

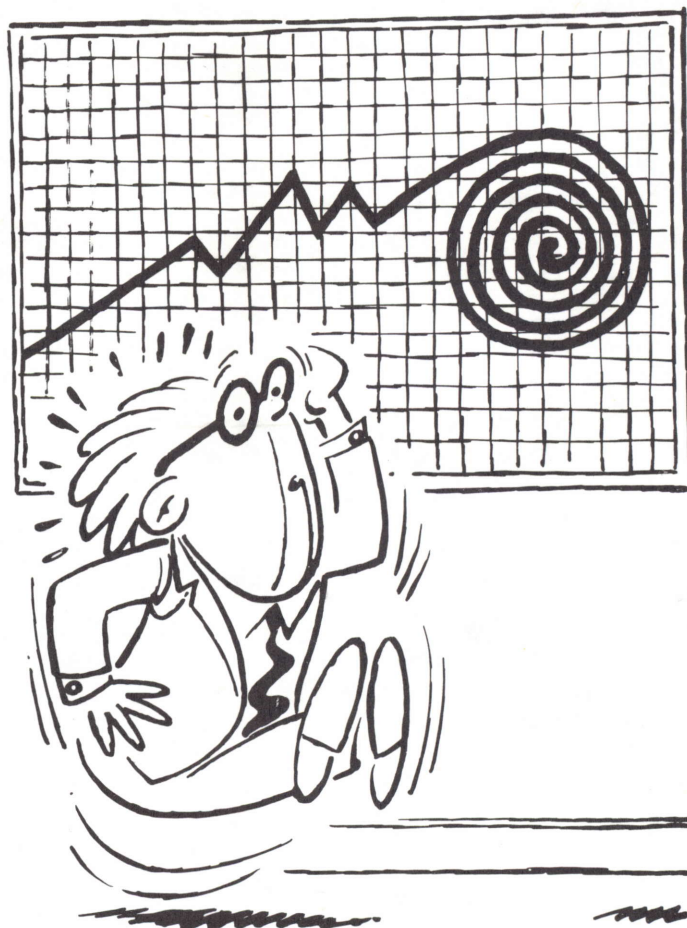
REPRODUCTION AUTHORIZED

Brussels, 21 January 1975

No 3/75

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- ** Inflation, unemployment, a downturn in business activity, and balance of payments deficits are the four factors affecting the MEDIUM-TERM ECONOMIC SITUATION AND PROSPECTS. A report submitted by the Community's Economic Policy Committee sums up the position.

X/34/75-E

This bulletin is published by the

Commission of the European Communities
 Directorate General of Information
 Division for industrial information and consumers
 Rue de la Loi 200
 B-1049 - Brussels - Tel. 735 00 40

Further information is available from the Commission's press and information offices in the countries listed on the inside cover.

The information published in this bulletin covers the European Communities' activities in the fields of industrial development, protection of the environment and consumer welfare. It is therefore not limited to recording Commission decisions or opinions.

PRESS AND INFORMATION OFFICES OF THE EUROPEAN COMMUNITIES

BELGIUM

1049 BRUSSELS
Rue de la Loi 200
Tel. 735 00 40

DENMARK

1457 COPENHAGEN
4 Gammeltorv
Tel. 14 41 40

FRANCE

75782 PARIS CEDEX 16
61, rue des Belles-Feuilles
Tel. 553 53 26

GERMANY

53 BONN
Zitelmannstraße 22
Tel. 2380 41

1 BERLIN 31
Kurfürstendamm 102
Tel. 886 40 28

GREAT BRITAIN

LONDON W8 4QQ
20, Kensington Palace Gardens
Tel. 727 8090

IRELAND

DUBLIN 2
29 Merrion Square
Tel. 76 03 53

ITALY

00187 ROME
Via Poli, 29
Tel. 68 97 22 à 26

LUXEMBOURG

LUXEMBOURG
Centre européen du Kirchberg
Tel. 479 41

NETHERLANDS

THE HAGUE
29, Lange Voorhout
Tel. 070-46 93 26

SWITZERLAND

1202 GENEVA
37-39, rue de Vermont
Tel. 34 97 50

UNITED STATES

WASHINGTON, D.C. 20037
2100 M Street, N.W.
Suite 707
Tel. (202) 872-8350

NEW YORK 10017
277 Park Avenue
Tel. 371-3804

As ANNEX 1 shows never has the Community been in more urgent need of medium-term forecasting which will throw light on the action required.

