



COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL

ON THE APPLICATION OF THE EARLY MARKETING AND THE CALF
PROCESSING PREMIUM SCHEMES
IN THE BEEF SECTOR

I. INTRODUCTION

Council Regulation (EEC) No 805/68 states in Article 4i, inter alia, that Member States must apply at least one of the following two premium schemes during the period 1 December 1996 to 30 November 1998:

- Early marketing premium for calves,
- Processing premium for young male calves.

Furthermore, the same Article provides that after six months i.e. after 1 June 1997 the Commission shall verify whether the two schemes have achieved satisfactory results. At the March meeting of the Agricultural Council it was agreed, however, that the Commission should present its report on this subject in April 1997. This report fulfils that obligation.

II. EARLY MARKETING PREMIUM

A. Aim

The early marketing premium was and is intended to reduce red meat production in 1998 and 1999 by encouraging veal producers to increase the number of calves used for veal production in 1997 and 1998.

B. Legislation

The premium was agreed by the Council through Regulation (EC) No 2222/96 of 18 November 1996.

Due to the very short time scale available to prepare the implementing rules, the Commission Regulation on this subject was not published until 3rd December 1996 (Reg. (EC) No 2311/96), although the scheme was already applicable from 1st December. For various reasons a number of modifications have subsequently been adopted (Regulation (EC) No 18/97, (EC) No 200/97, (EC) No 280/97 and (EC) No 616/97).

The accelerated implementation and subsequent modifications together with delayed decisions from Member States as to which premium to apply and the related introduction of their national administration systems resulted in various degrees of application in the first two months (Dec-Jan). This may have led veal producers to adopt a wait-and-see approach especially in the context of a generally weak veal market across the Community.

Eventually, the early marketing scheme was implemented in all Member States except Ireland, the United Kingdom and Portugal.

C. Weight limits

In accordance with the Council Regulation the maximum weights were fixed per Member State on the basis of EUROSTAT-statistics for 1995 or any other official and published figures accepted by the Commission. Germany, Denmark and Luxembourg had their reference weight adjusted as a result of applying such alternative statistics (see Annex I).

Nevertheless, both Denmark and Italy have repeatedly argued that the reference weight is too low to reflect actual veal production in these two countries. Although, alternative official statistics to prove their claims have not so far been provided.

Furthermore, some Member States, in particular France, have complained that the application of a national weight limit leads to a distorted market situation. They argue that their producers, who before 1997 used to slaughter calves for a traditional veal market with carcass weights of 125-140 kgs, are now being forced to decide between two options; either to continue production of such carcasses without the premium (in possible competition with imported veal which has benefited from the premium) or to produce 15 % lighter carcasses with the premium but for which there is not an immediate market¹. For slaughterings from 20 January onwards an increased amount of premium was made available in order to alleviate the special and transitional problems related to the light weight carcasses.

D. Statistical information

Under the implementing rules Member States are required to notify the Commission on a weekly basis of the number of animals in the preceding week which were subject to an application for premium. In addition, such information should be broken-down according to weight groups in order to calculate the number of calves which are slaughtered well below the maximum weight, thereby enabling an estimate to be made of the number of animals which receive the premium "freely".

Unfortunately, only a couple of Member States have been correctly notifying such weekly information. Some countries are still (end of March) in the process of revising figures from December and January and others have responded with a delay of up to 6 weeks. Annex II, which shows the total number of premium applications received so far should therefore be looked upon against this background of incomplete information. A total of 300,000 applications for premium have been received from the beginning of December 1996 to the end of March 1997 of which 6 Member States account for 94 % of the Community total: the Netherlands 35 %, France 21 %, Italy 12 %, Austria 11 %, Germany 8 % and Belgium 8 %. By comparing these applications with the total number of veal calves slaughtered in the same period (based on actual statistics where available

¹ A French memorandum on this subject was distributed to the Council in March.

or 1996 EUROSTAT statistics for the corresponding months) it appears that in the Netherlands premium applications cover 26 % of the total number of veal calves slaughtered while the percentage in France is 11 %, in Austria 63 %, in Italy 8 %, in Germany 19 % and in Belgium 28 %. For the sake of comparison, the latter set of percentages refer to applications and production in the period December - February (3 months).

