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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. 576/76) on the fixing of prices
for certain agricultural products and on
certain related measures

Rapporteur: Mr N.A. KOFOED

PE 47.781/fin.

By letter of 16 February 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 proposal from the Commission of the European Communities to the Council on the fixing of prices for certain agricultural products and on certain related measures.

The President of the European Parliament referred this proposal to the Committee on Agriculture as the committee responsible and to the Committee on Budgets as the committee asked for its opinion.

The Committee on Agriculture appointed Mr Kofoed rapporteur on 15 February 1977.

It considered this proposal at its meetings of 15/16 February, 24/25 February, 7 March and 15/16 March 1977.

At its meeting of 15/16 March 1977 the committee adopted the motion for a resolution and the explanatory statement by fifteen votes to six, with one abstention.

The following were present: Mr Houdet, chairman; Mr Laban and Mr Liogier, vice-chairmen; Mr Kofoed, rapporteur; Mr Brugger, Mr de Clercq (deputizing for Mr Durand), Mr Corrie, Mr Delmotte (deputizing for Mr Brégégère), Mrs Dunwoody, Mr Früh, Mr Fuchs (deputizing for Mr Ney), Mr Guerlin, Mr F. Hansen, Mr Howell, Mr Hughes, Mr de Keersmaecker (deputizing for Mr Creed), Mr Klinker, Mr de Koning, Mr Martens, Mr Mitchell, Mr Schyns (deputizing for Mr Pucci) and Mr Scott-Hopkins.

The opinion of the Committee on Budgets **will be 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 proposal from the Commission of the European Communities to the Council on the fixing of prices for certain agricultural products and on certain related measures

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council (COM(77) 100 and 150 final),
- having been consulted by the Council pursuant to Article 43 of the EEC Treaty (Doc. 576 /76),
- having regard to the report of the Committee on Agriculture and the opinion of the Committee on Budgets (Doc. 9/77),
- having regard to the Report on the Agricultural Situation in the Community in 1976 (Doc. 556/76),
- 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 fact that the prices policy should contribute to ensuring fair incomes to producers, reasonable prices to consumers, and to maintaining market equilibrium,
- having regard to the structural imbalances existing in certain markets,
- whereas it has become evident that in certain sectors price policy alone, cannot bring about market equilibrium and reduce regional disparities in incomes,
- whereas an effective structural policy is an essential complement to prices policy,
- whereas effective market organisations and market management policies are essential to price policy, and ought to give greatest freedom of choice and ensure supplies to consumers,
- whereas the lack of common economic and monetary policies has made more difficult the re-establishment and unity of the common agricultural market, and has led to a number of problems which cannot be attributed to the agricultural sector,

- whereas differing rates of inflation, due in part to currency fluctuations, have distorted the structure of costs,

A. Price proposals and monetary measures

1. Believes it equitable that the Commission, in drawing up the agricultural prices, bases its proposals on the principle of ensuring an income for modern undertakings comparable to income in the industrial sector, while taking into account cost developments in each country, the situation in the agricultural sectors and the general economic situation; is of the opinion that the 'objective method' is difficult to apply for the 1977/78 marketing year, in view of the monetary instability in certain countries, the considerable divergencies in rates of inflation and the unequal trends in market prices and production costs in the Member States;
2. Considers an average increase of 3% to be manifestly insufficient and takes the view that an average price increase of at least 5% is needed to bring incomes from modern agricultural holdings up to a **fair** level;
3. Emphasises that the economic and monetary policies of the Member States are jointly responsible for increases in consumer prices and of critical importance to the stability of the agricultural markets, and does not think that the common agricultural policy can be held responsible for the effects of those policies;
4. Draws attention once again to the fact that, owing to the instability of the exchange rates, the Community agricultural policy is unable to function, and urges the Commission and the Council to take appropriate action;
5. Recommends that (in view of variations in cost, brought about by currency fluctuations) adjustments must be made to the figure obtained by this objective method, principally by means of adjustments to 'green' currency rates;
6. Stresses that, in making such 'green' rate adjustments, consideration must be given to problems in particular countries, and in particular the high rates of inflation in certain of the countries with revalorized currencies; also stresses the fact that the United Kingdom must realign its prices; and considers, furthermore, that the 'green' rate for the £ Irish should be immediately devalued in full;
7. Insists on the early adoption and implementation of the Commission's proposal for a regulation relating to the fixing of representative exchange rates in the agricultural sector as a solution to the problems arising from mca's until stability returns to the economic and monetary situation;

8. Stresses that price policy can have only a limited impact on modifying production patterns within the Community, emphasizes the importance of effective structural policy to achieving the aims laid down in Article 39 of the Treaty of Rome, as well as the need to grant temporary aid to farms which have so far not had the means to modernize and further stresses the importance of production planning and discipline;
9. Wishes to underline that increases in common prices will have only a limited effect on consumer prices, which reflect to a greater extent the monetary and fiscal policies of Member States and the efficiency of the processing and marketing sectors;
10. Notes the considerable increase in national aids and subsidies to maintain agricultural incomes during the previous year, and expresses concern as to their impact on the common agricultural policy if such aids were to be maintained or extended in forthcoming years; requests therefore the Commission to monitor carefully such developments and to present periodically to the European Parliament detailed information on trends;
11. Welcomes the fact that the Commission's proposals contain improved information on their effects on budgetary expenditure for 1977 and 1978;
12. Welcomes, furthermore, the marked improvement in the quality of the information supplied by the Commission for the discussion of the price proposals, and in particular the updating of figures on income trends in agriculture; notes, at the same time, that further improvements are required in certain areas, for example on the numbers of persons occupied, full-time and part-time, in the agricultural sector; and calls for the elaboration of a Community index for agricultural input prices;

B. Vegetable products

13. Believes that the Commission's proposals for the cereal sector will ensure greater flexibility of the market and hence a sounder balance between the various kinds of cereals;
14. Requests that, in view of the large stocks of durum wheat of poor quality, stricter quality standards should be established for **durum wheat taken into intervention**;
15. Recalls that the Council had promised to retain without change the list of areas benefiting from aid to durum wheat, at least for the two marketing years following 1976/1977¹; is therefore surprised that the Commission is now proposing that these regions be reduced in number; requests therefore that the list be retained without change and that the aid be suitably increased to compensate for higher production costs and the cost of seed;

¹ See press release issued at meeting of Council of Ministers of Agriculture 2/3 March 1976

16. Believes that measures should be adopted so as to encourage rice producers to produce long grained varieties, which are preferred by consumers within the Community markets in the North;
17. Requests that the premium for raw tobacco be increased by at least 3% for all varieties excepting those (Beneventano and Nostrano) for which there is a persistent imbalance between demand and supply;
18. Recalls the Commission's intention to submit, with the minimum of delay, a report on the abolition of production refunds in the cereals and rice sector¹;
19. Refers to the negative opinions expressed by the European Parliament on the present support system for olive oil and welcomes the fact that the Commission intends to fulfil requests of the European Parliament² and the Council to submit proposals to modify the market organization;
20. Believes that the Commission should draw up a programme to ensure more efficient production and use of proteins, including: more interest in the cultivation of soya as a green fodder in conjunction with feed maize; encouragement to use liquid skimmed milk directly on farms; measures to improve grassland husbandry techniques; and programmes to develop high protein cereal and legume varieties;
21. Believes that, in order to maintain an equilibrium in the sugar sector, it is of the utmost importance that sugar produced from fructose be covered by the same discipline imposed by the common organisation of the market for sugar, in particular with reference to national investment aids; and recalls the Council's agreement¹ to abolish from 1 August 1977 refunds on maize intended for the manufacture of high fructose syrup;
22. Believes that, in calculating production levies in the sugar sector, account should be taken of the effect on the Community market of preferential imports;
23. Approves the Commission's proposal to reduce the maximum quota for sugar from 35% to 25%, on condition that isoglucose, an industrial product, is no longer allowed to benefit from an unfair competitive advantage;
24. Believes that, for fruit and vegetables, there should be introduced quality criteria for produce intended for processing and the processed products; that measures should be taken to encourage the use of approved contracts between producers and the processing industry, and that the hierarchy of the processing refunds be better adapted to different varieties;

¹ PE 45.601, Council meeting 19/20 and 27 July 1976

² Report by Mr de Koning, Doc. 522/75.

25. Calls for a report to the European Parliament and the Council on the results of the grubbing-up measures for the fruit sector, so as to establish whether the payments provided for are sufficient, and whether further measures should be implemented;
26. Calls for the system of reference prices to be modified 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;
27. Believes that the problems of income for fruit and vegetable producers, in the Mediterranean regions of the Community particularly, cannot be solved by price policy alone, but depend on an adjustment of the market organization: and calls for an immediate investigation into the consequences of the Mediterranean policy as regards the production and marketing of agricultural produce in these same regions;
28. Believes it essential that adequate Community protection should be extended to the wine sector, on which the incomes of millions of producers depend, in particular by the adoption of a Community intervention price;
29. Finds it unacceptable that, in spite of the recommendations made by the Commission of the European Communities and in spite of the crisis in the wine sector, some Member States continue to obstruct imports of Community wine with very heavy excise and other taxes;

C. Milk and dairy sector

30. Considers that the structural surpluses of skimmed milk powder and butter should be combated primarily by means of structural measures;
31. Calls upon the Council, therefore, to adopt the Commission's proposals, as amended by the European Parliament¹, to achieve a balance in the milk market, including those proposals which encourage the consumption of milk and dairy products, and welcomes the measures proposed by the Commission that are designed to make the programme of action more flexible;
32. Believes that the Commission should examine ways of encouraging financially the use of skimmed milk directly by other producers in the animal sectors; and emphasises that, over a period of several years, the initially heavier cost of such methods may be less onerous to the Community budget than the costs of storage which include the necessity, periodically, to write down the value of stocks;

¹ Doc. 414/76

33. Asks the Commission once again to organise supplies of milk powder for food aid more effectively and to make every possible effort to recover the lost markets for dairy products in third countries as soon as possible.
34. Emphasises the social problem represented by the small dairy farmer, and believes that the most important proposals in this sector are those encouraging the early retirement of farmers and the cessation of milk producing;

D. Meat and poultry sectors

35. Considers it necessary to modify the organisation of the market in beef in order to allow for more flexible reaction to the cyclic market situation;
36. Believes that the Commission should come forward with a proposal to re-introduce beef subsidies intended to achieve a more orderly marketing and improve winter beef supplies;
37. Believes that the proposed increase in the basic price for pig carcasses should enter into force on 1 April 1977 and should remain in force for an 18 month period as an exceptional measure;
38. Believes that the Commission's proposals for dealing with the structural problems in the poultry farming sector are insufficient and should be strengthened;
39. Recalls the Commission's intention to introduce proposals to strengthen producer responsibility in the poultry and egg sectors and requests that such proposals be forwarded with the minimum of delay;

E. Structural policy

40. Considers that a balanced price policy is not possible without an effective structural policy;
41. Notes that the effect of the economic recession has been to retard structural reform;
42. Calls upon the Commission, therefore, to ensure a proper coordination of Regional and Social Policies, so as to provide alternative sources of employment in rural areas, which is an essential pre-condition for a restructuring of the agricultural sector;
43. Urges the Council to adopt the Commission's proposal to increase aid provided under the reform directives, to take into account inflation;
44. Requests the Commission to come forward with proposals to increase the present ceiling of 325 m u.a. for the Guidance Section, and calls for the utilization, when necessary, of the Mansholt Reserve;

45. Welcomes the fact that the Council has taken a positive decision on the Commission's proposal to improve structures in the processing and marketing sectors, and has agreed to decide on the proposal on producer groups before 30 June 1977, and urges that the Council speed up its consideration of proposals for afforestation and for aid to young farmers;
46. Requests the Commission to draw up a detailed study on the effectiveness of structural policies in reducing the structural imbalances in the agricultural markets, and with particular reference to the milk and dairy sector;

F. Other measures

47. Calls for the early creation of market organisations for alcohol, sheepmeat and potatoes.

EXPLANATORY STATEMENTIntroduction

1. The Commission's proposal for 1977/78 is for an overall increase of 3.0% in agricultural prices, differentiated according to costs in each Member State, by means of adjustments to the green rates.