** AGRICULTURAL SURPLUSES are one of the most controversial aspects of the Common Agricultural Policy. Can we avoid PRODUCING ONLY TO DESTROY? How do surpluses come about?

ANNEX 2 explains what surpluses are and what is being done about them.

** Despite serious concern over the current economic crisis, public vigilance regarding ENVIRONMENTAL questions is as great as ever.

ANNEX 3 gives a progress report on the Community's Environmental action programme.

** Community consumers and business leaders have been POLLED ON THE SUBJECT OF THE ECONOMIC SITUATION. For the consumer section of the survey, members of some 40 000 households (including British households for the first time) were interviewed at the end of October. European consumers' views on the economic situation, which were not very favourable even in the spring of 1974, have become more pessimistic still, particularly in Ireland and Italy. Expectations are more negative even than in May last year, especially in Ireland, Italy and Belgium. Denmark is the only Community country where a slowdown of economic expansion is less frequently awaited than it was last spring. As in the previous survey, most consumers regard the rise in prices as excessive. However, the households concerned, notably in Germany, Belgium, Denmark and France, do not foresee another increase of the order they expected in spring 1974. By contrast, Irish and Dutch consumers seem to fear a further acceleration of the upward swing.

As far as business leaders are concerned (no British, Irish or Danish representatives took part in the poll), fears of a slack period are often expressed. Taken as a whole, order books in Germany, Italy and the Netherlands are not so full. The key factor is domestic demand. Orders for foreign contracts are still quite up. Production forecasts are markedly down. When the poll was conducted (at the end of August 1974), 23% of all industrialists anticipated a downturn in activity. Estimated selling prices, though still high, seemed to indicate a falling off in rates of increase.

** When the Commission received information as to the possibly harmful effect of COLZA OIL, it sought the opinion of the Scientific Committee on food products for human consumption. The Committee examined not only the traditional Colza oil made from Brassica compestris, Brassica napus and Brassica tournefortii but also Colza oils obtained from Brassica hybrids, which have an erucic acid content of 5% or less. Regarding the human effects, the Committee notes that few inquiries or analyses have been made to date, and no proof has been advanced of any harmful effects. The Committee recommends making further

studies. Effects observed in the case of Colza oils are not necessarily characteristic of these oils. Given the present state of knowledge, the Committee recommends that, as a precaution, the types of Colza oil used for human consumption should preferably be those with a low long chain fatty acid content (C₂₂ or more).

** A working party for the study of consumer problems, known as Intergroup, has been set up in the French Parliament, at the instance of Mr Jean-Marie Daillet, member for La Manche. Intergroup would like to open its doors to all groups represented in parliament, and has stated its intention of working with all socio-professional organizations in a spirit of total cooperation. Intergroup will concentrate on drawing up legal texts which will allow citizens to exercise their rights, either as individuals or as members of groups, particularly through the intermediary of consumer organizations. One of the first acts of the Chairman of Intergroup was to make formal contact with the information services of the European Commission, in order to arrange a study session in Brussels, to be attended by French members of parliament who are interested.

** On the German market alone 1 500 PESTICIDES are on sale. This proliferation of toxic, harmful, corroding or irritant products constitutes a permanent danger to an uninformed public. In view of the potential danger to the health of users, the European Commission has forwarded to the Council of Ministers a draft directive to approximate the laws concerning the codification, packaging and labelling of pesticides. As regards labelling in particular, one of the provisions requires packaging to bear the name and address of the manufacturer or agent, in legible and indelible print and, in particular, the name of the toxic or harmful substance or substances contained in the pesticide. Should accidents occur, this information is essential to those giving first aid to victims.

