

# Eurofocus

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## Week of 10 to 15 March

### TRADE: Improving trade with China

An EEC/China trade week will be taking place in Brussels at the end of the year. The aim is to promote trade between the two and to enable Chinese and European businessmen to discuss the widening scope for exports to and from the People's Republic. At the moment Chinese exports to the Common Market are limited to a fairly restricted range of products such as textiles, foodstuffs and porcelain. The Chinese will be choosing six priority sectors where they will be particularly keen to develop trade between themselves and the EEC. As a result of this choice the European Commission will be able to pick those businessmen most capable of dealing with the problems posed by increased trade relations. In 1978 13% of the total of Chinese exports were destined for the markets of the Nine, whilst some 21% of their total imports came from the Common Market countries - a trade imbalance in the EEC's favour of 8%. However, the Nine do less well than the Japanese who account for no less than 35% of total Chinese imports. On the other hand, the U.S.A. accounts, at present, for only 10% of China's imports.

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<b>CLOSE-UP</b>	:	p. 7	<u>The dairy surpluses - Part I: The size of the problem</u> It's bad publicity for the EEC and also it's a tremendous problem to store it all. But what causes those frightening butter mountains and, more important, what can be done about them? In the first of a two-part feature we size up the problem...

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Commission of the European Communities,  
Rue de la Loi 200 - 1049 Brussels Belgium  
Tel 736 60 00 - Telex 21877 COMEU B

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Editor: Will J. Reckman



TRADE: Continuing generalised preferences

For Europe, cooperation with the developing countries is not only a moral duty but also an economic necessity. Moreover, only cooperation which culminates in genuine development, that is to say in a higher standard of living for the most needy people of the world, is in Europe's interests. The redistribution of wealth, rather than just the granting of development aid, is now becoming more and more important if the Third World is to achieve its legitimate aspirations. To help with this work, the European Community has, since 1963, put forward the idea of a system which enables the poorer countries of the developing world to export their products to the European market, free from customs duties. It was under the auspices of U.N.C.T.A.D. (United Nations Conference on Trade and Development) that the "system of generalised preferences" was started for an initial period of 10 years, which comes to an end at the end of this year. As a result the greater part of the world's industrialised countries have joined the system. The EEC, Japan, Norway and Sweden started operating the scheme in 1971, following the call from UNCTAD, and succeeding years have seen the extension of the idea to Finland, Switzerland, New Zealand, Canada, Austria, Australia and the U.S.A., among others. These generalised preferences do not result from any form of bilateral negotiation. They are granted automatically to all developing countries and do not presume any advantage for the developed states. The system of generalised preferences gives to the Third World countries the opportunity to sell their products competitively on the world market, and particularly on the European market. Industrial exports totalling £4,278 million will come into the EEC this year. 310 different types of "transformed agricultural products" will also be exported. For certain types of product, where the European producers are facing economic problems, a ceiling will be imposed to protect the Common Market producers. The proportion of this ceiling figure will be divided up between the developing countries according to agreement with the EEC. The Commission is in the course of proposing to the Council of Ministers of the Nine to continue with the system for a further 20 years and there are ideas afoot to simplify the use of the system by the Third World countries. The countries using generalised preferences will then have a structure better adapted to their individual development requirements. The Commission believes that this idea is fundamental to the economic development and the prosperity of the poor regions of the world.

HEALTH: The European Parliament and drugs

This week in Strasbourg the European Parliament has been debating three resolutions on the fight against drug addiction. Mrs. Vera Squarcialupi (Italy - Communist) claimed that around 1000 EEC citizens die from drug abuse in the nine Common Market countries each year. They are also becoming progressively younger. She therefore introduced a measure favouring EEC action against drugs and drug abuse. The idea is that any action taken would be in collaboration with the Council of Europe and the countries where the drugs are produced. A second proposal introduced by Mr. William Newton Dunn (Britain - European Democrat), was very similar in form. A third proposal on the other hand wanted to see the freeing of cannabis from any list of proscribed substances, in light of the evidence that it is less damaging to the health than alcohol or tobacco. In the end it was Mrs. Squarcialupi's proposal that was adopted by the Parliament.

Up to now the only action taken by the EEC in the fight against drug addiction has been a grant of 540,000 dollars to the United Nations fund to combat the use of hard drugs.

INDUSTRY: The cost of running a business

In 1979 the services of the European Commission organised a study together with national governments and leading professional organisations in an attempt to find solutions to the problem of the administrative costs of running a small business. When the results of the study are known the Commission will probably start work in the fields of customs regulations, commercial details, financial requirements and statistics in an attempt to make things easier for the small businessman. To help in this work the Commission is asking that the businesses themselves supply any relevant statistical information (as well as that provided by the professional organisations and the national statistical offices). For example, in the area of the steel industry the Commission already sends out 44 questionnaires that help with research into the problems of the industry and particularly the possibilities for job mobility. All this information helps the EEC institutions to take informed and, hopefully, helpful decisions in their work with small and medium-sized businesses.

