

Newsletter on the Common Agricultural Policy

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PROGRESS REPORT ON AND PROSPECTS FOR ACTION TAKEN BY EAGGF TO ENCOURAGE INVESTMENT IN FOOD PROCESSING CONCERNS

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PROGRESS REPORT ON AND PROSPECTS FOR ACTION TAKEN BY EAGGF TO ENCOURAGE INVESTMENT IN FOOD PROCESSING CONCERNS¹

Ten years ago, the Community laid the foundations for a common agricultural policy; in 1964 it provided the finance for this policy. In doing so, it was conscious of the fact that it was not enough to rationalize agricultural production in order to improve the lot of farmers, but that special interest should be devoted to the problems of marketing this production. Among these problems, the obtaining of higher prices for agricultural products occupied a key position, firstly, because this is a very delicate and complex matter and, secondly, because such action is the keystone of any improvement in farm income.

In addition, the interests of consumers should not be ignored. At the present time, all those responsible for national and European economies are conscious of the close connection which exists between production and consumption; and the Council of Ministers took account of this when fixing the principles of the common agricultural policy.

The Council thus confirmed the reciprocal influence of the market and the structures on this common agricultural policy and especially on the formation of agricultural income. It stressed, among other matters, that producers and consumers alike could profit from increased rationalization at the production, processing and marketing stages of agricultural products. Judicious investment is therefore necessary in order to encourage the development and competitiveness of these sectors of the economy so as to obtain higher prices for agricultural products as raw materials for the agricultural and food industries.

The agricultural and food industry, it must be stressed, has before it three conditions which do not make its labours any easier. This industry must:

make the necessary efforts for modernization and restructuration in all countries of the Community but in varying degrees;

¹ Text established on the basis of a statement made in Paris on 6 April 1972 by Dr Hendrikus Zijlmans, Director of EAGGF.

ensure reasonable prices for the consumer (which in any event the pressure of competition will prevent from rising too far);

ensure a fair income for the farm producer, if there are not to be difficulties and irregularities in the way of supply.

Consequently there is little room for manoeuvring.

This is why, in almost all Member States, the public authorities have taken specific financial action and have also envisaged granting financial aid from Community resources to concerns which fulfil certain conditions.

1. Aims and results of EAGGF action during the past five years

Community aid for the improvement of agricultural structures takes the form of financing for projects and joint action within the framework of two Community regulations.¹

These regulations provide for the financing of the common agricultural policy and are divided into two sections: Guarantee and Guidance.

The Guarantee Section is responsible for financing restitutions for export towards third countries and action on the farm products markets. These expenditures represent the largest part of the Community's budget and account for some 2 500 million units of account per annum.

The Guidance Section is concerned with financing improvements to agricultural structures in the widest sense of the term.

Regulations concerning the financing of the common agricultural policy provide for joint action, that is to say regulations or directives for specific action in the field of improving production structures and raising the prices of farm products.

¹ Regulation No. 17/64/EEC concerning conditions of EAGGF aid and Regulation No. 729/70/EEC concerning the financing of the CAP.

As regards joint action, the Council of Ministers recently adopted three directives concerning:

the modernization of farms,
encouraging the abandonment of agricultural activities, and
social and economic information and professional training for
farmers.

The Council is also studying, among other things, proposed regulations for:

producers' associations,
creating non-agricultural jobs in priority agricultural areas,
reconversion action in the cod fishing industry, and
encouragement for beef production.

So long as this joint action does not absorb the 285 million u.a. per annum available to the Guidance Section, Regulation No. 17/64/EEC remains in force. In the present state of affairs and according to the latest calculations it can be assumed that it will remain in force for several years more.

This regulation provides for Community aid in the form of a capital subsidy up to a maximum of 2% for investments considered as eligible. In exceptional cases the Community can even participate for up to 4% of the finance required by the investment.

Naturally, the projects to be aided must meet certain criteria, for example, the need to offer a sufficient guarantee with respect to lasting economic effects on the improvement of the agricultural structure concerned. This means that action taken by the Guidance Section of EAGGF does not aim at improving the structures of agricultural and food industries as such but in as much as they are instruments for improving the marketing of agricultural products. It must also be borne that action taken by the Fund must not affect the terms of competition in a way that is incompatible with the principles laid down in the Treaty in this respect.

Bearing this provision in mind, the Commission will certainly decide that for projects introduced after 1 January, 1972, sugar refineries, for example, should no longer benefit by assistance from EAGGF and this is also the case for investments in the production of fruit, vegetables, ornamental plants and beetroot. Total aid from public funds, including those of the Community, will be limited as regards installations for processing or marketing fruit, vegetables and ornamental plants.

Descriptions of investment projects, together with requests for aid, must be forwarded to Member States who may transfer them to the Commission which decides on their eligibility after consultation with the various committees.

