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NEWSLETTER ON THE COMMON AGRICULTURAL POLICY

No. 5 JUNE 1975

THE COMMON AGRICULTURAL POLICY SERVES FARMERS AND CONSUMERS IN A TIME OF ECONOMIC INSTABILITY

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CORRIGENDUM :
page 16 (last paragraph)
".... 133 millions gallons of wine into alcohol"
instead of "..... 176 millions gallons of wine into industrial alcohol".

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MITTEILUNGEN ZUR GEMEINSAMEN AGRARPOLITIK - NR. 5 Juni 1975

BERICHTIGUNG:
Seite 16, Absatz 7, zu lesen:
"Dies führte dazu, dass 1974 etwa 6 Millionen Hektoliter Wein zu Alkohol destilliert wurden" anstelle von "etwa 176 Millionen Gallonen Wein zu Industriealkohol..."

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Landbouw Bulletin - n° 5 Juni 1975

ERRATUM
Blz. 16, alinea 7, lees:
"Het gevolg hiervan was dat in 1974 ongeveer 6 miljoen hl. wijn ton alcohol werd gestilleerd"

i.p.v. "ongeveer 176 miljoen gallon wijn tot technische alcohol....."

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Nouvelles de la PAC Numéro 5 juin 1975

RECTIFICATIF
A la page 19 (3ème paragraphe) lire
"....en 1974 la distillation d'environ 6 millions hectolitres de vin en alcool" au lieu de "......d'environ 390.000 hectolitres en alcool industriel"

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NOTIZIE SULLA POLITICA AGRICOLA COMUNE N° 5 Giugno 1975

RETTIFICA
Alla pagina 16 leggere.
"Nel 1974 la distillazione di circa 6 milioni di ettolitri di vino in alcole." invece di ".... di circa 176 milioni di galloni di vino in alcole ad uso industriale".

THE COMMON AGRICULTURAL POLICY SERVES FARMERS AND CONSUMERS IN A TIME OF ECONOMIC INSTABILITY.

I

INTRODUCTION

For the last two years most basic foods have cost less in the Common Market than in most other parts of the developed world. Since the disastrously bad world harvests of 1972, wheat - one of the basic ingredients of almost all human foods - has cost an average 30 per cent less in the EEC than on the world market.

This cheapness of EEC produced grain has played an important part in the stabilisation of European food prices. While countries which depend on imports for their grain for feeding people and animals have had to pay more and more for their supplies and their food prices have consequently risen, food prices in most EEC member States have risen less.

Similar beneficial differences can also be seen between EEC and world prices for other basic foods. The Community export control system has kept down the price of sugar and olive oil too. World olive oil prices in the 1972-74 period have been as much as 70 per cent above Community prices and during 1974 sugar has been five times the Community price on world markets.

And even though bad weather has seriously affected the Community's ability to be self-sufficient in sugar, the Commission has subsidised imports during the 1974-75 season so as to maintain prices at the Community level.

In addition to these price advantages resulting from a self-sufficient agriculture, it has been Community policy to subsidise the sales of butter and beef - both generally and through special schemes for needy sections of the Community.

During 1974 the Community has made available special subsidies on both beef and butter which has allowed pensioners and people receiving social welfare benefits to obtain both beef and butter at half the normal price. These schemes have been operated at the discretion of national governments in Britain, Ireland, France and Germany. British consumers have also had the benefit of low-priced butter from EEC suppliers through the working of the EEC's monetary compensation system on farm trade.

Of course, EEC food prices are not always below those on the world market. To support farmers incomes at a level which ensures that they produce adequate supplies for the years of shortage, it is necessary to pay them prices which are often above world prices in the years of surplus. Only by supporting farmers incomes in this way can supplies be guaranteed.

The basic aim of this support is to ensure guaranteed supplies of food for the European housewife. This security of supply is one of the major aims of Europe's Common Agricultural Policy. It is achieved through supporting the market prices of farm products at levels which ensure that farmers keep producing without being thrown out of business by violent falls in market prices. At the same time, the same system is designed to ensure that shortages do not raise prices so high that housewives cannot afford to buy.

The major aim of the CAP is thus to deliver adequate and regular supplies of food to the shops at reasonable prices. This aim is achieved through the stable markets for major foods which can only be obtained by giving food producers long term guarantees.

