

European Communities — Directorate-General Information

NEWSLETTER ON THE COMMON AGRICULTURAL POLICY

Extract from the 1977 report

**on the agricultural
situation
in the Community**

Special issue

BRUSSELS LUXEMBOURG
February 1978

The 'Newsletter on the common agricultural policy' has the pleasure of presenting this special issue to its readers.

For the third time, the Office for Official Publications of the European Communities is publishing on behalf of the Commission an abridged version of the annual report on 'the Agricultural Situation in the Community' which was presented to the Council of Ministers in December 1977.

We reproduce in this issue the full text of this version of the report apart from the statistical annex. We would point out to readers who wish to obtain these statistics that the complete report is on sale in the sales offices*.

This special issue forms one of the documentary texts which the 'Newsletter on the common agricultural policy' has been publishing since 1963.

This publication is also available in the following languages:

DA	ISBN	92-825-0129-9
DE	ISBN	92-825-0130-2
FR	ISBN	92-825-0132-9
IT	ISBN	92-825-0133-7
NL	ISBN	92-825-0134-5

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Printed in Belgium

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ISBN 92-825-0131-0

Catalogue number: CB-24-77-285-EN-C

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Foreword

This report is the third published version of the Annual Report on the Agricultural Situation in the Community; it was drawn up in conjunction with the 'Eleventh General Report on the Activities of the European Communities'.

Chapter III C on the situation of the agricultural markets is a summary of Document COM(77)490 final, 'Situation of agricultural markets—1977 Report' (November 1977).

This report was completed on 31 October 1977.

The Commission has already presented separate reports to the Council during 1977 on a number of matters, in particular:

- Agricultural incomes in the Community. Addendum to the 1976 Report on the Agricultural Situation in the Community (COM(77)60 final of 11 February 1977). The Commission intends to present a new version of this report in February 1978;
- Report on the foreseeable developments in the planting and replanting of vineyards in the Community and on the ratio between production and utilization in the wine sector (Document COM(77)22 final). Addendum (Document COM(77)203 final of 26 May 1977);
- Report on starch production in the Community and the starch production refund (COM(77)363 final of 27 July 1977);
- Report of the causes of fluctuations on the Community market in seeds (COM(77)454 of 20 September 1977);
- the EAGGF Financial Report for 1976 (document to be published in November 1977);
- the '1975' results of the EEC Farm Accountancy Data Network (document to be published in November 1977).

The following Communications from the Commission to the Council should also be mentioned:

- Communication on the Mediterranean agricultural problem (COM(77)140 final of 4 April 1977);
- Communication on the updating of the outlook for agricultural markets (COM(77) 380 final of 28 July 1977);
- Communication on the amendment of the common organization of the market in beef and veal (COM(77)220 final of 5 October 1977).

Introduction: The year 1977

1. The general economic recovery which began in 1975 was also felt in 1977 but the results have still not achieved the desired effect. The economic situation is in general still a cause for concern and varies considerably from one country to another. Variations in inflation and in external trade balances have not been sufficiently reduced. Real gross domestic product in the Community grew between 1976 and 1977 by 2.5%, which is less than the increase between 1975 and 1976 (4.7%).

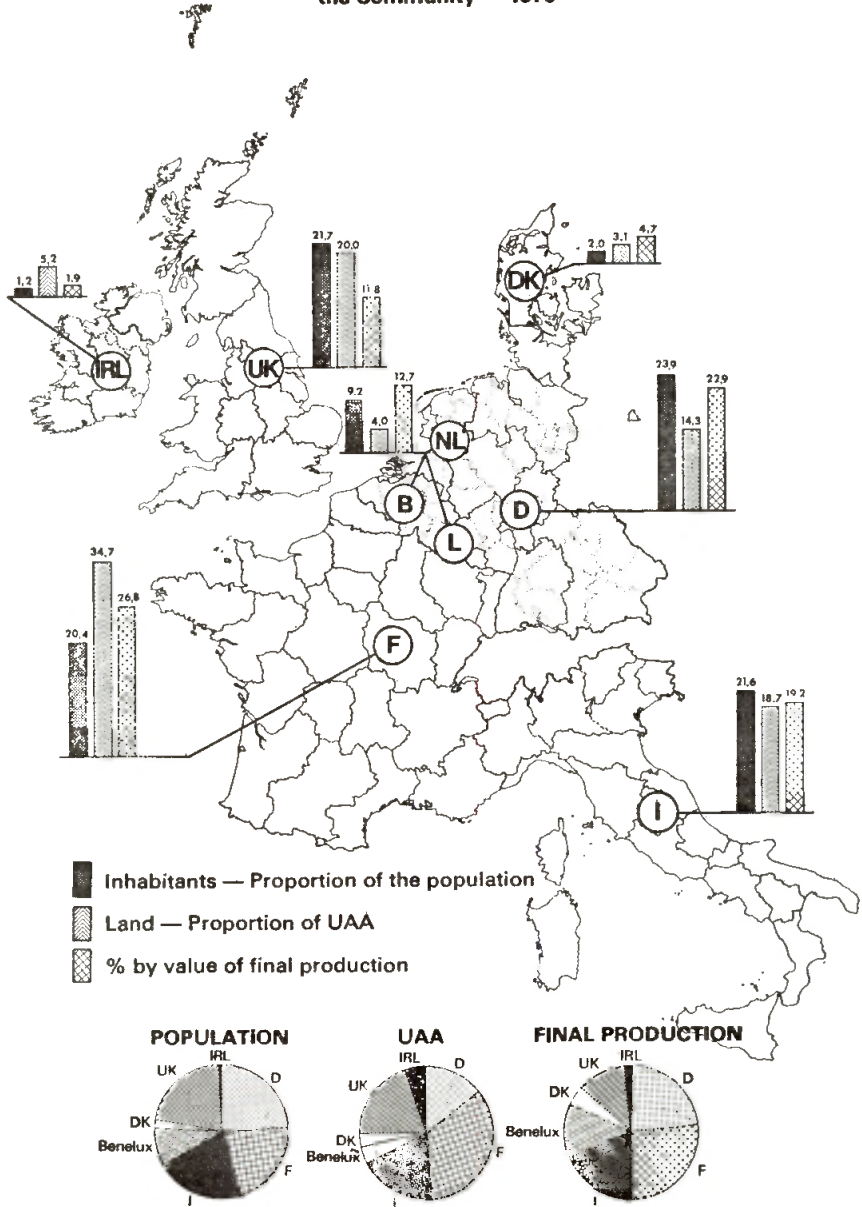
2. The agricultural sector was severely affected by this situation. Despite efforts in the common interest to adjust the green rates for certain Member States, the unity of the agricultural market is still at risk. At the end of October 1977 the extreme difference between the monetary compensatory amounts applicable at the frontiers was still around 40%. In this uneven general economic environment the Council faced major difficulties in fixing agricultural prices for 1977/78.

3. In view of the greater economic difficulties experienced in some regions of the Community and the probability of enlargement, special attention continued to be given to these regions in 1977.

4. Supplies of foodstuffs in 1977 caused no particular problems. The relatively modest increase in agricultural prices for 1977/78 (+3.9% compared with +7.7% for the previous marketing year) contributed towards the effort to stabilize prices.

5. The imbalance between supply and demand continued to affect in particular milk products, sugar, wine, certain types of apples and pears and olive oil. The action programme for the progressive achievement of balance on the milk market, adopted by the Council in April 1977, will probably produce its effects from 1978 onwards.

Consumption potential (inhabitants), production potential (land) and potential for agricultural production in the Community — 1976



GRAPH 1

The main events of 1977

Date	Event
6.1	New Commission
17.1	Devaluation of the representative rate of the Irish pound, 11.3%, reduction in monetary compensatory amounts
15.2	Adoption by the Council of Common measures to improve conditions under which agricultural products are processed and marketed (Reg. (EEC)355/77)
25.3	Twenty years since the signing of the Treaties of Rome
28.3	Formal request by Portugal for accession to the Communities
14-15.3 25-29.3	Discussion in the Council on agricultural prices for 1977/78, extension until 30 April 1977 of the 1976/77 marketing year for beef and veal and for milk products. Change in the exchange rates to be applied in agriculture for the Italian lira, the Irish pound and the French franc. The monetary compensatory amounts were reduced for the lira by 8 points, for the Irish pound by 7 points and for the French franc by 3 points
4.4	Communication from the Commission to the Council on the Mediterranean agricultural problem
6.4	Devaluation of the central rate and the representative rate of the Danish krone by 3%
20.4	Enlargement of the list of non-Annex II products subject to monetary compensatory amounts (MCA)
25-26.4	Council Decision on the common agricultural prices for the 1977/78 marketing year (+ 3.9%). Reduction in monetary compensatory amounts for the Deutschmark by 1.8 points and for the pound sterling by 4 points
	Adoption of some of the measures proposed by the Commission in connection with its action programme for the progressive achievement of balance on the milk market
	Approval of a programme to eradicate brucellosis, tuberculosis and leucosis in cattle
17.5	Regulation amending the common organization of the market in hops
31.5	Communication from the Commission to the Council on producer groups in agriculture
26.7	Formal request by Spain for accession to the Communities
29.8	Devaluation of the central rate of the Danish krone by 5%
13.9	Devaluation of the representative rate of the Danish krone by 5%
16.9	Application of the co-responsibility levy in the milk sector
5.10	Communication from the Commission to the Council on the amendment of the common organization of the market in beef and veal
26.10	Amended proposal by the Commission to the Council on the gradual abolition of compensatory amounts in trade in agricultural products Commission report to the Council on the use of the European unit of account in the common agricultural policy.

I. The general situation

6. In 1977 the general environment of Community agriculture was one of recovery from the worst economic recession since the war. 1. But the pace of recovery faltered and high levels of unemployment continued; inflation slowed down but still varied greatly from country to country. 2. In 1977 the repercussions of past monetary instability continued to affect the common agricultural market which is still¹ split into seven monetary zones. 3. Good harvests will allow rebuilding of most commodity stocks. 4. In 1977 the Community has taken various initiatives in the field of external relations some of which directly affect Community agriculture. 5. The Community has also, in 1977, continued to develop the common agricultural policy.

1. The problem of economic divergence

7. In 1977 the pace of the Community's recovery from its most serious economic recession since the end of the war slowed considerably. The recovery had begun in the second half of 1975, when real gross domestic product (GDP) expressed at an annual rate rose by 2.5%. For 1976 as a whole the growth rate was 4.7% but in the latter part of the year there were already signs of a slow-down. This has become more evident in 1977 and the growth rate for the year is expected to be about 2.5%. Almost all national economies have been affected, the growth rate in Germany falling from 5.7% in 1976 to about 3% in 1977 and the United Kingdom from 1.6% to about 0.5%. The only exception has been Ireland where growth—under the combined impact of a rapid expansion of industrial and agricultural exports and a sharp increase in investment—accelerated from 3.2% in 1976 to about 5% in 1977. The recovery has not yet brought an improvement in conditions on the labour market and, in the third quarter of 1977, 5.6% of the available labour force was unemployed (5.1% in the third quarter of 1976, 4.8% in the third quarter of 1975). The annual rate of unemployment as a proportion of the civilian labour force has probably increased in all Member States except Germany

¹ October 1977.

and the Netherlands. Unemployment in Ireland has remained high (9.6% estimated for 1977) but there are signs of an improvement from the third quarter of 1976 when it passed 10%.

8. Private consumption made a substantial contribution in the initial stage of recovery but then expanded at a more moderate rate in the first part of 1976. But the booster effects in fixed investment demand from this recovery in consumption have fallen short of needs and this is one of the factors accounting for the disappointing performance of the overall economy.

9. The rate of increase of consumer prices in the Community slowed slightly in 1977. The implicit prices of private consumption are expected to rise by 9.6% in 1977 against 9.9% and 12.8% in 1975. But these averages continue to conceal considerable differences between Member States and in 1977 the implicit prices of private consumption are expected to rise by between 4% in Germany and 18.5% in Italy. Even the direction of price change differs, the inflation rate increasing in Denmark and Italy and decreasing elsewhere. The rate of increase of consumer prices for foodstuffs, due to events on world markets, continues to be higher than for non-food products or services: in the period January to July, foodstuffs prices rose by 14.2%, against 9.7% for non-food products and 10.1% for services.

10. The Community's trade deficit continues but 1977 has shown a notable recovery over 1976: the Community's deficit on the balance of payments current account will be about 2.1 million USD in 1977 against 8. million in 1976, when the figure was affected by the drought. The Community's deficit countries (United Kingdom, Italy, France, Ireland and Denmark) taken together should reduce by more than half their total current account deficit for the full year. The surplus countries (Germany and the Netherlands) will see only a slight drop in their aggregate surplus as compared with 1976.

11. The need in some Member States to maintain restrictive monetary and budgetary policies to combat inflation and to restore external payments situations contributed to their disappointing growth performance. At the same time, the overall effect of these policies conducted by deficit countries were not offset by more expansionary policies in the 'strong currency' countries. But short-term interest rates everywhere, except Denmark, fell back from the high points reached in 1976. In Denmark, the rates stayed constant. The rate of increase of wages also fell everywhere, except in Italy.

12. The stabilizing mechanisms introduced under the common agricultural policy have continued to help agriculture. Prices of the means of production rose by between 6.4% (Germany) and 20.5% (Italy) in 1976; (comparable figures not available for Luxem-

bourg, Ireland and the United Kingdom). At the same time the prices of agricultural products increased by between 11.9% (Germany) and 30.4% (United Kingdom). Indications for 1977 are that the prices of the means of production will increase more rapidly in some Member States.

13. Prices of animal feeds rose sharply in 1976 in all Member States. Sharpest increases were recorded in Italy 24.7%, Denmark 21.0% and Ireland 20.1%. These increases followed either price falls or only small price rises in 1975. Machinery and fertilizer prices have tended to rise less sharply in 1976 than in 1975.

14. The increase in agricultural wages ranged in 1976 from 25.1% (Italy) to 10.0% (Netherlands) (no figures available for Luxembourg, Ireland and Denmark). Since 1970, agricultural wages have risen to 331 in Italy (1970 = 100) against 181.2 in Germany.

15. The productivity of agricultural labour and land goes on increasing steadily. The period 1967-69 to 1974-76 has seen an annual growth in agricultural labour productivity of 6.3% and of agricultural land of 2.5%.

2. Monetary instability

16. The major world currencies continued to float in 1977. Thus their daily and weekly variations continued to affect the operation of the common agricultural policy in its relations with external markets (effect on the rates of levies and export restitutions). Similarly the variations of the floating currencies within the Community continued to affect the internal agricultural market.

17. Since floating currencies have become a characteristic of the international monetary system, the exchange rates of the principal currencies have moved in various directions. Thus the US dollar first of all rose by about 20% against European currencies within the snake (DM, HFL, BFR, LFR, DKR, and the NKR) during the second half of 1973, and then fell by about 10% during the first months of 1974 after a brief rally the dollar fell again by 15% until March 1975. In August 1975 it had increased again by 15%. Between August 1975 and October 1976 it stayed more or less constant and then fell after the adjustment of currency values within the snake. The weakness of the US dollar against the snake continued in 1977 with a fall of about 4% between February and October.

18. The Community snake was under considerable pressure in 1977 and this led on 4 April to a devaluation of the Danish krone by 3% against the Deutschmark, the Dutch florin and the Belgium-Luxembourg franc. The Norwegian and Swedish currencies devalued at the same time (the Norwegian crown by 3% and the Swedish crown by 6%). Then on 29 August, the Danish krone devalued again, by 5%. At the same time the Norwegian crown devalued by 5% and the Swedish crown left the snake to float freely. These changes followed those on 17 October 1976 when the Deutschmark revalued by 2% against the Dutch florin and the Belgium-Luxembourg franc and the Danish krone devalued by 4% against the florin and franc. The French franc left the snake on 15 March 1976, having rejoined it in June 1975. All independently floating currencies (the French franc, the Italian lira, and the UK and Irish pounds) suffered sharp falls in value in 1976 but were more or less stable against the snake in 1977.

19. These currency movements exert a considerable influence on agricultural markets. Sharp falls by independently floating currencies against the US dollar have the effect of raising the price of imported farm inputs (soya-bean meal, for example) in the countries concerned. The strengthening of the snake currencies against the US dollar makes Community exports more expensive. Within the Community, the variations in the exchange rates of the Italian lira and of the UK and Irish pounds reflected partly the high inflation rates which characterized the general economy, and as a result agriculture, in these three Member States.

20. The variations in the exchange rates of Community currencies and the US dollar during the three first quarters of 1977 against the 'EUC' unit of account—the unit of account formed by a weighted average of all Community currencies—are illustrated in the following table. The table shows the highest and lowest points for each currency. The biggest variations were experienced by the Danish krone (8.2%) and the smallest by the French franc (1.5%). This range of variations is considerably narrower than in 1976 when it lay between 6.9% and 27.5%.

Currency	Highest point	Date	Lowest point	Date	% variation between lowest and highest points
BFR	40.5464	26.7.1977	41.4515	26.1.1977	2.2
DM	2.61160	26.7.1977	2.70395	26.1.1977	3.5
HFL	2.76349	5.5.1977	2.83120	26.1.1977	2.4
UKL	0.645043	25.1.1977	0.674526	25.7.1977	4.6
DKR	6.53591	3.1.1977	7.07130	31.8.1977	8.2
FF	5.52557	27.1.1977	5.61039	29.7.1977	1.5
LIT	978.192	25.1.1977	1 023.019	25.7.1977	4.6
USD	1.10942	25.1.1977	1.16087	26.7.1977	4.6

21. Within the Community, the absence of monetary stability continued to affect the common agricultural policy in 1977. At the beginning of 1976 the common agricultural market was divided into five monetary zones differentiated by fixed or variable monetary compensatory amounts ranging between +10% for Germany and -6.4% for the United Kingdom. By 31 October 1976 the number of monetary zones had increased to seven and the MCAs ranged between +9.3% for Germany and -40.6% for the United Kingdom. In 1977 the gap between the highest and lowest MCAs narrowed and on 25 October they ranged between +7.5% for Germany and -31.9% for the United Kingdom. The other MCAs on that date were Benelux +1.4%, Italy -16.5%, France -14.5%, Ireland -4.3% and Denmark 0%.

22. These differences persisted despite the establishment of new representative rates for the Deutschmark, the French franc, the Italian lira and the United Kingdom £ in the fixing of common prices for 1977/78. Adaptations of the representative rate for the Danish krone followed the devaluations of its central rate.

3. The world markets in agricultural products

23. The world markets in agricultural products continued to react strongly to short-term fluctuations in supply and demand against the background of generally uncertain prospects for industry, inflation rates which remained high and persistent balance of payment problems affecting regions. The price instability apparent on most markets since 1972 was thus still evident in 1976, confirming the conclusions drawn in previous versions of the report to the effect that these markets now seem to be more permanently affected by wide price fluctuations.

24. The production of agricultural raw materials was more abundant in 1976, in particular rubber. Cotton production recovered partially from the failure in the previous year and there were slight increases in the production of jute and leather and skins. Nevertheless, the supply/demand ratio for raw materials tightened due to the encouragement to consumption brought about by the economic recovery in the industrialized countries. Supplies of products for beverages were on the other hand considerably reduced following sharp downswings in the production of coffee and cocoa, and a much slower growth in the production of tea. Production of citrus fruit and tobacco stagnated, while production of bananas was still making up the ground lost in 1974.

Marked increases have occurred in the production of various basic foodstuffs, in particular wheat, secondary cereals, sugar, oils and fats and oilseed meal protein; meat production

rose slightly and milk production, which held steady in 1975, began to rise again. The world rice harvest was only 1% down on the record harvest of 1975 and considerable stocks were carried over from the previous year. As there was a general increase in cereal production in Africa, Asia and Latin America, the general supply situation was improved considerably and stocks have been built up again in most places.

25. Problems of shortages or surpluses therefore affected the world markets in some products of concern to developing countries, as well as the markets in beef and veal, wine and milk products which primarily concern producers in the developed countries.

26. The most striking trend has, however, been on the world market in sugar where in the space of two years the situation has changed from a serious shortage to over-production. High prices in 1974 and 1975 caused production to increase by 7.5% in 1976/77 while consumption increased by less than 4% and the prospect of abundant stocks continued to depress the markets during a good part of 1977. The free market price, which increased by 185% in 1974, dropped by 60% between 1974 and 1976 and then fell to a level only slightly above that of 1973.

27. The rubber, bananas, citrus fruit and tobacco markets as well as the markets in coconut fibres and pepper were more balanced in 1976 and the first half of 1977.

28. The world markets in beef and veal were also more balanced in 1976; production increased slightly while there was a partial recovery in export demand following some relaxation of restrictions on imports into the EEC and Japan and the opening of other possible outlets in the developing countries.

29. On the cereals markets there was a better balance between supply and demand in 1975/76 after two deficit years and the supply remained more abundant until the end of 1976/77. Under the effect of record harvests of wheat and secondary cereals and a good harvest of rice, supply exceeded demand and considerable quantities were added to stocks. World prices therefore fell throughout the whole trading year.

30. Supplies of two important products, wine and milk products, remained in surplus on the world market. To some extent the difficulties caused by the plethora of wine in Western Europe were countered by a reduction in production due to unfavourable weather conditions and by a greater demand for higher quality wine; however, the market in ordinary table wine remained sluggish and large stocks continued to accumulate. In the milk sector, production increased again in 1976 and, since demand picked up hardly at all, supplies increasingly exceeded commercial outlets in the developed countries.

4. The Community's external relations

31. In 1977 the Commission implemented measures taken in connection with its policy *vis-à-vis* the developing countries. At international level the Community is taking an active part in the negotiations which have already begun and in the preparatory work and conferences for the negotiation of international commodity agreements.

32. The year 1977 saw the conclusion of cooperation agreements between the EEC and the UAR, Syria, Jordan and Lebanon. The commercial provisions of these agreements came into force on 1 July 1977. From an agricultural point of view, exports from these countries are relatively low and very irregular, mainly because of the increase in domestic demand. The concessions relate primarily to certain fresh and dried fruit and vegetables and consist of reductions ranging from 40% to 80% in the normal CCT rates. All the concessions are made subject to the rules and mechanisms of the common agricultural policy (reference prices, etc.) and thus more often result in financial advantages than in commercial advantages for the countries concerned.

33. Pending the revision of current agreements between the Community and Spain and Cyprus, some measures concerning traditional trade in agricultural products were taken for the period from 1 July to 31 December 1977.

34. Relations with Greece have continued at two levels, that of the accession negotiations and that of the administration of the Association Agreement. In connection with the negotiations for Greek accession the Greek authorities stated their position on agricultural matters in a Memorandum dated 31 January 1977, to which the Community replied in its Declaration of 8 July 1977. At the same time the examination of secondary Community legislation went on in various agricultural sectors. In the context of the Association, work continued on harmonizing the agricultural policies of Greece and the Community.

35. The results of the second re-examination of Community import arrangements for certain agricultural products from Turkey came into force on 1 July 1977. These consisted of additional tariff reductions and special arrangements to provide Turkey with increased income from exports while protecting Community producers of comparable products.

36. The year 1977 has been the second year of the application of the ACP-EEC Lomé Convention. The trade arrangements have had a positive effect on imports into the Community of agricultural products from the ACP States, Imports of these products, including processed agricultural products and tropical products, considerably increased in 1976 (first year of application of the Convention).

37. The system of generalized preferences was further improved by the inclusion on 1 January 1976 of the preferential offers made in connection with the multinational negotiations during the accelerated procedure set up to benefit developing countries. The volume of trade from the non-associated developing countries affected by these arrangements was thus increased to 1 250 million u.a. It should also be added that the non-preferential offer made to developing countries in connection with the procedure referred to above came into effect on 1 January 1977 autonomously. It consists of tariff reductions (in particular on coffee and cocoa) and related to a trade volume of 1 200 million u.a.

38. In 1977 the Community continued to meet its annual commitments of 1 287 000 tonnes of cereals under the Food Aid Convention which has been extended until 30 June 1978. Under its own food aid programmes for 1977, the Community has made provision for the supply of 150 000 tonnes of skimmed-milk powder (the Council approved 105 000 tonnes of this in July), 45 000 tonnes of butteroil, 6 100 tonnes of sugar and one million u.a. in cash for the purchase of foodstuffs.

39. Multilateral trade negotiations in the agricultural sector within GATT continued and entered into an active phase. With regard to products other than cereals, meat and milk products, the 'Agriculture' group responsible for negotiations in the agricultural sector, having concluded the preparatory notifications and consultations begun in December 1975, decided in July 1977 to continue negotiations through a procedure involving the drawing up of lists of applications and offers. Lists of applications, on which parties to the negotiations could include all tariff and non-tariff measures for the entire agricultural sector, were to be lodged by 1 November 1977. On the basis of these applications, the countries will make their offers by 15 January 1978. With regard to the products for which sub-groups have been set up within the 'Agriculture' group to negotiate multilaterally solutions to the problems on the world markets (cereals, milk products and beef and veal), it was decided to give a parallel impulse to work in Geneva and in London (cereals). Bilateral negotiations with the United States have concentrated in 1977 on problems connected with the agricultural side of the multilateral negotiations.

40. The Community has taken measures in connection with the cooperation agreements concluded with a number of non-associated developing countries, in particular by granting financial aid to promote trade. In view of Yugoslavia's considerable trade deficit with the Community it was agreed to extend the existing cooperation agreement (Belgrade Declaration, December 1976) in order to increase exports from Yugoslavia including those in the agricultural sector; discussions on this are in progress.

41. General discussions have been started with Japan on ways of remedying the Community's trade deficit with that country. In this context some changes have been agreed

in Japanese arrangements regarding imports of agricultural products from the Community, pending the results of the MTN.

42. In connection with the Euro-Arab dialogue, European and Arab Expert Groups set up by the Working Committee on Agriculture and Rural Development have met to study three actual development projects. This Committee will decide on how to follow up their work.

43. In July 1976 the Council of the Communities requested the Commission to carry out a stocktaking of the Mediterranean policy and at the same time to present any proposals which might seem necessary to deal with the problems connected with this policy.

44. The Commission, which had already undertaken a detailed study of the question, presented a Communication to the Council on 4 April 1977 on Mediterranean agricultural problems and the measures which it considered necessary.

45. This document, which is the result of an analysis of the situation, trends and prospects for the economy of the Mediterranean regions of the Community, which have a large agricultural sector, shows that this dominant sector is on the whole in a more difficult situation than in the remainder of the Community. Since no satisfactory alternative solutions can reasonably be envisaged in the present economic situation or in the foreseeable future, the Commission, while recognizing that these problems are linked to overall development, proposes initially to concentrate its main effort on agricultural solutions both at socio-structural level and with regard to the organization of the markets in the most typical Mediterranean products.

46. It therefore drew up a list of new measures which it intends to study and make proposals on to the Council; one of these, on launching aid for producer groups, has already been the subject of a proposal which is under discussion.

47. The Commission also drew attention to measures with the same aim which had already been adopted or which have been presented to the Council but not yet adopted.

5. Common policies

48. The development of European policy in general and the decisions taken by the Community institutions within the scope of common policies, including the common

agricultural policy, provide a general political framework in which Community agriculture has evolved in 1977.

49. On 25 and 26 April 1977 the Council approved a general increase in agricultural prices averaging 3.9%, whereas the Commission had proposed an increase of 3.0%. At the same time the Council adjusted, in respect of some currencies, the representative exchange rates used for the purposes of the common agricultural policy. For Germany this involved a revaluation of the representative rate; for Ireland, Italy, France and the United Kingdom it involved a devaluation.

50. On 15 February 1977 the Council adopted a Regulation on common measures to improve the conditions under which agricultural products are processed and marketed. The adoption of this Regulation marked a new step in the agricultural structures policy. Up to then this policy had been limited to the production stage. From now on it will extend to activities intermediate between production and consumption and whose rationalization and development should not only provide better outlets for agricultural production but at the same time benefit consumers.

51. On 31 May 1977 the Commission presented to the Council a new proposal for a regulation on producer groups and associations thereof. This proposal takes account in particular of the wide differences which exist within the Community in the supply of agricultural products. An improvement in supply is scarcely necessary in some regions while in others it is essential. The Commission proposes that the measures envisaged should apply only to the latter parts of the Community.

52. At the end 1977 the Commission submitted to the Council its second report on the application of the Council Directives of 17 April 1972 on the reform of agriculture. This report was accompanied by proposals to the Council for amendments to the Directives concerned and also for developing the common agricultural structures policy by introducing some specific measures to assist the less-favoured regions of the Community.

53. In 1977 the Commission evaluated 119 aid projects notified pursuant to Article 93(3) of the EEC Treaty. It also continued its work under Article 93(1), which provides for a permanent review of existing aid systems and their adjustment. As regards the evaluation of aid projects notified pursuant to Article 93(3), the Community decided in a large number of cases to raise no objections at the present stage. However, the Commission initiated the procedure laid down in Article 93(2) in respect of nine aid projects, of which three were in France, five in Italy and one in the United Kingdom, while three procedures were concluded. The procedure initiated relating to a United

Kingdom subsidy for pig farmers was concluded by a Commission Decision. As a provisional measure in accordance with Article 186 of the EEC Treaty the Court of Justice ordered the United Kingdom Government to cease granting this aid immediately.

54. With regard to the permanent review of existing aid measures, the Commission, in collaboration with the Member States within the Working Group on Conditions of Competition in Agriculture, carried out preparatory work on evaluating certain types of aid and drawing up proposals for appropriate measures within the meaning of Article 93(1). The lists of existing aids to agriculture drawn up by the Member States in accordance with the decision of 2 October 1974, and the updating of these are vital for an accurate and complete knowledge of aid systems, for the transparency of such aid, its assessment according to common criteria and its continued coordination. In view of the difficulties encountered in updating the lists within the specified period, the Commission stated in a letter of 29 March 1977 to all Member States that bringing these lists up to date constituted an obligation under the EEC Treaty.

55. In the milk and milk-products sector the Community has been able to carry out the first stages of the action programme for the progressive achievement of a balance on the milk market proposed by the Commission to the Council on October 1976. These measures are aimed at reducing dairy herds and supplies to dairies (by introducing premiums for the non-marketing of milk and for the conversion of dairy herds to beef herds), reducing the supply of skimmed-milk powder (by introducing additional aid for liquid skimmed-milk powder used in feed for pigs and poultry) and stimulating consumption (by a system of aid to supplies of milk at reduced prices to schools and by increasing consumer subsidies for butter). For the first time in the history of the common agricultural policy the co-responsibility of producers was involved in a systematic way by introducing from 16 September 1977 a co-responsibility levy payable by milk producers.

II. The factors of production

56. With the progress of economic development significant changes occur in the agricultural sector of the economy. Farmland is ceded to other sectors in order to cater for the needs of urban/industrial expansion; competition for land between agriculture and non-agricultural uses, as well as within agriculture itself, exerts an upward pressure on farmland prices; the pattern of land use in farming changes under the influence of changing input/output price ratios; farming becomes more capital intensive as farm labour migrates to other sectors in search of more remunerative employment; farm units increase in size and there is a general improvement in farm productivity. The current economic recession has an important influence on these developments.

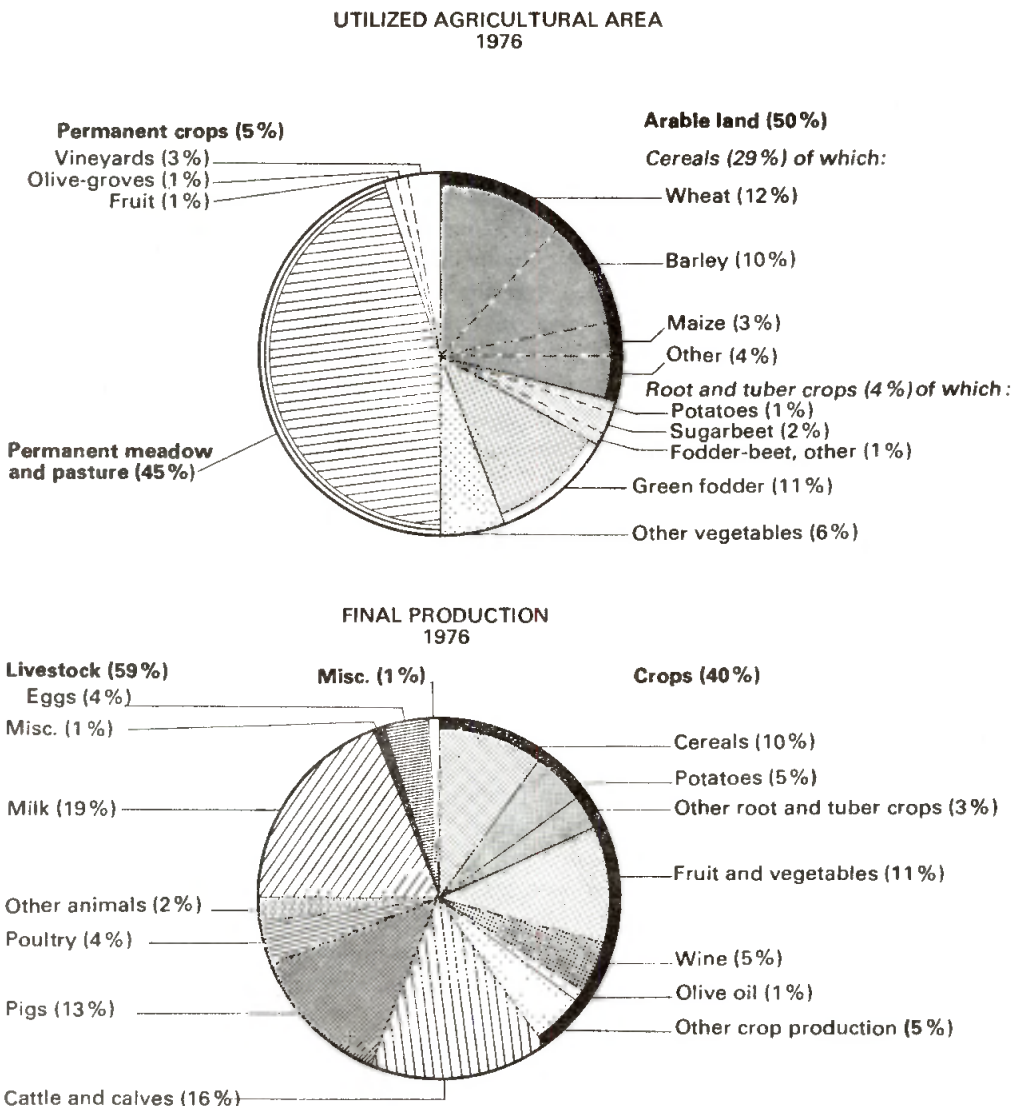
57. Within this conceptual framework the evolution of agriculture in the Community in recent years (1968-76) and more particularly during 1975/76 is examined in this chapter. The analysis of this evolution centres mainly on land use and farm structure (1), the evolution of farm capital and credit (2), the evolution of the active agricultural population (3), farm productivity (4), and market structure (5).

1. The land

58. Over the period 1968-76, the annual rate of decline of total utilized agricultural area (UAA) in the Community was 0.6%. In 1975/76, this decline was far less significant (0.1%) and varied from an increase of 0.1% in Italy to a decrease of 0.8% in Luxembourg. Only in Denmark, Luxembourg and Ireland was the annual loss of UAA in 1975/76 greater than the average for the 1968/75 period. This slowing down in the movement of farmland to other uses, which was already apparent in 1974/75, is possibly due to the continuing economic recession which has adversely affected the development of the non-agricultural economic sectors.

59. Within agriculture itself shifts in the major patterns of land use, between arable crops on the one hand and permanent meadow and pasture on the other, were not very significant in 1975/76 by comparison with the previous year. The major land uses, arable crops, permanent meadow and pasture, account for over 90% of total UAA in

Community distribution of the UAA and of final production by crop and product in percent



GRAPH 2

each Member State except Italy where the relevant figure is 83%. On balance the area of permanent meadow and pasture declined in all Member States except Italy and Luxembourg, the rate of decline varying from zero in these latter two Member States to 4% in Denmark. In Denmark, however, permanent meadow and pasture account for no more than 9% of total UAA, so that the decline recorded was not of major importance, comprising no more than 0.36% of the country's total farmland area.

