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EUROPEAN PARLIAMENT

Working Documents

1976 - 1977

12 October 1976

DOCUMENT 343/76

Report

drawn up on behalf of the Committee on Agriculture

on the action programme 1977-1980 for the progressive achievement of balance in the milk market (Doc. 247/76)

and on the proposal from the Commission of the European Communities to the Council (Doc. 248/76) for a regulation introducing a premium system for the non-marketing of milk and milk products and for the conversion of dairy cow herds

Rapporteur: Mr J. de KONING

PE 45.697/fin.

1.2.2

English Edition

EUROPEAN PARLIAMENT

CORRIGENDUM

to the report by Mr Jan de KONING

(Document 343/76)

First indent on page 28 to read as follows:

- It invites the Commission of the European Communities to propose the measures required to remove the upper limit on the credits of the Guidance Section of the EAGGF.

12.10.1976

By letter of 30 July 1976 the President of the Council of the European Commuities requested the European Parliament, pursuant to Article 38 of the EEC Treaty, to deliver an opinion on the action programme 1977-1980 for the progressive achievement of balance in the milk market (Doc. 247/76) and the proposal from the Commission of the European Communities to the Council for a regulation introducing a premium system for the non-marketing of milk and milk products and for the conversion of dairy cow herds (Doc. 248/76).

The President of the European Parliament referred Doc. 247/76 to the Committee on Agriculture as the committee responsible and Doc. 248/76 to the Committee on Agriculture as the committee responsible and the Committee on Budgets for its opinion.

The Committee on Agriculture appointed Mr de Koning rapporteur.

It considered these proposals at its meetings of 15 and 16 July, 2 and 3 September and 20 and 21 September 1976.

The motion for a resolution was adopted by the committee at its meeting of 30 September and 1 October 1976 by 13 votes to 2 with 2 abstentions.

Present: Mr Houdet, chairman; Mr Laban and Mr Liogier, vice-chairmen; Mr de Koning, rapporteur; Mr Aigner (deputizing for Mr Lücker), Mr Boano, Mr Bourdellès, Mr Frehsee, Mr Früh, Mr Haase, Mr Howell, Mr Hughes, Mr Kofoed, Mr Ligios, Mr Martens, Mr Suck and Lord Walston.

The opinion of the Committee on Budgets on Doc. 248/76 is attached.

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A

The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council concerning a decision adopting the annual report on the economic situation in the Community and laying down the economic policy guidelines for 1977

The European Parliament,

- having regard to the proposal from the Commission (COM(76) 557 final)

- having been consulted by the Council pursuant to Article 4 of the Council Decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Community (Doc. 393/76)

- having regard to the report of the Committee on Economic and Monetary Affairs (Doc. 405/76)

1. Hopes that the economic upturn will continue;

2. Considers that, in view of the many factors of uncertainty, it is correct to make a cautious and differentiated assessment of economic developments in 1977;

3. Singles out those signs which seem to point to a continued economic upturn;

   - growing confidence in the future among consumers and savers;
   - incipient results from the efforts by governments and workers' and employers' organizations to slow down the incomes race;
   - the reduction in price and cost rises;
   - the rise in productivity and profits in many branches of industry, which has increased the chances of higher investment;
   - the continued expansion of world trade;

4. Draws attention on the other hand to the risk of:

   - the economic upturn being brought to a halt by the lack of Community and international solidarity;
   - the disparities between price and cost rises in the Member States not only not decreasing during 1977 but even increasing again;

4. Postpones its final judgement on the proposed action programme until the effects of the drought on anticipated milk production and producers' incomes have been definitely established, and considers that no decisions which might be detrimental to the already precarious income position of producers should be taken until dairy farmers have recovered from the damage caused by the drought;

5. Points out:

   (a) that despite the substantial decrease in the number of stock-farmers since 1970, the low average per capita income in dairy farming and the measures taken in the past to rationalize the sector and slaughter dairy cattle, the conversion from milk to meat production and the efforts to encourage the closing down of farms, the dairy market remains unbalanced and considers that the difficulties on this market are clearly of a structural nature;

   (b) that if dairy herds are reduced by 5% a large number of workers in the agricultural sector and related industries will be made redundant;

6. Draws attention to the fact that long-term forecasts of the evolution of the milk market indicate that structural surpluses having a disruptive effect on the market will increase even further in the future as a result of increasing production, caused by a rise in productivity, and stagnating demand, one reason for which is the increasing use of vegetable fats and proteins instead of milk products;

7. Therefore shares the Commission's view that rationalization measures aimed at reducing structural surpluses by limiting production and increasing sales are unavoidable;

8. Considers that structural improvement is needed in dairy farming and that milk production should be limited by reducing the number of dairy cows; points out that as a result of the climatic conditions obtaining this year and the consequent shortage of coarse fodder, many dairy farmers have unfortunately been compelled to appreciably reduce the size of their herds, and urges that this necessary reduction be encouraged at an early date by introducing without delay a Community premium system for the non-marketing of milk and milk products and for the conversion of dairy cow herds; notes that the proposal contains no specific provision for encouraging the cessation of farming and makes no reference to the creation of new employment in areas of intensive cattle farming;

