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COMPLEMENTARY REPORT

drawn up on behalf of the Committee on Agriculture

on the proposals from the Commission of the European Communities to the Council (doc. 582/77-1) on the fixing of prices for certain agricultural products and certain related measures for the 1978/79 marketing year

Rapporteur: Mr Mark HUGHES

1.2.1

English Edition

PE 52.820/fin.

By letter of 9 March 1978 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 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.

The Committee on Agriculture appointed Mr Hughes rapporteur.

It considered these proposals at its meeting of 30/31 March 1978.

At the same meeting the committee adopted the motion for a resolution and the explanatory statement by eleven votes to seven with two abstentions.

Present: Mr Kofoed, Chairman; Mr Ligios, Vice-Chairman; Mr Hoffmann (deputizing as rapporteur for Mr Hughes); Mr Andersen, Mr Brégégère, Lord Brimelow, Mr Brugger, Mr Cifarelli, Mr Corrie, Mr Dewulf, Mrs Dunwoody, Mr Früh, Mr Herbert, Mr Klepsch (deputizing for Mr Ney), Mr Klinker, Mr L'Estrange, Mr Pisoni, Mr Tolman, Mr Veronesi (deputizing for Mr Pistillo) and Mr Vitale.

The complementary opinion of the Committee on the Environment, Public Health and Consumer Protection is attached.

The opinion of the Committee on Budgets is being published separately.

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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 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(78) 80 final),
- having been consulted by the Council pursuant to Article 43 of the EEC Treaty (Doc. 582/77-I),
- having regard to the complementary report of the Committee on Agriculture and the complementary opinions of the Committee on Budgets and the Committee on the Environment, Public Health and Consumer Protection (Doc. 35 /78),
- 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),
- having regard to the report 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 1978/79 marketing year (Doc. 579/77),
- whereas price policy should contribute to ensuring fair incomes to producers, reasonable prices to consumers and to maintaining market equilibrium,
- 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,

Milk and Dairy Products

1. 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;
2. Notes, at the same time, that milk production is increasing despite a decrease in area and cow numbers and that, according to the report of the Commission, the response to the non-marketing and conversion premiums has been poor and has failed to compensate for the yearly increase in milk production due to improvements in yield;
3. Believes, in consequence, that greater and more coherent action is required to reduce the milk cow numbers and milk marketed and, at the same time, to stimulate consumption of milk and milk products;
4. Approves, as a preliminary step, the Commission's proposals to extend the period of application of the non-marketing and beef conversion premiums until the end of the 1978/79 marketing year and to improve and simplify their application;
5. Notes the Commission's statement that the proposal to suspend intervention purchases of skimmed milk powder from 1 October 1978 to the end of the 1978/79 marketing year will affect an estimated quantity of skimmed milk powder in the region of 40,000 tonnes and that these proposed measures will adversely affect the incomes of producers;
6. Considers, however, that such a measure can be approved only in the case that truly effective alternative measures to maintain market and producer prices were adopted, particularly means to improve marketing and stimulate consumption of dairy produce;
7. Welcomes, in consequence, the proposals to enlarge the list of products benefiting from aid for the supply of milk products to schoolchildren and to increase the Community contribution;
8. Notes the Commission's statement that the general subsidy scheme and the scheme for the sale of butter at reduced prices for ice cream manufacture and butter concentrate will not be sufficient to maintain balance on the butter market;

9. Approves, therefore, the proposal to make available 50 million u.a. for additional measures to stimulate disposal on the internal market, but only on the condition that much greater information is supplied on the measures envisaged and that an adequate budgetary control can be effected;
10. Requests the Commission to present before the end of the 1978/79 marketing year a report on the effect of the application of the co-responsibility levy and the measures to be financed from the proceeds of the levy;
11. Requests the Commission, pursuant to Article 149, second paragraph, of the EEC Treaty, to incorporate the following amendment in its proposal amending Regulation (EEC) no 804/68 as regards the conditions for the buying-in of skimmed milk powder by intervention agencies.