The Commission proposes more homogeneous price increases by sector than in previous years, with the exception of the milk sector, in which a 0.5% increase is proposed (after the co-responsibility levy¹ proposed is taken into account).

The Commission also proposes a limited number of connected measures modifying the market regulations.

2. In order to evaluate the Commission's price proposals, five elements should be taken into consideration :

- i) the general economic situation and in particular the fight against inflation;
- ii) the need to take into account cost increases for agricultural farmers and to maintain the relationship between agricultural and non-agricultural incomes;
- iii) the need to seek a balance between the interests of producers and consumers;
- iv) the need to seek to improve market balances between and within individual sectors, and to minimize the cost to the Community of disposing of surpluses beyond stock requirements;
- v) the proposals currently before the Council, and in particular those relating to measures :
 - (a) to reduce the surpluses in the dairy sector; and
 - (b) to modify the mechanism for adjusting green currencies.

¹ It should be pointed out that, since the levy will be used to improve the market situation in the milk sector, it is not considered by the Commission as a tax to be deducted from the price increase.

I. THE ECONOMIC SITUATION

The general prospects

3. The Community is still suffering from the consequences of an exceptional recession. A very slow improvement was achieved in 1976 and economies are expected to develop, but with no great acceleration, in 1977. The overall increase in domestic production is expected to be about 4%.

Efforts to maintain incomes and limit inflation continue to dominate. This results in an unwillingness on the part of a number of Member State governments to countenance any measures which will increase inflationary tendencies.

At the same time, the recession has led to a slowing down in consumption. No important increases in the sales of agricultural produce are anticipated, except through exports; export markets for agricultural products, however, will be increasingly difficult except for certain cereals.

4. The Commission, therefore, has had the task of seeking to safeguard producer incomes in the face of inflation, while at the same time maintaining a balance between production and stagnating consumption.

The agricultural situation in 1976

5. During 1976, the effects of inflation continued to be felt in the agricultural sector, with production costs increasing faster than in 1975. To the effects of inflation was added the extra cost of feedstuffs due to the drought. These increases were most pronounced in countries with depreciated currencies : Italy 27%; U.K. 25%; Ireland 20%. For agricultural machinery prices increased less rapidly than in 1975.

6. In terms of production and prices, the major factor was the unprecedented drought which affected particularly maize, barley, potatoes, spring wheat and feed crops in the north and west of the Community. Horticultural and arable production decreased by about 5% in relation to 1975, while animal production increased by 2%. However, while production decreased in certain sectors, this led to a corresponding increase in prices : for vegetables 20.9% as against 11.1% in 1975, and for animal sectors 12% as against 15.4% in 1975.

The overall result is that value added in agriculture increased by 10.5% in nominal terms in 1976, or 1% in real terms per person employed.

7. World prices have been gradually increasing from their low point in 1974/75, except for rice, sheepmeat and dairy products. World sugar and tobacco prices are relatively stable, while there has been a slight improvement in world beef prices, and a moderate increase for cereals due to re-stocking.

1975/76 % change

	Intermediate consumption	Final production
Germany	+ 13.1	+ 7.7
France	+ 16.2	+ 7.6
Italy	+ 20.1	+ 21.0
Netherlands	+ 17.9	+ 13.4
Belgium	+ 18.7	+ 10.5
Luxembourg	+ 20.9	+ 0.8
United Kingdom	+ 22.0	+ 23.0
Ireland	+ 23.2	+ 16.0
Denmark	+ 13.1	+ 9.7

ANTICIPATED % CHANGE IN NOMINAL VALUES OF THE ECONOMIC ACCOUNTS FOR AGRICULTURE
FOR 1976 AS COMPARED WITH THE PREVIOUS YEAR

	BELG	DEN	FR	GER	IRE	IT	LUX	NETH	UK
Final production	+ 10.5	+ 9.7	+ 7.6	+ 7.7	+ 17.5	+ 21.0	+ 0.8	+ 13.4	+ 23.0
of which : crop production	+ 12.0	+ 2.4	+ 8.4	+ 7.6	+ 19.2	+ 15.2	- 9.9	+ 21.1	+ 23.0
livestock prod.	+ 9.8	+ 12.1	+ 6.9	+ 7.7	+ 17.2	+ 29.9	+ 3.6	+ 9.5	+ 18.0
- Intermediate consumption	+ 18.7	+ 13.1	+ 16.2	+ 13.1	+ 23.9	+ 20.1	+ 20.9	+ 17.9	+ 22.0
= <u>Gross value added at market prices</u>	+ 1.9	+ 6.7	+ 2.5	+ 2.8	+ 14.2	+ 21.4	- 12.0	+ 9.2	-
+ Subsidies	- 29.2	+ 7.5	- 0.2 ¹	+ 5.1	+ 8.3	+ 13.2	+ 35.9	+ 33.3	-
- Taxes linked to production	+ 9.9	-	+ 25.6	+ 3.6	+ 36.6	+ 21.2	-	+ 9.7	-
= <u>Gross value added at factor cost</u>	+ 0.8	+ 6.7	+ 1.5	+ 2.9	+ 13.4	+ 21.0	- 9.5	+ 9.2	+ 23.0

Source : Eurostat, Doc. D/SX/21, 17.1.1977, "Forecasting of relative change in the value added of agriculture per person employed in 1976."

¹ Does not include FF3.8 thousand million subsidies, due to uncertainty as to timing of payments.

Germany

8. The increase in the income of the farmer and his family per family ALU for the 1975/76 marketing year has been estimated at about 19%. This is well above the annual average growth rate of 9.7% for the period 1968/69 to 1974/75.

9. There are a number of difficulties in establishing an estimate of gross value added for 1976. There occurred a clear drop in crop production (cereals 14%, vegetables 18%, fruit 19%, potatoes 8%, sugar beet 6%). This decrease, however, is largely cancelled out by the higher selling prices : the value of the cereals crop will be only 2.7% lower, while higher prices and yields will more than compensate the reduced crop for potatoes and sugar beet.

Animal products in quantity are expected to exceed 1975, with higher prices for pork, milk, poultry and eggs.

Final production will be, therefore, 7.7% more than in 1975.

Intermediate consumption increased by 13.1%, the lowest in the Community (together with Denmark).

France

10. In 1975 there was a change in gross agricultural income in money terms of +9.2%, and in real terms of -3%, taking into account a significant reduction in the volume of production (-4.2%), major rises in the prices of goods and services purchased by farmers (+23%), the increase in total intermediate consumption prices (+8.3%), and an increase of 12.8% in agricultural wages. The drop in real terms amounts to 0.3%, taking into account the 2.7% per year reduction in the number of farmers.

11. Production by volume decreased by 2.5% in 1976, with all cereals, especially spring sown, most seriously affected; anticipated price rises are between 13% and 16%. For vegetables, a 20% fall in volume was more than compensated by average prices more than doubling. The fruit harvest proved satisfactory, prices 14% down and production 37% up. Prices for quality wines are up by 35%.

Cattle supplies were greatly affected by the drought, which led to violent fluctuations in supply and prices; supplies as a whole have been above those for 1975 and prices 5% above. Pig production is expected to be similar to 1975, with prices 10% above. Dairy production is expected to be down on 1975, with prices as much as 9% higher.

For intermediate consumption, volume increased moderately, as with the prices : fertilizer prices remained stable in contrast to the upward trend for animal feedingstuffs and services.

Gross value added at market prices showed an increase of only 2.5%.

Italy

12. In 1975 there was an increase of 2.5% in real terms over 1974 in gross marketable production. Prices of agricultural products rose 15 - 16% in money terms. Prices of inputs increased by 10% in money terms. The gross value added in money terms rose by 15% (4% in real terms), while the income per farmer (including depreciation) rose by 11% in money terms and 5% in real terms.

13. Estimates for the first seven months of 1976 reveal that increases of 21.4% in the value of production failed to compensate for an increase in costs of 24.1%, leading to a drop in value added of 2.2%.

A general fall in production occurred in the crop sector, with the exception of fruit, and a further increase in livestock production. Durum wheat and hybrid maize declined, despite a greater area given over to these crops, as did olive oil, wine products and citrus fruits.

Prices generally remained high, partly due to inflation, mca's and the import measures decided in May 1976.

Netherlands

14. The favourable trend of agricultural incomes in the Netherlands in 1975 (the net value added increased by about 40% over 1974/75, which was a bad year) is the result of an improvement in incomes on most types of holding and in most regions apart from mixed farms on peaty and sandy soil and holdings specialising in flowers and fruit.

15. In 1976 the final value of production is expected to increase by 13%, and intermediate consumption by 18%, mainly due to energy costs and an increased volume of feedingstuffs. Revised estimates put gross value added as an increase of 9%.

16. Results vary greatly by sector. As a result of the drought, yields for field crops, vegetables and fruit, except wheat and sugar beet, were lower than in 1975; production of ornamental shrubs and plants is expected to increase, due to an increased cultivated area.

Meat and milk production will increase by 3%.

Prices in the vegetable sector are expected to increase by 20% and by 8% in the animal sector.

Belgium

17. According to the accountancy data available for some groups of holdings, it is estimated that there was a major improvement in agricultural income (+ 45%) in 1975 for pig farms, cattle farms and horticultural holdings, and a slight decrease for general agricultural holdings.

18. The value of intermediate consumption in 1976 increased by 19%, mainly due to the need for animal feedingstuffs caused by the drought; this is virtually double the increase in the value of final production.

Vegetable production was down (sugar - 8%, potatoes - 25%, leguminosae - 55%), while prices increased (sugar + 3.1%, potatoes + 81%, leguminosae + 53%); cereal production was higher, a greater proportion being used on the farm.

Milk production increased by 10% in the first six months and then remained at levels comparable to 1975. Meat production generally increased by 2 - 4%, except for fully grown bovine animals. Egg production also declined.

Prices again improved : milk + 6.3%; bovine animals + 2.7%; pigs + 9.9%; poultry meat + 12.3%.