9. Draws attention to the fact that a conversion policy is likely to have unfavourable rather than favourable results in the next few years if the beef and veal market, which in many ways is just as sensitive as the milk market, is not to be disrupted as a result, and requests the Commission to keep a close watch on developments on the beef and veal market and take appropriate effective action in good time to avoid imbalancies;

10. Urges that care be taken to ensure that Community premiums for non-marketing and conversion remain sufficiently attractive to fulfil their purpose and at the same time constitute reasonable compensation for loss of revenue from milk production and for losses incurred as a result of working capital becoming idle; recommends that appropriate checks be carried out to ensure that obligations are met and fraud is prevented;

11. Considers a ban on national and Community aid to the dairy sector difficult to reconcile with the objectives of the Community policy on structures and therefore asks for aid to be maintained - at least in the pasture areas and other areas in which there is no alternative to dairy farming - for clearly defined projects of moderate size that fit in with the planned structural reform and contribute to improved working conditions on family farms, without expanding production capacity;

12. Considers that the abolition of aid for the processing and marketing of milk will jeopardize the economic viability of the dairy industry and consequently asks that aid be continued for projects which do not directly lead to increased milk production, that is to say projects for the rationalization and modernization of plant and for increasing sales of milk and milk products;

13. Doubts the effectiveness and feasibility of the limitation proposed for developing farms of 1.3 cows per hectare of UAA, since this would prejudice the principle of dairy farming specialization in areas best suited to it and because such a system would be difficult to supervise on mixed farms;

14. Endorses in principle the introduction of a temporary co-responsibility levy to establish a link between milk production and sales whereby producers can be encouraged to restrict production and at the same time funds are made available for sales promotion:
makes its approval of financial co-responsibility of producers, except for those operating in less-favoured and hill-farming areas, strictly conditional, however, on the starting date and amount of the levy;

15. Considers that for the time being, if the Commission proposes a levy, the amount of the levy should be fixed at a moderate level seeing that it directly affects producers' incomes and that, in view of the continuing structural difficulties in dairy farming and the related weak income position of producers, it is advisable to cushion as far as possible the impact on incomes so as not to discourage producers right from the start from helping to achieve the objective of this project;

16. Hopes that the introduction of a financial contribution by producers will not have any effect on the drawing up of Commission proposals on guide and intervention prices on the basis of trends in production costs and incomes in sectors other than agriculture;

17. Points out that the co-responsibility levy, if introduced, should only be of a temporary nature and should be regularly adapted to changes in the market situation, and that the proceeds therefrom must be used exclusively for the further promotion of sales in the Community by means of higher subsidies for the sale of liquid skimmed milk and if necessary milk powder and other similar products for use in animal feeds and by promoting sales of milk and milk products, as also by promoting exports to third countries;

18. Considers inadequate the proposed procedure for consultation with those involved regarding the proceeds from the co-responsibility levy and feels that producers should participate equally in the administration of the funds they themselves provide;

19. Approves the proposals for enlargement of the Community markets and considers in this connection that consumption in the Community should be stimulated by a policy of high quality butter and milk products supported by suitable advertising; in view of price trends for imported vegetable proteins, also approves the granting of more aid to promote the use of liquid skimmed milk and if necessary milk powder and other similar products in animal feeds;

20. Nevertheless doubts, having regard to the factors underlying the stagnation of consumption, whether such measures will enlarge the market sufficiently; therefore emphasizes the importance of regular multi-annual programmes to supply skimmed milk powder as food aid with a view to increasing sales, but stresses that the interests of developing countries must be given priority and that deliveries must be guaranteed as part of general development policy, irrespective of the existence of surpluses;
considers that the Community must pursue an active policy to promote the conclusion of long-term export contracts for dairy products with third countries;

21. Rejects wholeheartedly the proposal for a levy on vegetable oils and fats;

22. Holds the view that there is still good reason for the Commission to investigate acceptable ways of altering the price ratio between milk and vegetable proteins in such a way that the incentive to further increase milk production is diminished;

23. Feels that a general policy is required for the milk market which takes account of the inter-relationship between the vegetable oil and fat and animal fat sectors on the one hand and the vegetable and animal protein sectors on the other;
considers that this policy must take account of producer and consumer interests in the Community, as also the need to promote the balanced development of trade with third countries;

24. Finally, approves the Commission's proposal to introduce a premium system for the non-marketing of milk and milk products and for the conversion of dairy cow herds, with particular reference to points 8, 9 and 10 of this resolution and subject to the following amendment;

25. Requests the Commission to incorporate the following amendment in its proposal pursuant to Article 149, second paragraph, of the EEC Treaty.

