

# NEWSLETTER ON THE COMMON AGRICULTURAL POLICY

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**Extract**  
**from the 1976 report**

**on the agricultural**  
**situation**  
**in the Community**

**BRUSSELS — LUXEMBOURG**  
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EUROPEAN COAL AND STEEL COMMUNITY  
EUROPEAN ECONOMIC COMMUNITY  
EUROPEAN ATOMIC ENERGY COMMUNITY

COMMISSION

# The Agricultural Situation in the Community

## 1976 Report

(Report published  
in conjunction with the 'Tenth General Report  
on the Activities of the European Communities')

BRUSSELS - LUXEMBOURG - JANUARY 1977

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## Prefatory note

This report is the second published version of the Annual Report on the Agricultural Situation in the Community. Like the 1975 Report, this report is published in conjunction with the General Report on the Activities of the European Communities.

Chapter III.C on the situation in the main products sectors is an abridged version of Document COM(77)50 final 'Situation of agricultural markets—1976 Report'.

This report was completed on 28 October 1976.

## Foreword

This report corresponds to the Annual Report to which reference is made in the 'Declaration on the System for Fixing Community Farm Prices' contained in the Acts concerning the Accession to the European Communities.

It contains the information required of the Commission by Article 2 of the Council Decision of 4 December 1962 on the coordination of policies on the structure of agriculture. The study does not concern the national policies conducted in this field since the Commission felt that it was more advisable to examine these in the context of information to be supplied annually by it to both the European Parliament and the Council as provided for in Directives 72/159/EEC, 72/160/EEC and 72/161/EEC of 17 April 1972 on the reform of agricultural structures. The first report on the application of those Directives was submitted to the Council on 10 March 1976 (Document COM(76)87 final).

This report also contains data supplied by the Farm Accountancy Data Network of the European Community as provided for in Article 1(3) of Regulation No 79/65/EEC, as amended on 23 October 1973, setting up the data network. It provides the information required by Article 4 of Council Regulation (EEC) No 1308/70 on the common organization of the market in flax and hemp.

The Commission has already presented separate reports to the Council on a number of matters, in particular:

- Report on the foreseeable trends in the planting and re-planting of vineyards in the Community and on the relation existing in the wine-growing sector between production and utilization (Document to be published in November 1976);
- Report on the production and marketing of hops of the 1975 harvest (COM(76)265 final of 9 June 1976);
- Report concerning the application in 1975 of Protocol No 18 of the Act of Accession (imports of butter and cheese into the United Kingdom) (Document COM(76)153 final of 13 April 1976);
- the EAGGF Financial Report for 1975 (Document COM(76)553 final of 22 October 1976);



— a report on the quantities of raw tobacco harvested in 1973 and bought-in by intervention agencies (to be published in December 1976).

## Introduction: The year 1976

1 The general economic recovery in the Community which began in the summer of 1975 has continued.

2. However, the upswing varied in strength from one country to another, with some countries lagging to some extent behind others. Moreover, in certain Member States, the sluggishness of investment demand by undertakings and the new upsurge in inflation which became apparent with the first signs of the recovery were factors which hampered progress:

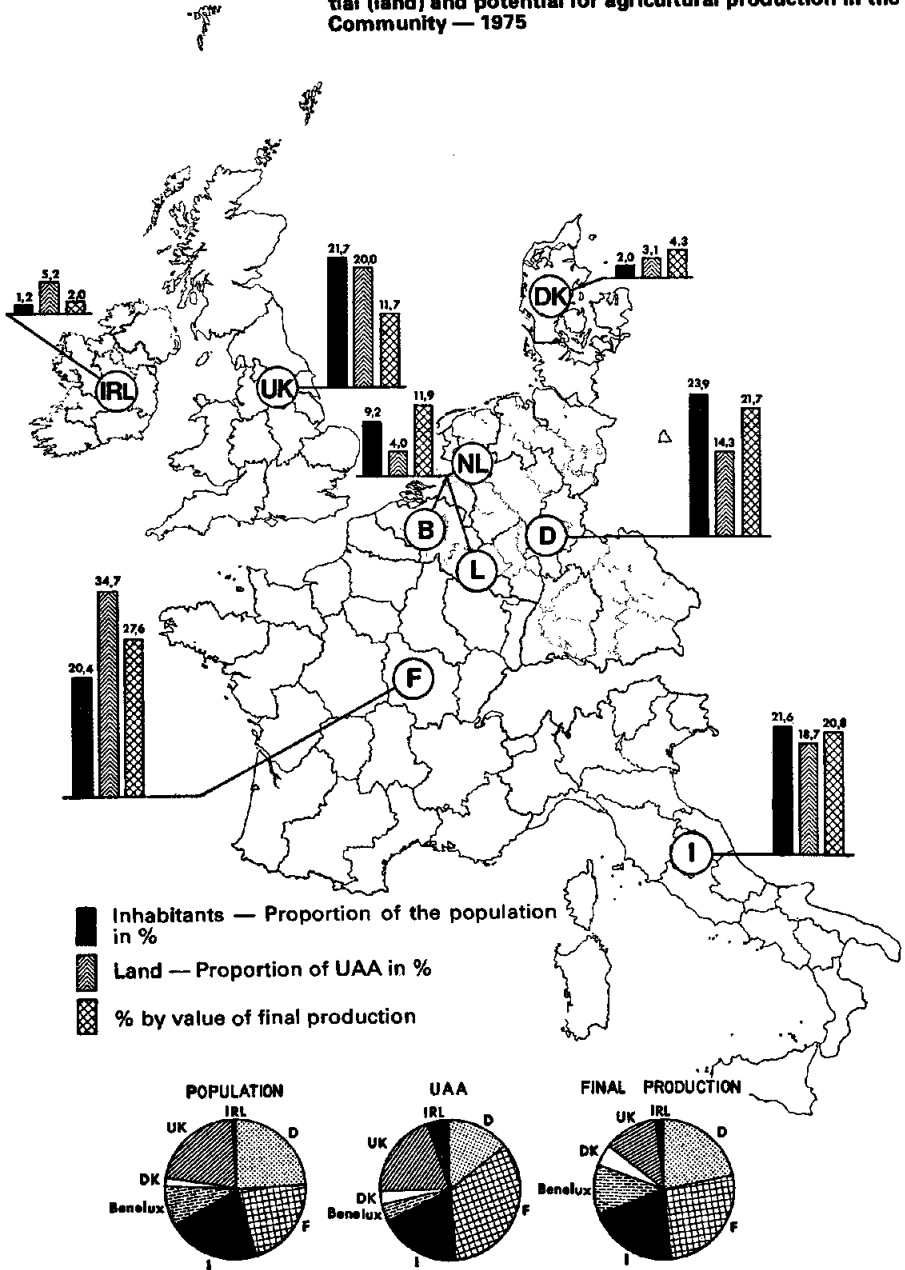
3. The divergencies of economic trends between Member States whose currencies have appreciated and those whose currencies have depreciated have become more pronounced, resulting in disparities in the development of exchange rates between Member States and producing monetary disturbances and new inflationary pressures.

4. The agricultural sector of the Community is seriously hampered by the monetary instability which has led to a break-up of the single market. It is only by the application of monetary compensatory amounts at frontiers that the agricultural common market has managed to continue in being. By the end of October 1976 the very considerable disparities between these amounts (+9.3% for the DM and -40.6% for the pound sterling) were placing a heavy burden on the Community budget and seriously jeopardizing the common agricultural policy.

5. The year 1976 was also marked by an extraordinary drought which seriously affected agricultural production and farmers' incomes in different regions of the Community. The Commission and the governments of the Member States reacted promptly by taking measures at both Community and national level and the Council held a special 'drought' meeting on 9 September at the request of the Commission.

6. World stocks of the main commodities, which reached a relatively low level in 1975, have generally, owing to good harvests, begun to build up again in 1976. As regards the prices of agricultural products on the world market, the downtrend which began at the

**Consumption potential (inhabitants), production potential (land) and potential for agricultural production in the Community — 1975**



GRAPH 1

end of 1974 and persisted during the first half of 1975 was followed by an uptrend for almost all products; in 1976, world prices substantially exceeded the low levels of 1975.

7. The Community's self-supply rate for the main basic food products is such that no serious threat to the security of consumer supplies need be feared.

8. In 1976 imbalances between supply and demand continued to be a feature of a number of products of Community agriculture. In the milk sector this imbalance has been reflected in the accumulation of stocks of skimmed-milk powder and in the wine sector in the massive distillation measures undertaken.

#### The main events of 1976

Date	Event
6.3.	Council Decision on common agricultural prices for the 1976/77 marketing year (+ 7.7%)
15.3.	The French franc leaves the Community snake
1.4.	European Council (Luxembourg)
27.4.	New Association Agreements signed between the Community and the Maghreb countries (Tunisia, Algeria, Morocco)
29.4.	Council Decisions concerning, in particular, measures to reduce the cost of monetary compensatory amounts and a 6% devaluation of the green lira
6.7.	Signature of an Agreement on trade and economic cooperation with Canada
6.7.	Commission proposal for an action programme (1977-1980) for the progressive achievement of balance in the milk market
13.7.	European Council (Brussels) — Agreement for the election of the European Parliament by universal suffrage
27.7.	Official opening of negotiations with Greece with a view to its accession to the European Economic Community
9.9.	Special Agricultural Council on the problems caused by the drought
11.10.	Devaluation of the Irish green pound by 7.5%
17.10.	Revaluation by 2% of the central rate of the German mark against the other currencies in the snake and devaluation by 4% of the central rate of the Danish krone
20.10.	Commission proposal for a permanent system for the alteration of monetary compensatory amounts
25.10.	The depreciation of the pound sterling reaches the record level of 46.0% against the EUR unit of account
26.10.	Devaluation of the Danish green krone by 4.2% with effect from 28 October 1976, eliminating monetary compensatory amounts.

## I - The general situation

9. In 1976 the general environment of Community agriculture was one of recovery from the worst economic recession since the war. 1. The recovery varied in timing and strength and did little to eliminate high levels of unemployment; inflation slowed down but still varied greatly from country to country. 2. In 1976 the repercussions of monetary instability continued to affect the common agricultural market which is now<sup>1</sup> split into seven monetary zones. 3. The drought of 1976 reduced agricultural output. 4. But good harvests in the rest of the world will allow some rebuilding of commodity stocks. 5. In 1976 the Community has taken various initiatives in the field of external relations some of which directly affect Community agriculture. 6. The Community has also, in 1976, continued to develop the common agricultural policy.

### 1. The problem of economic divergence

10. In 1976 the Community economy continued to recover from its most serious recession since the end of the war. The recovery began in the second half of 1975, when real gross domestic product (GDP) expressed at an annual rate rose by 2.5%, and intensified in the first half of 1976. For 1976 the growth rate as a whole is expected to be about 5% compared with the contraction of 2.5% in 1975. The recovery varied in timing and strength: the annual rate of expansion in real GDP between 1975 and 1976 is expected to range between about 3% (Luxembourg and United Kingdom) and 6% (Germany). Unemployment has, however, remained high in all Member States and by August 1976 4.9 million people were out of work—4.6% of the available labour force. More than 2 million of the unemployed were young people. The general economic outlook for 1977 is one of continued growth.

11. Private consumption made a substantial contribution in the initial stage of the recovery but then expanded at a more moderate rate in the first part of 1976. In several

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<sup>1</sup> October 1976.

Member States the effect of a fall in the savings ratio was dampened by a slow growth in real disposable income. Due to the high levels reached in the first part of the year, private consumption is expected to expand by 3% in real terms in 1976 against about 1.5% in 1975.

12. The rate of increase of consumer prices in the Community slowed in 1976 but marked differences still existed between Member States. The implicit price increase for the gross domestic product of the Community was about 9.8% in 1976 against 14.0% in 1975. It is expected to remain at about 9% in 1977. These averages hide considerable differences in inflationary trends between Member States. In 1976 the annual rates of increase in the general level of prices (calculated on the basis of GDP) are likely to range between about 3.8% in Germany, 14.0% in the United Kingdom and 19.6% in Italy. The upward movement of internal prices is also illustrated by the continuing high rate of increase of consumer prices—increases which again show a wide range of divergence between Member States.

13. The Community's trade deficit continued to increase in the first half of 1976. The current account deficit was seriously influenced by the drought and is expected to rise to about \$7 000 million compared with a surplus of \$600 million in 1975. Again, the overall development masks considerable differences between Member States. The expected deterioration in the Community's current account balance between 1975 and 1976 will be mainly attributable to the deficit countries, whose combined deficit is likely to have roughly doubled.

14. In August and September 1975, important measures for supporting economic activity were introduced by five Member States. Early in 1976, similar limited measures in the budgetary field were again taken in the Community. Since March the emphasis has, however, been on decisions aimed at containing public deficits. The economic upswing helped to slow down the growth of public expenditure fairly generally, and in some cases on an appreciable scale, and to increase revenue deficits in all the countries, except the Netherlands, will be lower than in the previous year. France and the Federal Republic of Germany are, however, the only countries where the deficits will be substantially reduced.

15. Since last spring monetary policy has followed a more restrictive course in most of the Member States. Short-term interest rates had been falling in the Community in 1975, but this development generally ended in the closing months of the year. The monetary unrest then contributed to reversing the path of interest rates. In Denmark, Italy and the United Kingdom short-term interest rates reached record levels at the beginning of the autumn. As for long-term interest rates, they have slightly increased since last spring.

16. The efforts made by the governments to moderate the rise in incomes and prices benefited in some Member States from the support and cooperation of the two sides of industry; in others, however, more or less mandatory measures proved unavoidable. After several years in which wages had moved up sharply, there has been a distinct slowdown in the trend in 1976, except in France and Italy.

17. The stabilizing mechanisms introduced under the common agricultural policy helped to shelter agriculture from the adverse effects of the recession. Prices of the means of production rose by between 4.4% (Netherlands) and 16.4% (Ireland) in 1975. At the same time the prices of agricultural products increased by between 5.1% (Luxembourg) and 29.9% (United Kingdom). Indications for 1976 are that the prices for the means of production will rise more quickly than in 1975. But prices for agricultural products are also expected to increase—vegetable product prices are forecast to rise by 20.9% in the Community (11.1% in 1975) and animal products by 12.0% (15.4% in 1975).

18. Prices of animal feeds rose sharply in 1976 in all Member States. Sharpest increases were recorded in the countries with devalued currencies (Italy 27.5%, United Kingdom 25.6%, Ireland 20.2%). These increases followed either price falls or only small price rises in 1975. Machinery and fertilizer prices have tended to rise less sharply in 1976 than 1975, though again the movements were more pronounced in countries with depreciating currencies.

19. The increase in agricultural wages ranged in 1975 from 50% in Italy to 7.8% in Germany. Since 1970, agricultural wages in Italy have risen to 329.3 (1970=100) against 164.3 in Germany.

20. The downward trend in the part played in the economy as a whole by the agriculture, forestry and fishery sector continued. In 1974 it represented only 5.0% of the Community's gross domestic product at factor cost (compared with 6.3% in 1968). This proportion probably increased in 1975 because of the relatively favourable position of agriculture during that year in relation to the rest of the economy.

21. The recession halted, probably temporarily, the decline in the percentage of agricultural workers in the total labour force. In 1975 the percentage was 8.7%—equal to that for 1974 but considerably below the 12.0% registered in 1968. The decrease in the number of agricultural workers can be expected to restart in 1976.

## 2. Monetary instability

22. The major world currencies continued to float in 1975. Thus their daily and weekly variations continued to affect the operation of the common agricultural policy in its relations with external markets (effect on the rates of levies and export restitutions). Similarly the variations of the floating currencies within the Community continued to affect the internal agricultural market.

23. Since floating currencies have become a characteristic of the international monetary system, the exchange rates of the principal currencies have moved in various directions. Thus the US dollar first of all rose by about 20% against European currencies within the snake (DM, Fl, FB/Flux, DKr, and the NKr and SKr) during the second half of 1973, and then fell by about 10% during the first months of 1974; after a brief rally the dollar fell again by 15% until March 1975. In August 1975 it had increased again by 15%. Between August 1975 and October 1976 it stayed more or less constant and then fell after the adjustment of currency values within the snake.

24. The Community snake was under considerable pressure in the first half of 1976 and this led on 17 October 1976 to a revaluation of the Deutschmark against the Dutch florin and the Belgium-Luxembourg franc of 2% and a devaluation of the Danish Krone against the florin and franc by 4%. The French franc left the Snake on 15 March 1976, having rejoined it in June 1975. All independently floating currencies (the French franc, the Italian lira, and the UK and Irish pounds) suffered sharp falls in value at different times of the year.

25. These currency movements exert a considerable influence on agricultural markets. Sharp falls by independently floating currencies against the US dollar have the effect of raising the price of imported farm inputs (soya-bean meal, for example) in the countries concerned. The strengthening of the snake currencies against the US dollar makes Community exports more expensive. Within the Community, the variations in the exchange rates of the Italian lira and of the UK and Irish pounds reflected partly the high inflation rates which characterized the general economy, and as a result agriculture, in these three Member States.

26. The variations in the exchange rates of Community currencies and the US dollar during the three first quarter of 1976 against the 'UCE' unit of account—the unit of account formed by a weighted average of all Community currencies—are illustrated in the following table. The table shows the highest and lowest points for each currency. The biggest variations were experiences by the lira (27.5%) and the smallest by the French franc (6.9%). This range of variations is considerably wider than in 1975 when it lay between 2% and 9.7%.



Currency	Highest point	Date	Lowest point	Date	% variation between lowest and highest points
FB	41.8478	30.9.1976	46.0288	2.1.1976	9.9
DM	2.70755	28.9.1976	3.05355	2.1.1976	12.8
Fl	2.84287	4.3.1976	3.12950	2.1.1976	10.1
£	0.566519	30.9.1976	0.664012	28.9.1976	17.21
Dkr	6.51988	30.9.1976	7.21562	9.1.1976	10.67
FF	5.14569	11.3.1976	5.50310	13.8.1976	6.9
Lit	796.528	2.1.1976	1 015.880	5.5.1976	27.5
\$	1.09075	26.7.1976	1.17368	8.1.1976	7.6

27. Within the Community, the absence of monetary stability continued to affect the common agricultural policy in 1976. At the beginning of 1976 the common agricultural market was divided into five monetary zones differentiated by fixed or variable monetary compensatory amounts ranging between +10% for Germany and -6.4% for the United Kingdom. By October 31 the number of monetary zones had increased to seven and the MCAs ranged between +9.3% for Germany and -40.6% for the United Kingdom. The other MCAs on that date were Benelux +1.4%, Italy -17.0%, France -14.0%, Denmark 0%, Ireland -25.4%.

28. These differences persisted despite the establishment of new representative rates for the Deutschmark, the Dutch florin, the Belgian franc, the French franc and the Italian lira in the fixing of common prices for 1976/77. A further adaptation of the representative rate for the French franc took place on 25 March and for the Italian lira on 3 July. The representative rate for the Irish pound was adapted on 11 October and that for the Danish krone two weeks later.

### 3. The drought of 1976

29. The summer of 1976 brought the worst drought in living memory to many regions of the Community. A drier-than-normal winter was followed by long periods without rain coupled with scorching temperatures. At first the dry winter helped many farmers, who were able to plant crops or gather winter fodder for cattle in ideal conditions. But as the dry weather continued growing crops were affected, pastures became burned and a year that promised to be better than average finally posed a threat to some farmers' incomes and to food supplies. Between 1 December and 31 August rainfall in north-west France was less than 40% of normal. Over a large part of France, in Belgium,

Luxembourg, Wales and parts of England, Germany and the Netherlands rainfall was less than 60% of normal.

30. The effect of the drought will be to reduce farm output. Among cereals grain maize was the worst affected but barley production was also reduced. Sugar output was reduced but considerable quantities were still available for export. For potatoes and other vegetables the effect was more serious. In the livestock sector, milk output fell and increased slaughterings, especially of cows, reduced the downswing in the beef production cycle.

#### **4. The world markets in agricultural products<sup>1</sup>**

31. The downtrend of prices of agricultural products which began at the end of 1974 persisted during the first half of 1975 as a result of a worsening of the economic recession and a certain increase in supplies of agricultural products; a movement in the opposite direction was recorded, however, during the third quarter of that year when most prices levelled off or started to rise.

32. At the end of March 1976 the prices of almost all products appreciably exceeded the low levels to which they had fallen in 1975. The only exceptions were the prices of rice (in dollars), of mutton and lamb, of milk products, which continued to fall on account of increasing supplies and a moderate demand for imports, and of sugar and tobacco, which remained almost stable. World prices for beef and veal and the main vegetable oils rose only slightly, since supplies of beef were plentiful in the exporting and importing countries and large stocks depressed the market in oils and fats. The rise in prices for wheat, coarse grains and citrus fruits has been moderate since the supplies available for export increased in 1975/76.

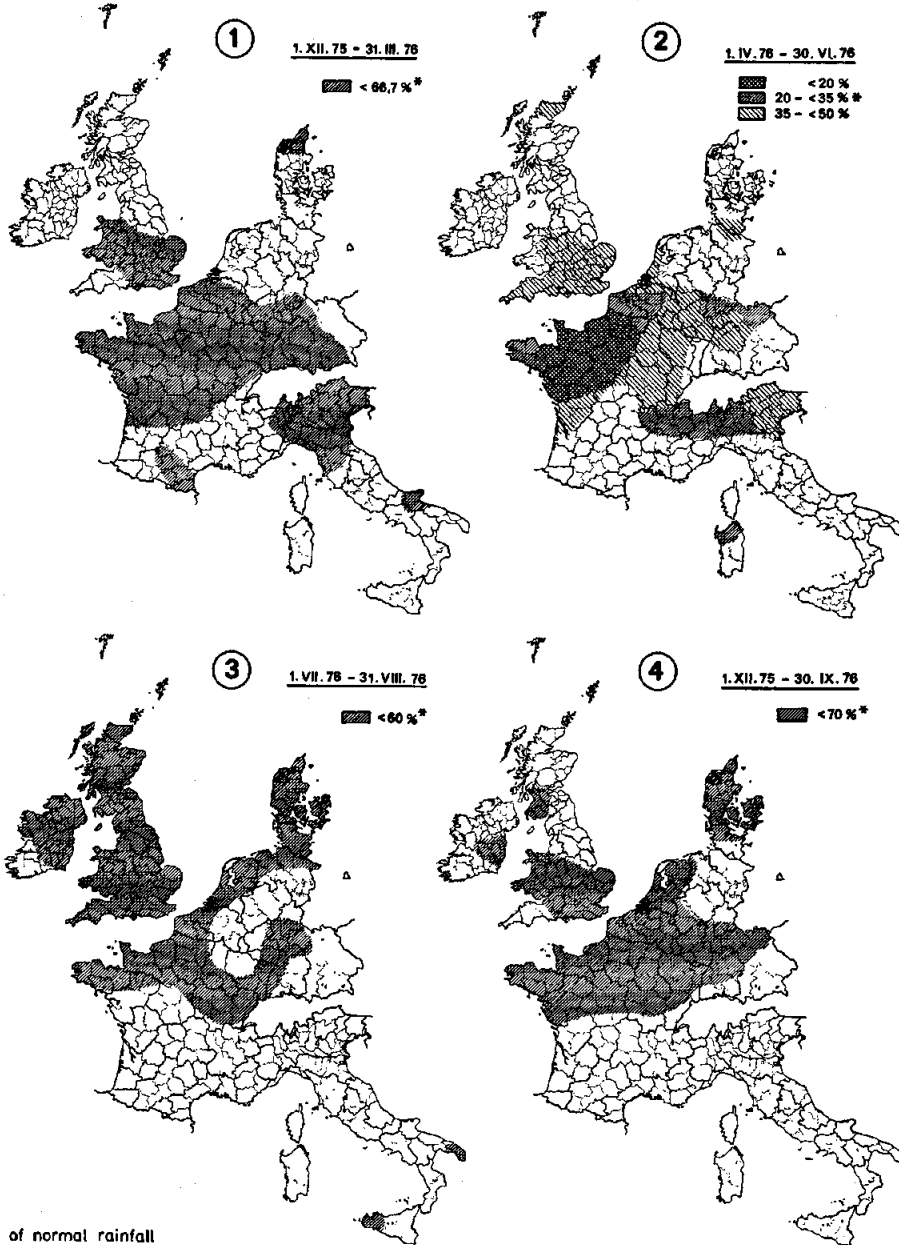
33. The first estimates for cereals would indicate an increase in world harvests of wheat and coarse grains which would once again bring the volume of production up to the long-term growth rate and would help further to rebuild depleted stocks.

34. According to estimates, the production of oils and fats from oilseed meal should increase in 1976 and may result in vegetable oil supplies exceeding current levels of consumption. The production of oils and fats should still increase somewhat in 1977 whereas the production of proteins from oilseed meal could fall.

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<sup>1</sup> This section is drawn to a large extent from the 1976 Report on the production situation published by the FAO.

**Regions affected by the drought  
during the period December 1975 — September 1976**



GRAPH 2

35. It is expected that slaughtering of bovine animals will be maintained at the same level in 1976 but will fall in 1977 in Western Europe and North America. Carcasses will be heavier, however, and this may well attenuate the drop in beef production in Western Europe and slightly increase North American production.

In the exporting countries of the southern Hemisphere there is expected to be a marked increase in beef production in 1976 and this increase may well continue in 1977. According to the first trade estimates for 1976, the net imports of certain industrialized countries in the Northern Hemisphere will show a marked upswing whilst imports from the USSR will depend on the internal supply situation and on prices ruling on the world markets.

36. The pig production cycle should reach its peak in 1977 in Western Europe and North America whilst in the USSR and Eastern Europe it is in its downward phase.

37. World supplies of mutton and lamb and poultrymeat should increase substantially in 1976 and 1977 giving rise to a certain expansion of world trade.

38. Milk production will almost certainly also continue to increase, but there are no signs that imports of milk products will pick up, mainly because demand remains very hesitant.

39. The potential production of sugarbeet in 1976/77 much exceeds the quantities harvested in previous years and there are favourable trends in the major exporting countries pointing to substantial increases in the world harvest of sugar cane. The supplies of citrus fruits and bananas will probably increase further and supplies of peaches could increase slightly through increased production in the developing countries.

40. As regards non-food products, the production of coffee will decline in 1976/77 owing to the Brazilian frosts of 1975 which will continue to affect the two next marketing years so that it will be necessary to draw on world stocks. Cocoa production will once more depend on the Temporão harvest in Brazil since the main 1976 harvests in West Africa were disappointing; the same is true of the tea harvest in Sri Lanka and the south of India. Tobacco production may decline. Lastly, the production of agricultural raw materials, with the sole exception of hard fibres, will probably pick up as a result of increased demand, the most substantial progress being in the rubber and cotton sectors.

## **5. The Community's external relations**

41. In 1976, the Community pursued the initiatives taken *vis-à-vis* certain countries following enlargement and *vis-à-vis* the developing countries in general. In addition, the

decision taken concerning the accession of Greece should be noted. At international level the Community has taken an active part in schemes already in progress and in new initiatives, whilst bilateral relations have been actively pursued, on the one hand with the USA and on the other as a result of the conclusion of bilateral cooperation agreements.

42. The year 1976 has been the first year of the application of the ACP-EEC Lomé Convention. It brings into existence new relationships between the European Economic Community and forty-six African, Caribbean and Pacific (ACP) States, and six developing countries have already applied to accede to the agreement. The trade arrangements of the Lomé Convention were applied in advance as from 1 July 1975 and took definitive effect on 1 April 1976; they will remain in force until 28 February 1980.

43. During the period under consideration there was a fresh departure in the Community's relations with the Mediterranean countries through the conclusion of negotiations with Malta and Maghreb countries, the opening of negotiations with the Meshrek countries and the accession negotiations with Greece.

44. On 25, 26 and 27 April 1976 cooperation agreements were signed between the European Community and Tunisia, Algeria and Morocco respectively. From an agricultural point of view these arrangements cover between 80% and 90% of the products exported by the Maghreb countries to the EEC. They comprise a series of tariff cuts and various mechanisms intended to enable Morocco, Algeria and Tunisia to increase their receipts from exports to the Community whilst safeguarding the interests of Community producers of comparable products.

45. At the end of January and beginning of February the Community opened negotiations with a view to concluding cooperation agreement with Egypt, Jordan and Syria (the negotiations also planned with the Lebanon have been postponed).

46. On 29 January 1976 the Commission forwarded to the Council its Opinion concerning Greece's application for membership. It drew attention to the fact that it saw no difficulties as regards the application to Greece of the common agricultural policy, but that certain structural problems needed to be solved. Following the Council Decision of 3 February 1976 accession negotiations were opened in Brussels on 27 July 1976.

47. The Community has made proposals to Turkey and Spain for the conclusion of trade agreements. The agreement establishing an association between the Community and Malta was amended on 1 June 1976 to include, *inter alia*, agricultural provisions. The special arrangements covering the wine known as 'Cyprus Sherry' have been extended for a year. On 20 September 1976, the Community and Portugal signed an Additional

Protocol to the EEC/Portugal Agreement of 1972. The agricultural clauses of that Protocol provide for an improvement of the concessions previously granted.

48. The generalized system of preferences (GSP) which the Community introduced in 1973 was further improved in 1976. From 1 January 1976 the quota for non-associated countries was raised to almost 1 milliard u.a. In an offer for tropical products made in connection with the multilateral GATT negotiations, the Community proposed a further improvement in these arrangements which will take effect on 1 January 1977 and bring the value of the products concerned to 1 250 million u.a.

49. In 1976 the Community continued to meet its annual commitments of 1 287 000 tonnes of cereals und the Food Aid Convention, which has been extended for a further two years from 1 July 1976. Under its own food aid programmes the Community has made provision for the supply of 150 000 tonnes of skimmed-milk powder (an increase of 95 000 tonnes on 1975), 45 000 tonnes of butteroil, 6 100 tonnes of sugar and one million units of account in cash for the purchase of foodstuffs. In its 1976 budget it has also earmarked 46 670 000 u.a. for transport costs.

50. The food aid which the Community has undertaken to supply in 1975 amounts in total to about 226 million u.a. (against 217 million u.a. in 1974). Deliveries effected in 1975 consisted of 718 280 tonnes of cereals, 52 833 tonnes of skimmed-milk powder, 29 168 tonnes of butteroil and 4 094 tonnes of sugar. During the first three-quarters of 1976 deliveries were made or begun in respect of 557 000 tonnes of cereals, 32 775 of skimmed-milk powder, 30 000 tonnes of butteroil and 6 153 tonnes of sugar.

51. In 1976 the Community continued to take part, under the auspices of the United Nations, in the activities of the following:

- World Food Council;
- The Committee on World Food Security;
- Committee on Food Aid Policies and Programmes; and
- Early warning and rapid information system on agriculture and food.

52. Agricultural negotiations were pursued within GATT in the cereals, meat and milk products sectors. With regard to tropical products, apart from the GSP offer already referred to above, the Commission, in order to meet the objectives of the Tokyo Declaration submitted in April 1976 at the same time as its industrialized partners a tariff offer on most-favoured-nation terms covering tropical products exported exclusively by developing countries. This offer covers a trade volume of 1.2 milliard u.a. from non-associated countries.

53. As regards relations with the United States, the tendency observed in 1975 of criticizing the mechanisms of the common agricultural policy became more pronounced in spite of record American exports to the Community. In 1976 the United States evolved a new attitude aimed at enlarging the scope of bilateral relations through the arbitration of the relevant bodies within GATT.

54. The Community has taken further action for the conclusion of trade cooperation agreements. Agreements have been concluded with Bangladesh, Pakistan and Mexico, with much consideration given to agricultural aspects.

55. The Euro-Arab dialogue into which the Community entered at the end of 1975 has continued to develop.

## 6. Common policies

56. The development of European policy in general and the decisions taken by the Community institutions within the scope of common policies, including the common agricultural policy, provides the general political framework in which Community agriculture has evolved in 1976.

57. The European Regional Development Fund (ERDF) got under way on 16 October 1975. Up to July 1976, aid granted from the fund totalled 568 million u.a. for 2 115 schemes. Of these, 339—totalling 37 million u.a.—were situated in regions covered by the Directive on mountain and hill farming and farming in certain less-favoured areas.

58. In the area of agricultural structures policy, the first report on the application of the three structural directives (those on farm modernization, the retirement of farmers and vocational training) was presented to the Council and Parliament on 10 March. In the report, the Commission concluded that no detailed judgment was then possible because of the lateness of their application by Member States.

59. The Commission's activities with respect to State aid in the agricultural sector are composed of two aspects: consideration of draft proposals for aid and an examination with Member States of existing aids. In 1975, 180 draft proposals were notified to the Commission with a further 152 by 15 October 1976. Many of the 1976 proposals were concerned with the effects of the drought which was considered as a natural calamity (in the sense of Article 92(2) of the Treaty of Rome) in some regions. The Commission checked these aids to ensure that they did not go further than to remedy damage caused by the drought. In connection with the examination of existing aids, the Commission has asked Member States to up-date annually the lists of aids.

60. On 6 March 1976 the Council adopted an average general increase in agricultural prices of 7.7% against the Commission proposal of 7.6%. At the same time it adapted for some currencies the representative exchange rates used under the common agricultural policy. For Germany, France and the Benelux currencies, this led to a revaluation. On 6 October the Commission sent to the Council its proposals for a common fishery policy.

61. On 8 July, three months after the entry into force of the Lomé Convention, the Commission and sixteen ACP States signed twenty-four transfer agreements designed to offset a drop in these countries' export earnings from one or more commodities in 1975, the 'Stabex' System. Transfers for the financial year 1975 totalled 71.8 million EUA—40 million in the form of non-repayable transfers. The transfers to be made under Stabex represent, by comparison with the export earnings of the recipient countries, a contribution which varies in size depending on the loss suffered, the importance of the product or products in question in the overall exports of the country, and the structure of exports (the Community's share in total exports). In a number of cases the contribution is large. Compared with total export earnings (all products—all destinations—1974) Stabex transfers represent 24% for Benin, over 13% for Niger, 6.5% for Ethiopia, 5.5% for Burundi.



## II - The factors of production

62. Within the framework of overall economic development numerous structural adjustments are being made in agriculture in all the Member States of the Community, although the rate of these adjustments has slowed down since 1973 because of the general economic recession. But, in spite of the important changes which have already taken place, many structural problems remain in nearly all Member States, not only as regards the land and farm structures (1, below) but also regards capital investment (2), the agricultural working population (3), market structures (5) and the special structures of the fishing industry (7). All these structural measures and the results of agricultural research (6) have had a direct effect on productivity (4).

