

European Communities

EUROPEAN PARLIAMENT

Working Documents

1977 - 1978

13 March 1978

DOCUMENT 579/77

Report

drawn up on behalf of the Committee on Agriculture

on the proposals from the Commission of the European Communities to the Council (doc. 479/77) on the fixing of prices for certain agricultural products and on certain related measures for the 1978-1979 marketing year

Rapporteur: M. William Mark HUGHES

PE 52.047/fin.

By letter of 23 December 1977 the President of the Council of the European Communities requested the European Parliament, pursuant to Article 43 of the EEC Treaty, to deliver an opinion on the proposals from the Commission of the European Communities to the Council on the fixing of prices for certain agricultural products and on certain related measures for the 1978/79 marketing year.

The President of the European Parliament referred these proposals to the Committee on Agriculture as the committee responsible and to the Committee on Budgets and the Committee on the Environment, Public Health and Consumer Protection for their opinions.

On 14 December 1977 the Committee on Agriculture appointed Mr Hughes rapporteur.

It considered these proposals at its meetings of 14 December 1977, 26/27 January, 14 February, 21/22 February and 2/3 March 1978.

At its meeting of 2/3 March 1978 the committee adopted the motion for a resolution and the explanatory statement by seventeen votes to four with ten abstentions.

Present : Mr Houdet, Chairman; Mr Ligios, vice-chairman; Mr Hughes, vice-chairman and rapporteur; Mr Albertini, Mr Bersani (deputizing for Mr Ney), Mr Bourdellès, Mr Brégégère, Mr Brosnan (deputizing for Mr Hunault), Mr Brugger, Mr Cifarelli, Mr Corrie, Mr Dewulf, Mr Dirand, Mr Früh, Mr Herbert, Mr Hoffmann, Mr Howell, Mr Joxe (deputizing for Mr Guerlin), Mr Klinker, Mr Kofoed, Mr Lemp, Mr L'Estrange, Mr Mitchell, Mr Iisoni, Mr Pistillo, Mr Power (deputizing for Mr Liogier), Mr Pucci, Mr Scott-Hopkins, Mr Tolman, Mr Veronesi (deputizing for Mr Lemoine) and Mr Vitale.

The opinions of the Committee on Budgets and the Committee on the Environment, Public Health and Consumer Protection are attached.

C O N T E N T S

Page

| | |
|----------------------------------|----|
| A. MOTION FOR A RESOLUTION | 5 |
| B. EXPLANATORY STATEMENT | 13 |

PART ONE : POLICY OBJECTIVES

| | |
|---|----|
| I. INTRODUCTION | |
| Annual price proposals : purpose and impact | 13 |
| General outline of proposals | 14 |
| II. PROBLEMS FACING THE COMMON AGRICULTURAL POLICY : INCOME DISPARITIES | |
| Successes and failures : price stability but the family farm disadvantaged | 15 |
| National income disparities | 15 |
| Regional disparities in income | 16 |
| Income disparities between agricultural sectors | 17 |
| III. SURPLUS PRODUCTION | |
| Increasing budgetary cost of surpluses | 18 |
| Agricultural surpluses : structurally determined | 18 |
| IV. POLICY AIMS AND INSTRUMENTS | |
| An overall strategy required | 21 |
| The necessity to support agricultural incomes | 21 |
| Choice of instruments | 22 |
| V. IMPROVEMENT IN THE BALANCE OF PRODUCTION BETWEEN SECTORS | |
| Production patterns : developments | 25 |
| Production patterns : objectives | 31 |
| Development of the Community's protein supplies | 31 |
| Protein crops in the Community | 32 |
| The necessity for aid | 33 |
| Direct aid to protein production | 33 |
| VI. OTHER LEVELS OF POLICY : NATIONAL AIDS AND INTERNATIONAL TRADE | |
| National aids | 34 |
| External trade policy : possible developments | 35 |

PART TWO : THE AVERAGE PRICE PROPOSAL

| | |
|--|----|
| Context of the price proposal | 37 |
| The average price increase | 37 |
| The purpose of the objective method | 38 |
| Objective method : application | 39 |
| Objective method : assessment | 40 |
| Agricultural unit of account | 41 |
| Income trends in 1976/77 and 1977/78 | 42 |

PART THREE : THE CONSUMER

| | |
|---|----|
| The development in prices to the consumer | 45 |
| Evaluation of the impact of the price proposals on the consumer | 46 |

PART FOUR : INDIVIDUAL PRODUCTS

| | |
|--|---------------|
| Price proposals by product | 49 |
| Modifications to market organizations | 50 |
| Proposed modifications to market organizations | 51 |
| Cereals | 51 |
| Rice | 54 |
| Sugar | 55 |
| Isoglucose | 56 |
| Olive oil | 56 |
| Oilseeds - colza, rape and sunflower | 57 |
| Dried fodder | 58 |
| Peas and field beans | 59 |
| Soya beans | 59 |
| Seeds | 60 |
| Flax and cotton seeds | 60 |
| Wine | 60 |
| Raw tobacco | 61 |
| Fruit and vegetables | 61 |
| Milk | 62 |
| Beef and veal | 64 |
| Pigmeat | 65 |
| Eggs and poultry | 65 |
| Sheepmeat | 66 |
| Conclusions | 67 |

(Contents continued)

| | <u>Page</u> |
|---|-------------|
| ANNEX I : I. New market organizations | 71 |
| II. Modification to market organizations | |
| ANNEX II : Forecast of Gross Value Added in the agricultural sector by Member State for 1977 | 76 |
| ANNEX III : Situation on the Community sugar market | 77 |
| ANNEX IV : Bread-making quality of common wheat | 78 |
| ANNEX V : Per capita consumption of the main food products... | 79 |
| ANNEX VI : Income and price elasticities | 80 |
| | |
| Opinion of the Committee on Budgets | 81 |
| Opinion of the Committee on the Environment, Public Health and Consumer Protection | 97 |

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

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposals from the Commission of the European Communities to the Council on the fixing of prices for certain agricultural products and on certain related measures for the 1978/79 marketing year.

The European Parliament,

- having regard to the proposals from the Commission of the European Communities to the Council (COM(77) 525, 639 and 490 final),
- having been consulted by the Council pursuant to Article 43 of the EEC Treaty (Doc. 479/77),
- having regard to the report of the Committee on Agriculture and the opinions of the Committee on Budgets and the Committee on the Environment, Public Health and Consumer Protection (Doc. 579 /77),
- having regard to the Report on the Agricultural Situation in the Community in 1977 (Doc. 510/77),
- having regard to the Communication from the Commission of the European Communities to the European Parliament and the Council on the stocktaking of the Common Agricultural Policy (Doc. 529/74),
- having regard to the Commission's Memorandum on the improvement of the Common Agricultural Policy (Doc. 251/73),
- whereas price policy should contribute to ensuring fair incomes to producers, reasonable prices to consumers and to maintaining market equilibrium,
- whereas agricultural incomes are still frequently lower than those in other sectors; whereas, moreover, they are extremely unstable and differ widely from one Member State and region to another,
- whereas serious market imbalances exist in a number of agricultural sectors,
- whereas it has become evident that in a number of sectors price policy alone cannot bring about market equilibrium and reduce regional imbalances in income,
- whereas improvements to market organizations and effective measures in the structural sector are required in order to achieve a fairer income to the family farm, to improve market balance and to ensure supplies to consumers at reasonable prices,
- whereas account must be taken of the relative trends in production between agricultural sectors and in particular deficit and surplus situations,

- whereas consideration must be given to the economic policies of Member States and international trade policy objectives within the current GATT negotiations,

General considerations

1. Regrets the increasing disparity in incomes between states and regions and the fact that the CAP has not been able to ensure adequate income to the family farm;
2. Considers that present policies provide the greater assistance to the larger producers, insofar as they can have an unequal effect on large and small producers;
3. Considers that, in certain sectors, price increases beyond those proposed by the Commission will increase the problem of surplus production and so make it more difficult to implement the aims laid out in Article 39 of the EEC Treaty;
4. Believes that pricing policy alone will not solve the problems of producers in the various sectors and regions;
5. Points out that, in certain sectors, the present intervention mechanisms have failed to maintain market prices at reasonable levels, so undermining producers' incomes, and therefore need to be strengthened;
6. Considers that efforts should be made to increase production in deficit sectors, particularly vegetable proteins;
7. Reaffirms that Community structural policy for agriculture, with greater Community participation in all the more-disadvantaged agricultural areas, constitutes, together with the price policy, a major instrument in tackling some widespread farm problems of the Community and considers that the Council should, as a matter of urgency and in parallel with the price discussions, press forward with its work on the Commission's proposals to improve structural policy;
8. Considers that the EAGGF Guidance Section should be greatly enlarged and reconstituted in the form of a Rural Fund analogous to the present Regional Fund; this fund would, by virtue of its wider brief and more comprehensive perspective, undertake agricultural structural reform more quickly and effectively, in consequence of properly viewing agriculture as just one element of the social and economic structure of rural areas of the Community;
9. Considers the Commission's proposals to be an important step forward in developing a more coherent strategy to tackle the main problems facing Community agriculture, particularly in view of the extension of direct aid to encourage deficit products;

10. Is seriously concerned at the constant breaches of the unity of the internal market, which are now no longer confined merely to sectors that have not yet been organized in the Community but are finally affecting even sectors such as that of wine, for which the Commission proposes a minimum price regime, which is a serious attack on the principle of the free movement of this product;
11. Urges that the Community institutions draw up a realistic and coherent plan for imports from Third Countries on the basis of the difference between what the Community produces itself and what it requires;
12. Considers that the Common Agricultural Policy should be modified to provide Community aid geared individually to the size and characteristics of farms, the productive sectors and the geographical areas, so as not to increase the imbalances between them;
13. Calls upon the Council, in the discussion of the present price proposals, to take their decisions within the framework of a coherent Community agricultural strategy; encourages the Commission to take further steps to develop a coherent Community agricultural strategy, and believes that a more thorough review of present support mechanisms must be undertaken;

Price proposals

14. Notes that the evolution of the common price is not an accurate indicator of the effective level of price support in the Community; notes also that the average level of price support expressed in some national currencies has increased more rapidly than the common price in units of account; and that the dismantling of monetary compensatory amounts through the adjustment of green rates has only partly removed the disparities in incomes between the various Community countries resulting from currency disturbances;
15. Considers an overall price increase of 5% to be necessary,
 - in order to secure a reasonable income for farmers and to enable agriculture to continue to contribute to the revival of the Community's economic activity;
 - to prevent special national measures being taken because of extraordinary cost increases in countries with revalued currencies;
 - to permit further adjustment of the green exchange rates even in countries whose currencies have been revalued;
16. Requests that the objective method be refined and made easily understood by the ordinary farmer, to allow for trends in agricultural incomes to be more accurately taken account of, and to ensure that justice is seen to be done in future annual farm price negotiations;

Monetary proposals

17. Stresses, however, that, in making green rate adjustments, consideration must be given to problems facing particular countries and, in particular, those with both revalorized currencies and high rates of inflation;
18. Believes therefore that the progressive elimination of green rates is desirable, consonant with the economic and agricultural problems facing the several Member States; further believes that MCAs, whilst a valuable short-term cushion against sudden currency fluctuations to farmers in countries with revalued currencies or consumers in countries with devalued currencies, cause distortions in agricultural trade very quickly; and accordingly calls for the elimination of MCAs within two or three years at the most;
19. Urges that a rapid decision be taken on the Commission's proposal to amend the price level to be taken into account for the calculation of monetary compensatory amounts for those sectors where the market price is not determined directly by the intervention price;
20. Notes the Commission's statement that the present unit of account is no longer an accurate indicator of the effective level of price support in the Community and that the use of the European Unit of Account in the agricultural sector would enable the annual fixing of prices to be carried out in a more transparent manner;
21. Urges, therefore, the early introduction of the European Unit of Account in the agricultural sector, but in such a way that it does not have an adverse effect on the internal cohesion of the agricultural market; urges, therefore, that the Commission's examination of this issue be completed quickly;

Vegetable products

22. Considers that the differentiation between cereals of bread-making quality and those destined for fodder has led to greater market flexibility, improved balance between cereals and a more rational use of Community-produced cereals;
23. Rejects the Commission's proposal to fix the threshold price at the beginning of the marketing year in accordance with the Management Committee procedure by modifying Article 5 of the basic regulation No 2727/75;
24. Stresses the need to establish strict quality criteria for durum wheat taken into intervention;
25. Notes the large quantities of rye being offered for intervention and believes that only rye of bread-making quality should be eligible for intervention;

26. Considers that measures for rice should be adopted at Community level aimed at encouraging production of types more suitable to the European market; calls, moreover, for a review of the calculation of the Vercelli/Duisburg transport costs which the producers consider to be too low;
27. Has the greatest reservations about the effectiveness of the new system of market organization for olive oil, since it is likely to prove difficult to implement and to lead to distortions and abuse; emphasizes the need to extend aid directly to the olive producers, on the understanding that it will not be reduced, by making use of the experience already gained and improving the present system to reduce the delays in payment; requests that the Commission submit within two years a report to the European Parliament and the Council on the working of the new market organization and, in particular, its impact on the incomes of producers;
28. Does not believe that the proposed increase for sunflower and cotton seed and soya is sufficient in view of the unsatisfactory production trends;
29. Believes that a variable aid to soya, paid according to yield, will give greater encouragement to the more efficient producers;
30. Welcomes the Commission's proposals to encourage the Community production of vegetable proteins and in particular dried fodder and peas and field beans, but expresses concern that the numbers of producers taking advantage of the proposals may be limited by the method of calculating aid and restrictions imposed relating to the obligation for processors to conclude contracts with producers;
31. Requests, as regards cereals for fodder, the alignment of the intervention prices for grain fodder, barley and maize on the lowest price, i.e. that of maize, with a view to discouraging production of barley, of which there is at present a surplus, and increasing the price difference between soft wheat for fodder and wheat of bread-making quality, thus providing an incentive to improving quality and reducing recourse to imported protein products by making it less attractive;
32. Requests that Italy again be granted for 1978, a reduction in the levy on cereals for fodder imported by sea;
33. Believes that there are still reasonable grounds for the limited aid paid to the production of seeds;
34. Welcomes the fact that premiums paid to varieties of tobacco (Beneventano and Erzegovina), for which there is a persistent imbalance between supply and demand, have not been increased; requests that this new orientation of policy be maintained as long as required by market conditions;

35. Believes that, for fruit and vegetables, there should be a strengthening of quality criteria for produce intended for processing and the processed products; welcomes, as an initial step, measures to encourage the use of approved contracts between producers and the processing industry; and considers that the hierarchy of the processing refunds should be better adapted to the different varieties;
36. Welcomes steps to modify the system of reference prices in such a way that they are no longer tied to intervention prices, the aim being to prevent production for the sole purpose of intervention and to improve the operation of the system as regards the regulation of imports; as regards citrus fruits, calls for the retention of the penetration premium for lemons at the same level; demands the strengthening of the reference price system so that it can be effectively respected;
37. Believes that the Commission's 'Mediterranean' proposals are an essential first step towards improving the incomes of the fruit and vegetable and wine producers; accepts the proposals submitted by the Commission for an increase in the price of wine; points out that there would be no surplus problem in this sector if certain non-producer Member States did not practice an indefensible wine taxation policy, which substantially hinders or reduces consumption; urges the Commission, therefore, to take action in the field of wine taxation;
38. Expresses concern that the present distillation system for wine may encourage producers to seek quantity rather than quality, whereas the production of quality wines must be the essential aim of policy in this sector;
39. Rejects the proposal to introduce the principle of a minimum price for wine marketing, because this is a partial and punitive measure which is liable to result in an excessive increase in distillation costs;
40. Insists on the early adoption of a Community regime for the potato and alcohol markets;

Dairy sector

41. Notes that milk production is increasing despite a decrease in area and cow numbers and that consumption, apart from cheese, is at best stable;
42. Considers that the Commission's proposals to improve the market situation of the dairy sector will not be sufficient to reduce present levels of surplus production; calls for better incentives to promote diversification of dairy products, thereby reducing the production of intervention products;
43. Points out that a large number of producers are dependent on the milk sector for their income and have little alternative production available to them;

44. Believes that regional specialization of production should be encouraged with greater emphasis on grass-based production;
45. Considers it essential that there be measures to encourage consumption, including advertising and marketing programmes; believes that occasional special sales of butter at a reduced price, such as "Christmas butter", are valuable for their positive after-effects in providing publicity for stimulating consumption; and considers surpluses can be further reduced by subsidizing butter sold to socially disadvantaged groups, such as senior citizens and families on social security;
46. Approves the continuation of the co-responsibility levy and calls on the Commission to present, as soon as possible, an initial report on the application and effect of these measures in the individual Member States;
47. Believes that greater emphasis should be placed on quality production and the marketing requirements of the export markets;
48. Considers that greater aid should be given to cheese production which represents a sector for which consumption and export possibilities are increasing;
49. Invites the Commission to draw up a systematic plan for the transfer of powdered milk to, and its direct storage in, regions where required, so as to increase the use of this product in fodder for calves, thus reducing existing stocks; calls, moreover, for this powdered milk to be denatured through the incorporation of an 'indicator' in order to prevent its use as food for human consumption rather than for animal use;

Meat and poultry sectors

50. Does not believe that the present beef and veal market organization has provided adequate incomes to producers or reasonable prices to consumers and considers that, due to the nature of the market, these aims cannot be achieved by a simple intervention system;
51. Believes, therefore, that as a preliminary step the Commission's proposals for a limited direct payment system by means of variable premiums should be introduced, so as to encourage consumption and safeguard the incomes of producers of beef breeds;
52. Recalls the Commission's intention to introduce proposals to encourage inter-professional organizations in the poultry and egg sectors and the European Parliament's request that such proposals be forwarded with the minimum of delay;
53. Insists that free trade in sheepmeat within the Community be assured on a non-discriminatory basis and that this be an integral part of any sheepmeat regime; urges the Council to adopt at an early date a Community regime for the market in sheepmeat;

54. Considers that food aid programmes, particularly for butteroil and cereals, should be increased further, on a multi-annual basis, and integrated in the agricultural development plans of the beneficiary countries.

EXPLANATORY STATEMENTPART ONE : POLICY OBJECTIVESI. INTRODUCTIONAnnual price proposals : purpose and impact

1. The Commission's price proposals have a twofold purpose :
- (a) to partially compensate the farming population for increases in costs and so maintain income trends in the agricultural sector relative to those in the non-agricultural sectors; and
 - (b) to bring about a better balance in production and so restrain the tendency of a number of markets to exceed the requirements of the domestic and available international markets.

These aims are in line with those laid down for the Common Agricultural Policy in Article 39(1) of the EEC Treaty, which are :

- (a) to increase agricultural productivity;
- (b) to ensure fair standards of living for the agricultural community;
- (c) to stabilize markets;
- (d) to assure the availability of supplies; and
- (e) to ensure that supplies reach consumers at reasonable prices.

2. At the same time, agricultural policy must be set in the wider context of the objectives and policies currently pursued by the Community and Member States in the economic, monetary, social, regional and international spheres. One could mention, without trying to establish a complete inventory, the following :

- the necessity to contribute to the fight against inflation;
- the desirability to maintain expenditure on agricultural policy within acceptable limits, particularly in view of the fact that increases in the EAGGF budget have led to attacks in certain quarters upon the very principles of the Common Agricultural Policy;
- the pressing need to contribute to reducing unemployment;
- the necessity, in order to maintain the stability of the Community, to limit monetary divergences between Member States, to reduce regional imbalances and to bring about greater efficiency through increased specialization; and

- to stimulate the world economy, presently gripped by the world recession, by generating an increase in trade, particularly by aiding the development of the Third World.

It is in terms of these overall objectives that the Community's price policy and modifications to market organizations must be judged.

General outline of proposals

3. The Commission proposes an overall price increase of 2% with slight variations for the individual products, the price increases for certain products being higher (oilseeds 4%, pigmeat 3%) and those for other products being lower (beef and veal 1.25%, sugar 1.16% and dairy products between 1.3% and 1.9%).

4. The objective method, which is employed by the Community as a guide in its price proposals, provided for an increase in price of 4.2%. However, in view of the difficult economic climate, and in particular the high rates of inflation suffered by the majority of the Member States, as well as the surplus situation on a number of principal agricultural markets, the Commission believes that it is appropriate to propose the lower increase of 2%.