TEXT PROPOSED BY THE COMMISSION OF THE EUROPEAN COMMUNITIES	AMENDED TEXT

Proposal from the Commission of the European Communities to the Council for a regulation introducing a premium system for the non-marketing of milk and milk products and for the conversion of dairy cow herds

Preamble, recitals and Articles 1 and 2 unchanged

Article 3(1) unchanged

Paragraph 2, subparagraphs (a), (b), (c) and (d) unchanged

(e) to sell all dairy equipment, unless it is deemed to be unusable, within three months of the commencement of the non-marketing;	(e) <u>deleted</u>
(f) to keep, during the conversion period, a number of units of adult bovine or sheep/animals on the holding farmed on the date of submission of the application which is equal to or higher than the number kept on that same holding on the reference date.	(f) <u>deleted</u>

Articles 4 to 12 unchanged

<u>Article 13</u>	<u>Article 13</u>
1. By 30 November 1977 at the latest the Commission shall submit to the Council, on the basis of information supplied by the Member States, a report on the application of the premium system.	By 30 November 1977 at the latest the Commission shall submit to the Council <u>and the European Parliament</u>, on the basis of information supplied by the Member States, a report on the application of the premium system.

TEXT PROPOSED BY THE COMMISSION OF THE EUROPEAN COMMUNITIES	AMENDED TEXT
2. After examining this report, the Council, acting by a qualified majority on a proposal from the Commission may decide, in the light of experience and of economic conditions in the sector in question, to maintain or to amend the premium system.	After examining this report, the Council, on a proposal from the Commission <u>and after consulting the European Parliament</u>, may, acting by a qualified majority, decide in the light of experience and of economic conditions in the sector in question to maintain or to amend the premium system.

Article 14 unchanged

B

EXPLANATORY STATEMENT

The Commission of the European Communities has submitted a package of proposals, in the form of an action programme to be spread over a period of three years, to deal with the chronic structural imbalance of the dairy market.

Measures designed to limit supply and to extend outlets are intended to ensure that the structural surplus, which the Commission estimates to be 10% of production, is absorbed in the medium term, thus paving the way for a more balanced market situation. The Commission takes the view that if action is not taken promptly the structural surplus will increase even further in the future as a result of increasing production and stagnating or slightly declining consumption, which not only threatens to disrupt the dairy market, with all the financial consequences that that implies, but also jeopardizes the common agricultural policy as such. In its analysis of the situation on the dairy market the Commission points out that the increase in milk production is the result of a constant increase in yield per cow, owing to improved herds and the use of feedingstuffs of high nutritional value. Milk production is thus on the increase despite a slight decline in the number of dairy cows.

Another structural change taking place concerns the steady fall in the amount of liquid skimmed milk used on the farm and the sharp rise in milk deliveries to dairies, which in turn stimulates production of skimmed milk powder. The consumption of most dairy products has remained more or less constant or has stagnated under the influence of competition from similar products, and in the United Kingdom in particular a decline in butter consumption is expected as a result of the gradual alignment of prices to Community prices and the reduction of butter subsidies.

Despite all the measures taken in the past to limit milk surpluses the situation on the dairy market has not radically improved. There is clearly a chronic imbalance of supply and demand in this sector which is obviously of a structural nature and can be combatted only in the long term by means of a package of measures designed to readjust the structure of milk production and to expand the market within the Community and in third countries.

Milk and products derived from it occupy a central position in the common agricultural policy. The organization of the market in milk and dairy products constitutes by far the largest item in the budget of the agricultural policy. Large sectors of the farming population of the Community, however, rely heavily on revenue from milk production, so any measures designed to restore the market balance must make allowance for the income aspect, especially as in this respect dairy farming already lags behind other categories both within and outside agriculture. The average annual income for persons working in arable farming is nearly 4,000 u.a., whereas the corresponding figure for stock-breeding is only about 1,700 u.a.

The financial situation of cattle breeders is now being seriously undermined by the fatal consequences of the drought which has afflicted large areas of the Community. Many dairy farmers are having to sell some or all of their stock. Owing to the difficult feedingstuff situation milk production will cost more during the coming winter. In the areas affected by the drought a decline in production is also to be expected. The Commission is therefore in a highly delicate and politically risky situation, since it has to decide whether this is the time to submit proposals that involve, among other things, the financial coresponsibility of producers.

Assuming that despite the drought milk production as a whole continues to increase and consequently that the market urgently needs to be reorganized, the Commission has pressed ahead despite the risk that its proposals may not be readily accepted in the current situation by those concerned.

It is undoubtedly an unfavourable moment for the submission of proposals requiring milk producers to make a financial contribution to the disposal of surpluses since structural factors already put them in a weak income situation, which is further undermined by the adverse effects of the drought. In determining the date of entry into force of measures that affect the income of producers, account must therefore be taken of the extent of the actual damage, which cannot be accurately evaluated until later in the year. It is very difficult at the moment to form a clear picture of the damage caused by the drought in the Community as a whole.

