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on the proposals from the Commission of the European Communities to the Council (Doc. 1-1033/81) on the fixing of prices for certain agricultural products and on certain related measures (1982/1983)

PART A

- Explanatory statement -

Rapporteur: Mr David CURRY

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I. SUMMARY OF THE COMMISSION'S PROPOSALS

THE COMMISSION'S PRICE PROPOSALS

The Economic Background

1. The prices proposed for 1982/83 range from an average of 6.58% for cereals to 12% for certain oilseeds and protein products. In general what are normally called Mediterranean products have received higher increases.

2. The background to these proposals, which neither the Commission, the Parliament nor the Council can ignore, is the steady increase in unemployment, extremely high rates of inflation and the absence of any sign that economic growth will begin to grow in the immediate future.

Forecasts show that food consumption in the 1980s will be lower than in the 1970s especially for meat and dairy products. Good market management requires that consumption be maintained, particularly as the productivity of European agriculture continues to grow significantly each year. The Community has become the leading exporter of livestock products and a major exporter of cereals and sugar. The Community must act responsibly on the world market if its export efforts are to be maintained in coming years.

Economic situation in the Member States

	Unemployment		Consumer prices		Economic Growth
	Dec 1980	Dec. 1981	1980-81	1981-82	1 9 8 1
Germany	1,118,300	1,703,900	3,5	5,6	- 1/2
France	1,632,000	2,014,400	10,4	12,0	1/2
Italy	1,850,400	2,145,900	15,9	15,9	- 1/4
Netherlands	322,400	473,600	4,4	10,3	- 1/2
Belgium	430,500	525,400	4,5	11,0	- 1/2
Luxembourg	1,451	2,028	4,2	10,3	- 3
United Kingdom	2,244,200	2,940,700	11,3	9,3	- 2 1/4
Ireland	122,200	141,100	5,3	13,8	2
Denmark	221,000	251,000	14,3	12,6	0
Greece	59,500	61,400	-	12,6	1 1/2
EUR 10	8,002,200	10,259,400	-	10,9	- 1/2

Farm incomes

3. At the same time the Community must act effectively to ensure reasonable incomes for producers. For the third year running agricultural incomes are expected to increase at a slower rate than prices in general. The average 2% increase in farm incomes in 1981 was very unevenly distributed with a 17.2% increase recorded in the Netherlands and a 6.9% decrease in Italy. If the Community wishes to avoid greater use of national aids in agriculture it must develop solutions to the problems of countries and sectors facing lower than average income increases, particularly in the countries facing high interest rates.

Farm incomes 1981

	Income 1981 real terms	Input prices 1981	Farmgate prices 1981	Volume of production 1980 (1973 = 100)
Germany	- 3.2	8	2,4	111,3
France	- 6.8	13	5,6	109,4
Italy	- 6.9	15	13,4	119,3
Netherlands	+17.2	8	4,1	130,9
Belgium	+13.1	9	3,2	98,9
Luxembourg	+ 6.3	4	4,7	92,7
United Kingdom	+ 0.4	10	5,6	106,3
Ireland	+ 0.3	15	2,3	119,7
Denmark	+15.7	18	11,2	116,7
Greece	+ 1.8	23	16,0	123,3
EUR-9	- 2.1	-	-	113,0
EUR-10	-	-	7,8	113,4

4. A global approach to the increasingly difficult problem of prices, incomes and market management will not contribute to finding the solutions required. We must work at problems facing farmers in specific regions, and at the very different factors determining income in each sector. Prices received by producers in many sectors do not derive exclusively from the institutional prices but from a whole range of other market measures. Efforts to safeguard farmers incomes must concentrate on improving the market policy instruments.

Price hierachy

5. The Commission has tried to improve the relationship between the principal products so as to ensure that the feed costs of animal producers, whose incomes are generally lower than the cereal sector, do not increase excessively. It cannot be forgotten that farmers are the principal consumers of many cereals.

6. The Commission would have preferred to go further in improving the price hierachy. It had, however, made a basic decision to follow an extremely orthodox path in proposing reductions in monetary compensatory amounts - up to 4.9% for Germany. This would result in a 4.7 % reduction in prices for German farmers; it would be difficult to grant some sort of increase to these producers. Therefore, the lowest possible increase, for cereals, begins at 5.5% - 6%.

The Commission's price proposals have been squeezed therefore between the wider economic objectives and the specific requirements of German producers. This is the explanation of the narrow range of price proposals : from around 6% - 7% for cereals, 9% for animal products and 9 - 12% for mediterranean products.

COMMISSION'S PRICE PROPOSALS 1982-83

PRODUCT	PRICE	ADDITIONAL MEASURES
Milk	%	
Butter	8.58	Production threshold for milk triggered by 0.5% production increase. Maintenance of responsibility levy at 2.5%. 120 m. ECU aid for small producers.
Skimmed milk, powder	9.16	Maximum EAGGF contribution for butter subsidy in UK to be reduced to 40 from 45.95 ECU/ 100 kg.
Cheese	9.54-10.03	Minimum contribution of member states for school milk subsidy be reduced from 25% to 12.5%.
Beef and Veal	6+3	Seasonal selectivity in intervention buying, combined with private storage, to be continued. Carcass classification to become obligatory. Maintain premiums. Examine possibility of single premium to aid specialized producers.
Sheepmeat	9	Modification of clawback on exports from the Community for one marketing year. Change in support for Northern Ireland to prevent smuggling.
Pigmeat	9	
Cereals		
Common intervention price	6.58	Production threshold of 119.5 mill. t. all cereals excluding durum wheat.
Target price for feed grains	6.95	Increased quality standards for barley.
Target price for common and durum wheat	7.05	
Bread wheat of min. quality	5.3	
Durum wheat aid	9.0	limit aid to 10 hectares
Rice		
Intervention price	10.0	
Target Price	8.2	
Sugar		
Minimum price sugar beet	9.0	Producer contribution at maximum level.

PRODUCT	PRICE	ADDITIONAL MEASURES
Oil seeds and Proteins	%	
Colza and orange	7	Production threshold of 2.15 m. t. for colza.
Sunflower	12	Maintain modified subsidy of hay for colza.
Soya		Extension of colza aid to include animal feed cake as well as oil.
Guide Price	11	
Minimum Price Soya	9.01	
Flax and Castor	9	Examine means of encouraging production of castor seed.
Dried Fodder	8	
Guide Price	10	
Aid dehydrated potatoes	8	Aid for dehydrated potatoes to be continued another year.
Peas & Beans		
Activating price	11.3	Extension of aid to include those for human consumption.
Minimum price	8	
Wine	9	
Olive Oil	9.0	Abolition of intervention premium for extra virgin quantity. Reinforcement of control. Production aid by (a) olive oil register (b) possible introduction of flat rate aid (for small producers).
Fruit and Vegetables		
Basic and buying-in price: majority of products	10	Inclusion of aubergines and apricots in price and intervention system.
Mandarines	9	
Tomatoes	8	
Marketing Premiums		
Oranges	10	
Mandarines	9	
Clementines and Lemons		Marketing premiums for clementines and lemons to be gradually phazed out as reference prices adjusted.
Tomato Products		Certain tomato products: production threshold equivalent to 4.5 mill. tonnes fresh fruit.
Tobacco	8-11	Price differentiated according to market demand for variety.
Cotton	10	
Flex & hemp	10-12	

Increase by Member State

The average increase proposed by the Commission for the ten countries seems to be ± 8.5%.

Taking account of the relative importance in final production figures of the products covered by the common prices, the average increase by Member State is[1]:

Country	D	F	B	Nl.	UK	Ir.	Dk.	It.	El.	Lux.
Average increase	8.43	8.28	8.53	8.41	8.22	8.28	8.35	8.51	8.59	8.44

[1] Figures based on a provisional weighting

II. AGRICULTURAL INCOMES

TRENDS IN COSTS AND PRICES

In general up to the period 1976 the ratio between the prices for intermediate products and prices of agricultural products increased favourably. The situation deteriorated in 1977, in 1979 and more seriously in 1980. In 1981, however, the deterioration should be less than 5% recorded in 1980 and 2.7% in 1979.

Trend in import prices

The rise in the price of agricultural inputs (13%) will again exceed the growth in producer prices, largely as a result of increasing energy costs.

Energy and fertiliser make up about 39% of input costs. The increase in the cost of these two products slowed down in 1981. The favourable effects of this trend, however, were cancelled out by the faster increases in prices for animal feed (+13% in 1981 as against +8.8% in 1980) which make up about 45% of product costs. This was due largely to the renewed increase in the price for crop products and the revaluation of the dollar.

In the countries with weaker currencies the increases in costs have been significantly higher (14% to 17% in 1981 in France, Italy and Ireland) and are generally higher than in 1980 than in the previous three years. In the United Kingdom the increase has slowed down from 11.9% to 9%.

Denmark moves to the head of the table (18% in 1981 as against 16.1% in 1980). In Greece the figure is 23% as against 34.6% in 1980.

Trend in producer prices

1981 confirms more definitely the trend already seen in 1980 of an increase in producer prices, following the years 1977 to 1979 when prices showed very little growth.

For the majority of countries, in 1981 as in previous years, prices for crop products rose faster than those for livestock. This is particularly true of Germany, Italy, Belgium and Denmark, whereas in Ireland, Greece and to a lesser extent the Netherlands, prices for livestock products grew faster.

Thus the combination of at least average harvests and good results for the livestock sector indicates a more favourable situation as regards returns in 1981 than in 1980.

Trend in agricultural incomes by country

The most striking feature however of farm incomes is not the general trend, but the very great differences between the industrial countries; the scale goes from an increase of 17.2% in the Netherlands to a decrease of 6.9% in Italy in 1981.

Income Development in 1981

W. Germany	- 3.2
Belgium	+13.1
Denmark	+15.7
France	- 6.8
Ireland	+ 0.3
Italy	- 6.9
Luxembourg	+ 6.3
Netherlands	+17.2
United Kingdom	+ 0.4
Greece	+ 1.8

A slightly different picture emerges if one takes the trend since 1974. Italy, largely through the substantial green rate charges made each year has shown an increase in real income, together with a group of countries which includes the Benelux and Denmark. Ireland, after increasing income substantially until 1978, is now beginning to recover after two disastrous years. Three countries have suffered a steady decline in real incomes, Germany, France and the United Kingdom. Greece has recorded a substantial upward trend.

Net value added at factor cost by person occupied in real terms

	1975	1976	1977	1978	1979	1980	1981	1981/80
D	100,5	104,7	98,7	99,1	85,1	81,2	78,6	- 3,2
F	90,2	89,5	89,0	90,1	93,4	81,2	75,7	- 6,8
I	103,4	100,7	103,9	108,9	114,1	110,9	103,2	- 6,9
NL	98,4	106,9	101,1	99,7	90,8	89,1	104,4	+ 17,2
B	95,1	107,7	89,0	98,2	90,3	93,4	100,8	+ 13,1
L	99,2	82,7	102,9	101,5	99,8	90,3	96,0	+ 6,3
UK	94,0	101,9	93,6	89,8	86,0	79,1	79,4	+ 0,4
IRL	106,9	102,9	127,7	130,5	103,3	85,7	86,0	+ 0,3
DK	87,7	92,4	106,5	113,6	97,4	92,9	107,5	+ 15,7
EUR 9	97,2	98,8	97,6	99,5	96,9	90,4	88,2	- 2,1
Hellas	100,5	107,3	106,3	117,9	113,1	121,5	123,7	+ 1,8

WAGE TRENDS BY SECTOR

	1975	1978	1979	1980	1981
(a) Non Agricultural sectors	100	107,9	109,1	109,8	-
(b) Agricultural	100	103,4	101,5	92,5	-

TREND OF HOUSEHOLD INCOME AND PRIVATE CONSUMPTION IN REAL TERMS

% changes over preceding period; annual rates
(Commission estimates)

	Household income (1)		Private consumption	
	1980	1981	1980	1981
Belgium	2·3	-1·2	1·8	-1·8
Denmark	-4·0	0·7	-4·1	-1·7
Federal Republic of Germany	2·0	-0·4	1·7	-1·3
Greece	-2·7	-0·8	-0·3	0·3
France	-0·7	1·9	1·7	1·9
Ireland	-4·5	-0·8	-0·6	-0·2
Italy	1·3	-1·1	4·4	-0·1
Luxembourg	-1·9	-3·3	1·8	0·7
Netherlands	6·0	-3·6	-0,9	-3·4
United Kingdom	3·1	-3·0	0·7	-0·6

(1) 'Household income' means 'gross disposal household income' as currently defined in the national accounts (i.e. compensation of employees plus net non-wage incomes, less direct taxes, plus or minus net current transfers). It is adjusted for the rise in the price deflator for private consumption.

Levels of Agricultural Incomes by country and region

Incomes can be judged in terms of trend and level. The most striking fact in European agriculture is the very great divergence both nationally and regionally.

In terms of levels, the Member States may be divided into four groups:

(a) Belgium and the Netherlands, which are far ahead;

(b) Luxembourg and the United Kingdom, which follow closely;

(c) France and Germany, which are further behind but remain above the Community average; and

(d) Ireland and Italy, with an average income of one third that of Belgium and the Netherlands.

These differences are even greater at a regional level, being in the order of magnitude of 1 to 7 within the Community as a whole and 1 to 4 within individual countries.

Regional variations in income within Member States
(selected examples - 100 = whole country)

	1972/73	1975/76
Germany		
Schleswig Holstein	134	138
Rheinland - Pfalz, Saarland	90	80
France		
Region Parisienne	388	216
Champagne	247	279
Limousin	50	59
Italy		
Liguria	165	126
Lombardia	157	193
Molise	54	43
United Kingdom		
N England)		129
E England)	108	111
W England)		86
Wales	74	61

Income by type of production

Level:

Incomes vary considerably between types of production. From 1969 to 1975 the difference between the lowest and the highest income persisted (1 : 3 instead of 1 : 2.9) and in absolute terms it rose from 3,100 to 8,400 EUA.

Indices for 1969/1975 show that the highest incomes were recorded in general agriculture (189), pigs and poultry (152) and horticulture (125).

This group was followed by a second containing farms combining pigs and poultry and arable crops (110), or vice versa (105) and those combining pigs and poultry and grazing stock (120) or vice versa (100).

Those farms specialising in, or including, fruit and vines, and situated mainly in the Mediterranean regions of the Community, were at the bottom of the scale (69-41).

Trend:

The trend in agricultural incomes varies considerably, depending upon the type of production and can be divided into two groups:

(a) those with regular trends in labour incomes: general agriculture, horticulture, fruit;

(b) those with very irregular income trends: cattle, pigs and vines.

Even where the index of the increase in income may be similar, income growth in absolute terms varies considerably:

	1969	1975	Absolute change
Cattle - milk	2,200 EUA	5,600 EUA	3,400 EUA
General agriculture	4,200	11,100	6,900
Pig farms	4,700	12,500	7,800

The differences in incomes by sector goes a long way to explaining the difference in agricultural income by Member State. Climate and soil determine the possible 'mix' of production by country. Some countries, like Ireland, are limited largely to milk and cattle off grass. For other countries like Germany, the range of products is very broad.

% production by product - highest and lowest in EC

	Germany	France	Italy	Netherlands	Belgium	DK	UK	Irl
Wheat		10.9						1.3
Sugar					4.8			1.9
Milk			6.5					32.3
Beef			11.3	11.3				35.7
Pigmeat			6.8		23.3			
Fruit	7.8							0.3
Vegetables			12.8			1.5		
Wine		9.3		0		0	0	0

Differences in incomes levels have diverse causes: basic structures of farming, reflecting partly the general level of economic development; the mixture of products, mainly the result of climate and soil; and the export/marketing possibilities, which again reflects general economic development, as well as the system of monetary compensatory amounts gradually installed since 1971.

The structure of farming

Output in farming reflects input. The percentage of intermediate consumption varies considerably from Member State to Member State (from 23% in Greece to 59% in Belgium).

Those countries with strong currencies, the Netherlands, Belgium and Germany, have constantly experienced lower and even negative cost increases (though in 1981 slight increases were recorded, for example, from 7.6% to 9% in the Netherlands).

Clearly countries which rely on home-produced fodder are at greater risk from climatic difficulties, for example the poor spring weather in Ireland, than those countries which buy in fodder, cereals and substitutes.

Moreover, since many cereal substitutes are not subject to MCA's, countries with strong currencies will benefit from higher prices and steadily decreasing feed costs.

Rates of inflation

These regions vary considerably from 3.9% in Germany to 21.8% in Greece.

RATES OF INFLATION

	1973	1974	1975	1976	1977	1978	1979	1980	1981
Eur 9	6.8	12.8	13.6	11.0	9.9	8.2	9.8	13.8	
Germany	6.0	6.8	6.4	4.0	3.8	2.8	4.5	5.2	
France	8.2	13.9	11.1	10.0	9.1	9.2	11.5	13.8	
Italy	10.8	19.4	16.3	17.0	17.1	11.7	15.0	21.0	
Netherlands	7.8	3.6	9.9	9.0	6.4	4.3	4.1	7.1	
Belgium	6.8	12.7	12.4	9.0	7.3	4.3	4.9	6.3	
Luxembourg	6.4	8.4	11.1	10.0	6.4	3.4	4.1	6.3	
United Kingdom	7.8	17.4	23.6	17.0	15.4	8.1	13.7	18.1	
Ireland	10.9	16.9	20.5	18.0	13.6	7.5	13.2	18.4	
Denmark	9.7	15.2	9.9	9.0	11.0	9.9	9.8	12.3	

Average annual interest rate (%) (not taking into account interest-rate subsidies) payable on loans for farm investments (1980-1981)

	1980	1981
Germany		
- short-term	11.0	14.0
- long-term	10.0	13.0
France		
- short-term	10.0	12.2
- medium-term	11.3	12.4
- long-term	11.6	12.9
Italy		
- medium-term	:	:
- long-term	15.6	:
Netherlands		
- short-term	10.0	13.1
- medium-term	10.0	11.2
- long-term	11.3	11.8
Belgium		
- short-term - long-term	13.3	14.1
Luxembourg		
- short-term - medium and long-term	7.8	8.3
United Kingdom		
- short-term	18.6	14.1
- medium-term	16.4	15.5
- long-term		
- fixed	16.4	15.5
- variable	19.0	15.1
Ireland		
- short-term	16.8	16.3
- medium-term	17.3	16.8
- long-term	17.8	17.3
Denmark		
- medium-term	20.4	20.7
- long-term	20.4	20.9
Greece		
- short-term	13.7	13.6
- medium and long-term	12.5	13.8

Exports

The cost advantage of strong currency countries in the livestock sector is multiplied by the advantage of the export refunds granted under the system of MCA's.

It is not accidental, therefore, that the two countries with the strongest currencies have recorded exceptional increases in exports and income.

In the first nine months of 1981, agricultural and food exports of Germany increased by nearly 30%, and increased by 248% on the Greek market in 1981. Germany is now the fourth biggest world exporter of agricultural goods.

Similarly the Netherlands increased its agricultural exports in the first half of 1981 by 14% on the Community market and by 21% on the world market.

IMPORTS from third Countries (1980 - 1000 tonnes)

Imports by quantity (1000 t.) and a % of the national production for each product

	Germany		France		Italy		Holland		Belgium/ Luxembourg		U.K.		Ireland		Danmark	
	1000 t.	%														
ls	2696[1]	11,68[1]	986	2,23[1]	4692[1]	27,53[1]	2122[1]	166,46[1]	1884	88,78	4499	26,13	105	5,87	120[1]	1,70[1]
	88	3,08	166[1]	4,23[1]	28[1]	1,54[1]	15[1]	1,71[1]	6	0,66	1228	106,41	31	17,71	18[1]	4,21[1]
ables	887	53,75	549	7,88	78	0,59	288	11,64	44	4,93	83	35,99	20	6,41	48	23,30
	1376	45,74	784	23,84	460	7,29	381	59,25	238	53,12	790	137,39	63	273,91	65	64,36
	214	3,91	211	3,69	169	5,06	96	4,19	54	4,48	438	13,53	0	0	3	0,22

1) = 1981

EXPORTS to third Countries (1980 - 1000 tonnes)

Exports by quantity (100 t.) and a % of the national production for each product

	1000 t.	%														
ls	1515[1]	10,89[1]	9195	20,79	1533[1]	8,99[1]	545[1]	43,10[1]	1682	79,26	1192	6,92	27	1,51	376[1]	5,31[1]
	678	23,77	2418[1]	61,67[1]	255[1]	14,04[1]	265[1]	30,28[1]	522	57,11	132	11,44	26	14,86	197[1]	46,13[1]
ables	42	2,54	157	2,25	1083	8,25	185	7,48	29	3,25	108	3,28	1	0,32	18	8,74
	46	1,53	131	3,98	319	5,05	38	5,91	5	1,12	15	2,61	0	0	25	24,75
	219	4,00	387	6,76	57	1,70	161	7,04	40	3,32	47	1,45	81	9,21	215	15,51

Exports (Intra and Extra Community)

	Germany	France	Italy	Holland	Belgium/ Luxembourg	UK	Ireland	Denmark
Cereals								
1973	3052	17068	1003	2451	1638	404	84	435
1976	3473	16676	885	4768	2461	1684	105	588
1980	3505	19851	1696	2075	3709	2320	232	1160
Sugar								
1973	274	1477	52	236	390	361	49	85
1976	284	1316	66	289	299	415	112	169
1980	876	2573	90	391	660	199	83	246
Vegetables								
1973	57	647	1293	1378	458	49	70	19
1976	95	745	1726	1551	580	71	56	20
1980	149	837	2678	1702	501	639	19	30
Fruit								
1973	129	776	1821	256	128	37	10	15
1976	236	803	1937	302	133	61	20	27
1980	452	907	2028	367	183	67	27	32
Meat								
1973	143	279	41	825	335	127	230	778
1976	230	478	37	904	336	197	295	700
1980	490	647	128	1147	425	269	493	927

Imports (Intra and Extra Community)

	Germany	France	Italy	Holland	Belgium/ Luxembourg	UK	Ireland	Denmark
Cereals								
1973	7728	863	7657	5877	4349	8935	803	618
1976	7244	1104	7761	8152	5320	8845	716	491
1980	6328	1356	8702	5703	5018	6174	597	373
Oil seeds								
1973	3422	988	1355	2188	515	1103	15	555
1976	4573	764	1363	2044	918	1310	3	534
1980	5668	1452	1978	3775	1145	1683	10	574
Sugar								
1973	55	2027	23	31	263	471	548	158
1976	104	2034	56	38	318	475	530	97
1980	206	1494	50	36	384	405	323	136
Vegetables								
1973	2529	766	114	264	270	1022	32	59
1976	3147	1176	173	411	346	1041	39	93
1980	3394	1326	170	558	386	1807	62	117
Fruit								
1973	3399	901	494	589	386	1266	86	109
1976	3047	1150	372	659	396	1248	87	108
1980	3135	1037	545	1094	470	1322	108	122
Meat								
1973	960	584	711	184	166	1350	4	4
1976	991	622	634	194	188	1232	9	4
1980	1064	860	777	265	199	1273	21	4

III. FARM PRICES AND THE PROBLEM OF DIFFERENTIAL RATES OF INFLATION

There seems little prospect of the range of inflation rates in the EEC narrowing. Community farm prices are set in relation to a series of averages (the objective method); in relation to budgetary considerations (the relationship between the increase in the cost of the farm policy and the increase in Community 'own resources') and in relation to the state of the market, internal and external.

This means that the price level is almost inevitably pitched around what is necessary to compensate a Community average rate of inflation. The most retrospective the average the more it is likely to over-compensate slow inflaters and under-compensate fast-inflaters because of the simple fact that positions in the inflation league do not change very much.

Within the framework of present price fixing the only mechanism available to compensate fast-inflaters is to award higher-than-average increases to certain crops in those countries. These include, for example, rice, tobacco, cotton in Italy and Greece. The problem here is that there are severe market difficulties with some of these products, notably, in the example quoted, rice and some varieties of tobacco, which will be made worse by privileged price treatment. In addition, fast-inflaters without a suitable crop which can be singled out gain no benefit from this technique. This is the case with Ireland.

To some extent the fast-inflaters can be compensated by means of green currency devaluations. But this is also imperfect. Green rates reflect currency parities, but currency parities are not perfect reflections of inflation rates, since other factors, including deliberate government action, govern exchange rates. The U.K. has been both a fast-inflater and had positive green rates. Ireland has pursued a policy on exchange rates which gives it no green currency margin.

It is important to note that Ireland faces a particular problem due to the importance of her trade with the U.K. About 45 per cent of total Irish trade is with the U.K. and about 18-19 per cent with Denmark. She imports a major part of her agricultural inputs from Britain.

Ireland is a member of the European Monetary System and the U.K. remains outside the exchange rate mechanisms of the EMS. Since the break of the link between the Irish pound and the British pound the Irish pound now trades at about 83 per cent of sterling. This adds a very significant cost factor to Irish imports from the U.K. and some commentators have claimed that the element of 'imported' inflation due to the currency divergencies between the pound and the punt is as high as 9 per cent.

The British themselves are now close to the average level of EEC inflation but have been significantly above the average. They have to deal with a currency whose value has been inflated by income from oil, and this tendancy to push up the value of the pound beyond what would have been likely on the basis of intrinsic economic performance has put severe pressure on profit margins from the export of manufactured products. It has also led to the U.K.'s position as the only country with both a relatively high rate of inflation and positive MCAs. Whereas adjustment of the MCAs in accordance with Commission proposals would leave Germany and Holland with real price increases broadly in line with inflation over the past year, the U.K. would be left with a very significant under-compensation for inflation.

Thus, both Ireland and the U.K. have particular problems stemming from currency factors. Forecasts tend to indicate an erosion of the value of sterling in the light of the weakness in the oil market and domestic factors.

In theory, foreign exchange rates should reflect the different inflation performances of the member countries and a corresponding adjustment of the green rate to match the change in the exchange rate would enable farm prices in each country to reflect the varying rates of inflation. Thus, if a country has a high rate of inflation its exchange rate should depreciate and a corresponding devaluation of the green rate should permit a faster than average increase in national farm prices. Similarly, a lower than average rate of inflation should be reflected in an appreciation of the exchange rate and a corresponding revaluation of the green rate would cause the farm prices to rise less than the average. In both cases, MCAs reflect a failure to devalue or revalue a national green rate in line with movements of its exchange rates preventing farm prices reflecting different inflation rates.

Essentially, farmers in one member country are in competition not only with farmers in other member countries, but with the rest of the economy in their own country. Relative inflation rates really reflect the performance of the rest of the economy, rather than of the agricultural sector. A country with a low rate of inflation is really a country with a highly efficient economy and in that situation farming, it can be argued, should decline rapidly in importance. In contrast, a country with a high rate of inflation has an inefficient manufacturing sector and farming should probably increase in importance.

Short of national supplements to prices, it is difficult to see how farm prices can reflect varying levels of national inflation within the framework of the present MCA system. Since national supplements would distort competition we have to live with a situation where farm prices can only reflect varying rates of inflation if these varying rates are reflected in exchange rates and changes in the latter are immediately reflected by changes in the green rate.

It could be argued that even if there is a problem there ought to be no solution. After all, Member States are responsible for their own economic performance and there is no reason why agriculture should be inflation-proofed against economic mismanagement by Community action when this happens for no other sectors. But the fact remains that if it is intended to maintain at least a broadly fair basis of competition, and to permit agriculture to develop in response to natural advantage rather than monetary factors, it is necessary to seek at least to contain the problem.

This paper seeks to outline a number of options. It deliberately includes possibilities which will be instantly condemned as being 'non-communautaire' because they breach prinicples which are supposed to be central to the CAP even though they have long since ceased to have much practical meaning. There is not much common in common pricing (see Table 1 and 2). If the problem is to be explored thoroughly it is better to be too generous than too pusilanimous.

Pricing on a national cost plus/minus basis

One theoretical solution to these defficiencies is to introduce a system of compensation for EC farming industries that equalizes the ratio of the price award to 'cost' increases across the Community. The aim would be support prices adjusted by the same proportion of input price inflation (including earnings and after allowance for exchange rate changes) for each Member State. For example, if the Council of Ministers considers that the support price for milk should be reduced in real terms (i.e. not rise in line with input prices) by 2 per cent then support prices will change in each country in such a way as to achieve a 2 per cent reduction in real terms. Such a system of setting common prices throughout the Community would ensure that the change in the unit profit accruing to individual farmers would vary according to underlying productive (efficiency) forces rather than the vicissitudes of inflation and exchange rates.

This new system of providing a guide to the setting of common prices could be based largely on the present method of collecting price and earnings data. However, such a method of setting support prices would have the effect of varying support prices throughout the Community thus it would involve a series of tariffs and subsidies similar to the present MCA system to protect national support prices. In principle such a system would have the following advantages within the Common Market:

(i) Agricultural resources would be allocated according to technical efficiency.
(ii) If production of a commodity in surplus is to be reduced via the price mechanism then all EEC farming industries suffer the same proportional cut in their real support prices.
(iii) Changes in real prices are determined at the European level not unilaterally as with green currencies.
(iv) If the objective is to keep agricultural earnings in line with non-agricultural earnings in the same region/country then this method does so, the present method does not.
(v) If inflation and exchange rates complement each other the method in practice would achieve the ideal of the present system. If inflation and exchange rates diverge this method compensates.

