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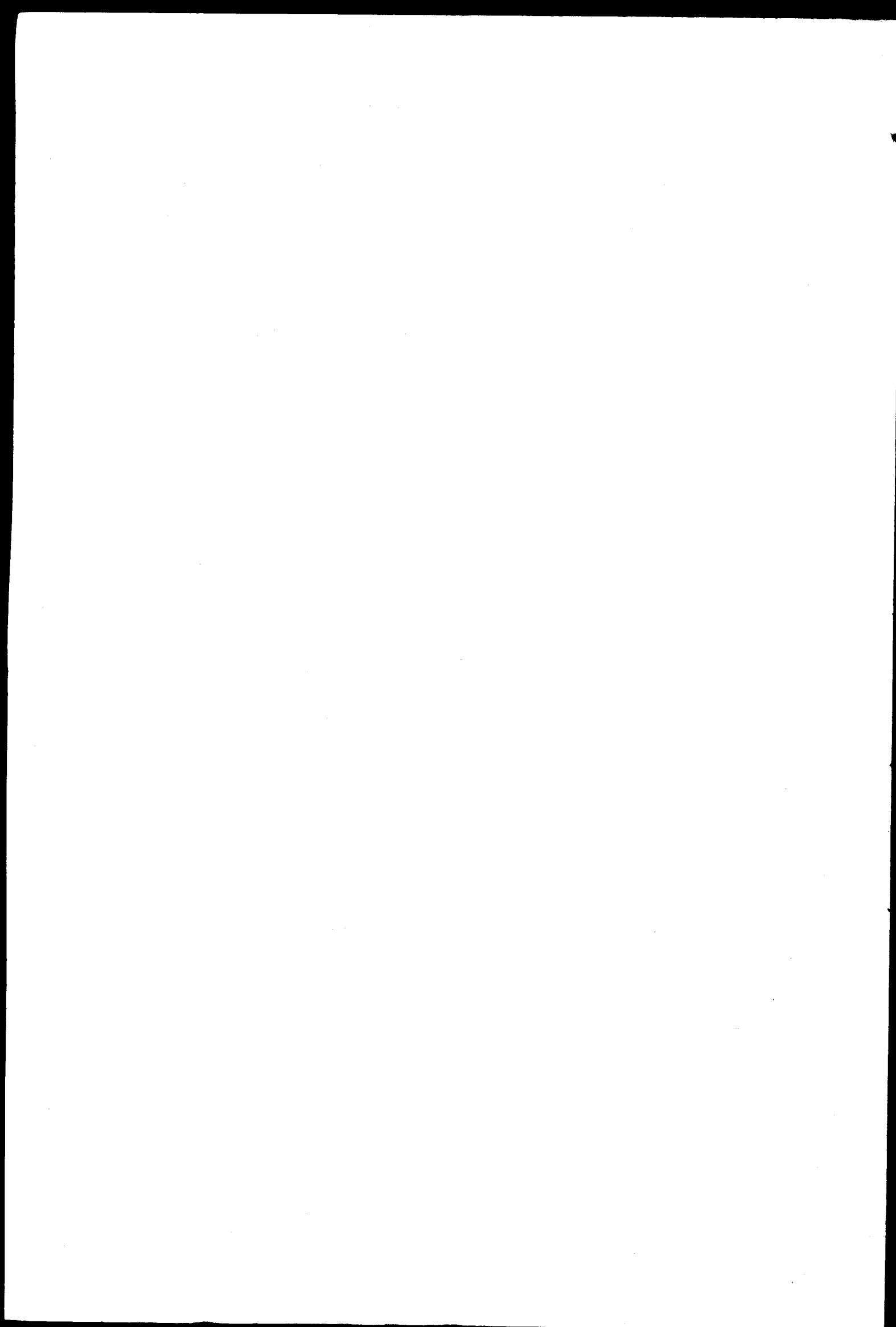
## Report

drawn up on behalf of the Committee on Agriculture

on the communication from the Commission of the European Communities to  
the Council (Doc. 529/74) on stocktaking of the Common Agricultural Policy

Rapporteur : Mr J. SCOTT-HOPKINS

PE 40.304/fin.



By letter of 6 March 1975 the President of the Council of the European Communities requested the European Parliament, pursuant to its decisions of 2 October 1974 and 4 March 1975, to deliver an opinion on the communication from the Commission of the European Communities to the Council on a stock-taking of the common agricultural policy.

The President of the European Parliament referred this communication to the Committee on Agriculture as the committee responsible and the Committee on Budgets and the Committee on External Economic Relations as the committees asked for their opinions.

The Committee on Agriculture appointed Mr Scott-Hopkins rapporteur on 12 March 1975.

It considered this communication at its meetings of 18/19 March 1975, 17/18 April 1975, 22/23 April 1975 and 22/23 May 1975.

At its meeting of 22 and 23 May 1975 the committee adopted the motion for a resolution and the explanatory statement by thirteen votes to one with five abstentions.

The following were present : Mr Houdet, chairman; Mr Laban, vice-chairman; Mr Scott-Hopkins, rapporteur; Mr Boano, Mr Bourdelles, Mr Cipolla, Mr Della Briotta, Mr Espersen, Mr Frehsee, Mr Früh, Mr Gibbons, Mr Hansen, Mr de Koning, Mr Liogier, Mr Ney, Mr Brøndlund Nielsen, Mrs Orth, Lord St Oswald and Mr Zeller.

The opinions of the Committee on Budgets and the Committee on External Economic Relations are attached.

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

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the Communication from the Commission of the European Communities to the Council on a stocktaking of the common agricultural policy

The European Parliament,

- having regard to the Communication from the Commission of the European Communities to the Council (COM(75) 100),
- having been consulted by the Council pursuant to the Council decisions of 2 October 1974 and 4 March 1975 (Doc. 529/74),
- having regard to the report of the Committee on Agriculture and the opinions of the Committee on Budgets and the Committee on External Economic Relations (Doc. 115/75),
- having regard to the memorandum on the improvement of the common agricultural policy (Doc. 251/73),
- having regard to the report of the European Parliament on that memorandum (Doc. 337/73),
- having regard to the Treaty of Rome, and in particular Articles 3(d), 38-47, 92-94 and 110,
- whereas the present instruments of the common agricultural policy have been successful in achieving a certain degree of regularity of supply to the consumer and relative price stability,
- whereas the common agricultural policy has had only limited success in reducing regional disparities in agricultural incomes,
- recalling that the European Parliament welcomed the broad guidelines announced in the Commission's memorandum on the improvement of the common agricultural policy,
- considering that price policy related to the concept of the modern farm remains one of the most important instruments for implementing the common agricultural policy,
- considering that the solution to the income problem facing the agricultural sector is to be found in effective long-term structural and marketing policies,

- believing, consequently, that additional short-term policies in certain agricultural markets are required in order to ensure adequate incomes to less favoured farmers, reasonable prices to consumers and so to avoid serious imbalances between supply and demand,

#### General Principles

1. Realises that the common agricultural policy represents a cornerstone of European integration;
2. Regrets that there is not enough political volition to achieve a genuine common policy in other areas, such as general economic policy, economic and monetary policy, social policy, etc., and fears that the common agricultural policy is thereby incapable of full development;
3. Welcomes the fact that the Commission has undertaken a stocktaking of the Common Agricultural Policy, and believes that such reviews should be undertaken periodically, for example every five years;
4. Supports the Commission's view that :
  - (a) the principles underlying the common agricultural policy continue to be valid for the future;
  - (b) but that the political instruments could have been more effectively operated and are in need of improvement;
5. Believes that the stocktaking should lead to a set of agricultural estimates, to serve as a permanent instrument of forward planning and action, and that their preparation should form the subject of consultation at all levels;
6. Requests that such reviews should include, bearing in mind the necessity for the Community to remain both an importer and exporter of agricultural produce, five-year production targets reviewed each year to allow for the maximum utilisation of agricultural resources;
7. Believes that the fixing of production targets to act as general guidelines which take into account :
  - domestic consumption to be covered by Community agriculture
  - Community import and export requirements
  - imports from poor countries and stocking policiescould make a useful contribution to stable market equilibrium and guaranteeing supplies of food;  
they must, however, cover those products which the Community requires in order to make a consistent contribution, as long as possible and necessary, to Community and international food aid programmes;
8. Fails to find in the 'stocktaking' a satisfactory assessment of the results of the structural policy and the competition policy;

9. Regrets that the Council has not taken positive decisions on the broad guidelines laid down in the Commission memorandum on the improvement of the common agricultural policy, which were overwhelmingly approved by the European Parliament and which are intended, in particular, to improve price relationships in the cereal and dairy sectors and to lay down a storage policy in the cereal sector;
10. Believes that the CAP has contributed to stabilising agricultural prices in relation to world prices and consumer prices, while, on the other hand, serious problems remain in certain sectors, notably beef and veal, milk, cereals, wine and poultry;
11. Regrets that the principle of Community preference is insufficiently observed in the pigmeat, poultry, vegetable and fruit sectors, especially vis-a-vis state-trading countries;
12. Regrets that as yet, the common agricultural policy has failed to bring incomes of farmers to a level comparable with those in industry, and notes in particular that there is a growing disparity in agricultural incomes between regions, and that there is still disparity between the livestock and the cereal sectors, and, in a more general sense, between incomes in those sectors which are heavily supported by the Community and those which are not;
13. Notes that the price policy is based on the modern farm and believes that additional policies are required to supplement improved intervention mechanisms and an incomes policy, possibly involving support from the Guidance Section of the EAGGF, for the modernisation of under-developed farms, or other measures under the Social Fund and Regional Development Fund in order to create additional sources of income outside agriculture;
14. Believes that the system of direct income subsidies should be restricted to selective, degressive aids adapted to particular situations with the aim of overcoming structural handicaps;
15. Urges that the market organisations be expanded and extended in particular to such important sectors as mutton and lamb, potatoes and alcohol; intervention arrangements should, moreover, apply, to virtually all the sectors concerned and no major categories should be omitted;
16. Approves the Commission's proposals to increase the sensitivity of the producers' reactions to market situations by means of a producer financial responsibility for production surpluses, but insists that any measures to this effect should not stand in the way of agricultural modernisation or relieve the Community of its responsibility with regard to farmers' incomes;

