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## Report

drawn up on behalf of the Committee on Agriculture

on the report by the Commission of the European Communities on the  
application of the Council Directives on agricultural reform of April 1972

Rapporteur: Mr C. LABAN

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English Edition



By letter of 6 April 1976 the Committee on Agriculture requested authorization to draw up a report on the report by the Commission of the European Communities on the application of the Council Directives on agricultural reform of 17 April 1972.

Authorization was given by the President of the European Parliament in his letter of 6 May 1976.

The Committee on Agriculture appointed Mr Laban rapporteur.

It considered the draft report at its meeting of 20/21 September 1976 and adopted the motion for a resolution and the explanatory statement by 14 votes to none with one abstention.

Present: Mr Liogier, acting chairman; Mr Laban, rapporteur; Mr Bourdellès, Mr de Koning, Mrs Dunwoody, Mr Fabbrini (deputizing for Mr Marras), Mr Haase, Mr Hughes, Mr Hunault, Mr Kofoed, Mr Martens, Mr McDonald, Lord St. Oswald, Mr Suck and Lord Walston.

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A

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

MOTION FOR A RESOLUTION

on the report by the Commission of the European Communities on the application of the Council Directives on agricultural reform of 17 April 1972

The European Parliament

- having regard to the report by the Commission of the European Communities (COM(76) 87 final)
  - having regard to the report of the Committee on Agriculture (Doc. 301/76)
1. Regrets the delay in implementing the common structural policy as laid down by the Council in its structural directives of 17 April 1972;
  2. Notes that the Commission has at its disposal only a few initial data regarding the application of the directives, so that a definitive evaluation of the results of Community and national measures is not possible;
  3. Urges Member States to take at an early date the measures needed to implement the structural directives completely and, in accordance with the provisions of these directives, to provide the Commission with the relevant data in good time so that a full analysis of the results of the common structural policy can be made;
  4. Points out that Community action to improve structures is urgently needed since the market and price policies, for which expenditure is constantly increasing, are not in themselves sufficient to solve the fundamental problems of European agriculture, while the intervention system is creating surpluses in certain sectors;
  5. Notes that:
    - a) large discrepancies still exist between agricultural incomes and those in other sectors of industry
    - b) such discrepancies also exist between agricultural incomes in the various sectors of agriculture and the various regions of the Community
    - c) small farms benefit least from the common price policy which has hitherto been the principal method of supporting agricultural incomes;

6. Believes that, within the structural policy, special attention should be paid to:
  - a) potentially viable holdings where the farmers cannot be adequately assisted by means of the common price policy, where they do not have sufficient resources to improve the structure of their farms and where they require temporary direct income support under the common structural policy to tide them over until their farms become viable;
  - b) holdings which are not potentially viable and where the farmers must be assisted under the cessation of farming scheme by the grant of temporary direct income support enabling them to maintain a reasonable income level until they qualify for the standard old-age pension arrangements;
7. Approves the establishment of a study group which, within the framework of the Standing Committee on Agricultural Structure, will study the difficulties that have delayed implementation of the directives, and requests to be kept informed of the results of the activities of this study group;
8. Considers it important that the problem of insufficient coordination between a farmer's cessation of activity and the allocation of his land for the modernization of farms which have submitted a development plan, should be further examined and that a study should at the same time be carried out to see how the land banks that exist in some Member States can contribute to greater mobility of agricultural land in accordance with the objectives of the common structural policy;
9. Requests the Commission to look into ways of drawing up flexible production plans for a three-year period, renewable annually, taking account of expected trends in supply and demand in the Community and the need for Community agriculture to exert a stabilizing influence at international level;
10. Requests the Commission to investigate whether it would be possible to harmonize interest rates on loans to European farmers and alleviate their financial burden by setting up a European interest subsidy fund;  
Points out in this connection the no doubt obvious fact that it is highly desirable for the extremely complex problem of the harmonization of fiscal systems in the Member States, especially in agriculture, to be resolved as soon as possible;
11. Urges the Council to take an early decision on the proposals regarding aid to young farmers, producer groups, the processing and marketing of agricultural products and measures in the forestry sector;
12. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

EXPLANATORY STATEMENT

1. On 17 April 1972, the Council adopted a Directive on the modernization of farms (72/159/EEC), a Directive concerning measures to encourage the cessation of farming and the reallocation of utilized agricultural area for the purposes of structural improvement (72/160/EEC) and a Directive concerning the provision of socio-economic guidance for and the acquisition of occupational skills by persons engaged in agriculture (72/161/EEC).