Uncommon pricing in the Community

Relationship between market prices and guide prices and market prices and intervention prices

(in national currency)

Product	Common wheat (breadmaking quality) 1,000 kg			Barley 1,000 kg			Milk from the farm (3.7%) 100 kg			Beef Live weight 100 kg			Pigmeat Dead weight 100 kg		
Marketing year	1978/79	1979/80	1980/81 (8 months)	1978/79	1979/80	1980/81 (8 months)	1978/79	1979/80	1980/81 (6 months)	1978/79	1979/80	1980/81	1978/79	1979/80	1980/81 (5 months)
Community (ECU)															
market price/ intervention price	0.86	0.84	0.82	0.89	0.87	0.84	0.88	0.91	0.88	0.86	0.84	0.82	0.87	0.89	0.85
market price/ guide price	1.15	1.13	1.12	1.08	1.06	1.03	a)0.97 b)1.00	0.99 1.03	1.01 1.01	0.95	0.94	0.92	1.12	1.14	1.09
Belgium (Bfrs)															
market price/ intervention price	0.86	0.85	0.84	0.86	0.85	0.82	0.87	0.88	0.82	0.90	0.92	0.89	0.87	0.92	0.88
market price/ guide price	1.15	1.15	1.14	1.05	1.04	1.02	a)1.00 b)1.00	1.00 1.03	1.00 1.02	1.00	1.01	0.90	1.11	1.18	1.18
Denmark (Dkr)															
market price/ intervention price	0.85	0.85	0.82	0.86	0.83	0.82	0.91	0.93	0.93	0.78	0.78	0.78	0.84	0.83	0.78
market price/ guide price	1.14	1.15	1.12	1.05	1.02	1.02	a)0.95 b) -	0.96 -	1.00 -	0.87	0.87	0.86	1.03	1.06	0.99
Germany (DM)															
market price/ intervention price	0.85	0.84	0.83	0.85	0.84	0.84	0.90	0.91	0.87	0.83	0.83	0.81	0.81	0.83	0.83
market price/ guide price	1.13	1.13	1.13	1.03	1.03	1.04	a)1.00 b)0.98	1.00 1.00	1.00 0.98	0.92	0.92	0.89	1.00	1.07	1.07
France (FF)															
market price/ intervention price	0.86	0.82	0.80	0.89	0.85	0.82	0.91	0.92	0.84	0.94	0.91	0.88	0.91	0.92	0.86
market price/ guide price	1.15	1.11	1.08	1.08	1.04	1.01	a)1.01 b)1.02	1.01 1.06	1.00 1.01	1.04	1.01	0.98	1.17	1.18	1.11

Table 2

Uncommon pricing in the Community

Relationship between market prices and guide prices and market prices and intervention prices

(in national currency)

Product	Common wheat (breadmaking quality) 1,000 kg			Barley 1,000 kg			Milk from the farm (3.7%) 100 kg			Beef Live weight 100 kg			Pigmeat Dead weight 100 kg		
Marketing year	1978/79	1979/80	1980/81 (8 months)	1978/79	1979/80	1980/81 (8 months	1978/79	1979/80	1980/81 (6 months)	1978/79	1979/80	1980/81	1978/79	1979/80	1980/81 (5 months
Ireland (£ Irl)															
market price/ intervention price	-	-	-	0.93	0.89	0.82	0.82	0.81	0.76	0.75	0.74	0.72	0.83	0.83	0.78
market price/ guide price	-	-	-	1.13	1.09	1.02	a) 0.85 b) -	0.93 -	1.00 1.01	0.83	0.82	0.80	1.07	1.07	1.00
Italy (Lit)															
market price/ intervention price	0.98	0.95	0.92	0.96	0.97	0.91	1.19	1.19	1.15	0.89	0.89	0.92	0.98	1.08	0.97
market price/ guide price	1.31	1.27	1.26	1.17	1.19	1.12	a) 1.01 b) -	1.00 -	1.04 -	0.99	0.98	1.03	1.26	1.38	1.24
Luxembourg (Lfrs)															
market price/ intervention price	0.76	0.75	0.74	-	-	-	0.82	0.85	0.83	0.90	0.89	0.88	0.94	1.03	0.96
market price/ guide price	1.01	1.01	1.00	-	-	-	a) - b) -	- -	- -	1.00	0.99	0.98	1.20	1.32	1.26
Netherlands (Fl)															
market price/ intervention price	0.84	0.83	0.80	0.87	0.86	0.83	0.90	0.92	-	0.88	0.87	0.85	1.04	1.06	1.02
market price/ guide price	1.13	1.11	1.09	1.06	1.05	1.03	a) 0.99 b) 1.00	0.99 1.03	1.00 1.00	0.88	0.87	0.85	1.04	1.06	1.02
United Kingdom (£)															
market price/ intervention price	0.91	0.84	0.80	0.79	0.85	0.79	0.86	0.85	0.78	0.81	0.81	0.75	0.96	0.92	0.86
market price/ guide price	1.21	1.13	1.09	1.10	1.04	0.97	a) 1.00 b) 1.01	1.05 1.02	1.07 1.02	0.90	0.89	0.83	1.24	1.18	1.11

The mechanics of such an operative need not be difficult. The 'objective' method assumes a European (and thus an artificial) rate of inflation. The difference between this and national rates is shown in Table 43 on page 224 of the 1980 Report on the Agricultural Situation - see below.

43 Index of the implicit price of GDP

(1973 = 100)

	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980**
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Deutschland	73,4	74,7	77,3	82,9	89,3	94,3	100	106,8	114,0	117,8	122,3	127,1	132,2	138,4
France	70,4	73,3	78,2	82,6	87,4	92,7	100	111,2	126,1	138,8	151,2	166,1	183,4	203,3
Italia	69,6	70,7	73,6	78,7	84,3	89,6	100	118,5	139 3	164,3	195,0	223,0	257,1	304,7
Nederland	67,4	70,1	74,3	78,3	84,9	92,5	100	109,2	121,5	132,3	140,7	147,9	153,7	162,5
Belgique/België	74,7	76,7	79,8	83,5	88,1	93,6	100	112,2	126,3	135,7	145,7	151,8	157,8	166,3
Luxembourg	69,7	73,3	77,0	86,0	85,6	89,5	100	115,6	117,9	132,7	135,0	140,9	153,7	161,3
United Kingdom	67,6	70,7	74,6	79,8	87,2	94 2	100	115,0	146,0	166,9	190,2	210,5	241,3	293,7
Ireland	55,4	57,7	63,1	69,1	76,3	86,7	100	106,1	129,7	155,9	175,4	193,0	218,0	252,3
Danmark	62,9	67,2	71,7	77,5	83,6	91,2	100	112,8	127,1	138,8	151,2	165,2	177,3	194,3
EUR 9	70,2	72,4	76,0	81,0	87,1	92,9	100	111,1	126,1	138,3	151,6	164,6	180,2	202,0

Source · Eurostat

This gives a 'Euro 9' index number for 1980 for the implicit price of GDP (1973) = 100) of 202, which is almost identical with that for France - 203.3 - well above that for Germany - 138.4 - and below that for the UK 293.7 and 203.3 for Italy. Thus, if the ECU price is based on 202, the appropriate deflater/inflater for each Member State can readily be calculated. If a more sophisticated index is wanted, related to changes in the prices of particular inputs - feedingstuffs, fertilisers, energy, machinery - the series for each of these items is in Table 20 (page 202 of the 1981 Report on the Agricultural Situation) see below. In either case allowance would have to be made for the proportion of final prices accounted for by costs of production. In round figures this is about 50 per cent. And, if we were using Table 20 we would have to apply a different feedingstuffs indicator for milk, from that for beef, to take account of the less intensive systems of the beef sector.

20 Evolution (1) in the EC price index of feedingstuffs, fertilizers and soil improvement, energy and lubrificants, investments in machinery (excluding VAT; Ireland including VAT)

(1975 = 100)

	Deutschland				France				Italia			
	Feeding-stuffs	Fertilizers and soil improvements	Energy and lubricants	Investments in machinery	Feeding-stuffs	Fertilizers and soil improvements	Energy and lubricants	Investments in machinery	Feeding-stuffs	Fertilizers and soil improvements	Energy and lubricants	Investments in machinery
1	2	3	4	5	6	7	8	9	10	11	12	13
Indices												
1973	104,5	73,0	78,9	83 1	83,8	61,1	60,9	73,4	73,4	51,5	50,0	62,4
1974	102,8	88.0	93,9	91,3	94,8	85,1	94,5	86 0	92,5	85,7	91,5	79,6
1975	100	100	100	100	100	100	100	100	100	100	100	100
1976	113,5	101 6	107,1	104,7	107,3	99,0	112,0	110 1	124,9	113,8	121,4	116,7
1977	116,3	99,6	107,2	109.5	121,3	102,5	124,4	118,5	147,6	127,1	147,4	138,5
1978	106,6	99,6	107,6	112,3	123,1	112,6	133,9	128,2	157,8	139,5	150,1	155,3
1979	107,0	101,6	139,4	114,9	131,0	124,2	159,1	140 9	170,8	159,1	162,5	184,2
1980	110,4	110,5	161,7	119 5	142,2	154 1	218,4	157,2	193,6	196,5	205,3	216,1
1981*	121	123	179	124	161	177	280	177	229	229	274	246
% TAV												
1979/73	0,4	5,7	9,9	5,6	7,7	12,6	17,5	11,5	15,0	21,0	22,0	20,0
1980/79	3,2	8,8	16,0	4,0	8,6	24,1	37,3	11.6	13,4	23,5	26,3	17,3
1981 80*	10	11	11	4	14	15	28	13	19	16	33	14

	Nederland				Belgique Belgi				Luxembourg			
	Feeding stuffs	Fertilizers and soil improvements	Energy and lubricants	Investments in machinery	Feeding-stuffs	Fertilizers and soil improvements	Energy and lubricants	Investments in machinery	Feeding-stuffs	Fertilizers and soil improvements	Energy and lubricants	Investments in machinery
	14	15	16	17	18	19	20	21	22	23	24	25
	101,4	78,9	64,1	80,7	94,0	69 1	62,4	80,0	89,7	75,2	70,9	80,3
	104,4	87,6	88,4	84,3	99,4	86 3	82,8	90,0	96,5	92,1	87,2	90,1
	100	100	100	100	100	100	100	100	100	100	100	100
	110,9	106,2	115,3	109,1	112,5	108,0	106,4	111,2	108,5	107,9	106,7	125,8
	114,7	107,5	127,5	117,0	114,9	107,4	111,2	116,8	113,4	108,8	109,5	132,1
	104,9	109,0	134,4	122,2	107,9	104,2	110,0	121,2	108,8	106,3	108,3	138,1
	113,9	109,7	154,2	129,0	112,4	109 7	137,3	128,5	110,1	112,4	130,3	144,8
	120,0	122,2	202,5	136,0	118,4	122,9	179,7	137,8	116,7	126,7	164,1	155,3
	129	135	257	142	129	136	208	143	129	137	190	162
	2,0	5,6	16,0	8,1	3,0	8,0	14,0	8,2	3,5	6,9	10,7	10,3
	5,4	11,4	31,3	5,4	5,3	12.0	30,9	7,2	6,0	12,7	25,9	7,3
	8	11	27	4	9	11	16	4	10	8	16	4

	United Kingdom				Ireland				Danmark			
	Feeding-stuffs	Fertilizers and soil improvements	Energy and lubricants	Investments in machinery	Feeding-stuffs	Fertilizers and soil improvements	Energy and lubricants	Investments in machinery	Feeding-stuffs	Fertilizers and soil improvements	Energy and lubricants	Investments in machinery
	26	27	28	29	30	31	32	33	34	35	36	37
Indices												
1973	79,4	59,3	56,3	62,9	71,2	45,7	47,2	63,3	96,0	48,7	55,8	73,0
1974	101,1	84,0	82,3	76,8	93,1	76,8	80,1	78,3	103,1	69,8	95,9	87,0
1975	100	100	100	100	100	100	100	100	100	100	100	100
1976	125,1	105,2	123,1	122,4	120,1	102,8	122,5	130,2	115,3	88,8	107,9	106,6
1977	148,2	118,1	147,4	149,8	155,6	112,4	142,9	161,6	125,9	83,1	110,9	115,5
1978	144,4	137,0	152,1	169,6	158,7	119 1	138,8	183,9	118,4	85,5	113,6	127,5
1979	163,4	147,2	181,9	188,6	177,2	130,5	172,5	199,9	126,7	89,8	146,0	138,1
1980	174,7	173,5	238,7	217,7	184,3	155,7	246,0	213 7	147,0	109,9	202,7	153,0
1981*	188	191	267	229	202	177	320	241	172	135	262	167
% TAV												
1979/73	12,8	16,5	22,0	21,5	16,5	19,0	24,0	21,0	7,1	10,7	17,5	11,2
1980/79	6,9	17,9	31,2	15,4	4,0	19,3	42,6	6,9	14,2	22,4	38,8	10,8
1981/80*	8	10	12	5	10	14	30	13	19	23	29	9

	EUR 9				Elias				EUR 10			
	Feeding stuffs	Fertilizers and soil improvements	Energy and lubricants	Investments in machinery	Feeding stuffs	Fertilizers and soil improvements	Energy and lubricants	Investments in machinery	Feeding-stuffs	Fertilizers and soil improvements	Energy and lubricants	Investments in machinery
	38	39	40	41	42	43	44	45	46	47	48	49
	88,5	63,0	66,1	74,3	70,7	81,0	49,8	:	88,2	63,4	65,1	:
	98,8	85,1	91,0	85,9	93,2	100.0	88,4	.	98,7	85,4	90,9	:
	100	100	100	100	100	100	100	100	100	100	100	100
	116,1	102,1	112,7	110,7	107,4	117,5	106,9	112,8	115,9	102,4	112,4	110,8
	129,0	105,8	122,9	122,1	125,4	122,6	120,1	125,0	128,9	106,1	122,7	122,2
	126,7	113,3	126,2	131,6	137,2	125.1	126,6	136,3	127,0	113,6	126,2	131,7
	136,0	122,0	153,4	143,3	153,9	150.6	173,7	149,2	136,3	122,6	154,5	143,4
	147,3	144,9	194,5	158,4	194,6	220.9	253,9	178,4	148,3	146,4	197,9	158,9
	165	165	233	173	252	253	336	217	167	166	239	174
	7,4	11,6	14,5	11,6	14,0	10,9	23,0	:	7,5	11,6	15,5	:
	8,3	18,8	26,8	10,4	26,4	46,7	46,2	19,6	8,8	19,4	28,0	10,8
	12	14	20	9	30	14	32	22	13	16	21	9

Source Eurostat.

(1) TAV 1973/1968 index 1970=100, TAV 1979/1968 . index 1975=100 and index 1970=100.

It would be necessary as already stated, to introduce MCA's to adjust the price level in any one Member State, converted from ECU's into national currency, to that in the others. The more sophisticated the calculation of national differentials, the more complicated would be the calculation of these MCA's.

There would be substantial practical difficulty here. The index numbers might not be very up-to-date or compiled on a common basis. There would be arguments about what proportion input prices or, more broadly costs (on the basis of the implicit price of GDP) bore to final prices and arguments from the proponents of economy that you should not project a past index of real prices into the future.

But, nonetheless, the mechanics of the operation are relatively simple, depending on how sophisticated we want them to be.

This solution seems to tackle the basic problem that the current situation tends to provide incentive according to exchange rate movements and rates of inflation, none of which are much to do with underlying efficiency. It relies upon the principle of defining common prices in terms of purchasing power not in money terms. Although it would be attacked as violating a fundamental principle of the Community common farm prices, its proponents would argue precisely the opposite: that the present situation of more or less unilateral green currency changes has removed price fixing from the Community level whereas this proposal would restore genuinely common prices. While a frontier mechanism would have to be introduced to protect the intervention system and prevent the shifting of goods around in response to monetary factors (which happens extensively at the moment), there is no need for it to be more difficult to operate than MCAs.

The objections to such a system would be numerous. There is strong attachment to the notion of common prices even if they are semifictional: Member States would not necessarily welcome losing the ability to influence agricultural incomes by green rate adjustments; the ability to adjust green rates is a useful lubricant in the whole process of price fixing because they provide that margin of 'toppping up' which permits some governments to accept an otherwise inadequate prices package; it could be argued that the system would establish institutional barriers to free trade. Most powerfully of all, though perhaps the objection would be camouflaged, is the argument that such a system stands unequivocally for a farm sector subject clearly to economic government rather than social objectives.

At a more mundane level any inflation-compensating mechanism would have to specify (i) which year's inflation is being compensated for, (ii) which items should be included in the appropriate index, (iii) what allowance should be made for productivity trends and for abnormal factors such as adverse weather conditions, and (iv) what arrangements should be made to eliminate the subsidy element in the scheme over time.

Learning to love MCAs

The most common criticism of MCAs is that they attract production to the stronger currency areas irrespective of underlying agricultural efficiency or what ought to be natural advantage.

However, it is possible to use MCAs for the purpose of inflation-indexing. While it could be argued that the real priority should be to get rid of MCAs and back to genuinely common prices, it could just as well be maintained that MCAs have been in existence in some form for longer than half the CAP's entire career and that it is illusory to imagine that they can disappear prior to the creation (and this is not likely to happen tomorrow) of European monetary union.

In addition, the abolition of MCAs without some inflation-proofing mechanism could also provoke precisely that proliferation of national aids which will break up the CAP.

In fact, inflation-indexing could be fairly simple. A country with high inflation that wishes to devalue its green rate while maintaining its general parity would in effect move to positive MCAs. In this way, instead of closing the gap between currencies by lowering present positive MCAs, one could do so by raising those of countries with negative or zero MCAs.

The difficulty is the same as with the original MCAs of high inflation countries. Their governments do not wish to fuel price increases by raising producer prices directly. However, in practice they do this at the annual price review. It might be better to add flexibility by building in the possibility of some indexing. If some governments of countries with high inflation, like the British, refuse this facility, that is their decision.

This formula could be expressed more generally as making the green rates of exchange vary with inflation rates rather than in response to market rates of exchange. In effect this would index link the level of prices received by farmers throughout the Community. The effect would be to tend to stimulate agricultural production since other prices would not be fully recouped during the process of inflation. At the same time in practical terms, since some relatively large agricultural producers, France, Italy, the U.K. and Ireland have relatively rapid rates of inflation which have not been fully recouped by the operation of the MCA system the stumulus to aggregate production in the Community would be considerably greater. Thus an index linked translation of common prices into national currencies would require a much lower level of common prices if it were not to result in insupportable surpluses so far as the Community as a whole is concerned. In effect this would shift the balance of advantage somewhat in favour of the countries with relative rapid rates of inflation and against those where inflation was slower.

It is doubtful whether such a system would in practice work. Political objection to the necessary manipulation of nominal common prices would probably make it even more costly from the point of view of the Community than the current irrational means of price determination in national currencies. The full effects of inflation would be directly translated into prices with disadvantages so far as the cost of living index was concerned. Even in Ireland a country for which this system might seem most suited, there would be considerable criticism by consumers. That criticism could be relieved if the common price itself were made sufficiently flexible and not too greatly to exceed the level of import prices.

There are, of course, other problems about indexing. First, any system of indexing producer prices risks becoming a floor for payments in countries where the farm lobby is strongest. This tends to perpetuate income-oriented policies at a time when the stress is shifting to balancing markets. There should not be full compensation for falling incomes.

Second, there is no reason why farmers, as consumers, should have compensation for inflation when other sectors of the same society live by the ordinary exchange rate. This implies that income aids by any government should be confined to welfare payments, under Community control, for smallholders, defined by those with income of less than 4 ESU. Some restriction of coverage related to the external earnings of part-timers should be included.

Third, inflation linking to farmers, as producers, implies that the yardstick should be changes in the cost of inputs, which primarily affect the larger farmers. This would mean only fractional compensation for total inflation, varying with the proportion of intermediate consumption in any country's gross agricultural output. It would also suggest subsidies rather than MCAs which work across the board. However, for simplicity, administrative and welfare reasons, an MCA system would be preferable.

If governments refuse such an across the board approach, the only alternative seems to be closer definition of the conditions under which national aids can be given. Some of the above criteria would also apply in this case. There might, of course, be a mix of the two approaches. Either way, a codification of Community rules and an obligation for collective decision-making should be mandatory.

The implication of the deliberate use of MCAs to create a mechanism to take into account the different degrees of national inflation must be recognised: it is a change in the basic idea of common prices. MCAs have so far been looked on as a mechanism to smooth exchange rate movements, even though governments have used them to retain a certain degree of national freedom over price. To introduce explicitly the idea of freely fixing MCAs in order to balance national rates of inflation means a change in the nature of the instrument.

If it is really wanted to provide for a free use of MCAs for this purpose it would be necessary to provide for increasing MCAs in conjunction with price fixing without exchange rate changes. This would be contrary to the current legislation.

There is a medium to long-term tendancy for exchange rates to reflect different rates of inflation. Thus, common nominal prices will, over a period, have a tendancy to translate into common real farm prices in all Member States. Short-term deviations of exchange rates from the trend will mean short-term differences in real prices. It is difficult to see how this can be avoided except by reducing existing MCAs.

Monetary Differential Amounts

In certain products for which (a) aid is given and (b) EEC prices are higher than market prices, a system of monetary differential amounts has been introduced (for colza) or proposed (for peas and beans). The aim is to reduce the differential which exists between green rates and other rates without recourse to conventional MCAs.

For example, in the colza scheme aids and intervention payments are made in each Member State at a prevailing green rate. Aids are paid to the crushers for the Community seed that they buy and intervention prices are paid for farm production for which sufficient prices are not offered. Intervention is allowed only in the country of production. All rapeseed crosses any internal EEC frontier with a T5 form and can be identified. It is subject to a guarantee which is only freed when the rapeseed is placed under contract at its destination. There are no monetary differential amounts collected or attributed, with the aim of simplifying customs control.

The scheme has its disadvantages. A company in Germany may, for example, buy in France at French (i.e. lower) prices. It then transfers the product to Germany where, although it cannot put the rapeseed into intervention, it can get a high price because of the high Germany support levels. It therefore makes an artificial profit on the trade which it would not do if conventional MCAs were applied at the frontier.

Under this system also no trade would move in the direction from Germany to France, whereas MCAs, by adding or subtracting at the frontier, makes this possible.

Purchases of rapeseed in France for export are still relatively modest, but this year the Germans have been buying French seed with the strong DM and raising prices within France, thus depriving France of rapeseed to crush because the Germans get their aids in DM as well.

The effect of the MDA system, then, is to replace one system with another.

Conclusions

The analysis in the working paper has been deliberately speculative. Much of it could be elaborated. However, it is possible to draw certain tentative conclusions:

(i) The present system of green rates/MCAs is a very approximate indication of different inflation levels because parities themselves do not reflect only inflation rates and in some cases ther is a strong gap between the rate of exchange inflationary expectations might indicate and the actual rate of exchange. All European rates of exchange move in respect to currencies outside the EEC as well as those within it.

(ii) The problem with green rates is that they are political instruments as well as economic instruments. They are used to raise or depress artificially farm incomes relative to the policy of the individual national government. In this respect they are not without political utility because they provide a 'margin of manoevre' beyond the formal prices posted by Brussels. The avoidance of green currencies and their consequent MCAs is essentially a political choice by Member States to accept that their farm policies are integrated with other Member States and must be planned jointly. However, even without MCAs the volume of agricultural spending which remains purely within national competence is such that the distortions associated with the green currency system could simply be transferred to other mechanisms e.g. credit, investment.

(iii) Mechanisms to overcome the problem of different inflation rates do exist. But, simplifying the question, they involve almost inevitably differential prices within intra-EEC trade being assured by means of some sort of common trading price assured by frontier measures akin to MCAs. It could be argued that common prices do not, in any case, exist. But, to move from acceptance of the reality that practice deviates from the ideal, to endorsing changing the underlying principle itself involves a considerable political jump.

The essence of such a change would be to define prices not in money terms but in relation to compensation for input or purchasing power. While there is a case for this within the farm sector it is easy to see how the non-agricultural sector would feel aggreived at agriculture being permitted both a guaranteed market (in certain commodities) and a guaranteed real rate of return.

(iv) The MCA system itself could be deliberately manipulated to provide for inflation-proofing. But it is difficult to see how this would be accepted politically without inviting competitive national aids.

(v) There are two conventional measures. One is to give higher-than-average price support to crops characteristic of certain countries. The problem here is that the situation on the market might not justify it and that the assistance could discriminate unacceptably between regions of the same country. The other is to adjust the balance between national and Community spending in specific aid schemes like the suckler premium. The difficulty here is that the amounts involved are not likely to be adequate if they are Community financed and that if they are nationally financed they have as much tendancy to distort competition as to correct it.

IV. THE OBJECTIVE METHOD

PURPOSE AND DESCRIPTION OF THE OBJECTIVE METHOD

Purpose

Since the 1972-73 marketing year the Commission has based its price proposals more and more in the light of trends in the general level of prices on modern farms[1]: these are the farms which under the general farm prices policy should be ensured an income comparable to that received from non-agricultural work:

- account being taken on the one hand of a satisfactory return on invested capital and on the other of trends in the prices of the means of production and in productivity;
- and taking account in pricing the various products of 'the supply and demand situation on each of the markets concerned'.

Description of the objective method as applied hitherto

The 'objective method' for the fixing of common agricultural prices is based on the cost structure of reference holdings and on the trends of the main categories of costs (average production costs, rent, etc.) at constant volume. These are compared with the trend of income from non-agricultural work (comparable income), so as to determine the level of common agricultural work, over an average period, comparable to earned income from non-agricultural work. The method takes account of the following quantitative elements:

- the cost structure of reference holdings of the Farm Accountancy Data Network (FADN). A holding is regarded as a reference holding when the earned income (of the family and non-family work force) per man-work unit is between 80% and 120% of the comparable income (average income of wage and salary earners) in the Member State concerned. Two elements are picked out: on the one hand the earned income as a percentage of gross production, and on the other the other costs as a percentage of gross production.
- costs include an 8% return on working capital. With regard to fixed assets the return is based on rent actually paid for the land and buildings or on a fixed notional rent for owner-occupied property.
- the increase in comparable income (per capita earnings) and the average overall increase in the cost of means of production in the Community.
- the calculation having been effected on the basis of technical coefficients fixed for holdings the result is then corrected by a standard 1.5% per year to take into account the technical progress achieved during the period of survey.
- the changes in the exchange rates applied in the agricultural sector during the period in question and the monetary compensatory amounts connected with the agri-monetary measures to be taken.

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[1] In this report the term 'reference holding' is used instead of 'modern farm'

Annual agricultural price proposal and decisions

	Objective method	Commission Proposal		Council Decision	
		Without Green rate adjustment	With Green rate adjustment	EUA/ ECU	National currencies
	%	%			
1973/74		2.76	6.76		
1974/75	7.2 (12.7)(2)	7.2 + 4		+ 8,5	
1975/76	12.4	9.0		10.2	
1976/77	4.6 (9.1)(1)	7.5	3,6 to7,8	7,5	5 to 15,5
1977/78	7.4(2)	3.0	5.0	3.9	8.2
1978/79	4.2	2.0	3.0	2.1	8.6
1979/80	0.4	0	3.0	1.2	7.5
1980/81	7.9	2.4		+4.8	10.5
1981/82	4 - 12	8.9		9.4	10.9

(1) Excluding Italy from the calculation, in view of the monetary changes occurring in Italy in previous two years

(2) COPA's figure

THE APPLICATION OF THE 'OBJECTIVE METHOD'

A. Structure of inputs of reference holdings (FADN)

B. Allowance for changes in the different components of input structures
   - Changes in cost of inputs for each Member State
   - Change in comparable income - standard factor per Member State
   - Technical progress
   - Monetary developments (change of exchange rates)

C. Calculation of gross need for an increase in common prices for each Member State, in national currency

D. Calculation of the need for an increase in common prices at Community level

E. Price increases granted in previous two years

F. Net need for increases in prices at Community level

Input categories

1. Intermediate consumption:
   - Feedingstuffs
   - Fertilizers and ameliorators
   - Energy (electeicity, fuel and lubricants)
   - Services (work contracted out, maintenance of equipment, maintenance of buildings, specific rearing costs)
   - Other intermediate consumption (seeds and seedlings, animal health products, overheads)

2. Amortization of machines

3. Other inputs
   - Farm rent or rental value of freehold property
   - Interest on working capital
   - Other inputs

Elements of the objective method open to discussion

(a) Choice of reference holdings

Clearly the results of the objective method depends largely on the reference farms selected. The choice of reference holding depends largely on the geographical basis taken into consideration to determine the comparable income, the need for an adequate number of reference holdings and the period to which the accountancy data used applies.

Returning holdings which attain the comparable income exactly are rare. If only these holdings were taken into consideration, there would be a risk of the results being influenced by a few particular holdings, or even of not finding any reference holding for one category or another of holdings.

In order to avoid this risk it was decided to take into consideration not only the returning holdings with an earned income per ALU exactly equal to the comparable income, but also all those whose earned income per ALU is 20% above or below the comparable income (80% to 120%). The holdings which come within this range thus constitute the reference holdings.

There is still considerable debate, however, as to whether the reference farms are representative, particularly in terms of their cost structure.

It is argued by the farm unions that to be capable of furnishing the data required the farms must, by definition, be above average.

(b) Structural changes in the inputs of reference holdings

The range of input categories applying to the reference holdings is not the same as that taken into consideration when calculating the price index of the means of production, so that mistakes may occur which affect the results obtained by the 'objective method'.

In view of the statistics currently available concerning inputs, it was decided to take into consideration for the Community and for each Member State a more sophisticated input structure (see Annex II), even if for this purpose recourse to certain conventions should be necessary.

(c) Allowance for growth of productivity

It has been decided, logically, to deduct all growth in productivity achieved by the reference holdings. However, it has not been possible from the data available to quantify the increase in productivity on these holdings.

It has been roughly estimated that this technical progress would correspond to a reduction of 1.5% per year in the price increases shown as necessary by calculating from standard technical coefficients. This works out at a hypothetical increase in the productivity of the agricultural labour factor of about 4.5% per year. A number of questions have been raised, including one by Mr Gundelach, as to whether the figure of 1.5% has been fixed too low. A 2% productivity factor would clearly be much more realistic.

(d) Period to which the 'objective method' applies

Until 1976, the Commission has applied the 'objective method' on the basis of developments observed during a period of twenty-four months, i.e., the years 1973 and 1974, whilst taking into account price decisions already taken for the 1974/75 marketing year.

From 1976 onwards it was decided to apply the 'objective method' on the basis of thirty six months. It was argued that the extension of the period of survey makes it possible to neutralize the effect on the movement of prices of both accidental fluctuations in certain costs and of common price decisions dictated by short-term considerations. It also makes it possible, where necessary, to correct the effect of errors of estimation of certain items in the calculations of previous years.

(e) New member countries

It would be logical to correct the need for increase felt in new member countries as a result of the process of adaptation to the Community structure and price level to which the holdings in these countries are subject.

On the basis of information currently available it is not possible to estimate this corrective factor.

The objective method: more fundamental objections

I have examined technical problems associated with objective method. There are, however, more fundamental objections, which are that, while the objective method is a tool employed to assist price policy in assuring modernized farms an income comparable to that of the non-agricultural worker, the method does not take into consideration the factors influencing agricultural incomes. As the Commission states, 'it does not reflect the actual development of agricultural incomes'[1].

The objective method compares agricultural costs with non-agricultural incomes, while taking into account changes in exchange rates and price increases granted previously. These criteria omit essential factors influencing agricultural incomes: the developments in market prices and the volume of production, as well as the decreasing number of producers.

There are valid doubts in the present structure of the objective method. But even if one were to accept its present outlines, doubts would remain as to the manner of applying individual elements.

For example, national needs expressed in national currencies are put on a comparable basis by converting them into one single monetary unit.

This has the effect of increasing the 'need' for countries with revalued currencies and decreasing it for those with devalued currencies. One can see this as logical in that: (a) prices are considered as common; and (b) monetary changes lead to changes in price levels. Such a correction, consequently, corresponds to reality. However, monetary changes are only partially reflected in market prices when green rates are revalued and bear no relation to changes in costs. The reality introduced by this method is extremely limited.

In recent years it has become increasingly difficult to use the objective method because of the effects of movements in exchange and green rates.[2]

- Depending on the length of the period under consideration, monetary or agri-monetary fluctuations may be taken into account or not, which appreciably affects the outcome of the calculations.
- Similarly, depending on whether the calculation is made on a point-to-point basis or on the basis of two annual averages.
- Lastly, the results will differ depending on whether one takes into account the potential trend of representative rates resulting from the movement in exchange rates during the period considered, or the actual trend of representative rates during the same period.

