years,

D whereas certain countries cannot have recourse to devaluation as a solution, in view of the negative impact on the economy as a whole,

I. General Conclusions

1. Notes the complexity of analysing the problem of the relationship between inflation and agricultural incomes, and considers the approach of the Commission to have been insufficient to justify the conclusions drawn;

2. Rejects the Commission's principal conclusion concerning the absence of an impact of inflation on agricultural incomes;

3. Believes that high rates of inflation have contributed to a very serious fall in the income of farmers in a number of Member States over several years and that the impact of inflation has been felt differently according to the sector and size of farm, and with a different effect on the incomes of self-employed workers and employees;

4. Points out that the Commission's conclusions were based on comparisons of approximate indices covering a long time-span, for all products, and in ECU, which effectively camouflages the critical impact of inflation on agricultural incomes year by year, sector by sector and region by region, and according to farm size;

5. Underlines that the Commission's conclusions depend on past compensation by green rate awards for increased production costs in countries with high rates of inflation; and notes that the declared aim of the Commission is the elimination of green rates; emphasizes, furthermore, that the room for manoeuvre to offset inflation by green rate adjustment is now very limited or virtually non-existent in a number of Member States;

6. Points out that green rate adjustments represent a very imperfect instrument for influencing agricultural incomes through price changes, since, for certain countries, the effect is often felt too late; the resulting compensation does not correspond with sufficient precision to losses in income; and such adjustments make no distinction between the different circumstances facing farmers in various sectors;

II. Specific measures

7. Believes that the Community should introduce specific measures to counter the growing disparity between farmers' incomes in the various Community countries;

8. Considers that in the long term the most appropriate means of achieving these goals would be through greater coordination of economic and monetary policy; but accepts that in the short term it will not be possible to provide an adequate solution by such means to the pressing problems created for agricultural incomes by differential rates of inflation; believes, therefore, that it will be necessary to make provision for structural measures capable in the medium and long term of reducing the vulnerability of agriculture where the negative impact of high rates of inflation is greater. It will also be necessary, therefore to make provision in the context of other measures (such as the future integrated Mediterranean programmes) for investment aid to farms for land and crop improvement, the introduction of new technologies, the improvement of the marketing and processing of products and so on;

9. Believes that appropriate measures to reduce capital and running costs, directed towards helping those farmers facing serious problems, and based on a flat rate or ceiling, should include the following:

   (a) interest rate subsidies;

   (b) more flexible guidelines for derogations to fiscal aids for the most severely affected regions;

   (c) a greater differentiation of EAGGF financing in the forthcoming revision of the reform directives;

   (d) an EAGGF financial contribution to the running and capital costs, particularly for storage, fodder, land improvement and transport;

   (e) a package of special aids to improve the incomes of smaller farmers;

10. Believes that such measures could contribute the first step towards a more broadly based and coherent approach to the problem of improving the income situation of the most seriously affected regions, through the creation of a Rural Fund, intended to operate in all sectors of the rural economy;

11. Points out that monetary compensatory amounts have had the paradoxical effect of encouraging exports of agricultural products from countries with stronger currencies and normally lower rates of inflation, while penalizing those from the weaker currencies associated with high rates of inflation; calls, therefore, for the abolition of MCAs in order to restore fair conditions of competition between the Member States within the Community;

12. Believes that in coordinating measures to counter disparities in inflation the Commission should seek to integrate such measures in a more rational system of compensatory amounts, related more closely to the income needs of farmers, country by country, sector by sector, and according to farm size;

13. Requests the Commission and Council to give greater weight in decisions on agricultural prices to such differences in incomes, and the problems facing particular sectors and countries;

III. Improvement in future assessments

14. Welcomes the fact that the Commission is making, on an experimental basis, a number of improvements to the sectoral income index to take account of costs previously excluded and which have an important effect on agricultural incomes;

15. Regrets that the Commission has failed to use in drawing up its document the only harmonized instrument currently available, the Farm Accountancy Data Network;

16. Stresses the overriding importance of refining the FADN so as to improve its use as an instrument of income trend analysis; and believes it imperative that the FADN be used much more widely in policy formulation; for this purpose, urges certain Member States (Germany, France) to increase the number of their returning holdings in order

to make the FADN more representative according to region and type of production;

17. Believes it necessary at the same time to improve the definition of a macro-economic indicator which will allow an adequate assessment of the development of farm incomes;

18. Requests the Commission to revise its document so as to compare on an annual basis the changes in agricultural incomes by country, region, farm size and sector, on the basis of indicators calculated in national currencies;

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19. Instructs its President to forward this resolution to the Commission, the Council and the national parliaments.