60. Changes in the total area of arable land followed no clearly defined pattern throughout the Community in 1975/76; increases varying from 0.1% to 0.5% were recorded in Italy, France, the Netherlands and the United Kingdom, while decreases ranged from 0.1% in Germany to 1.7% in Luxembourg. On aggregate, however, the decline in the arable land area and in the area of permanent meadow and pasture can, as in 1974/75, be largely explained by the loss of farmland to non-agricultural uses.

61. The rate of increase in the area of woods and forest (0.1%) in 1975/76, was significantly less than the corresponding annual increase for 1968/76 (1.1%). Only in two Member States, Ireland and Denmark, was the increase in plantings in 1975/76 substantially greater than the yearly average between 1968 and 1976. In France the area of woods and forests showed a net decline in 1975/76 (-0.2%), while no change was recorded in the remaining Member States.

Use of agricultural land

62. Various factors, including the exodus of farm labour and the consequent realignment of productive resources at farm level, the impact of new technology, changing price ratios for farm products, etc. influence the pattern of land use in any given situation. However, as already emphasized in the 1976 Report, the impact of any of these factors or combination of factors on land use may be limited due to constraints imposed by the relatively substantial capital investments already undertaken in existing farm enterprises or by the agricultural structural situation, among other things.

63. The production of cereals, potatoes, sugarbeet and green fodder crops occupies the greater part of the arable cropland in the Community. Between 1968 and 1976, the area under cereals declined in all Member States except Germany and France, the annual rate of decline during this period being 0.3% in the Community. In 1975/76 a slightly greater decline at Community level (0.5%) was recorded; however, in Italy, Belgium, and the United Kingdom the area under cereals increased. Potato production in the Community increased by 3.2% in 1975/76, thus reversing the longer-term downward trend in the majority of Member States. The area under sugarbeet increased in six of the nine Member States, the exceptions being Belgium, Denmark and Luxembourg. In

Belgium the area under sugarbeet declined by as much as 20%; however this decline was more than offset by the increase in the area under cereals and green fodder. The production of green fodder increased in all Member States except Denmark. In France, and to a lesser extent in Italy, the increase was significant relatively as well as absolutely.

64. The decline in the area under cereals in 1976/77 was accompanied by substantial changes in the mix of cereals produced, particularly in some Member States. In all Member States the area under wheat increased while the area under oats declined.

65. In France, maize production dropped by over 600 000 ha or by almost one-third of the area grown in 1975. However, this decline was more than offset by an increase in the area under wheat and green fodder crops.

66. In the United Kingdom a substantial increase in wheat production (196 000 ha) was more than sufficient to compensate for the decline in barley production (163 000 ha).

67. The increase in the wheat area throughout the Community in 1976 was possibly due to the relatively favourable conditions for the sowing of winter wheat which prevailed in the autumn of 1975.

68. The fall in the price of maize in 1975/76 possibly influenced the downturn in maize production in France, although it is rather difficult to envisage that price factors alone were responsible for the magnitude of the decline which actually took place.

69. The increase in the area under potatoes in 1976 coincides with a significant increase in the market price of potatoes following the scarcity existing in some Member States due to the late spring and early summer drought in 1975. The increase in the areas under sugarbeet is a continuation of the previous year's trend and was possibly influenced by the favourable situation both with regard to the price of sugarbeet and the production quotas for sugar. This situation is aggravating the surplus situation for sugar.

Agricultural land use by region

70. Regional data on agricultural land use suggest that within individual Member States

(a) the regions where arable land accounts for 60% or more of total UAA are as follows:

— Germany: Hessen

- France: Région Parisienne, Champagne, Picardie, Centre, Nord;
- Italy: Lombardia, Veneto, Emilia Romagna, Umbria, Marche, Molise;
- Netherlands: Groningen, Zeeland;
- Belgium: Brabant;
- United Kingdom: Scotland;
- Germany: Hessen;
- Denmark: all regions.

In all these regions with the exception of Groningen, Zeeland and Scotland 40% or more of total UAA is under cereals; root and tuber crops account for 15% or more of total UAA in a relatively small number of regions only, i.e. in Groningen, Drenthe and Zeeland (the Netherlands), in Hainaut and Oost-Vlaanderen (Belgium) and in Storstrøm (Denmark).

Between 1970 and 1974, the area of arable land declined in Groningen and Zeeland (the Netherlands) and in Scotland; it increased in all regions listed for Italy and in Brabant (Belgium), and remained relatively stable in all regions of Denmark except Nordjyllands where it declined. Between 1970 and 1972 the area of arable land increased also in all regions listed for France.

71. (b) the regions where permanent meadow and pasture account for 60% or more of total UAA are as follows:
- France: Franche Comté, Auvergne, Corse;
 - Italy: Trentino, Sardegna;
 - Netherlands: all regions except Groningen, Zeeland and Limburg;
 - Belgium: Antwerpen, Liège, Luxembourg;
 - United Kingdom: Northern Ireland;
 - Ireland: all regions.

Between 1970 and 1974 the area of permanent meadow and pasture declined in all regions listed in the Netherlands, in Antwerpen and Liège (Belgium) and in Sardegna (Italy); it increased in all regions listed in France (1970-72), in Luxembourg (Belgium) and in Northern Ireland.

72. (c) Permanent crops are concentrated mainly in the southern part of the Community—in Aquitaine, Languedoc, Provence-Côte d'Azur (France) and in the middle and southern regions of Italy. Little change occurred in the area under these crops in the regions concerned during the period under review.

Trend in farm numbers

73. The decline in the total number of farms in the Community followed more or less the same pattern in 1975/76 as in previous years. Thus, among the six Member States for which the relevant statistics are available, (the exceptions are France, Italy and Ireland), this decline varied from 0.8% in the United Kingdom to 3.9% in Luxembourg. On aggregate, the annual rate of decline in these six Member States between 1970 and 1976 was 3%; in 1974/75 and 1975/76, the corresponding rates were 2.7% and 2.2% respectively. Evidently, the degree of improvement in farm structure has slowed down during the past two years possibly due to the adverse influence of the economic recession. In Denmark, however, the rate of decline in farm numbers in 1975/76 increased by comparison with the preceding years. By contrast, in the United Kingdom an annual decline of 2.8% during the period 1970 to 1976 dropped to 0.8% in 1975/76.

Farm size

74. The evolution of farms by size in 1975/76 shows that, in line with previous trends, the reduction in farm numbers was confined to those of less than 20 ha in Germany, the Netherlands and Belgium and to all farms of less than 50 ha in Luxembourg and Denmark. In the United Kingdom, however, it would appear that while the number of farms in all size groups over 10 ha in area declined, those between 1 and 10 ha increased marginally. There appears to be no logical explanation for this latter situation; however, in view of the short time period involved it may be no more than a temporary phenomenon.

75. It is clear nevertheless that whereas the structural reform of agriculture is taking place to a greater or lesser extent in all Member States its pace is not at all sufficient to remove the prevailing structural imbalance in the Community's agriculture in the foreseeable future. Some 76% of farms are less than 20 ha in area and occupy no more than 27% of total UAA. The average size of farm in this group is no more than 5.2 ha; by contrast the average size of the remaining farms (over 20 ha) is 53 ha. This structural disequilibrium is influenced to a significant extent by the situation in Italy where according to the most recent figures available some 86% of farms are between 1 and 10 ha in area, occupy 38% of total UAA and have an average size of no more than 3.4 ha per farm.

76. Average size of farm has an important influence on the level of farm incomes obtainable in any given situation. Recent data available from the Community's Farm Accountancy Network (FADN) suggests that among the six original Member States farms which achieved over 120% of the comparable income (cf. Directive 72/159/EEC,

Article 4 (1)) had an average size varying from 17.5 ha in Belgium to 45.5 ha in Luxembourg; correspondingly those with less than 80% of the comparable income had an average size varying from 7.9 ha in Italy to 41.2 ha in Luxembourg. In effect in Germany, France, Italy and the Netherlands farms with over 120% of the comparable income were generally 50% larger than those with less than 80%; in Belgium and Luxembourg, on the other hand the difference in farm size between both income groups (10-15%) was not quite so significant.

Livestock numbers

77. In December 1976 there were 76.9 million cattle in the Community, or 0.5% less than at the end of 1975. In some Member States, however, more significant declines were recorded, particularly in Luxembourg (—3.4%), the United Kingdom (—2.3%), the Netherlands (—1.7%) and France (—1.3%). In Luxembourg a reduction of 7% in dairy cows accounted for the greater part of this decline; in each of the other three Member States the decline was confined entirely to beef and veal animals.

78. This reduction in cattle numbers may be attributed in large part to the effects of the protracted drought in north-west Europe in 1976 which led to increased slaughterings. The drought was particularly severe over a large part of France, in the Benelux countries, in Wales and southern England, and in Germany. In Germany the number of total cattle remained virtually static in 1976 by comparison with 1975 but the number of dairy cows declined marginally (—0.1%); in Belgium, on the other hand, total cattle increased by 0.6% despite the drought, but dairy cow numbers declined by 0.6%.

79. At Community level, dairy cow numbers increased by 0.8% in 1975/76—in contrast to an annual decrease of 0.1% between 1970 and 1976. Relatively speaking, Ireland (4.1%) and the United Kingdom (2.1%), the two Member States where milk price increases were among the greatest in the Community, accounted for the larger part of this increase; in France, however, the absolute increase was greater than elsewhere.

80. It is not surprising that the structure of livestock production, in particular that of cattle, is closely linked in all Member States of the Community to the size of farms.

Thus:

- in Italy, 70.6% of dairy herds comprise not more than four cows, the corresponding percentage in Ireland being 50.7%;
- at the other end of the scale, in the United Kingdom more than 60% of dairy herds comprise 20 cows or more while about 38% comprise at least 40;

— between these two extremes are the Netherlands, Belgium, Luxembourg and Denmark, where herds are the least concentrated. The Netherlands has a high proportion of herds of more than 20 cows (52%); this percentage varies between 20 and 35% in the three other Member States.

81. In 1970, herds of less than 20 dairy cows included 64% of all dairy cows in the Community; by 1975, in line with the reduction in the number of small farms, this percentage had dropped to 50. Thus of the total of 24.7 million dairy cows recorded in 1975 32% are estimated to belong to herds comprising more than 30 cows.

Regional distribution of cattle production

82. The density of cattle per ha of UAA varies quite substantially among the Member States of the Community. At the upper end of the scale is the Netherlands with a total cattle density of 249 and a dairy-cow density of 110 per 100 ha. At the lower end of the scale is Italy with a total cattle density of 47 per 100 ha, of which 17 are dairy cows.

83. Within the Netherlands the most important cattle and dairying regions, where densities are significantly above the national average, are Friesland, Overijssel, Gelderland, Utrecht and Noord Brabant.

84. In Italy only two regions, Lombardia and Veneto, have cattle densities in excess of 100 per 100 ha of UAA; those same regions have the highest densities of dairy cows.

85. In the remaining Member States densities of cattle which are at or above the national average are found in the regions given hereunder. Member States and their respective regions are listed according to descending order of importance of cattle densities:

- Belgium: Antwerpen, Oost-Vlaanderen, West-Vlaanderen, Liège, Luxembourg and Limburg.
- Ireland: Munster.
- France: Basse Normandie, Bretagne, Haute Normandie, Pays de la Loire, Nord and Franche Comté.
- Germany: Schleswig-Holstein, Bayern, Bremen.
- United Kingdom: Northern Ireland, Scotland and Wales.
- Denmark: Ribe, Viborg, Sønderjyllands, Nordjyllands, Vejle and Ringkøbing.

86. Between 1970 and 1974 total cattle and dairy-cow numbers increased in all regions listed above with the exception of those in Germany and Italy. In Germany total cattle numbers increased and dairy-cow numbers declined in Schleswig-Holstein and Bayern, while both cattle and dairy cows declined marginally in Bremen. In Italy total cattle numbers declined in Lombardia while dairy-cow numbers remained relatively stable; in Veneto there was a decline in both types of livestock. In effect practically all regions of Italy experienced a decline in both cattle and dairy cows during this period.

87. The relative importance of dairy cows in the total cattle herd is greater in the Netherlands than in the remaining Member States of the Community. The ratio of dairy cows to total cattle varies from 2 : 5 in the Netherlands to approximately 1 : 3 in the remaining Member States.

Pig production

88. In 1975/76 pig numbers increased in all Member States with the exception of France, the rate of increase varying from 2.4% in Italy to 12.2% in Ireland. The average increase for the entire Community was 2.3%. By and large, this was the reverse of the 1974/75 situation when pig production declined in six of the nine Member States. Generally speaking this reversal may be attributed to a more favourable price situation for pig meat, price levels having entered the upward phase of the 'pig cycle' in the summer of 1975.

89. A study of the concentration of pig units shows that in Belgium and especially in the Netherlands there are more units of average size than elsewhere; however, the Netherlands has a higher percentage of piggeries of more than 200 pigs (19%) than Belgium. On the other hand, in Ireland, the United Kingdom and Italy pig units are highly concentrated. Thus in the United Kingdom about 3% of producers keep 40% of all animals in piggeries of more than 1 000 pigs, whereas in Italy over 95% of producers keep about a third of the animals in units of less than 20 pigs.

Regional concentration of pig production

90. Apart from in Denmark where, generally speaking, its distribution is relatively even throughout the greater part of the country, pig production tends to be concentrated in certain regions in the remaining Member States. Taking the number of pigs per 100 ha of UAA as an indication, the greatest concentration of pig production in the Community is found in the Netherlands and Belgium with 336 pigs each per 100 ha of UAA; the lowest concentration is found in Ireland with 19 pigs per 100 ha.

91. Ranking Member States in descending order of importance with regard to pig production the regional concentration of pig farming is most important in each Member State (Denmark excepted) as follows:

- Netherlands: Noord Brabant, Limburg, Gelderland, Utrecht, and Overijssel;
- Belgium: West-Vlaanderen, Limburg, Antwerpen and Oost-Vlaanderen;
- Germany: Berlin (West), Nordrhein-Westfalen, Niedersachsen and Hessen;
- United Kingdom: Northern Ireland and England;
- Italy: Emilia Romagna, Umbria, Lombardia, Marche, Toscana and Veneto;
- France: Bretagne and Nord;
- Ireland: Ulster and Munster.

92. In those Member States where the volume of pig production increased between 1970 and 1974, regions with relatively high density production were, generally speaking, responsible for the greater part of this increase.

Land prices and lease rents

93. The price of farmland as determined by the free operation of the land market is normally influenced by the interplay of a number of factors, some internal to agriculture, others external to it. The need for additional land during the process of structural change tends to exert an upward pressure on farmland prices because of the competition among farmers for the limited supply of land on offer. In addition the demand for land for urban/industrial development, for recreation, etc. is becoming increasingly more competitive, particularly in areas of high population density. Furthermore, in a period of inflation characteristic of the current economic recession, the tendency to invest in land as a 'hedge' against inflation is further emphasized.

94. Statistical data on land prices are available for a few Member States only. These suggest a rather wide variation among the Member States concerned both as regards average price levels themselves and annual price increases. On average, the highest land prices in the Community now occur in the Netherlands, followed closely by Belgium and Germany.

95. The lowest prices occur in Italy and in England and Wales. Insofar as annual price changes are concerned the Netherlands is again at the top of the list with an increase of 33% in the price of permanent meadow and pasture and 19.7% in the price of arable land in 1975/76. On the other hand the downturn in land prices in England and Wales in 1974/75 (—18.1%) continued in 1975/76 (—10.9%). By contrast in Scotland and Northern Ireland land prices increased by 15.5% and 26.3% respectively in 1975/76.

96. Apart from in England and Wales lease rents increased much less than farm land prices in 1975/76 in those Member States for which the relevant information is available; in England and Wales, in contrast to the drop in farmland prices, lease rents increased by 17.8% in line with the normal three-year adjustment in rental charges as provided for in the prevailing tenancy legislation.

97. In some Member States the existing tenancy legislation is such as to give the tenant and his heirs an almost absolute security of tenure while at the same time effectively controlling rental charges. In these circumstances it is not surprising that the landowner's return on his land investment, at between 1 and 2.5% per year, is relatively low. The effects of such legislation on the mobility of farmland for structural reform purposes is deserving of detailed study, particularly insofar as it applies to regions of poor farm structure where the offer of land for sale is usually limited or where farmland prices are unduly high. Indeed, farmland prices would now seem to have reached a level in some Member States that it is only those farmers with sufficient access to capital who can afford to enlarge their farm through land purchase; in this situation farmers who lack investment capital and for whom very high interest rates on borrowed capital may cause problems of financial liquidity, have little hope of maintaining a competitive position on the land market in their efforts to acquire additional land and operate it effectively.

2. Capital

98. The demand for capital by agriculture is influenced, directly or indirectly, by various factors many of which are interrelated. Chief among these factors are: the introduction of new farm technology, the increase in farm production, the migration of labour from farming, structural change in agriculture, etc. The more rapid these trends the greater will be the demand for capital. Thus, capital requirements are influenced to a significant extent by the prevailing level of farm development in any given situation.

99. With the progress of new technology the availability of new types of machinery and equipment induces new investment even on already highly mechanized farms. Additionally, the existing stock of fixed assets, other than land, needs to be maintained or replaced. A continuing increase in gross fixed capital formation is, therefore, likely to be a constant feature of agricultural development in all Member States.

100. The progressive growth in the use of purchased farm inputs, is also characteristic of modern agricultural development. Thus, as farm production expands, the volume of working capital needed tends to show a commensurate increase. Furthermore, the reduction in the number of farm workers is normally achieved at the cost of greater capital intensity at farm level. As a result, an increasing emphasis on capital is an essential

feature of structural change in agriculture. Moreover, structural change in the Community context normally implies farm enlargement. Consequently, where occupier-ownership of land is the dominant system of land tenure, and where, in addition, farm enlargement through tenancy is not possible, the financing of land purchase, already an acute problem in some Member States because of unduly high land prices, will undoubtedly continue to be a problem of ever-increasing dimensions for many potential development farmers.

Capital investment

101. Because of the lack of the necessary data a detailed analysis of the evolution of capital investment in the Community is not possible. Neither is it possible to establish a comprehensive capital profile for agriculture. The limited analysis undertaken here is thus subject to the same interpretative limitations already specified in the 1976 Report. This analysis is confined to tracing the evolution of gross fixed capital formation and of non-land capital investment per ha during recent years.

Gross fixed capital formation

102. Gross fixed capital formation, as specified in national accounts, represents the annual expenditure on maintaining, replacing or increasing the existing stock of fixed capital, with the exception of land purchase. Included in such expenditure is that relating to new plantations, land improvement, farm buildings, machinery, equipment, etc.

103. At current prices gross fixed capital formation increased progressively between 1970 and 1976 in all Member States for which the relevant data are available, the total increase over this period varying from 50.1% in Germany to 234.6% in Denmark. Although the pace of this increase moderated to some extent in France, the Netherlands and Belgium in 1974/75, the upward trend in capital formation continued again in 1975/76, significantly so in the case of the latter two Member States. In Ireland the annual rate of capital formation increased from 1.7% in 1974/75 to 117% in 1975/76. In interpreting this increase, however, account must be taken of the low level of capital formation in Ireland in 1974 and 1975. Even the 1976 level was still quite low by comparison with other Member States.

104. Much of the increase in capital formation which has taken place during recent years must, however, be attributed to inflation. But since the relevant data are not available at constant prices the precise effects of inflation cannot be ascertained. In the circumstances the figures as supplied must be treated with caution as they do not give precise information on the real as opposed to the nominal increase in capital formation.

105. In 1976 the ratio between fixed capital formation and gross value added of agriculture varied from 20.2% in France to 33.1% in Denmark. This ratio was generally higher than in 1975 and very much higher than in 1970 in the Member States concerned.

Capital investment per ha

106. The level of capital investment per ha is influenced to a significant extent by the structural situation of farming, the system of farming practised, the amount of non-farm inputs used, their price per unit, etc. The available evidence suggests that among the Member States, capital investment per ha is much higher than average in Belgium and the Netherlands, and much lower than average in Ireland. In Belgium the level of capital investment reflects the intensive nature of livestock farming practised; in the Netherlands the level of investment is almost equally divided between livestock and deadstock (machinery and equipment). In Ireland a very low level of deadstock investment is possibly symptomatic of the problems of agricultural structure particularly in the western half of the country. Investment in livestock increased substantially in Ireland since 1968 and by 1973 was, apart from in Belgium and the Netherlands, higher than in the other Member States.¹

107. Apart from in Italy, the annual rate of increase in capital investment per ha accelerated in all Member States after 1970, and significantly so in France, the Netherlands, Belgium, Ireland and Denmark. This acceleration possibly reflects a greater investment confidence on the part of farmers in the current decade because of the more favourable prices available for farm products. However, inflationary trends have undoubtedly influenced this evolution also. The annual rate of increase in the use of working capital has also accelerated in all Member States in recent years. However, the relatively low level of working capital per ha in Ireland detracts from the significance of its annual rate of increase since 1968.

Farm credit

108. Data on the use of farm credit per ha present a striking contrast between the very high level in Denmark and the low levels in Ireland, the United Kingdom and Italy.

109. The high level of farm credit used in Denmark arises because:

¹ The United Kingdom, for which the relevant data are not available, is not included in this discussion on capital.

- (a) over 90% of the country's total UAA is owner-occupied;
- (b) it is customary for farmers to sell rather than bequeath the farm to their successors at the end of their working life. Thus, practically all farms are purchased once during each farming generation. This fact, together with the need for capital for normal farm investment and operation, must of necessity lead to a substantial recourse to the use of farm credit.

110. The apparently low level of farm credit per ha in the United Kingdom is due to the fact that the available data are incomplete insofar as they include only bank loans but not credit from other sources. In Italy and Ireland, on the other hand, the relatively low use of farm credit is symptomatic of the current level of farm development in both countries.

111. Between 1968-70 and 1972-74 the use of farm credit increased substantially in all Member States except Italy, the annual rate of increase varying from 0.8% in Italy to 14.5% in France. In the majority of Member States this increase has been more than offset by an even greater rate of increase in the level of value added of agriculture. Thus, in 1973/74 farm credit as a proportion of value added varied from 35.4% in Italy to 311.8% in Denmark. In the latter Member State a percentage figure of such an order of magnitude reflects a very high level of indebtedness of agriculture. In Germany, France and Luxembourg agricultural indebtedness also appears to be relatively high.

Interest rates

112. The conditions which apply to the provision of farm credit also play an important role in determining its use by farmers. In this respect, the level of the market rate of interest merits particular attention. The available information suggests that interest rates have increased substantially in recent years, especially in Italy, the United Kingdom, Ireland and Denmark. Admittedly, the market rate of interest does not correspond at all times to the rate payable on farm loans since account should also be taken of possible interest-rate subsidies granted under certain conditions in Member States. Thus, all Member States are obliged, in accordance with the terms of application of Directive 72/159/EEC on the modernization of farms, to grant an interest-rate subsidy of up to 5% (7% in less-favoured regions) in respect of investments necessary for carrying out development plans.

113. Additionally, interest-rate subsidies are granted by some Member States in respect of specific long-term loans. For example, in France, Italy, Belgium, Luxembourg and Denmark interest-rate subsidies are granted up to certain fixed limits on loans incurred

for land purchase. The conditions under which these subsidies are granted as well as the categories of beneficiary, vary among the Member States concerned. In France young farmers on first installation may receive an interest subsidy of 4% on 80% of the loans incurred; the same conditions apply for the installation of migrants; the maximum period of such loans is generally 18 years. In Italy a very low interest rate (4%) is chargeable on long-term loans (30 years) contracted by *coltivatori diretti*. In Belgium the interest-rate subsidy amounts to 3% for a period of nine years; in Luxembourg there is an interest-rate subsidy of 4% for a period of 10 years. In Denmark, low-interest (6.7%) long-term loans (30 years) are available for land purchase under certain conditions. In

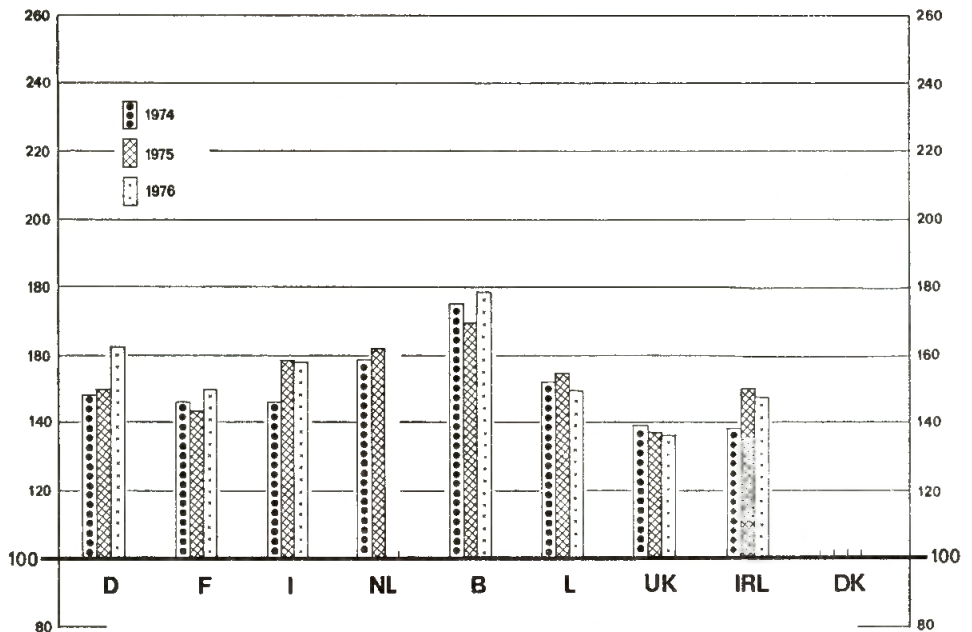
Average annual interest rates (%), excluding interest-rate subsidies,
payable on loans for farm investments 1970-77, by Member State

Member States	1970	1971	1972	1973	1974	1975	1976	1977
Deutschland	8.3	8.0	7.9	10.3	11.4	9.5	7.8	6.5/ 7.0
France								
— equipment								
2-7 years	7.0	7.0	7.0	7.8	9.5	10.4	10.0	10.0
7-12 years	—	9.35	8.75	9.1	10.5	11.4	11.0	11.0
— Land	10.6	9.55	9.1	9.5	10.7	12.0	11.35	11.0
Italia								
— medium term	8.4	9.4	8.9	8.15	13.8	14.5	14.21	16.75
— long term	9.5	10.5	10.0	9.25	13.8	13.8	13.55	15.47
Nederland	:	:	6.8	11.8	11.3	9.7	9.0	8.7
Belgique/België	8.75/ 9.25	8.0/ 8.35	7.25/ 7.75	8.75/ 9.15	11.25/ 11.15	9.75	11.0	11.0
Luxembourg	6.5	6.5	6.5	6.6	7.1	8.0/ 9.0	8.0/ 9.0	8.5/ 9.0
United Kingdom								
— medium term	9.73	8.35	8.26	12.39	14.83	13.01	13.61	9.97/ 12.47
— long term								
• fixed	9.89	10.02	9.12	11.08	14.66	14.92	14.76	14.89
• variable	—	—	7.86	11.8	15.04	13.84	13.74	14.58
Ireland								
— medium term	8.0	8.0	8.0	11.5	14.0	14.0	14.0	13.5
— long term	8.5	8.5	8.5	12.5	15.0	15.0	15.5	15.0
Danmark								
— medium term	12.54	12.09	11.76	13.55	15.77	12.87	15.69	:
— long term	12.86	12.44	12.25	14.01	16.28	14.46	16.42	:

Source: Member States.

Ireland, loans for land improvement on farms where development plans are not being implemented are also granted at a subsidized rate of interest. The amount of interest-rate subsidy is 7% for loans of 15 years' duration. In the Member States concerned, the granting of such subsidies certainly reduces the adverse impact of high interest rates on specific types of long-term investments. But for other investments, e.g. those financed in the short to medium term which are not subject to subvention, the interest rates payable by farmers are quite substantial, particularly in Italy, the United Kingdom, Ireland and Denmark.

Development of labour productivity in agriculture
(calculated on the basis of final production at
1970 constant prices per person employed in agriculture)
1968 = 100



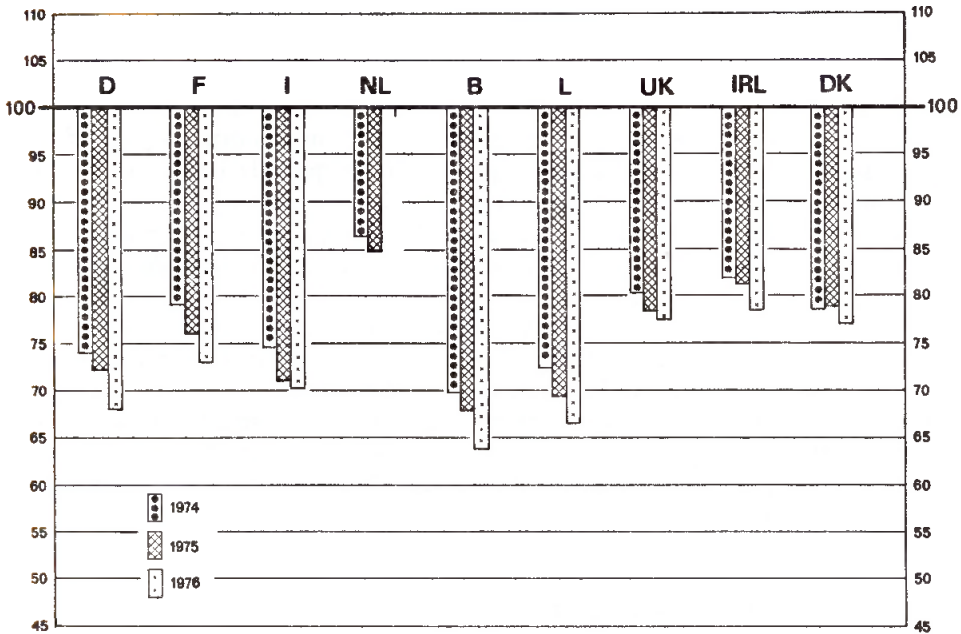
GRAPH 3

3. The active farm population

114. The active farm population has declined from 11.8 million persons in 1968 to 8.5 million persons in 1976. During the same period the proportion of the total active population engaged in farming dropped from 11.8% to 8.4%. Among the individual Member States this latter proportion varied from 2.7% in the United Kingdom to 23.8% in Ireland.

115. At Community level the rate of migration of labour from farming (3.1%) in 1975/76 was somewhat lower than in the previous year (3.7%). Again, these migration rates vary quite substantially among the Member States, Germany (−6.0%) and Belgium (−5.9%) having the greatest rates of departure and Italy and the United Kingdom (−1.2%) having the least. The higher rates of departure in Germany and Belgium are due almost entirely to the exodus of family workers. On the other hand in the United Kingdom the departure of family workers appears to have ceased entirely since 1974, while in Italy the number of hired farm workers appears to have increased in 1975/76.

Development of the number of people employed in the agricultural, forestry and fishery sectors
1968 = 100



GRAPH 4

116. An examination of the migration from agriculture in individual Member States before and after the onset of the current economic recession throws up no general trends. In effect, the level of migration during both periods varies so much among the Member States that it is difficult to establish the extent to which it has been affected by the recession. Thus, taking the period 1970-72 as being representative of the normal situation prior to the onset of the recession, the migration trends which seem to have emerged among the Member States may be categorized as follows:

- in Germany and Belgium a high rate of migration ($\pm 7.0\%$) in 1970-72 declined substantially between 1973 and 1975 ($\pm 3.5\%$), but increased again almost to its (pre-recession level in 1975/76. The pattern of migration was roughly the same in Ireland during both periods but migration levels there were lower than in Belgium or Germany;
- in France ($\pm 4\%$) and the Netherlands (1.6%) the rate of migration has remained relatively stable in successive years since 1970-72;
- in Italy the rate of migration remained relatively stable at between 3.5% and 4.5% between 1970-72 and 1975, but declined significantly in 1976 (1.2%);
- in Denmark a high rate of migration (7.0%) in 1970-72 was followed by an increase in total workers, both hired and family, between 1973 and 1975. In 1976, the total labour force declined again but the rate of migration (2.2%) was much lower than in 1970-72.

117. Data on the distribution of the active agricultural population by age show that between 1973 and 1975 the decline in the number of persons less than 35 years of age dropped substantially by comparison with previous years, possibly because of the influence of the economic recession. By contrast the situation changed little in the age group of 45 to 54 years, traditionally the most stable of all age groups. The rapid decline in the number of those aged 55 to 64 years coincides with an equally rapid decline in the number of farms of less than 20 ha. Insofar as elderly farmers tend to be concentrated mainly on small farms it is likely that there is a relatively high correlation between these two phenomena. Yet a fairly large proportion of farmers aged 55 years and over still remains in farming; in some Member States those aged 65 years and over appear to have increased in number in recent years. In these circumstances the energetic application of the Community's socio-structural policy, and in particular Directive 72/160/EEC, is of vital importance in order to stimulate the degree of land mobility needed for the satisfactory reform of agriculture.

Regional aspect of farm labour migration

118. In order to examine the pattern of farm labour migration at regional, as opposed to national level, two contrasting regions were selected in each of the five Member States—Germany, France, Italy, Netherlands, and Belgium—for which the relevant regional data are available. The principal determinant of the choice of each region was the percentage of the active population engaged in farming in 1975. Thus, the region with the lowest percentage of agricultural employment was taken to be a typically industrialized region; correspondingly that with the highest percentage of agricultural employment was taken to be a typically agricultural region.

119. In all Member States, the choice of region was at the second level; second level regions represent the administrative unit ranking next in size to the national territory, e.g. the Regierungsbezirke in Germany, the regions in France and Italy, the provinces in the Netherlands and Belgium.

Following is the list of regions included in this examination.

	<i>Industrial</i>	<i>Agricultural</i>
Germany	Düsseldorf	Niederbayern
France	Alsace	Limousin
Italy	Lombardia	Molise
Netherlands	Noord-Holland	Drenthe
Belgium	Brabant	West-Vlaanderen

In each region, the evolution of the agricultural population during the period 1968-75 was examined in general and by age category. The evolution by age category was established by comparing the number of persons in any single age group in the base year (1968) with the number in the next highest age group in the final year (1975). However, this comparison is limited by the fact that each age group comprises ten years whereas the period of the examination covers eight years only. In these circumstances, successive age groups are not strictly comparable, so that the results should be taken as giving only an indication of the general trends in the evolution of the farm population by age. In addition this comparison is limited because the surveys in 1968 and 1975 were not conducted on a strictly comparable basis.

120. In the regions concerned the results of the examination show that during the period under review,

- in France, Italy and Belgium the annual rate of migration of farm labour was higher than the national average in the industrial regions and lower than the national average in the agricultural regions; the contrary situation occurred in the Netherlands;
- in Germany the annual rate of migration of farm labour was lower than in the national average in both regions, but was higher in the industrial than in the agricultural region;
- the rate of migration of young people (14-24 years) was highest in the agricultural regions in Germany, France, Italy and the Netherlands, and in the industrial regions in Belgium;
- the stability of the farm population in the age category 45-54 years, which is already apparent at national level in these Member States, was also in evidence in practically all regions irrespective of their level of development;

— a significant decline in the number of farm people in the age groups over 55 years already apparent at national levels, was also apparent in all regions irrespective of their level of development.

121. No real conclusions for the Community as a whole can be drawn from this limited examination. It is likely that, to some extent at least, the economic recession has had some influence on regional rates of migration. However, the extent of this influence cannot be determined since regional data do not exist for each of the individual years between 1968 and 1975.

Social security

122. In 1975 there were no changes in the area of application of social security systems for farmers as regards the risks covered. Accidents are still not covered in the Netherlands, Belgium and the United Kingdom. In Ireland, except for family allowances, the general system of social security does not apply to farmers; however, low-income farmers are covered by sickness, maternity and old-age benefits.