Information received on the actual weight of slaughter for the premium calves confirm a fairly wide statistical spread (see Annex III). Furthermore, an extrapolation of the weight distribution from the lower weight groups to the weight group just below the maximum weight gives an indication of the number of animals which would have been slaughtered in that group in any case, with or without the introduction of the premium. For the sake of simplification of calculation it is assumed

- (1) that 50 % of the calves in the 10 kilogrammes interval just below the maximum weight would in any case have been slaughtered at that weight and that
- (2) calves lighter than that weight interval all would have been slaughtered at that low weight irrespective of the premium. It can reasonably be argued that active early slaughter so far only refer to 20 % of all premium applications in the Netherlands, 34 % in France, 25 % in Austria and 24 % in Germany. No or incomplete statistics have been received from Belgium and Italy. Consequently, in the 4 Member States referred to above more than 75 % of the premia have been applied for in respect of animals which in any case would have been slaughtered at a lower weight.

E. Evaluation

On the basis of the participation in the scheme as indicated by Member States for the first 4 months it is estimated that the premium may be granted in respect of 1 million calves in 1997. However, on the background of the findings above, the premium paid on 750.000 head would not necessarily give rise to an active restructuring of production but may simply constitute a production subsidy. With regard to the 250.000 calves which it is estimated will be deliberately slaughtered early, savings are only obtained if the producers turn to calf replacements in order to increase their throughput in terms of numbers. Assuming a full 15 % replacement rate the saving can be estimated at 26 mio ECU compared with the total cost of the premium of +/- 65 mio ECU for 1997. An estimate based on the assumption that all calves above the one million mark will fall under the "active" premium definition actually leads to the conclusion that in order for the early marketing premium to be cost effective slightly more than 2 mio calves must be covered by the premium (Annex IV). If there is less than a 15 % replacement rate of calves the break-even number will be correspondingly higher.

An increase in the current average number of applications cannot be excluded in particular because veal producers obviously need some time to adapt to the new situation. The scheme is still fairly young and has already gone through a number of modifications in particular with regard to the level of the premium. On the other hand, a doubling of the present rate of applications seems rather optimistic and the decision to go for supplementary replacements is very much a function of the prevailing and foreseeable market conditions. Those factors are still very much influenced by the BSE scare of last year although the prices admittedly have recovered somewhat during the month of March (see Annex V).

In its Memorandum, France has to a large extent blamed so-called premium subsidised imports for being responsible for the low veal prices at the beginning of 1997. The Commission, however, has no statistical evidence to support that assumption and notes, furthermore, that the prices for veal from particularly the Netherlands have historically always been lower than the French veal prices.

F. Concluding remarks

On the basis of the existing incomplete statistics from Member States it may be somewhat premature to draw firm conclusions on the cost effectiveness of the premium scheme over its full two years of application. It seems, nevertheless, beyond reasonable doubt that the bulk of premium payments granted so far have only to a small extent complied with the intentions behind the scheme. If this tendency is not quickly reversed a logical conclusion, based solely on the cost/effectiveness of the early marketing premium, would be a suspension of the arrangements in order to safeguard the Community finances. However, Article 4i, following Council's conclusions, consists of a balanced package of two measures which have to be assessed together. Therefore, any final conclusion can only be drawn after having analysed the global result produced by the two schemes.

III. CALF PROCESSING SCHEME

A. Aim

The concept of the calf processing premium was first introduced in the basic beef regulation following the 1992 reform. With a view to reducing the use of male calves of dairy origin for beef production, Member States either had to apply a light weight intervention system or provide for a system which enabled calf producers to sell the abovementioned type of animals for processing subject to a maximum age of 10 days. Although the light weight intervention ceased to apply in 1995 the calf processing premium remained as a market instrument although only on a voluntary basis for Member States.

In the context of the Council's renewed intention to bring down future beef production, as set out in Regulation (EC) No 2222/96, the calf processing scheme was made obligatory for those Member States which did not opt for the application of the early marketing scheme, in particular with a view to provide as far as possible equal distribution of efforts to adjust production. The declared aim was to process one million calves per year.