** CONSUMER PRICE INDEX FOR OCTOBER 1974 (1970 = 100)

	<u>G</u>	<u>F</u>	<u>I</u>	<u>N</u>	<u>B</u>	<u>Lux</u>	<u>UK</u>	<u>Irl</u>	<u>Dk</u>
General index	129	142	157	143	139	131	155		148
Bread	135	148	162	145	146	139			165
Meat	121	142	163	125	127	18	185		149
Milk, butter, cheese	125	143	157	136	125	126	127		152
Fruit and vegetables	123	152	161	129	116	119			147
Rent and water	126	134	108	140			146		137
Clothing and footwear	132	139	162	158	136	134	155		137
Household appliances	126	133	151	129	128	120	143		148
Fuel and energy	153	164	171	149	151	125	150		213
Services	135	144	148	159	153	139			153

- ** The fourth report on HOUSING FOR WORKERS moving within the Community has this to say of the situation obtaining in various Member States: "All too often foreign workers are housed in tumbledown areas, occupy makeshift lodgings, insanitary premises, hutments or garrets. Hygiene, sanitation and heating often leave much to be desired. The number of people per room is relatively high, and definitely higher than the various national averages". Governments are aware of this situation. Nevertheless, considerable efforts are still required if the housing conditions for foreign workers are to be improved. In the matter of family housing, efforts should be concentrated on building a larger number of subsidized dwellings. To house casual workers, more communal housing should be built, and the possibility should be considered of allowing young casual workers who are nationals of the country concerned to occupy these also.
- ** The rapid growth of DISTRIBUTION STRUCTURES and the importance of the trade sector in the Community's economy (see I&S No 45/74) prompted the services of the European Commission, in conjunction with government experts, to hold an enquiry at a meeting held in Brussels on 10 January. The enquiry covered the present situation, current legislation and legislation in course of drafting, and trading organization at national level. The need for accurate, up-to-date statistics also made itself felt. Statisticians will therefore be meeting in July to outline the details of a preliminary survey for 1975, to be undertaken by the Statistical Office of the European Communities. The government experts also expressed interest in a formula for harmonizing the various systems of numbering trade items and agreed in principle to take part in a briefing session to be held in the near future, which industry and commerce representatives concerned will also attend.
- ** Public expenditure on VOCATIONAL TRAINING in the United Kingdom rose from £30 million in 1968 to £85 million in 1974, whilst the number of government training centres increased from 13 in 1963 to over 50 in 1971. In France, the number of workers who have undergone retraining has almost doubled - from 560 000 in 1969 to 920 000 in 1974. This is some indication of the importance of the European Centre for the Development of Vocational Training which, following a proposal by the European Commission, the Council of Ministers of the Community recently decided to establish. The above figures were quoted by Dr Hillery, Vice-President of the European Commission, at a seminar on vocational training, organized by the Commission, at Manchester University.
- ** There have been further developments in CONSUMER PROTECTION in LUXEMBOURG, where attention has focussed on UNFAIR COMPETITION. Following Belgium and Germany, Luxembourg has amended its laws on this subject. Traders are now prohibited from selling at a loss, i.e., selling goods at a price below cost. In addition, the new regulation prohibits advertising exceptionally low prices for products, when stocks held in the shops are very small. However, the most radical departure is probably the prohibition of what is generally known as discount stores. There were several of these in Luxembourg, all operating on roughly

the same principle. A company or an association issued a special card for a relatively modest charge; this card then allowed the holder to obtain discounts of 10%, 15% and even 20% in certain stores. At first sight this appeared to be advantageous, but in fact the system concealed excessively high prices, was based on exaggerated upset prices (including actual reductions and a 2% to 3% discount for the middleman) and, ultimately, penalized mainly consumers who were not card-holders.

** The European Investment Bank has granted a £15.6 million loan to build a NUCLEAR POWER PLANT IN THE UNITED KINGDOM. The loan is for twelve years, bears an interest rate of 10.5%, and has been made to the Electricity Council. This loan by the Bank brings the total aid granted to projects in Britain in 1974 up to £79.9 million, and the total amount of aid to Great Britain since its accession to the Common Market, up to £112.8 million. In reply to a written question by Lord O'Hagan, it was further stated that the total, in loans and other forms of financial aid, granted to the United Kingdom since accession, over and above intervention by the European Investment Bank, amounts to 476.1 million u.a. (1 u.a. = £0.42).