[1] COM(77) 525 final, p.20

[2] COM(82) 10 final, p.21

Use of the objective method thus gives rise to considerable problems of integration in calculating the monetary fluctuations and the agro-monetary adjustments, and may produce results which vary greatly depending on how these factors are taken into consideration. The following table summarizes the results obtained for 1982/83 using different methods of calculation, in terms of the 'need for price increases':

Method of calculation	1 year 1981	2 years 1980-81	3 years 1979-81	Cumulative 1973-81
(a) Calculation of changes in exchange rates on point-to-point basis	7%	9%	13%	6%
(b) Calculation of changes in exchange rates on basis of annual averages	9%	10%	15%	7%
(c) Calculation based on actual changes in representative rates (equals average of needs by Member State)	8%	7.5%	4%	5%

These widely divergent figures show that the results of the objective method must be interpreted with great caution.

One further objection concerns the usefulness of the objective method in a political world. Price increases decided by the Council are invariably lower than the results of the objective method. If, for one year, an increase is exceptionally high or low, the objective method provides a figure for the following year which is distorted, and, if followed, creates a further distortion the following year. The influence upon production and the farming population of such fluctuations is unacceptably disruptive. The price increase of 9.4% in 1975/76 partially led to the objective method suggesting 0.1% in 1977/78 which, if it had been followed, would have in turn resulted in a suggestion, for 1978/79, considerably higher than 4.2%. In a world of political decisions, the objective method leads to results which cannot be followed and which possibly render the political decisions themselves more difficult.

The Agricultural Committee itself has spent hours in debate whether there is a distinction between a price increase "based" on the objective method and the figure resulting from the method itself.

The need for a new instrument

The 'objective method' does not reflect the changes in the real incomes of farmers in the previous years, mainly because it does not take into account market prices, changes in numbers of farmers and the volume of production.

In 1981, agricultural incomes in the Netherlands increased by 20%, and decreased by 50% in Ireland. These divergencies in income trends are the most serious problems facing the Community. The 'objective method' provides no answer at all and even disguises the problem. The variations in trends in incomes by sector are equally important and again are glossed over by the use of the 'objective method'.

The Community should seek instruments which will enable it to draw up price proposals on the basis of the income trends of real farmers, in particular regions, producing known products. This, at present, the Community is unable to do, partly because it has relied up to now on the 'objective method'. The creation of a new instrument will not be easy since we have to reach an accepted definition of the development in farm income in the Community. For example, in 1979, as each year, the Commission published figures on the development of farmers' incomes. These were calculated on the basis of gross value added at market prices per person employed. They showed that the gross value added per person between 1970 and 1978 had increased at an annual average rate of 3% in the economy as a whole and and 3.5% in agriculture.

COPA immediately reposted by showing that net value added ad facto costs had increased by 3% in the economy as a whole and 2.7% in real terms in agriculture. COPA then took the figure of net operating surplus (the net value added ad facto costs minus wages and salaries paid by farmers for hired labour). They showed that incomes per farmer had been increasing at 1.9% in real terms compared to 3.5% for the average earnings in the economy as a whole.

The Community institutions must immediately begin work to arrive at a generally accepted definition to be used for determining trends in farm incomes.

At present, the only really detailed and up-to-date information on farm incomes concerning the previous year are published by national sources. Unfortunately, there is no coherence at all in the framework in which these different national reports are drawn up. They are not comparable and cannot be used. The relevant services of the Commission should be instructed immediately to study national agricultural income reports and the ways by which they can be brought within an acceptable Community framework.

V. THE PROBLEM OF AGRICULTURAL PRODUCTION FORECASTS : THE MANDATE AND CLEO FORECASTS COMPARED

Introduction

1. The Commission of the European Communities in presenting its "mandate" guidelines for future decisions on the Common Agricultural Policy based its recommenddations on forecasts of the development of the agricultural situation.

2. Evidently it is of the utmost importance to know how the Commission arrived at its forecasts. In this context, it can be pointed out that the Commission intends to introduce a system of agricultural forecasts and simulations with a constantly up-dated data bank on which ad hoc analysis could be based. To this end, a study was carried out at the Centrum voor Landbouw · Economisch Onderzoek (CLEO) with the assistance of the agricultural, economic and statistical divisions of the Commission.

3. A nine volume study has been published with detailed forecasts for 1985. The Commission wants to set up the computer programme so as to update the forecasts and create a permanent instrument.

4. The Commission, however, in preparing the mandate paper has not necessarily followed the CLEO forecasts. Each product division of DG VI was recommended to follow the CLEO figures but were left the liberty to ignore them. In fact the figures contained in the memorandum are not all based on CLEO and represent separate calculations made according to the ideas of each division. Many consist of simple linear projections of existing trends.

It is essential that the Committee on Agriculture, in examining the Commission Guidelines, know exactly the methodology employed by the Commission in drawing up its forecasts.

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5. This working document is divided into two parts, presenting the Commission and CLEO results.

6. The first presents the Commission's forecasts and proposals. The Commission in its mandate report recommended that future decisions be based on certain guidelines, including:

- a price policy to narrow the gap between Community prices and those of her main competitors;
- Community production targets; and
- a greater coherence between commercial and agricultural policies.

It is striking therefore to find that the Commission does not present comprehensive figures for prices of the Community's main competitors, nor for production, consumption, imports and exports.

Only one external reference price is given, cereals - US support. Production targets are given for certain products, for others, the elements to be taken into account are provided but the reader is left to make the calculations.

In general, the estimates of production, consumption, imports and exports are given in a very haphazard and patchy fashion. This is even true of the known figures for 1980. (On the second set of tables, 1980 figures have been entered from CHRONOS.) It can also be pointed out that there appear to be serious discrepancies between data contained in the text and the annexes of the Commission's document, for example, production of sugar, is given variously as 10.9 or 12.3 million tonnes.

7. The second part of this working document present the CLEO forecasts, which are for 1985. It also includes the 1980 figures which were not available to the CLEO team when drawing up the report, and presents for comparison the Commission 'Mandate' forecasts for 1988. In addition a critical explanation of the CLEO methodology is provided.

The need for a reliable forecasting method

8. The examination of the forecasts and statistics employed by the Commission demonstrates clearly that there is insufficient understanding in certain circles of the problems relating to agricultural forecasting.

Forecasts appear to be made on an ad hoc basis and not always by those fully trained in the particular techniques required. It is evident that many of the problems arising are due to inadequate staff being allocated to this essential work.

It appears that the higher ranks in the Commission give a very low priority to setting up a system for agricultural forecasting on a permanent basis. Until this is done, it is impossible to rely at all on the forecasts made by the Commission.

9. There is even a problem with the statistics which are used and presented by the Commission. The tables employed to justify the objectives laid down in the Mandate papers are partly derived from the CRONOS; these are totally acceptable. Others, however, are produced from a variety of sources including those employed by the management committees and which are open to political manipulation. Very often there is no coherence at all between figures given in different tables.

10. The purpose of this paper is not to criticize the Commission and particularly those concerned with the problems of agricultural forecasts. It is essential that a political decision be taken to change certain priorities, and to recognize the simple fact that those concerned with general policy management do not always fully understand the difficulties facing the technicians.

All those concerned with agricultural policy are aware that an accurate instrument for forecasting is essential. No system can be perfect. But at least there should be a proper open discussion of the problems so that progress can be made step by step. At present we appear, in the absence of a reliable and accepted instrument, to be repeating the same mistakes.

(million tonnes)

	Cereals		Sugar		Protein (oil cake)		Colza	
A. 1980	Quantity	% variation	Quantity	% variation	Quantity	% variation	Quantity	% variation
Production	118		12.3		1.1		2.0	
Imports	18 (+14)[1]		1.4		11.0			
Consumption			9.3					
Exports	17		3.5					
B. Est. 1988								
Production	135							
Imports								
Consumption								
Exports								
C. Objectives								
Reference price	-20% (US support)							
1988 production target							3.3	
D. Other measures	(1) reduce intervention price if production targets exceeded (2) voluntary agreements for cereal substitutes		Review of quota system in 1984				Reduction intervention price	

[1] 14 m tonnes of cereal substitutes

(million tonnes/hectolitres)

	Olive oil		Wine		Processed tomatoes		Apples		Tobacco	
A. 1980	Quantity	% var.	Quantity	% var.	Quantity	% var.	Quantity	% var.	Quantity	% var.
Production	0.246		153				6.8		0.193	
Imports	0.169		5		0.125		0.430		0.467	
Consumption			8		0.038		0.204		0.032	
Exports	0.013		0.929							
B. Est. 1988										
Production										
Imports										
Consumption										
Exports										
C. Objectives										
Reference price										
1988 production target	0.246						6			
D. Other measures	(1) better control over payment of production or by flat rate basis. (2) stricter control of intervention payments.		(1) reinforce measures to limit areas under vines (2) grubbing up (3) encourage consumption.		Limit aid to 4.5 m tonnes		Withdrawal limited to certain categories			

(million tonnes/hectolitres)

	Milk		Beef		Pigmeat		Poultry		Eggs	
A. 1980	Quantity	% var.	Quantity	% var.	Quantity	% var.	Quantity	% var.	Quantity	% var.
Production	96	2.6	7.2	2.4	9.7		3.7		4.0	
Imports	2		0.4		0.105					
Consumption				1.7						
Exports	16		0.6							
B. Est. 1988										
Production	104-108	1-1.5	7.8 - 8.2	1.5-2.0						
Imports										
Consumption		0.5		0.7						
Exports	20	0.5								
C. Objectives										
Reference price										
1988 production target	100	0.5	7.6		None		None		None	
D. Other measures	(1) 2.5% co-responsibility levy when expenditure exceeds 30% of Guarantee Fund with franchise first 30,000 kg for all producers. (2) Supplementary levy for dairies exceeding 0.5% increase for products needing support. (3) Special levy on intensive farms (more than 15,000 kg milk per hectare of forage), or (4) Reduction in intervention price when production exceeds target, Also (5) Periodic suspension of intervention skimmed milk powder. (6) End least cost effec-		(1) Product price policy. (2) Further limited periodic suspension of intervention. (3) Revise direct premiums to benefit specialist herds, with limit on aid per farm.		Lower cereal prices		Lower cereal prices		Lower cereal prices	

EXPLANATORY NOTE CONCERNING THE CLEO AGRICULTURAL FORECASTS FOR 1985

The CLEO forecasts for 1985, which were published in March 1980, are the result of the work between 1973 and 1979 of a research team at the Centre for Agricultural Economic Research at Louvain.

The highly developed scientific approach has for objective the introduction at a Community level of a system of agricultural forecasts and simulations which can be constantly updated in the form of a data bank and which could serve as a basis for short, medium and long-term analysis.

In close cooperation with the statistical services of DG VI of the Commission, highly complex econometric models have been elaborated to serve as the basis for forecasts.

The CLEO study represents a tremendous advance in agricultural forecasting for the Community. Previously, Community forecasts were based on aggregating national forecasts, derived differently and of very variable quality.

The CLEO approach involves highly complex calculations requiring intense exchange of views in expert groups. For example, national price hypotheses by product requires the contribution of EEC price hypotheses since the common price policy has resulted in some convergence of national price trends. This makes national historical price trends worthless in establishing national price hypotheses for 1976-1985 even as a starting point.

The CLEO study has achieved very significant progress in particular in the area of the interrelationship of consumption of agricultural products, not merely in terms of substitute products but also as a function of the total possible per capita calory intake.

This approach is a considerable improvement on the present methods. For example, the maximum possible calory intake per person is in the order of 3,000 - 4,000 calories. Taking the consumption forecasts in the Commission's memorandum, one would arrive at a figure of 6,000 calories which would result in a sudden fall in consumption as the consumers in question would suffer a rapid demise.

Similarly a considerable amount of work has been done on the impact of the relationship of prices between substitute products.

As with any study of this type, the CLEO results are open to criticism, principally at the level of the central hypotheses employed, which are as follows:

(i) A single rate for the general economic variables (population, incomes, general economic policy) rather than the customarily assumed alternatives of high, medium and low growth rates. The single rate is to be revised as soon as it appears that the underlying hypotheses are no longer realistic; and

(ii) No significant deviation from present agricultural policy, in terms of basic methods of price support and structural policy.

The CLEO authors recognize that the present general economic assumptions are too optimistic and would need to be revised. The authors, however, have encountered serious difficulties in obtaining the data (which already exist) from the Commission.

The authors also recognize that there exists a serious problem with the data used for the UK, Ireland and Denmark, which cover the period 1973-1976. This was obviously the period of adjustment by these three countries to the CAP and cannot be used alone to forecast long-term trends. The authors, however, have had very serious problems in obtaining the data (which already exist) from the Commission.

The authors, furthermore, believe that forecasts should take into account the entry of Greece and the impact of Spanish and Portuguese entry. Once more they have experienced difficulties in obtaining the data from the Commission. (It should be noted that the US has recognized the importance of enlargement on forecasts and has already carried out this work.)

There is one further criticism that could be made of the CLEO study. Imports and exports are considered as a residue after setting production against consumption. But for a number of products, imports are required by the very nature of the processing and food industries in the Community, just as certain exports are based on very long standing trade flows. There are also a number of trade and aid arrangements in force. Therefore, one can consider a certain part of imports and exports as being structural, and another part as variable.

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In conclusion, it can be said that the CLEO forecasts may have certain defects, of which the authors are aware and wish to correct, but the CLEO results are the most reliable forecasts that exist. The principal problem seems to be the very low priority which the Commission gives (a) to using the CLEO results (b) to providing the data to update those results.

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	All cereals		Total wheat		Barley		Oats		Rye		Maize	
1974	'000 t.	% var.	'000 t.	% var.	'000 t.	% var.	'000 t.	% var.	'000 t.	% var.	'000 t.	% var.
Production	102,765	2.92	41,214	2.55	33,578	4.70	9,618	-1.29	3,124	-3.10	14,901	7.13
Imports	24,568		6,245		1,907		549		201		14,566	
Consumption	112,949	1.70	39,093	0.70	32,205	3.78	9,979	-1.68	3,266	-3.72	26,773	4.19
Exports	13,479		6,893		3,379		217		273		2,546	
Self-sufficiency	90.9		105.3		104.2		96.4		95.6		55.6	
1980												
Production	114,550	1.82	46,841	2.15	39,073	2.55	8,115	-2.79	3,225	5.3	16,862	2.08
Imports	19,663		5,152		973		303		74		12,810	
Consumption	115,894	0.42	41,401	0.96	34,858	1.32	8,291	-3.04	2,979	-1.52	27,522	0.46
Exports	17,742		10,197		4,890		146		329		2,139	
Self-sufficiency	98.9		113.15		112.1		97.8		108.1		61.3	
1985												
Production	125,584	1.84	52,176	2.17	39,336	1.45	8,336	-1.29	5,468	5.22	19,843	2.64
Imports												
Consumption	127,739	1.12	43,867	1.05	38,296	1.59	9,648	-0.31	2,853	-1.22	31,971	1.63
Exports												
Self-sufficiency	98.3		118.9		102.7		86.4		141.7		62.1	
1988												
Production	135,000											
Imports												
Consumption												
Exports												
Self-sufficiency												

	Sugar		Fresh fruit		Citrus fruit		Vegetables		Wine	
	'000 t.	% var.	'000 t.	% var.	'000 t.	% var.	'000 t.	% var.	'000 t.	% var.
1974										
Production	8,938	2.62	13,864	1.14	2,743		27,065	0.81	158,754	(x)
Imports	2,121(2)		-		-		2,426		6,823	
Consumption	9,806	1.33	17,383	1.47	6,421	4.74	28,799	1.30	155,688	(x)
Exports	1,371(2)		-		-		633		2,975	
Self-sufficiency	91.4		78.8		42.7		94.0		102.0	
1980										
Production	12,035	5.08	14,163	0.35	2,703	-0.24	28,451	0.83	157,654	-0.11
Imports	1,622		4,317		4,233		3,120		5,981	
Consumption	9,670	0.23	18,121	0.69	6,542	0.31	29,976	0.66		
Exports	3,684		356		393		1,595		8,009	
Self-sufficiency	125.4		78.15		41.3		94.9			
1985										
Production	10,502	1.48	14,990	0.71	3,179	1.35	28,536	0.48	157,406	-0.2
Imports										
Consumption	10,226	0.38	19,246	0.93	7,564	1.50	34,203	1.58	161,742	-0.3
Exports										
Self-sufficiency	102.7		77.9		42.0		83.4		97.3	
1988										
Production										
Imports										
Consumption										
Exports										
Self-sufficiency										

(2): '1974' = (1974 + 1975) : 2
(x) not calculated

VI. C E R E A L S

CEREALS

The Commission's proposals

Taking into account the need to improve the price hierarchy in the agricultural sector, and in particular between animal products and cereal foodstuffs, the necessity to restrain the growing use of cereal substitutes and to encourage quality production, the Commission proposes an increase of about 7% in the target prices for feed grains and wheat, modulated according to the type of cereal and its likely end use.

Producer participation

Producer participation would not be applied to prices this year. The Commission proposes that a production threshold for the 1982 harvest should be fixed at 119.5 million tonnes for all cereals (excluding durum wheat). This is based on:

(a) production in recent years (113.7 mt in 1979/80), 120 mt in 1980/81 and an anticipated 117 mt in 1981/82. : 116,7 mt.

(b) a threshold of 130 million tonnes for 1988, i.e. an increase of 1.3 million tonnes per annum.

If production exceeds the threshold, the common intervention price for feed grains and the reference prices for common wheat to which the subsequent price proposals apply will be reduced by 1% for each million tonnes produced beyond the threshold, within a limit of 5%.

Common wheat

The cereal market organisation makes a distinction between common wheat intended for animal feed and that of a minimum quality required for making bread, which receives a higher price. However, a very large quantity of minimum quality common wheat will not be used for bread making, but as animal feed. This production is the most profitable in the cereal sector. The Commission, therefore, proposes that the difference between the price of minimum quality common wheat and common intervention price for feed grains be reduced. The proposed price increase for minimum quality wheat is 5.3%.

Barley

Similarly the Commission believes that a greater distinction should be made between good quality barley, for which the price should be maintained, and low-quality barley, whose price should fall to improve its competitiveness with cereal substitutes. The Commission proposes that the specific weight for reference quality barley should be increased to 69 kg per hectolitre and that abatements for lower quality be introduced progressively each year, starting with a modest 1% of the intervention price for barley between 63 and 64 kg.

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Rye

The Council has already decided to align the intervention price with the common intervention price. It is proposed to maintain the premiums for breadmaking quality rye at its present level.

Sorghum

It may be possible to expand sorghum production in some non-irrigated southern areas. The Commission is reviewing the present support for this product.

Durum wheat

The Commission proposes to increase the intervention and target price for durum wheat by the same amount as common wheat, by 58% and 7.05%, and to increase the aid by 9% to safeguard the incomes of small producers. To this end, the Commission has followed up the suggestion in its 'Guidelines' document that the aid should be limited to the first 10 hectares of all producers.

Quality control

To safeguard the Community's role as a major exporter on the world market, the Commission proposes to discuss in the management Committee in the near future means of ensuring quality standards for exported cereals, for example, quality standards for breadmaking wheat to which export refunds would apply.

Summary of Price Proposals for cereals

		ECU/tonne
1. Single common intervention price[1]	+ 6.58	176.10
2. Target price for feed grains (maize, barley, rye)	+ 6.95	224.59
3. Reference price for medium quality breadmaking wheat	+ 6.58	205.40
4. The price for minimum breadmaking quality	+ 5.3	194.64
5. Target price for common wheat	+ 7.05	194.64
6. Intervention price for rye	+ 4.08	176.10
7. Special price increase for bread rye	-	5.44
8. Intervention price for durum wheat	+ 6.58	293.08
9. Target price for durum wheat	+ 7.05	333.44
10. Durum wheat aid (limited to first 10 ha and to traditional regions)	+ 9.00	92.85

[1] This price applies to barley having a specific weight higher than 64 kg/hl. For barley of 63 to 64 kg/hl there is a price reduction of 1%.

MARKET SITUATION AND POLICY OPTIONS

The price problem in the cereals sector arises primarily from the fact that when common prices were first adopted in 1962 they were fixed by reference to the German small farms which enjoyed a high level of protection. This resulted in prices at a significantly higher level than those on the French market. These prices have since been increased each year according to the income criteria.

Production has since increased substantially with improvements in yields. The Europe of Ten now produces an overall 120m tonnes of cereal of which 50m tonnes is of wheat, an extraordinary high figure.

Self-sufficiency of cereals has increased from 98% in 1979/80 to 105% in 1980/81. Total production of cereals in 1980/81 was at a record 124m tonnes, an increase of 5.3% over the previous year. Production for 1981/82 is expected to be slightly lower at about 121m tonnes, due to gale damage.

Exports have been running at record levels:

	1975	1977	1979	1980
Wheat	7,854	4,824	8,990	11,404
Barley	2,567	2,067	4,971	4,810

The Community has become in the last few years one of the leading exporters on the world market:

Share of world cereal trade

Regions	1975	1976	1977	1978	1980	1981
EEC		5.1	3.7	3.2	11.9	

CEREALS BALANCE SHEET, 1980/81 AND 1981/82

	Soft Wheat		Barley		Maize		Oats		Rye		All Cereals	
	1980/81	1981/82	1980/81	1981/82	1980/81	1981/82	1980/81	1981/82	1980/81	1981/82	1980/81	1981/82
AREA (Mill Hect)	10.6	10.6	9.8	9.7	3.0	2.9	2.1	2.0	0.8	0.9	28.3	28.1
Yield (QX/Ha)	47.4	46.5	42.1	40.4	58.9	63.4	35.1	35.4	36.7	34.8	43.8	43.2
Production (Mill t.)	50.1	49.3	41.2	39.3	17.8	18.3	7.4	7.1	3.0	2.5	124.7	121.4
Available (for the markets)	49.7	49.7	27.1	25.9	15.8	16.2	2.2	2.2	2.4	2.1	102.1	100.9
Consumption	32.5	6.6	19.9	20.1	22.6	22.2	2.1	2.1	1.8	1.7	83.2	83.0
Animal Feed	7.8	5.2	13.2	13.4	17.1	16.3	1.6	1.6	0.4	0.3	40.8	40.3
Imports	3.0	3.0	0.6	0.8	10.0	9.0	0.2	0.2	0.1	-	14.9	13.4
Exports	13.2	13.0	6.1	9.6	0.6	0.7	0.1	0.1	0.2	0.1	21.2	19.5
- Products	4.3	4.3	1.8	1.8	0.5	0.6	-	-	-	-	7.5	7.5
- Grain	8.1	7.4	4.3	2.8	-	-	0.1	0.1	0.2	0.1	12.8	10.6
- Food Aid	0.8	1.3	-	-	0.1	0.1	-	-	-	-	0.9	1.4

The Community now has 10% of the world's wheat trade and well over 10% in barley. The Community leads in cereal products such as flour and malt.

Despite record export levels, prices have remained at around the intervention prices as large quantities are available on the Community market.

Yields achieve a steady growth. In many regions, even traditional livestock ones, producers are turning to cereals in view of the ease of production and selling. The Community could be confronted by an increasingly serious market management problem.

There are eight approaches to this problem:

(i) Relative decrease in cereal prices

Community cereal prices are between 10% and 20% higher than an objective world market price. This leads to problems for Community exporters of animal products on the world markets, for management of the Community cereal market and to claims of dumping against Community exports.

One solution, therefore, is to be extremely prudent in price increases for cereals so as to establish: a better relationship between the vegetable and livestock sectors; and a closer alignment of American and Community producer prices.

It is possible that a prudent cereal price policy will only be necessary for a period of about 5 years. US and therefore world cereal prices are likely to increase. American cereal production is a high cost user of energy, fuel, fertilizers, and of land in an extensive production system. With the increase in the cost of fuel and land it is possible that US prices will increase sharply in five or six years.

(ii) Lowering of target price

At present there is a 30 to 40 ECU per tonne difference between the threshold and intervention prices for cereals. This represents the degree of preference which remains even if the world cereal prices were to be at the same level as the Community intervention price; only when the world market price is above the threshold price does this levy disappear.

One solution would be to **narrowly reduce** the gap between the threshold and the intervention price, for example, to 20 ECU. At this point a Community preference would remain but an equilibrium could be reached on the Community market and exports **promoted** more easily. The problem of substitutes would be eased and greater transparency would be introduced into the Community market. **Community imports and** exports would increase, as **intra** Community trade would be diverted into extra Community trade.

(iii) Target quantities

This is the solution laid out in the Commission Mandate paper and contained in the price proposals for 1982/83. The normal volume of production is at present 120m tonnes of cereals. The Commission proposes a target quantity based on an increase of 1m tonnes per annum. Thus the target for 1982/83 is to be 120m tonnes and for 1985/86 (excluding rice and durum) 126m tonnes. For this quantity a full intervention guarantee will be given. The additional 6m tonnes will be devoted totally to animal feed.

The Commission has excluded a total financial ceiling for exports since it must be in a position to manage the internal market adequately no matter what the level of world prices might be at any particular moment. It is essential to keep excessive amounts of cereals out of intervention stocks.

Beyond the target production, 120m tonnes for 1982/83, the intervention price will be lowered by 1% for every additional 1% of production. This decrease, however, cannot be more than 5%.

(iv) Long-term contracts and export credits

The Community is in danger of moving into a position of serious dependence on exports of cereals to Eastern Europe and Russia. At the same time, France is facing very stiff competition from the US in its traditional markets in North and West Africa. The French are **concerned that these traditional markets of about 2m tonnes should be preserved.**

The question is how to maintain these markets. Both the French and the US use credits as one instrument. The French would also like to employ long-term contracts. They, however, would raise serious objections on the part of the US, who believe that long-term contracts should be limited to declarations of availability. There are more fundamental objections to consider.

At present, cereals are exported from the Community by tenders. But if 2m tonnes were to be withdrawn from the tendering system, the Community's basic export mechanism would be seriously weakened.

A better method would be to extend the use of export credits, perhaps with the EIB making funds available for certain destinations. A number of countries, such as Egypt and Morocco, are not interested in long-term contracts except where exceptional conditions are attached.

(v) Food aid

Another solution would be to tie food aid into a broad commercial agreement, with no preference given for the commercial element. In this way it might even be possible to ensure that food aid was administered effectively by commercial bodies.

(vi) Structural measures and direct aids

A whole fringe of small producers around the main belt of production cannot possibly obtain adequate incomes from their farms. This structural element in the equation has not been dealt with so far. One answer would be to grant, as in the durum wheat sector, an aid limited to the first 10 hectares under production, or, possibly, for the full cereal price to be granted to an initial proportion of the total production.

(vii) Aligning prices more closely to feed value of cereals

At present, Community prices for cereals do not reflect exactly their animal feed value. One possible measure to improve the fluidity of the market might be to fix the threshold price for maize more strictly in relation to its feed value compared to wheat and barley.

(viii) Alternative production

Clearly if farmers are to be encouraged not to produce cereals, other products must be found which offer the same income and production advantages. It is extremely difficult to come up with alternatives, in view of:

- the market guarantees for cereals and the ease of production and farm management, particularly now that cereals are being increasingly combined with a very profitable oilseed rotation. Cereals fit in better than most crops with modern production strategies and today's labour costs;
- the difficulties of finding alternative crops for which no market difficulties exist and which are feasible economically. Vegetable proteins are one area much under discussion, but serious problems have arisen with certain products such as dried fodders. With other crops, such as field beans and peas, the results so far have been more optimistic.

(see the working paper on protein policy)

CEREAL ANIMAL FEEDSTUFFS

Energy and protein value

	Energy value (megojoules) Beef cattle	Pigs	Protein value %	Intervention price ECU/tonne
Oats	6.34	8.25	9.7	
Soft wheat	8.44	10.27	10.3	165.23
Maise	8.31	10.68	8.9	165.23
Barley	7.47	9.38	9.6	165.23
Rye	7,81	9.61	9.2	176.10
		INDEX (Rye = 100)		
Oats	81.2	85.8	105.4	
Soft wheat	107.7	106.9	119.9	97.7
Maise	106.4	111.1	96.7	97.7
Barley	95.6	97.6	104.3	97.7
Rye	100.0	100.0	100.0	100·0

VII. CEREAL SUBSTITUTES

'There are more things in Heaven
and Earth than are dreamed of in
our philosophy.'

(Hamlet by Shakespeare)

CEREAL SUBSTITUTES

Rapid growth in cereal substitutes

Sixty per cent of all cereals are used as animal feed. A decreasing amount of home-grown cereals is going into the animal feed sector, 42% in 1979/80 as compared to 50% in 1975/76. The decrease in the use of cereals in compound animal feedstuffs has been even more startling: only 18% in the Netherlands, 21% in Belgium and about 30% in Germany.

The problem of cereal substitutes is partly one of price policy. The Community has a plant products policy and an animal livestock policy. These two are now separate, rather than one being built on the other as is economically logical. Livestock producers, particularly of pigmeat and poultry, have sought the cheapest feedstuffs available.

Given the Community's cereal price policy, the Community has become the importer of the "industrial offals" of the world. Imports of manioc and maize gluten feed are well known but others such as citrus pulp and sweet potatoes are becoming significant. Imports of cereal substitutes have gone up from 3 to 4m tonnes to 14m tonnes.

The production of maize gluten feed, 90% of which arrives on the Community as a result of the 70% price difference between the US and Community markets, is likely to increase with the expansion of isoglucose output.

But the biggest increase could come from alcohol byproducts, and in particular, distillers' dried grains. By 1985 an additional 1½ million tonnes of substitutes could result from US alcohol projects with a further ¾ million tonnes of corn gluten feed.

It is, however, wise to be sceptical about the realistic prospects for American energy production from alcohol, since the whole question of energy pricing is clearly far from being resolved.

The Community, should face up, however, to the consequences of importing 15m tonnes of substitutes without any growth in the main products now imported. The figure of 20m tonnes in five years can easily be envisaged.

Quantities of cereal substitutes imported

	1974	1977	1980	1981 1 Jan - 30 Sept
Manioc	2,073	3,801	4,866	4,726
Sweet potatoes	177	9	324	59
Molasses	799(1)	1,324(1)	1,353	1,273
Grape musc	13	17	38	46
Citrus pulp	327	968	1,571	999
Other fruit waste	21	164	156	64
Maize gluten feed	700	1,486	2,596	1,876
Maize and rice brans	233	295	235	209
Wheat brans	976	1,207	1,712	465
Brewers distillers grains	64	116	290	232
Maize germ cake		709	822	730
Other cakes		103	203	-

(1) Total imports are double this but only 50% are used for animal feed.