Taking into account the proposed modifications in the green monetary rates, the overall increases would be in the region of 3% with the impact, of course, between the Member States differing and national prices being further modified as follows :

| | <u>Green rate change</u> | <u>Combined effect green rate and price changes</u> |
|--------------|--------------------------|---|
| DM | - 1.143 ./. | 1.0 |
| Bfrs/Lfrs | - 0.203 ./. | 2.0/1.7 |
| FL | - 0.202 ./. | 6.7 |
| FF | + 2.6 ./. | 6.7 |
| Lit | + 2.039 ./. | 8.1 |
| £ (sterling) | + 8.1 ./. | 10.3 |
| £ (Irish) | + 0.291 ./. | 2.0 |
| DKr | | 2.2 |

5. The Commission further proposes to introduce market organizations or special measures to improve the Community supply of vegetable protein, in which there is a substantial deficit in the Community : processed fodder and peas and field beans.

6. In addition, the Commission proposes important improvements in the market organizations of a number of products, in order to help the Mediterranean regions : olive oil, fresh fruit and vegetables, processed fruit and vegetables and wine.

II. PROBLEMS FACING THE COMMON AGRICULTURAL POLICY : INCOME DISPARITIES

Successes and failures : price stability but the family farm disadvantaged

7. The Commission's proposals must be judged in terms of their contribution both to the aims outlined in the opening paragraphs and as to whether they appear as part of an overall strategy to fulfil budgetary, economic and social requirements.

8. Paradoxical though it may seem to the British and Irish, one of the striking successes of the Common Agricultural Policy has been the degree of success it has achieved in bringing about stability of prices of agricultural produce.

Trend in prices 1970-1976 (% change)

| | food & drink | agricultural products |
|----------------|--------------|-----------------------|
| Germany | 5.4 | 6.9 |
| Netherlands | 7.2 | 6.8 |
| Belgium | 8.2 | 8.1 |
| Luxembourg | 8.8 | 7.8 |
| France | 9.5 | 9.6 |
| Denmark | 9.7 | 10.4 |
| Italy | 13.0 | 14.9 |
| Ireland | 14.5 | 17.7 |
| United Kingdom | 15.1 | 17.9 |

9. At the same time, the Common Agricultural Policy cannot be considered to have tackled the problems of surplus production in a number of major sectors, nor has it provided the smaller family farmers with an adequate income. Moreover, it appears to have contributed to increasing the regional disparities between the more developed and the less developed agricultural regions of the Community. In sum, it can be argued that the process, whereby the rich and favoured have become richer and more favoured and the poor more disadvantaged, has been reinforced.

The essential aim is to maintain agricultural incomes at a reasonable level. The problem is the choice of the appropriate instruments.

National income disparities

10. Present policies have done little to reduce the disparities in the agricultural development and incomes between Member States. In some Member States agricultural incomes can be as low as one third of that in other Member States.

11. 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 of that of Belgium and the Netherlands.

Regional disparities in income

12. However significant the differences in national agricultural incomes, the regional disparities in income (reflecting the type of production, size of holding and location) are even greater than the national disparities, being in the order of magnitude of 1 to 11 within the Community as a whole and 1 to 4 within individual countries.

Regional variations in income within Member States¹
(selected examples - 100 = whole country)

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

¹ Defined here simply as Gross Value Added at factor cost per person.

Income disparities between agricultural sectors

13. Income disparities are still considerable between types of farm. 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 1975 of incomes show that the highest incomes were for 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 specializing 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).

14. 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 :

| | <u>1969</u> | <u>1975</u> | <u>Absolute change</u> |
|---------------------|-------------|-------------|------------------------|
| Cattle - milk | 2200 EUA | 5600 EUA | 3400 EUA |
| General agriculture | 4200 | 11100 | 6900 |
| Pig farms | 4700 | 12500 | 7800 |

This illustrates the problems for the management of the agricultural policy as an instrument to assure adequate incomes to all farmers and to reduce disparities in incomes.

III. SURPLUS PRODUCTION

Increasing budgetary cost of surpluses

15. Moreover, the budgetary cost of the agricultural policy has increased rapidly in recent years.

Expenditure on EAGGF (u.a.)

| <u>1973</u> | <u>1974</u> | <u>1975</u> | <u>1976</u> | <u>1977</u> | <u>1978</u> |
|-------------|-------------|-------------|-------------|-------------|-------------|
| 3,814,600 | 4,156,546 | 4,724,400 | 5,570,000 | 7,202,600 | 8,562,250 |

16. The problems which the Community has faced in maintaining a balanced production in the principal agricultural sectors will be dealt with in greater detail when the individual products are considered at a later stage in this report, but the nature of a problem can be demonstrated simply by showing the size of present stocks.

| <u>Product</u> | <u>Amount of stock</u> | <u>Stock as percentage of production</u> | <u>Stock as percentage of consumption</u> |
|------------------|------------------------|--|---|
| Butter | 250,000 ¹ | 14 | 16 |
| Skim milk powder | 1,116,000 ¹ | 55 | 60 (465) ⁵ |
| Sugar | 2,200,000 ² | 20 | |
| Olive oil | 6,200 ³ | 9 | |
| Common wheat | 6,000,000 ⁴ | 15 | |
| Durum wheat | 1,600,000 | 40 | |
| Barley | 1,500,000 | 5 | |
| Maize | 2,400,000 | 17 | |

Agricultural surpluses : structurally determined

17. There exists a combination of factors, found only in the agricultural sector, which leads to surplus production, which can be defined as being structurally determined and intractable of solution.

(i) There are 6,300,000 farmers⁶ and no one can control the market. The agricultural sector therefore is the only one where the conditions of competition between producers make it rational for each producer to increase his production in order to improve income, even though this may be contrary to the interests of the farmers as a whole.

¹ Intervention and private stocks receiving aid

² Quantities available for export

³ Intervention stock

⁴ Off-farm stocks

⁵ Consumption at full market price

⁶ 1976 : 6,308,000 non-salaried workers in the agricultural sector and 2,426,000 salaried workers

(ii) The rapid rate of technological change, and the resulting increase in productivity (subject to the obvious climatic variations), lead to greater output. Increased output is mainly due to improvements in plant and breeding development and increased use of fertilizers and improved feedstuffs, rather than to labour and land, which have reduced.

(iii) The income elasticity of demand for agricultural produce is low for the basic products, such as bread and potatoes, and may even be negative. The exceptions are meat, cheese and kinds of fresh fruit and vegetables. The result is that as income increases, expenditure on the basic products will remain stable or decline. One can say, furthermore, that variations between countries and changes in consumer preferences will have a greater impact than simple elasticities of demand.

(iv) Similarly, the price elasticity of demand is low, so that price increases and reductions have little effect on consumption, with again the possible exception of meat, cheese and kinds of fresh fruit and vegetables. There are, however, price bands within which demand elasticities are low, but beyond which sudden and violent changes in demand will occur. This has been demonstrated recently by the impact of sharp price increases on the consumption of coffee and potatoes. In the case of potatoes, in certain countries, part of the consumption has gone to other products and will not return readily or automatically.

This situation is particularly true for the United Kingdom, which is in an anomalous position in that it has not benefited from the price stability enjoyed by the Community of Six¹. The successive increase in prices following accession and monetary instability have led to a significant decline in consumption of a wide number of products, particularly dairy products.

(v) Greater marketing efficiency and the development of substitutes has led to a decrease in the demand for agricultural products.

(vi) The ability of agriculture to switch the pattern of production is limited (or, as the economists prefer to say, the supply elasticity of agricultural output is low). Costs are mostly fixed and cannot be used in other sectors; price reductions in the short term therefore have little impact on production. Similarly, price increases attract only a few new means of production though the effect is greater than with a price decrease². The result of these factors is that there exists mechanisms leading to a disequilibrium rather than to an equilibrium.

¹ See table on page 3.

² It is commonly argued that, in the event of a price decrease, farmers would increase production to maintain income. There is no available evidence that this is true.

18. These factors are particularly evident in the dairy sector, where there are a large number of producers in free competition and where price elasticities and income elasticities of demand are low. Technological progress is high and the room for expansion is considerable in a number of Member States, as is shown by the differences in yield¹ given below :

| | <u>1966</u> | <u>1976</u> |
|----------------|-------------|-------------|
| Netherlands | 4269 | 4777 |
| Denmark | 3978 | 4561 |
| United Kingdom | 3628 | 4427 |
| Belgium | 3675 | 3610 |
| Germany | 3648 | 4108 |
| Luxembourg | 3379 | 3571 |
| Italy | 2757 | 3167 |
| France | 2856 | 3260 |
| Ireland | 3346 | 2968 |

There are, moreover, considerable differences between Member States in stocking rates and in other important factors such as size of cowsheds. If Member States with lower stocking rates and smaller, older cowsheds were to reach the Community average, a further considerable increase in production would result.

19. If all Member States were to achieve the Community average, a considerable increase in milk production would result and Member States are developing programmes to achieve this aim. One example has been given recently where in Britain the average yield was increased from 950 gallons per cow per year to 1,437, purely by feeding the cows to their maximum production potential. If such a target output were achieved by Irish farmers, it would result in an increase in milk output from 672 million gallons in 1976 to 2,270 million gallons by 1980.

At the same time milk consumption in the United Kingdom has declined to its lowest level for at least five years, following the recent price increases.

To add to the potential disequilibrium, there is a decline in the birth rate in Europe leading to a reduction in the numbers of children under 5 years of age, the category showing the highest level of milk consumption. Therefore, while the per capita consumption may not fall, total milk consumption will.

¹ It should be noted that differences in yield per lactation may be less than differences in yield per cow.

IV. POLICY AIMS AND INSTRUMENTS

An overall strategy required

20. The dairy sector is the most striking example of the policy implications of a product for which a chronic market balance exists and on which a high proportion of the farming population depends for its livelihood with little prospect of finding an alternative.

This situation exists in a number of the principal agricultural sectors because of :

- the inherent tendency to create surplus independent of short term agricultural price increases; and
- the lack of growth or even decline in consumption of a number of basic agricultural products.

At the same time, the Community's agricultural policy must have the courage to face up to the extremely serious and ever more pressing social problems :

- the growing regional and national disparities in agricultural income; and
- the inability of present agricultural policies to provide sufficient income for the smaller family farmers.

It clearly follows from the points made above that an overall strategy is required to deal with the four main problems facing the Common Agricultural Policy.

Here the Community is faced with the basic dilemma : the present policies provide the greatest aid to the largest producers who need it least; but if the smaller producers are helped more directly, this may slow the structural improvements considered essential to maintain the income of the agricultural sector as a whole.

Any strategy must include a choice of the appropriate mix of instruments according to policy requirements, to encourage or discourage production of particular products, according to their social effects.

The necessity to support agricultural incomes

21. The problem of maintaining agricultural income at a reasonable level presents inherent difficulties in all regions of the world. The aim of maintaining parity in the development of incomes faces an initial difficulty due to the varying rates of the Gross Value Added in the agricultural and the non-agricultural sectors.

Even with output per head increasing at an equal rate in the agricultural and industrial sectors, the value of total agricultural produce is likely to fall relative to the value of total industrial product. The resulting shift in the 'terms of trade' means that over time the farmer must offer a greater quantity of agricultural produce to secure an equal amount of industrial products. Consumers in the non-agricultural sector will be able to purchase their food requirements at a relatively lower cost expressed in value of their hourly wage earnings; if the trend continues, farmers will suffer a drop in real income.

There are two ways for farmers to come near to achieving and maintaining incomes comparable to those in other sectors :

- (a) by direct income grants or by price support for agricultural produce; and
- (b) by contraction of production, either through restrictions on production or by a reduction in the farming population.

Since it is unlikely that the farming population will contract at a sufficient rate, particularly in a period of recession and high industrial unemployment, some form of action will be necessary.

No amount of efficiency, nor a sustained growth in productivity, on the part of the agricultural sector will be likely to maintain comparable incomes; even in the case of a contraction of the agricultural population, action would be required to ensure a smooth transition of the labour force.

Choice of instrument

22. It has been clearly shown that there are limits as to what can be achieved by price policy in affecting the level of production.

It is also true that price policy is relatively ineffective in directing production from one product to another.

The small farmer, for example, has a few alternatives in its production patterns. For the small farmer in the northern countries of the Community there is little alternative to milk.

The production trends by sector confirm the relative lack of land mobility within agriculture. It is extremely difficult for farmers to improve incomes by increasing the production of one product in relation to another, in view of substantial investments required for the larger farmers and the structural restraints of the smaller producer. The options open to the majority of farmers are limited, particularly the most disfavoured by climate, geography or structure.

The possibilities for substitution are limited, without direct aids, between animal and vegetable sectors, and even between dairy cows and beef cattle. On the other hand, within crops, particularly wheat feed grains and sugar beet, a much higher level of substitution appears to have taken place.

23. The most important factor in influencing production trends is not the support prices, but the producer prices. This indicates that, where attempts are made to influence the use of agricultural land, as much attention should be paid to the effectiveness of the market organization and management of particular sectors, as to intervention price levels. In fact, the effectiveness of the market organizations varies considerably, and not only between those employing a price intervention system and those employing less developed price guidance mechanisms, but also between the sectors benefiting from intervention policies. For products such as butter, sugar and, to a lesser extent, cereals, the high degree of market fluidity and the rigidity of the intervention mechanisms mean that market prices generally will not fall significantly below the intervention price. For other products, such as beef and veal, the reverse is true. In the pork sector, intervention prices are fixed but intervention buying is not employed.

24. Given the limits of price policy as an instrument to direct agricultural production, and the need to regulate carefully intervention so as to support agricultural incomes without slowing down structural development, a much closer look must be made at the types of support mechanisms currently employed by the Common Agricultural Policy. There are five principal mechanisms :

- (a) price support through intervention buying;
- (b) income support through direct payments;
- (c) limits on production;
- (d) increase in consumer demand; and
- (e) improvements in marketing arrangements so as to narrow the gap between the farm gate and the prices to consumers.

25. Each instrument has disadvantages as well as advantages.

- (a) Intervention buying : in most cases this is the least expensive policy to operate in terms of the Community budget, except, that is, where demand is elastic, as in the case of the more expensive foods, such as beef, cheese and certain fresh fruit and vegetables. Open-ended intervention, however, is likely to lead to excessive surpluses and, along with protectionism, will inevitably lead to prices above world levels. Moreover, such policy will do little to help the small farmers.

- (b) Direct income payments : this is likely to be more expensive than market intervention, except in the case of products for which demand is relatively elastic, such as beef, cheese and certain fresh fruit and vegetables. Such a policy is more likely to help the smaller family farmer and to reduce disparities in national and regional agricultural incomes. On the other hand, such a system may act to slow down the desire to increase the size of farms.
- (c) Limits on production ; this is one of the most effective instruments for restraining surpluses and maintaining agricultural incomes and is also likely to help the smaller farmers in peripheral regions. But these aims will be achieved at the expense of an increase in efficiency from specialization and may restrain the trend towards larger holdings.
- (d) Increase in consumer demand : this aim is the most difficult to achieve, but the achievements of the Milk Marketing Board in maintaining sales by means of publicity campaigns and marketing techniques provide some evidence as to what can be achieved by marketing methods. The same aims can be achieved by directly subsidising consumer prices. The cost, however, is high and can only be justified in exceptional cases where stiff price rises may lead to a fall in consumption which may not be subsequently recovered. The situation of the dairy market in the United Kingdom is a case where consumer subsidies are justified, since demand has dropped sharply following a series of price increases.
- (e) Increase in efficiency : such a policy will do little to improve the income of farmers since the benefit will largely accrue to consumers and agricultural incomes may even be decreased.

26. The choice of instrument will largely depend on a balance of political choices concerning objectives : whether to minimize expenditure, protect the smaller farmer, reduce regional discrepancies in income or benefit the consumer.

The last three instruments (limits on production, increases in consumer demand and increase in efficiency) can only be seen as supplementary instruments to reinforce the major policies of price and/or income support. The choice between price or income supports will largely depend on the individual product and in particular on the price and income elasticities of demand. The more elastic the demand, as in the case of such products as beef, cheese and certain fresh fruit and vegetables, the more appropriate it will be to choose a system of direct income support. This is also true where the degree of self-sufficiency is low, and where it is considered desirable to encourage a new product or to protect the consumer.

V. IMPROVEMENT IN THE BALANCE OF PRODUCTION BETWEEN SECTORS

Production patterns : developments

27. One principal objective of price policy, together with modifications in market organizations, should be to bring about a better balance in production between agricultural products. The developments in production of the principal products should be examined, so as to establish whether they are in line with the requirements of the Community.

28. The changes which occur in the utilization of agricultural land constitute one clear indicator of the impact of policy on production. There are, however, difficulties in identifying trends, particularly in view of the fact that changes in land use must be seen against the background of a steady decline in the total agricultural area¹.

29. Despite these difficulties, a number of longer term trends in land use can be identified.

The decline in the arable land area of the Community has been halted since 1974, while showing slight variations from year to year and from country to country.

A continuing decline in meadow and permanent pasture is evident, a 2.3% decrease from 1970 to 1974. The decline in 1975/76 was not very significant in comparison with the previous year, but was maintained in all Member States, except Italy and Luxembourg.

The wheat area increased in 1976 throughout the entire Community.

The maize area in France in 1976 dropped by one third compared to the area in 1975.

A substantial increase in the area under sugar beet, following the increase in sugar quotas and price increases for beet, was recorded.

The area devoted to green fodder fell from 13% in 1975 to 11% in 1976.

A steady decline in the area under potatoes in all Member States, following the reduction in consumption in recent decades, was reversed in 1976.

¹ This decline has slowed down since 1975, probably as a result of the recession a decrease of 0.1% in 1975/76 as against 0.6% in 1968-1976).

30. Land use trends confirm, therefore, the relative immobility of land use, except for sugar beet which will increase substantially according to changes in the maximum quota.

31. For other sectors, trends must be seen against the overall decline in land use. In the United Kingdom, Germany, France and Denmark, arable land decreased at a lower rate relative to pasture, while the reverse is true for Benelux and Italy.

32. In more detail, one can note a slight increase in the cereal area in France and Germany, a significant increase in most Member States in oilseeds and green folder, and important decreases in dry pulses and fruit.

