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REPORT

drawn up on behalf of the Committee on Budgetary Control

on the budgetary control aspects of the common
organization of the market in sheepmeat
(following upon the special report of the Court of
Auditors of 4 September 1984, OJ No. C 234 of
4.9.1984)

Rapporteur: Mrs C. BARBARELLA

WG(VS)2114E

PE 98.049/fin.
Or. De.

By letter of 8 October 1984 the Committee on Budgetary Control requested authorization to draw up a report on the budgetary control aspects of the common organization of the market in sheepmeat.

As recorded in the minutes of the sitting of 14 January 1985 the Committee on Budgetary Control was granted authorization to draw up a report on this subject.

At its meeting of 20 November 1984 the Committee on Budgetary Control appointed Mrs BARBARELLA rapporteur. The appointment was confirmed on 15 May 1985.

The Committee on Budgetary Control considered the draft report at its meeting of 18/19 November 1985. The motion for a resolution as a whole was adopted on 19 November 1985 by 10 votes to 1 with 1 abstention.

The following took part in the vote: Mr AIGNER, chairman; Mrs BOSERUP, vice-chairman; Mrs BARBARELLA, rapporteur; Mr BARDONG, Mr CORNELISSEN, Mr DANKERT; Mrs HOFF, Mrs LENTZ-CORNETTE, Mr PRICE, Mr RYAN, Mr SCHON and Mr TOMLINSON (deputizing for Mr PITT).

The report was tabled on 21 November 1985.

The deadline for tabling amendments to this report will be indicated in the draft agenda for the part-session at which it will be debated.

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

A

MOTION FOR A RESOLUTION

on the budgetary control aspects of the common organization of the market in sheepmeat

The European Parliament,

- having regard to the special report of the Court of Auditors on the operation of the common organization of the market in sheepmeat¹,
 - having regard to the report from the Commission to the Council on the functioning of the common organization of the market in sheepmeat and goatmeat (COM(83) 585 final, 3 November 1983),
 - having regard to the Commission's comments on expenditure in the sheepmeat sector (PE 97.536/Ann.),
 - having regard to the report by Mr EYRAUD of 10 May 1984 (Doc. 1-236/84)²,
 - having regard to the report of the Committee on Budgetary Control (Doc. A 2-157/85),
- A. whereas an assessment of the functioning of Regulation 1837/80 on the sheepmeat sector can be made now that it has been in force for four years,
- B. whereas it is necessary to this end to establish to what extent the regulation has achieved its objectives,
- C. whereas in this connection it is essential to assess the cost-effectiveness of Community intervention,
1. Notes that the Regulation has not so far eliminated the serious disparities between the various regions of production and has therefore failed to achieve its principal objective, namely the harmonization of the Community market;
 2. Draws attention to the fact that the financial cost of the Regulation has risen during this period from 191.5 m ECU in 1981 to 433.5 m ECU in 1984, although only one Member State has substantially benefitted from this;
 3. Is concerned that the continuing differences in prices and consequently in conditions of production and the maintenance of existing import mechanisms may lead to an uncontrolled increase in production and thus a further escalation in financial costs;

¹OJ No. C 234, 4.9.1984

²OJ No. C 172, 2.7.1984

4. Considers that a more efficient financial management of this sector can only be achieved by amending the Regulation so as to render the market organization more consistent;
5. Although aware of the problems involved, calls on the Commission and the Council to seek better ways of achieving greater consistency;
6. Calls on the Commission and the Member States concerned to eliminate the 'possibilities for illegal traffic' referred to by the Court of Auditors in its special report (Paragraph 9.3);
7. Instructs its President to forward this resolution and the report of its committee to the Council, the Commission and the Court of Auditors.

EXPLANATORY STATEMENTINTRODUCTION

1. At its meeting of 27-28 September 1984 the Committee on Budgetary Control held an initial exchange of views on the findings of the Court of Auditors in its special report on the operation of the common organization of the market in sheepmeat (OJ No. C 234, 9.9.1984). The Court of Auditors' conclusions had given rise to the concern that the money raised from the European taxpayer had so far not been used in an effective manner or in a manner conducive to the attainment of the objectives of the common organization of the market in sheepmeat. The immediate purpose of the organization of the market was to facilitate a reconciliation between the differences in the two principal markets, namely the United Kingdom and France and thereby to establish a common market within the terms of the EEC Treaty.