123. In all Member States, with the exception of Denmark and the United Kingdom, where all persons benefit equally under the social security provisions, the level of benefits accruing to farmers is less than that accruing to hired workers in the non-farm sectors; nevertheless, the situation of farmers is better in this regard than that of other comparable categories of independent workers.

124. With regard to the evolution of social security financing in 1975 as opposed to 1974, Member States fall into three distinct groups,

- (a) where contributions have increased more rapidly than State subventions (Belgium, Italy, Luxembourg);
- (b) where the contrary situation prevails (Denmark, France, Netherlands and United Kingdom);
- (c) where the rate of increase in financing by both sources has been more or less the same (Germany).

125. Significant increases in the rate of contribution by farmers varying from 35.5% in France to 89.9% in Italy, and in the rate of State subvention varying from 20.2% in Denmark to 87.6% in the Netherlands took place in 1975. At the same time there were substantial increases in the rate of benefit, varying from 20.1% in Denmark to 47.6% in France.

**Percentage increase in contributions, State subventions
and social benefits 1974/75, by Member State ¹**

Member States	Contributions of farmers	State subvention	Social benefits
Deutschland	40.5	37.2	35.6
France	35.5	60.4	47.6
Italia	89.9	9.1	9.1
Nederland	12.0	87.6	22.6
Belgique/België	48.1	28.7	28.2
Luxembourg	51.4	12.5	35.5
United Kingdom	6.4	13.4	28.3
Ireland	:	:	:
Danmark	15.5	20.2	20.1

¹ See Appendix table II.C/3.5 for the absolute amounts of contributions, State subvention and social benefits, by Member State.

126. Finally, the relationship between contributions and benefits has not changed to any significant extent except in Italy where it went from 6.81% in 1974 to 15.07% in 1975. In the greater number of Member States the problem of financial equilibrium of the general social security i.e. the relationship between contributions and benefits, and especially that which concerns farmers, is becoming progressively more difficult because of factors concerning the agricultural sector (worsening of the ratio between active and inactive workers in agriculture; relatively low agricultural incomes; the recent introduction, in contrast to the situation prevailing in other economic sectors, of social benefits for farmers, etc.).

4. Productivity ¹

127. Measured in constant (1970) prices, final agricultural production increased at an average annual rate of 1.8% (1.9% in the original Community EUR 6) between '1968' and '1975'. At the same time, value added of agriculture increased by 0.9% per year in EUR 6; because of the absence of the relevant data for Denmark, the increase in value added at Community level cannot be calculated.

128. These increases were achieved over a period of time when the number of persons employed in agriculture and total UAA declined at an average annual rate of 4.2% and

¹ See table 1.6.1 in Statistical Annex.

0.6% respectively. Thus during the period under review labour productivity measured in terms of final agricultural production increased by 6.3% per year; measured in terms of value added of agriculture the annual increase in labour productivity was 5.5% in EUR 6.

129. Among the Member States the annual increase in labour productivity, measured in terms of final agriculture production, varied from 4.4% in the United Kingdom to 8.0% in Belgium; in terms of value added the range was from 4.4% in Luxembourg to 6.5% in the Netherlands. The higher level of labour productivity in Belgium appears to be due to a greater than average decline in the active agricultural population between '1968' and '1975'; in the Netherlands increases in final agricultural production and in value added, both of which were significantly greater than the average for the Community during this period, would seem to be the main factors contributing to the improvement in labour productivity.

130. Productivity per ha of UAA measured in terms of final agricultural production increased by 2.5 % (2.0% in EUR 6) between '1968' and '1975'; in terms of value

**Regional differences in value added (in terms of national currencies)
per person employed in agriculture 1970 and 1974**

Member State/Region	1970		1974		Percentage increase 1970/74
	Added value per person	Index	Added value per person	Index	
Deutschland	11 298	100	16 439	100	45
— Bayern	7 179	64	10 145	62	41
— Schleswig-Holstein	17 818	158	31 738	193	78
France	19 922	100	31 988	100	61
— Limousin	10 024	50	11 344	35	13
— Champagne	36 370	183	62 955	197	73
Italia	1 410 000	100	:	:	:
— Molise	664 000	47	:	:	:
— Lombardia	2 558 000	181	:	:	:
Nederland	19 672	100	:	:	:
— Groningen	14 551	74	:	:	:
— Noord-Holland	24 345	124	:	:	:
Belgique/België	227 770	100	346 894	100	52
— Antwerpen	216 497	95	266 429	77	23
— Namur	312 784	137	522 143	151	67

Source: Eurostat.

added of agriculture the annual increase was 1.6% in EUR-6. As in the case of labour, the productivity increase per ha was significantly higher in the Netherlands than elsewhere in the Community.

131. Of the seven Member States for which the relevant data are available for '1974' and '1975' (the exceptions being Ireland and Denmark), only in France was there an increase in the productivity of both labour and land in '1975' by comparison with the previous year. However in the majority of Member States the decline in productivity was no more than marginal.

132. Within the individual Member States, the growth in labour productivity varies quite significantly among regions. The limited data available suggest that there were significant differences between the regions having the highest and lowest value added per person employed in agriculture both in terms of value added per person in 1970 as well as in its growth per person between 1970 and 1974. Thus, the agricultural income disparity between the rich and poor regions increased considerably during this period. In terms of value added per person, the greatest differences between regions are apparent in France and Italy, the least in the Netherlands and Belgium.

5. Market structures

133. In a situation where the purchase of farm products is becoming increasingly more concentrated in the hands of fewer but economically more powerful buying units, collective action by farmers in the selling of farm products and in the purchase of farm inputs is necessary in order to maintain or, if needs be, improve their competitive position on the market. Better marketing organization strengthens the economic position of farmers on the market and, as a result, contributes to the improvement of farm incomes.

134. During 1976, there was little change in the degree of market organization of their products by farmers. Sales through cooperatives declined slightly in the Netherlands, and increased marginally in France and Belgium. By contrast, there was little change in contract sales.

135. In Denmark, over 90% of pigs and 80% of dairy products were sold through cooperatives in 1976. In the Netherlands also the greater part of farm products, especially dairy products, are sold through cooperatives. On the other hand, in the United Kingdom and Italy cooperatives play no more than a small part in agricultural marketing. In Italy, this situation is due mainly to the lack of an organized marketing structure. For this reason, on 27 May 1977, the Commission presented to the Council a new draft Regulation on 'Producer Groups and associations thereof' which would apply primarily in Italy.

This concept of producer groups is not new. Under the existing market regulations, producer groups play an important role in the organization of the market for a number of farm products in the Community, e.g. fruit and vegetables, hops and silkworms.

136. On 15 February 1977, the Council adopted Regulation No. 355/77 on common measures to improve the conditions under which agricultural products are processed and marketed. The adoption of this Regulation underlines the importance which the Community attaches to this activity. Essentially the Regulation envisages that financial participation by the Community in investment projects relating to processing and marketing of farm products will be increasingly confined to projects which are included in specific programmes designed by Member States to develop or rationalize the treatment, processing and marketing of one or more farm products.

137. Recent trends in the development of farm structures indicate that the mobility of farmland for structural reform purposes is taking place at a relatively modest pace in all Member States. The decline in total farms is mainly concentrated among the smaller size groups; consequently at Community level the total amount of land becoming available for farm enlargement is relatively limited. As a result, the structural disequilibrium which is characteristic of the Community's agriculture has changed very little in recent years.

138. With occupier-ownership of land being the dominant system of land tenure in the majority of Member States and with the expansion of farm tenancy being impeded in some Member States because of the restrictive nature of the prevailing tenancy legislation, the rapid escalation in farmland prices, plus increasing interest rates chargeable on borrowed capital, are significant barriers to land mobility. This situation considerably reduces the possibilities for the structural reform of agriculture in the Community. In effect, given that the greater part of the land mobility which is currently taking place results from the normal operation of the land market, potential development farmers with limited access to capital have little hope of maintaining a competitive position on the land market in their efforts to acquire additional land and operate it effectively. Thus, in the absence of structural reform policies which would ensure that in so far as possible or necessary the mobility of farmland will be oriented towards satisfying their development needs, many such farmers face an enormous task in their efforts to modernize their farms.

139. The progressive increase in the income disparity between the richer and poor regions of the Community calls for the energetic implementation of structural reform programmes, including those relating to market structures, and allied measures of a regional and social character if the development problems inherent in the poorer regions are to be effectively solved.

140. The implementation of the Community's socio-structural policy as embodied in Council Directives of 17 April 1972 was a new experience for some Member States. Others were already operating structural policies on a national basis; after 1972 these had to be brought into line with the common socio-structural policy of the Community. This meant that it took some time, and in the case of some Member States quite a long time, for the policy to be put into practice. Allowance had to be made for delays inherent in passing the necessary legislation at Member State level and in devising the appropriate administrative procedures. In addition, the adverse effects of the current economic recession, the onset of which coincided with the first implementation of the socio-structural policy, cannot be overlooked. The very high levels of inflation and unemployment, the complete slowing down in the creation of non-farm employment opportunities and the substantial increase in farmland prices are some of the factors to be reckoned with in this regard. Details regarding the implementation of the socio-structural policy to date in individual Member States are available in the 'Second Report on the Application of the Council Directives of 17 April 1972 on the Reform of Agriculture'.

III. The common market in agriculture

A — General survey

141. In the medium term ('1968-75'), the Community's final production, at 1970 prices, increased by about 1.8% per annum. In 1976, the change compared with 1975 was +0.5%, as against -2.6% in 1975. Livestock production (+2.4%) in 1976 almost returned to its medium-term growth rate (+2.6%), while crop production fell by a further 2.5% compared with 1975. In the long term ('1963-75'), the average annual growth rates in the Community varied considerably from one product to another; some were negative (rye, oats, potatoes, flax, hemp, peaches, cauliflowers), while most were between +0.8 and +3.7% and others were over 3.7% (durum wheat: +6.7%; grain maize: +6.1%; cola and rape seed: +9.0%; sunflower seeds: +13.6%; table olives: +4.6%; oranges: +4.9% and poultrymeat: +5.5%).

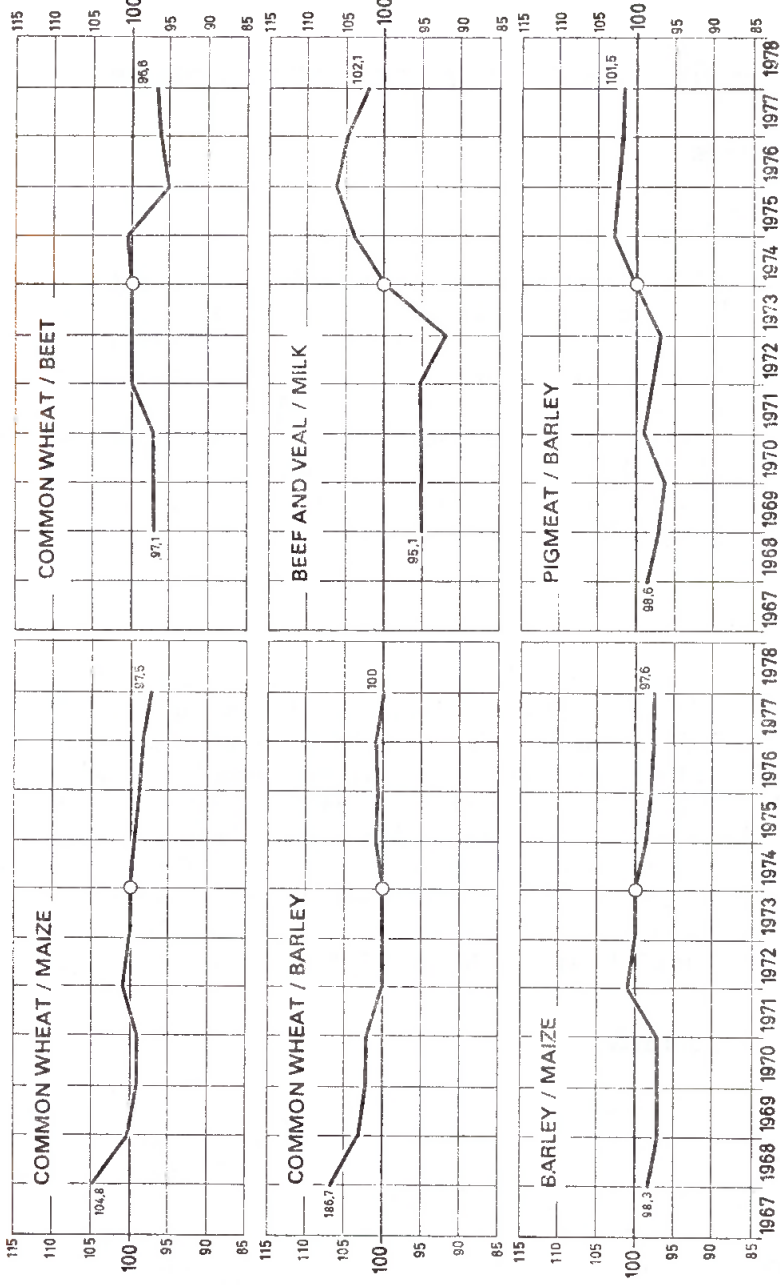
142. In 1975 consumer expenditure on food, drink and tobacco represented 26% of private consumer expenditure (about 21% in Germany and over 40% in Ireland). Quite apart from national consumer habits, which vary considerably within the Community, it may be said that, in general, from '1968' to '1974' human consumption (*per capita*) of cereals, potatoes, fruit (excluding citrus fruits) and fresh milk dropped, while consumption of vegetables, wine, butter and eggs remained constant and consumption of rice, citrus fruits, cheese, meat and fresh cream rose. Thus, although certain national habits remain fairly constant, changes have occurred; they would appear to be due not only to the rise in the standard of living but also to the new choices offered to consumers as the result of the integration of agricultural markets.

B — Trade in agricultural products

143. The value of world exports of non-agricultural products remained largely unchanged in 1976, while agricultural exports, with an 8.5% increase, reached the record value of USD 140 milliard and, with 19.2%, were back to their average share in total exports over the past six years. This considerable increase was mainly due to higher world prices, as the result of a slight economic upturn in the industrialized countries, faster economic growth in the developing countries and a shortage of certain products. World exports of the following products increased in terms of value in 1976: coffee (+86%), natural rubber, skins and hides, oilseed cake and meal (about +40%), fishery products (+17%), natural textile fibres, oilseeds, bananas, cocoa, meat and wine (about +10%). World exports, by value, of tobacco, milk products, tea and citrus fruits rose only slightly (1.4%) and those of cereals (—17%), oils and fats (—20%) and sugar (—32%) fell sharply. There is then a large increase in the value of exports of tropical products which has boosted the export revenue of the developing countries. They have even increased the value of some of their exports of non-tropical agricultural products (beef and veal from Latin America, tobacco), while exports of sugar and cereals, with the exception of rice, fell sharply as the result of a slump in prices.

144. With 22% of world exports and 24% of world imports, the Community leads world trade. With a fall (7.5%) in 1976 the percentage of Community exports accounted for by agricultural products continued the decline dating from 1973 (9.4%); in contrast, the percentage of imports accounted for by agricultural products remained stable in 1974, 1975 and 1976 at about 21%. In terms of absolute value, the Community's agricultural exports are stable and its agricultural imports have increased, which has widened its agricultural trade deficit from USD 20.7 milliard in 1975 to USD 25.1 milliard in 1976. The composition of the Community's agricultural imports did not change in 1976. In the case of certain agricultural products, the Community imports more than half of the quantities exported in the world (skins and hides: 72%, fresh citrus fruit: 61%, oilseed cake and meal: 54%, bananas: 54%, natural fibres and textiles: 52%). The Community's exports of most agricultural products improved in 1976 but those of oils and fats remained unchanged and those of cereals (—14%) and beef and veal (—67%) decreased. With regard to the countries of destination, the fall in prices for cereals and milk products had the effect that exports of Community agricultural products to State-trading countries, expressed in dollars, picked up considerably in 1976, while exports to developing countries dropped. As regards suppliers, the increase in Community agricultural imports in 1976 mainly benefited the developing countries (ACP countries and Latin America) and the State-trading countries. Intra-Community trade continued to grow; but in 1976 intra-Community imports (+20%) increased less than imports from non-member countries (+28%). Exports to non-member countries, on the other hand, were up by only 14%.

Common price relationship¹ between certain agricultural products
Index 1973/74 = 100



GRAPH 5

¹ Target prices (cereals, milk, guide price (beef), basic price (pigmeat), minimum price (sugarbeet).

C — The situation on the agricultural markets

1. Cereals

Production

145. In 1976 Community production of cereals (8% of world production; 10.1% by value of Community final production and 27.8% of the UAA) fell by 6.9% as a result of the drought which mainly affected fodder grains. Cereal production in 1977 (103 million tonnes) is expected to be 13.6% up on 1976 following a 14.7% increase in yields, although the area under cereals is estimated to have decreased by 1.1%. For 1977, production of cereals is estimated to have risen as follows: common wheat by 3.5%, rye by 20%, barley by 24%, oats by 15% and maize by over 30%; only production of durum wheat has dropped (—32%) as a result of the adverse weather in Italy and a selective policy to discourage production in France.

Consumption

146. As a result of a fall in animal consumption of cereals (—3.5%) Community use of cereals in 1975/76 (110.2 million tonnes) was less than in 1974/75 (113.2 million tonnes). This decrease was mainly due to imports, at low or zero rates of duty, of cereal substitutes; these have been put at 7.1 million tonnes barley equivalent, as compared with 4.4 million tonnes in 1974 and 5.2 million tonnes in 1975. Gross human consumption of cereals, on the other hand, rose slightly in 1975/76 (21.2 million tonnes), whereas net consumption *per capita* decreased; it would therefore appear that the high potato prices have caused human consumption to swing towards rice rather than towards cereals. Smaller quantities of cereals were used in industry in 1975/76 (7.8%), as less barley was used in brewing and less maize in the starch and oil industry.

Self-supply and trade

147. The Community's self-supply rate for cereals in 1975/76 (87%) was much lower than in 1974/75 (95%), with net imports running at 9 million tonnes; net imports of maize amounted to 11.5 million tonnes while net exports of wheat and barley amounted to 2.3 million tonnes and 2.1 million tonnes respectively. At 1 August 1976, non-farm stocks were estimated at 12.5 million tonnes, including 6.3 million tonnes of common wheat, and at 1 August 1977 at 11.0 million tonnes, including 6 million tonnes of common wheat, 2.4 million tonnes of maize and 1.6 million tonnes of durum wheat.

148. In 1975/76 intra-Community trade (18 million tonnes including 9.3 million tonnes exported by France) rose by 14.6%. Intra-Community re-exports—which are due either to structural conditions, e.g., transport and unloading costs, or to certain characteristics of the Community rules—were still very large, particularly from Rotterdam to the United Kingdom; however, once the advance fixing of the maize levy was abolished, re-exports of maize fell by 17% and re-exports of common wheat rose by 88% in 1975/76.

149. Gross imports of cereals into the Community (21.6 million tonnes, including 12 million tonnes of maize) rose by 1.7% in 1975/76; for 1976/77 gross imports of cereals are estimated at 27 million tonnes, including 18 million tonnes of maize. Gross exports of cereals (12.6 million tonnes, including 7.5 million tonnes of common wheat and 4.1 million tonnes of barley) were up 16.4% in 1975/76 but are expected to be lower in 1976/77 (4.6 million tonnes of common wheat and about 1.3 million tonnes of barley).

Prices

150. The common prices fixed for 1976/77 were a transitional stage in the move towards new price relationships between cereals and greater freedom for operators on the internal market; the intervention prices for common wheat not suitable for bread-making and for barley were fixed at the same level and a reference price was fixed for wheat of bread-making quality. Market prices were high in 1976/77, but as a rule the plentiful supply of cereals on the world market prevented them from exceeding the threshold price.

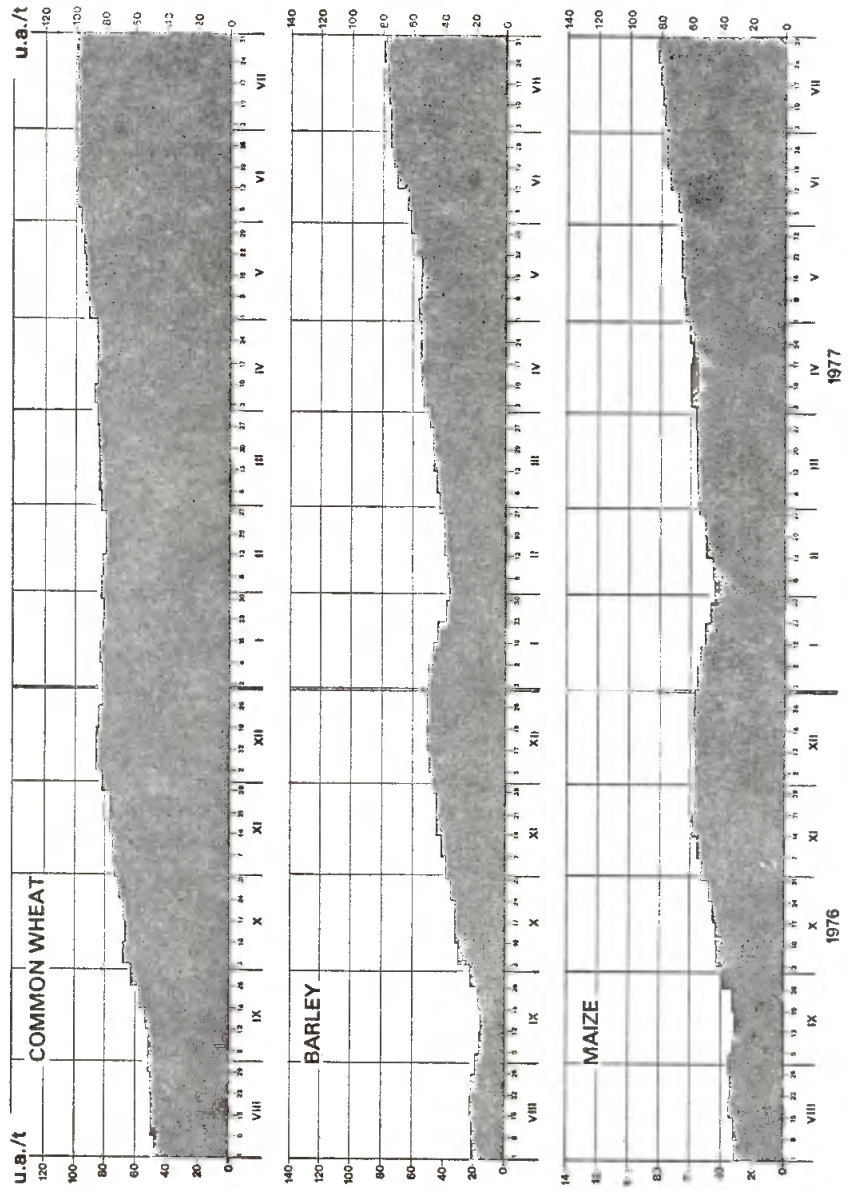
151. World prices, especially for wheat, fell in 1976/77 (common wheat: —25%; durum wheat: —40%). The poor harvests in 1976 meant that the Community did not have to export large quantities; on the other hand, strong Community demand for secondary cereals helped to prevent world prices for such cereals from falling by more than 12% on average.

152. Bread prices increased by about 10% in 1976, as compared with 12% to 13% in 1975. This increase was not caused exclusively by the price of wheat, since the latter represents only about 30% of the price of ordinary bread.

Economic aspects of the measures taken

153. Levies increased considerably in 1976/77 and in the summer of 1977 were higher than world prices for the main cereals. During the summer of 1976, the period of validity of feed grain import licences was increased to 60 days (common wheat: 45 days;

Import levies: Cereals



GRAPH 6

durum wheat: 30 days). During the summer of 1977, this period was reduced again to 45 days for all cereals. There have been no export levies since the end of 1975.

154. The only refunds fixed for cereals in 1976/77 were for three deliveries of common wheat to West Africa (360 000 tonnes); refunds were still available for exports of cereal products (malt, flour, meal, etc.). The period of validity of export licences was kept at 30 days in 1976/77; in July 1977 it was extended to cover the month of issue plus the following two months.

155. In 1976/77, 783 636 tonnes of cereals were supplied as Community food aid, including 25% under the 1976/77 programme.

156. In 1976/77 intervention stocks were reduced considerably (—629 000 tonnes of common wheat and —197 000 tonnes of barley), except in the case of durum wheat (+69 000 tonnes). To prevent speculative operations, the intervention agencies transferred to Italy 300 000 tonnes of common wheat in 1975/76 and 400 000 tonnes of common wheat and barley in 1976/77.

157. The accession compensatory amounts were relatively small: the highest, those of the United Kingdom, were only 8.51 u.a./tonne for common wheat and 9.05 u.a./tonne for barley in 1977/78. Monetary compensatory amounts (except in the case of durum wheat, for which they do not exist) were generally used to offset the effects of the monetary distortions in the Community.

158. The production refunds paid to manufacturers of cereal-based starch products in 1977/78 were 21.4% higher than in 1976/77. The system of aid for durum wheat was also altered in 1976/77 to take account of the varieties produced and the regions concerned. In 1977/78, only producers in low-yield and economically less-favoured areas were eligible for aid for durum wheat (60 u.a./tonne).

Budgetary expenditure

159. Expenditure by the EAGGF Guarantee Section in respect of cereals amounted to 620.9 million u.a. in 1975 and 609.8 million u.a. in 1976, and is estimated at 763.3 million u.a. for 1977, or 13.1% and 10.8% respectively of the Guarantee Section's total expenditure. The estimate of 763.3 million u.a. breaks down into 470 million u.a. for refunds and 293.3 million u.a. for intervention expenditure, 138 million u.a. of which is aid for durum wheat.

2. Rice

Market situation

160. In 1977 Community rice production (0.3% of world production, 0.2% by value of Community final production and 0.2% of the UAA in 1976), 96% of which is grown in Italy, showed no change as compared with 1976, when it was 15% down on 1975. The situation in 1976 may be explained by a 14% drop in yields, although larger areas were sown (3.2%). The increase in areas in 1977 (+2.1%) should, despite a further drop in yields (-1.6%), lead to a slight increase in production (+0.7%). In 1975/76 total rice consumption rose by 18%, *per capita* rice consumption having increased by 20% as a result of the potato shortage in the Community. The rate of self-supply thus fell from 88% in 1974/75 to 72% in 1975/76, i.e., a deficit of 313 000 tonnes, resulting from imports of 612 000 tonnes (+48%) and exports of 299 000 tonnes (+3%), mainly to the Mediterranean Basin. Intra-Community trade (408 000 tonnes in 1975/76), rose by 19%.

Prices and economic aspects of the measures taken

161. In 1976/77 market prices were far higher than the intervention price (34% for round-grained rice and 49% for long-grained rice). With only a small quantity of paddy rice (2.4% of world production) coming into the world market, world prices have been very sensitive; they continued to drop in 1976 and started to rise slightly in 1977. Consumer prices (milled rice) rose by 33% in Italy and fell by 5 to 6% in Germany and France.

162. Given the low world prices and the increase in threshold prices, import levies continued to rise. From 21 October to 23 December 1976 there were weekly invitations to tender for the refund on long-grained milled rice, whereby 10 000 tonnes were exported at an average refund of 105 u.a./tonne. In 1976/77 there were also general refunds which varied, according to the category of rice, from 60 to 120 u.a./tonne for exports to Switzerland, Austria and Liechtenstein and from 85 to 150 u.a./tonne for exports to other non-member countries. Since 1972/73 no rice has been offered for intervention. In 1976, 27 300 tonnes of milled rice was supplied as food aid (23 700 tonnes in 1975). There are no monetary compensatory amounts for rice. Accession compensatory amounts, applicable in full because of the high levy, were brought closer together at the rate provided for by the Accession Treaty; depending on the stage of processing of the rice, they range from 11.20 to 38.04 u.a./tonne.

Budgetary expenditure

163. Expenditure by the EAGGF Guarantee Section in respect of rice amounted to 4.2 million u.a. in 1975, 29.9 million u.a. in 1976 and is estimated at 21 million u.a. for 1977, i.e., 0.09%, 0.4% and 0.3% of the Section's total expenditure. The 1976 total of 26.9 million u.a. breaks down into 26.6 million u.a. for export refunds, 0.3 million u.a. for intervention in the form of refunds to producers of broken rice.

3. Sugar

Supply situation

164. In 1976 sugarbeet production represented 2.7% by value of final production and occupied 2.0% of the utilized agricultural area. With an increase of 2% in area, due mainly to an 8% increase in the minimum price of sugarbeet, and an increase of 1.4% in the sugar yield per hectare despite the drought, sugar production rose by 3% to a record 10 million tonnes, 8.61 million tonnes coming under the basic quota. Since production falling between the basic quota and the maximum quota and subject to the production levy amounted to 1 213 000 tonnes, production in excess of the maximum quota was 181 000 tonnes, i.e., in both cases, the quantities produced in 1975/76 were exceeded.

165. Human consumption dropped further in 1976/77 (-5.3%), which puts *per capita* consumption (34.5 kg) below the 1973/74 record (39.4 kg) for the third consecutive year. With industrial use running at 80 000 tonnes and animal consumption at 5 000 tonnes, the Community rate of self-supply rose from 101% to 110% in 1976/77.

Trade

166. As large quantities were produced in all the Member States except the United Kingdom, which had to meet part of its demand with sugar from other Member States, intra-Community trade was 13% down in 1976/77. The Community's supply situation in 1976/77 thus meant that sugar imports under the Lomé Convention (1.3 million tonnes) actually constituted a surplus which had to be re-exported. In 1976/77 Community imports remained stable (1 578 000 tonnes) but exports (1 779 000 tonnes) rose by 20.2%.

Prices

167. In 1976/77 the intervention price for white sugar was increased by 8.8%; but, since a subsidy of 0.25 u.a./100 kg was granted to offset the additional costs incurred by manufacturers under the obligation to maintain minimum stocks, the actual price increase for white sugar was 8%. The guaranteed price for preferential sugar (Lomé Convention) was raised in line with the increase in Community sugar prices.

168. Except in the United Kingdom, Community market prices for white sugar were close to the intervention price. World prices continued to fall, as a result of over-production; world-wide final stocks were put at 28% of world consumption.

Economic aspects of the measures taken

169. Import levies, except on preferential sugar, and export refunds were in operation throughout the 1976/77 marketing year for sugar and processed products containing sugar. The intervention agencies bought in 184 000 tonnes of white sugar, which was exported via an invitation to tender at the end of the marketing year. Food aid accounted for 6 000 tonnes.

Budgetary expenditure

170. Expenditure by the EAGGF Guarantee Section in respect of white sugar totalled 309.2 million u.a. in 1975, 226.5 million u.a. in 1976 and is estimated at 414 million u.a. for 1977, or 7.9%, 4.8% and 7.8% respectively of the Guarantee Section's total expenditure. From those amounts should be deducted the special sugar levies: storage charges (92 million u.a. in 1975; 145 million u.a. in 1976 and 149 million u.a. in 1977) and the production levy (49 million u.a. on account for 1976/77). It should be noted that the 309.2 million u.a. for 1975 include the 179 million u.a. in import subsidies which enabled the consumer to pay lower prices than on the world market.

4. Olive oil

Supply situation

171. Production in 1976 represented 0.7% by value of Community final agricultural production (but 3.8% of Italy's) and 30% of world production. Since 1966 the area under olive-trees (190 million trees) has remained stable (2 318 000 ha, i.e., 2.3% of the UAA, 2 280 000 ha being in Italy). In 1975/76 aid applications indicate that pro-

duction totalled 684 000 tonnes in Italy and 2 425 tonnes in France. According to some estimates, the 1976/77 harvest was the lowest since 1966 (300 000 tonnes?). There are no accurate figures for the harvest since the statistics are based on applications for aid; 10 to 15% of the applications are refused and in Italy up to 36 months may elapse before the aid is paid, which largely invalidates the system.

172. After the fall in consumption in 1975/76 which led, for the first time, to 85 000 tonnes being bought in by the intervention agencies, consumption of olive oil failed to pick up again in 1976/77, despite low production and moderate imports. From March to August 1977, 6 200 tonnes of olive oil had to be offered for intervention.

Trade

173. The Community, which is the world's largest net importer of olive oil, imported 121 758 tonnes in 1974/75, 93 357 tonnes in 1975/76 and about 132 000 tonnes in 1976/77. Despite this increase in 1976/77, which was due to a very poor harvest, consumption has in fact been falling steadily since 1975. Intra-Community trade takes place only between France and Italy and has been running at between 5 000 and 10 000 tonnes per year since 1966/67. Exports to non-member countries have averaged 14 000 tonnes in recent years; but in 1975/76 they totalled 22 000 tonnes under the EXIM procedure (importation, free of the levy, of a quantity of oil equivalent to that exported). In 1976/77, on the other hand, operators encountered difficulties in using the EXIM procedure and by September 1975 export certificates had been issued for only 4 000 tonnes for the 1976/77 year.

Prices

174. In 1976/77 the production target price was fixed at the same level as in 1975/76, representing a 12.37% increase in terms of Italian lire. For 1977/78 the production target price was raised by 1.5%, while the market target price and the intervention price were reduced by 2.4% and 2.2%, the green lira having been devalued by 6.96%.

175. In 1976/77 the market prices of lampante grade olive oil and olive-residue oil were roughly the same as the intervention price; the market prices of edible virgin oils, on the other hand, were considerably higher than the intervention price.

Economic aspects of the measures taken

176. As regards import levies, the system applied in 1975/76 (fixing of the levy by tendering procedure, in the light of the situation on the world market *and* the

Community market) was renewed in 1976/77. So as to vary the levy according to the actual quality of the oil imported, the CCT heading 'virgin olive oil' has been subdivided into virgin olive oil, virgin lampante olive oil and other. In 1976/77 the levies on the quality most imported, virgin lampante olive oil, fluctuated around 42 u.a./100 kg until the Spanish peseta was devalued (July 1977) and have since then been about 55 u.a./100 kg.

177. Given the difficulties encountered by Community exporters in maintaining traditional export patterns, the Commission decided in October 1977 to increase the export refund to 24 u.a./100 kg, with effect from September.

178. At the beginning of the 1976/77 marketing year, the intervention agencies held 85 000 tonnes of olive oil, to which 6 200 tonnes were added in 1976/77. Of this total of 91 200 tonnes, 55 045 tonnes were sold. At the beginning of the 1977/78 marketing year, stocks of olive oil of all qualities totalled 31 151 tonnes.

Budgetary expenditure

179. Expenditure by the EAGGF Guarantee Section in the olive-oil sector amounted to 205 million u.a. in 1975, 216.6 million u.a. in 1976 and is estimated at 290 million u.a. in 1977, or 4.3%, 3.8% and 4.1% respectively of the Guarantee Section's total expenditure. The sum of 290 million u.a. breaks down into 269 million u.a. for production aid, 5 million u.a. for refunds on oil used in the preserves industry, 1 million u.a. for export refunds and 15 million u.a. for intervention.

5. Oil seeds

(a) Colza, rape and sunflower seeds

Supply situation

180. In 1976/77, oil seeds represented 0.3% by value of Community final agricultural production and occupied 0.7% of the UAA. In 1976/77, colza production (1 million tonnes, or 14.5% of world production) rose by 7.8% as a result of a 9% increase in yields, despite a 1% reduction in the areas sown (494 000 ha). Sunflower production (128 000 tonnes, or 1.3% of world production) was down 18% in 1976/77, following a 15.6% reduction in area and 2.6% drop in yields.

181. As regards seed oils, apparent consumption of colza oil, with the new varieties, would seem to have increased in 1976/77, while failing to reach the 1972/73 level (500 000 tonnes). Apparent consumption of sunflower oil remained stable at 300 000 tonnes. Apparent consumption of colza and sunflower oilcake was greater than in 1975/1976. It can thus be seen that Community production of colza and sunflower seeds has been free of major difficulties.

Trade

182. The Community covers only a very small part of its requirements for oilcake (4 to 5%) and oil (11%) from its own production, with the exception of olive oil.