The lack of such a policy in other major agricultural producing countries, was a major factor causing the shortages and high food prices of the last two years.

Because price guarantees to farmers in the United States, Canada and Australia - the world's major grain producing areas - were inadequate, they deliberately cut down their production in 1972. Years of uncontrolled surplus production and poor prices forced them to make this decision.

Unfortunately, their decisions coincided with bad harvests in all parts of the world.

No one would of course pretend that the European farm policy is perfect. Though clearly capable of guaranteeing supplies of grain, dairy products, and meat, it has also created surpluses of these products.

It is however extremely difficult to bring agricultural production in any country or group of countries into exact balance with market demand. Indeed, due to the dependence of agriculture on the weather, plant and animal diseases and other factors too often beyond human control, production aims must always be set higher than actual need in order to insure against shortage.

And in an EEC context there is also the problem of a still small peasant farm type of rural economy in many parts of the Community. This inevitably means wider fluctuations in production than in the more industrialised type of agriculture in countries with a basically industrial social structure such as the United States.

The CAP has however only been in operation for ten years; it is therefore obvious that time is needed for its market management mechanisms to be perfected and even more time needed for the structural problems of the EEC farm industry to be resolved.

The fact remains, that the Common Agricultural Policy enables the EEC to guarantee consumers adequate supplies of basic foods through periods of extreme scarcity in the rest of the world. But to the uninformed observer the 3,400 million unit of account (4.5 billion US dollars) cost of this support seems excessive.

Compared to support of agriculture in other countries, however, this cost is not high. Despite the lack of effective price guarantees to the US farmer for example, agricultural support in the United States costs the citizen approximately twice what it costs his Community counterpart.

II

EEC SELF-SUFFICIENCY

The CAP guarantees the Community farmers a price for their produce which encourages them to produce sufficient quantities of grains, dairy products, meat and other basic foods to satisfy practically all the demand within the Community. This means that in times of shortage, the EEC consumer has protection from the rapid increases in food prices suffered by countries which depend heavily on imports for food supplies. The Community is almost self-sufficient in the main basic foods. The EEC produces all its own dairy products, all the barley needed for animal feeding, 95 per cent of the wheat used in bread and confectionary making and all its own pig meat, poultry meat and eggs. The Community is 90 per cent self-sufficient in wine, 94 per cent self-sufficient in the main types of fresh vegetables. The EEC also produces 76 per cent of its own fresh deciduous fruit but only 34 per cent of its citrus fruits. Beef production, due to the rapid increases in output during the last two years, is likely to equal consumption during 1975.

Despite the variety and plenty of EEC agricultural production, the Community still has to import animal feed grains such as maize and soya and a wide range of fruits, vegetables and other foods which cannot be grown in Europe.

This plenty is in marked contrast to other parts of the world. And lack of a proper agricultural support system - particularly in the industrialised countries - is one of the main reason why the world is currently critically short of food. Farmers in the United States, in Canada, Australia and South America cut back their production in 1971-72 because they felt their incomes and their future threatened by surpluses.

European agriculture and world agricultural trade.

Despite the popular view that the EEC is a protected agricultural market designed to exclude food from third countries, the Community is still the world's largest buyer of food from third countries.

In 1973 the Community accounted for 43.09 per cent of total world agricultural imports. In certain sectors EEC imports are even higher than this average suggests. EEC imports of fruit, vegetables and animal feeding-stuffs represent more than 80 per cent of total international trade in these commodities.

The CAP and world food security.

The grain harvest of 1972, in terms of total world output was one of the worst in living memory. Harvests were particularly bad in countries which in any case normally import large quantities of grain - principally Russia, China and India. There was consequently a very heavy demand for grain imports. Total world stocks of wheat fell by 60 per cent.

Inevitably, this reduction in supplies has caused a severe inflation of food prices. Export prices for U.S. wheat, a major indicator of world grain prices, rose from 60 dollars (U.S.) to 220 dollars a ton in the June 1972 to February 1974 period. Export prices for U.S. maize - a major component of animal feeds - rose from 56 dollars to 131 dollars a ton in the same period.

All basic food prices, because they are linked to cereal prices in some form or other, have risen by similar amounts.

In this period the advantages of the EEC system have become apparent. The price of wheat on the main EEC markets in December 1974 was 154 dollars a ton compared with 234 dollars a ton on world markets.

