

Newsletter on the Common Agricultural Policy

No. 1

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The Commission's Memorandum on the reform of agriculture
in the Community

There is no more time to lose ...

It is on this warning note that the introduction to the Commission's Memorandum on the reform of agriculture ends.

Farmers today are asking, with growing anxiety, what the future holds for them and their families. They are wondering whether at least their children - those of them who want to stay on the land - will be able to earn as much as people in other walks of life in ten or twenty years' time, and whether they will enjoy the same living and working conditions as people in non-agricultural occupations. The Commission appreciates their concern about the future and is ready to answer their questions.

European agriculture is on the point of breaking with its time-honoured, traditional structure so that it can adjust to modern industrial society and the large, dynamic market it has been thrust into. This adjustment has been put off for far too long. The Commission has this to say in its Memorandum:* "There is probably no other branch of the economy where people have clung so long to the traditional structure of production, chiefly because, for lack of massive aid from outside, they have been prisoners of that structure. But today a very large part of the farming community is ready to make the effort and adapt itself to the modern world".

The Commission intends its Memorandum, and the "Agriculture 1980" programme it contains, to raise agriculture to the status of an equal economic and social partner in the closing decades of the twentieth century.

There is probably no other sector of the economy for which so much has been done by the public authorities, and few have tried so hard to readjust by their own efforts. There is no denying that there has been progress in the matter of mechanization. Farm incomes are higher today than they were fifteen years ago, and there has been a considerable improvement in the social situation of the farming community. But the main worry is that the gap between agriculture and other sectors of the economy has widened and there seems to be less and less hope of farmers coming to share in the general improvement in economic and social conditions.

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* Memorandum on the Reform of Agriculture in the European Economic Community (COM(68)1000), Part A, p. 17.

Many farmers had pinned their hopes on price policy. But higher prices cannot bridge the present 25-30% gap between farm incomes and earnings in comparable occupations, nor will they enable farm incomes to keep pace with wage increases in other sectors.

The Commission's deliberations, and its suggestions for remedying this situation by means other than price policy, are by no means inimical to the farming community and its interests. On the contrary, its proposals should lead to a better standard of living in agriculture.

In the form of a Memorandum ...

Since 1959/60 the Commission has submitted a stream of proposals to the Council on the common agricultural policy. As far as market and price policy are concerned, the vast majority of these have already been put into effect. There are very few markets now for which no Community regulations exist. As a result, agriculture in all Member States has stepped up sales, increased production and improved productivity. This would not have happened, or at least not to the same extent, without the single agricultural market. Given existing production and marketing structures, however, the limits to expansion are becoming more and more apparent. The markets for many farm products are expanding only at the same rate as the increase in population, and farm prices have scarcely risen at all because of continuing, or impending, surpluses. The result is that farm incomes are stagnating. The gap between earnings in agriculture and earnings in the rest of the economy - at least in trade and industry - is widening.

The Commission has drawn attention to this situation in a Memorandum. It has departed from the normal procedure of submitting proposals to the Council and has chosen to present a Memorandum outlining the critical situation in agriculture and suggesting steps which might be taken to relieve it. It has opted for this method because it is by far the quickest way of making known its views on what must be done to overcome existing difficulties.

Six documents ...

The Memorandum does not, then, contain "proposals" in the Treaty sense. The relevant legislative texts are to be submitted to the Council at a later stage when the Memorandum has been widely and

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thoroughly discussed. Discussion is scheduled to take place during the spring.

It is to be regretted that there are those who, from the outset, will be boycotting any discussion of the Memorandum and will then try to discredit the Commission's views on social and agricultural grounds.

It is true that the Commission has departed from normal practice, but only in the case of the Memorandum proper - the "Agriculture 1980" programme of structural reform. This central document is supported by five others, some of which are in fact normal proposals, but the Commission is at pains to point out that the six documents form a coherent whole. What exactly are these other documents? In addition to the Memorandum, with its ten-year "Agriculture 1980" programme, we have:

- (i) The statistical annexes to the Memorandum, setting out the figures in support of the assertions made in the Memorandum itself.
- (ii) The medium-term measures, which include Commission proposals as to what must be done to restore satisfactory order and balance - particularly on the milk, sugar, fruit and vegetables, and vegetable oils and fats markets.
- (iii) The Commission's agricultural price proposals for 1969/70, which are based on the situation described in the Memorandum and must be considered in conjunction with it. The proposals are also based on the report referred to in point (iv) below.
- (iv) The "Report on the situation of agriculture", a comprehensive survey of the state of agriculture in the Community and the effect that the single market organizations are having on markets for individual products. It concludes with a comparison of the protection given individual farm products, country by country.
- (v) The sixth and final document is a "Report concerning policies on the structure of agriculture followed by Community countries". It contains a description and critical analysis of the situation with regard to the structure of agriculture in the Member States and shows that there is a large measure of agreement on policy aims but extreme divergences as regards the means chosen to reach these objectives.

The Memorandum and the Medium-term Measures

Many people have asked why the Commission has chosen this particular moment to submit a document of such political significance to the Council and to throw this whole issue open to discussion.

First, it must be pointed out that these documents have been prepared to comply with a Council request that an overall approach to agricultural policy be developed.

Second, the financial aspects of the common agricultural policy can no longer be discussed on a piecemeal basis. Nor can the growing unrest in the farming community be dealt with any longer by arrangements for individual prices and individual markets. What we are faced with now is a genuine struggle for survival which calls for drastic, forward-looking measures.

It is to be expected that incomes in other economic sectors will double over the next twenty years. Will farm incomes by then be lagging even further behind than they are now? The fact is that despite the enormous efforts made by agriculture, the income gap has remained the same in relative terms and widened in absolute terms.

There are two ways out of this difficulty: one is to reduce production costs drastically and the other is to increase producer prices. Given the enormous cost of the common agricultural market and the huge surpluses that are accumulating, higher producer prices are out of the question.

Overproduction

Production of many farm products has already reached a ceiling; but overproduction of milk, in particular, has risen to astronomical heights. The Commission is sometimes accused of dramatizing the situation on the milk market, but nothing could be further from the Commission's intention. The figures speak for themselves -- they show that at the present time intervention agencies are holding 300 000 tons of butter in stock. The problem here is not so much that the butter has to be disposed of, but that production and sales trends are so alarmingly different. The present increase in production means that stocks rise by 200 000 tons each year. However, once total stocks reach the 450 000-ton mark, available storage capacity in the Community will be exhausted, and this technical limit to storing surplus butter

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stocks will be reached in the course of this year.

The medium-term measures proposed by the Commission for the various agricultural markets must be implemented very soon. They are designed to pave the way for a reorganization of the markets, closely linked to the new pattern of production and marketing. They include measures to:

- (i) balance the milk market,
- (ii) adapt Community sugar production,
- (iii) improve equilibrium on the fruit and vegetables market in the Community,
- (iv) increase stability on the oils and fats market.

The Commission has brought out its heavy artillery to deal with these four markets. It is true that there are other problem areas - the grain market, for instance - but the Commission feels that order can be restored to these by routine measures.

There is no doubt that the milk market must be singled out for special attention, and the Commission has put before the Council proposals for very radical measures:

1. It proposes to slash the price of butter to the consumer - in other words the intervention price - by 30%:

1968/69: 173.50 u.a./100 kg 1969/70: 111 u.a./100 kg.

Since the present milk price is derived almost wholly from the intervention price for butter, the producer price for milk would fall by the same amount. Consequently, subsidies for the protein content of milk will have to be correspondingly increased.

2. It proposes a higher intervention price for skim milk powder:

1968/69: 41.25 u.a./100 kg 1969/70: 71.25 u.a./100 kg.

This means that subsidies for skim milk in liquid form and skim milk powder for feed will also be increased, as follows (in u.a./100 kg):

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	1968/69	1969/70
Liquid	1.50	4.25
Powder	8.25	38.25

This operation will cost the Guarantee Section of the EAGGF an additional 600 million u.a. a year.

3. These measures will not be enough, however, to reduce the number of dairy cows in the Community sufficiently to ensure a lasting equilibrium between supply and demand; this would mean reducing the existing dairy cow population of 22 million by approximately 3 million head over a period of five years. Special measures must therefore be taken as part of the programme for reforming the structure of agriculture.