183. Imports of colza and sunflower seeds will increase considerably in 1976/77; in the first half of the year they had already exceeded the levels for the 1975/76 marketing year, i.e., 150 000 tonnes for colza and 213 000 tonnes for sunflower. In 1975/76, intra-Community trade in colza seed (180 000 tonnes) increased by 10.4%, while in the case of sunflower seed (22 000 tonnes) the increase was 120%.

Prices

184. World prices of vegetable oils rose at the beginning of 1976/77; this trend became more marked in the second half of the year as a result of abnormally high demand in India. This situation enabled part of the colza harvest to be sold at prices above the target price. The sunflower harvest was sold at prices which considerably exceeded the intervention price.

Economic aspects of the measures taken

185. Aid for colza seed fluctuated in 1976/77 between zero and 10 u.a./100 kg, with an average of 6 994 u.a./100 kg, the refund ranging from zero to 7 u.a./100 kg. Aid for sunflower seed was between zero and 6.97 u.a./100 kg, with an average of 4.4 u.a./100 kg; no refund was fixed.

186. In 1976/77, 5 084 tonnes of colza seed was bought in by the intervention agencies. This quantity, together with the seed remaining from intervention operations in 1975/76, was all sold during the first half of 1976/77. It was also decided that, with effect from 1 July 1977, intervention would be confined to colza seed with a maximum erucic acid content of 10%, as against the previous 15%.

187. The accession compensatory amount applied to colza seed harvested in the United Kingdom and Denmark, which was 2.65 u.a./100 kg and 0.61 u.a./100 kg respectively in 1976/77, has been abolished in Denmark and reduced to 1.37 u.a./100 kg in the United Kingdom for 1977/78.

Budgetary expenditure

188. Expenditure by the EAGGF Guarantee Section in respect of colza and sunflower was 95.7 million u.a. in 1976 and is estimated at 116.1 million u.a. in 1977, or 1.7% and 1.6% respectively of the Guarantee Section's total expenditure. The total of 116.1 million u.a. breaks down into 111.1 million u.a. for aid and 5 million u.a. for export refunds.

(b) Soya beans

189. In 1976/77 the Community produced only 2 000 tonnes, compared with its 1976 requirements of 14.5 million tonnes. For 1977/78 the guide price was raised by 7.5%, but only 1 300 ha were sown in France in 1977. The target yield for 1976/77 was 19.5 q/ha and aid was 8.229 u.a./100 kg, entailing expenditure of 0.2 million u.a. by the EAGGF Guarantee Section.

(c) Flax seed

190. In 1976 flax seed production (63 500 tonnes, of which 24 300 tonnes was seed flax and 39 200 tonnes fibre flax) was down 20%, following a reduction in area as a result of the new aid system and lower yields due to the drought. The area under seed flax continued to decrease in 1977. World prices were 10 to 15% higher than in 1975/76. In 1976/77 seed flax producers received the aid (125 u.a./ha) which they had been promised.

(d) Cotton seed

191. Production (2 000 tonnes in 1976/77), which is mainly located in Sicily, remains steady, largely thanks to Community subsidies: 103.20 u.a./ha in 1976/77, entailing expenditure of 0.3 million u.a. for the EAGGF Guarantee Section.

6. Dehydrated fodder

192. As a result of the drought, dehydrated-fodder production (1.2 million tonnes), excluding dehydrated potatoes, dropped by 21% in 1976, leading to under-utilization of factory capacity and consequently to a substantial rise in the overheads component of processing costs. Production of dehydrated potatoes (57 000 tonnes, of which 4 000 tonnes were in the form of flour, meal and flakes) increased by 16% in 1976/77 in spite of the 1975/76 potato shortage and the 1976/77 drought.

193. Fodder supplies, including imports, were 1.6 million tonnes, or 130 000 tonnes less than in 1975/76. The Community's rate of self-supply in dehydrated fodder was 77%. In 1976 imports of Lucerne meal totalled 390 000 tonnes, including 173 000 tonnes from the United States, i.e. a rise of 185%. Intra-Community trade in dehydrated fodder totalled 350 000 tonnes, moving chiefly from France and Denmark to Germany and the Benelux.

194. After a period of stability in 1975/76, prices rose sharply in 1976; few transactions took place at these levels, however, following substantial advance sales at the beginning of the marketing year. Prices then dropped in June 1977.

195. From March to October 1976, both Community production offered for sale and imports of dehydrated fodder were subject to the system of obligatory purchase of skimmed-milk powder.

196. Expenditure by the EAGGF Guarantee Section on dehydrated fodder was 11.1 million u.a. in 1975, 15.2 million u.a. in 1976 and is estimated at about 15.7 million u.a. in 1977, or 0.2% of the Guarantee Section's total expenditure.

7. Fibre flax and hemp

197. Flax is grown only by some 10-15 000 holdings in the Benelux countries and the north-west of France. In 1976, production of fibre flax (44 000 tonnes or 15% of world production) was 50% down on 1975 because of a 50% drop in yields. Production of paper hemp (1 500 producers, all in France) dropped by more than 40% due to low yields.

198. In 1976/77 consumption of flax fibres was 83 000 tonnes and exports were 23 400 tonnes; total demand was thus 106 400 tonnes, or between the 1974/75 and 1975/76 demand levels. Because of the low production, 37 200 tonnes had to be imported

(32 000 tonnes in 1975/76 and 25 000 tonnes in 1974/75) and 25 300 tonnes drawn from stocks, which are now at an abnormally low level (32 300 tonnes on 31 July 1977). There is no external trade in flax straw and hemp exports are negligible.

199. In May 1976, fibre flax prices began to rise and reached a record level at the end of 1976, then dropped again at the beginning of 1977/78 to their early 1976/77 level. The 1977 contract price for paper hemp, agreed between users and producers, increased to 73.8 u.a./tonne (+14%), as compared with 64.8 u.a./tonne in 1975 and 1976, leading to a substantial increase in area. The flax and hemp harvests for 1977/78 seem to have been relatively good.

200. Expenditure by the EAGGF Guarantee Section in respect of fibre flax, seed flax and hemp was 13.9 million u.a. in 1975, 19.3 million u.a. in 1976 and is estimated at 13.5 million u.a. in 1977, or 0.3%, 0.3% and 0.2% respectively of the Guarantee Section's total expenditure.

8. Seeds

201. In 1976, when the Community produced 1.14 million quintals of seed (including 0.9 million quintals of fodder seed, or 25% of world production), production was 32% down as a result of the drought. In 1976 the Community nonetheless was able to meet its seed requirement thanks to the high level of stocks (978 000 quintals on 1 July 1976) which, on 1 July 1977, still amounted to 650 000 quintals. The Community does, however, import seeds of certain species and exports hybrid maize.

202. Market prices in the Community increased sharply in 1976 (drought). After September 1976 they dropped slightly and stabilized in 1977. Expenditure by the EAGGF Guarantee Section in respect of seed was 23.8 million u.a. in 1975, 22.7 million u.a. in 1976 and an estimated 16 million u.a. in 1977, or 0.5%, 0.4% and 0.2% respectively of the Guarantee Section's total expenditure.

9. Wine

Supply situation

203. In 1976/77 Community wine production (147 million hl; 2.5% by value of final production; 2.6% of the Community UAA and 47% of world production) was virtually

the same as in 1975/76 (146 million hl). From '1968/69' to '1974/75', the average increase in production was 2.6% per year.

204. On the other hand, consumption has tended to stagnate over the long term. In 1975/76 total direct human consumption (130 million hl) dropped by 2.1%. The quantities processed were 18 million hl in 1975/76 (35 million hl in 1974/75). Calculated on the basis of quantities used (excluding distillation), the Community rate of self-supply was 99% in 1975/76 (108% in 1974/75). Stocks dropped by a further 3 million hl, thereby becoming less of a cause for concern.

Trade and prices

205. Following a 6% drop in imports and a 23.2% increase in exports, the Community's external trade in table wine has become more balanced than in 1974/75.

206. All the average quotations recorded on the various markets in 1976/77 (except in one market, for type A I) were higher than those recorded in 1975/76. The increase was between 5.5% and 26.5% for table wines of types R I, R II and A I. The increases for types R III (64%), A II (64.2% - 171.5%) and A III (50.9%) were spectacular. Except for wines of type R I in Italy and wines of type A I throughout the Community, the quotations recorded were higher than the activating price and sometimes even exceeded the guide price, in particular in the case of type R I in France.

207. World prices increased, particularly in Spain, but they still lag behind Community prices by more than 40% in some cases. Apart from some minor exceptions, offers to the Community were higher than the free-at-frontier offer price, thereby observing the relevant reference prices.

Economic aspects of the measures taken

208. Countervailing charges on imports did not change in 1976/77. They only play a secondary role since they do not apply to the 18 principal Community suppliers who have undertaken to observe the reference prices. The increase in refunds and their less restrictive application as regards geographical destination have had practically no effect on the quantities exported with the aid of refunds.

209. There were no special distillation measures in 1976/77 (1975/76: 2.2 million hl). On the other hand, while 'normal' management measures led to the distillation of 5.2 million hl, the cost of this distillation was not proportionate since the aid for such

measures is lower than the aid for special distillation. For the first time measures to ensure due fulfilment of contracts have been applied, but only in the case of holders of long-term storage contracts; these measures comprise distillation of part of the stocks and extension of the contract for the remaining part; they could apply to as much as 8.5 million hl. However, this quantity will probably not be reached. In 1976/77 storage contracts were concluded for a monthly average of 12.5 million hl (17 million hl in 1975/76), with a maximum of 21.8 million hl (27.8 million hl in 1975/76).

210. At the beginning of 1976/77 producers' and traders' stocks amounted to 78.3 million hl. At the end of 1976/77 they were 80.5 million hl, which is well above the normal level.

211. Monetary compensatory amounts were reintroduced for Italy and France in spring 1976. The new representative rates for the lira and the French franc, valid from 16 September 1977, were applied on 1 September for certain intervention measures.

Budgetary expenditure

212. Expenditure by the EAGGF Guarantee Section in respect of table wine was 139.1 million u.a. in 1975, 172.9 million u.a. in 1976 and is estimated at 109 million u.a. in 1977, or 2.9%, 3%, and 1.5% respectively of the Guarantee Section's total expenditure. The amount of 109 million u.a. can be broken down into 2 million u.a. for export refunds, 60 million u.a. for aid to private storage, 2.1 million u.a. for re-storage aid, 33.7 million u.a. for distillation and 11.2 million u.a. for distillation of the by-products of wine-making.

10. Raw tobacco

Market situation

213. Community production of raw tobacco (3% of world production and 0.4% by value of final Community agricultural production) did not change from 1975 to 1976 (180 000 tonnes). Although family farms are common, new cooperatives have come into being and there has been some rationalization and concentration since the common organization of the market came into force (1970). In 1976, among the tobaccos grown in the Community, there was an increase in the sun-cured (+21%) and dark air-cured (+8%) varieties and a drop in the fire-cured (-35%), light air-cured (-11%) and flue-cured (-6%) varieties.

214. In 1976, tobacco consumption in the Community was fairly stable, but tending to drop as a result of the economic recession, tax increases, anti-tobacco campaigns and the trend towards the development of cigarettes with a low nicotine and tar content. Community supply and demand remained fairly stable in 1976, while manufacturers tended to replenish their stocks, with the overall result that Community exports in 1976 (36 000 tonnes) dropped by 11% and imports (467 000 tonnes, 57% being Virginia flue-cured) by 1%.

Prices and economic aspects of the measures taken

215. On the world market, the prices of Virginia flue-cured, Burley and Kentucky increased, whereas, after increasing for three years, the prices of oriental tobacco dropped because of overproduction. In the Community, the 1976 harvest was mostly sold by planters at the norm price, which increased by 4.97% in u.a. in 1976.

216. The quantities of tobacco bought into intervention are estimated at about 13 500 tonnes, compared with about 8 800 tonnes from the 1973, 1974 and 1975 harvests. Export refunds, which enable Community-produced tobacco to be sold on the world markets, had to be increased, particularly for the oriental varieties, in view of the market situation and the fact that about one-third of Community imports come in at zero or preferential duty rates under the Community policy *vis-à-vis* developing countries.

Budgetary expenditure

217. Expenditure by the EAGGF Guarantee Section in respect of raw tobacco was 228.5 million u.a. in 1975, 229.9 million u.a. in 1976 and is estimated at 203.2 million u.a. in 1977, or 4.8%, 4.1% and 2.8% respectively of the Guarantee Section's total expenditure. The 1976 total of 229.9 million u.a. can be broken down into 224.8 million u.a. on price support, 2.5 million u.a. on export refunds and 2.5 million u.a. on storage expenditure by intervention agencies.

11. Fresh and processed fruit and vegetables

A — Fresh fruit and vegetables

Production

218. Production of fresh fruit and vegetables (11% by value of final Community production), which is mainly concentrated in Italy and France, is relatively stable in the

medium term, although there is a wider variation in the case of certain fruits (apples, peaches) and vegetables (tomatoes, cauliflowers). In 1975, total fruit production (18.1 million tonnes) increased by 2.5% (apples: -14%; peaches: +59%), while vegetable production (20.5 million tonnes) declined by 8.2% (French beans: -66%; peas: -35%), mainly as a result of the drought.

Consumption

219. Direct human consumption accounts for about 90% of internal consumption of fresh fruit and vegetables; although varying from one Member State to another, consumption is stable, with citrus fruit increasingly taking the place of other fruit. Non-food industrial uses are few and use as animal feed is only incidental.

Self-supply and trade

220. The self-supply rates of the Community are almost unchanged (79% for fruit; 43% for citrus fruits; 95% for vegetables). In 1976 intra-Community trade increased by 4.1% in fresh fruit and by 13.8% in vegetables, but external trade also increased sharply. In 1975/76 imports of fresh fruit, citrus fruits and vegetables increased by 8%, 4.9% and 2.3% respectively; exports of fresh fruit, citrus fruits and fresh vegetables increased by 33%, 12.8% and 32.9% respectively.

Prices

221. In 1977/78 the average increase in the basic and buying-in prices was between 2.5% (table grapes) and 4.5% (lemons, cauliflowers, tomatoes). Between 1976/77 and 1977/78, reference prices increased by 4%, except for citrus fruits (level unchanged, but use was made of penetration premiums).

222. It is very difficult to give an average market price for fruit and vegetables. As a rough guide, the data collected on pilot products in 1976/77 show that there was an increase in the average market prices of apples, particularly in Germany (+40%) and in France (+52%), table grapes (+31.3% in Italy, but down by 9.9% in France), oranges (+8.9%), lemons (+27%) and cauliflowers, particularly in France (+55%) and in Italy (43%). On the other hand, a drop was recorded in the average market prices of pears (from 14.6% to 27.6%, except in Denmark: +16.8%), peaches in Italy (-50%), mandarins (-5.3%) and tomatoes (between -0.4 and 10.4% in Italy, Germany, the United Kingdom and the Netherlands, although there was an increase of between 6.9% and 15.5% in the other Member States). Generally speaking, with the

exception of peaches, table grapes in Italy and mandarins, average monthly prices were higher than the basic price in 1976/77.

223. On the basis of the retail price indices for fruit and vegetables, the rise in consumer prices in 1976 was between 14.3 and 23.5%, except in Luxembourg (+31%), Ireland (+27.4%) and Germany (+3.4%).

Economic aspects of the measures taken

224. In 1976/77, it proved necessary to levy a countervailing charge on imports, sometimes only for short periods and in specific cases (peaches from Greece, mandarins from Algeria), in order to restore a balance on the internal market. Export refunds also had to be fixed in certain specific cases where there were real export opportunities. Conversely, no protective measure was applied during the 1976/77 marketing year; rather, following the 1976 drought, the Common Customs Tariff duties for certain vegetables (cabbages, cauliflowers, peas, carrots, French beans, onions, ribbed celery) were suspended for certain periods in 1976. Moreover, discussions with non-member supplier countries concerning voluntary restraint or a staggering of apple exports to the Community did not prove necessary.

225. The quantities of table grapes, cauliflowers and tomatoes withdrawn from the market represented only 0.1%, 0.3% and 0.5% respectively of marketable production; on the other hand, withdrawals of peaches and oranges at 18.5%, of pears at 12.3%, of mandarins at 9% and of lemons at 7.3% were much more substantial. Withdrawals of apples can be considered normal at 2.3%. Only a small quantity of these withdrawals was in fact destroyed.

226. The penetration premiums for Community citrus fruits were increased by 8% in 1976/77, as was the financial aid for the processing of certain varieties of oranges. With regard to the structural reform of fruit production, applications for grubbing premiums were made in respect of 8 482 ha of apple-trees and 4 035 ha of pear-trees.

Budgetary expenditure

227. Expenditure of the EAGGF Guarantee Section in respect of fresh fruit and vegetables amounted to 83.8 million u.a. in 1975, 229.0 million u.a. in 1976 and is estimated at 121.5 million u.a. in 1977 or 1.8%, 4.1% and 1.7% respectively of the Guarantee Section's expenditure. The sum of 121.5 million u.a. can be broken down into 31.0 million u.a. on refunds and 90.5 million u.a. on intervention.

B — Processed fruit and vegetables

Supply situation

228. Production of processed fruit and vegetables in 1976 (3.3 million tonnes) was affected by the drought and was 12% down overall (tomato concentrate: -21%; skinned tomatoes: -10%; the exceptions were: tomato juice: +13.5% and preserved mushrooms: +3.5%). The reverse was true of processed fruit: jams, marmalades and jellies: +8%; preserved fruit: +25%; fruit juices: +18%.

229. Net Community imports of processed fruit and vegetables increased from 1.6 million tonnes in 1975 to 1.9 million tonnes in 1976. However, availabilities of tomato concentrate and skinned tomatoes dropped by about 20% in 1976; extra-Community trade in tomato juice slackened off in 1976. Consumer supplies of preserved mushrooms (+1%) and orange juice (+9%) increased in 1976, whereas those of lemon juice (-15%) and preserved peaches (-3.6%) dropped.

Prices and measures taken

230. Following the drop in world prices for tomato concentrate, refunds had to be increased in May and November 1976. The protective measures for preserved mushrooms, adopted in August 1974, were relaxed in 1976 and abolished on 1 January 1977. Prices of preserved peaches, apricots and prunes were relatively low, while the prices of other processed products remained relatively stable in 1976.

Budgetary expenditure

231. Expenditure of the EAGGF Guarantee Section in respect of processed fruit and vegetables was 6.5 million u.a. in 1975 and 15.4 million u.a. in 1976, and is estimated at 26.0 million u.a. in 1977, or 0.2%, 0.3% and 0.4% respectively of the Guarantee Section's total expenditure. The 1977 total of 26 million u.a. can be broken down into 20 million u.a. for expenditure on export refunds, 2.1 million u.a. on compensatory amounts for preserved tomatoes and 3.9 million u.a. for preserved pineapples.

11a. Live plants

232. The value of production in this sector (3% by value of final Community agricultural production in 1976) increased by 1.5% in 1976 (bulbs: +8%; nursery

products: +1%; cut flowers and potted plants: practically no change). Intra-Community trade in 1976 (1 182 million u.a.) increased by 12.5%, whereas imports from outside the Community (98.6 million u.a.) increased by 21% and exports to non-member countries (215.6 million u.a.) by 19%. Internal consumption, which appears to be favouring potted plants rather than cut flowers, now seems to be relatively stable.

12. Hops

233. In 1976, 8 502 hop growers, including 7 557 members of recognized producer groups, produced 39 900 tonnes, or 37% of world hop production and 0.1% by value of final Community agricultural production. Production is 11% down on that of 1975, following a reduction of 4.1% in area and a 7% decline in yields. In 1977/78, however, production is expected to rise by 12.1% following an increase of 14.7% in yields. There has also been quite a swing in favour of varieties rich in alpha acid.

234. Demand for beer is increasing by 3% in the world as a whole and by 1-2% in the Community; however, the world demand for hops is increasing by only 1%, while demand is stationary in the Community, as increasing use is made of hop extracts and varieties rich in alpha acid.

235. In 1976, the Community exported 46% of its production; on the other hand, its net exports of cones and powders (3.6 million tonnes) dropped by 18.6% and its net exports of hop juices and extracts (1.4 million tonnes) remained stationary. In 1976, contract prices increased by 6% and non-contract prices by 31%. In 1977, confronted with a surplus situation, the breweries have been more hesitant to conclude contracts in advance and producers are increasingly obliged to sell on the open market, where prices are therefore tending to fall.

236. On 17 May 1977, the Council adopted an amendment to the basic regulation, so as to strengthen the role of producer groups on the market, develop a contractual economy, encourage restructuring operations involving some reduction in area, grant production aid by groups of varieties and prohibit any expansion of areas for two years. The Council also adopted a Regulation on Community certification of hops.

237. The expenditure of the EAGGF Guarantee Section in the hops sector (price support) was 8 million u.a. in 1975 and 14 million u.a. in 1976 and an estimated 8 million u.a. in 1977, or 0.2%, 0.3% and 0.1% respectively of the Guarantee Section's total expenditure.

13. Milk and milk products

Milk production

238. In 1976, in spite of the drought, production of cow milk (93.6 million tonnes) rose by 1.8% following an increase of 0.8% in the total headage (24.9 million) and a 1% increase in yield. It is expected that this increase in production will continue in 1977. In 1976, milk supplies to dairies increased by 2.8%, resulting from the rise in production (1.8%) and the increase in the percentage delivered (89.4% compared with 88.5% in 1975).

Production and consumption of milk products

239. In 1976 the 1.1% increase in the production of drinking milk and fresh products (27.3 million tonnes) was accompanied by a 0.4% increase in *per capita* consumption (194.1 kg/head). Sales of ultra heat-treated and sterilized milk are increasing, as are sales of cream, whereas yoghurt consumption seems to be levelling off.

240. Butter production (1 741 million tonnes) increased by a further 4.6% in 1976, while consumption at market prices dropped, despite direct aid to United Kingdom consumers. The situation has not improved in 1977 and by the end of 1977 stocks will be at the same level as in 1976 (250 000 tonnes), in spite of the measures to increase consumption and exports.

241. Production of skimmed-milk powder (2 million tonnes) increased by 3.3% in 1976; only 12% of production was disposed of at the price fixed in the Community. A price reduction of more than 40% had to be accorded for 60% of the skimmed-milk powder used for the breeding and fattening of calves, while 6% was exported commercially with the aid of substantial refunds.

242. Cheese production (+1.9%) and consumption continued to increase in 1976. The production of whole-milk powder (384 000 tonnes, or 9.5%) and of condensed milk (1.4 million tonnes, or +7.1%) increased, mainly thanks to the boosting of exports, consumption of both products having remained stagnant for several years. Now that the import duties are bound under GATT, casein and caseinate manufacture (44.2 million tonnes in 1976) is only possible with substantial help from public funds.

World market situation

243. 1976 saw an increase in the quantities of milk products sold on the world market. After a slump, the prices of skimmed-milk powder gradually improved following the

drought in Europe and Australia, an increase in food aid and the introduction of policies aimed at controlling supply in the Community, Canada, Australia and Switzerland. In 1976 imports of skimmed-milk powder, butter and cheese increased by varying percentages in Japan, the developing countries and, in particular, the oil-exporting countries. In 1976, with the exception of butter and butteroil (+8%), world trade in milk products reached the 1973/74 levels (cheese: +12%; skimmed-milk powder: +65%) whole-milk powder: +16%; condensed milk: +24%. This trend has continued in 1977, but the world market remains very sensitive.

244. In 1976 milk production increased by 4% in the United States. Support prices having been increased by more than 9% in April 1977, it is estimated that milk production will rise by 2% in 1977, thereby putting pressure on stocks. At the end of June 1977 free intervention stocks amounted to 73 000 tonnes of butter, 24 000 tonnes of cheese and 238 000 tonnes of skimmed-milk powder. At the end of June 1976, there had only been stocks of skimmed-milk powder (178 000 tonnes). In Canada, where the 'quota sanctions' system was introduced in April 1976, the number of dairy cows has dropped by 4%, production by 1% and deliveries to dairies by 3.5% in 1976. A further substantial reduction was recorded in 1977; however, consumption of butter and Cheddar cheese continues to fall. The same consumer trends are found in Australia where, however, milk production dropped by 13% in 1976 because of unfavourable weather conditions and uncertainty as to future policies. In New Zealand, milk production increased by 10% in 1976 and butter and butteroil production increased by almost 45 000 tonnes, in spite of very real efforts to change the production pattern.

External trade

245. In 1976, increased exports of cheese (+26%), whole-milk powder (+19%) and condensed milk (+23%) enabled the Community to retain its share of the world market, namely 38%, 68%, and 92% respectively. In spite of a rise in exports of butter (+74%) and skimmed-milk powder (+15%), the Community share of the world market in these products remained very low (25% and 23%).

246. In 1976, butter imports into the Community (132 000 tonnes) dropped by 17.5%, whereas cheese imports increased by 8%. Imports from New Zealand under Protocol 18 of the Accession Treaty amounted to 122 000 tonnes of butter and 30 000 tonnes of cheese.

Prices

247. The milk market being highly competitive, it was sometimes difficult for producers to pass on their various cost increases and they were therefore obliged to offer larger quantities of butter and skimmed-milk powder for intervention.

248. Consumer prices varied greatly from one Member State to another; in 1976 price rises ranged between 2.8 and 35.9% for drinking milk, between 5.7 and 31.9% for butter, and between 4.9 and 47.1% for cheese.

Economic aspects of the measures taken

249. From 1 January 1976, aid for skimmed milk for use in animal feed was fixed at 3.39 u.a./100 kg, and as from 1 May 1976 at 4.00 u.a./100 kg; aid for skimmed-milk powder for use in animal feed was increased from 36.50 u.a./100 kg on 1 January 1976 to 38.00 u.a./100 kg on 1 April 1976 and to 39.00 u.a./100 kg on 1 May 1977. Aid for milk processed into casein was increased from 4.8 u.a./100 kg on 1 January 1976 to 5.30 u.a./100 kg on 1 April 1976 and 5.55 u.a./100 kg on 1 May 1977. In addition, between 24 August 1976 and 31 May 1977, aid of 5.50 u.a./100 kg was granted for skimmed milk for use in animal feed in regions affected by the drought. From September 1977 a special aid was introduced for skimmed-milk powder for use as feed for animals other than young calves. The use of skimmed-milk powder for animal feed was thus substantially stepped up, particularly since one condition for granting the aid was that the minimum skimmed-milk powder content of the compound feedingstuffs be 60%.

250. In 1976, 257 000 tonnes of butter were bought in by intervention agencies; at the same time, 107 000 tonnes were removed from storage under special measures and 38 000 tonnes as food aid. At the end of 1976, public stocks of butter amounted to 176 000 tonnes. During 1976, aid to private storage was granted in respect of 242 000 tonnes of butter; however, at the end of 1976, only 79 000 tonnes of butter remained in storage. In 1976, 620 000 tonnes of skimmed-milk powder were bought in by the intervention agencies; at the same time, 638 000 tonnes were removed from intervention storage; of this quantity, 512 000 tonnes were removed under special measures, 78 000 tonnes for export and 48 000 tonnes as food aid. At the end of 1976, public stocks of skimmed-milk powder were 1.1 million tonnes.

251. There were scarcely any intervention measures in respect of Grana and Parmesan cheese; however, aid for private storage, introduced in 1974, was again granted in 1976 and 1977.

252. In 1976 the food-aid programme amounted to 45 000 tonnes of butteroil and 150 000 tonnes of skimmed-milk powder and, in 1977, to 245 000 tonnes of butteroil and 105 000 tonnes of skimmed-milk powder.

253. As from 5 September 1977, the method for calculating monetary compensatory amounts was revised so as to take the basic product, the milk, more into consideration, rather than the value added by the processing industries.

Budgetary expenditure

254. Expenditure by the EAGGF Guarantee Section in respect of milk and milk products amounted to 1 149.8 million u.a. in 1975, 2 051.5 million u.a. in 1976 and an estimated 2 484.9 million u.a. in 1977, or 24.3%, 36.8% and 35% respectively of the Guarantee Section's total expenditure. The total of 2 484.9 million u.a. can be broken down into 968.7 million u.a. for refunds, 672.2 million u.a. for storage expenditure, 20.6 million u.a. for premiums for the non-marketing of milk or conversion to beef and veal production and 823.4 million u.a. for price support, from which 35.3 million u.a., representing the co-responsibility levy paid by producers, has been deducted.

14. Beef and veal

Production

255. About 3 million farms, on the 60% of the Community's UAA that is used for fodder crops, are engaged in beef and veal production, which represented 15.8% of final agricultural production and 14% of world beef and veal production in 1976: the Community was the second largest producer after the United States. At the end of 1976, the number of cattle was 76.9 million (−0.5%) including 21.2 million calves. The cattle count should be at the bottom of its cycle at the moment.

256. The increase in the average slaughter weight of beef cattle in 1976 (+2%) did not make up for the decline in slaughterings (−3.7%), since production of beef in 1976 (5.8 million tonnes) was down by 1.2%. On the other hand, with an increase in the average slaughter weight of 6.6% and in spite of a decline in slaughterings of 2.8%, production of veal (0.7 million tonnes) increased by 3.7%. However, total net production of beef and veal in 1976, at 6.5 million tonnes, was 1.2% below the 1975 figure. In the first six months of 1977, compared with the same period of 1976, there was a decrease in beef production of 4% and an increase in veal production of 6%. From '1968' to '1975', production of beef and veal increased by 2% per year.

257. There has, moreover, been a change in the structure of cattle rearing, with fewer breeders, larger herds (the Community average in 1975 was 25 head per holding) and specialization in three main types of production: cull cows—young calves, adult cattle raised on grass and young male cattle fattened in production units. The proportion of slaughterings of young male cattle is rising and represents about one-third of slaughterings of beef cattle.

Consumption

258. In 1976 total consumption of beef and veal (6.5 million tonnes) remained at the same level as in 1975. After a substantial rise from 1964 to 1971, *per capita* consumption, except in 1974, seems to have steadied at about 25 kg. Beef and veal consumption appears to be very sensitive to the economic situation; a large increase should not therefore be expected in 1977, even though pigmeat appeared less attractively priced in autumn 1977.

Self-supply and trade

259. The Community's rate of self-supply, calculated on the basis of gross domestic production, fell from 100.8% in 1975 to 99.0% in 1976, giving a net import balance of 177 000 tonnes. Although a decrease in the rate of self-supply is probable in 1977 and 1978, the quantities of intervention beef still in stock (440 000 tonnes bone-in) depress the market.

260. Intra-Community trade in 1976 (1.1 million tonnes) was down 11.1%. Imports from non-member countries have been controlled under the safeguard clause since 1974, and were 432 000 tonnes in 1974, 255 000 tonnes in 1975 and 377 000 tonnes in 1976, including 171 000 tonnes of frozen meat in 1974, 77 000 tonnes in 1975 and 154 000 tonnes in 1976. The Community's main suppliers in 1976 were Argentina and Uruguay, with some 45% of total imports and 60% of frozen meat, and the Eastern European countries with 20% of total imports. Community exports were up 8.6% at 200 000 tonnes in 1976. The Community's main customers, each taking about one-fifth, were the USSR and the Eastern European countries, the Mediterranean countries and the Arab and Middle Eastern countries.

Prices

261. The average Community market price in 1976/77 (102.91 u.a./100 kg) was above that of 1972/73 (92.11 u.a./100 kg), after the drop in 1974/75 (86.36 u.a./

100 kg). From March to September 1977 the increase continued to 107.65 u.a./100 kg, a rise of 6.7%. However, the 7.3% rise between 1975/76 and 1976/77 corresponds to a reduction in the percentage of the guide price represented by the market price, which fell from 88.1% to 86.7% during the same period. However, in mid-September 1977, Community market prices recorded for all qualities of beef cattle were nearly 90% of the guide price.

262. In 1976, import prices of live animals and fresh or frozen meat rose by 7%, but remained below the 1973 level. The prices of frozen meat steadied in 1976 at the very low level of 1975, but an improvement was recorded in 1976/77. Consumer prices rose by 15% in 1976.

Economic aspects of the measures taken

263. The basic accession compensatory amounts for beef cattle, applied in trade with the United Kingdom and Ireland, were 8.93 u.a./100 kg live weight in 1976/77 and 4.63 u.a./100 kg live weight in 1977/78.

264. The Community took a number of measures, which took into account the interests of non-member countries, to redress the imbalance between supply and demand. The safeguard clause introduced in July 1974 was relaxed by the EXIM procedure, then the linking system and finally removed on 1 April 1977. In order to clear the internal market, it was decided to authorize refunds with provision for advance fixing, direct buying-in by the intervention agencies (410 000 tonnes in 1975; 360 000 tonnes in 1976) and aid for the private storage of carcasses and forequarters of beef cattle, with provision for boning. In addition, consumption was stimulated by publicity campaigns in 1975, sales at reduced prices to social organizations in 1975 and 1976 and to social welfare categories in 1975 and, finally, the sale of 40 000 tonnes of intervention meat on the Italian market in 1977. Only the United Kingdom made use of variable slaughter premiums for certain beef cattle, while the granting of calving premiums in Italy continued. In October 1977 the Commission put a report before the Council on the respective merits of the various measures taken and a communication on the overhaul of the common organization of the market in beef and veal.

265. The Community has, furthermore, given effect to a number of international agreements. Under the GATT the Community opened annual import quotas of 38 500 tonnes of frozen boned beef at the rate of 20%, and 30 000 heifers and cows of certain mountain breeds and 5 000 head of certain alpine breeds, not intended for slaughter, at the rate of 4%. Under the Lomé Convention a system was established for

exemption from customs duties and a temporary reduction of other import charges for 27 532 tonnes of boned beef and veal from West Africa. Other agreements involve Austria, Sweden, Switzerland and Yugoslavia. The Community has also agreed to the advance fixing of the levy on chilled meat imported from distant non-member countries.

Budgetary expenditure

266. Expenditure by the Guarantee Section of the EAGGF in respect of beef and veal amounted to 980.0 million u.a. in 1975 and 643.2 million u.a. in 1976 and is estimated at 495.4 million u.a. in 1977, or 20.7%, 11.5% and 7% respectively of total expenditure by the Guarantee Section. The sum of 495.4 million u.a. includes 110.4 million u.a. for export refunds, 231.3 million u.a. for public and private storage and 153.7 million u.a. for premiums.

15. Pigmeat

Production

267. About 2.7 million farms reared and fattened 70 million pigs in 1976, average herd numbers varying between 170 in the United Kingdom and 7 in Italy. Only 71 000 farms (2.7% of the total) had more than 200 pigs in December 1975; however, between 1973 and 1975, the number of holdings with more than 200 pigs rose by 12.7% and the number of holdings with more than 50 breeding sows increased by 23.8%.

268. Between December 1975 and December 1976, the number of pigs (70.1 million) went up by 2.3% and the number of sows (8.3 million) by 3.9%. Community production of pigmeat, at 8.5 million tonnes or 13% by value of final agricultural production and 38% of Community meat production, gave the Community second place in the world after China. Production increased by 2.7% in 1976 over 1975 owing to an increase in slaughterings of 1.6% and an increase in the average slaughter weight of 0.9%. This increase continued in the first half of 1977, but slowed down in the second half of the year.

Consumption

269. Total consumption of pigmeat (8.6 million tonnes) increased by 1.6% in 1976, and *per capita* consumption reached 33.3 kg (52 kg in Germany and 18 kg in Italy).

Self-supply and external trade

270. The rate of self-supply increased from 97.9% in 1975 to 98.8% in 1976 (320% in Denmark and 56.6% in the United Kingdom). The Community thus has an external trade deficit of 110 000 tonnes, 30.4% lower than in 1975.

271. Intra-Community trade continues to increase (by 4.3% in 1976) following the integration of the market, and data for the first half of 1977 confirm this trend.

272. In 1976, Community imports (311 000 tonnes) dropped by 20.7% and exports (201 000 tonnes) fell by 14.1%. The Community continued to import mainly fresh and salted meat (43.6% of imports) and lard (18.5%) and to export processed and preserved products (60.3% of exports) and fresh and salted meat (25.2%). During the first half of 1977 the Community had a positive balance for the first time (2 000 tonnes) since imports fell (-23.1%) while exports rose (+10.3%).