17. Believes that the control of production and the management of the markets are the responsibility of all interested parties; this responsibility must be accepted, not imposed, and must flow naturally from a process of regular consultation between the Community and national institutions, the producers, processors and distributors; this dialogue would be aimed on the one hand at identifying and refining objectives and on the other at assessing how far objectives have been achieved, in particular where farm incomes are concerned;
18. Recalls, however, that the present system of fixing intervention prices at a level substantially below that of the target and guide prices already implies a certain measure of financial co-responsibility for farmers;
19. Requests that the Commission propose measures to encourage the regional specialisation of production, but realises that this is an objective requiring careful implementation to avoid too great a social upheaval;
20. Believes that producer subsidies may prove to be useful expedients to overcome short-term market disturbances, particularly in the beef sector, and in those sectors where Community production falls short of demand, such as the durum wheat and olive oil sectors;
21. Believes that consumer subsidies provide a useful short-term method for disposing production surpluses to special categories of Community consumers;
22. Regrets the absence of any substantial proposals to improve processing and marketing organisation, and requests the Commission to act quickly in this direction;
23. Emphasizes the need for producers to contribute, through producers' organisations, to maintaining market stability, particularly in the fruit and vegetable and fishing sectors;

#### Agricultural Plant Products

24. Believes that the price relationships between cereals for human consumption and fodder cereals should be improved so as to bring them more into line with the supply and demand situation within the EEC, and to encourage increased production of high energy proteins in particular;
25. Approves the Commission's proposal for a stocks policy (with a buffer stock for internal requirements and an external trade stock) so as to improve and stabilize supply, and consumer and producer prices, but considers that the financing of such a policy should be borne by the Community;
26. Believes that the Council should give priority to reaching a decision on amendments proposed by the Commission to the basic regulations in the wine sector, following the exceptional measures for distillation decided upon,



and in particular to limitation on new planting, replanting to orientate production towards quality rather than quantity, restriction on national aids under Article 15 of Regulation (EEC) No 816/70 on the common organisation of the wine market and in consequence adaptation to the manner of application of Directive No 72/159/EEC on the modernisation of farms;

27. Considers, however, that effective action in the wine sector is impossible without a serious quality policy, under which the product is evaluated in terms of natural alcoholometric grading, with strict provisions against artificial enrichment;
  28. Repeats its support for previously proposed amendments in respect of the olive oil sector, whereby the amount of aid would be determined a posteriori on the basis of the difference between the production target price and the actual market price obtained, and bearing in mind supply problems and the importance of this produce for regional economy, it requests that provision should be made for supplementary measures to improve production and marketing conditions;
  29. Believes that a reorganisation of the sugar market, with the elimination of quotas, would be unadvisable at present in the light of present world and EEC production and given that the present market organisation has achieved stability of supply to the consumer and income to the producer;
  30. Considers that in the framework of the overall Mediterranean policy the interests of Community fruit and vegetable producers must be supported by granting appropriate preference terms;
  31. Recommends stricter controls and harmonisation of national support measures in the fruit and vegetable sector;
  32. Calls for an examination of pesticide residues in edible horticultural produce and requests that health controls should be as strict for imports of horticultural produce as for other imports from third countries;
- Animal Production
33. Approves in principle the Commission's proposal to introduce a degree of financial responsibility on the part of the producer for surpluses in the milk sector;
  34. Does not, however, consider a two-stage application of target and intervention prices for milk, to be an appropriate measure and consequently calls on the Commission to examine alternative methods;
  35. Emphasizes that cattle farming is an essential production of European agriculture, that the production of milk and meat cannot be considered in isolation from each other and that furthermore, dairy products must be seen in connection with the overall policy on dietary fats;

36. Considers that the market and pricing policy must be medium-term and supported by a continuous active export policy;
37. Welcomes the Commission's proposals to introduce greater flexibility in the intervention arrangements for the beef and veal sector and recommends a wider application of this principle of a choice of measures to deal with short-term marketing problems in the livestock sector;
38. Believes that the Commission should come forward with proposals to increase the sensitivity of the reaction of the pigmeat producers to consumer demand;
39. Requests that health norms should be laid down for the whole animal production sector in the near future and compliance with such norms be made effective;

40. Regrets that in its stocktaking the Commission has given so little place to the poultry sector which is beset by major difficulties;

Structural Policy

41. Urges that Directives 159, 160 and 161 be implemented by all Member States since modernisation of structures and vocational training are of decisive importance in improving the income situation of those in agriculture;
42. Requests that the Commission draw up a review of the Guidance Section of the EAGGF in order to establish whether new policy instruments are required and to identify and separate regional and social problems from the EAGGF;
43. Believes that it is essential in rural areas to create alternative employment in non-agricultural sectors if structural policies are to be fully effective, and feels that the use of the Social and Regional Fund and other Community sources of finance will enable this to be achieved;

Market Unity

44. Calls for the consistent development of the common agricultural policy, which can, however, only be achieved on the basis of rapid progress in the establishment of economic and monetary union;
45. Believes that there must be a policy to re-establish the unity of the market; requests, however, before decisions to this effect are taken, an examination of the economic and social repercussions of dismantling the system of monetary compensatory amounts in the individual Member States; also, calls for examination of the possibility of adapting the 'green' currencies of Member States with floating currencies;
46. Expresses its disappointment at the fact that, in the absence of proper cooperation from the Member States, the Commission has not been able to draw up a list of national support allocated and calls upon the Member States which have not yet submitted a survey of national aids in compliance with the Council's decision of 25 October 1974 to do so without delay;

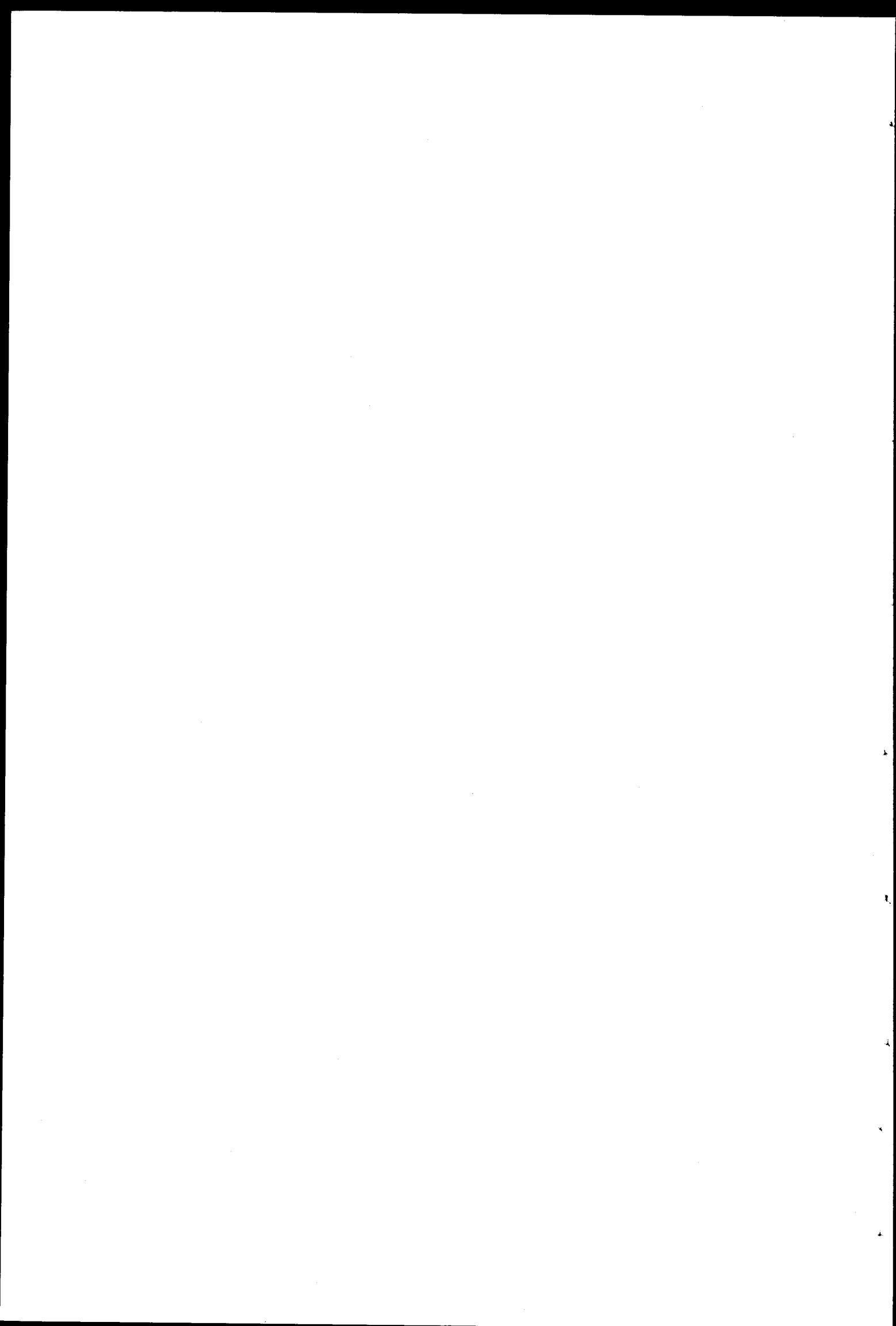
47. Believes that national aids, by their nature militate against the interests of the poorer states and should therefore be replaced by Community aids;
48. Believes that progress on the harmonisation of economic and monetary policies is a prerequisite for the re-establishment of unity in the agricultural market;
49. Believes that all transitional arrangements for the new Member States should be terminated forthwith;

#### External Relations

50. Welcomes proposals for long-term contracts on a bilateral basis, such as cereal exports to Algeria, and suggests that a study be made of the Export Credit Guarantee Department;
51. Believes that the proposals for the greater use of food aid as a policy instrument could play a useful role, but suggests that commitments of more than five years' duration should not be undertaken because of the inherent political risks;

#### Budgetary Aspects

52. Regrets the absence of any long-term financial projections which must form one essential element in a review of the common agricultural policy;
53. Shares the Commission's view that the cost of the common agricultural policy has been kept within reasonable limits although some items of expenditure could have been managed more satisfactorily;
54. Points out that some items of expenditure, such as the compensatory amounts under the Treaty of Accession and those resulting from monetary complications, should not be ascribed to the common agricultural policy and that a number of items of expenditure have benefitted consumers and the developing countries;
55. Regrets that the Commission has not attempted any comparison between expenditure for the common agricultural policy and revenue from import levies and producers' contributions;
56. Insists that a simplification of the rules of application of the common agricultural policy and the Common Customs Tariff is essential in order to limit the cost of their administration and minimise the possibility of frauds, bearing in mind the reports of the Special Committees of Enquiry on the milk, oilseeds and olive oil sectors;
57. Believes that it is essential if frauds involving EAGGF funds are to be avoided that a European Audit Court be set up.



B  
EXPLANATORY STATEMENT

The purpose of the Commission's Communication

1. This stock-taking of the Common Agricultural Policy has been drawn up by the Commission following the request made by the Council on 2 October 1974 for a full scale review of the Common Agriculture Policy "... with special reference to the objectives set forth in Article 39 of the EEC Treaty."

The basis of the Communication

2. The Commission has drawn up its report by discussing, on the basis of the past working of the CAP, three principal questions :

- the extent to which the CAP has been successful in achieving the aims laid down in the EEC Treaty ;
- the most suitable policy instruments for achieving these aims ;
- and proposing improvements to deal with problems presently facing the CAP.