B. Legislation

The basic rules for the calf processing premium are laid down in Article 4i of Council Regulation (EEC) No 805/68 as amended in particular by regulation (EC) No 2222/96. The implementing rules are provided through Commission Regulation (EEC) No 3886/92, as amended by Regulation (EC) No 2311/96, and in particular at Chapter V, Section I.

The amount of premium before 1 December 1996 was fixed at a uniform level of 120 ECU per male animal. After that date non-dairy male calves also became eligible for the premium, which was set at 150 ECU, whilst the premium for dairy calves remained unchanged at 120 ECU.

C. Statistical information (Annex VI)

Statistical information on the premium is obtained on a weekly basis and Member States applying the processing premium generally respect the statistical requirements.

Under the pre-December system only the United Kingdom (since the end of April 1996), Portugal (since the end of May 1996) and France (since the middle of October 1996) applied the premium. A total number of 445.000 calves were slaughtered for processing before December 1996 with the United Kingdom accounting for more than 80 %.

After 1 December 1996 United Kingdom has opted to continue the application of the premium along with Portugal and France. Since February 1997 Ireland has joined the other 3 countries in their choice.

Up to the end of March 1997 some 330.000 calves have been slaughtered under the new arrangements with UK accounting for slightly more than 50 %. Taking into account that Ireland has only been operating the scheme for 2 months and assuming the same monthly average for the rest of the year the Commission anticipates that the target quantity of 1 million calves will be reached in 1997.

D. Evaluation

The total cost of granting this premium in respect of one million calves is estimated at 125 mio ECU. However, the savings in terms of lower future production and lower intervention in-take amount to an estimated 690 mio ECU (see Annex VII).

It goes without saying that the processing scheme is the most effective measure for reducing production, not only in terms of direct cost efficiency but also in terms of providing a greater balance between consumption and production in the future.

A number of Member States have not opted for this premium expressing concerns over possible negative reactions among consumers. In this respect it is interesting to note that according to information from the 4 Member States applying the scheme no such negative attitudes have been expressed and the consumption of beef and veal is continuing its slow but steady recovery in all of those countries.

The processing premium on male calves may admittedly in certain circumstances constitute a floor price for calves intended for veal production as the bulk of such calves in fact are male animals. On the other hand, of the four Member States applying the premium only France has substantial veal production. It is reported that calves from other Member States are also being processed in France thereby influencing the prices of very young animals in those countries, but no factual information can be obtained as to such movements.

Furthermore, if there is indeed a floor price, that price would be somewhat lower than the premium of 120 ECU due to the cost of transport, slaughter and processing of the calf. Finally, it has to be noted that prices for young calves are still below the level of one year ago, which means that the processing premium (at least until now) does not seem to have been causing an unfair price increase in the raw material for veal and beef production.

E. Concluding remarks

Given the background of the continuing imbalance in the beef market, effective measures to adjust red meat production should be encouraged. The Commission finds that the calf processing scheme is by far the most efficient of such measures and once again urges Member States to make use of this option.

IV. CONCLUSION

- A. This report has been prepared in accordance with Article 4i(6) of Regulation (EC) No 805/68 under which the Commission is obliged to verify whether the two calf schemes have produced satisfactory results as measured against their intended targets. The report was initially due 6 months after the application of the two schemes but was subsequently advanced at the request of the Council. Unfortunately, as a direct consequence, the experience gained as well as the statistical information required is far from complete and the conclusions which have been drawn should be considered in that light.

Another unfortunate factor at least vis-à-vis the early marketing premium was the timing of the start of the scheme which coincided with a very depressed market situation created by the BSE scare earlier in 1996. Decisions by veal producers with regard to calf replacements have definitely been negatively influenced by the weak market in the sector.

- B. Having said that, the Commission can only conclude that the arrangements for the early marketing premium have not yet produced the desired results. In order for the premium to become cost effective at least a doubling of the current rate of applications coupled with increased calf replacements would be necessary. The present rate and nature of applications tends to suggest that 3 out of 4 calves simply obtain a production subsidy decoupled from the production effort with which it was intended to go hand in hand.