Principal products - utilized agricultural area

% change 1976/1968

| | Arable land | Pasture | Permanent Crops | Total |
|----------------|-------------|---------|-----------------|-------|
| France | - 0.3 | - 0.5 | - 0.7 | - 0.3 |
| Germany | - 0.6 | - 0.8 | - 0.2 | - 0.3 |
| United Kingdom | - 0.7 | - 0.8 | - 1.6 | - 0.6 |
| Denmark | | - 1.8 | | - 0.4 |
| Netherlands | - 1 | - 0.8 | - 4.5 | - 0.9 |
| Belgium | - 1.4 | - 0.3 | - 6.2 | - 0.7 |
| Luxembourg | - 1.4 | 0.5 | - 8.3 | - 0.5 |
| Italy | - 2.7 | 0.3 | 1 | - 1.3 |
| Ireland | | | | 0.1 |

Principal products - utilized agricultural area

% change 1976/1968

| | <u>Pasture</u> | <u>Cereals</u> | <u>Root crops</u> | | <u>Oil seeds</u> | <u>Green fodder</u> | <u>Dry pulses</u> | <u>Fruit</u> | <u>Vines</u> | <u>Forest</u> |
|----------------|----------------|----------------|-------------------|------------|------------------|---------------------|-------------------|--------------|--------------|---------------|
| | | | Potatoes | Sugar beet | | | | | | |
| Germany | - 0.8 | 0.2 | - 5.8 | 5.3 | 5.3 | 1.1 | - 7.2 | - 2.7 | 2.2 | |
| France | - 0.5 | 0.5 | - 6.1 | 5.3 | 3.8 | 0.6 | 0.5 | - 1.6 | 0.6 | |
| Italy | 0.3 | - 1.8 | - 6.5 | - 0.8 | 19.5 | 2 | - 7.8 | | | |
| Netherlands | - 0.8 | - 6.8 | 0.9 | 3.7 | 11.7 | 10.8 | - 4.1 | - 5.1 | 1.6 | |
| Belgium | - 0.3 | - 1.6 | 2.5 | 0.8 | 0 | 1.9 | - 8.3 | - 6.3 | 0 | |
| Luxembourg | 0.5 | - 2.3 | - 4.9 | 0 | 0 | 2.6 | 0 | 0 | 0 | |
| United Kingdom | - 0.8 | - 0.4 | - 2.9 | 1 | 22 | - 1.2 | - 4.8 | - 2 | 0 | |
| Ireland | | - 1 | - 2.8 | 3.8 | | | | | | |
| Denmark | - 1.8 | - 0.8 | - 0.3 | 0.2 | 7.2 | - 2.2 | 14 | | | |
| EUR 9 | | - 0.3 | - 5.1 | - 0.1 | | | | | 0.5 | |

| | Production % change | Area/nos. | Self sufficiency | | EEC entry price as % of world price | | Human consumption % change | Human consumption per head (%) | |
|-------------------------------|---------------------------|-----------|---------------------|---------|---|------------------|----------------------------------|--------------------------------------|------|
| | 1976/1968 | 1976/1968 | 1968/69 | 1974/75 | 1968/69 | 1976/77 | 1968/1975 | 1968 | 1975 |
| Cereals (excl. rice) | 0.7 | - 0.5 | 80 | 91 | | | 0.1 | 85 | 83 |
| Wheat | | - 1.22 | 94 | 106 | 195 | 204 | 0.1 | 76 | 74 |
| Durum wheat | 2.7 | - 0.1 | | | 214 | 145 ¹ | | 5 | 4 |
| Rye | | | 100 | 96 | | | - 1.4 | | |
| Barley | | - 1.5 | 103 | 104 | 197 | 147 | - 4 | | |
| Oats | | - 3.9 | 96 | 96 | | | | | |
| Maize | 4.3 | 3.5 | 45 | 56 | 178 | 163 | | | 3 |
| Rice | 1.5 | 0.7 | | 83 | 138 | 179 | 8.6 | | 3 |
| Hops | 1.2 | 3.4 | | | | | | | |
| Potatoes | - 4.8 | - 4.7 | 100 | 100 | | | - 1.1 | 90 | 80 |
| Sugar | 2.5 | 3.6 | 82 | 95 | 355 | 163 | 1.3 | 36 | 38 |
| Fresh vegetables | - 1.3 | | 98 | 94 | | | 0.6 | 99 | 99 |
| Fresh fruit (excl. citrus) | - 0.2 | | 80 | 79 | | | - 0.7 | 65 | 60 |
| Citrus fruits , | | | | 43 | | | | | 23 |
| Wine | 2.6 | | | 103 | | | 0.2 | 51 | 50 |
| Tobacco | 4.7 | 2.7 | | | | | | | |

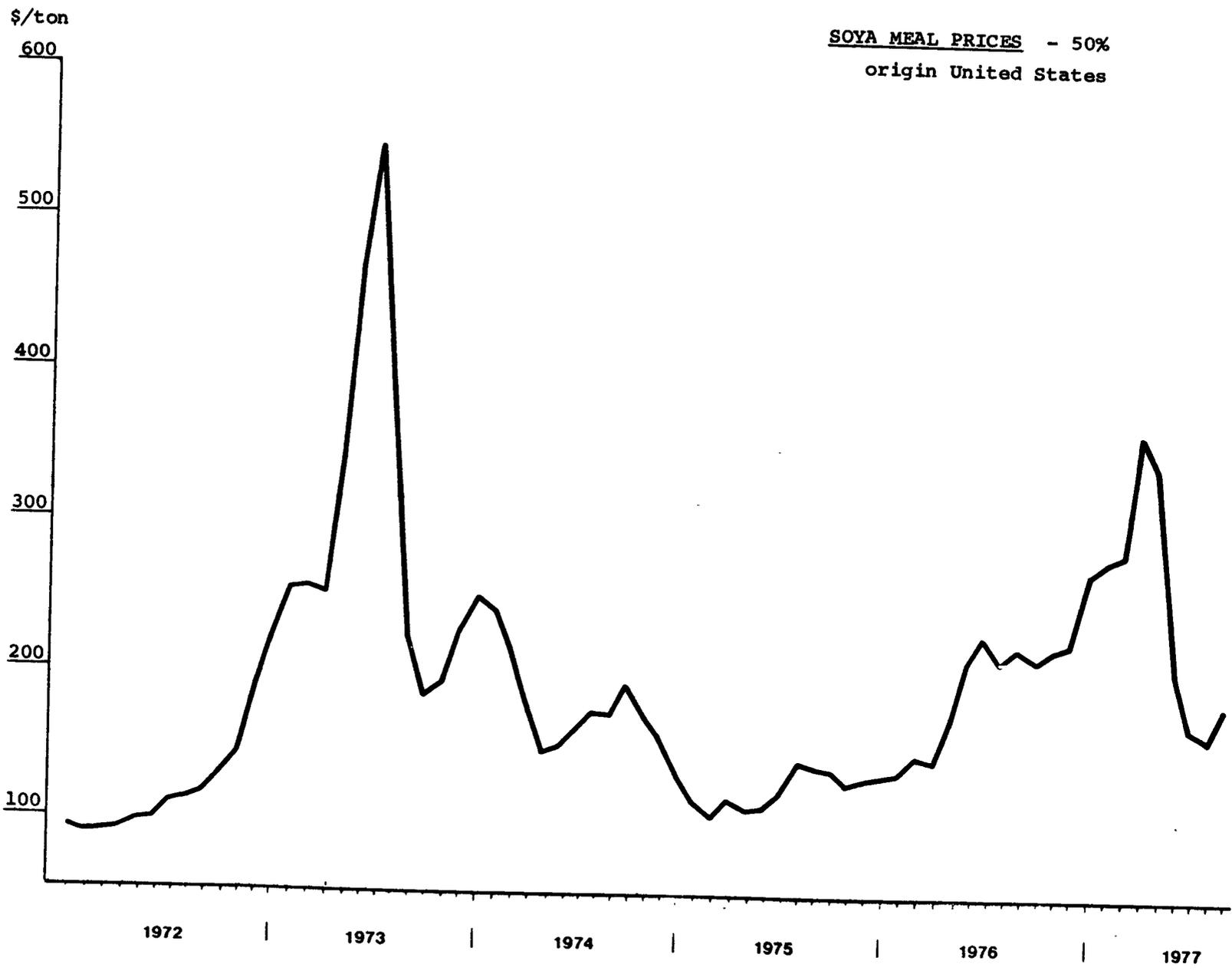
¹ 1973/76

| | Production % change | Area/nos. | Self sufficiency | | EEC entry price as % of world price | | Human consumption % change | Human consumption per head (%) | |
|--|---------------------------|--------------------|---------------------|---------|---|--------------------|----------------------------------|--------------------------------------|------|
| | 1976/1968 | 1976/1968 | 1968/69 | 1974/75 | 1968/69 | 1976/77 | 1968/1975 | 1968 | 1975 |
| Fresh dairy products | 0.8 | - 0.1 ² | 100 | 100 | | | 0.1 | | 102 |
| Whole milk powder | | | | 230 | | | | | |
| Skim milk powder | | | | 135 | 365 | 571 | | | |
| Concentrated milk | | | | 142 | | | | | |
| Cheese | | | 99 | 104 | | | 4.7 | 9 | 11 |
| Butter | | | 92 | 100 | 504 | 401 | 0.6 | 6 | 6 |
| Eggs | 1.3 | 0.4 | 19 | 100 | 137 | | 1.3 | 13 | 14 |
| Meat - total | | | 95 | 97 | | | 2.8 | 69 | 76 |
| Bovine - total | 5.3 ² | 1 | 95 | 100 | 169 | 192 | 0.6 | 24 | 25 |
| Beef | | | | 99 | | | | | 23 |
| Veal | | | | 106 | | | | | 2 |
| Pork | | - 1.9 | 102 | 99 | 134 | 125 | 0.5 ² | 28 | 33 |
| Poultry | 4.3 | | 101 | 103 | | | 0.5 ² | 10 | 12 |
| Sheep and goat | 1.9 | 0.4 | 56 | 65 | | | - 0.1 ² | 3 | 3 |
| Oils and fats total | | | | 42 | | | | | 20 |
| Vegetable oils) colza/rape and fats) sunflower | 3.7 21.7 | 1.7 24.5 | | 24 | 203 | 127 ^{1,3} | | | 14 |
| Animal oils and fats | | | | 81 | | | | | 5 |
| Fish oils and fats | | | | 22 | | | | | 1 |
| Olive oil | | | | | 173 | 207 ¹ | | | |

¹ 1973/76

² 1976/73

³ Oilseeds



- 30 -

PE 52.047/fin.

Production patterns : objectives

33. The problems raised by the relative lack of agricultural land use mobility are thrown into sharp relief when land use trends are compared to the degree of self-sufficiency of the Community in the major agricultural sectors.

A number of agricultural sectors are currently characterized by market imbalances with structural surpluses in the milk, wine and sugar sectors, and a rapid build-up in the stocks of olive oil, tobacco and, to a lesser extent, beef.

At the same time, the Community remains deficient in a number of important sectors and in particular high protein feed, for which the Community's self-sufficiency is declining.

34. Given the relative stability of the area devoted to pasture and arable land, it is logical to assume that any change in the feed requirements of the Community's livestock population will be achieved, as in past years, by a change in the raw materials, and that the ever increasing use of compound feedingstuffs will continue, with energy giving feedstuffs, cereals, becoming less important than proteins.

Products used for animal feeding in EEC

| | 1974/1975 | <u>1974/75</u> | <u>1975/76</u> |
|-------------------------------|-----------|----------------|----------------|
| | tonnes | 1973/74 | 1974/75 |
| | | % change | % change |
| Cereals | 70,157 | - 2.8 | - 3.4 |
| Feed cake | 14,453 | 4.4 | 14.1 |
| - of which soya | 9,644 | 14.1 | 8.1 |
| Animal fats | 1,933 | 19.3 | |
| - fish | 916 | 19.6 | |
| - animal | 1,017 | 19.1 | |
| Dehydrated fodder | 1,732 | 4.5 | |
| Milk powder | 1,242 | 3.2 | |
| Leguminous vegetable seeds | 583 | 8 | |

Development of the Community's protein supplies

35. Three quarters of the Community's high protein feed requirements are supplied by oilseeds, with 50% supplied by soya, and the remainder by meat and fish meat, lucerne meal, fodder legumes and powdered milk. While three quarters of the cereals used for livestock feeding are produced in the Community, there is almost total dependence on imports from non-Member countries for supplies of feed cake.

Self-sufficiency %

| | |
|-------------------|-------|
| Dehydrated fodder | 77 |
| Oil cake | 4 - 5 |
| Maize | 53 |
| Colza oil | 11.1 |
| Sunflower oil | 1.1 |

Community demand for proteins is likely to continue to increase at a rate of 3%-5% a year, thereby accentuating the Community's dependence on imported proteins.

36. The development of the Community's protein production is clearly one area in which encouragement should be given, in order to reduce the Community's dependence on imports, to achieve a better balance between agricultural products and to assist the development of the Southern regions of the Community.

Protein crops in the Community

Colza

37. The development of colza production depends largely on the results of research in proteins of colza cake for animal feed and in particular bitter taste, toxic elements and high cellulose level.

Soya

38. The cultivation of soya is technically possible in France, with or without irrigation, and the crop is little affected by bad weather conditions. Soya may replace maize, colza and sunflower or be used in rotation. Attempts to extend production have been disappointing, however, despite aid granted by the Community, and may result from the payment of a fixed aid rather than one which reflects yield¹.

Lucerne

39. Lucerne is a good rotation crop, with the greatest protein yield per hectare of all crops grown in the Community. Freshly cut lucerne poses problems of conservation, but dehydrated lucerne safeguards the protein content. The extraction of protein from lucerne is now becoming a practical possibility, with the product having a protein content approaching that of soya. Without, however, a system of aid, the processors would be unable to pay a remunerative price to the producers in certain years, leading to the replacement of crop by cereals and sugar beet.

¹ See p.

Field beans and peas

40. The most important of the leguminous vegetable seeds in the Community, the field bean, has a variety of uses, as forage, seeds or in feedingstuffs. The crop could replace cereals particularly in rotation schemes. Given its water requirements, its cultivation would be developed most logically in regions where rainfall is sufficient. The crop has declined in recent years. Average field yield has scarcely increased in the last decade, but could be increased by the use of certified seed and the use of winter hybrid varieties. The field bean and peas, being rich in lysin, can be included on any feed rations.

The necessity for aid

41. The potential development of protein crops in the Community is great, and is of particular interest to the southern regions when taken in conjunction with proposals for the development of irrigation and advisory services in these regions.

The development of these crops will, moreover, contribute to achieving a more balanced agricultural production by providing alternatives to products for which the Community faces problems in disposing on the market.

42. The development of protein crops will require aid, however. Processors cannot guarantee economic prices to producers every year, given the variations in prices of competitive sources of protein, particularly soya. The result has been that the production of protein crops in the Community has declined, to be replaced by cereals and sugar beet.

Direct aid to protein production

43. For the encouragement of crops, such as proteins, by the strengthening or the introduction of market organizations, the system of direct aids proposed by the Commission is the most appropriate. This is all the more true in view of the difficulties for the Community to establish a preferential regime vis-à-vis importations from Third Countries :

- a number of the principal protein crops have been consolidated under the GATT rules;
- protection would result in an increase in feedstuffs and a decrease in the incomes of animal producers.

44. The system of direct aids has already been introduced for a number of protein crops, most recently for soya and castor seeds. There are doubts, however, whether the system of a fixed aid per hectare is the best adapted to developing production, or a variable aid related to yield and paid by the processor to the producer, so as to encourage the more efficient producers.

VI. OTHER LEVELS OF POLICY : NATIONAL AIDS AND INTERNATIONAL TRADE

National aids

45. No examination of the factors influencing agricultural policy would be complete without an examination of the impact on production of national expenditure outside the framework of the CAP. The figures illustrate the limitations in the common Community policies in guiding production : for every unit of account spent under common policies, three are spent under purely national policies.

Expenditure in 1975 by the Community and Member States on agricultural policy amounted to 14,200 million EUA, of which 35% is borne by the EAGGF.

According to information supplied by the Member States, national expenditure in the Community in 1975, in the form of subsidies, interest rate subsidies and tax relief, totalled 6.6 million EUA.

This amount covers expenditure on production, processing, marketing, research and advisory services and consumption.

State aid, excluding consumption promotion, averages 8% by value of final Community agricultural production.

| | Aid as % of final agricultural production | Percentage of aid devoted to | | Consumer subsidies |
|----------------|---|------------------------------|--------------------------|--------------------|
| | | production support | marketing and processing | |
| United Kingdom | 20 | 50 | 6 | 35 |
| Luxembourg | 14 | 69 | 31 | - |
| Ireland | 11 | 75 | 9 | 6 |
| Germany | 9 | 92 | 7 | 1 |
| France | 8 | - | - | - |
| Netherlands | 5 | 75 | 18 | 1 |
| Italy | 4 | - | - | - |
| Belgium | 4 | - | - | 1 |
| Denmark | 3 | 20 | 25 | 22 |

46. Clearly such important sums spent by the Member States could lead to contradictions in policy objectives, with the result that the EAGGF Guarantee Section may be required to intervene to offset the results of extra production encouraged by national policies.

The harmonization of national aids with the objectives of the Community's agricultural policies will present considerable political difficulties. But it is a task that cannot be avoided indefinitely if the CAP is to bring within acceptable limits the production of those products currently in surplus. The EAGGF cannot simply be used to finance solutions to problems created by national policies.

A distinction, however, can be made between aids to production and those for the marketing and processing sectors and for the consumer. While the former will tend to aggravate the difficulties presently facing the Community, the latter may contribute to easing some of the problems of surplus production.

External trade policy : possible developments

47. Increased international trade offers one possible medium term solution to some of the Community's internal problems of market balance. Increased international trade, based on greater international specialization of production, would produce benefits to all partners.

48. International agricultural trade is dominated at present by the EEC and the United States. At present this trade has largely been of benefit to the United States. The exceptional increase in American agricultural exports to the Community, particularly feed grains and soya, are partly at the base of the increase in Community milk production and the present surplus.

The EEC does not wish to contest these imports from the U.S.; however, there must be a counterpart to allow the Community to face up to the impact of these imports on internal markets and, at the same time, to reply to the views put forward by America in the GATT negotiations.

An open attitude to agricultural negotiations is made difficult for the Community by the increasing imbalance in agricultural trade : United States agricultural exports to the Community have increased from \$1.8 milliard in 1968, to \$4.4 milliard in 1973 and \$6.4 milliard in 1976, and now show a surplus in favour of the United States of \$0.2 milliard. The Community now takes over a quarter of all U.S. farm exports.

At the same time, the Community is the principal trader in agricultural produce, and the second largest exporter, after the United States. Trade expansion is in the interest of both areas. The problem is to find a negotiable package that :

- (a) will avoid extreme supply and demand fluctuations on world markets and minimize the drift to protectionism; and
- (b) will unblock the deadlock that exists in talks on the individual products wheat, beef and dairy produce.

A series of related commodity agreements is required. The cereals market has always held the key to agricultural trade talks. The differences between the U.S. and EEC on a future grains agreement (particularly the degree to which it should incorporate an active policy of intervention in the world market to stabilize prices) are open to solution. The extent to which such an agreement is politically possible depends on the willingness of the United States to adopt a more liberal approach to agricultural trade in other areas.

There are indications of a more open approach on the part of the United States to agricultural trade negotiations. Vigorous export policies for agricultural produce resulted in the expansion of valuable earnings from overseas sales. This strengthened the resolve of the U.S. Government to ensure that the Tokyo round of the GATT negotiations led to the significant liberalization of trade in agricultural produce. This late conversion to trade liberalization was highly selective in those products in which the U.S. had a clear competitive advantage. On the other hand, for those commodities such as dairy products, in which the U.S. is clearly incompetent, there is very strong resistance on the part of producers and their representatives in Congress to any liberalization.

Even in the dairy sector, which is the most protected sector of U.S. agriculture, it has appeared that there are no insurmountable economic objections to the removal of quotas. The impact on EEC exports would be considerable. If the U.S. had already lifted import restrictions in 1975, some 12 billion pounds of milk equivalent may have entered that year, i.e. more than 10% of U.S. production, instead of 1.5%¹.

Clearly, it is of vital interest to the Community to encourage America along the road to a more open agricultural market. In milk products, wine alcohol and processed meats a partial solution to some of the surplus problems facing the Community could be found.

¹ At the moment, only 1.5% of U.S. needs are imported. The U.S. has calculated that initially incomes of U.S. dairy farms under free trade conditions would drop by 20-30%, but that by 1980 the farms remaining in activity would obtain somewhat higher incomes than in the case of continuing import restrictions.

PART TWO : THE AVERAGE PRICE PROPOSAL

Context of the price proposal

49. The Commission's average price proposal must be judged in terms of the overall objectives of the Community's price policy and the situation on the principal agricultural markets. In a number of cases, particularly milk, wine, sugar, olive oil and beet, serious imbalances exist between supply and demand. The causes vary. In some cases, for example milk, open-ended intervention has encouraged production to be overly directed towards intervention. In other cases, particularly butter, beef and olive oil, high prices have restrained consumption without providing, at the same time, satisfactory incomes to producers in the case of beef.

50. Moreover, price policy cannot be set outside the wider policy objectives of the Community and must take account of the economic recession and efforts undertaken by all Member States to limit inflation. At the same time, in time of economic recession agriculture plays an important role in maintaining employment in rural and peripheral regions of the Community, slowing down the drift from the land to the city and even absorbing a part, albeit a small fraction, of the unemployed.

The average price increase

51. Within this framework of the agricultural market situation and the economic situation, the Commission's annual price proposals are drawn up, using as a guideline the objective method¹. This seeks to ensure, in conjunction with socio-structural policies, an income development for agricultural producers comparable to that of the non-agricultural sector.

52. The objective method suggested that for 1978/79, there should be an increase in agricultural prices of 4.2%. In view of the wider considerations described above, the Commission proposes an average increase of 2%.

53. In evaluating the proposals, consideration should also be given to the Commission's proposed modifications to market organizations and proposals to assist the Mediterranean regions, which will have a greater impact on producers' incomes than the price proposals themselves.

54. The overall increase is in the order of 3% when adjustments to 'green rates' are taken into account.

¹ For a more detailed discussion of the objective method, see pp. 27 - 29.

The average of 3% will, of course, be higher for certain states or lower for others, according to whether 'green rates' are to be revalued or devalued. The combined impact of the price proposals and the agri-monetary proposals for individual countries are dealt with in greater detail below¹.

55. One should also take note of the fact that agricultural price support has evolved positively in relation to prices in general. As the Commission states : "The evolution of common prices expressed in units of account does not provide an accurate indicator of the development of agricultural price support in the Member States in recent years; since the agricultural unit of account is related to the value of the snake currencies, which have appreciated considerably, the dismantling of monetary compensatory amounts through the adjustment of green rates has resulted in a net increase in agricultural price support in national currencies."².