Successes of the Common Agricultural Policy

3. The Commission believes that the Common Agricultural Policy has been successful in achieving a number of the basic aims laid down in Article 39 of the EEC Treaty :

(a) Market stability

Considerable variations between supply and the rigidity of demand together with the difficulty of production fluctuations renders the task of rapid adjustment to market trends extremely difficult, especially in the live-stock and milk sectors.

However, in the Community greater stability has been achieved than in other areas of the world. Between 1968 and 1974 monthly prices in wheat varied by 3% in the EEC and 11% on the world market and 13% in the United States.

Taking sector by sector, those markets relying on a price support system were more stable than those relying on supplementary aids or simply external protection.

(b) Security of supply

Since 1960 self-sufficiency has increased for most agricultural products, particularly sugar, butter and cereals. On the other hand the

increased industrialisation of agriculture has strengthened the dependence of the Community on imported oil cake (especially soya and fish meal and maize).

(c) Reasonable prices for consumers

The common agricultural policy has proved to be a stabilising factor for food prices. In 1974 the increase in consumer prices for food-stuffs was 10.4% in the European Community; 14.6% in the United States and 29% in Japan.

(d) Increase in productivity

4. There has been a marked increase in productivity although this has led to further problems in certain sectors. The index rose from 100 to 188 between 1961 and 1971 as compared to 100 to 166 in industry for the same period. This has been brought about partly by technical progress encouraged by the creation of a large market, but mainly by the departure of 5.5 million farmers and farm workers out of a total of 10 million from agriculture.<sup>1</sup>

Progress has been more marked in the cereal sector (4% per annum) than in the livestock sector (0.7% per annum).

Increases in productivity, however, do create additional problems through disturbing the balance between supply and demand of a particular market and by increasing the vulnerability of agriculture to short-term costs fluctuation, especially where heavy long-term capital investment has been used to achieve increased productivity. The gain, however, to the Member States in general economic activity outweighs these disadvantages.

Problems facing the CAP

5. The Commission outlines the principal problems facing the CAP. These relate : firstly, to surpluses and shortages in particular sectors; and secondly, to problems of disparities in agricultural incomes, budgetary expenditure and the weakening of market unity through currency fluctuations and the introduction of monetary compensatory amounts.

Milk Sector

6. Though experience between 1968 and 1971 in the milk sector has shown that price policy can re-establish a market balance, intervention has

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<sup>1</sup> An average of 4% of the working population is leaving the agricultural sector each year. See paragraph 46 for further information.

been persistent and costly - 1.4 milliard units of account in 1974 - or 10% of production value - indicating that target prices have been set too high to encourage consumption. The Commission does not stress adequately that other factors influence this market imbalance : lack of advertising, ineffective marketing and inadequate collection and distribution systems.

#### Beef and Veal

7. The costs of maintaining adequate producer incomes in times of surplus, given the nature of production cycles and the costs of storage, have been high, while consumer prices have not been kept at reasonable levels in times of deficit.

#### Cereals

8. In the cereals sector, where the Community is a net importer and budgetary expenditure should not arise, the cost of refunds and denaturing premiums at times has substantially exceeded receipts from levies.

#### Wine

9. The wine sector is at present also facing a structural imbalance caused by overproduction. At the moment, the Community is facing the possibility of a lake of wine of 20 million hectolitres which cannot be disposed of on the market and is beyond the storage capacity of the EEC. Lax import controls also contribute to this situation.

#### Regional Disparities in Income

10. The most serious problem presently facing the Common Agricultural Policy is the great disparity in incomes in the agricultural sector. Achieving a fair standard of living for the agricultural community is laid down as a basic aim of the CAP in Article 39 of the EEC Treaty.

Regional disparities have increased so that the difference can vary in the ratio of 1 : 5 between different areas of the Community. There are also significant differences from sector to sector, and according to the size of farms.

In addition, the influence of income transfers can vary considerably from country to country, the ratio of tax to benefits varies from 10% in Italy to 90% in the Netherlands.

### Budgetary Expenditure

11. In the absence of an effective policy to achieve greater equality of incomes, it is difficult to see how the second major problem facing the CAP can be solved : restraining expenditure in the Guarantee Section of the EAGGF. This is politically even more evident when one considers that those products for which expenditure from the EAGGF has been highest - dairy and beef products - are the mainstay of the smaller and economically deprived producer. Social and regional problems should be dealt with separately from purely agricultural policies.

### Weakening Market Unity - MCA's and National Aids

12. The effects of monetary compensatory amounts has been to reintroduce different national price levels and to slow down specialisation. Even free movement of goods has been hindered by non-tariff barriers, some of which infringe Community rules. In only a limited number of sectors (seeds, veterinaries and feedingstuffs) has any real progress been made.

There are also distortions in competition introduced by the legal administrative and fiscal policies of each State, for example differing levels of VAT on agricultural inputs and complex import formalities.

### Essential Policy Goals

13. Improvements to the CAP must be formulated clearly on the principle that the modern farm is to be the basis for criteria used in establishing prices policy and drawing up modifications to present market instruments.

14. Experience in a number of countries has amply demonstrated the problems inherent in attempting to regulate levels of production to estimated consumer demands : climate, yields and consumer demand are impossible to forecast accurately. This can only be achieved by allocating quotas to individual farmers. These are unacceptable to the farmer, and act to decrease managerial incentives and a proper specialisation of production in the most suited areas; inefficiencies are introduced which increase the costs of the produce to the consumer. Greater regional specialisation of production is required, which has been retarded by price mechanisms and aids. This cannot be made mandatory, but should be encouraged through improvements to market organisations and price levels. Community agricultural production should be increased in those areas most suited by soil and climate : obviously it would be nonsensical to seek to encourage wine production in northern regions, for example, or sugar beet production in the southernmost areas of the Community.



15. If one cannot control quantity directly, the Commission's efforts should be directed towards increasing the sensitivity of the response to the market situation. The aim must be to improve quality: both the quality of farming techniques, stocks, seeds and even accounting methods, and also the quality of marketing methods.

16. In more concrete terms, this can be seen in terms of four basic goals, against which proposals given in this communication can be judged :

- a greater sensitivity on the part of the producer to the market situation be it a surplus or a scarcity ;
- an increase in the sensitivity of marketing structures to the needs of the consumer: the Community's efforts should be more market orientated ;
- retaining the potential to import and export even of those products for which self-sufficiency is aimed for so that flexibility in the market is retained ;
- and, finally, it is of the utmost importance that an effective structural policy be put into operation, that existing Directives for professional training in the agricultural sector be implemented by Member States. A complementary Regional and Social Policy must be developed, together with the creation of alternative rural employment. Until this is achieved, it will never be possible to deal with the problems posed by the smaller, less favoured farms while implementing a rational prices policy based on the modern farm.

#### The Commission's Proposals for Improvement

17. If we look at the Commission's proposals in the light of the essential policy goals described above, it is clear that these proposals go some way, but not all the way, in the right direction.

The Commission puts forward three general principles, two of which have already been outlined in the Commission's memorandum on the improvement of the CAP :

- relating the movement of price levels increasingly to the modern farm ;
- taking into account the supply and demand situation on each market in establishing annual prices for each product ;
- reducing the uncertainties in the method of calculating prices since experience for the 1975-76 marketing years has not always been satisfactory.

18. It is clearly essential that all these broad proposals be given effective implementation by the Commission in its annual price proposals if market imbalances are to be avoided.

19. The Commission admits the utility of two further instruments in specific circumstances :

Income and consumer subsidies

The Commission states in paragraph 76 that income subsidies reduce the efficiency of the allocation of resources and can only justify them, consequently, pending the modernisation of farms and only on condition that they are not linked to specific products and are in inverse proportion to the resources of the farm, presumably as regional or social aids.

20. Similarly, consumer subsidies are considered high cost solutions, except for short periods to correct accidental surpluses (meat) or shortages (sugar) in internal supply of a specific product. However, the Commission accepts the utility of consumer subsidies, equal to disposal costs, to enable consumers in the EEC to take advantage of surpluses at cheaper prices and recommends that Member States supplement the Community's financial contribution.

21. Income and consumer subsidies can play a useful short term role in correcting regional disparities in incomes, or market imbalances in a particular sector, especially beef and veal. In certain circumstances, income subsidies, or grants, could be employed to a greater extent than envisaged by the Commission : where increases in producer costs make it difficult to retain prices within levels allowing for the maintenance of consumption. In such cases, income subsidies to producers of specific products should be employed in conjunction with consumer subsidies to special socially deprived groups within the Community.

Increasing the sensitivity of the producer to the market situation

22. Improvements to the CAP must be based in the first place on increasing the sensitivity of the producers' reactions to existing market situations. In a well adapted market organisation, farmers suffer a reduction in income in times of surplus. For example, in the United Kingdom, the Milk Marketing Board fixes a pooling price; in times of over-production, surpluses are diverted to the manufacturing sector, with the producer receiving a lower price. This applies in terms of quality as well as

quantity. The impact on the producer, and in restoring market equilibrium is immediate. The Commission's communication contains a number of proposals to achieve these goals.

### Milk Sector

23. Apart from the proposals contained above, the Commission put forward two improvements in the milk sector :

(a) firstly, to establish the principle of a producer responsibility for surpluses by means of a special levy to pay for the disposal of excess production. This previous proposal<sup>1</sup> has been put aside in favour of a second, because such a concept, all too often considered as a punitive tax on the farmer, is not politically acceptable, even though market stability is in the interest of the producer as well as the consumer.

(b) The second proposal is for staggering the evaluation of price increases; by applying target and intervention prices in two stages (the first at the beginning of the year and the second in the autumn) to take into account differences in animal feed requirements; and at the same time adapting price policy more closely to market trends, so that the second increase would be based on the development of the market situation, with price rises being curbed in the event of an imbalance and price ratio adjusted.

There are grave disadvantages to this proposal, in that it will encourage maximum production in the first six months, April to September, and thereby lead to the possibility of shortages in the most important period, October to March. For example, in the United Kingdom, production is geared to autumn calving. Alternative methods to implement producer responsibility should be sought.

### Beef and Veal

24. The Commission's proposals in this sector are intended to introduce a greater degree of flexibility in the intervention arrangements rather than to directly influence the producers through the market mechanism. It is proposed that intervention instruments should be made more flexible and that in applying measures, allowance should be made for differences between beef derived from dairy cattle, from beef cattle. A system of pooling, with higher prices for liquid rather than manufacturing, as applied by the Milk Marketing Board, must be considered.

<sup>1</sup> Included in the Memorandum for the Improvement of the Common Agricultural Policy, Doc. 251/73, paragraph 32.1.