The effect of the operation of the EEC market management system has been even more spectacular in the case of sugar. Sugar prices rose rapidly all through 1974: when they reached their peak of 1080 dollars the EEC price was still only 336 dollars a ton. The adequate supplies of grain and dairy products produced within the EEC has also allowed the Community to play its part in the world food aid programme. Throughout a period when most other countries were cutting down their aid contributions, the Community has been able to maintain and increase its food aid.

During the 1974-75 period the Community is likely to have contributed some 1.5 million tons of wheat to food aid. Due to its large dairy industry, the Community is now the only supplier of milk powder to world food aid schemes. In 1974-75 the EEC is likely to be sending 120,000 tons of milk powder for infant feeding in famine stricken areas of the world.

The maintenance of the necessary production and reserves of grain and dairy products to insure against food price inflation and to maintain contributions to world food aid is now Community policy.

The EEC, in common with other major food producing countries, played an important part in setting up the "World Food Council" at the World Food Conference in November 1974. It is hoped that over the next few years the EEC will collaborate with other producers under the Council umbrella to set up an international system of food buffer stocks to protect the world from the ravages of famine.

Although no one would pretend that the setting up of this world food security system is going to be easy, the system cannot even be contemplated without large reserves of foodstuffs being built up in the EEC and other food producing areas.

Commission action holds down food prices.

Protection against food price inflation has resulted from deliberate action of the Commission to prevent Community-produced grain and other basic foods from flowing out of the European market and into the much higher-priced world market.

During the twelve months up to January 1975 the price of wheat within the EEC was an average 30 per cent below the world market rate. Throughout this period there was a complete reversal of EEC levy policy to achieve this effect. Normally, the EEC import regulation system imposes levies to raise the price of imported food and thus protect the prices of EEC farmers on Community markets.

In the 1973-74 period, however, the reverse has been the case with export levies (taxes) being imposed to make export of EEC produced grains unattractive to the European trader. The same system has also been operated to prevent exports of sugar. This has meant that it has always been more profitable to sell grain and sugar within the Community than to export. In this way, the price of food to the EEC consumer has been effectively kept down.

III

AGRICULTURAL TRADE PROBLEMS CAUSED BY LACK OF WORLD FARM COMMODITY AGREEMENTS

The alleged ill-effects of EEC farm policy have arisen from the general lack of world agricultural commodity agreements rather than from the direct effects of the CAP.

If other major food producing nations and trading blocks had given their farmers the degree of support that the EEC has provided, accepted the fact that world food security can only come from proper price guarantees to farmers and been prepared to work for world-wide food trade agreements, there would not be the crucial shortage of food that currently exists.

Current world-wide food price inflation and the lack of surpluses to provide food aid to the hungry nations of the world is with us now mainly because of the lack of such guarantees and agreement.

In order to rationalise world trade in the main food products, the Community is currently studying the problems of setting up international buffer stocks for grains, dairy products and sugar. It is also taking an active part in GATT negotiations designed to established new international trade agreements for each of the major food products.

The Common Farm Policy protects the consumer as well as the farmer.

Convinced critics of the Common Agricultural Policy will of course argue that though the common farm policy has protected the European consumer from the worst effects of food price inflation during the last two years, there is no guarantee that this situation is going to continue. "What happens when the situation returns to "normal" and surpluses of food again become available on the world market?" - is an obvious question.

The obvious answer is that there is no guarantee that things will ever be the same again. Demand for major foods has increased from countries such as Russia, Japan and China and these countries have the hard cash to buy on world markets.

Meat consumption in Russia and Japan, for example, has increased by 20 and 15 per cent respectively over the last four years. Russian purchases of grain on world markets in the crucial 1972-73 harvest season were 30 million tons - three times any previous level.

In 1973 there was an exceptional harvest and many countries including Russia and the EEC were able to keep down their demand for grains.

Bad harvests in 1974 again, however, forced many countries including Russia to look to the world market for food supplies. This has added fresh fuel to the inflationary fires.

Changed demand and supply conditions.

There are two important points about this situation. The first is that countries such as Russia and China now have the money to be able to buy food off the world market whenever they need it.

It is unlikely that for many years these two major food consuming countries will have the necessary agricultural productive capacity to become independent of the world market.