56. When corrected to take into account inflation, price increases accorded annually and adjustments in exchange rates have resulted in the following evolution of agricultural price support in real terms (excluding increases resulting from accession arrangements) :

| | <u>1967/68</u> <u>1977/78</u> | <u>1972/73</u> <u>1977/78</u> |
|----------------|----------------------------------|----------------------------------|
| EEC - 6 | - 11% | + 1.8% |
| EEC - 9 | | |
| Ireland | | + 19% |
| Italy | | + 14% |
| Germany | | + 8% |
| Luxembourg | | + 4% |
| Denmark | | + 2% |
| France | | - 6% |
| Netherlands | | - 6% |
| Belgium | | - 8% |
| United Kingdom | | - 9% |

The purpose of the objective method

57. Since 1973 the Commission has employed an objective method in drawing up the annual price proposals. The purpose of this method is not to provide a final figure for the average price increase, but to lay down quantitative guidelines for the development of common agricultural prices, so as to maintain the income of the reference or modern farms at a level comparable to that received in the non-agricultural sectors.

¹ See pp. 30 - 32.

² See COM(77) 525 final, p. 3.

58. The results of the objective method cannot be considered alone when considering price proposals. Other factors are taken into account. The objective of maintaining earned income of the reference farms at a comparable level is to be achieved by price policy together with socio-structural policies. Moreover, as the Commission emphasized in the Memorandum on improvements to the Common Agricultural Policy, while the Council's decisions should be based more fully on objective criteria, they should comply with the limitations imposed on price policy by structural surpluses¹.

59. Finally, in assessing the results of the objective method, the Commission believes that other factors should be taken into account, and in particular the general economic background, the interests of consumers and the fact that the agricultural sector benefits from guarantees not granted to many other sectors of the economy.

Objective method : application

60. The objective method is applied on the basis of the accounts of reference holdings, which are defined as holdings for which the earned income is between 80% and 120% of the comparable income of the regions laid down by the Council Directive 72/159/EEC on the modernization of farms.

61. The method takes into account the following quantitative elements for the three-year reference period :

- the changes in the costs of agricultural inputs for each Member State²;
- the change in comparable income in each Member State;
- a standard deduction of 1.5% per year to take into account unearned income resulting from technical progress; and
- the changes in the exchange rates which occurred in the three-year reference period in order to convert national figures into one single monetary unit, using the statistical EUR unit of account.

¹ Doc. 251/73, p. 11.

² The input categories include :

1. Intermediate consumption : feedingstuffs, fertilizers and ameliorators, energy (electricity, fuel and lubricants), services (work contracted out, maintenance of equipment, maintenance of buildings, specific rearing costs), other intermediate consumption.
2. Amortization of machines.
3. Other inputs : farm rent or rental value of freehold property, interest on working capital and other inputs.

62. The factors are used to calculate the gross need for an increase in common prices for each Member State, and then weighted according to the final agricultural production of Each Member State, to derive the gross need for the Community.

63. The calculation of the net Community price increase required is then obtained by deducting price increases granted in the previous two years.

Objective method, assessment

64. Clearly, it is essential that an objective method be employed to guide Community decisions on price policy, with the aim of assuring reference farms a development in income comparable to that in other sectors of the economy.

It is, however, less evident that the objective method employed at present is the best suited to that goal. The main problem is 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.

65. 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.

66. Doubts can be expressed, therefore, as to 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, the statistical unit of account, EUR.

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 increases or decreases in prices. Such a correction, consequently, corresponds to reality. However, the system of 'green rates' means that monetary changes are only partially reflected in prices. Therefore, the reality introduced by the Commission's method is a partial one.

¹ COM(77) 525 final, p. 20.

67. The time period over which the objective method is applied can also be questioned. This period may be sufficiently long for the cost side, but it certainly is not for the agricultural price side. Price increases granted over two years are deducted from needs. If, for one year, an increase is exceptionally high or low, the objective method provides a final figure which is distorted and, if followed, creates a 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.

Agricultural unit of account

68. The unit of account used in the Common Agricultural Policy no longer represents a fixed value. Since 1973, the agricultural unit of account (AUA) has been related to the snake currencies, which have been continuously revalued against the Community average. This has had a number of important results for the Common Agricultural Policy :

- i) the common prices in units of account have continuously risen ;
- ii) the distribution of monetary compensatory amounts between revalorized and devaluated currencies has been distorted since the reference point has moved upwards;
- iii) the average level of price support expressed in some national currencies has increased more rapidly than the common prices in units of account.

69. The Commission states clearly that the introduction of the European unit of account, a "basket" unit which better reflects monetary trends, would more closely reflect the economic and monetary realities in the Community. In the words of the Commission, the use of the EUA "would enable the annual fixing of common prices, which, under the present system are no longer an accurate indication of the effective level of price support in the Community, to be carried out in a more transparent manner."¹ In addition, it would probably facilitate the adjustment of the backlog of monetary compensatory amounts that has built up.

¹ Report on the use of the European Unit of Account in the Common Agricultural Policy, COM(77) 480 final, p. 12a.

70. Despite the clear and convincing arguments in favour of introducing the European unit of account in the agricultural sector, the Commission rather lamely concludes that the moment is not appropriate for doing so, since it would raise fundamental (but undefined) questions concerning the Common Agricultural Policy. The Commission favours the principle but prefers to continue its examination of the question.

Income trends in 1976/77 and 1977/78

71. As a result of the drought in 1976, agricultural incomes in most Member States increased much less rapidly than in the previous year, though trends varied considerably with type of farm and region. The rates of annual change in the net value added at factor cost per person in 1976 varied between + 3% to + 17% : 3% in Luxembourg and 17% in Ireland.

In most cases the annual rate of growth in money incomes was insufficient to compensate for inflation. In real terms the situation is as follows :

| | |
|----------------|--------|
| Germany | + 8.7% |
| Denmark | + 3.5% |
| France | + 2.7% |
| Ireland | - 1.1% |
| Italy | - 1.3% |
| United Kingdom | - 2.3% |

Agricultural incomes for 1977/78 are expected to show a marked increase over those of the previous year, mainly due to a better output/input ratio resulting from a drop in the cost of feedingstuffs and a return to normal production conditions. Those countries which benefited from exceptional aids in 1976, however, may not benefit from any great increase in income.

Germany

72. The annual rate of growth in incomes since 1968 was at least 9%, which corresponds to the increase in incomes in other sectors.

In 1976 incomes dropped by 6%, due to the increasing costs in feedingstuffs.

Estimates for 1977/78 point to a recovery in agricultural income.

France

73. Gross agricultural income for 1976 increased 5.3% in money terms, which corresponds to an average drop of 1.1% in real terms by farm. Those farms specializing in cereals suffered the greatest drop.

It is estimated that 1977 should bring a positive trend in agricultural incomes.

Italy

74. In 1976 income per farmer rose by 17% in money terms, but scarcely changed in real terms. In 1977 agricultural incomes are expected to be unchanged.

Netherlands

75. 1976/77 was less favourable for the agricultural sector, apart from horticulture. The trend varied considerably, according to the type of farm, showing a considerable improvement for general agriculture but a decline in profitability for grazing stock farms.

Belgium

76. In 1976/77 the average labour income decreased by 8% but again the trend varied considerably with labour income increasing for general agriculture, horticulture and cattle farms.

Luxembourg

77. The average agricultural income per holding fell by 6.3% in 1976 and it is expected that it should show a slight increase in 1977.

Denmark

78. In 1976/77 labour income per ALU fell by about 25%, mainly due to low crop yields. Since the cereal harvest in 1977 will be a record one, an appreciable improvement in agricultural incomes is anticipated.

United Kingdom

79. Overall the average net income per farm increased in 1976/77, though there were considerable variations between types of farms and regions. Those farms specializing in grazing stock benefited from the greatest growth in incomes. In 1977/78 agricultural incomes should generally show an increase, though the cereals sector may be unable to maintain its income.

Ireland

80. Agricultural incomes again rose considerably in 1976/77 and this trend is expected to be maintained in 1977/78 (25% to 30%).

PART THREE : THE CONSUMER

The development in prices to the consumer

81. The impact of the price proposals on the consumer is difficult to evaluate since trends in national prices show considerable variation.

While there was a modest increase of 3.9% in 1977/78 for common agricultural prices (as against 7.7% for 1976/77 and 9.6% for 1975/76), this average increase conceals considerable variations due to monetary changes. In Germany prices in national currencies have been falling since 1974 and in all other Member States have been rising since 1976.

In 1976/77 the position was as follows :

| | |
|----------------|---------|
| Germany | - 4% |
| Netherlands | - 4.1% |
| Luxembourg | - 1.8% |
| United Kingdom | + 2.8% |
| Italy | + 12.3% |
| Ireland | + 21 |

82. The trend of producer prices for agricultural products is not automatically reflected in the level of consumer prices. It has often been observed that not only is a rise in prices passed on more rapidly than a fall but a certain time lag, varying according to region and product, separates consumer prices from producer prices. Numerous factors, resulting from processing and distribution structures, but also from consumer habits and the general economic situation, play their part here.

83. In the period 1973 to 1976, consumer prices tended to rise more rapidly than producer prices. An analysis of these rises for products playing a relatively important part both in agricultural production (common wheat, sugar beet, milk, cattle, pigs, eggs, potatoes) and as food (bread, sugar, milk, beef and veal, pigmeat, eggs and potatoes) shows that only in the case of potatoes did consumer prices increase less than producer prices in all Member States. Large-scale imports in 1976 played an important part in preventing the price rise brought about by the drought from being passed on. With the exception of Ireland, where consumer prices generally rose more gradually over this period, consumer prices of most products rose more steeply than producer prices. However, there were exceptions in Germany (milk and sugar), Italy (sugar and pigmeat) and the United Kingdom (pigmeat).

84. In contrast to the position between 1973 and 1975, and with the exception of Ireland, the index of consumer prices for foodstuffs and beverages rose more steeply in 1976 than the general index. The difference was particularly marked in Luxembourg, Belgium, the United Kingdom and Denmark. In most Member States there was an exceptional increase, especially for fruit and vegetables (including potatoes); in Germany and Ireland the meat price index, and in France the price index for milk, butter and cheese, was the main factor in this unusual development. It can be assumed that the exceptional weather conditions in most Member States during summer 1976 (drought in the north and floods in the south of the Community) were largely responsible for this phenomenon.

Evaluation of the impact of the price proposals on the consumer

85. The role of the annual price fixing in modifying consumer prices¹ is often misunderstood and overestimated. Prices to the consumer consist of three elements : agricultural, industrial and distribution. The agricultural element represents approximately 40% and is decreasing steadily in relation to the other two. The Commission has indicated that a 10% increase in prices, if passed on to the consumer, which is not the case, would result in a 1.9% increase in household expenditure.

The Commission estimates that the proposed 3% increase will lead to a 1.5% increase in food prices, and 0.3% in the cost of living.

Effect on consumers of national price changes due to proposed unit of account price rises and green money adaptations

| | In units of account | | Green rate adaptations already agreed | | Effect of reducing MCAs by one seventh | | Combined effect of green rate changes and price rises | |
|----------------|---------------------|----------------|---------------------------------------|----------------|--|----------------|---|----------------|
| | food | cost of living | food | cost of living | food | cost of living | food | cost of living |
| Germany | 1.1 | 0.2 | | | - 0.6 | 0.1 | 0.5 | 0.1 |
| France | 0.8 | 0.2 | 1.1 | 0.2 | 0.8 | 0.2 | 2.8 | 0.6 |
| Italy | 0.8 | 0.2 | 3.2 | 1.0 | | | 4.0 | 1.3 |
| Netherlands | 0.9 | 0.2 | | | - 0.1 | - 0 | 0.8 | 0.2 |
| Belgium | 1.1 | 0.2 | | | - 0.1 | - 0 | 1.0 | 0.2 |
| Luxembourg | 1.2 | 0.3 | | | - 0.1 | - 0 | 1.1 | 0.2 |
| Denmark | 1.3 | 0.3 | | | | | 1.3 | 0.3 |
| United Kingdom | 1.1 | 0.2 | 4.5 | 0.8 | | | 5.8 | 1.1 |
| Ireland | 1.2 | 0.3 | | | 0.2 | 0.1 | 1.4 | 0.4 |
| Community | 0.9 | 0.2 | | | 1.6 | 0.3 | 2.6 | 0.6 |

¹ Foodstuffs account for about 26% of total consumer expenditure.

86. Apart from the large proportion of the average household budget which goes on food, this ratio is explained by the fact that most farm products are not consumed in their natural state; a varying number of processing, treatment and distribution processes are necessary before the final product is offered to the consumer. As a result the value of the farm product in the final value of the foodstuff becomes less and less important.

87. The differences between Member States in the indices for all foodstuffs and beverages are reflected in the indices for the different types of foodstuffs where they are sometimes more pronounced. Between 1975 and 1976 the price indices for bread and pastry products rose by 3% in Germany and 17.3% in Italy; the range for meat was from -1.6% in the United Kingdom to +31.4% in Ireland; in most cases the rates of increase exceeded 10%. The rise in the price index for milk, butter and cheese was generally less than 10%, varying between 4.6% in Germany and 28.6% in Italy. In the case of fruit and vegetables, where rises varied from 3.4% in Germany to 31% in Luxembourg, five Member States experienced an increase of more than 20%. Only in Belgium and Luxembourg did the index of consumer prices for foodstuffs and beverages rise more steeply than that of prices for agricultural products from 1975 to 1976.

Consumer prices

1976 : % annual increase over 1975 and 1970

| | General index | | Foodstuffs and beverages | |
|----------------|---------------|------|--------------------------|------|
| | 1975 | 1970 | 1975 | 1970 |
| Germany | 4.6 | 5.8 | 5.4 | 5.4 |
| France | 9.6 | 8.9 | 10.7 | 9.5 |
| Italy | 16.7 | 12.2 | 17.5 | 13 |
| Netherlands | 8.9 | 8.7 | 9.6 | 7.2 |
| Belgium | 9.2 | 8.5 | 12.5 | 8.2 |
| Luxembourg | 9.8 | 7.6 | 17.6 | 8.8 |
| United Kingdom | 16.5 | 13.6 | 19.4 | 15.1 |
| Ireland | 17.9 | 14 | 16.8 | 14.5 |
| Denmark | 9 | 9.2 | 11.1 | 9.7 |

These price trends vary greatly, of course, from product to product¹ and from country to country, in function of the relative part of agriculture in consumer prices and the efficiency of the industrial/distribution sectors.

¹ A table showing trends for major products is given on pp. 37 and 38.

THE AVERAGE SHARE OF THE FARMER IN THE RETAIL PRICE¹

| country produce | Belgium | France | Italy | FRG | Nether- lands | UK | Denmark |
|------------------------------|---------|--------|-------|------|------------------|------|---------|
| Bovine meat (kg/carcass) | 68,6 | 78,5 | - | 74,9 | - | 69,2 | 72 |
| Porcine meat (kg/carcass) | 53,5 | 44,8 | - | - | 64,7 | - | 44 |
| Milk for consumption | 50,- | 50,- | 60,- | 47,- | 52,- | - | 60 |
| Sugar (sugar beet) | 29,1 | 34,- | - | 36,2 | 37,9 | - | - |
| Eggs | 57,6 | 47,5 | 70,6 | 63,6 | 63,8 | 63,8 | 55 |
| Poultry | 35,6 | - | 43,3 | - | 34,6 | - | 55 |
| Bread | 33,9 | 21,7 | - | 18,2 | 31,0 | 36,6 | - |
| Apples | 43,7 | 39,3 | - | 47,7 | 70,9 | 53,7 | 37,4 |
| Pears | 51,3 | 43,8 | - | - | - | 50,5 | - |
| Lettuces | 70,8 | 57,3 | - | 47,4 | - | - | - |
| Cauliflowers | 42,9 | 41,4 | - | 34,3 | 47,6 | 35,2 | 48,1 |
| Tomatoes | 43,1 | 40,5 | - | - | 51,9 | 64,7 | 50,5 |
| Potatoes | - | 40,4 | - | 32,3 | 22,0 | 36,6 | 35,7 |

88. Monetary compensatory amounts which subsidize imports of agricultural products into countries with a depreciated currency contribute to these variations in trends.

¹ Source : Volume II of 'Agricultural prices from producer to consumer', by J. Herinckx, page 153.

PART FOUR : INDIVIDUAL PRODUCTS

Price proposals by product

89. Given the low level of price increases, proposals by sector are necessarily fairly homogeneous, as in 1977/78. An overall price increase of 2% has been granted to the majority of products, except for those where market imbalances exist, particularly milk, olive oil, certain fruits and tobacco, and for cereals, so as to introduce a better price hierarchy.

| Product | % change 1976/77 - 1977/78 | | |
|--|-------------------------------|------------|---------------|
| <u>Cereals</u> | | | |
| <u>Durum wheat</u> | | | |
| Target price | - 2.59 | | |
| Single intervention price | - 3.52 | | |
| Aid | | | |
| <u>Other cereals</u> | | | |
| Common single intervention price : common wheat, barley, maize | 1.26 ¹ (3.0) | amount : | 121.57 u.a. |
| Single intervention price : rye | - 1.52 | | 127.6 u.a. |
| Reference price for bread wheat | 3.1 | | 139.8 u.a. |
| Target price : | | | |
| Common wheat | 2.72 | | 162.39 u.a. |
| Rye | - 0.3 | | 154.65 u.a. |
| Maize and barley | 1.56 | | 147.23 u.a. |
| <u>Rice</u> | | | |
| Target price | 0.15 | | |
| Single intervention price | 0 | | |
| <u>Sugar</u> | | | |
| | 1.16 | | |
| <u>Iso-glucose</u> | | | |
| Production contribution | 0 | | 50 u.a./tonne |
| <u>Olive oil</u> | | | |
| Production target price | 0 | | |
| Intervention price | 8.07 | | |
| <u>Oilseeds</u> | | | |
| | 4 | | |
| <u>Dried fodder</u> | | | |
| Fixed rate aid | | u.a./tonne | |
| Guide price | | 1977/78 | 1978/79 |
| | | 9.55 | 3 |
| | | - | 102 |

¹ Maize increased further to align with other cereals.

| Product | % change 1976/77 - 1977/78 | |
|-----------------------------|-------------------------------|---------|
| | u.a./tonne | |
| | 1977/78 | 1978/79 |
| <u>Peas and beans</u> | | |
| Activating price | - | 230 |
| Minimum price | - | 150 |
| <u>Flax and hemp</u> | - | |
| <u>Seeds</u> | - | |
| <u>Wine</u> | 2 | |
| <u>Tobacco</u> | average 2 | |
| <u>Fruit and vegetables</u> | 2 | |
| <u>Milk</u> | | |
| Target price | 2 | |
| Intervention price : | | |
| Butter | 1.9 | |
| Skimmed milk powder | 1.6 | |
| Cheese | 1.3 - 1.6 | |
| <u>Beef and veal</u> | 1.25 | |
| <u>Pigmeat</u> | 3 | |

Modifications to market organizations

90. One most effective way of dealing with market imbalances in the short term is to modify the market organization itself to deal with specific problems, combined where necessary with structural measures.

In the course of recent marketing years a number of very important measures were introduced :

- a distinction drawn between soft wheat for bread-making and feed grain, with the abolition of regional intervention for soft wheat;
- progressive alignment of a single intervention price for feed grain based on barley;
- aid to durum wheat by area rather than quantity, to encourage production of varieties of better quality;
- encouragement to growers to sow colza varieties of a low erucic acid content;
- reorganization of the wine sector to encourage improvement in quality;
- premiums to encourage the grubbing-up of apple and pear trees of the variety for which supply exceeds demand;
- lower than average increase in tobacco premiums differentiated by variety.

In the course of 1977/78, the Commission outlined possible modifications to the beef and veal market organization, so as to introduce a limited system of direct payments to supplement the intervention regime.

The Commission, of course, has implemented a wide range of structural and market measures to bring about a better balance in the milk sector.

Proposed modifications to market organizations

91. The Commission's price package contains proposals for new or revised market organizations :

- new market organizations for processed fodder and for peas and field beans are proposed with the aim of improving the Community's protein supplies by means of financial aid to be granted directly to the processors and producers;
- a revised olive oil regime, aimed at stimulating consumption and so reducing intervention buying;
- a reduction of the sugar B quota from 35% to 20% of the A quota;
- modifications in the programme of sales of milk and certain milk products to schoolchildren at reduced prices.

92. The Commission outlines major modifications in the fruit and vegetable, processed fruit and vegetable and wine sectors in their "Mediterranean" proposals¹.

Cereals

93. In 1976 cereal production fell by 6.9% following the drought, but increased by 13.6% in 1977 as a result of higher yields. In 1977 production developed as follows :

| | |
|--------------|-------|
| Common wheat | + 35% |
| Rye | + 20% |
| Barley | + 24% |
| Oats | + 15% |
| Maize | + 30% |
| Durum wheat | - 32% |

94. Human consumption has remained constant since 1964, while animal consumption increased until 1974 and has declined since then.