25. It is important that the different needs of each country should be taken into account in the choice of intervention arrangements and that intervention should be made most effective for the producer primarily concerned with beef rather than dairy cattle, or even the intensive battery fatterer. However, the majority of beef animals do in fact come from the dairy herds, and the dairy-beef cross is an important factor in the market.

These improvements will lighten the financial demands of the beef sector, but will do little to increase the producers' sensitivity to the market, especially since the way in which intervention arrangements will be applied will depend to some degree on Member States. This is an argument in favour of flexibility in the intervention system with the possibility for Member States to introduce production premiums.

26. However, given the longer beef production cycle, any more far-reaching proposals will be difficult to implement and would probably cause greater imbalances than would otherwise have been the case. More easily applicable solutions relate to direct support of producers' incomes and arrangements for disposing of surpluses.

Beef surpluses have resulted from the lack of sensitivity of the producers to the market and the unwillingness or inability of the consumer to pay the full market price. Efforts have to be made to educate the consumer to the real costs involved and the true price to be paid. But this is a long term solution. In the meantime, a solution may be found to achieving a balance of supply and demand by maintaining demand through consumer subsidies, together with limited direct aids by production premia to improve the producer's income, other than through prices, carefully regulated and limited in time to meet particular difficulties caused by increases in production costs.

### Cereals

27. In the cereals sector, the Commission reiterates the proposals it put forward in its memorandum of October 1974<sup>1</sup> for improved price relationships between different cereals crops to direct production away from cereals in surplus and towards those where self-sufficiency has not been achieved, i.e. away from cereals for human consumption and towards fodder cereals. Upon this depends the viability of the second proposal - the phasing out of denaturing. Price policy should be framed so as to direct production where

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<sup>1</sup> paragraph 49

best favoured by climate and soil. Since it is politically difficult to achieve the adoption of the desired price relationships, it is unlikely that this policy alone will be able to achieve an adequate market balance.

This demonstrates the importance of long term contracts. There is the greatest scope for long term contracts in the cereals sector, not only internally but also internationally, and greater use should also be made of long term contracts for food aid or for storage in the Community.

### Wine

28. Given the developing structural surplus, the Commission believes that the following steps are required :

- decisions on wine-distilling should be taken at the beginning of the season, with distilling premiums fixed well below the support price to introduce the principle of financial responsibility on the part of producers ;
- that there should be limits on planting and efforts to improve quality ;
- and that long-term storage contracts should be established.

It is essential that a policy along these lines be implemented if the Community is not to be flooded with wine which can only be disposed of in countries such as the Soviet Union, and that there be greater control over imports from the Mediterranean.

### Sugar

29. The Commission is opposed to production quotas on the grounds that they lead to higher consumer prices and a bonus for the favoured producer, since they enable production to continue in higher cost areas and limit competition. This is true but is mitigated by the importance of a guaranteed outlet in encouraging investment, vertical integration and a more scientific and lower cost production. Quotas also limit costs to the Community Budget of reducing surpluses, especially when applied with price mechanisms to discourage surpluses and levies to finance the disposal of excess production.

The Commission states that the sugar quota system has discouraged regionalisation of production and so increased prices for the consumer. This is in contradiction to the general view that sugar is the one sector where the market organisation has been the most successful. It would be unwise at the present moment to review the market organisation of the sugar sector as the Commission proposes, and thereby change it, especially in respect of the quota system.

## Other Sectors

30. For other agricultural sectors, the Commission refers to opinions already expressed in its Memorandum of October 1973<sup>1</sup>.

In the olive oil sector, where the Community has been faced with difficulties in accounting for not inconsiderable expenditure, the Committee on Agriculture would like to reiterate its support for previously proposed amendments, whereby the amount of aid would be determined a posteriori on the basis of the difference between the production target price and the actual market price obtained<sup>2</sup>; the Committee on Agriculture wishes furthermore to stress once again the importance of an olive oil register as a contribution to efficient market management in this sector.<sup>3</sup>

In other sectors, the Committee on Agriculture believes that there should be stricter control over health norms, and in particular : that health norms be laid down in the pigmeat sector and compliance with such norms be made effective; that there should be an examination of pesticide residues in edible horticultural produce; and that health controls for such imports from Third Countries be as strict as for other imports.

In fact special attention must be paid to the fruit and vegetable sector, seen as unsatisfactory, partly as a result of imports from Mediterranean countries under trade agreements; and in view of the continuing need for stricter supervision and control of national support measures.

In the egg and poultry sector, producers are faced with a serious slump in prices to the extent that future production is threatened. It is to be regretted that the Commission has not given full consideration to these problems.

31. In the wine sector, which is now characterised by a structural surplus caused by increased production and falling demand, the Council has taken exceptional measures for distillation. The Council should now give priority to reaching a decision on amendments proposed by the Commission to the basic regulations in the wine sector, and in particular : for the limitation of new planting; for re-planting to orientate production towards quality rather than quantity; and the restriction of national aids under Article 15 of Regulation (EEC) No 816/70 on the organisation of the market in wine, and in consequence adaptation in the manner of application of Directive No 72/159/EEC on the modernisation of farms.

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<sup>1</sup> Doc. 251/73, paragraphs 44, 45, 51-62 and 64-66.

<sup>2</sup> Doc. 366/73.

<sup>3</sup> Doc. 426/74.

### Long term policies

In addition to adaptation to market arrangements, the Commission proposes a number of long-term instruments to achieve greater market stability.

#### Stocks Policy

32. The Commission proposes a comprehensive stocks policy in the cereal sector. The Commission also proposes that there should be a buffer stock (which should be equal to six days consumption) and further stocks to be used for external trade and for food aid. The establishment and maintenance of these three stocks will require an extension of production in those regions of the Community most suited by soil and climate.

This clearly would be an important step forward in rational market management. However, the criteria of such a policy must be known in greater detail before a judgement can be made on this proposal.

The financing of such measures should not be borne by the producer.

#### International Agreements

33. The Commission believes that the Community should play its role in helping to establish international market mechanisms by means of international agreements. Such devices are attractive but history has shown the problems involved in achieving the degree of international cohesion required.

#### Long-term Contracts

34. The Commission correctly believes that exporters should be encouraged to enter into long-term contracts, thus introducing a desirable degree of integration and stability into the market. This of course depends on the willingness of the importer in Third Countries : where problems arise the Commission should consider entering as a guarantor or in other similar roles played by the Export Credit Guarantee Department.

#### Import/Export

35. It is essential that the fluidity of the market be increased by provision for imports and exports even where self-sufficiency has been introduced. Therefore, your rapporteur can only agree with the following Commission proposals : that export refunds should be made to correspond more closely to market trends and competition to be sharpened through greater use of tendering procedures, and import embargoes should be avoided as far as possible.

However, special attention should be paid, in developing the Mediterranean Policy, to safeguarding the economic position of agricultural producers in Italy and Southern France.

#### Food Aid

36. From 1976 the Commission intends to propose multiannual food aid commitments. Given the world situation, such a policy should be integrated into the CAP. However, no individual commitment, given fast changing market and government situations, should be for more than three years.

#### Improved marketing

37. It is a truism to say that few people are less apt in marketing than the farmer. Yet it is essential that the farmer should respond to the market quickly and that he be encouraged and aided to be more market orientated by an umbrella of organisations : producers groups, cooperatives and marketing boards.

38. However, the Commission's communication contains very little on marketing aspects of policy, apart from proposals for a permanent information system on the state of the cattle population, and even vaguer suggestions for increasing the transparency of markets and for regularly updated market projections.

It is essential that the Commission seek to carry through and see adopted previously elaborated policies on producer groups and that it come forward with new proposals to increase the marketing infrastructure of European Agriculture and institute a study on the possibility of marketing boards or central national direction of producer groups.

The effort in this direction is underlined by the Commission's statement<sup>1</sup> that supplies to consumers have been ensured on improved terms in respect of products for which agricultural producer groupings and contractual arrangements are in operation. The Commission further notes that not enough effort has been made along these lines, but does not itself come up with any concrete proposals.

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<sup>1</sup> paragraph 55



## Proposals to improve the unity of the market

39. The Community is now faced with the real and alarming prospect of the agricultural market, the only sector for which a true common policy has been elaborated, disintegrating into a number of national markets. This is due to the fact that of all the efforts to construct a European Community, only in the case of the Common Agricultural Policy has there been a genuine volition from the outset to produce results at Community level. Consequently the safeguarding of the unity of the CAP, as well as further advances in that sector, depends upon urgent action in the economic and monetary fields.

The Commission, in their Communication, devote themselves to examining specific barriers to trade in the agricultural sector.

The three major existing barriers to the unity of the Common Agricultural Market in the Community are monetary compensatory amounts, national aids and non-tariff barriers.

These questions are related : it will not be politically possible to abolish monetary compensatory amounts unless national aids have been harmonised and progress made in dismantling non-tariff barriers.

40. The Commission believes that monetary compensatory amounts weaken the unity of the market and distort competition. But it recognises that there must be an instrument to prevent short term monetary fluctuations instantaneously affecting agricultural prices. Consequently, it proposes that there should be improvement to the rules and procedures. The Commission, however, does not put forward any concrete proposal, such as a quarterly review and adjustment of the Green currencies to real values.

41. The Commission intends to propose a framework defining acceptable state aids and criteria for the application of Articles 92 - 94 of the EEC Treaty. The Commission does not make clear what action it will take if Member States should continue to operate aids outside these criteria : would it have a final recourse to the Court of Justice?

The Commission also intends to investigate agreements which might affect agricultural trade in the light of Articles 85 and 86 of the Treaty (the Commission is referring in particular here to sugar and fertilizer markets).

Following from the energy crisis, the Commission has a number of proposals, listed below, which require further information on the manner in which they are to be achieved :

- greater harmonisation of petroleum product excise duties : is this to be achieved by means of a regulation ?
- and greater consistency in price levels between Member States : is this to be achieved by harmonisation of tax levels ?
- an examination of differences in natural gas prices insofar as they affect the production of crops under glass : this raises the problem of those countries not producing natural gas.

42. The Commission believes that the Council should be more flexible in adopting proposals from the Commission to remove non-tariff barriers - obstacles to trade created by differences in health, packaging and administrative regulations. It should be pointed out, however, that the harmonisation of health regulations poses a number of very serious problems to Member States.

43. The Commission states that measures in each country leading to distortions of competition and impeding free movement of goods "to some extent balance each other out"<sup>1</sup>. This recent history of Community trade in the egg sector would seem to disprove this statement.

It is to be regretted that, in the absence of proper cooperation from Member States, the Commission has not been able to draw up a list of national support measures, an essential preliminary step; the Commission should take action to redress this situation, particularly in the horticultural sector.

However, the important question is not merely whether the balance of disadvantage is equal but the fact that trade and the attainment of product specialisation and the optimum allocation of resources (upon which the Commission place great emphasis) are impeded. In this way costs and the price to the consumer are increased.