** It will soon be possible to carry through harmonization of the technical specifications for MOTOR-CYCLES in the Community. The European Commission is thus pursuing a policy already applied successfully in the case of cars and mopeds. Maximum noise, and brakes and lighting systems will be gradually regulated by directives. In an outline directive forwarded to the Council of Ministers, the Commission has proposed a set of general rules applying to acceptance trials for different models: if the standards so defined are adhered to, this will automatically lead to free movement for motor-cycles within the Community. The Commission took the opportunity to draw up a definition of motor-cycles, as being vehicles with two or three wheels, an engine-capacity of over 50 cc, and a maximum speed of over 45 kilometers per hour. Vehicles with lower cc's and speeds are classified as mopeds.

THE COMMUNITY'S MEDIUM-TERM ECONOMIC SITUATION AND PROSPECTS

The present economic situation is characterized by an exceptionally high rate of inflation (between 15 and 20% in 1974 in the United Kingdom, Ireland, Italy, Denmark, France and Belgium) with a simultaneous downturn in business activity, possibly involving a fall in industrial production, a rise in the number of unemployed (over 4 million in the Community as a whole in December 1974) and large deficits in the foreign trade balances of all European countries (except the Federal Republic of Germany and the Benelux countries).

This is the diagnosis given in the Report on the economic situation and medium-term prospects submitted by the Community's Economic Policy Committee.

The problem is so serious that the Community has probably never before been in such urgent need of medium-term forecasting, which will throw light on the action required.

Over the next few years the Community will face the following problems:

- a slower rate of growth in living standards, as compared with the past;
- an increased production of goods for export to oil-producing countries, and for the redeployment of energy;
- an increased tendency for employment opportunities to shift from sector to sector, bringing with it the risk of higher structural unemployment.

The report is an attempt to explain the conditions in which Member States and the Community as a whole will be approaching this period of readjustment.

The importance of structures

Certain socio-economic structures help to explain why inflation rates and levels of foreign trade deficit have differed appreciably from one country to another. Among these, particular attention has been paid to production factors, external trade structures, regional imbalances and the inflexibility consequent on different tax, social protection and vocational training systems. These have been selected for illustration purposes and make no claim to be exhaustive.

The place of external trade, the part it plays in developing the economy, and the export structure of each Member State are important differentiating factors. It has been noted, for instance, that some countries are more sensitive than others to sudden large increases in raw materials costs on world markets. This is particularly true of Italy and the United Kingdom. As regards exports, Germany's industrial orientation is reflected in the high percentage of industrial products, which it exports, such as machinery and transport equipment. By contrast, countries like France, Ireland and Great Britain are in a relatively weak position.

Similarly, structural differences to some extent explain the ability, or otherwise, of Member States, to implement policies likely to bring a return to stability.

Effects of the energy crisis and prospects for 1978

As a result of increased prices for their product, the oil-exporting countries will draw an additional income of US \$70-80 000 million in 1974 of which US \$10-15 000 million will be owed by developing countries, whilst the bill for industrialized countries will amount to some US \$60-65 000 million. By 1978 this increased extra revenue for the oil-exporting countries could be between US \$80 and 120 000 million, depending on the price policy adopted. Over a five year period, therefore this gives a grand total of some US \$380 to 500 000 million.

On this basis it is possible to calculate the potential additional imports by oil-producing countries and the increased amount of aid they could give to non oil-producers. The analysis can also be used to calculate the net deficit to industrial countries, taking account of the expected increase in their exports. For the Community as a whole, the cumulative deficit could be about US \$60 to 90 000 million for the 1974-78 period. This overall figure of course conceals enormous disparities between Member States, from a high surplus for the Federal Republic of Germany, to considerable deficits for other countries, such as Italy, Great Britain, Ireland, Denmark or France.

There will be a price to pay for a return to stability, and for adapting the economy of the various Member States to the new conditions: for the Community as a whole in real terms it will amount to about 3-4% of the GNP, and this will fall mostly on the consumer (a 2 to 2.5% deterioration in the terms of trade, 0.2 to 0.3% in interest payments, and 0.5 to 1% in respect of investment on substitutes and reconversion).

Since it has been decided to draw up the fourth medium-term Economic Policy Programme (1976-80), it is now for the Commission and the other Community institutions to expand their initial research and, seek as part of that programme, to establish the policies most likely to lead to a return to stability, within the Community framework.

AGRICULTURAL SURPLUSES - PRODUCED ONLY TO BE DESTROYED?