2. In view of the serious reservations harboured by the Court of Auditors with regard to the operation of the common organization of the market, the committee decided to request authorization to draw up an own-initiative report. Furthermore, it requested the Commission to submit its proposals to correct undesirable trends in the common organization of the market in sheepmeat¹; the committee duly received them in April 1985. Reference should also be made in this connection to the report from the Commission to the Council of 31 October 1983 (COM(83) 585 final) on the functioning of the common organization of the market in sheepmeat and goatmeat. The report by Mr EYRAUD of 21 May 1984 on the organization of the market in sheepmeat (Doc. 1-236/84) noted the shortcomings observed in the functioning of the organization of the market and called for a review to be held by the end of 1984. The most serious of these shortcomings were that it had so far proved impossible to create a single market for sheepmeat and that producers could not be assured a suitable standard of living.

BASIC ECONOMIC BACKGROUND

3. Details concerning the sheepmeat sector are available in the comprehensive tables and statistics in the report by Mr EYRAUD.

The following essential data is provided for a basic understanding of the sector²:

Production

4. Sheepmeat accounts for approximately 2% of the value of agricultural end products and approximately 3% of total meat production in the EEC.

¹ Goatmeat is not covered by the internal market regulation fixing prices and the regulation on premiums but it is subject to import quotas.

² Communications by the Commission on the Common Agricultural Policy, the sheepmeat sector, Bulletin 5/1984.

91% of total sheep stocks (just over 60 million sheep in December 1983) are located in four Member States: the United Kingdom (39%), France (20%), Greece (17%) and Italy (16%). There was a sharp decline in sheep stocks in France in 1983 compared with 1982 (-7.5%) while they increased in the Netherlands (+12%), the FRG (+6%) and Belgium (+5%).

5. Total sheepmeat and goatmeat production in 1983 amounted to 730 000 tonnes (an increase of 7.9% compared with 1982 in the United Kingdom; a fall of 3.3% in France). The United Kingdom is the leading producer (38%), while France and Greece produce 25% and 16% respectively, followed by Italy (8%), Ireland (6%), the Netherlands (3%) and the FRG (3%). Belgium, Luxembourg and Denmark together account for 1%. If the present market support regulation is maintained, production is likely to increase to 770 000 tonnes in 1985 and 807 000 tonnes in 1990 (carcass weight). The percentage increase has declined since the introduction of the organization of the market (0.6% in 1984 compared with 1980; 5.1% in 1980 compared with 1977).

The European Community accounts for 12% of total world production of sheepmeat and goatmeat; it is the second largest producer in the world after the USSR (800 000 tonnes) and is followed by Australia and New Zealand (600 000 tonnes each).

Consumption

6. In 1982 consumption in the Community amounted to approximately 972 000 tonnes. Average per capita consumption in the EEC remains relatively constant at between 3.3 and 3.8 kg annually, although there are significant differences from country to country. In Greece consumption is highest at 13.8 kg, followed by the United Kingdom with 7.5 kg and France with 4.3 kg. It should be noted in this connection that consumption in the United Kingdom has declined over the last few years, whereas in other Member States (excluding Ireland) consumption has increased noticeably. Consumption in France for instance rose from 140 000 tonnes in 1968 to 232 000 tonnes in 1982.

7. It is estimated that Community consumption will reach 980 000 tonnes in 1985 and approximately 1 m tonnes in 1990, providing the present market support regulation in the United Kingdom is maintained. In general it is fair to say that production continues to rise faster than consumption.

The relation between production and consumption is as follows (in 1 000 tonnes):

	Production/Consumption	Degree of self-sufficiency (%)
1977	621 / 906	68.3
1978	638 / 906	69.3
1979	649 / 936	69.1
1980	720 / 971	73.9
1981	699 / 929	74.9
1982	709 / 972	72.7
1983	728 / 965	75.4
1984	736 / 973	75.6

Source: Remarks on cost evolution in the sheepmeat sector (PE 97.536/Ann.)

The Commission considers that EEC enlargement to include Spain and Portugal will have negligible financial consequences for the sheepmeat market. Spain is almost self-sufficient and will be the third largest producer after the United Kingdom and France.

Price trends and cost evolution

8. Sheepmeat in the EEC is on average twice as expensive as pigmeat or poultry meat. Trends in the sheepmeat sector continue to be very irregular; the organization of the market has not changed this state of affairs. Average price increases between 1974 and 1977 were between 1.6 and 17%; in 1980 prices fell by 10.8%. In 1981 Community prices rose by an average of 14.7% (UK: 19.9%; France: 6.7%; Greece: 28.9%; Ireland: 17.5%). In 1982 prices rose by an average of 4.3% (UK: 4.4%; France: 9.4%; Greece: 13.3%; Ireland: 2.1%). In 1983 the average EEC market prices remained the same as in 1982, although in France they rose by 9.2%. In 1984 prices increased by a mere 0.7%.