EXPLANATORY STATEMENT

I. Introduction

1. In March 1982, the Commission of the European Communities published a study drawn up at the request of the Council of Ministers on Differential Rates of Inflation and the Common Agricultural Policy (COM(82) 98 final).

The principal conclusion of this document was to state that '... it does not appear that a higher than average rate of inflation has been associated with a lower than average rate of increase in agricultural incomes' (page 37, paragraph 7.1). This basic conclusion was given wide publicity and was generally accepted in the press as being correct.

2. This conclusion seemed so contradictory to the reality experienced by farmers in Member States with high rates of inflation that a Motion for a Resolution was signed by Members of the European Parliament (Doc. 1-372/82) expressing serious reservations and requesting the Commission to re-examine its conclusions.

The general conclusions were of such importance politically, it was decided that the European Parliament should draw up a report to evaluate their true significance. The Commission study must be considered as a first step in the debate and not as its conclusion. Parliament should now open a wide-ranging discussion on this subject.

The study of the Commission can be considered coherent if one accepts the underlying conception and the means chosen to estimate farm incomes.

But it is this underlying conception that cannot be accepted. The Commission bases its conclusion on averages over long-time spans, for all products, of costs and producer prices calculated in ECU. This approach camouflages completely the harsh economic reality faced by farmers in Member States with high rates of inflation.

Furthermore, the method used to calculate farm incomes, the Sectoral Income Index, shows rates of change of costs and returns of the farming sector as a whole. It shows therefore trends in value added from farming rather than the income of farmers.

In short, the Sectoral Index is not meant to be limited only to farmers, and it can be seen as a proxy, a 'guide' to long-term trends, but not as an accurate statement of changes of incomes of real farmers, year by year, particularly when such important elements as labour charges, rent and interest payments have been excluded.

The second problem of an approach that looks at the value added of the sector as a whole is that in attempting to deal with the incomes of all engaged in agriculture it measures the income of none, since the resultant index is an average of large and small, full-time and part-time, intensive and extensive, arable and poultry etc. In other words, no attempt is made to take account of the diversity that is to be found in the agricultural structure in all Member States.

The Treaty provides an obligation to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture (A39.1(G)). The Commission's study refuses to look at farmers as individuals with very different economic situations and problems. Yet one only has to glance at the agricultural statistics available to realise that the economic situation facing the various agricultural sectors in any Member State can vary considerably.

As the Commission in its 1982 Report on the Agricultural Situation in the Community points out, not only did the real net farm income fall particularly sharply in 1981 compared to 1978 in Germany and Ireland, and to a lesser extent the UK and Denmark, in contrast to the increases enjoyed by The Netherlands and Belgium, but significant differences were recorded as between the sectors : vineyards, fruit, cattle, sheep and dairy all lost ground in 1981 as compared to 1978. The following table, even though based on broad categories, provides an illustration of the necessity for us to deal with sectors. Exactly the same observations can be made concerning farm size.

Indices of net farm income according to type of production in 1978 and 1981 (1)
(1978 = 100 for all types of farming by country)

Member State	Index of net farm income									
	General farming (cereals - roots)		Permanent crops (vineyard - fruit)		Grazing livestock (cattle - sheep - milk)		Pigs and poultry		All types	
	1978	1981	1978	1981	1978	1981	1978	1981	1978	1981
D	156	119	128	36	105	72	156	99	100	77
F	134	119	178	114	80	70	142	116	100	82
I	66	58	115	91	159	145	×	×	100	86
NL	78	78	178	210	83	76	66	118	100	107
B	149	144	113	143	81	87	80	82	100	102
L	×	×	×	×	115	112	×	×	100	96
UK	166	154	×	×	67	48	191	124	100	77
IRL	100	67	×	×	98	66	×	×	100	67
DK	92	86	×	×	115	74	×	×	100	77
EUR 9	100	89	108	81	104	86	191	199	100	83

(1) Commission of the European Communities, Agricultural Situation in the Community, 1982 Report, p. 113 (Source : FADN)

Income trends by Member State 1973-1981

We give below a picture of the income trends taken from the national accounts. These reveal the deterioration in incomes for the majority of the Member States from 1978, and the very serious situation created for countries such as Ireland which have not been able to offset very sharp increases in costs by means of Green Rate devaluations. The impact of high interest rates is also a common theme in countries with high rates of inflation.