Beef and veal sector

12. Reminds the Commission of the European Parliament's opinion that the proposals for a limited direct payment system should be introduced so as to encourage consumption and safeguard the incomes of producers of beef breeds;
13. Notes that the Commission considers that further examination of such improvements in the market organization of the beef and veal sector is required;
14. Approves, therefore, as a preliminary step, the Commission's proposal to introduce a greater degree of flexibility in the application of the intervention system for particular qualities and to improve the harmonization of the coefficients expressing the relationship between the prices of beef qualities and the price of adult bovine animals;

Starch sector

15. Recognizes the economic difficulties facing the potato starch industry and approves, in consequence, the Commission proposal to increase by 2% the minimum price paid by starch manufacturers to potato growers and to provide for a compensatory premium for the starch manufacturers.

Proposal from the Commission of the European Communities
to the Council for a regulation amending Regulation (EEC)
No 804/68 as regards the conditions for the buying-in of
skimmed milk powder by intervention agencies

Preamble and recitals unchanged

Article 1

The following subparagraph is added
to Article 7(4) of Regulation (EEC)
No 804/68 :

"Such conditions shall include
measures ensuring that priority is
given to other Community measures
offering the interested parties
equivalent possibilities of disposal.
To this end, under the conditions
determined in accordance with the
first subparagraph, buying-in by the
intervention agencies may be
suspended."

Article 1

The following subparagraph is added
to Article 7(4) of Regulation (EEC)
No 804/68 :

"Such conditions shall include
measures ensuring that priority is
given to other Community measures
offering the interested parties
equivalent possibilities of disposal.
To this end, under the conditions
determined in accordance with the
first subparagraph, buying-in by the
intervention agencies may be
suspended for the 1978/79 marketing
year.

The Commission shall report to the
European Parliament and the Council,
not later than 1 March 1979, on :

- (a) the effects of the measures
designed to provide disposal
possibilities equivalent to
intervention for skimmed milk and
and skimmed milk powder;
- (b) how prices have moved in the
Community following the suspen-
sion of buying-in in accordance
with paragraph 1."

Article 2 unchanged

EXPLANATORY STATEMENTIntroduction

1. At the time of the presentation of the proposals on agricultural prices for 1978/79 in December 1977, the Commission indicated its intention to supplement those proposals.

The European Parliament is now called upon to draw up a supplementary report on measures to improve the operation of the milk and beef markets, which face problems of market balance, together with a proposed measure to deal with a specific problem in the starch sector.

Milk sector

2. The report drawn up on the price proposals¹ drew attention to the fact that the imbalance in the milk sector is worsening and that the Commission's proposals to improve the situation would not be sufficient to reduce present levels of surplus production.

3. Deliveries of milk to dairies will increase by about 2.5% in 1977, while consumption of almost all dairy products will at best remain stable.

4. The limited effectiveness of the measures proposed by the Commission to remedy this situation is underlined by the report² presented by the Commission on the operation of the system of premiums for non-marketing and reconversion. The report states that participation in the scheme is far below expectations. Cow milk production shows a yearly increase from 0.8% to 1%. On the other hand the share of approved requests under the scheme amounts to only 0.75%. Even the rate of yearly increase in milk production is not yet compensated.

5. The Commission, therefore, proposes to improve the operation of these schemes and to extend their application until the end of the 1978/79 marketing year.

The main improvements proposed by the Commission are as follows :

- (a) to increase aid particularly for smaller producers;
- (b) to remove the upper limit of 120,000 kilograms of milk;
- (c) to simplify procedures;
- (d) and to modify the rules of application.

¹ Doc. 579/77

² Doc. 582/77-I, Annex

6. The improvements in these schemes, even in the unlikely event that expectations were to be fulfilled, would not alleviate problems caused by the imbalance in the milk sector. The Community would still be faced by substantial amounts of skimmed milk powder being offered into intervention. In the final analysis, this question can only be solved by a more thorough review of the manner in which price support is implemented.

7. There can be little dispute concerning the necessity for effective instruments to maintain minimum price levels. There are, however, a number of ways in which this can be done :

- (i) the removal from the market of an amount of dairy products sufficient to maintain prices at or above the required floor level;
- (ii) the same effect can be achieved by increasing consumption of dairy produce or of skimmed milk in animal feed;
- (iii) and increasing food aid.