The Commission has always attempted to avoid unwieldy bureaucracy and has tried to make its intervention as effective as possible.

However, the formalities decided upon by the Council cannot be avoided and this has given rise in the past to difficulties of application. For example, the date on which work is to begin has become a more important element than was foreseen in the first place. EAGGF cannot finance projects on which work has begun before the request for aid, accompanied by the project description, has reached the Commission.

Another problem concerns financial participation in the project by the Member State on whose territory the project is to be carried out. In this connection two difficulties have arisen:

Member States are usually reluctant to participate in the financing of a project introduced by an organization whose headquarters is in a foreign country; however, there are signs that this problem has ceased to exist;

the Member States' participation must not be symbolical but real.

So far, the Community has only been able to finance projects whose aim was:

the improvement of production conditions in agriculture and guidance for that production,

the improvement of agricultural product marketing, i.e.:

- improved storage and preservation,
- increased prices for agricultural products,
- improved marketing.

With regard to the rationalization of production, processing and marketing, the action taken by the Guidance Section has borne fruit.

Between 1964 and 1970 the Fund spent 509 million u.a. for the improvement of agricultural structures. Of this sum 292 million u.a. went to the improvement of production structures, 92 million u.a. for improvements in the processing of agricultural products and 100 million u.a. for the improvement of the marketing of these products. 25 million u.a. was spent on joint production/marketing projects.

Nearly 40% of the Guidance Section funds were thus devoted during this period to food industries in the six Member States of the Community. This proportion varies considerably from country to country:

Percentage of Guidance Section Funds
devoted to food industries between
1964 and 1970

Germany	± 46%
Belgium	± 54%
France	+ 36%
Italy	+ 27%
Luxembourg	+ 70%
Netherlands	+ 42%

In the case of France it should be noted, however, that for the past two years the amount of finance provided by the Commission for food industry projects introduced by the Government has increased considerably. To a lesser extent this is also true for Germany.

So far large subsidies have been forthcoming for the following categories of projects:

	<u>million u.a.</u>
<u>Production structures</u>	292
i.e.:	
land reform	75
hydraulic and irrigation works	79
reforestation	8
miscellaneous	130
<u>Marketing structures</u>	192
i.e.:	
cereals	6
dairy produce	73
meat	24
fruit and vegetables	45
wine	19
miscellaneous	25
<u>Joint production/marketing structures</u>	25

After looking at these figures we may ask what advantages these measures have had for the farmer and what has been the impact on the economy as a whole?

As regards the first point, a distinction must be drawn between direct and indirect advantages.

For the farmer, the direct advantage lies in lower equipment expenses when he invests individually or as a member of an association and in both cases benefits by assistance from the Fund; this assistance represented some 60% of the total expenditure of the Guidance Section.

The indirect advantage, especially the development of outlets for farm products, is far more important but very difficult, or even impossible, to put into figures. However, some illustrations may be provided:

If, before the Fund intervened, a certain area had a seasonable surplus of production with, as a consequence, abnormal falls in prices, the setting up of a cannery in such an area stabilizes the price curve. In addition, in the case of fruits and vegetables, it does away with or restricts the practice of destroying products. In this way a grant of 150 000 u.a. by FAGGF has encouraged a private businessman to set up a deep freezing factory in a certain area; careful calculations have shown that less than a year after this factory began production, the rise in average market prices and the absence of any destruction of products had already enabled the market gardeners concerned to save 400 000 u.a.

Another example is that of the aid given to a concern for investment in new production lines. Had the subsidy not been forthcoming, the investment would not have been made as it would have been beyond the owner's ability.

However, thanks to assistance from the Fund, the investment was made and not only has the owner been able to increase his turnover and the assets of his business but local farmers have found an additional source of income from products which were previously of little value.

The experience gained so far enables certain conclusions to be drawn:

the assistance given by the Fund for the improvement of processing and marketing structures for agricultural products has been of great importance for agriculture, even where it has not gone directly to individual farmers or to farmers' associations. Experience has shown that such investments contribute to a considerable improvement in the value of agricultural products and of farm and market garden incomes and, consequently, to an improvement of the national economy.

in the processing and marketing sector the assistance of the Fund has had more direct and evident effects on the improvement of farm incomes than in the production sector. In the latter, the effect of investment financed by EAGGF has generally only been felt after some time and the increases of income which result are usually lower. On the other hand, in the processing and marketing sector greater profitability, due to the investments, can be seen after a short time and help to increase the profit margin and the outlets available to the producer.

It seems that this is one of the essential aspects of food industries for the farm population. Whether these industries are in the hands of farmers themselves or not is a matter of small importance. What is essential is economic cooperation between production, processing and marketing which leads to the greatest possible use being made of raw materials in the shape of agricultural produce.