Belgium

In Belgium, the index of the incomes in the agricultural sector increased from 92.9 in 1974 (1972-73 = 100) to 126.6 in 1980. The index of national income per employed person increased from 121.8 in 1974 to 210.7 in 1980. This shows that incomes in the agricultural sector have progressed at a considerably slower rate than incomes in the other sectors of the economy.

Very large disparities exist between regions (up to 150%), production sector (125%) and farm size (10% of the farms received 1% of the total revenue).

Germany

In Germany, the agricultural incomes increased between 1972/73 and 1975/76. Over the last five years there is a deterioration due partially to the worsening of the general economic situation, which has made it more difficult for people to leave farming for employment in other sectors. A comparison by region shows a difference between the average income in the different 'länder' of about 25%. The difference in income according to size of holding shows that the ratio between the highest quarter and the lowest quarter increased from 1974/75 to 1979/80 from 1/6.1 to 1/7.6.

Denmark

The national statistics on Danish agriculture reveal a serious decline in farming incomes since 1978 due to increases in costs outpacing increase in returns.

The situation has varied considerably according to sector, being most noticeable in the dairy and mixed farming sectors, while in recent years mixed cropping and pigs and poultry have shown an increase.

Similarly the decline in incomes seems to have been greatest in the smallest (less than 10 hectares) and largest (more than 100 hectares) enterprises.

We can also see that the trends, calculated in standard gross margins, vary from region to region.

Greece

During the last decade, using net value added as an indicator, there has been an increasing trend in the development of agricultural incomes in Greece (income per head).

During 1973-80, net value added (nva) increased by 17.3% per year, from 76,022.5 m.drs to 232,938.7 m. drs. During the same period, the consumer price index increased by a yearly average of 17.5%, while according to OECD estimates the agricultural population of Greece decreased by 2%.

The fear now is felt that the abolishment of income subsidies, connected with unsatisfactory guarantee prices would further erase any positive development in agricultural incomes.

France

Agricultural incomes in France have fallen considerably since 1978, and even though the forecasts for 1982 point to a recovery it will not be enough to cover the losses suffered in the past few years. Although the 1980 figures show a sharp increase in incomes in some sectors (e.g. rearing of beef cattle, lines of production independent of land), incomes in the wine, cereals and fruit sectors have declined considerably.

Incomes per region however have levelled out in a downward direction. In 1981 in fact the difference between regional earnings fell from 1:5 to 1:3.3.

Ireland

In 1973 per capita incomes in Irish farming were over 60% greater than in 1970. This rising trend in incomes came to an abrupt halt in 1974 with the collapse of cattle prices but recovered quickly to show in the years up to 1978 an increase of almost 55%. 1978, however, proved to be a watershed, and since that date producer prices in national currency have been below, until 1982, the prevailing rate of national inflation and have not compensated for increases in the prices of agricultural inputs. The situation has been rendered more critical by the sharp increase in the level of indebtedness after Irish entry into the EEC, followed by subsequent increase in interest rates. Total interest payments as a proportion of total farm incomes increased from 10% in 1974 to 30% in 1980. Coupled with a mere 3% rise in product prices, and a 29% increase in farm costs, it is easy to see why the rising trend in farm incomes was reversed so dramatically.

Italy

Agricultural incomes were maintained despite the high rate of inflation at least until 1978-79 because constant devaluation of the green lira made it possible to cover high production costs. From 1979 on incomes fell and seem to have recovered only in 1982.

Income differences between region and product are particularly noticeable in Italy. The fruit and vegetable and wine sectors, with their high ratio of hired workers (because of the sharp increase in the cost of labour) and hill and mountain farming, which accounts for more than 70% of utilized agriculture area (uaa) in Italy, have been particularly hard hit.