These directives require the Commission to submit to the European Parliament and to the Council before 1 August of each year a report on the application of Community and national measures introduced to implement the structural directives. To this end Member States are required to send all necessary documentation to the Commission. The Council has to use this report to evaluate the situation regarding the application of these directives and, if necessary, to take decisions to adapt the common structural policy<sup>1</sup>.

The first report on the application of the structural directives has now been submitted to Parliament.

2. Already in its Memorandum on the reorganization of the common agricultural policy of October 1973, the Commission had to acknowledge that the common structural policy had not been given effect throughout the whole Community. There had been considerable delay in approving the first Community measures in this area and so the deadlines for introducing the common structural policy as laid down in the directives had to be extended until 31 December 1973. By that date, only Germany and the Netherlands had put into effect the measures necessary for implementing Directives 72/159 and 72/160. Later on there were again delays in implementing common action pursuant to these directives because the legal and administrative provisions had not come into operation. Consequently, the data available to the Commission is merely of a general nature and forms an inadequate basis on which to make a reasoned assessment of the effect of the directives on the improvement of agricultural structures in the Member States.

There is a complete absence of usable data on the application of Directive 72/161.

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<sup>1</sup> Article 22(1) of Directive 72/159, Article 15 of Directive 72/160 and Article 16 of Directive 72/161

The first report by the Commission is therefore largely descriptive, hardly affording any material on which to base a thorough analysis of the results achieved from which clear conclusions could be drawn about the way in which agricultural structures in the Member States are adapting to the objectives of the common structural policy.

Nevertheless, the Commission's report reveals that one of the main problems in implementing the common structural policy is poor coordination between Directives 72/159 and 72/160, particularly as regards the lack of suitable measures to determine the use to which land released through the cessation of farming should be put and, to a greater extent than has hitherto been the case, to use the land for the modernization of farms carrying out a development plan. More will be said on this below.

3. At this stage and pending the availability of more complete data, the Committee on Agriculture emphasizes first of all the importance of a consensus at European level on the objectives of the common structural policy, revealing that there is an awareness of the limits of what can be achieved by the market and price policies on which the common agricultural policy has so far been largely based, and that, by complementing this policy with a structural policy aimed at the optimum allocation of the production factors in agriculture, it is possible to reduce the differences in income within agriculture and between agriculture and other sectors and to achieve the other objectives of Article 39 of the EEC Treaty.

Considerable discrepancies still exist both in agriculture, between different production sectors and different regions, and between agriculture and other branches of industry.

These discrepancies cannot be smoothed out by the price policy alone as they are mainly related to poor farming structures, low productivity and unfavourable natural production conditions in economically backward areas.

Although the common price policy has hitherto been the main means of supporting agricultural incomes, it mainly benefits large farms which are in fact those which least require increases in prices to support a reasonable standard of living. Consequently the price policy alone is not capable of solving the fundamental problems of agriculture and even contributes towards widening the gap in agricultural incomes. A socially-orientated agricultural policy is required to solve the above problems. In order to select the right instruments for such a policy we have to know how important a place we should give to agriculture in the Community economy and how many persons are consequently required in this sector. Economic and social facilities will then be necessary to enable the agricultural population to decide freely whether they wish to continue their agricultural activities or not.



It is therefore regrettable that this policy is so slow to get under way. If more money had been allocated to the common structural policy there would have been speedier realisation of structural improvements and less expenditure would have been required for market support measures and the price policy.

It is therefore necessary that, in the allocation of Community resources, greater account should be taken of the Community's structural policy than has hitherto been the case.

The European Parliament has repeatedly expressed its concern at the delay in implementing this policy and Oral Questions have been put to the Council and Commission on this subject. Concern is also felt about the fate of the Commission's proposals on aid to young farmers, producer groups, the processing and marketing of agricultural products and forestry, which are still awaiting action by the Council - some have been for years. In Regulation No. 729/70, OJ No. L94/70, the Council laid down that appropriations to the Guidance Section of the EAGGF should be used, in particular to finance common measures. In the absence of a structural policy pursued through Community action, the greater part of the funds in the EAGGF, Guidance Section, are still used to finance individual projects.