IMPORTS OF CEREAL SUBSTITUTES "1980"

	EUR 9	D.	Fr.	Itl.	Nl.	UEBL	UK	Irl.	DN
Manioc	4.865.923	1.260.844	331.814	98.869	2.388.839	757.486	8.229	8.223	11.519
Sweet potatoes	323.626	117.932	3.886	6.267	11.046	181.517	2.698	278	2
Molasses	2.705.599	332.991	286.850	239.706	620.900	217.345	592.774	88.750	326.283
Grape marc	38.251	38.001	-	-	-	250	-	-	-
Citrus peels	1.571.431	153.424	35.722	43	1.244.637	67.546	3.354	13.400	53.305
Fruit waste	156.283	17.907	3.358	15.176	63.226	734	21.117	-	34.765
Maize gluten feed	2.595.802	1.004.126	-	49.420	1.450.966	27.337	57.658	-	6.295
Brans of maize and rice starch ≤ 35% starch > 35%	 233.212 2.001	 59 -	 - -	 - -	 118.404 7	 110.202 1.901	 4.547 93	 - -	 - -
Brans of cereals starch ≤ 28% starch > 28%	 1.706.676 5.098	 190.286 28	 74.621 2	 241.058 20	 647.987 251	 126.670 22	 307.597 -	 59.381 4.775	 59.076 -
Residues from brewing and destillation	289.792	104.492	85.965	3.751	79.353	2.153	14.078	-	96
Maize germ cake fat < 3% fat 3% - 8%	 821.550 202.656	 772.209 90.813	 158 305	 22.955 -	 2.887 98.515	 1.562 3.162	 469 852	 21.310 9.009	 - -

COMPOSITION OF COMPOUND ANIMAL FEEDSTUFFS (%)

	B. (1978)	NL. (1979/ 1980)	BRD (1977)	FRA (1977)	ITA (1977)	UK (1977)	IRL (1977)	DK (1977)
Cereals	31,7	18,2	31,7	49,0	60,1	56,4	74,5	32,5
Mill wastes	13,3	7,9	8,6	10,0	11,3	9,2	-	5,4
Cattle feeding cakes	22,7	28,5	31,7	18,8	14,8	11,5	15,5	40,7
Maize gluten feed	-	-	4,2	1,0	-	-	-	-
Oils and fats	1,4	1,8	1,3	2,0	-	0,9	-	-
Animal meal	1,7	1,5	2,3	2,1	2,2	-	3,6	-
Manioc	15,0	11,6	6,0	1,0	1,8	-	-	1,6
Dried sugar-beet pulp	-	5,6	1,4	1,4	-	-	-	-
Dried green fodder	2,9	1,9	2,9	2,9	1,4	-	-	-
Citrus pulp	-	6,9	-	-	-	-	-	-
Dairy products	1,8	3,2	2,8	3,9	1,9	4,7	1,8	0,4
Molasses	4,1	4,0	2,1	2,6	-	-	-	-
Others	5,2	9,0	2,8	5,7	5,3	13,2	5,1	19,4

Budget cost

The growth in substitutes has serious consequences since they displace cereals from the Community market. Only 50% of present cereal exports can be considered as normal. The substitutes are imported without a levy or at a modest levy, while the cereals they displace must be exported with a refund. The cost for 1980 can be estimated at

Disruption of the Community market

These substitutes led to a further problem for the internal Community market. They are imported through the major ports and remain cheap as long as they can be transshipped by water. They become expensive once they must be loaded onto a lorry. This has led to their use being concentrated along the canals, particularly the network spreading out from Rotterdam. Early advantage was taken of the existing canal networks for the export of cereals.

There is a danger that the continuing growth in imports of these substitutes will attract livestock production in a massive concentration around this canal network, disrupting the existing pattern of production throughout the Community. For example, Dutch ham is already beginning to replace Italian prosciutto on the Italian market.

There is a further problem that the 7½m tonnes of maize gluten and cereal bran produced in the Community is undercut by imported products. Community output is in an extremely difficult position since it is produced from higher priced Community cereals or those on which a levy has been paid.

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The use of cereal substitutes

These products are not all inter-changeable. The majority consist mainly of carbohydrate and are destined 75% for pig production, and also for poultry. More,consisting mainly of protein, go principally to the cattle sector.

Feed properties of cereal substitutes

Carbohydrate	Primarily carbohydrate with some protein	Mainly protein with some carbohydrate
Manioc Molasses(1) Citrus pellet Fruit waste Sweet potatoes Grape musc	Cereal brans	Maize gluten Maize germ cake Brewers distillers grains

(1) Only 50% is destined for animal feed.

The import regime

Of these products, only cereal brans are not consolidated under GATT. All the other products are consolidated at extremely low tariff levels of 0 to 6%.

Import regime for cereal substitutes

Product	Bound in GATT	Tariff or Levy
Manioc	Yes	6
Sweet potatoes	Yes	3
Molasses	Yes	sugar based import levy
Grape musc	Yes	0
Citrus pulp	Yes	0
Other fruit wastes	Yes	0
Maize gluten feed	Yes	0
Cereal brans	No	levied at 24% of cereal feed grains
Brewers distillers grains	Yes	0
Maize germ cake	Yes	0

THE OPTIONS

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The solutions envisaged depend largely on the suppliers of the products and whether or not the particular product is consolidated in GATT.

(i) Reduction in cereal prices

A reduction in Community cereal prices in the order of 10% could, it is agreed, limit to acceptable proportions the problem of cereal substitutes. However, as already pointed out, world cereal prices could themselves increase. It is not at all certain that the price of substitute products would follow the upward trend of cereals. There is no evidence that production costs of these substitutes will increase: costs of Thais tapioca, for example, are extremely low. An increase in the world price of cereals will not solve the problem of cereal substitutes. It is possible, on the other hand, that an increase in world cereal prices would lead Russia to increase its imports of these cereal substitutes, so pushing up their price.

(ii) Limitation agreements

The only solution for the long term lies in seeking to limit the imports of cereal substitutes to quantities imported in recent years, with a global envelope in the order of 15m tonnes. This will, however, be extremely difficult, particularly as the list of possible substitutes is far from exhausted.

If agreements were to be reached, it would not be possible to go back to these countries a year or two later to renegotiate agreements simply because new cereal substitutes had come onto the Community market.

Manioc is the product where success is most likely to be achieved. An agreement has been reached with Thailand on exports of manioc on a gradually declining figure and with Indonesia, the main GATT supplier.

Maize gluten feed is likely to provide the most difficult problem and will probably prove to be the last of the substitutes to be brought under control. This production is bound at zero under GATT. Since it is one of a number of products if isoglucose and alcohol production, supplies can adjust between the different byproducts to resist any limited price control mechanism.

At the same time, the US has declared its desire to export maize rather than byproducts. The Commission should be given a mandate, which it does not have at present, to negotiate with the US on the basis of a grant of a levy free quota for maize for starch production in exchange for limits on US exports of maize gluten feed.

Many of the tariff advantages had been granted with developing countries in mind. Many are now of greatest advantage to the developed countries like the US. This is one reason for the difficulties of the product by product negotiation approach. The Thailand Government has been reluctant to sign an agreement since they believe that a reduction in their manioc exports will merely increase those of maize gluten feed from the US.

The most worrying area is that of maize gluten feed, citrus pulp and dried distillers' grains which are bound in GATT and come mainly from the US.

The negotiations with the US will be difficult in view of the interests involved. If less of those products are taken the US alcohol projects will be less attractive to the Americans. US factories in recent years have been sited near major ports so as to allow the early shipment of byproducts to the Community market.

Possible distribution of quotas between Member States

The Commission regards the physical control of imports of substitutes as essential. Since it is quite clear that the relative cut in the cereal price will have only a marginal effect in making cereals more attractive this is understandable.

However, the idea of some ceiling on imports raises a number of serious questions. The two most important are:-

(a) Are imports to be frozen at roughly current amounts for each product or will it be possible to switch product within the global amount imported? If there is widespread switching how will the controls be operated?

(b) Are the imports to be allocated between member states? If they are not then the hinterland of the major northern European ports will be given a permanent advantage as the centre of livestock industry on the basis of currency factors and cheap, water-born transport. This would be difficult for producers more remote from ports to swallow. But if there are quotas in the hope of evening up the advantage across the Community how does the Commission hope to persuade those producers already geared to very high use of substitutes to renounce part of their supplies in favour of other parts of the Community.

Cereal brans

Cereal brans are the only product not consolidated in GATT. They are subject to an unreasonably low import levy: 24% of the levy of feed grains. This is totally unrelated to its feed value. Therefore the Commission proposes to place an import levy on cereal brans more related to their feed value.

There is one spin-off advantage for this proposal. If it were implemented Argentina might drop the price of its cereal brans to maintain its market in the Community, but to do so it would have to increase its price for flour thereby making Community flour exports easier.

Compensatory aids

One of the main reasons for the rapid growth of the use of substitutes in Belgium, Netherlands and Germany is the application of monetary compensatory amount to cereals but not to substitute products. This means that in countries with strong currencies, cereal prices are higher than the common price and so even more expensive in relation to substitute products than in the rest of the Community. One Study[1] has calculated that it would take a 40% increase in the price of cereals before they could become competitive with cereal substitutes in the Netherlands.

1 The idea in the section has been taken from:
G. Cielen, Problemen m.b.t. de Mengvoederindustrie in Belgie en Nederland, Centrum Voor Landbouw-Economisch Onderzoek (C.L.E.O.)

On the other hand, in the United Kingdom at a time when the pound was weaker, cereals were cheaper and therefore more attractive than the substitutes. The opposite is now true.

The pattern of use of substitutes, therefore, is determined partly by monetary compensatory amounts.

It should be possible for the Management Committee to decide on the factors required to calculate the amount of a direct aid by region required to make cereals more attractive. It is calculated, for example, that in Belgium an aid of 17-20 Ecu/tonne and in Germany of 20 Ecu/tonne would be sufficient to make cereals more attractive than the substitutes. This is much less than the export refund of 62.50 Ecu for soft wheat and 36 Ecu for barley at present and so could lead to considerable savings.

This solution would thus be the most beneficial to the lifestock sector as well as interfering the least with the general market and relations with third countries.

CONCLUSIONS

There is a good case for the award of a smaller-than-average price increase regularly in the cereals sector. The Community nas production available for export and it accounts for more than 10% of the world wheat trade and more in barley and it is right that it should seek to control the costs of subsidizing the export of cereals by aligning European prices as far as is reasonably possible towards American producer prices taking into consideration the very significant differences in geographical and economic conditions between the US and the Community.

At the same time it is worth while asking whether, in the longer term and in the light of the Community's position as a supplier of grain to the world market, Community preference should be reduced. The logic of this would be to facilitate two-way grain trade between the Community and third countries by reducing both the financial disincentive to import which the levy constitutes but by removing the budgetary inhibitions on export by lowering the level of subsidy required.

The unknown in all this is the behaviour of world prices. It is possible to argue that world prices are set to move permanently upwards under the pressure of growing demand in the developing world; the increase in energy costs in the US; the additional cost of bringing extra land under cultivation in the US and the evidence that, in Eastern Europe at least, good Communists make bad farmers. If this happens the main problem will be how purchasing power can be created in the hungry parts of the world. Conversely, it is still possible to argue that grain prices are unlikely to sustain their higher levels because the US still has considerable unused capacity and that even the USSR, by the sheer law of averages, must occasionally produce a respectable grain crop.

The Commission justifies the under-remuneration on cereals on the grounds that the price advantage of cereal substitutes must be reduced.

It is quite right to highlight the problem of the substitutes, though it is important to distinguish between the different uses of the 'substitutes.' The displacement of some 14mt of Community feed grain from internal market is a severe financial cost. At the same time, the livestock sector has experienced severe income difficulties and there is little prospect of a recovery in demand for products like beef. Therefore, the substitutes fulfil an important function in restraining costs in the livestock sector.

The Community should seek to gain overall control of the total volumes of substitutes which can come in. To this end it has already taken action.

Action is taking place on three fronts:

(a) Manioc from Thailand. A voluntary agreement provides for a sealing down of shipments from their 6m peak by 1986

(b) In the GATT negotiations are nearing completion to place tariff quotas on other manioc suppliers, notably Indonesia and Brazil. Shipments above the quota will attract a much higher levy. In other words, this is tantamount to deconsolidation

(c) Brans (i.e. cereal fibres which substitute mainly for maize). The Commission is proposing to bring the tariff treatment into line with that on imported barley by adjusting the coefficient on which the levy is based over three years. This proposal should be approved.

No action is yet contemplated to limit imports of sweet potatoes from China. The simplest thing would be for the Commission to stretch its tariff quota negotiations from heading 0706A (manioc) to 0706B to cover this product.

Clearly, the major problem lies with those products coming from the US and bound in GATT. It is difficult to see how the Council of Ministers will agree to seek controls or taxes on soya. The stakes are too big and go well beyond the agricultural sector. However, there is the possibility of seeking some agreement on maize gluten feed imports which could reach 4.5mt by 1985.

It is worth while exploring whether the US would restrain maize gluten feed imports in return for facilitating access for US maize into the EEC. One method here would be to permit levy-free maize import for the starch industry, while providing equivalent advantages for the non-maize starch industry. The problem would be that while imported gluten feed would be restrained domestic output of the same product would still compete with cereals.

It is remarkable that the Commission has no overall MANDATE of any kind on the whole substitutes sector. The Council should define a precise mandate for the Commission stating clearly just what it wants in this sector. At the moment negotiations are taking place without a clear overall strategy. This is painful for the Commission and confusing for trade partners.

The doubtful area is whether price restraint will, in fact, provide an incentive for the incorporation of cereals. Some of the substitutes are themselves fairly elastic in price - being otherwise worthless by-products Thus, a lower cereals price could lead to slower gluten price. This would have the advantage of lowering costs in the livestock sector but would not achieve the result hoped for in terms of encouraging cereals take-up in compounding.

Compounders have been asked what the cut in cereals price would have to be to encourage greater use, and they suggest that a 17 ECU per tonne discount would be necessary. The Commission's first step clearly goes nowhere near this.

The proposal for a target quantity followed by co-responsibility is in line with the point of view expressed by the Parliament's Committee on Agriculture in the form it was submitted to the plenary. In addition, the Council last year agreed in principle to the control of the sector by means of adjustment of the intervention and reference prices. In addition, if it is intended to get a grip on the problem of the unbalanced price relationship between agricultural commodities (the 'hierarchy of prices') it is clear that disciplines in the dairy sector which are generally accepted as necessary should be matched by at least the mechanisms to exercise some guidance over supply in other sectors.

The proposal for targets is not a quantitative restriction on output, At the margin it actually encourages the creation of large-scale cereals farms by putting more of a premium on the ability to produce on an economic scale and maximize the use of equipment and area. In addition, profitability is measured over the whole of the arable cycle including on-farm use and the attractiveness of cereal growing depends on its contribution to a cycle which may include, amongst other things, sugar, potatoes, rape, pulses, and forage crops.

In general the proposals to improve quality are to be welcomed. However, the proposal increasing the specific weight of the reference quality of barley eventually to 69 kg per hectolitre should be re-examined since it has penalized parts of the Community which are suitable for barley production but which have to contend with a higher moisture content than the average because of natural conditions.

THE CASE FOR SUBSIDIZING CEREALS FOR USE IN ANIMAL FEED

At present the Community uses about 73 m. tonnes of cereals for feeding to animals. If we assume in the short term a continuing improvement in the price relationship between oilmeals, maize gluten feed and other residues on the one hand, on the other, Community cereals, compounds will become relatively cheaper than straight cereals. Therefore, the usage of cereals can increase only if :

1. The livestock population increases. As to this, cattle numbers, if anything, are likely to fall. There seems little scope for any significant increase, in pig and poultry numbers. The Community is already, after China, the biggest producer of pigmeat in the world and a very large exporter of poultry products. The scope for expanding exports is limited, assuming that at long last the Soviet Bloc improves on its present abysmal performance and competition is keen. Moreover, the production figures suggest a shift in production to countries, such as the Netherlands, or France, where either geography (availability of cheap feed) or government aids create more favourable conditions for expansion than in other member states, rather than an increase in production throughout the Community.

2. Imports of the so-called substitutes fall. On the assumption that the agreements on manioc are ratified, annual imports will stabilise at 6 m. tonnes, or slighty below present levels. Manioc, as a crop product, is far less price elastic than the other products which are industrial residues. Thus, if Community prices for cereals fall in relative terms, the scope for any expansion in the usage of manioc may be small. In other words, it might well be that price alone, regardless of the agreements on limiting imports, would stabilise imports at around 6 m. tonnes. In its price proposals, the Commission proposes to increase the levy on brans, sharps, and pollards i. e. broadly the dust that is left in silos and milling residues. Community imports of these have remained more or less stable at between 1.7 and 1.9 m. tonnes from 1976 to the 1st half of 1981, and, if anything, are tending to fall. Any increase in the levy would harm the Community's relations with supplying countries, in particular Canada, and damage the developing countries, such as Indonesia, Sri Lanka and Nigeria. It would not add another tonne to the usage of Community-grown cereals for animal feed, unless the Community could get out of its GATT bindings, particularly to the USA, on maize gluten feed. There is no reason why the USA, particularly under the present administration, would wish to negotiate these away. The Community is unlikely

to risk the retaliatory measures that the Administration already has threatened if the breach was an unilateral one. Maize gluten feed is a residue of the production of starch, glucose, isoglucose and gasohol. At present levels of production in the USA, particularly of isoglucose, the available supplies are likely to rise from a current level of 3.0 m. tonnes, almost wholly exported to the Community, to at least 4.5 m. tonnes. This is the product most likely, and best able, to replace any fall in imports of wheat brans etc.

3. Cereal prices fall to a level at which they are competitive with the so-called substitutes. The Commission is talking in terms of a fall, by 1988, of 20 ecu's, or about $21.20 a tonne at present rates of exchange. On this assumption, the mid-year (Jan.1982) intervention price price for feed grains would be 156.43 ecu's = about $167 a tonne = £89 (at the spot, not, the green, rate of exchange). This is a price which would probably be competitive with manioc but, bearing in mind the high price elasticities of residues, it would not be competitive with any other, imported raw material. $21 a tonne is well within the margins of fluctuation for maize gluten feed in the USA. These, between 1978 and the first quarter of 1981, ranged from a low of $96.75 in 1978 to a high of $126.22 in 1979. Such a reduction in Community cereals prices would also still leave the feed grain price some $70 above that in the USA. Whether a progressive reduction towards the assumed target figure of 20 ecu's/tonne would reduce the gap between rates of inflation and rates of exchange, respectively in the Community and the USA. There are no grounds for supposing that the $ would rise against Community currencies to an extent that would cancel out the price elasticities of industrial residues.

4. To sum up, there is no prospect of any increase in the use of cereals for animal feeding because, as livestock producers switch from straights to compounds, the proportion of cereals in the ration will tend to fall and thus the total usage of cereals. It follows, therefore, that, other things being equal, the exportable surplus will grow inexorably from the present 20-22 m. tonnes to 30-37 m. tonnes. The only solution, and it is admittedly a partial one, is for the Community to recognise, and to accept, the realities as it has on oilseeds and peas and beans. To get these products grown in the Community, the producer has to be offered a price (intervention or minimum) that competes with the price guaranteed for competing crops - cereals or sugar beet. But this is well above the price at which competing products can be imported, allowing for the fact that GATT bindings ensure that there are no levies or duties on them (as with oilseeds) or that the duties are very modest (peas and beans). Therefore, to ensure that these products are used for animal feeding, their incorporation and use has to be subsidised to an extent that makes the price competitive with the imported product. Applied to cereals, such a policy could be followed for

wheat, by subsidising its price down to a level that would enable it to compete with barley, so long as the Community insists as presently of supporting the price of poor quality allegedly bread-making wheat, that no Community miller will use, at a price 10 or 12 percentage points above the feed grain price. Such subsidies would increase the usage of wheat for animal feed but at the expense of barley which would have to be exported. But barley yields tend to be less than those of wheat; barley is cheaper to export because the margin between the Community intervention price and the world price tends to be less than that for wheat; and exports of barley are less resented by other exporters, such as the USA, because the EC is the largest single exporter. This policy could of course be extended to cover all feeds grains. But, since prices of industrial residues, such as maize gluten feed, are far more elastic than those that could be anticipated from a Community policy of subsidising usage, such a policy would fairly quickly face diminishing returns.

WHAT DO SUBSTITUTES SUBSTITUTE ?

The possible introduction of levies and duties on those products for feeding to animals which at present enter at nil or low rates of levy and duty raises a number of complex issues

The first question to be answered is whether the Community is now more, or less, dependent on imported raw materials for feeding to animals (excluding oilseeds and meals) than in the past?

The answer is marginally so. Net imports have increased by about 3.2 million tonnes, within a total usage of all raw materials of perhaps 140 m. tonnes (including, in respect of the industrial residues, such as maize gluten feed, a significant proportion of Community origin). The figures are as follows.

Since 1973, imports of whole cereals for feeding to animals, mostly maize, have fallen from 9.0 m. tonnes to an estimated 2.8 m. tonnes in 1981, or by 6.2 m. tonnes. Imports of other raw materials for feed (excluding oilseeds and meals, and animal products) have increased from 6.5 to 16 m. tonnes, or by 9.5 m. tonnes. Thus, net imports have increased by 3.3 m. tonnes.

But, this is not the whole story. Like has to be compared with like. For instance, maize gluten feed has four times more cellulose than maize and about twice the protein content of Community cereals (22 per cent as against 11 or less). Maize germ meal is a high protein ingredient comparable to oil seeds. Molasses (of which half is imported for human consumption) is used as a binding agent and to make rations more palatable. Therefore, in looking at the extent to which cereals have been replaced by other raw materials, obviously it is not possible to work on the basis of one for one. To get the comparison on a fairer basis, imports of maize germ meal can be ignored and those of maize gluten feed and molasses counted (after allowing for human consumption) as to half.

Secondly, the Community is on the point of reaching agreement with its suppliers to limit imports of manioc to 6.0 m. tonnes (apart from the fact that manioc as a crop product is likely to be less competitive with Community cereals than the other products, which are industrial residues).

With these corrections, the figures become:

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	m. tonnes			1973	1981	change % + −
1.	Imports of maize (incl. sorghum)			15.5	10.1	
2.	Less industrial use			6.5	7.3	
3.	Balance for animal feed			9.0	2.8	-6.2 -69
4.	Imports for other raw materials					
		'74	'81			
	Manioc	2.2	6.6 (6.0)			
	Molasses	0.8 (0.4)	1.3 (0.7)			
	Fruit waste	0.3	1.6			
	M.g.f.	0.7 (0.4)	3.0 (1.5)			
	Brans	1.2	2.1			
	Brewers' grains	0.06	0.3			
	Maize germ meal	0	1.1			
	Total	5.26(4.56)				
			16.00 (13.3)	4.56	13.3	+ 8.74

5. Therefore true replacement is

8.74 - 6.2 = 2.54

To get this into perspective:
During this period, the usage of cereals for animal feeding has remained constant at around 70 m. tonnes (including the decline noted above in imported cereals). Community production of cereals has increased from 105 to 120 m. tonnes, by 14 per cent. But by 1988 it is likely to have increased at least to 130 m. tonnes, with little prospect that much of this increase can be fed to animals, so long as other materials are cheaper and nutritionally at least as good.

In short, so long as prices for cereals are as high as they are now, production must expand and with it the cost of disposing of a growing surplus. The only solution, as the Commission recognises, is to reduce the difference between Community prices for cereals and those of other feedingstuffs.

VIII. PROTEIN POLICY IN THE EEC

PROTEIN POLICY IN THE EEC

For the purpose of this paper, protein-bearing materials are defined as materials having a protein content of about 20% or more which are added to animal feed for their protein rather than their energy contribution.

In the Community, these seven products are oilcake, fish meal, animal meal, dried fodder, peas and beans, maizeglutenfeed and milk products having a protein content varying from about 20% for dried fodder to around 60% for fish meal. Many animals, particularly cattle, obtain a proportion of their protein requirements from grass, hay and silage.

Of the seven protein products listed above, all except dairy products and animal meal, are in deficit in the EEC. Of protein feed use in 1980, 70% by weight was in the form of oilcake, and 10% in maizeglutenfeed. Of EEC oilcake use, soya represents about 60%. The EEC grows virtually no soya, and for 84% of soyabean requirements, 50% of soyameal, and for a very large part of sunflowerseed and of sunflowermeal, the Community was dependent in 1980 on a single supplier, the United States. For maizeglutenfeed, 85% originated in the U.S.A.

Furthermore, because of its deficit situation, the Community is largely unprotected against fluctuating prices. Since 1972 the volatility of prices for protein supplies has become marked. The major determinant of price is soya production in the U.S.A., but other factors, such as varying demand for centrally-planned economies, have contributed to the instability of price. In the past nine years there have been two exceptional price increases (1973 and early 1977). Over the entire period since 1972, and contrary to the experience of preceding years, price fluctuations, particularly from month to month, have been so significant as to render very difficult the execution of economic plans by European feed compounders and oilmills.

Furthermore, the steadily increasing demand for proteins in the world, which is bound to continue, could cause sharp price increases again in the future.

The EEC's concern with protein policy dates from 1973 when shortages of soya, fish meal and groundnut meal on the world markets led to export restrictions by countries on which the EEC had traditionally relied, particularly the U.S.A.

The EEC's reaction to these events took two forms; to diversify supplies, and to improve its own production of protein materials. The first of these was assisted by the expansion, particularly for soya, of Brazilian and Argentinian oilseed production. Brazilian soya production in 1981 reached almost 16 m t, and Argentine production nearly 4 m t compared respectively to 7.9 m t and 0.5 m t on 1973. Further Brazilian production in the short term may be limited by financial constraints, but the possibilities for Argentine development still seem good in the medium term. Nevertheless, the U.S.A. is bound to remain the most important EEC supplier for any forseeable future.

Limited EEC agricultural area and competing products for EEC land use means that large scale Community self-sufficiency cannot be achieved. In addition, although protein products are theoretically interchangeable, they are not necessarily so in practice. Protein materials are not identical. Protein content can vary from dried fodder at 18% protein to fish meal with 60% and above. There are also limits to use. These are difficulties of palatability, digestion, and of effects on the taste or appearance of meat, milk or eggs. Animal meals and dairy products can only be absorbed to a certain extent, particularly by animals other than calves or piglets, and dairy products are low in iron. Rapeseed meals suffers from digestion problems which limit its use for non-ruminants. These can be reduced by cultivation of 0-0 rapeseed varieties, but these also have limits to their acceptance. Fish meal gives a fishy flavour to meat and eggs if used to excess. Maizeglutenfeed can lead to loss of appetite. Peas and beans can contain certain less desirable elements, though these are reduced by toasting. Dried fodder can be used extensively, but has a low protein content and a high price. So, ultimately, competition with imported soya is not so easy.

The attached statistical tables on protein developments in the EEC since 1975, give a reasonable indication of the general trends in the Community.

The figures apply to the Community of Nine, and not to the present Community of ten, nor to the applicant States of Spain and Portugal.

Using the available figures on the markets, it is noticeable that during the period 1975-80, production of manufactured compound feedstuffs in the Nine rose by 36%, a growth rate considerably faster than that of animal feed usage as a whole. In the beef and veal sector, manufactured feedstuffs rose by 56% between 1975 and 1980.

In manufactured feedstuffs, the proportion by weight of protein-bearing materials rose slightly during this period, from 30% to 33%.

Of all the major protein-bearing constituents which go into Community animal feedstuffs every year, the Community is only self-sufficient in two, meat meal and skimmed-milk powder. And the usage of these represented only 9-10% by weight of EEC protein material requirements in 1980. The other 90% of EEC protein requirements are provided by products in which the EEC is deficient. In 1980, for instance, only 6% of EEC oilcake usage and 5% of maizeglutenfeed usage came from Community resources.

The most striking development during the period 1975-80 was the import of oilseeds and oilcake from outside the EEC. Oilcake produced from imported oilseeds rose by 54% during this period, and imported oilcake rose by 86%. Of this total, approximately 60% was provided by soya, an oilseed which exists in the EEC in only tiny quantities. Maizeglutenfeed imports rose even more spectacularly ($\pm$ 100%) but the quantities involved were dwarfed by EEC usage of imported oilcake.

The essential point is that the EEC is enormously dependent on oilcake for its protein usage. In 1980 the Community of Nine used 24.4 m t (including maizegluten cake) of oilcake, compared to 18 m t of all other protein materials. Oilcake usage has risen by an average of 8.7% per year since 1973/74 and has provided the major development in EEC protein usage. Of this quantity the EEC produced only 6% from its own sources in 1980.

What are the reasons for this development?

First, the existence of the EEC cereal regime, with high prices for cereals, has favoured the imports of cereal substitutes at low prices, including protein materials like soya meal and maizeglutenfeed.

Second, the overall liberal import policy of the EEC, based on Community recognition of its deficiency situation in protein products, has allowed easy access to the Community markets for these materials.

The result of this was to distort artificially the price relationship between cereals and proteins in the Community, particularly where protein products could substitute. This has led to a more than rational protein usage in Community animal feed.

Other factors played a part in this, notably the weakness of the U.S. dollar during the late 1970's, and the greater availability of supply, particularly following oilseed acreage expansion in the U.S.A.

Part of this expansion also came from the decline of alternatives. During the last ten years, there has been a decline in fish meal usage in the Community, and heavy pressure on dried fodder production. The total situation, therefore, has made the Community more and more dependent on protein imports.

The Community's policy in the protein sector has been to develop larger Community resources of protein products, particularly for crops suitable to a temperate climate.

This accounts for the policy of assistance to oilseeds suitable for development in Europe, colza and sunflowerseed. These are capable of replacing some EEC oilcake demand, recently or at present supplied by imports. This policy has borne fruit in the last two years with the considerable expansion in EEC production of these seeds. This policy has, however, only increased overall EEC oilcake self-sufficiency from 4% to 6%.

Rapeseed production in the EEC has expanded from 937 000 t in 1975 to 2 mio t and a similar production is expected for 1981. However, this expansion brings its own problems. EEC rapeseed production has now largely attained the limits of its traditional use (approximately 2 m t). Further expansion to replace alternative meals, particularly soya, is hampered by two factors.

These are, firstly, the lower acceptability of rapeseed meal for non-ruminant animals, and, secondly, the problems of market developments for rapeseed oil. The first problem can be considerably solved by growing so-called '00' rapeseed whose meal has a low toxicity content, and which, as "CANOLA", is used in Canada for a wide variety of feeds. The Community is now giving specific encouragement to the cultivation of 00 rapeseed by giving an intervention premium for these varieties, but the trade at the moment is unwilling to pay the higher price. The second problem is less easy to solve. Rapeseed has a high oil content, approximately 40%. Any crushing of the seed for meal gives a high quantity of oil. In a Community where vegetable oil supplies are more than adequate, effective expansion of rapeseed production requires the export of large quantities of its oil. The EEC must accept, however, that the present international market is also heavily supplied with oil, and that its competitors are active in the export business, which limits the possibilities for expansion.