It is essential that progress be made to removing these distortions to competition. This would be a first step towards the final goal of removing monetary compensatory amounts. Indeed, in the short run, monetary compensatory amounts are much preferable to national aids and the maintenance of non-tariff barriers. It is necessary to reiterate here the proviso on the problems raised by harmonisation of national health requirements.

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<sup>1</sup> paragraph 34

## The Reduction of Income Disparities in Agriculture

44. One of the more pressing problems facing the CAP is that vastly inflated producers' costs, caused by an explosion in the prices of feeding-stuffs and energy, have seriously hit the incomes of certain farmers. Incomes have increased, but their rate of increase has been slower than that of other sectors in the economy, particularly in France, Germany and Italy. More serious, are the disparities existing between incomes in different regions : between 1 : 5.

This has been caused, in part, by the fact that measures for structural improvement, which are slow acting in the first place, have not always been implemented fully by Member States.

The slowness of structural policy can be shown that, despite a high percentage leaving the land (over 4% p.a. between 1963 and 1973), the average size of the farm has increased by only 3 hectares since 1958, bringing the average to 13.3 hectares in 1973.

45. Incomes disparities cannot be dealt with by merely increasing prices : the modern farms would reap by far the greater benefit, while decreasing consumption would merely lead to a breakdown of the intervention mechanisms. There are serious social problems which must be dealt with separately. Needs essentially social must be dealt with by social instruments, otherwise price policy will be strained through being used to accommodate divergent aims.

Therefore the Commission correctly concludes :

'Although the markets and prices policy is an essential instrument for farm incomes, it cannot, on its own, solve the income and standard-of-living problems associated with Community agriculture. On the contrary, the disparities in farm incomes might well be aggravated if a markets and prices policy were to be implemented on its own, unaccompanied by a dynamic structural policy and effective regional and social policies.' (1)

The problem is not merely one of reallocating human and physical resources away from the poorest areas, as it is only too often presented, but of improving the general level of training and infrastructure, as well as private investment.

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<sup>1</sup> p. 50, paragraph 113

The German Federal Government demonstrates in its paper presented to the Commission that income from farms in the same area of the same size and resources can vary on a ratio of 1:7. This illustrates the fundamental importance of training and full implementation by Member States of existing Directives.

The Commission believes, correctly, in 'the decisive importance for increasing better productivity and the incomes of people engaged in agriculture, of intensifying the work of restructuring agriculture and promoting vocational training'.<sup>1</sup>

46. Member States, however, have been slow in implementing existing policies.

Since 17 April 1972 the Community has had at its disposal three common measures for the reform of agriculture :

Directive 72/159/EEC for the modernisation of farms ;

Directive 72/160/EEC for the cessation of farming and the reallocation of land ;

Directive 72/161/EEC for social economic guidelines and training of those in agriculture.

Seven Member States have introduced provisions relating to Directives 72/159 and 72/160. Two Member States have fully implemented Directive 72/161 and four others have partially implemented Directive 72/161. Two Member States have not acted to implement any directive in any way.

The Directives must be implemented fully, and backed up fully by action to improve rural infrastructure, marketing organizations and training, and efforts to improve the growth of stock and seed in the more backward areas to bring them up to the level of the most productive regions. The implementation of the Directive on hill farming and farming in certain less favoured areas is an essential requirement for an effective structural policy.

47. Beyond the question of improving the infrastructures and the training of those in agriculture is that of providing alternative employment in rural areas for those presently in agriculture. One cannot encourage people to leave agriculture without providing them with such alternative employment, for if they are forced to search for work in other areas, the infrastructure serving those remaining in agriculture will most certainly deteriorate as a result of depopulation.

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<sup>1</sup> p. 51, paragraph 116

A complete review of the Guidance Section is now called for, with the aim of showing which Regulations, Directives or proposals should be modified and new measures of social or regional policy be introduced.

An examination of the average annual change in the number of persons engaged in agriculture shows that the number of self-employed people leaving the agricultural sector is slowing down (though this is not true for salaried workers).

<sup>1</sup>  
Average annual change in the number of persons engaged in Agriculture (%)  
(including forestry and fishing)

	1973/1968	1972/1971	1973/1972
EEC - 6 .....	- 4.6	- 4.5	- 3.7
EEC - 9 .....	-	- 5.2	- 3.3
Salaried workers .....	-	0.6	1.8
Self-employed .....	-	- 6.9	- 3.9

The great majority of those leaving agriculture are in the youngest age categories, which results in an increase in the average age of those remaining in agriculture.

The slowing down of those leaving agriculture is due to the general economic climate. There is little alternative employment in rural areas for the young and an absence of an alternative to the oldest, apart from often inadequate pensions.

The situation would be improved for younger members of the farming population, as mentioned above, with alternative rural employment; for older members of the farming population, the situation would be greatly improved if Directive 72/160 on incentives to give up farming were to be fully implemented.

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<sup>1</sup> Source : SOEC - social statistics

Proposals to improve the budgetary management of the CAP

48. The Commission believes that many of the proposals, especially those relating to improve forecasting and increased Commission powers for market management, will lead to a reduction in expenditure by the EAGGF. It is doubtful whether sufficiently accurate forecasting can be achieved to be of use as a basis for short term policies. However, increased powers of market management for the Commission are desirable.

In addition, a number of specific adjustments are proposed :

- (a) the automatic updating of EAGGF guarantee estimates to take into account market trends ;
- (b) making provision in the Budget for price increases at the time of the Budget's approval ;
- (c) an accelerated ad hoc supplementary budgetary procedure ;
- (d) the creation and regular updating of a guarantee section 'budgetary control panel' to enable a rapid reassessment of the budgetary repercussions of variations in exchange rates, world prices, harvest and foreign trade ;
- (e) continued efforts to detect frauds (an adequate force of inspectors is essential) ;
- (f) periodic review of those aspects of the CAP giving rise to financial problems.

49. The proposals appear more substantial on paper than they are likely to appear in reality. A number, relating to budgetary allowances for market trends, will require the agreement of the Council, and the Council has shown itself to be notably unwilling to venture along this path. Others will require the cooperation and the willingness of Member States to supply information, either on market trends or the fraudulent activities of entrepreneurs receiving funds from the EAGGF. Information supplied in the past has been very meagre. An Audit Court, if established rapidly with enforcement and power of investigation, would lead to a rapid improvement.

Both the Member States and the Council should reconsider their attitudes and act in a way conducive to rational budgetary planning and effective financial control.

## Conclusions

50. The Committee on Agriculture welcomes the Commission's communication on stocktaking as a step forward in creating the basis for a discussion of improvements in the instruments of the CAP, and an introduction of new methods of agricultural support and control of EAGGF expenditure.

51. The Committee on Agriculture can agree with certain of the broad statements contained in the communication : that the CAP has contributed, in general, to stabilising agricultural markets and consumer prices, while, on the other hand, serious problems remain in certain sectors, notably beef and veal, milk, wheat and wine; and most importantly in ensuring adequate incomes to farmers in less favoured regions. Even within the general air of satisfaction pervading the communication, substantial answers are required.

52. The Commission's communication contains very few new proposals to deal with the problems outlined : the market imbalances existing in the meat, milk and wine sectors; the great regional disparities in agricultural incomes; and maintaining EAGGF expenditure within reasonable limits.

In general, it is content to argue that alternative policy instruments are more expensive than present ones and will lead to greater inefficiency in agriculture. This is probably correct.

The basis of this contention is a mainly academic one based on the principle of the necessity for the optimum allocation of resources. This principle is fundamentally correct, of course; however, it is a long-term ideal to be aimed at in the future, not a state which can quickly be achieved in the short term. There are problems to be faced at the present and it would be unwise to dismiss out of hand any particular solution, such as direct producer grants, since they do not conform with previous practice.

On page 12, paras. 28/29, of its communication, the Commission admits that effective guarantee and protection systems have created obstacles to specialisation, as have regional prices, inadequate price ratios and high support prices. This rather disarms the criticisms and objections, along similar lines, made by the Commission to other policy instruments, such as consumer and production subsidies and quotas.

At the present moment, difficulties are being experienced in the meat sector as a result of the unprecedented increases in the prices of feedingstuffs, fertilizers and machinery. It has proved almost impossible to reconcile a price that will allow an adequate level of income for the producer with the consumer's idea of what he should pay for the product in the shops. In the end, educating the consumer to the true facts of life may be the answer; but in the meantime temporary expedients are required. These may, in certain circumstances, be recourse to direct producer and consumer subsidies. These should only be used in combination, and must be granted only in a framework where a greater sensitivity in the reactions of the producer to the market is being encouraged: either through market instruments or improving marketing organisation. National ones must be coordinated and harmonized.

53. In terms of improving market instruments, the Commission returns with two ideas contained in the 'Lardinois Memorandum': improving price relationships between products and sectors; and establishing a producer responsibility for surpluses. It introduces the newer concept of adjusting prices in the course of the marketing year in accordance with evolving market situations. But greater consideration needs to be given to this concept if producers in certain countries, such as milk producers, are not to be over-penalized.

These proposals, if implemented by the Council (and here there is a great question mark), would certainly introduce greater sensitivity in the relationships between the producer and the market. The Council must make up its mind that it is impossible to contain agricultural expenditure within reasonable limits, as the Council desires, if it, on the other hand, refuses to countenance the necessary improvements in market instruments.

54. Beyond this, the Commission should review its opposition to producer grants and consumer subsidies. It is true that these should only be employed as short term expedients, but may prove necessary, in times of exceptionally high costs, surpluses or scarcities, if the overriding principle that prices policy is to be based on the modern farm is to be maintained.

55. On the marketing side, it is extremely disappointing that the Commission has not come forward with proposals to improve market organisations. The Commission should act in this direction as soon as possible.



56. There is no necessity for the Committee on Agriculture to stress the importance of an effective structural policy. The importance of Member States implementing fully directives on retraining cannot be overstated. Social and regional problems should be dealt with by adequate social and regional funds.

57. Finally, the Committee on Agriculture believes that while monetary compensatory amounts cannot be accepted as a permanent instrument of policy, in the short term the producer and the consumer have to be protected from monetary fluctuations. But there should be greater reality in the relationship between Green and market currency rates.

EEC Entry Prices as a % of World Market Prices

	<u>1969/70</u>	<u>1973/74</u>
Soft wheat	214	79
Durum wheat	230	116
Rice	186	60
Barley	203	96
Maize	159	98
Sugar, white	298	66
Beef	147	111
Pork	137	131
Eggs	151	111
Butter	613	320
Powdered skim milk	380	156
Olive oil	160	98
Oil seeds	155	77

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Source: Statistical Office of the European Communities  
Year Book of Agricultural Statistics 1974 p.254

OPINION OF THE COMMITTEE ON BUDGETS

Draftsman: Mr M. COINTAT

On 24 March 1975 the Committee on Budgets appointed Mr COINTAT draftsman.