The calf processing premium, on the contrary, appears to be very effective in terms of actual reduction of future production and in terms of cost-effectiveness. Although the Commission appreciates some Member States' concern about negative consumer reactions in the context of this premium it is still disappointed that only 4 Member States have decided to apply the premium on their territory.

Since the Council introduced the two premia as part of an integrated solution which was intended to result in a balanced effort to reduce production, it is appropriate to evaluate the two premia together. In terms of total cost effectiveness, the application so far is positive, although only because of the application of the processing premium. This unfortunately means that the measures in reality have not provided equal burdens in terms of the reduction of the production potential. Furthermore, if one of the two premia were to be suspended (e.g. the early marketing premium) the imbalance would be even greater.

The Commission, therefore, proposes that the Council should judge the early marketing premium on a period longer than the past 4 months, taking into account the necessary time for technical adaptation of the veal production structures. Furthermore, account should be taken of the fact that the latest increase of the supplement paid to low weight carcasses only entered into force on 14 April 1997 and has therefore not yet had any effect on the implementation of the premium. Finally, the beginnings of a recovery in veal prices in March may equally encourage producers to turn to more positive decision-making in respect of increased calf replacements. The Commission will continue to closely monitor the level and distribution of applications and, depending on their future development, as measured against both cost effectiveness and balanced efforts in Member States, it reserves its right to take steps in accordance with Article 4i (5) and/or (6) of Regulation (EEC) No 805/68.

ANNEX I

Maximum carcass weight for the early marketing premium

Member State of slaughter	Maximum carcass weight
Belgium	136
Denmark	110
Germany	112
Greece	127
Spain	124
France	108
Ireland	-
Italy	117
Luxembourg	120
The Netherlands	138
Austria	82
Portugal	110
Finland	84
Sweden	88
United Kingdom	32

EARLY MARKETING PREMIUM FOR VEAL CALVES:
APPLICATIONS RECEIVED
Regulation (EEC) No. 3886/92

ANNEX II

Week	Be	Da	De	El	Es	Fr	It	Lu	Nl	Ös	Pt	Fi	Sv	EU
96wk49 December	1000	0	275		0	2466		0	0	0	0	0	536	4277
96wk50	1047	0	394		0	3442		0	783	50	0	13	771	6500
96wk51	1604	0	1024	11	0	4377		0	7422	1028	0	55	538	16059
96wk52	1615	0	480		0	3515	1365	0	1422	1339	0	50	60	9846
1996 TOTAL	5266	0	2173	11	0	13800	5482	0	9627	2417	0	118	1905	40799
97wk01 January	462	132	1019		0	3631		0	5181	2798	0	57	69	13349
97wk02	1406	12	1480		0	5935		10	10403	3689	0	122	625	23682
97wk03	2118	45	4982		0	5287		10	4417	4195	0	177	958	22189
97wk04	1820	76	1629		0	5020		7	9414	2042	0	205	926	21139
97wk05	2088	129	2064	19	0	4842	3497	9	5936	2561	0	325	722	22192
97wk06 February	1705	104	1969	7	0	4297	4565	11	7266	2347	0	361	904	23536
97wk07	1722	125	1530	3	0	4098	2190	7	10352	1956	0	360	874	23217
97wk08	1874	101	1641	8	0	4974	2509	12	4331	2491	0	326	907	19174
97wk09	1874	73	1654	9	0	6401	2824	6	13790	2166	0	258	830	29885
97wk10 March	1758	79	1909	2	0	3593	2463	8	8943	2169	0	177	857	21958
97wk11	675	105	1492	2	0	1287	3625	9	4737	2062	0	174	644	14812
97wk12	5	74	1323	5			3044	8	11495	2420	0	92	373	18839
97wk13												10		
TOTAL	22773	1055	24865	66	0	63165	36287	97	105892	33313	0	2762	10594	300869
% of EU TOTAL	7,57	0,35	8,26	0,02	0,00	20,99	12,06	0,03	35,20	11,07	0,00	0,92	3,52	
N.B. Shaded figures denote actual totals provided by Member States but which cannot be broken down by week or weight category.														