In view of the unfavourable relation between the rise in production and costs, value added at market prices increased by only 1.9%. At factor cost, gross value added increased by 0.8%, and in real terms decreased by 7.5%, or 4.9% by person employed.

Luxembourg

19. Total agricultural income in 1975 increased by 6.1%, and the agricultural income per holding increased by 11%.

20. The effect of the drought was an overall 1% decrease in value in 1976, with increased prices largely compensating decreased value. Increases in costs of 20% (animal fodder) was only partly compensated by subsidies, so that gross value added at factor cost decreased by 9.5%.

United Kingdom

21. According to provisional farm accountancy returns, the incomes of agricultural holdings increased considerably in 1975 over the previous unsatisfactory year. This increase occurred in almost all regions and on almost all types of holding, but the rates varied. Only cereal farms saw their income decrease.

22. Output in both 1975 and 1976 was affected by summer droughts, so that crop and milk yields were significantly below normal and shortage of fodder led to extra culling of graxing animals. Reductions in volume have largely been compensated by higher market prices (potatoes 150%, cereals 20%); for the animal sector, only milk and poultry are expected to show an increase. Intermediate consumption increased by 22% (additional feedingstuffs + 30%, fertilizers + 16%, machinery and fuel + 20%). Gross value added is expected to be 23% higher, and to increase in real terms per capita by 9%.

Ireland

23. Agricultural income for 1975 in Ireland was 50% above that for the previous year (+ 40% to 50% for cattle farms and dairy farms; + 70% for sugar beet; + 1% for cereal farms; no change for pig farms).

24. Value of total final production is expected to increase by 17.5% in 1976. Decrease in volume of 5% in crops and 4% in livestock production is offset by increases in value, and volume increases of 19% for pigs and 7% for milk. Prices increased generally by 23% in 1976.

Intermediate consumption increased by 24% (feedingstuffs and fertilizers).

Nominal per capita income is expected to increase by 15%, or 3% in real terms.

Denmark

25. According to the provisional figures available for 1975, the labour income per ALU increased on average by about 6% in money terms.

26. Total value of production is expected to increase by 9.7% in 1976. 2.4% for cash crops and 12.1% for animal products. Feedstuff costs are expected to rise by 23%, and on gross domestic product at factor cost by 6.7%. Per capita gross value added shows an increase of 7.1% in nominal terms and a decrease of 1.7% in real terms.

II. THE GLOBAL PRICE PROPOSAL

The objective method

27. Faced with the need to find a common ground between the various and often conflicting interests, the Commission, since 1962, has stressed the need to use objective criteria for the annual fixing of common agricultural prices. From 1972/73 onwards, the Commission employed an objective method to provide guidelines for the overall development of agricultural prices in the Community, by taking into account price modifications required to offset changes in producer's

costs and obtain for reference or modernised farms a change in income comparable to those in non-agricultural sectors. This objective method was further improved for the adoption of the 1976/77 price proposals, so as to reduce the number of uncertainties inherent in this method; it was decided that a three-year reference period should be employed once more, as against a two-year period for 1975/76.

The objective method has certain defects, particularly relating to the information employed, which limit its effectiveness. The most serious shortcoming had been the lack of up-to-date information.

In terms of general information, this year the Statistical Office of the Community presented a report to up-date the Economic Accounts of 1976.

28. The following are taken into account :

- (a) increases in 1974, 1975 and 1976 in the price of the different means of production and in comparable income (remuneration per individual wage and salary earner in the non-agricultural sectors);
- (b) standard deduction of 1.5% per year for technical progress;
- (c) increases in common prices in the two previous marketing years, together with changes in 'green' currency rates;
- (d) changes in exchange rates during the reference period.

29. The calculations for 1977/78 reveal that due to monetary distortions, the objective method can lead to unacceptable results which have to be resolved on a pragmatic basis.

The objective method would lead to an overall increase of 0.1%, since the price increase required by the application of the methods fully takes into account price increases required by changes in market exchange rates. For the 'snake countries' alone, the increase would be in the region of 5%.

The Commission also needs to take into account certain non-objective factors, and in particular the general economic situation and the need to achieve better market balance, particularly in the milk sector.

The Commission judges an additional increase is required, and an overall increase of 3% is proposed to allow for a decrease in German monetary compensatory amounts without a decrease in German prices.

30. It should be noted, however, that if one takes into account the fact that the price increase will enter into force only in September, the same time as a co-responsibility levy of 2.5%, the overall price increase is more in the region of 2%.

Monetary adjustments

31. The Commission has sought, as in previous years, to bring about a pragmatic reduction of mca's through the adjustment of representative rates.

32. In 1976, a new revaluation of the Deutsch Mark, and a devaluation of the Danish Kroner, occurred; the French Franc left the 'snake' in March; and further falls occurred in the volume of the French Franc, the Lire and the £ sterling.

The market is now divided into seven monetary zones by the highest ever level of mca's. The position contrasts starkly with that in the same period for 1976.

33. The Commission, therefore, proposes 'green' rate adjustments, in order to bring about greater market unity. Adjustments to the £ sterling will take place in two stages.

	price increase in u.a.	MCAS			ACA	net price increase	cost of living increase
		% Feb 1977/ proposal	change in points	effect on prices			
Germany	2.88	9.3/6.55	-2.75	-2.96		0.3	0.03
Luxembourg	2.50	1.4/1	-0.4	-0.405		2.1	0.3
Netherlands	2.79	1.4/1	-0.4	-0.404		2.4	0.2
Belgium	3.10	1.4/1	-0.4	-0.405		2.7	0.3
Denmark	3.11	0/0	0	0		3.1	0.4 ¹
Ireland	2.72	9.5/6.5	-3	+2.79	-4.8	10.7	2.0 ¹
France	2.98	14.8/11.3	-3	+2.65		5.7	0.5
Italy	2.79	19.9/16.9	-3	+2.6		5.5 ³	0.7 ²
United Kingdom	2.77	33.6/25.6	-8	+6.32	-5.1	14.8 ³	0.7 ²

¹ Not directly comparable to figure of 0.7% for UK; 2% is comparable with 1.9% given in footnote 2 in UK if market prices are not taken into account

² 1.9% if market prices are not taken into account

³ 5% if market prices are to be taken into account

34. While a decrease in mca's is desirable, the changes indicated do raise problems for a number of countries, and in particular :

- countries with revalued currencies faced with high rates of inflation, especially Luxembourg and Belgium;
- the United Kingdom, which, in addition to a 3% increase and any increase resulting from green rate modification, is to realign its prices by 5.1%.

On the other hand, Ireland and Italy suffer disruptions in their normal agricultural trade to the high levels of monetary compensatory amounts; their farming industry would benefit from devaluations in their 'green' rates.

The Commission should review its proposals for adjustments in 'green' rates to take into account these particular problems.

Budgetary aspects

35. This year the Commission has supplied greater information on the budgetary implications of its price proposals which will require an additional budget of 575 m.u.a. :

- 475 m.u.a. for compensatory amounts,
- 100 m.u.a. for price increases.

The 100 m.u.a. required for price increases is substantially lower than in previous years.

III. THE CONSUMER

36. One of the principal objectives of the Common Agricultural Policy, as laid down by Article 39 of the Treaty, is to ensure that supplies reach consumers at reasonable prices.

37. 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.

The price trend for the farmer and the consumer diverse at different rates for each product and the gap is most striking in the case of wheat and bread :

	Producer price	Consumer price
	<u>1974/75</u>	<u>1975</u>
	1973/74	1974
Germany	4.3	6.7
France	12.2	13.4
Italy	3.3	5.4
Netherlands	1.3	14.3
Belgium	8.1	14.8
United Kingdom	- 0.9	13.8
Ireland	- 13.4	17.4
Denmark	0.5	12.5

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

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 of the industrial/distribution sectors :

THE AVERAGE SHARE OF THE FARMER IN THE RETAIL PRICE²

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
Breed	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

38. This illustrates the importance to the consumer of improvement in the processing and marketing sectors, and of the adoption by the Council of the Commission's proposal for structural reform in this sector. Agricultural producer groups and contractual arrangements are of particular importance in assuring both stability of income to the producer and of price to the consumer.

¹ A table showing trends for major products is given in Annex III.

² Source : Volume II of 'Agricultural prices from producer to consumer', by J. Herinckx, page 153.

IV. AGRICULTURAL PRODUCTION BY SECTORS : PERSPECTIVES AND OBJECTIVES

39. The Commission, at the same time as basing its price proposals more and more on the trend in cost and price levels on modern farms, takes into account the supply and demand situation of the markets concerned in order to maintain and, in certain cases, re-establish the equilibrium of markets.

40. It is difficult to establish how far price policy, of itself, can be employed as a market as well as an income policy, given the political limits with which price policy is confronted.

There are also a number of structural limitations.

The small farm, 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 possibility of flexibility in production can only be said to exist on the larger farms : but in the Community 78% of farms as a whole have an area of less than 20 hectares. On the other hand, those farms of more than 50 hectares, while representing no more than 6% of total farms, occupy more than 40% of the UAA. However, even for this group, it may not be possible to improve agricultural incomes by increasing production of one product to take advantage of a particular price hierarchy if substantial investments have been undertaken.

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 place¹.

41. 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 organisation and management of particular sectors, as to theoretical price hierarchies.

¹ See Annex IV for correlation coefficients of price and production for four major products.

42. Given the low level of price increases, proposals by sector are necessarily more homogeneous than in previous years. An overall price increase of 3% 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.

Soft wheat	3%
Durum wheat	2%
Rice	3%
Olive oil	1%
Beet and sugar	3%
Rye	3%
Barley	4.75%
Maize	4.75%
Milk (16 September)	3%
Fruit and vegetables	2 - 5%
Beef	3%
Pigmeat	4
Oilseeds	6 - 7%
Wine	3%
Tobacco	1.5%

Modifications to market organisations

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

In the course of the 1976/77 marketing year 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;
- grant of 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 lower erucic acid content;
- reorganisation of the wine sector to encourage improvement in quality;
- grant of a premium to encourage the grubbing-up of Golden Delicious apples and Pass Cassane pear trees, with a limited increase of 4% in prices for these products;
- lower than average increase in tobacco premiums differentiated by variety.

Marked improvements can be noted in these sectors. This illustrates the importance of combining, where necessary, improvements to market organisations with the price proposals. Care must be taken, however, not to undermine the system of market support as such, and with it the viability of production, nor to increase the disparities of income within agriculture, whether between sectors or regions.

44. For the 1977/78 year, the Commission has decided that a number of important modifications should be proposed in the course of the marketing year, so as to allow for their more thorough consideration. The Committee on Agriculture can endorse this procedure, on condition that it is made aware, when considering the price proposals, of the impact of such measures on producer incomes.