It considered the draft opinion at its meetings of 21 May and 9 June 1975 and adopted it unanimously on 9 June 1975.

Present: Mr Lange, chairman; Mr Aigner and Mr Durand, vice-chairmen; Mr Cointat, draftsman; Mr Früh, Lord Lothian, Mr Notenboom, Mr Pètre, Mr Schuijt (deputizing for Mr Brugger), Mr Shaw.

### Key importance of the common agricultural policy

1. The key importance of the common agricultural policy was clearly recognized by the drafters of the Treaty of Rome. This recognition is evidenced by the inclusion in Article 3 of the Treaty of 'the adoption of a common policy in the sphere of agriculture' as one of the activities of the Community designed to establish a common market and secure the progressive promotion throughout the Community of a harmonious development of economic activities. It is also evident in Article 39 of the Treaty, which sets out the objectives of the common agricultural policy as increased productivity, the ensuring of a fair standard of living for the agricultural community (including those living in the less favoured regions), market stabilization and the availability of supplies at reasonable prices for consumers; other major aspects of the common agricultural policy relate to the Community's contribution towards the solution of the problem of world famine, the harmonious development of world trade and the protection of the environment.

Agriculture almost proved a stumbling block to the signature of the Treaty of Rome.

Since those early days, the common agricultural policy has become the driving force in Europe. It has enabled the three basic principles of the common market to be defined: free movement of goods, persons and capital - Community preference - financial solidarity.

2. The Committee on Budgets concurs with the assessment, made by the Economic and Social Committee, of the vital role played by the common agricultural policy in the process of EEC political integration 'the very existence of the common agricultural policy and the rules for its application has been, and continues to be, an extremely important force for integration. This, despite the fact that some of the rules may be open to criticism.'<sup>1</sup> The present stocktaking of the common agricultural policy is, therefore, welcome because it enables a survey to be made of the budgetary and other aspects of a central part of the Community framework.

### Features of the review which are of special budgetary interest

3. The principal points of budgetary interest, made in the review<sup>2</sup>, can be summarized as follows:

- the rapid rise in Community budgetary outlay devoted to implementation of the common agricultural policy;

<sup>1</sup>O.J. No. C 115/23 of 28.9.1974

<sup>2</sup>Doc. 529/74

- the reasons for the expansion of the outlay in question, e.g. the transfer to the Community of the market support expenditure previously borne by Member States;
- the under-spending of the appropriations for agriculture provided in the budgets of the Community over earlier years;
- the frauds and irregularities which come to light from time to time and which reflect unfavourably on the Community's system of control of expenditure; and possible alterations in the common agricultural policy making for expenditure economies.

#### Achievements of the common agricultural policy

4. While the increase in expenditure at Community level in the domain of agriculture has been very considerable, as the tables in the appendix show, it can be said that the policy has proved highly effective on several fronts. For instance, Table 2 of the annex indicates the rapid growth in agricultural income during the years 1964 - 1973. The increase was particularly notable during the five years 1968 - 1973, being 80% for the six Member States of the original Community. The benefits of this tendency for farmers were clearly appreciable, both from the economic and social viewpoints.

Also, the expenditure of Member States from the central budget has been less great over recent years than would have been the case if the common agricultural policy had not been in operation. It is extremely difficult to bring together comparable budgetary figures in this sphere for all Member States. However, Table 3 of the annex shows the effect of moderation on growth in national expenditure which resulted from the development of the Community approach to agricultural problems.

Table 4 of the appendix gives (A) the EEC entry price and (B) the world market price for certain key agricultural products. The relative stability of Community prices for the products in question (wheat, white sugar, beef and maize) was very significant as compared with the pattern shown by the world market trend. The rise in world market prices was especially notable in 1974.

On the following three planes, that is, growth of agricultural income, moderation of national budgetary expenditure in relation to agriculture and relative stability of Community prices, it is evident that the common agricultural policy has met a large measure of success. In a later paragraph, your rapporteur will draw attention to the need for putting into operation a Community Information Programme which will make consumers, farmers and Community tax-payers more fully aware of the benefits flowing from the common agricultural policy.

One other observation should be made on finance: wherever the market organization provides for permanent intervention and guaranteed prices the expenditure is proportionately higher but, in return, the common policy has been a success. In other instances the expenditure is lower, but the results achieved come in for criticism and are sometimes called into question. Wheat on the one hand and wine on the other are typical examples of this phenomenon.

#### Growth of the EAGGF

5. The review highlights the rapid growth of initial appropriations in the Community budget for the common agricultural policy; these rose from 103 million u.a. in 1965 to 4.3 milliard u.a. in 1975. This steep rise reflected the transfer from the central budgets of Member States to the Community budget of market support expenditure arising from

- (a) the gradual establishment of the common organization of markets and
- (b) the assumption by the Community budget of expenditure under guarantee.

While total EAGGF expenditure has grown steeply, there have of course been offsetting gains to the budgets of Member States and Community-wide benefits flowing from the multi-national approach to common problems. Moreover, total EAGGF expenditure as a percentage of gross internal product averaged only 0.43 for the six years to 1973 inclusive. As well, it can be said that the seemingly great share of the Community budget that the common agricultural policy outlay represents is as much attributable to the lack of progress in other spheres of Community activity and to the non-budgetization of the EDFs as to any excess of outlay in the agricultural sphere.

The growth of the EAGGF is attributable to the progressive generalization of the common policy, the enlargement of the Community and the monetary difficulties experienced in recent years.

#### Under-spending on estimates

6. From the budgetary control point of view, a major feature of the review is the revelation of the extent to which provisions made in successive budgets were not utilized during the decade to 1974. Of the 21.6 milliard u.a. provided for the EAGGF during the period in question, only some 14.9 milliard u.a., or about two-thirds of the total, was actually expended.

7. A reform in the system of budget clearings in operation since 1971 has had the effect of ensuring that actual expenditure has been, in more recent years, far closer to the initial estimates than had been the case earlier. As the review points out, the rate of use of the adjusted appropriations (after transfers and supplementary budgets) has been much higher since 1971: 83.2% on average as against 65.7% in earlier years. The reasons for the wide variations in earlier years are related to the hazardous nature of the

agricultural activity itself, which is so prone to wide fluctuations in production and return, attributable both to climatic and demand factors. The promise of improved budgetary forecasts made at paragraph 101 is, therefore, to be welcomed.

The guarantee section of the EAGGF must therefore be analysed by reference to the real expenditure which is distinctly smaller than the sums entered in the budget.

#### Other aspects of EAGGF expenditure

8. Payments from the EAGGF have increased considerably over the years. Instead of one single country being the main beneficiary, as was the case to start with, the situation is now one in which the contributions of Member States to the Community budget and the revenue they derive from it are more balanced<sup>1</sup>. This is partly due to the extension of the common agricultural policy to cover a much wider range of products than in the early years. There is, however, another reason which must not be overlooked: the development of European agriculture itself. Implementation of the common agricultural policy has enabled certain regions which had not previously done so to engage in agricultural production. Thus while certain Member States which, in the early days of the common market, had a strong agriculture and weak industry, have had to take steps to develop their industrial structures, the countries which to begin with were in the opposite situation, have now strengthened their agricultural sector. Community preference has helped to accelerate the development and rationalization of European agriculture.

#### Changes in the pattern of agricultural trade

9. One of the basic reasons for establishing the common market was the need for greater interpenetration of markets - free movement of goods - bringing with it the benefits of improved specialization and helping to ensure the more efficient utilization of resources. This process has in fact already begun. Traditional barriers have long since disappeared and, to take one example, wheat grown in France is sold in the western parts of the Federal Republic of Germany while cereals grown in the Bamberg area of the FRG are exported to markets in eastern Europe. Brittany and Normandy, formerly on the periphery of the common market, are now - following enlargement of the Community - in a more central commercial situation. Consequently recent years have seen a normalization of the pattern of trade in agricultural products within the Community.

#### Increase in the efficiency of European agriculture

10. Column A of annexed Table 4 shows that in recent years prices have been more stable on the Community market than on the world market. This situation has been beneficial to the Community consumer. In addition, it has been found

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<sup>1</sup>See table 5 of the appendix.

that Community producers have been relatively more efficient and the increase in their costs has followed a more marked downward trend than in third countries. It is, however, impossible to determine quantitatively the extent to which the international approach of European agriculture has contributed to this development.

Continuation of the present support and guidance policy would be very much in the interest of Community producers and consumers, and also of the European economy and the third world. The 'green revolution' is reaching its limits while foreign demand for foodstuffs is continuing to grow, not only because of the emergency situation prevailing in certain areas but also because of increased purchasing power and changes in the habits of consumption of the population of the oil producing countries; against this background the Community will be able to make a real contribution to stabilizing the world food supply situation by meeting market requirements and playing an important part in the fight against hunger in the world.

#### Other considerations

11. It is true that Europe has sometimes known surpluses of certain products and this has given rise to hostile comment. It must not, however, be forgotten that these stocks are extremely small in the world context. For example at the present time, world wheat stocks amount to one third of the level considered necessary to meet possible needs satisfactorily. Another example: the production of one ton of beef requires the prior production of ten tons of cereals - and there is a growing demand for proteins. Exports of agricultural products from the Community at present give rise to refund payments: this might be viewed as the first stage of a major development as it results in the development of trade links with foreign markets. In addition the entire Community benefits as its exports bring in foreign currency which helps defray the cost of vital primary commodities. This type of trade could become much more important in the next few years without representing a burden on the Community budget but with very favourable implications for the Community's balance of payments situation. It must of course also be recognized that although the Community exports certain agricultural products it will continue to be a major importer, particularly of foodstuffs. It may also be considered that Community exports of foodstuffs help in part to compensate the cost of these inevitable imports of foreign agricultural products. Annexed Table 6 shows the figures for Community trade in agricultural products for 1958, 1971 and 1972. Whereas the volume of imports by the six has risen by 88%, exports have shown a spectacular growth of 143% between 1958 and 1972.

At a time when the area of arable land is gradually contracting, a certain degree of agricultural activity is also essential in order not to deplete the Community's land, to ensure stability and for the Community to be able to help forestall the food shortages threatening the whole world in the long term.



### Frauds and irregularities

12. A feature of outlay in the sphere of Community agriculture which has done much to erode public goodwill for the Community's policy in this field, and indeed to bring the Community's methods of assisting agriculture into some disrepute, has been the series of widely publicized frauds and irregularities, especially in the guarantee section. These so-called 'euro-frauds' are extremely difficult to quantify because there is no ready way of determining the degree to which reported cases reflect the extent of the problem.