### 1. The land

63. Competition for land as between non-agricultural and agricultural purposes is a permanent feature of Community land-use. Over the period 1968-1975 total UAA declined at an annual rate of 0.6% in the Community of Six and in the United Kingdom.<sup>1</sup> This reduction, which resulted mainly from the demand for agricultural land for non-agricultural purposes, varied between 0.3% in France and 0.9% in the Netherlands.

In 1974/75 less agricultural land was lost in all Member States, with the exception of Belgium, because of the slowing down of general economic development since 1973. In France total UAA increased by 0.1% in 1974/75; everywhere else the shrinkage rate varied between 0 in Luxembourg and 1 % in Belgium.

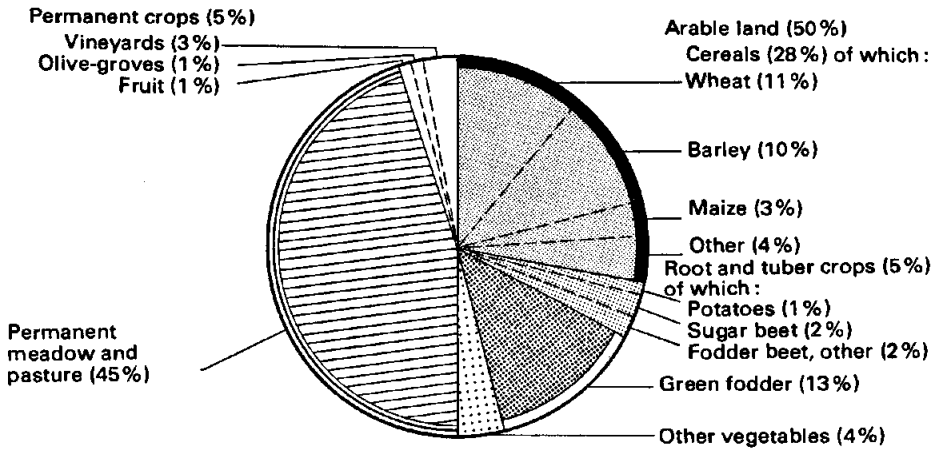
64. With the exception of Italy, between 90 and 100% of the total UAA of each Member State consists of arable land, meadow land and permanent pasture; in Italy this

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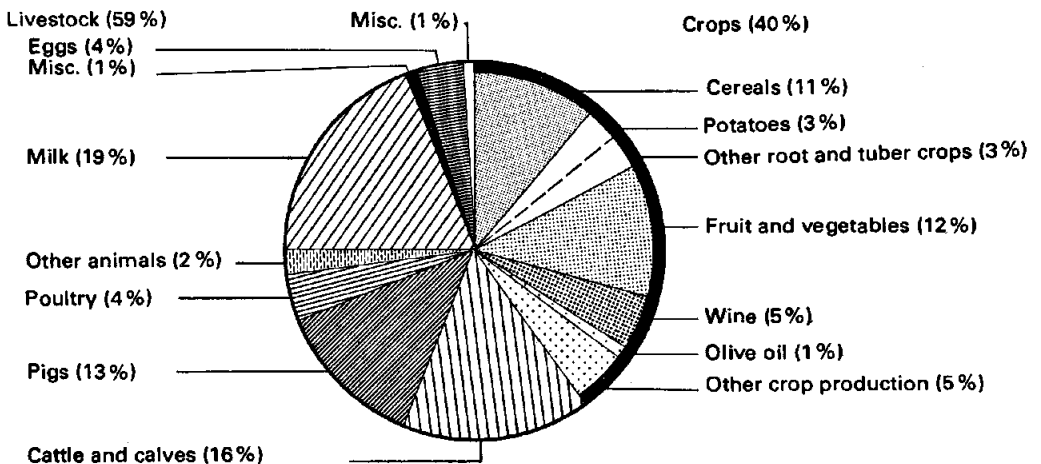
<sup>1</sup> Up-to-date figures are not available for Ireland and Denmark. The figures for Italy for the period 1968-1975 should be used with caution because of a change in statistical method which occurred in 1971. For this reason the medium-term trend in that country will not be taken into account.

**Community distribution of the UAA  
and of final production by crop and product  
in %**

**UTILIZED AGRICULTURAL AREA  
1975**



**FINAL PRODUCTION  
1975**



GRAPH 3

area is 82%. In each Member State for which up-to-date statistics exist, the reduction in arable land and/or meadow land and permanent pasture may be largely explained by the transfer of land to non-agricultural uses rather than by the mobility of land for agricultural purposes.

However, in Italy and the United Kingdom there was also a transfer of arable land to meadow land and permanent pasture in 1974/75. This was particularly marked in the United Kingdom, perhaps because the more favourable prices on the market made stock rearing attractive.

65. Between 1968 and 1975, the total area of woods and forests increased in all Member States, with the exception of the FRG and Luxembourg, the annual rate of increase varying between 0.1% in Belgium and over 4% in Ireland. In the Community as a whole the annual rate of increase was 0.5% over this period. In 1974/75 (except for a slight decrease in France and a considerable increase in Ireland) there was little change in the general trend.

#### *Use of agricultural land*

66. Within agriculture itself, permanent changes in the use made of land are the result of the interaction of factors such as the changing ratio between the prices of inputs (including land) and those of farm outputs, not to speak of the impact of technological change on the entire input/output ratio. Nevertheless it is not always possible to determine which of these factors or combination of factors has the most influence on the use of agricultural land. Moreover, although the price ratio trend may suggest that agricultural incomes could be improved by increasing the production of one product in relation to another, such an alternative may not be open to farmers who have undertaken substantial investments. This is particularly true in the case of the relatively large modern farms which, generally speaking, supply the greater part of Community production.

It should also be noted in this connection that on many small farms the choice of the most practicable system of production is determined by their structural situation rather than by the price ratio.

67. In spite of these analytical limitations, it is still possible to explain some recent trends in the use of land for the principal agricultural products in the Community.

Thus, in 1974/75:

— The substantial increase in the area under sugarbeet in practically all Member States coincides with a 10.7% increase in the minimum price for beet and an increase in the production quotas for sugar.

- The continual decline in the area under potatoes in all Member States must be viewed in conjunction with the gradual reduction in the consumption of potatoes in recent decades.
- The reduction in the area under cereals which is apparently occurring in all Member States is smaller than the reduction in UAA and may be influenced by the increase in average yields/ha.
- As regards the area under vines, it should be noted what a large part of the medium-term increase in areas in Germany and Italy is accounted for by the general varietal improvement being effected through grubbing, replanting and new planting, in line with the general policy of producing quality wines in specified regions.

### *The trend of farm structures*

68. The reduction in the percentage of farms of more than 1 hectare is a normal feature of agricultural development in all Member States. Between 1974 and 1975 this reduction varied from 2.1% in the Netherlands and Denmark to 4.7% in Luxembourg. An examination of this trend over the longer period 1970-1975<sup>1</sup> shows that the reduction is more pronounced among farms of less than 20 ha; however, the number of farms is falling in all categories of less than 50 ha in France, Luxembourg and Denmark, and in the United Kingdom in the category including farms of 50 ha and over.

69. In the Community as a whole about 78% of farms have an area of less than 20 ha but cover no more than 29% of total UAA, while 6% exceed 50 ha and occupy more than 40% of total UAA. This structural disproportion, which exists to a greater or lesser extent in all Member States with the exception of the United Kingdom, explains the relatively slow growth in the average size of farms recorded in the greater part of the Community since 1960.

Between 1960 and 1970 the average Community farm grew by 3 ha, the increase varying between 0.9 ha in Italy and 16 ha in the United Kingdom. Since 1970 the average has increased by 1 hectare and in 1974 for the Community as a whole it was 16.6 ha. This increase mainly affects the largest farms, in many cases those of 50 ha and more.

70. It follows from the above that in spite of a substantial reduction in the number of farms in recent years farms of 10 ha and under with relatively low production present a major structural problem in most Member States of the Community. This seems to be confirmed by the following analysis of the trend of livestock numbers and livestock

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<sup>1</sup> 1970-1974 in France and the United Kingdom.

structures; the data concerning the price of land and rents at the end of this section do not detract from this problem.

### *Livestock numbers*

71. In 1975 there were 77.6 million head of bovine animals in the Community. This represented a fall of 2.3% compared with 1974. This reduction, which occurred to varying degrees in all Member States with the exception of Germany and Italy, was particularly pronounced in the United Kingdom and Ireland. About the third of the total decrease was due to a fall in the number of cows. (Over the period 1970/1975 the number of bovine animals had increased by 7.7%.)

The reduction in the number of bovine animals in 1974/75 may be principally explained by the general increase in costs in 1974 due partly to the effects of the energy crisis and partly to a substantial increase in the prices of feedingstuffs, in particular vegetable proteins. This cost inflation affected dairy farms in particular.

Other factors which contributed to the reduction in the cattle count in 1975 were the downward trend of the beef and veal cycle and the continued application of the conversion premium for dairy cattle introduced on 1 June 1973.

In the United Kingdom and Ireland, however, other factors contributed to the fall in the number of cattle. Thus:

- the decision by the Government of the United Kingdom in 1974 not to apply a system of intervention for beef, so as to keep consumer prices relatively low, led to a substantial fall in cattle prices;
- the reduction in prices on the United Kingdom market, a traditional outlet for exports of Irish cattle, led to a corresponding fall in the prices of cattle in Ireland where there was not sufficient storage capacity for meat bought in at the intervention price.

Thus the resulting crisis of confidence among United Kingdom and Irish stock breeders, which was not entirely dissipated by the first devaluation of the 'green pound' in October 1974, led in those two countries to the sale for slaughter of a considerable number of cows.

72. In 1974/75, pig production also fell in all Member States, with the exception of Italy, Luxembourg and Ireland, the average reduction in the Community as a whole being 1.5%. In Germany and Denmark which together account for 40% of all pig production the reduction followed the trend already established between 1970 and 1975. It should also be noted that during 1975 the pig cycle showed a downward trend.

### *Livestock structures*

73. It is not surprising that the structure of livestock production, in particular that of cattle, is closely linked in all Member States of the Community to the size of farms. Thus:

- in Italy 70.6% of dairy herds comprise not more than four cows, the corresponding percentage in Ireland being 50.7%;
- at the other end of the scale, in the United Kingdom more than 60% of dairy herds comprise 20 cows or more while about 38% comprise at least 40;
- between these two extremes are the Netherlands, Belgium, Luxembourg and Denmark, where herds are the least concentrated. The Netherlands has a high proportion of herds of more than 20 cows (52%), this percentage varying between 20 and 35% in the three other States.

The reduction in cattle numbers described above occurred mainly in herds of up to 19 dairy cows: while in 1970 the latter still included 64% of all dairy cows in the nine Member States, their share in 1975 was only 50%. Thus of the total of 24.7 million dairy cows recorded in 1975 32% are estimated to belong to herds comprising more than 30 cows.

74. A study of the concentration of pig units shows that in Belgium and especially in the Netherlands there are more units of average size than elsewhere, and that the Netherlands has a higher percentage of piggeries of more than 200 pigs (19%) than Belgium. On the other hand, in Ireland, the United Kingdom and Italy pig units are highly concentrated. Thus in the United Kingdom about 3% of producers keep 40% of all animals in piggeries of more than 1 000 pigs, whereas in Italy over 95% of producers keep about a third of the animals in units of less than 20 pigs.

### *Land prices and rent*

75. Up-to-date statistics on the prices of farm land show considerable differences between Member States both as regards the average level of prices and their annual increase. Generally speaking, average prices are highest in Belgium and Germany and, to a lesser extent, in Denmark and the Netherlands.

76. The annual increase in the average price during the period 1968-1975 was greatest in Northern Ireland (18.4%), England and Wales (15.15%) and Denmark (14.8%). From 1973 to 1975 land prices rose steeply almost everywhere, especially in Denmark, the Netherlands and France. In the United Kingdom a significant increase in 1973/74 was

followed in England and Wales by a reversal of the trend which was reflected in an 18% reduction in the average price of land.

77. In all Member States with the exception of Belgium the predominant system is that of the owner occupier, although his importance varies considerably from country to country. Although the effect of farm rent control, which is more or less strictly enforced, cannot be determined, in most of the Member States concerned not only do rents increase much more slowly than the price of land but the income they provide for the owner amounts to only 1 to 3% of the value of the investment.

This, together with the fact of being unable to dispose of their property for a fairly long period and the consequent risk of not being able to sell it at the best price, explains a certain hesitation on the part of owners to lease their land.

Equally important is the abovementioned need to increase the size of the farm and the desire on the part of many farmers to combine the advantage of land ownership, i.e. its guarantee against inflation, with that of possessing an indispensable factor of production.

Nevertheless, this situation causes serious problems for farmers who wish to expand and in particular for young farmers who find themselves, without sufficient capital of their own, faced with spiralling land prices and very high credit rates.

## 2. Capital

78. Because of the lack of adequate data it is not possible to make a detailed analysis of capital investment in agriculture in the Community. Some data from various sources are available but not on a sufficient scale to enable an exact picture of capital investment in any Member State to be drawn. Moreover, the use of data from various sources restricts the comparability of the data as between Member States. Thus, where the data do not refer to the same periods the trend of total capital input cannot be established for a particular period of time, even within a single Member State.

79. Because of these various limitations the analysis given here of the use of capital in agriculture is somewhat superficial. At best it gives only an indication in order of importance of the overall trends of certain capital inputs or groups of inputs in each Member State over recent years. The analysis is thus confined entirely to the trend of movable capital although it is possible, on the basis of the information available on the trend of prices for farming land—at least in so far as such data permit—to attempt to draw some conclusions as to the trend of total capital investment in agriculture in certain Member States during recent years. In all cases the value of capital is expressed at current

prices since the necessary data are not available at constant prices. This circumstance restricts still further the possibility of interpreting the results.

This analysis is based on two types of data.

- Those relating to the formation of fixed capital, as contained in the agricultural accounts, which give a reasonable indication of movable capital investment in agriculture and in particular of its relationship to value added.<sup>1</sup>
- Those relating to capital equipment, including livestock and deadstock, which give a reasonable indication of the trend of investment per ha of UAA in each Member State.

### *Fixed capital formation*

80. Fixed capital formation represents the annual expenditure on the replacement and increase of existing stocks of fixed capital, with the exception of land. Such expenditure includes new plantings, land improvement, the construction of agricultural buildings, machinery and other equipment, transport equipment etc. The formation of fixed capital had increased in each of the original six Member States between 1970 and 1974, the scale of this increase varying between 14.9% in Germany and 101.6% in Belgium. Thus, at current prices, the ratio between gross fixed capital formation and gross value added at the cost of the factors of production had increased in all Member States, with the exception of Germany, the biggest increase (about 50%) having been in the Netherlands and Belgium. In fact, the data at constant prices on gross fixed capital formation which are available for four of the six Member States, the exceptions being France and Luxembourg, suggest that only in the Netherlands and in Belgium was there a considerable increase (25 to 30%) in gross fixed capital formation between 1970 and 1974.

It is significant that in these two Member States net fixed capital formation was much more rapid than gross formation.

In the absence of more complete data, it is not possible to reach useful conclusions regarding the real trend of net fixed capital formation in the other Member States.

### *Capital investment per hectare*

81. Agricultural development, the structural situation within agriculture, the system of production, the cost of inputs, etc. all influence the rate of capital investment per hectare

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<sup>1</sup> These data are valid only for the six original Member States for the period 1970-1974.



in each Member State. Valid data regarding investments in livestock and deadstock show considerable differences between Member States both as regards the level of utilization of capital per hectare and its distribution among the various uses. One of the most striking aspects concerns the relatively low level of capital investment and the equally low level of credit per hectare in Ireland, a fact which underlines the degree of development of Irish agriculture compared with that of the other Member States. On the other hand, the levels of investment in the Netherlands and Belgium reflect the intensive nature of livestock production in those two States.

82. Investment has increased very rapidly in all Member States over the period.

As in Ireland, the amount of capital borrowed per hectare is relatively low in Italy and in Luxembourg. In all the other Member States, with the exception of Belgium, the annual increase in the use of borrowed capital is relatively rapid, reflecting a continual growth in the indebtedness of farms; in Belgium, where the level of investment in livestock and deadstock is one of the highest in the Community, the relatively low annual volume of borrowed capital would seem to suggest that much investment is financed by the farmer from his own resources. However, it should be noted that in Belgium, where over 70% of the UAA is farmed by tenants rather than by the owner, the need for investment in land when farms are expanded is not so great as in the other Member States.

#### *Total investment*

83. However, although the various data are given only in the form of 'averages', it is clear that the general picture of capital investment in individual farms varies substantially according to the site of the farm, the quality of the land, the system of farming, etc. At best, overall data can give only a very general indication of capital investment per hectare of UAA.

Taking into account the obvious imperfections of the methods of calculation, approximate total investment in u.a. per hectare of UAA including land in those Member States where data are available can be estimated at the following:

Germany	±6 000
France	±3 000
Italy	±2 500
Netherlands	±5 200
Belgium	±7 200
Denmark	±5 500

Investment per hectare on such a scale gives a general idea of the capital requirements for the modernization of farms in each of the Member States listed above, when expansion of the farms is necessary and is effected by way of purchase.

However, more precise information regarding capital requirements for the modernization of farms can be obtained only by referring to the total capital invested in farms which are already modern and which are of varying sizes and practise different systems of production. Such information is not available.

### Interest rates

84. Given the limited possibilities in self-financing in agriculture, the rates of interest payable on borrowed capital have a decisive influence on long-term forecasts for the modernization of agriculture in each Member State. Information regarding bank interest rates on long-term loans to agriculture in each Member State is not available; an indication of the movement of such interest can however be gained by reference to the percentage return on public sector bonds.

Annual return (%) on public sector bonds, 1973-1976

Member State	1973	1974	March 1975	March 1976	May 1976
Deutschland	9.3	10.4	8.7	7.6	7.8
France	9.0	11.0	10.3	10.3	10.2
Italia	6.8	8.4	10.1	11.3	11.6
Nederland	7.9	9.8	8.8	8.3	8.7
Belgique/België	7.4	8.7	8.8	9.0	9.2
Luxembourg	6.8	7.3	6.7	7.0	7.2
United Kingdom	10.7	14.8	13.4	13.9	13.6
Ireland	11.6	16.0	14.3	15.4	—
Danmark	11.1	14.6	13.0	14.3 <sup>2</sup>	—

<sup>1</sup> April 1976.

<sup>2</sup> January 1976.

Source: Eurostat.

This return has shown a tendency to increase progressively in all Member States with the exception of Germany and the Netherlands since 1973. Moreover, in the three new Member States it is higher than elsewhere. In Ireland in particular, where the level of movable capital invested per hectare is the lowest in the Community and where there are serious structural problems in agriculture, the level of long-term interest rates, as indicated by the percentage return on public sector bonds, must constitute a considerable brake on modernization for many farmers capable of development. Even taking into account the 5% interest rate rebate for selective investment which is granted to farmers who undergo modernization in accordance with Directive 72/159/EEC, the amount remaining payable by such farmers is still quite substantial.

### 3. The agricultural working population

85. It is clear that the economic recession and the resulting unemployment have had an effect on the rate of migration from agriculture to other sectors. The overall data obscure differing trends. Thus from 1968 to 1975 the annual fall in the number of non-wage earners exceeded that in the number of wage-earning workers in Germany, France, Italy, Belgium and Luxembourg, but this tendency seems to have been reversed in Italy, Belgium and Luxembourg between 1973 and 1975. In Denmark, where the total number of persons employed in agriculture remained relatively stable, the number of agricultural wage earners increased; in Ireland, where there are few agricultural wage earners, the rate of decline in the number of non-wage earners fell sharply.

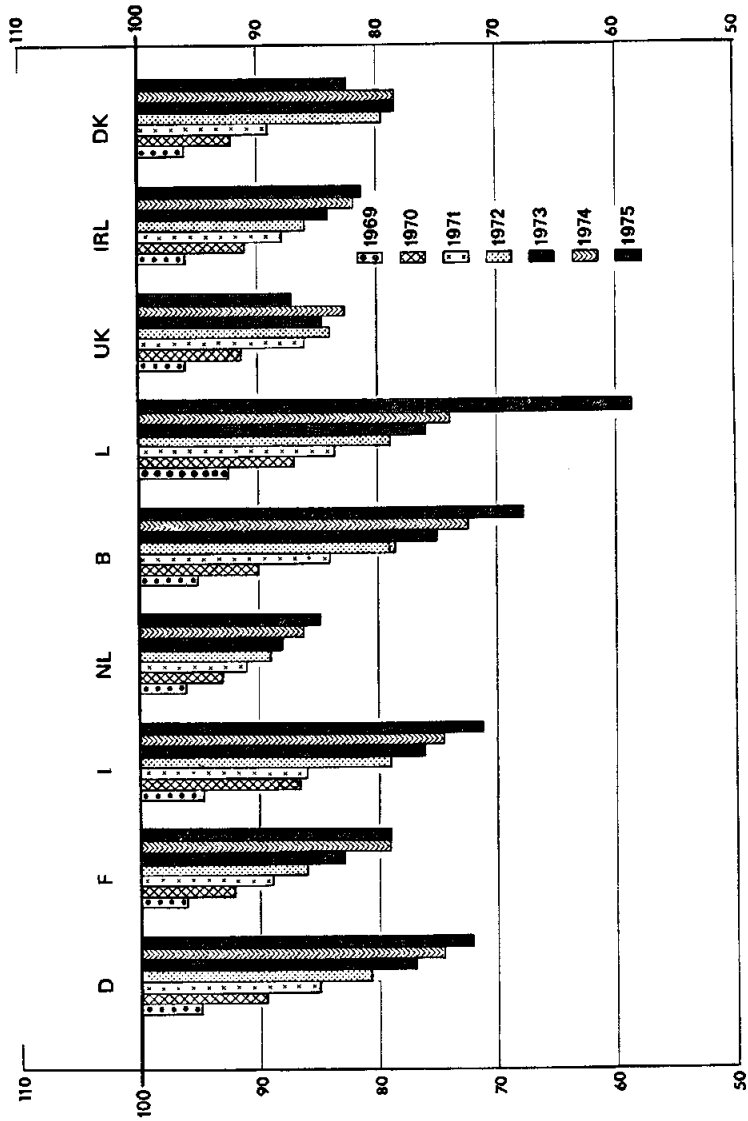
86. As regards distribution by age, the relatively high rate of decline in the under-35 age group fell considerably, again under the influence of the economic situation; except in Luxembourg this was the case in all Member States which have up-to-date statistics. Thus in Belgium since 1973 the number of young persons aged between 14 and 24 in agriculture has increased by more than 4% per year, probably because of the lack of alternative employment. In the Netherlands over the same period the number of agricultural workers aged between 25 and 34 seems to have increased by more than 2% per year. However, in view of the relatively short period involved, this may be only a temporary phenomenon. Be that as it may, as long as the effects of the present economic recession prevail, their influence on the trend of the agricultural working population and, by implication, on the possibilities for a structural reform of agriculture will call for special attention.

87. In contrast to this disturbing development, the situation has changed little in the 45 to 54 age group, which is traditionally the most stable because workers in this age group are the least likely, mainly for reasons of age, to change to other employment.

88. Lastly, the over-55 age group is the one in which the agricultural working population is declining at the fastest rate. But, although land mobility is largely achieved on the passage from one generation to another, in present circumstances, the possibilities of structural improvement on the part of farmers as a whole, including young farmers, depend to a great extent on the areas held by this age group.

It should be stressed that in the absence of statistics permitting a distinction to be made in the category of non-wage earners, between farmers, female workers and other members of the family, the real effects of the move of workers away from agriculture on land mobility and the consequent structural reform of agriculture cannot be established with sufficient precision.

Development of the number of people employed in the agricultural, forestry and fishery sectors  
1968 = 100



GRAPH 4

*Social security*

89. In the nine Community countries the covering of farmers against risks has not changed since 1974. In Belgium, the Netherlands and the United Kingdom there is still no accident insurance for non-wage earners, whereas in Ireland the general system of social security does not apply to self-employed workers such as farmers. In that country the only social coverage is in the form of family allowances; however, economically disadvantaged farmers may be entitled to sickness, maternity and old-age benefits.

Except for Denmark and the United Kingdom where the general social security system is financed by taxation, the State has a large share in the financing of social security in nearly all the countries with the exception of the Netherlands where there is an almost perfect balance between contributions and benefits (94.03%) and that in spite of a considerable increase in contributions in all the countries. This situation of imbalance between contributions and benefits is due to the special problems of agriculture (decline and ageing of the working population able to contribute, delay in covering farmers against risks, low level of agricultural incomes, etc.).

The overall amount of benefits paid out has also increased in all Member States.

90. An examination of the trend of these benefits in 1974 as compared with 1973 shows that in certain countries they increased considerably. These were, in order, Italy, the United Kingdom and Belgium. The other countries had a rate of growth more or less similar to that in the immediately preceding years.

The following table gives figures based on data in national currency.

Increase in social security payments to farmers in 1973/74

Member States	Expressed in national currency (%)
Deutschland	13.04
France	16.66
Italia	50.37
Nederland	14.31
Belgique/België	27.05
Luxembourg	10.41
United Kingdom	28.89
Ireland <sup>1</sup>	
Danmark	9.24

<sup>1</sup> Figures not yet supplied by Ireland.

A closer analysis of the composition of benefits shows that the increase did not cover the same field in all the countries.

91. Thus, as regards sickness insurance, most of the countries have a growth rate of between 15 and 20%, which is exceeded by two of them, Belgium and the United Kingdom. It is to be supposed that for these two countries, in addition to the causes of growth which apply to the whole population, there are specific factors: inflation in the United Kingdom and more claims for medical benefits in Belgium as a result of the recent introduction of the sickness insurance scheme for self-employed persons.

92. As regards old-age insurance, four countries had an average growth rate of around 10%, three other countries growth rates of between 20 and 33% and Italy a growth rate of 68%. These higher rates are due mainly to a substantial increase from one year to the next in basic benefits.

The annual amounts of old-age pension have increased considerably in nearly all the countries due in part to the rise in the cost of living; the Netherlands (3 496.27 u.a. per couple) and Denmark (2 833.72 u.a. per couple) still have a privileged position compared with the other Member States.

93. Lastly, as regards family allowances, one country had a remarkable growth rate: this was Belgium, again because of a substantial rise in the various family benefits.

#### **4. Productivity<sup>1</sup>**

94. During the period '1968'—'1974' there was an annual growth in labour productivity of 6.6% in the Community as originally constituted and of 4.9% in the United Kingdom. This was a very slight fall compared with the period '1968'—'1973'. It was the combined result of an increase in final production (1.9% in the original Community and 1.3% in the United Kingdom) and a reduction in the number of persons employed in agriculture (—4.4% in the original Community and—3.5% in the United Kingdom). Calculated on the basis of gross value added, the productivity of labour increased by 5.6% a year in the original Community and by 6.4% in the United Kingdom.

The size of the growth rate varies considerably among the Member States. It is calculated on the basis of a final production which in the Benelux countries is considerably above and in France considerably below the average rate for the Community as originally constituted. Approximately the same can be said of the rates calculated on the basis of the value added.

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<sup>1</sup> See Table I/6.1 in the Statistical Annex.

95. As regards productivity per area, the same trend can be observed, i.e., a very slight fall in the growth rate compared with the preceding period. With the exception of the Netherlands (6.2%) the annual rates for the other Member States are not very far from the average rate for the Community as originally constituted (2.7%).

It should, however, be pointed out that the growth in the productivity of labour in the Member States comes in differing proportions from the increase in agricultural production (final production or gross value added) and from the fall in the agricultural working population. In the original Community and the United Kingdom it is the fall in the agricultural working population which plays the most important role. It is only in the Netherlands that the increase in agricultural production has affected productivity more than the decline in the working population in this sector.

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96. Recent trends in the development of agricultural structures in the Community are characterized by a number of interrelated phenomena:

- The rapid fall in the number of persons aged 55 and over in the agricultural working population coincides with an equally rapid fall in the number of farms of less than 20 hectares. In so far as the oldest farmers are usually concentrated on small farms there is a fairly high correlation between these two phenomena.
- The trend in the size of farms in recent years shows that in some Member States it is mainly farms of 50 ha and over which have increased in number. This would seem to indicate that the size of farms required for viable farming will continue to increase. It is also clear that the biggest farms will continue to expand while the smallest ones are disappearing.

But since big farms do not usually benefit from Community measures for the modernization of farms such as envisaged by Directive 72/159/EEC, nor from related national measures, it is probable that their expansion will result mainly from normal operations on the land market. Because of their easier access to capital for the acquisition and exploitation of additional land, big farms are in a much better position than the smaller farms capable of development, which find it more difficult to overcome the continual increase in land prices and in the capital requirements of modern agriculture.

- The growing pressure on land prices will probably continue in the coming years as will the growth in capital requirements on farms. Thus, in view of the substantial increase in interest rates on borrowed capital in some Member States, it is evident that the smaller farms capable of development face a daunting task in their efforts to modernize. This is particularly true in the case of farmers who seek to develop a viable system of beef and veal production.
- In view of the limited amount of financial resources available for the development of farms in all Member States, it would seem appropriate to suggest that priority in the allocation of such resources be given to farmers who are capable of becoming viable

and of remaining so in the long term. Otherwise, there would be the risk of wasting the scant funds available for development by distributing them to farmers who were incapable of using them effectively.

It is obvious that holders of farms capable of development who have the capacity necessary to undertake modernization programmes cannot hope to attain their objectives without substantial development aid. Therefore, the energetic implementation of the Council Directives on the reform of agriculture of 17 April 1972 is of capital importance for them.

## 5. Market structures

97. Organized participation by farmers in the marketing of agricultural products is not always on a substantial scale. Better organization of this sector would contribute more to the improvement of agricultural incomes.

Marketing in the Community is at present carried out by various types of local, regional or national organizations. They have been set up either on the initiative of farmers, as in the case of cooperatives, or on the initiative of the authorities, as in the case of producer groups. The latter type of organization is expressly provided for in French and German law. The legislative provisions in question do not stipulate the legal form which the recognized producer group must take.

98. During 1975, with a few exceptions and in so far as importance can be attached to figures relating to a single year, there was a slight drop in the volume of agricultural products marketed by cooperatives. However, cooperatives still have a dominant position on the milk market, and in respect of all products in Denmark and the Netherlands.

Contract sales, on the other hand, did not decline but on the contrary increased slightly in the Netherlands, the United Kingdom and Ireland.

Sugarbeet and peas remain the two products which are most often marketed under contract.

99. In recognition of the fact that agriculture depends to a large extent on the efficiency of the sectors which provide outlets for agricultural production, the Commission on 11 August 1975 presented to the Council a proposal for a Regulation on common measures to improve the conditions for the processing and sale of agricultural products.

This document, with a view to a coordinated development of marketing structures for agricultural products, provides that aid from the Guidance Section of the EAGGF for investment projects in processing and marketing should gradually be reserved for projects



which form part of specific programmes containing a detailed analysis of the situation in the sector and the improvement envisaged.

The presentation of this proposal led the Council to resume at the same time negotiations on the draft Regulation on groups of producers and associations thereof presented by the Commission in 1971, which aims at improving the conditions in which farmers place their products on the market. A policy in this respect is already implemented in certain sectors (fruit and vegetables, fishery products, hops and silkworms) where the producer groups have been assigned an important role in the organization of the market. Such a policy is also envisaged by the Commission in its proposal on the common organization of the market in potatoes, which is also based on the action of producer groups.

## 6. Agricultural research

100. The second joint research programme on classical and African swine fever terminates in December 1976.

In addition, the joint coordinated research programmes in the fields of animal leucoses, livestock effluents and the production of beef and veal and vegetable proteins, adopted by Decision 75/460/EEC, have been implemented; work on 138 research contracts has begun while the Commission has organized seven seminars, two workshops and numerous exchanges of researchers.

Within the framework of COST<sup>1</sup> non-member countries were invited to take part in a conference on maize as a complete nutrient in beef and veal production.

The Commission has produced eleven publications on the results of the research and the work of seminars in the fields of swine fever, livestock effluents and beef and veal production.

## 7. Structure of the fishing industry

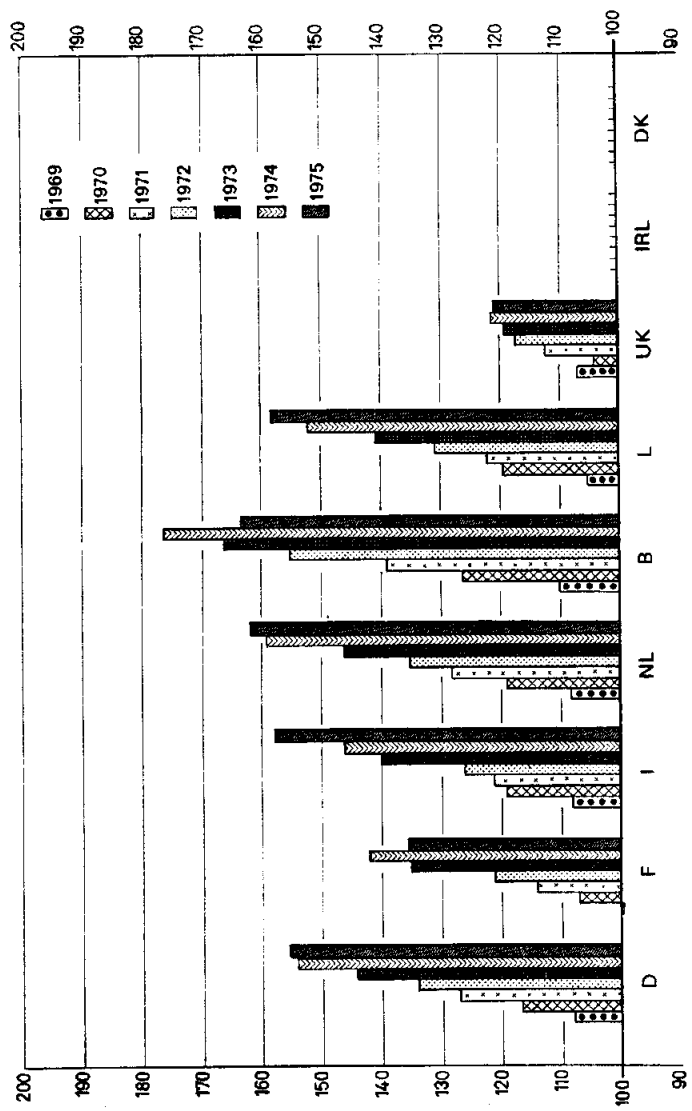
### *The fishing fleet*

101. The number of vessels comprising the Community fishing fleet declined in 1975 from 52 074 units with a total tonnage of 1 273 679 grt to 51 267 units with a total tonnage of 1 254 093 grt.