With regard to the effect of the drought on milk production and on producers' incomes it is therefore necessary to exercise caution in assessing the measures proposed. Moreover, formal proposals will not be submitted to the Council and Parliament until the consequences of the drought have been accurately established. The proposals contained in the action programme have not yet been fully worked out and a draft regulation has been submitted only for premiums for non-marketing and conversion. Finally, the action programme is intended to be implemented over a period of several years so it is to be expected that the consequences of the unfavourable climatic conditions will be attentuated during this period.

An analysis of the factors determining supply and demand on the dairy market leads to the conclusion that fundamental reorganization is indeed indispensable. The action programme therefore contains far-reaching proposals which are discussed below.

(a) Community system of non-marketing and conversion premiums

The Commission submitted a proposal for a non-marketing premium already at the time of its last price proposals. The European Parliament did not consider this non-marketing premium adequate and recommended that it be supplemented by measures to promote conversion, cessation of farming or a slaughter premium. The Council did not take a decision on the matter but undertook to do so before 31 July 1976. The present proposal is no longer confined to a single non-marketing premium but includes measures, such as those requested by Parliament, capable of accelerating the phasing out of small herds. The importance of this for structural reform becomes plain if one considers that two-thirds of the approximately 2.2 million dairy farms have less than ten cows, the total number of dairy cattle being about 25 million. The average number of cows per farm also varies, from 5 in Italy to 70 in Scotland. There is consequently an urgent need for restructuring in dairy farming.

The granting of the premium, which was raised to 90% of the guide price for milk for 50,000 kg and to 75% for quantities from 50,000 kg to a maximum of 150,000 kg, is subject to a written undertaking by the applicant to refrain from supplying any milk or dairy products for a period of five years, as well as the obligation not to lease his dairy farm and other requirements of the same tenor.

Farmers may also qualify for a conversion premium, although in practice this is only of interest to larger farms. The premiums can be received together with aid granted as part of the campaign against cattle diseases. It has therefore been decided that the maximum amount of 50,000 kg will not apply if the producer is taking part in a programme to combat cattle diseases. On the basis of past experience of premium systems, it is expected that about 1.4 million dairy cows can be eliminated from production. In order to speed up slaughtering and encourage cessation of farming, it is essential for these premiums and payments on cessation of farming to be effectively combined. Disposal of dairy cows, a measure that many producers are unfortunately being forced to take as a result of the disastrous climatic conditions, can, however, be facilitated by the speedy introduction of Community premiums for cessation of milk production and conversion to meat production. The amount of the premium must not only be sufficiently attractive to promote easier slaughtering; it must also offer reasonable compensation for the loss of revenue from milk production and for the lack of return on capital invested in the means of production. It is not known what data the Commission used to arrive at a premium equivalent to 90% of the guide price. But care must be taken to ensure that while the premiums are being paid they continue to offer an adequate incentive to dispose of cows and cease all milk production. Moreover, Parliament considers it most important that in projects of this type care is taken to ensure that the obligations with regard to non-marketing and conversion are fulfilled and that fraud is prevented. The fact that the premiums are paid in instalments itself provides an opportunity for exercising control.

Finally, it should be pointed out that a policy designed to promote conversion can be pursued successfully only if the situation on the beef and veal market permits an increase in beef and veal production the following year without the market being disturbed. In view of the continued downward trend of the beef production cycle, which lasts about five to seven years, it is expected that supply will fall next year by 2 to 3 per cent compared with 1976. In 1978 the situation should remain stable and thereafter production is expected to pick up again. In view of the uncertainty regarding the development of the beef market next year and owing to the effects of the drought a reservation must be made on this point in our assessment of the programme. Otherwise, we fully support this system, as it offers various incentives for the reorganization of the structure of production. We would urge that the system be introduced at the earliest opportunity.

(b) Suspension of national and Community aid to the dairy sector for three years

The Commission proposes a suspension for three years of all aid to investment designed to stimulate milk production, both as regards the production stage and investment in dairies. Aid to hill farming and other problem areas would not be affected by this.

A sudden ban on aid would not only have far-reaching consequences for national agriculture but could also very well conflict with the objectives of the common structural policy on the modernization and enlargement of efficient farms. This policy will therefore meet with considerable resistance and can be implemented only with great difficulty. There is a danger that if aid is completely abolished, the Member States will revert to some form of direct or indirect support system, over which is is very difficult for the Community to exercise control. Consideration should, therefore, be given to the possibility of achieving the same result by a gradual reduction of aid. The higher the investment, the greater could be the reduction in aid.

The directive on modernization provides for aid to be granted to investment in the pig sector only if a minimum amount of 35% of the pig food required is produced on the farm itself. Aid should therefore be granted to investment to promote the use of liquid skimmed milk. A similar approach is also being used by the Commission with regard to dairy farms which submit a development plan. It is proposed that aid granted to these farms should be subject to the condition that they produce 80% of their own feedingstuffs, an additional restriction being that there should not be more than 1.3 dairy cows per hectare of UAA. We are in favour of incentives to farmers to grow their own feedingstuffs. But as a complement to this production greater use should be made of milk available on the farm for calf-breeding, since the system whereby all the milk is delivered to the dairy and part of it returned in the form of liquid skimmed milk, is obviously unsatisfactory. It is also worth considering whether it will be possible in practice to require producers to limit their herds to 1.3 cows per hectare of UAA since the criterion applied by the Commission to define UAA is looser than the criterion for area intended principally for dairy cows, namely grass-fodder area such as pasture land. Producers might therefore attempt, depending on the size of their farms, to concentrate their cattle on areas particularly suited to this purpose while remaining within the proposed limit of 1.3 cows per hectare.