Nevertheless it is still necessary to improve, by way of individual projects, production structures and working conditions, particularly in medium-sized farms, which are potentially viable but offer inadequate prospects for the financing of an investment project. In such potentially viable farms, particularly those with dairy herds of 30-35 cows, finance is a pressing problem and special aid must be granted for individual investment projects designed to improve working conditions without inflating production. A possible example would be services such as the construction of roads to make farms more accessible, land consolidation, the use of milk tanks and the construction of compost cellars. The scope of the structural policy should include this category of farm where the absence of alternative employment and means of livelihood compel the working population to go on farming even though the size of the farm falls short of structural requirements for a modern farm. Strict application of the price policy, based on modern farms, is no solution with regard to incomes on such potentially viable farms and the whole modernization problem should therefore be solved in the context of the common structural policy. At the same time the investment support granted under the modernization directive should be extended to such farms in the form of direct income subsidies. Such subsidies would make it easier to adapt support to the farmer's financial position. And in certain

circumstances, such as a sudden increase in production costs, income support may be necessary for a limited period. For social reasons it must be possible to grant income support, on a temporary basis, to non-profitable farms pending discontinuation or modernization. The modernization directive does make provision for interim support for farms unable to maintain a comparable level of revenue which do not yet qualify for the annual grant in respect of cessation of farming. Temporary income support should also be provided for under the directive in the case of less favoured farms, but such a policy must be conducted on a temporary and selective basis to keep the costs within reasonable bounds and to avoid providing an incentive for the indefinite maintenance of non-profitable production units.

The final solution will only be found in a regional and social policy and full application of the structural directives.

4. An investigation should therefore be carried out to determine the reasons for the slow implementation of the structural policy in the Member States and the factors that are holding things up. Regarding the three directives of 1972, the Commission report offers no satisfactory answers to these questions. We are left groping in the dark.

It can of course be argued that the common structural policy is very closely connected with the whole national economic structure and therefore has far-reaching consequences for the adaptation of national-economic policy, so that the practical application of the directives is a long-term affair requiring a considerable take-off period. On the other hand, there was a process of structural adaptation in all the Member States before 1972 whereby various measures were tried in order to rationalize agricultural production. The chief characteristic of this process was a gradual falling off in the number of people employed in agriculture.

Since the economic structure of agricultural production differs not only from one country to another but also from one region to another, it can be argued that prompt introduction of the common structural policy was delayed because the European regional development policy was introduced too late. True, various points in the directives do take account of regional diversity. For example, Directive 72/159 lays down that the comparable earned income to be reached after the completion of a development plan must correspond to the level of earned income received for non-agricultural work in that region. In order to provide an incentive to farms with development possibilities, it is laid down that Member States may vary the aid according to region and therefore the directives are intended to make due allowance for regional differentiation<sup>1</sup>.

<sup>1</sup> Articles 4(2) and 1(2) of Directive 72/159

All this does not alter the fact that structural reform is often frustrated by the problem of backward regions in which structural improvement is most urgent but where there is a considerable agricultural manpower surplus coupled with a poorly developed regional economy.

Directives alone produce insufficient results here. Even when, having regard to the low incomes, investment aid is increased and the comparable income is differentiated according to region, the risk of the change-over failing is too high. Under these circumstances, there is neither the will nor the possibility to give up farming, as no real alternative ways of making a living are available. Here we are paying for our slowness in introducing an appropriate European regional development policy. Without such a policy to create a good infrastructure and good jobs in these regions, these directives will yield limited results.

Stress must also be placed, in the directives, on the encouragement of cooperation between neighbouring farms in the interest of more rational management, by, for instance, drawing up joint crop schedules and the joint purchase and use of threshing-machines and tractors. It is therefore important to provide, under Article 12 of the modernization directive, incentives for agricultural cooperatives where they will increase the profitability of individual farms.