Information recently published in the press alleging that large quantities of fruit and vegetables worth 40 million units of account (1 u.a. = US \$1.2) were destroyed during the Community's 1973/74 agricultural year, calls for denial and some explanation.

No waste

No Community regulation provides for the destruction of fruit and vegetables which have been marketed, but have found no buyer. On the contrary, to avoid unnecessary loss, the Community has made arrangements whereby such commodities are distributed free of charge to charitable institutions and schools, or supplied to industry for processing into a standard alcohol solution of over 90° or for processing in the pharmaceutical or cosmetic industries, or alternatively, used in animal feed. It is true that Community expenditure on the withdrawals is estimated to be about 40 million u.a., but this is incurred chiefly by the redistribution already mentioned.

For example, 89% of all pears withdrawn from the Italian market were assigned for processing into alcohol, 8% went into animal feed and 2% was distributed free of charge. A tiny fraction - 1% of the total withdrawn - deteriorated and could not be used for other purposes. In all, during the 1973/74 marketing year, 4% of the 16 to 17 million metric tons of fruit, and 0.02% of the 24 million metric tons of vegetables produced, were withdrawn from the market.

How do surpluses come about?

What is called a surplus is the amount of produce which at any given time and place cannot be sold at a price above or equal to the price needed to guarantee the grower a fair return for his work. The surplus is withdrawn from the market and stored (as is also the case with cereals, dairy products and sugar), processed (e.g., fruit, fish and denatured cereals) or distributed (perishables).

Not much can be done to prevent surpluses occurring. Firstly, because farming depends on the weather. The damage caused by rain during the final weeks of 1974 in the Netherlands, Great Britain, Belgium and France are a clear example of this. In Belgium people remember the market became flooded with tomatoes in 1973. Owing to good weather, tomatoes grown in the open reached the market at the same time as greenhouse tomatoes. The same happened in Italy in 1974, when forced peaches and ordinary peaches were picked about the same time. In cases like these there is a limit to how low prices can go. Farmers have been guaranteed their prices and yet the consumer's appetite for peaches or tomatoes has its limits.

At times surpluses from one year have to be kept as essential reserves for the following year. But only when the produce can be stored. Money spent on surpluses can be regarded as an insurance premium against shortages. In the sugar sector alone Community policy has meant a profit of 4 to 8 000 million units of account (1 u.a. = US \$1.2) for the European consumer.

Bad economic conditions

So called "fluctuation" surpluses also occur. This is now the case with beef and veal. Here several factors have come together - increased production, increased imports, rising production costs and a levelling of, not to say a cut-back, in consumption. Why the fluctuation? Beef and veal are products in which the Community normally has a large deficit and it seemed desirable therefore to increase production, especially when there was a tendency for consumption to rise. So production was encouraged. An increase in production costs however, reduced the profit margin for producers, and led them to market their animals sooner and faster than they would normally have done. At the same time customs duties were lowered to encourage imports. Should the Community have closed its frontiers? That would have been particularly difficult to do since the imports usually came from developing countries. To make matters worse, instead of continuing to grow, consumption fell. Inflation was already making itself felt in the family budget. All these factors coming together at one and the same time have produced a situation of temporary surplus. With an additional threat: the risk that premature slaughtering of cattle will lead to stocks being destroyed, and hence to a shortfall in the medium term. In these circumstances, the European authorities have very little room for manoeuvre.

Structural surpluses

Some surpluses are due to production structures or to the guaranteed price levels. The dairy industry for instance consists largely of small firms. Given this special structure, guaranteed prices to milk producers were fixed at a level believed by some to be too high. These prices have indeed sustained a production potential which will go on outpacing consumption possibilities. Cereals offer a similar example: by fixing the price for wheat at a level higher than that for fodder grains, excess soft wheat production was encouraged, and had then to be denatured to make up the fodder grain deficit.

The Community is probably best equipped to deal with structural surpluses. But national interests will also have to give way to Community interests.

EUROPE AND THE ENVIRONMENT - SITUATION REPORT

Despite serious concern over the current economic crisis, public vigilance regarding environmental questions is as great as ever. At the beginning of another year, we thought it appropriate to give a progress report on the Community's environmental protection programme, particularly as it affects action to reduce pollution and nuisance (see I&S No 28/74).