BREAKING THE CYCLE OF STARVATION

One billion people - about four times the population of the European Community or roughly equal to the number in China, the world's largest country - are constantly hungry.

What a top United Nations food expert calls "the arithmetic of hunger" also shows that 500 million are seriously undernourished and adds that this alarming multitude of starving masses is still growing as food production falls sharply in some countries.

Dramatic action has increased production to the point where some countries have recently become self-sufficient, such as China, South Korea, Pakistan, Colombia in rice, India in wheat and Kenya in maize.

But the fact remains that about one-third of mankind still suffers from a lack of food. A lot of the effort aimed at reducing the food shortage all over the globe has to be a long-term drive to increase domestic production through new techniques, fertilisers, land reform and other means. But because the problems sometimes are acute, direct food aid is still an absolute necessity.

This was the case in 1979 for Europe when outpourings of refugees in certain countries, revolutions and natural disasters created an additional need for European shipments of food.

The most evident, of course, were the thousands of refugees in Indochina and the needs in Nicaragua for assistance following the revolution there. In addition there was the less dramatic, but just as deadly, failure of the maize crop in Zambia.

In all the European Community jointly spent 558.9 million European units of account (£346 million) in food aid in 1979. It is proposing at least as much to begin with in 1980 but expects to have to seek more funds later in the year.

The aid took the form of cereals, milk powder and oil from surplus butter. Asia received the largest amount, most of it going to Bangladesh, India or Pakistan. The Middle East and Africa also received supplies, as did United Nations agencies, and Latin America benefitted from a small amount.

The European Commission does not yet know what sort of funds will be available for 1980, as the EEC budget has not yet been agreed. However, it seems at this stage that the amounts of cereals, milk powder and butter oil will be approximately the same as last year. These amounts will be increased if more funds become available. But, whichever way one looks at the problem, there is never enough aid to go round to the thousands of people who are literally starving to death.

AGRICULTURE:European farmers' earnings vary widely

One of the principle aims of the Common Agricultural Policy (defined in Article 39 of the Rome Treaty), is to guarantee a living wage to Europe's farmers. However, a lot of farmers are saying that the agriculture prices proposed for 1980 are inadequate to support certain sectors of the farming population. Mr Finn Olav Gundelach, the European Commissioner responsible for agriculture, has recognised that farmers' average incomes fell in real terms during the course of last year.

The concept of an average level of earnings for Europe's farmers can, however, tend to disguise the differences between farmers from the different countries of the Common Market. Recent figures supplied by F.A.D.N. (Farm Accountancy Data Network), give us some idea as to what these differences mean in practice. The richest farmers are the Danes; they earn on average £8990 per farmer each year. The Dutch are next with average annual earnings of £7378. Next come the Belgian farmers with £6138. The British and Irish farmers are close to the Community average of £5034. The Germans and French earn less and collect only £3700 approximately. Bottom of the poll are the Italians with just a little over £3000 a year.

N.B. These are the figures for the 1977/78 season and are the average earnings of all farmers in each Member State which includes, therefore, both small family farms as well as big farming operations.

Apple imports

There have been worries in the EEC recently about the level of apple imports into the Common Market from abroad. Already the Community has a surplus of apples in most years and any large imports certainly pose a very real threat to Europe's orchards. It is estimated that some 370,000 tonnes will be imported this year, that is 50,000 tonnes more than last year. The European Commissioner responsible for agriculture, Mr. Finn Olav Gundelach, has decided to start negotiations with the countries concerned in an attempt to get them to cut their exports. The Commission hopes that these informal talks will bring about the desired result.

TRANSPORT: Buying international railway tickets

Two Dutch socialist members of the European Parliament Johan Van Minnen and Willem Albers, raised an interesting point about the purchase of international railway tickets in European stations when they recently put a written question to the European Commission. Apparently, it is impossible to obtain these tickets in some Dutch stations unless one gives a minimum notice of 72 hours. They felt that this could be a limitation on easy European rail travel. The Commission replied that international train tickets in the nine EEC countries were organised under a common system of tariffs known as the "T.C.V." This system works on the basis that only certain selected stations (normally large and medium-sized ones), have the qualified staff to issue international tickets according to the tariff. The smaller stations are attached to larger ones in their immediate area. Normally, the main stations will issue these tickets for the main routes immediately but sometimes, if the route is unusual, or a party group is travelling 24 hours notice will be needed (not 72 hours). However, the public can always get these tickets from accredited travel agents in their area virtually on demand and therefore do not even have to go to a station to buy the tickets.

THIS WEEK:

COMMISSION: EEC Commissioner for industrial affairs Etienne Davignon made a sudden two-day visit to the United States on March 10 and 11 to confer with American officials about urgent trade problems and especially the shipment of European steel to the US market.

COMMISSION: Forecasts of steel production for the European Community released on March 12 predicted output in the second quarter of 1980 at about the same level as the first period but slightly below the same three months of 1979.