Modifications to market organisations to be proposed

45. These future proposals will include :

- (a) an examination of the market organisation for olive oil in view of the important stocks existing at present and the problems which will arise from the enlargement of the Community;
- (b) in order to reduce the production of colza oil, for which the Community is a net exporter (1976 : production 420,000 tonnes, surplus 200,000 tonnes), the Commission intends to come forward with proposals :
 - i) to limit aid to varieties with a lowerucic acid content;
 - ii) on consumer information on the health qualities of the new varieties;
 - iii) to aid exports for future surpluses;
- (c) the Commission intends, before 1 June 1977, to submit a report on the beef and veal sector on :
 - the merits of the intervention regimes, the slaughter premiums, and the veal premium;
- (d) the Commission intends to review the necessity for production refunds in the starches sector;
- (e) finally, the Commission proposes to maintain its action programme to achieve a balance in the dairy sector, with modifications to the tax on vegetable oils and fats (alternative means to reach the objectives of the tax) and to the ban on investment aids (more flexible application).

Regional disparities

46. One can, finally, note that price policy has been unable to prevent regional differences in income increasing within the Community and within each Member State, and for types of holding¹.

¹ See Annex II.

Regional dispersion indices of agricultural incomes for two years ¹
.. in the four large countries of the EEC

Deutschland (income of farmer and his family per family labour unit)			Italia (gross value added per agricultural worker)		
Bundesländer	1972/73	1974/75	Regions	1971	1975
Schleswig-Holstein	134	140	Piemonte	93	96
Niedersachsen	107	103	Valle d'Aosta	65	47
Nordrhein-Westfalen	101	116	Liguria	165	139
Hessen	82	81	Lombardia	157	178
Rheinland-Pfalz, Saarland	90	81	Trentino-Alto Adige	71	75
Baden-Württemberg	94	89	Veneto	143	134
Bayern	96	90	Friuli-Venezia Giulia	109	110
			Emilia-Romagna	129	141
			Marche	67	72
			Toscana	106	97
			Umbria	82	88
			Lazio	128	118
			Campania	89	89
			Abruzzi	91	74
			Molise	54	54
			Puglia	75	73
			Basilicata	60	63
			Calabria	63	90
			Sicilia	93	91
			Sardegna	124	96
Whole country	100	100	Whole country	100	100

France (gross farm income per family worker)		
	1970	1975 (p)
Région parisienne	388	283
Champagne	247	253
Picardie	247	220
Haute-Normandie	148	115
Centre	135	127
Basse-Normandie	85	79
Bourgogne	103	116
Nord	146	145
Lorraine	94	107
Alsace	69	91
Franche-Comté	87	98
Pays de la Loire	84	75
Bretagne	84	111
Poitou-Charentes	99	90
Aquitaine	65	66
Midi-Pyrénées	63	68
Limousin	50	50
Rhône-Alpes	77	78
Auvergne	62	66
Languedoc	98	128
Provence-Côte d'Azur	156	114
Corse	114	146
Whole country	100	100

United Kingdom (Net farm income per farm, excluding horticulture)		
Divisions of the FADN	1969/70	1974/75
England North Region	95	116
England East Region	:	141
England West Region	:	91
Wales	70	53
Scotland	104	118
Northern Ireland	77	37
Whole country	100	100

Source: Deutschland: Agrarberichte 1975 and 1976.
France: Cahiers de Statistiques Agricoles n° 27/1976.
Italia: INEA.
United Kingdom: Ministry of Agriculture, Fisheries and Food.

¹ Doc. 556/76, Agricultural situation in the Community in 1976

V. VEGETABLE SECTORS

Cereals sector

47. In the cereals sector there are differing market situations and likely market trends. Auto-sufficiency has been achieved in wheat and barley with production, following the drought, leaving little if any surplus for export. Due to the drought, requirements for feed cereals have increased, especially maize. But since consumption is increasing less than production, self-sufficiency in feed cereals is likely to be achieved in the near future. On the other hand, world demand is likely to be greater than world production for wheat, leading to greater demand.

48. In this situation, there seems to be no reason to alter the principles behind the price hierarchy introduced by the Commission in 1976/77, when a decisive step was taken towards approximate prices of feed grain, and that a further step towards aligning these grains on their feed value should be taken.

For 1977/78, the Commission has proposed a price range for cereals based on the comparative technical quality of the various cereals and the ideal market situation for each cereal. The increases give an average rise in cereal prices of about 3.1%. The intervention prices are based on the difference between the feed value of barley and maize, 8%, and an extra market margin of 2% for barley, making a total spread of 10% between the intervention price for feed grain and the market price for maize.

Therefore, as a second step towards a common single price for cereals, a 3% increase is proposed for feed grains except maize, for which a 4.7% increase is proposed.

In order to encourage production of bread-making wheat, the reference price for it is calculated by adding 13% to the common single intervention price¹.

In order to allow for a price spread to allow the market to reflect quality, the target price for common wheat is calculated by adding to the reference price a market component of 6.5%.

49. In view of the market situation for durum wheat, no increase is proposed in the single intervention price, while the target price is to be increased by 2%, by adding a market component of 4.2% to the single intervention price, a figure considered sufficient to increase market fluidity.

¹ Normally this would be 15%, but in view of current economic situations it has been set at 13%.

In view of the production of durum wheat which is often of poor quality, the Commission proposes to limit aid to durum wheat to that part of Italy in which it will be most useful and to make no increase in the aid.

In view of the continuing stocks of poor quality durum wheat, it would seem advisable for the Commission to continue granting aid by area rather than quantity.

50. Finally, in view of the market situation, the Commission has no intention of proposing carry-over payments for cereals.

Rice

51. In fixing rice prices the Commission has taken account of the possibility of substitution between rice, maize or sugar beet. The intervention price for rice is therefore increased by a corresponding percentage to that for maize. The target price is to be increased by slightly less than 3%. As for other cereals, a single intervention price is now proposed for rice, based on Vercelli.

52. Given the high rate of intervention for round rather than long grained rice, it would seem advisable for the Commission to consider introducing measures to encourage producers to switch to long grained rice which is preferred by consumers in the northern areas of the Community.

Sugar

53. Despite an increase of 2% in the area planted, sugar production has only slightly increased over the previous year - 9.6 as against 9.35 million tonnes. Consumption is expected to increase only fractionally, if at all. In view of this situation, and the fact that, given lower world prices, the Community will be attractive to the preferential exporters of 1.3 million tonnes, a considerable surplus to be exported will remain, estimated at 2.9 million tonnes in 1978.

This situation may be considerably aggravated by the increasing production of sugar from high fructose starches.

54. The Commission proposes an overall 3% increase, with a 1.5% increase in the processing margin¹, which is the amount previously adopted as a quality premium in calculating intervention prices for raw sugar. The Commission proposes to exclude that premium in calculating intervention prices, and at the same time to abolish the premium for first grade sugar applicable to buying-in. The purpose of these measures is to match the quality of supply more closely to demand.

¹ Supplemented by 0.6 u.a. for white sugar

55. In view of the current market situation, the Commission also proposes that the maximum quotas be fixed at 125% of the basic quotas.

56. The Community production capacity of isoglucose could reach 400,000 tonnes by the end of 1977 and could represent 3% to 4% of consumption. In direct competition with sugar, isoglucose benefits from the market rules for sugar, without, however, being subject to the same discipline, an advantage of 10% to 15%. The result could be that the Community will be forced to export more sugar than would otherwise be the case.

Therefore the Commission has proposed that the Member States prohibit the granting of investment aids. The Council has already decided to abolish production refunds for starch glucose processed into isoglucose from 1 August 1977. The Commission, in addition, proposes :

- (a) a production levy on isoglucose to cover part of the export refunds for sugar at the same level as the levy on B quota sugar;
- (b) the establishment of a trade system to take into account these provisions.

These measures are put forward for a provisional two-year period, and will be reviewed in the future.

57. The Committee on Agriculture, while accepting a moderate increase in the price of sugar, requests at the same time :

- that the Council take action to ensure that sugar produced from starches be subject to the same market conditions as beet sugar, and in particular should receive no investment aids;
- and that, in calculating the production refund to be levied on sugar producers, effects of preferential imports on the market should be taken into account.

Olive oil

58. Given the high market price of olive oil, consumption continues to decrease. The result has been increases in intervention stocks for which few outlets are foreseeable.

While for 1976/77 no change was initially made for the olive oil prices, the price increased, however, as a result of the adjustment to the value of the green Lire, by 12%. In view of increased labour costs and proposed monetary measures, the Commission proposes to increase the producer target price by 1%. The market target price is to be kept at its present level in terms of French francs and Italian lire. The difference between the market target price and the intervention price is to be kept at its present level of 7.25 u.a./100 kg.

59. The Committee on Agriculture reminds the Commission that it has repeatedly requested that the Commission submit proposals to modify the market organisation, and support measures to encourage sales.

Wine

60. For 1976 production of wine is likely to increase slightly over that for 1975 - 145 million hl. as against 142 million hl. Consumption continues to decrease slightly, while exports and imports remain fairly stable. The main problem at present continues to be the considerable stocks held in France.

Following the abundant 1973/74 harvest, prices in 1974/75 were exceptionally low. Prices did not recover even after recourse to large scale distillation. However, in 1976 the market situation has improved, following the more normal harvests recorded for two years, and therefore the Commission proposes a 3% increase in the guide prices for table wines.

Proteins

61. The Community continues to depend largely on imported proteins, approximately 77% of its total needs. Soya contributes 50% to the protein consumption, while protein prices continue to increase gradually, due to the decreasing area planted in the United States.

The fact that the Community is importing larger and larger amounts of protein, is, of itself, creating problems of market balance within the Community.

PRODUCTS USED FOR ANIMAL FEEDING IN THE COMMUNITY¹

	1974/75 (1,000 tonnes)	% change $\frac{1974/75}{1973/74}$
1. Cereals	70,157	- 2.8
2. Feed cake ¹ of which soya	14,453 9,644	4.4 14.1
3. Animal meal of which - fish - meat and similar	1,933 916 1,017	19.3 19.6 19.1
4. Dehydrated fodder (lucerne etc.)	1,732	4.5
5. Milk powder (skimmed and other)	1,242	3.2
6. Leguminous vegetable seeds (field beans, etc.)	583	8.0
¹ Excluding olive residues		
Source : - Eurostat, fodder supplies (provisional and supplies of certain products - EC Commission, Directorate-General for Agriculture		

¹ See Doc. 556/76, pp. 364 and 365.

62. The Community remains substantially in deficit in vegetable oils, with a self-sufficiency rate of 11%. An exception, however, is colza oil, for which the Community has become a net exporter, mainly due to the health campaign based on the high erucic acid content.

Therefore, the Commission proposes an increase of 3% for colza and rape seeds, and, in order to ease the burdens on the crushing industry in particular regions of the Community, to increase the price for sunflower seeds by 7%.

The Commission also proposes further methods to introduce greater stability into the colza market :

- (a) from 1978/79 aid only to be granted to varieties with a low erucic acid content¹;
- (b) a consumer campaign to inform the public on the qualities of the new varieties of colza oil;
- (c) an interim measure to facilitate the export of colza oil.

Support was introduced for soya in the 1974/75 marketing year, but the results have not been very good, partly due to production problems and also to the unfavourable relation between the guide price for soya and competitive products, such as maize. The Commission therefore proposes a 7% increase for the guide price for soya to correct this.

