

Newsletter on the Common Agricultural Policy

Weekly

No. 2

July 1967

COMMUNITY PROGRAMMES  
FOR THE  
GUIDANCE SECTION  
OF THE  
EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND

-----

## CONTENTS

### The Community programmes will help to integrate agriculture into the economy as a whole

	<u>Page</u>
INTRODUCTION	
I. The fundamental problem of the adaptation of agriculture in an expanding economy .....	2
II. Procedures and instruments of structure policy as part of the common agricultural policy .....	3
1. Co-ordination of national policies .....	3
2. The EAGGF Guidance Section .....	4
III. The Community programmes .....	5
1. Selection .....	6
2. Nature of the operations envisaged .....	7
3. Areas of main effort and priority yardsticks .....	9
4. Financing .....	10
5. Duration .....	11
6. Concluding remarks .....	11
IV. Community programmes (table) .....	12

The Community programmes will help  
to integrate agriculture  
into the economy as a whole

I N T R O D U C T I O N

I. The fundamental problem of the adaptation of agriculture in an expanding economy

Economic growth, which stems from technical progress, entails constant changes in needs, in supply and demand and in the relative prices of consumer goods and the factors of production. Consequently, it necessitates continual adjustments to production and marketing facilities both within particular industries and also between different industries and areas.

Such adjustments are prompted by the differences that arise in the remuneration of factors of production from one firm, industry or region to another. They may, however, be seriously hampered by structural factors of a social, economic or physical nature. Such obstacles are frequently found in agriculture, an industry that was long cut off from the rest of the economy and is still not fully integrated.

In view of the state of the markets and the need to develop trade with non-member countries, there is no likelihood of any general increase in the prices of agricultural commodities. So the urgent need to improve agricultural incomes can only be met if there is an improvement in agricultural productivity, particularly labour productivity.

The decline in agricultural manpower leading to a better farmworker/farm ratio is the key factor in agricultural productivity. But the substantial benefits this decline can produce will only accrue if at the same time production conditions and farm structures are adapted in such a way that the factors of production may be combined more efficiently.

.../...

Similarly, an improvement in the pattern of marketing could help to improve the position of agriculture. Such an improvement is imperative in many areas, either because the pattern of marketing is inadequate or ill-suited to current needs, or because new crops are to be developed. Rational marketing has a favourable effect on outlets, by supplying quality produce at a time and in a form that suits the consumer. This offers a wider margin for increasing and improving output. Moreover, improvements to marketing will provide opportunities for certain increases in agricultural prices which are considered necessary for the proper remuneration of production and which it is thought agricultural markets can stand, without consumer prices being affected.

## II. Procedures and instruments of structure policy as part of the common agricultural policy

The Community institutions have been given two tasks :

- (i) To bring about the co-ordination at Community level of the Member States' policies on agricultural structure;
- (ii) To help finance schemes to improve the pattern of farming which will directly contribute to the realization of the common agricultural policy.

### 1. Co-ordination of national policies

The Council decision of 4 December 1962 provides for the co-ordination of the member countries' policies and states, as a guiding principle, that efficient agricultural structures should be developed, account being taken of the balance of agricultural markets and regional economic development.

The procedures open to the Commission, assisted by the Standing Committee on Agricultural Structure, are :

- (i) The exchange of information on structure policy between the Member States and the Commission - a sine qua non for the harmonization of national policies in accordance with Community principles;
- (ii) Compulsory notification by the Member States of draft laws and regulations relating to the structure of farming and of draft long-term plans and regional programmes, on which the Commission may express its opinion;
- (iii) The presentation by the Commission of an annual report on structures to the Council, designed to provide basic information and set out the reasons for the measures that will be proposed to the Council with a view to co-ordinating the Member States' policies.

Regulation No. 17/64/CEE (1) on the conditions governing aid from the European Agricultural Guidance and Guarantee Fund requires the Standing Committee on Agricultural Structure to issue formal opinions on applications for aid from the Guidance Section of the Fund. This is to ensure that the co-ordination of national policies and Community financing of schemes to improve the pattern of farming have the same objectives in view; before pronouncing on financing decisions contemplated by the Commission, any given Member State will have to consider the policies of the other Member States.

## 2. The EAGGF Guidance Section

The European Agricultural Guidance and Guarantee Fund, and in particular its Guidance Section, is an important instrument of structure policy. The Fund was set up by Council Regulation No. 25, with detailed operating provisions in Council Regulation No. 17/64/CEE.

The operations of the Guidance Section cover :

- (a) The adaptation and improvement of the conditions of production in agriculture;
- (b) The adaptation and guidance of agricultural production;
- (c) The adaptation and improvement of marketing;
- (d) The development of outlets for agricultural products subject to Community market regulations.