ANNEXE III

APPLICATIONS FOR EARLY MARKETING PREMIUM (ACCORDING TO WEIGHT)

AUSTRIA*

Groups of 10 kg	TOTAL CALVES (I)	TOTAL "FREE" CALVES (II)
0 - 42 kg	121	121
42 - 52 kg	2082	2082
52 - 62 kg	5186	5186
62 - 72 kg	9424	9424
72 - 82 kg	16500	8250
TOTALS	33313	25063 (75 %)

* : From December 96 to 97 week 12

FRANCE*

Groups of 10 kg	TOTAL CALVES (I)	TOTAL "FREE" CALVES (II)
0 - 38 kg	13 (+ 7)	13 (+ 7)
38 - 48 kg	35 (+ 21)	35 (+ 21)
48 - 58 kg	98 (+ 59)	98 (+ 59)
58 - 68 kg	307 (+ 185)	307 (+ 185)
68 - 78 kg	906 (+ 546)	906 (+ 546)
78 - 88 kg	2686 (+ 1615)	2686 (+ 1615)
88 - 98 kg	8907 (+ 5366)	8907 (+ 5366)
98 - 108 kg	26469 (+ 15942)	13235 (+ 7971)
TOTALS	39421 + 23744** = 63165	26186 (+15773) = 41 959 (66 %)

* : From December 96 to 97 week 8

** : No. calves for which a premium application has been received but which cannot be broken down by weight

() : Estimated distribution by weight of the 23744 calves

GERMANY*

Groups of 10 kg	TOTAL CALVES (I)	TOTAL "FREE" CALVES (II)
0- 72 kg	3031	3031
72- 82 kg	2475	2475
82- 92 kg	3729	3729
92- 102 kg	6281	6281
102- 112 kg	9349	4675
TOTALS	24865	18941 (76 %)

* : From December 96 to 97 week 12

THE NETHERLANDS*

Groups of 10 kg	TOTAL CALVES (I)	TOTAL "FREE" CALVES (II)
0 - 28 kg	2	2
28 - 38 kg	32	32
38 - 48 kg	79	79
48 - 58 kg	143	143
58 - 68 kg	399	399
68 - 78 kg	841	841
78 - 88 kg	1706	1706
88 - 98 kg	3490	3490
98 - 108 kg	7425	7425
108 - 118 kg	16629	16629
118 - 128 kg	32291	32291
128 - 138 kg	42855	21428
TOTALS	105892	84464 (80%)