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<sup>1</sup> Committee of senior officials in the field of scientific and technical research.

**Development of labour productivity in agriculture**  
 (calculated on the basis of final production at  
 1970 constant prices per person employed in agriculture)  
 1968 = 100



GRAPH 5

The biggest reductions occurred in the United Kingdom and the Netherlands. The total number of fishing vessels of more than 100 grt increased by 79 units from 2 372 to 2 451.

Nevertheless, the total number of vessels of more than 24 metres declined from 2 018 to about 1 900. This decline occurred particularly in the United Kingdom where a large part of the fleet of this length (52 vessels) was laid up.

102. Operating costs continued to grow; the Member States with high inflation rates show the biggest increases in the costs of fishing equipment, repairs and maintenance. The cost of fuel also continued to rise by 15 to 25% in 1975. Because of the high interest rates, the increased operating costs and the economic uncertainty in the industry, there was little investment in new vessels.

#### *The fishing zones of the EEC fleet*

103. In 1974 87% of EEC catches were from the north-east Atlantic, the North Sea and the Baltic, 3% from the north-west Atlantic, 8% from the Mediterranean and 2% from the east-central Atlantic.

#### *The crews*

104. The number of full-time fishermen in the Community declined by 2 612 from a total of 122 696. The Member States most affected are the United Kingdom (1 292 men) and the Netherlands (586 men).

The total number of part-time fishermen remained constant at about 33 500, including at least 20 000 in the Mediterranean region.

Productivity estimated on the basis of the tonnage landed per fisherman remained stable with a tendency to decline, except in the Netherlands where the replacement of old vessels by more sophisticated ones enabled productivity to be improved.

#### *The on-shore industry*

105. In the processing sector the proportion of deep-frozen fish to fresh fish showed a tendency to decline. The proportion of preserved fish remained stable in relation to 1974. The production of fishmeal in the Community was about 475 000 tonnes, of which 315 000 tonnes were produced in Denmark.

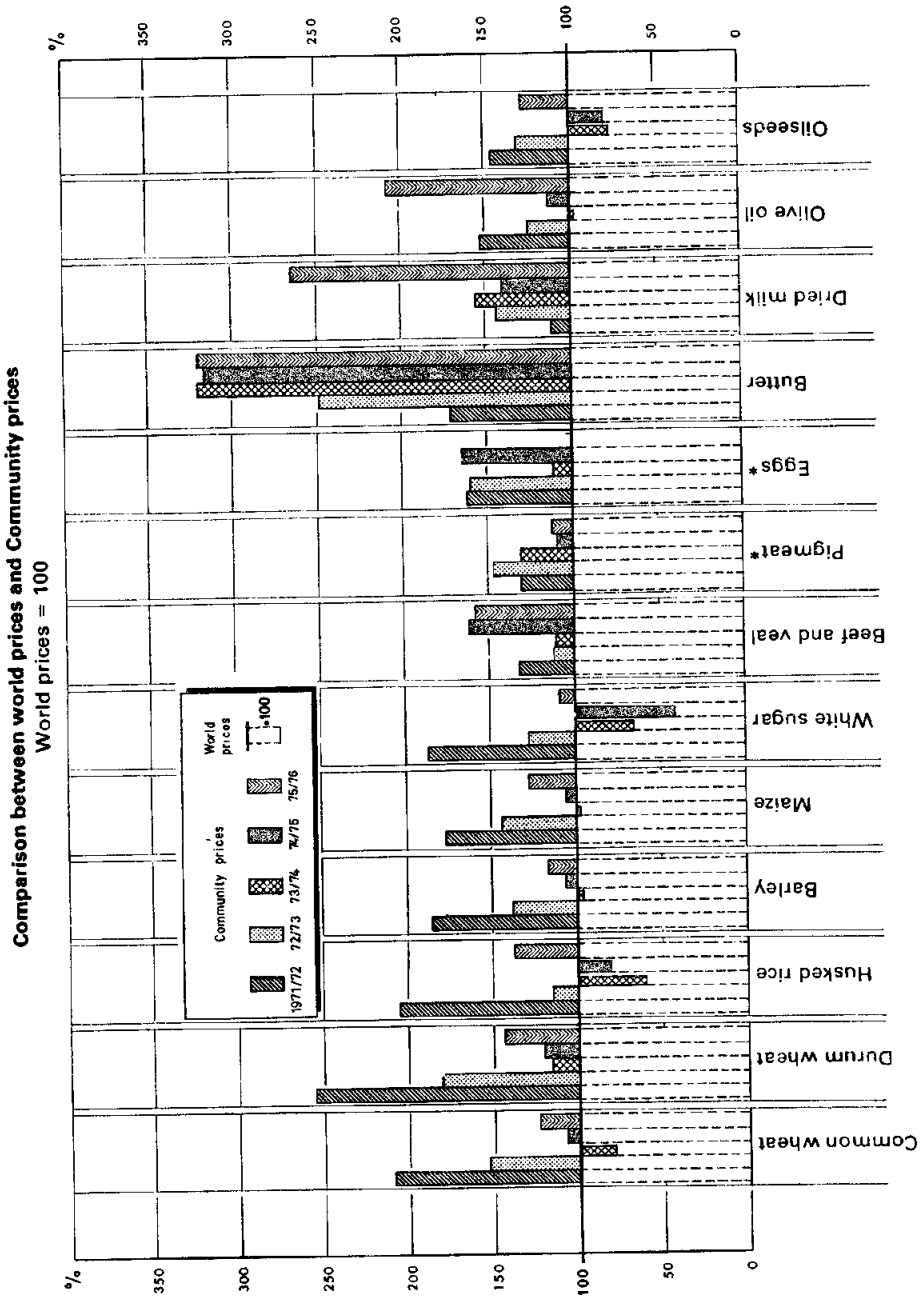
### III - The common market in agriculture

#### A — General survey

106. In the medium term ('1968-1974') the volume of the Community's final production increased by about 1.9% per annum. In 1975 the change compared with 1974 was -2.0% (+1.3% in 1974). As in 1974, but contrary to the medium-term trend, there was a higher increase in 1975 in livestock production (+0.1%) than in crop production (-4.8%). In the long term ('1963-1974') the average annual growth rates in the Community varied considerably according to the product; some were negative (rye, oats, potatoes, flax, hemp, fisheries), while most were between 1.8 and 3.6% and others were over 3.5% (durum wheat: 7.0%; maize: 8.1%; rice: 4.7%; sunflower seeds: 14%; table olives: 4.8%; oranges: 5.3%; lemons: 4.2% and poultrymeat: 5.7%).

107. In 1974 the proportion of consumer expenditure going on food products represented 25.1% of private consumer expenditure (20.4% in Germany and 38.7% in Ireland). Independently of the effect of national consumer habits which vary considerably within the Community, it may be said in general that the consumption of potatoes, bread grains, milk and butter has dropped in the last four years while that of fruit and vegetables, sugar, vegetable oils and fats, meat, eggs, cheese and fresh cream has risen. Despite certain national habits which generally remain fairly constant, changes have thus occurred; they do not appear to be due solely to the rise in the standard of living but also to the new possibilities offered to consumers as a result of the integration of agricultural markets.

108. The Community's degree of self-supply in 1973/74' was as follows: barley and common wheat: 106%; maize 56%; citrus fruit 40%; wine, potatoes, beef and veal, pigmeat and eggs: 100%; rye, oats and butter: 97 to 98%. After a rise in prices in 1974, there was a general downward trend on international markets in 1975.



GRAPH 6

\* 1971 - 1972 - 1973 - 1974 - 1975.

## B — Trade in agricultural products

109. The volume of world trade in agricultural products, which had fallen by a small percentage in 1974 as a result of the economic recession and in some cases the relative shortage of certain products, picked up in 1975. The demand for many foodstuffs and some raw materials seems to have revived because of lower prices and the beginning of an economic recovery which also enabled the importing countries to replenish their stocks partially. Trade was also stimulated by the fact that supplies of certain basic food products, cereals in particular, were more plentiful in the main exporting countries and inadequate in Eastern Europe and the USSR.

110. World trade in a certain number of other products (rice, proteins obtained from oilseed flour, milk products, sugar, bananas, tobacco, pepper and rubber), exports of which had increased during the previous decade, contracted in 1975 as a result mainly of a drop in consumption. Thus demand for rice, as also for skimmed milk and sweetened condensed milk, slowed down on world markets owing to the balance of payments difficulties of developing importing countries, while demand for protein obtained from oilseed flour was almost at a standstill, it being used only in the livestock sector.

111. Due to the general fall in average export prices the value of world trade in agricultural products did not increase in 1975. Receipts from exports of oilseeds, oils and fats, protein derived from oilseed flour, cotton, rubber and rice fell sharply. There was also a sharp decrease in the value of sisal exports and a less marked reduction as regards wheat and wheat flour, preserved meat, powdered milk, cocoa and skins and hides. The value of coffee and pepper exports hardly changed, while the value of cheese, tea, wine, banana, citrus fruit, tobacco and jute exports increased.

112. The share of agricultural products in total world trade, which had increased in 1973, is falling again. This share was 17.9% in 1974 and 17.5% in 1975. While the value of world trade in agricultural products was at a standstill in 1975 compared with 1974, the value of imports to the EEC in dollars in 1975 fell slightly, or by 8.1% in EUR. Exports increased by 19.8% in 1974 compared with 1973 and fell by 0.7% in 1975 compared with 1974.

The share of agricultural imports and exports in relation to total EEC imports and exports is declining steadily in both cases.

113. In a breakdown of agricultural imports to the EEC by sector of products, fruit and vegetables occupied the first position both in 1974 and 1975, followed by cereals. Agricultural raw materials (hides and skins, natural rubber, wood, tobacco, textile fibres, crude materials) account for about one-third of agricultural imports to the Community.

114. Despite the overall standstill, there was a considerable increase in exports of cereals (14.5%), fish and tobacco (9%) and fruit and vegetables (3.5%).

115. With regard to the countries of destination, exports to developing countries rose considerably (16.3%) while to State-trading countries they fell appreciably (-29.7%).

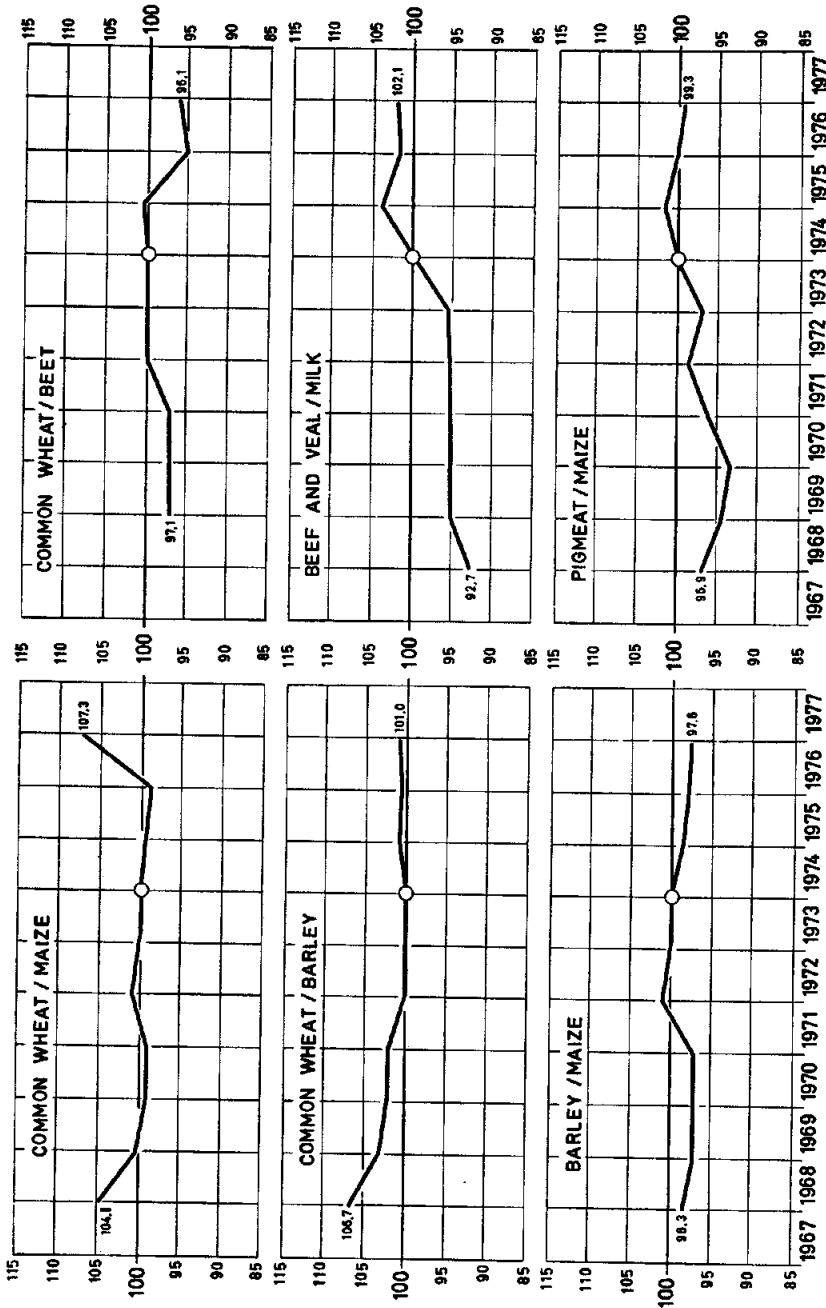
116. Among the Community suppliers, the United States increased their share from 17.1% in 1973 to 20.9% in 1975. The ACP countries followed a similar trend, going from 10.9% in 1973 to 12.8% in 1975. There was a decrease in the share of the other suppliers or groups of suppliers such as Latin America, the industrial countries of the Commonwealth, the Mediterranean countries and the State-trading countries.

117. At sectoral level the Community still occupies a preponderant position in international trade in skins and hides (93.4%), oilcake (88.5%), cocoa and cocoa products (75.1%), fresh citrus fruit (67.6%), bananas (67.8%) and oilseeds (65.2%).

Intra-Community trade in agricultural products did not suffer from the decline which affected extra-Community trade in 1975. Imports increased by 8.2% and exports by 10% in 1975 compared with 1974.

Trade between the original Community and the new Member States showed greater expansion in imports (+43.2%) than in exports (+14.1%).

Common price relationship<sup>1</sup> between certain agricultural products  
Index 1973/1974 = 100



<sup>1</sup>) Target prices (Cereals), Guide price (Beef and veal), Basic price (Pigmeat), Minimum price (Beet)

GRAPH 7



## C — The situation on the agricultural markets

### 1. Cereals

#### — Production

118. Cereal production, which accounted for 10.5% by value of final agricultural production in 1975, covers 28% of the utilized agricultural area. After falling by 10.2% in 1975, production in 1976 will be around 90.9 million tonnes, a decrease of 6.4% due above all to a fall in yields, mainly as a result of the drought.

1976 is expected to show an increase in the production of common wheat (+4.9%) and rye (+1.4%) and a drop in the production of durum wheat (—11.3%), barley (—7.6%), oats (—17.4%) and maize (—23.2%); the decrease therefore especially affects coarse grains.

#### — Consumption

119. Following a slight increase in 1973/74, net human consumption fell by 1.3%, or 1.6% per capita, in 1974/75. There is a return therefore to a more normal situation following the increase of 0.4% in per capita consumption of wheat products in 1973/74 as a result of the economic recession, which had brought about certain changes in consumption trends.

120. Animal consumption of cereals which represented 26.2% of total animal feed in '1972/73' fell by 2.8% in 1974/75 compared with 1973/74 as a result of the high level of prices for feed grain on the world market in the first half of the marketing year and the mild winter which allowed for more intensive use of pastures. In industry, about 88% of the barley used was for the production of beer and 12% for distilling in 1974/75.

#### — Self-supply

121. Net imports of 10.4 million tonnes in 1974/75, corresponding to a self-supply rate of 94.7%, were followed in 1975/76 by net imports of 12.4 million tonnes and a self-supply rate of 85% due to the drop in production in 1975 and the expected decrease of 4 to 5% in the quantity of cereals (barley and maize) fed to livestock. In addition, stocks will fall by some 4.5 million tonnes.

## — Trade

122. Following a decrease of 19.8% in 1974/75, intra-Community trade in cereals staged a strong recovery in 1975/76.

In 1975/76 French exports to other Member States almost reached the 1972/73 level despite a production which was 26% less than in 1972/73. This situation (+32% for wheat in 1975/76) may be explained in part by the monetary disturbances which followed the floating of the French franc in March 1976. It should also be noted that there is the problem of re-exports, in particular from the Netherlands, mainly due to the advance fixing of low import levies. In 1975/76 re-exports of wheat from the Netherlands increased by 76%.

123. The total volume of extra-Community imports was 21.2 million tonnes in 1974/75 of which 12.5 million tonnes were maize. The corresponding figures for 1975/1976 are 24 million tonnes and over 13 million tonnes of maize of which 80% comes from the United States. Imports of almost all cereals with the exception of durum wheat increased in 1975/76.

124. In 1975/76 exports of common wheat fell (7.3 million tonnes compared with 7.5 million tonnes in 1975/76) and barley exports increased (3.5 million tonnes compared with 2.6 million tonnes in 1974/75).

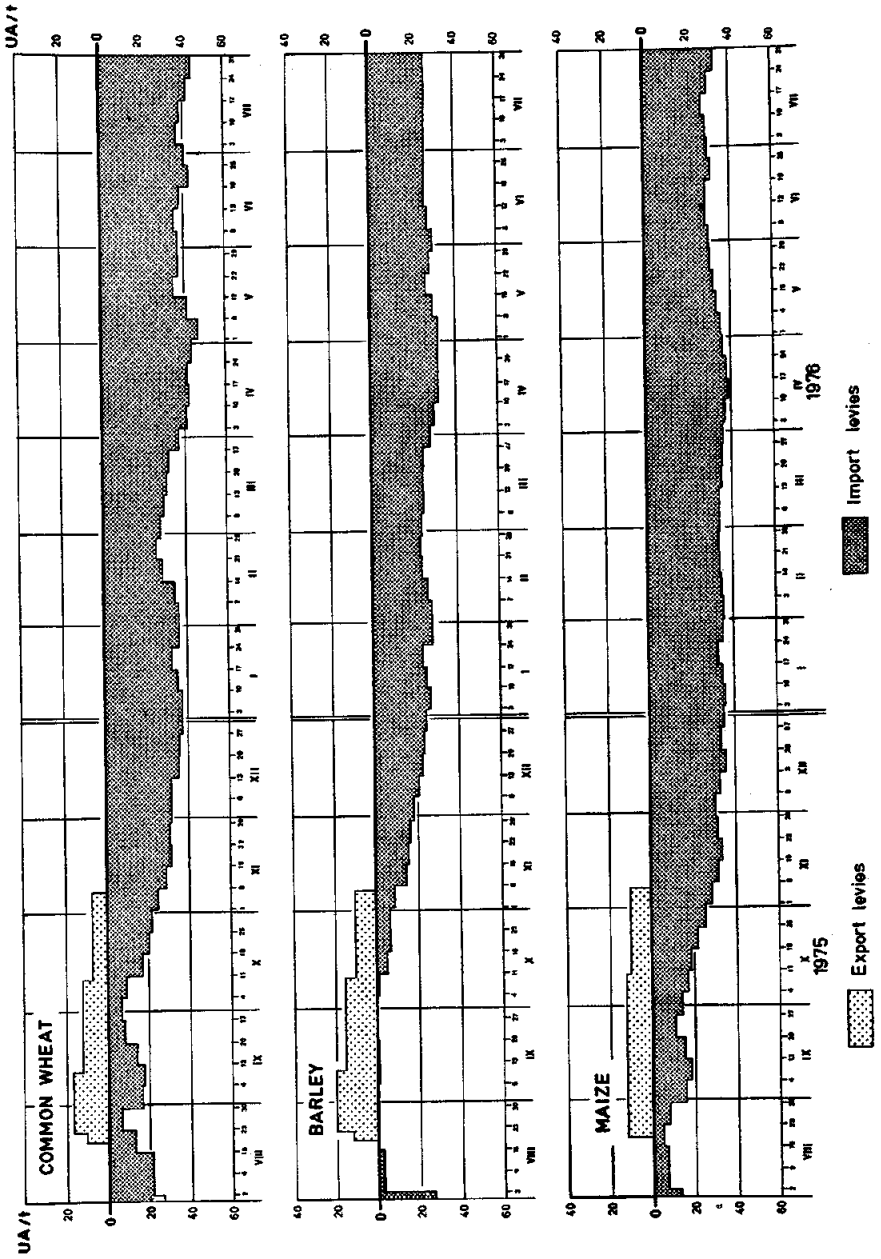
## — Prices

125. Under the system of common prices for cereals in 1977/78 there will be a single intervention price for all feed grains including feed wheat and a greater difference between the intervention price and the threshold price. The prices fixed in 1976/77 and the abolition of regional intervention prices for common wheat are a transition of this new system.

126. Prices on the internal market, except for durum wheat, were maintained at a steady level until the beginning of winter 1975, then fell at the end of the year and recovered in 1976.

127. World prices showed the following trend: increase at the beginning of the 1975 marketing year following sustained international demand and a bad harvest in the USSR. Expanding world production was able to meet increasing demand and thereby brought about a reduction in international prices. Prices for common wheat and barley on the world market generally increased in 1975/76 whereas those for durum wheat and maize fell.

Levies : Cereals



GRAPH 8

128. The price of bread increased by 12-13% from 1974 to 1975, which is less than the 18% increase recorded in 1974. The increases in the price of bread were not caused exclusively by the increase in the price of wheat, since the price of the wheat used in making ordinary bread represents only about 30% of the price of this type of bread.

#### — Economic aspects of the measures taken

129. Import levies on oats, barley and durum wheat were reduced to zero during the periods from 14 August to 30 September 1975. Advance fixing of import levies was reintroduced with effect from 15 January 1976 and the period of validity of import licences was increased to 60 days at the beginning of the 1976/77 marketing year.

Dissuasive export levies were applied from 19 August to 7 November 1975.

130. Most wheat and barley exports were the subject of refunds fixed by tendering procedure. They were permanent from the beginning of the marketing year until May 1976. As a result of certain difficulties no refund was fixed for malt until June 1976.

131. Between 1 August 1975 and 31 July 1976, 406 772 tonnes of cereals were delivered as food aid, 21.5% under the 1975/76 programme and 78.5% under earlier programmes.

132. In 1975/76 intervention stocks of common wheat and barley were reduced by half but durum wheat stocks, consisting mainly of the Durtal variety which is unsuitable for pasta manufacture, increased from 6 000 tonnes to 400 000 tonnes (+200 000 tonnes under B intervention: private storage contracts financed by the Community).

At the end of the 1975/76 marketing year, cereal stocks may be expected to amount to about 15.5 million tonnes including about 8 million tonnes of common wheat, 3.2 million tonnes of maize, 2.2 million tonnes of barley and 0.8 million tonnes of durum wheat.

133. At the beginning of the 1975/76 marketing year the accession compensatory amounts were reduced at a time when the import levies were low. As a result of certain abuses in the past, advance fixing in respect of maize, barley and certain products derived from these cereals was suspended with effect from 5 September 1975.

#### — Budgetary expenditure

134. Expenditure by the Guarantee Section of the EAGGF for the cereals sector amounted to 399.8 million u.a. in 1974 and 620.9 million u.a. in 1975 and is estimated at 691.8 million u.a. for 1976, or 12.9%, 13.1% and 11.9% respectively of the Section's

total expenditure. The total of 691.8 million u.a. for 1976 breaks down into 391.8 million u.a. for export refunds and 300 million u.a. for storage aid of which 167.2 million u.a. is aid for durum wheat.

## 2. Rice

### — Market situation

135. Forecast production of rice (0.3% by value of final production and 0.2% of total UAA in 1975) in 1976 is 863 000 tonnes, an increase of 2% compared with 1974/75 but an increase of 27% compared with '1967/68'. This increase is due to the annual average increase both in yield (+2.4%) and in area (+0.9%).

136. A drop of 20 000 tonnes in human consumption in 1974/75 reflected a medium-term trend in rice consumption.

### — Self-supply and trade

137. Despite a slight drop in consumption, the average harvest of 1974 resulted in a self-supply rate of 88% in 1974/75 compared with 90% in 1973/74. Extra-Community imports amounted to 323 000 tonnes (421 000 tonnes in 1973/74). Exports to non-member countries increased from 29 000 tonnes to 383 000 tonnes in 1974/75. There was also a slight increase in intra-Community trade in 1974/75 (+7%).

### — Prices

138. In 1975/76 market prices were about 25% above the intervention price for round-grained rice and 22% for long-grained rice. World prices dropped considerably (33.4% for round-grained rice and 26% for long-grained rice).

139. Consumer prices in 1975 seem to have increased only slightly (+3% in Italy and 2.5% in Germany).

### — Economic aspects of the measures taken

140. Since the drop in world prices at the end of 1974 import levies have continued to increase. Export refunds were fixed from November 1975 to January 1976 for long-

grained milled rice and from June 1976 for round-grained milled rice, but most exports were effected by way of tendering for the refund.

141. In 1975, 23 700 tonnes of milled rice were delivered as food aid. No rice was delivered to intervention and rice stocks were estimated at 235 000 tonnes, a relatively high figure, at the beginning of the 1976/77 marketing year.

142. Accession compensatory amounts were applied in full in 1975/76 as a result of the high level of import levies. No monetary compensatory amount has been fixed for rice so far.

### — Budgetary expenditure

143. Expenditure by the Guarantee Section of the EAGGF for the rice sector amounted to 1.2 million u.a. in 1974 and 4.2 million u.a. in 1975 and is estimated at 30.0 million u.a. for 1976, i.e., 0.04%, 0.09% and 0.5% respectively of the Section's total expenditure. The total of 30.0 million u.a. for 1976 breaks down into 28.7 million u.a. for export refunds and 1.3 million u.a. for intervention.

## 3. Sugar

### — Supply situation

144. Sugarbeet production represented 2.7% by value of the final agricultural production of the Community in 1975. Despite an increase of 16.9% in area owing to a certain number of incentives decided by the Council, sugar production increased by only about 13% following a reduction in yields per hectare in 1975. Given an increase in the basic quotas, production falling between the basic quota and the maximum quota was not as high in 1975/76 (1 067 000 tonnes) as in 1974/75 (1 380 000 tonnes) and production in excess of the maximum quota ('C' sugar) was also smaller (97 000 tonnes compared with 207 000 tonnes in 1974/75).

145. There was a very small increase in consumption in 1975/76 over the very limited consumption in 1974/75. This trend is due probably to the increase in the price of sugar, precautionary purchases made at the time of the energy crisis in 1973 and the 1974 shortage and the increased use of sweeteners, especially in industry. Annual production of glucose syrup with high fructose content is about 80 000 tonnes (dry weight). It should increase in the future.

### — Trade

146. Community exports amounted to about 1.6 million tonnes in 1975/76 compared with 0.3 million tonnes in 1974/75 and imports to 1.5 million tonnes in 1975/76, of which 1.3 million tonnes came from the ACP States, compared with 1.8 million tonnes in 1974/75.

Intra-Community trade fell by 18.9% in 1975/76 following an increase in production, in particular in Italy and the United Kingdom.

### — Prices

147. Prices were increased by 15% in 1975/76. The aim of this and other measures such as the raising of the basic quotas was to encourage producers to increase their production which they in fact did (increase of 16.3% in area). However, in 1976/77 the common prices for sugarbeet were increased by only 8%. Market prices for sugar generally fluctuated between the target price and the intervention price in 1975/76.

148. Up to spring 1976 world prices were fairly steady but then were eroded as a result of plentiful production and by September 1976 had fallen to about 63% of comparable Community prices.

### — Economic aspects of the measures taken

149. Export levies ceased to be applied from November 1975 when export refunds were granted. Sugar, however, was not sold to the intervention agencies.

150. From 1 July 1975 to 30 June 1976, 9 247 tonnes of sugar were delivered as Community food aid, of which 6 153 tonnes under the 1975/76 programme.

### — Budgetary expenditure

151. As a result of the Council decision not to apply any production levy in 1975/76, losses from sugar exports during this marketing year were borne entirely by the EAGGF. Budgetary expenditure of the Guarantee Section of the EAGGF amounted to 108.8 million u.a. in 1974 and 309.2 million u.a. in 1975, including import subsidies, and in 1976 is estimated at 270.4 million u.a., representing 3.5%, 6.5% and 4.6% respectively of the Guarantee Section's total expenditure.

#### 4. Olive oil

##### — Production

152. Production in 1975 is estimated at 1.3% by value of the final agricultural production of the Community and at 30% of world production. Since the entry into force of the common organization of the market in oils and fats the area under olive trees has remained stable (2.3 million ha). Production in 1974/75 as a result of applications for subsidies amount to 446 300 tonnes in Italy and 1 636 tonnes in France; for 1975/76 these figures were 590 000 tonnes and 2 250 tonnes respectively. Checks now being carried out may show that between 5 and 10% of the abovementioned quantities were not eligible for aid. It should be pointed out that this aid is not as effective as planned, since in Italy on 30 June 1976 applications for 1972/73 concerning about 40 000 tonnes still remained to be considered compared with 375 000 tonnes declared eligible for aid, together with applications for 1973/74 concerning 150 000 tonnes compared with 447 000 tonnes declared eligible.

##### — Consumption

153. In 1974 consumption slowed down following the general rise in the price of oil and in 1975 as a result of a more rapid drop in the price of seed oil and the utilization of household stocks built up at the beginning of 1974. There was a 40 to 50% drop in consumption in the first eight months of 1975 compared with the same period in 1974.

##### — Trade

154. The Community, which is the principal net importer of olive oil, reduced its imports in 1974/75 to quantities similar to those of 1966/67 (120 000 tonnes) after reaching a peak in 1972/73 (250 000 tonnes). Since June 1975, following some easing of prices on the world market, applications for import licences grew in both number and volume. Since this situation jeopardized the disposal of Community production the Commission suspended the issue of import licences with advance fixing of levies from 23 to 30 June 1975 and the Council decided to bring forward the date of application of the threshold price for the 1975/76 marketing year from 1 November to 27 June 1975. Since applications for import licences continued to be received in December 1975 the Commission suspended the advance fixing of the levy.

155. Intra-Community trade increased from about 5 000 tonnes in 1970/71 to 13 500 tonnes in 1973/74. Exports to non-member countries amounted to 10 215 tonnes in 1974/75.



### — Prices

156. Prices tended downwards from the beginning of 1974/75 until the end of 1975; then followed a slight recovery, with market prices in September 1975 at a level close to the intervention price set for the 1975/76 marketing year. The drop in market prices at the beginning of 1975 was due to the decline in world market prices of olive oil, the reduction in demand, the increased demand for import licences for 'lampante' grade oil and the malaise which arose from the fact that oil producers had known since May 1975 that large increases in common prices would come into effect on 1 November 1975. After this date had been brought forward to 27 June 1975 for the threshold price (+47%) the Community was better protected. Market prices did not move during the first nine months of 1975/76, and as they were lower than the intervention price 85 000 tonnes were delivered to intervention agencies.

### — Economic aspects of the measures taken

157. The import levy, which was reduced to zero in March 1973, was fixed at 19 u.a. per 100 kg on 27 June 1975, reached 71 u.a. per 100 kg in June 1976 and dropped to 55 u.a. per 100 kg on 16 October 1976. Export levies were abolished on 26 June 1975. With the aim of maintaining the traditional export pattern for branded oils in small containers, an export refund is still granted.

158. Of the 85 000 tonnes from the 1975/76 marketing year held by the intervention agencies, 9 000 tonnes were sold in August and 17 000 tonnes in October 1976.

### — Budgetary expenditure

159. Expenditure by the Guarantee Section of the EAGGF in the olive oil sector amounted to 135.8 million u.a. in 1974 and 205 million u.a. in 1975 and is estimated at 321.3 million u.a. in 1976, or 4.4%, 4.3% and 5.5% respectively of the Guarantee Section's total expenditure.

## 5. Oil, protein and cotton seeds

### — Colza, rape and sunflower seeds

#### *Production*

160. Oilseed production, which represented 0.3% by value of final agricultural production in 1975, decreased by 13.5% compared with 1974. Colza production fell by 19%

while sunflower seed production increased by over 51%. The drop in colza production was mostly in the original Member States of the Community; the United Kingdom and Denmark increased their production considerably.

### *Consumption*

161. The drop in demand for Colza oil felt since 1973/74 continued in 1975/76 whereas the demand for sunflower oil remained relatively stable.

162. Demand for colza cake doubled from 1967/68 to 1975/76 and its growth has continued in recent years; there has been no identifiable trend in the demand for sunflower cake since 1967/68 although it seems to have decreased in 1975/76.

### *Trade*

163. The Community covers only a very small part of its oil and oilcake requirements from its own production of oilseeds. Its self-supply rate in oil other than olive oil does not exceed 11% and in oilcake is 4 to 5%.

164. Following a slowing down in demand and in spite of the fall in production, imports of colza seed have dropped off since 1971/72 despite a slight increase in 1973/74. However, it is expected that imports of sunflower seed will increase in 1975/76. Exports of sunflower seed are negligible but exports of colza seed increased considerably in 1974/75 as a result of exceptionally large purchases by Japan and seem to have then fallen below 60 000 tonnes in 1975/76.

165. Intra-Community trade, which is stable and restricted as regards sunflower seed, declined in 1974/75 in respect of colza and rape seed because of the reduction in demand by Italy due to the campaign against colza oil (maximum permissible erucic acid content 15% since 1 April 1974).

### *Prices*

166. After a considerable increase in world prices between July and October 1974 due to the drop in United States soya production, prices fell gradually following the downturn in demand due to the economic recession and the availability of large quantities of copra and palm oil. This trend continued in 1975/76 with only a slight recovery at the end of the marketing year.

167. Almost all the 1975/76 colza harvest was marketed after some delay. At the beginning of 1976 some exports were the subject of a relatively high refund while the level of aid varied between 0 and 10.516 u.a. per 100 kg. The entire sunflower seed harvest was sold without refunds, aid fluctuating between 0 and 6.77 u.a. per 100 kg.

