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THE SITUATION OF THE AGRICULTURAL MARKETS

1977 REPORT

PART I

(submitted to the Council by the Commission)

COM(77) 490 final - Part I

Prefatory Note

The present document sets out in detail the situation on the different agricultural markets in 1977 and their outlook for 1978 and 1979.

The 1977 report on the Agricultural Situation, which is published by the Publications Office of the European Communities in relation to the "Eleventh General Report on the Activities of the European Communities" contains, besides other data, a shortened version of the present document.

I. SITUATION ON THE PRINCIPAL AGRICULTURAL MARKETS OF THE COMMUNITY

PIGMEAT: Production increased considerably (5.8%) during the first half of 1977 and consequently producer prices were low; this coincided with high prices for animal feedingstuffs, which made for a low level of profitability in this sector. Support measures (private storage aid) were applied from April to September. During the second half of 1977, production was roughly the same as during the corresponding period of 1976; pig prices were higher and feedingstuffs prices were lower, so that profitability improved greatly.

BEEF AND VEAL: In 1977 production fell by about 3.5% (as a result of the cut-back in cattle headage); consumption remained stable or increased very slightly (because of the economic situation). Intervention stocks increased in 1977 from 350 000 to 400 000 tonnes. Given the situation described above, market prices for all categories of adult bovine animals will be only 5 to 6% higher this year than in 1976.

SHEEPMEAT: During the first half of 1977, production fell by 1.6% compared with the previous year. Consumption continued to fall in the United Kingdom. Market prices rose in Ireland; they were stable in the United Kingdom, Germany and Belgium but fell in France, the Netherlands and Italy.

EGGS: The 1976 pattern of egg production was reversed in 1977. Fewer eggs were produced during the first half of the year and more during the second half. The final result was 1 to 1.5% higher in 1977. The upward trend is continuing. Producer prices were reasonable but have been falling gradually. This trend is countered to some extent by the lower prices for compound feedingstuffs.

POULTRYMEAT: In 1977 production of chickens was 3 to 3.25% down on 1976. The reduction came mainly in the second half of the year. Production of turkey meat increased considerably, while production of ducks rose slightly. Chicken prices remained at a profitable level, partly thanks to exports. Turkey and duck prices showed a downward trend. Prices of compound feedingstuffs had the same effect as in the eggs sector.

MILK: The dairy herd probably remained unchanged in 1977; substantially higher yields caused production and deliveries to increase by at least 3%. Production of cheese, whole milk powder and caseins increased appreciably and consequently production of butter and skimmed milk powder was slightly lower. Consumption of butter, liquid milk and fresh milk products remained stable or decreased. There were intervention stocks of butter.

CEREALS: The 1976/77 harvest was low in terms of quantity, but the quality was excellent and Community prices were high at the beginning of

1977; the 1977 harvest of feed grain was much more abundant than the 1976 harvest but in the case of wheat the quality was inferior, with the result that there has been strong pressure on prices since August 1977 in most regions of the Community.

SUGAR: Production totalled 10 million t in 1976/77 and 11 million t in 1977/78; consumption amounted to only about 9 million t which meant that the surplus for export, including imports from the ACP countries, stood at about 2 to 3 million t for 1977. World overproduction brought down world prices considerably during 1977; Community export refunds on sugar reached about 70% of the Community price.

OILSEEDS: Demand for vegetable oils was strong during the first nine months of 1977, particularly on the world market. Consumption of colza increased in the Community and in non-member countries. The 1976 colza harvest was thus sold without major difficulties. The sunflower harvest presented no problems. The 1977 colza harvest was smaller, mainly as a result of adverse weather in France, the major producer country. Forecasts point to a world abundance of both vegetable oils and proteins. Oilseed prices are therefore likely to be lower than for the 1976/77 marketing year.

DEHYDRATED FODDER: In 1977 production was back to normal after the marked decrease in 1976 caused by the drought. Prices were relatively high at the beginning of 1977, mainly on account of the world protein situation. Prices began to fall in June 1977 mainly as a result of increased imports; this caused marketing difficulties for the dehydration plants in the Member States concerned.

OLIVE OIL: Production fell considerably (250 000 to 350 000 t); production was at its lowest level since 1966; most market prices were at the level of the intervention prices during 1977 and certain quantities were presented for intervention; imports were relatively low, in view of the production level; consumption was very low and at present shows no signs of picking up.

FRUIT AND VEGETABLES: During the first part of 1977, fruit grown in 1976/77 was marketed, prices generally being high in the case of apples and lemons and low in the case of oranges and mandarins, with large quantities being withdrawn. The 1977 peach harvest was average and prices are relatively good (limited withdrawals); production of apples and pears was far below normal, with high prices for this marketing period.

As regards vegetables, the 1977 harvest should prove above average; a particularly abundant onion harvest has made prices abnormally low.

WINE: Prices were satisfactory during the 1976/77 marketing year except in the case of the most common white wine and, in Italy, the most common red wine; prices of the latter remained below the activating price and intervention measures were consequently applied (aid for private storage and distillation). The 1977 harvest, running at about 129 million hl (12% down on the previous year), suggests that, even with above-average stocks, prices will increase appreciably.

ALCOHOL: Although production has remained stable, the existence of large stocks and the absence of a common organization of the market mean that the Community market is increasingly disrupted.

TOBACCO: Both the area under tobacco and the 1977 harvest were slightly less - between 3 and 5% - than in 1976 mainly because of the reduction in oriental tobaccos. Consumption remained stable on the whole, although it fell slightly in some Member States. As on the world market, prices of oriental tobacco are tending to fall while those of the American Virginia and Kentucky varieties remain stable.

HOPS: In 1977 production increased considerably - by 15% - compared with 1976. Prices fell to a very low level because of the large world and Community stocks and the largest quantity of hops put on the open market since 1973. Although they improved at the end of October 1977, prices have not returned to a satisfactory level and producers' incomes in 1977 can be expected to be lower than in 1976.

POTATOES: Following the drought in 1976, stocks of potatoes were limited at the beginning of 1977 (about 29 million t, as compared with 33 million t in 1976). Market prices were high. Considerably decreased animal consumption and the quantities of potatoes imported caused producer and market prices to fall towards the end of the year (from 19.07 u.a./100 kg to 9.23 u.a./100 kg - wholesale prices, Rotterdam market). In the second half of the year, as a result of high production in 1977, market and producer prices were very low (in France and the Netherlands about 4 u.a./100 kg - wholesale prices). Potato growers suffered financial losses.

SEEDS: Production increased considerably (19%) by reason of the larger areas sown and an increase in yields compared with 1976. This increase, combined with the stocks carried over from the previous year, means that the Community can meet its own requirements in 1977. During the first half of 1977, producer prices were reasonable and they are expected to remain the same for the second half of the year.

II. THE MARKET OUTLOOK

At the end of July 1977 the Commission presented to the Council a document on the updating of the agricultural market forecasts (Document COM(77)380 final). Since then a new factor has changed the outlook for a number of agricultural sectors: an unexpectedly large soya harvest in the United States has caused prices to fall much more sharply than could have been forecast. The Community cereals harvest was much larger (by 13 to 14 million tonnes) than last year - which has put pressure on Community cereals prices, irrespective of certain speculative operations of a temporary nature - and, as foreseen, prices of animal feedingstuffs in the Community have therefore been lower since July-August 1977. Feedingstuffs prices will presumably remain low in 1978 and perhaps fall even further. World stocks of cereals are so great that even exceptional circumstances could not bring about a sudden reversal in that sector. The measures adopted in the United States, particularly as regards the quantities to be set aside as reserve stocks, could well make world prices rise without affecting price levels in the Community. In the EEC the abundance of the feed grain harvest and the relatively large quantities of manioc still available, not counting several million tonnes of surplus potatoes which again this year will be fed to livestock, will tend to keep cereal prices relatively low. As regards protein in animal feedingstuffs, price increases cannot yet be expected for 1978 or the beginning of 1979. The situation is less clear in this sector, however. Although stocks are greater than last year, they are far from a level which would exclude any disruption of the supply situation under certain circumstances. These might take the form of unexpectedly low soya production in Brazil and Argentina as the beginning of the next year (estimated increase: at least 1.5 million tonnes), a considerable drop in groundnut production in Africa (drought), a smaller sunflower seed harvest in the USSR or increased imports of vegetable proteins from Eastern Europe, the USSR and developing countries. Certain combinations of the abovementioned factors might well lead to higher soya prices from spring 1978 onwards; but, as stated above, there is still no reason to think that will be the case and prices of animal feedingstuffs may justifiably be expected to remain relatively low in 1978. The effects of low feedingstuff prices will be felt in the meat sector, especially pigmeat and poultrymeat, and consequently beef and veal, and also in the milk products sector.

The pigmeat sector was still in great difficulty in the spring of 1977 because of low pig prices and the high cost of feedingstuffs, but since July-August pig prices have increased and feedingstuff prices have fallen. The resulting swift improvement in profit margins led to a less rapid decrease than forecast in the sow headage and even, in some regions, to an increase. Pigmeat production during the last quarter of the year is expected to be the same as in the corresponding period of

1976 and until about June 1978 production is only expected to be about 1% down on this year. This slight decrease, added to a marked drop in the cost of feedingstuffs, could mean a substantial increase in the sow headage and, in turn, greater pigmeat production from the autumn of 1978 onwards. This would put pressure on prices towards the end of the second half of 1978, which, given the cost of feedingstuffs, would not necessarily cause a crisis in this sector. This pressure on pigmeat prices in 1978 and perhaps beyond may be further accentuated by increased supply of pigmeat from non-member countries, particularly East European countries. In short, fairly satisfactory pigmeat prices and good profit margins are expected until the spring of 1978, after which, and especially from the autumn onwards, prices will be under strong pressure. This means that the pig cycle, which has been very regular in recent years, would be disrupted for the first time.

As regards poultry, the effects of feedingstuffs costs are roughly the same as those described above in the context of pig-farming. Here again, the economic situation of the producer is expected to improve, which might lead to an increase in production. This reaction may be expected from April-May 1978 onwards if the situation on which these forecasts are based remains unchanged. If pigmeat production in 1978 is 2 to 3% higher than in 1977, the increase in the poultry sector will be even greater, as the former will act as a stimulus for the latter and an increase in poultrymeat production is expected in 1978 in any case. Total poultry production could therefore be at least 5% higher than in 1977, which would tend to depress prices; the level of prices will, in the final analysis, depend on outlets in non-member countries. Pressure must be expected on poultrymeat prices a little earlier than on pigmeat prices.

In the beef and veal sector, the cattle census of December 1976 indicates that the headage, particularly of beef cows, will decrease, thereby reducing meat production. The decrease is put at about 4% for 1977 and a further 1% in 1978 and is expected to be followed in 1979 by a sharp new increase in production, reaching a record level at the end of the decade. Substantially different forecasts are not yet justified by the price rises recorded in this sector. The change in the situation as regards pigs and poultry is, however, bound to affect the economic situation of beef producers; it should also be borne in mind that the general economic situation in the Community (economic growth and unemployment) indicates that consumption of beef and veal will not increase substantially. In the light of these factors, it may therefore be assumed that beef and veal prices will remain more or less stable during the last quarter of 1977 and probably into the first half of 1978, after which pressure will be exerted on beef and veal prices, stopping any increase in the size of herds and thereby reducing production, or even reversing this trend. Pressure on beef and veal prices is also exerted by the high level of intervention stocks and net imports which will probably be higher in 1978 than in 1977. Lastly, the situation in the milk and milk products sector should be considered, particularly the way in which the market in beef and veal will be affected by the measures adopted to restore equilibrium in that sector. So far the Commission has assumed that the regulations on the conversion of dairy herds and the

non-marketing of milk would increase beef and veal production by about 80 000 tonnes, half of which would be marketed in 1977 and the other half in 1978. Although the total quantity may well be slightly lower, the distribution by year will undoubtedly be different from that forecast: it is now thought that about one third of this quantity will be marketed this year and the rest in 1978. Given the production outlook, the present level of intervention stocks and slightly increased consumption in 1978 (+1%) and in 1979 (+2.5%), the annual deficit for 1977 to 1979 may be put at about 200 000 tonnes.