The second important point is that the price at which the farmers of the world are prepared to produce food is much higher than it was in the days of surplus prior to 1972. The energy crisis has raised the costs of farmers' major inputs - fuel, fertiliser, pesticides and machinery. Increasing scarcity of labour in the main agricultural producing nations is also raising costs. Farmers in the United States, Canada, Australia, New Zealand and South America therefore must have higher prices if they are to continue filling the shopping baskets of the world. One thing is certain: farmers are not going to produce food at cut-rate prices for anyone, anymore.

Farmers in the United States and other exporting countries need price and market guarantees just as much as EEC farmers. Inevitably, they are going to exploit the current shortage situation to get them so that it is unlikely that food will ever again be cheap. For this reason the CAP is likely to prove a long-term boon to the European consumer.

Even if world food production increases sufficiently to meet increased demand, the world agricultural trade situation is likely to make it imperative that the Community maintains a self-sufficient agricultural industry.

New international agricultural trade agreements currently being formulated will also inevitably mean a high level of prices in the future.

The US government has made it clear that it does not intend to bear the cost of being the world's food stockholder. The general run-down of US food stocks and the refusal of the Americans to rebuild them, must inevitably mean that countries and trading groups like the EEC must maintain their own production and carry over stocks as an insurance against bad harvests.

IV

BASIC AIMS OF COMMON FARM POLICY ACHIEVED

In this situation of world food shortage therefore the Common Farm Policy is achieving one of its major aims as set out in the Rome Treaty: the guarantee of regular supplies of food at reasonable prices.

Problems however remain in achieving the fulfillment of the other three major objects of the CAP: the stabilisation of markets, increasing agricultural productivity and the guarantee of a fair standard of living for farmers and farm workers.

The current problem with the oversupply of beef - immediately following a period of extreme shortage - is one obvious area where market stabilisation has not been achieved. With other products, where the Community is self-sufficient - such as butter and pigmeat - similar problems of potential over and under supply exist.

The Commission and Council are only too well aware of these problems. The political and economic structure of the Community at present prevents the introduction of price and market management policies which would bring the supply of these products more into balance with the consumer demand.

The current economic and social structure of EEC agriculture is also a major barrier to improvements in agricultural productivity.

As the Commission has pointed out many times - but most recently in the Memorandum on the Future Development of Agriculture 1973-1978 (November 1973) - long term improvements in agricultural productivity can be achieved only through separating support of agricultural prices from measures aimed at improving agricultural structure.

This involves acceptance of the idea that the many small farmers in the Community - 78 per cent of the farms in the EEC, 5.4 million of them, are smaller than 20 hectares - cannot obtain a reasonable living solely through support of market prices for their produce.

Retirement, farm amalgamations, and direct income support under such structural improvement schemes as the hill farm policy will increasingly provide for these farmers. The Commission's aim is then to encourage the Council increasingly to make price adjustments which are based on the income needs of efficient farmers. More efficient agricultural producers in any case form the larger productive section of the industry (although only 22 per cent of EEC farms are larger than 20 hectares, these larger farms account for 70 per cent of the farmed land).

This process will, in the longer term, inevitably involve a steady reduction in the guarantee costs of FEOGA, even though total FEOGA costs are likely to increase through the greater demand for money from the guidance section of the Fund.

Improvements in Agricultural Productivity.

There have in any case been steady improvements in the structure of EEC agriculture over the last decade. Despite the large number of small farms, almost 40 per cent of the Community's cultivable land is occupied by farms larger than 50 hectares (120 acres). This represents a considerable increase in the proportion of the Community's land area farmed in larger units during the last decade.

In 1960 only 22 per cent of the land area was in farms greater than 50 hectares. Even after making allowance for the fact that the UK - with a much greater proportion of large farms than other countries - has been added to the EEC, this represents a considerable advance.

Similarly with labour productivity. In 1973 the 9.6 million people employed in agriculture represented 9 per cent of the working population. Ten years ago the proportion of the Community's labour force employed on the land was more than 16 per cent.

The increase in the number of efficient farms and the efficiency of the industry in general has resulted in a considerable increase in agricultural productivity. Both output per man employed and per cultivated hectare have increased markedly during the 1966-1973 period. Output per man in this period increased by more than 5 per cent a year while output per hectare has increased at the rate of 3.2 per cent a year.

Principal advantages and current disadvantages of the CAP.