*Economic aspects of the measures taken*

168. In 1975/76, 11 371 tonnes of colza seed were offered for intervention in Denmark; half has already been marketed.

169. For 1975/76 the standard quality of colza seed was changed to take account of the lower oil content of the new low-erucic-acid varieties; the oil content requirement was lowered from 42 to 40%. Provisions were also adopted confining intervention to colza seed with a maximum erucic acid content of 15%. These provisions were applied from 1 July 1976.

*Budgetary expenditure*

170. Expenditure by the Guarantee Section of the EAGGF in respect of oleaginous products amounted to 10.9 million u.a. in 1974 and 26.2 million u.a. in 1975 and is estimated at 119.5 million u.a. in 1976, or respectively 0.4%, 0.6% and 1.9% for the Section's total expenditure. The total of 119.5 million u.a. for 1976 breaks down into 7.0 million u.a. for export refunds and 112.5 million u.a. for price subsidies.

— **Linseed**

171. The area under seed flax increased from 7 500 ha in 1974 to 30 000 ha in 1975 and production increased from 7 500 tonnes to 40 000 tonnes. The average market price was slightly less in 1975/76 than in 1974/75. As from 1976/77 the flat-rate system of aid per hectare was applied solely to fibre flax whereas a system similar to that for soya beans was applied to seed flax.

172. In order to facilitate the changeover to the new system of aid producers of seed flax will receive aid at the rate of 125 u.a. per ha in 1975/77 in any case.

— **Soya beans**

173. Since the 1974/75 marketing year special measures have existed for soya beans produced in the Community and in 1975/76 about 3 000 tonnes of soya beans were

produced in France. Imports of soya beans into the Community amounted to 8.1 million tonnes in 1975 and imports of oilcake to 3.5 million tonnes. In 1975/76 aid represented 212.96 u.a. per hectare and expenditure by the Guidance Section of the EAGGF in respect of soya beans amounted to 0.3 million u.a. for the first eight months of 1976.

#### — Cotton seed

174. Production (1 000 tonnes of seed and 1 000 tonnes of fibre), confined mostly to Sicily, maintains itself largely due to Community subsidies which increased from 87.78 u.a. per ha in 1974/75 to 96.00 u.a. per ha in 1975/76 and 103.20 u.a. per ha in 1976/77, involving expenditure of 0.2 million u.a. in 1974 and in 1975.

### 6. Dehydrated fodder

#### — Production

175. Leaving aside dehydrated potatoes, the production of dehydrated fodder in 1975 (1.5 million tonnes), of which more than two-thirds came from France and Denmark, was 3% less than in 1974. This slowing down is due mainly to the drop in production in the United Kingdom and Denmark. Apart from the drought it should be noted that the fall in the prices of protein products had a depressing effect on the dehydrated fodder industry. Half of the production was processed by cooperatives; a third was covered by contracts concluded between farmers producing green fodder and dehydration enterprises; the remainder was processed by farmers themselves. In Denmark, however, 75% of the production is manufactured under contract, with the result that this production is more sensitive to the effects of a fall in the prices of competing substances. Community production of dehydrated potatoes was 49 000 tonnes, of which 45 000 tonnes came from Germany.

#### — Consumption, trade and prices

176. In 1975 consumption does not appear to have been lower than in 1974 and the self-supply rate may be estimated at about 90%. Community imports increased by over 20% and totalled 135 000 tonnes in 1975, while exports were negligible. Intra-Community trade (393 000 tonnes) increased by 0.14%.

177. In keeping with price trends for protein-rich substances, prices fell from March 1975 onwards reaching a low in June-July and after a recovery in August they remained

stable until May 1976, when they rose sharply as a result of the drought. With a view to protecting Community supplies, an export charge was applied from 10 July 1976.

#### — Budgetary expenditure

178. Expenditure by the Guarantee Section of the EAGGF for dehydrated fodder amounted to 3.6 million u.a. in 1974 and 11.1 million u.a. in 1975 and is estimated at 12.2 million u.a. in 1976, or 0.1%, 0.2% and 0.2% respectively of the Section's total expenditure.

### 7. Fibre flax and hemp

#### — Production

179. Flax production is confined to Benelux and the north-west of France. Production of flax straw fell by 22.5% and of flax fibres by 9.5% following a reduction in yields, the areas under fibre flax being exactly the same in 1974 as in 1975 (58 300 ha). Textile hemp, which is grown on a small scale in Italy, is having difficulty in surviving. Paper hemp, which is grown only in France, is increasing considerably although 1975 yields were low.

#### — Consumption and stocks of flax fibres

180. In 1975/76 consumption dropped by almost 12% (77 300 tonnes); Community production provided 60 000 tonnes, the net external balance 2 500 tonnes and 14 800 tonnes came from a reduction of the still relatively high stocks (62 700 tonnes on 1 July 1976).

#### — Trade and prices

181. Flax straw, because of its bulk, is not traded with non-Member States. Quantitatively extra-Community trade almost balanced in 1974 (23 500 tonnes exports and 26 000 tonnes imports). However, the Community exports long fibres which are demanded on the international market and is lacking in short fibres. The Community exports little hemp fibre (1 000 tonnes in 1975); it imported 19 000 tonnes in 1975.

182. The downward trend in the prices of flax fibres began in autumn 1974 but was halted at the end of the 1974/75 marketing year through the introduction of private

storage aid for fibre and the poor 1975 yields. In 1976 prices recovered as the drought worsened. The contract price fixed at 64.8 u.a./tonne for paper hemp in 1975 was extended to 1976.

183. As from 1976/77 the granting of flat-rate aid per hectare will be confined to fibre flax and in addition fibre flax seed will qualify for the system of aid introduced in respect of seed flax seed.

#### — Budgetary expenditure

184. Expenditure by the EAGGF Guarantee Section in respect of fibre flax and hemp, resulting entirely from price subsidies, amounted to 11.8 million u.a. in 1974 and 13.9 million u.a. in 1975 and is estimated at 10.6 million u.a. for the first eight months of 1976. In 1974/75 this expenditure represented 0.4 and 0.3% of the Guarantee Section's total expenditure.

### 8. Seeds

185. In 1975 the Community produced 1.6 million quintals of fodder seed, or 25% of world production and 5% more than in 1974. In 1974/75 the Community was a net importer of 150 000 quintals of seeds, but it was an exporter of hybrid maize. On 1 July 1976 stocks amounted to about 900 000 quintals.

186. Market prices continued to fall in autumn 1975, reaching a low in January 1976; since that date they have been increasing steadily because the poor yields obtained following the drought have led to a massive drawing on stocks in order to ensure supplies on the Community market.

187. Expenditure by the EAGGF Guarantee Section in respect of seed amounted to 15.2 million u.a. in 1974 and 23.8 million u.a. in 1975 and is estimated at 22.1 million u.a. in 1976, or 0.5%, 0.5% and 0.4% respectively of the Section's total expenditure.

### 9. Wine

#### — Production

188. In 1973, wine production was exceptionally high in the Community (171 million hl); it dropped by 6.1% in 1974 (160 million hl) and was about 142 million hl in 1975,

or 4.6% of the value of final agricultural production. Over an average period from '1968/69' to '1973/74', production has grown at the rate of 2.4% per year.

### — Consumption and supply

189. On the other hand, over the same period, direct human consumption did not vary, so that there has been a per capita decline of 0.8% per year. Therefore it was necessary to carry out distillation operations which amounted to 6 million hl in 1973/74, 20 million hl in 1974/75 and 4 million hl in 1975/76. In 1974/75, the Community rate of self-supply was 95% (115% in 1973/74) if account is taken of all internal uses. Excluding the quantities distilled this rate was 108% in 1974/75 against 119% in 1973/74 and 89% in 1972/73.

### — Trade

190. Community imports in 1974/75 (5.3 million hl) declined sharply compared with 1973/74 (7.2 million hl) whereas exports rose from 3.6 million hl in 1973/74 to 4 million hl in 1974/75.

### — Prices

191. Excluding two markets for table wine of type R I and two markets for table wine of type R II, market prices increased from between 0.1% and 21.3% in 1975/76. In France, except at the beginning of the marketing year, quotations were above the activating price, whereas in Italy generally market prices remained below the respective activating prices throughout the marketing year. There was a considerable spread between market prices and the relevant activating prices for types R III (17%), A II (35%) and A III (21%). For table wines of types R I, R II and A I that make up nearly the entire production the spread, although less, was still between 7.1% and 14%. The spread between world and Community prices was about 40%.

### — Economic aspects of the measures taken

192. The level of the countervailing charges (levies) which play a secondary role on the wine market did not change in 1975/76; on the other hand, refunds were increased. Four million hl were distilled but storage contracts were concluded for a monthly average of 17 million hl (16.8 million hl in 1974/75) with a maximum of 27.8 million hl (24.8 million hl in 1974/75). Early in 1975/76 stocks amounted to 81 million hl; they will be between 75 and 80 million hl at the end of the marketing year.

193. Movements on the foreign exchange markets led to the introduction of monetary Compensatory amounts for Italy in February and in March for France.

#### — Budgetary expenditure

194. Expenditure by the Guarantee Section of the EAGGF in 1974 amounted to 41.9 million u.a., to 139.1 million u.a. in 1975 and is estimated at 151.1 million u.a. in 1976, corresponding to 1.4%, 2.9% and 2.6% respectively of the total expenditure of the Guarantee Section. The amount of 151.1 million u.a. in 1976 can be broken down into 4 million u.a. for export refunds, 50.9 million u.a. for storage, 2 million u.a. for restorage, 86.2 million u.a. for distillation and 8 million u.a. for distillation of the by-products of wine-making.

### 10. Raw tobacco

#### — Market situation

195. The production of raw tobacco, mainly grown by family undertakings, represented 0.4% of the value of final agricultural production in 1975 and was 14% up on 1974 (178 302 tonnes compared with 156 342 tonnes). The area under the dark varieties, Badischer Geudertheimer, Philippin, Kentucky and Nostrano is declining slightly; the areas under oriental varieties and Bright have increased by 35% and Burley by 17%.

196. In 1975, tobacco consumption in the Community was fairly stable. It increased by 5% in the developing countries. The Community degree of self-supply was 20%.

197. Community imports rose by 8% in 1975 and exports declined by 15%; supply and demand in the Community were therefore balanced through a fall in stocks.

#### — Prices and the economic aspects of the measures taken

198. On the world market, in view of the record level of production (5.3 million tonnes) prices tended to decline; only oriental tobaccos rose in price in 1975. Community planters mostly obtained the target price, although the situation varied from one region to another.

199. In 1974, 3 000 tonnes were offered for intervention, that is +10.2% compared with 1973. In 1975, 9 000 tonnes of tobacco from the 1971 harvest held by intervention



agencies were sold by the tendering procedure. The granting of export refunds benefited Community trade as it made Community varieties known on the world market.

### — Budgetary expenditure

200. Expenditure by the Guarantee Section of the EAGGF in respect of the tobacco sector was 183.6 million u.a. in 1974 and 228.5 million u.a. in 1975; it is estimated at 208.3 million u.a. in 1976, in other words 5.9%, 4.8% and 3.6% respectively of the Guarantee Section's total expenditure. Of the total of 208.3 million u.a., 202.3 million u.a. went on intervention expenditure and 6.0 million u.a. on export refunds.

## 11. Fresh and processed fruit and vegetables

### A — *Fresh fruit and vegetables*

#### — Production

201. Community production of fresh fruit and vegetables, which is mainly concentrated in Italy and France, amounted to 11.9% by value of final agricultural production in 1975 and is relatively stable in the medium term, although there is more variation for certain fruits (apples) and vegetables (tomatoes, cauliflowers). In 1975, fruit production rose by 2.5% while vegetable production declined by 1.5%.

#### — Consumption

202. About 88% of the internal consumption of fresh fruit and vegetables is for direct human consumption, which is stable in the medium term. Market losses are high (8 to 10%) and use as animal feed is incidental.

#### — Self-supply and trade

203. In 1974/75, the self-supply rate of the Community was 94% for vegetables, 79% for fresh fruit and 44% for citrus fruit. In 1975 extra-Community imports (976 000 tonnes) and exports (336 000 tonnes) of fresh vegetables were close to the 1974 figures (990 000 tonnes and 330 000 tonnes), as were exports of fresh fruit (778 000 tonnes in 1974 and 776 000 tonnes in 1975). On the other hand, extra-Community imports of fresh fruit rose by more than 9%. Intra-Community trade in fresh vegetables declined but increased in fresh fruit.

### — Prices

204. Between 1967/68 and 1976/77, withdrawal prices rose by between 42% and 100% according to product. Between 1975/76 and 1976/77, reference prices increased by 7% for apples and pears and 8% for other products, whereas withdrawal prices rose by about 8%, except in respect of apples and pears (4%).

205. It is very difficult to give an average market price for fruit and vegetables. As a rough guide, on the basis of data collected for pilot products, between 1974/75 and 1975/76, depending on the Member State, the average prices of apples fell by between 6% and 35% except in Italy, whereas the prices of pears rose by between 20% and 114% (except in Denmark where prices remained stable), and of lemons by 17% and oranges by 8%. Average market prices of cauliflowers rose by between 13% and 48% (except in the United Kingdom, down by 3%) and of tomatoes by between 0.6% and 79% (except in Ireland, down by 7%). Apart from the broad price fluctuations from one Member State to another, it should be noted that the rapid change in daily prices and the effect of the coefficients applied to them may explain why, although average prices are higher than the basic prices, some products do not reach the withdrawal price and are withdrawn from the market by producer groups.

206. With respect to consumer prices, in 1975 they rose by 37.4% and 34.8% in the United Kingdom and Ireland, and by between 13.2% and 19.5% in the other Member States.

### — Economic aspects of the measures taken

207. In 1975/76, it was necessary to apply a countervailing charge in respect of cucumbers and tomatoes, sometimes only for short periods, to correct the internal market. Export refunds, generally fairly low, also had to be applied in certain specific cases. From 9 to 30 June 1976 imports of eating apples from Chile was suspended. Further, agreement was reached with apple exporters in the Southern Hemisphere to the effect that their sales in the Community from April to June would be maintained at the same level as for the same months in 1974.

208. The quantity of fruit and vegetables withdrawn from the market in 1975/76 reached 1.250 million tonnes (nearly 3% of commercial production), of which 800 000 tonnes of apples (nearly 10.6% of commercial production), 175 000 tonnes of pears (7.3%) and 133 000 tonnes of tomatoes (2.8%).

209. In 1975/76 market promotion premiums for oranges and mandarins were raised and the financial compensation to encourage the processing of certain varieties of oranges was increased.

#### — Budgetary expenditure

210. Expenditure of the Guarantee Section of the EAGGF on fruit and vegetables, including processed fruit and vegetables amounted in 1974 to 66.9 million u.a., in 1975 to 90.3 million u.a. and for 1976 is estimated at 172.8 million u.a., namely 2.2%, 1.9% and 3.0% respectively of the total expenditure of the Guarantee Section. The sum of 172.8 million u.a. can be broken down into 44.9 million u.a. of expenditure on export refunds and 127.9 million u.a. on intervention expenditure.

#### *B — Processed fruit and vegetables*

##### — Production

211. From 1974 to 1975 production of preserved vegetables, jam, marmalade and jelly has remained fairly stable. On the other hand preserved fruit has declined by 20% whereas total fruit juice has risen from between 15% and 20%. The production of tomato concentrate has declined by over 16%, of skinned tomatoes by over 17%, of preserved mushrooms by 4%, whereas the production of tomato juice has risen by 12%, of orange juice and lemon juice in Italy by 15% and 13% respectively.

##### — Availability

212. The quantities available for the consumption of tomato concentrate declined in 1975 by 16.2% and of skinned tomatoes by 17.3% following a drop in Community production and imports. The consumption of tomato juice rose by 8% and was accompanied by an increase in Community production. The consumption of peaches in syrup rose by 7% following an increase in imports. The consumption of orange juice rose by 11% and imports increased. The quantity of preserved mushrooms available for consumption declined only slightly.

213. A high level of production of and a slowdown in demand for processed tomatoes, forced prices steadily downward from the beginning of 1975. In May 1975 export

refunds, abolished in October 1974, were restored in May 1975 for the three basic tomato products. The refund level was increased in October 1975 for tomato concentrate and in December 1975 for skinned tomatoes. Protective measures for preserved mushrooms were reinforced in July 1975; they were not relaxed until 1976. The prices of other processed fruit and vegetable products remained satisfactory in 1975.

### 11a. Live plants

214. This sector represents 3% by value of final agricultural production of the Community, and cut flowers and pot plants represented over three-quarters of that value in 1975. It would seem that after twenty years of rapid development this sector is now entering a period of stabilization.

### 12. Hops

215. In 1975, 9 246 hop growers, including 7 055 members of recognized producers' groups, produced 44 700 tonnes, or 39% of the world production of hops from an area that was 1% less than in 1974 (about 29 000 ha), which because of a decline in yield corresponded to a 7% fall in production compared with 1974. Production is turning to varieties rich in alpha acid the supply of which has increased, and there is increasing use by brewers of hop extracts which can be stored for several years.

216. Beer consumption increases at an annual rate of 1-2% in the Community. However, in view of the use of hop extracts which reduce the amount of hops used per unit of beer, hop consumption is stationary. The Community thus exported 37% of its production, while imports declined slightly.

217. Prices for hops sold under contract rose by 3% in 1975 and for hops not sold under contract fell by 9.8%. In conditions of surplus and strong inflation, producers tend to sell on the open market which partly explains the drop in prices since 1972. The conclusion of contracts between producers and buyers is essential in order to achieve a more balanced market and a measure of stability. For this reason Community legislation encourages the establishment of producer groups. It should also be stressed that in February 1976 the Commission presented to the Council a proposal amending the present system of production aid in order to achieve effective control over the Community market.

218. The expenditure of the Guarantee Section of the EAGGF was 4.4 million u.a. in 1974 and 8 million u.a. in 1975; it is estimated at 15 million u.a. in 1976, that is 0.1%, 0.2% and 0.3% respectively of the total expenditure of the Guarantee Section.

### 13. Milk and milk products

#### — Production and use of milk

219. In 1975 milk production represented some 18.7% by value of the Community's final agricultural production; total world output of milk in 1975 can be estimated at about 380 million tonnes. The Community's share, that is 92 million tonnes, represented a substantial proportion of world production, namely 24%. There have been considerable changes in the structure of milk production in recent years. At present there are some 2 million milk producers in the Community owning about 25 million dairy cows. About 1.5 million producers own fewer than ten cows, accounting for about 20% of total dairy cow numbers. The average size of herds ranges from five cows in Italy, via 23 in the Netherlands to 70 in Scotland. The clear trend towards restructuring production which has appeared in recent years seems to have accelerated; its main feature is a decline in the number of milk producers, an increase in the average number of cows per herd, and the increasing transfer of milk production to regions where there is a high proportion of meadowland and permanent pasture and a steady increase in milk yield per cow.

220. The preparation and processing of milk in the Community is the work of some 7 000 firms with about 9 000 establishments, almost half of which are in Italy. Average quantities of milk prepared and processed in the Member States in 1973 varied from 1 700 tonnes in Italy to 56 400 tonnes in Luxembourg. With concentration and modernization the number of establishments is steadily declining. The aim of rationalization is to lower processing costs considerably and make more effective use of modern techniques for the production of high quality products.

221. In December 1975 the number of dairy cows was 24.8 million, or 1.8% less than the previous year. Total dairy cow numbers declined in all the Member States except Germany. In the United Kingdom and Luxembourg the decrease was 4%. The latest figures available point to further slight reductions in dairy herds in the Community as a whole in 1976.

222. In 1975 milk production (91.7 million tonnes) was 0.5% higher than in 1974. Deliveries of milk to dairies continued to increase (81.7 million tonnes) in 1975, about 0.6% more than in 1974. Deliveries decreased only in Italy and the BLEU, mainly due to the increase in milk production costs, particularly the cost of feedingsuffs.

— Production and consumption of the principal milk products

*Drinking milk and similar products*

223. The consumption of whole milk continued to decrease whereas that of semi-skimmed milk increased. Sales of cream rose slightly. The rate of increase of consumption of fresh milk products (yoghurt and milk-based beverages) noted in recent years levelled out. On the whole, the consumption of drinking milk and similar products increased by 1.8%.

*Butter*

224. Although butter stocks at the end of 1975 were modest (164 000 tonnes) the situation has since altered following the increase in production in 1976 (+2 %) and a slackening of consumption. The slackening is mainly due to two increases in butter prices, to the absence of any readjustment of consumer subsidies granted in some Member States and to the stability of margarine prices. Further, exports to non-member countries have continued to fall following the massive special sales, effected at considerable financial cost, which eased the situation on the butter market in 1973. As a result, stocks at the end of 1976 will be about 250 000 tonnes.

*Skimmed-milk powder*

225. The imbalance between supply and demand is due both to the increase in production (+8.6% in 1975) and a decline in internal consumption (-8.0%). This situation resulted in a considerable increase in stocks which at end-1975 stood at 1.2 million tonnes. In 1976, the situation was aggravated by a 5% increase in production and fall in consumption, and in spite of the measures taken stocks are not likely to be any lower than in 1975.

*Cheese*

226. Production of cheese in the Community rose to 2 927 000 tonnes in 1975 (+1.7%) and should stabilize at 2 950 000 tonnes in 1976. The high rates of increase in production and consumption of cheese in recent years have obviously not been maintained. Total cheese consumption appears to have reached a level which is unlikely to rise appreciably in the short term. Per capita consumption was 11.3 kg in 1975. On the other hand, the changes in consumer demand as between the various types and qualities of cheese, which has been occurring for some years, will probably continue.

*Whole-milk powder; condensed milk and casein*

227. The production of whole-milk powder rose by 5.5% in 1975 and about 60% will be consumed in the Community and 40% exported. The production (-6.3%) and consumption of condensed milk declined; but exports in 1975 increased slightly. The production of casein in 1975 declined by about 30%.

**— World market situation and international trade***World market*

228. In 1975, there was an increase in production, a fall in consumption and an increase in stocks on the world market. In the United States, milk production remained nearly stable in 1975. The fall in the consumption of cheese in 1975 led to a slackening in production and thus increased the quantities of liquid milk available for the manufacture of butter. However, butter consumption increased and market equilibrium was maintained. At the end of 1975 intervention stocks of skimmed-milk powder again rose to 200 000 tonnes. In 1975, under the threat of the introduction of countervailing duties on certain cheese imports, the total volume of American cheese imports fell by about 62 000 tonnes, or 43%, and imports from the Community fell by 32 000 tonnes, or 50%. During the first half of 1976 there was an increase in milk production in the United States, a fall in the production and consumption of butter and skimmed-milk powder but an appreciable increase in the production and consumption of cheese.

229. In Canada, milk production rose by 5% in 1975 and led to an increase in the production of butter and skimmed-milk powder which was followed by a halt in butter imports, a 140% increase in stocks of skimmed-milk powder and the introduction of a global quota for cheese imports. In New Zealand, milk production rose by 12% in 1975 to reach a record level which resulted in a 50% increase in stocks of skimmed-milk powder. In Australia, milk production rose by 2.5% in 1975 and skimmed-milk powder stocks doubled, while Japan cut down imports of butter and skimmed-milk powder.

230. In 1975 and 1976, the outstanding feature of the world market was the size of skimmed-milk powder stocks which represented three or four times the normal volume of international trade. Export prices weakened in 1975 and, in general, reached the minimum fixed by GATT (\$ 350/tonne for skimmed-milk powder for human consumption) in the spring of 1976.

In the circumstances, several countries and also the Community increased their supplies of skimmed-milk powder for food aid, which constitutes the main potential outlet. Exports

of cheese were impeded by various import restrictions and the general consequences of the economic recession.

#### *Extra-Community trade*

231. Excluding special sales but including food aid, butter exports fell from 135 000 tonnes in 1974 to 92 000 tonnes in 1975, a fall of more than 30%. In 1975, there was a decline in cheese exports (-15%), skimmed-milk powder including food aid (-13%) and condensed milk (-13%).

232. In 1975, the Community imported 137 000 tonnes of butter of which 120 000 tonnes was supplied by New Zealand to the United Kingdom under Protocol No 18 to the Treaty of Accession. Imports of cheese amounted to 94 000 tonnes, 13% more than in 1974, of which 31 000 tonnes were supplied under Protocol No 18.

#### — Prices

##### *Milk: target price and producer prices*

233. The target price of milk for the 1976/77 marketing year was fixed in two stages at 16.76 u.a./100 kg. This represented an increase of 7.5% over the previous marketing year and 42.4% since 1 February 1973, the date of the entry into force of the common rules on agriculture in the enlarged Community. Intervention prices for butter, skimmed-milk powder and certain Italian cheeses were raised with a view to ensuring that something approaching the milk target price would be obtained for the entire tonnage sold by producers during the marketing year.

234. Producer prices for milk varied at times in 1975, not only between Member States but also from one dairy or region to another within individual countries. However, whereas in previous years the average producer price in the Community had generally been higher than the target price, it has barely been above the target price since 1974.

##### *Wholesale and consumer prices*

235. Trends in these prices in the Member States have been running more or less parallel to intervention prices. As a result of the continuing inflationary pressures in all Member States, the indices of both wholesale and consumer prices for milk and milk products have in certain cases risen more rapidly than delivery prices to dairies, as increased costs at the various marketing stages have been passed on to the consumer.



Owing to the stagnation of demand for milk and milk products, and the generally slower increase in purchasing power, sellers have sometimes had difficulties in imposing price rises on the market. This largely accounts for the increased supplies, particularly of skimmed-milk powder, offered to intervention agencies.

#### — Economic aspects of the measures taken

##### *Import levies*

236. Free-at-frontier prices for skimmed-milk powder fell from 60.50 u.a./100 kg in January 1974 to 16.53 u.a./100 kg in August 1976. In 1975, price variations of between 50.51 u.a./100 kg and 72.58 u.a./100 kg were recorded for butter. The free-at-frontier prices for Gouda remained stable in 1975 at about 72 u.a./100 kg and after rising to 85.60 u.a./100 kg reverted to 65.22 u.a./100 kg in October 1975. Prices for Cheddar, after falling until April 1975 (67 u.a./100 kg), rose again to 78 u.a./100 kg in October 1975 and after a fall reverted to 65.22 u.a./100 kg in October 1976. In general, it may be said that trade agreements made possible the traditional imports of certain special types such as Emmentaler, Tilsit, goat cheese, etc.

##### *Export refunds*

237. Relatively stable in 1974, refunds increased in 1975 to take market developments into account. The refund on skimmed-milk powder rose from 4 u.a./100 kg in July 1974 to 48.26 u.a./100 kg in October 1975. Refunds on cheese exports to the USA were abolished on 12 July 1974 to prevent the application of countervailing duties. Following discussions with the US authorities they were reintroduced in February 1975 for most cheeses.

##### *Subsidies for skimmed milk, skimmed-milk powder and casein*

238. The quantities of liquid skimmed milk for which subsidies were granted totalled 3 561 000 tonnes in 1975. They are estimated at 3.5 million tonnes in 1976. In 1975, subsidies were granted for 1 047 000 tonnes of skimmed-milk powder used in feeding-stuffs, a decrease of 8.4% compared with 1974. The quantities for which aid was requested during the first six months of 1976 have risen. The decline recorded in recent years has given way to an increase mainly accounted for by an increase in the rate of incorporation of skimmed-milk powder in milk replacers for raising and fattening calves. The rate was fixed at 60%. Subsidies for skimmed milk converted into casein were adjusted very cautiously during 1973 and 1974. An appreciable increase in production was recorded in 1974. Subsidies were granted for 2 470 000 tonnes in 1974 compared

with 1 869 000 tonnes in 1973, a 28% increase. In 1975 subsidies were granted for 1 725 000 tonnes, a 30% decrease.

#### *Intervention measures*

239. Public stocks of butter rose from 53 000 tonnes at end 1974 to 71 000 tonnes at the beginning of 1976. In 1975 about 125 000 tonnes were sold at greatly reduced prices and 45 000 tonnes were destocked for food aid after processing into butteroil. The special sales measures which were confined to the Community, mainly concerned sales to the ice cream and confectionery industries (about 6 500 tonnes per month) and to the armed forces and non-profit-making bodies (about 2 000 tonnes per month). Private storage aid was granted in 1976 for 225 000 tonnes of butter. Finally, the following measures were applied to promote sales of fresh butter or butter from private stocks: reduced prices for social welfare purposes and national and Community subsidies for the consumption of fresh butter (applied only in the United Kingdom, Ireland and Luxembourg).

240. Public stocks of skimmed-milk powder which stood at about 166 000 tonnes at the beginning of 1974 amounted to 1 112 000 tonnes at the end of 1975. Stock were drawn upon mainly for food aid and for incorporation in feedingstuffs.

241. In 1975 no Italian cheeses were offered for intervention (public storage). From January 1974, however, certain quantities came under the private storage aid system; the scheme was continued for about 17 000 tonnes of Emmentaler in 1976.

#### *Food aid*

242. It was not possible to deliver the entire quantities promised for 1976 (150 000 tonnes of skimmed-milk powder and 45 000 tonnes of butteroil). There is in addition a remainder from earlier programmes.

#### — Budgetary expenditure

243. Expenditure by the Guarantee Section of the EAGGF in respect of milk products amounted to 1 219.2 million u.a. in 1974, 1 149.8 million u.a. in 1975 and is estimated at 1 930.1 million u.a. in 1976, or 39.4%, 24.3% and 33.1% respectively of the Guarantee Section's total expenditure. The total amount of 1 930.1 million u.a. can be broken down into 752.1 million u.a. for export refunds and 1 178 million u.a. for intervention expenditure of which 561.0 million u.a. of aid for skimmed milk, 107 million u.a. of aid for casein and 223.5 million u.a. for storage and special butter measures.

## 14. Beef and veal

### — Production

244. About 3.3 million farms, occupying 60% of the Community's UAA, are engaged in beef production which represented 16.3% by value of final agricultural production. At the end of 1974 the cattle count had reached a record level (79 346 000). It has declined steadily since then. At the end of 1975 beef cattle numbers had declined by 2.3%, cows by 1.7% and calves by 4.5%. However, in 1976, despite the drought, slaughterings were less. Total slaughterings of calves and beef animals amounted to 29 million head in 1975, an increase of 1.8% compared with 1974. The high slaughter in 1975 gives reason to expect a slowdown in production in the next few years.

245. In 1975 beef production was only slightly under (—0.2%) that of 1974. Despite a 3.2% increase in slaughterings of beef animals in 1975 production increased by only 0.5% because of a 2.5% decline in the average slaughter weight (fodder shortage, high cost of cattle feed, high premiums granted at the beginning of 1975). Veal production declined by 5.5% in 1975 consequent on a 2.3% drop in slaughterings and a 4% drop in the average slaughter weight.

### — Consumption

246. In 1975, overall consumption of beef and veal rose by 0.6% which represents stagnation in per capita consumption at 25.2 kg, of which 22.6 kg is beef and 2.6 kg is veal. While the consumption of beef is on the increase in the medium term, veal consumption is declining.

### — Self-supply and trade

247. In 1974, for the first time since it came into being the Community was self-sufficient; this was maintained in 1975. Large scale buying-in by intervention agencies in 1974 and 1975 left a certain amount of beef and veal in storage at the end of those years. In mid-October 1976 there were still more than 300 000 tonnes of bone-in beef and veal in storage and it is likely that at the end of 1976 there will still be a fairly large tonnage of beef and veal in store.

248. The Community's external trade reflected the internal situation on the Community market and was as follows:

## Community external trade

(1 000 tonnes)

Trade	Period	1972	1973	1974	1975	1976 (estimate)
<b>Imports from non-member countries:</b>						
Beef and veal		943	951	356	141	264
— of which live animals (1 000 head)		190 (1 046)	168 (846)	102 (517)	35 (189)	44 (200)
Fresh or chilled meat		203	235	83	29	70
Frozen meat		550	548	171	77	150
Exports		58	75	178	217	150
Net trade balance		885	876	178	— 76	114

Intra-Community trade rose from 1 million tonnes in 1974 to 1.3 million tonnes in 1975. While the USA, the Community, Japan and the USSR are the world's main beef and veal importers, the main suppliers of beef and veal to the Community are Argentina and Uruguay (which supply one quarter of total imports), the Eastern European countries (more than one quarter of total imports and two thirds of the live animals imported), Australia, New Zealand, Yugoslavia, Austria and the ACP (+10%).

## — Prices

249. Between March and September 1976 Community market prices for all qualities of animals were about 85% of the guide price for adult bovines. After the drop in market prices for adult bovines in several Member States in 1974/75, the Community's average market price in 1974/75 rose by about 12%, although prices still varied greatly from one Member State to another, and it rose by 5.2% between March and September 1976. After falling in 1974/75 and 1975/76, import prices rose by 7.4% between March and September 1976. The world market prices for frozen meat have been falling steadily from 1973 to 1975 and remained at a fairly low level in 1976.

250. Consumer prices increased by about 4.8% in 1974 and 13.6% in 1975. Since the increase in private spending in 1976 will be about the same as it was in 1975 and there has been a moderate increase in producer prices, there is likely in 1976 to be a relative increase in the trading margin which had diminished in 1975.

— Economic aspects of the measures taken

251. The Community progressively adopted a series of measures to redress the imbalance between supply and demand:

- protective measures at the frontiers, including suspension of the issue of import licences for beef and veal from non-member countries, a decision taken in July 1974 but relaxed in April 1975 and in September 1975 by means of the EXIM procedure and the authorization of imports of a specific number of calves and young bovines for fattening. In 1976 the EXIM procedure was replaced by the 'linking system' which entitled the importer to import beef and veal from non-member countries after acquisition of beef and veal from the intervention agencies by means of the tendering procedure;
- market clearance measures: granting of export refunds; direct buying-in by public intervention agencies (0.47 million tonnes in 1974, 0.41 million tonnes in 1975 with provision for boning, and 0.30 million tonnes until October 1976) and granting of private storage aid for beef and veal (21 000 tonnes) in 1974, for carcasses (about 69 000 tonnes) and forequarters of beef (70 000 tonnes) in 1975; these aid measures were continued in 1976;
- measures to stimulate consumption (publicity campaigns in 1975, sales at reduced prices to social organizations in 1975 and 1976 and to social welfare categories in 1975);
- possibility of granting variable slaughter premiums for adult bovine animals (clean cattle) which only the United Kingdom made use of in 1976/77;
- continuance of the granting of calving premiums in Italy.