The measures adopted this year to restore balance to the market in milk and milk products are expected to yield positive results. Although the consequences of these measures cannot yet be assessed, they are not expected to lead to any increase in the dairy herd, or, even if they do, the increase will be slower than usual. At the end of 1976, when the dairy cattle headage was 0.8% higher than in the previous year, a further 1% increase was expected by the end of 1977 and an additional 2% the following year. It is now estimated, however, that at the end of 1977 the dairy headage will be roughly the same as in 1976 and that the increase will be no more than 1% in 1978. Even so, production will again increase over these two years, because of a relatively large increase in yields. Towards the end of 1977, the weather and stockfeeding conditions were excellent, so that deliveries of milk will be about 3% up on 1976, the estimate for 1978 being close to or even higher than that percentage. The favourable conditions at the end of 1977 and the level of feed concentrate prices during the 1977/78 winter will largely offset the effect of the co-responsibility levy on production. In 1977, increased production of whole milk powder, cheese and casein led to a slight fall in butter and skimmed milk powder production. For 1978, however, no great increase is expected, particularly in respect of casein and, as consumption of milk, fresh dairy products and butter is tending to remain stable or even fall, butter and skimmed milk powder surpluses may be expected to increase. Intervention stocks of butter will undoubtedly increase and stocks of skimmed milk powder cannot be kept down to their present level unless the new marketing measures in the livestock sector yield the results hoped for. Given world-wide overproduction and low prices, it will not be easy to dispose of the Community surpluses on the world market.

The trend in the eggs sector is as forecast, although the increase in production at the end of 1977 and in 1978 may be greater than expected. In this sector, too, the price of feedingstuffs will cause production to rise considerably; the trough in the prices cycle will therefore probably last longer than usual and the minimum level predicted for the middle of the year will probably come again during the fourth quarter. The current sluggishness in egg consumption will accentuate this trend unless new sales outlets are found.

Thus, the improved profitability of livestock production (except eggs) will not be exactly as predicted by the Commission report of July 1977 which updated the forecasts for the second half of 1977 and 1978. According to

the information available, the profitability of livestock production, again except for eggs, could improve more than expected, but might not last as long as expected, since prices are likely to fall during the second half of 1978.

As regards crop production, there is no reason at present to revise the forecasts made in July. The total area sown with potatoes in 1977 did not decrease as usual but is comparable with that of 1976, which is hardly surprising, considering how high potato prices have been over the last two marketing years. This year's normal production was 9 million tonnes higher (+30%) than in 1976, which caused prices to drop sharply. Community potato consumption having decreased appreciably in recent years, much of this year's crop will be fed to livestock, since export opportunities are very limited. There is a possibility that consumption will increase slightly in the spring of 1978, given the good quality of the products, but in any case it will not be sufficient to alter the situation significantly. The experience of the 1975 and 1976 marketing years would suggest that, given normal weather conditions, the area under potatoes in the next marketing year may still be too great to achieve an approximate balance between the harvest and demand. Pressure on prices is thus expected and quite large quantities will have to be used in animal feed. This means that potatoes, manioc, sugarbeet and citrus pulps are, like all sorts of byproducts of the food industry, being used (along with soya meal) as direct substitutes for cereals in livestock feeding.

Moreover, if climatic conditions are normal, stock farmers will use more silage and grass and the demand for cereals for use in animal feedingstuffs will decline in relative terms this year and probably over subsequent years. This decrease in sales of cereals for use in animal feedingstuffs coincided in 1977 with a fairly abundant harvest, exceeding that of the previous year by over 13 million tonnes. As the quality of wheat is relatively poor in some countries this year, all kinds of factors have exerted pressure on the prices of cereals for use in animal feedingstuffs: overproduction of barley, forecasts of maize production and imports, poor quality wheat and the whole range of substitutes produced in the Community or imported from non-member countries.

Apart from the long-established trend away from oats and rye towards barley and maize, there is a slight shift towards fodder wheat. There is at this stage no reason to suppose that consumption of cereal substitutes will decrease, and in any case, it will certainly not do so if the world soya market continues to follow the trend described earlier.

In the Community, soya production is unlikely to expand, or will do so only with difficulty, unless the weather improves on recent years.

or a variety entirely adapted to European conditions becomes available. On the other hand, the drop in colza and rape seed production in 1977 may be attributed mainly to the adverse weather conditions in France when the crops were flowering. For future years, therefore, normal production of about one million tonnes may be expected. Future Community production of artificially dehydrated fodder depends entirely on whether the Council decides to maintain aid for this sector. Given the stiff competition from imported products this year, it is unlikely that production will expand appreciably. To sum up, it may be concluded that over the next few years the Community will remain almost as dependent as ever on non-member countries for covering its vegetable protein requirements.

Under the present sugar policy, it is unlikely that the area under sugarbeet will decrease much. It is therefore possible that, if weather conditions are normal in the next few years, the Community will have large surpluses of sugar - 2.5 million tonnes - because of fairly low consumption of sugar and the sugar import contracts awarded to the ACP countries. When the International Sugar Agreement enters into force on 1 January 1978, it will be more difficult to sell sugar on the world market, so that it **will** be necessary to adopt measures which will, in all probability, alter the basic datum mentioned above, i.e. the maintenance of the present policy; for this reason it is difficult to make any forecasts. Production and consumption of isoglucose in the EEC does not seem likely, under the present circumstances, to have a very great effect on sugar consumption in the Community.

As usual, few changes are expected in the vegetable sector in the coming years and only a few slight changes in the fruit sector. Production of apples and pears is expected to increase slightly, but this trend could end more quickly than forecast because of the grubbing premium introduced in the Community. Production of peaches is expected to stabilize in the coming years and the planting of citrus fruit should slow down, thereby restraining the increase in production. Production of wine in 1977/78 is expected to be much lower than in previous years and, despite the present volume of stocks, prices may rise somewhat. Quite apart from the situation over the last two years, the Community's production potential still far exceeds its requirements, which means that new measures will have to be adopted to restore balance in this sector.

As regards certain other agricultural products produced mainly or exclusively in the south of the Community, the outlook has not changed in the past few months. Olive oil production is expected to be good, but, given the existing stocks and the foreseeable prices for seed oils, sales will not pick up appreciably in the next few months and more olive oil will be offered for intervention. If Community production of rice remains fairly stable, sales on the internal market could improve, which would reduce exports to non-member countries.

B. ANALYSIS BY SECTOR

I. PRODUCTS SUBJECT TO COMMON MARKET ORGANIZATION

1. CEREALS (1)

1. Introduction

(a) The economic situation :

The cereals market situation within the Community during the past year has depended principally on the weather. The drought in the summer of 1976 led to very poor barley and maize crops and therefore high prices and high imports for these two cereals. The wheat crop, in contrast was sufficient in quantity and of exceptionally high quality, with the result that, although prices were high, imports and exports were very low. In 1977 the weather has tended to be cool and wet, leading to very high barley production and also to good wheat and maize crops but the wheat being of poor quality. Thus feed grain supplies are abundant but wheat imports are likely to be greater than in 1976/77. On the world market large crops in 1976/77 caused prices to come down to their lowest level for some years and the 1977/78 crop do not seem likely to be significantly smaller.

(b) Cereals in Community agriculture :

The total area of cereals in 1976 was 25.9 million ha. or 27.8 % of the utilized agricultural area (UAA). Their importance in the land-use of individual Member States varies considerably, being least important in Ireland and the Netherlands (7 % and 12 % of UAA respectively) where fodder crops and permanent grassland are more important. They are of greatest significance in Germany and Denmark (40 % and 62 % of UAA respectively) where cereals account for 65 to 75 % of the arable land; they also account for a high proportion of the arable land in Luxembourg (68 %). In the remaining Member States cereals occupy 50 to 55 % of the arable land and 20 to 30 % of the UAA.

The cereals share in the final production of agriculture is a less useful measure of their economic importance since in many cases a large proportion of the production is used for livestock feeding on the farm where it is produced. This means that the final production of such cereals is in the form of livestock products. Thus in Germany, where cereals account for 40 % of the UAA, they only represented 7.8 % of the value of final production in 1975 because over 50 % of the total quantity produced is used for animal feeding on the farm where it is grown. In France, by way of contrast, cereals account for 29 % of the UAA and 15.1 % of the value of final agricultural production because only about 25 % of the crop is fed to livestock on the farm where it is grown. In the Community as a whole, where about one third of the crop is fed to livestock on the farm where grown, the direct contribution of cereals to the final production of agriculture was 10.5 % in 1975.

(c) The Community in world cereals production :

World production of cereals (excluding rice) in 1976 amounted to 1 131 million tonnes (according to FAO statistics) of which the quantity produced in the Community was 8 % (9.6 % in 1975). The proportions produced by the other major exporters of cereals were : United States 22 %; Canada 4 %; Australia 2 %; Argentina 2 %.

(1) See tables II B/1.1 to II B/1.19 in Part II. .

2. Production

The overall production of cereals in the Community in 1975 and 1976 was affected by exceptionally unfavourable weather, leading to successive declines of 10.2 % and 6.9 % or a production of 90.5 million tonnes in 1976. In 1977 the preliminary estimates show an increase of 13.6 % to 102.7 million tonnes. This results from a decrease of 1.1 % in the area, principally due to poor sowing conditions in Italy and an increase of 14.7 % in average yields. During the period from "1968" to "1975", production has increased by an average of 0.7 % per year though this figure almost certainly understates the real trend because the average "1975" includes two exceptionally poor years.

(a) Common wheat :

The area sown to common wheat for the 1977 crop was down by around 10 % in Belgium, Luxembourg and the United Kingdom but changed little in the other Member States except for Italy where the very wet weather in the autumn of 1976 reduced sowings by 18.5 %. Yields were good, except in Italy, though the cool wet weather before and during the harvest has resulted in very poor milling quality, particularly when compared with the exceptionally high quality of the 1976 crop. The total production is expected to be almost 37 million tonnes (+ 3.5 %) of which 17.9 million tonnes in France (+ 14.7 % as compared with 1976).

(b) Durum wheat :

The Italian durum wheat crop in 1977 was affected by the same weather conditions as the common wheat crop in that country : the area was down 22 % and the production was down 30 %. In France the area was down by almost half, mainly as a result of the discouragement given to the previously popular high yielding but poor quality variety Durtal. Total Community production is forecast at 2.4 million tonnes (- 31.9 %).

(c) Rye :

The area of rye increased for the second year in succession (about + 6 % in 1977 and + 8.4 % in 1976). In addition, yields recovered from the poor level of 1976; as a result production has increased by over 20 % to about 3.5 million tonnes, the highest figure since 1972.

(d) Barley :

The area sown to barley for the 1977 crop increased by 4.7 % and within this overall change there was a marked switch to winter barley; in France, Germany and Belgium the area of spring barley actually declined. Yields are expected to be up by about 18 % at 39 - 40 quintals/ha; this is partly the result of favourable weather and partly the result of the switch to higher yielding winter varieties. Total production is forecast at almost 38 million tonnes, about 8 million tonnes more than in 1976. In general the malting quality of the 1977 crop is satisfactory and in the northernmost areas of the Community it seems to be very good. This contrasts with the situation in 1976 when there was so little barley of satisfactory malting quality that large imports were necessary.

(e) Oats :

The decline in the area of oats has accelerated in the last two years (- 7.1 % in 1976 and - 7.3 % in 1977, compared with - 3.9 % per year on average since 1968). The yield in 1977 has returned to a normal level at about 32.5 quintals/ha, after the disastrous crop in 1976 (26.3 quintals/ha). The resulting production estimate is up 1 million tonnes at more than 8 million tonnes.

(f) Maize :

The area of maize harvested as grain in 1976 was severely reduced (- 21.3 %) because the fodder shortage led to many crops being cut green for silage. This situation has not recurred in 1977 though the area of maize for grain in France remains significantly below its pre 1976 levels. In Italy the area of maize has increased by 10 % in 1977, mainly because of the difficulties with sowing the winter wheat crop. The overall increase of 20 % in the area, combined with a good yield (forecast for 1977 of 52.5 quintals/ha) should lead to a production increase of over 30 % or 3.5 million tonnes more than in 1976.

3. Consumption

In 1975/76 the total volume of cereals used in the Community amounted to 110.2 million tonnes, i.e., 2.6 % less than in 1974/75. About 34 % consisted of wheat and 66 % of coarse grains, of which 28 % was accounted for by barley and 24 % by maize. The utilization of all cereals was made up as follows in 1975/76 :

Human consumption and industrial use, 34.1 % (33.7 % in 1974/75); animal feed, 61.4 % (61.9 % in 1974/75); seed and losses, 4.5 % (4.3 % in 1974/75). The proportions vary substantially from cereal to cereal, from one Member State to another and from year to year; the following table gives the breakdown by cereal for 1975/76 :

Cereal consumption in 1975/76 - breakdown by cereal

	Human consumption	Animal consumption	Industrial use	Seed and lossers	Total
	%	%	%	%	%
Wheat (Durum and common)	68.2	25.3	0.5	6.0	100.0
Rye and meslin	40.4	52.6	1.5	5.5	100.0
Barley	0.4	77.2	16.7	5.7	100.0
Oats and summer mixed corn	3.1	92.6	0.0	4.3	100.0
Maize	4.8	80.5	13.5	1.2	100.0

(a) Human consumption :

Net human consumption of cereals was unchanged in 1975/76 at 21.2 million tonnes. Per capita consumption therefore decreased slightly (- 0.1 %) to 82 kg per head. It is perhaps surprising that the poor 1975 potato crop and consequent high price of potatoes did not have a more positive effect on the human consumption of cereals.