The oilseed rape regime is unsatisfactory from a budgetary point of view. The Community, in fact, offers two sorts of aid to crushers: a prefixed aid based on the world market prices for feed and an "aid of the day" which is based on the reconstitution of the price for oil and meal and which works out at about 20 ECU per tonne higher. The intention was that this higher aid should be paid only to relatively small crushers who were buying supplies locally.

Unfortunately, virtually the entire Community crushing industry went over to aid of the day. The Commission attempted to clip back some of this extra aid last year, but was obliged to reinstate it after severe political pressure. It is now proposing to continue it.

It is clearly unsatisfactory to have this dual aid system which is being exploited well beyond its original purpose, and which renders the basic aid redundant. It is necessary to return to a single mechanism for aid and the most acceptable way seems to be to abandon the aid of the day but to increase the value of the prefixed aid to the level which gives adequate assistance to efficiently-run crushers. The alternative, of relying wholly on a system of aid of the day, is unacceptable, both because of the difficulty of exercising budgetary control and because it inevitably involves a substantial degree of over-subsidising of companies out of public funds.

Sunflowerseed has greater possibilities, partly because it is not yet near self-sufficiency. Sunflower meal is of good quality, and highly acceptable with the addition of lysine. Its oil also has a higher market acceptability than rapeseed oil. The Commission considers that the opportunities for sunflower production in the EEC are good, particularly in Italy. Community production has expanded from 156 000 t on 1975 to 305 000 t in1980, and an expected harvest of 455 000 t in 1981.

Linseed production in the Community remains at approximately 60,000 t per year, producing around 40,000 t of linseed meal. Although linseed meal is of good quality, expansion of this crop is limited by relatively low yields for seed production, limits to demand for EEC flax production, and by the decline of interest in this seed by the Community crushing industry.

After 1973, the Community was concerned to expand soya production, which appeared to have good prospects in certain regions of France and Italy. So far, results have been limited. The highest EEC production was in 1979 with 25,000 t, almost totally in France. Up to present, yields have been disappointing, and the incentives to the farmer limited.

Each year has seen considerable increase in the quantities of peas and beans incorporated into animal feedstuffs, and the expansion is likely to continue.

Until recently, the compounding industry has paid relatively little attention to peas and beans as a source of protein, probably because production was used directly on the farm and the quantities available for incorporation were not great. Furthermore, the allegedly cumbersome nature of the existing EEC support system has proved a disincentive. The Commission should be encouraged to investigate with Member States the possibility of improving the workings of the aid to peas and beans in the Community, since the crop offers a valuable addition to EEC protein resources, is beneficial to crop rotation since it replaces nitrogen in the soil, and it is a very suitable substitute for soya meal in animal feed. It is hampered by its relatively low level of protein yield per hectare compared to luzerne.

Nevertheless, though this sector is still relatively small in relation to Community protein requirements, it should be a focus of policies to develop EEC protein production.

The Commission should, however, investigate means of simplifying the controls on the aid without making them any weaker. The problem is that there are no controls on the entry of peas and beans into the EEC so that it is necessary to make sure that imported pulses do not receive aid fraudulently. This means that there is a system of contracting with producers and specifying acreage and output. This is cumbersome.

At the same time there is an existing fraud which needs clearing up. It is possible to certify peas for the special aid for use as seed peas but also to divert the peas to animal feed and receive aid for this purpose. This means double aid is given to the same crop.

For the other deficient EEC protein sectors, the view from the Community is more sombre. Fish meal consumption is tending to decline, being limited by the numbers of fish able to be caught and processed, either from the North Sea or from South America where heavy fishing has taken its toil. Community production of maizeglutenfeed, which is both a protein and cereal substitute to some extent, is heavily dependent on the operations of the EEC starch industry, itself heavily dependent on imported corn. Given the position of the Community starch industry, this area of Community import substitution is unlikely to grow.

The most difficult situation is probably that of the Community dried fodder industry, which has traditionally provided approximately 80% of Community dried fodder requirements. The EEC industry, like the industries of other regions, has been hard hit by the rise in energy costs since 1973. Community support since 1974 has been instrumental in maintaining production at a level capable of supplying most of EEC demand, and will probably continue to do so. But, in the EEC, as in the rest of the world, dried fodder will probably supply progressively less and less of overall protein requirements. Production costs are currently estimated at about 165-170 ECU/tonne against a price for the product of 148 ECU/tonne.

Greece brings to the Community a production of +/- 200,000 t of cotton-seed, and a consequent oilcake production of 160,000 t.

Greek oilcake usage rose from 208,000 t in 1977 to 237,000 t in 1980, an average growth of 4% per annum compared to a comparable 8-9% in the EEC during the same period. This reflects the lower level of agricultural development in Greece, but also illustrates that the market there is an expanding one which, unlike in the EEC, will continue to develop.

Spanish oilcake consumption rose from 2.2 mio t in 1977 to 2.8 mio t in 1980, an average of 8% a year, double that of Greece and much the same as the Community. But here, nearly 90% of meal is provided by soya, the vast majority imported from the US and Brazil. Of this soya, 90% is in the form of imported beans, crushed inside the country.

Spanish production of oilseeds largely consists of about 500,000 t of sunflowerseed, 20,000 t of safflowerseed and 15,000 of soya. In 1980 compound feedstuffs production is estimated at 9.6 mio t compared to 79.1 mio t for the EEC of Nine.

For Portugal, oilcake consumption is estimated at 473,000 t in 1975 and 646 t in 1980 (average growth 10%).

The Community should continue to attempt to maintain or improve the EEC trade balance in protein products. It seems unlikely that the Council will agree to restrictions on protein imports, since for any foreseeable future, the Community will be dependent for a very large proportion of its protein needs on imports.

This does not mean that Community protein imports will necessarily increase at the rate seen in the past. For 1981, it is probable that compound feed production in the EEC will have dropped by 1-2% relative to 1980, and overall animal feed usage is unlikely to expand significantly. Unless the overall economic situation improves, there will be considerable pressure in the medium term on animal raising profitability, particularly in the cattle sector. In a relatively static market, overall possibilities for the protein sector will be affected by the comparative marginal profitability of cereals and proteins in so far as they are substitutable.

The analysis of the 1981 situation can probably be extended into the early 1980's. It would be unwise to rely on continued expansion of the animal feed sector in the Community, and for the immediate future, a stability of production at the 1980/1981 level seems probable, given the prevailing economic circumstances. This will mean therefore that as the Community increases its production of protein materials, its requirements for imported protein will not expand, and may very well drop, in spite of the maintenance of a liberal import policy as in the past. The EEC should see increasing availability on the Community market of EEC produced colza and sunflowerseed, and of rape and beans, during the 1980s.

CONCLUSIONS

The Community of 10 is only 19-20% self-sufficient in proteins. It could boost this self-sufficiency, but at very substantial cost for relatively little improvement in the situation.

If the Community were to (a) Raise colza output to 3.3m tonnes;
(b) Raise sunflower production to 1.6mt;
(c) Quadruple the quantity of peas and beans used in animal feed;
(hypothesis 2)

it would succeed only in raising self-sufficiency to 24%. If the quantity of peas and beans incorporated were increased eight-fold (hypothesis 2) the level of self-sufficiency would improve to 28%.

The costs would be great. The amount of aid devoted to colza, sunflower, dried fodder and peas and beans in 1981 was 549m units of account. The cost of fulfilling hypothesis 1 would be annual expenditure in the region of 1.113bn units of account. Hypothesis 2 would cost 1.245bn units of account. (see table)

Increased self-sufficiency based on a higher colza production entails other problems, notably that of disposing of colza oil. The EEC is currently producing about 750,000 tonnes of such oil for an internal demand of 550,000 tonnes. This is on an output of around 2m tonnes of colza seed. The Mandate proposals are postulating an output of some 3.3m tonnes by around the end of the decade which will give about 1.3m tonnes of oil.

It is very difficult to justify the target of 3.3m tonnes of colza output mentioned in the Mandate. If the Community demand in the market is for about 2.2m tonnes the only consequence of going 1m tonnes beyond this figure will be to create very substantial problems of disposal.

In addition, there is clearly something wrong about the target set for 1982-83 in the price proposals. The target is set at 2.15 mt. But since about 950,000 hectares will be planted, and since the yield is in the order of 2.38 t per hecatre, the production will be of the order of 2.35 mt. The Commission should explain how it has managed to set a target almost 200,000 t <u>below</u> the forecastable level of production.

If the EEC produces more oil it will need to dispose of it and clearly it will seek to displace soya oil. But if soya oil is replaced this will also mean the elimination of some soya meal, since the oil content of soya is only 19%. Where will this replacement protein meal come from? Clearly, on the above analysis, peas and beans are the most promising crop.

The Commission proposal to extend the crushing subsidy to animal feed compounders who incorporate unprocessed rape seed in cattle rations should be welcomed. This is an area which could provide new demand and a 2% level of incorporation could create a market for about ½m t of seed.

Peas and beans and sunflowers hold the most possibilities for expanding protein production at acceptable cost. They have the advantage of offering an incentive to both the temperate and the Mediterranean parts of the Community.

Dried fodder production is in decline, not merely in the EEC but in the US also for the same reason of energy costs. The intelligent thing to do would be to phase out subsidies over a predictable period and use the subsidies for more profitable crops.

Cost in million units of account

	1981	Hypothesis 1	Hypothesis 2
Colza			
Sunflower	475	627	627
Dried fodder	41	34	34
Peas and beans	33	132	264
Total	549	1113	1245

PRINCIPAL SUPPLIERS OF CEREAL SUBSTITUTES

		Thailand	Indonesia	China	Spain	Brasil	Cuba	Rep.S.Afr.	Pakistan	U S A	Mozambique	Canada	India	Argentinia	Nigeria	Others
Manioc	1977	3.639.474	143.920	-												
	1980	4.104.297	372.228	335.968												
Sweet potatoes	1977	3.825		2.403	1.054											1.156 (1)
	1980	432		318.403	804											1.946 (1)
Molasses	1977	244.613				710.799	381.601	201.077	145.815	-	135.175					141.543 (2 + 3)
	1980	-				602.703	443.659	4.907	184.338	141.590	147.949					290.459 (2 + 3)
Grape marc	1977				14.346											
	1980				33.251											
Citrus peels	1977					257.407				675.749						
	1980					527.834				820.804						
Fruit waste	1977								45.358	56.140		23.458	13.791			
	1980								47.762	12.467		62.833	2.339			
Maize gluten feed	1977					33.231				1.364.582		28.050		46.910		
	1980					31.635				2.476.334		8.856		62.814		
Brans of maize and rice starch ⩽ 35%	1977		119.318							135.823						- (4)
	1980		81.135							126.785						18.052 (4)
starch > 35%	1977									10.712						3.654 (5)
	1980									-						1.321 (5)
Brans of cereals starch ⩽ 28%	1977		118.139							204.395		233.786		943.596	154.596	
	1980		206.505							138.699		338.081		695.478	97.274	
starch > 28%	1977													2.300		- (6)
	1980													-		4.775 (6)
Residues from brewing and destillation	1977							16.906		86.820		-				
	1980							9.058		251.185		11.359				
Maize germ cake fat < 3%	1977					101.924		513.113		86.198						
	1980					181.312		527.193		109.014						
fat 3% - 8%	1977					-		1.988		104.128						
	1980					12.369		13.677		172.061						

(1) Egypt (2) Mauritius (3) Mexico (4) Birmania (5) Hungary (6) Zaïre

TABLE 1

PROTEIN PRODUCTS FOR ANIMAL FEED . 000 T

	1975	1976	1977	1978	1979	1980	1981	
Oilcake - CO	908	844	868	1 033	1 045	1 569	(1 650)	
Oilcake - TCO	7 434	8 257	8 231	9 890	10 990	10 623	(9 300)	
Imports	7 599	9 752	10 042	11 958	13 235	14 135	(13 000)	
Exports	632	730	693	884	928	1 413	(1 000)	
Consumption	15 309	18 123	18 448	21 997	24 342	24 912	(22 950)	
Dried fodder	1 522	1 225	1 626	1 881	1 705	1 697	(1 500)	
Imports	137	381	334	229	385	(400)	(450)	
Exports	16	6	9	71	8	(10)	(10)	
Consumption	1 643	1 608	1 951	2 039	2 082	(2 087)	(1 940)	
Peas & beans - aid		-	-	165	270	332	(400)	
Peas & beans - other					113	166	(155)	
Imports					73	79	(80)	
Exports					16	17	(20)	
Consumption			469	527	440	560	(615)	
Fish meal	490	497	479	472	439	469	(450)	
Imports		640	567	554	637	574	(590)	
Exports		168	193	197	216	250	(200)	
Consumption		969	853	829	860	793	(860)	
Meat meal	907	1 009	980	1 024	980	(980)	(980)	
Imports		6	10	35	19	15	(15)	
Exports		129	136	133	151	154	(150)	
Consumption		886	854	926	848	(841)	(845)	
Maizegluten-CO			115	153	165	164	(164)	
Maizegluten-TCO			461	611	659	656	(656)	
Imports			1 486	1 685	2 021	2 596	(2 900)	
Exports			-	-	2	-	-	
Consumption			2 062	2 449	2 843	3 416	(3.720)	

OOO T : PROTEIN USAGE - ANIMAL FEED TABLE 2

	% Proteins		1978	Proteins		1979	Proteins		1980	Proteins		1981	Proteins
Oilcake : Soya	44		13 902	6 117		13 744	6 047		15 107	6 647		13 200	5 808
Maize Germ	18		1 126	203		1 228	221		1 252	225		1 250	225
Other	33		6 942	2 291		7 987	2 636		8 532	2 816		8 500	2 805
Fish meal	63		829	522		860	542		793	500		860	542
Meat meal	50		926	463		848	424		841	421		845	423
Dried fodder	18		2 039	367		2 082	375		2 087	376		1 940	341
Peas & Beans	24		527	126		460	110		556	134		615	148
Maizegluten	23		2 449	563		2 843	654		3 416	786		3 720	856
Skim Milk powder	35		1 969	689		2 117	741		1 576	552		1 520	532
Total				11 341			11 750			12 457			11 680
% + (-)							3,6			6,0			(6,2)

TABLE 3

PROTEINS - CONSUMPTION AND SELF SUFFICIENCY — 000T — 000T

	1978	% SS		1979	% SS		1980	% SS		1981	% SS		
Oilcake	21 997	5		24 342	4		24 912	6		22 950	7		
Dried fodder	2 039	92		2 082	82		2 087	81		1 940	77		
Peas and beans	527			440	87		560	89		615	91		
Fish meal	829	56		860	51		793	59		860	52		
Meat meal	926	111		848	116		841	117		845	116		
Maizeglutenfeed	2 449	6		2 843	6		3 416	5		3 720	4		
Skim milk powder	1 969	112		2 117	102		1 576	138		1 520	144		

TABLE 4

COMPOUND FEEDSTUFFS : FEFAC/FEDIOL/OILWORLD/COMMISSION : ( ) = ESTIMATE

000 T	1975	1976	1977	1978	1979	1980	1980/1975	1981
Poultry	17 142	17 645	18 983	19 091	20 016	20 736	21 %	
Pigs	21 218	23 136	23 527	25 050	26 578	27 974	32 %	
Cattle and veal	15 486	21 089	22 812	22 362	25 697	27 074	56 %	
Milk feed	1 970			2 228	2 302			
Other	2 223	2 425	2 817	2 971	3 327	3 322	49 %	
EEC - 9	57 989	64 295	67 719	71 702	77 920	79 100	36 %	(77 800)
						+ 1,5 %		- 1,6 %
Greece				1 487	(1 547)	1 606		
EEC 10				73 189	79 467	80 706		
Spain					8 998	9 607		
EEC 11					88 465	90 313		
EEC Oilcake								
consumption								
Soya	9 604	10 938	10 975	13 902	13 744	15 107	57 %	
Other	5 705	7 185	7 473	8 095	10 598	9 805	72%	
Total	15 309	18 123	18 448	21 997	24 342	24 912	63%	
% Soya	63	60	60	63	56	61		
Oilcake As								
% compound								
Feedstuffs								
EEC 9				30	31	31		
Greece				17	16	18		
EEC 10				30	31	31		
Spain					2 400	2 752		
OC % CF					27	29		
EEC - 11					30	31		

TABLE 5

EEC : ANIMAL FEEDSTUFF CONSTITUENTS - 000 T

COMPOUND FEEDSTUFFS	1975	1976	1977	1978	1979	1980	1981 ·	
Oilcake/Meal		14 318	14 420	15 973	18 150			
Maizeglutenfeed		1 225	1 705	2 022	2 493			
Meat/Fish meal		1 803	1 115	1 717	2 016			
Dairy products		1 694	2 119	1 698	1 797			
Dried fodder		1 045	1 308	1 406	1 654			
Peas and beans		(100)	(100)	165	270	332		
Total protein materials	(17 500)	20 185	20 767	22 931	26 458	(26 500)		
% Total	30,1	30,7	30,3	31,6	33,7	33,5		
Other		45 392	47 726	49 740	52 088			
Total EEC - 9	58 098	65 577	68 493	72 671	78 546	79 100	77 800	
Greece				1 487	(1 597)	1 606		
Total EEC - 10				74 158	80 093	80 706		
ANIMAL FEED								
Oilcake/meal			18 448	21 997	24 342	24 912	(22 950)	
Fish meal			729	872	790	793	(860)	
Meat meal			854	926	848	(841)	(845)	
Dried fodder			1 932	1 829	2 082	2 087	(1 940)	
Milk powder			1 441	1 695	1 768	1 576	(1 520)	
Peas and beans			469	527	440	560	(615)	
Maizeglutenfeed			2 062	2 449	2 843	3 416	(3 720)	
EEC - 10								
Total protein materials			25 935	30 295	33 113	34 185	(32 450)	
CEREALS			70 403	73 775	73 960			
( ) = estimate								

PROTEINS FOR ANIMAL FEED : SELF SUFFICIENCY : EEC - 10 TABLE 6 : 000 T TABLE 6

	% PROTEIN		CONSUMPTION 1981	PROTEINS		EEC RESOURCES 1981	PROTEINS		I			II	
Soya meal	44		13 200	5 808		14	6		-	-		-	-
Maize germ meal	18		1 250	225		48	9		50	9		50	9
Other oil meal	33		8 500	2 805		1 558	514		2987	986		2987	986
Fish meal	63		860	542		450	284		450	284		450	284
Meat meal	50		845	423		845	423		845	423		845	423
Dried fodder	18		1 940	341		1 500	270		1250	225		1250	225
Peas + beans	24		615	148		555	133		1755	421		3356	805
Maizegluten feed	23		3 720	856		820	189		820	189		820	189
Skim milk powder	35		1 520	532		1 520	532		1520	532		1520	532
Total				11 680			2 360			3069			3453
Self-sufficiency							20%			26%			30%
Objective:	OIL SEED	CAKE				MECU			MECU			MECU	
Colza	3300	1848			C	475			627			627	
Sunflower	1600	944			S				320			320	
Lin	60	37			PF	41			34			34	
Cotton	200	158			PB	33			132			264	
Oilcake		2987				549			1113	+ 103%		1245	+ 127%

ANNEX

A. In Table 1

1. Section - Dried Fodder : Line 6
The figures for 1975, 1976 and 1977 do NOT include sun dried fodder.

2. Section - Peas and Beans : Commission estimates based on information supplied by Member States.

3. Sections - Oilcake
- Maizegluten

CO - produced in the EEC from materials of EEC origin

TCO - produced in the EEC from materials of Third Country origin.

4. Section - Oilcake : includes maize germ meal.

B. Figures for each category in different tables are not always identical because of the different sources used.

IX. SUGAR

SUGAR

The Commission's proposals

The Commission proposes to increase the basic price for sugar beet by 9%.

In order to contribute to stability of the international sugar price, the Commission believes that some 2m tonnes of sugar should be withheld from the world market.

Market situation

Sugar production in the Community has reached record levels, 15m tonnes compared to 12.3m tonnes in 1980/81. This exceeds forseeable consumption by 5.4m tonnes. This means that after taking into account 1.3m tonnes of ACP sugar, 6.7m tonnes will be available for export, of which 3.4m tonnes of 'C' sugar will be exported without refunds.

The area under sugar beet has increased by 11%, with the largest increase in France (+17.1%) and Belgium (+14.2%). The sugar yield has reached exceptional levels, 18% above the normal level. This has helped boost self-sufficiency to 150%.

According to the market regime in force, the producers bear the full costs of finding outlets for Community production in excess of consumption. The quota system is to remain in force for five years. No further internal market measures are required in consequence during this period.

At the same time, the Community is the major influence on world prices (together with Russian imports). It is not in the interest of Community producers that the world sugar price be undermined. The Commission therefore is taking steps to withhold some 2m tonnes of sugar from the world market, more than is held under the International Sugar Agreement. 1.1m tonnes are to be held by the factories and the remainder by a build-up of public stocks. Previous measures of restraint have proved to be extremely effective, pushing world prices up by 11%. The quantities withheld will be considered under present regulations as part of next campaign's production, resulting inevitably in a reduction of A and B sugar for 1983/84. The producer production levies will be at their maximum level in 1982.

Sugar supply balance (1000t white sugar).

	1979/80	1980/81	1981/82
Production	10,843	10,896	
Change in stocks	260	-664	
Imports	1,503	1,343	
Exports	2,627	3,617	
Internal use	9,459	9,286	
Self-sufficiency	129.9	130.0	

X. THE DAIRY SECTOR

THE DAIRY SECTOR

The structural balance in dairy production

Over the last twenty years the pattern of dairy farming - working methods, geographical distribution, and the number of farmers engaged - has changed dramatically. These developments are masked by official statistics showing a stable number of dairy cows and rising yields. These basic structural changes have been more or less completed in Denmark, the Netherlands and the United Kingdom; they are proceeding very quickly in the Federal Republic and Ireland; and at a slower, albeit accelerating, pace in France. The milk sector therefore can be broken down into

- a traditional element, producing approximately 36% of total milk production;
- a developing sector producing 31% of milk; and
- a modernised sector producing 33% of milk.

The smaller farms cannot generate sufficient income by switching to cereals or beef. Either they must convert to pigs or poultry or they must stay in milk. Staying in milk with acceptable working conditions means modern farm buildings. And the borrowed money requires a sufficient cash flow in the form of increased milk production. This is achieved by higher stocking rates (often doubling the original number of dairy cows on the same area), switching to more productive breeds like Friesians and increasing yields by feeding bought-in proteins (the so-called "imported" hectares because the soya comes from the US and Brazil). The capacity to increase milk is very great given the low levels of grassland management and low yields currently prevailing in many parts of the Community (notably in France and Ireland).

	Dairy Cows		Yields		Deliveries	
	1980/1974	1981/1980	1980/1974	1981/1980	1980/1974	1981/1980
			(% change)			
Germany	-0.1	0.5	2.0	3.6	2.7	4.1
France	-0.5	-4.5	0.9	-	2.0	5.1
Italy	0.1	-2.0	2.6	0.3	1.7	2.3
Netherlands	1.3	-0.6	1.4	-	4.0	2.3
Belgium	-0.7	-0.1	1.0	0.1	1.9	0.3
Luxembourg	-1.1	1.5	1.5	4.0	2.0	3.1
United Kingdom	-0.9	-1.7	2.2	1.5	2.0	0.6
Ireland	0.8	-3.6	1.3	-0.9	6.6	-1.2
Denmark	-1.5	0.9	2.1	2.0	1.9	-2.1
EEC 9	-0.2	-1.8	1.7		2.5	2.7

Stagnant consumption

Consumption of the major dairy products has been at best stagnant in recent years, despite public measures to subsidise butter and skimmed milk powder in particular.

	1974	1977	1979	1980	1981
Butter					
- normal price	159.7	155.0	137.0	143.0	140.0
- reduced price	-	72	140	12	
Skimmed milk powder					
- normal price	204	227	300	300	280
- reduced price	114.3	117.4	130.5	127.6	127.0

Cheese is one of the few products for which consumption continues to increase (3% in 1979 and 2% in 1980).

The CLEO (1) forecasts show that these are expected to continue as long-term trends. The forecasts are as follows:

Total domestic use of fresh milk products, 1974-85 decreases slightly (-0.2%) in spite of policy measures. Per capita consumption declines from 105 kg in 1961, to 100 kg in 1974 and to 97 kg in 1985. It drops -0.3% per annum (1974-85).

Total domestic use of cream, 1974-85, increases 2% annually. Per capita consumption expands from 1.3 kg in 1961, to 1.9 kg in 1974 and to 2.4 kg in 1985. It rises at a rate of 2% (1974-85).

Total domestic use of butter, 1974-85, (= total human consumption) decreases at -0.6% per annum, in spite of policy measures. Per capita consumption declines from 6.7 kg in 1961, to 6.6 kg in 1974 and to 6.1 kg in 1985. It drops -0.7% annually (1974-85).

Total domestic use of cheese, 1974-85 increases 2.1% per annum. Per capita consumption rises from 7.5 kg in 1961, to 10.5 kg in 1974 and to 13 kg in 1985. It increases at a rate of 2% (1974-85).

Total domestic use of whole milk powder, 1974-85, rises slightly (0.4%). Per capita consumption equals 0.5 kg in 1961 and rises slightly to about 0.7 kg in 1974 and 1985.

(1)

Total domestic use of skimmed milk powder, 1974-85 increases at 2.2% affected, however, by policy measures among other factors. Animal feed use, the major component of total domestic use rises at a rate of 2.3%. Per capital consumption (0.8 kg in 1974) increases at 1.6% per annum.

Total domestic use of concentrated milk, 1974-85 (= total human consumption) increases at 1.1% per annum. Per capita consumption rises from 3.3 kg in 1961 to 3.5 kg in 1974 and to 3.9 kg in 1985. It increases at a rate of 1% per annum (1974-85).

Developments since 1968

In 1969 Mr LÜCKER drew attention in a report presented before the European Parliament to the dangers of increasing over-production in the dairy sector. He proposed that a quota system be introduced. Quota systems are however contrary to the basic philosophy of the Commission. Instead a price freeze was introduced.

A relaxing of policy was made possible by the entry of the United Kingdom into the Common Market. The biggest deficit market became available to Community producers. Britain in 1973 produced only 20% of its domestic butter requirements. The rest was imported, mainly from New Zealand and to a lesser extent Denmark. The deficit of more than 200,000 tonnes of butter became an open market for Community producers. Britain now produces the equivalent of 50% of consumption, and after exports provides 34% of internal requirements.

United Kingdom (tonnes)

	1975	1977	1980
Butter consumption	513,000		328,000
Butter production	49,000	135,000	169,000
Butter imports			
Outside EEC	124,108		107,973
Inside EEC	365,155		101,502

One of the reasons for the increasing market problems in the dairy sector was that this market was gradually absorbed. It then shrunk under the impact of: a decline in British butter consumption and an increase in British butter production, both of which were brought about by Britain adapting to the higher EEC prices:

Butter Consumption (Kg/head)

	UK	Ger.	Fr.	Neths.	Bel.	Dk.	Irl.	Italy
1970	8.8	8.6	9.0	2.9	9.4	9.1	12.5	2.0
1975	8.4	6.8	9.3	2.6	8.5	7.9	11.4	2.1
1978	7.5	6.8	9.3	3.2	8.6	8.3	11.7	2.0
1979	6.8	7.0	9.7	3.5	8.6	8.6	11.2	2.2
1980	6.1	7.1	9.5	3.6	-	8.4	11.8	-

THE QUESTION OF THE SMALLER FARMERS : THE OPTIONS AND THEIR COST

Much has been made of the need for improved market support in order to deal with the problems of the small dairy producer. One answer to the conflict between supported social need and market pressures has been the creation of exemptions to measure to restrain production.

The exemptions to the present co-responsibility levy are twofold:

(a) a complete exemption for the mountain regions Greece and Southern Italy

(b) the rate applied in the less favoured regions, is to be 2% instead of 2.5% for the first 60,000 kg.

Most exemptions proposed fall within the range of 60,000 kg. This puts us in the range of up to 15-20 cows per herd, which if applied on a generalized basis would already exclude over a third of the Community's entire dairy herd:

Size Structure of Herds (1980/79)

% of herds

Herd Size Cows	1-4	5-9	10-14	15-19	20-29	30-49	Over 50
EEC - 9	5.6	9.7	10.9	11.4	18.3	20.5	23.8

% of holders

EEC - 9	32.8	20.1	13.0	9.5	10.8	7.6	4.2

Within this range, these producers with less than 5 cows (32% of all herds) must be considered as part time farmers or farmers whose milk cows are very secondary to the main production. Farmers with less than 15 cows tend to be older than the average (the majority being over 55 years of age) and without a successor to take over the farm. They have limited financial resources, but do not wish to undertake any significant expenditure to modernize the farm.

At the beginning of the 1970's the minimum viable size of dairy farm with modern buildings was 30 cows which is now moving up towards 40 cows. Given financial and disease problems which are inherent in increasing milk production from purchased in-calf heifers, few farms with less than 15-20 cows as a starting point will achieve the minimum viable size.

Farmers who have an heir to take over the farm or young farmers who have taken over the funning of the family farm will fall within the group 20-30 cows and above.. They will seek to improve working conditions and income by modernizing the farm, often on borrowed money requiring heavy repayments. And it is this group which the system of exemptions as practiced at present hitshardest, while those who in dairying mainly non-economic reasons (parttime or side line dairy farmers) are given the assistance. This approach is simply not logical or equitable.

A case can be made for special treatment to be accorded to producers in the mountain zones and even certain of the less favoured regions, where distance from markets present problems of marketing. The correct solution, however, would be to grant aid for processing installations, for example financial assistance to cheese factories, rather than exemptions to the basic market instruments.

ACTION TO HELP SMALL FARMERS BY MODULATION OF THE CO-RESPONSIBILITY LEVY

Note by the services of the Commission

In its package of proposals for agricultural prices and related measures (COM(82) 10 final, Volume I, page 93, paragraph 11.11) the Commission has stated that, in order to take account of the situation of small milk producers, it will propose income support measures costing around 120 million ECU, in the form of a modulation of the basic co-responsibility levy. In response to the request by the Committee on Agriculture, this note sets out certain facts and financial estimates which will be relevant to the consideration of that proposal.

Basically there are three forms of approach to this problem:

- an exemption limited to those farmers who deliver less than a specified number of kilos of milk
- or a franchise, i.e. exemption from levy of the first specified number of kilos of milk delivered by each farmer
- or a lower rate of levy on the first specified number of kilos of milk delivered by each farmer.

1. Exemption limited to certain farmers. An exemption from the levy limited to those farmers who deliver less than a specified number of kilos of milk would respond to the social objective. If, for example, there were an exemption from the levy for those farmers who in 1982/83 delivered less than 60,000 kilos of milk to a dairy, the estimated volume of milk exempted would be about 18 million tonnes and the loss of co-responsibility levy receipts would be about 110 million ECU. This exemption could be additional to those already in force (Greece, South of Italy, mountain areas) and to the lower rate applying to the first 60,000 kilos delivered by a farmer in a less-favoured area.