¹ COM(77) 526 final

In 1976 gross human consumption increased slightly, but a fall in animal consumption of cereals of 3.5% led to an overall fall in cereal consumption (110.2 million tonnes in 1975/76 as against 113.2 million tonnes in 1974/75).

95. The Community's self-sufficiency declined from 95% to 87%, with net imports of maize of 11.5 million tonnes and net exports of wheat of 2.3 million tonnes and barley 2.1 million tonnes.

96. In 1976 the Community introduced the new pricing relationship for cereals, under which fodder cereals were to be progressively aligned and reference prices for bread-making cereals to be fixed separately.

The principal objective of this modification is to allow the market to determine more precisely prices for cereals according to the particular uses for which they are destined.

97. This system appears to have had a degree of success. Non-farm stocks and intervention stocks have fallen as follows :

Non-farm stocks :

| | <u>1 August 1976</u> | <u>1 August 1977</u> |
|--------------|----------------------|----------------------|
| Total | 12.5 | 11 |
| Common wheat | 6.3 | 6 |
| Maize | | 2.4 |
| Durum wheat | | 1.6 |

Intervention stocks :

| | <u>1974/75</u> | <u>1975/76</u> | <u>1976/77</u> | <u>1.1 - 31.6.77</u> |
|-------------|----------------|----------------|----------------|----------------------|
| Total | 2.2 | 800,000 | 124,000 | |
| Wheat | 2 | 776,000 | 101,000 | |
| Rye | | 21,000 | 28,000 | |
| Barley | | 3,000 | 0 | |
| Durum wheat | | 396,000 | 127,000 | |

98. Budgetary expenditure is as follows :

| | <u>Amount</u> <u>(m.u.a.)</u> | <u>% Guarantee</u> <u>expenditure</u> |
|------|----------------------------------|--|
| 1975 | 620.9 | 13.1 |
| 1976 | 609.8 | 10.8 |
| 1977 | 763.3 | |

The budgetary estimate for 1977 breaks down as follows :

| <u>Total</u> | <u>Refunds</u> | <u>Intervention</u> |
|--------------|----------------|---------------------|
| 76.3 | 470 | 293.3 |
| | | - of which : |
| | | 138 |
| | | aid for durum wheat |

99. For 1978/79, the Commission proposes to further re-align the cereal prices so as to :

- bring the guaranteed price of maize into line with that for other feed grains;
- further encourage the production of bread-making wheat;
- facilitate the disposal of high yield wheat as animal feed;
- take an initial step in re-aligning the price for rye;
- bring the durum wheat price closer to that for common wheat;
- limit the grant of aid to durum wheat to those regions in Italy facing serious social problems (this was proposed by the Commission for 1977/78 but in the course of Council negotiations three additional regions in Italy were added).

| Product | % change 1976/77 - 1977/78 | |
|--|---|-------------------------|
| <u>Cereals</u> | | |
| <u>Durum wheat</u> | | |
| Target price | - 2.59 | |
| Single intervention price | - 3.52 | |
| Aid | | |
| <u>Other cereals</u> | | |
| Common single intervention price : common wheat, barley, maize | 1.26 ₁ (3.0) ¹ | amount : 121.57 u.a. |
| Single intervention price : rye | - 1.52 | 127.6 u.a. |
| Reference price for bread wheat | 3.1 | 139.8 u.a. |
| Target price : Common wheat | 2.72 | 162.39 u.a. |
| Rye | - 0.3 | 154.65 u.a. |
| Maize and barley | 1.56 | 147.23 u.a. |
| <u>Rice</u> | | |
| Target price | 0.15 | |
| Single intervention price | 0 | |

¹ Maize increased further to align with other cereals.

100. The new regime for cereals has proved to have a number of clear advantages : massive intervention has not been required in the last two years, while greater freedom has been introduced for market forces to establish market price levels; these are no longer determined by an artificial price hierarchy but by demand.

A cautious price policy is required, however, since significant increases in production, in the absence of the adverse climatic conditions which have depressed production in the last two years, could lead to pressures on prices and the need for more substantial intervention.

The main point of concern must be the large stocks and continuing production of rye of a quality unsuitable for bread-making and for which no evident alternative use exists. It is important that a more realistic price level for this product be reached in the 1979/80 marketing year.

Rice

101. Rice production in 1976 was 15% down on that for 1975 and no increase was recorded in 1977. This decrease is due to a drop in yields, which offset an increase in area.

Consumption increased in 1975/76 due to the potato shortage. This resulted in a drop in the self-supply and an increase in imports to cover a deficit of 313,000 tonnes.

102. As a result of the supply situation the market prices have been far higher than intervention prices, with consumer prices rising by 33% in Italy. Since 1972 no rice has been offered for intervention.

103. EAGGF expenditure has increased from 1.2 m.u.a. in 1974 to 26.9 m.u.a. in 1976 and is estimated at 21 m.u.a. for 1977. Expenditure is almost entirely devoted to export refunds.

104. Market prices are affected more by the threshold price than by the intervention price, given the self-sufficiency rate. Since the currencies of the producer countries have depreciated and monetary compensatory amounts not applied in this sector, prices have increased at a rate substantially higher than those expressed in units of account.

The Commission, therefore, proposes to maintain the intervention price at its present level, while slightly increasing the target price so as to update transport costs.

105. In view of the impact of exchange rate movements on producer prices, the Commission's proposals appear reasonable. Expenditure on export refunds remains high, however, and internal consumption of Community produced rice could be increased considerably if hard boiling varieties, preferred by many consumers and the processing industries, were to be encouraged by Community measures.

Sugar

106. Consumption has been declining continuously since 1973 and further dropped by 5.3% in 1976/77.

With an increase in the area of yield in 1976, sugar production rose by 3%. Therefore, the self-supply rate rose from 101% to 110% in 1976/77¹.

107. EAGGF expenditure is expected to increase from 226.5 m.u.a. in 1976 to 414 m.u.a. in 1977.

108. The surplus on the world market has continued to depress world prices; refunds now amount to 70% of the intervention price. In this situation the export of the Community's surplus would require more than 600 m.u.a. in refunds, of which, at most, only 30% would be covered by receipts from the production levy.

109. The Commission, therefore, proposes that the maximum quota be reduced from 135% to 120% of the basic quota, while the minimum price for sugar beet and the intervention price for white sugar be increased by 1.16%.

110. The Community has, at present, 3.3 million tonnes of sugar available for export, of which 2.6 million is at the responsibility of the Community (with 700,000 tonnes as 'C' sugar). Imports from the ACP countries amount to 1.3 million tonnes and, therefore, cannot be held to be responsible for the total quantities to be exported.

Low prices on the world market are likely to continue, despite the possibility of purchase by the USSR and China. Moreover, members of the World Sugar Agreement (to which the Community is not yet a partner) have agreed to purchase only from fellow signatories.

In view of the production and world price levels, the proposals from the Commission can only be considered as a first step towards re-establishing a balance in the sugar market. The reduction in the 'B' quota is unlikely to

¹ Details on production, consumption and stocks are given in Annex III.

have dramatic effects : with normal yields, guaranteed production under a maximum quota at 135% would amount to 10.8 million tonnes and, at 120%, to 10.25 million tonnes.

Isoglucose

111. The Commission proposes that the fixed amount production levy be set at 50 u.a. per tonne.

For the current marketing year, this levy is equal to the sugar levy without, however, going beyond 50 u.a. per tonne.

The Commission now proposes for 1978/79 that the isoglucose levy be fixed at 50 u.a. per tonne. However, when the sugar levy falls below 50 u.a. per tonne, it should be fixed at the same level.

This situation is unlikely to apply in 1978/79, but your rapporteur considers that, even if it were, the costs of collection would not make it worthwhile for this provision to be put into effect.

Olive oil

112. It is difficult to provide an exact figure, but, according to estimates, production of olive oil in 1976/77 was the lowest since 1969. At the same time, since 1975 consumption has been steadily falling, with the result that stocks have been building up : from March to August 1977, 6,200 tonnes of olive oil were offered for intervention.

113. Expenditure by the EAGGF has been increasing steadily : 205 m.u.a. in 1975, 216 m.u.a. in 1976 and 290 m.u.a. in 1977.

114. The basic problem facing the olive oil sector is that of falling consumption due to high prices and competition from other fats and oils. Simply to increase the existing production aid would do little to solve these difficulties. In view of the social importance of this aid, the Commission proposes to maintain it while limiting the aid to existing trees and on a standard basis.

The Commission has proposed, therefore, a new market regulation under which aid would vary between the production target price and the market target price.

The producers would receive a price close to the production target price (less the production aid). The difference between that price and the average market price would be refunded to the processors.

Since 1975/76 the production target price has been increased only once by 1.5%. On the other hand, the devaluation of the green lira has had the effect of increasing production target prices by 12.4% and 8.5% in the last two marketing years. The Commission proposes, therefore, to maintain the production target price at its present level.

The market target price will be fixed, in order to be more closely in line with the market situation, at a date as near as possible to the beginning of the market year, that is, before 1 October 1978.

115. The proposed regime has clear advantages :

- consumption will be stimulated and pressure on stocks will be relieved;
- delay in paying aid to producers will be reduced (at present delays are from 18 to 36 months); and
- controls will be facilitated, since they will be effected at the level of refineries (of which there are approximately 12,000) rather than producers (over one million).

116. The European Parliament, for a number of years¹, has requested that the market organization for olive oil be so modified as to take into account market trends.

The present proposal fulfils that request and so, in principle, can be approved. The Committee on Agriculture wishes to assure that the operation of the proposed market organization will not lead to a reduction in the producers' incomes and so requests that a report be submitted to it by the Commission twelve months after the entry into force of the proposed regime.

Oilseeds - colza, rape and sunflower

117. Oil seed production represents 0.3% of the value of Community agricultural production. In 1976/77 colza production increased by 7.8% despite a 1% reduction in area, while sunflower decreased by 18% following a reduction in both area and yield.

Consumption of colza oil has increased, while that for sunflower oil remains stable. Consumption of cake for both products has increased. There are, therefore, no major market difficulties.

Community production covers only a very small part of the requirements (4% to 11%), while imports have increased considerably in the last year.

¹ See reports drawn up by Mr de Koning (Doc. 522/75) on price proposals for 1976/77, and Mr Kofoed (Doc. 9/77) on price proposals for 1977/78.

Following the increase in world prices of vegetable oils, prices for both colza and sunflower have been considerably above the intervention price. The potential for colza and sunflower production is considerable and sunflower is produced only in the southern regions of the Community.

118. It would be to the advantage of the Community therefore to develop the production of oil seeds and a 4% increase is proposed. The Committee on Agriculture doubts whether this price increase would be sufficient to encourage further production and requests that it be further increased.

Dried fodder

119. The Community's rate of self-sufficiency in dried fodder is in the region of 77%. In 1974 a market organization was introduced to offset the production costs of dried plants, but this has failed to maintain the previous levels of production in recent years.

The drought of 1976 led to a decrease in production of 21%, creating under-utilization of factory capacity and an increase in processing costs. Imports, mainly from the United States, increased by 185%. After a period of stabilization, prices rose sharply in 1976, then to drop in June 1977.

120. Support must be offered to the driers, otherwise in low price years it would not be possible for reasonable prices to be paid to the green fodder producers. This in turn will lead to a decline in the production area and replacement by sugar beet and cereal crops, which already cause problems on the Community market.

It is, moreover, in the interest of the Community to encourage production of fodder, given the large deficit of the Community in animal feedstuffs.

121. The present market organization provides for fixed aid which cannot take account of changes in market prices. There are no means to stabilize Community market prices.

If, as at present, the processor must bear the loss created by low prices, he will no longer be able to guarantee a reasonable price to producers. At other times, however, as in the 1976 drought, the paying of an aid is not necessary.

122. The Commission, therefore, proposes a variable aid to be paid when market prices are lower than the norm price so as to allow producers to be paid reasonable prices. The aid will only be granted to processors who conclude contracts with producers processing their own crops or who belong to cooperatives.

123. This proposal can be welcomed by the Committee on Agriculture, even while a certain concern must be expressed that some of the restrictions (obligation to draw up contracts with producers, for example) may limit the impact of the proposal.

One can note, in addition that the Commission proposes, as for soya, a five-year trial period, at the end of which the proposed regime will be reviewed.

Peas and field beans

124. As with dried fodder, in order to improve the Community's protein supplies, the Commission proposes special measures to encourage production of peas and field beans, by means of a variable aid, to enable them to compete with soya meal cake. Aid will be granted when the world market price for soya cake is lower than the activating price, at the rate of 45% of the difference in the two prices. The aid will only be granted to processors concluding contracts which guarantee minimum price to the producers.

Production of peas and field beans, which is closely related to cereal prices, has dropped from 500,000 to 200,000 tonnes in recent years, underlining the necessity for aid.

125. The Committee on Agriculture can welcome this proposal for the same reasons and the same reservations that apply to the modified regime for dried fodder. It should be noted, at the same time, that, though this measure was included in the "Mediterranean" proposals, the climatic requirements of these crops may necessitate irrigation in the Mediterranean regions. This underlines the need for Community measures to encourage agronomic research in Italy, which is lagging behind other Member States.

Soya beans

126. In 1976/77, the Community produced only 2,000 tonnes compared with requirements of 14.5 million tonnes. In 1977/78 the guide price was raised by 7.5% but failed to have an impact upon area zone.

Therefore, one can doubt whether the 4% increase proposed will be sufficient. It is also possible that a change in the method of payment of aid would lead to a more significant impact, if it were to be based on yield by means of a variable aid, so as to encourage the more efficient producer.

Seeds

127. In 1976 production was down 32% as a result of the drought, while market prices increased sharply. The Community, however, was able to meet its requirements thanks to the high level of stocks which on 1 July 1977 still amounted to 86% of production :

| | <u>1976</u> |
|------------|-------------|
| production | 1,140,000 |
| stocks | 978,000 |

Expenditure in 1976 was 23 million u.a. and in 1977 was estimated at 16 million u.a. The main beneficiaries of this, according to production (in quintals) were :

| | |
|----------------|---------|
| Denmark | 334,498 |
| France | 197,840 |
| Netherlands | 185,640 |
| United Kingdom | 153,178 |
| Belgium | 65,918 |
| Italy | 44,297 |
| Ireland | 6,450 |
| Luxembourg | 1,153 |

In view of the high level of stocks, there seems to be no economic or social reason for aid to be granted in this sector.

Flax and cotton seeds

128. In 1976 flax seed production decreased by 20% following a reduction in area due to the new aid system and the drought. World prices were 10% to 15% higher than the previous year.

Cotton seed production has remained fairly steady due to Community measures.

Wine

129. From 1968 to 1975 the average increase in production was 2.6% per year. On the other hand, consumption has continued to stagnate and in 1975/76 dropped by 2.1%

Prices have improved, despite fairly high stocks, and it has not proved necessary for special distillation measures to be undertaken in 1976/77 (2.2 million hectolitres in the previous year). On the other hand, normal management measures led to the distillation of 5.2 million hectolitres for which aid is much lower than that for special distillation.

130. The main purpose of the Commission's management policy has been to exclude selectively the low quality wines from some of the intervention measures (excluding private storage aid for wines of less than 10° rather than 9.5°).

The Commission is examining the possibility of fixing more selective criteria particularly for more long-term contracts.

Such actions must remain the basis of a Community management policy, particularly since distillation measures might encourage the development of high yield low quality wines.

At the same time, a two-year ban on new plantings was introduced in 1976, together with a grubbing premium to last for three years. The Council also engaged itself in May 1976 to adopt, before October 1978, measures to adapt wine production to wine consumption.

131. With these objectives in mind and taking into account the reasonable market prices, the Commission's proposal for a 2% increase in prices seems appropriate.

Raw tobacco

132. World tobacco consumption increased by over 3% in 1976, mainly due to increased demand in developing countries, and followed a period of shortage and high prices from 1972 and 1974. Community consumption, however, is at best stable and is declining in a number of Member States.

Community production has remained stable in the last years, while there has been a significant shift in the production trends for particular varieties.

133. The Commission proposes prices according to the trends in demand, with a status quo for Beneventano and Erzegovina and graduated increases for other varieties.

This policy of adjusting levels of premiums according to trends in demand and supply should be maintained for as long as required by market conditions.

Fruit and vegetables

134. The self-supply rate in the Community has remained unchanged : 79% for fruit, 43% for citrus fruits and 95% for vegetables. Generally, average monthly prices were higher than the basic price in 1976/77 (with the exception of peaches, table grapes in Italy and mandarins).

In 1976/77 countervailing charges, mainly for short periods and specific cases, were required to prevent disturbances on internal markets but not protective measures were applied. Indeed, following the 1976 drought, duties for certain vegetables were suspended for limited periods.

Withdrawals were as follows (% of commercial production) :

| | <u>1975/76</u> | <u>1976/77</u> |
|--------------|----------------|----------------|
| Apples | 10.95 | 2.55 |
| Pears | 7.34 | 12.25 |
| Peaches | 2.79 | 18.39 |
| Oranges | 2.79 | 18.46 |
| Mandarins | 11.83 | 9.09 |
| Lemons | 1.38 | 7.3 |
| Table grapes | | 0.11 |
| Cauliflowers | 1.39 | 0.27 |
| Tomatoes | 2.95 | 0.50 |

Given the trend in market prices it is unlikely that there will be structural surpluses in the Community.

An increase of 2% in prices is proposed, with special measures to improve the marketing of oranges, mandarins, clementines and lemons and the retention over two marketing years of a decreasing marketing premium for lemons.

Milk

135. The problems in the dairy sector are almost too well known to be elaborated further in this report. Deliveries of milk to dairies will increase by about 2.5% in 1977 while consumption of almost all dairy products, except cheese, will, at best, remain stable. The inevitable prospect in 1978 therefore is that high milk yields will result in stocks of butter and skimmed milk remaining at or about their present levels.

136. The Community's Action Programme appears to have some limited success, though at a great cost :

- (a) the subsidy schemes for feeding liquid skim to pigs appears to indicate that greater use may be made of this measure;
- (b) 70,000 tonnes of butter have been placed on the market as a special Christmas sale at about 30% below the normal retail price;

Furthermore, reduced price sales to social institutions, the baking industry and the ice-cream manufacturers are likely to increase consumption in 1977 by 130,000 tonnes.

137. After the slump on the world market, prices have been gradually increasing, and EEC exports will be at significantly higher levels than in the previous years.

It is expected that stocks of butter will be at a reasonable level of 120,000 tonnes in 1978, but intervention stocks may rapidly increase, despite the fact that 40% of the Community's butter is now sold at a subsidized price. The levels of stocks are as follows :

| | <u>1976</u> | <u>1977</u> |
|---------------------|-------------|-------------|
| Butter | 117,800 | 148,400 |
| Skimmed milk powder | 1,181,500 | 884,800 |

138. The Commission proposed an average increase of dairy produce in the region of 1.6%, while, at the same time, maintaining its proposal for a co-responsibility levy of 1.5%.

139. The social importance of milk production in the Community has been sufficiently stressed earlier on in this report. The small producers in the more northerly regions of the Community depend absolutely on milk production. However, they benefit very little from a price increase which largely goes to the bigger producers, while they are severely hit by the political pressures and low market prices brought about by the surplus production.

At the same time there is no evidence that the co-responsibility levy has had the desired psychological effect upon production or that the Commission envisages a truly effective co-responsibility fund able to engage in a dynamic marketing policy.

Furthermore, it is difficult to defend an increase in prices for a product which is so dramatically in surplus.

140. The Community must seek to prevent excessive political pressures building up against any increase in the dairy sector.

Therefore, your rapporteur proposes that the co-responsibility levy, which has proved ineffective, be abolished and, at the same time, there should be no price increase proposed for the milk sector. However, in order to aid the small producer maintain a reasonable income, your rapporteur proposes that the price increase proposed by the Commission should be granted to those holdings which, according to the original proposal, would have been excluded from the co-responsibility levy, that is, holdings delivering less than 10,000 litres and those in the mountain and hill regions.

At the same time, a dynamic marketing policy is required, including schemes such as "Christmas butter", reduced priced sales to encourage consumption and measures to ensure that consumption be maintained on those important markets where exceptional price increases have led to a reduction in sales.

Beef and veal

141. In 1976 the cattle count would appear to indicate that the bottom of the cycle has been reached, while total production of beef and veal was 1.2% below the 1975 figure. From 1968 to 1975, production of beef and veal increased by 2% per year.