The following medium-term measures are to be introduced:

- (a) A subsidy of 300 u.a. for each dairy cow slaughtered will be paid to farmers abandoning dairy farming. This subsidy will only be paid during the period from 1 January to 31 August in 1969 and 1970.
- (b) A fattening subsidy of 10 u.a./100 kg live weight will be paid for specified grades of beef and veal, on condition that the entire herd is disposed of and not replaced; the fatstock must have been on the farm for at least six months, must not be more than eighteen months old and must weigh at least 450 kg.

These medium-term measures are to be followed by others:

- (i) For farmers who own at least two dairy cows, the "structural reform grant" payable if they surrender their land or rent it on long lease - we will return to this later on - would be raised by an amount calculated on the number of dairy cows, on condition that these farmers cease all agricultural activity within three years of the reform programme coming into effect. This supplementary amount may be paid in instalments spread over four years or, alternatively, in a lump sum.
- (ii) Farmers who own at least two dairy cows and who, within three years of the programme coming into effect, set up or join a "production unit" for cattle fattening would be entitled to the following subsidies for a period of four years; these would be over and above the specific investment subsidies payable to farmers establishing a herd of fatstock:
 - 1. A grant of 75 u.a. per year and per dairy cow disposed of;
 - 2. A fattening subsidy of 10 u.a./100 kg live weight of slaughtered cattle, provided that all dairy cows on the farm

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are disposed of and not replaced, and that the animals slaughtered for meat have been on the farm for at least six months.

These last two facilities may be made available for more than the three years initially proposed, if this is warranted by the market situation for dairy products.

The grant to encourage farmers to slaughter dairy cows has come under particularly heavy fire since the Commission's plan was made public. But those in favour of it already outnumber those who oppose it. The Commission is convinced that - despite its imperfections - it is the cheapest and most effective way of restoring equilibrium on the milk market.

The only real solution to the surplus problem, however, is a group of closely knit measures fitting into a reform programme which lays down when and where they shall apply. Measures which treat the symptoms rather than the disease are a waste of public funds.

The figures below give some idea of the outdated structure of production in agriculture as a whole.

The Community has a total of six million farms. Of these, only 170 000 - that is 3% - have an area of more than 50 ha. Two thirds of all agricultural holdings in the Community have less than 10 ha of farmland, and 19% of them have between 10 and 20 ha. Three quarters of all our farms are so small that they could, with modern techniques, be run on only three quarters of a human labour unit.

Even the measures described will not be enough to achieve long-run equilibrium between supply and demand on the milk market. We must get to the heart of the problem, which is this: milk sales provide the main source of income for four million farms in the EEC, but 80% of all dairy farms in the Community have fewer than 10 cows and 65% have fewer than 5. All in all, there are only 75 000 farms - of the total of four million - with more than 20 cows. As things now stand, therefore, the majority of farmers have no choice: they must produce milk

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to live. We can hardly tell them that too much milk is being produced. If, however, they were to be offered another and even better way of providing for their families, they would have a choice. The alternatives must not be spoken of in vague terms, however. They must be put down in black and white with supporting facts and figures.

The Commission has decided not to change the producer price for milk because a reduction in the milk price would only mean that the vast majority of farms would try to step up production, thus increasing rather than reducing the volume of milk. A price reduction which would be severe enough to send production down would be politically and socially unrealistic. This brings us to the point where price and market policy and the structural bases of this policy meet. The only solution is to offer farmers an alternative source of income. It was the problem of finding such alternative sources of income that led to the "Agriculture 1980" programme, the main aim of this programme being to offer farmers and their families an alternative to farming.

The Commission's ideas as to how this is to be done are based on three important policy **guidelines**:

- (a) Farmers are to be completely free to decide whether or not to take advantage of the various measures. All the measures proposed by the Commission offer farmers genuine opportunities and alternatives. This is true both of the retirement pensions and the formation of the proposed "production units" and "modern agricultural enterprises". Farmers are to be given the choice between the various possibilities. This means that socio-economic centres will be needed at which each farmer can state his case and obtain advice before he makes his choice. The Commission is aware that the programme will never get off the ground unless farmers can be convinced of the need for change and persuaded to co-operate.
- (b) The implementation of the programme will have to be decentralized. Community legislation will be enacted in the form of outline texts to be supplemented by the Member States' own legislation. The

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Commission is suspected of 'extreme centralism'. People feel that what it wants to do is to widen its existing powers in the matter of market and price policy to include similar powers with regard to policy on the structure of agriculture. In actual fact, however, the Commission is merely thinking in terms of a supervisory agency which would check that Community policy was faithfully translated into domestic legislation. Implementation would be left in the hands of the Member States.