Net human consumption of cereals in 1975/76 - breakdown by cereal

	Net overall human consumption (thousand tonnes)	Net per capita consumption	
		Kg per capita	% change, 1974/75 to 1975/76
Wheat - common	16 249	62.8	- 0.8
- durum	2 829	10.9	0.2
Rye	1 028	4.0	- 4.1
Barley	71	0.3	4.3
Oats	164	0.6	=
Maize	878	3.4	18.6

Per capita consumption of common wheat and rye continued to decline at the usual rate (around 1 % for wheat and 4 % for rye). Durum wheat statistics confirmed the tendency noted last year for per capita consumption to stabilise and even to increase after the two years of decreased consumption which was brought about by high prices. Human consumption of maize is very erratic and the relatively large increase in 1975/76 cannot be regarded as significant.

(b) Animal consumption :

The feed balance sheets for "1972/73" showed cereals supplying 62 % of the concentrate feed requirements of the Community (expressed in Fodder Units). The total quantity of cereals fed to livestock in "1972/73" was about 70 million tonnes and it had been increasing rapidly until 1973/74 when it reached 72.2 million tonnes. It has since declined to 67.7 million tonnes in 1975/76. This decrease can be only partly explained by decreased feed requirements. To a significant extent it must be explained in terms of the increased imports of various kinds of substitutes. High world prices for feed grains in 1973/74 and early 1974/75 stimulated the development of trade in substitutes such as manioc and citrus pulp pellets. World prices subsequently fell and the Community, with its high cereal prices and virtually no import protection against such products, remained the only profitable outlet. Imports have therefore increased dramatically, eg. for manioc : 1974 - 2.1 million tonnes
1975 - 2.2 million tonnes
1976 - 3.0 million tonnes

It is estimated that imports of the range of substitutes or near-substitutes (including manioc, milling by-products, maize gluten feed, sugar industry by-products and brewing, distilling and fruit waste) were equivalent in feeding value to 4.4 million tonnes of barley in 1974, 5.2 million tonnes in 1975 and 7.1 million tonnes in 1976. Whilst it cannot be assumed that such a rate of expansion will continue indefinitely, it is evident that the quantities already being imported are sufficient to seriously reduce the market for feed grains in the Community. These imports of substitutes compete directly with the feed-grains which are on the market, including imported cereals. Since these amount to only 34 - 35 million tonnes in total, the effects are all the more serious.

The following table compares the consumption of different cereals on the farms where they are grown with the animal feed use of cereals which pass through the market (usually purchased as compound feeding-stuffs).

Animal feed use of cereals in 1975/76, on the farm where grown and through the market - breakdown by cereal

C e r e a l	Used on farms 1 000 t	Marketed 1 000 t	T o t a l	
			1 000 t	%
Wheat	4 710	4 779	9 489	14.0
Rye	1 380	218	1 598	2.4
Barley	14 448	9 700	24 148	35.7
Oats, etc.	7 410	1 680	9 090	13.4
Maize	5 458	15 966	21 424	31.6
Other	23	1 909	1 932	2.9
T o t a l	33 429	34 252	67 681	100.0
	49.4 %	50.6 %	100.0 %	

(c) Industrial use :

The statistics on processing and industrial use of cereals remain incomplete as regards the United Kingdom. It appears however that the quantity of cereals used for these purposes in the Community has decreased by about 8 % in 1975/76 as compared with 1974/75; this is a reversal of the upward trend in such uses which had been observed in the original Community. The decrease affected both maize and barley (which account for 97 - 98 % of processing and industrial use of cereals). The use of barley in brewing, which accounts for 88 % of the industrial use of barley, fell by 7.7 %, this reduction being almost entirely concentrated in France and the United Kingdom. The only other industrial outlet for barley, distilling (mainly in Ireland and the United Kingdom), reduced its offtake by 4.3 %. The processing and industrial use of maize appears to have declined by about 12 %, a large part of this decline being attributable to the United Kingdom where the use of maize in distilling decreased by 21 %; the precise changes in other industrial uses in the United Kingdom are not clear but they are certainly downward. In the other Member States the industrial use of maize (mainly for starch manufacture) decreased by about 8 % and maize processing (for oil and glucose) decreased by about 7 %.

(d) Self-supply :

The overall self-supply in cereals reached a record 95 % with the very large 1974/75 crops. In 1975/76, however, poor crops reduced the figure to 87 % (- 7.7 %) despite a reduction of 2.6 % in total internal use .

Summary of the cereal balance sheet in 1975/76

(million tonnes)

	Wheat (durum and common)	Rye	Barley	Oats, etc.	Maize	Other cere- als	Total
Stock change ⁽¹⁾	+ 2.1	+ 0.1	+ 1.2	+ 0.3	+ 1.1	-	+ 4.8
Net external balance ⁽²⁾	- 2.3	+ 0.1	- 2.1	+ 0.1	+11.5	+ 1.7	+ 9.0
Domestic use, less production	- 0.2	+ 0.2	- 0.9	+ 0.4	+12.6	+ 1.7	+13.8
Self supply %	100.7	91.7	102.8	95.4	52.7	16.9	87.4

(1) + = stock reduction; - = stock increase

(2) + = net imports ; - = net exports

Net imports in 1975/76 were however at a very low level as a result of increased exports of barley and common wheat. This meant that the large stocks built up from the 1974 crops were disposed of in 1975/76 when they were reduced by almost 5 million tonnes.

The cereal crops in 1976 were even poorer than in the previous year. In addition, there was a general shortage of fodder leading to some increase in demand for cereals for animal feeding, though the substantial increase in imports of cereal substitutes and other feed-stuffs limited the effect on cereals consumption. The level of self-supply seems to have fallen to about 80 %, the increased deficit being met by substantially increased net imports (estimated at around 21 million tonnes) since stocks were already at a low level.

(e) Stocks :

The estimation of stocks in the different Member States is undoubtedly of very variable accuracy as between both Member States and stock positions. According to the best available estimates, the total stocks of cereals in the Community at the beginning of the 1976/77 marketing year amounted to 13.6 million tonnes of which 1.1 million tonnes were held on farms. Of the 12.5 million tonnes of stocks in other positions (including intervention stocks and government reserves in some cases), common wheat accounted for 6.3 million tonnes, durum wheat for 1.5 million tonnes, barley for 1.4 million tonnes and maize for 2.4 million tonnes.

By 1 August 1977 the off-farm stocks are expected to have fallen slightly, to about 11 million tonnes, including 6 million tonnes of common wheat (around 15 % of normal production), 1.6 million tonnes of durum wheat (over 40 % of normal production), 1.5 million tonnes of barley (5 % of normal production) and about 2.4 million tonnes of maize (17 % of normal production but under 10 % of consumption).

4. Trade

(a) Between Member States :

Trade between Member States of the Community falls into two distinct categories, trade in cereals of Community origin and trade in or transshipment of cereals of third country origin.

Briefly, it consists of import into one Member State via another Member State, often for sound economic reasons such as vessel size and port charges, but sometimes in order to benefit from anomalies arising from the mechanisms of the common cereals policy. Thus in 1974/75 the intra-trade in maize was exceptionally high as a result of advance fixing the accession compensatory amounts and the import levies at different times. In 1975/76 the suppression of advance fixing of the import levy for maize caused attention to be turned to common wheat, so the quantity leaving the Netherlands for other Member States (mostly the United Kingdom) increased by 88 % whilst the quantity of maize decreased by 17 %. Most of the artificially induced trade has up to now depended on the existence of the accession compensatory amount which will disappear with effect from 1 January 1978. Trade patterns may however continue to be affected by the monetary situation.

There is for example a significant advantage in importing durum wheat into, say, Germany via the United Kingdom because of the absence of monetary compensatory amounts and monetary coefficients; this is confirmed by some 7 000 tonnes of durum wheat which left the United Kingdom for Benelux and Germany in the first half of 1977.

As regards intra-trade in cereals of Community origin, there have also been some monetary problems. In 1973/74 there was a massive increase in French shipments (most of this trade is in grain of French origin) due to the abatement of monetary compensatory amounts. In 1974/75 the situation was reversed because the monetary distortion was corrected and because retention of cereals in France led to higher than normal imports from third countries. In 1975/76 the market was more orderly and shipments of French grain increased to 9.3 million tonnes (+ 2.2 %). Preliminary figures for shipments in 1976/77 indicate a fall in the total by about 1.3 million tonnes. This was due to a reduction of more than 2 million tonnes in the shipments of maize, due to the very small French crop in 1976, partly balanced by increased shipments of barley (+ 0.7 million tonnes) and wheat (+ 0.2 million tonnes). It therefore seems that the normal French shipments of maize to the United Kingdom were replaced by barley. Moreover the high quality of the 1976 wheat crop resulted not in a significant increase in intra-trade but in a much greater use of local wheat in the Member States which normally import from third countries.

(b) With third countries :

Imports of cereals from third countries (reduced by the estimated level of transshipments) amounted to 21.6 million tonnes in 1975/76 (1.7 % more than in 1974/75) of which 12 million tonnes were maize (4.5 % less than in 1974/75). In 1976/77 the preliminary estimates indicate imports of about 27 million tonnes of cereals, including almost 18 million tonnes of maize. In 1975/76 over 80 % of the maize imports came from the United States with the remainder coming mainly

from South Africa and Argentina. Imports of sorghum rose nearly 40 % to 1.7 million tonnes in 1975/76 though they are believed to have fallen back in 1976/77 to around their previous level of 1.2 million tonnes. Heavy imports of barley have been a feature of 1975/76, when they rose from 1.2 to 2.1 million tonnes, and 1976/77 when they rose still further, according to preliminary estimates, to 3.4 million tonnes. In 1975/76 about 50 % of the imports came from Canada and 25 % from Australia.

Imports of common wheat rose slightly between 1974/75 and 1975/76 to 4.4 million tonnes but are expected to have fallen to only 3.2 million tonnes in 1976/77. Of this total it is believed that some 0.4 million tonnes were temporary imports under inward processing arrangements for subsequent re-export in the form of flour. Durum wheat imports have declined steeply from 1.4 million tonnes in 1974/75 to 1.0 million tonnes in 1975/76 and to about 0.5 million tonnes in 1976/77. Almost 95 % of the wheat imports in 1975/76 came from North America.

Total exports of cereals and cereal products in 1975/76 increased by 16.4 % to 12.6 million tonnes. The exports of wheat and wheat flour in 1976/77 are estimated at about 4.6 million tonnes (7.5 million in 1975/76) which were broken down as follows : 3.5 million tonnes of commercial sales, of which 2.8 million tonnes in the form of flour, and 1.1 million tonnes as food aid, of which 0.4 million tonnes in the form of flour. The estimated total 2.8 million tonnes of commercial flour exports includes 0.4 million tonnes exported under inward processing arrangements, a practice of rapidly growing importance among millers who are favourably located (ie. in ports) because of the substantial economies resulting either from the purchase of cheap third country wheat or from the saving of import levy on imported wheat when the operation is done on an equivalence basis (ie. export of flour of Community origin set against import of wheat of third country origin). Commercial exports of wheat in 1976/77 were necessarily small and were therefore limited to the Community's most traditional markets in West Africa. Flour exports continued to go to a wide variety of destinations with Egypt and Sri Lanka among the most important; however, the Egyptian market in particular has been limited by very heavy food aid deliveries from the United States.

Exports of barley and barley products (mainly malt) were particularly heavy in 1975/76, amounting to a total of 4.1 million tonnes of which 1.8 million tonnes in the form of products; exports of malt were 1.3 million tonnes (or 1.7 million tonnes in barley equivalent). The poor Community barley crop in 1976 and the difficult conditions on the malt export market are believed to have reduced the total exports in 1976/77 to about 1.3 million tonnes of which over 1 million tonnes were in the form of products. Exports of malt were probably about 0.8 million tonnes (in product weight) of which some was effected by inward processing.