Luxembourg

The main factor to be borne in mind when analysing agricultural incomes in Luxembourg is the constant decrease in the number of farms. Agricultural incomes fell sharply in 1976 and again in 1980 but subsequently recovered even though Luxembourg farmers had to cope with the devaluation of the Belgian franc in 1982 which led to an increase in production costs. Mixed stock farming (cattle and pigs) seems to be the most profitable (22% higher than the average income) whereas earnings from general (mixed) farming, including cattle rearing, fell (18% below the average).

Netherlands

In the Netherlands, the purchasing power of agricultural incomes was still 16% lower in 1981 than it was in the period 1972/73/74.

The average return of holdings varies considerably from sector to sector (50% more income in crop-farming than in dairy farming) and in accordance with the size of farm (up to 200% difference between small-sized and large-sized farms).

United Kingdom

Agricultural incomes in the UK developed satisfactorily until 1976, but then declined sharply until 1980. Improvements in 1981 did not manage to bring incomes back to the 1976 level. The decline in incomes has been due to substantial increases in costs, particularly of borrowing money. This decline was achieved despite a 36% increase in labour productivity (15% over the economy as a whole) in the past decade. But since agricultural producer prices did not keep up with the economy as a whole, gross profits declined by 28%. Despite the resurgence since 1976, gross profits increased by only 5%, while the retail price index almost doubled. The national figures camouflage striking differences between England on the one hand, and Scotland, Wales and Northern Ireland on the other. Hill and upland farms, lowland cattle and sheep farms were particularly hit.

Green Rates

On a slightly different note, one should point out that the conclusions of the Commission depend on the very substantial additional price increases awarded in the past to devalued currencies. And in arriving at conclusions based on the past situation, the Commission could give the impression that those conclusions apply to the future. This ignores a critically important event that took place in recent years: the changeover from the agricultural unit of account to the ECU. The fluctuations of the agricultural unit of account had been determined largely by the German mark, which led to an automatic annual increase in common prices. Countries with weaker currencies, being left behind by the steady increase in the value of the DM and common prices, obtained each year further negative MCAs, so allowing for a further price increase. With the introduction of the EMS and the ECU, the upward drift of common prices has been reduced, and with it the room for manoeuvre for countries with weaker currencies to offset inflation through Green Rate devaluations.

It is important to note that Ireland faces a particular problem due to the importance of her trade with the UK. About 45% of total Irish trade is with the UK and about 18-19% with Denmark. She imports a major part of her agricultural inputs from Britain.

Ireland is a member of the European Monetary System and the UK remains outside the exchange rate mechanisms of the EMS. Since the break of the link between the Irish pound and the British pound the Irish pound now trades at about 83% of sterling. This adds a very significant cost factor to Irish imports from the UK and some commentators have claimed that the element of 'imported' inflation due to the currency divergencies between the pound and the punt is as high as 9%.

The British themselves have had to deal with a currency whose value has been inflated by income from oil, which has also led the UK to become the only country with both a relatively high rate of inflation and positive MCAs. Whereas adjustment of the MCAs permits Germany and Holland to enjoy real price increases broadly in line with inflation, the UK has been left with a very significant under-compensation for inflation.

Proposed measures

It is, of course, not sufficient for the European Parliament to re-open the debate on this topic. The central problem is to determine what should be done in concrete terms to fulfil the obligation of the Treaty to increase the individual earnings of those engaged in agriculture in a situation of varying rates of inflation.

The problem arises initially from the differences in the economic performance of the Member States, differences which are reflected in the very great variations in rates of inflation, and the difficulty of achieving the same degree of integration on the monetary spheres as has been achieved in agriculture.

The basic solution would be to achieve in those areas which are lagging behind in the process of integration the same degree of integration achieved for example in the agricultural sector. In practice this means that the European Monetary System should be developed to the point where there would be a single currency in Europe; where there is only one currency, problems of inflation rate differentials will be minimized. But this would require a transformation of the Community, since exchange rate adjustments allow for variations in economic performance. Deprived of this mechanism, the Community would need to introduce alternative means of ensuring a reasonable distribution of resources, a 'Regional' fund of as yet unimagined proportions.