Prices

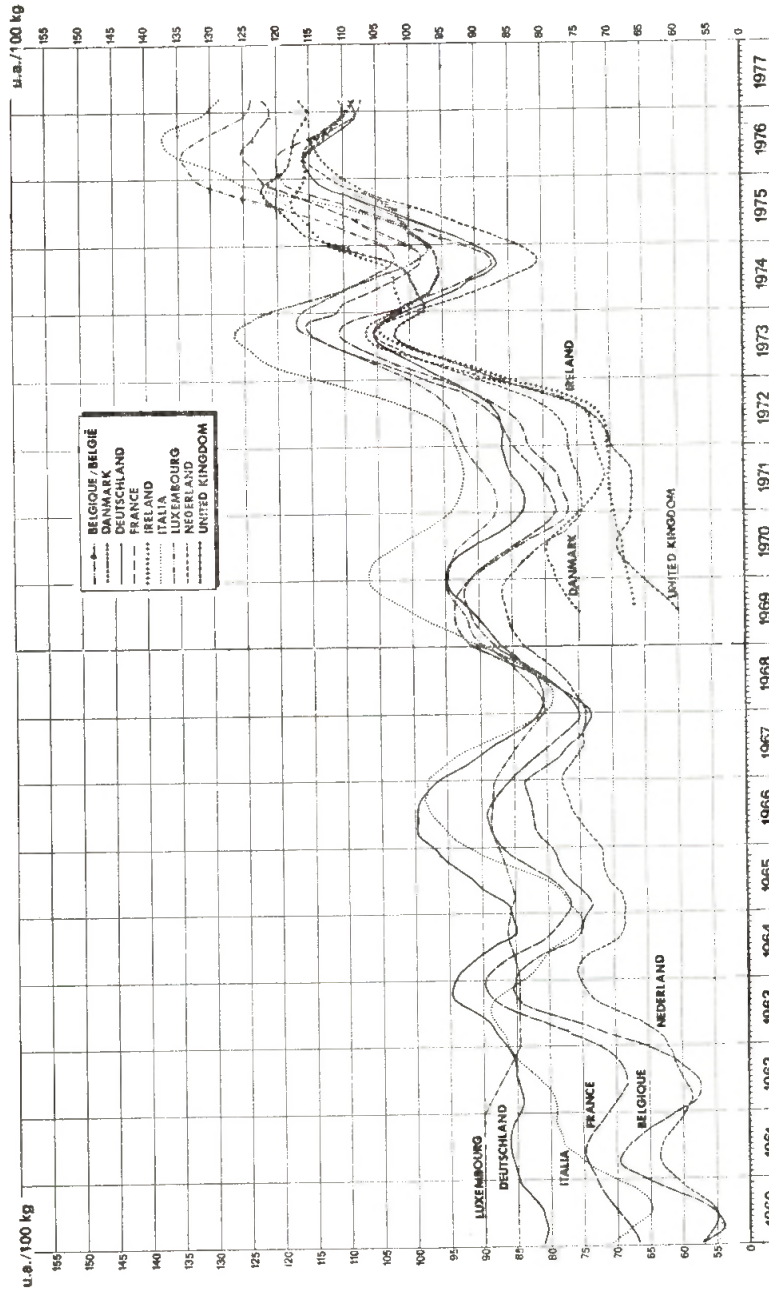
273. The basic price, which had been 106 u.a./100 kg deadweight since October 1975, was raised to 114.48 u.a./100 kg on 15 March 1976 (+8%) owing to the exceptional trend of certain production costs, without waiting until 1 November 1976, the normal date for entry into force of the basic prices. For the 1977/78 marketing year, the basic price has been increased by 5%. The sluice-gate prices, which depend on the world prices of feed grains, underwent a moderate increase in 1976 but started to fall in February 1977.

274. The market prices of pig carcasses reached a peak during the first half of 1976, and then fell until support measures were adopted in April 1977 in the form of aid for private storage. These measures were abolished at the end of September 1977, when the market prices were again more than 103% of the basic price. The rise in pigmeat prices will probably continue in 1978. The trend of pig prices in the United States is comparable to that in the Community.

275. It is difficult to compare consumer prices between the Member States, but it can be said that in general, they are constantly rising and reflect hardly at all the cyclical falls in producer prices.

276. During 1977 the world prices of cereals and proteins fell, while the price of cereals rose in the Community. Other production costs (25-33% of total costs) followed the general trend of agricultural and other costs in each Member State.

Evolution of pork prices in EC countries¹
Moving averages over 12 months² (u.a./100 kg slaughtered weight)



GRAPH 7

¹ Prices for the reference quality.
² Calculated following conversion of the original prices into u.a. at the exchange rate valid for each of the months in question.

Economic aspects of the measures taken

277. Additional amounts had not been applied for 14 months, but at the end of January 1977 they had to be reintroduced in trade with non-member countries. Similarly, refunds for fresh meat were again introduced in February 1977, but they were abolished at the end of October 1977. Export refunds for processed products are still in force in order to maintain traditional trading patterns.

278. The intervention measures adopted in April 1977 in the form of private storage aid concerned 70 000 tonnes (or 0.8% of annual Community pigmeat production), 70% of which was meat stored frozen and 30% dried or dried and smoked hams.

279. After some outbreaks of swine fever in the Netherlands in March 1977, exports of pigs and pigmeat from that country were restricted. The Commission therefore supported the Netherlands market from 23 March to 5 April 1977 by granting aid for the private storage of 7 886 tonnes of fresh carcasses and cuts of pork stored frozen.

Budgetary expenditure

280. Expenditure by the Guarantee Section of the EAGGF in respect of pigmeat amounted to 53.8 million u.a. in 1975 and 27.9 million u.a. in 1976 and is estimated at 90 million u.a. in 1977, or 1.1%, 0.5% and 1.3% respectively of expenditure by the Guarantee Section. The total of 90 million u.a. includes 63 million u.a. for export refunds and 27 million u.a. for intervention. It is possible that the final figure will not reach 90 million u.a.

16. Eggs**Market situation**

281. Community production of eggs in shell rose by 0.2% in 1976 (3.8 million tonnes or 3.9% by value of final agricultural production and 21% of world egg production), while the number of laying hens rose by 0.3% and the number of utility chicks hatched from laying breeds rose by 1.3%.

282. Total human consumption in 1976 (3.5 million tonnes) remained at the 1975 level, and *per capita* consumption was 14 kg.

Self-supply and trade

283. Community imports (31 000 tonnes in 1976) and exports (37 000 tonnes), mainly under the inward processing system, are very low (altogether, 1.8% of production); the rate of self-supply is permanently around 100%. Intra-Community trade (300 000 tonnes in 1976), mainly exports to Germany (200 000 tonnes), represented less than 8% of production.

Prices

284. Market prices were much higher in 1976 than in 1975 (between 13 and 37% according to Member State); but it should be noted that at the same time the prices of compound feeding stuffs rose considerably. On the other hand, although consumer prices also rose in real terms, this rise (between 8 and 20% according to Member State) was smaller than that in market prices.

Economic aspects of the measures taken

285. High world prices for feed grains caused sluice-gate prices to be set at a high level in 1976, whereas the levies were reduced. In 1977, the situation was reversed after the drop in world prices for feed grains.

286. Refunds, granted up to 1 May 1976 for eggs in shell only (12 u.a./100 kg), were extended after that date to egg products (between 10 and 40 u.a./100 kg according to product). Refunds for eggs in shell only were subsequently set at 9.5 u.a./100 kg on 1 June 1976, then at 13 u.a./100 kg on 15 July 1976 and finally at 10 u.a./100 kg on 15 April 1977. Three-months' advance fixing is permitted for eggs in shell only.

Budgetary expenditure

287. Expenditure by the Guarantee Section of the EAGGF in respect of the combined eggs and poultrymeat sectors amounted to 8.4 million u.a. in 1975 and 13.1 million u.a. in 1976 and is estimated at 25 million u.a. in 1977, or 0.2%, 0.3% and 0.4% respectively of expenditure by the Guarantee Section. The total of 25 million u.a. is devoted entirely to refunds.

17. Poultrymeat

Market situation

288. Production of poultrymeat (3.3 million tonnes), or 4% by value of final agricultural production and 21% of world production of poultrymeat, which is highly concentrated and integrated, increased by 4.5% in 1976 (+0.8% in Italy and +20.9% in Ireland). The number of breeding chicks hatched from table breeds (1.8 milliard in 1976) increased by 8.2% in 1976 (+0.5% in Belgium and +20.1% in Ireland).

289. Total human consumption of poultrymeat (3.2 million tonnes) increased by 1.7% in 1976, *per capita* consumption being around 12 kg. Poultrymeat is the cheapest type of meat offered to the consumer and consumption is influenced by the availability and prices of beef and veal and pigmeat.

Self-supply and trade

290. The Community's self-supply rate was 104% in 1976, giving a net export balance of 116 000 tonnes. Imports (69 000 tonnes or 2% of production) rose by 4.6% in 1976, while exports (185 000 tonnes or 6% of production) rose by 34.1%. Intra-Community trade (258 000 tonnes in 1976 including 172 000 tonnes of chickens) fell by 5.8%; the main trade flow is from the Netherlands to Germany, which imports 45% of its consumption.

Prices

291. Market prices reached a peak in summer 1976 and, in spite of a fall since then, remained at a reasonable level bearing in mind the cost of animal feed. The average increase in the market price of chickens in 1976 ranged from 1.2% in France to 18.5% in Italy. Consumer prices did not always follow the variations in market prices; in 1976 they fluctuated in the range -1.9% in Germany to 19.9% in Italy. When considering these prices in national currencies inflation should of course be taken into account.

Economic aspects of the measures taken

292. In 1976 sluice-gate prices rose as a result of high world feedgrain prices and levies fell. The situation was reversed in 1977. Refunds, for which advance fixing is available (three months), are still limited to chickens exported to certain non-member countries. The refund was 5 u.a./100 kg up to 31 May 1976; it was then set at 8.5 u.a./100 kg up to 1 April 1977, when it was set at 12 u.a./100 kg.

293. The Council has also adopted measures to limit the water content of frozen chickens.

Budgetary expenditure

294. Expenditure by the Guarantee Section of the EAGGF in respect of the combined eggs and poultrymeat sector was 8.4 million u.a. in 1975 and 13.1 million u.a. in 1976 and is estimated at 25 million u.a. in 1977, or 0.2%, 0.3% and 0.4% respectively of expenditure by the Guarantee Section. The 25 million u.a. is devoted entirely to refunds.

18. Silkworms

295. Following the 1975 slump, only 7 265 boxes of seed were started in 1976 as against 15 222 in 1975; they yielded 175 tonnes of cocoons (390 tonnes in 1975). Owing to a sharp increase in the world price for raw silk (LIT 24 000 in 1976 as against LIT 16 000 in 1975) and the grant of additional aid, 8 664 boxes were started in 1977 to produce 210 tonnes of cocoons. For 1977/78 the aid has been set at 40.20 u.a. per box (40 u.a. per box in 1976/77); additional aid of 14.07 u.a. per box (15 u.a. in 1976/77) is granted if the cocoons are marketed by a recognized producer group. Expenditure by the Guarantee Section of the EAGGF was 0.8 million u.a. in 1975 and 0.6 million u.a. in 1976 and is estimated at 1.2 million u.a. in 1977.

19. Products not subject to a common market organization

(a) Agricultural alcohol

296. Production of alcohol in 1976 (7 million hl) was 6.9% down with variations according to origin (wine: -59.5%; potatoes: -29.9%; molasses: +13%). France (34%) and Italy (29%) are the Community's two principal producers, owing to their production of alcohol from sugarbeet and molasses in 1976. Consumption is stationary, and falling in the case of potable spirits. Alcohol prices rose again in 1976.

297. In the absence of a common market organization, the alcohol market is becoming more and more disorganized. After the adjustment of the German monopoly, which substantially opened up the market, the Commission introduced on 14 April 1976 a countervailing charge on French alcohol, which is highly subsidized by the French monopoly. Between 17 February and 31 December 1976, 278 000 hl of alcohol, or 28% of

German production were imported into Germany, including 201 000 hl from Italy, 43 000 hl from France and 33 000 hl from the Benelux countries.

(b) *Potatoes*

298. Potato starch, dehydrated potatoes and processed potato products are subject to a common market organization. The marketing of seed potatoes is subject to a Council Directive. A proposal for a common market organization for all fresh and processed products was submitted to the Council on 23 January 1976.

299. Potatoes are grown by 2.4 million farmers. Community production in 1976 (29 million tonnes or 5% by value of final agricultural production) fell by 13.2% following a reduction in yield of 15.9% caused by the drought, while the area under cultivation increased by 0.6%. It should, however, be noted that in the last 20 years the area under potatoes has fallen by 60%, while the area sown with early potatoes has remained practically steady and even rose in 1976 (+4.2%).

300. Total human consumption (19.6 million tonnes or 60% of total consumption) was down by 17.5% in 1976, continuing the fall that has been taking place for the last 20 years. The quantity fed to animals (5.2 million tonnes including 3.6 million tonnes in Germany) also fell by 39.6%, while the quantity processed for human consumption (2.8 million tonnes) stood up to the 1975/76 shortage much better (-2.9%).

301. In a normal year the Community is self-supplying (101% in 1974/75); following the 1975/76 shortage, the rate of self-supply was 97.6%, giving a net import balance of 426 000 tonnes. Intra-Community trade (1.7 million tonnes in 1976), mainly exports from France and the Netherlands, increased by 10%.

302. Prices again fluctuated considerably (19.07 u.a./100 kg on 26 September 1976, wholesale at Rotterdam, and 9.23 u.a./100 kg on 2 June 1977). In order to alleviate the shortage and the high prices, the Council decided to suspend the CCT duties from 1 August 1976 to 15 April 1977 for main-crop potatoes, from 1 January to 31 March 1977 for early potatoes and from 12 September 1976 to 28 February 1977 for seed potatoes.

(c) *Sheepmeat*

303. The Community flock (43.5 million in 1976, of which 48% in the United Kingdom) represents 4% of the world flock; 90% is kept for meat production and

10% for milk production and it has been fairly stable since 1968 (+0.4%), except in the original Community countries, where it is growing (+1.2%). Two-thirds of the sheep (28 million) are in less-favoured regions within the meaning of Directive 75/268/EEC. Community production (501 000 tonnes or 7.5% of world production) fell by 2.7% in 1976 mainly as a result of a reduction in slaughterings (-2%). The long-term production trend, however, is stable.

304. Consumption of sheepmeat is fairly stable overall (800 000 tonnes) with, between 1962 and 1976, a substantial drop in the United Kingdom (-45%) and a sharp increase in Germany (+170%), France (+70%) and Italy (+26%). *Per capita* consumption is about 3 kg (9 kg in Ireland and 0.2 kg in the Netherlands).

305. With net meat imports of 261 000 tonnes in 1976 the Community is responsible for one-third of world trade. However, the Community's rate of self-supply is improving (59.4% in 1973 and 64% in 1976); imports (278 000 tonnes in 1976 of which 81.4% from New Zealand and 81% to the United Kingdom) are declining and exports (6 000 tonnes) are negligible. Intra-Community trade (82 000 tonnes) is increasing and consists mainly of exports to France (40 to 50 000 tonnes).

306. Sheepmeat prices in the Community are determined mainly by the United Kingdom and French markets; since 1968, prices had been 50% lower on the United Kingdom market than on the French market. However, in 1976 prices on the United Kingdom market increased by 13.4% and prices on the Irish market by 22.5% while those on the French market increased by only 5.4%; accordingly, in September 1977, the difference between the two major markets was 40%.

(d) Honey

307. Honey is not subject to a common market organization; an import duty of 27% is the only charge applied. The Member States have widely varying approaches depending on their supply situation; France, for example, imposes quantitative restrictions in respect of some origins and a safeguard clause in respect of others.

308. The Community produced 33 000 tonnes of honey in 1975/76, including 10 000 tonnes in France and 9 000 tonnes in Germany. Consumption was 109 000 tonnes, including 58 000 tonnes in Germany and 15 000 tonnes in France. Since intra-Community trade was practically zero and exports negligible, imports were 79 000 tonnes in 1975/76 (70 000 tonnes in 1974/75).

309. From 1968 to 1973 the Community granted aid to beekeepers in the form of premiums for denatured sugar for feeding bees in winter. This aid was abolished in 1974 because of the shortage of sugar. In 1976 the Community granted direct aid of 2.5 million u.a. to beekeepers' associations from special funds voted by the European Parliament and not from the EAGGF Budget. A premium for denatured sugar for feeding bees in winter was again provided for in 1977.

(e) *Wood*

310. The Community's external deficit in wood and wood products was 8.5 milliard EUC in '1975' taking a three-yearly average, of which 47% in wood charcoal and wooden articles and 53% in paper, while intra-Community trade exceeded 3 milliard EUC. Although the Community has a high rate of self-supply in logs, wood-based panels and paper and paperboard (90.2%; 83.5% and 76.2% in '1975'), the rate for sawn timber and pulp is lower (54.4% and 42.5% in '1975'). Since 1961-65, Community net imports of paper and paperboard (+73%) and wood-based panels (+84%) have greatly increased while imports of logs have fallen (-31%).

311. Expenditure by the Guidance Section of the EAGGF covered 187 projects between 1964 and 1976 for a total sum of 46.3 million u.a., but this was only 2.7% of all structural improvement projects.

D — Obstacles to the common agricultural market

312. Free trade between Member States and competition between traders and between producers are sometimes affected by measures which are particularly apt to impede the development of a common agricultural market. Such measures are an obstacle to the specialization of production in those regions which, given their economic and natural situation, are the most likely to achieve the goal of increasing productivity in agriculture.

313. Quite apart from the many different ways in which the economic environment can influence undesirable developments, two sets of obstacles merit special attention:

1. Monetary compensatory amounts tend to act as a barrier between Member States and serve to protect special national interests.
2. The extent to which State aids are used as a means of achieving national agricultural policy aims is still causing concern. Closer study reveals that relatively great disparities exist between Member States as regards the definition of these aims and the use of State aids.

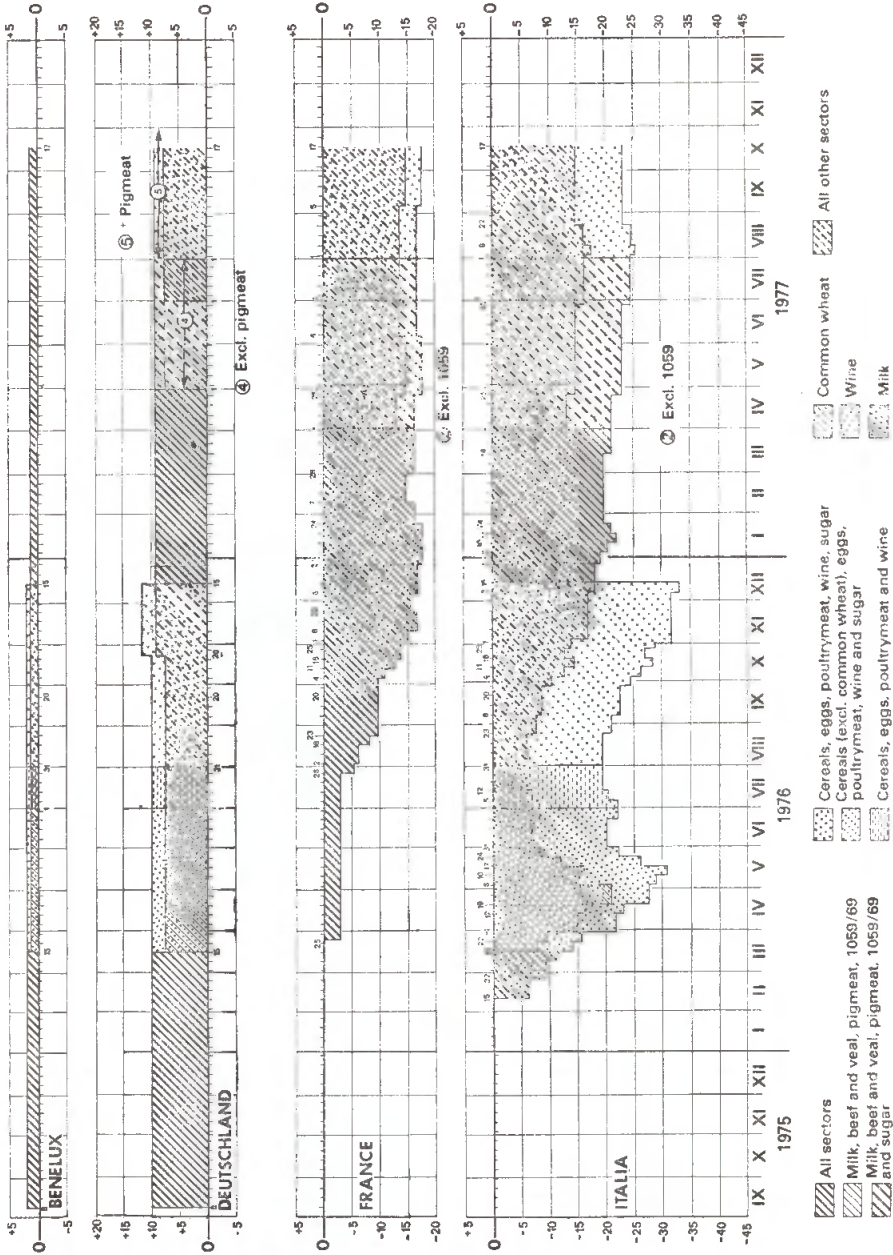
1. Monetary compensatory amounts

314. In 1977 problems caused by divergences in Member States' currencies have continued to play havoc with the principle of the single common agricultural market. As regards the 'snake' currencies, the Danish krone was devalued twice in 1977, by 3% in April and by 5% in August. The representative rate, however, was aligned with the central rate, so it did not prove necessary to introduce monetary compensatory amounts (MCAs). As regards the floating currencies, the pound and French franc kept fairly stable, while the lira tended to float downwards.

315. Efforts to reduce MCAs were continued in 1977; the representative rates were adjusted by 7.3 points for Ireland on 17 January, and then again at the time of the fixing of common agricultural prices the rates were reduced by 7 points for Ireland, 3 points for France, 8 points for Italy, 1.8 points for Germany and 4 points for the United Kingdom. On 1 October 1977 the rates of the MCAs were as follows: Germany +7.5%; Benelux +1.4%; France -14.5%; Italy -15.1%; Ireland -4.3% and United Kingdom -31.9%. Only Denmark has no MCAs.

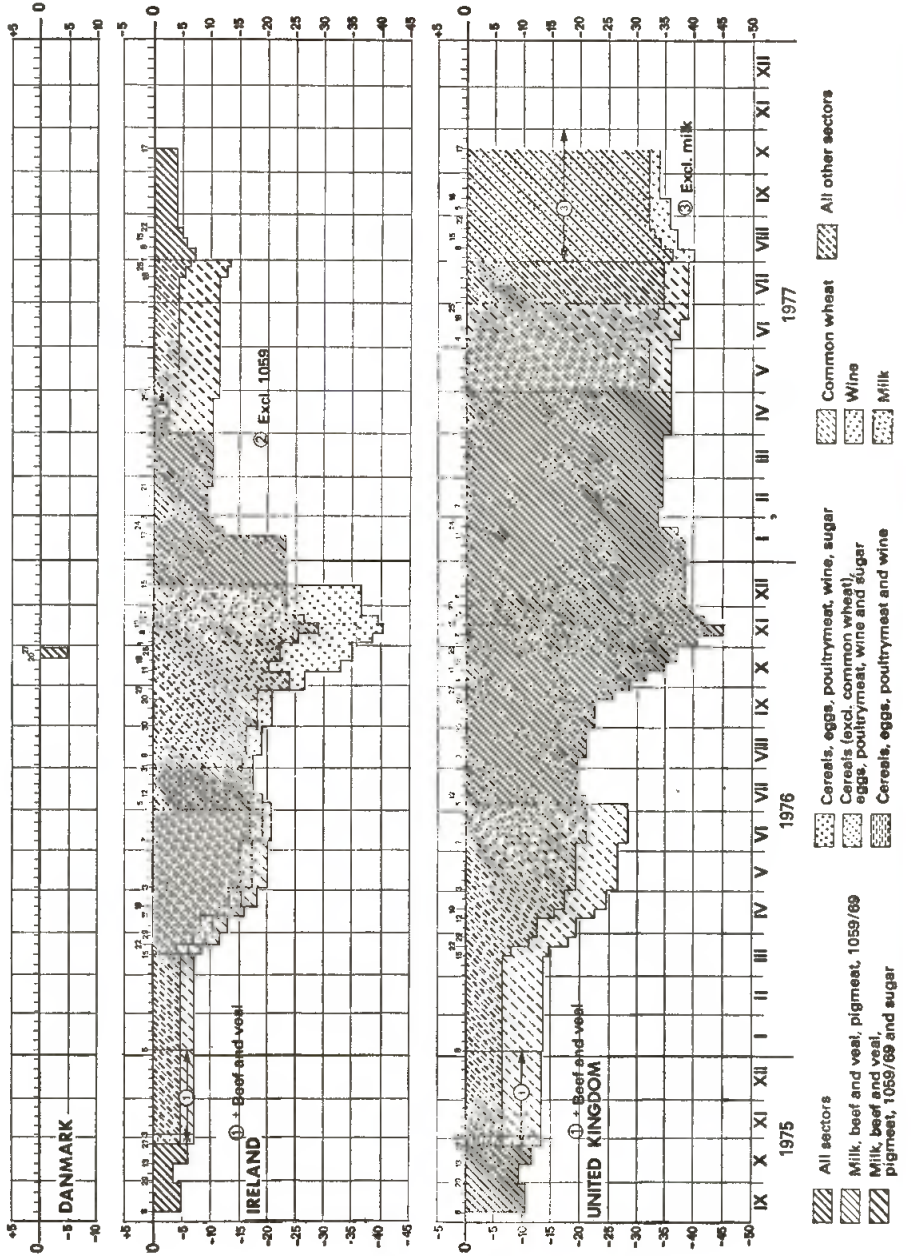
316. On 5 November 1976 the Commission presented to the Council a regulation on the automatic reduction of MCAs. Following discussions of this proposal, the Commission presented to the Council in November 1977 another proposal which provides for a

Rates (in %) used for the calculation of monetary compensatory amounts
1975-1977



GRAPH 8.a

Rates (In %) used for the calculation of monetary compensatory amounts
1975-1977



GRAPH 8.b

simplified system whereby there would be an annual reduction of one-seventh in the MCAs existing on the date of the regulation's entry into force and any MCAs introduced since the last annual fixing of representative rates would be abolished. The two measures may not, however, result in the representative rates being adjusted by more than 5% per year.

317. The deliberations of the Commission in this field have caused it to conclude that the existing system should be altered to improve its operation. It has submitted to the Council a proposal for the amendment of Regulation (EEC) No. 974/71, whereby MCAs would be calculated on the basis of prices lower than the support price for the products concerned, depending on the degree of rigidity of the intervention mechanism and on the particular market situation, provided that there was little likelihood of disturbing the market in the products in question. This draft regulation is still under discussion by the various Community Institutions. The Commission has also taken steps to adjust MCAs within its own sphere of competence. With effect from 5 September 1977 it has:

- abolished the MCAs for lactoserum and lactose and for certain cheeses, and
- reduced the MCAs for other milk products for which no intervention measures are provided, by adjusting the derivation coefficients; in future, no account will be taken of processing costs when the derivation coefficients are determined.

318. However, the Commission has been obliged to introduce new MCAs in some other sectors where the market situation was such that the lack of MCAs was leading to distortions of competition and deflections of trade. MCAs have therefore been introduced for isoglucose, a product which can easily be substituted for sugar, and for certain processed products not listed in Annex II to the Treaty, because the difference in the prices of the basic products was so great that conditions of competition in the processed product sector were being seriously affected.

2. State aid

319. The table II E/3.1 shows the Member States' national expenditure on State aid in respect of production (including advisory services and research), processing, marketing and consumption of agricultural and food products in 1975. This expenditure totals 9 231 million u.a.,¹ that is, double the amount of Community expenditure on the common agricultural policy. Such national aid measures in respect of agriculture number

¹ This sum includes the social security aids notified by Member States in the framework of the inventories; such aids represent about 1 700 million u.a.

about 2 500 and are kept under continuous review by the Commission, pursuant to Article 93 (1) of the EEC Treaty.

320. Apart from the 1 117 million u.a. granted for the consumption of agricultural products and some 500 million u.a. representing the national contributions towards financing Community measures under the common agricultural policy, this expenditure represents the cost of Member States' own national agricultural policies.

321. From one Member State to another, there are considerable differences in the volume of national aid and in its allocation to the various activities encouraged. This is mainly accounted for by the differing levels of agricultural development in the various regions or countries, the variety of production and marketing structures, the degree of sectoral organization, and the ways in which the aims and resources of national agricultural policies differ from one Member State to another.

322. In general, permanent aid predominates over short-term aid. In 1975 the latter category included the aid granted to horticulture under glass to facilitate adjustment to the changing energy market and, in 1976, aid to make good damage caused by the drought.

323. Many of the permanent national aid measures are intended to facilitate the development of agriculture and help agriculture find its place in the general economic context; such aid is granted towards research, advisory services, modernization, rationalization, reorganization, conversion, etc. This type of national aid is in line with the aims of the common agricultural policy, given the present stage of development of the agricultural sector, provided that the aid is indeed geared to the desired objective and does not alter the conditions of trade to an extent that is contrary to the common interest.

324. On the other hand, where State aid takes the form of operating aid or income subsidies without any undertaking on the part of the beneficiaries, the 'protective' effects tend to prevent agriculture from finding its proper place in the general economic context and delay the achievement of the aims of the common agricultural policy. At the same time, such aid is very likely to affect trade between Member States and to distort competition; it thus constitutes a considerable barrier to the implementation and operation of the common agricultural policy, both as regards markets and prices and as regards the necessary adaptation of production, processing and marketing structures.

E — Legislation on product quality

325. In 1977, after discussions which in some cases had lasted over 10 years, the Council adopted certain important instruments on the harmonization of technical legislation relating to the quality of agricultural production.

326. In the *veterinary field*, efforts continued to ensure the free circulation of healthy products presenting no risk to human or animal health in the Community. Trade in meat-based products was made subject to health requirements and solutions were found to the problems connected with the derogations which the Act of Accession provides for in respect of trade with the new Member States.

327. Secondly, the Council turned its attention towards the only valid way of removing, in the long term, the barriers which directives on products can reduce but cannot eliminate: the harmonization of measures to combat animal diseases and the qualitative improvement of Community livestock. Two important measures were adopted: one relates to the Community financing for certain emergency measures to deal with outbreaks of exotic diseases in the Community; the other provides for Community financing to accelerate the eradication of brucellosis, tuberculosis and leucosis; Community financing will be available where national programmes are accelerated and meet Community criteria designed to ensure their effectiveness.

328. Livestock rearing in the Community was disturbed by an outbreak of classical swine fever in the Netherlands in the first six months of the year. The Commission adopted measures regulating trade, thus preventing the spread of the disease to other Member States; at the same time these measures contributed to the effectiveness of the campaign in the Netherlands, which succeeded in smothering the disease much more rapidly than on the previous occasion.

329. For the first time the Council tackled the question of *animal husbandry* and took steps to improve the quality of Community livestock by adopting a Directive on intra-Community trade in pure-bred breeding cattle. The instrument defines a common framework within which trade in animals can be increased, along lines which will ensure the maintenance of quality.

330. As regards *animal protection*, the Community continued its programme of measures which first began with the adoption of a Directive on the stunning of animals before slaughter. The Council adopted a Directive on the international transport of animals to ensure satisfactory conditions for the animals during transport. This Directive

is a step towards implementation of the Council of Europe Convention on transport between the Member States of the Community and non-member countries. Preparations for Community accession to the Convention are continuing.

331. In the *feedingstuffs sector*, harmonization has been taken a step further by the adoption of a Directive on the marketing of straight feedingstuffs, which regulates these products (definitions of minimum standards, labelling rules) so as to ensure fair trading, product quality and information for users.

332. In the *plant health sector*, an extremely important stage has been completed with the adoption of Directive 77/93/EEC. This involves the introduction of detailed and complete arrangements governing plants and plant products traded between Member States or imported from non-member countries; this set of measures should lead to an expansion of trade—by eliminating in certain cases all prohibitions on imports—along lines which will ensure the maintenance of product quality and prevent the propagation of diseases.

IV. The consumer and the producer

333. The objectives of Article 39 of the EEC Treaty, and the instruments of the common agricultural policy employed to attain them, concern 8.5 million farmers and 259 million consumers throughout the Community. The impact on the latter of the general economic situation, trends in agriculture and the agricultural markets, the implementation of the common agricultural policy and the establishment and operation of the common agricultural market should therefore be examined. In many areas, however, the position of farmers and consumers does not result solely from measures inherent in the common agricultural policy but also from measures relating to other common or national policies.

A — The consumer

334. (1) In 1977 consumers were affected by the general economic situation (inflation, unemployment); (2) *per capita* consumption of food products was also influenced by harvest results and price trends and the slow but steady changes in consumer habits; (3) the Community continued to ensure the security of supply of most key products intended for human consumption; (4) prices within the Community were still relatively stable; (5) a number of specific measures in favour of consumers or certain groups of consumers were taken under the common agricultural policy.

1. Influence of the general economic environment on the consumer

335. In spite of the generally unsatisfactory economic situation, and in particular rising unemployment, disposable incomes continued to increase in 1977, but more slowly than in the previous year. *Per capita* wage increases averaged 10.8% between 1976 and 1977 (1975-1976: 12.8%). This average figure hides considerable variations between Member States, with increases ranging from 6.9% in Germany to 23% in Italy. In real terms, private consumption increased by about 2% in 1977, compared with 3.4% in 1976.

Although the upward movement of the general level of prices slowed down slightly in most Member States, the average rate of increase for the Community as a whole was almost the same as in the previous year. The implicit price increase for the gross domestic product of the Community was of the order of 14% in 1975, 9.1% in 1976 and 9% in 1977. The differences in inflationary trends among the Member States remained almost the same, and the rates varied from 3.6% in Germany to 13.8% in the United Kingdom and Ireland and 19.0% in Italy.

336. In 1977 the slowing down in the increase in consumer prices (noted since 1975) has continued. The implicit price index for private consumption in the Community is estimated to be 9.6% in 1977 compared with 9.9% in 1976 and 12.8% in 1975. But this average conceals considerable differences between Member States; for 1977 the range is estimated to be from 4% in Germany to 18.5% in Italy.

337. In 1975 the proportion of consumer expenditure on food products, beverages and tobacco represented about 26% of final consumer expenditure. The range for food products alone was from 17.1% in Germany to 31.4% in Italy.

338. The economic climate generally prevailing also influenced the tendency to save, which was less marked in 1977 in most Member States than in 1976. As a percentage of disposable household income, the range was from 13% (1976: 14.4%) in the United Kingdom to 24.7% (1976: 24.9%) in Italy.

2. Trends in consumption and consumer habits

339. As the total population of the Community has increased only very slightly in recent years, trends in consumption are affected above all by consumer habits. Trends observed in the past have continued: there has been a slight increase in *per capita* consumption of vegetables, citrus fruit, cheese, wine, eggs and all categories of meat. Consumption of sugar, fresh milk products and butter has remained stable. Conversely, there has been a drop in the consumption of bread grains, potatoes, all fruit (except peaches) and vegetable oils and fats.

340. For meat in particular, the effects of price elasticity of consumption have become visible in recent years. Consumption of beef and veal has increased far more slowly than consumption of pigmeat and poultrymeat, largely because the rise in the price of the latter has been much less pronounced. Consumption of oils and fats is generally falling, and replacement of olive oil by other vegetable oils at more favourable prices has also been observed. The considerable fall in the amount of potatoes consumed in 1976 must

be attributed to the exceptionally high prices resulting from the abnormally poor crop due to the drought.

341. It should be noted that *per capita* consumption is stagnant or even falling, especially in market sectors with structural surpluses—milk products (except cheese), sugar, wine, certain apples, pears and vegetable fats.