5. Prices

(a) Common prices :

The price changes made in 1976 for the 1976/77 crop year represented a transitional step towards a new set of price relationships in the cereals sector, with a greater degree of freedom for market mechanisms to operate within the Community. The prices fixed for the 1977/78

crop year virtually completed this transition by aligning the intervention prices for barley and common wheat, leaving only the intervention price for maize at a slightly lower level. A reference price was fixed for wheat of breadmaking quality, along with provision for special intervention measures to be applied at that price; such measures were applied in the same way as normal intervention during the first three months of the marketing year. The reference price for common wheat was 3.5 % above the intervention price for the previous year whilst the intervention price for barley and feed wheat increased by the same proportion. The intervention prices for durum wheat, rye and maize were increased by 0.5 %, 4 % and 5.2 % respectively. The threshold prices for barley and maize were fully aligned at 142 u.a./t.

(b) Internal market prices :

Prices for the principal cereals (common wheat, barley and maize) remained at a relatively high level throughout the 1976/77 marketing year. The durum wheat market on the other hand started the year in a depressed state but has gradually strengthened as imports fell and internal demand improved.

Average difference between market price and intervention price
in 1976/77 (%)

	Common wheat	Durum wheat	Barley	Maize
Germany	6.0	x	11.0	x
France	9.8	1.0	15.2	21.5
Italy	x	3.1	x	28.5
Netherlands	8.1	x	18.2	x
Belgium	3.9	x	11.0	x
United Kingdom	27.3	x	36.0	x
Denmark	x	x	15.4	x

These high prices were a result of feed grain shortages coupled with strong demand within the Community. Good supplies of feed grains on the world market however prevented market prices from rising significantly higher than the threshold prices.

(c) World prices :

World market prices for all cereals fell throughout the 1976/77 crop year, except for a brief period of firmness in January and February 1977. The sharpest declines in average prices, as compared with 1975/76, were among the better quality wheats; durum wheats declined by around 40 % and hard wheats by 30 % whilst soft wheats decreased by about 25 %. Feed grains, on the other hand, were less severely affected; perhaps because of the strong European demand, the decline was limited to about 12 %. Towards the end of the 1976/77 crop year the premium for barley in relation to maize disappeared completely, having been as much as 12-13 % in the first few months of the crop year; this change came about as a result of the very heavy barley crops expected in Europe and Canada.

Highest and lowest monthly average prices in 1976/77 -
c.i.f. Antwerp / Rotterdam

Type	Highest		Lowest	
	u.a./tonne	month	u.a./tonne	month
<u>Common wheat :</u>				
Hard Winter II Ord.	110.13	August 1976	74.91	June 1977
Dark Northern Spring II/14 %	125.16	August 1976	82.66	July 1977
<u>Barley :</u>				
Canada Feed I	117.94	September 1976	74.29	July 1977
<u>Maize :</u>				
Yellow Corn III	104.76	September 1976	78.08	July 1977
<u>Durum wheat :</u>				
US Hard Amber Durum III	120.08	August 1976	89.14	July 1977

It is perhaps fortunate that poor crops spared the Community the need to compete on the export market at such price levels, for even the prices traded are not fully indicative of the degree of competition. The magnitude of the U.S. food aid effort under P.L. 480 is increased when prices are low because it is fixed in financial, rather than quantity, terms. In the past year this has combined with good crops in many countries to result in a situation where commercial demand from many developing countries, including some traditional markets for Community exports, has been seriously reduced.

The Community has remained present on the world markets for flour and malt and these too have declined in line with the prices for their respective raw materials. Both of these markets have in effect been subject to particularly intense competition. In the case of flour, the competition has come from food aid and from commercial exports by Turkey and Argentina, two countries who are not consistent exporters of flour but who sell very aggressively when they have some available for export. The malt market on the other hand suffered a sharp down-turn in demand, partly as a result of large opening stocks with the brewers, and new capacity has continued to come into production. It is however expected that the current condition of the market will prevent additional capacity being constructed until demand has expanded sufficiently.

(d) Consumer prices :

Bread prices increased by an average of about 10 % between 1975 and 1976, as compared with about 12 % in the previous year. The greatest increases (14 - 18 %) occurred in France, Italy, Belgium and the United Kingdom. In Ireland there was even a small decrease (- 2 %).

The degree to which those increases were due to wheat prices is probably very small though it remains difficult to determine since bread prices are principally determined by distribution and manufacturing costs and by government price controls and/or consumer subsidies.

6. Short term outlook

In almost all respects the 1977/78 crop year is expected to contrast with 1976/77 as regards the Community's internal market. The one exception is that opening stocks were once again at a low level following two consecutive years of poor crops. The wheat crop is larger than in 1976 but is of extremely poor quality. This means that imports are likely to increase in 1977/78 because of the shortage of wheat of appropriate quality for breadmaking. It also means however that there will be a larger quantity of wheat available for animal feeding and if its price falls sufficiently it should compete with and reduce the level of maize imports. In addition the barley crop is very large (8 million tonnes more than in 1976) and seems to be of reasonable quality. Clearly the Community market cannot absorb all of this additional production since it is unlikely to replace maize imports and the internal demand for feed grains or domestic brewing and distilling is not likely to be much greater. A substantial quantity will therefore have to be exported if it is not to go into intervention. There is a particular possibility of intervention in barley in the new Member States who undergo their final transitional step in the intervention price on 1 January 1978 and where much of this year's surplus is concentrated. Exports of barley may be facilitated by a return of the barley price premium over maize on the world market since the Canadian crop has been considerably delayed and some may even be lost because of bad weather and there is some demand caused by poor crops in North Africa and Eastern Europe. The world market for wheat however remains depressed and oversupplied and it will probably not be easy to export wheat as grain on commercial terms except to the most traditionally dependent outlets.

7. Economic aspects of the measures taken

(a) Levies and refunds

(1) Import levies :

Import levies have gradually climbed throughout 1976/77 as cif prices have gone down. By the beginning of 1977/78 the import levies for all the major cereals were greater than the world market price of the cereal itself, ie. the world market prices were less than half the Community threshold prices.

In view of the fodder shortage at the beginning of the 1976/77 marketing year the period of validity of import licences for all feed grains was extended to 60 days whilst those for common wheat and durum wheat remained at 45 and 30 days respectively. By the summer of 1977 the outlook had completely changed however and the period of validity was harmonised at 45 days for all cereals.

(2) Export levies :

Export levies have not been needed since the end of 1975.

(3) Export refunds :

The only export refunds fixed for grains in 1976/77 were for common wheat to certain countries in West Africa. This was done three times for a total of 360 000 tonnes of wheat and on the

last two occasions the export licences were granted with a special period of validity to cover deliveries to these countries throughout the marketing year. This procedure was repeated in July 1977 to cover deliveries of some 400 000 tonnes in the 1977/78 marketing year. Export refunds were always available for the export of cereal products, in particular malt, wheat flour and durum wheat semolina.

The period of validity for export licences for the main cereals had remained at 30 days during the 1976/77 marketing year but in July 1977 was increased to cover the month of issue plus the two months following.

(b) International agreements and food aid

The International Wheat Agreement of 1971 remains applicable pending the negotiation of a new agreement to apply from July 1978. The only operational provisions of the 1971 Agreement were in the accompanying Food Aid Convention under which the Community is committed to the supply of 1 287 000 tonnes of cereals. In 1976/77, ~~720.500~~ tonnes of this total quantity (or 56 %) was to be given as direct Community aid. The proportion of this direct Community aid commitment which had been effected by 31 July 1977 was 27 % in respect of the 1976/77 programme and 98.4 % in respect of previous programmes. As regards aid by Member States the corresponding proportions were 31.3 % for the 1976/77 programme and 88.3 % for previous programmes.

(c) Intervention

The 1976/77 marketing year saw intervention stocks of common wheat and barley reduced to almost negligible levels since even the stocks remaining on 1 August 1977 were largely committed for food aid or for transfers to Italy to be sold on the internal market. Transfers to Italy, in order to control speculative price movements involving cereals in that Member State, have become a regular feature of intervention agency activity. In the second half of 1975/76 300 000 tonnes of common wheat were transferred and in 1976/77 400 000 tonnes of wheat and barley were authorised for transfer. These actions have particularly affected stocks in Germany as have the numerous food aid actions which used intervention stocks in order to avoid further inflating prices on the Community markets.

Stocks of rye were virtually unchanged over the 1976/77 marketing year but stocks of durum wheat increased slightly. However, some durum wheat stocks were sold, mainly on the Community market, and some were used for food aid and it seems that the earlier oversupply problem is not likely to lead to significant further intervention purchases.

Details of changes in intervention stocks during 1976/77 were as follows :

Intervention stock changes in 1976/77 (provisional estimates)

(1 000 tonnes)

	Common wheat	Durum wheat	Rye	Barley
Stocks on 1.1.1976	1 486	398	191	250
Purchases	101	127	28	0
Sales	730	58	33	197
Net change	- 629	+ 69	- 5	- 197
Stocks on 1.8.1977	857	467	186	53

(d) Uniformity of prices - Accession compensatory amounts

The intervention prices applicable in the different Member States in 1976/77 were as follows :

Intervention prices : August 1976

(u.a./tonne)

	<u>Common wheat</u>	<u>Barley</u>
Original Member States	131.00	116.00
United Kingdom	112.42	98.52
Ireland	127.88	109.86
Denmark	126.72	112.41

The largest accession compensatory amounts (those for the United Kingdom) in 1977/78 amount to only 8.51 u.a./tonne for common wheat and 9.05 u.a./tonne for barley. These amounts will cease to apply from 1 January 1978 when the new Member States make their final transitional price step.

(e) Uniformity of prices - Monetary compensatory amounts

In common with other sectors, cereals suffer from considerable disunity caused by monetary differences. Whilst the worst distortions of trade are avoided by using monetary compensatory amounts, these are not applied to durum wheat or its products. This appears to be resulting in some distortion (see heading 4 (a) on trade between Member States).

(f) Production refunds

Production refunds are paid to cereal starch manufacturers in order to enable them to compete with starch manufactured from other raw materials. The refunds fixed for the 1977/78 marketing year were 21.4 % higher than in the previous year, being 17 u.a./tonne for maize starch, 24.29 u.a./tonne for wheat, 20.89 u.a./tonne for broken rice and 27.37 u.a./tonne for potato starch. At the same time the Commission submitted a report on the starch sector to the Council recommending that the production refunds for non-industrial starches be phased out over a three year period starting from August 1978.

(g) Durum wheat aid

In response to the development of varieties with high yields but of poor quality, the system of direct aid to growers of durum wheat was modified for the 1976/77 marketing year. The granting of aid was made dependent firstly on the variety grown having acceptable quality characteristics and secondly on the administrative region within which it was grown. Thus for 1976/77 the rate was 50 u.a./tonne for certain areas having low yields (including the less favoured areas under Council Directive 75/268/EEC) and 21 u.a./tonne for other areas having higher yields. In 1977/78 the rate has been increased to 60 u.a./tonne and only applies to the low yield and less favoured areas. It has therefore become a discriminatory income aid to producers and has acquired a distinctly social nature.

8. Budgetary expenditure

The expenditure of the EAGGF Guarantee Section on cereals was 620.9 million u.a. in 1975, 609.8 million u.a. in 1976 and is estimated at 763.3 million u.a. in 1977 or 13.1 %, 10.9 % and 10.7 % respectively of total expenditure by the Guarantee Section. The 763.3 million u.a. for 1977 breaks down into 470.0 million u.a. for export refunds and 293.3 million u.a. for intervention measures, of which 138.0 million u.a. for durum wheat aid.

2. RICE (1) (2)

1. Introduction

In the Community rice is grown only in France (the Rhône delta) and in Italy. The area under rice amounts to about 0.2% of UAA in the Community and about 0.14% of the world area under rice (138.8 million ha).

Yields in the Community are among the highest in the world (in 1976/77: 48.1 q/ha of paddy rice in the Community compared with the world average of 24.5 q/ha of paddy rice).

Since 1973, Community production has varied between 0.8 million/t and 1.2 million t of paddy rice and represents about 0.30% of the world harvest (340.4 million t of paddy rice in 1976/77). About 96% of Community production comes from Italy.

2. Production

In 1976, 0.191 million ha were sown with rice in the Community, 3.2% more than in 1975. For 1977 the area is estimated at 0.195 million ha, or 2.1% more than the previous year.

Between 1968 and 1976 the area under rice has increased annually by 1.9% in Italy and decreased annually by 10.8% in France. For the Community as a whole, there was an annual increase of 0.7%.

Because of unfavourable weather, yields in 1976 were 38.5 q/ha, or 14.1% lower than in 1975. Yields for 1977 are expected to be 1.6% lower than the previous year. However, yields increased by 0.9% per year between 1968 and "1976".

Because of the low yield per hectare, in 1976 Community production only amounted to 0.736 million t which is a drop of 11% compared with 1975. In view of the increase in area in 1977 a slight increase (0.7%) in production is expected.