In the lengthy period leading up to this final stage of integration, we must decide what is to be done for the one sector where integration has been achieved, that is, agriculture.

At the same time we must reflect on the problem of what can be done in the period leading up to total integration. The first requirement is to exert pressure for economic policy to reduce the difference between inflation rates in the Member States. But the structural differences of the Member States are such that while they may achieve some success in reducing inflation, it is unlikely that this will eliminate significant differences between the rates.

So if it proves impossible to close the gap between rates of inflation, other measures must be worked out. The choice of the final instruments selected would depend on the degree to which we are ready to infringe the principle of the single price, The dilemma confronting us therefore is to establish the instruments to safeguard the incomes of farmers particularly affected by inflation without infringing the principle of the common market and the common price. For this reason we should concentrate on measures :

- to offset those exceptionally high running costs particularly affected by inflation, for example, costs of transport and storage;

- to assist farmers to finance investments which can no longer be provided from (non-existent) farm profits particularly through lowering the costs of borrowing money and overall investment costs; this could be achieved by interest rate subsidies or increased financing from the EAGGF for farm improvements;

- to assist farmers to improve their returns from the market, through aids to cooperatives, reinforced Community policies to improve marketing and processing and improvements to market organizations of the products of regions concerned.

It should be emphasized that a strengthening of the structural measures employed in the past may not be sufficient to aid farmers whose basic problem is that high inflation rates have so undermined the profitability of their enterprises that the farmer may be obliged to use up his reserves of capital and even to engage in de-stocking and other negative investments. In such situations, a package of special aids to smaller farmers to improve the economic situation of their enterprises should be introduced.

II. Methodological problems

(a) Sectoral income index

The most important criticisms of the Commission's document concern the statistical methodology employed in attempting to measure the possible relationship between farm incomes and inflation in the Member States of the Community, and in particular the deficiencies of the income measure used in the study. Alternatives will be briefly discussed.

Section 4.1 of the document states:

'The indicator used for evaluating the development of agricultural incomes in the Community is the 'sectoral income index' which indicates the development of agricultural net value added at factor cost per agricultural work unit.'

This statement raises three fundamental questions:

(i) Is the sectoral income index an efficient indicator of agricultural incomes?

(ii) What is an agricultural work unit?

(iii) Are there any other measures available which may be more efficient?

The sectoral income index is calculated as follows:

Final production

− Intermediate consumption

= Gross value added at market prices

+ Subsidies

− Taxes linked to production

= Gross value added at factor cost

− Depreciation

= Net value added at factor cost

x Implicit price index of Gross Domestic Product at market prices

= Real net value added at factor cost

÷ Agricultural labour force

= Real net value added at factor cost per capita

= (Sectoral income index)

The relevant calculations are carried out by either the Member State or by experts in the Member States, using national data. All data is considered in terms of _changes_ over the previous year. No value data is available so that no comparisons can be made of the absolute levels of net value added in each Member State.

The immediate question to be answered is whether the sectoral income index is an efficient indicator of agricultural income? Or, in other words, can an indicator of income which takes no account of labour charges, rent or interest payments be considered as representing the income of those engaged in agriculture? This limitation is recognized by the Statistical Office of the European Communities but they maintain that the index is a good _proxy variable_ for agricultural income, i.e. it is a variable which may be expected to show the same changes and variations as income without necessarily having the same absolute value. To illustrate the point further, it is often said that housing-starts are a good proxy variable for the level of overall activity in an economy, so that if one is plotted alongside the other, the resultant graphs will coincide closely - i.e. they will change in the same direction at the same time.

Unfortunately, the Commission paper makes no attempt to explain that the index is used as a proxy variable and does not therefore test its suitability nationally before using it on a Community-wide basis.

(b) _The Agricultural Work Unit_

In the Commission's report, several expressions are used when referring to the labour input of agriculture. These are :

(a) Agricultural Work Unit (Section 4.1)

(b) Labour Unit (Annex 3)

(c) Persons employed (Annex 3)

(d) Annual Work Unit (Annex 2)

(e) ALU (Annex 2)

(f) Per head (Annex 5)

It is probable that it is intended that all of these terms do, in fact, amount to the same measure although what that measure is is not explicitly stated.