Although this form of exemption would respond to the particular objective of helping the incomes of small farmers, it is open to very serious objections on grounds of administration and incentive to fraud. The reason for this is the very sharp difference between the financial situation of the farmer who delivers, for example, 59,000 kilos and obtains total exemption from the levy and that of the farmer who delivers 61,000 kilos and pays the full levy. This

would be bound to provide an incentive to the splitting of dairy herds or other manoeuvres designed to ensure that the farmer delivered no more than, for example, 60,000 kilos. It would be necessary to try to block such practices by administrative means but these could be a source of conflict in the countryside.

2. A franchise. A general franchise, i.e. exemption from levy of the first specified number of kilos delivered by each farmer is a relatively simple and equitable approach. The services of the Commission draw attention to two points:

1) the loss of co-responsibility levy receipts would be likely to be large. For example, if there were a general franchise for the first 30,000 kilos of milk delivered by each farmer to a dairy, the volume of milk exempted is estimated to be about 31.3 million tonnes and the loss of levy receipts would be approximately 200 million ECU

2) the income problem in the milk sector is not wholly confined to the very small producers, many of whom are part-time producers, but also applies to the producers of more than 30,000 kilos who are at the lower end of the scale of full-time milk production.

The general franchise could be combined with the existing exemptions (Greece, South of Italy, mountain areas) and with a lower level of levy in less-favoured areas for any milk in excess of a new franchise level but below 60,000 kilos.

3. A lower rate of levy on the first specified number of kilos delivered by each farmer. This option is open to many variations. Probably the simplest form would be a levy reduction of, for example, 1% on the first 60,000 kilos delivered by each farmer. On this hypothesis the volume of milk benefiting from the lower levy would be about 49.6 million tonnes. The loss of co-responsibility levy receipts would be of the order of 115 million ECU. This option is also easy to administer and has the advantage of providing some relief for a wide range of small farmers, including the full-time farmers up to a reasonable volume of milk. This option can be combined without difficulty with the exemptions already in force for Greece, South of Italy and mountain areas.

A. Cost of various ways of helping small farmers by action on the co-responsibility levy: note supplied by the Commission

I. A specific exemption for small farmers

If we were to propose a specific exemption for small farmers (i.e. not a general franchise but an exemption for those farmers who deliver less than X kg of milk), the estimated cost would be -

Exemptions for farmers who in 1982/83 deliver less than	Volume of milk exempted	Budget cost (i.e. loss of co-responsibility levy receipts) (assuming unchanged levy)
30,000 kg	8.2 million tonnes	49 million ECU
40,000 kg	10.5 million tonnes	62 million ECU
50,000 kg	12.7 million tonnes	75 million ECU
60,000 kg	18.0 million tonnes	108 million ECU

These exemptions would be additional to those already in force (Greece, South of Italy, mountain areas) and to the lower rate applying to the first 60,000 kg delivered by a farmer in a less-favoured area.

N.B. This proposal is not recommended because of the "cliff-effect" i.e. the inequity and incentive to fraud associated with a total exemption if a farmer delivers X kg and no exemption whatever if a farmer delivers X + 1 kg.

II. A general franchise

If we were to propose a general franchise (i.e. exemption from levy of the first X kg of milk delivered by each farmer), the estimated cost would be -

General franchise for first	Volume of milk exempted	Budget cost (i.e. loss of co-responsibility levy receipts) (assuming unchanged levy)
30,000 kg	31.3 million tonnes	197 million ECU
40,000 kg	42 million tonnes	266 million ECU

On this hypothesis the existing exemptions (Greece, South of Italy, mountain areas) would continue and the lower level of levy in less-favoured areas would also continue for any milk in excess of the new franchise level but below 60,000 kg.

III. A lower rate of levy on the first X kg of milk delivered by each farmer

This option is open to many variations. The simplest and probably most negotiable forms are -

	Volume of milk benefitting from the lower levy	Budget cost (i.e. loss of co-responsibility levy receipts
0.5% levy reduction for first 60,000 kg delivered by each farmer	49.6 million tonnes	58 million ECU
1% levy reduction for first 60,000 kg delivered by each farmer	49.6 million tonnes	115 million ECU

This proposal would be additional to the exemptions already in force (Greece, South of Italy, mountain areas).

B. Direct aid for milk producers linked to action on prices

Any system of direct aids should as little as possible hamper structural progress and should be given only to those farmers who most need income support.

Direct aid for milk producers should only be given if the farmer is fulfilling the following conditions:

(a) The aid is linked to the dairy farmer personally and will not be given to his successor. An exception could be made for those who apply for the Community aid under Directive 72/159/EEC;

(b) The recipient should farm as his main occupation. The definition could in principle be the one given in Directive 72/159/EEC which stipulated in Article 3:
'Member States shall ..... define what is meant by the expression "a farmer practising farming as his main occupation". Definitions should include the condition that the proportion of income from farming be at most 50% of the farmer's total income and that the working time devoted to non-farming activities be less than half of the farmer's total working time.' However the majority of farmers eligible for a direct aid do not keep accounts so that the condition relating to the proportion of income would probably be unworkable. It would be better to decrease the working time devoted to non-farming activities to less than 1/4 of the farmer's total working time;

(c) The farm should be devoted largely to milk production. Criteria could include: (i) the area devoted to fodder crops, to be at least x% of total cultivated area and (ii) dairy livestock units to be at least y% of total livestock units, say 50 and 40% respectively;

(d) The earned farm income should be lower than 50% of the regional comparable income, as defined in Article 4, paragraph 2 in Directive 72/159/EEC or, in the absence of a bookkeeping system, the holder should not have more than a certain number of milk cows;

(e) The holder should not be older than 65 years.

As far as the amount of the direct income aid is concerned the following options could be chosen:

(a) The aid equals the difference between 50% of regional comparable income and the earned income of the farmer. But because of the absence of bookkeeping this option seems to be unworkable. In addition, there would be a risk of compensation for bad farm management;

(b) The aid is based on a lump sum per farmer. However a lump sum payment may on the individual level have no relationship whatever with the actual loss of income due to the change in price policy. It could also provoke demands for income aid in other agricultural sectors;

(c) Payment of an amount equivalent to a 1% change of intervention price in function of the number of milk cows per applicant (with a maximum number of cows (probably 10). If producer prices for milk change in proportion to changes in intervention prices for milk products, the reduction of producers' receipts from milk per 1% decrease of intervention price would amount to about 10 ECU per milk cow. This would mean that a maximum of /100/ ECU/year would be paid to each farmer.

If a 10 cow limit is set it is thought that about 670,000 farmers would be eligible for a cost of about 50m ECU. Taking into account administrative costs it is difficult to be very enthusiastic about such a modest scheme.

If such direct aid were to be given, it should be Community financed since the cost of intervention is Community financed.

THE NEED FOR EFFECTIVE ACTION: THE OPTIONS

The Council, and until recently the Commission, have failed consistently to take adequate account of the productivity reserves of the Community's dairy industry. A lack of urgency has been induced by the current favourable state of the world market, but it would be dangerous to rely on the hope that the present decline in the rate of increase of milk deliveries, in the order of 1.5% as compared to 2.5% in 1980 is a permanent restraint caused by recent pressures on dairy producers' incomes. If a price increase were to be awarded by the Council that exceeded the modest increases in recent years, an upswing in confidence should push the production trends strongly upwards, particularly in Northern Europe.

The Options

I Price freeze

The advantages of a price freeze are substantial:

A price freeze has proved, between 1971 and 1974, to be one of the few effective measures to curb milk production adopted by the Community.

It causes least discrimination between producers.
It is least likely to lead to distortions in production patterns, in the dairy sector, and between dairy and other sectors.

It would lead to increase in consumption or at least a slow-down in its decline which must be a priority.

The disadvantages are also very evident:

Price restraint is difficult to implement politically over a period of years, while stop/go freezes are ineffective, probably since some experts argue that a price decrease in the range of 20% will be required to curb production, in view of:

- the importance of dairy farming to the cash flow of most undertakings,
- high level of fixed costs in dairying,
- ability of larger farms to offset fixed overheads against larger quantities of milk.

There is some uncertainty as to whether price freeze alone would be sufficient, given increase in productivity, and doubts as to the long-term value of the dollar and its impact on the price of soya.

It is also essential to have regard to the serious social problems for smaller farms in poorer regions with no alternative to dairying. Thus a purely market-orientated approach is an unacceptable as a purely income-orientated approach.

II Degressive prices

The Commission has proposed in the price package a system of degressive prices. According to this system, if production exceeds a target amount then the price the following year would be decreased by an equivalent amount. The possible price reductions would be limited to a maximum figure, in this case of 5%. Any price increase awarded the following year would be added to a lower base.

The advantages of this system are substantial:

- it is administratively simple to operate;
- it operates on the price mechanism which is the fundamental tool of market control;
- it could operate automatically and thus permit a degree of longer-term planning of market management.

Degressive prices could be operated at a Community-wide level or according to national production trends. The Commission has prepared a Community-wide scheme, with no exemptions, as is proper for a price mechanism, and this is clearly the more likely to win acceptance even if it is not necessarily the most precise means of restraining output gains where they occur.

III Co-responsibility levy

The methods of implementing this concept vary considerably, and can result in schemes which resemble, at one end of the scale, a simple price freeze or, at the other, a quota system.

The principal distinguishing characteristic of the co-responsibility levy is that funds are acquired to be used for improving the market situation in the dairy: financing promotional schemes, conversion premiums, subsidised sales, etc.

The existing flat-rate co-responsibility levy operates as a penalty on the sector as a whole, and since it represents a cost burden on the sector, no additional consumption is created.

The super levy related to deliveries to dairies is a form of quota system. It would be effective in restraining increases in production, but its failure to command sufficient political support has been repeatedly demonstrated.

The advantages of the co-responsibility levy are that:

- it has become accepted politically;
- funds made available to the dairy sector;
- it can be implemented flexibly to take account of needs of particular groups or regions.

Its disadvantages are that:

1. The mere fact that it exists is regarded as justification for its continued existence on the grounds that it is politically "acceptable";

2. It provokes a permanent conflict over the level of exemptions, particularly when "modern" producers in certain countries themselves are suffering from severe economic difficulty;

3. Applying "market" or "economic" criteria to the sector it can be argued that the levy discriminates against the larger herd. Applying a "social" criterion it can be argued that small producers are not adequately protected.

4. It constitutes a tax on consumption which is applied simultaneously with consumption subsidies.

The possible variants are numerous:

(a) Flat rate levy, with or without exemptions for particular groups of producers or regions.

(b) Variable levy related to:
- production,
- deliveries to daires,
- sales into intervention, operated at the level of the Community as a whole,
the dairy, or
producers.

The present co-responsibility levy

The co-responsibility levy was introduced on 16 September 1977 at a rate of 1.5% of the target price. However, it was reduced to 0.5% of the target price on 1 May 1978 and remained at this level until 31 May 1980. On 1 June 1980, the co-responsibility levy was increased to a general rate of 2%. Finally, the levy has been increased to a level of 2.5% of the target price as from May 1981.

At present two major exemptions are in force: the mountain areas are excluded completely, as for the Mezzogiorno and Greece. For the less favoured areas the levy is reduced by 0.5% to 2% for the first 60,000 kg.

A proportion of funds have been allocated to promotional measures, technical and market research within and outside the EEC, improvement of milk quality, school sales, sale of butter fat for ice-cream manufacture and for concentrated butter sales to consumers.

The remaining funds obtained from the co-responsibility levy are used to reduce the overall Budget impact incurred by the Community as a result of the milk surplus. The following table summarises receipts from the levy and expenditure under the levy programmes since 1977 against total expenditure in the dairy sector:

(in mECU)

	1977	1978	1979	1980	1981
Receipts from the co-responsibility levy	24.1	156.1	94.2	222.9	503,0
Expenditure of co-responsibility funds under specific programmes	7.5	53.4	110.3	109.4	(90-100)
Total expenditure in dairy sector	2,924.1	4,014.7	4,527.5	4,751.9	3,675

It is clear that the existing co-responsibility levy has failed to restrain production, it has merely served to increase prices to consumers thereby discouraging consumption and it has generated funds which the Community has been unable to put generally to a worthwhile use. Another mechanism is required.

IV Quota system

The advantages of the quota system are that:

- it is an effective method for limiting production to requirements,
- it would drastically reduce budgetary expenditure without necessarily reducing farmer's incomes,
- it offers some protection to the smaller farmer in the poorer, peripheral regions,
- it may encourage farmers to adopt more low-cost and energy-saving production methods.

The disadvantages are that:

- it is a new and untried concept at Community level,
- there would be major political problems at a Community level of sharing out quotas between Member States,
- it may impede a proper geographical specialisation of production,
- it limits the ability of the efficient farmer to expand, and the ability of the relatively unproductive areas to increase productivity,
- it would be an inflationary device - if producers cannot gain from higher productivity they will seek more income from the same output.

There are many possible variations, for example individual quota allocations could be granted to either producers or dairies.

Negotiable certificates permitting the transfer of quotas could be introduced to allow for greater flexibility.

Co-responsibility levies applied at farm or dairy level, or total maximum production guarantees are similar to a variable co-responsibility levy applied at Community level.

V Partial relaxing of the intervention system

The advantages of such solutions are that they:

- would deal directly with over-production of those particular products in surplus,
- would not directly cause discrimination between producers,
- are easily implemented,
- would reduce wasteful expenditure on storage; savings could be used directly to improve producer incomes,
- might encourage greater marketing efforts by discouraging production straight for intervention and the use of intervention as the market of first resort rather than the market of last resort.

The disadvantages are that:

- they are difficult to get politically accepted,
- may require additional measures to protect producers' incomes in poorer, more peripheral regions of the Community who are limited in their sale outlets particularly for fresh milk and fresh milk products.

Variants:

(i) Limitations on intervention for one or more products,
- for part of the year, and/or
- according to market prices and market balance.

(ii) A limit may be placed on the total amount a dairy may sell into intervention, as a percentage of its total production,
- either as a flat rate applicable to all dairies, or
- based on a post reference period.

VI Greater price differentiation

Objective: In order to ensure that milk produced is used as efficiently as possible and returns to farmers maximised, market organisation and pricing policy should be based on the natural differentiation in demand for dairy products so as to encourage consumption where demand can be increased.

The Community should try to base its market organisation on the natural differentiation in demand forces of dairy products. A price for milk should be established by the Community which represents a weighted average of exogenously determined prices for drinking milk and manufacturing milk, together with dairy products, and in particular, skimmed milk powder. Such an approach would permit an increase in the aggregate returns to the farmer. It would, at the same time, lead to an adjustment between the different prices paid by the consumer without, however, increasing the total price paid by all consumers. Such a system would advantage one type of consumer as opposed to another type of consumer, according to market possibilities.

(a) Increase demand for human consumption products

By, for example, reducing the price of milk for cheese manufacture, maintaining the price of milk for butter and increasing the price of drinking milk produced according to quality criteria;

(b) Revising the market organisation in favour of fat production

The proposed market organisation of the dairy sector maintains dairy producers' incomes by unlimited intervention buying and export refunds for **processed products, and butter and skimmed milk powder in particular.**

This system encourages unlimited production of all components no matter the cost. Milk is composed principally of fat, protein and lactose, which can be separated by modern dairying technology and combined as a variety of products:

Product	Components
Milk for direct consumption	Most with some fat removed
Butter and cream	Fat
Cheese	Fat and casein
Skimmed milk	Protein and lactose
Whey	Non-coagulable proteins and lactose

No significant market exists for skimmed milk powder: only 280,000 t are sold at market prices compared to 1,240,000 by means of subsidies.

It is the proteins and lactose which create the market problems and not the fats. This leads to two conclusions:

(a) Consumption of products such as liquid milk and cheese which contain proteins, lactose and fats should be encouraged;

(b) The market rules should not stimulate output of lactose and protein.

Our existing market rules encourage the search for the highest possible yields, largely in the form of extra lactose and proteins. Thus the Community's policy of unlimited support for all milk components has led to excessive production of these unwanted elements. We should try to reduce protein and lactose output while maintaining present levels of fat production, by adjusting the subsidies for unwanted by-products; market rules should encourage dairies to give a premium for fat content.

This would enable farmers to shift production towards animals such as the Danish Red, Jersey , Simmental and Meuse-Rhine-Ijssel which produce a higher percentage of fat and are suitable for beef crossing.

Additional advantages would be obtained in the form of lower feeding costs in the form of decreased use of concentrates.

Any solution along these lines would require research to concentrate more on producing **a new dairy** cow for the future able to meet requirements for dairy and beef production.

VII Limiting the use of, or increasing the price of, inputs: such as capital, land, livestock or feedstuffs

Examples:

- tax on soya used in dairy production,
- tax on dairy farms with high stocking levels,
- forbidding low interest loans and subsidies.

Advantages:

- certain of these measures are less complex than quotas while having similar effects,
- could help to reduce the imbalance between the developed and the poorer agricultural regions of the Community.

Disadvantages:

- certain of these measures are likely to lead to complications outside the dairy sector. For example a tax on soya imports would:
  - change relations with the United States,
  - lead to protests from pig and poultry producers who also use soya.
- likely to lead to cost increases, reduce efficiency and increase prices to consumers.

VIII Conversion schemes

A. From dairying to beef production

(i) By means of improvement in beef/milk price ratio

The advantages of such a scheme are that it is politically acceptable; it is easy to implement, causing few social problems or economic distortions; and it would increase use of powdered milk stocks.

The disadvantages are that:

- there is uncertainty as to impact of improvement in beef/milk price ratio on milk production, since past price adjustments resulted in increase in beef production resulting from better utilisation of calf production without a decrease in milk production,
- such schemes may cause market and consumption problems in beef sector.

(ii) By means of premiums to encourage conversion

The advantages are:

- political acceptability;
- ease of implementation, causing few social or economic distortions;
- encourages bigger producers to leave dairying;
- would increase use of powdered milk stocks.

The disadvantages are that:

- premiums granted are normally too small to have any significant impact. The Commission in its last report on the non-marketing and conversions premiums stated that their impact had been negligible;
- market problems may be created in the dairy sector, with shortages of supply in some areas and an overall increase throughout the Community resulting from improved farm structures.

IX Structural policies

Structural policies, given the present market organisation, will only increase the problem of dairy over-production.

As agriculture structures develop, the larger farms are increasingly incorporating dairy technology. Over-production in the diary sector is largely the result of this move towards improved dairy production by the large farms. Structural policies, as presently conceived by the Commission, are unlikely to provide a solution, and may even aggravate the problem of over-production.

X Other measures

There are many other measures that can be envisaged:

- increase in marketing efforts, with improvements in the organisation of cooperation etc.,

FROM MILK TO BEEF PRODUCTION

I Improve milk/beef price ratio

In the past it was believed that the beef/milk price ratio decisively influenced the extent to which cattle were kept for milk or for beef: if the ratio exceeded 7:1 the effect in all countries would be to stimulate beef production rather than milk.

This argument can no longer be accepted.

(i) There is first of all a political problem in that increases in milk prices motivated by agricultural incomes policy have made it extremely difficult to achieve any lasting improvement in the beef/milk price ratio. The conversion threshold has never been reached.

(ii) Even in this were not true, the greater part of beef production comes from dual-purpose or mainly milk herds. Higher prices for beef cattle in such herds will stimulate milk production. This follows from the facts that:

- the profitability of milk production is influenced inter alia by the sale of calves;
- high prices for beef cattle stimulate demand for bullocks and thus lead to increases in calf prices;
- good sales prospects for calves encourage the intensification of dairy farming in an attempt to increase calving rates. This in turn inevitably leads to increases in milk yields;
- high prices for beef cattle also enhance the sales prospects for culled cows, which again improves the profitability of dairy farming.

(iii) The evidence of developments outside the European Community, particularly the USA, show that, with structural conditions being equal, other factors manifestly play a much more important role in conversion in the cattle farming sector than the ratio between the beef price and the milk price. In a period when the price ratio between the two products was relatively unfavourable - a situation which became even worse between 1950 and 1972 - beef production increased by 95 per cent and milk production by only 2.6 per cent. At the same time the proportion of dairy cows in cattle stocks as a whole decreased from about 59 per cent to about 23 per cent while the number of beef cows increased by 132 per cent.

(iv) The conclusion, therefore, is that even on structurally sound holdings with production alternatives a change in the milk/meat price ratio in favour of meat will lead to a switch to the production of cattle for fattening and an appreciable reduction in stocks of cows only if quite specific conditions apply.

A change in the price ratio may possibly tip the balance in favour of conversion when such action has already been planned for other reasons, e.g. depleted work force.

These conclusions stress the importance of structural policies as being essential to achieve any lasting change in the balance between the milk and beef sector. Such policies would have to be far-reaching and could introduce unexpected and dangerous disturbance in the beef sector. Limited direct aids would seem to be the safest way to proceed.

Conclusions

The Commission deserves censure for its failure to make positive proposals to establish both disciplines and fair economic opportunities in the dairy sector. The proposals submitted to the Commission by DG VI sought authority to establish a target level of output which, if exceeded, would trigger automatically a cut in the intervention price. This was removed in full Commission in favour of the anodyne formula that, if production exceeded the target level, " appropriate measures" would be taken. The President of the Commission was wrong to fail to insist that the whole credibility of his "regime" depends on taking a firm grip on the dairy sector. The Commissioner for Agriculture was wrong to fail to defend proposals which are essential for the balanced development of the whole CAP. A combination of panic and weakness is hardly a prescription for the effective management of one of the most economically and socially important sectors of Community agricult

It has to be emphasized that if the Council does not approve mechanisms to control the dairy sector all the work which is being done towards achieving a better balance of Community expenditure is so much hot air. In addition it is just as bad news for the agricultural sector itself, because farmers as much as anyone else need to have a stable basis of regulation and pricing upon which they can plan.

Therefore it is essential that the mechanism of control providing for target levels of output should be reinstated.

Proposals for a super-levy, despite the arguments in its favour outlined earlier in this paper, quite clearly fail to command adequate support. It is therefore pointless in persisting with them for any other than rhetorical purposes.

The co-responsibility levy is a wholly unsatisfactory mechanism of control. It has become a revenue-raiser without agricultural rationale. It should be reduced and ultimately abolished.

The revenue from the co-responsibility levy should be spent within the dairy sector. While advertising and marketing are no doubt useful, there is no evidence that the Commission is qualified in any way to promote such expenditure, and the Court of Auditors has identified alarming cases of spending which are a tribute to the imagination rather than to any expectation of financial benefit.

The most intelligent way to spend the money within the sector is to use it towards the cost of export restitution. Restitutions are persistently the most expensive item in the dairy sector; there are repeated calls for the Commission to follow a "dynamic export policy", and the great part of the EEC's exports are not of finished products but of bulk materials which sell on the basis of price not publicity.

The question remains of the fate of the 120m ecu the Commission is proposing as additional support for the dairy sector. The idea is riddled with difficulties.

The options are as follows:-

a. Direct income aid: the amount is too small to justify the administrative complexity of such a scheme. In addition, there is the problem of the treatment of mixed farmers with a relatively modest dairy operation and of the treatment of the farmers already exempted under existing proposals. Furthermore, is the criterion to be income, output or geography?

b. A progressive levy, ie co-responsibility levy rising in proportion to total output. This is, in practice, the opposite formula to the "super-levy". It is just as unacceptable politically to a number of Member States.

c. The principle of the franchise. There are several ways of applying this. They are:

   i. Exempt from levy all farmers producing up to 30,000 kilos;

   ii. Exempt the first 30,000 kilos of all production, for example, in the less favoured areas the first 30,000 kilos would be exempt and 2 per cent paid on the remainder (at existing rates). Outside the mountain and less favoured areas 30,000 kilos would be exempt and then 2½% paid on the remainder (at existing rates).

   iii. A lower levy on the first tranche of output.

   iv. A lower levy, rather than total exemption, on the first 60,000 kilos of output across the board.

Of these possibilities i. and iii. are unsatisfactory because they invite fraud by the sub-division of holdings. In addition, they will be opposed on the grounds that they are a further penalty on not merely big producers but even relatively modest farms. Of options ii. and iv. the latter is probably the more desirable intrinsically but has the disadvantage of having elements of the progressive levy in it. It is also less crisp and simple that option ii. which will more readily be understood by farmers. Finally, if the levy is reduced generally as it should be the case for total exemption at the 30,000 kg level is stronger. If the levy is reduced from 2½% the 120m will "earn" a wider franchise, permitting the 30,000 kg ceiling to be raised.

This is far from a perfect formula. The objections to the francihse principle are basically three, and they indicate that it is in practice very difficult to ensure that the money reaches those it is designed to help.

The aid should help those who derive a large part of their income from dairying but the number of farmers with dairy herds whose income comes mainly from that herd is relatively small. Probably less than 3% of the Community of Nine's 1.8m holdings with dairy producers get more than 90% of income (defined as standard gross margins) from milk. In fact, only about 43% of milk producers get more than half of their income from dairying. In other words, the franchise will be bound to help disproportionately those with significant non-dairying interests. In fact, the aid will constitute a general aid not a specific aid.

The aid should help those who are largely dependent on farming for their income - but more than half Community producers spend less than half the working year on agriculture - about 1m producers. Some of these will simply be under-employed because of the size of their farm; others will earn incomes outside agriculture or will be pensioners maintaining small-scale farm business. It is reckoned that a third of all milk producers fall into these categories. The part-timer is likely to have the smallest herd. There is a sharp contrast between, for example, Germany, where the "part-timer" runs a herd of no more than five cows and Britain and the Netherlands where more than 80% of producers are full-time dairy farmers. In short, on this analysis as well the benefit of a fanchise would be dissipated rather than go to the genuine dairy farmer attempting to earn a decent living from milk.

The aid should be directed specifically at low income groups of dairy farmers. On the basis of the 1975 Structures Survey, if those with significant non-agricultural incomes and pensioners are excluded fewer than 300,000 producers would meet this criterion. In turn, this could mean that less than half of the sum available for the aid will get to the group for which it is intended.

The franchise, then, is open to severe objections. But if direct income aids are ruled out, it is inevitable that camouflaged aids attempting to operate through the price level will be inefficient. The Commission should calculate the level of aid which would be capable of effective administration as a direct income support, and the relationship between national and Community financing of such aid so that, at least, this option is available in the future. It should also begin work to define common criteria of income to identify specific target groups who need assistance.

The best answer of all would be to return to a much simpler structure of management of the market. After all, price support, levy, levy exemptions and a highly inefficient means of direct support make an unwieldy combination. It is a combination which offers no comfort for the consumer.

Therefore by far the most useful "reform" would be:

a. The total abolition of the co-responsibility levy;
b. A return to price as the main regular of output. The abolition of the levy would permit a smaller price increase than proposed by the Commission. Many farmers would undoubtedly accept a relatively modest price increase in return for the abolition of the levy which penalises both consumption and productivity;
c. A clear target on a Community-wide basis backed up by price reductions in the event of over-supply;
d. Measures to assist the export of dairy produce, particularly by means of some link between food aid and exporting as outlined earlier in this paper;
e. Specific aid to the small producer dependent for a significant part of his livelihood on dairying.

The proposal to halve the minimum contribution for school milk required from Member States from 25% to 12½% of the target price is to be welcomed.

Other schemes of internal disposal for human consumption should be fully maintained, with the emphasis on year-round availability not seasonal schemes (like Christmas butter which simply permit those who have the means to load the deep freeze). When the market for butter, in particular, is under attack from margarine it is absurd to offer margarine manufacturers slices of the butter market on a plate. This would be the effect of the cut in the UK butter subsidy proposed by the Commission.

Milk Deliveries (000 t)

Year	Belgique	Danemark	Allemagne	France	Grèce	Irlande	Italie	Luxembourg	Pays-Bas	Royaume-Uni	EUR 9
1973	2 553	4 529	18 812	20 931	-	3 149	6 932	226	8 891	13 693	79 716
1974	2 657	4 618	19 076	21 014	-	3 045	6 997	239	9 464	13 315	80 425
1975	2 652	4 718	19 367	21 285	-	3 308	6 726	236	9 782	13 324	81 398
1976	2 687	4 845	20 046	21 429	-	3 608	6 921	239	10 082	13 831	83 688
1977	2 738	4 938	20 578	22 066	-	3 923	7 178	238	10 229	14 665	86 553
1978	2 899	5 124	21 443	22 660	-	4 492	7 381	246	11 000	15 386	90 631
1979	2 973	5 025	22 050	23 683	-	4 611	7 753	254	11 245	15 409	93 003
1980	2 986	4 917	22 948	24 880	470*	4 556	7 867	262	11 444*	15 494	95 354
1981	3 035*	4 820*	23 100	25 100	480*	4 440*	7 900*	260*	11 780*	15 394*	95 829*
Index 1973 = 100	119	106	123	120		141	114	115	132	112	120

*Provisional

Source: Cronos Eurostat

Trend in yield of milk cows

kg/head/year

Year	Belgique	Danemark	Allemagne	France	Grèce	Irlande	Italie	Luxembourg	Pays-Bas	Royaume-Uni	EUR
1973	3 611	4 185	3 891	3 357	-	3 017	2 872	3 515	4 624	4 111	3 650
1974	3 642	4 175	3 921	3 241	1 432	2 401	2 946	3 486	4 567	3 925	3 570
1975	3 632	4 352	4 006	3 207	1 490	2 631	3 061	3 397	4 614	4 091	3 639
1976	3 665	4 562	4 108	3 260	1 465	2 880	3 167	3 571	4 777	4 427	3 775
1977	3 674	4 662	4 180	3 297	1 402	2 977	3 264	3 773	4 830	4 571	3 845
1978	3 867	4 898	4 301	3 441	1 561	3 255	3 303	3 756	5 137	4 795	4 011
1979	3 842	4 750	4 392	3 544	1 700	3 264	3 353	3 839	5 023	4 685	4 040
1980	3 847	4 846	4 552	3 720*	1 780*	3 234	3 362	3 994	5 030*	4 758	4 100*
1981	3 893*	4 710*	4 552*	3 825*	1 860*	3 195*	3 370*	4 000*	5 114*	4 788*	4 160*
Index 1973 = 100	108	113	117	114	130	106	117	114	111	116	114

Source: Cronos Eurostat

*Estimate of the Commission of the E.C.