Increased profitability could also be achieved by setting up a European interest subsidy fund, possibly under the Guidance Section of the EAGGF, which could play a useful role in the structural policy. One feature of the structural development of agriculture is an increasing capital requirement and the financing of the modernization policy calls for a constant increase in expenditure. The aim of this fund would be to stabilise interest rates throughout the Community and thereby alleviate the financial position of farms. As the prospects of internal financing are restricted, the interest rate is very important for the success of structural improvement and to guarantee a reasonable income level. Together with income support in the context of the modernization directive, a European fund of this kind, based on the specific circumstances and needs of agriculture, could simplify the development of farming structures. The relationship of such a fund to the banks which at present provide agricultural loans and the further aspects of this question are matters which will require further study.

5. Naturally, it is also extremely important that the process of structural adaptation be carried out under favourable economic conditions. The recession has thus been another cause of delay. The limited effect of the

directives is at the same time linked with the fact that the amounts decided on in 1972 have considerably decreased in value because of continuing inflation. In order to compensate for this fall in value, the Commission recently suggested that the amounts of aid be brought up to date by means of a linear rise of 33.3% (as expressed in units of account). The Committee on Agriculture pronounced in favour of this<sup>1</sup>. In addition, application of the directives was delayed by the enlargement of the Community and by internal circumstances within the Member States not directly connected with agricultural policy.

6. These general factors do not completely explain the delay in implementing the directives, and neither does the fact that the Member States often do not take full advantage of the opportunities provided by the directives.

The Committee on Agriculture therefore attaches considerable importance to the Commission's decision to set up a study group under the Standing Committee on Agricultural Structure, whose task will be to throw some light on this matter. This committee consists of experts from the Member States and representatives from the Commission and will have to deal mainly with the most important problem of insufficient land mobility and the possibilities of influencing the use of released land pending its allocation to developing farms in accordance with the objectives of the common structural policy. For it has proved that a considerable time elapses between the moment the land becomes available and the moment that land is used for development purposes, and during that period the land has no function whatsoever within the structural policy.

The Committee on Agriculture therefore welcomes the establishment of a study group, since this will probably make it possible to gain more quickly a better understanding of the factors impeding the complete application of the directives than if it were necessary to wait for the data which the Member States are supposed to supply to the Commission.

The Commission has now brought two cases before the Court of Justice pursuant to Article 169 of the EEC Treaty, one against Belgium on the grounds of incomplete application of Title 1 of Directive 72/161 on the provision of socio-economic guidance for the agricultural population, and one against France on account of the insufficient alignment of national aid measures with the provisions of Article 14(2) of Directive 72/159 concerning aid to farms which do not submit a development plan.

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<sup>1</sup> Report by Lord WALSTON, Doc. 204/76

7. As noted above, the available data are too limited and the results of the application of the directives insufficiently representative for the purposes of a fundamental assessment.

This will have to wait till the results of the study group's enquiries are available. The Committee on Agriculture therefore considers that it would be premature at this stage to undertake a revision of the directives.

Nonetheless some suggestions can be made for improving the results of the policy conducted so far, particularly as regards the use of released land where the lack of suitable measures for coordinating the cessation of farming and the allocation of land in accordance with the objectives of the directives is evident.

8. The starting point is a rational development of farm structures in accordance with the directives. Although no precise information is available, it is apparent that only a small proportion of the cases of cessation of farming, followed by allocation of the land to developing farms, take place with the benefit of the facilities afforded by the directives. It is laid down that if there are no farms which fulfil the conditions on modernization, the land can be allocated to other farms. The land may also be offered either on lease for at least 12 years or for sale to land agencies, which must designate the land for modernization purposes<sup>1</sup>.

Although land agencies exist in nearly all the Member States, the Commission finds that only in the Netherlands do they operate as an instrument for influencing land mobility. Your rapporteur therefore considers it justifiable to examine briefly here land policy in the Netherlands particularly the function and activities of land banks which play an important role in the buying and financing of agricultural land.

Without going into details, it may be stated that the role of a land bank is to offer credit facilities for the purchase and enlargement of farms. It buys agricultural land and lets it out on long lease, having taken into consideration the following factors: the creditor must have an adequate return, the leaseholders must be guaranteed a reasonable rent and consideration must be given to whether the farmer who has sold to the bank should be given the right of buying back the land if he should so wish. One consequence of this is that the government must participate financially in one way or another in order to bridge the gap between the minimum necessary return for the creditor and the level of the rent.

