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ECONOMY: Managing the public purse

Along with the other major economic problems affecting most nations and societies, such as inflation, unemployment and energy costs, increasing attention is again being addressed to government budgets and expenditures. Headlines are made, governments fall and the average citizen is directly concerned by the size and health of his country's treasury. For years, Government expenditures in general rose steadily as officials and the public sought more and more services and benefits from society and economists widely accepted the belief that such public spending provided a welcome stimulus to boost economies, output and jobs.

Over the past 20 years, according to a recent report by the European Commission in Brussels, the share of Government expenditure in the total production of goods and services in the European Community as a whole grew from one-third to almost one-half. Statistics in the report indicate that, over the period from 1957 to the late 1970s, this growth came not so much from the traditional activities of Government, such as administration, law enforcement, defence, housing, economic support or facilities and amenities, but instead from provision of health, social security and welfare and, to a lesser extent, of education.

Until 1974, the report adds, revenues from taxes and other sources were by and large able to keep pace with these mounting expenses. But, in the recession that followed the first oil price shocks, tax receipts levelled off, government budgets moved sharply into deficit and the growth in spending also slowed down to keep within the new realities.

But whereas in this recent period the United Kingdom has cut its public expenditure as a share of the gross domestic product substantially and Germany and Italy have achieved more modest reductions, Denmark, France, Ireland, the Netherlands and Belgium saw substantial increases. In Denmark, Ireland and the Benelux countries, general Government expenditure is well above 50 per cent of the gross domestic product. And in Italy, Belgium and Ireland the deficits between tax and other revenues and spending were significantly higher than the over-all Community average. Authorities everywhere are now acknowledging that large deficits bring with them adverse economic reactions. These include the need for greater Government borrowing, which pushes up interest rates and inflation or the need to raise tax revenues, which can dampen consumer demand or investment. That's why these authorities at the Community and national level are being urged to make a determined attempt to limit spending and deficits that can cause a chain reaction that affects everyone.

TAXES : Standardising alcohol levies

A solution to the problem of taxes on wine and alcohol has hit a bottle-neck instead of flowing freely. Each European Community member state applies different levels of value-added and excise taxes on alcoholic beverages and all past attempts to standardise these have run up against objections. The proof is that the European Commission in Brussels has made such proposals since 1972 and that the Community Finance Ministers yet again considered the matter on September 22, 1981 without agreeing to a decision.

But why is such a standardisation necessary? Primarily to put an end to the discrimination in favour of national products and against imported ones. The Treaty of Rome, which establishes the guiding principles of the Common Market, states in its Article 95 that none of the member states can directly or indirectly impose interior levies of any nature on products from other member states which are higher than those applied to similar domestic products. To this day, however, this principle has remained a dead letter as far as alcoholic beverages are concerned. For years, the European Commission has regularly undertaken action against member states in violation of this article which seek to encourage consumption of domestic products to the detriment of those from other Community partners. As a result, the European Court of Justice in February 1980 ruled against Denmark, France, Italy and Ireland. But only a policy decision between all the member states could put an end to this difficult problem.

This is precisely what the Community member states' Finance Ministers have been seeking recently. A compromise has been worked out which all agree to use as a basis for discussion. This proposal foresees the establishment in each country of a single excise tax on wine and another on alcohol products. Intermediate products such as sparkling and other fortified wines would have a specific levy applied to them in each member state that was related to their alcohol content. In addition, all alcohol products would be subject to the same VAT level in each member state beginning January 1, 1984.

Concerning excise taxes, the only common rules which have been adopted to date concern cigarettes. An agreement might be possible soon on wine and spirits, but France has also asked that "quality" products such as cognac, armagnac, whisky, grappa be taxed at a lower level than others.

ENERGY: Preparing for a near-crisis

Preparing for a crisis during a period of relative comfort may be far-sighted but may run the risk of being discounted as alarmist or ignored in a feeling of complacency. Nevertheless, European authorities are currently seeking to prepare for the possibility of future upheavals in the delicate world energy markets.

A year after the outbreak of the Iran-Iraq war which temporarily halted oil shipment from those countries and threatened a significant reduction in the total supplies in a number of European countries, authorities at the European Commission in Brussels have recommended a plan to counter similar cuts in oil deliveries in the future. The aim of the plan, which will now be considered by the Council of Ministers, is to avoid shortages and scrambles for supplies on the world markets which might stimulate price increases. The situation following the Iran-Iraq war was brought under control by the calm reaction of Governments facing possible shortages and the cooperation of others which helped defeat speculation or panic buying. Other factors such as declines in consumption and increased production by other oil countries also eased the momentary shortage crisis.

But European Community officials feel that a permanent mechanism should be established between the 10 Community member states to react swiftly and decisively in cases of similar disturbances or "near-crises".

The measures proposed range from the calling of an emergency Council of Ministers meeting to sharing of reserve oil supplies among the Community countries. At the first sign of supply difficulties, the European Commission would at its own initiative or at the request of a member state consult supply experts and call a special Council meeting within three days. It would decide on a number of measures proposed by the Commission from among the possible remedies foreseen. These would include special means of getting additional information about supplies from oil companies and consumers, commitments to avoid purchases of oil at prices above the real market level, measures to conserve or substitute energy and lastly the possible use of reserve or security oil stocks. This would be done in close consultation with oil companies and other Governments. Should a country's reserve oil supplies drop to 80 days' consumption, other Governments with more than 85 days' reserve would allocate some of their total to the country needing such oil.