There has, however, been a change in the structure of production with larger herds and greater specialization in the three main types of production: cull cows and young cows, adult cattle raised on grass and young male cattle fattened in production units. The proportion of slaughterings of young male cattle is rising and now represents about one third of all slaughterings.

142. In 1976 total consumption of beef and veal remained at the same level as in 1975 and seems stable. Beef and veal production remains very sensitive to prices and income and not much increase in consumption can be expected.

143. Throughout 1976 and for most of 1977 market prices failed to increase and actually fell from 88% to 86.7% of the guide price.

144. Taking account of the market situation and the proposed agri-monetary measures, the Commission proposes that the guide price for adult bovine animals be increased by 2.45%.

Clearly this will have no great significance for producers' incomes, nor will this prudence in price policy be reflected in any way in increased consumption.

The present regime has failed to provide reasonable incomes to producers or acceptable prices to consumers.

145. In October 1977 the Commission presented a report¹ on the merits of a system of premiums in the beef sector and all available evidence indicates that it is only through a system of premiums to offset cyclical effects that reasonable incomes to producers, with a steady increase in production, can be obtained. Improvements in producers' incomes, production growth and consumption can only be expected by means of the adoption of proposals along the lines laid down by the Commission.

¹ COM(77) 220 final and 221 final

Pigmeat

146. Pigmeat production increased by 2.7% in 1976 owing to an increase in slaughterings and average slaughter weights. This increase continued in the first half of 1977, to slow down in the second half.

The market prices peaked in the first half of 1976 and fell in the early part of 1977, to be followed by a rise in the latter period of the year, which will probably continue in 1978.

The Commission proposes, therefore, in order to stabilize market prices by offsetting the cyclical fluctuations in production prices, and also in view of the agri-monetary measures, to increase the basic price by 3%.

147. It is also important to bear in mind that the monetary compensatory amounts in the pigmeat sector are calculated on the basis of the intervention price. The intervention price, however, has never been applied, except for a very short period. Clearly the present system of calculating MCAs in the pigmeat sector has allowed for compensation of monetary fluctuation and the creation of distortions in inter-Community trade. It is essential, therefore, that the Commission's proposal for a modification of the system for calculating MCAs in the pigmeat sector be adopted.

Eggs and poultry

148. Community egg production rose by 0.2% in 1976, while total human consumption remained at the 1975 level.

Market prices were higher in 1976 than in 1975 (plus 13% to 37% according to Member State). Prices of compound feedingstuffs also rose considerably.

149. Production of poultry increased by 4.5% in 1976, while total human consumption increased by 1.7%.

Market prices reached a peak in the summer of 1976 and, in spite of a fall since then, remained at a reasonable level, bearing in mind the cost of animal feed.

150. Expenditure by the Guarantee Section for eggs and poultry amounted to 8.4 m.u.a. in 1975, 13.1 in 1976 and is estimated at 25 in 1977. This is devoted entirely to refunds.

Due to the particular nature of the production of eggs and poultry, mainly non-land based and industrial, the normal market instruments are not applied. In the past, the Commission has indicated that it would propose suggestions for an inter-professional organization to improve the understanding and control of the market. The Committee on Agriculture, therefore, repeats its request for a proposal along these lines to be submitted by the Commission.

Sheepmeat

151. The Community's self-sufficiency rate is improving : 60% in 1973 and 64% in 1976. Imports are declining and exports are negligible.

Sheepmeat prices in the Community are determined mainly by the United Kingdom and French markets : the difference between the two major markets is approximately 4%.

At the moment, there is no common market organization and serious impediments to intra-Community trade exist. It is essential that the Council adopt a limited market organization to ensure free trade between Member States without discrimination.

Conclusions

152. The starting point for any discussion on objectives for agricultural policy must be the growing realisation that present policies have had limited success in bringing about certain of the principal aims laid down in the EEC Treaty, and in particular equality between agricultural regions and sectors.

The report on the situation in agriculture demonstrates clearly the degree to which farm incomes are moving further and further apart, as between, and especially within, countries. According to all the statistics available, farm incomes according to regional location and type of farming are diverging at an accelerating rate.

Many of the smaller family farms, no matter what efforts they employ to improve efficiency, cannot possibly obtain a sufficient or reasonable income as provided for by Article 39 of the EEC Treaty. The situation is most striking for those small farms in Belgium which are unable to benefit from adjustments in green rate currencies, as can farmers in France, Ireland, United Kingdom and Italy.

The Community is faced, therefore, with the fact that it is becoming increasingly difficult to implement the aims laid down for the common agricultural policy.

153. At the same time, political pressures are building up to modify the basic concepts underlying the CAP, as a result of the extensive publicity given to certain problems, and in particular the surpluses which have been built up, such as dairy products.

Greater efforts are required to find solutions to the income problems of producers and to surpluses. But there can be no simple blanket solution. Answers must be tailored to the nature of each particular problem, product by product and region by region.

Greater differentiation is required between the problem facing the smaller family farms and the wider problems of bringing supply in line with demand.

154. The Commission's proposals clearly demonstrate that for a number of major products, dairy, olive oil, wine, beef and certain cereals, the long term supply trends are increasing at a greater rate than consumption. It is in the interest of the farming population that these imbalances are not allowed to continue unchecked and for this reason alone a prudent price policy must be recommended.

155. At the same time there are a number of products in which the Community has a serious deficit and, in particular, vegetable proteins. The Committee on Agriculture can welcome the Commission's proposals to strengthen market organisation so as to encourage their production. Furthermore the Committee on Agriculture believes that the prices proposed for oil seeds, such as soya, sunflower and cotton should be further increased.

Alternative solutions to supply deficiencies in the oils and fats sectors, such as taxes on soya imports, present very serious technical problems since the tariff rates have been tied to the GATT; and serious political implications give the possibility that a trade war with the United States could be initiated.

156. It is not justified to claim that the Commission's present price proposals would have an inflationary effect. Such fears are not the reason for advocating a prudent price policy.

The impact of price proposals on consumers is frequently over-estimated. The part received by the farmer in the prices paid by the consumer represent at most 40%; and the Commission has estimated that a 10% increase in prices would lead to approximately a 1.9% increase in food prices.

The Commission's proposals, therefore, cannot be represented as inflationary. The converse, however, would not be true: if the price increases proposed were to be even further increased, there could be possibly serious inflationary effects.

157. As in previous years the Commission proposes a number of green rate adjustments which have the effect of increasing the average price increase from 2% to 3%. The Committee on Agriculture can agree that at the time of annual price fixing, it is appropriate for limited adjustments in green rates to be effected. However, careful attention must be paid to the specific problems facing particular countries, since over rapid reduction in green rates can lead to extreme pressures on producer incomes, particularly where producers have faced relatively high rates of inflation; and here, one can refer in particular to Belgium and the Netherlands. No purely mechanistic approach can be adopted, since divergent pressures can emerge which cannot be foreseen at any particular moment. The Community should continue, as it has in the past, to make adjustments where it is possible and appropriate.

158. The question of the adjustments of green rates, and indeed the overall price level, is directly related to the unit of account employed in the agricultural sector. The agricultural sector is one of the few where the European unit of account has not been applied. And as the Commission states clearly in its proposals, the present unit of account is no longer an accurate indicator of the effective level of price support in the Community. The Commission stresses that the use of the unit of account in the agricultural sector would enable the annual fixing of prices to be carried out in a more transparent manner.

For these reasons the Committee on Agriculture calls for the early introduction of the European unit of account in the agricultural sector.

159. Concerning the price proposals by sector, the Committee on Agriculture, while agreeing to the general lines of the Commission's proposals, feels that a greater differentiation between surplus and deficit products is required; and that more action is required for those products for which no outlets for surpluses can be foreseen.

160. The re-alignment of the cereal prices, partially introduced in the previous marketing year in order to allow the market greater play to fix realistic prices, has proved to be a success. Artificial price relationships have been eliminated and the disposal of fodder grains has been facilitated.

There remain a number of problems to be solved: the technical requirements for tests to distinguish between bread-making and non bread-making wheat are still to be decided upon. Furthermore, very substantial quantities of rye have built up in the intervention stocks; and no outlet exists, particularly since the greater part of rye produced is not suitable for bread-making. Therefore, criteria should be established to prevent rye, not of bread-making quality, from being placed in intervention stocks.

161. On olive oil, the Committee on Agriculture has maintained its position of previous years. The Committee therefore accepts the Commission's proposal to modify the olive oil regime in order to allow the market to fix the market price and so increase consumption and reduce intervention stocks. The Committee on Agriculture believes that this will be in the interests of producers, particularly since the very long delays in the payment of aid to producers will be reduced. The Committee on Agriculture, at the same time must express concern lest the new market organisation results in a reduction in the income of producers; and, therefore, requests that a report be presented to the European Parliament and the Council, one year after entry into force of a proposed market regulation.

162. For those products for which the Community is in deficit the Committee on Agriculture believes that production should be encouraged; and, therefore, welcomes the proposals for strengthening market organisation for vegetable proteins, and believes that there should be a further increase in the price proposed for oil seeds.

163. On tobacco, the Committee on Agriculture believes the present policy of differentiation between varieties according to their supply and demand situation should be continued for as long as required by market conditions; and, therefore, approves the stand-still in prices for Beneventano and Erzegovina and graduated increases for other varieties.

164. The milk sector is the one with the most serious market problems. Stocks of skimmed milk powder and butter are at unacceptably high levels and no prospect of their reduction can be envisaged.

165. Finally, the Committee on Agriculture must emphasize once more that price policy alone cannot be seen as a substitute for measures to reduce surpluses. A wider range of policies is required, including improvements to market organizations, structural measures, improvements in marketing, measures to stimulate consumption and programmes of measures for individual sectors such as that adopted in 1977 for the milk sector. The Commission's proposals represent a limited step in the right direction; but even if the Council were to follow the Commission's suggestion for prudence in price policy, it is unlikely that the Commission's proposals will achieve the two essential objectives: of ensuring an adequate income to the smaller family farm and the disfavoured regions; and preventing a build up of costly surpluses and the resulting political pressures to modify the very principles of the CAP.

I. NEW MARKET ORGANIZATIONS

Processed fodder :

Previous Regulation

1. Uniform rate of aid throughout the Community to be fixed each year "with the aim of improving the Community's protein supplies".

Reg. 1067/74 on dehydrated fodder¹

2. Norm price to be fixed each year "at a level that is fair to producers".

When the norm price is higher than the average market price for heat dried fodder, additional aid shall be granted :

- (a) at 80% of the difference for artificially heat dried products, lucerne and grass protein concentrates;
- (b) at 40% of the difference for other products (sun dried).

3. Aid to be granted only to those processors who :

- have concluded contracts with producers of fodder;
- process their own crops; or
- to cooperatives processing crops of members.

4. Private storage aid to storage contracts to alleviate temporary market imbalances.

5. Measures to counteract market disturbances caused by imports or exports.

6. Management Committee.

7. Regulation 1067/74 repealed.

Peas and field beans

1. An activating price to be fixed each year to enable producers to compete with oil cake.

2. When average world market price for soya cake is lower than the activating price, aid shall be granted at a rate of 45% of the difference between the two prices.

¹ O.J. No L 120, 1.5.1974, p. 2.

3. Aid only to be granted to animal feed manufacturers who conclude contracts granting minimum prices to producers.

Previous Regulation

Olive Oil

1. Production aid to be limited to olive trees existing at time of entry into force of proposed regulation.
2. Aid to be standardized by applying criteria to determine oil production potential, in order to simplify allocation.
3. Producer's guarantee will remain at equivalent level, but the intervention prices will no longer be limited to the market target price but to the producer's selling price (production target price less the production aid).

Reg. 136/66/EEC¹

The difference between the price paid to the producer and the average market price will be refunded to the purchaser. Consequently, there will be a tangible result for consumers.

Intervention will be restricted to growers and their groups and associations, in order to ensure that aid is reflected in price granted to growers, and that oil receiving an aid cannot be offered for intervention.

¹ O.J. No L 172, 30.9.1966, p. 3625/66.

II. MODIFICATION TO MARKET ORGANIZATIONS

Durum Wheat

1. Aid to be granted only to a more limited number of regions in Italy (Abruzzi, Basilicata, Calabria, Campania, Molise, Puglie, Sardegna, Sicilia and Umbria).
2. Provisions in force for 1977/1978 marketing year.

Amendment to Regulation:

Reg. 2727/75², Art. 10

Cereals

1. No carry-over payment for 1978 harvest or for cereals not of minimum intervention quality.
2. Reference prices in future to be fixed by Management Committee procedure.
3. Changes to the criteria for qualities to be eligible for the application of reference prices and reductions, in order to promote the use of Community cereals in animal feed.

Reg. 2727/75², Art. 9

Reg. 2727/75², Art. 5
(5) and (6)

Rice

Threshold price to be fixed by Management Committee procedure.

Reg. 1418/76⁴, Arts₃
Arts. 14(4) and 15³

Sugar

Reduction of "B" quota from 35% to 20% of "A" quota.

Reg. 3330/74⁵,
Art. 32(4)

Isoglucose

1. A fixed amount production levy to apply in 1978/79 and 1979/80 sugar years¹.
2. When sugar production levy is less than 50 u.a. isoglucose levy to continue to apply at the same rate as sugar production levy.
3. Amount of production levy for period 1 July 1979 to 30 June 1980 to be fixed by the Council according to Management Committee procedure.

Reg. 1111/77⁶, Art. 8

Reg. 1111/77⁶, Art. 9

Reg. 1111/77⁶, Art. 9

¹ Reg. 1111/77 laid down that from 1 July 1978 the production levy on isoglucose should equal that on sugar.

² O.J. No L 281, 1.11.1975, p. 1

⁵ O.J. No L 359, 31.12.1974, p. 1

³ O.J. No L 136, 2.6.1976, p. 6

⁶ O.J. No L 134, 28.5.1977, p. 4

⁴ O.J. No L 136, 2.6.1976, p. 13

Seeds

1. Aid to be fixed for two consecutive years, in order to improve the planning of production. Reg. 2358/71¹, Art. 3(1)
2. Recording of all seed multiplication contracts between undertakings and growers and producers in non-member countries. Reg. 2358/71, new Art. 3(a)

Tobacco

Rates of exchange to remain fixed for the 1977 harvest.

Fruit and vegetables

Continued payment of marketing premiums for lemons from end of 1977/78 marketing year until 1 June 1980, with phased reduction of amount : 50% and 25% in 1978/79 and 1979/80 marketing years of amount applicable in 1977/78 marketing year. Reg. 2511/69², Arts. 6 and 7(2)

Cheese

Modification of tariff descriptions of Common Customs Tariff of certain cheeses, Emmentaler, Gruyère, Sbrinz, Bergkäse, Appenzell and Cheddar. Reg. No 804/68³ and Reg. No 823/68⁴

Milk and milk products

1. Programme of sales of milk and certain milk products to schoolchildren at reduced prices : Reg. 1080/77⁵
 - (a) Community contribution to be 13 u.a. per 100/kg rather than 50% of target price; Art. 1(2)
 - (b) Member States' contribution to be reduced from 50% to 33%; Art. 2(5)
 - (c) only part of increased Community contribution to be assimilated to the measures provided for in Regulation 1079/77 on a co-responsibility levy and measures for expanding the markets in milk and milk products. Art. 3

¹ O.J. No L 246, 5.11.1971, p. 1

² O.J. No L 318, 18.12.1969, p. 1

³ O.J. No L 148, 28.6.1968, p. 13

⁴ O.J. No L 151, 30.6.1968, p. 3

⁵ O.J. No L 131, 26.5.1977, p. 8

2. Consumer subsidy for butter in United Kingdom to be gradually aligned on Community arrangements for financing the subsidy : Reg. 880/77¹, Art. 3(1)

(a) from 1 April 1978 to 30 June 1978 :

- 100% for that portion not exceeding 28 u.a./100 kg.;
- 25% for that portion in excess of 28 u.a./100 kg.;

(b) from 1 July 1978 to 30 September 1978 :

- 100% for that portion not exceeding 23 u.a./100 kg.;
- 25% for that portion in excess of 23 u.a./100 kg.;

(c) from 1 October 1978 to 31 December 1978 :

- 100% for that portion not exceeding 18 u.a./100 kg.;
- 25% for that portion in excess of 18 u.a./100 kg.

Calf premium (applicable in Italy)

To be continued for a further twelve months.

Reg. 464/75²

Incentives for investment in milk sector

Milk production incentives provided for in Directive 72/159/EEC suspended, except :

Directive 72/159/EEC³

- (a) to aids granted to investments of 20,000 u.a. or below per UTH;
- (b) to farms producing at least 80% of required fodder;
- (c) in Mézzogiorno region.

Silkworms

Additional aid not to be granted.

¹ O.J. No L 106, 29.4.1977, p. 31

² O.J. No L 52, 28.2.1975, p. 5

³ O.J. No L 96, 23.4.1972, p. 1

FORECAST FROM VALUE ADDED PER WORKER, REAL FARMS, 1977

| | |
|-------|-------|
| EEC-9 | + 0.5 |
| Ger | - 8.0 |
| Fr | + 8.6 |
| Italy | - 2.5 |
| Neth | - 5.2 |
| Bel | - 6.7 |
| Lux | + 2.8 |
| UK | 0 |
| Irel. | 21.5 |
| DK | 10.9 |

GROWTH IN GROSS VALUE ADDED PER WORKER IN REAL TERMS

| | 1971 = 100 | 1973 = 100 |
|-------|------------|------------|
| Ger | 102.9 | 91.2 |
| Fr | 122.5 | 99.7 |
| Italy | 138.0 | 104.6 |
| Bel. | 107.4 | 85.4 |
| Neth | - | 92.4 |
| Lux | 118.2 | 97.8 |
| UK | 115.2 | 96.5 |
| Irel | 172.5 | 125.9 |
| DK | 168.1 | 133.2 |
| EEC | - | 99.4 |

SITUATION ON THE COMMUNITY SUGAR MARKET

Estimates for the 1977/1978 marketing year :

| | |
|--------------------------------|---|
| - Production : | 11,300,000 tonnes, of which 700,000 tonnes of 'C' sugar |
| - Existing stock : | 1,600,000 tonnes, of which |
| Minimum stock : | 900,000 tonnes |
| Disposable stocks : | 700,000 tonnes |
| Imports from ACP countries : | 1,300,000 tonnes |
| Quantity of sugar for export : | 3,300,000 tonnes, of which 2,600,000 for which the Community is responsible 700,000 as 'C' sugar |

ANNEX IV

The average bread-making quality of common wheat

1. Common wheat is considered to be of average bread-making quality if, after the grain has been milled into flour, the dough made from this flour is not viscid and can be kneaded, and if, after the dough has fermented and been baked, the volume of bread obtained and the crumb texture satisfy the quality standards of normal bread-making.
2. Bread quality is closely linked to the quality and quantity of the gluten contained in the common wheat since the stability and elasticity of the dough depend on the gluten.
3. There are various methods of measuring the quality of the gluten (e.g. measuring the gluten content, Chopin's alveograph). It can be measured by the baking test, which is still not reliable despite the fact that it has been the subject of Community studies, or by measuring the protein content and by the Zelemy test (measuring the extent to which the flour rises).
4. Until the baking test becomes sufficiently reproducible and reliable in the nine Member States, the Commission has proposed to the Council the second alternative as a standby solution (measuring the protein content and Zelemy test), together with the Hagberg test (fermentability of the dough).