Per capita consumption of the main food products
(average in kg per inhabitant and per year in 1973-76)

Product	EEC 9	National range			
		maximum		minimum	
Cereals (not including rice)	83	Italia	128	Nederland	63
Sugar	38	Ireland	48	Italia	30
Potatoes	80	Ireland	121	Italia	37
Vegetables (incl. preserves)	99	Italia	154	Danmark	49
Fruit (including preserves and fruit juices)	60	Deutschland	87	Ireland	29
Citrus fruit	23	Italia	37	Ireland	10
Wine (litres)	50	France	103	Ireland	2
Milk (fresh products, other than cream)	102	Ireland	217	Italia	73
Meat (not including offal)	76	France	90	Danmark	62
of which: beef and veal	25	UEBL	31	Danmark	16
pigmeat	33	Deutschland	51	Italia	18
poultrymeat	12	Italia	16	Nederland	7
Vegetable oils and fats (average 1974-75)	14	Italia	20	Ireland	7
Butter (fat)	6	Ireland	11	Italia	} 2
Eggs (including processed products)	14	Deutschland	17	Nederland	
				Italia	} 11
				Benelux	
				Danmark	

342. Although consumer habits within the Community differ widely, there has been some lessening of the differences, brought about generally by a reduction in *per capita* consumption in countries where the figure is very high and by stagnation or increased consumption in Member States with a very low *per capita* consumption.

343. On the whole this harmonization is on a small scale. Particularly in the case of certain products, the considerable differences which exist are a close reflection of traditional and regional differences in consumer habits and in the general economic environment. Mention should also be made in this context of national variations in fiscal systems (VAT and customs duties), health legislation and price control, which differ from one

Member State to another in their effect on the quantity, presentation and price of foodstuffs.

344. It may, however, be concluded that the harmonization of consumer habits has been made possible by the increased interpenetration of foodstuffs in the various regions of the Community. Intra-Community trade continued to increase. Not only the quantities of products increased, but also the range of varieties of foodstuffs available. By expanding the economic scale, the common agricultural market offers new possibilities to the food industry and trade, and consumers by and large profit thereby.

3. Security of supply

345. Security of food supplies for human consumption was not at risk. This security is practically guaranteed for most products by a self-supply rate of around 100% by trade agreements with certain non-member countries or—in particular in the case of agricultural products whose production is subject to relatively frequent seasonal or cyclical variations—by public or private storage.

346. In some sectors, imports from non-member countries under trade agreements continued in 1977 although the market was already saturated by Community production.

This was the case in particular with imports of butter from New Zealand and of sugar from the ACP countries. The protective measures which applied to trade with non-member countries in beef and veal during 1975 and 1976 were repealed in April 1977.

Classification of the main agricultural products in the Community according to degree of self-supply '1974/75'

Exceeding 100%		Around 100%		Below 100%	
All wheat	(106%)	Rye	(96%)	Grain maize	(56%)
Barley	(104%)	Oats	(96%)	Rice	(86%)
Wine	(103%)	Potatoes	(100%)	Fresh vegetables	(94%)
Cheese	(104%)	Sugar	(95%)	Fresh fruit	(79%)
Concentrated milk	(142%)	Fresh milk products	(100%)	Citrus fruit	(43%)
Poultrymeat	(103%)	Beef and veal	(100%)	Vegetable oils and fats	(24%)
		Pigmeat	(99%)	Sheepmeat	(65%)
		Butter	(100%)	Dehydrated fodder	(76%)
		Eggs	(100%)		

347. Where the Community self-supply rate is relatively low—as in the case of citrus fruit and vegetable oils and fats—the supply on the world market is generally sufficiently abundant and the policy applied adequate to ensure supplies at competitive prices.

348. The situation is different in the case of some products required for animal feed, particularly oilcakes and grain maize, where the Community largely depends on supplies from non-member countries to meet the growing demand. In spite of the exceptionally high demand after the drought and a rise in the world prices of oilseeds and oilcakes, there were no special difficulties in supplying the Community.

4. Price stability

349. Instability of prices continued to affect world markets in 1976/77. The downturn was particularly marked in the case of bread grains and sugar. The creation of sugar stocks is likely to reduce prices even more. Imports of relatively large quantities of potatoes from the United States helped to moderate the rise in Community prices resulting from the shortfall caused by the drought. The prices of other products, however, such as rice, vegetable oils, wine, tobacco and pigmeat, tended to rise on the world market, but sometimes less steeply than the previous year.

350. The average level of common agricultural prices in u.a. rose by about 3.9% for the 1977/78 marketing year (7.7% for 1976/77 and 9.6% for 1975/76). However, this relatively modest increase had different effects on prices in the Member States which modified the representative rates applicable under the common agricultural policy. These rates remained stable in 1977 only in the Benelux countries; all other rates underwent one or more devaluation, with the exception of Germany, where the representative rate was revalued when the agricultural prices were fixed.

351. As a result of price rises and monetary changes, Community prices for agricultural products in national currencies rose in the two years between 1974 and 1976 by 14% and 18% respectively. The increase for 1977 is estimated at only 3.3%. However, the average increases for the Community conceal considerable variations between Member States and from one product to another. Only in Germany has the rate of increase been falling since 1974. In all other Member States it rose continually until 1976. For 1976/77, falls have been estimated for Germany (—4.0%), the Netherlands (—4.1%) and Luxembourg (—1.8%) and increases, ranging from 2.8% in the United Kingdom to 12.3% in Italy and 21% in Ireland, for the other Member States.

352. Although in 1976 producer prices rose much more steeply in the crop sector (24.5%) than in the livestock sector (13.1%), the reverse will probably be likely in 1977, as prices in the crop sector are falling (except in Italy and Denmark) while prices in the livestock sector are rising but with considerable variations (0.4% in the Netherlands, 26.1% in Ireland).

353. The trend of producer prices for agricultural products is not automatically reflected in the level of consumer prices. It has often been observed that not only is a rise in prices passed on more rapidly than a fall but a certain time lag, varying according to region and product, separates consumer prices from producer prices. Numerous factors, resulting from processing and distribution structures, but also from consumer habits and the general economic situation, play their part here.

354. It was estimated that the 3.9% increase in common agricultural prices in u.a. for 1977/78 would lead to an overall increase of about 0.4% in the cost of living in the Community. Apart from the large proportion of the average household budget which goes on food, this ratio is explained by the fact that most farm products are not consumed in their natural state; a varying number of processing, treatment and distribution processes are necessary before the final product is offered to the consumer. As a result the value of the farm product in the final value of the foodstuff becomes less and less important.

355. In the period 1973 to 1976, consumer prices tended to rise more rapidly than producer prices. An analysis of these rises for products playing a relatively important part both in agricultural production (common wheat, sugarbeet, milk, cattle, pigs, eggs, potatoes) and as food (bread, sugar, milk, beef and veal, pigmeat, eggs and potatoes)

Consumer prices 1976
Annual % increase over 1975 and 1970

Member State	General index		Foodstuffs and beverages	
	1975	1970	1975	1970
Deutschland	4.6	5.8	5.4	5.4
France	9.6	8.9	10.7	9.5
Italia	16.7	12.2	17.5	13.0
Nederland	8.9	8.7	9.6	7.2
Belgique/België	9.2	8.5	12.5	8.2
Luxembourg	9.8	7.6	17.6	8.8
United Kingdom	16.5	13.6	19.4	15.1
Ireland	17.9	14.0	16.8	14.5
Danmark	9.0	9.2	11.1	9.7

shows that only in the case of potatoes did consumer prices increase less than producer prices in all Member States. Large-scale imports in 1976 played an important part in preventing the price rise brought about by the drought from being passed on. With the exception of Ireland, where consumer prices generally rose more gradually over this period, consumer prices of most products rose more steeply than producer prices. However, there were exceptions in Germany (milk and sugar), Italy (sugar and pigmeat) and the United Kingdom (pigmeat).

356. In contrast to the position between 1973 and 1975 and with the exception of Ireland, the index of consumer prices for foodstuffs and beverages rose more steeply in 1976 than the general index. The difference was particularly marked in Luxembourg, Belgium, the United Kingdom and Denmark. In most Member States there was an exceptional increase, especially for fruit and vegetables (including potatoes); in Germany and Ireland the meat price index, and in France the price index for milk, butter and cheese, was the main factor in this unusual development. It can be assumed that the exceptional weather conditions in most Member States during summer 1976 (drought in the north and floods in the south of the Community) were largely responsible for this phenomenon.

357. The differences between Member States in the indices for all foodstuffs and beverages are reflected in the indices for the different types of foodstuffs where they are sometimes more pronounced. Between 1975 and 1976 the price indices for bread and pastry products rose by 3% in Germany and 17.3% in Italy; the range for meat was from -1.6% in the United Kingdom to +31.4% in Ireland; in most cases the rates of increase exceeded 10%. The rise in the price index for milk, butter and cheese was generally less than 10%, varying between 4.6% in Germany and 28.6% in Italy. In the case of fruit and vegetables, where rises varied from 3.4% in Germany to 31% in Luxembourg, five Member States experienced an increase of more than 20%. Only in Belgium and Luxembourg did the index of consumer price for foodstuffs and beverages rise more steeply than that of prices for agricultural products from 1975 to 1976.

358. Monetary compensatory amounts which subsidize imports of agricultural products into countries with a depreciated currency contribute to price-stabilization. In 1976 the EAGGF paid out 313 million u.a. on imports from Member States and 192 million u.a. on imports from non-member countries, making a total of 505 million u.a. To this should be added 360 million u.a. paid as 'accession' compensatory amounts. Forecasts for 1977 show that expenditure in respect of the payment of MCAs on imports from Member States (785 million u.a.) will be two-and-a-half times as great as in 1976. Although the sum paid on imports from non-member countries (185 million u.a.) has fallen, the total paid in MFAs (970 million u.a.) for 1977 is nearly twice the figure for 1976. The extra amount required to finance 'accession' compensatory amounts in 1977 is

estimated at 250 million u.a., but this system, unlike the MCAs, is to end on 31 December 1977.

5. Special measures to benefit consumers

359. The Community took special measures in several sectors to improve productivity or product quality, to facilitate supplies or to reduce prices.

360. In February 1977 the Council adopted a Regulation on common action to improve the processing and marketing of agricultural products. The adoption of this Regulation marks a new departure in structural policy, which now covers intermediate activities between production and consumption. Rationalization and development of these activities should not only ensure better outlets for agricultural products but also have favourable effects for the consumer.

361. The quality level of common wheat of bread-making quality was raised in June 1977. From 1 July 1977 the permissible erucic acid content of colza and rape seed was reduced from 15% to 10%; this produces a definite improvement in the quality of the oil, which in certain regions of the Community calls for considerable adjustments on the part of producers.

362. The repeal of the safeguard measures applied in 1976 to imports of beef and veal and preserved mushrooms has ensured supplies at reasonable prices.

363. Measures to reduce consumer prices were applied in particular in the milk products sector. The EAGGF continued to finance the subsidizing of butter consumption in the United Kingdom, Ireland and Luxembourg, at a total cost of 38.3 million u.a. in 1976. This measure was extended to Denmark in October 1977. EAGGF expenditure for 1977 is estimated at 75.80 million u.a. The sale of cut-price butter to certain social institutions and lower-income categories cost 5 million u.a. in 1976; the measure was not applied in 1977. As part of its action programme to restore balance on the milk market, the Community decided to sell a total of 72 000 tonnes of butter at the end of 1977 at the reduced price of 700 u.a. per tonne, which will probably cost the EAGGF a total of 50.4 million u.a. A scheme for assisting the supply of milk at reduced prices to school-children was introduced in August 1977 and its cost to the 1977 budget was fixed at 17 million u.a. As part of its action programme the Community further decided to apply from 16 September 1977 a co-responsibility levy to be paid by milk producers, which will probably bring in about 22 million u.a. in 1977. The money obtained in this way is to be used *inter alia* to finance measures for increasing outlets for milk products, which

will also benefit consumers, e.g. promotion, market research and to finance partly the above-mentioned school milk scheme.

364. It should also be mentioned that some Member States are individually subsidizing consumption. In 1975 this national expenditure totalled 976.9 million EUC throughout the Community, and was on a particularly large scale in the United Kingdom, which spent 939 million EUC.

365. As regards the harmonization of legislation, the Community is trying to guarantee the free movement of wholesome products while avoiding danger to human health: legislation has been introduced to govern trade in meat products and solutions have been found to the problems raised by the derogations provided for in trade with the new Member States by the Act of Accession. In order to reinforce the measures protecting public health, the Commission proposed to the Council that rules be introduced governing the use of certain substitute products for traditional proteins in animal feedingstuffs and banning in particular direct delivery to the farmer of active substances as feed additives and that a register be drawn up of firms marketing additives in order to prevent any evasion of the Directive.

366. Lastly, the Commission proposed to consumer groups that consultations on the common agricultural policy be reinforced and that the procedures used in the various committees on which consumers are represented be made more effective.

B — The producer

367. In contrast to 1976, which was marked by an exceptional drought which affected the situation of producers in certain regions of the Community and necessitated the grant of special aid by several Member States, 1977 has been more favourable. The improved prospects for most regions and production sectors of the Community have been due in particular to the more normal weather conditions for agricultural production and to improved fodder supplies. The least-favoured sectors have included fruit-growing, which in 1977 was still suffering the harmful effects of the 1976 drought, and farms with a large potato crop. (1) The value of final agricultural production by volume increased in 1976 by 2.4% in comparison with 1975, and will probably increase again in 1977. (2) 1977 saw a smaller increase in the prices of inputs and agricultural products. (3) Incomes in 1977 should be markedly higher than in the previous year. Between 1974 and 1977 farm incomes have been subject to considerable annual fluctuations. (4) These fluctuations have generally given rise to greater disparities between the various types of holding, while regional disparities decreased slightly between 1975 and 1976. (5) Generally speaking, the situation of agricultural producers in the Community is influenced by a wide range of factors connected with agricultural market trends and with measures taken under the common agricultural policy and other common and national policies.

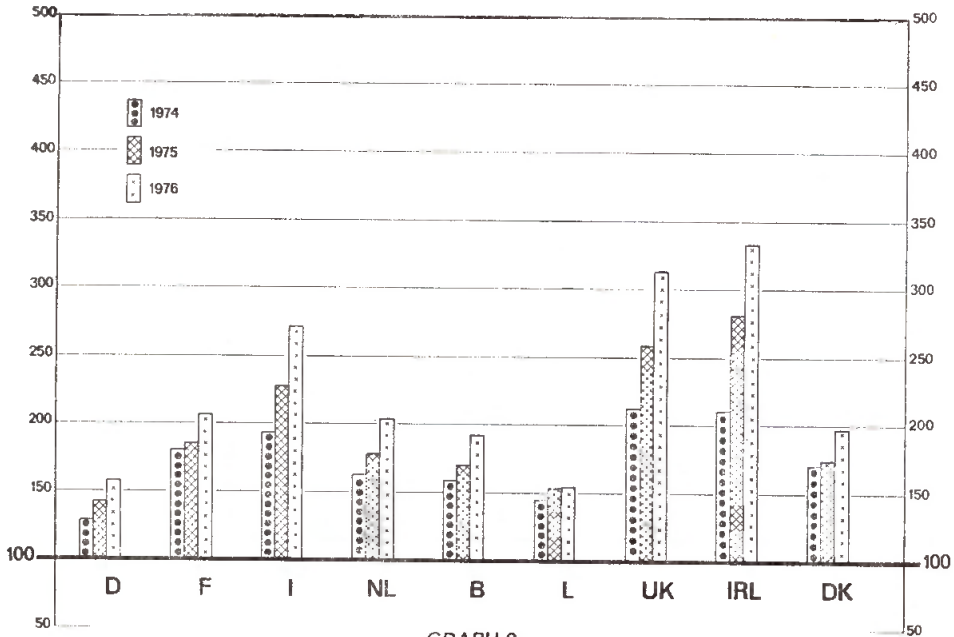
1. Agricultural production

368. The value of final production in the Community in 1976 (at current prices but constant exchange rates) is estimated at 85.5 milliard EUC, an increase of 14.4% over 1975. In terms of volume (constant prices and exchange rates) this is up 2.4%. As far as the Member States are concerned, the increase in value based on national currency ranges from 11.9% to 14.2% (Germany, France, Belgium, Netherlands, Denmark) and from 19.3% to 20.7% (Ireland, Italy, United Kingdom). In Luxembourg the increase was only 1.4%.

369. The value of final production in 1976 may be broken down by Member State as follows: France: 26.8%; Germany: 22.9%; Italy: 19.2%; United Kingdom: 11.8%; Netherlands: 8.3%; Denmark: 4.7%; Belgium: 4.2%; Ireland: 1.9%; Luxembourg: 0.1%.

370. Agriculture in the Community is still mainly concerned with livestock production. The milk-beef and veal-sheepmeat sector, which utilizes 41 million hectares of meadows and pastures (44% of the total UAA), represents alone over a third (36%) of the

Development of final agricultural production at current prices
1968 = 100



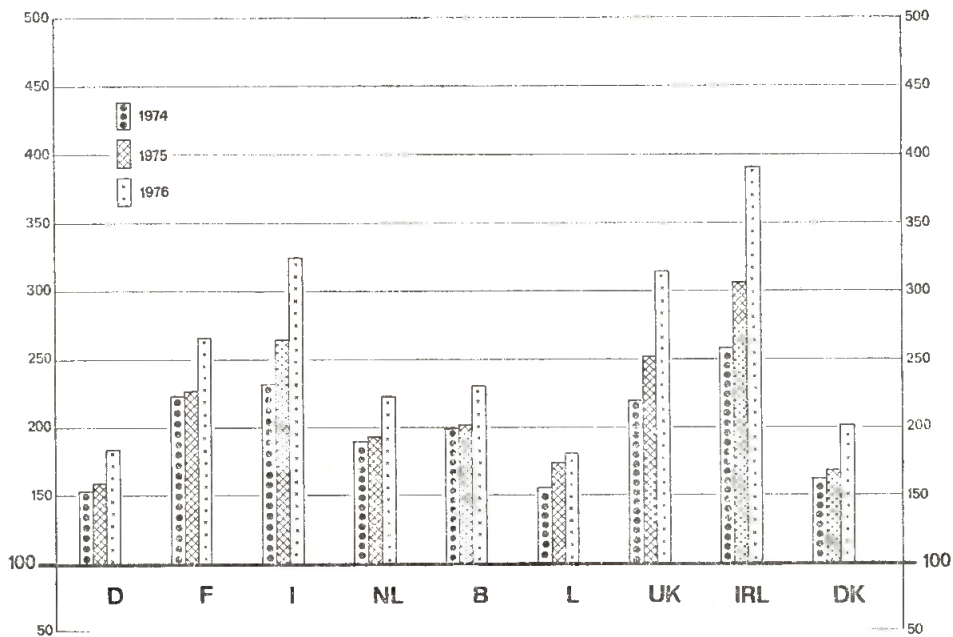
GRAPH 9

Community's final agricultural production. The value of total livestock production (including pigmeat and poultrymeat) accounts for more than half (53.6%) of final production.

371. In the crop sector, cereals occupy 27.8% of the total UAA, but account for only 10.5% of the value of final production. Fruit and vegetables, which account for 11% of final production, are grown in all Member States, with Italy and France predominating. Some specialized crops in this sector, especially citrus fruit, vines and olives (5.5% of final production by value) are found mainly in the Mediterranean regions of the Community.

372. As regards the various Member States' share in total final production of specific products, it may be noted that a large percentage is accounted for by a small number of Member States. For the following products in particular the relative shares of the three major Member States are as follows:

**Development of intermediate agricultural consumption at current prices
1968 = 100**



GRAPH 10

- milk (18.9% of total production): Germany, France and the United Kingdom with 64.4%;
- beef and veal (15.8% of total production): France, Germany and Italy with 68.4%;
- pigmeat (13.6% of total production): Germany, France and the Netherlands with 63.9%;
- wheat (5.9% of total production): France, Italy and Germany with 74.7%;
- potatoes (5.0% of total production): the United Kingdom, Germany and France with 63.5%;
- poultrymeat (4% of total production): Italy, France and the United Kingdom with 75.5%;
- eggs (3.9% of total production): Germany, France and the United Kingdom with 67.1%;

- barley (2.6% of total production): France, the United Kingdom and Germany with 75.6%;
- sugarbeet (2.6% of total production): Germany, France and Italy with 71.1%.

373. *In the medium term*, i.e. over the period '1968-75', final production by volume in the Community increased by 1.8%. The rate of increase was by far the greatest in the Netherlands (4.7%), followed by Ireland (2.5%) and Belgium (2.1%), France and Denmark (1.9%), while the lowest increase was in Luxembourg (0.5%). At 2.4% the Community increase in volume for 1976 was above the annual medium-term figure of 1.8%.

374. Examination of the *structure of final production* in the Community at current prices converted to EUC at 1975 exchange rates shows that 69.9% of production is subject to common price systems (this percentage ranges from 64.4% to 66.9% in Italy, the United Kingdom, the Netherlands and Belgium and from 84.1% to 86.8% in Luxembourg, Ireland and Denmark).

The products covered by a common organization of the market but not subject to a common price system accounted for 16.8% of final production (with a minimum of 5.5% in Denmark and a maximum of 24.0% in Italy) while the percentage of products not covered by a common organization of the market was 13.3% (minimum of 4.7% in Luxembourg and maximum of 18.1% in the Netherlands).

375. *Intermediate consumption* varies considerably from one Member State to another. It ranges from 28.4% of final production in Italy to 56.8% in the United Kingdom. The Community average is 43.6%.

376. Consequently the gross *value added* at market prices as a percentage of final production also differs greatly from one country to another. The percentage is above the Community average of 56.4% only in Italy (71.6%), Ireland (63.4%) and France (60.6%). The lowest figure is in the United Kingdom (43.2%).

2. Price trends

Prices of inputs and wage costs

377. As a result of the strong inflationary trends over the period 1973 to 1975, the energy crisis of 1973 and tension on some markets supplying feedingstuffs and chemicals, the prices of inputs and wage costs in agriculture rose considerably in 1974 in most

Member States, the increase ranging from 6.4-6.6% (Netherlands, Germany) to 34.4-40% (Italy, Ireland) in the case of inputs and from 14.5% (Germany) to 25.9% (Belgium) in the case of wages.

The increase was less marked in 1975 in all Member States while in 1976 the cost of inputs once again soared in all Member States except Ireland, because of the big rise in the cost of feedingstuffs as a result of the exceptional drought.

Estimates for 1977 indicate that the 1976 trend will be reversed. The increase is much less in all Member States except Ireland and Denmark. This is due in particular to a more gradual increase in the cost of feedingstuffs and fertilizers in most Member States.

Rates of increase of input prices¹
(based on figures in national currencies)

(in %)

Member States	1974	1975	1976	1977 estimated
Deutschland	6.6	5.2	7.6	2.0
France	:	:	:	:
Italia	34.4	11.4	21.0	15.3
Nederland	6.4	0.1	9.8	6.4
Belgique/België	9.8	4.6	13.5	5.1
Luxembourg	14.4	9.7	10.3	— 0.8
United Kingdom	28.7	11.5	20.3	16.2
Ireland	40.2	17.7	17.2	21.5
Danmark	19.7	6.1	7.4	8.7
EUR 9 ²	:	8.9	12.7	10.0

¹ Intermediate consumption minus gross fixed capital formation.

² Including France.

Source: Eurostat.

Prices of agricultural products

378. An analysis of the years 1974 to 1977 shows that there was a steady increase in the prices of agricultural products in the Community from 1974 to 1976, followed by a much smaller increase in 1977.

379. However, the average increase for the Community masks quite wide variations among the Member States (see table below).

Percentage rates of increase of the prices of agricultural products ¹
(based on figures in national currencies)

(%)

Member States	1974	1975	1976	1977 (estimate)
Deutschland	— 3.3	13.3	11.9	— 4.0
France	4.9	9.0	14.2	3.4
Italia	18.1	12.4	19.6	12.3
Nederland	— 5.9	12.7	12.8	— 4.1
Belgique/België	— 1.4	12.2	12.1	0.4
Luxembourg	0.6	12.2	10.4	— 1.8
United Kingdom	12.6	24.3	30.4	2.8
Ireland	0.6	26.7	28.1	21.0
Danmark	1.3	9.0	12.8	6.3
EUR 9	6.6	13.7	18.1	3.3

¹ Excluding VAT.

Source: Eurostat.

380. In 1976 the increase was greater for crops (24.5%) than for livestock (13.1%). Prices of the principal cereals (common wheat, barley, maize) reached a relatively high level due to the scarcity of feed grains and the extent of Community demand. Prices of vegetable oils followed the upward trend on the world market. On the other hand, in the livestock sector prices of beef and veal in particular rose less sharply because of large-scale slaughterings due to the drought. Prices of pigmeat were on the downturn up to 1977.

381. Estimates of the prices of agricultural products for 1977 show a rather slight increase for most Member States with the exception of Italy and Ireland (12.3% and 21% respectively) and Germany, the Netherlands and Luxembourg, where there is a reduction.

In contrast to 1976, the prices of crop products fell except in Italy and Denmark, whereas in the livestock sector prices rose in all the Member States, although by widely differing rates (0.4% in the Netherlands, 26.1% in Ireland).

3. The position of agricultural incomes

382. This year it has been particularly difficult to determine the position of agricultural incomes in the Community because of substantial changes in the series of macro-economic data of several Member States—changes made in the interests of greater harmonization

but which prevented some of the necessary figures being available when this chapter was written—and also because of the exceptional production conditions in 1976, the effects of which on agricultural incomes have been difficult to assess accurately.

The trend since 1968/69

383. The net value added at factor cost per person employed in agriculture from 1968 to 1976 increased in real terms at annual rates which varied from one Member State to another in the range +1.7% in Germany to +5.6 in Italy.

384. Agricultural income in real terms per person employed in agriculture has also undergone varying annual changes during the same eight-year period depending on the country. The annual rate of change has varied from 1.3% in Germany to 4.9% in Ireland.

Trend of the net value in real terms per person employed,
in all economic sectors and in agriculture from 1968 to 1976

(mean annual growth rates)

Member States	All sectors	Agricultural sector
Deutschland	3.7	1.7
France	4.0 ³	4.3 ^{2 3}
Italia	3.2	5.6
Nederland ¹	3.8	1.6
Belgique/België ¹	4.4	3.8 ³
Luxembourg ¹	1.1	3.6 ³
United Kingdom	1.8 ³	4.2 ³
Ireland	3.9	4.7
Danmark	2.7	.
EUR 9	.	.

¹ 1975 compared with 1968.

² Gross value added.

³ Unrevised series.

385. The average annual increase in the value added per person employed in agriculture during the period in question has sometimes been less than in the economy as a whole (Germany, Netherlands, Belgium) and sometimes the same or greater (France, Italy, Luxembourg, United Kingdom and Ireland).

386. The trend in agricultural incomes has, however, varied depending on the type of production; the graphs following, which are based on successive constant FADN samples for the six original Member States, show that on some types of farm the labour income per ALU has increased at a steadier rate and/or more rapidly than on others. This trend depends among other things on structural changes.

The graphs show a steady, modest growth over the period under consideration in the area of the farms and a slight decrease in the labour force, although these trends vary according to type of farm. Farm capital (at current prices) has, however, increased considerably; the 1975 indices (1969 = 100) vary depending on the type of farm between 162 (general agriculture) and 267 (cattle-meat).

387. The 1975 indices showing the trend of labour income per ALU in money terms (1969 = 100) range from 206 (grazing stock, pigs and poultry) to 348 (cattle-meat). The types of farm fall into two main groups as follows:

- those with a regular trend in labour income (general agriculture, horticulture, fruit);
- those where the trend in income is very irregular (cattle, pigs, vines).

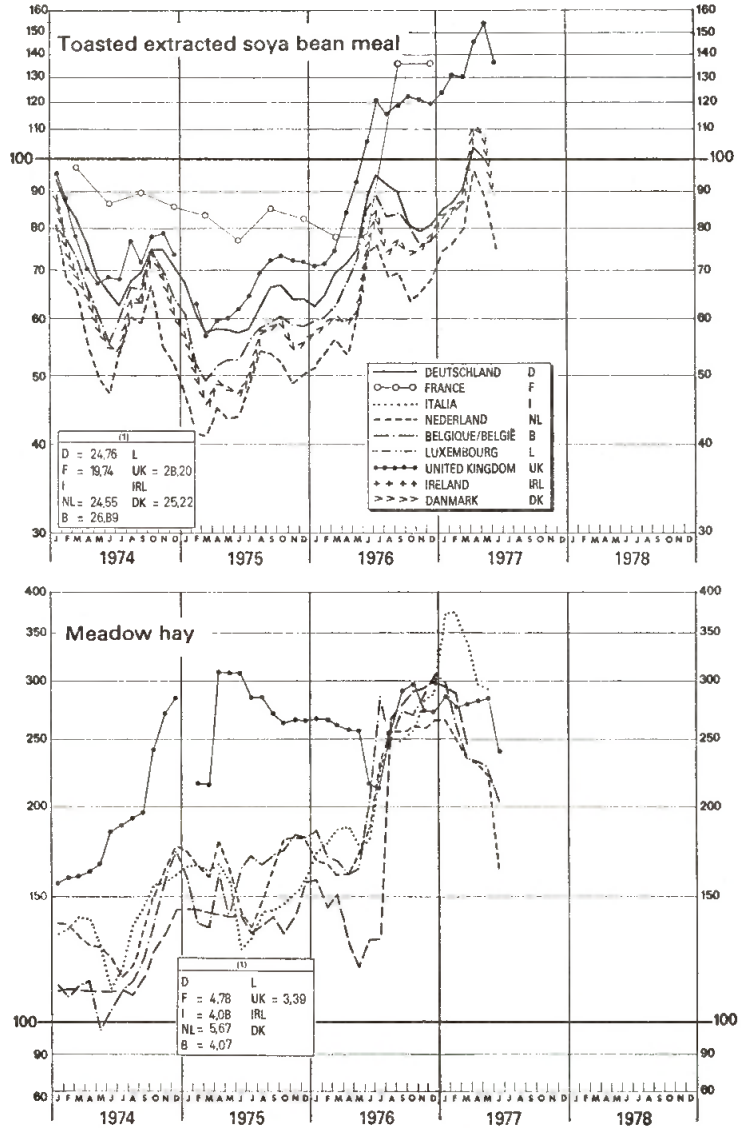
The three types of farm, 'general agriculture', 'dairy' and 'pigs', whose indices of change in labour income per ALU between 1969 and 1975 are identical, are a good example; they highlight the differences in economic conditions and the resulting specific problems for the management of agricultural policy.

388. The three types of farm under consideration had in 1969 labour incomes per ALU of about 2 200 EUC for 'cattle-milk' farms, 4 200 EUC for 'general agriculture' holdings and 4 700 EUC for pig farms. In 1975 the figures were 5 600, 11 100 and 12 500 EUC/ALU respectively. So the income in money terms of a person employed in agriculture in 1975 had increased compared with 1969 by the following amounts: 3 400 EUC on dairy farms, 6 900 EUC on general agricultural holdings and 7 800 EUC on pig farms. The same index of increase in agricultural income thus corresponds in these specific cases to a growth in income in absolute terms which varies considerably from one type of farm to another.

The trend in 1976/77

389. Agricultural incomes in 1976 bore the marks of the exceptional drought which affected a large part of the Community despite the aid granted in some Member States to certain categories of farmer. They increased much less rapidly than in the previous year in most Member States and the trend varied considerably from one type of farm to another and even for the same type of farm from one region to another.

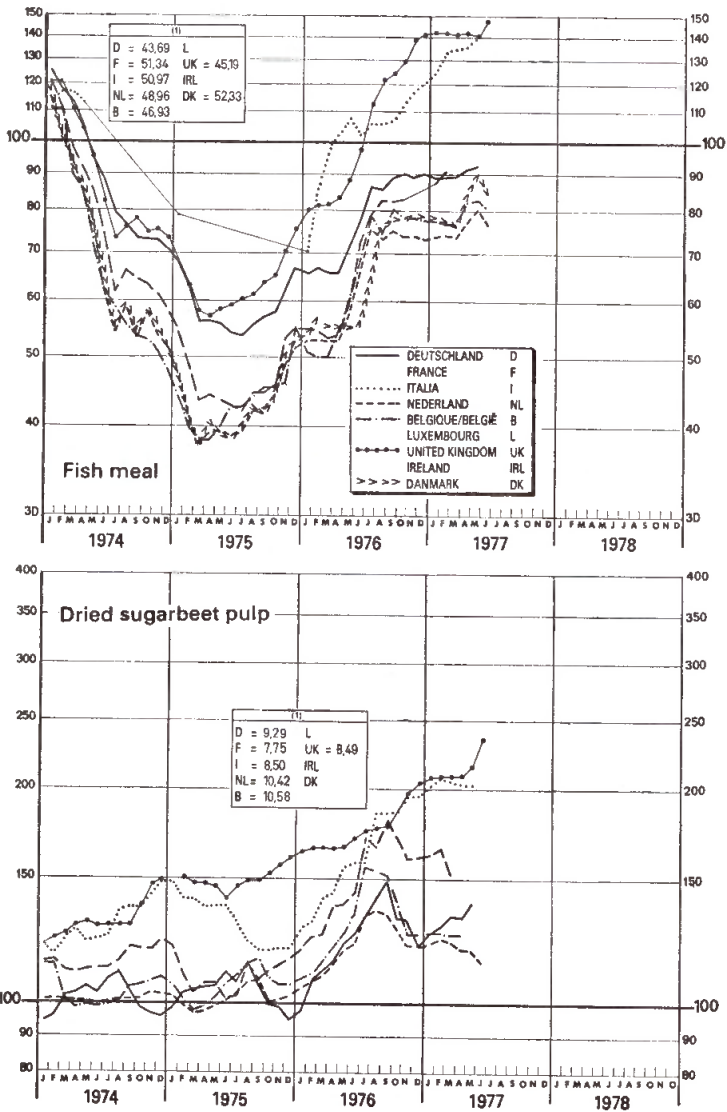
Prices paid by farmers for certain inputs
1973 = 100



¹ Effective 1973 price expressed in u.a.

GRAPH 11.a

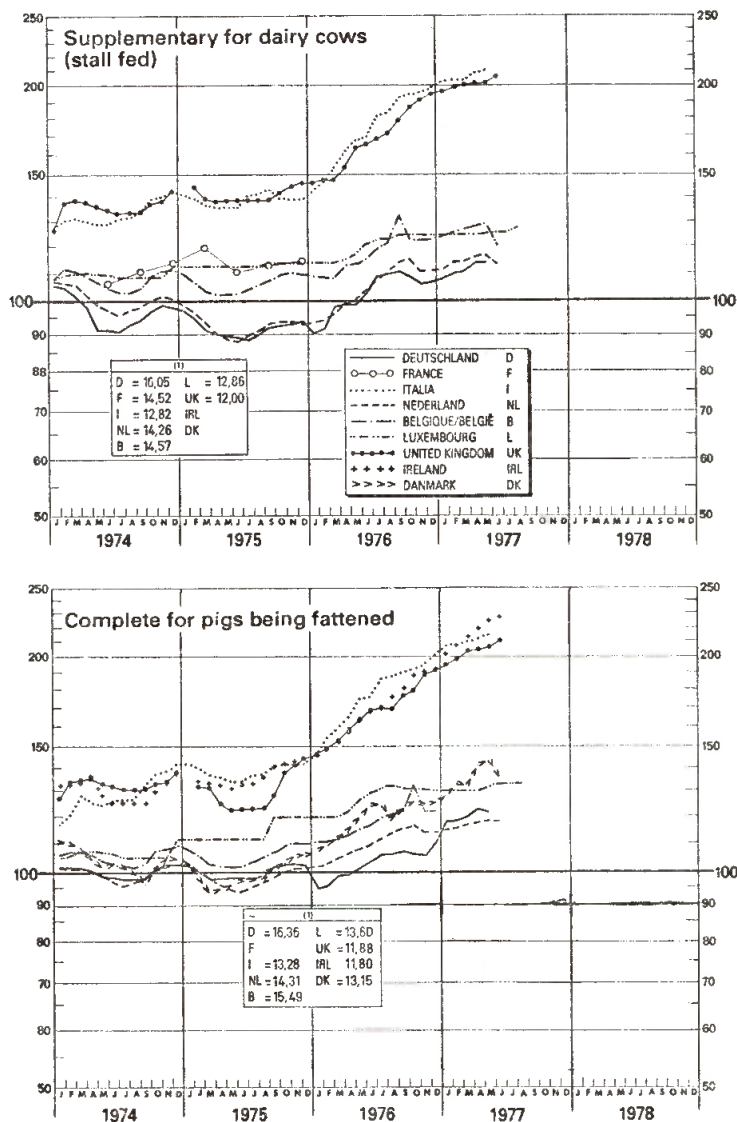
Prices paid by farmers for certain inputs
1973 = 100



¹ Effective 1973 price expressed in u.s.