8. The following table shows the amounts of butter which have been taken from the market either into intervention or through exports of food aid, or which have benefited from special measures to encourage consumption within the Community.

Special marketing measures for butter
(1,000 tonnes)

	1970	1971	1972	1973 ¹	1974	1975	1976
Internal market	112	15	35	110	110	125	107
Exports	138	182	56	310	117	56	94
Food aid	14	14	16	20 ²	32	36	47
Total	264	211	107	440	270	217	242
¹ From 1973 : Europe - Nine ² Of which 200,000 tonnes to USSR							

9. The Commission, therefore, proposes to maintain the general butter subsidy scheme and to improve existing schemes to finance the distribution of liquid milk in schools by enlarging the list of products which can benefit to include flavoured liquid skimmed milk and yoghurt containing fruits.

Furthermore, the Commission proposes to make available again 50 m.u.a. for additional measures to be decided at a later date to stimulate internal consumption.

In order to make the subsidized skimmed milk powder used for animal feed more competitive, the Commission proposes that the upper and lower limits governing aid be increased from 33 - 43 to 38 - 48 u.a./100 kg.

10. Clearly, to the degree that such measures are able to maintain stability of market prices, the necessity for intervention will be reduced. The Commission, in consequence, considers that it would be justified to suspend intervention purchases of skimmed milk powder from 1 October 1978 to the end of the 1978/79 milk year, at which time the Council (but not Parliament) should review the measures required to support the market in the following milk year.

The Commission states that this measure will have an insignificant impact on producers' incomes, since it will result in only 40,000 tonnes of skimmed milk powder being excluded from intervention buying (compared to intervention purchases ranging from 870,000 to 470,000 tonnes in recent years), and due to the fact that new schemes have been introduced to encourage the incorporation of fresh powder and liquid skim in animal feed.

11. The Parliament is to be consulted only on the modification allowing for the suspension of intervention when measures are adopted to allow for the disposal of equivalent amounts; the Council alone should decide on whether to extend suspension of intervention in following marketing years. The Parliament should also be given the possibility of judging the effectiveness of this proposal, which should be limited, therefore, on an initial basis, to the 1978/79 marketing year.

12. The Commission believes that modification to the present regulation is required, given the high level of skimmed milk powder entering intervention. The amounts are declining, but this trend must be encouraged.

Intervention purchases of skimmed milk powder

1975	875,000 tonnes
1976	640,000 tonnes
1977	470,000 tonnes

13. Additional savings would be achieved, since energy expended on the drying of skimmed milk would be conserved. Furthermore, the measures proposed by the Commission, if adopted, would constitute a warning by processors not to invest in drying equipment which afterwards might prove to be uneconomic.

14. Before the Committee on Agriculture can give its full approval to the proposal to interrupt intervention buying of skimmed milk powder, it must be assured that the alternative means proposed for maintaining producer prices (i.e. measures to stimulate consumption of dairy produce and skimmed milk in animal feed) will be successful.

Beef and veal sector

15. The Committee on Agriculture, in its report on the prices, drew attention to the fact that the present beef regime does not allow for acceptable prices to consumers nor for reasonable incomes to producers.

One result has been that beef consumption has failed to increase and provide for adequate market prices.

In 1976 total consumption of beef and veal remained at the same level as in 1975 and appears to be stable. Given the fact that the consumption is very sensitive to prices and incomes, and the relative price of alternative meats such as pork and poultry, not much increase in consumption can be expected.

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

Thus, in 1974 the Community took protective measures (which were only dropped in April 1977) and stocks rapidly increased. Even now the Community has considerable stocks of beef and veal amounting to between 300,000 and 400,000 tonnes.

Meat consumption, kg./per capita : EEC 9

	<u>1960</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1985</u>
Beef	21.0	25.5	25.2	26.6	27.3
Pork	24.4	29.6	32.4	34.5	35.9
Poultry	5.5	10.3	12.1	13.0	14.0
All categories	60.9	76.6	81.8	86.4	89.8

16. Intervention is, and must remain, the principal instrument to ensure stability of market prices and adequate incomes to producers.

The very real problems, which have existed in the past, must be recognized on the other hand. The Community has been unable to master the beef cycle, which is increasing in intensity while shortening in duration; it is complex in origin, being governed by a number of factors : period of production, market prices for beef, milk prices and the relationship between the prices of feedstuffs (maize) and beef.