Any public, semi-public or private scheme may be eligible for aid from the Fund provided that it is intended to improve the structure of agriculture. It must then satisfy the following general requirements :

- (i) It must form part of a Community programme;
- (ii) It must be intended to effect an adaptation or orientation of agriculture necessitated by the implementation of the common agricultural policy or designed to meet its requirements;
- (iii) It must provide adequate assurances as to its lasting economic effects.

Any project relating to agricultural production must satisfy the following additional requirements :

- (i) It must be intended to make or to keep agricultural holdings economically viable and to enhance their competitive capacity;
- (ii) It must pay sufficient attention to advisory services and vocational training;

.../...

---

(1) Official gazette of the European Communities No. 34,  
27 February 1964.

(iii) It must contribute to improving the social and economic situation of workers in agriculture.

In granting aid, the Fund gives priority to projects that form part of a group of measures intended to promote the harmonious development of the overall economy of the region in which these projects are to be carried out.

The Community programmes of which projects to improve agricultural structure must form part if they are to be financed by the Guidance Section of the Fund must take into account measures adopted by the Council with a view to the co-ordination of structure policies. This again confirms the Council's intention to establish a close link between Community financing of certain agricultural investments and the co-ordination of Member States' policies in such a way as to ensure an effective and coherent policy on agricultural structure within the Community.

### III. The Community programmes

As mentioned above, Regulation No. 17/64/CEE lays down that, to be eligible for aid from the Fund, each project must form part of a Community programme; any such programme is required to stipulate the objective to be attained and the nature of the operations envisaged, the areas where the main effort is to be brought to bear, and the total cost and the period of time envisaged for putting the programme into effect.

As the Community is only to finance investments that can be justified on economic and social grounds - as regards both the nature of the operations and the place where they are to be carried out - the Community programmes should ideally have been based on regional studies of the social and economic situation of agriculture and on forecasts of developments in the light of the common policy on prices and markets and of the trend of the economy as a whole.

This would have assured the Community programmes of maximum efficacy as instruments of the common agricultural policy by channeling Community aid towards schemes that would be broadly in line with this policy and towards areas where the need for adjustments and innovations is most urgent. However, the experience so far gained and the studies available are not yet sufficient to enable Community programmes to be drawn up along these lines, and the Commission has therefore had to make do with temporary solutions.

In future, it will certainly be necessary to study in detail the regional trends in agricultural production and agricultural structures and the competitive position of the various areas in relation to the common policies on agricultural markets and prices, the regional pattern of economic growth and regional economic policy.

## 1. Selection

The following considerations have guided the selection of Community programmes from among the schemes proposed :

- (a) The programmes must be intended to adapt or reorient agriculture as necessitated by the economic consequences of the implementation of the common agricultural policy or designed to meet its requirements. The consequences in question relate not only to the implementation of the common policy on agricultural markets and prices - which makes it necessary, for example, to stagger supplies and stabilize quantities and prices - and the needs arising from the growth of trade between member countries, but also to the attainment of the central objective of the common agricultural policy, which is to increase productivity in order to ensure a fair standard of living for the agricultural population.
- (b) The fields to be covered by Community programmes should preferably be those that at present constitute serious obstacles to the adaptation of agriculture to an expanding economy and seriously hamper the earning of reasonable incomes in agriculture; account must be taken, however, of the wide variety of situations encountered and the extent of the deficiencies noted.
- (c) Community programmes must take into account the measures adopted by the Council within the context of its decision of 4 December 1962 on the co-ordination of agricultural structure policies. They must therefore both guide agricultural structure policies at national level and also help to co-ordinate them at Community level.
- (d) The programmes taken together must reflect the relative importance that should be attached to operations aimed at adapting the conditions of production and the pattern of marketing, for the reasons for low incomes are bound up both with the structure of the marketing of farm produce and with the structure of production. A marketing structure that did not ensure producers stable outlets and prices consonant with the financial advantages they hope to get from their output would make it impossible for them to earn reasonable incomes - even on economically viable farms with optimum production conditions. Similarly, rational marketing of farm produce is not enough in itself to ensure reasonable incomes if production is based on defective structures, resulting in unit costs that seem excessively high in the light of modern techniques and rational working methods.
- (e) In order to reduce the risk of misdirected investments being financed by the Community and to avoid their unfavourable repercussions on markets, the main emphasis in the first set

.../...