In order to encourage production of dehydrated fodder, for which production is decreasing faster than for most other crops, aid is to be increased to 9.5 u.a. from 9 u.a. per tonne.

63. The Commission must go further to develop a Community protein policy, to achieve a better balance between Community production and imports.

The Commission, consequently, should draw up a programme to ensure more efficient production and use of proteins, including encouragement to use liquid skimmed milk directly on the farm, measures to improve grassland husbandry techniques, and programmes to develop high protein cereal varieties.

Tobacco

64. In view of the market situation, the Commission continues to follow a conservative price policy with an average increase of 1.5% and 3% in the premiums.

¹ However, in view of the requirements of the chemical industry for a certain quantity of oil of high erucic acid content, aid could also be granted for the quantity of seeds of the old varieties that the industry can absorb.

Fruit and vegetables sector

65. The Commission proposes price increases related to the current market situation by sector, as follows :

- cauliflowers, tomatoes, peaches and lemons : 5%;
- apples and pears : 3%;
- table grapes, oranges and mandarins : 2%.

QUANTITIES OF FRUIT AND VEGETABLES DELIVERED TO INTERVENTION¹ % of commercial production (EUR-9)

	<u>1974/75</u>	<u>1975/76</u>
Apples	0.73	10.59
Pears	8.14	7.31
Peaches	4.64	2.63
Oranges	10.61	2.77
Mandarins	0.90	12.79
Lemons	0.29	1.29
Table grapes	-	-
Cauliflowers	0.62	0.31
Tomatoes	0.31	2.76

Source : EC Commission, Directorate-General for Agriculture,
on the basis of Member States' returns

66. The Commission must place greater stress, in this sector, on :

- quality criteria, including fruit intended for processing;
- a review of the operation of the reference price;
- and a global approach, including structural policies, to the problems facing the Mediterranean areas of the Community.

VI. ANIMAL SECTORS

67. At the world level, milk production is expected to be fairly stable, while throughout northern and eastern Europe a slight increase is expected. At the same time, consumption is slowly decreasing, whether in terms of dairy products for human consumption or as animal feedstuffs.

68. Despite the drought, a 2% increase in milk production is expected in the Community : Germany 3%, Netherlands 3%, Belgium 10% in first six months, and comparable thereon to 1975, and Ireland 7%.

¹ See Doc. 556/76, Agricultural situation in the Community, pp. 300 and 301.

Given these factors, and limited export possibilities, it is likely that butter stocks will reach 550,000 tonnes and skimmed milk powder 1.7 million tonnes¹. Stocks have developed as follows :

1974	1975	1976	1977
217,000	1,129,000	1,120,000	1,700,000 - 2,000,000

The cost of these stocks is heavy, 107 m.u.a. per annum for 1.3 million tonnes, to which must be added the increase in expenditure due to the writing down of the value of stocks at the end of each year, an additional 150 m.u.a. in 1976.

69. Clearly in this situation steps must be taken to introduce a greater degree of stability in the dairy sector. It is unlikely that this can be achieved by price policy alone. A price cut in the region of 20% would be required to achieve market stability, a figure which is clearly politically and socially impossible to envisage. Moreover, a mere price cut would affect the farmer more than the dairies, and it is important that the dairies should contribute to increasing market stability in the dairy sector by increasing their efforts to diversify their sales of dairy products.

70. Therefore, any measures envisaged must affect the producer and the dairies equally. The Commission has proposed a 3% increase in the intervention price, applicable from September, together with a 2.5% co-responsibility levy, giving an 0.5% overall increase. This is principally a price measure which will affect producers since dairies are unlikely to reduce their margins (though it must be admitted that the levy will be used partly to benefit producers by bringing the market more in balance).

The Committee believes that it can approve the Commission's price policy in the dairy sector, while pointing out that, unless such caution be maintained in future years, no effect on production will occur.

71. Clearly, measures are required which go beyond price policy. The most important proposals the Commission has put forward are to increase the amounts granted under the restructuring proposals, the non-marketing and beef conversion schemes. The Commission proposes to increase the Community contribution to these schemes from 50% to 80%, financed 40% from the Guidance Section and 40% from the Guarantee Section of the EAGGF, and to increase the level of aid to producers with an output of less than 30,000 litres per year. The Commission also proposes to introduce, for older farmers aged between 55 and

¹ The Council agreed on 25/26 October 1976 not to extend the regulation on the compulsory purchase of skimmed milk powder beyond 31 October.

65, a Community premium per hectare for holdings which are wound up. This will be granted over and above aid already introduced under Directive 72/160/EEC.

72. The Commission also intends to introduce a greater degree of flexibility on the ban proposed on investment aids in the milk and dairy sector, by making an exception for investment in research and in the production of new products increasing outlets for milk, and investment in the use of liquid milk in animal feed.

73. The Commission has included two butter subsidy schemes, partly to offset the effect of green rate adjustments on consumption, and in particular in the United Kingdom :

- to extend the butter subsidy in force and to increase Community financing:
 - 25% up to 200 u.a./tonne of aid,
 - 50% between 200 and 500 u.a./tonne;
- to allow for the tax on vegetable oils and fats to be replaced by an equivalent amount to be granted as a subsidy on butter, financed 100% by the Community.

These measures are considered by the Committee on Agriculture as acceptable in view of the short term problems that will arise, particularly those caused by mca adjustments in the largest market, the United Kingdom.

74. The Commission has also recently proposed to the Council a regulation to encourage the use of liquid skimmed milk under contract by pig producers : the Commission proposes to restrict the right to deliver skimmed milk powder to intervention agencies for those dairy enterprises unwilling to enter into contracts to supply liquid skimmed milk to pig products on a year-round basis.

75. This is the type of proposal to which the Commission should give greater thought : measures to affect the producer and dairy equally, by introducing greater flexibility in the intervention mechanisms; and so to encourage the use of skimmed milk directly on farms, and the dairies to diversify their dairy products, market forces must be brought into play and the dairies induced to produce for the market.

Beef sector

76. It is likely that the Community will remain self-sufficient in beef during 1976, with production in the region of 6.6 million tonnes and consumption 6.5 million tonnes. The world market will continue to remain in surplus.

While beef prices increased in 1975 from the low point in 1974, they declined slightly in the second half of 1976, and are now about 89% of the guide price throughout the Community. The situation by country varies

considerably, especially due to the effects of differing exchange rates. The Irish market has been particularly affected by the depreciation of the £, and market prices are about 77% of the guide price.

It should be remembered that the Council is discussing the Commission's intention to repeal the safeguard clause in the beef and veal sector, from 21 March 1977, and adjustments to be made to trade arrangements from 1 April 1977. The Council has reached general agreement on a new scale of levies, and in doing so stressed its intention to ensure that the administration of the market is better adapted to the movement of Community prices in relation to the guide price, so as to avoid either shortages or unacceptable falls in prices¹.

77. Given the fact that an increase in prices would merely lead to a corresponding drop in consumption, efforts to improve beef prices should be concentrated on improvement in the market organisation rather than price policy. It would seem particularly appropriate that the Commission re-introduced premiums for the orderly marketing of beef to ensure adequate supplies throughout the winter. Such premiums should be granted to producers in producers' organisations so as to ensure that such measures benefit primarily those farmers specialising in beef production.

Pig sector

78. Throughout 1976, the pig population of the Community increased in the region of 3%, with the result that the price of pigmeat should decrease in 1977 from its high point in 1975. The Commission proposes a 4% increase in the basic price applicable from 1 November 1977.

Poultry sector

79. For eggs, the improvement in market prices should continue throughout 1977, following the reduction in production capacity and the gradual implementation of structural reforms undertaken by a number of Member States.

For poultry meat, there should be an increase in production of around 6%, which will lead to a decrease in price at the same time that production costs continue to increase.

80. Efforts to stabilise the markets of both sectors should continue to be concentrated on improving the organisation of producers and measures to introduce a degree of self-discipline. The Commission had indicated that it would be coming forward with proposals in this sense. The Committee on Agriculture wishes to know whether the Commission still intends to do so.

¹ See Notice to Members, PE 47.391

VII. CONCLUSIONS

81. The Committee on agriculture believes, while understanding the intention of the Commission's overall price increase of 3%, that it will lead to a reduction in income in certain production sectors, will create unacceptable pressures on income in certain Member States and will not allow for a sufficient margin for the adjustment of the 'green rates'. For these reasons, the Committee on Agriculture considers an average increase of 3% to be manifestly insufficient and takes the view that a price increase of at least 5% is needed to bring incomes from modern agricultural holdings up to a reasonable level.

82. The committee considers that it is clear that the farmer is being asked to pay the price for the failures of the monetary and economic policies of the Member States.

83. The Committee would like to point out at the same time that producers' prices play a very small role in increasing consumer prices. The price of food to the consumer is more dependent on wages policies in the processing and marketing sectors, and additional costs caused by the complexity of administrative and fiscal policies.

84. It is also important to point out the limitations of price policy in adjusting patterns of production in or between agricultural sectors, unless such a price policy is sustained over a number of years. This has not been the case and in the past price policy has only served to introduce even greater uncertainty in the already uncertain world of farming. This is not to say that price policy must continue to be cautious in all sectors, merely that a greater degree of consistency must be maintained.

85. The committee emphasises that if price policy is to be effective, it must be supported by effective structural policies, improvements to the market organisations and market management policies. The emphasis must be clearly based on all three elements.

86. The Committee on Agriculture also believes that the Commission should give much greater consideration, in proposing 'green rate' adjustments, to the very serious problems facing certain countries, and in particular:

- countries with revalorised currencies and a high rate of inflation, notably Belgium and Luxembourg;
- the United Kingdom which must realign its prices by 5.1% from the coming marketing year;
- and Ireland, and to a lesser extent Italy, which have faced distortions on their normal agricultural trade and would benefit from more substantial adjustments than those proposed by the Commission.

87. The most serious problem confronting those responsible for price policy at the moment is the dairy sector. Here it is clear that a whole range of instruments is required, and the serious social implications of any particular policy kept clearly in mind.

88. The most important proposals from the Commission in this sector are those encouraging the early retirement of farmers and the cessation of milk producing. All other proposals from the Commission would be unacceptable unless this proposal is implemented in the very near future.

89. The Committee on Agriculture must continue to express strong reservations to the co-responsibility levy and underlines once more that it must be employed solely to improve the market situation in the milk and dairy sector. The Committee endorses proposals to increase consumption by means of subsidies as a short term measure to prevent a decrease in consumption due to monetary adjustment.

90. The proposal to freeze milk prices until 16 September 1977 and then to introduce a mere 3% increase could only be accepted on condition that serious efforts are made to develop new policies for the protein sector as a whole, including financial encouragement for alternative uses for skimmed milk and skimmed milk powder, particularly by other producers.

91. Clearly the burden will have to be shared more equally between the producer, the dairies and the consumer, and greater play should be given to market forces to encourage the dairies to diversify their products.

92. Finally, the Committee on Agriculture would like to point out that many of the problems involving the incomes of fruit and vegetable producers, particularly in the Mediterranean regions, depend on a reinforcement of the market organisations and increase in quality criteria. In addition, the problems which are increasingly developing for the production of agricultural produce in the Mediterranean policy are clearly evidence that a programme of concrete measures, covering the regional and social funds as well as the EAGGF, should be drawn up immediately.