- (c) Allowance would be made for regional differences in the Community; implementation cannot be uniform but must rather take existing differences into account. All figures given in the Memorandum should therefore be thought of as EEC averages. There can be no question of picking and choosing among the various measures, because, if there were, one Member State would select this project and another that one for implementation. The coherent, integrated concept must be retained in its entirety.

The concept developed in the "Agriculture 1980" programme is governed by three principles:

- I. that the pattern of agricultural output should be adjusted in such a way that a satisfactory income can be gained from agricultural holdings;
- II. that living conditions - the social status of those working in agriculture - should be brought up to the level obtaining in other occupations;
- III. that the farmers themselves should have more influence on and take more responsibility for their markets; in other words, their economic independence and freedom to make decisions must be increased.

These three principles call for increased mobility of men and land. The Commission's Memorandum offers those working in agriculture more mobility. Older farmers are to be guaranteed an adequate life annuity on condition that they abandon agricultural activity and make their land available for purposes of agricultural reform. They would, of course, continue to be the owners of their land.

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Younger farmers, farm workers and their families are to be given an opportunity of finding work outside agriculture following thorough training, and they need not necessarily change their place of residence to do so. Those who wish to stay on the land will have an opportunity of building up farms which will ensure that the farmer, his wife and his children will catch up with the rest of the community in the matter of incomes and living standards (leisure, holidays, replacements in the event of illness, and so on).

What the programme offers

Farmers who are 55 and over would be entitled to:

1. An annuity for life - 660 u.a. a year at 55, gradually rising to 1 000 u.a. a year at 60. This annuity cannot be paid at the same time as any old-age pension payable under the national social security systems, but it will be paid in full if the farmer has a supplementary income from a non-agricultural activity; this should be of particular interest to the 55-60 age group.
2. A structural reform grant representing eight times the rental value of their land. The annuity and the structural reform grant will be paid on condition that the farmer gives up farming and that the land is used for the purposes of the reform programme, which means that it must be sold or leased to "production units" or to "modern agricultural enterprises" or withdrawn from agriculture altogether.
3. Farmers in urgent need of capital (for building or converting a dwelling house or for moving to a non-agricultural occupation) but unwilling to sell their land can obtain a lump sum representing capitalization of 8 years rent.

All persons engaged in agriculture (farmers, family helpers and paid hands) who want to find other work outside agriculture would be entitled to:

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- (i) a structural reform grant under the conditions described above;
- (ii) a retraining grant for preparatory and vocational training;
- (iii) where appropriate, grants to move to a new area and settle there;
- (iv) a benefit corresponding to unemployment benefit, if, following retraining, they fail to find a suitable job in a suitable place at the right time; it is therefore important that concrete measures be taken as part of regional policy to create new jobs in rural areas.

If, over the next ten years, most farmers in the 55-65 age group and, even more so, those over 65, were to take advantage of these facilities, numbers working in agriculture would be cut by 2 000 000 to 2 500 000. If we also assume that each year something like 200 000 to 220 000 people will transfer to occupations outside agriculture, a further 2 000 000 to 2 200 000 will leave the land over the same period, so almost 5 million people may leave agriculture, the move making it possible for them to increase their incomes and improve their standards of living.

Furthermore, thanks to these measures, 20 to 25 million ha of farmland would be made available for agricultural reform. If this area were leased or sold to other farms, thereby enabling these to expand and become profitable, it would be to the benefit of those farmers who have decided to stay on the land under modern conditions. In some cases it might be more profitable to use this land for reafforestation, for laying out national parks or building holiday homes. If this were done, the owner would receive a grant which would be calculated so as to ensure that he gets the same income he could have obtained from leasing the land. Land must be withdrawn from agriculture in this way to restore balance on the agricultural markets and rationalize farming.

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"Production units" and "modern agricultural enterprises"

"Production units" or "modern agricultural enterprises" are to be set up to enable farmers who stay on the land to tackle the business of modernizing their farms in greater security. The Commission has, of course, been accused of wanting to create Russian-style collective farms or giant holdings. This was bound to happen. But how does the Commission's idea of the "farm of the future" for Western Europe compare with this interpretation?