3. Internal consumption

In 1975/1976, 1.147 million t of rice (1.458 million t) were used within the Community, 18% more than in 1974/1975. This amount was made up as follows: 86.3% for human consumption, 6.1% for feedingstuffs, 4.4% for industrial use and 3.2% for seeds and losses.

(a) Human consumption

Gross human consumption in 1975/76 increased by 15.3% compared with 1974/75 and amounted to 0.989 million t. Per capita consumption of rice was 3 kg in 1975/76 (scarcity of potatoes in the Community) compared with 2.5 kg in 1974/75 (scarcity of rice on the world market) and 2.9 kg in 1973/74.

In the Six, per capita rice consumption increased by 2.1% per year between 1967/68 and 1974/75.

(b) Animal consumption

The volume of broken rice used in feedingstuffs varies considerably from one marketing year to the next depending on the price of broken rice compared with competing products.

¹ See Tables II.B/2.1 to II B/2.4 of Part II.

² In this document the word "rice" means husked rice, unless otherwise stated.

Therefore, animal consumption of rice amounted in 1975/76 to 70 000 t which is 66.7% more than in 1974/75. Between 1967/68 and 1974/75 use of rice in feedingstuffs increased by 17% per year.

(c) Industrial use

Between 1967/68 and 1974/75 the use of broken rice in industry (in particular in brewing and starch manufacture) has decreased by 5.9% per year. In 1975/76, however, industrial use amounted to 51 000 t, a 41.7% increase on 1974/75. The volume varies considerably depending on the price of broken rice compared with the price of maize which is used for the same industrial purposes.

(d) Degree of self-supply

In view of the poor harvest and the increase in domestic consumption, the degree of self-supply of rice in the Community in 1975/76 fell from 88% to 72%.

4. Trade

Imports from non-member countries amounted in 1975/76 to 0.612 million t compared with 0.415 million t in 1974/75 which was an increase of 47.5%. Exports in 1975 amounted to 0.299 million t compared with 0.291 million t in 1974/75, an increase of 2.7%.

The external balance for rice showed a deficit of 0.313 million t in 1975/76. In 1974 this balance was also in deficit, but only by 0.124 million t.

The Community's share of world trade in rice in 1975/76 was 7.4% of imports and 3.6% of exports. The principal sources of imports remain the United States, Argentina, Uruguay and Surinam for whole rice, South America, Burma and Thailand for broken rice.

Most exports of rice go to the Mediterranean countries, Africa and Italy's neighbours. Some rice is exported as food aid (27 300 t in 1976).

Intra-Community trade continues to develop. In 1975/76 it amounted to 0.408 million t compared with 0.342 million t in 1974/75, an increase of 19.3%. This trade includes a large proportion of rice imported from non-member countries. Trade in rice produced in the Community consists merely of the quantities supplied by Italy to other Member States. (0.223 million t in 1975/76, 0.153 million t in 1974/75 and 0.174 million t in 1973/74).

5. Prices

(a) Common prices

For the 1977/78 marketing year the intervention price for paddy rice was increased by 4.5% and the target price for husked rice by 3.9%.

(b) Market prices

In 1976/77 the market prices for paddy rice in the main rice-producing region (Vercelli) averaged:

- for round-grain rice 232.5 u.a./t (34% above the intervention price);
- for long-grain rice, 383.3 u.a./t (49% above the intervention price).

These prices are 13% (round-grain rice) and 29% (long-grain rice) higher than in the previous marketing year. In two marketing years, from September 1975 to August 1977, market prices in Italy increased by 67% for round-grain paddy rice and 85% for long-grain paddy rice.

(c) World prices

From the end of the world shortage of rice in 1973/74 prices on the world market dropped considerably until the end of 1976 and and then rose without, however, reaching 1973/74 levels. For example:

- round-grain husked rice:	443.6 u.a./t in February 1974
	145.9 u.a./t in October 1976
	222.9 u.a./t in October 1977
- long-grain husked rice:	503.4 u.a./t in February 1974
	158.5 u.a./t in December 1976
	199.8 u.a./t in October 1977

The wide variations in world prices are due to the fact that out of a world production of about 340 million t of paddy rice only about 8 million t are exported (in the form of milled rice or to a lesser extent in the form of husked rice, as the Community is practically the only importer of husked rice). Any variations in harvests or supply and demand can provoke considerable price changes.

(d) Consumer prices

Consumer prices covering a reasonably long period are available only for Italy and Germany. Figures for France are available for 1975 and 1976 and for the Netherlands only for 1976.

In 1976 the prices were as follows (milled rice):

- Italy	Lit 624 per kg, 33% above 1975;
- Germany	DM 3.16 per kg, 5% below 1975;
- France	FF 4.74 per kg, 6% below 1975;
- Netherlands	Fl 2.58 per kg.

From 1969 to 1976 consumer prices for rice increased by 140% in Italy and 60% in Germany.

6. Outlook

(a) Short-term

There is no certainty as to the quantity or the quality of the 1977/78 rice harvest. The harvest is over a month late. The area sown with round-grain rice in Italy is 15% down. Unless the price of this rice is too high, all the round-grain rice produced by the Community should be absorbed by the nine Member States. A special effort has been made in Italy to sow more good quality long-grain rice for which there is Community demand. Supplies of rice produced in the Community had fallen so low at the beginning of the 1977/78 marketing year that the principal rice producer, Italy, was importing rice.

From the beginning of the 1977/78 marketing year until October, Italy issued import licences for over 30 000 t of which 20 000 t was paddy rice.

As market prices in Italy were very high in 1977 it is almost certain that there will be a further large increase in consumer prices in Italy.

No matter how large the harvest is, it will result in a structural surplus of at least 130 000 t. (An estimated 145 000 t of Community rice was exported in 1976/77). The Community produces about 80% of its rice requirements. However, each marketing year quantities varying between 100 000 t and 300 000 t of Italian rice have to be sold on the world market. This is because this rice does not seem to be to the taste of the consumers in the north of the Community. The demand here is for imported rice, so-called slow cooking rice produced in subtropical areas.

(b) Medium-term

Because of the special requirements of rice-growing, there is little scope for increasing the areas under rice in Italy. They are also not likely to decrease, because of the high prices which the rice-grower can obtain in Italy. As the prices for rice in France have been aligned with those of Italy, the area under rice will probably increase in France (production costs are higher in France than in Italy and yield per hectare is lower).

Community production in future years should remain at around 800 000 t unless weather conditions are unfavourable. Despite the demand by the consumer in the north of the Community for imported rice, exports of Community-produced rice to other Member States will continue to increase. Provided that market prices in the rice-producing regions return to reasonable levels it is possible that the estimated increase in rice consumption in the Community can be covered by rice produced in the Community. In this case, imports will remain at more or less the same level and exports will decrease in line with the increase in intra-Community trade in Community rice.

7. Economic aspects of the measures taken

(a) Levies and refunds

Because of the drop in world market prices in 1973/74 and increases in threshold prices in the following marketing years, import levies have continued to increase. For the last three marketing years average levies were as follows:

	1974/75	in u.a./t 1975/76	1976/77
round-grain husked rice	0	71.64	115.78
long-grain husked rice	13.81	92.44	138.25
round-grain milled rice	12.69	109.59	169.50
long-grain milled rice	67.77	195.62	255.30
broken rice	0	23.45	60.53

As regards export refunds in 1976/77, weekly refund tendering procedures took place for long-grain milled rice from 21 October to 23 December 1976 enabling 10 000 t to be exported at an average refund of 105 u.a./t.

During the 1976/77 marketing year general refunds were fixed for exports to Switzerland, Austria and Liechtenstein. These refunds were 60 u.a./t for round-grain husked rice, between 60 and 80 u.a./t for long-grain husked rice, from 90 u.a./t (from 17 June 1977) for round-grain milled rice and from 75 to 120 u.a./t for long-grain milled rice.

The refunds fixed for exports to other non-member countries were between 85 and 95 u.a./t (round-grain milled rice), 120 to 150 u.a./t (long-grain milled rice) and from 15 to 25 u.a./t (broken rice).

(b) Food aid

In 1976, 27 300 t of milled rice was supplied as food aid compared with 23 700 t in 1975 and 12 700 t in 1974. Most of this aid was supplied through the International Committee of the Red Cross and the United Nations High Commission for Refugees.

(c) Quantity submitted for intervention

Since 1972/73 no intervention measures have taken place in respect of rice.

(d) Accession compensatory amounts

Accession compensatory amounts fixed at the same level for all three new Member States were harmonized at the rate laid down in the Accession Treaty. Until the total harmonization of prices (1 January 1978) these accession compensatory amounts vary between 11.20 u.a./t and 38.04 u.a./t depending on the stage of processing. These amounts are applicable in full because of the high import levies.

(e) Monetary compensatory amounts

So far no monetary compensatory amounts have been fixed for rice.

8. Budgetary expenditure

Expenditure by the Guarantee Section of the EAGGF in respect of the rice sector amounted to 4.2 M u.a. in 1975 and 26.9 M u.a. in 1976. 26.6 M u.a. was spent in 1976 on export refunds and 0.3 M u.a. for production refunds for broken rice.

3. SUGAR (1)

1. Introduction

(a) Economic situation

At the beginning of the 1976/77 marketing year, uncertainty regarding Community sugar production was especially great in view of the exceptional drought prevailing throughout Central Europe. The information available suggested for a time that Community consumption would far exceed Community production and that substantial ACP sugar imports would be needed to cover the shortfall. At world level, the prospect of a poor harvest in Europe kept prices buoyant on the international sugar exchanges. The danger of another widespread sugar shortage was, however, highly improbable in view of the production surpluses already in being or expected in other parts of the world. For the Community it was a question of conducting a cautious export policy until it could gain a fair idea of its own production and of consumption. Considering the drought, which in certain regions was very serious, the sugar crop proved to be surprisingly large. This result, combined with an appreciable decrease in consumption, led again in 1976/77 to a considerable quantity of Community sugar having to be exported. The statistical decrease in sugar consumption may be explained in part by increased consumption of starch-based sweetening agents (isoglucose). In May 1977 the Council adopted common measures with regard to isoglucose in order to ensure balanced competition between sweetening agents on the Community market.

In 1976/77 the obligation to maintain minimum stocks of sugar was introduced for the first time. This measure, aimed at security of supply, resulted in a rise in effective stocks of several hundred thousand tonnes at the end of the sugar year.

(b) Sugar and Community agriculture

Production of sugar beet in the Community represents roughly 2.6% of the value of final agricultural production. This production is obtained from only 2.01% of the total utilized agricultural area, showing that the sugar beet crop makes, in value terms, above average use of the soil.

(c) The Community and the world sugar economy

In 1976/77 the Community was again the world's leading sugar producer ahead of the Soviet Union and Brazil. Its share of world production was around 13%. Because of the structure of its sugar industries the Community's exports of sugar relate mainly to white sugar or sugar in the form of processed products. Among the sellers of white sugar on the world market the Community is thus well ahead of other countries.

¹ See Tables II B/3.1 to 3.9 of Part II.

2. Production

In the 1976/77 sugar year the Community sugar beet area increased by a further 2% to a record 1,874 million ha. The crop area increased mainly in Germany, France, Italy and the United Kingdom while a marked fall was recorded in Belgium (19%) and a less marked drop in Denmark. This new increase in crop area shows that, in general, farmers and the sugar beet industry considered the outlook and the situation of the sugar economy as again being favourable.

In this connection, the following points should be mentioned:

1. The raising by 8% of minimum prices for sugar beet, coupled with the rise of 8.8% in sugar intervention prices, offered satisfactory, indeed advantageous, conditions for production.
2. Talks on a new international agreement for sugar were proposed for autumn 1976 or spring 1977. The world market situation has not yet shown any clear trend towards the formation of new supply surpluses for several years. Hence, although the outlook for B and C sugar is not all that promising, it gives no cause for concern.
3. The passing of the very favourable production conditions of 1975/76 did not lead to a widespread contraction of areas under beet in 1976/77. It must be remembered here that the production levy was again applied without limit in 1976/77 and that the coefficient for fixing the maximum quota was lowered from 1.45 to 1.35.

The quite exceptional drought in Europe resulted in very low yields per hectare, particularly in France and the United Kingdom. On the other hand, Italy had very good growing conditions and, therefore, excellent yields. Overall, the 1976 crop has shown the high resistance of beet to extreme drought during the growing period. Contrary to all expectations, sugar production reached 10 million t, thus exceeding the previous year's result (9.7 million t) by 3%.

In 1976/77, under the basic quota system roughly 8.61 million t were produced i.e. some 0.53 million t less than the total of all the basic quotas in the Community (9 136 million t). It was mainly in the United Kingdom and the French Antilles that the basic quotas were undershot, but production also remained below the basic quotas in Belgium and Ireland.