1. Commission Proposals Adopted by the Council

At its meeting on 7 November 1974, the Council adopted the following provisions:

- 1.1 Directive on the quality of surface waters intended for the production of drinking water (see I&S No 40/74);
- 1.2 Resolution on energy and the environment (see I&S No 18/74);
- 1.3 Directive on the disposal of waste oils (see I&S No 40/74);
- 1.4 Recommendation on the allocation of costs resulting from counter-pollution measures (known as the "polluter pays" principle - see I&S No 40/74).

2. Proposal Submitted to the Council

- 2.1 Resolution concerning the list of category 2 pollutants to be examined under the action programme (see I&S Nos 8/74 and 33/74);
- 2.2 Decision concerning the establishing of a joint procedure for exchanging information on the pollution of the atmosphere by sulphur compounds and particles in suspension (see I&S No 33/74);
- 2.3 Directive concerning the lead content of petrol (see I&S No 38/74);
- 2.4 Directive concerning the sulphur content of liquid fuels (see I&S No 7/74);
- 2.5 Directive concerning the composition of some toxic or dangerous substances;
- 2.6 Outline directive on waste disposal (see I&S No 32/74);
- 2.7 Decision concerning the reduction of pollution caused by certain dangerous substances discharged into the Community's aquatic environment (see I&S No 40/74).

3. State of Progress of Current Work

The order follows that of the action programme.

3.1 Joint evaluation of the effects of pollution on man and the environment

The aim is to establish reference levels for harmful pollutants. By the end of the year standards of this type will be proposed for sulphur dioxide and dust, carbon monoxide, lead and noise pollution (see also 2.1 above and I&S No 27/74).

3.2 In a few month's time, minimum standards for the quality of water will have been established as provided in the programme for lead, mercury, cadmium, organochlorine compounds, toxic chemical substances and germs harmful to health.

3.3 As regards quality objectives for water, in addition to the Directive adopted by the Council (see Item 1.1 above), three other directives are being prepared for water in bathing areas, and sea-water intended for shellfish breeding (see I&S No 25/74).

3.4 A European supervision and monitoring network - see 2.2 above.

3.5 Toxic substances in products - see Points 2.3, 2.4 and 2.5.

Further directives are being drawn up, particularly concerning the maximum lead content of household crockery, the sulphur in heavy fuels, the composition of paints and varnishes, and the decibel level for machinery on work-sites (pneumatic drills) and lawn-mowers.

3.6 Energy production and the environment

In a preliminary survey, the Commission has tackled pollution problems and nuisances connected with energy production (thermal waste, sulphur dioxide and nitrogen oxide). The Council has adopted a resolution on this subject (see 2.1 above).

3.7 Industrial sector

A preliminary report on the production of paper and paper pulp is shortly to be submitted to the Commission. It will include specific proposals for reducing in due course water pollution resulting from paper production. Work on titanium dioxide and steel is also under way (see I&S No 34/74).

3.8 Industrial waste

A preliminary directive on waste oils has been adopted (Point 1.3). Two further directives are being examined by the Council (Points 2.6 and 2.7). The Commission will be submitting a report on industrial residues as a whole, together with a proposal on toxic waste. There will also be proposals on immobilizing and storing radioactive waste.

3.9 International action to counteract water pollution

The Commission has taken an active part in work connected with the Community's participation under various international conventions, e.g., the Paris Convention on Pollution of the Seas from Land-Based Sources, the Strasbourg Convention on the Protection of International Waterways. This has received the Council's agreement in principle, as has the draft Convention of the Rhine (see I&S Nos 9/74, 40/74 and 3/74).

3.10 In the economic field the Council has adopted a preliminary recommendation (see Point 1.4 above); further work, particularly on the cost of counter-pollution measures, is still in progress (see I&S No 10/74).

3.11 Dissemination of knowledge

Work on setting up an information exchange network for the whole of the Community continues.

3.12 Research programme

22 million u.a. have been set aside for research on the environment. It is of interest that, for the first time in Europe, about 100 institutes will be carrying out epidemiological surveys on specific respiratory diseases resulting from the presence of sulphur dioxide and dust in the atmosphere and occurring in children between the ages of 8 and 12.