GRAPH 11.b

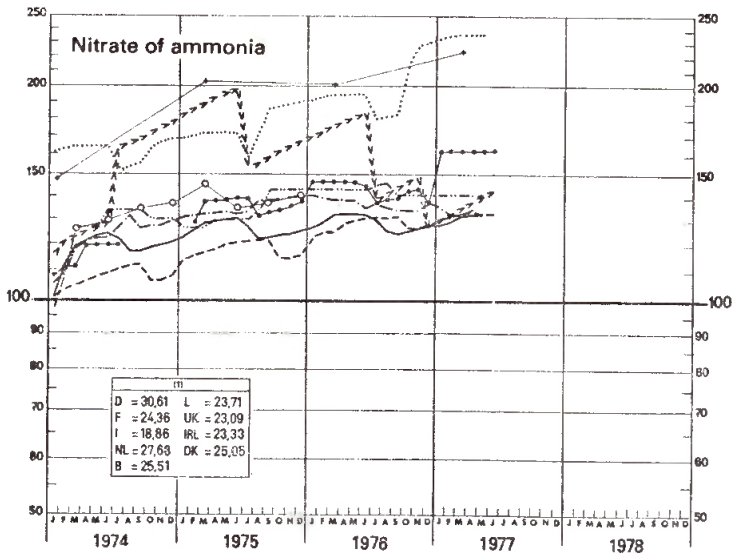
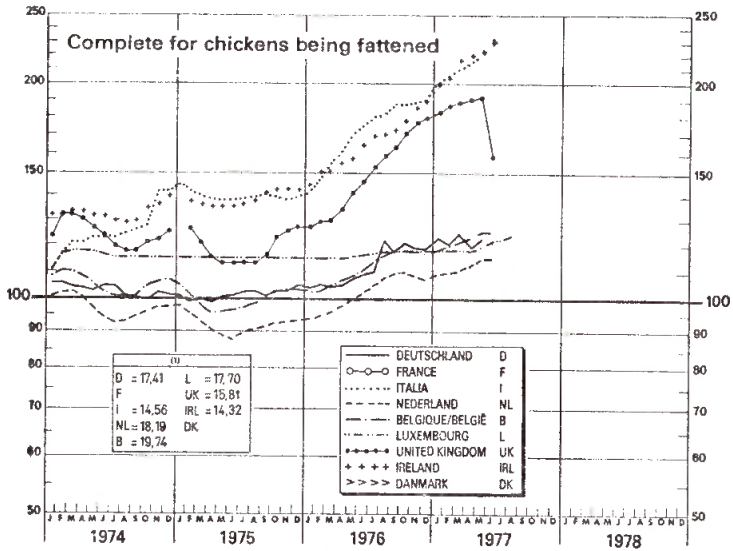
Prices paid by farmers for certain inputs
1973 = 100



¹ Effective 1973 price expressed in u.a.

GRAPH 11.c

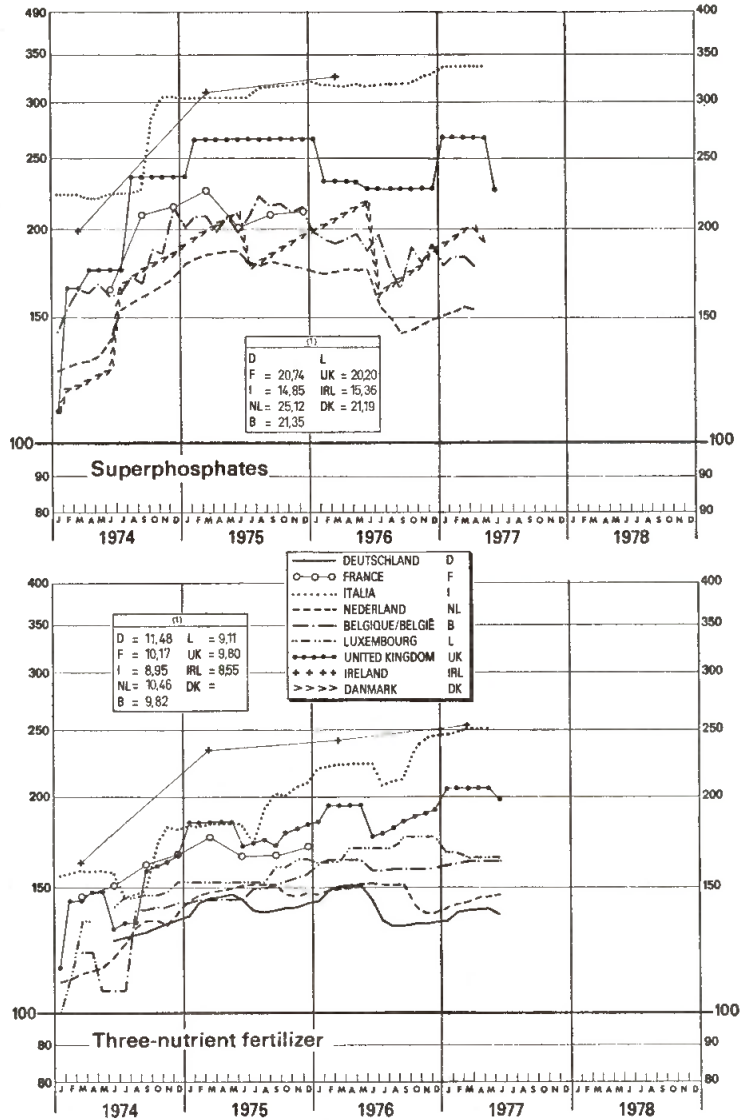
Prices paid by farmers for certain inputs
1973 = 100



Effective 1973 price expressed in u.a.

GRAPH 11.d

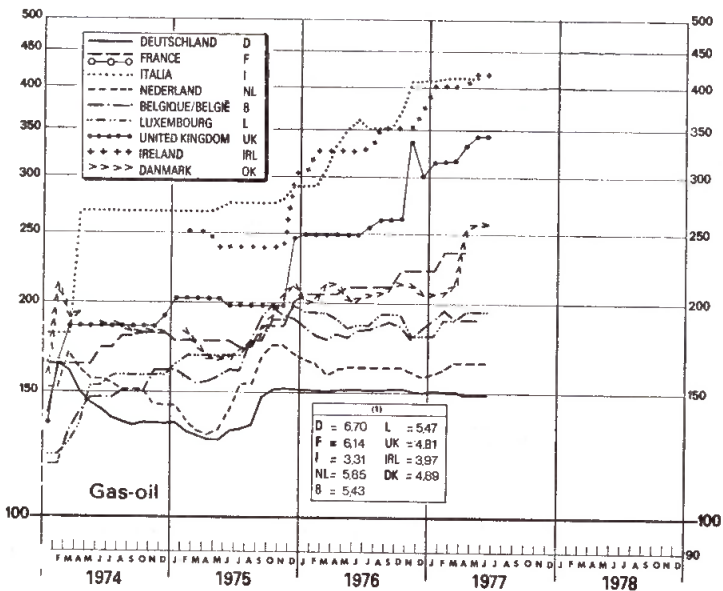
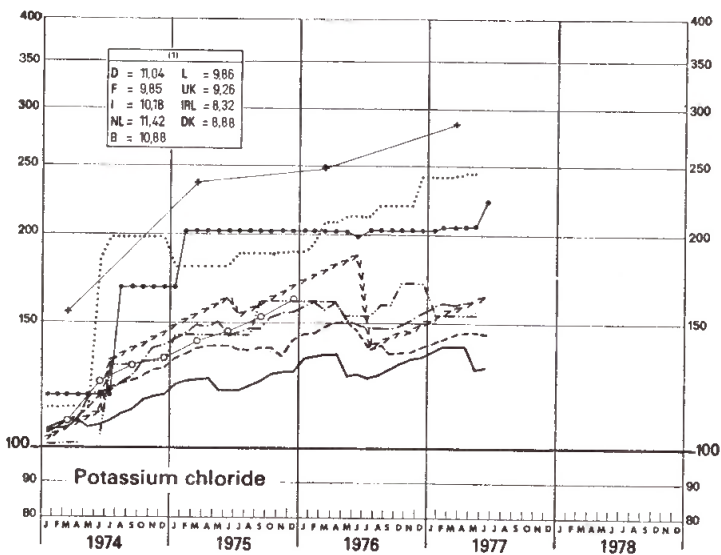
**Prices paid by farmers for certain inputs
1973 = 100**



¹ Effective 1973 price expressed in u.a.

GRAPH 11.e

Prices paid by farmers for certain inputs
1973 = 100



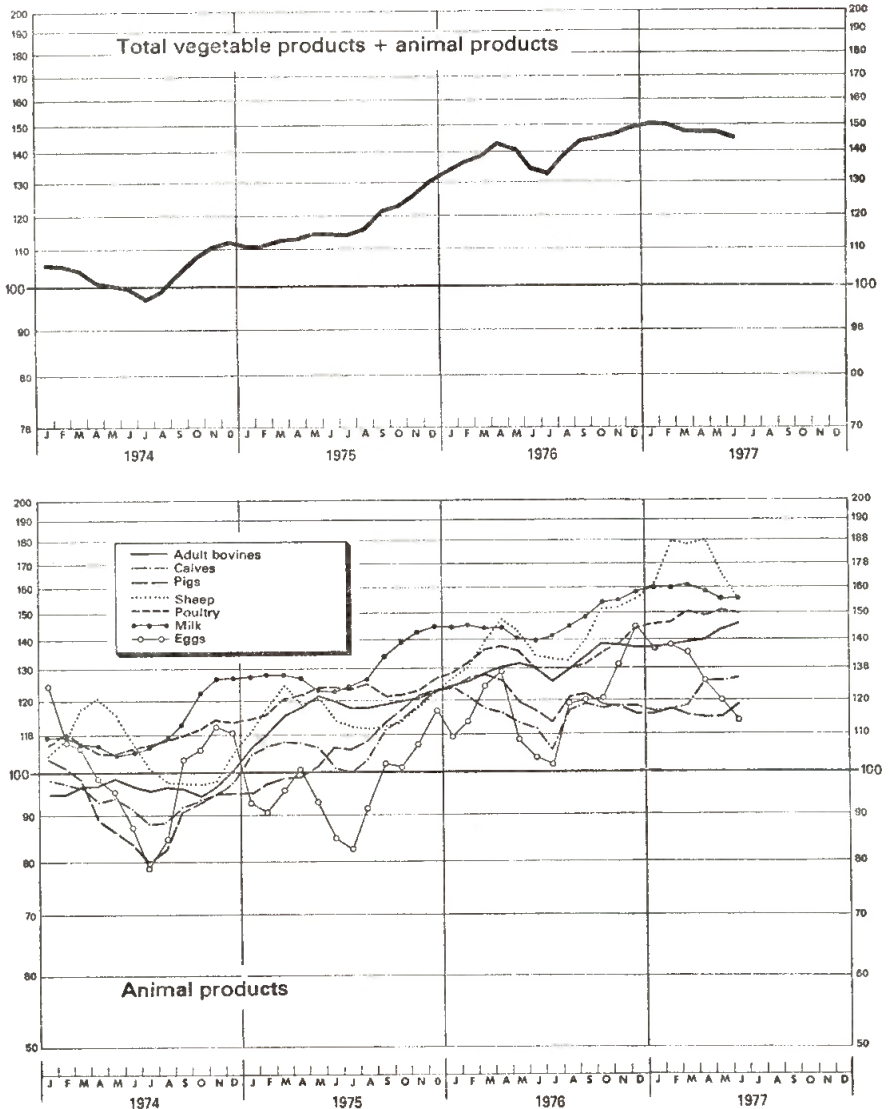
¹ Effective 1973 price expressed in u.s.

GRAPH 11.f

Evolution of producer price indices for several agricultural products

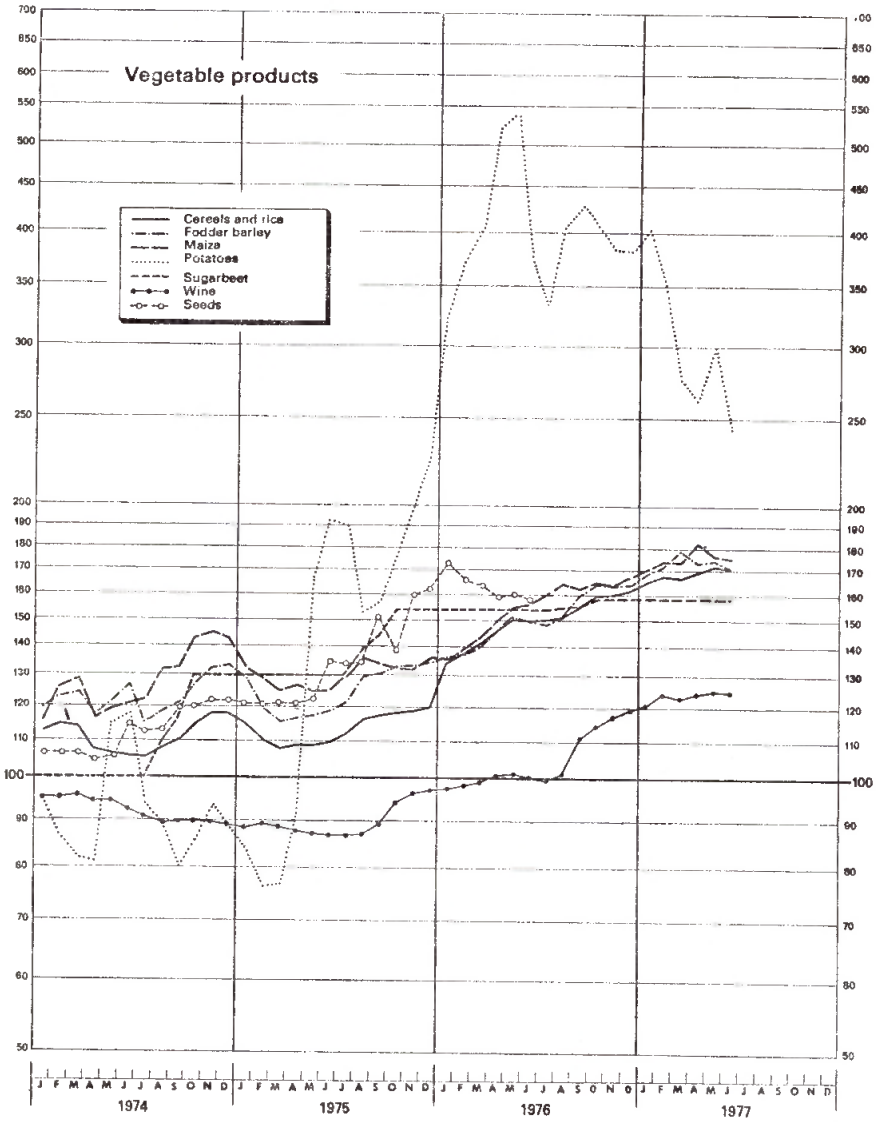
1973 = 100

(Semi-log. scale)



GRAPH 12.a

Evolution of producer price indices for several agricultural products
 1973 = 100
 (Semi-log scale)



GRAPH 12.b

390. The rates of annual change in the net value added at factor cost per person employed in 1976 varied between +3% in Luxembourg and +16.9% in Ireland. The range in these rates for all the other countries (except the Netherlands) is, however, fairly small, from 12% to 16%.

391. In most cases the annual rate of growth in incomes in money terms for 1976 was insufficient to compensate fully for inflationary pressure, which was particularly severe in some countries. Only in Germany, Denmark and France did the net value added per person employed in agriculture increase in real terms, by 8.7%, 3.5% and 2.7% respectively. In the three other countries for which harmonized data are available it dropped as follows: Ireland -1.1%, Italy -1.3%, United Kingdom -2.3%. In the following notes on each Member State the income indicators used are in no way comparable with the net value added at factor cost per person employed in agriculture.

Germany

392. The estimates for the trend in agricultural income on full-time farms in 1976/77 indicate a drop of perhaps as much as 6% compared with the previous year, since the growth in production of around 4-6% cannot fully offset the increase in the cost of inputs, in particular feedingstuffs. The annual rate of growth in such income since 1968/69 was thus at least 9%; this rate corresponds fairly closely to the increase in the income of persons employed in other sectors.

France

393. According to macro-economic data taken from the national accounts for French agriculture, the gross agricultural income for 1976 increased overall in money terms by 5.3%, which corresponds on average to a drop of 1.1% in real terms per farm.

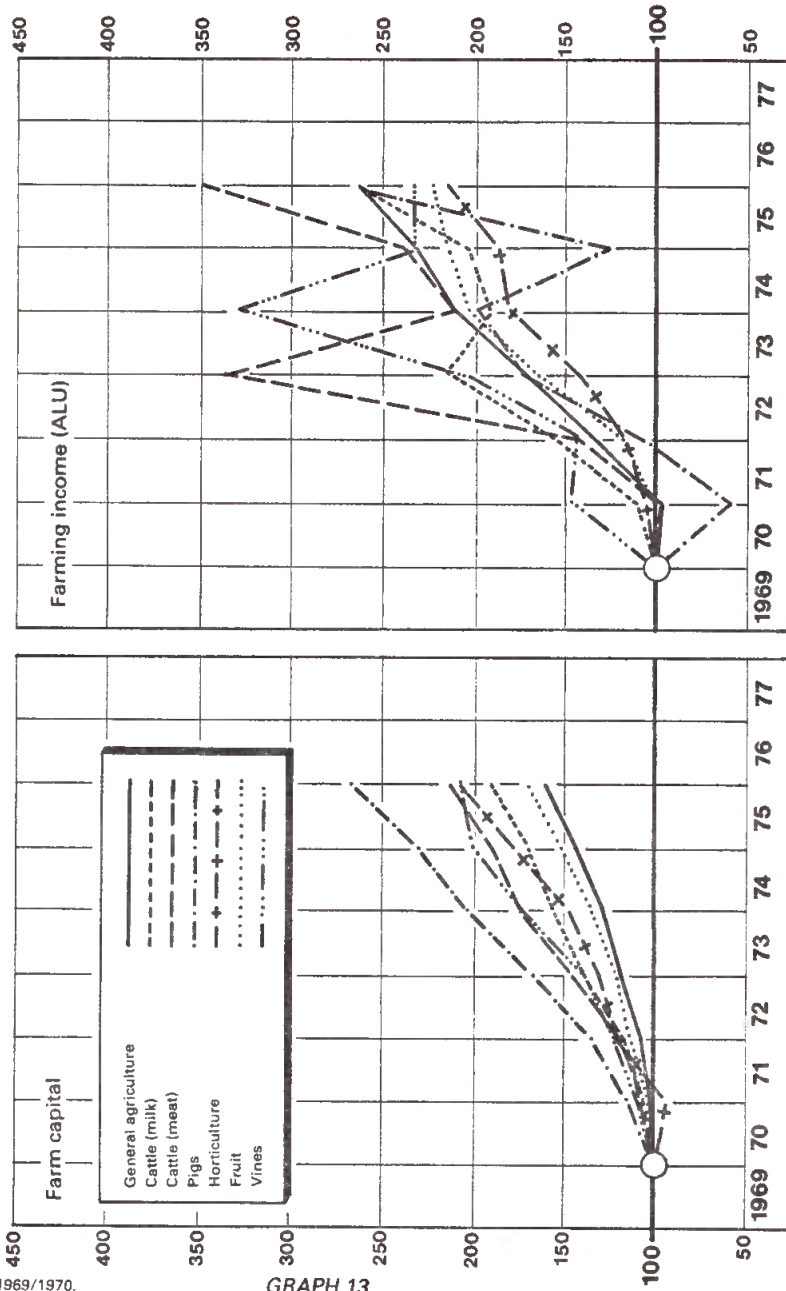
This trend in the average income is due to a reduction in the supply of agricultural products (-1.5%) caused by the drought.

The rise in producer prices (+12.7%) was almost identical with that in the price index of intermediate consumption (+12.5%), which increased in volume by 4.1%.

On the whole, the regions and categories of farms specializing in crop production—especially cereals—were those suffering the greatest drop in income. The decline in incomes in regions and on farms concentrating on livestock production was limited by the special aid to compensate for losses due to the drought.

Part of this aid (about 50%) was, however, paid only in 1977; it does not therefore appear in the 1976 national accounts and has not been taken into account in determining

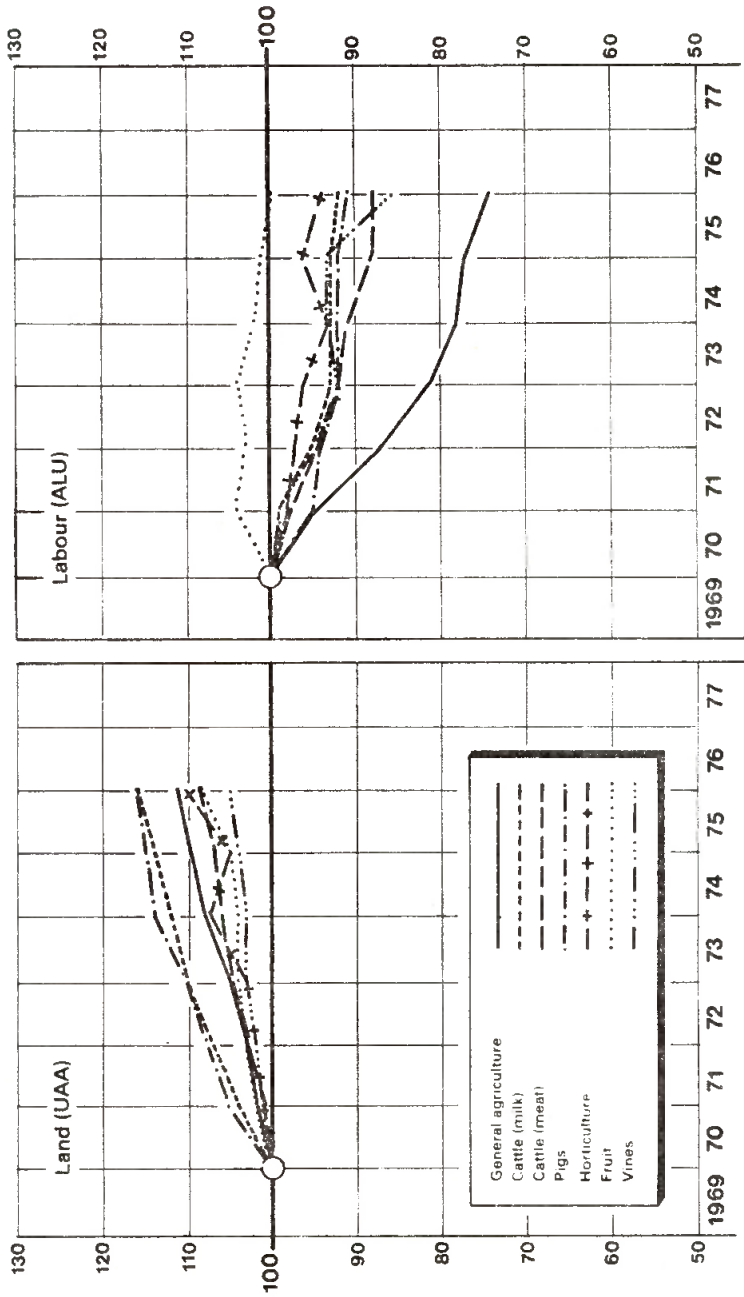
Trend between 1969 and 1975 of farm capital and farming income in 'returning holdings' according to the main types of farming in the Community as originally constituted (six successive constant samples with 7 000 to 8 000 returning holdings) 1969 = 100



1 Accounting year 1969/1970.

GRAPH 13

Trend between 1969 and 1975 of land and labour in the 'returning holdings' according to the main farming types in the Community as originally constituted (six successive constant samples with 7 000 to 8 000 returning holdings) 1969' = 100



Accounting year 1969/1970.

GRAPH 14

the income trends referred to above; if all this aid had been entered under 1976, the annual rate of change in agricultural incomes in real terms would have been markedly positive.

Italy

394. In 1976 there was an increase of 1.3% in gross marketable production by volume. Prices of agricultural products rose by 21% and inputs by 19.7%. The gross value added in agriculture increased by 16% in money terms, corresponding to a drop of 3.5% in real terms. The income per farmer (allowing for depreciation) rose by 16.9% in money terms; however, it scarcely changed in real terms.

Netherlands

395. The year 1976/77 was less favourable than the previous year for the agricultural sector overall (excluding horticulture). According to provisional figures, the agricultural net value added declined by 17.5% compared with the previous year. The trend varies considerably, however, depending on the type of farm.

Average accounting results show a considerable improvement in the labour income of farmers in respect of 'general agriculture' holdings, except for farms on peaty and sandy soil in the north of the country; this favourable result is due primarily to high potato prices. However, the profitability of grazing stock farms declined considerably, mainly because of the drought and the resulting increase in the cost of feedingstuffs. The profitability of stock-farming independent of the land also fell, mainly as a result of the drop in prices of pigs and calves for fattening.

For all horticulture under glass (vegetables and flowers) the net value added increased by 10% in 1976 compared with 1975. Average accounting results for farms specializing in vegetable production in the open, mushrooms, bulbs and nursery seedlings, also showed a favourable trend in 1976. For specialized fruit farms the labour income of farmers increased in 1976 compared with 1975, although it is still very low (HFL 7 000 per farmer).

Belgium

396. According to the preliminary accountancy data available, the average labour income per work unit decreased in 1976/77 by 8% compared with the previous accounting year.

This trend varied considerably, however, according to type of farm. The labour income increased on 'general agriculture' holdings, horticultural holdings and cattle farms, taking into account the drought compensation granted to cattle farmers. Farms combining cattle and pigs, on the other hand, suffered a drop in income which was the greater according to the relative weight given to pig production on the holding. Specialized pig farms, which had a high labour income in 1975/76, saw this income decline by over 50% in 1976/77.

Luxembourg

397. Overall agricultural income in 1976 declined by about 10% compared with 1975 due to the drought—even when Government measures are taken into account. The average agricultural income per holding fell by 6.3%.

Denmark

398. According to the latest estimates the labour income per ALU for the 1976/77 farm year fell by about 25% compared with the previous year. This substantial drop was due principally to low crop yields—particularly of cereals, sugarbeet and fodder crops—and also to higher production costs arising from the fact that farms had to make up their own poor fodder production by purchasing feedingsuffs.

United Kingdom

399. Despite the drought, which mainly affected the southern part of the country, the average net income per farm increased; however, the situation varied considerably from one region and type of farm to another.

Scotland, Northern Ireland and Wales had better results than other regions. Farms specializing in grazing stock (cattle and sheep), particularly those specializing in breeding and rearing, had the greatest growth in income. For dairy farms the price increase for milk, cull cows and calves largely counterbalanced the rise in costs—particularly of feedingsuffs; however, the incomes of dairy farms in the areas particularly affected by the drought fell off.

'General agriculture' holdings benefited from higher prices than in the previous year, especially for cereals, potatoes and various other crops, which largely compensated for lower yields and provided an increased average income. In this sector too, the situation varied from one region to another. The incomes of farms producing pigs and poultry (except for those in Northern Ireland) declined appreciably due to the lower pig prices

throughout most of the year and the rise in production costs—particularly of feedingstuffs.

Ireland

400. Agricultural incomes again rose considerably in 1976/77. This trend applied to all types of farms without exception.

Cattle farms increased their labour income per ALU by about 66% in the case of farms of 5-10 ha, 50% for farms of 10-50 ha and 30% for farms of more than 50 ha, irrespective of specialization (milk or meat).

Farms combining cattle and pig production also showed an increase in labour income per ALU, although to a lesser extent (30%).

Sheep farms recorded a substantial increase in labour income, which almost tripled compared with the previous year.

Outlook for 1977/78

401. Although at the time of writing most of the figures needed for a valid estimate of agricultural incomes for 1977/78 are not yet available, it already appears that incomes in the present marketing year should, if all goes well, show a marked increase over those for 1976/77 in most regions of the Community—apart, perhaps, from regions whose situation last year was exceptionally favourable and which therefore are already well ahead of the others. This favourable outlook is due in particular to the following two factors:

- The output/input ratio for 1977 will be considerably better for most types of farms than in 1976, because of a drop in the cost of feedingstuffs following an abundant fodder crop. Moreover, in several Member States the price ratio between agricultural products and products needed for agriculture will be more favourable than in 1976 for most types of farming.
- The return to normal production conditions for agriculture will enable not only the 1977 input, but also the remainder of the 1976 inputs (which could not be used because of the drought) to be fully exploited.

However, some types of holding, in particular fruit farms, will still feel the unfavourable effects of the 1976 drought in 1977.

402. 'General agriculture' holdings should benefit from this situation, apart from those with large areas under potatoes. Farms specializing in grazing stock will see their situation return to normal, thanks to the abundant fodder crop, which will not only enable

them to feed the animals satisfactorily during the grazing period but permit fodder stocks to be built up again for the winter; the prohibitive purchases of feedingstuffs which numerous farmers were forced to make because of the 1976 drought will not be necessary this year and the output/input ratio on these farms will be considerably improved. In some countries the incomes of the farms may not rise to any great extent, however, since they benefited from exceptional aid measures last year.

403. In *Germany* preliminary estimates point to a recovery in the agricultural income situation in 1977/78. However, incomplete knowledge of fluctuations in volume or prices for the current farm year prevent forecasts being made at present for 1977/78 income trends according to type of farm and region.

404. With a return to more normal climatic and economic conditions than in 1976 it is expected that in *France*, too, 1977 should bring a positive trend in national agricultural incomes.

405. On the other hand, in *Italy*, although the figure for value added for the first half of 1977 was 3% up on the first half of 1976, agricultural incomes are expected to be unchanged.

406. In *Luxembourg*, the value of agricultural production in 1977 should be barely higher than in 1976, whilst production costs will probably be similar. Consequently, there should be a slight increase in agricultural incomes in 1977.

407. The cereal harvest in *Denmark* in 1977 will certainly be a record. After a decline in cereal production in 1976 there should be an increase of about 20% this year. The sugarbeet harvest will also probably be one of the best ever recorded. Fodder production has also been excellent, whilst the cost of feedingstuffs and fertilizers has dropped slightly. An appreciable improvement in agricultural incomes may therefore be expected, which will probably more than compensate for the drop in 1976.

408. Agricultural incomes in the *United Kingdom* should generally increase in 1977/78; however, this general trend will vary considerably according to region. Increased dairy yields and an upswing in the prices for milk, cull cows and calves, together with a drop in the cost of purchased feedingstuffs should ensure better incomes for most dairy farms except for those in Northern Ireland, which may find it difficult to maintain last year's figures.

The incomes of hill farms producing store cattle should also rise appreciably, due to increased prices for these cattle and ample fodder production. The price increases for store cattle will, however, have a negative effect on income trends in fattening farms.

The drop in cereals prices and the considerable fall in revenue from potatoes may prevent 'general agriculture' holdings from maintaining their income on average, especially in regions where favourable conditions last year brought this income to record levels.

409. For the third consecutive year, agricultural incomes in Ireland should in general increase substantially (25-30%) though by slightly less than last year.

4. Income disparities

410. Income disparities are still considerable between countries as well as between regions and types of farm.

Between types of farm

411. For most types of farm the regional disparities in labour income per ALU increased considerably in the Community in 1975 as against 1974.

In 1975 these disparities were in the following ratios:

1:5.3 (1974 = 1:3)	for 'general agriculture' holdings of 20-50
1:3.7 (1974 = 1:2.5)	for farms of 20-50 ha specialized in arable crops and grazing stock
1:4 (1974 = 1:2.7)	for farms of 10-20 ha specialized in grazing stock and arable crops
1:3.5 (1974 = 1:2)	for farms of 20-50 ha specialized in grazing stock and pigs and poultry
1:3 (1974 = 1:2.0)	for farms of 20-50 ha specialized in cattle production
1:4 (1974 = 1:2.7)	for farms of less than 5 ha specializing in vines
1:4.6 (1974 = 1:3.6)	for farms of 10-20 ha specializing in grazing stock and pigs and poultry.

412. The highest incomes were for 'pigs and poultry', 'general agriculture' and 'horticulture' (respective indices 152, 189, 125); farms combining pigs and poultry and arable crops or vice versa followed, with indices of 110 and 105, and those combining pigs and poultry and grazing stock or vice versa (indices 120 and 100).

Farms specializing mainly in permanent crops (fruit and vines) or with a production system including permanent crops were at the bottom of the income scale (indices 69, 63, 55, 50, 41). These farms are mainly situated in the Mediterranean regions of the Community.

413. The extremes of labour income per ALU for the types of farm under consideration ranged in 1969 from about 1 600 to 4 700 EUC; in 1975 they ranged from about 4 100 to 12 500 EUC. The ratio of the lowest to the highest income, which was 1:2.9, rose to 1:3. The difference has therefore persisted in relative terms; in absolute terms it rose from 3 100 to 8 400 EUC.

414. An examination of the indices of labour income per ALU for the principal types of farm in 1975 shows, among other things, that there has been a considerably greater increase in agricultural incomes in the three new Member States for all types of farming represented apart from 'general agriculture', for which incomes increased more rapidly in the six original Member States (index 125 for the Six and 106 for the Three, over the three years 1973-75: 1973 = 100).

Between regions

415. With regard to agricultural income per person employed, however, the disparity between the extremes in the different regions of the larger Community countries has narrowed somewhat.

416. In 1975/76 in the *United Kingdom* regional disparities in agricultural incomes were less marked than in the previous year. The least-favoured regions (Northern Ireland and Wales in particular) benefited from better production conditions and disparities in net farm incomes, which ranged from 37 to 141 (national \bar{x} = 100) or 1:4 in 1974/75 narrowed to 61 to 130 or a little over 1:2 in 1975/76. In 1975/76 Scottish farms recorded the best net incomes per holding. Production conditions, which favoured the northern areas of the country in 1976, probably helped to consolidate this trend towards a reduction in regional disparities for the second consecutive year.

417. Although regional disparities in agricultural incomes in 1975/76 have not changed much in *Germany* (the extremes ranged from 80 to 138 in 1975/76, against 81 to 140 in 1974/75), the relative positions of the regions have remained the same; it can therefore be assumed that these differences increased in 1976/77 due to the fact that the mountainous regions in the south of the country, whose agricultural incomes were the lowest, were most affected by the drought.

418. The year 1976 brought greater regional variations in agricultural incomes in *Italy*. The range widened from 47-178 in 1975 to 43-193 in 1976. There was also an increase in the disparity between the north of Italy, where most of the regions improved their relative positions, and the south where incomes receded compared with the national average.

419. The range of regional agricultural incomes in *France* (gross figures per farm per family worker) changed from 50-283 in 1975 to 59-279 in 1976. The relative positions of agricultural incomes in two geographical areas worsened: one of these consists of a wide strip which crosses France (from north-west to east, from the Channel coast to the Vosges and the Franche-Comté) and the other is in the Languedoc, which was affected by the wine-growing crisis.

420. The substantial aid granted to compensate for losses due to the drought helped to reduce regional disparities in certain countries and for certain types of farm; in France this was the case in particular for farms specializing in grazing stock. In general, however, the exceptional conditions in 1976 led to an increase in the disparities between the regions but did not fundamentally change their relative positions. Only some generally less-favoured regions, which benefited from exceptionally favourable conditions in 1976, have improved their position.