It has always been the Commission's policy to allow itself to be guided when choosing the projects which the Community helps to finance in the marketing or processing sector by criteria based on added value for products and to encourage this added value by every means at its disposal. A choice is made from among the projects presented by each of the Member States on the basis of objective criteria connected with the common agricultural policy and also bearing in mind the needs of each sector. Naturally, account is taken of the value of each project from the point of view of regional development.

The Commission's possibilities are limited because it must choose from among projects which have already obtained the approval of the national authorities. Here again, however, cooperation between national and Community services has been excellent and exchanges of ideas and information have enabled the best use to be made of the means available.

2. EAGGF prospects and guidance for the food industry in the near future

In the context of the new financial system for the common agricultural policy, the Commission has not yet submitted proposals to the Council of Ministers concerning the financing of processing industries for agricultural products. This is because, in the case of associations of producers, the establishment and operation of which are to be encouraged in accordance with the Council's Resolution of 25 May 1971, Community financing ceases when the products leave the farm, thus excluding processing and marketing activities.

The Guidance Section of EAGGF has at its disposal 285 million u.a. per annum. These funds must be used in the first place to finance joint action. However, the sum may be revised when the Community is enlarged.

The authorities in the various Member States and the Commission have shown their concern with the marketing and processing of agricultural products, both in order to give adequate assistance for increased prices for agricultural products and to help to create jobs in rural areas.

The Council of Ministers invited the Commission on 25 May 1971, "to continue to study the problems which arise concerning marketing and processing in order to reach the objectives of the Treaty of Rome in this field" (Article 39).

Moreover, in its sessions of March last, the Council decided that before 1 October 1972, there should be:

common action concerning associations of producers and unions of these associations as mentioned in Council Resolution of 25 May 1971, concerning new guidelines for the common agricultural policy;

.../...

at the instigation of the Commission, common action in the fields of the marketing and processing of agricultural products. This common action would be particularly concerned with long-term contracts between purchasers of agricultural products and associations of producers, the improvement of certain processing activities, the development of marketing and processing and the improvement of the position on agricultural markets.

The Commission's services are at present studying these problems and negotiations will shortly take place. Solutions will be found if governments continue to show the same interest as they have done hitherto in continuity of intervention by the Guidance Section of EAGGF.

It has already been said that the Commission has submitted to the Council a draft regulation for the granting of assistance to concerns in order to create non-agricultural jobs in priority agricultural areas. This aid is granted by the Guidance Section of EAGGF. It consists in a capital subsidy granted to industrial, artisanal and service enterprises. This aid is equal to 1 500 u.a. for each new job created and filled by a person who has ceased agricultural activities or by the direct descendants of such persons. The Commission has proposed a procedure which is almost analogous to the procedures laid down in Regulation No. 17/64/EEC. This deals with the financing of individual projects within the framework of common action and this regulation already existed in 1964! The procedure is very interesting for investment projects of a certain size and the financial regulations concerning common action make it perfectly applicable.

In order to benefit from EAGGF assistance the projects covered by the regulation must fulfil a certain number of conditions, i.e.:

be situated in a priority agricultural area (a list of which will shortly be drawn up according to a Community procedure);

form part of a development operation (which means a series of coordinated investments);

offer sufficient guarantees regarding the lasting economic effects of the action undertaken;

ensure an income and working conditions comparable to those enjoyed by workers in non-agricultural activities of the same kind situated in the same region.

In order to benefit from this aid each project must lead to the creation of at least 20 non-agricultural jobs.

The credits available for this action consist of 250 million u.a. spread over five years. Agricultural and food industries are in a good position to benefit from this assistance, for it has been laid down that projects whose aim is to obtain equipment for the marketing and processing of agricultural products shall benefit from the Fund and receive priority over other projects.

In this connection, the Council will take decisions before 1 October. It is to be hoped that the adoption of this draft regulation will not lead to any great difficulties.

European institutions are actively seeking the best methods of encouraging the development of the food industry. Experience has shown that action in this field is profitable for the farmer, the consumer, the common agricultural policy, and consequently for the economy as a whole.

CREDIT EXTENDED TO AGRICULTURAL AND FOOD INDUSTRIES (1964-1970).