252. Under the GATT Agreement the Community undertook to open annual import quotas of 38 500 tonnes (expressed as boned meat) for frozen beef and veal at a rate of 20%, and of 30 000 heifers and cows of certain mountain breeds and 5 000 head of certain Alpine breeds—these being animals not intended for slaughter—at a rate of 4%.

Under the ACP/EEC Lomé Convention a special system was established for the import of beef and veal from Botswana, Kenya, Madagascar and Swaziland which in addition to exemption from customs duties provides for reductions in other import charges. Under an agreement concluded with Austria, Sweden and Switzerland, individual levies may be fixed on imports of live bovine animals and fresh and chilled meat from these countries. Reduced levies are also applicable to certain imports from Yugoslavia (baby beef) provided the Community market is normal.

Further, owing to the length of time required for sea transport, the Community agreed to the advance fixing of the levy for chilled meat imported from Argentina, Uruguay and other distant non-member countries.

### — Budgetary expenditure

253. Expenditure by the Guarantee Section of the EAGGF in respect of beef and veal amounted to 324.4 million u.a. in 1974, 979.8 million u.a. in 1975 and is estimated at 750 million u.a. in 1976, or 10.4%, 20.7% and 12.9% respectively of total expenditure by the Guarantee Section. The sum of 750 million u.a. includes 148.6 million u.a. for export refunds and 601.8 million u.a. for intervention expenditure of which 364.1 million u.a. is for public and private storage.

## 15. Pigmeat

### — Production

254. Over 2.6 million farms rear and fatten nearly 70 million pigs, average herd numbers varying between 170 in the United Kingdom and 7 in Italy. The regional concentration of production (areas bordering the North Sea and the English Channel and in North Italy) is accompanied by a tendency to situate the place of slaughter in production areas rather than consumption areas.

255. Price levels entered the upward phase of the 'pig cycle' in early summer 1975, and on 1 August 1976 there were 72 million pigs in the Community, an increase of 3% over the same date in 1975. Pig slaughterings in 1975 numbered 102.3 million, about 2% less than in 1974.

256. In 1975 pigmeat production, with 8.34 million tonnes, or 13.1% by value of final agricultural production, took first place in meat production (45% of all meat produced in the Community). Production in 1976 is estimated as being 1 to 2% higher than for 1975. The average weight of pigs slaughtered in 1975 was 81.8 kg; it is stable at about 87 kg in the original Community and is increasing in the new Member States.

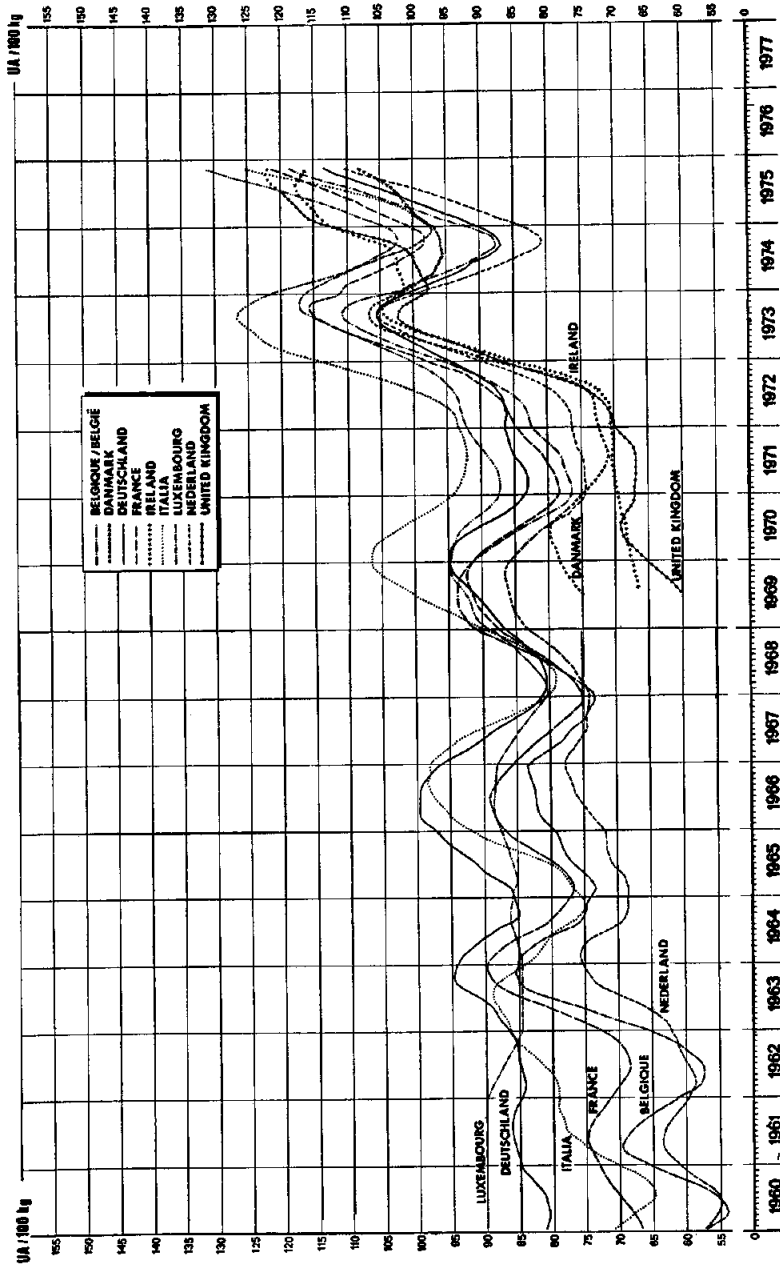
### — Consumption

257. Per capita consumption in 1975 (32.8 kg) dropped slightly in relation to 1974, varying between 50.3 kg in Germany and 17.8 kg in Italy.

### — Self-supply and trade

258. With exports totalling 234 000 tonnes and imports 392 000 tonnes, the self-supply rate for the Community as a whole was 98% in 1975, but varied greatly from Member

Evolution of pork prices in EC countries<sup>1</sup>  
Sliding averages over 12 months<sup>2</sup> (u.a./100 kg slaughtered weight)



GRAPH 9

1) Prices for the reference quality  
2) Calculated following conversion of the original prices into UA at the exchange rate valid for each of the months in question

State to Member State (United Kingdom: 66% and Denmark: 360%). The Community deficit doubled, therefore, in 1975. It would appear to be smaller in 1976. Imports from non-member countries were mostly live pigs and fresh and salted meat (60%) and exports for the most part processed products (65%). Intra-Community trade in 1975 totalled 1.59 million tonnes an increase of 1.9% on 1974.

### — Prices

259. The development of certain production costs prompted the Council to fix a new basic price (14.48 u.a./100 kg of pig carcass) at an earlier date, applicable from 15 March 1976 and valid until 31 October 1977.

260. In spite of a tendency for the 'pig cycle' fluctuations to decline in amplitude and for the price disparities between various production zones to narrow, there were still fairly substantial cyclical variations in market prices for pig carcasses, with an initial rise in spring 1975 and a final upward phase in autumn 1976. The same phase was recorded in non-member countries, but was more accentuated than in the Community.

261. Consumer prices rose continuously in 1974, 1975 and 1976, failing on the whole to reflect the cyclical falls in producer prices in 1974.

262. For feed grain, the increase in world market prices in 1975 was consolidated in 1976 and there was a moderate price increase in the Community.

### — Economic aspects of the measures taken

263. The fixing of levies reflected the trend of feed grain prices. It was not necessary to apply additional amounts in 1976, although export refunds were maintained. Within the Community, no intervention measures have been necessary since June 1975.

### — Budgetary expenditure

264. Expenditure by the Guarantee Section of the EAGGF in respect of pigmeat amounted to 66.5 million u.a. in 1974, 53.8 million u.a. in 1975 and is estimated at 50.0 million u.a. for 1976, or 2.2%, 1.1% and 0.9% respectively of the total expenditure of the Guarantee Section. The amount of 50 million u.a. includes 42 million u.a. for export refunds and 8 million u.a. for intervention.



## 16. Eggs

### — Production and consumption

265. Egg production, which accounted for 3.8% by value of final agricultural production in 1975, increased by 0.5% over the figure for 1974, whereas the number of laying hens fell by 1.5% and the number of utility chicks hatched from laying breeds fell by 3.8%. Total consumption remained at the same level in 1975 as in 1974, despite a relative drop in the prices of eggs compared with other foodstuffs.

### — Self-supply and trade

266. The Community was 101% self-supplying in 1975, which, because of the difficulty of exporting to the outside world explains the fragility of the market. Trade with non-member countries is very limited (about 80 000 tonnes). Consignments are usually imported with the undertaking to respect the sluice-gate price. Some concerns in the Community's northern areas process eggs under the inward processing system. Intra-Community trade (particularly FRG and Benelux) reached almost 300 000 tonnes in 1975 (+3.5%).

### — Prices

267. Except in Italy, market prices for eggs were lower in 1975 than in 1974. The costs of collection, packing and often the commercial margins increased, however, in 1975 and the consumer has not enjoyed reductions similar to those suffered by producers.

### — Economic aspects of the measures taken

268. From 1 August 1975 onwards, the state of the Community market in cereals as compared with the world market caused a sharp increase in levies and a relative drop in sluice-gate prices. A more stable world market has enabled levies to be kept at approximately the same level at the end of 1976. The export refund was in 1975 paid only in respect of eggs in shell. From 5 u.a. in February and March 1975 it rose to 10-12 u.a. for the rest of the year, apart from June, but it was accompanied by a restriction concerning the country of destination and the possibility of advance fixing.

### — Budgetary expenditure

269. The expenditure of the Guarantee Section of the EAGGF for the combined eggs and poultrymeat sector amounted to 16.9 million u.a. in 1974, 8.4 million u.a. in 1975

and is estimated at 20 million u.a. for 1976, or 0.6%, 0.2% and 0.3% respectively of the total expenditure of the Guarantee Section.

## 17. Poultrymeat

### — Market situation

270. Poultrymeat production, which becomes increasingly concentrated and integrated represents 4.1% by value of final agricultural production, and increased slightly in tonnage (+0.5%) in 1975. This rise masks an increase of 4.7% in utility chicks hatched from table breeds and a reduction in hatchings of other meat-producing species (turkeys: —5%). Total consumption increased by 1.9%, an increase of 0.8% in per capita consumption. This increase is due to the efforts made to offer consumers better quality products and to developments in the poultry cuts and ready-cooked dishes sector, and also to the fact that poultrymeat is the cheapest type of meat offered to the consumer.

### — Self-supply and trade

271. The Community's self-supply rate was about 101.3% in 1975. Exports fell (—7.1%), while imports increased substantially (+13.8%). Intra-Community trade increased by 0.4% but still encounters health protection, veterinary or animal care obstacles.

### — Prices

272. Producer prices dropped considerably in 1974 and, apart from the first few months, were lower than production costs. This state of affairs did not improve until June 1975 and in mid-1976 prices reached high levels. Consumer prices have increased to a lesser extent than producer prices, however.

### — Economic effects of the measures taken

273. The high prices of cereals on the world market have resulted in relatively high sluice-gate prices and in very low levies, but on 1 August 1975, since Community cereal prices were increasing and world prices were falling, the levies increased substantially and sluice-gate prices dropped. This situation should continue until the end of 1976. The export refund, re-established on 1 June 1975 at 5 u.a./100 kg, was paid only in respect

of chickens and was permanently restricted to certain destinations. It was increased to 8.50 u.a./100 kg in June 1976.

### — Budgetary expenditure

274. Expenditure for the combined egg and poultrymeat sector amounted to 16.9 million u.a. in 1974, 8.4 million u.a. in 1975 and is estimated at 20.0 million u.a. for 1976, or 0.6%, 0.2% and 0.3% respectively of the total expenditure of the Guarantee Section of the EAGGF.

## 18. Fishery products

275. Landings of fish in 1975 were almost 6% lower than in 1974 (4 810 000 tonnes), representing gross takings of 1.66 milliard u.a. Production fell in particular in the United Kingdom (—11%) and in Germany (—14%). As regards species, except for hake, there was a general reduction, which was particularly marked in the case of herring (—16%). The drop in the value of production, which occurred for the first time in several years, combined with the rise in production costs, made fishing unprofitable in certain cases.

276. The number of producer organizations increased in four Member States, but particularly in France and the United Kingdom. In 1974 the quantities landed by producer organizations represented 66% of production in France and 41% in Germany and Denmark.

277. In 1975 extra-Community imports dropped by 3.7%, while exports rose by 0.5%. Intra-Community trade fell by about 2%. There is therefore an improvement in the external trade deficit.

278. Expenditure of the Guarantee Section of the EAGGF amounted to 1.2 million u.a. in 1974, 9.3 million u.a. in 1975 and is estimated at 8.0 million u.a. for 1976, or 0.04%, 0.02% and 0.2% respectively of total expenditure by the Guarantee Section. The amount of 8.0 million u.a. breaks down as follows: 5.0 million u.a. for export refunds and 3 million u.a. for intervention.

## 19. Silkworms

279. Sericulture or silkworm rearing, which is concentrated in Italy (3 000 producers), increased in 1973 and 1974 as a result of Community aid and the high prices of raw silk

on the world market. A reversal of the world market situation caused the production of cocoons in 1975 to be 31% lower than in 1974. Imports of raw silk rose from 1 439 tonnes in 1974 to 2 442 tonnes in 1975. The expenditure of the Guarantee Section of the EAGGF on silkworms amounted to 0.5 million u.a. in 1974 and 0.8 million u.a. in 1975; it is estimated at 2 million u.a. for 1976.

## 20. Products not subject to common market organization

### — Potatoes<sup>1</sup>

280. Potatoes, which are grown by 2.5 million farmers, represent 3.0% by value of final agricultural production; production dropped sharply by 19.6% in 1975 compared with 1974, following a 5.6% reduction in the area under potatoes and a 14.7% reduction in yields. During the last twenty years the area under potatoes has decreased by 61%.

281. Direct per capita consumption dropped by more than 1.2% in 1975, while animal consumption increased by 5.7%. The processing industry (crisps, purée, chips) is up by 16.5%.

282. The Community was 101% self-supplying in 1974/75. Intra-Community trade represented 4% of total production and 10 to 12% of production of seed potatoes and early potatoes. In 1975/76, however, following the shortage in several areas of the Community, this trade developed considerably.

283. Prices fluctuated considerably and reached exceptional levels in 1975 (e.g., in Rotterdam, 41.73 u.a. in 1975 compared with 4.99 u.a. in 1974). In order to alleviate the serious shortage, the Council decided to apply an export charge and suspended CCT duties on imports of certain types of potatoes for periods occurring between 20 January 1976 and 30 June 1976.

### — Sheepmeat

284. Sheepmeat production, which represented 1.3% of the value of final production in 1975, increased slightly compared with 1974 (+2%), exceeding, with 509 000 tonnes the 1966 record (500 000 tonnes). Over the last fourteen years consumption has been

<sup>1</sup> Potatoes are not subject to common market organization, but potato starch and dehydrated potatoes are. A Council Directive governs the marketing of seed potatoes.

stable with a drop in consumption on average in the United Kingdom and a rise in France and Germany. In 1975, however, total consumption rose by 8.5% owing to an exceptional 8% increase in consumption in the United Kingdom, where beef was relatively dearer. The Community self-supply rate in 1975 was 62.6%, or a net deficit of 304 000 tonnes (compared with 250 000 tonnes in 1974) following the increase in consumption in the United Kingdom in 1975.

285. There was an increase in market prices throughout the Community in 1975, ranging from 5.8% in Germany to 31.6% in Italy. The disparity between market prices in France and in the United Kingdom, which had been fluctuating around 50% since 1968, was accentuated in 1975 owing to the weakness of the pound.

286. Intra-Community trade, which rose from 37 000 tonnes in 1971 to 85 000 tonnes in 1975, is dominated by flows from the United Kingdom, the Netherlands and Ireland to France. Imports from non-member countries (296 000 tonnes in 1975) are dominated by a trade flow from New Zealand to the United Kingdom (more than 230 000 tonnes of frozen lamb). Exports are very low (4 000 tonnes).

#### — Agricultural alcohol

287. In 1975 the production of alcohol increased by 12% compared with 1974 following the growth in the production of vinous alcohol (+95%). The major wine-producing countries are naturally the major producers of alcohol (France: 43% and Italy: 27%).

It should be noted that the 1975 distillation operations provided, in addition to vinous alcohol, large quantities of wine distillates.

288. The Member States are self-sufficient in agricultural alcohol and 1975 production brought about an increase in stocks. In addition, the prices of agricultural alcohol have tended downwards and the difference between the price of synthetic alcohol and that of molasses alcohol has decreased. France is the only country which exports significant quantities of agricultural alcohol.

289. In 1974 and 1975 about 20 million hl of wine was distilled in the Community, of which 14 million hl was distilled in France and 6 million hl in Italy. The Community expenditure commitments for the total of these two years amounted to about 170 million u.a.

## D — Obstacles to the common agricultural market

290. Some serious obstacles remain within the common agricultural market which are capable of restricting not only the free movement of agricultural products (where there are no barriers of any sort) but also the regional specialization of agricultural production.

291. Special attention should be paid to three groups of obstacles: 1. Monetary instability leading to the application of compensatory amounts has the effect of reintroducing widely differing price levels within the Community, thereby impairing the unity of the common agricultural market. 2. The magnitude of State aid and its impact on the common agricultural policy is causing increasing concern, in spite of the assurances of the Member States that they would ensure strict application of the Treaty. 3. Obstacles to trade, in particular the many technical obstacles to trade in the agricultural sector, continue to hamper the single market and the free movement of agricultural products.

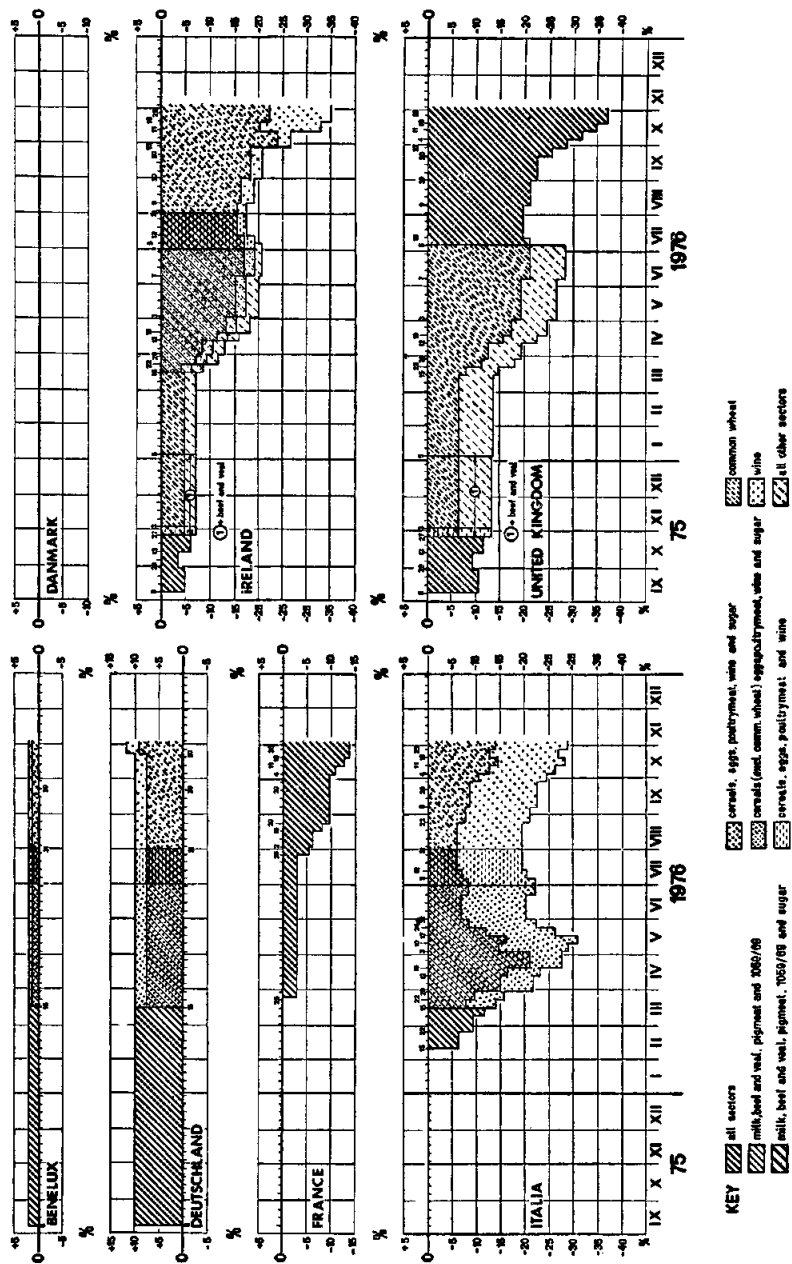
### 1. Monetary compensatory amounts

292. In 1976 monetary events had particularly marked effects on the functioning of the common agricultural market. After some difficult weeks which at the end of January had led to the closing of the Rome and Milan stock exchanges and to the depreciation of the Italian lira, monetary compensatory amounts were reintroduced for this currency on 9 February. A further breach was thus opened in the existing system which already called for monetary amounts for Germany, the Benelux countries, Ireland and the United Kingdom.

293. When the prices were fixed in March, an effort was nevertheless made to reduce the monetary compensatory amounts. The fixing of new representative rates enabled the compensatory amounts to be reduced by 2.5 points for Germany, 0.6 points for Benelux, 6 points for Italy and 2 points for Ireland. These reductions were obtained by revaluing the green currencies for Germany, Belgium and the Netherlands and by devaluing the green lira. The French franc was also revalued by 1.4%, a percentage corresponding to its appreciation during the preceding months. The dates for the application of the new rates were fixed at intervals in order to correspond in principle to the beginning of the marketing year for each product.

294. In March, however, the French franc left the Community snake and there were considerable speculative movements during the week of 15 to 19 March. On 25 March the representative rate of the green franc was reduced to its former level (devaluation of 1.4%) and its real depreciation on the exchange markets resulted in the reintroduction of monetary compensatory amounts for France. As from that date, monetary compensatory

Rates (in %) used for the calculation of monetary compensatory amounts  
1975/1976



GRAPH 10

amounts were in application in eight of the nine Member States. The deterioration of the system owing to the continuous depreciation of the Italian lira resulted in April in very high compensatory amounts which rose as high as 25% for Italy.

295. Following the special Council meeting held in Luxembourg at the end of April, the green lira was further devalued by about 6% by the fixing of a new representative rate. This devaluation of the Italian currency reduced the monetary compensatory amounts to a level entailing less risk of distortion. Furthermore, it allowed considerable savings to be made for the EAGGF. With the same aim the Member States agreed to exercise the option available to them under Regulation (EEC) No 974/71, whereby monetary compensatory amounts may be paid in the exporting Member State. These amounts should normally be granted by the importing countries, in this case by Italy and the United Kingdom. This measure had the effect of reducing the expenditure of the EAGGF in terms of units of account, owing to the double rate effect resulting from expenditure and revenue of the common agricultural policy being converted at the green rates but being entered in the budget according to the budgetary exchange rates.

296. In September and October the pound sterling and the Irish pound were affected by a further downward movement, which was partly offset in the case of Ireland by a devaluation of the green Irish pound on 1 October 1976. On 1 November 1976 the rate of the monetary compensatory amounts was -40.6% for the United Kingdom. The other monetary compensatory amounts were as follows: Germany: +9.3% following the revaluation of the central rate of the DM on 17 October 1976; Benelux: +1.4%; Italy: -17.0%; France: -14.9%; Ireland: -25.4%; Denmark: 0%. From 20 October 1976 following the devaluation of the central rate of the Danish Krone on 17 October 1976 the monetary compensatory amount was -4.2%. On 26 October 1976 the Council decided to adjust the green rate, thus eliminating monetary compensatory amounts for Denmark.

297. It is certain that rates of this magnitude create considerable distortions of competition. The monetary compensatory amounts can be justified as provisional instruments in view of the immediate repercussions of sharp price movements on the economy and agricultural production. As a permanent instrument running counter to the restoration of normal economic equilibria, they are a source of disorder even if they may be attractive to consumers or, as the case may be, producers.

## 2. State aid

298. National aid in agriculture poses very serious problems for the common agricultural policy, to which no satisfactory solution has yet been found. The amounts listed in



the table given below (transmitted by the Member States in their inventory of State aid in agriculture) provide a certain impression of the financial resources involved.

National aid for agriculture, fisheries and forestry in 1974 or 1974/75

Member State	million u.a.	year
Deutschland	2 059	1974
France	2 439	1974
Italia	362	1974
Nederland	278	1974
Belgique/België	73	1974
Luxembourg	17	1974
United Kingdom	1 119 <sup>2</sup>	1974/75
Ireland	258	1974 <sup>1</sup>
Danmark	83 <sup>2</sup>	1974/75
EUR 9	6 688 <sup>2</sup>	

<sup>1</sup> Calculated on the basis of 9 months.

<sup>2</sup> These figures do not include the consumer subsidies of 1 241 million u.a. in the United Kingdom and 50 million u.a. in Denmark.

These figures are not comparable with those given in Table II.E/3.1. The latter include the amounts entered in the national budgets whether or not they constitute aid, including all public expenditure covering welfare benefits for farmers, but they exclude in particular expenditure on training, advisory services and agricultural research and consumer subsidies.

299. The amounts indicated here cannot, moreover, be compared directly between the Member States for the following reasons:

- the amounts usually include national expenditure resulting from Community measures decided on under the Guidance Section of the EAGGF, which finances a part of the expenditure;
- certain aid measures are not included in the inventories sent by the Member States or it is impossible to determine the expenditure (losses of revenue, etc.);
- some of the measures listed cannot be considered as consisting entirely of State aid;
- in several Member States, State aid is financed, to a considerable extent, by parafiscal charges levied on agricultural products (Denmark: 19 million u.a., France: 250 million u.a., Netherlands: 36 million u.a., United Kingdom: 29 million u.a.).

300. A large proportion of the permanent aid covers measures relating to research, advisory services, training, qualitative improvement of crops and livestock and the

introduction of new techniques and measures to improve the structure of production, processing and marketing.

Other aid measures of a temporary nature were introduced in 1976 as part of the campaign to alleviate the effects of the drought. The aid measures carried out by the Member States in 1974 and 1975 in order to offset the rise in prices of energy products constitute another category of temporary measures.

301. Apart from the abovementioned temporary measures and the so-called 'intellectual investment' aid measures (research, advisory services, etc.), it is often very difficult to determine precisely the magnitude and the end use of national measures as they concern the beneficiaries and the common agricultural policy.

It is undeniable, however, that most of the aid amounts to 'development aid' and, to a varying degree, 'income subsidy'. In so far as the development effect is not preponderant, it is clear that such aid hinders the functioning of the common policy as regards both markets and prices and also the essential structural adjustments.

### 3. Obstacles to trade

302. In 1976 the Community continued its efforts to remove the obstacles to trade in agriculture. In the sphere of foodstuffs these efforts concerned the adoption by the Council of amendments to directives on colouring and preserving agents and the examination by the Council of a proposal for a directive on the labelling, presentation and advertising of foodstuffs. Work has been continued on dietetic products and on materials and objects coming into contact with foodstuffs. As regards animal feed a Scientific Committee has studied problems relating to animal nutrition and health and, in particular, the manufacturing processes and the use of feedingstuffs. With regard to plant health the Commission has presented to the Council a proposal for a directive on the marketing of EEC-approved phytopharmacological products—the optional nature of these provisions authorizes the continued use of national specialities.

303. In the veterinary field, the Commission presented to the Council two reports accompanied by specific proposals relating respectively to the chilling of poultry and to resolving the difficulties, following the accession of the new Member States, caused by divergences between the systems for controlling infectious animal diseases. These proposals should facilitate the future harmonization of national provisions governing the control of these diseases without compromising in the immediate future the high health standards attained by certain Member States. Finally, the provisions relating to meat-based products are being examined by the Council and should be adopted in the near future.

## IV - The consumer and the producer

304. The objectives of Article 39 of the EEC Treaty, and the instruments of the common agricultural policy employed to attain them, concern 9 million farmers and 259 million consumers throughout the Community. The impact on the latter of the general economic situation, trends in agriculture and the agricultural markets, the implementation of the common agricultural policy, and the establishment and operation of the common agricultural market should therefore be examined. In many areas, however, the position of farmers and consumers does not result solely from measures inherent in the common agricultural policy but also from measures relating to other common or national policies.

### A — The consumer

305. (1) In 1976, consumers were affected by the general economic situation (drought, inflation); (2) per capita consumption of food products was influenced by harvest results, price trends and the slow but steady changes in consumer habits; (3) the Community continued to ensure the security of supply of most vital products intended for human consumption; (4) prices within the Community were relatively stable; (5) a number of specific measures in favour of consumers or certain groups of consumers were taken under the common agricultural policy.

#### 1. Influence of the general economic environment on the consumer

306. Despite the very high rate of unemployment, disposable incomes continued to rise in 1976. In real terms, private consumption is estimated to have risen by about 3% in 1976, as compared with 1.5% in 1975. This trend is due to the economic upturn and a relative decline in saving.

307. The summer of 1976 saw a particularly serious drought, the effects of which were also felt by the consumer. At times there were difficulties as regards vegetable supplies and prices in some cases rose steeply. However, such difficulties were only temporary.

308. The sharp rise in the general level of prices remains a disquieting problem in all the countries of the Community. The implicit price increase for the gross domestic product of the Community was of the order of 10.5% in 1974, 14% in 1975 and 9.8% in 1976. These averages conceal marked differences in inflationary trends among the Member States. In 1976, the annual rates of increase in the general level of prices (calculated on the basis of gross domestic product) are likely to range from about 3.8% in Germany to 14% in the United Kingdom and 19.6% in Italy.

The upward movement of internal prices is also illustrated by the high rate of increase of consumer prices, although this trend became less pronounced in certain Member States. Examining the development country by country, one sees in general a relative stability in those countries whose currencies have retained their value or appreciated, but a higher rate of inflation in countries with depreciated currencies.

309. In 1974 the proportion of consumer expenditure going on food products and beverages represented 25.1% of private consumers' expenditure (beverages accounted for about 4.5%).

This proportion, which is falling annually, was highest in Ireland (38.7%) and Italy (35.0%), and lowest in Germany (20.4%).

The economic climate generally prevailing in 1975 undoubtedly influenced consumer behaviour; a more marked tendency to save was accompanied by a slowdown in consumption.

## **2. Trends in consumption and consumer habits**

310. Overall and per capita consumption of agricultural products have not followed the same trend in recent years. In the Community there has been an increase for certain products and a decrease for others. Among the products per capita consumption of which has declined are potatoes, cereals of bread-making quality, most fresh milk products and butter. Conversely, there has been an increase in the per capita consumption of some fruit and vegetables, sugar, durum wheat, vegetable fats, all categories of meat, eggs, cheese and fresh cream.

311. Generally speaking these trends continued in 1975 and 1976. However, the fall in the consumption of durum wheat continued for a second consecutive year, due, among other things, to the considerable increase in the prices of pasta products. Sugar consumption virtually stagnated, influenced by the same factors which caused the drop in 1975. Olive oil consumption continued to decrease sharply, with a shift of demand towards

seed oils available at competitive prices. The drought does not seem to have had a significant effect on the consumption of vegetables.

312. In market sectors with serious structural problems (milk, wine), the established trends continued in 1976. Per capita consumption of fresh milk and butter is falling whilst that of cheese is increasing slightly. Wine consumption per capita may at the best be regarded as stable.

313. Although consumption of meat in general continued to rise, beef and veal and pigmeat consumption remained practically stable; by contrast, consumption of poultrymeat increased substantially.

Per capita consumption of the main food products  
(average in kg per inhabitant and per year in 1970-1974)

Product	EEC 9	National range			
		Maximum		Minimum	
Cereals	84	Italia	131	Nederland	63
Sugar	38	Ireland	} 49	Italia	30
		Danmark			
Potatoes	84	Ireland	122	Italia	39
Vegetables	96	Italia	158	Danmark	50
Wine (litres)	49	France	106	Ireland	2
Milk (fresh products, other than cream)	102	Ireland	227	Italia	72
Meat	75	France	87	Danmark	57
of which beef and veal	25	France	29	Danmark	16
pigmeat	32	Deutschland	49	Italia	16
poultrymeat	12	France	15	Danmark	6
Vegetable oils and fats (EEC 6)	17	Italia	22	France	14
Butter (fat)	6	Ireland	10	Italia	} 2
				Nederland	

314. Consumer habits within the Community differ widely. It is not surprising to learn, therefore, that the average French consumer drinks per year fifty times more wine but three times less milk than his Irish counterpart, or that the Italian housewife uses twice the quantity of vegetable oils and fats but four times less butter than the Irish housewife.

The changes in consumer habits are due not only to the increase in incomes but also to new supply possibilities opened up by the integration of the agricultural and food markets within the Community. The volume of intra-Community trade in agricultural and food products is six times what it was in 1963; the range of products offered to consumers has been greatly increased and diversified, largely as a result of the new economic scale on which the food industry now operates.

315. However, the integration of agricultural markets is not always fully reflected in consumption trends and consumer habits, because of the persistence of factors external to the common agricultural policy.

These factors include, for example, fiscal systems (VAT rates — excise duties), health legislation and price control, which differ considerably from one Member State to another, affecting consumers' access to the single market.

### **3. Security of supply**

316. Since 1959/60, self-supply rates have increased for most agricultural products subject to a common organization of the market, in particular for sugar, butter and cereals. This represents some progress in the security of supply. On the other hand, the dependence of the EEC upon other countries for its supply of oilcake, in particular soya and fish-meal, has greatly increased. This problem is all the more serious in that it has not been possible to achieve diversification in the sources of supply, another factor making for security. Although it has been possible to achieve some degree of diversification for soya, this has been offset by an increase in imports of starch (maize) residues, with the result that the EEC continues to depend on a single supplier for 62% of its supplies of oil seeds and fruits, oilcake and starch residues.

317. In the present situation, the security of supply is fairly well assured for vital products required for human consumption. The dependence of the enlarged EEC upon other countries for products required for animal feeding, other than cereals, is however about 80%, and almost 50% for maize.

The Community is about 100% self-supplying in several vital products for human consumption : milk products, pigmeat, eggs and poultrymeat, common wheat, rye, barley, apples, pears, peaches and wine.