13. However, the Commission's document indicates that cases reported between 1971 and March 1974 amounted to 14.8 million u.a., of which 9.6 million has been recovered. The Commission points out, rightly, that the Member States have a major responsibility for the prevention, detection and punishment of fraud. Moreover, the Commission has also drawn attention to the active steps taken to strengthen the Community anti-fraud machinery.

14. While it may well be that this problem is exaggerated in some press reports, there would appear to be need for further effective counter measures. The Committee on Budgets has a special responsibility in regard to ensuring that funds flowing out of the Community budget are devoted to the purposes intended by the budgetary authorities. Your draftsman is of the view that urgent consideration should be given to the formulation of proposals for a more effective Community system leading to detection of irregularities of this nature.

15. This matter will, however, come up again for consideration shortly in the Committee on Budgets in the context of:

- the report on the 1973 EAGGF review;
- the report, planned for the June session, on frauds in the dairy products sector, and
- the follow up to the 1972 Audit Board's report.

### Information campaign

16. It is disturbing to read at paragraph 11 of the Commission's review that 'the generally favourable climate in which the common agricultural policy developed during its first years of existence has been replaced by one of public distrust, attributable partly to a lack of political will and partly to inadequate information on agricultural problems'. It appears to your draftsman that the time may well be ripe for a review of the existing information campaigns financed by the budget of the Communities and for the evolution of an effective information programme which will:

- show clearly to the producers the extent of the Community effort on their behalf;
- advise the consumers of the advantages flowing to them in the form of stability of supplies, moderation of price increases and standardization of quality;
- make the tax-payers (who are also the consumers) aware of the net position: e.g. the easing of the national tax burden which flows from the transfer to the Community charge of so much of the cost of financing Community agricultural activity and the gain, on a Community scale, from a multi-national approach to common problems in the agricultural domain.

#### Simplification

17. This committee has, in the past, drawn attention - see Mr Durand's opinion on the draft directive on the organization of a 1975 structural survey<sup>1</sup> - to the need for greater clarity in Community measures in the sphere of agriculture. A simplification of procedures and systems would lead to many benefits, not least being the diminution of possibilities for fraud which stem from the sheer complexity of Community legislation in this domain, and a better public appreciation of the objectives of Community activity in relation to agriculture.

It is appreciated that this would be a long-term process but it is considered that it should, nevertheless, be undertaken as a priority task.

The Commission's comments at paragraph 102 in this connection are noted but it is felt that a greater degree of progress in this sphere is required.

#### Structural problems

18. The review highlights the particularly difficult problem which structural inadequacies in European agriculture poses for a successful common agricultural policy. While, as indicated at paragraph 43 of the review, 1.5 million farms of 1 to 20 hectares disappeared in the original Community in the decade to 1970, the average size of farms has increased by only 3 hectares since 1958 bringing the average area to 13.3 hectares in 1973. Fragmentation and small size of holdings have clearly adverse implications for the evolution of a really viable agricultural sector. The Commission's references to this aspect are quite explicit: at paragraph 17: '.... the fundamental problems of European agriculture, which are essentially structural' and at paragraph 16: 'The development of agriculture has shown the insufficiency of the structural instruments used during the transitional phase ... The structural development of agriculture has been characterized by its slowness'. The lack of progress

<sup>1</sup>PE 38.141

on the structural reform front has a costly effect on the Community budget, as well as having serious implications for such fundamental Community objectives as the promotion of technical progress in agriculture so as to increase agricultural productivity and 'the rational development of agricultural production and the optimum utilization of the factors of production, in particular labour'.<sup>1</sup>

19. If budgetary outlay is to be of maximum economic advantage, and if there is to be an ultimate moderation in the level of Community expenditure in this sphere, then the programmes of rationalization and structural reform must be pushed ahead rapidly. It is, therefore, disturbing to read at paragraph 17 of the Commission's review that the common measures, serving as a basis for the reform of agriculture - and which have been available for three years now - have been implemented in a hesitant fashion. The overall position is summarized in paragraph 19 of the Commission's text.

20. It is most regrettable that delays of implementation of this nature should arise and, because of the significance of the measures for the future of the common agricultural policy, for budgetary outlay and for economic union, a further report on this aspect, by the Commission, towards the end of this year is desirable.

The structural policy was decided in March 1972. Few active steps have been taken in the past three years. It will be impossible to solve the difficulties of agriculture by price machinery alone. Only structural improvement and monetary union can bring about progress and definitive solutions which will eventually result in a lightening of EAGGF expenditure.

#### Food aid

21. As regards this expanding part of the budget, the Commission indicates that, from 1968 to 1974, total food aid from the Community as such amounted to over half a billion units of account in actual payments. For the years ahead, the document states that 'from the years 1976 onwards, the Commission will propose multi-annual food aid commitments to the Council, covering not only cereals ... but also other products - for example, milk products ...' (paragraph 99). No quantification of this aspect is attempted in the document, however.

<sup>1</sup>Article 39 of The Treaty of Rome

## Extent of achievement of Treaty objectives

22. Article 39 of the EEC Treaty lays down five main objectives of the common agricultural policy; these objectives, listed below, have been broadly achieved through the efforts undertaken during the fifteen years of the policy's operation:

(a) increase of productivity

Thanks to the combined effects of technical progress and the opening up of markets, there has been more rapid and more substantial improvement in agricultural productivity than in the industrial sector;

(b) maintenance of a fair standard of living for the agricultural community

As annexed Table 2 shows, agricultural incomes have considerably increased in the period under review, though it is true that some disparities persist between different agricultural regions and different types of farm production;

(c) market stabilization

Although agricultural output is, of its nature, particularly vulnerable to seasonal fluctuations and weather conditions, it is an undeniable fact that the common agricultural policy has been one of the major factors for the stabilization of markets for various agricultural products;

(d) ensuring availability of supplies

It is estimated that the Community's self-sufficiency in food products is at present approximately 80%;

(e) price stabilization

It will be seen from Table 4 that common agricultural policy mechanisms have made it possible - more especially in recent times - to stabilize the prices of food products in the Community. It is worth noting that, at the retail stage, the increase in agricultural product prices in 1974, for example, was 10.5% in the Six, compared with 29% in Japan and 14% in the United States.

It can therefore be confidently stated that most of the objectives laid down by the Treaties have been achieved, and that the common agricultural policy is one of those areas where the greatest effort has been made and has met with success. It is because of this success, and of the extent of the policy's progress, that throughout these 15 years criticism has been directed at the common agricultural policy; for there is little point in flogging a dead horse. It should also be noted that, in some of the Community's particularly disadvantaged regions, the common agricultural policy has effectively played the

part of a social and regional policy, the absence of which was at the time most acutely felt. Now that the Community has made a start on these two complementary activities, it is essential to enable the common agricultural policy to concentrate its efforts on the viable and productive sectors of European agriculture.

#### Summary

23. The verdict given in the Commission's document on the effectiveness of the common agricultural policy is equivocal. On the one hand, positive results are cited - 'between 1968 and 1974, however, the monthly variation in market prices during the year was much less in the Community than on the world market or even on the United States market' (paragraph 48). '... the common agricultural policy has proved to be a stabilizing factor on most food prices rather than a source of inflation' (paragraph 55). But unfavourable observations are also made: 'With regard to regional disparities, the difference in incomes in absolute terms has widened in each of the Member States ...' (paragraph 43). A failure to communicate adequate information is admitted (end of paragraph 11) and the misappropriation of budgetary funds is treated with perhaps insufficient seriousness - 'the supposed extent of frauds and irregularities is a fertile field for surmise and complaint' (paragraph 64). The lack of progress in the spheres of economic and monetary union and of regional and social policies has played a large part in weakening the effectiveness of the common agricultural policy.

24. In the section dealing with proposals for improvements, many possible changes are mooted: possibility of Community exporters carrying out longer-term operations, sharpening competition by making freer use of tendering procedures, securing greater transparency of markets, preparation of regularly updated projections, milk and milk products prices adapted more closely to market trends, reforms in the beef and veal, cereals and olive oil sectors, etc. Unfortunately, the possible budgetary effect of these proposed improvements is not set out and the Commission confines itself to a global comment to the effect that it 'believes that the improvements proposed in the present communication will have the effect of limiting the budgetary cost of the common agricultural policy to a level best corresponding to economic objectives concerning consumers and producers alike' (paragraph 131). This broad statement does not provide an adequate basis for reaching an informed opinion on the implications of the possible alterations for the budget of the Communities.

The Community is also suffering from excessive administrative centralization. It would be desirable to make better use of existing facilities in Member States without creating new services whose cumbersome nature inhibits efficient management.

25. The suggestions in paragraph 133(1), (2) and (3) - for improving budgetary management of the common agricultural policy through the updating of estimates and the introduction of machinery for rapid assessment of the budgetary repercussions of any abrupt or substantial variation in a significant agricultural expenditure variable - seem generally acceptable; however, they require to be explained more fully before they can be finally assessed by the Committee on Budgets.

In its stocktaking, the Commission of the European Communities has confined itself to a 'snapshot' of the present and past situations. From the budgetary angle, the memorandum draws no dynamic conclusions which could serve as a lesson for the future. A bolder approach could perhaps have been hoped for.

#### Conclusion

26. The Committee on Budgets feels that particular attention should be paid to the following three points:

(i) consistency in decision-making

It is important to avoid double payments for the same output, once in the form of production subsidies and again for eliminating surpluses; such a procedure is particularly damaging to the common agricultural policy's image in Community public opinion;

(ii) income support

The Committee on Budgets considers that this method is both more fair and more appropriate in the particular circumstances of Community farming; moreover, it permits the adjustment of aids to the farmers' real financial situation and the prevention of the exploitation of aid by farmers already enjoying an especially privileged position;

(iii) food aids

The Committee is of the opinion that food aids should be governed by a policy formulated in advance according to the real needs of the beneficiaries, and should not be solely determined by surplus situations in the Community.

27. It also deplores the fact that the Commission's communication does not constitute a genuine stocktaking of the common agricultural policy, especially as far as its financial aspects are concerned; that it is no more than a partial analysis of fifteen years of experience and the lessons that may be drawn from this; that it therefore does not amount to what Parliament could legitimately expect of a stocktaking of a policy so vital to the construction of Europe;

28. The Committee on Budgets notes with satisfaction that, fifteen years after its introduction, the common agricultural policy has managed to ensure a more satisfactory distribution of agricultural activities in the Community and a better equilibrium of the contributions and payments of each Member State. It should, however, be noted that the price of this progress has been paid by the farmers themselves in the form of heavy migration from rural regions (over 1.5 million European farmers have left the land during the period under review).

29. The common agricultural policy has been a key factor in the progress toward European integration and has made possible the achievement of the objectives laid down in Article 39 of the Treaty. But no further progress can be made unless there is parallel advancement towards economic and monetary union.