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<sup>1</sup> Directive 72/160, Article 5(2, 3)

9. The financing of land is, in view of the great scarcity of land particularly in the Netherlands, a very acute problem. Your rapporteur is, however, aware that this situation may be different in other countries of the Community.

What is here being emphasized, however, is the fact that an institution such as the land bank can also serve as an element of structural policy. A land bank is not conceived of as having a purely financial role for it can also influence the allocation of land in the case, for example, of cessation of farming, handing over the land on a long lease to the operators of modern farms capable of achieving the comparable income level. In cases where viable farms are inherited, the agricultural bank can enhance the security of competent skilled successors or long-leaseholders and can create the conditions for a sound enlargement of their holdings. This is of particular importance to young farmers faced with heavy expenditure for some years after taking over a farm. The important consideration is always that the land should go to the right farm.

Within the framework of the structural directives, the land banks would be able to lay down conditions on the minimum size of farms, income parity and competence.

In this way, the land banks could promote land mobility and strengthen the liquidity position of viable farms, and could help to increase the size of farms by letting out land on long lease.

Although the situation on the land market varies from one Member State to another and land policy therefore remains primarily the Member States' own affair, a start could perhaps be made at European level on defining the powers of land banks, having regard to the need to encourage land mobility and to remedy the lacunae at present existing on this point in the common structural policy.

The Committee on Agriculture therefore recommends that the Commission examine the role which land banks could play in the common structural policy.

10. The basic problems of agriculture can only be solved if it is accorded its rightful place in modern economy as a whole. It is therefore desirable to ascertain the general lines along which agriculture will develop in the longer term. This calls for the drawing up of flexible production plans covering a period of 3-5 years which could be reviewed and adjusted annually. These plans should take account of foreseeable supply and demand trends in the Community and on the world market, and the need to open the Community market to agricultural products from non-member countries. This would

provide farmers with a general indication of what they should produce and in what quantities, and at the same time the Community authorities would be able to apply the results to their market management and price policy. Together with this policy it should, on the basis of the production plans, be possible to take initiatives with regard to structure.

It is however emphasized that the production plans should not be strictly quantitative; they should be overall flexible guidelines for production leaving the farmer completely free to make his own decisions. The main thing is to provide general indicators for production to enable a more specific policy to be pursued for the maintenance of market balance and the prevention of surpluses, and more in line with the interests of consumers.

Finally it is necessary to see the Community's agriculture in an international context, making provision for the marketing of goods from the developing countries and contributing to the stabilization of world markets. It is in the interests of these objectives that the Community should thoroughly examine this suggestion for indicative production plans.

11. As stated above, it is at present impossible to draw final conclusions from the Commission's report. The Committee on Agriculture urges that since there are now signs of economic recovery and the initial adjustment period is over, the remaining obstacles to the introduction of a common structural policy in agriculture be quickly removed and national measures which are incompatible with the directives be withdrawn at an early date.

It hopes that Parliament will be informed of the results of the working party set up within the Standing Committee on Agricultural Structure and that sufficient data will be forthcoming in the next annual report for Parliament to be able to base its assessment of the situation on greater knowledge of the facts.

Furthermore, the Committee on Agriculture points out that the Council must reach a decision very shortly on the proposals on aid to young farmers, producer groups, the processing and marketing of agricultural products and measures in the forestry sector.

The fundamental problems of agriculture can only be solved if agriculture is fully integrated into the economy of the Community, since the economic and social problems and with which agriculture is faced have their main cause in the close relationship between the agricultural policy and the lack of proper integration in the other sectors of Community policy. A common price policy based on the modern farm and a proper common agricultural policy will

only be possible if and when progress is made on economic and monetary union. Failing this the Member States will continue to be subject to the same degree to monetary fluctuations and the system will reach an irrevocable stalemate, as the monetary compensatory amounts intended to offset the effects of changes in exchange rates on a short-term basis will have to be extended and will grow out of all proportion, thoroughly distorting the common agricultural market.

An effective structural policy for agriculture will only be possible if and when all the structural directives are fully implemented and this implementation is accompanied by a social and regional policy which will reduce expenditure requirements for what is at present a very expensive market and prices policy. Together, these policies should give us a socially orientated agricultural policy, the objectives of which can then be more effectively attained.