Production in excess of the basic quota and within the maximum quota which is subject to the payment of the production levy, reached 1.213 million t in all, Germany and Italy being responsible for the greater part of this. Production in excess of the maximum quota reached 181 000 t; this has to be disposed of by producers on the world market without Community support, unless it is carried over to the base quota of the following year and thus added to stocks. For the first time, Italy produced a considerable quantity of sugar in excess of the maximum quota.

Both the quantities of sugar produced between the basic quota and the maximum quota and the quantities produced in excess of the maximum quota were up on the previous sugar year for the Community as a whole.

3. Consumption

(a) Food

In 1976/77 the food use of sugar in the Community was much down on the previous year. It fell by around 5.3%, from 9.5 million t to around 9.0 million t. This represents a per capita drop in consumption from 36.7 to 34.5 kg.

One of the reasons for this drop in consumption is the production of isoglucose, which has risen gradually over the marketing year to around 85 000 t of dry matter. This tonnage is replacing sugar in the ratio of about 1 to 1 for numerous uses, such as beverages, jams, pastries and confectionery. Another factor was the generally cool summer of 1977, with less demand for refreshments and ice cream, a reversal of the situation in the thirst-provoking summer of 1976. Other factors, such as the sag in the economic situation and the slight drop in population in certain regions of the Community may also have contributed to the drop in consumption.

(b) Animal food and the non-food sector

Apart from its use in the food sector, sugar was also used in small quantities for the feeding of bees; the chemical industry, for its part, consumed roughly 80 000 t.

(c) Self-supply

The Community's degree of self-supply rose from 101% in 1975/76 to about 110% in 1976/77. In view of this situation, sugar imports from the ACP States and the assimilated countries and territories which, under the Lomé Convention, amount to some 1.3 million t, constitute a surplus which has to be re-exported.

4. Trade

(a) Between Member States

Trade between Member States reflects above all the differences in their degree of supply. Thus Italy's imports from other Member States have fallen sharply as a result of the increase in its own production.

On the other hand, the United Kingdom has had to cover its increased needs with sugar from the Community. The volume of intra-Community trade has again dropped compared with 1975/76.

(b) With non-member countries

In 1976/77 imports of preferential sugar from the ACP States and from the assimilated countries and territories totalled some 1.4 million t, most of which went to the United Kingdom, but certain quantities have also been sold to other Member States, as for example France (24 000 t), Ireland (45 000 t) and Italy (5 000 t).

Exports of sugar were made as follows:

by invitation to tender from the open market	1 300 000 t approx.
by invitation to tender for intervention stocks	184 000 t approx.
with periodically fixed refunds	70 000 t approx.
under food aid to UNRWA	6 000 t approx.
in the form of processed products	250 000 t approx.
as C sugar without refund	140 000 t approx.
	<hr/>
	1 950 000 t approx.

5. Prices

(a) Community price

Minimum prices for sugar beet for the 1976/77 marketing year were increased by 8%, which contributed to a 2% expansion of areas under beet (see "Production"). Intervention prices for white sugar were increased by 8.8%. However, as this increase includes a premium of 0.25 u.a./100 kg, designed to compensate manufacturers for their obligation to maintain minimum stocks, the effective price increase for white sugar was also 8%. The guaranteed price for preferential sugar from the ACP countries was raised in line with the increase of Community sugar prices.

In March 1977 price rises of 3.5% for sugar beet and 4.4% for white sugar were fixed for the new 1977/78 sugar year. The effective processing margin of the sugar industry was, however, increased by only 2.1% since an additional amount was included in the new intervention prices to compensate for the abolition of a quality bonus for top grade sugar. At the same time, a new definition of the intervention price was introduced which excludes the levy for storage costs which had been included hitherto.

(b) Prices on the internal market

In Italy and in the areas with a surplus sugar supply, namely France, Belgium and certain parts of Germany, market prices for white sugar were close to the intervention price in 1976/77. The price situation in these Member States may be judged from the fact that 184 000 t in all were sold to the intervention agencies. In the United Kingdom, market prices were at a distinctly higher level.

(c) Prices on the world market

Since the world sugar shortage in 1974/75, prices on the world market have fallen back, apart from brief periods of stagnation or upturn. Although the average price of white sugar for immediate delivery again reached 29.47 u.a./100 kg on the Paris Bourse in 1975/76, this price fell to 19.85 u.a. in 1976/77. This development may undoubtedly be explained by world overproduction which has resulted since 1975/76 in rising surplus stocks. For 1976/77, 28% of world consumption was shown as end-of-year stocks in the world supply balance. Experience shows that stocks standing at such a level exert very great pressure on world market prices.

6. Short-term outlook

In contrast to the 1976/77 marketing year when yields per hectare were lower than average in the Community, yields of, on the whole, average proportions may be expected for 1977/78. Even taking into account the roughly 5% reduction in crop areas sugar production should be well up on 1976/77. It is currently estimated at 10.7 million t. Given that Community consumption will probably remain relatively low in 1977/78, some 9.3 million t according to the most optimistic estimate, a much greater volume of exports must be looked for than over the previous marketing year. Quantities available for export should be of the order of 3 million t.

In October 1977 a new international Agreement on sugar was negotiated under UNCTAD. An offer by the Community, made in the latter phase of negotiations, not only to participate in the formation of buffer stocks but also to implement measures similar to the efforts made by other exporting countries aimed at disposing of some of the surpluses available for export could not be pursued in the time available. The Community is consequently not party to the Agreement. Negotiations on joining the Agreement at a later date may, however, take place on the basis of an offer from the Community. At the moment, it is likely that export difficulties will increase again for the Community in 1978 following the Agreement, since the importing Member States who are signatories to the Agreement may buy sugar from the Community (a non-signatory) only up to an amount equal to 55 or 75% of imports made over a reference period. Since the reference period includes the 1974 and 1975 period of shortage and since also the main purchasing countries of the Community will probably become signatories to the Agreement, the Community's export possibilities will consequently be extremely limited.

7. Economic aspects of the measures taken

(a) Levies and refunds

Import levies and export refunds were in force throughout the 1976/77 marketing year. They were also applied to processed products containing sugar. Preferential sugar was imported levy-free. The Council has, moreover, decided to grant an extension in respect of a very limited quantity of preferential sugar which had not been delivered within the specified time limit.

The system of import levies and export refunds, the latter in particular determined by tendering procedures, has functioned satisfactorily and has enabled a generally balanced level of supply to be attained.

(b) Intervention, food aid

In three Member States, 184 000 t in all of white sugar were sold to the intervention agencies. These quantities were exported under tendering procedures at the end of the marketing year. It was possible to guarantee the price level laid down for sugar throughout the Community. Under food aid for Palestinian refugees 6 000 t in all were delivered to Israeli and Jordanian ports through the good offices of the United Nations.

8. Budget expenditure

Expenditure by the Guarantee Section of the EAGGF amounted to 309.2 M u.a. in 1975 and 226.5 M u.a. in 1976; it is provisionally estimated at 414 M u.a. for 1977. These amounts represent 7.9%, 4.8% and 7.8%, respectively, of the total expenditure of the Guarantee Section. As all-in figures, they nevertheless do not take account of the special levies in the sugar sector and, to that extent, are not directly comparable with the expenditure of the Guarantee Section for other agricultural products.

In order to arrive at the net expenditure incurred on the common organization of the market in sugar, it is necessary to deduct the sugar storage levy and the production levy from the all-in expenditure. In view of the principle of compensation it is simpler to take, for the first of these levies, the annual amount which had to be paid out by the EAGGF to those entitled to it as reimbursement of storage costs. This expenditure was 92 M u.a. in 1975 and 145 M u.a. in 1976 and will be about 149 M u.a. in 1977.

A production levy was not paid in 1975 and 1976. For 1977 there is 49 M u.a. due by way of advance payment for the 1976/77 marketing year. The final total, i.e. roughly 72 M u.a., will not appear in the budget until 1978.

Finally, it should be pointed out that "1975 budget expenditure" includes for sugar 179 M u.a. in import subsidies. These imports enabled the level of sugar prices to be stabilized well below the world market price during the period of shortage which the Community experienced. If it had not been for these imports, consumers would have had to pay for sugar several times the amount of this subsidy in the form of substantially higher market prices.

4. OLIVE OIL (1)

1. Introduction

Of the Community's olive oil production, 0.5% comes from France, and 99.5% from Italy, where this product in 1976 accounted for 3.8% by value of national agricultural production and 0.73% by value of Community agricultural production. Up to 1975 production covered about 70% of the Community's olive oil requirements; according to certain estimates the total number of olive trees in the Community, both cultivated and not, is about 190 million (185 million in Italy and five million in France). However, the percentage of Community requirements covered by internal production of olive oil has been rising steadily for two years.

Since the establishment of the common organization of the market in oils and fats, the scale of olive cultivation in the original Community has little changed. Olive groves cover around 2.3 m hectares (2 280 000 ha in Italy and 38 000 ha in France), representing 2.3% of the Community's total UAA, and are in the hands of 1 200 000 growers.

In a normal year Community olive oil production represents 30% of world output. However, because olive trees are subject to alternate bearing, olive oil production may vary very sharply from one year to the next.

According to the International Olive Oil Council, the total world area devoted to olive cultivation amounts to 10 million hectares; the Community area is thus 23% of the world total.

Trends on the olive oil market in the original Community since 1972

The difficulty of establishing figures for the olive oil marketing years from 1966/67 to 1971/72 and in analysing market trends were set out by the Commission in a report sent to the Council on 26 September 1972.

As this difficulty persists, the Council decided to establish a register of olive cultivation in the Community.

2. Production

On the basis of applications for subsidies, production in 1975/76 amounted to 684 400 t (including olive residue oil) in Italy and 2 425 t in France.

On the same basis, production in France in 1976/77 amounted to 2 220 t. The number of 1976/77 applications for subsidies in Italy is not yet known, but one can already say that the figure will be much lower than for previous years. Some estimates put the 1976/77 olive oil production somewhere between 250 and 350 000 t. If the production were 300 000 t, this would be the lowest figure recorded in Italy since the common organization of the market in this product came into force in 1966.

¹See Tables II.B/4.1 to II.B/4.9 in Part II.

It should also be recalled that in Italy some 10% to 15% of applications for subsidies put forward each year by farmers are rejected after official scrutiny.

In Italy, aid to olive oil producers is still paid late, in some regions by up to thirty-six months, which somewhat detracts from the effectiveness of this measure. In France, on the other hand, the supervision of aid applications, both in respect of crops and at the milling stage, enables payments to be made at the end of each marketing year. However, it should be remembered that there are relatively few applications to be checked in France, though the administrative procedures are complex.

3. Consumption and marketing

The main factor influencing consumption, often after a certain time lag, is the relationship between the consumer prices of olive oil and seed oils.

It should here be noted that the ratio of 2.20:1 between the prices of olive oil and of seed oils which the Council considers necessary to maintain olive oil consumption has not been achieved since early 1975, both products having undergone price changes. While the price of seed oils on the Community market has been falling sharply, the olive oil price has remained at a high level owing to the common prices adopted. This caused consumers to switch from olive oil to the cheaper seed oils to such an extent that, during the 1975/76 marketing year, in a Community market which is traditionally in deficit, for the first time ever 85 000 t of Community olive oil were offered to the Italian intervention agency.

Consumption of olive oil has not recovered during the 1976/77 marketing year. Indeed, in spite of the reduced supply on the Community market following very low production and very moderate imports in 1976/77, some 6 200 t of olive oil have been sold to the Italian intervention agency between March and August 1977.

4. Trade

The Community is the world's largest olive oil importer. Since the establishment of the common organization of the market in this sector, imports have risen considerably, from 111 000 t in 1966/67 to 194 000 t in 1973/74, after a peak of 251 000 t in 1972/73. From 1974/75, on account of the difficulties described in paragraph 3, imports have dropped very substantially, to 121 758 t in 1974/75 and 93 357 t in 1975/76. Imports in 1976/77, on the basis of import licences issued up to 15 September 1977, are some 132 000 t, but this figure should be seen in the light of the very low production recorded in 1976/77 (some 250 000 to 350 000 t according to latest estimates).

The relatively low level of olive oil imports since 1974/75 can also be

attributed to the drop in consumption since 1975, as no other limiting factor can be pointed to and, at the same time, the quantity available on the world market is greatly increased. This is still the situation today.

Intra-Community trade basically concerns the two olive oil producer/consumer countries, France and Italy; other Member States' trade is negligible.