ANNEXES

- I. Areas used for the principal agricultural products
- II. Income trends per holding
- III. Comparative trends in consumer prices and producer prices for certain products in 1975 or 1974/75
- IV. Correlation coefficients between guaranteed prices, producer prices and production
- V. Reform of the system of market organization in the cereals sector
- VI. Sugar production
- VII. Agricultural incomes in 1975 and 1976

Areas used for the principal agricultural products¹

Member State	Period	Cereals (including rice)	Potatoes	Sugarbeet	Root and tuber crops	Oilseeds	Green fodder	Dry pulses	Fruit trees	Vines
i	2	3	4	5	6	7	8	9	10	11
Deutschland	1975	5 293	415	426	1 100	90	895	28	84	100
	1974	5 298	467	369	1 112	110	870	32	57	99
	1975/1974	— 0.1%	— 11.1%	15.5%	— 1.1%	— 18.2%	2.9%	— 12.5%	— 3.5%	1.0%
	1975/1968	4.1%	— 37.0%	46.9%	— 18.2%	42.9%	6.6%	— 30.0%	— 18.5%	19.1%
France	1975	9 679	302	602	1 373	:	4 811	70	251	1 308
	1974	9 840	305	534	1 327	392	4 755	56	252	1 304
	1975/1974	— 1.7%	— 1.0%	12.7%	3.5%	:	1.2%	25.0%	— 0.4%	0.3%
	1975/1968	4.3%	— 34.2%	49.0%	— 20.7%	:	— 4.9%	— 2.8%	— 10.4%	— 3.7%
Italia	1975	4 579	135	252	412	:	2 698	236	:	1 311
	1974	4 726	137	193	357	19	2 690	252	604	1 291
	1975/1974	— 3.1%	— 1.5%	30.6%	15.4%	:	0.3%	— 6.4%	:	1.6%
	1975/1968	— 15.6%	— 44.7%	— 16.6%	— 29.7%	:	— 17.5%	— 49.6%	:	13.1%
Nederland	1975	244	151	137	291	16	126	12	34	0
	1974	261	159	116	279	15	121	12	35	0
	1975/1974	— 6.5%	— 5.0%	18.1%	4.3%	6.7%	4.1%	0%	— 2.9%	0%
	1975/1968	— 41.9%	1.3%	31.7%	9.8%	128.6%	117.2%	— 14.3%	— 32.0%	0%
Belgique/België	1975	406	44	120	192	0	116	5	16	0
	1974	440	48	105	181	1	102	4	17	0
	1975/1974	— 7.7%	— 8.3%	14.3%	6.1%	— 100%	13.7%	25.0%	— 5.9%	0%
	1975/1968	— 16.5%	— 20.0%	33.3%	6.7%	— 100%	10.5%	— 37.5%	— 40.7%	0%
Luxembourg	1975	42	1	0	2	0	15	0	0	1
	1974	43	2	0	2	0	15	0	0	1
	1975/1974	— 2.3%	— 50.0%	0%	0%	0%	0%	0%	0%	0%
	1975/1968	— 12.5%	— 66.7%	0%	— 50.0%	0%	15.4%	— 10.0%	0%	0%
EUR 6	1975	20 243	1 048	1 537	3 370	:	8 661	351	:	2 720
	1974	20 608	1 118	1 317	3 258	538	8 553	356	995	2 695
	1975/1974	— 1.8%	— 6.3%	16.7%	3.4%	:	1.3%	— 1.4%	:	0.9%
	1975/1968	— 24.3%	— 33.2%	29.2%	— 18.0%	:	— 7.3%	— 41.8%	:	4.5%
United Kingdom	1975	3 654	204	197	578	42	2 192	70	67	0
	1974	3 747	215	194	580	27	2 353	93	69	0
	1975/1974	— 2.5%	— 5.1%	1.6%	— 0.3%	55.6%	— 6.8%	— 24.7%	— 2.9%	0%
	1975/1968	— 4.1%	— 27.1%	4.8%	— 12.7%	320.0%	— 9.7%	— 38.1%	— 11.8%	0%
Ireland	1975	335	39	33	103	:	:	0	4	:
	1974	345	40	26	99	:	815	0	3	:
	1975/1974	— 2.9%	— 2.5%	26.9%	4.0%	:	:	0%	33.3%	:
	1975/1968	— 7.7%	— 33.9%	26.9%	— 28.5%	:	:	— 300.0%	33.3%	:
Danmark	1975	1 720	31	127	298	:	:	:	12	:
	1974	1 737	34	109	281	65	470	4	12	:
	1975/1974	— 1.0%	— 8.8%	16.5%	6.1%	:	:	:	0%	:
	1975/1968	1.8%	— 13.9%	51.2%	— 18.3%	:	:	:	0%	:
EUR 9	1975	25 952	1 322	1 894	4 349	:	:	:	:	2 720
	1974	26 437	1 407	1 646	4 218	630	12 191	453	1 079	2 695
	1975/1974	— 1.8%	— 6.0%	15.1%	3.1%	:	:	:	:	0.9%
	1975/1968	— 2.5%	— 32.0%	27.2%	— 17.3%	:	:	:	:	4.5%

¹ Including potatoes and sugar beet.
Source: Eurostat.

¹ Doc. 556/76, pp. 372 and 373.

Trend of farming incomes on FADN returning holdings classified ¹
by principal types of farming between '1973' and '1974'

(constant sample of 10 394 holdings)

Type of farming		Farming income EUR/ALU	
Code	Designation	'1973'	'1974'
111	General agriculture	7 908	8 732
112	Horticulture	5 994	6 129
120	Arable - permanent crops	2 280	2 654
130	Arable crops - grazing stock	4 463	5 238
210	Permanent crops - arable crops	2 778	2 758
223	Fruit	3 760	3 960
224	Vines	5 516	3 915
225	Olives	2 144	3 282
230	Permanent crops - grazing stock	2 877	2 752
310	Grazing stock - arable crops	3 920	4 321
320	Grazing stock - permanent crops	2 776	2 855
336	Cattle	3 768	3 886
337	Sheep and goats	4 842	3 460
340	Grazing stock - pigs and poultry	4 255	4 082
430	Pigs and poultry - grazing stock	5 025	4 633
448	Pigs	7 883	6 433
	Total Ø	4 526	4 551

Source: FADN.

¹ Doc. 556/76, p. 413

Comparison between the movement (% TAV) of consumer prices, producer prices expressed in national currency and common agricultural prices expressed in UCA for certain products in 1975 or 1974/75 ¹

Products	Deutschland		France		Italia		Nederland		Belgique/België	
	Consumer prices ¹	Producer prices ²	Consumer prices ¹	Producer prices ²	Consumer prices ¹	Producer prices ²	Consumer prices ¹	Producer prices ²	Consumer prices ¹	Producer prices ²
1	2	3	4	5	6	7	8	9	10	11
1. Bread Common wheat	7.6	1.4	6.5	3.8	17.0	6.3	9.0	1.0	8.5	2.4
2. Sugar Sugarbeet	4.4	1.2	8.8	8.3	8.3	9.3	3.2	5.4	5.2	4.6
3. Milk Whole milk	5.9	4.1	8.9	8.2	11.0	8.5	8.4	3.6	7.4	2.9
4. Beef and veal Beef and veal	16.1	4.4	10.1	7.6	10.4	8.0	14.0	3.9	8.4	3.9
5. Pigmeat Pigmeat	4.8	3.0	15.6	5.1	8.7	6.6	5.3	2.7	4.6	2.5
6. Potatoes Potatoes	13.4	4.6	12.7	11.7	14.2	14.3	14.1	8.1	13.6	10.8
7. Eggs Eggs	0.8	0.5	5.8	5.2	7.0	7.0	3.8	-0.6	4.9	2.0
Products	Luxembourg		United Kingdom		Ireland		Danmark		Common agricultural prices	
	Consumer prices ¹	Producer prices ²	Consumer prices ¹	Producer prices ²	Consumer prices ¹	Producer prices ²	Consumer prices ¹	Producer prices ²	1975/76 1974/75	1975/76 1976/77
	12	13	14	15	16	17	18	19	20	21
1. Bread Common wheat	:	1.3	10.7	12.6	2.5	6.1	15.5	6.8	9.0	9.0
2. Sugar Sugarbeet	:	:	20.8	7.2	26.1	4.1	5.3	6.4	15.0	8.0
3. Milk Whole milk	:	4.2	5.9	7.7	0.8	10.9	9.2	10.5	10.7 ³	7.5 ⁴
4. Beef and veal Beef and veal	:	5.4	12.3	9.4	12.1	11.8	13.1	11.3	8.5	8.0
5. Pigmeat Pigmeat	:	4.4	13.4	10.4	22.5	9.7	16.9	6.6	8.6	8.0
6. Potatoes Potatoes	:	:	19.6	8.6	28.6	13.1	12.4	2.3	:	:
7. Eggs Eggs	:	:	12.5	8.2	9.6	11.2	2.5	1.3	:	:

¹ 1975 compared with 1963.

² 1974/75 compared with 1967/68.

³ From 16.9.1975.

⁴ From 16.9.1976.

Source: Eurostat and the EC Commission, Directorate-General for Agriculture.

¹ Doc. 556/76, pp. 206 and 207

CORRELATION COEFFICIENTS BETWEEN GUARANTEED PRICES,
PRODUCER PRICES AND PRODUCTION¹

	Guaranteed price		Producer price	
	production	area or number	production	area
Common wheat	0.915	0.68	0.76	0.72
Barley	0.80	0.44	0.79	0.75
Milk	0.60	0.37	0.85	
Beef	0.48	0.26	0.55	

¹ Source : Directorate General for Research and Documentation, European Parliament

REFORM OF THE SYSTEM OF MARKET ORGANIZATION
IN THE CEREALS SECTOR

I. SUBJECT: Rapid expansion of production in the EEC of wheat not suitable for bread-making

II. OBJECTIVES

The setting up of this system should not jeopardize any of the fundamental principles of the common agricultural policy as laid down in Article 39 of the Treaty, and should be directed towards the following three objectives:

- (a) fixing of a single intervention price for the main cereals used in animal feeding stuffs (common wheat, barley, rye, maize);
- (b) fixing of a common target price for barley, rye and maize;
- (c) fixing of a target price for common wheat (based on wheat of bread-making quality).

A. Single intervention price for the principal cereals used in animal feeding stuffs

Alignment of the intervention price for each of the main cereals with that for barley (reduction of the intervention price for common wheat and rye in 1976/1977 and increase in the price of maize in 1976/77 and 1977/1978).

B. Fixing of a common target price for barley, rye and maize

- Sufficient difference between the intervention price and the target price to allow free movement of cereals between producer and consumer areas;
- The difference between the intervention price and the target price to be based on the following two factors:
 - . the market factor
 - . single regional adjustment component

(a) Market situation

- calculated on the basis of a flat-rate market price in the production area with the greatest surplus (Orléans) based on an estimate of the relation between the respective values of the different cereals as fodder
- flat-rate market price proposed in relation to the common intervention price:

Barley	102%
Rye	104%
Common wheat	106%
Maize	110%

- because of the importance of its use in animal feedingstuffs and the volume imported, maize should be retained as basic cereal for the establishment of this factor, which will have an indirect bearing on the calculation of the threshold price.