of Community programmes should preferably be put - in the absence of sufficiently precise information on the effects of the common agricultural policy - on schemes designed to improve the conditions of production and marketing. This does not mean, however, that the proposed Community programmes have neglected the reorientation of agricultural production. Provision has been made for this particular type of operation in one of the following forms :

- (i) Promotion of reorientation proper (Programmes I, IV, VII, VIII, IX and X);
  - (ii) Promotion of improvements in marketing structure, which may be found necessary following the reorientation of production (Programmes I, V, VI, VII, VIII, IX and X);
  - (iii) Creation of the basic conditions required for the reorientation of production (Programmes I, II, III and X).
- (f) In accordance with the Council's instructions, account has been taken of the need to improve structures in Italy and Luxembourg.
- (g) The overall economic situation of agriculture conceals substantial localized structural deficiencies in certain types of farm and in whole areas; this justifies the presentation of a Community programme for the development of agricultural regions that are backward or in difficulties. The pragmatic idea of programmes involving different operations in different areas is therefore supplemented by an approach which is directly inspired by the concern, expressed in the preamble to the Treaty, to mitigate the backwardness of the less-favoured regions.

The application of these general principles has led to a first set of ten Community programmes being selected and proposed; these are listed on page 19 below.

## 2. Nature of the operations envisaged

The Community programmes that the Commission proposes to adopt have been drafted on the basis of certain key measures that are needed to improve the pattern of farming; thus they have something in common with the Member States' present practice - and will therefore be easier to put into effect.

The risk that such a procedure might encourage isolated measures, rather than complex measures for the combined improvement of agricultural structure, is neutralized by the fact that the proposed Community programmes also include :

- (i) related measures eligible for aid;
- (ii) horizontal links between certain programmes;
- (iii) conditions ensuring that the schemes put forward are consistent with the programmes' objectives.

.../...

To ensure that the objectives of the Community programmes are attained by the measures envisaged, the proposals that have been made also specify the requirements that the operations covered by the various programmes must satisfy in order to be eligible for aid from the Fund.

These requirements vary with the nature of the programme in question. As a general rule, they involve :

- (i) Minimum areas or capacities, in order that the Fund's operations may be concentrated on projects that can be justified on economic and technical grounds and on projects extensive enough to be of interest to the whole Community; this will also make it easier to select and examine these projects; when these criteria for the scale of programmes were fixed, the wide variety of conditions to be found in the Community were borne in mind;
- (ii) The need for the operation envisaged, in the light of existing structural deficiencies;
- (iii) An assurance that the product concerned will be sufficiently competitive;
- (iv) The compatibility of the operations envisaged with other aspects of the structure of agriculture and the measures relating to them;
- (v) Guarantees that the project will be sufficiently profitable and will be carried out in accordance with rational principles;
- (vi) An assurance that agricultural producers will have a share in the economic advantages resulting from the operations in question.

It should be noted that Regulation No. 14/64/CEE does not provide for Community action to promote the mobility of agricultural manpower or the transfer of agricultural land to other farms so that it may be used more efficiently, although the Commission regards such operations as being of vital importance if the conditions of agricultural production are to be improved. However, the implementation of laws and regulations designed to encourage the mobility of agricultural workers and the enlargement of farm holdings is one of the requirements that ought to be satisfied before aid can be made available from the Fund for certain operations concerning the pattern of production (Programme I).

The programmes to promote olive growing and wine production, and to a lesser extent the meat programme, follow the product through every stage, from production to marketing. This has not been applied

.../...

to other groups of products because the effects of the common agricultural policy on specific industries and areas cannot yet be clearly discerned, and also because Community financing of investments designed to improve the conditions of production for these items is justified neither by the situation as regards the balance of the markets nor by the technical level generally reached and the vigour of production.

### 3. Areas of main effort and priority yardsticks

Delimitation of the areas where the main effort should be brought to bear is both important - in view of its effect on the regional pattern of investments - and awkward.

Priority in respect of aid from the Guidance Section of the Fund will be given to these areas, though they will not be the sole recipients. In order to determine which areas really deserve priority, the Commission has decided that, as a general rule and depending on the nature of the operations, the areas where the main effort will be concentrated must not cover much more than a third of the surface area, of the farms or of the volume of production.

In deciding what areas should be concentrated upon, the Commission has been guided by specific criteria, taking account of the urgent need to improve structures, the fact that there is a real need for investment, and the requirement that the operations envisaged should show a profit - which would make it more likely that they will be effective.

Here, the Commission has found it very difficult to obtain statistics relating to these criteria that are sufficiently comparable at Community level.