The Commission's idea is that on a farm of this type:

- (a) earnings per worker will correspond to earnings in comparable non-agricultural occupations;
- (b) the farmer's wife will not as a general rule have to work around the farmyard or in the fields;
- (c) the farmer, family helpers and paid hands will work regular hours - except, of course, at busy periods - and will have weekends off and proper holidays;
- (d) arrangements will be made for replacements in the event of illness.

Modern farming practice and the evidence of farm accounts and farm management show that the conditions which the Commission has in mind already exist on larger "production units".

It is a fact, for instance, that in livestock farming labour and capital requirements fall as the herd increases in size. Similar studies of the other main types of farming have shown that labour and capital are used to the best advantage with units of the following sizes:

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- 14 -

Dairy farming	40-60 dairy cows
Baef and veal production	150-200 cattle
Pig farming	450-600 animals
Poultry farming	100 000 birds
Egg production	10 000 laying hens
Arable	80-120 ha

The Commission proposes that, from 1975 onwards, the payment of production-structure subsidies be confined to farms which have a chance of attaining these targets and can afford the necessary investment and support the resulting burden.

These "production units" will have to meet certain minimum size specifications roughly corresponding to the economic optimum. These specifications may vary from one region to another but will definitely be a good deal higher than in the majority of farms now to be found in the Community.

From 1975 onwards, support will be reserved for "production units" which have a farm accounts system and a farm development plan.

If the economic and social conditions outlined above are to materialize, production units of this kind must be formed from existing farms. This can be done in various ways:

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- (a) A farm which is particularly suitable for, say, dairy farming or pig production could specialize in this one form of production until it has reached "production unit" size for this particular type of farming. This does not mean that the farm cannot have sidelines which do not reach "production unit" standards. Sooner or later, the farm may specialize entirely in one branch of production, thus forming a single "production unit", or another line may be expanded to form a second "production unit".
- (b) Alternatively, several farmers could agree to work together in one particular branch of production - fattening young cattle, for example. They could get together to build fattening houses with a silo and come to some agreement about providing fodder, labour and, so on, each of them holding on to his own farm.

These increasingly specialized farms or "production units" do have their weak points, however. There is no spreading of the risk if, for instance, there happened to be a drought one year, or if cattle prices were low. If, however, several specialized farms which were already "production units" were to amalgamate, it would then be possible to spread the risk and ensure a better distribution of labour and more efficient organization of free time. This is how a "modern agricultural enterprise" - which could also be termed a multi-family farm - comes into being.

In the Commission's opinion, the formation of "production units" and "modern agricultural enterprises" of this kind should be encouraged. With this end in view provision has been made for:

1. Investment grants (applicable to investment other than in vehicles and livestock) at an average rate of 30%, though this rate may vary from region to region and from one type of production to another. This could take the form of a capital grant or an interest rebate.

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2. A system of guarantees to back requests for loans where sufficient tangible security is lacking.
3. Grants or equivalent tax concessions for owners of agricultural land who help to promote the formation of "production units" on a stable basis by leasing land to them for eighteen years.
4. An initial grant, averaging 5 000 u.a., for "modern agricultural enterprises".

The Commission is convinced that go-ahead farmers will expand their farms along these lines because this is the only way for them, their wives and their children to reap the full benefit of economic and social progress.

There will, of course, be other farmers who will not want to expand, simply because they do not think that free weekends, holidays and incomes such as those enjoyed in industry are as important as the things they value in their present way of life. These farmers too will continue to enjoy the advantages of market support and price policy.

Then again, there will be farmers who will not be prepared to leave agriculture altogether at short notice to earn their living in trade or industry. They may take up employment outside agriculture but will want to keep farming as a subsidiary occupation. A transitional solution of this kind would not only make sense for the individual farmers concerned but would also benefit the general economy of certain areas, particularly in Germany. It is quite likely that several of these part-time farmers would combine to form "production units" or "modern agricultural enterprises" so that they could qualify for the benefits offered under the programme.

The Commission estimates that 80 000 new jobs will have to be created each year.