(b) Single regional adjustment component

- factor based on the transport costs between Orléans, the production area with the greatest surplus in all cereals, and Duisburg, traditionally considered the consumption area with the greatest deficit.

- present costs from Chartres or Orléans : 11.53 u.a./t.

C. Fixing a target price for common wheat

Fixing of a target price for common wheat based on its bread-making quality to avoid any uncertainty at the time of import.

Level of target price established by following method of calculation:

- (a) fixing of a support element for the production of wheat of bread-making quality;
 - (b) fixing of a flat-rate market price in the area with the greatest surplus;
 - (c) fixing of a single regional adjustment component.
- (a) Fixing a support element for the production of wheat of bread-making quality
- Support element for the production of wheat of bread-making quality based on the difference in gross return between wheat of bread-making quality and wheat not suitable for bread-making as a result of the high yield of the latter
 - The results of the experiments carried out in 1973/74 (the only ones available to the Commission) show the index yield of Maris Huntsman compared to Capitole to be about 117%. Consequently, the support element to be added to the intervention price can be fixed at 15% of the latter.
- (b) Fixing a flat-rate market price in the area with the greatest surplus
- Since wheat of bread-making quality is not affected by the price scale for feed cereals calculated on the basis of energy value, its market price can be fixed at a flat rate of 105% of the adjusted price, i.e. the common intervention price, increased by 15%.
- (c) Fixing a single regional adjustment component
- Same amount as for the other cereals (at present : 11.53 uc/t.).

III. IMPACT ON THE MARKET

A. Common wheat of bread-making quality

Normal protection of the production of common wheat of bread-making quality at the threshold price level.

Abolition of compulsory intervention but possible fixing of a reference price (common intervention price + 15%) for B intervention and possibly C (active) intervention with prior fixing of the qualitative requirements for acceptance of delivery and the need for the holders to provide proof of the quality of the goods offered.

B. Barley

Protection margin for barley of brewery quality at present in competition with imported brewing barley, which enters the EEC at the threshold price fixed for fodder barley.

C. Rye

Protection margin for rye of bread-making quality, which could possibly benefit, as in the past, from an intervention premium in accordance with the provisions laid down in Article 6 of Regulation (EEC) No. 1493/71.

D. Maize

The increase in the target and intervention prices of maize is justified by its high energy value in comparison with other cereals, and by the considerable increase in drying costs due to the rise in energy costs.

It should also be pointed out that the import of maize at a relatively low price, on account of its energy value, was possible within a policy of transfer but is now incompatible with the objectives of the memorandum concerning the restrictions on EAGGF expenditure.

IV. CONCLUSION

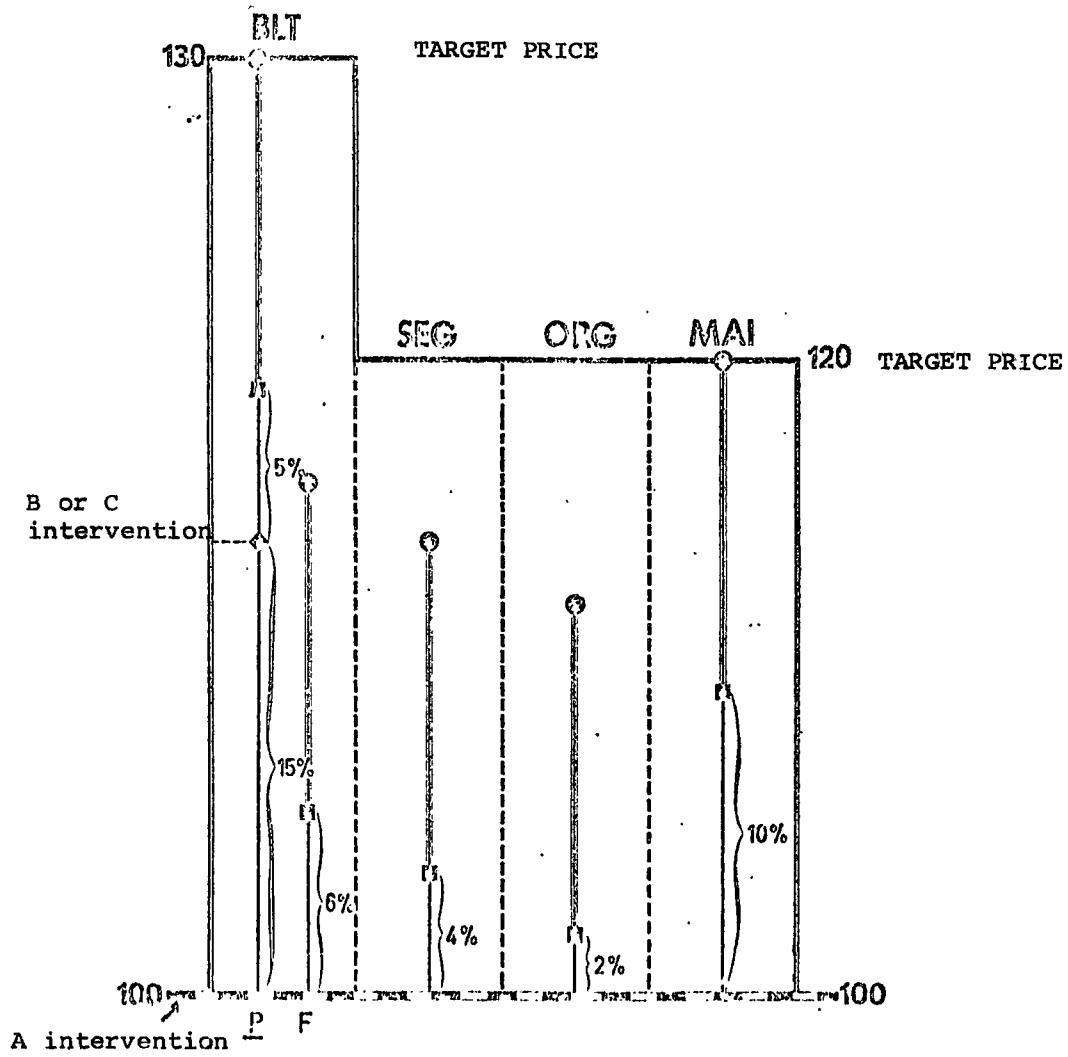
The proposed reforms comply with the objectives set out in the Commission's memorandum on cereals to the Council, namely:

- improved hierarchy of market prices
- abolition of the regional adjustment of the intervention prices of common wheat
- abolition of denaturation.

Moreover, they will allow normal supplies to Community mills of common wheat of bread-making quality, and will reduce considerably the disadvantages inherent in the development of the production of wheat not suitable for bread-making.

PROPOSED REFORM OF THE COMMON ORGANIZATION
OF THE MARKET IN CEREALS

Intervention price of barley : Index 100



KEY

- PMD : Market price on departure
- PMA : Market price on arrival
- ER : Regional adjustment component (11 u.c./t)
- P : Wheat of bread-making quality
- F : Wheat for animal feedingstuffs
- BLT : Common wheat
- SEG : Rye
- ORG : Barley
- MAI : Maize

Production estimates for the 1976 - 1977 sugar year

(white sugar)

	DK	D	F	IRL	I	NL	BLEU	UK	EEC
1. Area under sugar beet (1,000 ha)									
a) 1976/77	81	449	578	34	290	139	100	203	1,874
b) 1975/76	85	436	560	33	270	138	123	193	1,838
c) percentage change	- 5%	+ 3%	+ 4%	+ 3%	+ 7%	+ 1%	- 19%	+ 5%	+ 2%
2. White sugar yield (tonnes/ha)									
a) 1976/77	4.73	5.56	4.71	5.15	5.54	6.45 ¹	6.46 ¹	3.45	5.14
b) 1975/76	4.59	5.31	5.32	5.67	4.81	6.09	5.36	3.32	5.07
c) percentage change	+ 3%	+ 5%	- 11%	- 9%	+ 15%	+ 6%	+ 21%	+ 4%	+ 1%
3. Sugar production (1,000 tonnes)									
a) from beet	383	2,496	2,734	175	1,607	869	673	700	9,637
b) from cane	-	-	360	-	-	-	-	-	360
c) from molasses	-	19	-	-	-	-	-	-	19
d) total	383	2,515	3,094	175	1,607	869	673	700	10,016
4. Production exceeding the maximum quota not carried forward and to be exported (1,000 tonnes)	-	46	55	-	5	58 ²	-	-	164
5. Available production (1,000 tonnes)									
$\sqrt{3(d) - 4}$	383	2,469	3,039	175	1,602	811	673	700	9,852

SUGAR PRODUCTION

ANNEX VI

¹ Taking account of 27,000 tonnes of sugar produced in Belgium from Dutch beet

² Assuming a special maximum quota of 117.5%

Estimate of the EEC's sugar balance for the 1976 - 77 sugar year (Oct/Sept)

(1,000 tonnes white sugar equivalent)

	DK	D	F	IRL	I ¹	NL	BLEU	UK	EEC
1. (a) available sugar stocks at 1.10.76	26	136	276	5	74	58	84	221	880
(b) frozen stocks (carried forward)	-	-	-	-	-	-	-	-	-
(c) stocks held by intervention agencies	-	20	-	-	-	-	56	-	76
2. Estimated available production (see Table I.5)	383	2,469	3,039	175	1,602	811	673	700	9,852
3. Sugar imports from third countries									
(a) raw - ACP	-	0	10	40	5	-	-	1,223	1,278
- GDR and others	-	22	-	-	5	-	-	-	27
(b) processed products	9	16	24	1	3	4	7	64	128
4. Sugar imports from Member States									
(a) raw									(1,004)
(b) processed products									(337)
5. TOTAL									12,241 ²
6. Exports to Member States									
(a) raw									(1,004)
(b) processed products									(337)
7. Sugar exports to third countries									
(a) raw									1,303
(b) processed products	23	13	44	5	19	51	18	87	260
8. Sugar consumption	180	2,162	2,000	140	1,700	580	330	2,350	9,442
9. (a) final stocks available on 30.9.77	4	35	36	2	77	10	6	64	234
(b) minimum stocks	33	197	270	21	123	69	67	192	972
(c) frozen stocks (carried forward)	-	0	-	-	30	-	-	-	30
(d) stocks held by intervention agencies	-	-	-	-	-	-	-	-	-

¹ For Italy, the figures refer to the period 1.8.1976 - 31.7.1977

² Excluding intra-Community trade

ESTIMATE OF SUGAR BALANCES FOR SEPTEMBER/AUGUST 1976/77

(figures in 1000 tonnes)

	<u>1976/77</u>	<u>1975/76</u>	<u>1974/75</u>
Production	87,627	82,869	79,887
Imports	23,107	23,185	24,182
Initial stocks	20,304	17,539	16,008
Final stocks	24,487	20,304	17,539
Exports	23,305	23,274	24,706
Consumption	83,246	80,015	77,832
Final stocks <u>as percentage</u> of consumption	29.42	25.38	22.53

Agricultural incomes in 1975 and 1976⁺

The Commission has just forwarded a supplement to the Annual Report to accompany the 1977-78 price proposals devoted to agricultural incomes in the Community.

