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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.

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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