ANNEX V

PER CAPITA CONSUMPTION OF THE MAIN FOOD PRODUCTS

(average in kg per inhabitant and per year in 1973-76)

| Product | EEC 9 | National range | | | |
|--|-------|----------------|-----|-----------------------------------|----|
| | | maximum | | minimum | |
| Cereals (not including rice) | 83 | Italy | 128 | Netherlands | 63 |
| Sugar | 38 | Ireland | 48 | Italy | 30 |
| Potatoes | 80 | Ireland | 121 | Italy | 37 |
| Vegetables (incl. preserves) | 99 | Italy | 154 | Denmark | 49 |
| Fruit (including preserves and fruit juices) | 60 | Germany | 87 | Ireland | 29 |
| Citrus fruit | 23 | Italy | 37 | Ireland | 10 |
| Wine (litres) | 50 | France | 103 | Ireland | 2 |
| Milk (fresh products, other than cream) | 102 | Ireland | 217 | Italy | 73 |
| Meat (not including offal) | 76 | France | 90 | Denmark | 62 |
| of which : beef and veal | 25 | Belg/Lux | 31 | Denmark | 16 |
| pigmeat | 33 | Germany | 51 | Italy | 18 |
| poultrymeat | 12 | Italy | 16 | Netherlands | 7 |
| Vegetable oils and fats (average 1974-75) | 14 | Italy | 20 | Ireland | 7 |
| Butter (fat) | 6 | Ireland | 11 | Italy) Netherlands) | 2 |
| Eggs (including processed products) | 14 | Germany | 17 | Italy) Benelux) Denmark) | 11 |

INCOME AND PRICE ELASTICITIES

| | <u>Income elasticities of demand for</u> <u>individual foods 1973</u> ¹ | <u>Price elasticities 1968 - 1973</u> |
|------------------|---|---------------------------------------|
| Milk | 0.11 | - 0.09 |
| Cheese | 0.37 | - 0.11 |
| Beef and veal | 0.42 | - 1.57 |
| Mutton and lamb | 0.24 | - 0.96 |
| Pork | 0.32 | - 1.06 |
| Broiler chicken | 0.1 | - 0.88 |
| Sausages (beef) | 0.1 | - 0.48 |
| " (pork) | 0.5 | |
| Eggs | 0.21 | - 0.09 |
| Butter | 0.24 | - 0.4 |
| Sugar | 0.13 | |
| Potatoes | 0.04 | - 0.12 |
| Fresh vegetables | 0.38 | |
| Fresh fruit | 0.7 | - 0.57 to - 1.55 |
| Bread | 0.02 | - 0.32 |
| All foods | 0.18 | |

¹ United Kingdom only; HMSO, Household Food Consumption and Expenditure 1973.

OPINION OF THE COMMITTEE ON BUDGETS

Draftsman: Mr CAILLAVET

On 23 January 1978 the Committee on Budgets appointed Mr Caillavet draftsman.

It considered the draft opinion at its meetings of 2 February and 2 March 1978 and at the latter meeting adopted it unanimously.

At the same meeting the committee approved by 8 votes to 5 the Commission's proposal for an overall increase in agricultural prices of 2% but felt that there should be no increase in the prices of surplus products. Furthermore, it unanimously called for an improvement in the budgetization of revenue and expenditure connected with the co-responsibility levy. The draftsman was asked to amend his opinion to take account of these decisions.

Present: Mr Lange, chairman; Mr Caillavet, draftsman; Mr Aigner, Lord Bruce of Donington, Mr Früh, Mr Hughes (deputizing for Mr Hansen), Mr Jakobsen (deputizing for Lord Bessborough), Mr Kofoed, Mr Notenboom, Mr Schreiber, Mr Scott-Hopkins, Mr Shaw and Mr Spinelli.

INTRODUCTION

1. Having been asked for its opinion on the Commission's proposals on agricultural prices for 1978/79 and related measures, the Committee on Budgets has the task, this year as every year, of analysing these proposals and determining their financial and budgetary consequences.

Before proceeding with this analysis, certain introductory remarks need to be made.

Agricultural prices and the Community Budget

2. The fixing of agricultural prices for a given marketing year is, in financial terms the most important act of the year, since these prices largely determine agricultural expenditure, and this expenditure represents on average almost 75% of the European budget.¹ It must, however, be borne in mind that the budget only contains relatively approximate estimates of expenditure, since this expenditure is highly dependent on the economic climate.

3. On the other hand, it should be remembered that the level of agricultural prices to a certain extent determines the total levies applied to agricultural products imported by the Community and thus directly influences an important proportion (about 10%) of the Community's budgetary revenue.²

4. In practice the strictly budgetary implications of the decisions on prices are difficult to assess insofar as the financial year and the agricultural marketing year overlap, the first beginning on 1 January, and the second in April/May³. Thus decisions on prices have consequences for the budget already voted, insofar as they affect agricultural expenditure between May and December, and on the following financial year, insofar as they affect agricultural expenditure up to the month of September.

¹ 74% in 1976.

² 9.4% in 1976

³ The agricultural marketing year is always based on a period of 12 months, but the date on which the year starts varies considerably according to the product (for example, milk in April, wine in September). This further complicates the relationship to the calendar year (on which the budgetary year is based).

5. The connection between decisions on agriculture and budgetary problems justifies the insistence with which Parliament has called for the Council's decisions on prices to be immediately followed - if this appears necessary - by a draft supplementary or rectifying budget (which should clearly come to terms with the consequences of the decisions on agriculture). What is at stake here is the fundamental principle of financial responsibility which the Commission declared its intention of adopting and applying during the last budgetary year.

6. Similarly, experience of past years has shown that in dealing with such a difficult and wide ranging brief, the Commission has come to make considerable modifications to its proposals during their consideration by the Council and even to hold in reserve complementary or alternative propositions for possible subsequent introduction into the 'negotiations' as and when circumstances require. Parliament sometimes gives its opinion on initial proposals by the Commission which ultimately undergo fundamental modification. This modification means that the financial consequences of the proposals are themselves modified, or even completely transformed, in the course of negotiations, and that the opinion of the Committee on Budgets is virtually left by the wayside as the debate develops. The committee is therefore obliged to try to keep its original opinion rather general in scope, while keeping a watch on the development of discussions within the Council and reserving the right to intervene again when the final decision begins to emerge.

7. Finally, the importance of this matter explains why Parliament has already expressed its intention, given the right combination of legal and political prerequisites, of asking the Council to initiate a conciliation procedure to give the Assembly more say in the final decisions.

ANALYSIS OF THE COMMISSION'S PROPOSALS

8. Before setting out the specific proposals underlying this opinion, a particular set of circumstances must be noted which may influence Parliament's decision on prices and related measures this year. Indeed, the Commission has simultaneously laid before the Council two separate proposals of great importance concerning:

- Mediterranean agriculture
- the monetary compensatory amount mechanism (MCA)

9. It is clear that these three subjects are intimately linked both on the technical level (cf. the interdependence between the proposals on prices and on the monetary compensatory amounts) and on the political level (the proposals relating to Mediterranean products being seen as a way of re-establishing the equilibrium of the current agricultural policy of the Community). It would therefore be desirable if the Committee on Budgets and the Parliament made efforts to take up an overall position on these three series of proposals, especially in view of the fact that when they go before the Council they will probably be treated as a single 'package' within which the usual negotiations and compromises will be affected.

The Commission's proposals on prices and related measures

10. It is not necessary for the Committee on Budgets to go over the Commission's numerous and complicated proposals again in detail. It will be enough to give a general description before going into the specific financial and budgetary consequences in greater detail. As every year, these proposals fall into three categories: prices, agri-monetary measures and related measures.

a) The price proposals

11. The Commission proposes an average increase of 2%. It clearly recognises the very limited nature of this increase and justifies it on two grounds: serious economic difficulties burdening the non-agricultural structures of the Community economy, and the persistence of large imbalances in various sectors of agricultural production. This increase of 2% has to be considered in the light of the increase of 4.2% which would have been permitted under strict application of the 'objective method' of price calculation. Recognizing that this 2% average in fact covers a wide range of different levels of increase according to the product concerned, the following figures may serve as a guide:

| | | |
|-------------------------------|-----|---------|
| - milk (target price) | | + 2% |
| - butter (intervention price) | | + 1.9% |
| - beef | " " | + 1.25% |
| - common wheat | " " | + 1.26% |
| - sugar | " " | + 1.16% |
| - olive oil | " " | + 8.07% |

b) Agri-monetary measures

12. Contrary to previous years, the Commission is presenting a global and undifferentiated proposal on modification of the representative rates; this proposal is basically aimed at achieving a reduction of 1/7th in the level of the current compensatory amounts. In doing this the Commission is only applying in advance the mechanism for the progressive running-down (over 7 years) of the monetary compensatory amounts, which is the subject of a separate proposal for a regulation.

13. The Commission states that this reduction of 1/7th in the monetary compensatory amounts would have a similar effect to a 1% increase in agricultural prices and would be added to the proposed 2% increase.

c) Related measures

14. This year these measures, which are very numerous, relate to practically all the market organizations and are aimed at adapting them to new situations and new needs.

15. The principal measures are as follows:

- reduction of the quota to which the sugar price guarantee will apply,
- extension of calving premium,
- extension of the co-responsibility levy and the isoglucose levy,
- aid for processed feedingstuffs.

FINANCIAL AND BUDGETARY CONSEQUENCES OF THE COMMISSION'S PROPOSALS

16. As it did last year, the Commission has taken pains to set out the financial consequences of its proposals in a particularly careful and detailed annex. The financial and budgetary consequences will be considered separately.

The financial consequences

17. In their present state the Commission's proposals would permit the achievement both of economies in expenditure and of increases in revenue as compared with the appropriations and resources provided for in the 1978 budget.

18. The expected addition to resources would be of the order of 39.8 MEUA for the 1978 financial year and 74.8 MEUA for the full year (i.e. for the marketing year). This additional revenue is derived from the increase in levies consequent on the price measures. At the same time it should be remembered that these are not really additional resources since they will in fact be deducted from the GNP contributions of the Member States.

19. The economies in expenditure can be broken down as follows:

in MEUA

| Financial consequences of ¹ | Consequences for the 1978 budget ¹ | Consequences for the full year ¹ |
|--|---|---|
| - prices | + 33.4 | + 192.6 |
| - agri-monetary measures | - 31 | - 43 |
| - related measures | - 11.5 | - 161.4 |
| <u>TOTAL</u> | <u>- 9.1</u> | <u>- 11.8</u> |

¹ As compared with the 1978 budget

This table shows that:

- the price increases will cause appreciable increases in expenditure in a full year but relatively modest increases as regards the 1978 budget.
- the agri-monetary measures, on the other hand, will permit considerable economies, especially under the 1978 budget,
- the related measures are calculated to produce considerable economies in the long-term.

Budgetary consequences

20. In theory the Commission's proposals avert the necessity for a supplementary agricultural budget in 1978. However, they do necessitate a rectifying budget to permit the implementation of the numerous modifications of appropriations within the various chapters of the EAGGF caused in particular by the related measures.

21. As to the expected increase in revenue, this does not call for a supplementary budget either, but could also necessitate rectification of the statement of revenues in the 1978 budget.

COMMENTS BY THE COMMITTEE ON BUDGETS

22. Before passing judgement on the Commission proposals, the Committee on Budgets must point out that these proposals are both uncertain and provisional. At this stage, while the Committee on Budgets can certainly give an opinion on the inherent merits of the Commission's initial proposals, it must not lose sight of the fact that these merits are somewhat academic.

Uncertain and provisional character of the proposals

23. These forecasts are uncertain because experience shows that in agricultural matters it is particularly difficult to assess with any precision a level of expenditure closely linked to harvests, world prices and fluctuations in rates of exchange¹.

Moreover this year there is all the more uncertainty in the proposals in that they were made in November 1977 and, since that date, there has been an appreciable revision of both the agricultural and monetary estimates for the 1978/79 marketing year².

24. The forecasts are also very provisional because the history of the last five years shows, as was pointed out in the introduction, that the Commission is often resigned in advance to the need to make considerable modifications in its proposals in response to the reception they receive in the Council. But even partial modification of these proposals can have considerable financial consequences.

Assessment of the Committee on Budgets

25. Precautious as they are, these proposals nevertheless incorporate the technical and political intentions of the Commission, and the Committee on Budgets must take up a position with regard to them, on the basis of the three categories distinguished above.

(a) The price proposals

26. The increase proposed for 1978/79 appears relatively modest by comparison with the increases made in 1977/78 (+ 3.9%) and 1976/77 (+ 7.7%). Similarly, it is lower than the figure obtained by the 'objective method' (+ 4.2%) or the demands of the professional bodies (+ 5%) for 1978/79.

¹ See point 3 of Annex I for comparison between forecast and actual expenditure of the EAGGF/Guarantee Section in 1976 (i.e., a difference of 8%).

² When making its annual price proposals, the Commission generally updates their financial implications in step with economic trends. This year the price proposals were prepared much earlier and the Commission will not be calculating the supplementary expenditure estimates due to economic trends until after the Council's decisions on prices: i.e., next April. This adds considerably to the artificial nature of the Commission's financial estimates.

27. The increase in expenditure due to this rise will therefore probably be reasonably limited; the following table indicates the financial consequences of the three percentage increases quoted:

| <u>Increase in prices for 1978/79</u> | <u>Financial consequences over 12 months¹</u> |
|---------------------------------------|--|
| 2 % | + 193 m EUA |
| 4.2% | + 440 m EUA |
| 5% | + 524 m. EUA |

¹ As compared with the 1978 budget.

28. In 1977, the Committee on Budgets accepted the average price increase proposed by the Commission (+ 3%) but refused any increase in prices on products in surplus¹; the Committee on Budgets considered that price support measures should reflect a will to improve production structures, imbalances which incur high expenditure on storage and even the destruction of products².

29. The Committee on Budgets remains convinced that a common agricultural policy based only on price support would soon involve the Community in intolerable charges on its budget without producing any solution to the problem of imbalances in certain areas of production, which are the principal cause of excessive expenditure.

30. The Committee on Budgets feels that it should maintain this year the position it adopted in 1977 and hence approve the Commission's proposal for an overall increase of 2%, on the understanding that there should be no price increase for surplus products.

(b) Agri-monetary measures

31. The sole measure proposed by the Commission consists of reducing by one seventh the current compensatory amounts. This would permit an economy of 43 m EUA over the duration of the marketing year: but this measure is the subject of a separate proposal for a regulation on which the Committee on Budgets is to formulate a separate opinion.

¹ Doc. 9/77 Annex.

² See point 2 of Annex I, 1976 expenditure by type of operation

32. Here, therefore, the Committee on Budgets can only restate the position of principle which it has affirmed many times in relation to agri-monetary expenditure and the conclusions of its previous Opinion on the 1977/78 agricultural prices, in which it stated its view that monetary compensatory amounts should be dispensed with as soon as economic conditions permit.

33. It should also be pointed out that the February devaluation of certain 'green rates' will enable the Community to achieve more substantial economies than those made possible by the automatic reduction of monetary compensatory amounts by one-seventh¹.

34. As regards the present opinion, the Committee on Budgets must therefore restrict itself to renewing its appeal for a progressive but real reduction in agri-monetary expenditure, which, in 1976, represented almost 16% of total EAGGF expenditure²; furthermore, your draftsman considers it desirable for the planned dismantling to be carried out over a shorter period of time than that proposed, if possible within three years.

(c) The related measures

35. The most important of these measures are aimed at improving the quality of production (e.g., cereals), and restricting the volume of surplus products (e.g., sugar and dairy products). They are therefore capable of improving the profitability of these areas of production in the long term, but, starting from the 1978/79 marketing year, they will also permit the achievement of considerable budgetary economies as is shown by the following table:

| <u>Related measures</u> | <u>Financial consequences over 12 months</u> |
|---|--|
| - <u>cereals</u> : raising of the quality levels for intervention | - 85 m u.a. |
| - <u>sugar</u> : limitation of the quota eligible for refunds | - 173 m u.a. |
| - <u>milk</u> : continuation of the co-responsibility levy ³ | - 214 m u.a. ³ |

36. Other related measures, on the other hand, imply supplementary expenditure, but they too contribute to the attempt to rationalize markets:

| | |
|---|-------------|
| - <u>butter</u> : consumer subsidy ³ | + 50 m u.a. |
| - <u>beef</u> : calving premiums ³ | + 77 m u.a. |

¹ Devaluation of the 'green rates' of the British pound, the Italian lira and the French franc would permit a reduction of the monetary compensatory amounts borne by the Community by some 165 m EUA over the 78/79 marketing year.

² see point 2 of Annex I

³ These measures were already in force during the previous marketing year.

37. In total, these related measures seem, therefore, to be inspired by the same concern for the restoration of equilibrium in production and markets as the price proposals. In addition, their overall effect represents an economy of 161.4 m EUA for the 1978/79 marketing year¹. The Committee on Budgets is therefore able to give a favourable opinion in respect of them.

38. The co-responsibility levy on milk production; the Committee on Budgets must express certain reservations on the proposal for a regulation fixing the co-responsibility levy for the 1978/79 milk year. Without taking up a position on the appropriateness - as regards agricultural policy - of this levy, the Committee on Budgets must state that its introduction into the budgetary sphere poses certain delicate problems;

- the levy is a sort of para-fiscal tax, the revenue from which is exclusively applied to expenditure incurred in the milk and dairy product sector;
- the levy is not an 'own resource' of the Community in the sense of the decision of 21 April 1970. For this reason, it was possible to introduce it in 1977 by means of a regulation - and without ratification by the Member States;
- neither the levy nor the revenue it produces are therefore in a true sense 'budgetized'². They are thus neither subject to the budgetary authorization of Parliament nor to its a posteriori control;
- utilization of the revenue produced by the levy is decided on by the Commission 'in concertation with trade circles'.

39. It should also be noted that the revenue produced by this levy does not represent a real saving since all the fiscal revenue is to be disbursed to finance various promotional measures for milk and milk products.

40. It is clear that the Treaty of Rome does not exclude the introduction of taxes of this nature within the context of common market organizations; but it is equally clear that the revenue and expenditure involved must be formally and fully entered in the budget so that it is the budgetary authority - and, in particular, Parliament by virtue of the budgetary powers assigned to it by the Treaties of 1970 and 1975 - that determines its amount and utilization.

¹ See above, point 19

² In the 1977 and 1978 budgets, the revenue produced by this levy is entered as 'negative expenditure' and deducted from the overall total of expenditure for the milk and milk products sector. This rather unorthodox and doubtful method of presentation was questioned by the Committee on Budgets and Parliament at the time.

41. All these factors which have been briefly summarized here make plain the highly uncertain character of this levy from the point of view of budgetary orthodoxy. Moreover, the Committee on Budgets has already pointed out the risks involved in the creation of the sort of Community para-fiscality which would be completely outside the control of Parliament¹.

42. This problem is therefore quite serious and merits the attention of the Committee on Budgets, which will certainly wish to propose appropriate solutions at the earliest opportunity. It therefore feels that an improved system of budgetizing the co-responsibility levy, which guarantees Parliament's budgetary rights, should be worked out and adopted for the 1979 budget.

COMMENTS ON THE 'AGRICULTURAL' SUPPLEMENTARY BUDGETS

43. Despite the - traditional - reassuring words from the Commission, it is very likely that implementation of the Council's decisions on prices and related measures will - this year as every year² - require the adoption of an 'agricultural' supplementary budget³.

¹ The Commission apparently intends introducing similar taxes in several common market organizations (see especially its recent proposals on alcohol) and thereby setting up a new para-fiscal 'system'. The Committee on Budgets has already commented on this matter in its opinion on isoglucose (PE 51.976/rev.) where it states:

'9. In view of the effects which this development could have on Community taxation, and consequently on the budgetary powers of Parliament, this point should be brought to the attention of the committees responsible, and the Committee on Budgets should be invited to conduct a general examination of this question at an early date.'

² Except in 1974, see Annex II

³ See above points 23 and 24

44. The Committee on Budgets has already pointed out this problem to the Council and Commission¹ but has not received a satisfactory answer. But with time the problem is becoming more acute in so far as the 'agricultural' supplementary budgets:

- are involving large amounts which substantially alter the original estimate and thereby make the financing of the Community budget an unstable and uncertain matter;
- no longer simply result from the annual price review but also embrace the financial consequences of an ever-increasing number of 'related' measures.

45. In practice, then, these supplementary budgets are in the nature of a second Community budget and are in fact the annual agricultural budget proper. The appropriations allocated in December as part of the initial budget are therefore no more than simple estimates made with no real attempt to foresee actual expenditure.

46. Now that the problem has been stated, the Committee on Budgets must pursue its deliberations with a view to proposing means of remedying this situation, which appears to be in glaring contradiction both with the new Community Financial Regulation² and with the principles of budgetary orthodoxy and administration.

CONCLUSIONS

47. The Committee on Budgets requests the committee responsible to take account in its motion for a resolution of the following conclusions:

- (a) the price increase should be limited to 2% as proposed by the Commission, on the understanding that there should be no price increase for surplus products;
- (b) the Commission's proposals concerning agri-monetary and related measures are to be welcomed since they should lead to improvements in the common market organizations.

48. The Committee on Budgets further requests the committee responsible to include the following provisions in its motion for a resolution:

- (a) the Commission is invited to propose, for the 1979 budget, a system of budgetizing revenue and expenditure connected with the co-responsibility levy on milk which fully guarantees the European Parliament's budgetary rights;

¹ See the 1977 report of the ad hoc Working Party (Doc. 119/77, pp.37-39)

² Article 1(5): 'In the event of unavoidable, exceptional or unforeseen circumstances, the Commission, may submit preliminary draft supplementary or amending budgets.

- (b) the Commission is also invited to submit proposals capable of solving in future the problems connected with agricultural supplementary budgets;
- (c) Parliament reserves the right to initiate the conciliation procedure should the Council intend to deviate from its opinion.