It is ironical that none of the various terms listed above corresponds exactly to that used by the Statistical Office in their document explaining the Sectoral Income Index. They, in fact, use the term 'per capita' throughout their document. This is also not entirely satisfactory in statistical terms since per capita normally means 'per person of whatever quality'. Thus, normally a per capita measure implies equal weighting for man, woman, child, full-time or part-time worker.

It is thought, however, that the use of the term 'per capita' is deliberately vague because the Statistical Office is by no means sure of the measure used by each Member State in compiling its Sectoral Income Index. In fact, it does not solicit this information from the body used to prepare the calculation but asks only for their 'best estimate' of the labour force in their country.

All countries are requested by the SOEC to use the Annual Work Unit as defined for the Community Survey on the Structure of Agricultural Holdings as follows :

> 'The annual work unit refers to the labour input of a person employed full time for agricultural work on the holding.
>
> Full-time employment means a minimum of 2200 hours per annum for the holder and his/her spouse.
>
> For the rest of the labour force, full-time employment means the minimum hours required by the national provisions governing contracts of employment. If the number of hours is not specified in these contracts, then 2200 hours is to be taken as the minimum figure ...
>
> The activity of part-time labour is converted proportionately into AWU ...[1]

III. The reality of the agricultural situation

One basic problem of the Commission's approach is that it does not allow us to discern the problems facing farmers in the Community. In dealing with trends in the agricultural sector, we overlook the economic realities facing particular farmers.

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[1] (Source: Community Survey on the structure of Agricultural Holdings 1975. Volume 1, Eurostat, 1978). However, it is by no means certain that this definition is used by each Member State for their Sectoral Income Index calculations.

(a) The problem of averages

The major drawback of the Commission's document is that it takes no account of variations which occur according to the size and/or type of farm. A single, average, figure for each Member State inevitably combines the efficient with the inefficient, the large with the small and the extensive with the intensive so that in the final analysis the resulting figure is representative of no real type of farm; just an 'average' which does not exist in reality.

(b) The selection of the time period

The Commission's report places too much importance on the period between 1973 and 1981; it should in fact have concentrated on the trend in the last three years which will directly influence the future.

(c) Level of income and income variation

A further problem arises from the fact that there exist insufficient data in some countries on the level of incomes, so that the Commission's study is based on rates of variation without any consideration of absolute levels of income. Clearly levels of income influence the possible rates of variation.

Furthermore, given the wide variations in income between sectors and regions, one can imagine a situation where a sector or region catching rapidly up from a very low base (particularly in the case of a country recently adhering to the Community) could give a false impression of trends for the country as a whole.

(d) Agricultural structures and income trends

The Commission's communication does not take sufficient account of the various factors affecting income trends. To consider a percentage variation alone is to distort the true situation in each country.

Differences between initial levels of incomes, the varying impact of labour costs, the change in production structures over the last ten years and productivity : these factors, which are not within the scope of the Sectoral Income Index, might have played an important part in defining the relationship between inflation and agricultural incomes. However, it seems that the Commission did not take them into consideration.

The fact that net value added per unit of total agricultural labour (Annexes 3 and 4) in Greece for example, should be much higher than in

1974 is no less unfavourable than the situation in Germany where there has been a decline since 1974 but where the starting point was more than twice that in Greece.

(e) Importance of salaried workers in certain countries

The Commission's report considers agricultural income as value added at factor cost per work unit. This concept of gross income includes farm workers' incomes, which can follow different trends from those of the non-hired work force; they are a production cost just like the other factors of production, viz. the cost of borrowing capital and renting land.

The exclusion of labour costs from production factors completely distorts the cost/benefit ratio, and the justification put forward in the document (para 4.4) is inadequate.

This would be particularly serious in countries where paid workers play a larger part.

(f) Agricultural and non-agricultural incomes

The Sectoral Income Index provides information on the agricultural sector as a whole, without distinguishing between those whose incomes are wholly from agriculture and those only partially dependent on agriculture for their livelihood. This may distort the final picture we receive, and by not showing separately the trends for full-time and part-time farming, make it more difficult to elaborate the policies required to encourage the economic development of the rural areas.