9. This shows that prices have stabilized somewhat: there is so far no sign of any abnormal price increase. However, between 1980 - the year the common organization of the market for sheepmeat was introduced - and 1981 prices rose by a weighted 15% (see table p. 51 of the Commission report of 31 October 1983).

10. When the Council fixed prices for the 1984/85 marketing year, it provided for a 1% fall in the basic price. Since the basic price is now fixed at a different time (and the maximum divergence from the basic price has been increased from 10% to 15%) prices are lowest in July and August when production peaks and not in September and October as was the case hitherto. In this way the supply of lamb on the market has been spread, and expenditure on the most costly item, namely the variable slaughter premium, has been reduced. The Commission calculates that this will lead to total savings of the order of 60 m ECU (see PE 97.536, p. 2)¹; this is all the more remarkable as the number of animals slaughtered in the 1984/1985 marketing year is only 0.5% less than in the previous year. On page 14 of its report (see also the table on page 55)² the Commission looks at the higher premium level arising because the green rate is used to convert the market rate. Countries with hard currencies benefit from this considerably: however, compensation would only be possible by monetary compensatory amounts.

Trade flows

11. In 1983 the Community imported 250 000 tonnes of sheepmeat (compared with 280 000 tonnes in 1982), mainly in the form of frozen meat (238 000 tonnes); in 1984 it also imported 250 000 tonnes. The Community's main supplier is New Zealand with 224 000 tonnes in 1982 (mainly to the UK). This amounts to one half of New Zealand's total exports in 1982 and constitutes two-thirds of world trade in sheepmeat. A long way behind come Argentina (9 000 tonnes), Hungary (12 000 tonnes) and Australia (8 000 tonnes). Supplies on the world market are determined to a large extent by the price of wool.

¹Title of the document: 'Document of the Commission of the European Communities relating to the sheepmeat sector'.

²Report from the Commission to the Council on the functioning of the common organization of the market in sheepmeat and goatmeat (COM(83) 585 final).

12. As regards intra-Community trade, the main exporter is the United Kingdom which in 1982 exported approximately 38 000 tonnes to the other Member States (including approximately 23 000 tonnes to France) although it is only two-thirds self-sufficient. Ireland is also a substantial exporter within the Community (16 000 tonnes total, including 11 400 tonnes to France).

The functioning of the common organization of the market in sheepmeat

13. The common organization of the market in sheepmeat and goatmeat was introduced by Council Regulation No. 1837/80 of 27 June 1980.

The preamble to this regulation cited the objectives of Article 39 of the EEC Treaty, notably the need to stabilize the markets and ensure a fair standard of living for the agricultural community. It also cited a further objective, namely the creation of a single Community market.

14. In order to understand the regulation and the way it operates it is essential to grasp the fundamental differences between the two main producer and consumer countries in the Community, namely the United Kingdom and France which have production structures of varying intensity. The main problem is the wide disparity in the market price levels between the United Kingdom and France; this is aggravated by the fact that, at the time when the common organization of the market was drawn up, there was a substantial decline in consumption in the main producer, namely the United Kingdom.

15. The upshot was that in order to maintain the relatively high French price level on the one hand and to support British consumption of sheepmeat on the other (these two objectives are contradictory especially in view of the creation of a single market), arrangements were introduced which perpetuate the differences in the market structure at the Community's expense although admittedly the serious trade problems which existed between individual Member States before the entry into force of the regulation were solved, at least for the time being.

The common organization of the market in sheepmeat is based on the following market support system:

16. The basic regulation allowed for Member States to choose (see Article 9) between an intervention scheme (private storage aid or purchases by the intervention agency in respect of fresh sheepmeat, Article 6(1)) or a variable slaughter premium scheme, in conjunction with an annual ewe premium scheme¹.

Intervention buying has so far not been carried out². In practice, therefore the market support system concentrates on variable slaughter premiums (the United Kingdom, except for Northern Ireland) and the payment of annual ewe premiums.

¹ Since the 1984/85 financial year a variable slaughter premium is only paid in the United Kingdom.

² Since uniform classification scales have not been introduced in all the Member States it would give rise to problems.

Whereas the reference prices¹ are intended to fix the level of producer premiums (the divergence from the market price), the basic price under Article 7 of the basic regulation is intended to trigger intervention measures and protect the Community market against price fluctuations on the world market in each of the six different regions into which the Community is divided. The basic price for fresh or frozen sheepmeat is seasonally adjusted to take into account seasonal price variations. The basic price also plays an important role in fixing the 'guide level' on which the level of variable slaughter premiums is based.