Distribution of herds by size (1979)
(% of milk cows)

Holder with	Deutsch.	France	Italia	Nederland	Belge Belgique	Lux	U.K.	Ireland	Danm.	EUR 9
Total Dairy cows .000	5442 100	7453 100	3074 100	2369 100	981 100	68 100	3348 100	1503 100	1071 100	25309 100
1 - 9 cows	20,7	13,8	42,1	2,7	9,5	5,7	0,9	13,3	5,0	15,4
10 - 19 cows	33,8	30,3	16,3	7,9	26,6	15,5	2,9	19,9	17,6	22,3
20 - 29 cows	22,8	24,7	10,1	13,0	24,1	27,1	5,8	17,6	19,8	18,3
30 - 39 cows	11,3	14,5	6,4	14,7	16,8	23,0	7,5	13,9	18,3	12,1
40 - 49 cows	5,5	8,3	4,5	14,6	10,4	14,8	8,8	10,2	14,4	8,4
50 - 59 cows	2,6	3,7	2,9	12,9	5,6	13,8	8,8	7,2	8,9	5,4
60 - 99 cows	2,7	4,3	9,7	24,8	6,0	-	30,1	12,9	12,2	10,8
100 cows and more	0,5	0,5	8,0	9,3	1,0	-	35,2	5,0	3,9	7,3

Distribution of milk farms by size (1979)
(% of milk farms)

	Deut-Schland	France	Italia	Neder-Land	Belgie Belgique	Luxemb.	U.K.	Ire-land	Dan-mark	EUR 9
Total	456,4 100	517,5 100	483,2 100	74,8 100	58,4 100	3,2 100	63,4 100	106,1 100	46,6 100	1809,6 100
1 - 9 cows	52,2	43,9	85,8	20,7	34,8	25,0	13,4	54,2	24,0	54,9
10 - 19 cows	29,5	30,9	7,9	17,4	32,2	21,9	10,3	20,7	28,8	22,5
20 - 29 cows	11,7	14,8	2,8	17,0	17,3	25,0	12,5	10,7	18,9	10,8
30 - 39 cows	4,0	6,1	1,2	13,8	8,4	15,6	11,5	5,9	12,4	5,0
40 - 49 cows	1,5	2,5	0,7	10,5	4,1	6,3	10,6	3,4	7,5	2,6
50 - 59 cows	0,6	1,1	0,4	7,6	1,7	3,1	8,5	2,0	3,9	1,5
60 - 99 cows	0,5	0,7	0,8	10,8	1,4	-	21,0	2,5	3,9	2,0
100 cows and more	0	0	0,3	2,2	0,1	-	12,5	0,6	0,6	0,7

Questions of milk benifitting from a franchise
(% of total deliveried)

Annual milk deliveries per farmer up to:-	D	F	It	NL	B	L	U.K.	IRL	DK	EUR 9
20 000 kg.	32	33	41	12	33	23	8	32	18	26
30 000 kg.	43	45	49	17	46	32	11	42	26	35
40 000 kg.	52	56	54	22	57	40	15	50	33	42
50 000 kg.	60	64	58	27	65	48	18	57	40	49
60 000 kg.	66	71	62	32	72	55	21	62	46	55
Total Milk Deliveries 1980 000t	22 948	24 880	7 867	11 444	2 986	262	15 494	4 556	4 917	95 354

Notes: This data has been estimated from Eurostat data on the structure of dairy herds, calculated "delivered" yield per dairy cow; and FAND on the yield of dairy cows in different sizes of herd.
Exemptions made for mountainous areas etc. would increase the quantities of milk exempted for the Member States involved.

Percentage of deliveries in the Member States exempted from the coresponsibility levy in 1981-1982

Country	Total exemption (mountain zones and certain regions of Greece and Italy)	Partial exemption (less favoured areas)
	% of milk delivered	
Belgique	-	13
Danemark	-	-
France	10	18
Allemagne	4	29
Irlande	-	20
Italie	25	0,5
Luxembourg	-	65
Pays-Bas	-	-
Royaume-Uni	-	4,5
Grèce	100	-
EUR 10	6	13

XI. BEEF AND VEAL

MARKET SITUATION

Income in the Beef Sector

Beef and veal production in the Community averages about seven million tonnes a year, which is a significant production considering the size of the Community herd. Moreover, beef is produced in a very limited time: 450 kg weight is achieved in 2 years, as against 5-6 year in the southern hemisphere. High yields make for high costs of production. Combined with much lower white meat prices and the fact that not all the beef produced in the Community can be consumed by the '10', market problems are endemic.

In short, the beef sector has suffered generally from a combination of high risk and low profit margins.

This situation is aggravated by the fact that no regular income is received as with the dairy farms, while seasonal variations impose strong unfavourable market pressures. Any attempt to improving incomes by strengthening price guarantees is likely to be passed onto the dairy farmer who provides the basic material of cross-bred calves from the dairy herd. Correspondingly, it is true that any encouragement to develop specialist beef herds and to concentrate expenditure on the specialist beef producer might reduce incomes in the dairy sector.

	1974	1980	1985
Production	6,142	6,952	8,140
Consumption	6,430	6,768	7,326
Imports	475	338	-
Exports	256	492	-

The results of the Farm Accountancy Data Network show beef cattle to be one of the sectors with below average income, lower than incomes in the dairy or mixed cattle sectors and substantially lower than general agriculture, pigs or horticulture. This is true, irrespective as to which of the three specialist beef-producing countries is considered (France, United Kingdom and Ireland).

As in all sectors, income increases as the size of farm increases. The difference in income between farms of less and farms of more than 50 hectares is more pronounced than in other sectors. This underlines the fact that specialist beef production generally takes place on the large farms.

Income in the beef sector in any particular country may be higher or lower than income in other sectors in other countries, merely because certain countries (Netherlands and Denmark in particular) enjoy higher incomes than other countries (Italy and Ireland) no matter what type of production. This illustrates the importance of factors such as capital investment, technical development and marketing structures in determining income.

The Beef Cycle

One of the main problems in the beef sector as in other meat sectors, is the cyclical movement of the market. These cycles appear to be deepening and shortening. Community policies to offset cyclical variations have been applied generally too late to offset any particular cyclical swing and in fact risk aggravating the oncoming. Consequently, while the counter cyclical instruments employed are potentially effective, their manner and timing of implementation rendered them less effective than has been hoped. The causes of the cycle are twofold.

(a) The structure of production

The beef cycle is accentuated by the number, dispersion and individualism of the producers who, unlike for example cereal producers, do not have sufficient flexibility to play the game properly. The majority of beef producers, particularly the producers of young slaughter cattle, cannot select the moment for sale. Sales are made, often in despite rather than because of market conditions to maintain the cash flow.

(b) The structure of retailing

The problems of producers are accentuated by the trading habits of the wholesale dealers and retailers. Most wholesalers work on percentage margins, when prices collapse they will tend to increase their margins.

Retailers, working on flexible margins, level out prices over time, absorbing short-term increases and increase margins when prices fall. Intended to prevent consumer resistance as a result of short-term price fluctuations, it results in no increase in consumption as producer prices fall. The cycle is further accentuated. This situation is changing to a certain extent with the increase in supermarket sales: supermarkets often retail on the basis of percentage margins, with beef as a loss leader.

TYPES OF BEEF PRODUCTION

Beef and veal in the Community comes from three different types of production:

- the slaughter of cows (24%)
- beef cattle (61%)
- calves (10%)

1. Pure-bred beef herds

   Only 20 per cent of Community-produced beef comes from pure-bred beef herds, the primary function of which is to provide the beef type bull for crossing on dairy cows.

2. Fattening herds

   Herds partly or wholly taking calves from dairy and upland areas:

   (a) on grass - this is a common system in the British Isles but is not common in other European countries;

   (b) maize/cereal fattening units associated with farms. To be found in most cereal areas.

3. Breeding and fattening herds, mixed dairy and beef production

   Calves from dairy herds sired by beef-type bulls and the slaughter of dairy cows provide about 80 per cent of beef production.

4. Industrialised non-land-based production units

   Confined mainly to northern Italy.

The specialist beef herd

Since incomes of the mainly beef producers are lower than most other sectors, market support should be directed towards the specialist producer. But here one comes up against a problem of definition. Most beef is produced as a by-product of milk production.

Of the farms with beef animals, many keep up this side of their activity for non-economic reasons. According to one study , the reasons why many farms maintain a small number of beef animals as an addition to their principal production, are not related to prices or income expectation. They are:

(a) to make use of distant or inaccessible pastures;

(b) to use by-products from the farm;

(c) to place money in a hopefully inflation-proof resource;

(d) because this production fits in well with farms' work-force;

(e) a traditional production on the farm which does not require learning new techniques.

Those farmers maintaining beef animals as a side line, do not calculate the profit margin of this type of operation as they would the others on the farm.

In contrast to this type of operation is the production of steer beef in specialised units on the basis of corn silage. This production is increasing considerably, but unfortunately there is not a sufficiently large commercial market for steer beef, so that in certain regions, and particularly Germany, almost all goes directly into intervention.

The Community, therefore, must decide which type of producer and which type of production it wishes to support and encourage. This argues for the most flexible instruments possible, and in particular direct aids.

IMPORTS AND EXPORTS

Imports are often blamed for causing the weakness of beef prices on the Community market. This argument is not central to the problem, partly because as explained above this weakness is mainly due to the structure of production and marketing, and partly because the Community is now a net-exporter of beef.

EEC Overseas Trade in Bovine Meat, 1973 to 1980

Year	Imports	Exports
1973	951,258	73,358
1974	455,000	200,000
1975	253,718	237,000
1976	415,000	209,000
1977	358,209	152,000
1978	404,000	178,000
1979	399,536	337,260
1980	338,676	447,623

Imports from non-member countries mostly entering the Community under special conditions negotiated bilaterally or multilaterally in GATT continued during 1980 at a slightly lower level than in the previous year at 356 000 tonnes (including 59 000 tonnes of live animals).

Principal suppliers were Uruguay and Argentina (about 42% of total imports) and Eastern European countries (more than 20% of total imports), Hungary and Poland in particular accounting for nearly half the total imports of live animals.

Less than a third of the total quantity enters under the special provisions negotiated with GATT:

The Processing Industry

Related closely to the question of imports is that of the processing sector. Until 1978 this sector imported the greater part of its requirements from abroad. When lack of confidence in beef prices led to a beef shortage in 1972, production increased sharply in 1973 and to a further crisis in 1974. The borders of the Community were then closed to beef imports. The processing industry was forced to adjust to European beef supplies. In the course of the last five years, the processing industry has adjusted to using European meat and could live with the present situation if market regulations were adjusted to take into consideration their particular needs.

The processing industry is unable to use much of the beef that passes into intervention which often consists of assorted qualities. in small quantities, or has not been deboned (deboning being too expensive for the processors) or more importantly has a chemical fat content of more than 15% which is the case with the greater part of Community beef in store.

The objections of the processing sector to the present regime would be lifted if the Community were to introduce a distinction for intervention between two grades of meat: meat for direct consumption, and meat for processing.

Bovine meat for the processing industry

A.	Requirements for 1982	1,148,000
B.	Available Community fresh meat supplies	1,000,000
C.	Stock at end of 1981	68,000
D.	Negotiated imports	
	- GATT tariff for processing	11,000
	- ACP Convention	9,000
E.	Deficit 60,000 tonnes	60,000
	- 30,000 tonnes can be imported with total suspension of levy	
	- 30,000 tonnes can be imported with total or partial suspension of levy	

This is particularly important because the effect of economic recession has been for people to seek cheaper cuts of meat and to switch to cheaper meat. The processing industry has a vital role in permitting consumers to buy beef, even if this represents a move down-market.

A. 21,000 tonnes of high quality beef at 20% duty, levy-free, allocated as follows:

10,000 tonnes from US
5,000 tonnes from Australia
5,000 tonnes from Argentina
1,000 tonnes from Uruguay

B. 50,000 tonnes of frozen beef, all countries, at 20% duty, levy-free.

C. 60,000 tonnes of manufacturing beef, all countries, at 20% duty, plus a reduced rate of levy on at present 30,000 tonnes and levy-free for the remainder. The total figure of 60,000 tonnes is 'expected ... to show a tendency to increase in Community needs'.

210,000 head of young cattle are imported for fattening, particularly in Italy and Greece.

Beef exports from the Community, as expected, continued their upward climb during 1980 reaching an overall total of 642 000 tonnes. The principal destinations were Mediterranean countries (more than 20%), Eastern European countries (rising to 36%) and to the Middle East (17%). During 1980, the Community's share of the world market rose from around 15% to 25%. It is expected that the export level reached in 1980 will be maintained during 1981. The Community has become in the course of 1980 the world's second leading exporter of beef.

World Trade in Bovine Meat, by Major Exporters, 1977 to 1980

Regions	1977 Market share %	1978 Market share %	1979 Market share %	1980 Market share %
Australia	35	35	33	28
Argentina	19	23	21	15
New Zealand	13	11	11	10
Uruguay	4	3	2	3
EEC	5	5	10	21
Total selected countries	100	100	100	100

Consumption

The meat diet of the average consumer is constituted by 40 per cent pigmeat, 31 per cent beef and veal, 14.5 per cent other meat and offal.

With rising income one would expect that beef and veal would constitute an ever-increasing proportion of the meat diet. But, however, the reverse is true. The proportion of beef in the meat diet has decreased from 35 per cent in 1960 to 31 per cent today. And the situation is deteriorating further. Beef consumption is increasing by a maximum of one per cent per annum, while pigmeat consumption is increasing by 3.6 per cent and poultrymeat 7.8 per cent.

Of the principal factors influencing consumption, the most influential is price and the others are population and income trends, consumer habits and marketing arrangements.

(a) Prices

Beef and veal is dearer than other meats and its price is increasing more rapidly. Over the long term, the prices of pigmeat and poultry have fallen in real terms, whereas the price of beef and veal has risen.

Consumer Prices (index 1973-1980)

	Beef	Pork	Poultry
BR Deutschland	129	113	107
France	172	151	195
Belgique/Luxembourg	151	132	125
Nederland	137	124	116
United Kingdom	273	193	226
Italia	228	215	200
Ireland	268	245	-
Danmark	123	179	-

(b) Population and income trends

Part of the small increase in beef consumption can be explained by increase in population, together with a slight increase in per

capita consumption (from 21 kg in 1960 to 25 kg today), or an increase of 0.9% since 1973. The most optimistic forecasts of consumption for consumption to increase by 0.7% per annum.

(c) Consumer habits

It is generally accepted that modern consumer habits, leading to a diversification of the diet, might have a restraining effect on beef consumption.

There are, however, other factors likely to have a positive impact on production.

There are, firstly, the traditional virtues of beef. While its initial cost is higher, there is less waste and it is easier to prepare. This may be of particular interest to catering establishments conscious of high labour costs.

Growing incomes, working wives and modern living habits has increased the demand for easily prepared and processed products. Beef, as the most easily prepared of meats is likely to benefit from these trends, provided the price makes the meat accessible.

This trend is likely to be further accentuated by the growing trend towards supermarket sales. Some experts believe that supermarket sales will take a growing proportion of total retail sales: up to 70 per cent is predicted for certain countries. This trend is likely to encourage sales of beef over other meats, particularly as many supermarkets do not level out prices as private retail butchers. In order not to antagonize customers with constantly changing prices, traditional retail butchers level out prices: when producer beef prices fall the consumer does not normally benefit from the lower prices which would otherwise encourage consumption. Supermarkets, however, usually operate fixed margins, thus encouraging beef consumption during periods of lower prices. Supermarkets may also use beef, a prime article in the shopping basket, as loss leaders.

The marketing and processing of beef

Any long-term increase in the incomes of beef producers will depend above all on improvements in the marketing and processing of beef.

Traditionally beef marketing is simple, with the beef moving from the farmer to the consumer with very little processing. The fact that the beef marketing chain is often considered as long and difficult is not due to the complexity of the operations, but the fact that in the past each step in the chain was carried out by a large number of smaller enterprises whose functions tended to overlap.

Traditionally, cattle passed from the producer to livestock dealers or Commission agents, to wholesale slaughterers, and then from the meat merchant to the retail butcher. This was largely a live circuit, in that the cattle were transported from the point of production to the point of consumption for slaughter. In this circuit, assessments on quality were of live animals rather than meat, since it was the animals that travelled. Assessments were based on live animals, personal preferences and the 'eye' of livestock dealers; no common basis of comparison was desired or even possible.

Apart from the livestock dealers, the most important links were:

(a) the abbatoirs whose insufficient capacities have introduced an element of inefficiency in the past, restricting to a degree the development of the market. The poor financial position of the great majority has led to their increasing concentration;

(b) the wholesale distributors play a decisive role in price formation. In Paris, five large firms control 60 per cent of Paris' transactions. Their role has been extended to import/export, further increasing their influence.

To this one should add a new element, the integrated concerns - supermarkets, chainstores and meat processing factories, which are taking an increasing share of the market. The role of the retail butcher is gradually declining.

The weakest links in the chain were the producer and the final consumer. Each dealt with larger units able to decide the prices at which cattle or meat would be bought and sold.

With the advent of the food chain stores and supermarkets, and integrated operations, the power of a certain and increasing consumer sector has been enlarged considerably, leaving the producers as the most vulnerable section.

This situation has been accentuated by the development of the dead circuit; cattle are slaughtered at the point of production. The role of the livestock dealer has been considerably reduced. The power of the wholesale meat distributors, and increasingly the integrated concerns, has been strengthened.

In an effort to increase their influence, the producers have developed cooperatives. At first concerned principally with grouping for sales, cooperatives have entered every level of the marketing chain.(1)

Apart from this weak bargaining position, other factors tend to prevent returns to farmers being maximized: the lack of market information, lack of retail price responsiveness to production fluctuations, lack of responsiveness to changes in consumer requirements, and the lack of generally applicable quality classification.

At the same time, producers have periodically abused the intervention system. There are repeated stories of would-be purchasers of beef for processing being met with lack of interest because the cattle were destined straight for the cold store.

(1) Certain private competitors claim that cooperatives have become too powerful and benefit from an unfair advantage when combining production and marketing. This critiscism is understandable, but not fully justified, given the weak position of producers. Cooperatives were counterbalance, to a limited degree, to the power of the wholesale dealers. An emerging problem is that as cooperatives develop and extend their functions, the more they come to resemble the private concerns with which they compete. Managers replace producers as the dominant influence and conflicts of interest develop.

Market price information at production level

The producers are the sector least able to defend their interests in the production/marketing chain. One of the principal reasons is the lack of accurate information on prices available to the producer. Traditionally, producers were able to guage price trends while selling at regional livestock markets. Livestock markets put purchasers and sellers on equal footing, leading to realistic quotations.

However, the importance of these regional markets has decreased considerably with the development of wholesale slaughterers and direct sales.

One important task for the Community is to ensure that accurate and up-to-date market quotations are freely available to producers and are produced on a consistent base.

Carcass classification and responsiveness to consumer requirements

Any attempt to introduce a greater degree of clarity into beef pricing, and to modernize and render more competitive the marketing of beef, must begin with the generalized use of the carcass classification introduced in 1981.

At present, prices paid to producers may still depend upon visual judgements of the live animal, while the beef pieces may still be sold at the wholesale and retail levels on the basis of being 'extra-special' or 'prime'.

Such pseudo-classification not only makes price comparisons impossible, they hinder the development of marketing techniques based on trends in production/marketing methods and weaken the ability of the market to react to changes in consumer requirements.

A meat classification scheme will ensure that producers will be rewarded for producing the production of the animal required and will contribute to broadening the range of products available to the consumer, while ensuring that they are of a more uniform quality.

Classification schemes constitute one major step in the modernization of marketing methods, and so improving producer incomes and introducing greater stability into the market.

THE OPTIONS

(a) Price policy

Whatever instruments are finally chosen for market support, whether premiums, intervention buying or both, will not solve the problems if the price policy is incorrect. Incomes must be underpinned, but the market cannot be stabilised if the prices are fixed too high. Too much is then asked of the system. A realistic price policy is the first essential.

(b) Direct aids

One way out of the dilemma of low producer incomes/market instability is to rely more on direct aids. These however raise a considerable number of questions. If premiums are excessive, they will depress the market for other red and even white meats. And if applied selectively with the beef sector, will depress the incomes of those not qualifying; this is the reverse side of the difficulty in applying a Community aids premium, given the very wide national differences.

The ideal system, therefore, would appear to be a dual system, direct aids and intervention/private storage, which would ensure sustained returns on a seasonal and regional basis.

(c) Aid to specialist beef herds

At present an aid for specialist beef herds already exists in the suckler premium. This scheme has the disadvantage that there is no certainty that it does not help herds used for milk production, and in particular the calves produced from beef-milk crosses.

Therefore a strengthened aid to specialist herds could be limited to those breeds of cattle devoted exclusively to beef production.

The aim should be to improve incomes and not increase beef production, with the premium limited possibly to the first 40 cows on each farm.

Concerning financing, it can be argued that 50 % national funding would ensure adequate controls by Member States. On the other hand, 100 % Community financing would ensure that all producers are treated equally.

One way to introduce an aid to specialized beef herds would be to group and strengthen the existing beef premiums into a uniform premium.

(d) A uniform premium system

The Commission is examining at present the possibility of unifying into a single system the present suckler and veal calf premiums. (The slaughter, or 'Peart' premium is really a substitute for intervention and could be allowed to continue on a separate basis).

Such a system would have the very great advantage of substantially increasing the income of beef producers. For example incomes in Ireland would greatly increase. If part of the normal price increase were to be granted in the form of a strengthened uniform premium, no significant increase in budget cost would be incurred.

There is a very strong case for a single premium which would bring into a single payment the suckler premium, and the veal calf premium and incorporate an element of the income which would otherwise have been added to the general price increase (for example, the 3% payment proposed for the end of the year). The beef premium scheme in the UK is essentially a substitute for intervention and would probably best be left outside the unified premium. The outstanding advantage of the unified premium would be for Ireland, and since Ireland has some of the worst problems of the "fast inflaters" such a scheme would have a broad economic function outside the specific market sector. Clearly, the payments would have to be on all herds. Differentiation between farmers creates sufficient problems in the dairy sector without extending it to the closely related area of beef production.

(e) The sheepmeat regime formula

One way to introduce a uniform premium system would be to allow its application be a matter of choice by the individual Member States, similar to the choice provided in the sheepmeat regime.

(f) Regionalisation of reference markets

Whatever the mix of systems to be applied, its effectiveness will depend on adequate market information. The key reference markets are not sufficiently reliable. They must be improved and put on a more regional basis.

(g) Creation of a category 'processing beef' for intervention

The processing industry has sought to adapt to the use of Community beef only since the closing of the borders in 1975. Almost exclusive use of Community beef would be greatly facilitated if a category 'processing beef' for intervention were to be created to create order out of the present assortment of odd lots offered.

(h) Greater use of a Community scale for beef

At present, the majority of beef still tends to be graded by 'eye' as live animals. This prevents the development of an adequate response by producers to developments in consumer demand to which farmers are not sufficently responsive at present. Improvement of information on the market which is rapidly changing in its character as a result of direct buying and supermarkets is essential for an improvement in producers incomes.

(i) Exports

In the immediate future, the only solution available to maintain reasonable producer prices consists of maintaining the fairly high level of exports, of between 200,000 and 400,000 tonnes. Exports avoid the high cost of intervention storage. But the current high levels have led to strenuous political objections by Australia, Argentina and the US, who have lodged protest at GATT against EEC 'dumping'.

(j) Restrictions on intervention buying

Intervention buying of beef should be limited to the strict minimum required to control excessive consumer price increases. Beef is not suitable for intervention: it is costly to handle and to store, while losing immediately 20% of its value.

The Commission has introduced restrictions on the period of intervention with very great success. At present buying-in of forequarters in winter is suspended, and hindquarters in winter. The negative effects predicted have not materialized. The offers of sales to intervention have been reduced, the stocks have been reduced, while there has been no fall in prices.

These measures could be taken further, with intervention buying suspended completely for two months in summer. This would not have any impact on the market but would lead to considerable savings which could be used for other measures.

About 4 - 6,000 tonnes are bought in per week in summer, and about 10,000 tonnes in winter. Each tonne of beef kept out of intervention saves about 1,000 ECU. A two-month suspension would save up to 50 mECU.

(k) Changing the qualities accepted for intervention

At present neither the top quality nor the low quality grades of beef are accepted for intervention. It is sometimes argued that the good quality should not be frozen for intervention.

(i) the good quality cuts have the greates influence on the market price, which is the purpose of buying

(ii) poor quality beef cannot be frozen: a minimum quality is required. Poorer qualities can only be sold for processing on the internal market.

(iii) it is not the purpose of the intervention system to create a ready supply of cheap beef for the processing industry, even though it must ensure that when it intervenes the beef in store is accessible as possible to processors.

(l) Aids to private stockage

A further solution would be to replace intervention by aids to private stockage as in the pork sector. This system has the advantage that it is cheaper to operate and the risks are taken by private operators, who will ensure that stocks are operated rationally. Opponents would argue that it would take away from the Commission the ability to manage the market through purchases and sales onto the Community market. Public policy would be replaced by private decisions over which the Commission would have limited control. In addition there would be no guarantee that any advantage would be passed onto the producer. All aid would go to the private organisations.

Both these objectives would be overcome by making it obligatory for all meat going into private storage to pass through the intervention bodies. This would guarantee the prices to producers and retain most of the Commission's control over the market. But it would still not be possible to determine when the stored meat would be put onto the market, and it would be highly bureaucratic.

It has to be noted that private storage works well in the pigmeat sector and that catastrophe has overtaken those countries who have decided to do without intervention in sheepmeat.

(m) Social measures

Savings made by adjustments to the intervention system could be used for more extensive measures to subsidize beef sales to social institutions or particular social categories. At present only Italy implements such a scheme, though a request has been made by the Greek Government.

Social sales have the advantage of increasing consumption without lowering market prices. Member States are hesitant, however, to implement such schemes, fearing that consumption may be upset and unwilling to contribute the required funds from the national exchequers.

XII. WINE

WINE

The Commission's proposals

For the wine sector, the Commission considers that it would be desirable to increase wine producers' incomes and proposes a 9% increase for the various types of wine; it does so in an effort to prevent any increase in the disparity between supply and demand and takes particular account of the fact that at present the Community's interests would best be served by bringing market prices up to the level of guide prices. The Commission therefore feels that its efforts must be concentrated on the rationalization of the market.

The guide price for the wine market (Article 2(2), Regulation No. 337/79 of 5 February 1979) is fixed on the basis of average prices recorded for the type of wine in question[1] during the two wine-growing years preceding the date of fixing and on the basis of price trends during the current wine-growing year.

Price trends during the 1979-80 and the current marketing years (quotations September-October 1981) have shown a relatively sharp fall for wines of types R II and A I but, on the other hand, price increases for other types, in particular for wines of types A II and R III (statistics applicable only to the 1980-81 marketing year).

Price trends over the last three marketing years
(statistics 1981-82: quotations October 1981)

1979-80 = 100

R I	108.3	A I	93.4
R II	91.7	A II	157.2
R III	n.a.	A III	118.5

[1] Classification of types of wine:

- R I : red table wine, different from R III, with an alcoholic strength of not less than 10° and not more than 12°
- R II : red table wine, different from R III, with an alcoholic strength of not less than 13° and not more than 14°
- R III : red table wine from the Portuguese blue grape
- A I : white table wine, different from A II and A III, with an alcoholic strength of not less than 10° and not more than 12°
- A II : white table wine from the Sylvaner or Müller-Thurgau grape
- A III : white table wine made from the Riesling grape

At present, market prices are at the following levels in relation to current guide prices:

Current market prices expressed as a percentage of guide prices

R I	89.3	A I	68.0
R II	87.7	A II	134.4
R III	n.a.	A III	133.0

Commission's price proposals for the wine sector for the 1981-82 marketing year

Type of wine	Price	1981-82 marketing year		Proposal for 1982/83		Period of applic. for the proposed prices	Greece	
		Amount in ECU/t	% incr.	Amount in ECU/t	% incr.		Amounts fixed for 1981-1982 in ECU/t	Proposal for 1982-1983 in ECU/t
R I	Guide price (per % vol/hl or per hl according to the type of wine	2.95	10	3.22	9		2.71	3.02
R II		2.95	10	3.22	9	16.12.82-	2.71	3.02
R III		45.97	10	50.11	9	15.12.83	c.p.*	c.p.
A I		2.72	8.5	2.96	9		c.p.	c.p.
A II		61.26	10	66.77	9		c.p.	c.p.
A III		69.96	10	76.26	9		c.p.	c.p.

* c.p. = common prices

General market situation

In 1980 wine accounted for approximately 4.8% of the Community's total agricultural production. The area under vines amounted to 2.4 m hectares; this area has diminished by 3% over the last 4 years. With a record production in 1979-80 (183 m hl) - average for recent years: 138 m hl - the Community accounts for some 46-48% of world wine production.

Wine production in the Community

Country	1979-80 marketing year		1981-82 marketing year*	
	m hl	%	m hl	%
Germany	8.6	4.7	7.1	5.1
France	84.4	46.0	56.6	40.7
Italy	84.8	46.3	69.7	50.1
Luxembourg	0.062	0.1	0.097	0.2
Greece	5.2	2.9	5.5	3.9
EUR 10	183.3	100.0	139.0	100

* Estimate

Supply situation - wine (in '000 hl)

	1977-78	1978-79	1979-80
Production	133,471	143,942	182,414
In storage	6,899	1,507	15,975
Imports	5,872	6,174	5,789
Exports	5,892	6,806	8,210
Human consumption (l/person)	48.0	47.3	47.8
Degree of self-sufficiency (%)	94.6	103.8	126.6

Since Spain has applied to join the Community, account must be taken of the situation on the Spanish market.

Spanish wine production (m hl)

1978		1979		1980	
m hl	% EEC	m hl	% EEC	m hl	% EEC
22	16.5	29	20.2	48	26.2

As regards prices, the average price for Spanish white wine in 1980 was around 67% of the average price of Community wines. The average price for Spanish red wines amounted to approximately 80 - 85% of average Community prices.

Strains on the intra-Community market

Despite the application of a single average Community market price, the average price conceals a situation that gives rise to strains on the internal wine market.

The differences in quotations on the French market and on the Italian market, which were already substantial in preceding years, have increased during the first months of the present marketing year: R I 37.7%, R II 24.8%, A I 64.0%.

Price differences on the Italian and French markets - 1980-81 marketing year

(ECU/% vol/hl)

Country	R I	R II	A I
Italy	1,841	1,863	1,641
France	2,302	2,112	2,612
% diff.	25	13.4	59.2

This price disparity, which led to an increase of Italian exports to France, prompted the French Government to take measures that affected the free movement of Italian wines in France. The Commission therefore instituted proceedings before the Court of Justice of the European Communities challenging the measures taken by the French Government.

When the price proposals are being considered, the existence in practice of two distinct markets in the wine sector cannot be ignored. Given this situation, the related measures are much more important for producers than price adjustments.