318. In general the drought which prevailed for three months in 1976 had little effect on the security of supply in respect of most agricultural products. However, the forecast for the potato harvest is 10% down on the already poor figure in 1975; of the vegetables affected by the drought, peas should be mentioned as having suffered serious damage.

**Classification of the main agricultural products in the Community according to degree of self-supply in '1973/74'**

Exceeding 100%		Around 100%		Below 100% <sup>1</sup>	
Barley	(106%)	Rye	(98%)	Durum wheat	(72%)
All wheat	(104%)	Oats	(97%)	Maize	(56%)
Cheese	(103%)	Potatoes	(101%)	Rice	(82%)
		Eggs	(100%)	Sugar	(90%)
Poultrymeat	(103%)	Pigmeat	(100%)	Fresh vegetables	(94%)
		Beef and veal	(100%)	Fresh fruit	(78%)
Common wheat	(106%)	Wine	(100%)	Citrus fruit	(40%)
		Butter	(97%)	Sheepmeat	(63%)
				Oilcake	(4%)

<sup>1</sup> To this list should be added products for which figures are not available but for which there is a considerable need in the Community, particularly tropical products (fats, oils and exotic fruits).

The Community reacted immediately by taking steps to increase the supply of those products affected by the drought (suspension of customs duties).

319. In 1973, and more so in 1974, Community consumers had some protection from the ups and downs of the world market. By introducing export levies for certain vital basic products (cereals, rice, sugar), the Community not only ensured security of supply but also a certain degree of stability in consumer prices. In a period of galloping inflation and temporary hold-ups in energy supplies, these and other measures to help the consumer (subsidies for butter, subsidized purchase of sugar on the world market) assume particular importance.

320. The export levies introduced earlier were retained during 1975 where necessary. They were abolished in January for common wheat, barley and maize, in May for rice and sugar and in June for olive oil. Their existence had the effect of ensuring the efficient implementation of the principle of Community preference in favour of consumers. The stock levels of certain vital products (15 million tonnes of cereals, 3.33 million tonnes of rice) in the Community at the end of 1975 illustrate this will on the part of the Community to give priority to the security of consumer supplies.

321. In the sugar sector it should be noted that security of supply continued to be ensured by virtue of the appreciable increase in areas and production (9.7 million tonnes in 1975/76 as compared with 8.6 million tonnes in 1974/75) and despite irresponsible hoarding by consumers. The case of common wheat is similar: in spite of the drought, production increased by about 5% as a result of the additional areas sown.

#### 4. Price stability

322. Instability of prices has continued to affect world markets in agricultural products. The strains in 1972 and 1973, caused by shortages, which brought about sharp rises in prices and reductions in stocks (sugar, cereals, soya, fish-meal and rice), were succeeded towards the end of 1974 by a downturn in prices which became more marked in 1975.

World stocks of most agricultural products increased in 1975/76 and are likely to continue to do so in 1976/77.

323. While in the 1973/74 marketing year the prices for many products at Community frontiers were near or well below world prices, the position was again reversed in 1974/75 in respect of certain products. The improvement in the stocks situation resulted in lower average world prices for most products.

Prices at the Community frontier as a percentage of world market prices

Product	1973/74 average	1974/75 average	1975/76 average
Common wheat	79	107	124
Durum wheat	116	120	145
Husked rice	60	81	137
Barley	96	107	117
Maize	98	106	128
White sugar	66	41	109
Beef and veal	111	162	158
Pigmeat	131	109	113
Eggs	111	164	—
Olive oil	96	113	207
Oilseeds	77	80	127
Butter	320	320	320
Milk powder	156	139	266

324. Within the Community the average level of common agricultural prices in u.a. rose by 7.7% for the 1976/77 marketing year (9.6% for 1975/76 and 14.5% for 1974/75). However, changes in the representative rates of currencies for the purposes of the common agricultural policy and the approximation to Community prices made by the new Member States have helped to make for different farm price trends in the Member States. Thus, over 1974/75 and 1975/76 combined, common agricultural prices expressed in national currencies increased by 18% in the Netherlands, 21% in Germany,



24% in Belgium, Luxembourg and Denmark, 27% in France, 54 to 57% in the United Kingdom and Ireland and 75% in Italy. For the 1976/77 marketing year the increases expressed in national currencies range from 4.9% (Germany) to 13% (Italy).

325. An increase in the average level of agricultural prices in u.a. or national currencies does not automatically result in an equivalent increase in consumer prices for foodstuffs. Numerous factors, resulting from market price trends and the processing and distribution structure, intervene here. It was estimated that the 7.7% increase in common agricultural prices in u.a. for 1976/77 would lead to an increase of about 0.8% in total consumer expenditure, taking into account the monetary compensatory amounts.

The impact of the price increases in national currencies on consumer prices ranges from 0.5% (Germany) to 2% (Italy).

326. The monetary compensatory amounts have the effect of subsidizing imports of agricultural products in countries with depreciated currencies. In 1975 the EAGGF spent a total of about 400 million u.a. on these amounts. The 'accession' compensatory amounts have the same effect (415 million u.a. in 1975). For 1976 EAGGF expenditure on monetary compensatory amounts had been estimated at over 600 million u.a., but the actual figure is likely to be much higher on account of the rapid depreciation of the pound sterling. The financial impact of 'accession' compensatory amounts is put at 392 million u.a. for 1976.

327. An analysis of the development of producer and consumer prices for certain agricultural products which have an important place in the total agricultural production (e.g. milk, beef and veal, pigmeat, common wheat, sugarbeet and eggs) shows that consumer prices for these products, whether processed or unprocessed, generally increased by a far greater amount than agricultural producer prices over the period 1968-1975. Exceptions to this rule have occurred in the case of pigmeat in Italy, drinking-milk in the three new Member States, sugar in Italy, the Netherlands, Belgium and Denmark and potatoes in Italy.

328. In 1975 the strong upward trend in consumer prices for foodstuffs and beverages continued in the Community, apart from Germany and Denmark. This increase was accompanied by a faster rise than in 1974 in agricultural producer prices (except in Italy).

329. Consumer prices for foodstuffs rose to a lesser extent than the consumer price index in certain countries of the Community (Germany, France, the Netherlands, Belgium, Luxembourg and Ireland) in 1975. Elsewhere (Italy, the United Kingdom and Denmark), consumer prices for foodstuffs rose slightly more than the general index.

**Consumer prices**  
1975: % increase over 1974

Member State	General index	Foodstuffs and beverages
Deutschland	6.0	5.3
France	11.7	11.1
Italia	17.0	18.5
Nederland	9.9	7.7
Belgique/België	12.7	11.3
Luxembourg	10.8	10.6
United Kingdom	24.2	25.1
Ireland	20.9	20.9
Danmark	9.6	10.0

330. In 1975 consumer prices for foodstuffs increased by between 5.3% (Germany) and 25.1% (United Kingdom). The most substantial price rises were on fruit and vegetables (13.4% in Germany, 37.4% in the United Kingdom), reflecting the fall in the supply of potatoes in 1975. As regards meat, the price increase was greatest in Italy (23.8%) and least in Germany (2.8%). For four Member States (France, Italy, the United Kingdom and Denmark) consumer prices rose at a faster rate than agricultural producer prices.

### 5. Special measures to benefit consumers

331. The Community has taken special measures to benefit consumers, or certain categories of consumers, in several sectors—mainly sugar, milk, beef and veal and potatoes. To ensure normal supplies of sugar in the Community, the common organization of that market has been adjusted in two ways: the sum of the basic quotas (A sugar) has been raised from 7 820 million tonnes to 9 136 million tonnes of white sugar (+16.8%); and a provision has been laid down whereby a minimum stock of 10% of the basic quota of each industry must be maintained.

In the milk and milk products sector, the Community helped, through the EAGGF, to finance consumer subsidies for butter, particularly in the United Kingdom, Ireland and Luxembourg. It also contained sales of cut-price butter to certain social institutions and lower-income categories. The financing of direct measures in this sector involved a total which may be estimated at 42 million u.a. in 1976 as compared with 51.8 million u.a. in 1975. In the beef and veal sector, sales at reduced prices were made to welfare organizations and recipients of social assistance. EAGGF intervention in this sector amounted to 36.2 million u.a. in 1975.

332. To ease the serious shortage of potatoes the Council took two sets of measures to ensure supplies to the Community market: it introduced an export charge to prevent exports of potatoes from the Community, and to promote imports of potatoes into the EEC it suspended CCT duties for the following periods:

- on main-crop ware potatoes from 20 January to 30 June 1976;
- on seed potatoes from 9 February to 25 March 1976;
- on early potatoes from 9 February to 31 May 1976.

333. The United Kingdom is a special case since the UK market, which represents almost 22% of the Community's consumption potential is the most dependent on non-member countries, but is also the market which has received the most Community help for consumers (a consumer subsidy for butter, measures in support of beef and veal and pigmeat, measures to ensure security of sugar supplies).

334. The UK consumer has been protected by the existence of monetary compensatory amounts against the effects of the depreciation of the floating pound. This situation has also helped to maintain imports of Community agricultural products to the United Kingdom. These monetary compensatory amounts apply to imports of cereals, beef and veal, pigmeat, eggs and poultry, milk and milk products, sugar and wine (with minor exceptions). The effect of monetary compensatory amounts is to reduce the prices of imported foodstuffs, thereby maintaining the prices of foodstuffs produced in the United Kingdom at a lower level.

335. In the field of foodstuffs, the Commission, illustrating the constant effort to adapt Community rules to the requirements of health protection and technical progress, proposed deleting from the Community list of colorants nine substances formerly authorized and fixing the maximum erucic acid content of oils and fats used in foodstuffs. The Council, in adopting these two Directives, showed the importance it attaches to measures for the benefit of consumers. Furthermore, in submitting to the Council a proposal for a Directive on the approximation of the laws of the Member States relating to the labelling, presentation and advertising of foodstuffs for sale to the ultimate consumer, the Commission took an important initiative for the implementation of Community rules ensuring real consumer protection and information.

## B — The producer

336. In 1976 a large number of producers in some regions of the Community were seriously affected by a prolonged drought. The worst-hit sectors were potatoes, some vegetables, sugar beet, summer cereals and cattle farming. The Commission and the governments of the Member States reacted swiftly to the threat posed by the drought to certain farmers' incomes, by taking national and Community measures as regards fodder supplies and stabilization of the prices concerned. 1. The value of final agricultural production, which had already decreased in volume by 2% in 1975, is likely to drop further in 1976 as a result of some poor harvests. 2. At real terms, 1976 saw a larger increase than in 1975 in prices of the means of production and of agricultural products. 3. Farm incomes have been subject to considerable annual fluctuations between 1974 and 1976. 4. These fluctuations have generally given rise to greater disparities within the sector, whether at regional level or between the various types of holding. 5. Generally speaking, the situation of agricultural producers in the Community is influenced by a wide range of factors connected with agricultural market trends and with measures taken under the common agricultural policy and other common and national policies.

### 1. Agricultural production

337. The value of final production in the Community in 1975 is estimated at 70.9 milliard EUR. In terms of volume this is 2% down on the 1974 level, although in terms of value (at current prices but constant exchange rates) a 10% increase can be observed. However, it should be noted that a slight drop occurred in Denmark only (—1.2%). In 1976, given the trend of agricultural prices and of quantities produced, it may be forecast that at constant exchange rates final production by value will exceed the 1975 figure by roughly 11%.

Final production in 1975 may be broken down by Member States as follows:

France: 27.6%; Germany: 21.7%; Italy: 20.8%; United Kingdom: 11.7%; Netherlands: 7.8%; Denmark: 4.3%; Belgium: 4.0%; Ireland: 2.0%; Luxembourg: 0.1%.

338. It can be seen from an examination of the final production structure in the various Member States that in 1975 the proportion of final production subject to common price systems amounted to 71.5% of total final production, ranging from 65-67% in the United Kingdom, Italy and Belgium to 86-89% in Luxembourg, Ireland and Denmark.

The products covered by a common organization of the market but not subject to a common price system accounted for 17.1% of final production (with a minimum of 5% in Denmark and a maximum of 24% in Italy), while the percentage of products not covered by a common organization of the market was 11%.

339. As regards the various Member States' share in total final production of specific products the following may be noted:

Crop products subject to a common price system: France 27%, Germany 23%, Italy 20%, United Kingdom 11%, Netherlands 8%, Denmark 5%, Belgium 4%, Ireland 2% and Luxembourg 0.2%;

Beef and veal: France 32%, Germany 24% as compared with Italy 13%, United Kingdom 11%, Netherlands 6%, Ireland 5%, Belgium and Denmark 4% and Luxembourg 0.2%;

Milk: Germany 27%, France 25%, United Kingdom and Italy 14%, Netherlands 11%, Denmark 6%, Belgium and Ireland 3 % and Luxembourg 0.3%.

340. Intermediate consumption varies considerably from one Member State to another; it ranges from 57% of final production in the United Kingdom to 27% in Italy. The gross value added as a percentage of final production thus also differs greatly from one country to another. The percentage is above the Community average—estimated at 59%—in Italy (73%), Ireland (66%), and France (63%), but below average in the United Kingdom (43%), Belgium (46%), Germany and the Netherlands (52%), Denmark (53%) and Luxembourg (55%).

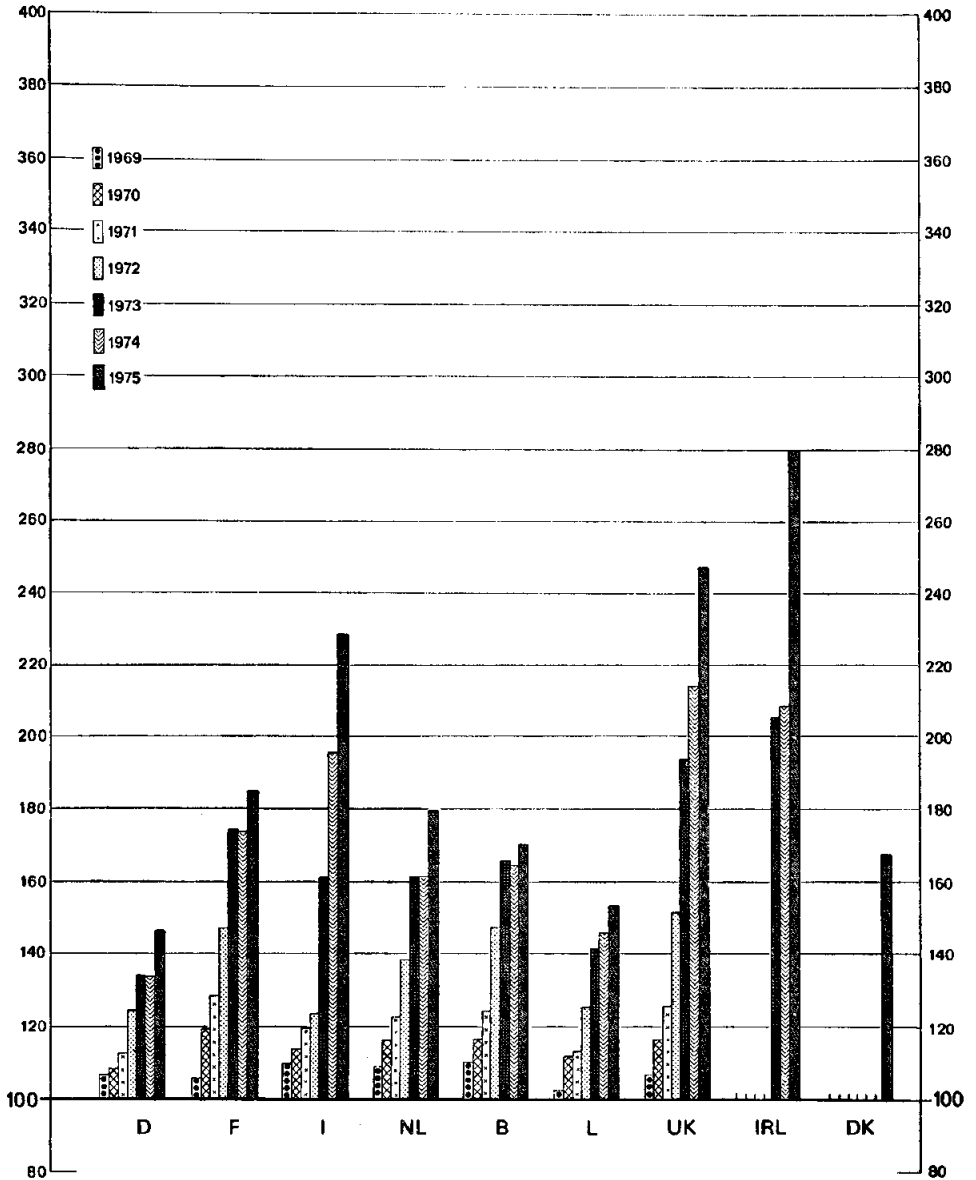
341. Over the period '1968-1974', final production by volume in the Community increased by 1.8% a year. This rate of increase was greatest in the Netherlands (5.0%), Belgium (2.9%) and Denmark (2.3%). In 1974 the growth rate for the volume of final production (1.3%) in the Community was below that for an average period given above; in 1975 the volume of production was 2% down on 1974. Contrary to the trend in the previous year and in the average period '1968-1974', the increase was greatest in 1975 for livestock products (+0.1%) as the volume of crop production had dropped 4.8% in the same year.

342. A study of the trend over a long period ('1964-1974') shows that the annual rates of change in production in terms of quantity differ widely from one product to another. For the Community the rate of increase for all cereals was 2.8% (but 7.0% for durum wheat and 8.1% for maize), rice 4.7%, sugar beet 3.0%, oranges 5.3%, table olives 4.8%, lemons 4.2%, poultrymeat 5.7%, pigmeat 2.9%, beef and veal 2.2%, eggs 1.9%, milk 1.4%, peaches 1.6%, potatoes 3.3% and hemp 10%.

343. In 1976 an exceptional drought seriously affected agricultural production in various regions of the Community.

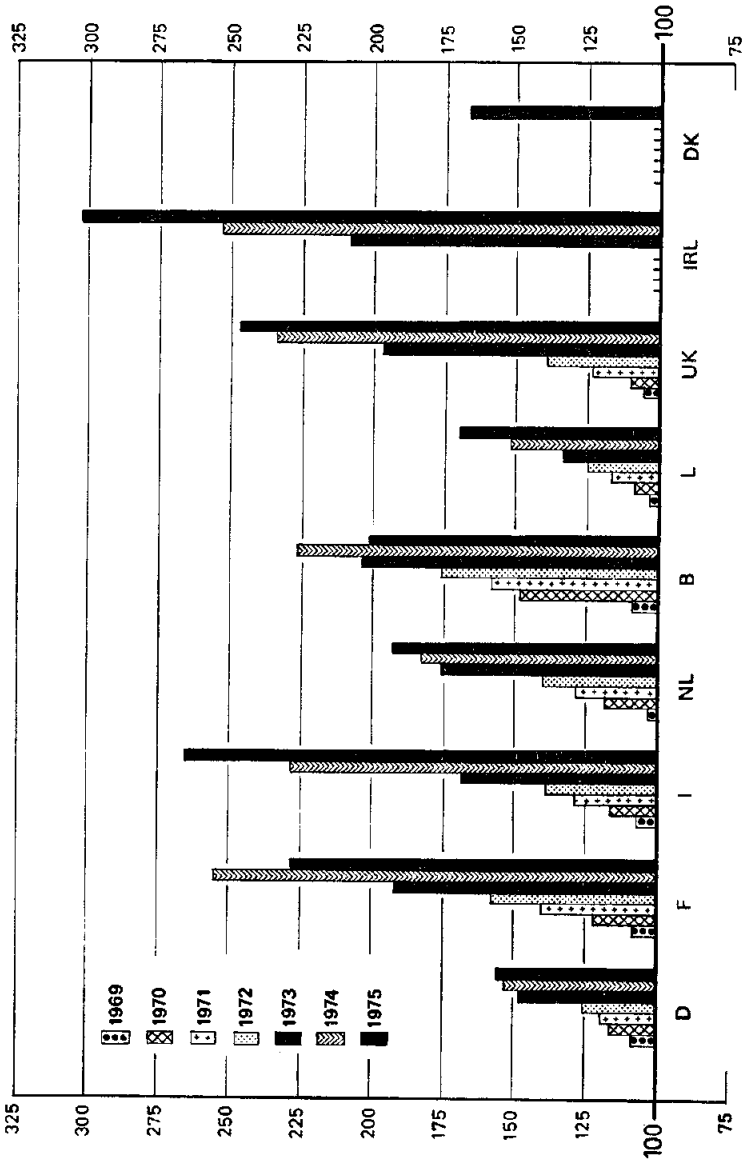
At Community level, the drought hit production of fodder, potatoes and certain vegetables hardest. Total cereal production in 1976 was about 6% down on 1975. The spring

**Development of final agricultural production  
at current prices  
1968 = 100**



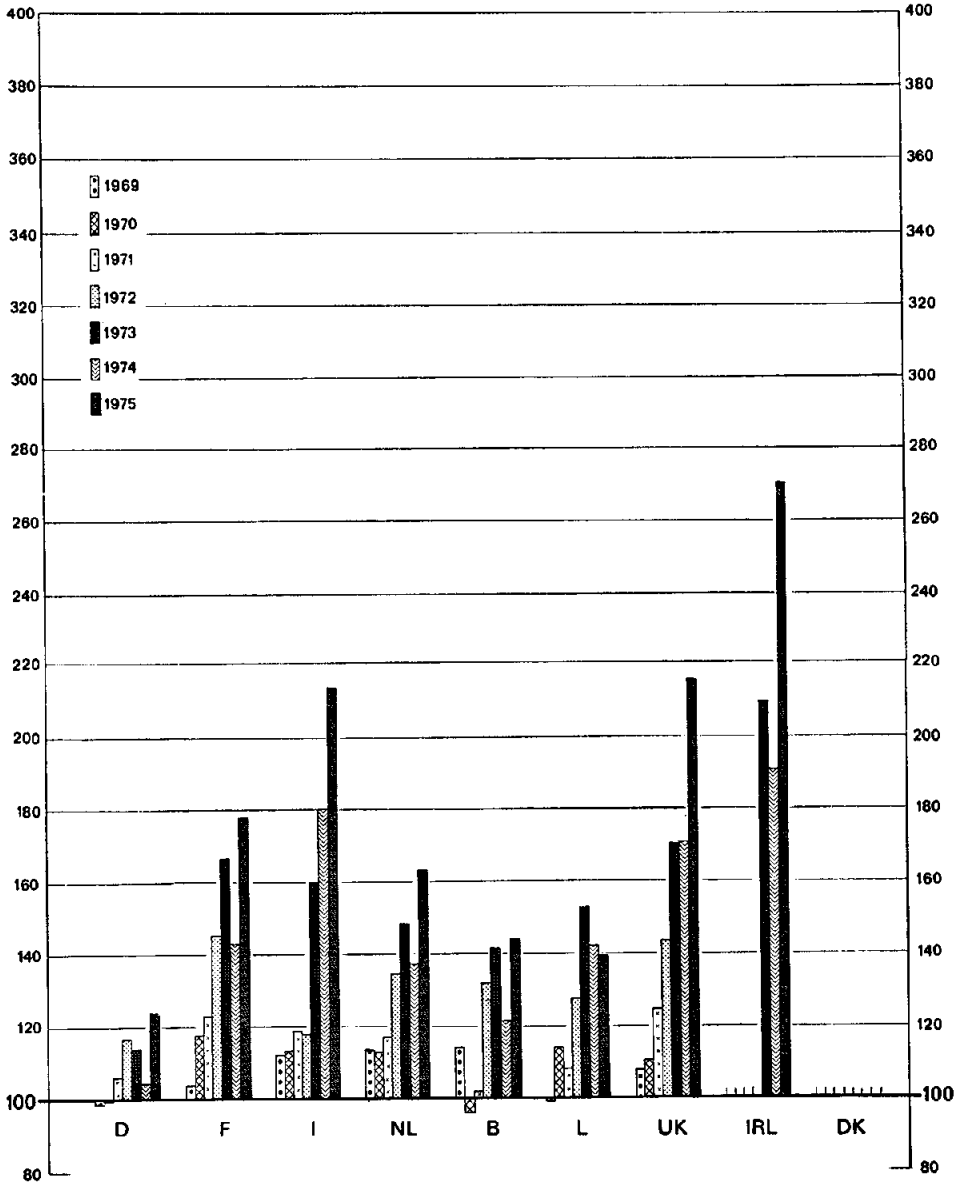
GRAPH 11

Development of intermediate agricultural consumption  
at current prices  
1968 = 100



GRAPH 12

**Development of net value at factor costs and current prices  
in agriculture  
1968 = 100**



GRAPH 13



cereal crop was disappointing; the winter crop was considered fairly normal. Maize production will total only two-thirds of a normal harvest as a large proportion of the area (20%) was used for the production of maize for silage. As regards sugar production, it is estimated to be 10-15% below a normal harvest. In the beef and veal sector the impact of the drought in 1976 on fodder supplies led to relatively high number of slaughterings in some regions of the Community. It is estimated, however, that net production of beef and veal in 1976 will be about 2 to 3% on 1975, despite the slaughterings prompted by the drought, because of a downturn in production during the first part of the year.

On account of the large increase in milk production at the beginning of 1976 (deliveries to dairies in the first half of 1976: +5.9%), dairy production for 1976 is estimated to have increased by about 0.9% despite the effects of the drought.

344. Although 1976 yields of certain products and in certain regions were affected by the drought, over a long period ('1964-1974') average yields per hectare show quite substantial annual rates of increase. For the Community these are: 4.3% for durum wheat, 4.0% for grain maize, 3.3% for common wheat, 1.5% for barley and 0.8% for sugar beet. For cereals as a whole, the annual rate of increase was 2.8%. Generally speaking, the increase rates for yields have been considerably lower in the three new Member States.

## 2. Price trends

### *Prices of inputs and wage costs*

345. The acceleration of strong inflationary trends, the energy crisis and tension on some markets supplying animal feedingstuffs and chemicals exerted strong pressure in 1973 and 1974 on the prices of inputs and wage costs in agriculture.

As regards agricultural wages, the rise in 1974 amounted to between 31.8% in Italy and 14.5% in Germany and in 1975 to between 50% in Italy and 7.8% in Germany.

The prices of inputs soared during the second half of 1973 and the first half of 1974. Since then they have levelled off to a certain extent, although in some Member States the rise in prices is still appreciable. In the original Member States the annual increase rates of these prices have trebled; whereas the annual increase in the original Community was about 5% in 1970, 1971 and 1972, this increase was 16.9% for the enlarged Community in 1973, 20.5% in 1974 and 9.2% in 1975. The increase for 1976 is estimated at 12%. These averages conceal marked differences between Member States with strong currencies and those with weak currencies, as the following table shows:

Percentage rates of increase of the prices of inputs<sup>1</sup>  
(based on figures in national currencies)

(%)

Member State	1973	1974	1975	1976 estimate
Deutschland	11.0	7.5	5.9	7.2
France	10.0	28.2	10.1	8.6
Italia	17.4	33.0	14.4	20.7
Nederland	21.1	4.6	4.4	10.1
Belgique/België	11.9	11.8	5.3	8.2
Luxembourg	9.8	13.4	9.3	(10.0)
United Kingdom	26.7	27.8	12.6	15.3
Ireland	24.9	39.8	16.4	15.8
Danmark	36.8	4.4	5.8	—
EUR 9	16.9	20.5	9.2	(12.0)

<sup>1</sup> Intermediate consumption + gross fixed capital formation.

Source: Eurostat.

The large rises observed in 1973/74 in the prices of inputs are due primarily to the influence of price rises for feedingstuffs, fertilizers, fuel and to a lesser extent machinery. In 1976 the drought triggered off a price increase for certain feedingstuffs.

It is not surprising to see that agriculture has made considerable efforts to cushion the impact of these price rises on production costs, by increasing the volume of production much more slowly than in previous years (1975/1974: +6.1% and 1975/1968: +10.6%).

#### *Prices of agricultural products*

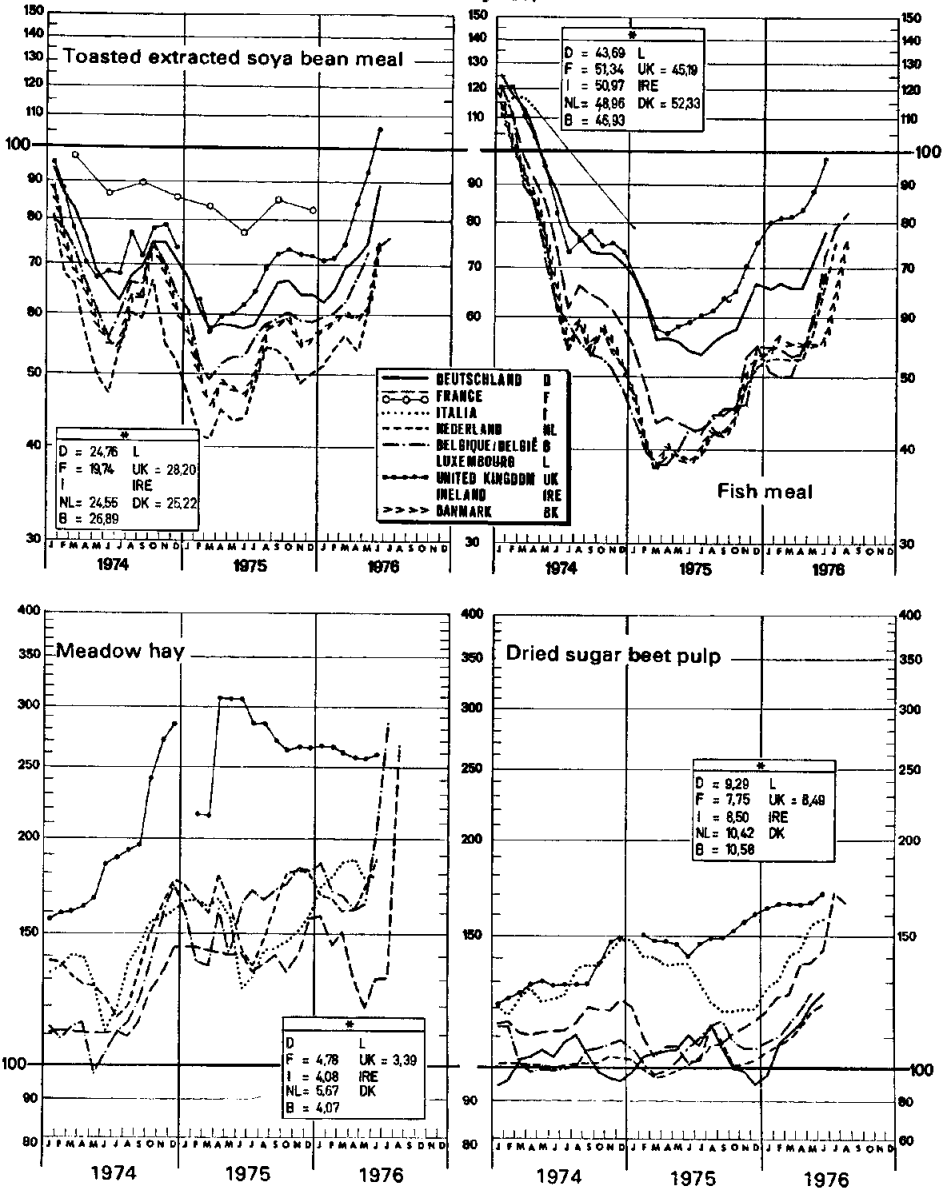
346. The upward trend of agricultural producer prices in 1972 and 1973 was reversed in 1974 to a drop in some Member States and a considerably slower increase in others. In 1975 there was again a strong upward trend. The result was that after an increase of 17.0% in 1973 and 6.3% in 1974, the increase was 13.5% for the Community in 1975. It is estimated at 15.4% for the Community in 1976.

Contrary to the situation in 1974, the increase in 1975 included a greater price index rise for livestock products (15.4%) than for crop products (11.1%).

The following table illustrates the price fluctuations for agricultural products in the various Member States.