(a) Annual ewe premiums

17. Producer premiums to cover the difference between reference prices and market prices for the relevant marketing year are intended to maintain producers' incomes. Since the 1984/85 marketing year a new method of calculation has been in force, based on a coefficient expressing the average normal production of lamb per ewe in each region. This eliminates the previous discrepancies between the number of ewes declared by their producers and the number of ewes appearing in the census. Producers may apply during the year for a 30% advance while the rest is paid at the end of the year (this applies only to disadvantaged regions).

18. The regulation lays down that when the basic price is fixed, account must be taken, under Article 3(2), of Regulation 1837/80, of the situation on the sheepmeat market during the current year, the prospects for the production and consumption of sheepmeat, sheepmeat production costs and the market situation in other livestock product sectors, particularly beef and veal.

19. The following ewe premiums (in ECU) were paid in individual Member States in the 1982/83 marketing year:

¹ Since the 1984/85 marketing year the term 'basic price' has replaced 'reference price'; it refers to the target market price.

Member States	1982-83 marketing year	
	Amount estimated (October 1982)	Amount fixed (July 1983)
Italy	0	0
France	3.874	0.566
Denmark	4.888	7.041
Netherlands	9.435	13.376
Luxembourg	13.961	17.308
Belgium	13.961	18.844
Germany	7.766	10.486
Ireland	8.757	10.646
United Kingdom	4.526	4.418
Northern Ireland	13.578	15.481
Greece	0	0

Source: COM(83) 585 final, p. 53

(b) Variable slaughter premium

20. Under Article 9 a Member State may pay a variable slaughter premium fixed on a weekly basis to support the market for lambs offered for sale¹ when prices recorded on the representative market of that Member State are below a 'guide level' corresponding to 85% of the basic price. The amount of the premium is equal to the difference between the guide level and the market price. The guide level is seasonally adjusted (on a weekly basis) in the same way as the basic price so that the intervention price and guide level are fixed at the same level.

21. When sheep or sheepmeat leaves the region where the variable slaughter premium was paid, the premium is 'clawed back' to prevent distortions in the market of the country of destination. This only applies to export to another Member State.

¹ In the 1984/85 marketing year it was decided to pay ewe premiums only to cover loss of income in respect of production of Lamb meat.

22. Trade with France is characterized by the following phenomenon which was the subject of a written question¹: whereas normally sheepmeat offered for sale on the domestic market consists of approximately 85% lamb and 15% ewe meat, it has been observed that ewe meat accounts for an unusually high percentage of sheepmeat exported to and offered for sale in France. There is an arrangement for this case whereby ewe meat is ultimately exempt under the claw-back system². It is essential to monitor carefully the volumes exempted in this way. Moreover, it is clear that British exporters enjoy a competitive advantage in view of the differing price situations in France and the United Kingdom. This shows that the problems caused by maintaining two traditionally different market support systems have not been solved even by substantial injections of Community aid.

(c) Protection of the Community market

23. The Community seeks to protect the internal market by means of voluntary restraint agreements to restrict imports³.

The current quota amounts to approximately 320 000 tonnes which is far in excess of the Community's deficit. 246 000 tonnes of this quota are accounted for by New Zealand which exports principally to the United Kingdom (207 000 tonnes in 1982). Imports within this quota only attract a 10% import levy. The Commission estimates losses of revenue due to this reduced rate of import duty at 78 m ECU in 1981 and 85.5 m ECU in 1982 (see page 56 of the Commission report of 31 October 1983). However, products are imported at well below the basic prices (see page 56 of the Commission report), so that the Community market is not really protected in view of the quantities imported; this 'open flank' in the common market in itself prevents the creation of a harmonized market.

24. Imports in 1981 and 1982 amounted to approximately 100 000 tonnes and 50 000 tonnes respectively, well inside the quotas (see the Commission report, p. 58 and 59). However, if the exporting countries which have so far pursued a policy of restraint were to use their full quotas, market prices could only be maintained at a very high cost (New Zealand increased its exports to the Community from 182 000 tonnes in 1981 to 224 000 tonnes in 1982). On page 5 of its report the Commission states that without the common organization of the market the shortfall would be even smaller. It cannot, however, be Community policy to maintain the shortfall since if third countries fill their export quotas, market stability will only be possible at a high budget cost and intervention buying - which has not so far been used - will become a real possibility. The Community must rather seek gradually to reduce quotas as the Community becomes increasingly self-sufficient and make determined efforts to increase minimum import prices so as to approximate market prices in the United Kingdom and France.