* : From December 96 to 97 week 12

ANNEX IV

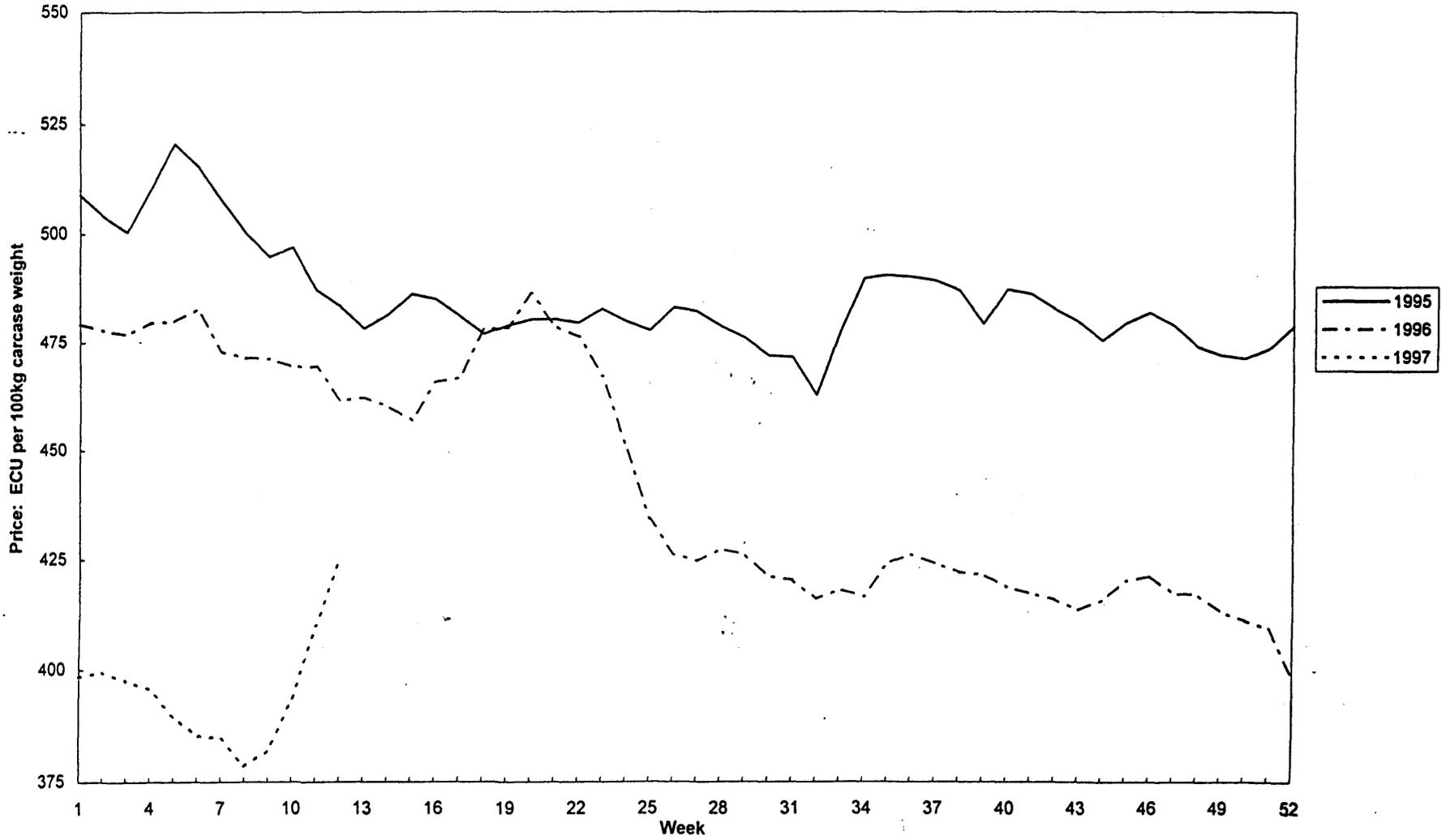
Early marketing premium / Cost effectiveness 1997

Number of calves receiving premium (head)	Estimated costs (mio ECU)	Calves with actual reduction of weight (head)	Increase of calf replacements ¹ (head)	Savings on intervention ² (mio ECU)
(1)	(2)	(3)	(4)	(5)
1,000,000	64	250,000	37,500	25.9
1,200,000	77	450,000	67,500	46.6
1,400,000	90	650,000	97,500	67.3
1,600,000	103	850,000	127,500	88.0
1,800,000	115	1,050,000	157,500	108.7
2,000,000	128	1,250,000	187,500	129.4

¹ 15 % of (3).

² (4) x 0,3 tonne x 2300 ECU.

VEAL
Community Average Price



ANNEX VI

Applications for the calf processing premium

	Applications received before 1.12.96	Applications received after 1.12.96		Total applications received up to 21.3.97
	Dairy calves	Dairy calves	non-dairy calves	
United Kingdom	370 339	140 291	23 535	534 165
Portugal	12 406	17 904	89	30 399
France ¹	62 269	94 005	20 832	177 106
Ireland ¹	0	8 346	175	8 521
TOTAL	445 014	260 546	44 631	750 191

¹ Applications up to 15.3.1997.

ANNEX VII

Calf processing premium / Cost effectiveness 1997

Number of dairy calves receiving premium (head)	Cost of dairy calves (mio ECU)	Number of non-dairy calves receiving premium (head)	Cost of non-dairy calves (mio ECU)	Total cost (2) + (4) (mio ECU)	Savings on intervention (mio ECU)
(1)	(2)	(3)	(4)	(5)	(6)
850,000	102.0 ¹	150,000	22.5 ²	124.5	690 ³

¹ 850,000 head x 120 ECU.

² 150,000 head x 150 ECU.

³ 1,000,000 head x 0,3 t x 2,300 ECU.

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