In the last two years the major advantage of the CAP has been proved: the security against world food shortages which a self-sufficient production allows. This advantage has not been gained however without considerable financial, social and political cost.

The major criticisms levelled against the CAP are that it costs too much, that it is wasteful and that in times of more normal agricultural production it disrupts the agricultural trade of other countries.

Though the farm policy has not yet solved the problem of rural poverty in many parts of the Community, the introduction of the hill farm ("disfavoured areas") and regional policies will complement the structural aspects of the CAP in improving incomes and living standards in these areas.

Failure to get demand and supply in balance in some sectors has steadily raised the costs of the farm policy over the years. Recurring dairy surpluses, particularly of butter, have cost the farm fund an average of 600 million u.a. a year during the last four years.

The cost of beef marked support in the 1970 surplus year was 31 million u.a. and again in 1974 the cost of disposing of a 400,000 ton surplus and other emergency market support measures is likely to reach more than 150 million u.a.. But at the same time the high level of cereal production which the EEC farm policy has always encouraged has, during the current shortage, saved the Community's consumers from considerably worse food price inflation than has occurred elsewhere.

It must also be remembered that an increase in FEOGA costs is inevitable as the CAP develops, since many of the costs of agricultural support once borne by national governments are gradually being transferred to Brussels.

The apparent high cost of the FEOGA budget must also be balanced against the cost to consumers and national balance of payments if larger quantities of food had to be imported from outside the Community - particularly in periods of world shortage.

Problem of surpluses.

Despite the advantages of the CAP, however, the problem of recurrent surpluses remains - particularly in the dairy product and beef sectors.

There are also recurrent problems of surpluses of fruit and wine in the Mediterranean area of the Community.

Both beef and dairy products tend to form the basic income of the many medium and small farmers in the northern part of the Community. There are fundamental differences in the causes of the beef and dairy surpluses. The beef surplus is caused by fluctuations in production in response to wide variations in price. The dairy surplus problem is of a more long term nature because milk production forms the major income of many small farmers.

In the case of beef, better alignment of production with consumption will come from better management of the market. There is hope that decisions taken in February 1975 on a more permanent support of the beef market may stabilise prices and encourage better longer term planning of production by beef producers.

The dairy product surplus problem can only be reduced by a reduction in the number of small farmers.

Similarly fruit and wine are the main sources of income for many farmers in southern France and Italy. It is therefore very difficult to devise support policies which will eliminate the risk of recurring excess production.

The Commission's view is that improvement in the agricultural, social and technical structure would do much to improve the responsiveness of production to market demand. Independent agricultural experts argue, however, that this improvement in structure is not enough.

The Community is currently searching for new market management methods that guarantee the farmer a price for his products but which do not create surpluses and shortages.

Improved farm and marketing structures will in future play an important part in the more efficient alignment of food production with consumption. The Commission has consistently pressed the Council of Ministers to accept the principle that farm price adjustments must be based on the income needs of the efficient farmer, rather than as an income prop for farmers whose holdings are so small that they cannot possibly win a living from market prices alone.

The setting up of the Farm Accountancy Network by the Commission is an important part of this process of aligning price adjustments on the efficient farmer.

V

MEDITERRANEAN POLICY

Due to its inclusion of large areas of agricultural land in the Mediterranean area, the European Community is able to provide the major proportion of its consumption of stone fruit, olive oil, wine and a substantial proportion of its citrus fruit needs. It is also able to produce a wide range of vegetables through a longer season, than is normally possible in northern Europe, in the southern half of France and in Italy.

Production of peaches and citrus fruits has remained stable for several years now and in both cases provide more than 30 per cent of the Community's total consumption.

In the other two major Mediterranean products - olive oil and wine, almost all Community consumption is satisfied by its own producers. With both these commodities - due to their production being concentrated in the hands of many small producers - there are recurrent marketing and structural problems.

There are more than a million olive oil producers in the EEC - 99 per cent of them concentrated in Italy. Because of the heavy labour requirements of the olive oil crop, the Community considers it necessary to maintain a high level of support to producers. It is also a sector where there is very little scope for increases in productivity through technical improvement.

The Community makes an exception to the main line of the Common Farm policy for these two reasons in operating a system of direct aids to olive oil producers in order to maintain production.

The wine production of the EEC represents more than 60 per cent of the "grands vins" consumed in the world. The product of the Community's two million wine growers represents six per cent of the total agricultural production (by value) of the enlarged EEC.