¹ No. 1499/84, 7 January 1985 (OJ No. C 93/41, 15.4.1985)

² The exporter receives a variable slaughter premium after paying the claw-back.

³ The following countries are signatories: Argentina, Australia, Austria, Bulgaria, Hungary, Iceland, New Zealand, Poland, Romania, Czechoslovakia, Uruguay and Yugoslavia.

Assessment

25. The declared purpose of the common organization of the market was to establish a Community market for sheepmeat and goatmeat based on a common price system and reconcile the inherent differences between the two principal markets, namely the United Kingdom and France. It is the task of the Committee on Budgetary Control to consider whether these objectives have been attained and whether the resources used for this purpose have been applied according to the principles of sound financial management. The sharp increase in budget costs since the entry into force of the common organization of the market is shown in the following table (in m ECU):

	1980	1981	1982	1983	1984	1985
Original budget		258.7	224	237	343	
Budget expenditure	53.5	191.5	252.7	305.6	433.5	461*

* Estimate

26. In 1984 this amounted to approximately 2.4% of total expenditure under the Guarantee Section of the EAGGF. It should be noted in this connection that the United Kingdom accounted for by far the largest expenditure as regards the variable slaughter premium. This share is, however, falling (97% in the 1981/82 financial year to 75% in 1984/85 (PE 97.536).

Expenditure in the	1980	1981	1982	1983	1984
United Kingdom	53.5	187.5	228.3	286.3	

27. Article 3(4) of the Basic Regulation planned to ensure the achievement of a single Community reference price by the convergence of reference prices in the seven Community regions in equal annual steps over four years. As the table given in Annex II of the report of the Court of Auditors shows, this objective was almost attained in the 1983/84 marketing year by the acceleration in price increases in regions with lower reference prices. However, this did not bring about a single market price level - an essential precondition for the realization of a common market - even though there has been no steep rise in the United Kingdom or collapse in France as some had predicted. Community expenditure, however, served to further the development of two parallel markets.

28. This is clearly shown by the average market prices in individual regions over the last few years given in the Court of Auditors' report: France, one of the main consumers of sheepmeat, managed to increase its market price level steadily (see Annex II of the report of the Court of Auditors) while in the United Kingdom there was only a minimal upward trend in market prices. UK prices (almost always considerably below the reference price) amounted to 70% of the French level; this is made clear in the following comment by the Court of Auditors (Paragraph 6.3): 'The 1983/84 reference price for region 5 (the United Kingdom) was some 40% higher than that established at the beginning of the market in 1980/81, while the average market prices for the 1983/84

marketing year are running some 40 ECU per 100 kg below the average for the calendar year 1981.¹ This means that slaughter premiums were relatively high owing to the wide gap between the guide level and market prices. Over the years slaughter premiums have risen in relation to the market price and guide level and in 1983/84 amounted to 35%.

29. A rapid market price increase in the United Kingdom can be ruled out on the grounds that the present premium level keeps consumer prices down and thereby keeps consumption relatively stable.

30. Owing to the support system the subsidies paid by Member States have been virtually replaced by aid from the Community budget, but this has not led to the creation of a single market¹. The reason for this is the high volume of imports (75% of indigenous production in the United Kingdom) which have a depressing effect on UK prices owing to the low import levy on the world price (only 10%). There is considerable price elasticity in sheepmeat consumption. Finally, the immediate purpose of the organization of the market was to protect UK consumers by massive subsidies while in France priority was given to protecting producers. Radical changes to the real market factors were impossible for political reasons (including import pressure from New Zealand), while maintenance of the situation prevailing before the introduction of the common organization of the market - the free movement of goods - imposes a heavy burden on the Community budget.

31. Developments so far can be resumed as follows: the gradual approximation of the reference price levels (based on the high French price) is an artificial and costly development which is unlikely to lead to harmonized market price evolution and has not brought about an approximation of the two principal markets. It is still too early to say whether the comparison between France and the United Kingdom drawn up by the Commission in PE 97.536 definitely points to an approximation of the different market price levels in these countries; however, in this marketing year there has been a decline in the market price in France, while in the United Kingdom prices have merely returned to their previous price level.

32. The Committee on Budgetary Control therefore concludes that the common organization of the market in sheepmeat has failed to achieve the objective of establishing a single market; it should therefore not be maintained in its present form because the resources allocated to this end cannot be properly used and thus constitute a waste of Community resources.

¹In France sheepmeat production received a subsidy of approximately 3% of the market price before the entry into force of the Community regulation, while in the United Kingdom aid amounted to approximately 26% of the market price.