Moreover, the delimitation of such areas must, for obvious practical reasons, generally be based on administrative units that are relatively large and therefore not very homogeneous, with all the drawbacks and distortions that this may involve. In practice, such areas may include both places where structures are deficient and places where they are satisfactory.

As a general rule, efficient adaptation of the pattern of agriculture is more likely to be successful if operations to improve the conditions in which agricultural commodities are produced and marketed are combined. Consequently, it was thought advisable, in certain programmes, to give priority to projects connected with other projects eligible for aid under other programmes. In this way, a link between Community programmes is established and improvements of an integrated nature are encouraged.

Dovetailing agriculture into the modern economy can only be of benefit to farmers if they co-ordinate their activities, if they organize and work together in the economic process. For example,

.../...

deficiencies in the structure of agricultural markets can be alleviated if isolated farmers are encouraged to join with others in providing, in response to a strong pattern of demand, supplies that also show an integrated pattern.

In accordance with the spirit of the decisions taken by the Council in Regulation No. 159/66/CEE of 25 October 1966 (1), which laid down supplementary provisions for the common organization of fruit and vegetable markets, the Community programme to improve the marketing of fruit and vegetables stipulates that priority will be given to projects put forward by growers' organizations.

#### 4. Financing

Aid granted by the Fund normally covers a maximum of 25% of the investment. The figure may, however, rise to as much as 45% in certain Community programmes which generally include projects whose profitability will be low during the first few years, provided that these projects are to be carried out in certain of the areas where the main effort is to be concentrated and where, in view of the general situation, the likelihood of self-financing by the beneficiaries is the most limited. In defining these areas, the Commission has also taken account of the need for structural improvements in Italy and Luxembourg.

Of the ten programmes proposed, only those relating to fruit and vegetables, the dairy industry and meat will not receive aid in excess of 25% of the investment, since the operations concerned are on the whole not ones whose profitability will be low at the outset.

The Community programmes also lay down the maximum total and individual amounts of the Fund's aid for the projects involved. In this, the Commission's aim has been to ensure that the limited resources of the Fund are not used to finance schemes that are too expensive.

Under the proposal, a total of 672 million u.a. will be spent on the ten programmes envisaged, over a three-year period during which this amount will be available.

The sums available for the Guidance Section of the EAGGF are determined by the level of expenditure under the Guarantee Section and are appropriated each year, up to a ceiling of 285 million u.a., in the Community's budget. Consequently, the sums mentioned in the Community programmes do not constitute budget commitments. Furthermore, the rate at which these sums are spent will depend on the

.../...

---

(1) Official gazette of the European Communities No. 192,  
27 October 1966.

number and scale of projects financed under the various Community programmes and on the total sum available each year.

The allocation of the total of 672 million u.a. among the ten programmes has been based on the following considerations :

- (i) The need to achieve a balance between programmes concerning the pattern of production and those relating to the structure of marketing;
- (ii) The importance of each programme for the implementation of the common agricultural policy;
- (iii) The opportunities for financing and carrying out the various types of operation in the member countries.

A table below shows how the total sum is in fact broken down.

#### 5. Duration

The ten programmes proposed each extend over three years; the Commission considers that the Member States need this amount of time to adapt their structure policies to the opportunities for Community financing created by these programmes. This three-year period coincides with the Guarantee Section's accounting period extending from 1967/68 to the second half of 1969.

#### 6. Concluding remarks

The adoption of Community programmes, as provided for in Council Regulation No. 17/64/CEE, will be an important step towards the creation of a full and coherent set of procedures and instruments for the common agricultural policy.

By the effect they have in guiding the Member States' structure policies, these programmes will facilitate their co-ordination at Community level. Moreover, they will certainly help to integrate agriculture more effectively into the economy as a whole, by encouraging such adaptation as is necessary if the industry is to have its due share of overall economic growth and if agricultural incomes are to catch up with others.

The Commission is, however, aware that the proposed programmes are only the first step towards promoting the many adjustments which the present situation of agriculture calls for and which will necessitate other forms of Community action.

IV. Community programmes

Scope	Total sums available (million u.a.)
A. <u>Programmes whose main aim is to reduce unit costs and increase labour productivity</u>	
I. Land reform	70
II. Irrigation	50
III. Drainage	50
IV. Forestry operations to improve agricultural structures	12
B. <u>Programmes to achieve optimum prices for farm produce by rational marketing</u>	
V. Improvement of the marketing of fruit and vegetables	80
VI. Improvement of the structure of the dairy industry	100
C. <u>Programmes combining the aims of classes A and B above</u>	
VII. Meat	90
VIII. Wine production	40
IX. Olive growing	50
X. Development of agricultural areas that are backward or in difficulties	130
TOTAL	672