IV. The use of different sources of information

In an attempt to remedy the lack of information on the real income situation reference is made by the Commission to the income figures available from the Farm Accountancy Data Network (FADN) where the latest available data at the time of writing were for 1977/78. No mention is made of the fact, however, that the FADN, which is a micro-economic instrument, uses different income concepts from those of the Sectoral Income Index. Moreover, the representativeness of the sample varies considerably from country to country. The sample of agricultural holdings selected for the FADN is based on a minimum economic size, determined by regulation, which varies from one Member State to another. The sample is not so representative of small, non-professional, holdings.

V. Alternative measures

(a) Improving the existing approach

One major criticism which could be levelled at the Commission in using the average Sectoral Income Index is that it is a much too highly aggregated measure to fulfil the purpose for which it is intended - to measure changes in the incomes of all those engaged in agriculture in each Member State. In fact, in attempting to measure the income of all those engaged in agriculture it measures the income of none since the resultant index is an average of large and small, full-time and part-time, intensive and extensive, arable and poultry, etc. In other words, no attempt is made to take account of the diversity that is to be found in the agricultural structure in all Member States.

This omission is even more marked when one considers that detailed statistics exist for each major type of farm enterprise in each Member State in the Sectoral Income Index document prepared by the Statistical Office.

But, if a more detailed measure is not possible for whatever reason, can the existing global measure be improved without drastically changing the methodology?

COPA considers that this is possible (Document ES(82)2 revised 12 February 1982). They suggest that taking net value added at factor cost as a starting point, one can improve the measure by taking account of the following expenses :

Net Value Added at Factor Cost
- Wages
- Rents
- Interest on loans
= Net Agricultural Income of holders and their families.

They then suggest that the income figure be expressed per farmer using the concept of annual work units.

COPA attempts a comparison of the two measures based on their own calculations and these show a very different picture to that of the Commission. However, it is not possible to verify their figures since no sources are listed.

(b) Use of the FADN

It would seem at first glance that the Farm Accountancy Data Network (FADN, or more usually known by the French initials RICA) of harmonized

Community statistics covering farm returns, costs and labour income provides the ideal instrument. There are, however, a series of problems.

These annual surveys, conducted on a selected sample of agricultural holdings, cover most of, but not all, the agricultural sector. The scope of the FADN covers holdings exceeding a certain economic size, mainly with a sales-orientated managerial structure and constituting the basis of the owner's main activity. Thanks to the stratification of the FADN sample and the weighting of data, it can be considered representative of nearly 80% of workable agricultural land in the EEC (up to 95% in some Member States), some 60% of the work force (more than 90% in some Member States), nearly 90% of the total gross margin of agriculture, more than 80% of wheat production and more than 90% of dairy production. There are some doubts about the full representativeness of the FADN in some Member States, more particularly at the regional level or as regards certain types of holdings.

One of the main problems encountered by the FADN concerns the calculation of imputed interest charges for some items although interest paid on loans constitutes one of the major factors that have determined the evolution of agricultural incomes in a number of countries in recent years.

The FADN permits calculation of the cost of total capital and of capital owned by the farmer. For this purpose an imputed interest charge is used. The determination of the rate of interest is a difficult matter which can obviously influence the calculation of certain concepts of income.

Another approach takes account of the rates of interest actually paid by famers on borrowed capital. The Commission recently agreed arrangements with the Member States designed to improve the compilation of these data, the aim being to have figures which correspond to two approaches, one considering the farmer regardless of his personal financial situation, and the other taking account of real returns on borrowed capital.

As a result of these problems there is general agreement amongst experts in this field that a number of elements in the FADN are open to discussion, in particular the notional rates of interest used for loans designed to purchase working capital and the fact that other major cost elements are excluded from the calculation.

There is one more point of considerable importance. The FADN does not include the non-agricultural incomes of those in agriculture, and these non-agricultural incomes can be of considerable importance for certain farmers, particularly in certain countries. Such information could be included in an accounting network and would be extremely useful for working out the most appropriate rural policies for those regions currently facing very serious economic and social problems.

(c) National surveys of the agricultural labour force in the Member States

Perhaps the problem of the measurement of the labour input into agriculture could be solved to some extent by using this survey. Unfortunately, however, there is a lack of harmonization of the survey methodology and definitions used in the various Member States. This statistical material is not automatically made available to the European Community institutions, and hence to the Commission.