The aim of the EEC wine policy is to stabilise markets by maintaining production at the level of demand and at the same time to maintain and improve quality.

Due to the critical role which the weather plays in wine production - probably more than in any other sector including cereals - these aims have been difficult to achieve. This has been only too well demonstrated during the last two seasons.

In 1972 the small harvest of the middling quality wines caused rocketing prices. In the following year the situation was completely reversed with a 40 per cent greater harvest. Despite improved quality, prices crashed.

The range of wines covered by the support policy covers wide differences in quality. This has been the main reason for the overproduction of the low quality wines. This has resulted in the distillation in 1974 of an estimated 176 millions gallons of wine into industrial alcohol. This operation is likely to cost the guarantee section of FEOGA more than 112 million units of account in 1974. There are also likely to be additional costs for storage premiums and transport of surplus wine out of the producing areas to the processors. The overall result is that spending on support of the wine market in 1974 is expected to be double the original estimate.

The Commission is however fully conscious of the special production and structural problems - a large number of small production units, high costs and wide seasonal fluctuations in yield - of the wine sector. Community policy is increasingly being directed towards the encouragement of the production of high quality wines.

VI

IMPORTANCE OF STRUCTURAL POLICY

While emphasising that the current price support mechanisms are the only ones that can work in a Community-wide context, the Commission has always pressed for the use of direct aids in order to improve farm structures.

The Community's agricultural structural policy now has four major instruments. The two most important - already being applied by member governments - are the farm modernisation Directive (called "Directive 159") and the farm retirement and pension Directive ("Directive 160").

The modernisation policy is aimed not only at making farms larger, but, much more important, at making them efficient enough to give the farmer and his family an income comparable to his counterpart working in other industries in the same region.

In the schemes now being applied in all member States, farmers who produce approved development plans receive low interest loans in order to improve land, buildings and livestock. There is also assistance in keeping farm accounts. Where extra land is available, farmers working under this scheme have priority and aid in acquiring it to make their farms more economically viable.

The modernisation directive therefore fits very closely with the retirement and pension policy. Many of the farms given up by retiring farmers play an important part in enlarging and modernising the farms which remain. Under the retirement policy, farmers in the 55 to 65 year age group give up farming in return for an annuity paid by member governments with FEOGA assistance.

Another important policy development which compliments the modernisation and retirement policies is the occupational guidance policy (Directive 161) for farming families. Its principle aim is to provide advice on training in agriculture but also to provide advice to people who may leave agriculture and move into other industries.

An accepted weakness of the structural policies has however been the lack of structural planning at the regional level - within a co-ordinated Community policy.

Regional policy.

The rapid technical and economic change that is taking place in agriculture - with or without the European agricultural policy - must inevitably create rural unemployment and the run-down of rural communities. There are also large areas of the Community where the rural social and economic problem is too great to be encompassed by the limited influence of agricultural structural policies. The "Mezzogiorno" region of Italy is a typical area where something more than mere farm improvement and enlargement is needed to improve rural living standards.

This greater rural structural improvement will increasingly be promoted in the future by the Community's Regional Policy. Final agreement on the Regional Fund at the 1974 Paris summit meeting of EEC leaders means that the policy will be brought into action during 1975.

One of the major aims of the Regional Policy - in the depressed rural areas at least - is to create more jobs. Money from the Regional Fund will be allocated to concerns which can prove that they are establishing new enterprises which will provide jobs in depressed areas. Regional Fund money will also be used to improve the physical structure of the Community's regions.

This will involve improvement in roads, railways, power lines, water supplies and the provision of all the structural improvements necessary to revitalise an economically depressed region.

The Community is to devote £ 125 millions to regional policy in 1975 and £ 208 millions in each of the following two years.

Incorporating important elements of both agricultural structural policy and regional policy is the "Hill Farm and Less Favoured Rural Areas Directive". This has been approved by Council and the areas which are to benefit have now been decided.

The basic aim of the hill farm policy is to conserve the countryside through the continuance of farming in less favoured areas. The new forestry directive is also designed to fit into the pattern of structural reform of rural areas.

VII

PROPOSALS FOR REFORM OF THE FARM POLICY

There have been many official and unofficial proposals for modification of the CAP. The Commission's plans for bringing the management of the farm policy into line with the needs of the consumer and ensuring an economically sound agricultural structure were made in November 1973 (*).