30. The Committee on Budgets deplures the fact that the appropriations available on the basis of regulations for the achievement of a common agricultural structural policy have remained unused for years on end, so that a structural policy on a European scale has not been implemented in parallel with a policy of price machinery which cannot, on its own, solve the problems of agriculture; the Committee insists therefore on the need for a more rapid implementation of structural policy with simultaneous streamlining of the system of aids for guidance and operation of agricultural restructuring.

31. The Committee on Budgets finds, in the light of experience acquired in this respect, that the appropriations entered in the annual budget for the common agricultural policy - which still represent the largest part of the Community's budget - are liable to require substantial adjustment during the year; the Committee believes therefore:

- (a) firstly, that the fact that the appropriations entered are in the nature of estimates often seriously detracts from the meaningfulness of the classification of the guarantee section appropriations as obligatory expenditure; the Committee therefore intends to review with the other institutions the nature of at least part of these estimates;
- (b) secondly, that under the system of the Community's own resources, adjustment of the guarantee section of the budget to the price decisions taken during the year must be made possible by entering in the annual budget a 'provision for price increases' which will become operational at the appropriate time but without encroaching on the Parliament's budgetary rights.

32. The Committee on Budgets consequently rejects the idea of ad hoc supplementary budgets which, under the system of own resources, would raise difficult problems of increasing the Community tax during the year;

33. It agrees with the Commission on the need to establish and continuously update a 'budgetary control panel' enabling the significant variables of agricultural expenditure to be assessed rapidly.

34. It regrets that the Commission has made no detailed observations on the budgetary implications of the adjustments it proposes to make to the operation of the common agricultural policy.

35. Finally, the Committee notes that new efforts have been made by the Commission to take more effective action against frauds and irregularities in the EAGGF sector, and invites the Commission to make even more intensive and systematic efforts in this area.

36. The Committee on Budgets requests the Committee on Agriculture to take account of its conclusions in drafting its report.



ANNEX

TABLE 1

Trend of expenditure in EAGGF  
Guarantee section from 1964 to 1972

Guidance Section  
Credit available

	m.u.a.		m.u.a.
64/65	159.9	Budget 1965	25.7
65/66	238.6	1966	75.2
66/67	395.5	1967	134.3
67/68	1,039.1	1968	153.5
68/69	1,642.6	1969	350.2
half year 1969	1,668.9	1970	524.2
1970	2,604.2	1971	757.9
1971	1,571.-	1972	839.6
1972	2,446.- <sup>1</sup>	1973	788.4
1973	3,659.-	1974	938.5

<sup>1</sup>1972 financial year 13 months; 1972 year: 2,330 m.u.a.

Source: Second financial report concerning the EAGGF COM(74) 786 final Annex No. IV and Annex No. VI  
Third financial report concerning the EAGGF SEC(74) 5246 final Annex C.1 and Table 1

Note: A ceiling of 285 m.u.a. per year was set on the Guidance Section of the EAGGF; this was raised to 325 m.u.a. after the enlargement. The above figures include the cumulative total of the Mansholt reserve.

TABLE 2

Index of 'farm income' per  
annual labour unit in money terms  
(1968 = 100)

Year	EEC - 6
1964	74.2
1965	81.7
1966	86.0
1967	92.9
1968	100.0
1969	106.8
1970	118.4
1971	130.2
1972	155.8
1973	179.5*

\* (excl. Belgium)

Source: The Agricultural Situation  
in the Community Report 1974:  
Volume III Annex COM(74)  
2000 final Tab. II D/2

TABLE 3

Estimates of Central Government outlay  
in relation to agriculture for the Six:  
Market support costs, structural measures  
and veterinary, etc., expenditure  
included; social measures excluded  
(m.u.a.)

1960	1,725
1967	3,000
1969	2,700
1971	3,250

(Source: Budget documents  
of Member States)

TABLE 4

Prices of certain agricultural products  
in the Community and on the world market  
(in units of account per 100 Kg)

	<u>Common Wheat</u>		<u>White Sugar</u>	
	<u>A</u>	<u>B</u>	<u>A</u>	<u>B</u>
1968/69	10.95	5.61	22.35	6.29
1970/71	10.95	5.79	22.35	10.99
1971/72	11.28	5.39	23.80	15.75
1972/73	11.74	7.67	24.55	19.30
1973/74	11.86	14.94	24.80	37.52

	<u>Hard Wheat</u>		<u>Beef</u>	
	<u>A</u>	<u>B</u>	<u>A</u>	<u>B</u>
1968/69	16.38	7.67	68.00	40.24
1970/71	16.43	7.08	68.00	48.51
1971/72	16.82	6.61	72.00	53.96
1972/73	17.38	9.61	76.63	68.26
1973/74	26.46	22.73	86.20	77.50

	<u>Maize</u>	
	<u>A</u>	<u>B</u>
1968/69	9.59	5.39
1970/71	9.69	6.88
1971/72	9.81	5.58
1972/73	10.32	7.24
1973/74	10.43	10.68

A = EEC entry price;      B = World market price

Source: Eurostat and DG VI of the Commission

TABLE 5

Credit/debit balances for the period 1965-70 compared with  
the current revenues of the original Member States (EAGGF)

	Balance <sup>1</sup> 1965-1970 (in m.u.a.)	Current revenue of the State <sup>2</sup> (in m.u.a.)	Ratio <sup>1</sup>
Belgium	- 165.4	41,190.0	0.40%
Germany	- 868.6	377,710.0	0.23%
France	+ 817.5	279,035.0	0.29%
Italy	- 172.9	143,870.0	0.12%
Luxembourg	+ 1.6	1,688.6	0.1%
Netherlands	+ 387.5	60,236.5	0.64%

<sup>1</sup>Cumulative balances of the Guarantee Section and balances due from the Guidance Section

<sup>2</sup>Total public administration revenues from 1965 to 1970 converted into u.a. at current exchange rates

TABLE 6

Imports of agricultural products (original Member States)  
(1,000 u.a.)

	<u>1958</u>	<u>1971</u>	<u>1972</u>
From other Member States	1,242,778	7,791,061	9,425,275
From third countries	7,440,187	13,045,361	14,000,143
Total	8,682,965	20,836,422	23,425,418

Exports of agricultural products (original Member States)  
(1,000 u.a.)

	<u>1958</u>	<u>1971</u>	<u>1972</u>
To other Member States	1,212,848	7,783,910	9,433,874
To third countries	1,926,339	4,191,343	4,681,723
Total	3,139,187	11,975,253	14,115,597

Source: Eurostat 1974 Yearbook of Agricultural Statistics.

OPINION OF THE COMMITTEE ON EXTERNAL ECONOMIC RELATIONS

Draftsman : Mr M. VETRONE

On 1 April 1975 the Committee on External Economic Relations appointed Mr M. Vetrone draftsman.

It considered the draft opinion at its meeting of 10 June 1975 and adopted it unanimously with 3 abstentions.

Present: Mr Kaspereit, chairman; Mr Thomsen and Mr Bersani, vice-chairmen; Mr Vetrone, draftsman; Mr Bayerl, Lord Bethell, Mr Boano, Mr Cousté, Mr Dunne, Mr de Koning, Mr Spicer and Mr Schwörer (deputizing for Mr Schulz).

## I. INTRODUCTION

1. At the request of the Council of Ministers (October 1974), the Commission of the European Communities has taken stock of the common agricultural policy over a period of ten years.

2. In its document, the Commission evaluates the development of the common agricultural policy up to now (Part One); it goes on to analyse the extent to which the instruments used by this and related policies have contributed to the achievement of the aims of the Treaty (Part Two). Finally a financial and economic assessment is made of the agricultural sector and the principal problems of European agriculture today are highlighted; the main measures of adaptation of the CAP necessary for an adequate solution to these problems are also indicated (Part Three).

## II. OBSERVATIONS ON THE CONTENT OF THE COMMUNICATION FROM THE COMMISSION OF THE EUROPEAN COMMUNITIES

3. The following considerations emerge from an examination of the activities of the European Commission, in so far as they fall within the terms of reference of our committee:

(a) As regards the extension of the common agricultural market, the Commission considers it important not only to eliminate the barriers to trade in agricultural products but above all to bring about a geographical distribution of production according to the principles of a better allocation of the necessary resources and specializations.

The 'stocktaking' shows how the instruments used in the CAP have enabled this objective to be achieved to a very limited degree.

It may be wondered in this connection why the Commission has not mentioned the problems arising from the implementation of the Mediterranean policy.

The new agreements reached, or in the process of negotiation, with the Mediterranean countries include among their provisions major concessions on agricultural imports from the countries concerned.

This factor may have important consequences for certain products. Attention is therefore drawn to the fact that the regions most affected by the application of these agreements will be the Mediterranean regions of the EEC whose agriculture has not achieved satisfactory results.

(b) As to the aims of increasing productivity, achieving a fair standard of living for the agricultural population and stability of the markets, the Commission's analysis does not go into detail and, in the case of those products which are in short supply, an important distinction should be made between types of production which can be stimulated within the Community at an

acceptable cost by improving production techniques, and those which must be imported from outside the EEC.

We would stress that this analysis is vitally important if the Community's production and commercial policies are to be suitably modified.

(c) In the matter of the development of international trade, the Commission's text notes certain shortcomings as far as external trade is concerned, e.g.

- dumping of surplus production on the world market is liable to cause difficulties;
- conflict between the objectives of the common agricultural policy and development aid policy, to the extent that the encouragement of certain internal products reduces the need for imports from the developing countries;
- need for a greater diversification of sources to guarantee security of supply of some products and the desirability of stipulating long-term contracts.

It is regrettable that while the Commission recognizes these shortcomings it has not proposed any remedy.

4. Finally, as regards the third part of the 'Stocktaking' concerning the problems of the common agricultural policy and proposals for its improvement, the Commission's proposals will not enable satisfactory solutions to be found to the basic problems of European agriculture.

The construction of a more balanced and effective common agricultural policy must be based on the two following principles:

- achievement of a better balance of Community supply and demand for agricultural products; in this connection it would be desirable to introduce production and storage policies and international agreements designed not only to enable surpluses to be eliminated but also to ensure secure supplies of products which are not available in sufficient quantities on the European market;
- reduction of the inequalities in the development of Community regions; in the case of regional inequalities, the solution to the problems connected with economic backwardness, resulting from a poor combination of resources or environmental difficulties, is often hampered by a lack of professional skills, so that it would be desirable to work out special, overall projects.

In this sector of agricultural policy, where the problems are particularly hard to solve, further difficulties will arise in achieving the objectives set by the Commission because of the impact in the agricultural sector of the EEC's external trade policy.

Attention should therefore be drawn to the difficulties created by the Community's external trade policy for agriculture in certain Community regions which, because of environmental and production similarities, are in a situation of competition with agricultural products imported into the EEC from third countries.

It is regrettable that the main burden of the consequences of the EEC's external trade policy must be met by regions which are often among the least developed in the Community.