421. The exceptional conditions in 1976/77, then, distorted and in some cases strengthened the trends noted in previous years as regards the disparity between agriculture and other economic sectors, and within the agricultural sector itself.

5. Special measures to assist producers

422. In 1976 and 1977 the Community continued to apply certain specific measures to assist agricultural producers.

In 1976 Community and national measures were taken to meet the exceptional situation caused by the drought. They included measures at the frontier to prevent the export and to stimulate the import of fodder products, storage measures, special intervention measures and refunds to support beef prices, aid for skimmed milk for animal feed in regions affected by the drought, and drought aid granted by the Member States to producers to compensate for losses, payment of which was spread over 1976 and 1977.

423. Some measures were taken under the price and market policy, in particular:

— in the beef sector: continued protection at the frontier (safeguard clause decided on in July 1974, relaxed in April 1975 and in September 1976 and then abolished on

- 1 April 1977); disposal of market surpluses (buying in by intervention agencies of 0.41 million tonnes in 1975, 0.36 million tonnes in 1976 and 0.15 million tonnes up to September 1977); slaughter premium (clean cattle) only applied by the United Kingdom; calf premium in Italy;
- in the pigmeat sector: aid for private storage adopted in April 1977 in respect of 70 000 tonnes to ease the market situation;
 - in the cereals sector: production refund for manufacturers of cereal starch to enable them to compete against starch manufactured from other raw materials; a change in the system of aid for durum wheat, which was more than doubled in low yield regions (including less-favoured regions) as against those with high yields. From the 1977/78 marketing year the aid will no longer be granted in high yield regions;
 - in the fruit and vegetable sector: market withdrawal for apples (165 000 tonnes, pears (327 000 tonnes, 12.3% of production), peaches (335 000 tonnes, 18.5% of production), oranges (300 000 tonnes, 18.5% of production), mandarins (9% of production) and lemons (55 000 tonnes, 7.3% of production); introduction in 1976 of a scheme for grubbing apple and pear-trees to bring Community fruit production into better balance.

424. In the sectors with a structural imbalance, the Community took measures to benefit wine producers (distillation of 6 million hl in 1976/77 compared with 2.2 million hl in 1975/76), producers of certain fruits and vegetables and milk producers (stocks of skimmed-milk powder exceeded 1 million tonnes at the beginning of October 1977 and butter stocks stood at about 170 000 tonnes).

425. As regards the socio-structural policy a Regulation on common measures to improve the conditions under which agricultural products are processed and marketed was adopted by the Council in February 1977. These measures should ensure better outlets for agricultural production and also have favourable consequences for consumers.

426. A reliable indication of the scale of Community action on behalf of farmers is the level of EAGGF expenditure. The forecasts of expenditure for 1977 amount to 7 101.6 million u.a. for the Guarantee Section and 325 million u.a. for the Guidance Section. In 1977 expenditure amounted to 3 700 million u.a. in compensatory measures, 1 300 million u.a. for storage and market withdrawals and 2 000 million u.a. for export refunds.

427. It should be borne in mind that some of this expenditure did not directly concern agricultural producers. The same applies to total expenditure for the implementation of national and Community agricultural policies, which amounted to about 14 000 million u.a. in 1975.

V. The financial aspects

Introductory remarks

428. In their Resolution of 2 October 1974 Member States agreed to submit to the Commission a list of all State aids to agriculture and to keep it up to date. This list is drawn up on the basis of national expenditure, which also constitutes the source for the 'national expenditure' section of this report. There has thus been a change of method. Consequently, the data published in previous Reports on the Agricultural Situation in the Community, which were taken from national budgets and represented expenditure forecasts, cannot be compared with the figures given in this report. A further result of this change in method is that the years for which national and Community expenditure is examined in detail are no longer the same. National expenditure relates to 1975; the portions of this chapter concerned with the EAGGF concentrate on 1976 and 1977.

It should also be mentioned that some Member States have not supplied any information on several categories of expenditure.

A — General

429. In 1975, expenditure effected by the Community and the Member States to finance the agricultural policy amounted to 14.2 milliard u.a. of this 35% or nearly 5 milliard u.a., was borne by the EAGGF, which spent 4.7 milliard u.a. on the functioning of the common market organizations. National expenditure on market support for products not subject to a common market organization was of the order of 120 million u.a. Of the total of 9.4 milliard u.a. spent for purposes other than market support, 6.1 milliard u.a. (of which 258 million u.a. were borne by the EAGGF, Guidance Section) or 65% was spent on measures to promote the production, processing and marketing of farm products, including the improvement of agricultural structures. Expenditure in favour of consumers (1.1 milliard u.a. or 12%) reached a total close to that for expenditure on social insurance for the farming population (1.7 milliard u.a. or 18%). Financing of research and advisory services absorbed only 411 million u.a. (5%).

430. In 1977, expenditure by the Guarantee Section of the *European Agricultural Guidance and Guarantee Fund* (EAGGF) totalled 7.1 milliard u.a., an average increase of 27.5% over the previous year. By comparison with this average, the increase was highest in the case of oils and fats (33%), sugar (83%), pigmeat (223%), eggs and poultrymeat (91%) and the total sum spent on monetary and accession compensatory amounts (41%). The increase was below the average in the case of cereals (25%) and milk products (21%). Expenditure in all other sectors in 1977 was less than in 1976.

431. The milk products sector, with 2.5 milliard u.a. (or 35% of total expenditure), and monetary and accession compensatory amounts, with 1.22 milliard u.a. (17%), accounted for more than half of the expenditure of the EAGGF Guarantee Section in 1977. Expenditure on cereals (11%), beef and veal (7%) and milk products, when added to that on financial support for a single common market, accounts for 75% of all expenditure by the EAGGF Guarantee Section, or the same percentage as in 1976. Forecasts for 1978 indicate that total expenditure by the Guarantee Section will rise by about 18% to 8.37 milliard u.a. Cereals (16%), milk products (32%), sugar (10%), and monetary and accession compensatory amounts (12%) will probably account for 70% of this figure; the reduction forecast for accession compensatory amounts is due to the abolition of this system from 1 January 1978.

432. An analysis of trends in expenditure according to the economic nature of the measures reveals that in 1977 the highest increase over 1976 was in price support expenditure, which rose by 57%, and represented nearly 53% of the total expenditure of the Guarantee Section. Such measures were increasingly applied in the cereals, milk products, pigmeat and fruit and vegetables sectors. Other forms of expenditure were of less importance. Expenditure on withdrawals from the market and similar operations, for example, accounted for only 2% in 1977, as against 5.4% in 1976. Expenditure on export refunds increased notably in the case of sugar (from 56 million u.a. in 1976 to 255.8 million u.a. in 1977), milk products (from 697.4 million u.a. to 968.7 million u.a.), pigmeat (from 22.2 million u.a. to 63 million u.a.). However, with 28.5% of all expenditure, export refunds accounted for nearly the same percentage in 1977 as in 1976 (30%).

433. Appropriations for the *Guidance Section of the EAGGF* in 1976 totalled 325 million u.a. The sum of 235.5 million u.a. provided in the 1976 budget for financing the improvement of farm structures was increased to 264.2 million u.a. after 28.7 million u.a. had been recovered under Regulation (EEC) No. 3171/75. Between 1964 and 1976, 6 264 projects obtained aid from the Fund totalling 1.7 milliard u.a. In 1977 the Fund will help to finance both common and special structural policy measures decided by the Council, with a total of 115 million u.a. being used to reimburse expenditure incurred by the Member States in 1976.

434. The common agricultural policy also has a source of revenue in the form of levies on trade with non-member countries and production levies in the sugar sector, which supplement the Community's own resources. In 1977 this revenue was estimated at 1.56 milliard u.a., as against 1.16 milliard u.a. in 1976. The increase in the sugar production levies was proportionally greater than that in the other levies. The total revenue for 1978 is forecast at 2.06 milliard u.a.

B — The EAGGF guarantee section

1. Principal features

435. The Guarantee Section of the EAGGF finances:

- refunds on exports to non-member countries;
- intervention to stabilize agricultural markets, including monetary compensatory amounts.

In theory these two classes of expenditure are financed in their entirety by the Community, with the exception of expenditure incurred by the intervention agencies for buying-in, storage and disposal and costs relating to the funds these agencies must obtain when buying-in merchandise.

This expenditure is at present financed at a flat rate, i.e., on the basis of amounts fixed by the Commission representing costs recorded throughout the Community for the above operations and taking an average rate of 8% for interest on immobilized capital. As these provisions are purely temporary, the Commission will shortly submit a proposal setting out detailed rules on the matter.

436. The Commission is continuing its efforts regarding the verification of expenditure effected by the Member States on behalf of the Community and has set up a programme designed to reduce the delay in clearing accounts, so that these operations will refer, to a greater extent than hitherto, to recent expenditure. One of the difficulties involved is the multiplicity of agencies concerned with payment and supervision at national level.

437. The efforts deployed to combat irregularities have been continued and various further steps have been taken to this end by the Council, especially by the adoption on 27 June of Directive 77/435/EEC. This provides, in particular, for systematic scrutiny by Member States of the commercial records of undertakings participating in the financing of the EAGGF, Guarantee Section. In the first half of 1977, 53 cases of irregularity were discovered involving a sum of 3 063 107 u.a., of which only 100 197 u.a. have been recovered. They related principally to the beef and veal, milk products, pigmeat and cereals sectors, and mostly concerned monetary compensatory amounts.

The Commission has set up a system by which the national authorities responsible for combating fraud are kept informed of the most important cases.

2. Changes in the market machinery which have significant financial consequences

438. In the milk products sector, a programme aimed at the gradual restoration of equilibrium on the milk market was adopted by the Council on 26 April 1977. It includes:

- introduction of a co-responsibility levy at producer level in the form of a financial contribution of 1.5% of the target price for milk. The receipts are to be used for measures creating further outlets for milk products. At budgetary level, the yield will be deducted from the cost of the above measures;
- introduction of a system of premiums for the non-marketing of milk and milk products and for the conversion of dairy herds, of which 60% will be financed by the Guarantee Section and 40% by the Guidance Section;
- the supply of milk at reduced prices to schoolchildren.

439. In the fruit and vegetable sector, in order to facilitate the disposal of certain citrus fruits on Community markets a system of aids has been introduced by Regulation (EEC) No. 1035/77 laying down special measures to encourage the marketing of products processed from lemons harvested in the Community in the 1977/78, 1978/79 and 1979/80 marketing years. Moreover, under Regulation (EEC) No. 1034/77 the marketing premium for lemons was extended until the end of the 1977/78 marketing year.

440. As in 1976, the Council decided on several occasions to transfer agricultural products stored by the intervention agencies from one Member State to another, to ease the supply situation in certain regions of the Community. From the financial point of view these operations were carried out in such a way as to avoid commercial transactions between intervention agencies.

441. Regulation (EEC) No. 1386/77 extended to cereal products the provisions on the financing by the EAGGF, Guarantee Section, of sugar, tobacco and tinned pineapple produced in the French overseas departments.

442. On 8 March the Council adopted Regulation (EEC) No. 474/77 providing for the use of a separate heading in the Community's budget from 1 January 1977 for the financial effects resulting from the different conversion rates, applied for measures financed by the Guarantee Section of the EAGGF. This 'dual rate effect' is not, properly speaking, agricultural expenditure and is therefore entered separately from market expenditure.

3. Expenditure trends

A. Overall trends

443. Expenditure for 1977 totals about 7 100 u.a. compared with 5 570 u.a. in 1976, or an increase of 27.5%. Agricultural expenditure properly speaking (refunds and market intervention¹) represents about 5 280 u.a. or 74%, while monetary compensatory amounts account for 970 u.a. or 14% and the dual rate for 600 u.a. or 8.5%.

In view of these trends, the Commission proposed to the Budgetary Authority a supplementary budget for a total of 934.2 u.a., which was adopted on 7 July 1977. Of this sum allocated to the EAGGF Guarantee Section, 388 u.a. or 41.5% is earmarked for expenditure on monetary compensatory amounts.

B. Economic nature of the measures financed

444(a). In 1976 and 1977, prices on world markets remained low, on the whole lower in 1977 than in 1976. Expenditure on refunds continued to rise and payments for 1977 are likely to exceed 2 milliard u.a.; the share of total expenditure for this item, therefore, increased from 31.3% in 1976 to about 48.5% in 1977. The increase was greatest in the milk products, sugar and pigmeat sectors.

445(b). As regards intervention in the strict sense—i.e., market support measures—total expenditure for the largest category, price support measures, remained at the same level in relative terms as in 1976 (about 36.5%). However, expenditure for withdrawal from the market, which had reached an exceptionally high level in 1976 because of abundant fruit, vegetable and wine production, fell in 1977 from 6.4 to 2.5%.

446. Expenditure arising from the monetary situation, especially as regards monetary compensatory amounts, rose from 504.7 u.a. in 1976 to 970 u.a. in 1977, thus representing 13.7% of the total expenditure of the Guarantee Section compared with 9.1% in 1976. This increase was essentially due to movements in market rates which were not followed by corresponding adjustments to the representative farm rates.

It should also be noted that the 'dual conversion rate' expenditure, which appears in the budget for the first time in 1977, also increased greatly as a result of the widening

¹ Not including accession compensatory amounts, which totalled 250 u.a. or 3.5%.

disparity between the agricultural rate and the IMF rate used in the Community budget until the end of 1977. This expenditure totalled about 600 u.a. in 1977, or nearly twice the figure for 1976.

C. Estimated expenditure for 1978

447. In September 1977 the Commission forwarded to the Budgetary Authority revised proposals for the EAGGF Guarantee Section part of the 1978 budget. The proposed appropriations total 8 373.4 u.a., or an increase of about 18% on the 1977 figure; they are divided as follows:

- 6 674.8 u.a. (80%) for market support measures
- 992.6 u.a. (12%) for monetary compensatory amounts
- 676.0 u.a. (8%) for dual conversion rate expenditure.

4. Agricultural levies

448. Although the common agricultural policy generates expenditure, it is also a source of revenue from levies in general and the sugar-production levy; the yield is estimated at 1 561 u.a. for 1977 compared with 1 164 u.a. in 1976. The total figure for 1978 is estimated at about 2 063 u.a., bearing in mind price trends on world markets.

C — The EAGGF guidance section

1. Financing

449. The role of the Guidance Section is to participate in financing the Community agricultural structures policy. Since the adoption of Regulation (EEC) No. 729/70, the Section's financial resources are used:

- to finance common measures decided by the Council aimed at the objectives laid down in Article 39 (1) (a) of the Treaty;
- to finance special measures decided by the Council before the adoption of Regulation (EEC) No. 729/70;
- for capital subsidies for projects designed to improve agricultural structures, pursuant to Regulation No. 17/64/EEC.

In allocating the appropriations, priority is given to common and special measures, while the financing of individual projects is continued so long as the total amount allocated to common measures in a given year is smaller than the Guidance Section's annual appropriations, at present 325 u.a.

2. Financing of common measures

450. In 1977 the Guidance Section's field of operation was extended by the adoption of three new common measures. Regulation (EEC) No. 355/77 adopted by the Council on 15 February 1977, is concerned with improving the conditions under which agricultural products are processed and marketed. This measure aims to rationalize marketing structures in respect of agricultural products and facilitate the adaptation or guidance of agriculture made necessary by the economic consequences of the common agricultural policy. Under this Regulation, which is to remain in force for five years, the Guidance Section may grant financial aid to individual investment projects forming part of specific programmes drawn up by the Member States and approved by the Commission. However, projects relating to sectors and geographical areas for which programmes have not yet been approved may receive aid from the Fund in the first three years. The measures laid down in Regulation No. 17/64/EEC for the improvement of marketing structures ceased to apply from the 1978 financial year.

The action programme proposed by the Commission in July 1976 for the progressive

restoration, in the period 1977-80, of equilibrium on the milk market, which is marked by substantial and growing surpluses, has been largely adopted and has led, in addition to the application of Regulation (EEC) No. 1078/77, to the adoption of a Directive introducing Community measures for the eradication of brucellosis, tuberculosis and leucosis (Directive 77/391/EEC). The cost borne by the Guidance Section for the reimbursement of expenditure incurred by Member States is estimated at 130 u.a. for the three years required to carry out this action.

To remedy the serious structural deficiencies affecting the supply of agricultural products in Italy, the Commission submitted to the Council on 31 May 1977 an amended proposal for a Regulation concerning producer groups and associations thereof (OJ C 146, 22.6.1977, p. 2).

451. With regard to the reimbursement of expenditure incurred by Member States for implementing common measures already in force, the Commission continued in 1976 to grant aid under Directives 72/159-160-161/EEC on the reform of agricultural structures and 75/268/EEC on hill farming. The total sum involved was 47.1 u.a., to which must be added 23.2 u.a. paid in respect of:

- measures to encourage the development of beef and veal production (Regulation (EEC) No. 1353/73)
- aid to hop producers' organizations (Regulation (EEC) No. 1696/71)
- survey on the structure of agricultural holdings (Directive 75/108/EEC).

3. Financing of special measures

452. This category of measures has been in existence since 1966; such measures corresponded broadly to common measures before this expression was given legal form in Regulation (EEC) No. 729/70. In most cases the measures concerned improvement to the operation of certain market organizations and enabled certain economic problems to be solved, particularly in the launching period of the common agricultural policy.

Payments for the slaughtering of cows and non-marketing of milk and milk products (Regulation (EEC) No. 1975/69) and for the grubbing of certain species of fruit trees (Regulation (EEC) No. 2517/69) were made for the last time in 1976; these two actions have now been wound up. Special measures still in force concern aid to fruit and vegetable producer groups (Regulation (EEC) No. 1035/72) and measures for improving the production and marketing of Community citrus fruit (Regulation (EEC) No. 2511/69).

453. Under the Community measures to aid the population of Friuli-Venezia Giulia affected by the earthquake of May 1976, 45 u.a. were entered in a supplementary budget for 1976 and administered by the Guidance Section. These appropriations were used to finance 97 projects for repairing damage to agriculture in the affected provinces.

4. Financing of projects to improve agricultural structures pursuant to Regulation No 17/64/EEC

454. In the 1976 budget a sum of 141.2 u.a. was set aside to finance individual projects falling within the scope of Regulation No. 17/64/EEC. To this sum were added appropriations totalling 28 724 544 u.a. recovered under the provisions of Article 2 of Regulation No. 3171/75/EEC and unused appropriations totalling 94 270 000 u.a. from other chapters covering EAGGF Guidance Section expenditure. In consequence, on 29 July and 30 December 1976 the Commission granted aid totalling 264 194 544 u.a. to 808 individual projects. The delay in examining applications which had accumulated in the first years of the system's operation was completely eliminated in 1976. The Commission decision to grant aid under the first instalment for 1977 was taken on 18 July 1977; 334 individual projects were involved and the amount of aid granted was 107 647 995 u.a.

455. From 1964 to 1976, a total of 1 740 u.a. was granted for 6 264 individual projects, involving a total investment of 8 084 u.a.

The sector receiving the most aid from the Fund was that relating to land and water improvement works (32%), followed by the milk, wine and meat sectors with 13.2, 12.6 and 10.3% respectively.

A breakdown by investment category shows that 50% of all aid was allocated to improving production structures, 43.8% to marketing structures and 6.2% to the mixed production/marketing structures category.

5. Problems associated with the execution of the budget for 1977

456. After a difficult launching period, especially in the field covered by the structural Directives, substantial progress has been made in the implementation of the common measures; applications for reimbursement by Member States presented to the Commission in 1977 largely concern 1977 budget appropriations set aside for this purpose.

It may be expected that the annual allocation of 325 u.a. for the Guidance Section will no longer be sufficient to meet the cost of common and special measures in 1978 and it will be necessary to break into the reserves set aside since 1969, which at present total 531.1 u.a.

With regard to the financing of projects pursuant to Regulation No. 17/64/EEC, the sum of 91.2 u.a. entered in the 1977 budget will be supplemented by appropriations recovered by cancelling or reducing aid previously granted (Article 2 of Regulation (EEC) No. 3171/75) and unused credits from other Articles concerning Guidance Section expenditure, in particular 80 u.a. entered for common measures for improving conditions for processing and marketing agricultural products, which will not become applicable until 1978.

This will allow the Commission to propose that the sum of 210.2 u.a. be used to finance individual projects for 1977.

D — National expenditure in 1975

457. According to the data communicated by the Member States, in 1975 national expenditure on agriculture, in the form of subsidies, interest-rate subsidies and tax relief, totalled 6.6 milliard EUC in the Community.¹

This amount covers assistance granted by the Member States for the production, marketing and processing of agricultural products, research and advisory services and the consumption of agricultural products and foodstuffs.

Some of the information supplied by the Member States is incomplete, however, particularly as regards tax relief and expenditure on agricultural research and advisory services.

458. State aid for agriculture—excluding expenditure aimed at promoting consumption—averages 8% by value of final agricultural production in the Community.

National expenditure exceeds the Community average in the United Kingdom (20%), Luxembourg (14%), Ireland (11%) and Germany (9%); France's expenditure is equal to the Community average, while that of the other Member States is below the Community average: the Netherlands (5%), Italy and Belgium (4%) and Denmark (3%).

459. Expenditure is mostly concentrated on measures to support production. In the case of three Member States, some data could not be classified according to the major types of aid (France, Italy and Belgium); in the other six countries, expenditure on production support averages 65% of national agricultural expenditure.

Above this average are Germany (92%), the Netherlands and Ireland (75%) and Luxembourg (69%); below this average are the United Kingdom (50%) and Denmark (20%).

460. Again in these six Member States, aid for marketing and processing averages 8% of national expenditure on agriculture. This type of aid is above the average in Luxembourg (31%), Denmark (25%), the Netherlands (18%) and Ireland (9%); it is below the average in Germany (7%) and the United Kingdom (6%).

461. In Denmark, expenditure on agricultural research and advisory services occupies first place, with 32% of national expenditure on agriculture.

¹ This amount does not include the forms of aid for social security purposes listed by the Member States. Such aid accounts for about 1.5 milliard EUC.

462. In Belgium too, some priority is given to these services (about 20%). In the other Member States, the financing of research and advisory services is somewhat difficult to evaluate as the information available is not homogeneous.

463. Consumer subsidies on food and agricultural products are uncommon except in the United Kingdom, where they account for over one-third of national expenditure; in Denmark they represent 22% and in Ireland 6%; in the other Member States applying such measures (Germany, the Netherlands and Belgium) they account for less than 1% of total expenditure.

464. In several Member States, certain types of aid are financed by parafiscal charges on agricultural products. This is the case in France, where revenue from such charges amounts to about 98 million EUC, the Netherlands (48 million EUC), the United Kingdom (26 million EUC) and Denmark (19 million EUC).

In this analysis no account has been taken of expenditure on social security as the relevant information supplied by the Member States is not homogeneous.

465. This analysis gives some idea of how the main lines of national agricultural policies differ—sometimes widely—from one Member State to another. Farming's place in the national economy, the interests of producers, operators and consumers and the structural situation in agriculture do not always play the same part in determining the objectives and instruments of agricultural policy.

Conclusion: The outlook

1. General outlook

466. The world recession in 1974 and 1975 was exceptionally serious. In the Community the slow recovery which began in 1976 should continue in 1978, although a substantial reduction in unemployment is unlikely. The gross domestic product of the Community as a whole may be expected to grow at an annual average rate of about 3.5% in real terms. The rise in consumer spending is expected to continue in 1978 since the rise in incomes and the slowdown in the upward movement of prices is strengthening consumer confidence. In some Member States there are signs that the deficit in their current balance of payments will be overcome.

467. It is estimated that the Community inflation rate for consumer goods could be in the region of 8.5%. The fall in the cost of raw materials and the satisfactory harvest, together with the slower rise in wholesale and industrial prices which appeared in the summer of 1977 should encourage an even greater improvement, on condition that further progress can be made towards the reduction of wage costs.

468. The general economic environment, together with the exchange-rate adjustments (green rate) in the agricultural sector and the common agricultural prices fixed for 1978/79, will influence the position of both consumers and producers in the Community. It is very hard to assess how these various factors will influence the demand for food products in 1978. The information at present available on this subject is given below for each agricultural market. The same applies to the supply of agricultural products.

469. For 1978, the Council has adopted a draft budget of 8 373.4 million u.a. for the EAGGF Guarantee Section and 325 million u.a. for the Guidance Section. Here it must be stressed that considerable uncertainty exists, because of the monetary situation, regarding expenditure by the Guarantee Section in respect of monetary compensatory amounts. Thus, on the basis of the situation as this report takes final shape, expenditure under this heading in 1978 may be estimated at nearly 1 milliard u.a.

2. The market outlook

470. At the end of July 1977 the Commission presented to the Council a document on the updating of agricultural market forecasts (Document COM(77)380 final). Since then a new factor has changed the outlook for a number of agricultural sectors: an unexpectedly large soya harvest in the United States has caused prices to fall much more sharply than could have been forecast. The Community cereals harvest was much larger (by 13 to 14 million tonnes) than last year—which has put pressure on Community cereals prices, irrespective of certain speculative operations of a temporary nature—and, as foreseen, prices of animal feedingstuffs in the Community have therefore been lower since July-August 1977. Feedingstuffs prices will presumably remain low in 1978 and perhaps fall even further. World stocks of cereals are so great that even exceptional circumstances could not bring about a sudden reversal in that sector. The measures adopted in the United States, particularly as regards the quantities to be set aside as reserve stocks, could well make world prices rise without affecting price levels in the Community. In the EEC the abundance of the feed grain harvest and the relatively large quantities of manioc still available, not counting several million tonnes of surplus potatoes which again this year will be fed to livestock, will tend to keep cereal prices relatively low. As regards protein in animal feedingstuffs, price increases cannot yet be expected for 1978 or the beginning of 1979. The situation is less clear in this sector, however. Although stocks are greater than last year, they are far from a level which would exclude any disruption of the supply situation under certain circumstances. These might take the form of unexpectedly low soya production in Brazil and Argentina at the beginning of the next year (estimated increase: at least 1.5 million tonnes), a considerable drop in groundnut production in Africa (drought), a smaller sunflower seed harvest in the USSR or increased imports of vegetable proteins to Eastern Europe, the USSR and developing countries. Certain combinations of the abovementioned factors might well lead to higher soya prices from spring 1978 onwards; but, as stated above, there is still no reason to think that will be the case and prices of animal feedingstuffs may justifiably be expected to remain relatively low in 1978. The effects of low feedingstuff prices will be felt in the meat sector, especially pigmeat and poultrymeat, and consequently beef and veal, and also in the milk products sector.

471. The pigmeat sector was still in great difficulty in the spring of 1977 because of low pig prices and the high cost of feedingstuffs, but since July-August pig prices have increased and feedingstuff prices have fallen. The resulting swift improvement in profit margins led to a less rapid decrease than forecast in the sow headage and even, in some regions, to an increase. Pigmeat production during the last quarter of the year is expected to be the same as in the corresponding period of 1976 and until about June 1978 production is only expected to be about 1% down on this year. This slight decrease, added

to a marked drop in the cost of feedingstuffs, could mean a substantial increase in the sow headage and, in turn, greater pigmeat production from the autumn of 1978 onwards. This would put pressure on prices towards the end of the second half of 1978, which, given the cost of feedingstuffs, would not necessarily cause a crisis in this sector. This pressure on pigmeat prices in 1978 and perhaps beyond may be further accentuated by increased supply of pigmeat from non-member countries, particularly East European countries. In short, fairly satisfactory pigmeat prices and good profit margins are expected until the spring of 1978, after which, and especially from the autumn onwards, prices will be under strong pressure. This means that the pig cycle, which has been very regular in recent years, would be disrupted for the first time.

472. As regards poultry, the effects of feedingstuffs costs are roughly the same as those described above in the context of pig-farming. Here again, the economic situation of the producer is expected to improve, which might lead to an increase in production. This reaction may be expected from April-May 1978 onwards if the situation on which these forecasts are based remains unchanged. If pigmeat production in 1978 is 2 to 3% higher than in 1977, the increase in the poultry sector will be even greater, as the former will act as a stimulus for the latter and an increase in poultrymeat production is expected in 1978 in any case. Total poultry production could therefore be at least 5% higher than in 1977, which would tend to depress prices; the level of prices will, in the final analysis, depend on outlets in non-member countries. Pressure must be expected on poultrymeat prices a little earlier than on pigmeat prices.

473. In the beef and veal sector, the cattle census of December 1976 indicates that the headage, particularly of beef cows, will decrease, thereby reducing meat production. The decrease is put at about 4% for 1977 and a further 1% in 1978 and is expected to be followed in 1979 by a sharp new increase in production, reaching a record level at the end of the decade. Substantially different forecasts are not yet justified by the price rises recorded in this sector. The change in the situation as regards pigs and poultry is, however, bound to affect the economic situation of beef producers; it should also be borne in mind that the general economic situation in the Community (economic growth and unemployment) indicates that consumption of beef and veal will not increase substantially. In the light of these factors, it may therefore be assumed that beef and veal prices will remain more or less stable during the last quarter of 1977 and probably into the first half of 1978, after which pressure will be exerted on beef and veal prices, slowing down the process of increasing the herd and hence that of reducing production, or even reversing this trend. Pressure on beef and veal prices is also exerted by the high level of intervention stocks and net imports which will probably be higher in 1978 than in 1977. Lastly, the situation in the milk and milk products sector should be considered, particularly the way in which the market in beef and veal will be affected by the measures adopted to restore equilibrium in that sector. So far the Commission has assumed that the

regulations on the conversion of dairy herds and the non-marketing of milk would increase beef and veal production by about 80 000 tonnes, half of which would be marketed in 1977 and the other half in 1978. Although the total quantity may well be slightly lower, the distribution by year will undoubtedly be different from that forecast: it is now thought that about one-third of this quantity will be marketed this year and the rest in 1978. Given the production outlook, the present level of intervention stocks and slightly increased consumption in 1978 (+1%) and in 1979 (+2.5%), the annual deficit for 1977 to 1979 may be put at about 200 000 tonnes.

474. The measures adopted this year to restore balance to the market in milk and milk products are expected to yield positive results. Although the consequences of these measures cannot yet be assessed, they are not expected to lead to any increase in the dairy herd, or, even if they do, the increase will be slower than usual. At the end of 1976, when the dairy cattle headage was 0.8% higher than in the previous year, a further 1% increase was expected by the end of 1977 and an additional 2% the following year. It is now estimated, however, that at the end of 1977 the dairy headage will be roughly the same as in 1976 and that the increase will be no more than 1% in 1978. Even so, production will again increase over these two years, because of a relatively large increase in yields. Towards the end of 1977, the weather and stockfeeding conditions were excellent, so that deliveries of milk will be about 3% up on 1976, the estimate for 1978 being close to or even higher than that percentage. The favourable conditions at the end of 1977 and the level of feed concentrate prices during the 1977/78 winter will largely offset the effect of the co-responsibility levy on production. In 1977, increased production of whole-milk powder, cheese and casein led to a slight fall in butter and skimmed-milk powder production. For 1978, however, no great increase is expected, particularly in respect of casein and, as consumption of milk, fresh dairy products and butter is tending to remain stable or even fall, butter and skimmed-milk powder surpluses may be expected to increase. Intervention stocks of butter will undoubtedly increase and stocks of skimmed-milk powder cannot be kept down to their present level unless the new marketing measures in the livestock sector yield the results hoped for. Given worldwide overproduction and low prices, it will not be easy to dispose of the Community surpluses on the world market.

475. The trend in the eggs sector is as forecast, although the increase in production at the end of 1977 and in 1978 may be greater than expected. In this sector, too, the price of feedingstuffs will cause production to rise considerably; the trough in the prices cycle will therefore probably last longer than usual and the minimum level predicted for the middle of the year will probably come again during the fourth quarter. The current sluggishness in egg consumption will accentuate this trend unless new sales outlets are found.

476. Thus, the improved profitability of livestock production (except eggs) will not be exactly as predicted by the Commission report of July 1977 which updated the forecasts for the second half of 1977 and 1978. According to the information available, the profitability of livestock production, again except for eggs, could improve more than expected, but might not last as long as expected, since prices are likely to fall during the second half of 1978.

477. As regards crop production, there is no reason at present to revise the forecasts made in July. The total area sown with potatoes in 1977 did not decrease as usual but is comparable with that of 1976, which is hardly surprising, considering how high potato prices have been over the last two marketing years. This year's normal production was 9 million tonnes higher (+30%) than in 1976, and has caused prices to drop sharply. Community potato consumption having decreased appreciably in recent years, much of this year's crop will be fed to livestock, since export opportunities are very limited. There is a possibility that consumption will increase slightly in the spring of 1978, given the good quality of the products, but in any case it will not be sufficient to alter the situation significantly. The experience of the 1975 and 1976 marketing years would suggest that, given normal weather conditions, the area under potatoes in the next marketing year may still be too great to achieve an approximate balance between the harvest and demand. Pressure on prices is thus expected and quite large quantities will have to be used in animal feed. This means that potatoes, manioc, sugarbeet and citrus pulps are, like all sorts of byproducts of the food industry, being used (along with soya meal) as direct substitutes for cereals in livestock feeding.

478. Moreover, if climatic conditions are normal, stock farmers will use more silage and grass and the demand for cereals for use in animal feedingstuffs will decline in relative terms this year and probably over subsequent years. This decrease in sales of cereals for use in animal feedingstuffs coincided in 1977 with a fairly abundant harvest, exceeding that of the previous year by over 13 million tonnes. As the quality of wheat is relatively poor in some countries this year, all kinds of factors have exerted pressure on the prices of cereals for use in animal feedingstuffs: overproduction of barley, forecasts of maize production and imports, poor quality wheat and the whole range of substitutes produced in the Community or imported from non-member countries.

479. Apart from the long-established trend away from oats and rye towards barley and maize, there is a slight shift towards fodder wheat. There is at this stage no reason to suppose that consumption of cereal substitutes will decrease, and in any case, it will certainly not do so if the world soya market continues to follow the trend described earlier.

480. In the Community, soya production is unlikely to expand, or will do so only with difficulty, unless the weather improves on recent years, or a variety entirely adapted to European conditions becomes available. On the other hand, the drop in colza and rape-seed production in 1977 may be attributed mainly to the adverse weather conditions in France when the crops were flowering. For future years, therefore, normal production of about one million tonnes may be expected. Future Community production of artificially dehydrated fodder depends entirely on whether the Council decides to maintain aid for this sector. Given the stiff competition from imported products this year, it is unlikely that production will expand appreciably. To sum up, it may be concluded that over the next few years the Community will remain almost as dependent as ever on non-member countries for covering its vegetable protein requirements.

481. Under the present sugar policy, it is unlikely that the area under sugarbeet will decrease much. It is therefore possible that, if weather conditions are normal in the next few years, the Community will have large surpluses of sugar—2.5 million tonnes—because of fairly low consumption of sugar and the sugar import contracts awarded to the ACP countries. When the International Sugar Agreement enters into force on 1 January 1978, it will be more difficult to sell sugar on the world market, so that it will be necessary to adopt measures which will, in all probability, alter the basic datum mentioned above, i.e. the maintenance of the present policy; for this reason it is difficult to make any forecasts. Production and consumption of isoglucose in the EEC does not seem likely, under the present circumstances, to have a very great effect on sugar consumption in the Community.

482. As usual, few changes are expected in the vegetable sector in the coming years and only a few slight changes in the fruit sector. Production of apples and pears is expected to increase slightly, but this trend could end more quickly than forecast because of the grubbing premium introduced in the Community. Production of peaches is expected to stabilize in the coming years and the planting of citrus fruit should slow down, thereby restraining the increase in production. Production of wine in 1977/78 is expected to be much lower than in previous years and, despite the present volume of stocks, prices may rise somewhat. Quite apart from the situation over the last two years, the Community's production potential still far exceeds its requirements, which means that new measures will have to be adopted to restore balance in this sector.

483. As regards certain other agricultural products produced mainly or exclusively in the south of the Community, the outlook has not changed in the past few months. Olive-oil production is expected to be good, but, given the existing stocks and the foreseeable prices for seed oils, sales will not pick up appreciably in the next few months and more olive oil will be offered for intervention. If Community production of rice remains fairly stable, sales on the internal market could improve, which would reduce exports to non-member countries.

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