ANNEX I

| |
|---------------------------------------|
| <p>EAGGF 1976 FINANCIAL TABLE</p> |
|---------------------------------------|

1. TOTAL EAGGF EXPENDITURE

5,834 m u.a.

Guarantee

5,570 (95.5%)

Guidance

264 (4.5%)

2. EAGGF GUARANTEE SECTION: TOTAL EXPENDITURE BY TYPE OF OPERATION

5,570 m u.a.

Agricultural expenditure

4,705 (84.5%)

| | |
|--------------------------------|---------------|
| com- 1. price support | 1,705 (36.2%) |
| prising 2. refunds | 1,474 (31.3%) |
| 3. storage | 1,225 (26%) |
| 4. withdrawal, denaturation | 300 (6.4%) |

Monetary expenditure

865 (15.5%)

| |
|--------------------------------------|
| com- 1. MCA 505(59.5%) |
| prising |
| 2. Accession compensatory amounts |
| 360 (40.5%) |

3. EAGGF GUARANTEE SECTION: COMPARISON BETWEEN ESTIMATES/RESULTS

5,570 m u.a.

| | <u>Estimates</u> (initial budget 1976) | <u>Result</u> | <u>Discrepancy</u> (%) |
|---------------------------------|--|---------------|---------------------------|
| <u>Agricultural expenditure</u> | 4,637 | 4,705 | + 1.4 |
| <u>Monetary expenditure</u> | 523 | 865 | +39.7 |
| Total | 5,160 | 5,570 | + 7.9 |

4. EAGGF GUARANTEE SECTION: AGRICULTURAL EXPENDITURE BY SECTOR

4,705 m u.a.

| | |
|----------------------------|-------|
| 1. Dairy products | 2,051 |
| 2. Meat (beef, veal, pork) | 671 |
| 3. Cereals and rice | 636 |

| | |
|--------------------------|-----|
| 4. oils and fats | 309 |
| 5. fruits and vegetables | 244 |
| 6. tobacco | 229 |
| 7. sugar | 226 |
| 8. wine | 172 |
| 9. others | 167 |

5. EAGGF GUARANTEE SECTION: EXPENDITURE BY MEMBER STATES

5,570 m u.a.

| | <u>Expenditure by</u> <u>country</u> | <u>Percentage</u> | |
|-------------|---|---------------------------------------|---|
| | | <u>of total</u> <u>expenditure</u> | <u>of total agri-</u> <u>cultural product-</u> <u>ion</u> |
| France | 1,409 | 25.3 | 26.8 |
| Italy | 1,053 | 18.9 | 19.2 |
| Germany | 880 | 15.8 | 22.9 |
| Netherlands | 757 | 13.6 | 8.3 |
| U.K. | 468 | 8.4 | 11.8 |
| Denmark | 432 | 7.7 | 4.7 |
| Belgium | 337 | 6 | 4.2 |
| Ireland | 225 | 4 | 1.9 |
| Luxembourg | 8 | 0.14 | 0.1 |

6. EAGGF GUARANTEE SECTION: TOTAL EXPENDITURE AS PERCENTAGE OF COMMUNITY GNP

| | <u>Gross expenditure</u> | <u>Net expenditure</u> ¹ |
|------|--------------------------|-------------------------------------|
| 1970 | 0.55 | 0.37 |
| 1971 | 0.29 | 0.15 |
| 1972 | 0.38 | 0.24 |
| 1973 | 0.47 | 0.40 |
| 1974 | 0.34 | 0.30 |
| 1975 | 0.46 | 0.40 |
| 1976 | 0.47 | 0.38 |

¹ i.e., after deduction of agricultural revenue (levies and sugar production levy)

Source: EAGGF Financial Report for 1976

ANNEX II

BUDGETARY ESTIMATES AND RESULTS
RELATING TO THE EAGGF GUARANTEE SECTION

| | <u>Estimates</u> | | <u>Results</u> ¹ |
|------|---------------------------------|---------------------------------------|-----------------------------|
| | <u>Initial</u> <u>Budget</u> | <u>Supplementary</u> <u>Budget</u> | |
| 1973 | 2,942 | + 864 | 3,614 |
| 1974 | 3,513 | - | 3,107 |
| 1975 | 3,980 | + 260 | 4,727 |
| 1976 | 5,160 | + 717 | 5,570 |
| 1977 | 6,167 | + 934 | (not available) |

¹ Taking account of carry-forwards and transfers of appropriations

OPINION OF THE COMMITTEE ON THE ENVIRONMENT, PUBLIC HEALTH AND
CONSUMER PROTECTION

Draftsman: Mr W. MÜLLER

On 25 January 1978 the Committee on the Environment, Public Health and Consumer Protection appointed Mr Willi Müller draftsman.

It considered the draft opinion at its meeting of 22 February 1978 and adopted it unanimously.

Present: Mr Ajello, chairman; Mr Baas, vice-chairman; Mr Willi Müller, draftsman; Mr Andersen, Mr Didier, Mr Edwards, Mr Lamberts, Lord St. Oswald and Mrs Squarcialupi.

I. The Commission's proposals for the 1978/79 marketing year

The Commission's proposals for the 1978/79 marketing year may be subdivided as follows:

1. The fixing of common agricultural prices and related measures,
2. Agri-monetary measures to phase out monetary compensatory amounts,
3. Proposals on Mediterranean agriculture.

1. Price proposals

The Commission proposes an average 2% increase in common agricultural prices for the new marketing year, thereby maintaining its previous policy of cautious and moderate price increases.

The following price adjustments are proposed for certain important products: durum wheat - 3.59%, common wheat + 1.26%, rye - 1.52%, maize - 3%, rice \pm 0%, sugar + 1.16%, olive oil + 8.07%, table wine + 2%, milk + 2%, beef and veal + 1.25%, pigmeat + 3%.

The Commission has proposed these price adjustments to take account of the general economic situation, the situation on certain agricultural markets and the needs of the agricultural community. Had the Commission considered solely the needs of the agricultural community in formulating its price proposals, it would have arrived at an average increase of 4.18% by the 'objective method'. Quite rightly it did not consider this increase justifiable in view of the general economic situation.

2. Agri-monetary measures

On 31 October 1977¹ the Commission submitted to the Council a proposal relating to the fixing of representative conversion rates in agriculture, and the gradual phasing out of monetary compensatory amounts. In the context of the 1978/79 price package this proposal provides for a minimum MCA reduction of 1/7th.

3. Measures to assist Mediterranean agriculture

The individual measures here are:

- (a) structural measures: collective irrigation projects, improvements in the road, electricity and drinking water supply networks, afforestation measures, an improved agricultural advisory service and the conversion of areas under vines in the Languedoc-Roussillon region.
- (b) Market organization measures: improvement in the market organization for fruit and vegetables wine and olive oil, and the reorientation of agricultural production by expanding specific sectors.

¹COM(77) 482 of 31.10.1977

II. The initial situation

1. Agriculture and the economy in general

In the explanatory memorandum to its price proposals¹ the Commission properly points out that the Community is still suffering from an economic recession characterized by unemployment (5.6%) and inflation. Some industrial sectors, such as steel, textiles, and shipbuilding, are facing particular problems. Agriculture is suffering ~~less~~ in comparison because of existing market organizations with their price and marketing guarantees, protection against cheap imports from third countries and compensatory amounts which cushion the effects of currency fluctuations. In this way farmers can to some extent safeguard their incomes by increasing production (without running the risk of not being able to sell their products). On the other hand, it is clear that agriculture is going through a period of contraction and conversion which is resulting in the closure of many small farms, a drift away from the countryside and unemployment. In a period of general economic recession this contraction is causing quite specific problems.

2. Price trends in the Community

The Community's 1977 inflation rate of 9.1% was high again, although it ranged from 3.7% in Germany to 15% in Italy. The general upturn in prices resulted partly from price increases for food and drink (3.2% in Germany and 16.9% in Italy). However, producer prices for agricultural products in 1977 showed a downward trend. The producer price index ranged from - 4% in Germany and the Netherlands to + 12.3% in Italy and + 21% in Ireland. This downward trend is partly accounted for by reaction to the relatively high rates of increase noted in 1975 and 1976. On the other hand, it is possible that the Commission's cautious, anti-inflationary price policy is beginning to record its first successes. In the 1977/78 marketing year, the average level of common agricultural prices expressed in units of account increased by only 3.9%, as against 7.7% in 1976/77 and 9.6% in 1975/76.

3. Imbalances on certain agricultural markets

The imbalances on certain agricultural markets (e.g. milk and milk products, sugar, wine, olives, fruit, meat) persist. The Commission feels that in 1978 the surplus situation in milk and milk products and sugar will be even more acute.

¹COM(77) 525 final, volume 1, p.2

A disturbing trend has also been noted in olive oil and certain kinds of tobacco.

On 1 February the intervention stocks of skimmed milk powder stood at approximately 900,000 tonnes, despite massive releases from stock in recent months. Seasonal factors brought butter stocks down to 181,849 tonnes. For some months now the intervention stocks on the beef and veal market have been fluctuating around 320,000 tonnes. In the 1977/78 marketing year the Commission expects a Community sugar surplus of 3.3 million tonnes.

Whereas the annual population increase in the Community is less than 1%, agricultural production has increased over the past few years by 2-3% (milk 1.7%, sugar 2.6%, wine 2.2%, beef and veal 2.7%, cereals 1%). Furthermore, it is noteworthy that the per capita consumption specifically of those products with a structural surplus is stable or even decreasing¹.

The Commission identifies two major causes of imbalance between supply and demand on the markets concerned²:

- (a) the partly unlimited marketing guarantees which lead to farmers safeguarding or even increasing their income by increasing production,
- (b) the relatively high level of prices which has a negative effect on consumption.

Experience has shown that in a period of recession and high unemployment, the negative effect exerted by high prices on consumption is particularly marked.

Despite this disturbing situation your committee could not agree with the demands made by some producer groups for a general price freeze for surplus products. So drastic a price policy would be particularly anti-social in a period of economic recession because it would force many small farmers to give up farming with no prospect of finding employment in other economic sectors. Moreover, the price policy on its own seems to be a most unsuitable instrument for restoring market balance in the short term. Your committee is of the opinion that the agricultural policy - together with a moderate price policy - should pursue more intensively two lines of approach:

- (a) the restriction of sometimes unlimited marketing guarantees in one form or another, and effective co-responsibility on the part of the farmers,
- (b) the extension of the present structural, regional and social policy which is still in its early stages.

¹1977 Report on the agricultural situation, p.99

²COM(77) 525 final, Volume I, p.6

Your committee welcomes the Community's programme for Mediterranean agriculture. However, it must express its concern at the fact that the structural policy is still the Community's Cinderella, as a simple glance at the budget will prove. The ratio of expenditure between the EAGGF's structural policy and Guarantee Section is 5:95. Apart from the relatively marginal nature of this structural programme, in practice it does not produce the desired effect. According to unofficial information from the Commission, there have so far been only 11,500 applications from farmers wishing to take advantage of the Community's non-marketing and conversion programme in the milk sector; and of these, some 10,000 came from Germany alone. In the other countries, therefore, the programme seems largely to have fallen on deaf ears. The co-responsibility levy on milk, which, moreover, your committee welcomes, will largely be offset by the present low prices for feed concentrate and by favourable production conditions.¹ The Commission estimates, therefore, that milk production in 1977 will increase by 3% and expects a similar increase in 1978. An effective co-responsibility levy would consequently have to be much higher.

The same is true of sugar. The quota system was unable to restore the market balance but this was due in no small measure to the fact that the quotas were fixed in accordance with political considerations and at too high a level. We must wait and see whether the reduction proposed by the Commission is adequate.

Nor can intervention stocks be effectively reduced by special sales promotions, 70,000 tonnes of butter were released from stock for the Christmas butter promotion and 50,000 tonnes of fresh butter bought in. This measure was therefore only a moderate and relative success. Nevertheless, campaigns of this nature should be introduced more frequently, especially for the benefit of the Community's underprivileged classes. And in line with the Commission's proposals, food aid for the least developed countries should be increased.

4. The monetary situation and the need to phase out MCAs

The aim of the Community's agricultural policy is to bring about a single market with common agricultural prices. Today the Community is further removed from this goal than it was when the common agricultural policy began. At present prices vary from country to country by as much as 40%. The causes are to be found in the divergent national economies with their regional imbalances, the differing trends in costs and prices, the lack of convergence between the economic policies of the Member States and in the non-existent common monetary policy. In order to remedy this situation and uphold

¹COM(77) 490 final, Volume 1, p.7

the objective of the common agricultural market, the system of 'green rates' and monetary compensatory amounts was introduced. However, this system has been able to eradicate distortion of competition between the Member States.

It is self-evident that MCAs must be phased out if the common agricultural market is to be considered as a practical political goal and not simply a theoretical exercise. On the other hand, the phasing out must be gradual - as the Commission proposes - because of the impact this measure will have on production, prices and consumption. But at the same time it must not be used as a pretext for increasing the common agricultural prices expressed in the of account.

III. Effect of the Commission's proposals; (1) on national producer prices; and (2) on the cost of living and food prices

1. Effect of the Commission's proposals on national producer prices

To estimate the national price changes for the 1978/79 marketing year it is necessary to consider the combined effect of the increase in the common agricultural prices expressed in units of account and the 'green rate' adjustments. The Commission has made this calculation, taking account of the 'green rate' adjustments recently effected by France, Italy and the United Kingdom and the adjustments it had proposed within the framework of the price package. The results are as follows:

Effects of proposed price increases in units of account and of adjustments in the green currency rates on producer prices expressed in the national currencies

| | In units of account | Green rate adaptations already agreed | Effect of reducing MCA by one-seventh (1) | Combined effect of green rate change and price rises |
|----------------|---------------------|---------------------------------------|---|--|
| Germany | 2.1 | | - 1.1 | 1.0 |
| France | 1.9 | 2.6 (2) | 2.1 | 6.7 |
| Italy | 1.6 | 6.4 (2) | (3) | 8.1 |
| Netherlands | 2.1 | | - 0.2 | 1.9 |
| Belgium | 2.2 | | - 0.2 | 2.0 |
| Luxembourg | 1.9 | | - 0.2 | 1.7 |
| Denmark | 2.2 | | - | 2.2 |
| United Kingdom | 2.0 | 8.1 (4) | (3) | 10.3 |
| Ireland | 1.7 | | 0.3 | 2.0 |
| Community | 1.9 | | 3.3 (5) | 5.3 |

(1) Based on 'Diminution des écarts de 1/7', version No. 9, of VI/G/4

(2) Effective from 1 February 1978. In the case of Italy, effective from 1 February 1978 for milk, beef and veal, pork and sugar

(3) Assuming that no further green rate change will take place in the price fixing

(4) Part of the adaptation entered into force 2 February 1978, for beef and veal and pork, full effect comes into force in all cases with the start of 1978/79 campaign years

(5) Combined effect of green rate changes already agreed and reduction of existing MCAs (except for Italy and the United Kingdom) by one-seventh

The table clearly illustrates the effect of 'green rate' adjustments on national prices. The combined effect on prices amounts to only 1% for Germany, 1.7% for Luxembourg and 1.9% for the Netherlands but to 6.7% for France, 8.1% for Italy and as much as 10.3% for the United Kingdom.

The figures also illustrate the various problems facing the countries concerned: in the 1978/1979 marketing year, farmers in the Benelux countries and in Germany will once again suffer a loss in real income as a result of stable prices (the nominal rates of increase are lower than the rate of inflation), while consumers in France, Italy and the United Kingdom will once more face price increases resulting from the relatively high rates of increase at the producer stage. Against the background of these divergent national interests, the Commission's proposals represent a step in the right direction. Its price proposals reflect a stability policy pursuing long-term aims which seem to be equitable. Although they call for special sacrifices in the interests of stability from farmers in the countries with strong currencies, especially the Benelux countries, this appears acceptable since agriculture has enjoyed a certain amount of protection in the present difficult economic situation.

Your committee also supports the Commission's view that because of their effect on national prices, 'green rate' adjustments should be included in the annual farm price review.

2. Effect of the Commission's proposals on the cost of living and food prices

It is very difficult to estimate the effect of the Commission's proposals. It depends on a number of varying factors, such as the amount of raw material contained in the end product, the supply-and-demand situation on the various markets, production trends, the food products' share in the overall cost of living etc. In the past the Commission has therefore only given rough overall estimates of the effect of its proposals, with varying success. This year - at the request of the parliamentary committees - it has submitted the following unofficial country-by-country estimate of the effect on prices:

Effects of proposed price increases in units of account and of adjustments in the green currency rates on consumer prices for foodstuffs and on cost of living.

| | in units of account | | Green rate adaptations already agreed | | Effect of reducing MCA by one-seventh | | Combined effect of green changes and uc price rises | |
|----------------|---------------------|----------------|---------------------------------------|----------------|---------------------------------------|----------------|---|----------------|
| | food | cost of living | food | cost of living | food | cost of living | food | cost of living |
| Germany | 1.1 | 0.2 | | | 0.6 | 0.1 | 0.5 | 0.1 |
| France | 0.8 | 0.2 | 1.1 | 0.2 | 0.8 | 0.2 | 2.8 | 0.6 |
| Italy | 0.8 | 0.2 | 3.2 | 1.0 | | | 4.0 | 1.3 |
| Netherlands | 0.9 | 0.2 | | | - 0.1 | - 0 | 0.8 | 0.2 |
| Belgium | 1.1 | 0.2 | | | - 0.1 | - 0 | 1.0 | 0.2 |
| Luxembourg | 1.2 | 0.3 | | | - 0.1 | - 0 | 1.1 | 0.2 |
| Denmark | 1.3 | 0.3 | | | | | 1.3 | 0.3 |
| United Kingdom | 1.1 | 0.2 | 4.5 | 0.8 | | | 5.8 | 1.1 |
| Ireland | 1.2 | 0.3 | | | 0.2 | 0.1 | 1.4 | 0.4 |
| Community | 0.9 | 0.2 | | | 1.6 | 0.3 | 2.6 | 0.6 |

The figures speak for themselves and amply illustrate the need for a country-by-country estimate. In future, such an estimate should also be drawn up for each product and each group of products to enable reliable and meaningful forecasts to be made.

Reference should also be made to the fact that the process whereby every price increase at the producer level affects all subsequent stages (processing industry, wholesaler and retailer) is not included in these estimates and, since there are no empirical data available, it probably cannot be calculated without very extensive studies.

But even if we include this in our calculations we can see that the effect of the Commission's price proposals is less than the general rate of inflation expected in the 1978/79 marketing year and will therefore stabilize rather than increase prices.

IV. CONCLUSIONS

The Committee on the Environment Public Health and Consumer Protection

1. Welcomes the fact that the Commission is resolutely continuing its cautious anti-inflationary policy and hopes that the Council will endorse this policy;
2. Agrees that MCAs should be gradually phased out and firmly supports the Commission's view that 'green rate' adaptations should be considered as part of the annual price package and jointly discussed and adopted by the Member States;
3. Shares the Commission's point of view that imbalances on certain agricultural markets are caused by the - partly - unlimited marketing guarantees at a relatively high price level and that even a moderate price policy cannot solve this problem in the short term;
4. Looks for Commission proposals, based on its analysis of the situation, for measures to solve the problem of unlimited marketing guarantees and to provide for effective and perceptible forms of co-responsibility for farmers in the case of surplus products;
5. Looks for forecasts of production, consumption and sales of agricultural products which will provide those responsible for taking national and Community decisions with long-term data on production, marketing and consumption;
6. Is of the opinion that the Community policy on safeguarding farmers' incomes by means of prices alone has its weaknesses and faults; hopes, therefore, that the Commission will show sufficient courage to supplement it by a stronger, resolute structural policy which will take account of regional differences in agriculture and the social interests of those concerned, and which will also duly acknowledge the public value of agriculture in protecting the environment and the countryside;
7. Assumes that such a policy will have to be financed by the Community and Member States' budgets and proposes as a first step that the appropriations for the Guidance Section of the EAGGF should be increased at the expense of those for the Guarantee Section;

8. Regrets that the Commission is unable to calculate more specifically the effect of its price proposals on the cost of living and food prices product by product and country by country and calls on it to initiate the studies and create the conditions which will enable it to do so in the future;
9. Urges the Commission to launch special campaigns to offer intervention products to the Community's underprivileged classes and also to use these products in greater measure as food aid for the benefit of the least developed countries;
10. Requests the committee responsible, the Committee on Agriculture, to take account of these recommendations and conclusions in its motion for a resolution, insofar as it has not already done so.