The Commission presents an overall view of the situation using two main sources of information : the Economic Accounts for Agriculture which form a part of the European system of national income accounting, and the farm accountancy data network based on more than 20,000 farm accounts spread throughout the Community.

Two main indicators have been chosen : gross value added per person employed in agriculture, which measures the contribution of agriculture to the economy on the National Farm principle and the labour income per annual labour unit which represents for each farm in the accountancy sample the income per person employed after remuneration of land rented or owner occupied and interest on capital whether borrowed or subscribed by the farmer. Gross Value Added per person employed in agriculture (pages 45 to 91 in the English text of agricultural incomes in the Community) has been estimated for 1976 by the Statistical Office of the Community with the help of national experts. The labour income per annual labour unit has been established for the 1975 harvest year from the provisional results of the Farm Accountancy Data Network.

Very different levels and divergent trends in agricultural incomes between Member States

1976 was marked by several difficulties for European agriculture. Added to the continuation of the effects of previous crises (energy and raw materials) came the drought of the spring and summer, notwithstanding a better autumn. Agriculture also suffered from further monetary instability, the inevitable result of galloping inflation more or less controlled according to the country.

In spite of these difficulties, gross value added at factor cost per person employed in agriculture increased slightly by around 1% in real terms for the Community as a whole. This represents a remarkable global result taking into consideration the extremely unfavourable context of 1976. The result may be explained by the considerable increase in prices which attenuated or compensated for low yields in certain sectors, and by the fact that certain Member States particularly affected by the drought granted substantial national aids to maintain agricultural income. Since gross value added is calculated on a calendar basis according to national

⁺ based on an article by Mr Claude Baillet to appear in the periodical 'Agriculture', and provided by the Directorate-General for Research and Documentation

income definitions, only those subsidies which were actually paid have been counted. In France 3.8 thousand million FF remain to be paid (5.4% of gross value added at factor cost) and in Belgium 5 thousand million FB (7.2%).

Since the granting of national subsidies represents a transfer from outside the agricultural sector, it would be more appropriate to exclude them when assessing the economic performance of agriculture in 1976. Discounting the subsidies already paid brings gross value added back to a 0 increase in real terms. Subsidies, however, are a real element of incomes and including those still to be paid for 1976 would increase the income of the agricultural sector by roughly a further 1.5%.

In spite of the increase in prices and the subsidies received, the progression of agricultural income could not match that of other sectors of the economy. Agriculture's relative position therefore worsened. Since 1973, the record year which had allowed agricultural income to draw near to the income observed in other sectors, the gross value added per person employed has diminished in real terms by 0.5% per year. This diminution is, however, the result of an annual average very different according to the Member State, varying from - 4.8% in France (excluding subsidies to be paid for 1976 in the forthcoming year) to + 3.9% in Italy. The development of agricultural income in 1976 generally reinforced the divergent developments observed during the preceding two years.

The main characteristic of 1976 remains, therefore, above all in the accentuation of divergent developments in income inside the agricultural sector between Member States, between regions, types of farm, etc. At the same time as the Italian and German agriculture saw their gross value added per person employed continue their growth of the years 1973-1975, the G.V.A. per person of Belgian and French agriculture diminished considerably. The agriculture of other Member States occupies an intermediate position between these two extremes, either by improving their level of G.V.A. per person as in the United Kingdom and the Netherlands, or on the contrary reversing a previous favourable trend as in Ireland and Luxembourg.

According to the Member State, therefore, agriculture benefited in 1976 from an income of the factors of production (land, labour and capital) considerably better or much less good than the previous year.

The figures given in the table above reveal the considerable gap in the levels of gross value added per person employed in 1976 according to the country. The gap is as wide as 1 to 3. They confirm the strong differences in the state of development of national agricultures.

Belgian and Dutch agriculture are to be found far ahead, followed at a certain distance by a second group comprising Danish agriculture closely succeeded by Luxemburgish and British agriculture, the latter having made a spectacular push in 1976. Much further behind even though they are around the Community average, are to be found French and German agriculture : Finally very far behind, right at the back with an income three times less than the leaders one finds Irish and Italian agriculture, the last of which nonetheless came back strongly in 1976.

These gaps in gross value added per person between national agricultures are the result of very different structures, conditions and orientation of production and prices according to the country. They are so important that they cannot be explained by differences in the definition of the number of persons employed in agriculture, the only criterion not entirely harmonised used in the calculations.

Let it be underlined nevertheless that the impact of differences of definition on the results described is not entirely negligible, there results a certain margin of error in the data. For instance it is probable that the number of persons occupied in agriculture in the Netherlands would be greater than that given if it had been established on the basis of the definitions and the methods of calculation adopted in France or Italy. Community agricultural statistics as a result contain a vast cavity. A major effort is required to fill in this gap and improve in the future the knowledge of agricultural incomes drawn from national income sources.

Considerable differences in income between different types of farm

Each country's agriculture represents in fact a very heterogeneous unit. It is therefore indispensable not to stop at national income data alone in evaluating agricultural incomes. This is why an in-depth analysis of incomes has been undertaken also on the farm level, notably based on the main types of farming.

The variation in the labour income per annual labour unit in 1975 (1975 harvest but not necessarily the 1975 calendar year) compared with the previous year, although generally positive, did not contribute to the reduction in disparities, which again accentuated in 1974 compared with the two excellent years 1972 and 1973, years during which disparities were reduced. In certain respects 1975 even led to an increase in the differences in incomes within the agricultural sector, notably between types of farming.

The farms which benefited from a favourable evolution in income in 1975 are firstly pig farms, notably those breeding pigs (weaners). With incomes ranging from 9483 ua to more than 17382 ua per labour unit, these farms, above all represented by the accountancy sample in Denmark, the Netherlands and Belgium have found again their position ahead of all the types of farm.

Cattle farms whose relatively modest level of income compared to the previous ones is well known, also experienced a certain progression in their incomes in 1975 in all Member States; this progress was most marked in Ireland and the United Kingdom, which enabled them to approach and even overtake the corresponding French farms. The Dutch, Belgian and Danish cattle farms all the same maintained their considerable lead with an income roughly double that of farms situated in other countries.

With labour income per annual labour unit varying according to acreage from 6300 ua to 9920 ua and 2841 ua respectively, Danish and Dutch, dairy farms also confirmed their clear superiority over all the dairy farms of all the other regions of the Community.

Horticultural farms also saw an improvement in income in 1975 which according to the group of farm considered achieved indices of 111 to 129 (1974 = 100).

General agriculture farms in France and Denmark on the contrary constitute an exception to the general growth in incomes in 1975; their incomes diminished by nearly 20%. The same is also true of certain French and Italian fruit and wine farms where income declined by 5 to 40% following the case.

An analysis of the level of labour income per annual labour unit in 1975 shows considerable differences following type of farm, acreage or regional location. Incomes varied from 1 to 11 between Italian farms of less than 5 hectares practising a system comprised of arable land combined with permanent crops on the one hand and Dutch farms of over 50 ha with a general agriculture system on the other. In reality disparities are probably still greater because the accountancy sample represents a part of the agriculture sector which most likely does not include the most extreme cases.

Differences in income between different groups of farms are linked without doubt to the system of production. For example, average levels of income measured in France vary in 1975 from 1 to 1.6 between the general types cattle and pigs as well as between permanent crops and arable land.

The size of farm (utilized agricultural area) plays equally an important role in the case of types of farms with systems of production dependent on land (excluding therefore pigs and poultry). For example, labour income in 1975 on certain cattle farms could be double that on others

according to the size group; on average it was situated at around 4000 ua on the farms of 5-10 ha and at 8500 ua on the farms of more than 50 ha. The spread varies from country to country; it varies from 1 - 1.8 to 1 - 4.1 between Denmark and Ireland. Size and the economies of scale which result remain crucial for the improvement of agricultural incomes. This fully justifies the effort deployed by Member States with the help of the EAGGF to improve the structure and especially the size of farms.

The system of production and size are not, however, the only elements which are at the basis of disparities in income. For a group of some 1200 cattle farms of 20 to 50 ha (therefore the same system and area) located in 8 of the 9 Member States (Germany excepted) very important income disparities were observed in 1975. 1% of these farms showed a negative income per annual labour unit (that is after remuneration of land and capital) and 6% of over 15000 ua.

Geographical location, or in other terms the agro-economic context in which farms are situated is without doubt an essential factor for determining the level and development of agricultural income. The regions remain with their different potential and specific limitations an essential element which conditions the level of agricultural income.

From one year to another the variation in income for the same farm is very considerable. One finds each year a batch of farms whose results are markedly better or worse than those of the previous year. A certain pendular swing is shown up according to good or bad years.

For a number of farms, 1974 had been a bad year whilst 1975 was in general a good year. Without reaching the record levels of 1973, incomes (expressed at current prices) increased in most types of farms in 1975. Bearing in mind the considerable inflation of that year and loss in purchasing power of currencies which resulted, it appears that in reality in most cases the improvement in agricultural income was merely apparent. Economically weakened by two years of which one was bad and the other finally mediocre many farms tackled 1976, during which they were again faced by the difficulties of which we know.

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Agricultural incomes in the Community reflect the picture of European agriculture itself; that is extremely diversified in their level as much as their development.

1975 in spite of reestablishing to a certain extent agricultural incomes after the poor results of the previous year, did not reduce disparities.

1976 was above all marked by a reinforcement of these disparities in spite of the special aids granted to agriculture to compensate for the effects of the drought.

Level (1976) and Variation (1973-1976) in the Gross Value Added (G.V.A.)
at factor cost per person employed in agriculture in the Member States
of the EEC

(estimates)

	Germany	France	Italy	Netherlands	Belgium	Luxembourg	United Kingdom	Ireland	Denmark	E.E.C.
1976 situation										
Gross Value Added (mio u.a.)	9677	13303	12613	3428	1619	62	4602	1026	1764	48094
Number of persons ¹ (000)	1785	2252	2914	295	132	9	662	249	227	8525
G.V.A. per person (EEC = 100)	96	105	77	206	215	123	123	73	138	100
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Annual variation % 1976/1975										
GVA per person in real terms	+ 1.2	- 3.5	+ 4.9	+ 1.4	- 4.9	- 14.9	+ 9.0	- 3.0	- 1.7	+ 1
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Annual variation % 1976/1973										
GVA per person in real terms	+ 1.4	- 4.8	+ 3.9	- 1.7	- 4.4	- 2.4	+ 1.0	+ 1.6	- 4.1 ²	- 0.5
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¹ Since the definition and method of determining the numbers of persons employed in agriculture vary fairly considerably from one Member State to another, the figures are not entirely comparable and the percentages very approximate.

² Average of the last two years only.