The result is that incomes of beef producers are less stable than those of other comparable sectors. This, of course, further inhibits any movement towards greater specialization of beef : between 1968 and 1978, the proportion of beef derived from the milk herd has remained unchanged.

Moreover, the application of permanent intervention has revealed at times the insufficiency of stocking and freezing capacity in the Community in the face of substantial buying-in. Such problems have only increased the difficulties of market management.

At present, instability in production has led to insecurity in prices and producers' incomes. Market managements capable of offsetting the production cycle are urgently required. At the same time, greater flexibility in marketing must be introduced. If not, pressure on price policy will be created, leading to an emphasis on a prudent price policy which will be unacceptable to producers and not an accurate reflection of the cost/price/income problems facing the sector.

Faced with these problems of production, consumption and market management, the Commission has proposed that modifications be introduced into the market organization for beef and veal.

17. In October 1977, the Commission presented a report on the respective merits of a system of premiums and intervention measures and outlined a modification of the present regime so as to combine conventional intervention systems with variable premiums paid directly to producers. In addition it suggested more support to be paid for private storage.

18. These proposals ran into considerable opposition in the Council and are still under discussion. The Commission, therefore, proposes more modest improvements to the intervention system for the coming marketing year, to replace the Commission's existing proposal, made for the 1978/79 marketing year or for those of 1976/77 and 1977/78, that intervention be suspended when the market price in a Member State is 95% of the guide price or above.

These modifications include :

- (a) the possibility of suspending totally or partially in a state or region buying-in by intervention agencies of fresh or refrigerated meat in the form of carcasses, half carcasses and compensated quarters, forequarters or hindquarters of particular qualities, when the price in a particular Member State remains above the maximum buying-in price; the maximum buying-in price is to be calculated by applying to 90% of the guide price a coefficient expressing the normal relationship between the price of each quality and that of adult bovine animals;
- (b) the improvement of the organization of the coefficients expressing the price relationship between qualities;
- (c) the restriction of intervention buying-in during the summer months to forequarters if the market price situation in the Community as a whole so permits.

It is also proposed to continue for the 1978/79 marketing year the system of slaughtering premiums, otherwise known as the "Peart" premiums.

19. The Committee on Agriculture can approve these proposals to introduce greater flexibility in the management of the beef sector, thus moving closer to the original application of the beef intervention system which had operated successfully for many years.

At the same time, the Committee on Agriculture reminds the Commission and the Council of the conclusions contained in the European Parliament's report¹ on the price proposals for 1978/79 : that the present beef and veal market has failed to provide adequate incomes to producers or reasonable

¹ Doc. 579/77

prices to consumers; and that, therefore, the Commission's proposals for a limited direct payment system by means of variable premiums should be introduced. The present proposals can be seen only as a preliminary step towards the introduction of a truly effective anti-cyclical policy in the beef sector.

Starches

20. The Community's starch industry is presently facing a number of economic problems which have resulted in a number of factories closing. On the other hand, potato growers have received reasonable increases in the minimum prices paid by manufacturers.

Since the production refund must be passed on by the manufacturers to the growers, and the manufacturer's position should not be improved at the expense of the growers by limiting the minimum price, the Commission proposes the establishment of a special premium to be retained by the manufacturers, of 10.00 u.a./tonne, at the same time as an increase of 2% in the minimum price for growers.

Conclusions

21. The Commission has proposed a number of complementary measures to the proposals considered in the report drawn up by Mr Hughes¹.

22. These proposals in general are intended to give greater width and flexibility to the Community in supporting prices and incomes in the milk and beef sectors.

23. In the milk sector, the Commission's package of measures to restore market balance have so far failed to have the desired effect. In particular, the reconversion and non-marketing premiums have failed even to offset increases in production caused by improved milk yields. On the other hand, much greater success has been achieved by the scheme to increase sales of skimmed milk powder and liquid skimmed milk for pigs. This measure represents an effective alternative to intervention for limited amounts of skimmed milk and powder.