VI. The Reflections of the Commission

The Commission, in its working document, 'Indicators on Farm Income',[1] examines the instruments now available, their advantages and disadvantages, together with possible improvements.

Two basic approaches are compared (a) macro-economic data on production and cost trends in the agricultural sector, and (b) micro-economic data obtained from surveys of the accounts of selected farms (the FADN).

The analysis of the Commission is clear; the conclusions less so. In general the Commission gives the impression that the sectoral income index, developed by the Commission to put macro-economic data on a *per caput* basis and which is presented before the preparation of the annual price proposals, should remain the principal instrument. The Farm Accounts Network is to be maintained as a parallel instrument, but it is to be used for more detailed studies of the income situation of the various types or sizes of farms, with the risk that we have seen so far that it will not be used for elaborating general economic policy.

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[1] VI/308/82, 20 October 1982

Clearly the instrument to be chosen must depend on objectives. We must be concerned to develop a reliable instrument able to facilitate political choices. To do this, the indicator must show problems faced by real farmers. Since the nature and severity of these problems vary enormously, the selected instrument should provide an image of the problems faced by the different sectors, regions and size of farm.

The possibility of indicators existing side by side can only create confusion and slow down progress towards developing a practical instrument. If parallel instruments exist, there will always be a temptation to switch from one set of figures to another according to political expediency. Incertitude creates confusion, undermining confidence in the instruments themselves. Argument based on different sets of figures engenders stalemate rather than progress.

Parallel instruments also make it more difficult to achieve constructive improvements. Any instrument must have weaknesses. It needs to be refined over time. But if we do not select one principal instrument, there will be no incentive for all the interested parties to reach agreement on improvements. And without a concensus on the basic source of information, no serious political debate can take place.

There must remain doubts concerning the Commission's choice. The Treaty refers to ensuring reasonable standards of living to farmers and increasing the individual earnings of persons engaged in agriculture.

The Sectoral Income Index of the Commission does not show the absolute level of agricultural incomes, therefore how can one judge the standard of living; nor does it give any information concerning trends of incomes of real farmers. The Sectoral Income Index shows rates of change from one calendar year to another of the differences between costs and returns of the purely agricultural activity of the agricultural sector as a whole.

The FADN looks, however, at the level of earnings of individual farmers. It allows for a more refined concept of income and examines the incomes of farmers rather than trends in value added from farming. The Commission notes that 44% of farmers devoted less than 50% of their labour to the holding and that therefore income of non-agricultural income is an essential ingredient of the family budget. Moreover, disposable income actually available to the farmer and his family is generally influenced by other factors, taxes, social security systems etc., whose effects are not always easy to discern.

The Commission has outlined improvements to the net value added approach to measure more precisely the 'net income from the agricultural activity

(DOCUMENT 1-372/82)

MOTION FOR A RESOLUTION

tabled by Mr MAHER, Mr CURRY, Mr DELATTE, Mr CLINTON, Mr PAPAEFSTRATIOU, Mrs BARBARELLA, Mr VITALE, Mr GAUTIER, Mr PANNELLA and Mr MICHEL

pursuant to Rule 47 of the Rules of Procedure

on the level of agricultural incomes

The European Parliament

A - having regard to the decision of the European Council, meeting in London on 26 - 27 November 1981, to request the Commission to study 'the particular problem for farm incomes arising from differential rates of inflation',

B - having regard to the Communication from the Commission to the Council of 17 March 1982 on differential rates of inflation and the common agricultural policy,

C - having regard in particular to the mandate given to the Commission to seek solutions to the problem of the disparity in incomes which results _inter alia_ from the existence of differential rates of inflation,

D - having regard to the fact that there is some discrepancy between the Commission's analyses of the development of agricultural incomes in the various Member States as set out in the above communication and the conclusions it draws from them,

E - having regard to the need to adopt specific measures to eliminate the growing disparity between farmers' incomes in the various Community countries,

1. Requests the Commission to review some of the conclusions it reaches in the above document with a view to assessing more accurately the relationship between support prices and agricultural incomes, taking account of the existence of differential rates of inflation;

2. Instructs its President to forward this resolution to the President of the Commission of the European Communities.