Smaller dairy farmers in particular, who have relatively more cows per hectare, might be tempted to do the same, thus hampering the required structural improvement. Another objection to this limit stems from the fact that it would discourage specialized dairy farming in areas best suited to it. A final objection is that the effectiveness of this measure is somewhat doubtful since a greater concentration of cows per hectare might lead to an increase in milk production worth more than the aid forfeited under the directive.

If a reduction in the number of cows is to be achieved without hampering the structural improvement of farms undergoing modernization, investment aid should not be stopped altogether. Instead, it could be limited according to the amount invested. It follows that effective aid must continue to be granted to developing farms for fairly small projects, on the understanding that such projects should not lead to an expansion of production capacity but contribute to improving working conditions. Aid should also be maintained for land reallocation programmes, development by the laying of roads, etc., and water management.

(c) Introduction of the co-responsibility levy

In its Memorandum on the adjustment of the common agricultural policy of November 1973 the Commission was already proposing the introduction of the principle of producers' financial co-responsibility by means of a temporary production levy on milk delivered to dairies. This levy would be paid by the producer and could not be passed on. For each farm, the first ten thousand litres would be exempt from the levy. In addition, dairies selling a certain percentage of their production into intervention would have to pay an extra levy. The Council has not yet adopted this proposal. But it has been gradually realized that, in view of the increasing production surpluses, a certain amount of financial co-responsibility is inevitable if the market balance is to be restored. Following the latest price proposals the Council asked the Commission to submit proposals relating to financial co-responsibility, which would be implemented from the coming milk year. After regular consultation with the producer organizations the Commission has now proposed that a uniform levy should be imposed on all sales and deliveries of milk in the Community, except in hill areas. In view of the political and social importance of maintaining the price of milk, the Commission considers that the instruments of the organization of the market should be left intact in the interests of stabilizing the dairy market and that the producers should participate directly in the cost of eliminating surpluses by paying a levy, thus establishing a definite link between increased production and costs ensuing from it. The maximum and minimum amounts of the levy will be fixed later, once it is known exactly how much damage the drought has caused.

The milk levy is first and foremost of great psychological importance. It constitutes a warning that production cannot go on increasing indefinitely and will therefore create a climate in which a better market balance may be achieved. By acting directly on incomes, production can be slowed down while at the same time ways of marketing excessive surpluses become available either in third countries or in the animal feedingstuffs sector by means of additional aid to encourage the use of liquid skimmed milk.

In this connection the milk levy must be regarded as a temporary instrument for combating the crisis; the amount it yields must be clearly specified and used exclusively to promote sales, in particular by imposing a higher charge on the price of liquid skimmed milk. In addition, the amount of the levy is limited by the precarious financial situation of producers, who are already under severe pressure owing to the disastrous effects of the drought. The levy will in any case lead to a material decline in incomes. The amount of the levy should therefore be fixed with extreme care, especially as any effect on incomes will be bound to intensify pressure for compensation at the annual milk price review.

Finally, although the Commission's proposal provides for consultation with producers on the manner in which the proceeds from the levy should be used, it does not go far enough as regards granting producers the right to a say in the administration of the funds they themselves provide. Full involvement of the producers in the administration of the funds is, however, essential if they are to be asked to make a financial contribution to solving the current structural difficulties in the dairy sector.

It follows that financial co-responsibility cannot be introduced until dairy farming has recovered from the adverse effects of the drought. Great care must be taken not only to choose the right time for the introduction of the levy but also to attenuate the effect on incomes when the amount of the levy is being decided so that dairy farmers are willing to cooperate by limiting their production and appreciate the need for this exceptional measure. Moreover, proceeds from the milk levy should be used solely for the purposes of limiting production and boosting sales, and the levy must be of a basically temporary nature and be linked to the situation on the market. Since the exact amount of the levy and its effect on incomes are not yet known, a reservation should be made on this point. A reservation should also be made as regards the producers' right to involvement in the administration, which is not fully provided for by the Commission proposal. Subject to these reservations the proposal merits approval.