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Educational grants

Farmers, farmworkers and family helpers will be entitled to scholarships to enable their children to continue their education beyond the normal school-leaving age. This will remove one serious obstacle to occupational mobility. The Community's financial contribution could average something like 600 u.a. per head each year.

Retraining grants

The Commission estimates that approximately 480 million u.a. will have to be spent on grants. The Community already has an agency - the European Social Fund - which can help to implement retraining measures.

What it will all cost

A reform programme of this kind is bound to involve heavy expenditure, whether it be financed solely from the budgets of the Member States or partly - as the Commission proposes - from the European Agricultural Guidance and Guarantee Fund.

The question is this: will the Finance Ministers make the necessary funds available now that they are experiencing budgetary difficulties. The programme for the reform of agriculture will be expensive. But this has not deterred the Commission from putting it forward at this time because it sees all too clearly that the income situation in agriculture cannot be improved merely by raising prices. Anyone who has not yet recognized this is closing his eyes to the facts. The Commission, however, refuses to be daunted by this situation. It proposes that price policy - which, of course, will still be pursued as far as possible - be stiffened by a group of measures which will give everyone now working in agriculture a chance of improving his income situation in other ways. The Commission has no wish to hide the fact that implementing these measures will call for a major financial effort from the Community's taxpayers.

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- 18 -

Throughout the ten-year programme, the average cost to the budgets of the Member States and the Community will be about 2 500 million u.a. a year - and this does not include the cost of creating additional jobs. The question of additional employment poses many problems with regard to regional development which cannot in all fairness be placed at agriculture's door since this is something which has hitherto been neglected.

The Commission would like to stress that the effectiveness and the potency of the measures proposed depend on a steady supply of funds being maintained. A further dispersal of funds would in practice water down the results and weaken the effect of the programme and jeopardise its chances of success.

It must be remembered, however, that expenditure on the "Agriculture 1980" programme will largely replace expenditure already earmarked in the Member States' budgets for improvements to the structure of agriculture. For 1969, this expenditure is estimated at more than 1 250 million u.a. It is true that different criteria are to be used in future in assigning these funds. But the most important point is to establish what proportion of the Member States' total budgetary expenditure is spent on the structure of agriculture and market support.

In 1969, the six Community countries plan to spend 4 500 million u.a. on agriculture, half of this being earmarked for structure and market support. This 4 500 million u.a. represents 4.8% of total budgetary expenditure. In the years ahead total budgetary expenditure is expected to increase by something like 5% each year. Even in the years in which expenditure will be heaviest (1973, 1974 and 1975), the Commission's agricultural programme will absorb no more than 5.4% of this growing volume of government expenditure. This is only a little higher than the figure for 1969 (4.8%), and once the programme has been implemented it should fall back to 2%.

All that is being asked, then, as the price of reforming agriculture, putting a stop once and for all to growing subsidies and making farmers equal partners in the Community's

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economic and social progress, is that expenditure on agriculture should continue to expand for another four or five years at the same pace - but not any more slowly - as overall public expenditure.

In the Commission's view a financial effort of this kind is quite justified and is far from being utopian.

Conclusions

The publication of the Commission's views was soon followed by a storm of public protest. Many people found it hard to accept that 5 million people would have to leave the land. But this is nothing more than a continuation of a trend which has been evident for many years past.

If we think about it, we will see that a suitable old-age pension system is extremely important for mobility in agriculture because of the disproportionate number of elderly people in the agricultural population and above all the number of elderly farmers, more than 50% of whom are over 57.

The Commission is not proposing to destroy 5 million rural lives. On the contrary. What the Commission wants is to bring some improvement to the lives of the agricultural population, which, as its leaders maintain, is lagging far behind the rest of the community in the matter of income and living standards. An income similar to that earned in industry can, however, only be realized on a fully mechanized farm run on modern lines. In years gone by, agriculture was not fully mechanized but rather over-mechanized, which meant that, on a small farm, costs per person employed went up instead of coming down.

Even those who believe that the aims of the reform programme are sound often express the view that the ten-year period which the Commission has in mind is too short.

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Why "Agriculture 1980"? The answer to this is that the milk market situation has shown that urgent solutions are needed. The Finance Ministers and the taxpayers are not prepared to go on paying out more and more money year after year to support this and other agricultural markets with no hope of an end in sight.