The Commission has reasoned that the use of five days' supplies would cover a total deficit of 4 per cent during four or five months. This is approximately what happened during the 1980 hostilities in the Gulf which curtailed supplies to a point which could have touched off a deeper crisis. Planning is the best way, the Commission feels, to avert future crises.

RETAIL : Musical pirates

Though widely believed to have disappeared at least two or three centuries ago, pirates are back on the scene again. No, not in any films made in Hollywood, but on the record market, where, apparently there is as much gold to be found as on the high seas !

The figures are impressive indeed : in 1978, the profits reaped by the modern day pirates were estimated at \$ 200 million in the European Community alone. No wonder artists, recording companies and public authorities are seriously worried. The European Commission also asked an expert, Gillian Davies (a lawyer with the International Federation of record and video producers) to submit a detailed report on the question.

Pirate recordings took up 4% of the Community record market in 1978 and 15% of the cassette recording market. The percentage of the market taken up by pirate recordings, however, varies from one member state to another. The situation is most serious in Italy, for example, but very much less so in Denmark.

There appear to be two different types of "piracy" in this sector. Forgery, where illegal copies of records and tapes are sold on markets, is one form of piracy. In this case, the quality is good enough to lead to confusion between the genuine article and the copy.

In the second case, the pirates sell unedited recordings made during live concerts given by highly popular artists; the quality of these recordings is often very poor.

While most of the pirate records and cassettes are produced in the EEC states, a large percentage is also imported from Singapore and the United States.

These illegal recordings infringe the rights of artists and property rights which are protected by international conventions. But, above all, pirate recordings threaten the future of the European record industry.

Ms Davis calls on the Commission to take a series of legislative measures in order to protect recordings and to ensure that these procedures are applied strictly. She also calls on the Commission to appeal to those member states which have not ratified the international conventions to do so as quickly as possible. Will she succeed in launching an anti-pirate drive.

Keep tuned in for further news ...

ENVIRONMENT: Evaluating the impact of farm development policies

Can the planet continue to carry the increasing load placed upon it by a growing population, an increasing demand for food and expanding industrial and other development?

While the past decade has witnessed an increasing awareness of the problems imposed on the global environment as a result of these factors, it has frequently been overlooked that ecological protection is the responsibility of many ordinary people throughout the world as well as the professionals, scientists, industrialists and others.

For instance, farmers whose livelihood is directly related to the environmental health of the land they work may represent a declining portion of the population in Europe but they account for about two billion of the earth's four billion inhabitants. And how they raise their crops and animals is intimately connected to the ability of the land to support these activities. As a result of these human activities, it is estimated that much of the world's arable land, forests, and other vegetation is being lost through erosion, bad irrigation, cutting, urbanisation, transport systems and industry.

A new attempt to raise the awareness of farm and development policymakers was recently undertaken in Brussels when several environmental organizations evaluated the impact of European policies on the environment. The meeting, sponsored by the European Environment Bureau, with the help of the European Community, the World Wildlife Fund and other institutions, specifically looked at whether the Community's farm and development programmes are compatible with sound environment and conservation policies.

In the eyes of many experts, the Community's agricultural policy, with its emphasis on intensive farming, larger units and modernisation, may have contributed to abuse the land through promoting the use of fertilizers and pesticides. The exodus from farming regions has also led to unsound environmental results. Overuse of the farm or pasture lands in developing countries has also led to soil erosion and desertification. In their continuing efforts to use every square metre of land in the most intensive way, European and Third World populations have increased the danger to the planet for future generations, the experts indicated.

They and officials from the European Community agreed that a start has been made to remedy these past patterns of degradation, but that serious assessment of the environmental impact of all types of farming and development policies and techniques must become an integral part of the strategy for the future. Community leaders said this will be one of the guiding principles of the forthcoming new multiannual action programme for the environment the Community will consider soon.

AGRICULTURE : Putting the brakes on the cows

Smooth lakes of milk bordered by towering butter mountains that glisten under a pale European sun ... Nightmares that have haunted officials in Brussels for more than a decade may be getting worse.

Schemes to stop farmers from producing too much milk by paying them less per litre for surpluses may actually be encouraging some of them to produce more. Paul De Keersmaeker, a Belgian Christian Democrat member of the European Parliament, believes that they don't have any choice. Faced with falling incomes, no direct financial incentives to cut back production, and insufficient penalties for producing more, they have to sell more milk to keep up their living standards, he says.

But a study by independent experts, soon to be published by the European Commission, claims that paying farmers less for their milk does make them produce less.

Milk lakes will dry up and butter mountains shrink, they say, if low prices which discourage dairy farmers from producing too much continue. People will stop investing in cows and turn to other areas of agriculture. Farmers won't want to go into the industry, and some may leave it altogether.

Community officials believe that advances in technology and efficiency are the main problem behind overproduction at the moment. The most efficient farmers produce the most but at the moment penalties for producing too much are not imposed on individuals because this would subsidize inefficient producers who might otherwise leave the industry. Consequently, the structural mess that dairy farming finds itself in would never change.

HUMAN RIGHTS : The EEC encourages a European foundation

The European Foundation for Human Rights was set up in 1980 to give financial assistance to specific projects which are submitted to it by non-governmental organisations, linked in one way or another to the respect of civil, political, economic, social and cultural rights of individuals. The European Commission has just indicated its support for the Foundation by giving aid worth £ 67,000. In order to receive Foundation help in 1982, projects should be submitted as quickly as possible to the following address : European Human Rights Foundation, 95 a, Chancery Lane, London WC 2A 1DT, England.