(d) Enlargement of the Community markets

The demand for most dairy products is to all intents and purposes no longer influenced by the prices of competing products, patterns of consumption in general and structural changes in the production and processing of milk, in particular as regards the use of liquid skimmed milk. It is therefore important to attempt to enlarge the market and secure better outlets by promoting sales both within and outside the Community. The consumption of milk and milk products within the Community should be increased by improving quality, by correctly informing consumers, by improving distribution chains and presentation, and by stepping up the school milk programme. The measures proposed in this area merit our full support, but it might be asked what means of promoting sales are envisaged to neutralize the anti-cholesterol campaign by producers of dietary fats containing high concentrations of polyunsaturated fatty acids. We also support the granting of more aid to liquid skimmed milk in order to make this product more competitive vis-à-vis vegetable proteins, but the question arises how this aid should be determined, given the fluctuation of the price of soya beans on the world market. As far as sales to third countries are concerned, emphasis should be laid on the importance of regular supplies of food aid to the developing countries, which may contribute to reducing existing surpluses. We therefore welcome the fact that the Council recently decided to increase food aid in the form of skimmed milk powder to 200,000 tonnes under the 1976 food aid programme, in line with the Commission's proposal on which Parliament gave a favourable opinion. It should be stressed that priority must be given to the interests of the developing countries. It would be totally unacceptable, both morally and politically, for the Community to use its reserves of skimmed milk powder exclusively as animal feed without setting aside a substantial proportion as food aid. Parliament has already stated on several occasions that food aid should in principle be granted irrespective of whether there are surpluses and must be a permanent, integral part of the overall development policy. Care must naturally be taken to ensure that the skimmed milk powder is correctly processed and used by the recipient countries. Regular supplies should not hamper the development of local milk production and dairy industry. In addition, steps must be taken to ensure that stocks of skimmed milk powder in the leading exporting countries, which upset prices on the world market, do not impede the development of milk production in the less developed countries. In view of the priority given to the interests of the developing countries, food aid, as a permanent Community activity, opens up considerable possibilities for market enlargement.

It is also obvious that attempts should be made during market research activities to negotiate long-term export contracts for dairy products with third countries. It is not known whether the Commission already sees real prospects in this area in the short-term or whether forecasts have already been made regarding the products and quantities which would be supplied under such contracts. It would therefore be interesting to know whether the contacts the Commission has had with Egypt and other African countries have produced any results.

The Committee on Agriculture believes that the Community should pursue an active policy to promote the conclusion of long-term export contracts.

In conclusion, the Commission proposals in the area of market enlargement constitute a logical counterpart of the measures to restrict production and as such can be approved. Whether the measures proposed will enlarge the market sufficiently is, however, doubtful but that does not alter the fact that measures must be adopted on the matter.

(e) Introduction of a levy on vegetable oils and fats

In conjunction with the milk levy the Commission proposes to impose a levy on vegetable oils and fats, which have long been in competition with the dairy products. This levy would be applied indiscriminately to products from both the Community and third countries, an exception being made for olive oil.

Depending on the effect the milk levy has on the price of butter, it is intended to impose a similar levy on vegetable oils and fats in order to restore competitive relationship between butter and substitute products. The low prices of imported vegetable oils and fats compared to the prices of animal fats have indisputably been a major contributory factor in the problem of milk surpluses. However, a policy of low prices for vegetable oils and fats cannot be pursued without harming the interests of milk producers unless the price and the sale of their production can be permanently guaranteed by intervention and support measures. The whole problem of the cost of the market support system and the disposal of surpluses is involved here. The question is, therefore, whether it is possible in the long run to avoid drawing conclusions from the close relationship between a policy on the sector of vegetable oil and fat sector and a policy on the animal fat sector, especially as the countries which export vegetable proteins to the Community still refuse to grant Community milk products free access to their markets.

An improvement in the competitive position of butter resulting from the creation of more equal terms of competition with vegetable food fats, can certainly be regarded as the major advantage of this tax. It would also make the milk levy more acceptable to the producers. Another favourable effect would be a decline in the use of fodder concentrate since the tax on the fat content of feedingstuffs pushes up the price of animal feed.

On the other hand, the tax will increase the price of products such as margarine. This measure is therefore clearly inconsistent with a policy of price stabilization and will encounter resistance from consumers, since it is to be expected that the undertakings which process vegetable oils and fats will pass this levy on to the consumer.

The Committee on Agriculture therefore concludes that the advantages of a tax on fats are outweighed by the attendant disadvantages.

The tax on fats applies equally to imported and Community products, and the terms of competition therefore remain unchanged, with no disadvantages resulting for exports from the developing countries. The effect of the levy on the price of vegetable oils and fats might, however, in the long term, lead to a fall in consumption, which might affect exports to the Community from developing countries, including the ACP countries. The latter, however, would not suffer as a result since the Lomé Convention provides for the stabilization of export earnings (Stabex system). The extent to which the levy might have a negative effect on the volume of exports from other countries to the Community depends on the degree to which overall demand reacts to an increase in the price of vegetable fat relative to the trend in the price of animal fats. Since the effect of the price depends on the amount of the levy, which is still unknown, as is the reaction to be expected from the industry, it would be difficult to make any predictions in

this regard. Although the world market is not faced with structural surpluses of vegetable oils and fats, it is extremely sensitive to the fierce competition between the various types of oil. Furthermore, there are large stocks of oilseeds, rich in protein, and of oils and fats as a result of the good harvests in recent years. It is not certain whether any drawbacks for the developing countries would be fully compensated by allocating the proceeds from the levy to development aid, as proposed by the Commission. Firstly, it is not known what the proceeds will be in proportion to possible export losses, and secondly, development aid is granted on the basis of other criteria and is used for other projects. Thus it does not provide automatic compensation for any loss suffered by the developing countries.