24. The Committee on Agriculture can approve, therefore, the proposals to improve the application of the non-marketing and reconversion premiums and to encourage consumption by widening the scope of subsidized sales of dairy produce in schools.

¹ Doc. 579/77

25. The Commission also proposes that there be introduced a modification to the basic regulation No 804/68, so as to give priority to measures other than intervention which allow for the disposal of equivalent amounts of dairy produce and so allow for the suspension of intervention. This is to be a general modification, unlimited in duration. At the same time, the Commission proposes a further regulation, on which the Parliament is not to be consulted, proposing that intervention in skimmed milk powder be suspended between the 1st of October 1978 and the end of the 1978/79 marketing year, at which time the Commission shall report to the Council (and not the Parliament) on the effect of the alternative measures to intervention in respect of prices on Community markets.

26. The Parliament should also be given the possibility of judging the effectiveness of the proposed suspension, which should be limited, therefore, on an initial basis to the 1978/79 marketing year and can be approved only on condition that truly effective alternative measures to maintain producer prices are adopted.

27. The Committee on Agriculture can approve the Commission's proposal to allow for greater flexibility in the management of the beef sector by allowing for the suspension of intervention in each Member State or certain regions for particular qualities of meat when their price exceeds their maximum buying-in price over a certain period.

The Committee on Agriculture points out the income problems facing producers in this sector and the failure of consumption to increase; it, therefore, reminds the Commission and the Council of the need for a truly effective anti-cyclical policy and the European Parliament's belief that a limited direct payment system by means of variable premiums should be introduced.

28. Finally, in view of the difficulties facing starch manufacturers, the Committee on Agriculture approves the proposal for the introduction of a special premium.

COMPLEMENTARY OPINION

of the Committee on the Environment, Public Health and Consumer
Protection

Draftsman: Mr Willi MÜLLER

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

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

When the Commission forwarded additional proposals forming part of the
price package for the 1978/79 marketing year, the committee decided, at its
meeting of 21 March 1978, to deliver a complementary opinion. At the same
meeting it examined the draft of this complementary opinion and adopted it
unanimously.

Present: Mr Baas, acting chairman; Mr Willi Müller, draftsman;
Mr Fitch (deputizing for Mr Ellis), Mr Guerlin, Lord Kennet, Mr Dewulf
(deputizing for Mr Ney), Mr Schyns, Mr Santer (deputizing for Mr Verhaegen)
and Mr Lamberts.

From the procedural angle the committee would have preferred the Commission to submit a single, complete price package for the 1978/79 marketing year to enable a uniform assessment to be made and to avoid repeated consultation of Parliament and its committees. At the same time it recognizes the difficulties faced by the Commission if it is to react quickly and flexibly to the latest developments on the agricultural market.

As to the substance of the proposals, the committee would make the following points:

1. The prolongation of the scheme for the non-marketing of milk and the conversion of dairy herds by an extra year and the increase in premiums, particularly for small producers, are to be welcomed. The committee has already pointed out in its earlier opinion that the measures taken so far were not having sufficient effect and ought to be recast in more attractive form.
2. The suspension of intervention purchases of skimmed milk powder over the period 1.10.1978 to 31.3.1979 is a step in the right direction. It is in line with our committee's proposals contained in section IV of the opinion of 22.2.1978.
3. The committee welcomes in principle all reasonable measures for the sale of surplus milk products on the Community market. It prefers this way of reducing intervention stocks to selling at low prices on the world market. For this reason it welcomes the inclusion of further products (e.g. fruit yogurt) in the support system for school milk. Furthermore it is of the opinion that the sale and consumption of milk (in place of other drinks) in schools should be promoted by advertising and marketing programmes.
4. The committee also welcomes the provision of 50m u.a. for additional measures to encourage sales of butter on the Community market. It regrets, however, that the resources have not been allocated more clearly. The Commission is obviously thinking of another cheap butter offer towards the end of 1978. If this was a Christmas butter offer, these funds would be insufficient. The 1977 Christmas butter offer with 72,000 t made available was found completely inadequate and the total cost came to some 50.4 m u.a. If it is not possible to make more funds available, your committee urges that the suggested 50 m u.a. should be used exclusively for special campaigns to benefit social establishments (e.g. hospitals, children's homes etc.).