One of the main points of the Commission's reform memorandum was that, in general, a system of direct income subsidies is not a valid

(*) "Newsletter" : special issue, November 1973 ("Memorandum Agriculture 1973-1978").

alternative to the present market price support principle of the CAP (this system is in fact used to support such special crops as durum wheat and olive oil). The Commission argues that such a policy would hold up structural improvement of the agricultural industry, create administrative problems and lay too heavy a burden on national budgets.

The memorandum does, however, make positive proposals for the more effective alignment of production with consumer demand. Il also makes recommendations for the reduction and limitation of farm price support costs.

An important principle set out in the memorandum is that in future farm prices should be set on the basis of efficient farms. At the same time it is proposed that the industry should be encouraged to become more efficient through the wider application of the various agricultural structural policies already agreed.

The Commission has also made several positive proposals agreeing with the many independent suggestions for the better adjustment of production to consumption.

In the dairy sector the memorandum proposed the institution of a "surplus tax" to be levied against farmers and milk manufacturers whenever there is a danger of surpluses becoming a financial and trading embarrassment. Similar policies are currently proposed by the governments of at least two member States.

And in a situation of reduced demand for butter, the Commission also proposed the alteration of the price ratio between butter and dried skim mild. Aim of this measure is to encourage production of the protein - rich dried milk - rather than fat.

The Commission has now made a modified proposal for the penalising of dairy farmers and manufacturers if surpluses become excessive.

Due to unusual climatic factors dairy product surpluses decreased during 1974. But the threat of expensive surpluses remains. Urgent reform action is still likely to be needed if the embarrassing butter surpluses of two and three years ago are to be avoided.

Many of the other specific market sector proposals made in the Memorandum have of course also been overtaken by events. Changes in the cereal policy - such as abolition of the payment of subsidies to convert wheat into animal feed (the so-called "denaturing premium") - have since been forced on the Community by extreme market forces.

The improvement in the price ratio between the main animal feed grains, maize and barley, and the main cereal for human food, wheat, in order to encourage greater production of the feed grains, has still to be implemented. So also have the proposals for a permanent wheat reserve to allow the Community to play a greater part in world food security programmes as well as to ensure EEC consumers against shortages.

VIII

CHALLENGES TO THE UNIFIED FARM MARKET

A major point made by the Commission in the November 1973 Memorandum was that any real improvement of the CAP is impossible without a greater move towards economic and monetary unity within the Community.

And without doubt, the events of the last twelve months in the agricultural sphere have fully supported this contention. Disparities between national needs and aims and those of the Community as a whole have resulted in a succession of crises which have threatened to demolish the CAP.

During the past three years monetary imbalances between member States have increasingly disrupted smooth running of agricultural trade.

At the beginning of 1974 there were already monetary compensatory subsidies and levies operating between the three member countries with currencies floating below the "central rate" - Italy, the United Kingdom and Eire. The situation was made worse in February 1974 by an effective seven per cent devaluation of the French franc.

There was also the problem of the revaluation of the Deutsche-Mark and the Benelux currencies which involved the application of additional compensatory subsidies for farm produce sold out of these countries to the rest of the Community.

Though rationally justifiable, these monetary compensatory subsidies have in practice been responsible for considerable distorsion of agricultural trade (1).

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(1) Monetary compensatory amounts:

In order to achieve a completely common farm market, with all prices the same in different countries, farmers must be paid in a special monetary unit - the "unit of account". If all the nine currencies of the Community did not fluctuate then this object could easily be achieved since conversion of the unit of account into Deutschmarks or Francs would always result in the German and French farmer being paid the same amount.

Unfortunately, however, national currencies are not stable. When a country's currency is revalued, as in Germany, farm prices should be reduced. When it is devalued, as in France, farm prices should be increased. In the first case the unit of account "buys" fewer DM and in the second the u.a. "buys" a larger number of FF.

But national governments will not allow their prices to be altered to their true value in relation to the unit of account for obvious political reasons. Therefore, without some adjustment at the borders, cheap exports from the country with the devalued currency can undermine the market of the stable or revalued country. Likewise, the revalued country cannot compete in the devalued country. It is therefore necessary to have "compensatory amounts" paid and charged at the border to compensate traders for these differences.