It seems unlikely, however, that these countries will in practice suffer any disadvantages as a result of the levy.

The United States has already given an indication of its opposition to this measure and has threatened to adopt counter-measures in its trade with Europe and to initiate a procedure within GATT if the Community levies a tax on vegetable oils and fats or takes steps to restrict imports of soya beans and soya oil. Although this is a somewhat exaggerated attitude, since the tax does not upset the terms of competition between oils and fats from within and outside the Community and moreover does not apply to vegetable proteins such as soya, and since imports of soya oil are very limited, renewed tension can be expected in trade relations between Europe and the United States, this being one of the consequences of criticism by the United States regarding the compulsory purchase of skimmed milk powder for addition to animal feed.

In view of the steadily increasing use of fodder concentrate, which contain imported proteins, particularly in the pig and poultrymeat producing sector, the question also arises whether the Commission is being logical in deciding not to levy a tax on vegetable proteins. It is precisely the low prices of soya beans, which are imported free of duty, which stimulates the production of milk during the winter and thus contributes to the creation of surpluses. It was the price of soya beans which led producers to replace skimmed milk powder with much cheaper protein products. The Commission has not gone into this problem. The fear is conceivably that the introduction of a levy on vegetable proteins would have a serious affect on trade with the United States, especially as the duty on soya is bound under GATT. A levy on soya beans would also have the disadvantage of increasing production costs in pig breeding, where at present only high-protein feed is used. The Commission may also have felt that the time was not yet right for such a measure in conjunction with the system of guarantees currently in force, which amounts to a levy on vegetable proteins. The recent upward trend of the price of soya is also a factor worthy of attention.

It will, however, continue to be difficult to pursue a firm policy on the reorganization of the dairy market as long as soya prices continue to fluctuate on the world market. For a full assessment of the proposed policy with regard to the vegetable and animal protein and fat sectors it would be useful to know the Commission's line of reasoning. In the meantime it seems appropriate to express some reservation on this section of the proposals.

The Committee on Agriculture feels that if the market organization in the dairy sector is to function efficiently, a general policy must be elaborated on the basis of the inter-relationship between vegetable and animal fats on the one hand and vegetable and animal proteins on the other. Such a policy requires careful preparation and must take account of producer and consumer interests in the Community and help to ensure a balanced development of trade.

OPINION OF THE COMMITTEE ON BUDGETS

on a regulation introducing a premium system for the non-marketing of milk and milk products and for the conversion of dairy cow herds (Doc. 248/76)

Draftsman: Mr DURAND

On 10 September 1976 the Committee on Budgets appointed Mr DURAND draftsman of the opinion.

It considered the draft opinion at its meeting of 30 September 1976 and adopted it unanimously.

Present: Mr Durand, acting chairman and draftsman of the opinion; Mr Maigaard, vice-chairman; Mr Artzinger, Mr Concas, Mr Fletcher, Mr Gerlach, Mr Jakobsen (deputizing for Lord Bessborough), Mr Radoux, Mr Shaw and Mr Yeats.

(1) As part of a medium-term action programme for the progressive achievement of balance in the milk market, the Commission is putting forward a proposal for a Council regulation introducing a premium system for the non-marketing of milk and milk products and a premium system for the conversion of dairy cow herds.

2) This proposal must be considered within the context of the measures already taken[1] or to be taken[2]. It should not, therefore, be expected to solve all the problems of the milk market. It is intended simply to reduce the quantities of milk marketed and investments in this sector by making use of the absorption capacity of the Community beef and veal market.

3) It does not fall within the competence of the Committee on Budgets to pronounce on the agricultural policy aspects of this proposal. It must, however, note that the proposed regulations are intended to influence Community agricultural structures both by increasing the profitability of farms and by bringing about a lasting reduction in supply.

These measures thus tackle a problem that has been of constant concern to the Committee on Budgets, which feels that a satisfactory reduction in expenditure on market support operations can be achieved only by measures to reform structures. Such measures are particularly urgent, since, because of the permanent structural imbalance in this sector, the appropriations allocated to market support operations in the milk and milk products sector traditionally represent the major item of expenditure in the Community budget.

Proposed measures[3]

4) The Commission proposes two categories of premiums, one for the non-marketing of milk and milk products and the other for the conversion of dairy cow herds. The granting of these premiums is conditional on the producer undertaking to cease offering for sale any form of milk product. These two premiums, of which one only may be claimed, differ in their rates and in the conditions under which they are granted. Thus, unlike the non-marketing premium, the rate for the conversion premium is not degressive in relation to the volume of production. Furthermore, it is not granted unless, once the conditions for the non-marketing premiums have been met, the producer undertakes to keep the cattle for purposes of meat production.