Intra-Community trade between 1966/67 and 1970/71 was 5 000 t on average. This average increased to 10 000 t for the period 1971/72 to 1973/74. During 1974/75 trade between France and Italy fell back to some 5 000 t. However, the following year (1975/76) France imported some 10 000 t of olive oil from Italy. The cause of this increase is complex: the large production of olive oil during that year, both within and outside the Community, brought about a substantial fall in the world price and a high levy was set accordingly. In these circumstances France chose to obtain supplies on the Italian market.

Exports to non-member countries forming part of the established trading pattern amounted to some 22 000 t in 1975/76, which is substantially more than the yearly average which has for some years been about 14 000 t. This situation is due to operators' large scale use of the EXIM procedure (the possibility of importing, free of levy, a quantity of oil equivalent to that exported).. During the 1976/77 marketing year, by 15 September, export licences had been granted for some 4000 t. This very low figure, which does not cover the traditional pattern of exports, is explained by the difficulties that operators have in using the EXIM procedure, the only way of exporting in the absence of refunds.

5. Prices

(a) Common prices

For the 1976/77 marketing year the production target price was set in u.a. at the same level as for 1975/76. In terms of lire it increased by 12.37%, the percentage devaluation of the "green" lira. The market target price and the intervention price have both been lowered in u.a., but their level in lire has increased by some 8% for the same reason.

For the 1977/78 marketing year prices were fixed at levels showing the following changes compared with 1976/77:

	<u>1976/77</u>	<u>1977/78</u>	<u>u.a./100 kg</u>
Production target price	185	187.78	(1.5%)
Market target price	144.89	141.91	(-2.4%)
Intervention price	137.64	134.62	(-2.2%)

However, the 6.96% devaluation of the "green" lira will make the increase in the production target price, expressed in lire, more marked and the reduction in the market target price and the intervention price less marked for Italian products.

(b) Market prices

Market prices stagnated during the 1975/76 marketing year. The level was below the intervention price and accordingly 85 000 t of oil of various qualities were delivered to the intervention agency. The main reasons for this were:

- the relationship between the prices of olive oil and seed oils was unfavourable to olive oil and reduced demand accordingly,
- the tendency at all marketing stages to reduce stocks to a minimum owing to the very high cost of money in Italy.

During 1976/77 the market prices of lampante olive oil and olive residue oil have fluctuated around the intervention price all the time in spite of the very low production which should logically have caused prices to rise. At the same time the market prices of edible virgin oils were substantially above the corresponding intervention price.

This situation even caused, in early summer 1977, some 6 200 t of olive oil of all qualities to be delivered to the Italian intervention agency.

6. Outlook

At the end of the 1976/77 marketing year market prices are still around the intervention price, but these are only nominal prices since that

year's Community production of olive oil is practically all sold.

No substantial upswing in prices or consumption can be expected in the near future, in view of the good harvest forecast for the 1977/78 marketing year, the stocks still held by the Italian intervention agency, the probable trend in seed oil prices in the coming months and the common prices set for olive oil for this year.

It is therefore, unfortunately, probable that, particularly in Italy, massive quantities of olive oil will be offered for intervention.

7. Economic aspects of the measures taken

(a) Import levies

The Council adopted special measures for imports from June 1976, during the second half of the 1975/76 marketing year, consisting in allowing the levy, as an exception to the normal criteria, to be set by tender in the light of both the world and the Community markets. This method was also applied during the 1976/77 marketing year.

Since the reasons for adopting such a system, namely the complete lack of transparency in the world market for olive oil, still exist, the Commission has proposed to the Council that the system of tendering for the levy be extended to the 1977/78 year until the common organization of the olive oil market can be completely revised.

The system in practice

During the first nine months of the 1976/77 marketing year the levies were set around 42 u.a./100 kg for the most imported quality, lampante olive oil. From 6 July 1977 the CCT was amended, and the "virgin olive oil" subheading is henceforth subdivided into:

- virgin olive oil,
- virgin lampante olive oil,
- other.

These subdivisions allow the levy to be better adjusted to the quality actually imported.

On this new basis the levy for the most imported quality (virgin lampante olive oil) was substantially increased from the end of July 1977 following the devaluation of the Spanish peseta. Since then the levy has fluctuated around 55 u.a./100 kg.

(b) Refunds

With the aim of maintaining the traditional export pattern for branded oils in small containers, an export refund is still being granted. Up to the end of August 1977 this refund was set at a symbolic level, since in practice all exports had to be carried out under the EXIM procedure.

Operators have encountered substantial difficulties in using the EXIM procedure, since exporting countries have insisted that the Community importer pays the export tax, whether the product is imported or subject to inward processing. The Commission accordingly decided, from September 1977, to set a refund which corresponded more closely to the actual market situation. Therefore the refund was set at 20 u.a./100 kg on 1 September 1977, and at 24 u.a./100 kg on 1 October 1977.

(c) Sales of olive oil from Italian intervention stocks

On 1 November 1976, when the 1976/77 marketing year started, the Italian intervention agency had some 85 000 t of olive oil of all qualities in stock as a result of intervention during the 1975/76 marketing year. A further 6 200 t were taken into intervention stocks in Italy during May, July and August 1977, coming from the 1976/77 harvest.

Out of this total of 91 200 t, 55 045 t have been sold. At the end of the 1976/77 year, there are still 36 151 t of olive oil of all qualities in stock.

8. Budgetary expenditure

Expenditure in the olive oil sector consists of intervention buying, subsidies paid to olive oil producers and export refunds.

Expenditure on subsidies depends on the scale of production and on the delay in payment.

Expenditure by the Guarantee Section of the EAGGF on the olive oil sector amounted to 135.8 M u.a. in 1974, 205 M u.a. in 1975 and 212.6 M u.a. in 1976, or 4.4%, 4.3% and 3.8% respectively of the total expenditure of the Guarantee Section of the EAGGF. In 1977 expenditure is estimated at 290 M u.a., made up as follows:

Production subsidies:	269 M u.a.
Intervention	: 15 M u.a.
Refunds	: 1 M u.a.
Other	: 5 M u.a.

The draft budget for 1978 provides for total expenditure comparable to that in 1977.

5. OILSEEDS

5(a) Colza, rape and sunflower seeds¹

1. Introduction

In 1976, the share of oilseeds in the value of final agricultural production was 0.3%; and these crops again accounted for 0.7% of the Community's UAA. In 1976 world production of colza fell from 8 million t in the previous year to 7 million t; as Community production rose from 0.960 million t in 1975 to 1.019 million t in 1976, its share of the world total rose from 12% to 14.5%. World production of sunflower seed in 1976/77 was nearly 10 million t, while Community production was 0.128 million t, or 1.28% of the world total.

The Community's own oilseed production provides only a very small part of its needs in oils and oilcake. The self-supply rate does not exceed 11% for oil, excluding olive oil, and 4-5% in the case of oilcake.

2. Production

In 1976 the area under colza was the same as in the previous year, i.e. nearly 500 000 ha. However, a special problem arose in Denmark, where colza producers had difficulty in finding seed with a low erucic acid content, and therefore sowed only 44 000 ha compared with 72 000 in the previous year. Because of the good yields, total Community production increased slightly in 1976 by comparison with 1975, from 938 000 t to 1 011 000 t.

It should be noted that, while the main colza producing countries in the Community in 1973 were, in order of importance, France, Germany and Denmark, the United Kingdom occupied third place in 1976.

The area under sunflower, produced only in France and Italy, increased considerably in 1975; in 1976 the area fell from 100 600 ha to 84 900 ha. This reduction took place in France and, since the drought reduced the crop here, the French harvest was only 76 200 t, compared with 112 700 t in 1975.

¹See Tables II.B/5.a.1 to II.B/5.b.4 in Part II.

In Italy, the area remained unchanged and good yields increased production from 43 600 t in 1975 to 52 200 t in 1976.

3. Consumption

The demand for colza, rape and sunflower seed depends on the demand for colza and sunflower oils and oilcake; the latter demand is in turn determined by the overall demand for oils and oilcake and by the relationship between colza and sunflower oils and oilcake prices and the prices of alternative types. This being the case, two sets of consumption figures, one for oils and the other for colza and sunflower oilcake, will be given, and seeds will be dealt with separately.

Oils

The fall in the consumption of colza oil, which had begun in 1973/74, was halted in 1975/76. It had been caused by a campaign against the allegedly harmful effects of the erucic acid which this oil contains, and had reduced consumption from over 500 000 t in 1972/73 to 276 000 t in 1975/76. Towards the end of 1975/76, however, demand for this oil appears to have recovered and figures available for 1976/77 - in particular figures for imports of colza seed which increased to 170 000 t in the first half of 1976/77 compared with 150 000 t for the whole of 1975/76 - suggest that this recovery continued at a faster rate in 1976/77.

The main reason for this increased consumption was the very low price of colza oil compared with the price of competing oils, particularly soya oil, in the second half of 1976.

Consumption of sunflower oil remained stable around 300 000 t, of which more than half comes from seed imported from non-member countries. No great change in this figure is likely.

Oilcakes

Consumption of colza cake increased to 701 000 t in 1975/76 from 664 000 t in 1974/75, in spite of a drop in Community production. Imports of colza cake rose from 72 000 t in 1974/75 to 121 000 t the following year.

Provisional figures for 1976/77 suggest a further increase in consumption of colza cake since imports of seed from non-member countries appear to have greatly increased and the drought in the Community in 1976 substantially raised Community consumption of all types of oilcake.

Availabilities of sunflower seed cake in 1975/76 were unchanged on the previous year at around 390 000 t.

In view of the imports of sunflower seed in the first half of 1976/77, increased consumption of this type of oilcake is likely.

Seeds

In view of the recovery in the consumption of colza oil and cake in 1976/77, it is not surprising that the 1976 colza crop was sold without too much difficulty. Disposal was facilitated by high world demand for colza oil. The 1976 Community sunflower crop was sold without problem.

4. Trade

Imports of colza seed to the Community in 1975/76 fell to 150 000 t from 167 000 t in the previous year. As mentioned above, a marked recovery is to be expected for 1976/77, since imports during the first half of the year are put at 170 000 t.

Imports of sunflower seed nearly doubled in 1975/76 by comparison with 1974/75, reaching 213 000 t. This trend will continue in 1976/77 (229 000 t imported in the first half of 1976/77).

Exports of colza seed were very high in the 1974/75 marketing year, mainly due to exceptionally large purchases, of about 200 000 t, by Japan.

Exports in 1975/76 returned to the more normal level of 60 000 t.

Exports of sunflower seed to non-member countries are normally negligible, as the Community deficiency in this product is very great, but in 1975/76 15 000 t were exported, a relatively high figure.

Intra-Community trade in colza and rape seed totalled 163 000 t in 1974/75 compared with 213 000 t in 1973/74, as a result of the fall in the demand for colza in Italy. Intra-Community exports to Germany and the Netherlands, especially from Denmark, have by contrast risen. This recovery in trade for Germany and the Netherlands continued in 1975/76, so that the total figure for the Community increased slightly to 180 000 t.

The amount of sunflower seed bought by Germany from France and Italy more than doubled to 21 000 t.

5. Prices

(a) Common prices

For the 1977/78 marketing year, the target price for colza seed was fixed at 28.53 u.a./100 kg and that for sunflower seed at 30.78 u.a./100 kg, up on 1976/77 prices by 3.5% and 7.5% respectively.

(b) Market prices

1. World market

The 1974/75 marketing year brought a considerable rise in prices for colza and for other oilseeds between July and October 1974. This trend was reversed after November 1974 and, apart from a few brief upturns, the fall continued until the end of that marketing year. The 1975/76 marketing year saw abundant supplies, but demand did not begin to recover until near its end on account of the usual lag between a price fall and a renewal of demand. For most of the period under review, therefore, prices for oilseeds were relatively low.

At the beginning of the 1976/77 marketing year prices of vegetable oils took an upward turn following an increase in world demand and this rise in prices continued throughout the year, especially during the second half, owing in particular to an abnormally high demand from India.

2. Community market

Part of the 1975/76 Community colza crop was sold at the beginning of the marketing year at prices in excess of the intervention price and sometimes even of the target price. However, in view of the low prices on the world market, this situation lasted only two months and for most of the year the price of the 1975 crop was very close to the intervention price.

At the beginning of the 1976/77 marketing year, and as a result of the rise in world prices, an abnormally high proportion of the 1976 colza crop was sold at prices in excess of the target price. Then, for several months, sellers quoted high prices, but very little business was done. After the recovery of world demand in the second half of 1976/77, the crop was finally disposed of at relatively firm prices.

The sunflower crop is sold each year at prices well in excess of the intervention price.

6. Outlook

The Community colza and rape crop for the present marketing year is estimated at 880 000 to 898 000 t, down about 10% on the previous crop mainly because of unfavourable weather in France during inflorescence which lowered yields by 25% to 35%. Production in Denmark also was considerably less because of the difficulties in obtaining the new varieties. Crop forecasts for other countries, especially the United Kingdom, are positive.