Related measures

In its price proposals for 1982-83 (COM(82) 10), as regards related measures, the Commission refers to its proposals for amending the basic Regulation aimed at adjusting Community rules to take account of the enlargement of the Community to include Spain (COM(81) 408). These measures may be summarized as follows:

(a) Plantings: the Commission proposes the introduction of a ban on replanting wine grape vines on irrigated areas classified in categories 2 and 3, i.e. areas not naturally suitable for wine-growing;

(b) Enrichment of the vintage by the addition of sucrose: the Commission confirmed that enrichment by adding sucrose in water solution was allowed until 15 March 1984 in a limited number of northern wine-growing regions of the Community. Enrichment by adding sucrose is also permitted in certain countries, where only and in the wine countries, enrichment by the adding of concentrated grape must is allowed. A levy on sucrose is proposed to bridge the gap between the price of concentrated grape must and that of the equivalent amount of sucrose. A reinforcement of control mechanisms is proposed to prevent fraud;

(c) Obligatory distillation of wine from grapes normally used for other purposes (table grapes, wine grapes, raisin grapes, potable spirits). This distillation will be open on a voluntary basis to all other types of wine. The price to be paid will be 50% of the lowest guide price;

(d) Obligatory distillation of table wines at the beginning of the marketing year to be decided on the basis of the balance between supply and foreseeable demand;

(e) Increase in minimum natural alcohol content. The Commission feels that the present minimums are too low, allowing yields that are not always compatible with quality;

(f) The Commission confines itself to a recommendation that excise duties on wine be reduced.

The measures required

The following measures are necessary to get a grip on the problems of the wine sector:-

(a) Preventative distillation at the beginning of the "campaign". There should be a reasonable price for such distillation but there should not be any national quotas. There should be exemptions for quality wines and for the production of traditional mountainous zones.

The cost of distillation need not be heavy. The average quantity to be distilled over a five year period has been 7m hectolitres and the maximum annual cost would be less than 100m units of account.

(b) If there is compulsory preventative distillation there is a problem of disposing of the alcohol from the distillation. It is quite clear that the ethyl alcohol regime proposals in their original form are dead. Therefore there should be a highly simplified minimum regime based on the most common traded alcohol. There should be no reserve sectors, since this would simply reintroduce the legal problems which have afflicted the original proposals.

(c) The practice of enriching with sugar (chaptalisation) must be discouraged and finally banned, sooner rather than later, with concentrated musts replacing sugar. One technique would be to levy a tax on saccherose used in wine to price it at the equivalent of using must. In clearly defined regions where quality wine is produced and where sugar addition is an acceptable part of traditional practice provision should be considered for this to continue. This could be the case in certain more northerly productions.

(d) The rapid definition of a "cadastre" of wine-growing areas and types in all wine-growing countries. The purpose of this would be to push wine-growing back towards the traditional producing areas, notably mountain zones.

(e) The encouragement of quality wines. In northern Europe wine consumption is increasing. In France and Italy quality wines are finding an increased market but beer consumption is, to some extent, replacing table wines of lower quality in the market. Therefore, it is essential to pursue a policy of encouragement of quality. There could be minimum quality standards defined by the Community.

(f) The campaign against non-tariff barriers to trade in the alcohol sector must be pursued more vigorously. This applies not merely to wine but

to spirits and other products. Differential levels of taxation and discriminatory rules concerning marketing and advertising are widespread. The liberalisation of the market for wine is part and parcel of the creation of common conditions for the market for alcohol for human consumption throughout the Community.

(g) A vigorous action against fraud. There should be certification of all wines, red, white and rose. The dependence on national inspectorates is unsatisfactory. The Community already has powers under the competition policy to inspect corporate files, in some cases making use of the technique of the "dawn raid". While this is not ncessarily recommended it is vital that Community officers should have the ability to monitor the activities of national inspectors and to make their own inspections on the ground where necessary.

The problem in wine is that the institutional price is fairly meaningless. The need is to get the actual price to the producer up, and this depends on achieving a better balance in the market.

(h) Orientation prices for wine are regionalised. A fall in market price to a certain level below the orientation price triggers distillation. Trigger prices are higher in France than in Italy. That means than an Italian producer who fears a price decline towards the point at which distillation would operate has an incentive to send his wine to France. This wine may then sell <u>below</u> the trigger price in France without being below the Italian trigger price. This may indicate the desirability of bringing orientation and trigger prices closer.

There are frequent demands for the Commission to propose the imposition of a minimum price according to Article 15bis of the wine regulation. But this has never been invoked. Partly this is because of the doubts as to the legality of a measure which implicitly threatens the principle of the free movement of goods. Partly it is the difficulty of deciding on a price which would be neither too low for France nor too high for Italy. But the reluctance to act also reflects deep scepticism as to whether it would be possible to police such a measure. It is easy to envisage fraud. After all, it is believed that in the steel sector where minimum prices exist certain producers make deliberate use of the technique of agreeing penalties for late deliveries to customers to reduce the effective price below the official minimum.

If this can be done with steel it does not take much imagination to see what a little determination could do in the matter of wine.

XIII. FRUIT AND VEGETABLES

FRESH FRUIT AND VEGETABLES

Commission proposals

The Commission is proposing a 10% increase in the basic price of most of the products listed in Annex II of Regulation 1035/72, i.e.cauliflowers, apples, pears, peaches, table grapes, oranges, lemons and, for the first time, aubergines and apricots.

The buying-in price is set at a level of between 40% and 70% of the basic price depending on the product concerned[1]. The Commission is proposing a lower price increase for mandarins (+ 9%) in a sector where excessively high prices could halt the reconversion process. The same applies to tomatoes (+ 8%), where there is a real problem of surpluses due to the short growing cycle and processing aid measures.

Products listed in Annex II of Council Regulation (EEC) 1035/72 of 18 May 1972 and period of application

Product	% 1981/82	% 1982/83	% Greece 1982/83	Period of application
Cauliflowers	+ 11%	+ 10%	N.C.	1.5.1982 to 30.4.1983
Tomatoes	8	8	16.2	11.6.1982 to 30.11.1982
Peaches	11	10	17.4	1.6.1982 to 30.9.1982
Lemons	11	10	12.2	1.6.1982 to 31.5.1983
Pears	11	10	- 2.2	1.7.1982 to 30.4.1983
Table grapes	11	10	7.7	1.8.1982 to 31.10.1982
Apples	9	10	N.C.	1.8.1982 to 30.6.1983
Mandarins	11	9	13.9	16.11.1982 to 28.2.1983
Sweet oranges	11	10	19.6	1.12.1982 to 31.5.1983
Apricots	-	-	N.C.	1.6.1982 to 31.7.1982
Aubergines	-	-	N.C.	1.7.1982 to 31.10.1982

Market situation

Fruit

Total production of fruit in the Community in 1980 was slightly higher (2.3%) than in 1979. The breakdown by Member State shows that in the Community as a whole Italy alone accounted for almost half of the quantities produced (49.4%), and France and Germany together for more than 32%.

[1] Article 16(3) of the basic regulation for fruit and vegetables (1035/72) lays down the various buying-in price levels:
- between 40% and 45% of the basic price for cauliflowers and tomatoes,
- betwen 50% and 55% of the basic price for apples and pears,
- between 60% and 70% of the basic price for other products listed in Annex II.

In the case of fresh fruit - except citrus fruit - the self-supply rate was still low during the previous marketing year - about 81% - so that the level of imports was fairly high in relation to domestic production - ± 27%.

Breakdown of total production of fresh fruit in the Community
(1000 tonnes)

Country	1978	1979	1980
Germany	3 171	3 176	3 263
France	3 260	3 377	3 391
Italy	9 262	9 823	10 164
Netherlands	660	606	608
Belgium	382	436	438
Luxembourg	10	10	10
United Kingdom	572	604	567
Ireland	19	17	16
Denmark	96	101	84
Greece	2 276	1 932	2 010
EUR 10	19 708	20 082	20 551

Self-supply situation:

Source/use	1977-78	1978-79	1979-80
Production*	12 461	15 208	15 684
Imports	4 477	4 478	4 157
Exports	518	595	579
Domestic consumption	16 351	18 827	n.a.
Rate of self-supply	77	81	n.a.

* except citrus fruits

It would be useful to look at the situation for each product. In addition to the total produced, the quantities subject to intervention are also given. Intervention, it must be remembered, does not always mean destruction, as Community rules provide for products which have been bought in to be used in a number of ways including:

- free distribution to charitable and other bodies,
- use as animal feedstuffs,
- use for non-food purposes,
- distillation to produce alcohol in the case of apples, pears and peaches,
- in the case of pigmented oranges, sales to the processing industry provided that there is no distortion of competition for the industries concerned within the Community.

Apples

Production (1000 tonnes)

Country	1978/79	1979/80	1980/81
Germany	1 765	1 911	1 841
France	1 768	1 769	1 810
Italy	1 840	1 993	1 932
Netherlands	510	450	470
Belgium	266	317	322
Luxembourg	7.5	6.8	7.5
United Kingdom	391	363	359
Ireland	11	10	8
Denmark	75	80	60
Greece	196	296	289
EUR 10	6 830	7 196	7 090

Intervention (1000 kg)

Country	1978/79	1979/80	1980/81	% of production	
				1979/80	1980/81
Germany	17 576	96 146	37 000	4.93	2.01
France	93 334	101 772	160 000	5.83	11.31
Italy	96 504	152 809	100 000	7.67	5.18
Netherlands	120 829	117 687	53 922	26.15	11.47
Belgium	44 588	70 897	52 704	22.44	16.37
United Kingdom	5 478	8 411	24 300	2.27	6.77
Ireland	665	1 216	1 054	8.13	13.0
EUR 9	378 974	548 938	428 980	7.89	6.30

The quantities of apples destroyed during the 1979/80 marketing year represented 7% of those taken into intervention. Apples accounted for 35% of total fruit production.

Pears

Production (1000 tonnes)

Country	1978-79	1979-80	1980-81
Germany	367	353	382
France	349	433	422
Italy	1 196	1 048	1 318
Netherlands	110	120	100
Belgium	66	62	75
Luxembourg	0.5	0.3	0.2
United Kingdom	27	73	43
Ireland	0.2	0.1	0.1
Denmark	5.5	5.5	5.5
Greece	98	121	133
EUR 10	2 219	2 195	2 447

Intervention (1000 kg)

Country	1978-79	1979-80	1980-81	% of production	
				1979-80	1980-81
Germany	49	255	180	0.07	0.05
France	1 474	7 151	12 000	1.66	2.84
Italy	17 632	25 120	127 836	2.40	9.70
Netherlands	5 462	14 243	3 876	11.87	3.88
Belgium	1 953	3 933	7 425	6.34	9.87
United Kingdom	-	3 429	188	4.83	0.44
EUR 9	26 570	54 131	151 505	2.57	6.46

12% (about 6 tonnes) of the pears bought in were destroyed.

Peaches

The market for peaches is one of the most sensitive because of the highly perishable nature of this product, which is very dependent on climatic conditions. Almost 60% of Community production is concentrated in Italy, which is the world's second-largest producer of peaches.

Production (1000 tonnes)

Country	1978-79	1979-80	1980-81
Germany	36	16	27
France	385	390	397
Italy	1 089	1 279	1 228
Netherlands	0.1	0.0	0.0
Belgium	0.3	0.3	0.5
Greece	405	304	417
EUR 10	1 915	1 989	2 051

Intervention (1000 kg)

Country	1978-79	1979-80	1980-81	% of production	
				1978-79	1980-81
France	5 282	3 651	11 949	0.95	3.01
Italy	32 980	107 439	33 991	8.40	2.77
EUR 9	38 262	111 090	45 940	6.61	2.78

During the 1979-80 marketing year 38% of the peaches withdrawn from the market were destroyed.

Over the last ten years the acreage of peach orchards in France has fallen by about 30%.

Table grapes

Most table grapes are grown in Italy.

Production (1000 tonnes)

Country	1978-79	1979-80	1980-81
France	193	205	192
Italy	1 330	1 403	1 479
Netherlands	1.5	1.3	1.2
Belgium	6.1	5.5	5.1
Greece	381	365	370
EUR 10	1 912	1 980	2 047

There was virtually no intervention on this market.

Citrus fruits

The Community imports quantities of citrus fruits equivalent to about 120% of its own production.

Supply situation (1000 tonnes)

Source/Use	1978-79	1979-80	1980-81
Production	3 569	3 359	3 480
Imports	4 076	4 015	n.a.
Exports	822	757	n.a.
Domestic consumption	7 217	6 830	7 273
Self-supply rate	50	49	48

The figures on intervention are fairly interesting as they show that a substantial proportion of the total production of mandarins was withdrawn from the market.

Intervention* (1000 kg)

Type	1978-79	1979-80	1980-81	% of production	
				1979-80	1980-81
Oranges	104 382	2 636	70 000	0.15	4.16
Mandarins	53 123	78 215	38 302	36.14	16.37

*Intervention was confined to Italy

The withdrawal of mandarins from the market - about 77% of which were destroyed - clearly illustrates the difficulties encountered in selling this product. It would seem essential to switch to varieties which are in greater demand, such as clementines.

The importance of Spain as a producer of citrus fruits must not be forgotten.

In 1979 Spain produced the equivalent of 103% of the Community's orange harvest, 250% of the Community of Nine's mandarin crop and 33% in the case of lemons.

Spain exports more than half of its production, about 80% of which is sold to the Community (France and Germany).

Commission proposals for citrus fruits

In anticipation of the accession of Spain the Commission has submitted a proposal for a regulation - regarded as a measure related to the price proposals - introducing special measures to improve the production and marketing of citrus fruits in the Community.

This proposal is intended to close the gaps left unfilled by the previous regulation (Reg. 2511/69), which did not achieve its objectives. Broadly speaking the changes proposed involve:

- an increase in the scope of the medium-term measures to cover lemons;
- the geographical concentration of measures on regions where there are serious problems with regard to varieties. This concerns the various qualities of oranges grown in Italy, mandarins and clementines.

Penetration premiums are planned up to 1985-86 in the case of lemons and clementines and 1992-93 for other citrus fruits.

Fresh vegetables

58% of fresh vegetables are produced in Italy and France. Total production broken down by Member States is as follows:

PRODUCTION 100 t			
Country	1978	1979	1980
Germany	1295	1262	1100
France	4845	4853	4863
Italy	10615	11639	11928
Netherlands	2272	2374	2285
Belgium	896	746	785
Luxembourg	3	3	3
United Kingdom	3691	3523	3449
Ireland	208	216	207
Denmark	194	206	197
Greece	3594	3683	3690
EUR-10	27613	28505	28507

Country	Self sufficiency			Intervention % of production	
	1968/69	1975/76	1977/78/79	1979	1980
D	53	34	34	2.64	1.36
Fr	95	94	92	8.07	0.24
Italia	112	114	120	0.92	0.68
Bel	112	116	126	0.11	0.64
Neder.	182	193	190		
UK	78	73	75	0.07	0.34
IRL	101	107	95	0.05	x
DK	92	72	73		

Consumption (kg/head)

Country	1968/69	1975/76	1977/78/79
D	59	69	74
Fr	124	111	118
Italia	162	153	154
Bel	85	94	82
Neder.	77	83	89
UK	61	70	83
IRL	61	79	82
DK	41	48	57

Commission proposals on producers' organizations

Last October the Commission put forward proposals for improving the organization of the market in fruit and vegetables in anticipation of the accession of Spain to the community.

The proposed measures are to be regarded as related to the price proposals and should enter into force at the beginning of the 1982-83 marketing year.

The measures can be summarized as follows:

1. Strengthening the basic structure of producers' organizations by providing degressive start-up aids on a permanent basis and allowing them to extend their powers to cover non-members.
2. Tightening up quality standards and enforcement thereof.
3. Improving intervention machinery by buying-in at producer level when prices are falling at the wholesale-retail level to head off a crisis for producers.

4. Progressive removal of quantitative restrictions on imports of certain fruit and vegetables and introduction of reference prices for these products.

The European Parliament has yet to give its opinion on these measures.

Processed fruit and vegetables

There has been a sharp increase in recent years in the Community of Nine and in Greece in the production of processed products based on fruit and vegetables, for which processing aids are available.

1/2 gross 1,000 tonnes

Products	1977			1978			1979			1980		
	Gr.	9	Tot	Gr.	9	Tot.	Gr.	9	Tot.	Gr.	9	Tot.
Tomato concentrate	95.0	182	277	172	296	468	180	432	612	240	392	632
Whole peeled tomatoes	25	752	777	26	863	889	30	1225	1255	40	1144	1184
Peeled tomatoes (other)	-	55	55	-	30	30	-	44	44	-	41.5	41.5
Tomato juice 2002	na	na	na	na	na	na	-	85.6	85.6	-	41.2	41.2
Tomato juice 2007	12	59	71	11	35.2	46.2	15	47.3	62.3	20	36.3	56.3
Frozen tomatoes	-	7	7	-	8	8	-	9.5	9.5	-	11.3	11.3
Tomato flakes	-	0.5	0.5	-	0.3	0.3	-	0.3	0.3	0.1	0.3	0.4
Peaches in syrup	87	77	164	130	95.6	225.6	130	159.3	289.9	150	136	286
Williams pears in syrup	-	59	59	0.1	70.3	70.4	0.4	91.5	91.9	1	79.6	80.6
Cherries in syrup	0.1	16	16.1	0.1	25.5	25.6	0.1	40.6	40.7	0.1	32.4	32.5
Morello cherries in syrup	-	39	39	2.4	47.4	49.8	4	72.6	76.6	3.5	62.4	65.9
Plums	0.2	7	7	0.2	23.1	23.1	0.2	25.2	25.2	0.2	17.5	17.5

The greatest increase has been in tomato concentrate (+ 128% in 4 years), where there is a risk of existing marketing difficulties becoming worse.

Just as citrus fruits are the main fruits grown in Spain, so tomatoes are the main vegetable. The Spanish tomato crop at 3.2 m tonnes (40% of Community production) provides a major source of exports.

It is also important to remember that 90% of the land on which tomatoes are grown - a total of 70,000 ha - is irrigated and has very high yields produced at competitive costs.

Conclusions

Like wine, fruit and vegetables represent a sector where price increases posted from Brussels have little direct impact on the market. The buying-in price is only 40 per cent of the market price. Measures to improve the balance between supply and demand on the market and to encourage production in the direction of market needs are of greater importance than price.

The main measures proposed are:

(a) Accelerating conversion schemes in citrus fruit where Italian output is now overtaking that of Spain. Measures include grubbing-up grants to change variety. The main problems are the over-concentration on blood oranges and the difficulty in mandarin production where 35 per cent of all output is bought-in. It is planned to phase out penetration premiums in the citrus sector as these conversion measures take effect.

(b) Launching aid in producer groups is to be made more effective. In particular, Member States should be encouraged to extend the rules of producer groups to non-group producers.

(c) For certain products, notably peaches and table grapes, it is proposed to count the internal price in the calculation of the entry price. It is doubtful whether this measure has, or deserves, any political future since it is basically dishonest.

(d) Special action is planned if prices fall to crisis levels.

(e) The abolition of quantitative restrictions on certain products in certain Member States and their replacement with reference prices. This measure is also encountering difficulty at the Council because some delegations are believed to be pressing for both quotas and reference prices.

The sector of processed tomatoes presents difficulty. In the original Commission drafts it was intended to limit to 4m tonnes equivalent of fresh tomatoes the amount qualifying for aid, with aid ceasing after this limit. This follows the explosion of output (e.g. tomato concentrate in Europe-9 rising from 182,000 t in 1977 to 392,000 t in 1980 and whole peeled tomatoes from 752,000 t to 1.255 m t). Pears and cherries have already been subject to limitations on the amount qualifying for aid.

In the event the Commission reverted to the same threat of 'appropriate measures' as in the dairy sector, Parliament should decide whether limitation is necessary or not. If it decides that it is, it should reinstate the cut-off in aid, based on a target which takes account of fluctuations over a three-year period. A contractual arrangement between processors' and producers' organizations could, perhaps, incorporate the notion of an advance on the aid in return for a firm contract.

It has to be borne in mind that the aid to the processed fruit and vegetable sector fulfils two functions: it is supposed to improve the position of the producer but it also fulfils the function of a budgetary rebate to Italy; the aids being introduced when it appeared that Italy might find herself in significant payments' deficit with the Communtiy. The budgetary elements of the problem should be more properly dealt with in the context of the general discussions within the EEC associated with the 'Mandate' proposals.

XIV. OTHER SOUTHERN PRODUCTS

OLIVE OIL

The Commission's proposals

The Commission proposes that the production target price, the production aid and the intervention price be increased by 9%. The Commission also wishes to improve the monitoring of the production aid (a variable sum granted to producers according to their declared level of production) which can vary considerably according to yield. The Commission is pressing for the register of olive cultivation to be completed as soon as possible, and, if that fails to ensure adequate controls, a flat rate aid will be proposed, perhaps limited to smaller producers. The Commission also proposes to abolish the premium on the intervention price for 'extra virgin' olive oil, which appears to be produced mainly for sale into public stocks.

Market situation

Until 1975, Community production met 70% of internal requirements. This percentage has been steadily increasing in recent years and with the accession of Greece is now 95%. It represented about 30% of world production for the Community of Nine, and with the accession of Greece about 47%.

	% EEC production	% national agric. production	area planted mill. hectares	olive trees wild & planted (mill.)
Italy	70	5.8	2.2	185
Greece	30	11.0	0.5	117
France	0.2	-	-	5
EEC		1.4	-	307

The production potential (109 million trees in the Community of 9) has remained stable, but production varies sharply with the yield: olive trees bear in alternate years:

Production

	EEC	Italy	Greece	France
1977/78	744,000		-	
1978/79	400,000		-	
1978/80	601,570	600,000	-	1,570
1989/81		+600,000	300,000	1,850

	Imports (1000t)	Exports (1000t)
1975	105	9
1976	93	21
1977	141	10
1978	102	17
1979	152	25
1980	169	13

Market organization

A new market organization was introduced in 1979. A production aid is paid to growers belonging to a producer's organization on the basis of the actual quantity of oil produced. Other growers receive the aid according to production potential of their trees. There are four producers organizations in Italy and four in France. 90% of growers belong to an organization in Italy, 70% in Greece and nearly all in France.

A consumption aid paid to the packagers was introduced in 1979 to encourage consumption. The price ratio between olive oil and seed oil is about 2.5 : 1, which has led to a considerable decline in consumption. As a result these retail prices for olive oil have increased much less than wholesale prices. Only three countries operate approved packaging establishments, Italy, France and UK. The scheme has applied in Greece from 1 November 1981.

Intervention producers in 1979/80 were 42,890t. With the exceptional Italian harvest of 1980/81 this figure increased to 63,520t. 67% of the purchases in Italy was extra virgin quality, and 36% in Greece. In the last five years, purchases of extra virgin quality oil have amounted to 150,000 t. compared to sales of only 67,000 t. The Commission believes that extra virgin quality oil is being produced mainly for intervention, and for that reason plans to abolish the premium.

A two-tier Community price

Given the 2.5 : 1 price ratio compared to other oils, olive oil is already facing considerable market problems. These will increase considerably with the entry of Spain into the Common Market. Olive oil is of major importance to southern agriculture , as well as to the consumer; for example over 1 million families in Italy and 300,000 in Greece are concerned with olive production. At the same time intra-Community trade is very limited and so far has been virtually restricted to the three countries that both produce and consume olive oil (France, Italy, and Greece), other Member States being negligible. Given the problems this market is already facing and the very serious problems that will arise with enlargement, the Commission should examine the feasibility of a two-tier price structure for edible vegetable oils : with the existing price relationship maintained in the northern regions and protective measures introduced in the south to allow a reduction in the price differential between olive oil and its competitors.

DURUM WHEAT

The Commission's proposals

The Commission proposes to increase the intervention price for durum wheat by 18.09 ECU/t, i.e. the same percentage as that proposed for common wheat. The target price would thus be increased by 7.05%.

The Commission proposes a 9% increase in aid for durum wheat. It also proposes that such aid be limited to the first 10 hectares of durum wheat per farm so that the appropriations will cover the needs of the small producers.

The Commission's price proposals
for the 1981-82 marketing year

Product	Price	1981-82 marketing year		Proposals for 1982-83		Period of applic. of the proposed prices	Greece	
		Amount in ECU/t	% incr.	Amount in ECU/t	% incr.		Amounts fixed for 1981-1982 in ECU/t	Proposal for 1982-1983 in ECU/t
Durum wheat	Target price	311.48	7.73	333.44	7.05	1.8.1982 - 31.7.1983	c.p.*	c.p.
	Intervention price	274.99	7.50	293.08	6.58		251.79	274.54
	Aid	85.18	7.50	92.85	9.00		57.23	66.14

* c.p. = common prices

Market situation

In contrast with other cereals, durum wheat has ideal conditions for development in the dry regions of southern Europe. More than 75% of production is centred in Italy.

Production of durum wheat in the Community
('000 tonnes)

Country	1978	1979	1980
France	307	349	427
Italy	3,472	3,382	3,651
Greece	511	389	635
EUR 10	4,290	4,113	4,713

Furthermore, production is frequently concentrated in areas with no alternative crops. That explains the very low yields in Greece and in Italy compared with French crops and in particular compared with common wheat.

Durum wheat yields

(100 kg/ha)

Country	1978	1979	1980
France	32.6	34.2	36.9
Italy	20.8	20.3	21.3
Greece	23.2	19.0	27.9
EUR 10	21.6	20.9	25.0
Common wheat average EUR 10	46.0	44.4	47.4

The degree of self-sufficiency amounts to 90.5%, and imports account for some 27% of production.

Self-sufficiency situation

('000 tonnes)

	1977-78	1978-79	1979-80
Production	2,503	4,280	4,095
Imports	1,475	884	1,117
Exports	410	621	803
Domestic use	4,141	4,539	4,526
Degree of self-sufficiency	60.4	94.3	90.5

Observations concerning durum wheat

Bearing in mind the differences between common wheat and durum wheat it is difficult to understand why the Commission has aligned the two types with each other and fixed **the same increase for certain prices for the two products.**

The restriction whereby production aid is only granted for the first 10 hectares may well prove to be unbalanced. If we regard this aid as a 'social' measure to ensure that land is cultivated which would otherwise lie fallow - similar to aid to hill-farmers - and if we also take account of the cost to the budget, it is not merely by limiting aid to the first 10 hectares that the desired result may be attained.

Aid granted to every producer - with no limitation on area - in the least-favoured regions with the lowest yields and no potential for alternative crops might have a positive impact, even from a regional point of view.

Furthermore, the number of regions currently benefitting from this aid should subsequently be reduced.

RICE

The Commission's proposals

The Commission proposes to increase the intervention price by 10.0% and the target price by 8.2%. This will make a small step to reducing the excessive differential between the target and intervention price.

Market situation

In 1979/80 the Community produced 988,000 tonnes of rice, imported 585,000 tonnes and exported 647,000 tonnes. These figures are a simple illustration of the fact that too much of the rice produced in the Community is of an insufficient quality to be consumed domestically. Most of this poor quality rice must be exported as food aid.

The Community protection of this poor quality production creates serious problems for those mills in the north which are required to import good quality rice from abroad. At present the target price is 133% above the intervention price. This increases their costs of imports from the US. The production of rice in the Community is declining, with the area being turned over to maize.

It has been suggested that Italian producers should be encouraged to grow long-grained rice which the Community imports in considerable quantities. It is difficult to produce long-grained rice of an acceptable quality. There does exist a market for round-grain rice. The Community should encourage the production of acceptable qualities of round grain for the northern processors by means of direct aids.

Area, yield and production of rice (paddy)

	Area (1000 ha)		Yield (100 kg/ha)		Production (1000t)	
	1975	1980	1975	1980	1975	1980
France	10	7	31.7	3.86	31	27
Italy	185	176	43.0	5.40	800	950
Greece	-	18	-	4.44	-	80

Rice supply balance (all rice)

	1000 t 1973/74	1000t 1977/78	1000t 1979/80
Imports	238	843	585
Exports	283	369	647
Self-sufficiency %	109	56.3	98

TOBACCO

The Commission's proposals

The Commission has proposed increases in the guide price varying from 11% - 8% so as to discourage production of the varieties which are difficult to sell and to support those in demand.

It is also proposed to reduce the intervention price from 90% to 85% of the guide price, and to grant a smaller increase in the derived intervention price than for the guide price.

Tobacco production in the Community

The tobacco sector is a small one in terms of the Community as a whole (0.6% of total agricultural production, 6.4% in Greece, 1.1% in Italy and 0.4% in France), it is extremely important to a number of less favoured areas where few alternative crops are available. The Commission estimates that there are 225,000 growers in the Community, most of whom have less than one hectare, and about 600,000 in processing. With the accession of Greece, the Community is about 45% self-sufficient in tobacco.

	EUR-9 Production	Greece Production	EUR-9 Imports	EUR-9 Exports
1978	170,000	130,000	570,000	1,406,000
1979	198,000	198,000	500,000	137,300
1980	178,000	180,000		
1981				

One third of Community imports entered at zero or prferential rates under ACP or generalized preferences. Zimbabwe, since joining ACP, exports 26,000 t.

Market Situation

The Community tobacco sector faces the problem of a serious mis-match of supply and demand. The oriental tobaccos which form the bulk of Community production face a declining internal market and severe competition from over-production in the Community's regions. At the same time, the Community produces only small quantities of the Virginia and Bright varieties which are required and which meet new consumer tastes.

Greece is also a major producer of the oriental varities, with the result that the Commission will seek to double exports to 70,000 t.

Apart from export policy, the Commission is seeking a better balance of production by differentiating the price increase according to the ease with which the various varieties can be marketed.

The increases are as follows:

- 11% for Badischer Geudertheimer, Badischer Burley E, Virgin D, Nijkerk, Misionero, Bright, Burley, Maryland, Basmas, Katerini, Kaba Koulak classic, Zichnomyrodata, Burley Gr, Virginia Gr.;

- 9% for Kentucky and Paraguay to encourage marketing of the first and as an incentive to conversion from the second;

- 8% for the other varieties.

The increase in the premiums reflects the need to encourage marketing of the Oriental varieties and Paraguay (+ 10%) and Kentucky (+ 12%) and the satisfactory marketing position of the other varieties (+ 9%).

The Commission feels that a more detailed investigation of the effectiveness of premiums and their levels should be carried out in 1982.

Producers, processors and industrialists will be drawing up, in the near future, a voluntary agreement, to work towards the formation of a European Tobacco Council, a purpose of which will be adjustment of production to user requirements.

COTTON

The Commission's proposal

Community support for cotton is based on aid equivalent to the difference between the guide price, fixed by the Council, and the world price. The full aid is granted only to a limited quantity, and excess production results in a reduction in aid for all producers. The Commission proposes a 10% increase in the guide and intervention prices.

Market Situation

Cotton is of great economic importance to Greece. The yields are very high (743 kg/ha compared to a world average of 446 kg) and the fibres produced are of an excellent quality which receive a ready market. The area with cotton in Greece has been steadily declining:

	Area (ha)		% of total agricultural area
	Greece	Italy	Greece
1978	168,200		1.85
1979	142,200	2,800	1.53
1980	141,400	2,900	1.53
1981	128,500		1.386

Cotton provides a very important product in Greece: it creates employment, and if cotton were to be abandoned, the area would probably be devoted to the production of tomatoes.