Exports of meat and other animal products sold out of Germany and the Benelux countries to France, Italy and the United Kingdom were indoubtedly responsible for further depression of already depressed markets in these countries.

The major reason for this distortion is that the monetary differences between countries do not necessarily reflect the actual costs of production or the market prices ruling within them.

This distortion of trade was a major factor prompting the Italian government to impose 50 per cent, six-month deposits on all imports from Community countries in May 1974. Import deposits imposed by the Italians were removed completely at the end of 1974.

Effective dismantling of most of the monetary compensation subsidies paid to other EEC member countries exporting to Italy was a major condition on which the Italian government agreed to remove its import deposit system.

The man who exports from a country with a revalued or stable currency must receive a subsidy to allow him to compete in the market of the devalued country, because his goods are more expensive. Similarly, the man selling from the devalued country into the stable or revalued currency must pay a levy in order to make his now cheaper goods as expensive as those in the countries with the more valuable currencies. These monetary compensatory amounts are levied and paid at both ends of a transaction - on the way out of the exporting country and on their way into the importing country. This somewhat complex system has to operate like this to allow for the problems of goods passing between countries with different parity relationships. It is particularly complex where trade involves two countries with devalued currencies. Inevitably, this system is a serious barrier to free trade and prevents the operation of a real common farm market. The MCAs are incidentally operated from Brussels and any deficit (total levy income minus subsidies) in the cost of operation is met from the EAGGF.

IX

CONCLUSION

Though like all agricultural support policies, the CAP has major imperfections, it has proved to have an unassailable advantage during the last two years: the ability to protect the European consumer from rapid increases in food prices resulting from shortages.

Because it has encouraged self-sufficiency in the major foods - grain, meat, dairy products, sugar and vegetables (légumes) - the CAP has ensured that through the rapid inflation of food prices on the world market since 1972, EEC food prices have been stabilised.

The inability of the EEC support system to overcome the problems of the cycle of over and under production of beef, to control the overproduction of dairy products and to stave off the threat of expensive surpluses of wheat have been major targets of criticism.

Fortunately however, the political will to seek new methods of managing these markets more efficiently does now exist in the Community. The Commission's plans for modification of the support policies in these sectors is receiving much fuller support from member governments than they have done in the past.

There is also the possibility that the economically stringent era which Europe and the rest of the world is now entering will force greater economic and monetary cooperation. This could go a long way to solving the distortions of agricultural trade caused by monetary imbalances between member States.

Though criticised by other agricultural exporting countries, the EEC, despite its high level of self-sufficiency, still remains the world's major importer of food products, accounting for more than 40 per cent of total world agricultural imports.

And it is likely that with increased cooperation with Mediterranean countries, the African, Caribbean and Pacific group of countries and several other trading groups, that the Community will continue to allow a greater proportion of agricultural imports into its markets.

In common with all other developed countries and groups of countries, the EEC does have restrictions on agricultural imports. But it is doing more to liberalise this trade than most other countries.

The major structural problems of European agriculture remain. Labour productivity and technical efficiency on average lag behing the record of the other major agricultural producers. It must be borne in mind however, that the geographical features of the Community and the political and social problems of the European agriculture industry make nonsense of any comparisons with agricultural exporting countries such as the United States, Canada or Australia.

Efficiency of the French cereal farmer is as good and probably greater than his American counterpart; the efficiency of the Scottish dairy farmer approaches that of his New Zealand cousin; beef production in Europe is, in terms of utilisation of home produced feeds, the most efficient in the world.

The infertility of many regions of the Community, the social immobility in many rural areas all militate against the achievement of the technical efficiency of relatively newly developed and climatically favoured countries such as the USA and New Zealand.

Increasingly, the structural and social aspects of the agricultural policy, combined with the regional policy will take care of the social obstacles to increased agricultural efficiency.

Like all existing agricultural support policies the CAP is not perfect. In common with all other types of food policy, it has not yet solved the problem of how to balance production with consumer demand.

It has however proved itself capable of protecting European consumers from food price inflation through the recent period of world-wide food shortage and high prices. The European farm policy has achieved this highly desirable objective through giving food producers the long term price guarantees that have encouraged them to produce adequate quantities of all the main basic foods.

Without this security of food supply, food price increases and resulting wage inflation would have been very much greater in the 1973-74 period than they were.