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[1] For example, Council Directive 72/159/EEC of 17 April 1972 on modernization of farms (OJ L96 of 23.4.1972)

[2] See 'Action Programme (1977-1980) for the progressive achievement of balance in the milk market' (Doc. 247/76)

[3] These measures are little different from those contained in Regulations EEC/1975/69 and EEC/1353/73 (slaughtering of cows and non-marketing of milk)

5) The amount of the premiums is calculated according to the quantity of milk or milk products supplied by the producer during 1975 and on the basis of the target price for milk in force on the date the application is accepted.

Finally, it is laid down that when certain conditions are no longer met, the amounts already paid under these premium arrangements may be reimbursed.

Financial and budgetary aspects

6) Although the Committee on Budgets approves of measures designed to reduce the budgetary imbalance between the Guarantee and Guidance sections, it is obliged to point out that the regulations pose a certain number of problems of a budgetary and financial nature.

7) The rapporteur, in a previous opinion on the common measures to improve conditions under which agricultural products are marketed and processed[1], expressed the concern felt by the Committee on Budgets about the procedure of the Management and Fund Committees. As regards Articles 7, 10, 11 and 12 of the proposed regulation, he can do no more than refer to the comments quoted above and can approve these provisions only to the extent that they do not place limits on the Commission's responsibility for implementing the budget.

8) The method of financing chosen is based on the reimbursement to the Member States by the EAGGF of 50% of the expenditure incurred by them. It has come to the notice of the Committee on Budgets, when carrying out its control activities, that this method of financing, although satisfactory from the point of view of the rhythm of payments, has led to a low percentage of the funds being used; for commitment of funds depends entirely on the initiative of the Member States, who have to submit applications. In the case of similar methods used in the past by the Guidance Section[2], applications were few and were submitted very late.

9) Since the Member States take part in all stages of the procedure, from the submission to the granting of the applications, and even beyond this point as far as recovering sums paid in error is concerned, it would be difficult for the Commission to retain full responsibility in implementing such a system.

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[1] Doc. 162/76 page 111

[2] See, in particular, Regulations EEC/1975/69 and EEC/1353/73

10) The Committee on Budgets and Parliament have several times expressed serious reservations about the cost of Community measures being fixed in a provision having a legislative character. They consider that such a procedure is incompatible with the political nature of the budget and that it reduces the latter to nothing more than a statement of account of the financial consequences of the regulations enacted by the Council.

However, Article 9 of the proposed regulation, pursuant to the provisions of Article 6, paragraph 2c of Regulation No. 729/70[1], fixes the estimated cost of these measures.

Parliament can accept this only in so far as the fixing of this figure has no legal force. The estimated cost should, therefore, only appear in an annex.

11) In the light both of the remarks made under point 8 and of past experience, which shows, for example, that on 31 December 1974 the date on which the measures introduced by Regulation EEC/1353/73 were due to end, only 40,856 u.a. out of the 60,000,000 u.a. earmarked had been used, it would be better to look upon the financial estimates as a target, and the figures on which these estimates are based do not seem very realistic.

12) However, if we do accept that these figures represent a realistic estimate, it must be borne in mind that the proposed measures will be carried out at the same time as others that are part of an overall plan for structural reform which, from 1978 onwards, should necessitate the removal of upper limits from appropriations for the Guidance Section.

The Committee on Budgets points out that, in the opinion drawn up by Mr COINTAT on the reform of agriculture[2], it recommended that the upper limit for appropriations in the Guidance Section be removed. It now requests that the Commission put forward specific proposals on this subject.

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[1] OJ L94 of 28.4.1970, page 15.

[2] Doc. 204/76/Annex, page 5

(13) The Committee on Budgets reiterated its attachment to the development of a Community policy for agricultural structures. In its view, this is one of the most effective means of reducing, in an acceptable and lasting way, expenditure on market support operations.

In this particular case, it must, however, raise the following objections to the proposal from the Commission of the European Communities:

- It invites the Commission of the European Community to propose the measures required to switch the credits from the Guidance Section of the EAGGF;

- It expresses reservations on
  - the methods and bases used to calculate the estimated cost of the proposed measures,
  - the efficiency of the financing system chosen which, in the past, has not proved satisfactory.

- It reiterates its reservations concerning the use of the procedure of the Management and Fund Committees;

- It reiterates its opposition to the idea of giving legal force to the assessment of the 'estimated cost' of an action.

It can give a favourable opinion only subject to the above remarks and the amendment proposed in Annex.

ANNEX

TEXT PROPOSED BY THE COMMISSION OF THE EUROPEAN COMMUNITIES	AMENDED TEXT
Articles 1 - 8 unchanged	
Article 9	Article 9
1. The total estimated cost of the common measures chargeable to the EAGGF shall be 160 million u.a.	1. Deleted
2. The measures referred to in this Regulation shall, save as otherwise provided, continue in application until 31 March 1978.	2. Unchanged
Articles 10 - 14 unchanged	