COMMISSION: The European Commission began discussions on March 11 in Strasbourg on the crucial problem of adapting to anticipated Spanish membership in the EEC in the agricultural field. The talks included meeting with Spanish Foreign Minister Calvo Sotelo.

PARLIAMENT: The European Parliament session that opened in Strasbourg March 10 discussed a broad range of issues from human rights and drug abuse to competition policy and multinational corporations.

COUNCIL: The EEC Council of Ministers on March 13 approved a 850 million European-unit-of-account joint research programme for the Community, with a heavy emphasis on energy research, for the next five years.

THE DAIRY SURPLUSES - PART I - The size of the problem
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Imagine a lake more than 6 miles long and over a mile wide, about the size of the Lake of Annecy in France or Ullswater Lake in England. If this lake were about 15 feet deep and full of milk it would represent the annual production of fresh milk in the 9 countries of the Common Market! One farm in three in the EEC produces milk, and dairy production represents about one fifth of the Nine's total agricultural output in value terms.

There's no doubt that milk is an excellent food, full of nourishment and protein; but there is a limit to the amount that can be consumed, even by the 260 million EEC citizens. Of course, milk is increasingly being transformed into other forms of dairy produce; butter, cheese and yoghurt for example, but still there is a large surplus over annual demand. How has this arisen and what can be done about it?

Production in other agricultural sectors sometimes also exceeds consumption, but the situation is usually only temporary. A period of bad weather or drought usually balances things out over a few years and demand and supply remain (with the added help of food exports) broadly in balance. But in the milk sector the surplus is permanent. The surpluses are bought up by public organisations financed by the EEC under the Common Agricultural Policy (CAP) and transformed into products which are less perishable like milk powder and butter.

Special measures - cutting prices, for example - have helped to bring the total surplus of milk powder down to 225 thousand tonnes in 1979 from a high in 1977 of an enormous 965 thousand tonnes.

At the root of the surpluses are three principal factors: the increase in production, the stagnation of consumption and the operation of European price guarantee mechanisms. The increase in Common Market production of milk is not the result of more farmers turning irresistibly to dairy farming but rather to a constant increase in the milk yield per cow. In 1950 the "average European cow" produced 2,400 kilos of milk each year; now the figure is more like 4,000 kilos. Milk yield has almost doubled in 20 years. This huge increase has been due to several factors. Firstly, cattle are now better suited to milk production through new techniques in artificial insemination. Secondly, animal diseases for so long a major barrier to increased production, have largely been conquered in the European countries. Also, the high level of modernisation in the dairy industry with electrical milking techniques and other methods has greatly helped efficiency and the use of "green fodder" has increased a lot through new varieties of grass and fertilizers, which means that farmers now have fewer problems with the supply of cattle feed than was previously the case. Finally, however, it has been the extensive use of concentrated animal feedstuffs, which enable milk to be produced independently of the quantity of fodder available locally. This technique is perfectly profitable for a kilo of food-compound costs less, in general, than a litre of milk, whilst it enables at least two litres to be produced.

As well as the tremendous improvements in herd management the whole face of the dairy industry is changing fast. Today more than 90% of the milk produced in the EEC is sent to the modernised dairies. Processing milk into butter, cheese and yoghurt etc., has become an industrial process which can no longer be compared to the old traditional methods.

The second root cause of the surpluses is the stagnation in consumption of dairy products in the Common Market countries. Consumption patterns vary a lot in the EEC; for example the Irish are (per head) the leading consumers of dairy products, essentially milk and butter, followed by the British who drink vast quantities of milk but eat very little butter and even less cheese. The greatest cheese-eaters are of course the French (see EUROFOCUS 28 January 1980 p.4) who eat 6 times more than the Irish. Finally, and somewhat surprisingly, the smallest consumers of dairy products (apart from cheese) are the Italians. Butter consumption in the Netherlands is also very low even though a great deal is produced there. Overall, however, the consumption of certain products such as fresh cream and cheese is on the decline.

Finally, there is the operation of the price guarantee mechanism. The Community's dairy policy is based on three principles. Firstly, there is the principle of the free movement of goods i.e. the removal of all obstacles - customs duties, quantitative restrictions etc. - which prevent goods from moving from one Common Market country to another. Second, Community preferences, i.e. the priority accorded to Community products over imported products. A "levy" is imposed on these imports when they enter the Common Market to cover the gap between world prices and prices (generally higher) in the EEC. Third and last, there is the much debated question of financial solidarity, i.e. sharing the costs of the Common Agricultural Policy among all the nine Member States.

Each year the agricultural Ministers of the Nine meet several times often in acrimonious debate (see EUROFOCUS 25 February p.3), to fix a grid of guaranteed prices covering a large proportion of agricultural products. This mechanism attempts to provide a price stability in that the EEC will buy up any surplus at these prices. But the functioning of these mechanisms is upset when they are applied to the unlimited quantities arising in a sector with a structural surplus, as is the case with milk products. The greater proportion of the quantities bought by the Common Market authorities cannot be resold at normal prices and the stored stocks grow and grow.

This then is the problem. Next week we shall try to outline how the Commission is tackling it.