Prices paid by farmers for certain inputs  
1973 = 100

(Semi-log scale)



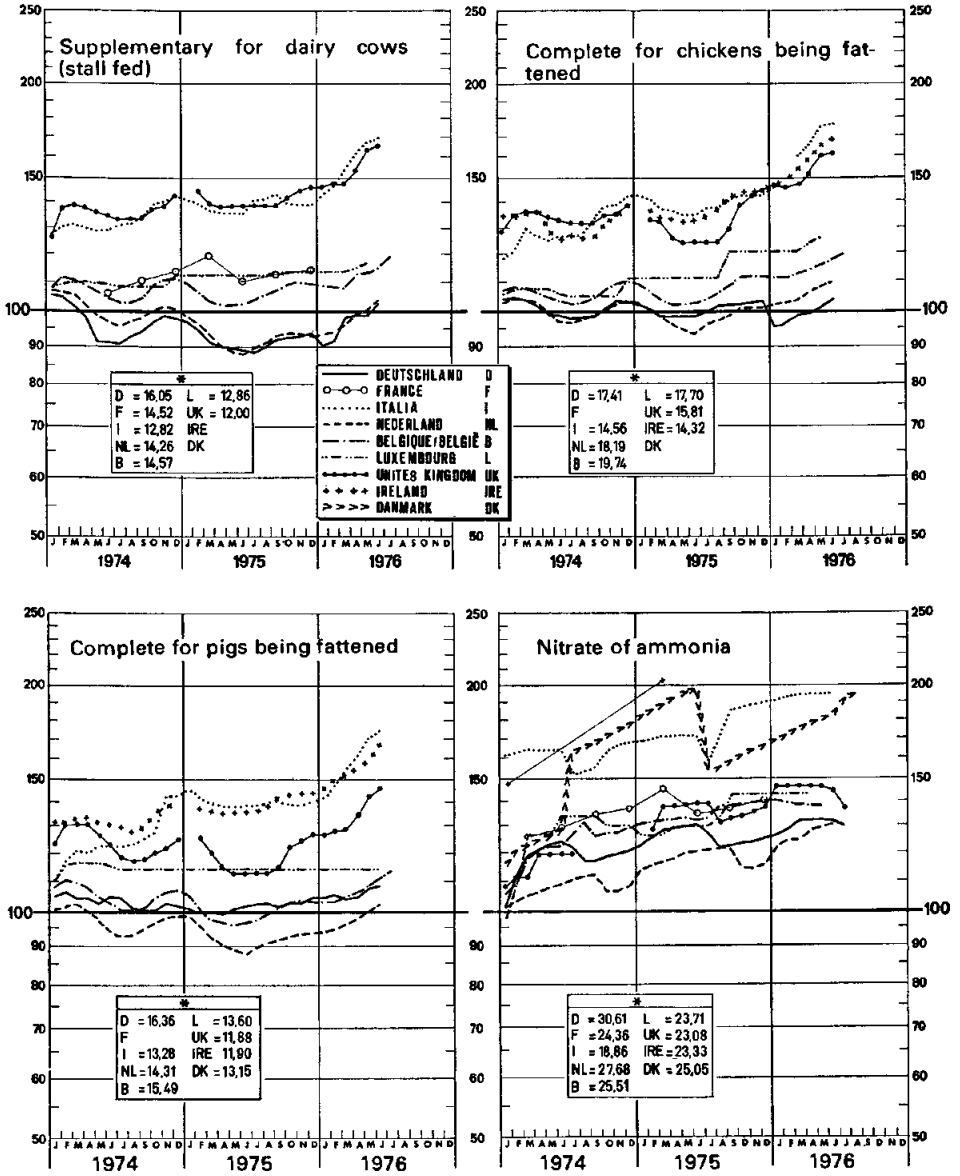
\* Effective 1973 price expressed in Eur

GRAPH 14

Prices paid by farmers for certain inputs

1973 = 100

(Semi-log scale)



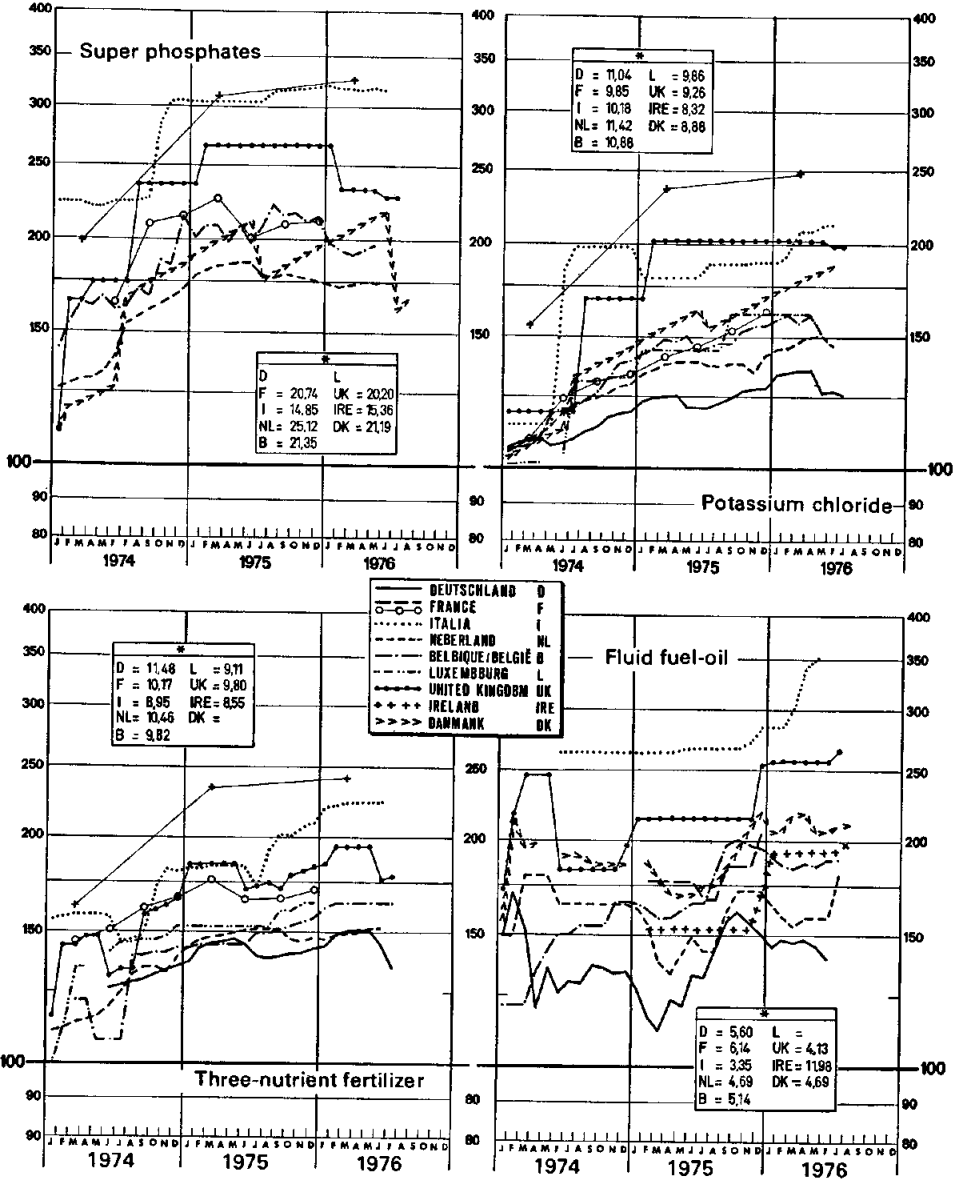
\* Effective 1973 price expressed in Eur

GRAPH 14 (contd)

Prices paid by farmers for certain inputs

1973 = 100

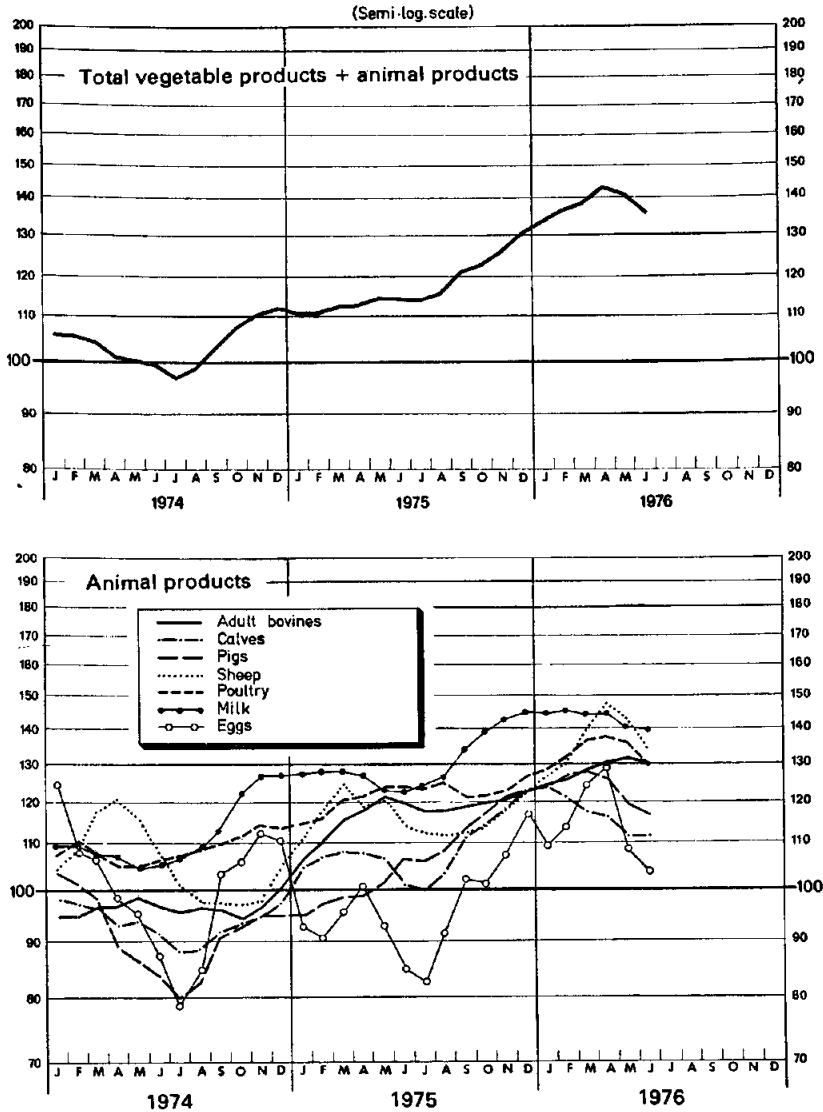
(Semi-log scale)



\* Effective 1973 price expressed in Eur

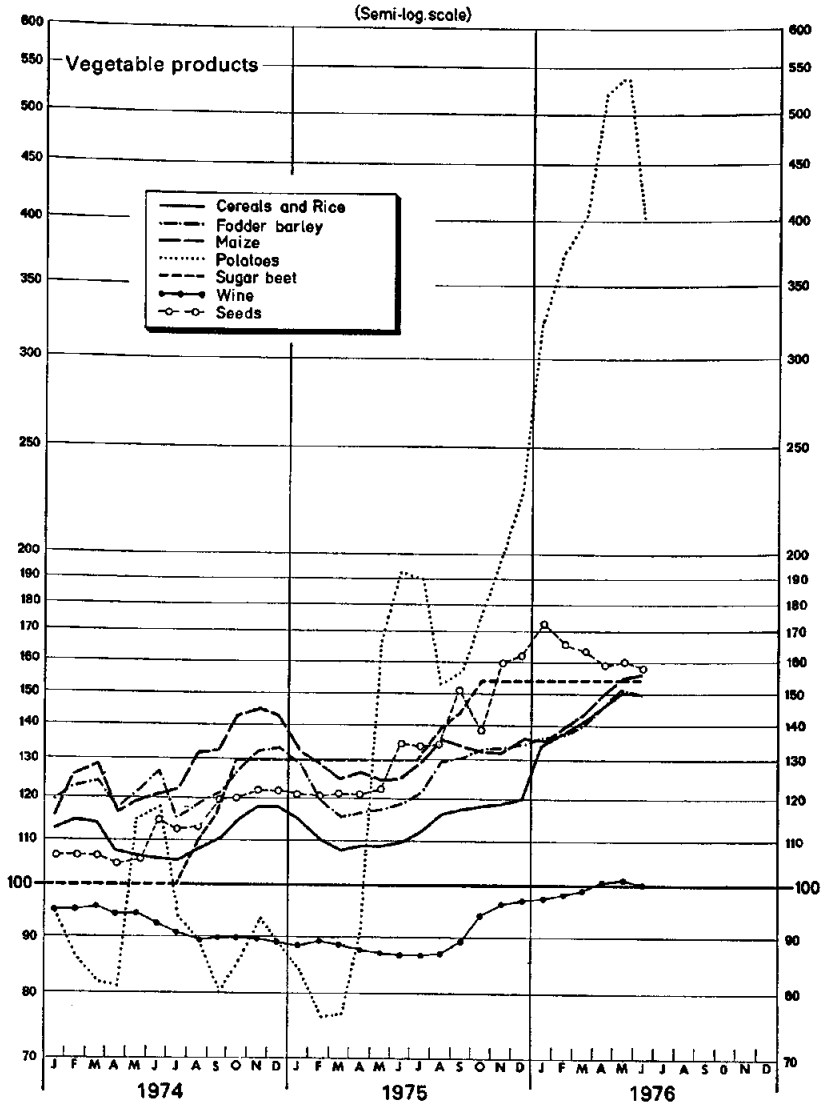
GRAPH 14 (cont'd)

**Evolution of producer price indices for several agricultural products  
1973 = 100**



GRAPH 15

**Evolution of producer price indices  
for several agricultural products  
1973 = 100**



GRAPH 15 (cont'd)

Percentage rates of increase of the prices of agricultural products  
(based on figures in national currencies)

(%)

Member State	1973	1974	1975	1976 (estimate)
Deutschland	6.3	— 3.3	13.3	11.4
France <sup>1</sup>	12.0	4.0	8.4	12.4
Italia	24.9	18.1	12.4	16.2
Nederland	11.1	— 5.0	12.5	14.4
Belgique/België <sup>1</sup>	13.6	— 1.1	13.3	10.7
Luxembourg	9.4	0.6	12.2	5.1
United Kingdom	28.5	12.7	23.7	29.9
Ireland	28.7	0.6	26.5	22.5
Danmark	29.1	1.4	9.0	11.0
EUR 9	17.0	6.3	13.5	15.4

<sup>1</sup> Excluding VAT.

Source: Eurostat.

347. The position of farm prices in the Community in relation to world prices changed radically in 1971/72. From that point world prices rose steeply on the whole, thus narrowing the gap, except for milk and milk powder between Community and world price levels; the latter being generally lower than the Community level. For some products this trend even resulted in world prices overtaking Community prices. Starting in the 1974/75 marketing year a gradual change in this situation can be observed: world prices are again generally below the Community level.

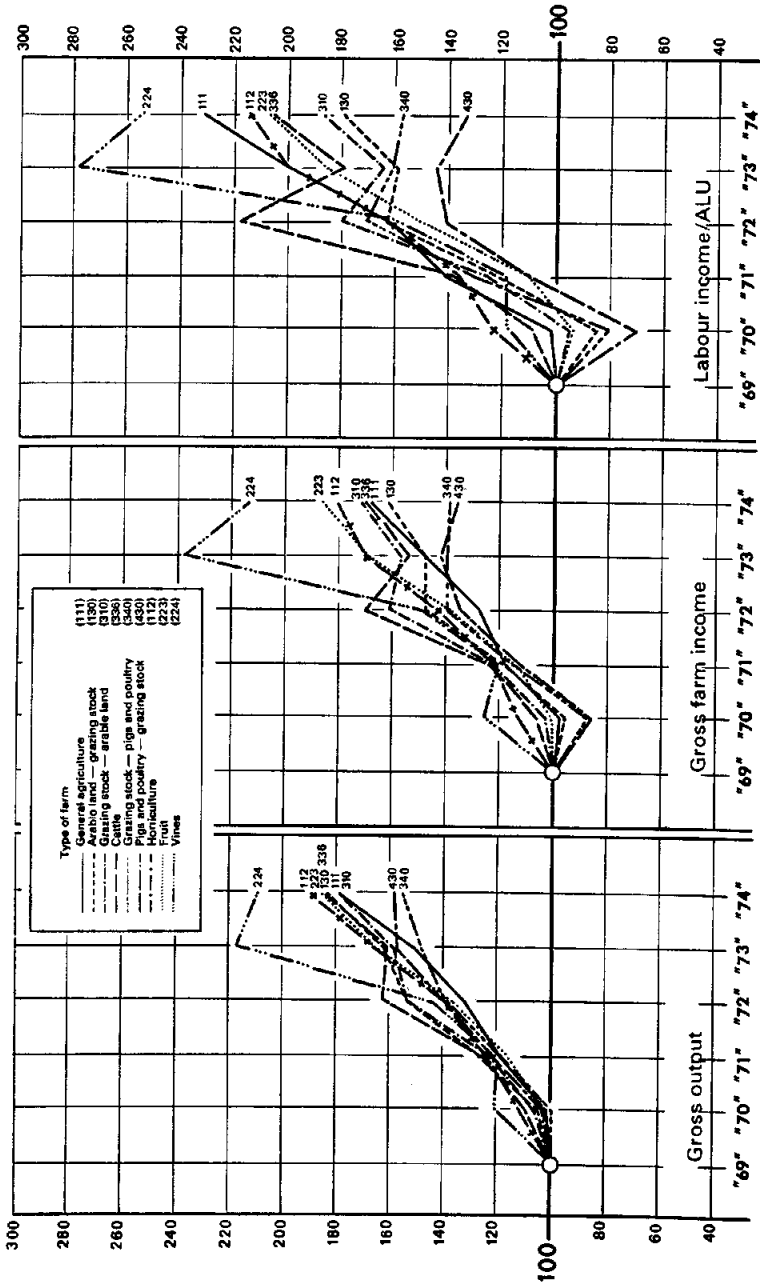
### 3. The position of agricultural incomes

#### *The trend since 1968/69*

348. A comparison of the trend of incomes in all economic sectors and in agriculture since 1968 in the various Member States shows that the net value added per person employed has generally progressed to a greater extent in the agricultural sector than in the economy as a whole. There are, however, three exceptions, i.e., Germany, the Netherlands and Belgium, where the net value added per person employed in agriculture has increased at a lower rate than for all economic sectors together.

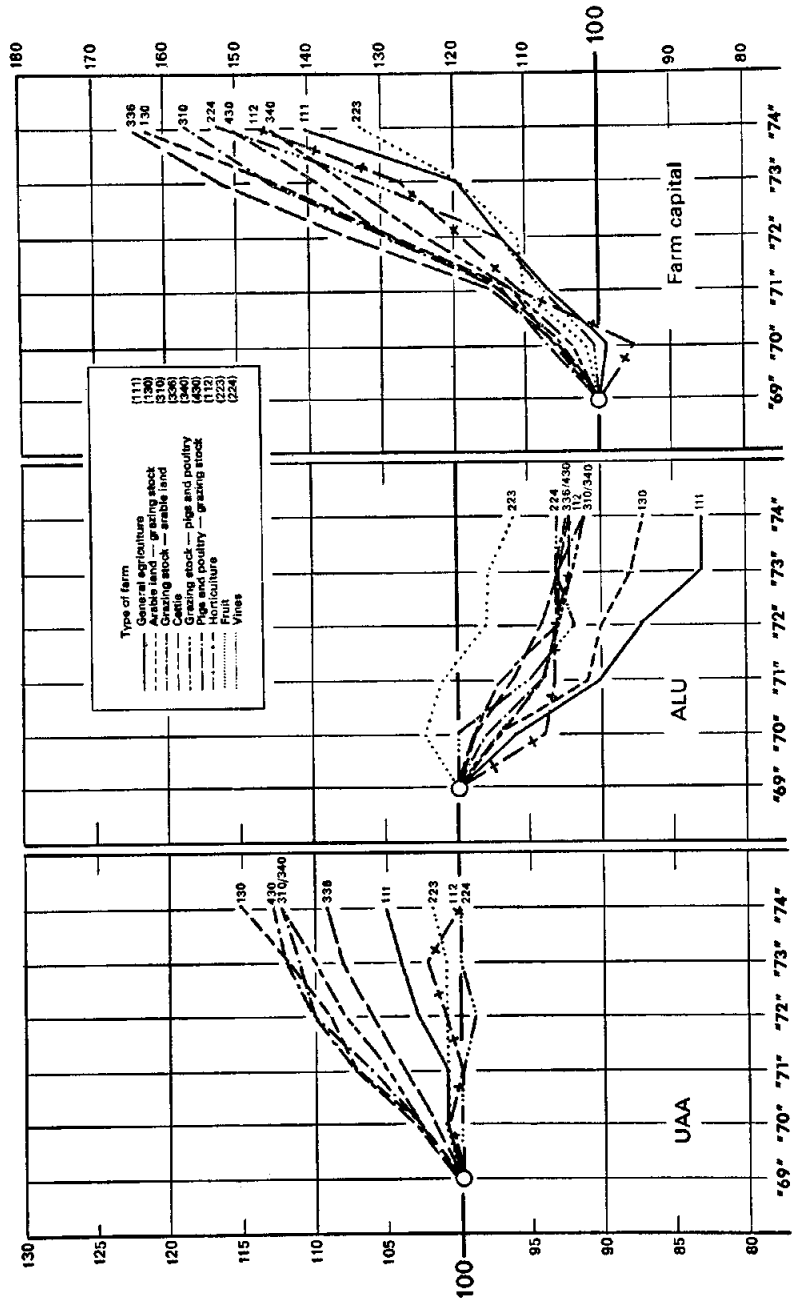


Development of gross output and incomes of returning holdings according to the main types of farms in the original Community between '1969' and '1974' according to five constant samples of 5 000 returning holdings over two successive years 1969 = 100



GRAPH 16

Development of production factors on returning holdings according to the main types of farms in the original Community between '1969' and '1974' according to five constant samples of 5 000 returning holdings over two successive years 1969 = 100



GRAPH 17

Trend of the net value added in real terms per person employed,  
in all economic sectors and in agriculture from 1968 to 1975

(mean annual rates)

Member State	All sectors	Agricultural sector
Deutschland	3.3	1.5
France	3.9	4.9 <sup>1</sup>
Italia	3.5	6.5
Nederland	3.8	1.6
Belgique/België	4.4	3.8
Luxembourg	1.1	2.5
United Kingdom	2.3	4.1
Ireland	4.1	:
Danmark	2.8	:
Community	3.4	:

<sup>1</sup> Rate for the period 1968 to 1974.

349. The trend of the net value added per person employed in agriculture<sup>1</sup> in real terms since 1968 has varied considerably among the Member States (see table above). Whereas in Germany and the Netherlands there have been annual growth rates of about 1.5%, in France and Italy these rates were 4.9% and 6.5% respectively. During the same period the increase in agricultural income per person employed in real terms<sup>1</sup> has also differed sharply depending on the Member State (see graph below).

#### *The trend in 1975/76*

350. In 1975 from the macro-economic point of view the net value added per person employed showed an annual increase throughout the Community except for France and Denmark of over 13% in money terms. This increase ranged from 2.7% (Luxembourg) to 48% (Ireland). In real terms the position worsened in Luxembourg (-2.1%) and still more in the United Kingdom (-5.4%) whereas it improved considerably in Ireland (+19.5%) and in Germany (+12.8%).

<sup>1</sup> The principal macro-economic (national accounts) income indicator used is the net value added at factor cost (NVA). This criterion corresponds to the earnings from the three basic factors of agricultural production: land, labour and capital. Since a part of these three factors does not belong to farmers (leased land, borrowed capital), the earnings corresponding to this part (rent for the land leased or share-cropped and interest paid) must be deducted from the NVA to arrive at a concept which corresponds to the effective earnings from the agricultural production factors which belong to farmers, and this is called 'agricultural income' (AI).

351. At micro-economic level the farm accountancy returns for '1975' are not yet all available for the Community. Processing carried out in the Member States seems, however, to confirm that agricultural incomes for 1975 (1975/76) have increased considerably in several countries in contrast to the drop in incomes in the previous year.

### **Germany**

352. 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.

### **France**

353. 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 consumer 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.

### **Italy**

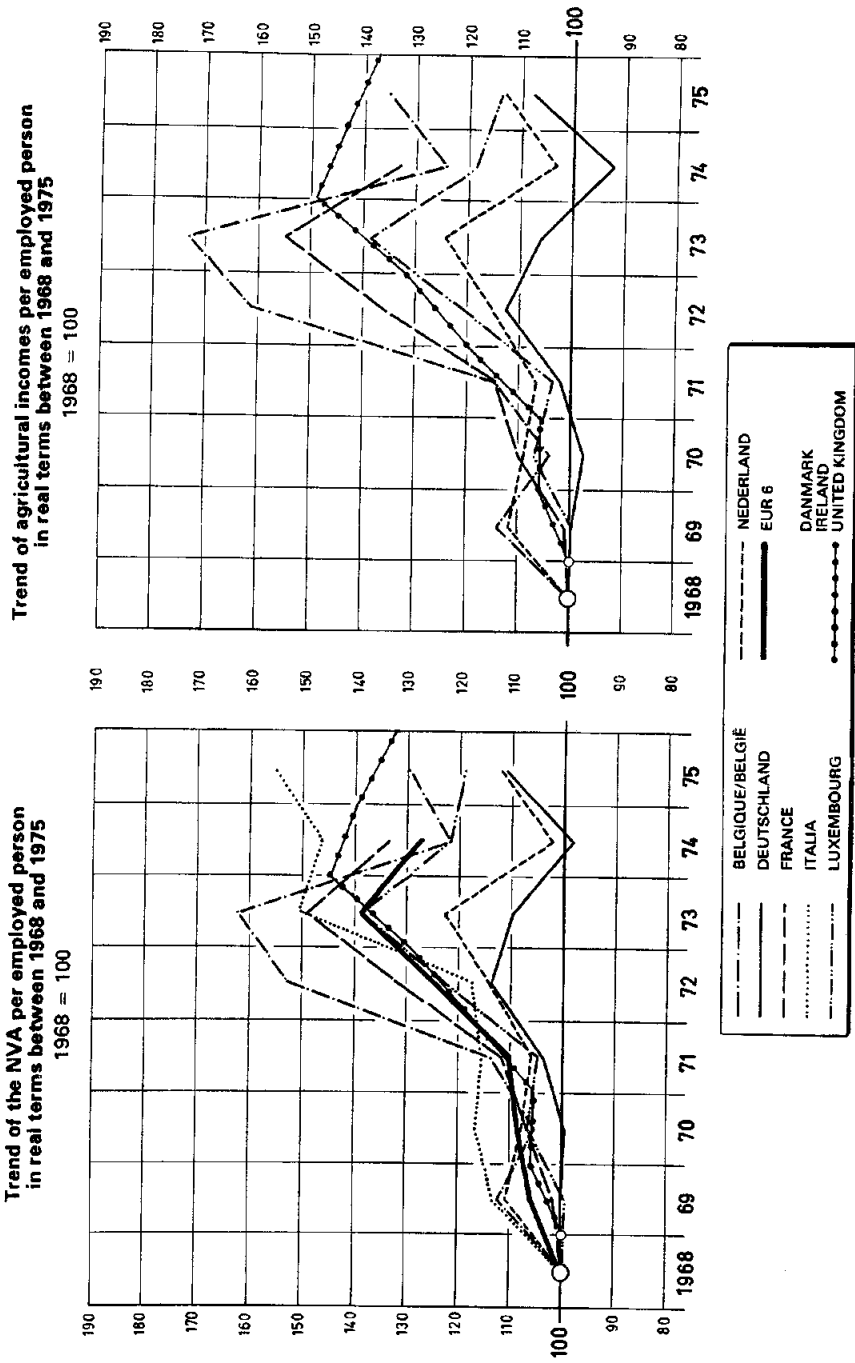
354. In 1975 there was an increase of 2.5% in real terms over 1974 in gross marketable production. Prices of agricultural products rose 15-16% in money terms. Prices of inputs increased by 10% in money terms. The gross value added in money terms rose by 15% (4% in real terms) while the income per farmer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

### **Netherlands**

355. The favourable trend of agricultural incomes in the Netherlands (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 specializing in cut flowers and fruit.

### **Belgium**

356. 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



GRAPHS 18 and 19

for pig farms, cattle farms and horticultural holdings and a slight decrease for general agricultural holdings.

### Luxembourg

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

### Denmark

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

### United Kingdom

359. 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 type of holding, but the rates varied. Only cereal farms saw their income decrease.

### Ireland

360. 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 sugarbeet; +1% for cereal farms; no change for pig farms).

### *The prospects for 1976/77*

361. In the present circumstances it is impossible to give a precise idea of the level which agricultural income for the farm year 1976/77 will in fact reach in the various Member States and on each of the principal types of holding. On the basis of preliminary estimates it can, however, be assumed that the 1976 level of agricultural incomes will be affected considerably by the exceptional drought in the central and northern areas of the Community and by the high rainfall in the south. However, in some cases the increase in the prices of some agricultural products, which was due in particular to the lack of supply,

has to some extent compensated for the low yields. In some Member States direct aid measures were also granted to mitigate the effects on agricultural incomes.

362. The sector of agricultural production most affected by the drought was cattle and dairy farming because of the sharp drop in fodder production and the consequent price rises for feedingstuffs. On the other hand, wine and fruit production in southern Italy has suffered from too much rain.

363. In Ireland an increase of 10 to 15% in agricultural incomes is expected.

In the northern part of the United Kingdom satisfactory incomes are expected for arable, sheep and cattle farms whereas, in the west, pig farms might face a significant fall in incomes.

In Germany a fall in agricultural incomes is expected due to the serious decrease in yields (cereals —10%, potatoes —14%, sugarbeet —6%, fodder —30%. Beef production will increase by 8% whereas dairy and pigmeat production will only vary slightly (about 2% and 1% respectively).

The gross agricultural value added in Italy during the first half of 1976 showed an increase of 3.5% over the same period of the previous year. The rate of increase will not amount to more than 1.7% in the second half.

In Denmark agricultural income is expected to fall in money terms by about 6%. This drop will therefore equal the increase in the previous year.

In the Netherlands, beef producers will be particularly affected.

In Luxembourg there have been much smaller harvests on all types of holding and this will inevitably affect their income level (28.4% and, taking into account State measures, —17.9%).

It is estimated that agricultural income in France, disregarding any national aid, will drop in real terms by 9.4% in 1976. Beef farmers have been the worst affected whereas some holdings, in particular vineyards, in some parts of France, will benefit from higher incomes because of greater yields of a much better quality than usual.

Production of fresh vegetables in Belgium fell back by about 30% whereas winter cereals had good yields; spring cereals on the other hand felt the effects of the drought to a greater extent, as did potato production. Yields from pasture land were less than half those of 1975; yields of other fodder crops were 20-40% down on the previous year. It is estimated that dairy production will be 15% down for the whole year.

#### 4. Income disparities

364. Agriculture suffers from major disparities in incomes between farmers in different regions of the Community. The differences from one year to another in changes in agricultural incomes are much less at the macro-economic level (NVA) than for smaller aggregates such as regions or types of holdings (FN).

365. As between major administrative regions differences in agricultural incomes have increased in several Member States. In Germany, for example, the regional income range for the farmer and his family per family labour unit has widened from 82-134 in 1972/73 to 81-140 in 1974/75 (national  $\varnothing = 100$ ).

366. The situation in Italy as regards agricultural incomes was also marked by greater regional disparity in 1975. There were regional trends in different directions, often major ones. In Sardinia, for example, the gross value added per person employed in agriculture has fallen off from 124 to 96 (National  $\varnothing = 100$ ) whereas in Lombardy and Emilia-Romagna it has risen from 157 to 178 and from 129 to 141 respectively (national  $\varnothing = 100$ ).

367. In the United Kingdom regional differences in farm income per farm have also increased considerably; the regional range has increased from 1-1.5 in 1969/70 to 1-3 in 1974/75.

France seemed to provide an exception to this almost general trend if one may judge from the differences between regions for the period 1970-1975 in the gross farm income per family helper. These differences have somewhat decreased, having receded from 50 to 388 in 1970 to 50 to 283.

368. During the period from '1969' to '1974' agricultural incomes fluctuated with wide differences depending upon the type of holding. On the basis of accounting samples corresponding to groups of holdings constantly represented in the FADN it was found that changes in labour income per ALU were extremely varied.

Farms mainly concentrated on one speciality, wine-growing, horticulture, fruit, cattle, generally enjoyed increased labour incomes per ALU to a greater extent than less specialized farms.<sup>1</sup>

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<sup>1</sup> In the micro-economic analysis of agricultural incomes (at the level of holdings) reference is made primarily to the labour income (LI). The labour income is the balance remaining after all costs apart from wages have been deducted from the value of production; this balance therefore corresponds to remuneration for the 'labour' factor alone.



Changes in labour income per ALU in '1974' compared with '1969' in the original Community by principal types of farming constantly represented by the same groups of returning holdings (FADN)

Type of farming	Labour income per ALU in '1974'
Vines	253
General agriculture	232
Horticulture	214
Fruit	207
Cattle	205
Grazing stock—arable farming	187
Arable farming—grazing stock	179
Grazing stock—pigs and poultry	158
Pig and poultry—grazing stock	133

369. The development of the labour income per ALU is a function of the structural situation of holdings which varies according to the type of farming and the structural development of these holdings which has occurred with varying rapidity depending on the type of holding. In the agricultural sector the size of the holding and of the farm capital have increased while the labour force has decreased (see graph below). This general tendency however emerges to a greater or lesser extent depending on the type of farming. Increases in the size of holdings and the growth of their capital has been a feature in particular of types of farming based primarily or partly on cattle production, whereas the reduction in the labour force has occurred mainly in general agricultural holdings.

370. The indices by type may also be influenced by the fact that some types of production are concentrated in certain geographical areas (e.g., vines); the inflation which affects some countries more than others therefore determines to a large extent the growth rate of incomes expressed in money terms for certain types of farming.

371. Gross farm income, a concept which covers the remuneration of all three production factors (land, labour, capital) plus the amortization of deadstock, has increased from 60 to 80% during the five accounting years under consideration for most types of farming. As regards the absolute level of labour income per ALU in '1969' there was a considerable difference between returning holdings of the 'mixed farming-cattle' type and general agricultural holdings and still more between holdings oriented towards permanent crops and general agricultural holdings.

## 5. Special measures to assist producers

372. During 1975 and 1976 the Community continued to apply various special measures to assist agricultural producers in the Community. These measures are mentioned here as special aspects of the body of instruments governing the common agricultural policy (price and market policy—socio-structural policy) whose purpose is to improve the situation of agricultural producers.

373. In 1976 various special measures to benefit producers were put into action at Community and national level to facilitate supplies of fodder and to absorb additional costs or losses caused by the drought (frontier measures to prevent exports or to stimulate imports of fodder, storage measures, special intervention measures and refund measures to support the price of beef and veal).

374. Under the price and market policy several measures were decided upon at different times with the aim of normalizing markets. These were the following:

- protection at the frontier (protective clause decided on in July 1974, relaxed in April 1975 and in September 1976 under the 'EXIM' procedure, and replaced in 1976 by the 'linked sales' system entitling importers to import beef and veal from non-member countries only after having bought an equivalent quantity under a tendering procedure from intervention agencies);
- disposal of market surpluses (increased export refunds for 0.41 million tonnes in 1975 and 0.30 million tonnes in 1976 and private storage aid);
- measures to encourage consumption;
- slaughter premium in the United Kingdom;
- calf birth premium in Italy.

In the milk sector aid was granted for the following quantities to be used as feedingstuffs:

- 3.6 million tonnes of skimmed milk in 1975 (estimated at 3.5 million tonnes in 1976);
- 1.1 million tonnes of skimmed-milk powder in 1975 (larger quantity in 1976). Other aid related to milk processed into casein, the storage of milk products and special marketing measures.

In the fruit and vegetable sector certain quantities were withdrawn from the market (13% of the production of tomatoes, 11% of the production of apples, 7% of the production of peaches and other fruit) to support prices.

375. In sectors with structural imbalances, the Community made special efforts to assist wine growers (exceptional distillation measures; 20.3 million hl in 1974/75; 4 million hl

in 1975/76), certain fruit and vegetable growers and dairy farmers (on 14 October 1976 stocks of skimmed-milk powder amounted to 1.4 million tonnes and stocks of butter to over 400 000 tonnes).

The Commission has also proposed measures on the non-marketing of milk and the conversion of dairy herds.

376. As regards the socio-structural policy, the Directive on mountain and hill-farming and farming in certain less-favoured areas became applicable in 1975. The impact of this Directive was reinforced through the launching of the European Regional Development Fund. The Guidance Section of the EAGGF has spent about 2 million u.a. in 1975 in application of these directives.