	Milk	Meat	Fruit and Vegetables	Wine	Flour-milling	Brewing Cider-making	Sugar refining	Oil	Other	Totals
y	25 389 316 (96)	2 043 129 (10)	1 270 669 (8)	3 626 681 (17)	-	-	-	-	61 562 (1)	32 411 357 (132)
m	12 865 490 (52)	86 997 (1)	475 418 (5)	-	-	-	-	-	1 122 320 (2)	14 550 225 (50)
	6 513 871 (27)	823 853 (3)	2 832 289 (4)	1 247 033 (12)	-	-	-	-	-	11 417 046 (46)
	2 885 986 (25)	229 470 (2)	4 647 366 (15)	10 857 919 (80)	1 403 405 (2)	137 582 (1)	780 000 (2)	3 110 238 (45)	2 410 539 (11)	26 462 505 (183)
ocurg	800 000 (1)	500 000 (1)	-	-	-	-	-	-	-	1 300 000 (2)
lands	3 962 739 (29)	-	116 229 (1)	-	82 873 (1)	-	-	-	1 233 000 (5)	5 394 841 (36)
s	52 417 402 (230)	3 683 449 (17)	9 341 971 (33)	15 751 633 (109)	1 486 278 (3)	137 582 (1)	780 000 (2)	3 110 238 (45)	4 827 421 (19)	91 535 974 (459)

its of account.

as in brackets refer to the number of projects

CREDIT EXTENDED TO FOOD INDUSTRIES AND FOR IMPROVED MARKETING
OF AGRICULTURAL PRODUCTS (1964-1970)

(in millions of u.a.)

Member States	Cereals	Dairy products	Meat	Fruit and vegetables	Wine	Other	Totals							
							Per year							
							64	65	66	67	68	69	70	1964/70
Germany	0.2 (5)	41.3 (110)	8.7 (44)	8.2 (66)	4.8 (20)	3.4 (17)	1.8 (6)	2.0 (12)	6.0 (32)	4.4 (22)	12.7 (52)	15.0 (63)	24.7 (75)	66.4 (262)
Belgium	0.3 (3)	10.9 (44)	1.6 (9)	5.6 (37)	-	1.1 (9)	0.6 (5)	0.7 (6)	2.9 (15)	1.3 (5)	5.4 (26)	5.2 (21)	4.0 (24)	20.1 (102)
France	1.6 (7)	12.7 (36)	11.3 (35)	5.0 (21)	1.5 (15)	7.8 (11)	0.0 (1)	2.0 (11)	5.0 (16)	0.5 (4)	4.5 (20)	7.3 (30)	20.6 (43)	39.1 (125)
Italy	2.8 (11)	3.7 (26)	0.8 (8)	20.4 (153)	12.7 (92)	6.2 (61)	2.1 (22)	3.0 (27)	9.3 (79)	4.0 (30)	8.7 (80)	11.2 (69)	8.3 (44)	46.1 (354)
Luxembourg	0.2 (1)	1.1 (2)	-	-	-	0.5 (1)	-	-	0.7 (2)	-	0.8 (1)	-	0.3 (1)	1.4 (4)
Netherlands	0.2 (5)	3.9 (25)	2.1 (14)	5.4 (33)	-	5.8 (26)	0.3 (2)	0.8 (4)	1.5 (14)	0.9 (10)	3.3 (25)	4.5 (24)	6.1 (24)	17.1 (103)
TOTALS	5.9 (32)	73.6 (243)	24.5 (110)	44.6 (310)	19.0 (127)	24.8 (125)	7.8 (36)	8.5 (60)	25.4 (158)	11.1 (71)	35.4 (204)	43.2 (207)	64.0 (211)	192.1 (947)

Figures in brackets refer to the number of projects.

AID DISTRIBUTED BY THE GUIDANCE SECTION OF EAGGF
FOR AGREED PROJECTS, 1964 to 1970

Member State	In millions of u. a				%
	Production structure	Joint category	Processing and marketing structure	Total	Processing and marketing Total
Germany	76.2	0.2	66.6	143	45 %
Belgium	14.2	3.2	20.1	37.4	54 %
France	67.8	4.5	39.9	112.3	35 %
Italy	110.4	15.2	46.6	172.1	27 %
Luxembourg	0.2	0.6	1.8	2.6	69 %
Netherlands	22.9	0.8	17.5	41.3	42 %
Total amount of aid	291.8	24.5	192.5	508.7	38 %
Total number of projects	1 157	105	947	2 209	43 %

BREAKDOWN BY SECTORS OF AID FOR PROJECTS

(in '000s of u.a.)

Sectors	Number of Projects	Total 1961/1970	
		Aid	%
Land reform and hydraulics	804	206 838	40.7
Forestry	38	7 491	1.5
Meat	218	40 766	8.0
Milk	263	74 958	14.7
Eggs and Poultry	40	4 168	0.8
Animal feedingsuffs	25	6 232	1.2
Wine and Grapes	242	59 398	11.7
Oil production	118	23 265	4.6
Cereals	33	8 208	1.6
Fruit and Vegetables	325	49 635	9.7
Seeds and Nurseries	26	3 700	0.7
Sugar	2	780	0.2
Research and Extension	18	2 781	0.5
Flowers and Ornamental plants	19	5 949	1.2
Other	38	14 545	2.9
	2 209	508 714	100.0