377. A reliable indication of the total scale of Community action on behalf of farmers is the level of EAGGF expenditure. Expenditure for 1975 amounted to 4 727.3 million u.a. for the Guarantee Section (estimated expenditure for 1976 5 835 million u.a. for the Guarantee Section and 325 million u.a. for the Guidance Section). In 1975 expenditure amounted to 2.8 milliard u.a. in compensatory measures, over 850 million u.a. for storage and market withdrawals and 969 million u.a. for export refunds.

It should be borne in mind that some of this expenditure did not directly concern agricultural producers. The same applies to total expenditure for the implementation of national and Community agricultural policies which amounted to about 17 milliard u.a. in 1976.

## V - The financial aspects

### A — General

378. In 1976 expenditure earmarked or effected by Member States and the Community to finance the agricultural policy amounted to a total of almost 17 milliard u.a., representing about 24% of final agricultural production. About 37% of this, i.e., 6 milliard u.a., comprised expenditure charged to the Community budget. Although it is impossible at present to indicate in detail the proportion of expenditure charged to national budgets either as an obligatory contribution by Member States towards the financing of measures in pursuance of the common agricultural policy or of other provisions of the EEC Treaty (such as competition rules relating to State aid<sup>1</sup>) one may conclude that most of this sum of 17 milliard u.a. devoted to national and Community agricultural policies is covered by a Community act or procedure.

379. As regards Community expenditure financed by the EAGGF, Article 10 of Regulation (EEC) No 729/70 on the financing of the common agricultural policy requires the Commission to submit to the Council and to the European Parliament, before 1 July of each year, a financial report on the administration of the Fund during the preceding financial year and, in particular, on the state of its resources, the nature of its expenditure and the conditions under which Community financing has been effected. Up to the present, the Commission has submitted 5 reports covering the years 1971 to 1975, the fifth and most recent of these (COM(76)553 of 13 Octobr 1976) was adopted by the Commission in October 1976. These reports provide more detailed information about the financing of the common agricultural policy than are given here.

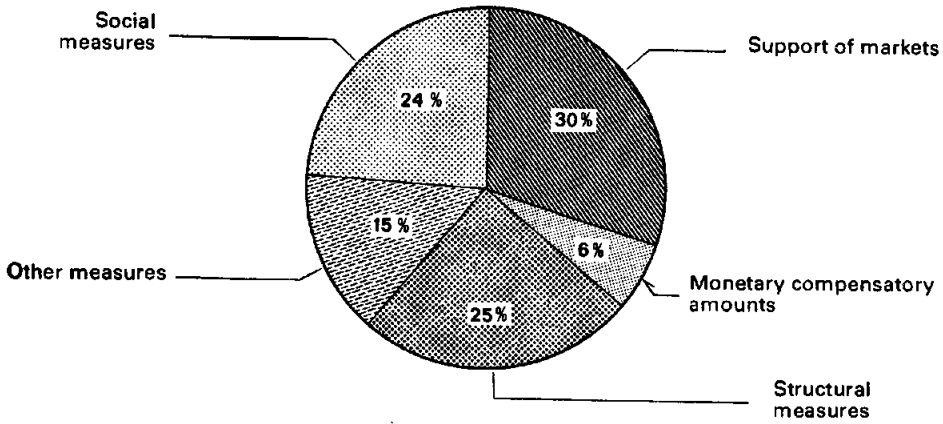
380. An analysis of the development of financing shows that the total sum earmarked for 1976—17 milliard u.a.—is almost 15% higher than the expenditure charged in 1975 (14.8 milliard u.a.). This increase is due firstly to the considerable rise (23%) in expenditure by the EAGGF—Guarantee Section—and secondly to the aid granted by

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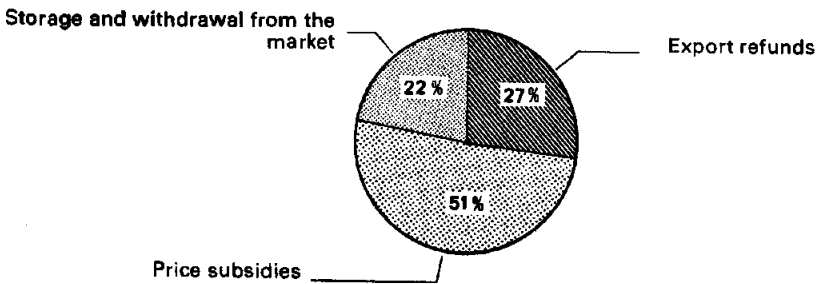
<sup>1</sup> See 'State aid' Chapter, paragraph 298.

**Public, national and Community expenditure  
in support of agriculture in 1976**

**I — TOTAL  
(17.0 milliard u.a.)**



**II — EAGGF GUARANTEE SECTION  
(5.8 milliard u.a.)**



GRAPH 20

Member States to compensate for the effects of the drought which increased the 'various measures' category by 60% compared with the previous year. The other categories of measures have been increased by between 0% (social measures) and 5% (national market support measures).

381. A breakdown of expenditure according to the amount of funds deployed for the measures shows that agricultural market and price support alone consumed 6.2 milliard u.a. (or 36% of the total) and 95% of this is financed by the EAGGF-Guarantee Section.

Measures relating to the structure of production and markets for agricultural products accounted for 4.1 milliard u.a. (24% of total) of which 92% comes directly from the Member States' budgets. The financing of social security for the agricultural population takes third place with a total of 4 milliard u.a. (also 24% of total), all of which is charged to national budgets.

382. As regards expenditure by the EAGGF Guarantee Section in 1976, three sectors shared about 58% of expenditure; the milk products sector (almost 1.93 milliard u.a.) with 33%, the beef and veal sector with nearly 13% and the cereals sector with about 12%. The accession compensatory amounts dropped slightly from 8.8% in 1975 to 6.7% or 392 million u.a. in 1976. On the other hand expenditure on monetary compensatory amounts continued to increase and rose from 8.6% in 1975 to 10.5% or 610.7 million u.a. in 1976.

383. After the sharp drop in 1974 followed by an increase in 1975, expenditure on refunds increased again in 1976, mainly due to price changes on the world market. Their share of EAGGF Guarantee Section expenditure rose from 25% in 1975 to 33% in 1976. Since intervention expenditure expressed in absolute terms increased less than expenditure on refunds, the relative share of the intervention expenditure came down from 75% in 1975 to 67% in 1976.<sup>1</sup>

384. The appropriations of the Guidance Section of the EAGGF in 1975 amounted to 325 million u.a. of which 212.6 went to finance projects for the improvement of agricultural structures. Between 1964 and 1975 almost 5 500 projects have received aid from the Fund in a total amount of almost 1.5 milliard u.a. In 1976 the Fund will pay out about 89.5 million u.a. in respect of common measures and special measures decided by the Council under the structural policy as reimbursement for expenditure incurred by Member States in 1975.

<sup>1</sup> In calculating these percentages no account is taken of accession and monetary compensatory amounts.

385. The direct contribution of the common agricultural policy to the Community's budget as part of own resources was higher in 1976 than in 1975: agricultural levies and contributions are likely to reach 911 million u.a. against 590 million u.a. for the previous year and have therefore exceeded the estimate. In 1977 total revenue of 1 217 million u.a. is expected, the rise being due primarily to the price changes foreseen on the world market.

## B — The Guarantee Section of the EAGGF

### 1. Principal features

386. Article 1(2) of Regulation No 729/70 provides that the Guarantee Section shall finance:

- refunds on exports to non-member countries including the refund proportion of food aid gifts;
- intervention to stabilize agricultural markets.

In theory this expenditure has since 1 July 1967 been financed in its entirety by the Community through the EAGGF Guarantee Section. However, there is still one exception, namely the financing of expenditure incurred by the intervention agencies for buying-in, storage and disposal. Thus, the amounts involved in storage operations (delivery to, and withdrawal from the silo, storage and processing) are financed at a flat rate and the immobilization of capital resulting from the buying-in of merchandise is borne by the Member States themselves, the EAGGF intervening only if net losses are incurred (balance of expenditure and receipts arising from the overall operation, together with a flat-rate interest payment to compensate for the cost of capital immobilization). The Council decided in 1976 to extend this exception up to 1 January 1978, pending the establishment of general rules on the matter.

387. With regard to financial operations, since the coming into effect on 1 January 1971 of the definitive arrangements the 42 paying departments in the Member States are responsible for payments to operators under the common agricultural policy and these are covered by monthly advances from the Commission. Since 1975, changes in the organization of the paying departments have taken place in some Member States. In Germany the four existing intervention agencies merged as from 1 July 1976 into a single body, the 'Bundesanstalt für Landwirtschaftliche Marktordnung'. In France the problems of the viticultural sector have led to the setting up of an 'Office interprofessionnel du vin' which will manage this sector in future.

388. The Commission has strengthened its procedures for the verification of expenditure effected by the Member States on behalf of the Community. Thus, the account of the Guarantee Section of the EAGGF for the 1971 and 1972 accounting years were closed by a Decision of 2 December 1975 at a total of 3.9 milliard u.a. Sixty-one million u.a. (1.4%) were not accepted as chargeable to the EAGGF Guarantee Section. Following these decisions three Member States have appealed to the Court of Justice of the European Communities regarding certain expenditure not accepted by the Commission.



389. The efforts deployed to combat irregularities have been continued and various further steps have been taken to this end. During the first half of 1976 170 cases of irregularities were discovered relating to 2.5 million u.a., of which 0.5 million u.a. have been recovered. These relate principally to the beef and veal, milk products and cereals sectors.

## **2. Changes in the market machinery which have significant financial consequences**

390. The Council has not yet taken decisions on the Commission proposals put forward during 1975 on the setting up of common organizations of the market in sheepmeat and potatoes. On the other hand, changes have been made to existing rules in various sectors; the most important of these from the financial point of view are mentioned below.

391. In the milk products sectors, with a view to reducing skimmed-milk powder surpluses, the Council introduced, by Regulation (EEC) No 563/76, a system for the compulsory incorporation of skimmed-milk powder held by the intervention agencies and intended for use in feedingstuffs.<sup>1</sup> This system, which concerns 400 000 tonnes of powder, significantly reduced the cost of maintaining public stocks, which exceed one million tonnes. However, in spite of this system expenditure in the sector increased sharply.

392. In the beef and veal sector the market situation necessitated recourse once again to special measures such as the calf birth premium and the slaughter premium for certain adult bovine animals. The latter measure takes the form of an authorization to Member States with partial financing by the EAGGF. The drought, which has had a serious effect in this sector, has made it necessary among other things to extend intervention buying-in, temporarily, to meat from dairy cows, a measure which has added to the expenditure and which is not conducive to the reduction of public stocks. Although less than in 1975, expenditure in 1976 in this sector has remained very high.

393. In the wine sector the basic regulation has been substantially recast by Regulation (EEC) No 1160/76, mainly with a view to making the market measures more comprehensive and better suited to market requirements. Together with the measures aimed at reducing wine supplies over the longer term, this revision should make for better control of the market and enable market situations such as those experienced in 1974 and 1975 to be prevented from recurring, with all their financial consequences.

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<sup>1</sup> End of the system: 31 October 1976.

394. In 1976 the Council decided on several occasions to transfer to the Italian intervention agency cereals (400 000 tonnes) and skimmed-milk powder (10 000 tonnes) held by intervention agencies in other Member States so as to improve supplies in certain regions of the Community. To facilitate these operations a Community financial procedure was evolved thus avoiding commercial transactions between intervention agencies.

### 3. Economic nature of the measures financed

395. The decline in prices on the world market which became noticeable towards the end of 1974, in particular for cereals and beef and veal, caused a renewed rise in expenditure on refunds in 1975 (969 million u.a.) compared with the low level in 1974 (589 million u.a.). For 1976 the expenditure continued to rise and payments over 1 500 million u.a. may be expected; this amount is all the larger in that monetary compensatory amounts granted on trade with non-member countries (for the fraction in excess of the levy) are no longer included in the refunds as formerly but are accounted for separately (see Table II.E/1.1 which shows an amount of 161.2 million u.a. for 1976). In the milk products, cereals and sugar sectors especially, expenditure on refunds is increasing and refunds for the beef and veal sector remain at a high level.

396. As regards intervention in the strict sense, namely market support measures, total expenditure for the largest category—price compensatory measures—remained at the same level in 1976 in absolute terms as those recorded in 1975 (1 950 million u.a.).

However, the share of the milk products sector in this total has increased and that of the beef and veal sector has decreased. Total expenditure for storage operations proper rose from 969 million u.a. in 1975 to 1 110 million u.a. Expenditure in this field for the milk products sector have increased particularly sharply and will exceed 450 million u.a.

### 4. Expenditure trends and forecasts

397. 1976 was characterized above all by an increase in expenditure on monetary and accession compensatory amounts. These exceeded the initial estimates by 480 million u.a.

Expenditure has risen in the sugar, beef and veal and fruit and vegetable sectors. These increases have not been entirely balanced out by the decrease in expenditure in the cereals, wine and eggs and poultrymeat sectors.

398. For this reason a supplementary budget for 1976 was required which released appropriations of 717 million u.a. for the Guarantee Section, of which 480 million u.a.,

or 67%, to cover the supplementary expenditure on monetary and accession compensatory amounts. This amount of 717 million u.a. is thus an addition to the 5 118 million u.a. initially provided in the 1976 budget. The supplementary budget, proposed by the Commission in July 1976, was approved by the Budgetary Authority in September 1976. Following an increase in the Community's own resources, mainly due to additional revenue from customs duties, this supplementary budget should not involve any increase in Member States' contributions to the EEC budget.

399. In September 1976 the Commission forwarded to the Budgetary Authority proposals for the EAGGF Guarantee Section part of the 1977 budget. Including the expenditure resulting from the monetary situation, the scheduled appropriations for 1977 amount to 6 178.9 million u.a. which is a 5.9% increase over 1976 expenditure. It should be noted that expenditure due to the monetary situation is becoming increasingly onerous. In 1977 it will amount to 1 114 million u.a., or 18% of total expenditure, of which 582 million u.a. for monetary compensatory amounts and 532 million u.a. for 'double conversion rate' expenditure (expenditure resulting from the conversion into budgetary units of account, at the rates declared to the International Monetary Fund, of expenditure effected by the Member States in national currencies at the representative rates used by agricultural operators). This double rate expenditure which up to 1976 was included in the expenditure of the various agricultural sectors will come under a separate heading in the 1977 budget so that it will be easier to distinguish the total expenditure resulting from the monetary situation.

## 5. Agricultural revenue

400. Although the common agricultural policy generates expenditure it is also a source of budgetary revenue. This is not deducted from the expenditure of the Guarantee Section but forms part of the own resources which feed the budget of the European Communities as a whole. In 1976 the revenue from levies and agricultural contributions is estimated at 911 million u.a. against 590 million u.a. in the previous year. For 1977 the total amount is estimated at 1 217 million u.a. This trend is due principally to price developments on the world market.

For the 1977 budget the Commission has proposed for the first time that resources of agricultural origin should be deducted from the expenditure of the Guarantee Section for information purposes, so as to bring out more clearly the net cost to the public funds of the EEC.

## C — The Guidance Section of the EAGGF

### 1. Financing

401. The role of the Guidance Section is to participate in financing the Community agricultural structures policy. Since the adoption of Regulation EEC No 729/70, the section's financial resources are used:

- to finance common measures decided by the Council aimed at the objectives laid down in Article 39(1) (a) of the Treaty;
- to finance special measures decided by the Council before the adoption of Regulation EEC No 729/70;
- for capital subsidies for projects designed to improve agricultural structures, pursuant to Regulation No 17/64/EEC.

In allocating the appropriations priority is given to common and special measures, whilst the financing of individual projects is continued so long as the total amount allocated to common measures in a given year is smaller than the Guidance Section's annual appropriations, at present 325 million u.a.

### 2. Financing of common measures

402. In 1975 the Guidance Section's field of operation was greatly extended by the adoption of two Directives:

- 75/108/EEC on the organization of a structures survey for 1975 as part of the programme of surveys on the structure of agricultural holdings;
- 75/268/EEC on mountain and hill farming and farming in certain less-favoured areas, which forms an important supplement to the three Directives (72/159, 72/160, 72/161/EEC) on the reform of agriculture.

Most common measures decided by the Council hitherto concern the repayments to Member States of parts of the latter's eligible expenditure. The rate of Community participation varies from one measure to another, at present ranging from 25% to 65%.

In 1975, the Commission took its first decisions on structural measures implemented—although with some delay in certain cases—by the Member States in application of Directives 72/159, 72/160 and 72/161/EEC. Other reimbursement Decisions taken in 1975 mainly concerned the following:

- aid to hop producers' organizations (1696/71);
- measures to encourage the development of beef and veal production (1353/73);

- statistical survey relating to plantations of certain types of fruit trees (Directive 71/286/EEC);
- survey on the structure of agricultural holdings (Directive 71/108/EEC).

403. The only common measure so far decided by the Council, to be based on a system of individual structural improvement projects for which the beneficiaries receive direct capital subsidies from the Community, concerns conversion projects in the salt codfishing industry (Regulation (EEC) No 2722/72). In 1975, two French projects were granted aid amounting to 2 682 704 u.a. Since the adoption of the basic regulation, a total of 9 582 916 u.a. has been granted for 12 conversion projects in this sector.

### 3. Financing of special measures

404. This category of measures has been in existence since 1966; such measures corresponded broadly to common measures before this expression was given legal form in Regulation (EEC) No 729/70. In most cases the measures concerned improvements to the operation of certain market organizations and enabled certain economic problems to be solved.

The following measures were aided by the Community in 1975:

- aid to fruit and vegetable producers' organizations (1035/72);
- slaughtering of cows and withholding of milk and milk products from the market (1975/69);
- grubbing of certain species of fruit trees (2517/69);
- aid to producers' organizations in the fishery sector (2142/70).

### 4. Financing of projects to improve agricultural structures pursuant to Regulation No 17/64/EEC

405. In the 1975 budget a sum of 145.1 million u.a. was allocated to finance individual projects falling within the scope of Regulation No 17/64/EEC. In view of the number of projects submitted the Council decided to increase this amount to 212.6 million u.a. by drawing on appropriations available in the chapters concerning common and special measures. The Commission Decision concerning the first 1975 instalment was taken on 15 December 1975; 318 individual projects were involved, the amount of aid granted being 107 995 034 u.a. On 30 April 1976 the Commission decided to grant a total of 104 604 964 u.a. to 374 projects under the second 1975 instalment, bringing the total number of projects financed in 1975 to 692. The delay in examining applications, which

had built up during the system's first years of operation, was considerably reduced in 1975 and may be cleared off altogether in 1976.

406. Since 1964, the Guidance Section's first year of operation, altogether 5 456 projects have been aided, the total amount granted being 1 476.3 million u.a. The sector receiving the most aid from the Fund was that relating to land and water improvement works with 35.5%, followed by the milk, wine and meat sectors with 14.2, 12.3 and 9.6% respectively. The breakdown by investment category shows that since 1974 there has been a slight decline in the share (51.1%) of aid allocated to the improvement of production structures; this is due to the implementation of the Directives on agricultural reform, which have to some extent limited the field of application of Regulation 17/64/EEC. Projects to improve marketing structures received 42.9%, while the mixed production/marketing structures category received 6.0%.

#### **5. Problems associated with the execution of the budget for 1976**

407. Although progress has been made in the application of the common measures, especially the Directives on agricultural reform, applications for reimbursement by Member States under this heading and for special measures still involve amounts considerably smaller than the related budget appropriations for 1976.

On the other hand, the number of applications under Regulation No 17/64/EEC for aid for individual projects is as great as in previous years. For 1976 1 115 applications have been submitted corresponding to a total amount of 480 million u.a.

The reserves set aside from 1969 to 1975 for common measures at present amount to 529.9 million u.a., which should enable foreseeable expenditure to be met in the coming years in view of the amounts made available annually.

Consequently, the Commission has proposed that a part of the appropriations which cannot be used for financing common and special measures should be allocated to individual projects; this would increase the appropriations under this heading for 1976 from 141.20 to 235.47 million u.a.

## Conclusion: The outlook

### 1. General outlook

408. The world recession in 1974 and 1975 was exceedingly serious. In the Community the recovery which began this year should continue in 1977, although a substantial reduction in unemployment is unlikely. The gross domestic product of the Community as a whole may be expected to grow at an annual average rate of about 4% in real terms. Consumer spending is expected to continue to rise in 1977 since the rise in incomes and the slowdown in the upward movement of prices will strengthen consumer confidence. In most Member States the volume of capital investment will gradually begin to resume its upward trend—though to a varying extent according to country and sector. In most Community countries the greatest stimulus will come from the export sector; exports to non-member countries should increase in volume terms at the same rate as intra-Community trade—i.e., by about 9%.

409. The future inflation rate will depend mainly on the success of economic policy and the attitudes taken by the two sides of industry. In the absence of energetic action by Member States—already being taken in certain cases—it is to be feared that the rise in consumer prices for the Community overall will hardly be less next year than in 1976. It is even possible that the effects of the drought on agriculture, further currency depreciations and import price rises may accentuate the present trend.

410. The general economic environment, together with exchange rate adjustments (green rates) in the agricultural sector and the common agricultural prices fixed for 1977/78, will influence the situation of both consumers and producers in the Community. It is very hard to evaluate the influence of these various factors on the demand for food products in 1977, as also with regard to the supply of agricultural products; however, the information at present available on this subject is given below for each agricultural market.

411. For 1977, the Council has adopted a draft budget of 6 167.4 million u.a. for the EAGGF Guarantee Section and 325 million u.a. for the Guidance Section. Here, it must

be stressed that considerable uncertainty exists, because of the monetary situation, regarding expenditure by the Guarantee Section for monetary compensatory amounts; however, on the basis of the situation as this report takes final shape, expenditure under this heading in 1977 may be estimated at over one milliard u.a. (against appropriations of 582 million in the draft budget).

## 2. The market outlook

412. Cereal harvests in 1976 will not enable the Community to export barley in 1976/77 except in the form of malt. Quantities of common wheat available for export will probably be limited to the requirements of the flour export programme, food aid and supplies to certain long-established buyers of grain. At the same time, there is still a surplus of low-quality durum wheat for which outlets are hard to find. As to feed grains, higher demand and lower production in the Community will lead to greatly increased imports; in particular, maize imports are expected to rise by 3-4 million tonnes as against previous years. On the world market, however, it is likely that wheat production will enable overall stocks to be built up during 1976/77, whilst for feed grains the higher demand means that further stock-piling can hardly be expected despite forecasts for a record harvest. On the basis of performance in previous years Community production should continue to rise until 1980 given normal weather conditions, reaching 110 million tonnes in 1980 against about 105 million in 1977. However, it should be noted that in recent years production has fluctuated widely in relation to the general trend. Internal consumption, which is less changeable, will probably tend to rise more slowly than production. A slightly higher self-supply rate may therefore be expected in the years to come. On world markets, on the other hand, the reverse tendency is likely; especially for wheat, potential demand is expected to rise more strongly than production.

413. In the short- and medium-term, Community rice production should maintain its present level. Rice consumption will probably rise in 1976/77 as a result of the shortage of potatoes; this may stimulate sales of Community-produced rice. The current exceptionally low prices on world markets appear to be holding steady. The volume of Community surplus production available for export will probably show only minor changes arising from production and harvesting conditions.

414. The world sugar harvest is expected to amount to 86.5-88 million tonnes in 1976/77, corresponding to an increase of between 4 and 6% on the previous year. The small harvests expected in most of Europe following the drought will therefore be broadly compensated by abundant production in other parts of the world. World sugar consumption stagnated in 1974/75 and 1975/76 as a result of high world prices in earlier



years. It will probably recover in the coming years, especially if world prices hold steady at about their present levels.

However, no recovery can yet be seen in the industrialized regions. In this respect a significant factor is the availability for the first time in appreciable quantities of a valid substitute for liquid sugar, namely glucose with a high fructose content. In the coming years it may be expected that world production will amply cover world needs and that world prices will therefore continue to be lower than Community prices. In view of the imports of preferential sugar, the Community supply situation will probably be such as to leave a substantial margin for export.

415. Given the upward trend of olive oil prices—even if some slowdown occurs—and the downward trend in seed-oil prices, no appreciable recovery in olive oil consumption may be expected in the immediate future; however, in view of the sharply lower forecasts for the 1976/77 harvest, it is unlikely that large quantities will be submitted for intervention. Furthermore, in view of the substantial stocks overhanging the world market, exceeding current demand and adding to supply, it may be assumed that the situation on the world olive oil market will not improve in the medium term and that the exporting countries will still be holding large stocks at the end of 1977.

416. In 1976/77 it may be expected that the downward trend in vegetable oil prices, together with an improvement in the economic situation, will have a favourable influence on consumption. At the same time, in view of current availabilities, a reversal of the present surplus situation accompanied by an appreciable rise in prices does not seem likely.

417. The outlook for world protein supplies in 1976/77 suggests that the market may become firmer. On the supply side, the substantial decline in the volume of the 1976 soya harvest in the United States will be no more than partially counterbalanced by the expected increase in production in Brazil in the spring of 1977, the increase in cottonseed cake supplies and the possible expansion of fishmeal production in Peru. In the Community the improving economic situation in several Member States may bring about a recovery in demand in 1976/77. In view of the size of existing stocks and the level of world availabilities, no supply difficulties are to be expected in the near future; however, it is possible that some drawing on stocks may occur later on.

418. The structural imbalance in the Community milk sector will worsen rapidly during the coming four or five years if the Council does not take measures to halt the present trends. Although the drought had only a very limited effect on the size of dairy herds, its influence on stockbreeders' incomes and on fodder supplies will continue to affect production in the winter of 1976/77. On the other hand, an appreciable rise in both

yields and production is probable in the second half of 1977 as compared with the same period in 1976. In addition, dairy herds will tend to expand during the coming three years; the average annual rise in milk production during this period may be estimated at about 2%, the rise in deliveries to dairies being still more marked. In the United Kingdom butter consumption will decline steadily as a result of the price rise during the remainder of the transition period; in addition, consumption will be further reduced if the price subsidies are abolished or reduced. Total consumption of liquid milk and fresh products was stimulated by the high temperatures in 1975 and 1976; a return to normal weather conditions and a slowdown in population growth would probably stabilize or reduce this consumption. The increase in cheese consumption, which depends mainly on general economic trends, will be more marked than in 1975 and 1976—although it would not be realistic to expect the same growth rate as in the early seventies. The use of skimmed milk for animal feed, whether in powder or liquid form, will tend to decline unless special measures are taken to replace the special arrangements in force in 1976.

419. As a result of the high rate of slaughterings in June, July and August 1976 it may be expected that the decline in cattle numbers recorded in December 1976 will exceed that normally resulting from cyclical trends in capital consumption. It is estimated that net beef and veal production in 1976 will be about 2-3% lower than the high 1975 level. In the second half of 1976 the slaughter rate is expected to remain relatively high; however, owing to the shortage of fodder, average weight at slaughter will be lower. In 1977 the decline in beef and veal production will be sharper—probably about 6%. On the basis of present estimates production should be slightly higher in 1978 than in 1977, whilst in 1979 it should amount to about 6.4 million tonnes, i.e., about the same level as in 1976. A strong recovery is expected for 1980 (6.9 million tonnes). It should be noted that according to current forecasts beef and veal production will be higher in 1977 and 1978 (6.2 and 6.3 million tonnes respectively) and lower in 1979 and 1980 (6.2 and 6.5 million tonnes) if the proposed measures to restore the balance of the milk market are adopted. In 1976, 1977 and 1978 beef and veal consumption is expected to stagnate, firstly because of economic difficulties in the Community—especially in Italy and the UK, both large importers and consumers—and secondly because of the probable increase in pigmeat supplies in the months to come. It is therefore likely that the self-supply rate, around 100 in 1974 and 1975, will be 93, 94, 96 and 100% respectively in the years 1977-1980; if the special measures in the milk sector are adopted, the figures would be 95, 96, 95 and 95%.

420. Following the appreciable rise in beef and veal supplies in the principal non-member producer and consumer countries in 1974 and 1975, it appears that the run-down of cattle herds resulting from the sustained high level of slaughterings will gradually bring about a decline in beef and veal supplies on world markets in the coming years. Import requirements are therefore likely to be higher in 1977 to 1979, especially

in the United States; beef and veal prices on world markets may consequently be expected to recover from the current relatively low levels, notwithstanding the improvement to be seen from the middle of 1975 onwards and despite the appreciable rise in the production of grain-fed meats (pigmeat and poultrymeat).

421. The thrice-yearly surveys on pig herds have shown that breeding stocks are expanding throughout the Community; this development is likely to result in increased supplies of pigs for slaughter from the first half of 1977 (plus 2 to 3% in relation to the first half of 1976). This increase will be still more substantial in the second half of 1977 and will probably result in a cyclical decline in pig carcass prices, which will be accentuated from the end of spring 1977. In 1978 no real recovery in pig carcass prices is likely before the second half of the year. The overall outlook for pigmeat will be affected by the probable situation on the beef and veal market which, in the event of shortages, may prevent the cyclical downswing in pig carcass prices from gathering strength. A production increase is also expected on the world market; however, in eastern Europe, at least in 1977, this situation may be partly offset by higher demand from the USSR.

422. Community requirements in eggs and poultrymeat are amply covered by production. Consequently, quantities must be exported to restore market equilibrium when internal demand is inadequate to absorb excess supplies. It is forecast that egg and poultrymeat production will rise towards the middle of 1977, affecting prices, especially of poultrymeat. After 1977 the trend is difficult to forecast. Egg consumption is fairly stable and consequently the market situation depends on the production level and the export trade. For poultry, forecasts are still more difficult to make; consumption is still rising, but fluctuations occur due to the influence of various factors such as the prices of other kinds of meat. Poultrymeat production responds rapidly to changes in the level of demand, but the volume of exports is nevertheless an important element in market equilibrium. The potential for export sales cannot at present be determined with any accuracy, since some established importing countries are at present developing their domestic poultry production, with the result that exports to these countries may decline in future. In the absence of other outlets, Community production will exceed the needs of the internal market.

423. In the short-to-medium term no significant change is forecast in the production and consumption of fruits and vegetables, although some decline may be expected in the production of 'Golden delicious' apples and 'Passe Crassane' pears following grubbing measures taken by the Community. As regards cultivation under glass, there is reason to think that current trends are moving either towards a decline in areas, or towards the replacement of certain traditional crops by other—in some cases non-leguminous—crops to improve the profitability of installations and reduce production costs.

424. The 1975 price trends for some of the principal processed fruit and vegetable products were reversed in 1976 as a result of weather conditions. Higher prices and reduced availabilities suggest that next year production will recover in areas at present experiencing supply problems.

425. In the live plants sector a period of technical restructuring and adjustments to product ranges may be expected in the immediate future in view of the sharp rise in production costs in recent years.

426. In the wine sector the slight increase in areas occurring during the years preceding the ban on further plantings, which will come into effect on 1 December 1976, together with probable further increases in yields in the Community, suggests that production will tend to rise, whereas it is unlikely that consumption will follow suit. Furthermore, the expected increase in world production will create a situation unfavourable to any increase in exports of table wines. This being so, the regulatory measures in the wine sector adopted by the Council, which will need to be supplemented in 1978 for the longer term, take on paramount importance. Measures along the same lines have been taken by other producer countries—Spain, for example—suggesting that in the future a better market equilibrium in this sector may be achieved. In the nearer term, forecasts for the 1976/77 harvest and the Community's option to bring the new intervention instruments adopted by the Council in 1976 into play suggest that the market will be fairly stable and that intervention measures will be on a limited scale and less costly than hitherto.

427. As a result of the sharp reduction in supply due to the drought, the 1976/77 potato marketing year has opened with appreciably higher prices than in 1975. However, available supplies, both from Community production and world markets, should be adequate at present to meet consumer demand and exercise some stabilizing effect on prices. Difficult conditions, on the other hand, may prevail during 1977, in particular because of storage problems in connection with the 1976 harvest (poor quality) and prices are liable to rise once more. Sowings should increase only slightly in view of high investment costs and the uncertainty of the potato market. Consequently, weather conditions will once more be the determining factor in market trends and price levels in the 1977/78 marketing year. Consumption trends are difficult to estimate since during the two years of shortages, consumers have been turning to substitute products.

428. The decline (about 2% on the previous year's level) in world tobacco production in 1976 should be interpreted as the result of two factors: lower prices owing to surplus production in 1975, and unfavourable weather conditions. In view of the expected 2-2.5% increase in annual consumption, stocks will be drawn on and world market prices may be expected to recover. It should, however, be stressed that, in the longer

term, demand—especially in the industrialized western countries which are major consumers—will be influenced by tobacco utilization technology, anti-tobacco campaigns and higher taxes. As a result, it appears unlikely that the rate of consumption referred to can be maintained. Therefore, the years 1976 to 1980 may see a rough balance between supply and demand following the surpluses of 1965-1969 and the shortages of 1970-1974.

429. In the hops sector, in view of the reductions in stocks resulting from the poor 1976 harvest and the slight increase in demand (due to a rise in beer consumption and a decline in the quantity of hops used per unit of beer produced, together with the stagnation—or slight decline—in world and Community areas under hops, the imbalance between supply and demand may be alleviated to some extent in 1977. In 1978 it may be expected that stocks, whilst lower than in 1976 and 1977, will nevertheless once more exceed normal levels, resulting in continued pressure on prices. A slight reduction in world areas under hops is therefor essential if the market is to be stabilized for the 1979 harvest.

430. Following the reduction in areas under seeds and the sharply lower yields caused by the drought, prices at the opening of the 1976/77 marketing year were in general very high in relation to the previous year's levels. This tension of prices is also partly due to appreciably higher demand resulting from the need to re-sow pastures damaged by the drought. Nevertheless, availabilities for 1977 (110 000 tonnes from the 1976 harvest and 90 000 tonnes in stock) should be sufficient to meet a demand which is up by about 20% (estimated consumption: 180 000 tonnes). For certain species, however (*Trifolium pratense* and *Multiflorum medicago sativa*), consumption requirements may have to be met by larger imports from world markets; but areas under this crop are expected to rise in 1977 and it should be possible to rebuild stocks.

431. Although world demand for fishery products is rising, it is almost certain that buyers will not pay prices high enough to cover the operating costs of fishing fleets. As with the fishing industry throughout the world, Community fleets are in a serious situation. With a programme of conservation measures stringent enough to prevent exhaustion of stocks, the Community catch will inevitably be reduced.

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