The initial figures available for sunflower seed suggest that the 1977 crop will be about 120 000 t, or very close to the figure for the previous marketing year.

As already mentioned, Community consumption of colza oil recovered slightly in 1976/77 and, to the extent that this recovery is a consumer reaction to supplies of better quality oil with a low erucic acid content, could continue in 1977/78. However, as the world supply of vegetable oil is also expected to be abundant, further structural surpluses of colza oil cannot be ruled out.

Consumption of sunflower seed oil is stable and no increase is likely in 1977/78.

A drop in the amount of colza seed exported to non-member countries is likely in this marketing year because of the poor crop forecast for France.

Intra-Community trade could however increase, especially if the demand for colza oil in Italy were to pick up again.

7. Economic aspects of the measures taken

(a) Aid and refunds

Aid for colza seed in the 1976/77 marketing year fluctuated between nil and 10 000 u.a./100 kg with an average of 6 994 u.a./100 kg. The refunds during the same period varied between nil and 7 000 u.a./100 kg.

The sunflower seed crop was sold without difficulty. Aid varied between nil and 6 970 u.a./100 kg, averaging 4 400 u.a./100 kg. No export refund was fixed for this product.

(b) Intervention

During the 1975/76 marketing year 11 371 t of colza seed were offered for intervention in Denmark. Of this quantity, more than half was sold before the start of the 1976/77 marketing year.

In this marketing year, 4 970 t were offered for intervention in Germany and 114 t in the United Kingdom. All this seed and that remaining in intervention from the previous year was sold in the first half of the 1976/77 marketing year.

(c) Change in the standard quality

For 1975/76 the standard quality of colza seed was changed to take account of the lower oil content of new varieties low in erucic acid. The oil content requirement was lowered from 42% to 40%. With effect from 1 July 1976, intervention was restricted to colza seed with a maximum erucic acid content of 15%. With effect from 1 July 1977, this maximum was further reduced to 10%.

(d) Unity of prices

(1) Accession compensatory amounts

In the 1976/77 marketing year, accession compensatory amounts for colza seed produced in the United Kingdom and Denmark were fixed at 2.65 and 0.61 u.a./100 kg respectively. In the 1977/78 marketing year, this compensatory amount will remain in force in the United Kingdom only, and is fixed at 1.37 u.a./100 kg. It will be abolished from 1 January 1978.

(2) Differential amounts

In view of the present monetary situation, the system of differential amounts introduced on 20 July 1972 is still in force for colza seed.

8. Budgetary expenditure

Expenditure in this sector by the EAGGF Guarantee Section in 1976 amounted to 95.7 M u.a., or 1.7% of the Guarantee Section's total expenditure. Expenditure in 1977 is estimated at 116.1 M u.a., or 1.63% of total expenditure, of which 111.1 M u.a. for intervention and 5 M u.a. for export refunds.

5. (b) Soya beans¹

Production of soya beans has been encouraged since the 1974/75 marketing year, but is still in the initial stages. In 1976 only 1 300 ha were sown in France, less than for 1975 (1 600 ha); in Italy production is still limited to about a dozen hectares. In addition, on account of poor weather, yield was only 1 250 kg/ha and production only 2 000 t (3 000 t in 1975). The area sown in 1977 shows hardly any change.

Soya production thus accounts for only a very small portion of Community UAA, of world production and of Community needs which in 1976 totalled around 14.5 million t.

The target price for the 1977/78 marketing year has been fixed at 30.64 u.a./100 kg compared with 28.50 for 1976/77 (+ 7.5%) and 26.11 for 1975/76.

The average world market price having been 20.271 u.a./100 kg for 1976/77 and 15.189 for 1975/76 aid amounted to 8.229 and 10.921 u.a./100 kg respectively.

The target yield for these two marketing years was fixed at 1 950 kg/ha. The average world market price and the yield for 1977/78 have still to be determined.

Expenditure by the Guarantee Section of the EAGGF in respect of soya beans amounted to 0.2 M u.a.

¹See Table II B/5.c.1 in Part II.

5. (c) Flax seed¹

Although flax production² accounts for only an infinitesimal proportion of the UAA in the Community and of world production (5.7 million ha and 2.5 million t in 1976, according to the FAO), it does help to cover the Community's substantial protein requirements (about 500 000 t of flax oilcake were imported in 1976).

In 1976 the area under seed flax totalled 28 000 ha (compared with 31 000 in 1975). Of this total, 19 500 were in France, 5 300 in Italy and 3 200 in the United Kingdom, producing 24 300 t of seed. If the 39 200 t of flax seed produced from fibre flax is added, Community production totalled 63 500 t compared with 80 000 t in 1975. This reduction is due to the smaller area sown, mainly because of the changeover to the new aid system and the very poor yield in France caused by unfavourable weather.

The crop area was down to 18 300 ha in 1977, with sharp reductions in France (7 700 ha) and the United Kingdom (2 000 ha as in 1975) because of the very poor yield in 1976 and the delay in adopting measures maintaining a minimum aid of 105 u.a./ha for a further marketing year. In Italy, on the other hand, the area under flax increased to about 8 000 ha.

World prices for flax seed were very high in the first half of the 1976/77 marketing year, but fell steeply afterwards; they were on average 10% to 15% above 1975/76 prices.

The target price for 1976/77 was fixed at 29 u.a./100 kg and the average world price at 23.121, giving aid of 5.879 u.a./100 hg. As this calculation would result in aid at less than 125 u.a./ha, producers of seed flax were paid this rate which they had been guaranteed. The target price for 1977/78 has been increased to 31.18 u.a./100 kg (+7.5%) and a minimum aid of 105 u.a./ha has been guaranteed. Neither the target yield nor the average price have yet been fixed.

Expenditure by the EAGGF Guarantee Section in respect of seed flax is included in that incurred in respect of fibre flax².

¹ See Table II B/7.4 in Part II.

² See also under 7: fibre flax and hemp.

5. (d) Cotton seed¹

Cotton represents an infinitesimal percentage of the value of final agricultural production and of the UAA of the Community and of world production (23.8 million t in 1976, according to the FAO).

Thanks to the Community aid system this crop, which is cultivated only in some of the less-favoured regions of Italy, continues to be worthwhile. About 4 000 ha were under cotton in 1976 and 1977, producing less than 2 000 t of seed. Although 5 600 ha appear to have been sown in 1977 it is unlikely that Community production will expand in the near future.

Aid for 1977/78 was fixed at 104.52 u.a./ha compared with 103.20 for 1976/77 (+1%). Expenditure by the Guarantee Section of the EAGGF in respect of cotton seed amounted to 0.3 M u.a.

¹See Table II.B/5.d.1 in Part II.

6. DEHYDRATED FODDER¹

1. Introduction

The common organization of the market in dehydrated fodder, decided upon by the Council to improve the Community's protein supply, came into force on 1 May 1974. It should be noted that dehydrated fodder is the most important of all Community crops considered as sources of protein.

The Council decided that the common organization of the market in dehydrated fodder should, as from 1 July 1975, extend to dehydrated potatoes unfit for human consumption.

2. Production

Community production of dehydrated fodder (other than dehydrated potatoes) in 1976 was 1 225 400 t, a sharp drop of 20.5% on 1975 due to the serious drought, the effects of which were felt in most Member States, but were most severe in the two largest producer countries: in France production dropped by 181 000 t (about a quarter) and in Denmark by 105 600 t (a third). Consequently, production of dehydrated fodder in the Community in 1976 was abnormal. For many dehydration concerns the lack of green fodder meant idle capacity, and overheads bore heavily on prime costs.

The Community produces dehydrated potatoes on a much smaller scale than conventional dried fodder (particularly lucerne and grass): its production of dehydrated potatoes in 1976/77, the second year in which the common organization of the market applied to these products, was 57 000 t, compared with 49 000 t for the previous year. The bulk of this quantity, intended for animals, was produced in the form of dried potatoes in the strict sense of the term (53 000 t); the remaining 4 000 t was in the form of potato flour, granules and flakes. Germany, with about 51 000 t is the Community's largest producer; the remainder is produced in the Netherlands (3 700 t) and in Denmark (2 500 t).

It should, however, be noted that the first marketing year for dehydrated potatoes under the common organization of the market coincided with a shortage of fresh potatoes in the Community, a situation which continued in 1976 because of the effect of the drought on the Community harvest.

¹See Tables II.B/6.1 to II.B/6.5 in Part II.

3. Consumption

In spite of the considerable increase in imports, supplies of dehydrated fodder in 1976/77, at 1 600 000 t, were 130 000 t less than for the previous year, as a result of the drop in internal production referred to above.

Internal production represented 77% of the available quantities. Even allowing for some drawing on stocks, one must conclude that consumption of dehydrated fodder diminished in 1976/77.

4. Trade

The abnormally high imports of lucerne meal from non-member countries in 1976 (390 000 t against 137 000 t in 1975) were due to the exceptional drought, the Community dehydration industry having to resort to increased imports to honour its sales contracts. These imports were mainly from the United States (173 000 t) and some Eastern European countries (Hungary, Yugoslavia 141 000 t) and went mainly to France, the Federal Republic of Germany, the Netherlands and Italy. The Federal Republic of Germany and the Benelux countries were the largest importers of dehydrated fodder of Community origin (350 000 t), mainly from France and Denmark.

Community exports of dehydrated fodder to non-member countries were insignificant.

5. Prices

Prices for dehydrated fodder which remained relatively stable from August 1975 to May 1976 rose sharply in the summer of 1976 due to the drought.

However, in view of the fall in production and the habit of the dehydration industry of selling a considerable proportion of their production in advance at the beginning of the marketing year, little business was done at those high prices in the summer of 1976.

During the first months of 1977 prices remained high in view of the world protein situation and fears that demands for these products might not be satisfied.

These fears in the end proved groundless, and an abundant Community harvest of roughage and imports of dehydrated fodder from non-member countries at low prices caused prices to drop from June 1977 onwards.

6. Outlook

Community production of dehydrated fodder in 1977 is estimated at 1 550 000 t, similar to the years prior to 1976. However, through a combination of factors, in particular the pressure on prices from imports from non-member countries since 1977, some dehydration concerns, particularly those in Member States which are traditional suppliers (France, Denmark), have had great difficulty in selling their products.

It is feared that for the first time for years the Community dehydration industry will be unable to sell its production although this was no higher than in a normal year. A carry-over stock of at least 200 000 t could weigh heavily on the market in the coming year. This situation and the prospect of increased imports during the next few months may depress prices and prevent the Community industry from paying a worthwhile price to farmers for their green fodder, thus jeopardizing this sector's future.

The present aid system comes to an end on 31 March 1978. Before that date the Council, pursuant to Article 5 of Council Regulation (EEC) No 1067/74 on the common organization of the market in dehydrated fodder, has to decide, on a proposal from the Commission, whether to maintain or amend this system.

The prospects for 1978/79 and subsequent years depend largely on the Council's decision on the above question.

7. Economic aspects of the measures taken

Apart from the aid fixed each year for dehydrated fodder production, no support measures are planned in the framework of the common organization of the market.

During the period March-October 1976, Community production (apart from quantities unsold) and imports of dehydrated fodder were subject to the arrangements for the obligatory purchase of skimmed milk powder established by Regulation (EEC) No 563/76.

8. Budgetary expenditure

Expenditure by the Guarantee Section of the EAGGF for dehydrated fodder was 3.6 M u.a. in 1974, 11.1 M u.a. in 1975 and 15.2 M u.a. in 1976, and is estimated at 15.7 M u.a. in 1977, 0.1%, 0.2%, 0.2% and 0.2% respectively of the Guarantee Section's total expenditure.

7. FIBRE FLAX AND HEMP¹

1. Introduction

Although the area under flax and hemp is less than 1% of Community UAA, these crops are of considerable importance for the regions in which they are concentrated. Fibre flax is grown by 10 000-15 000 farms in the Netherlands, Belgium and north-west France; flax straw is processed in about 250 retting and scutching concerns which produce a relatively high quantity of the raw materials which the Community lacks: textile fibres, oilseeds and pulpwood particles.

Paper hemp, grown only in France, is progressing; the raw material supplied by 1 500 producers, is used in manufacturing special types of paper. Italy produces a small quantity of textile hemp. The Community accounts for 5% of the total world area under fibre flax but 15% of world production as a result of above-average yields. The USSR accounts for three-quarters of world production. The Community area under hemp is only a small percentage of the world area under this crop.

2. Production

In 1976 about 58 000 ha were under fibre flax in the Community, an area very similar to 1975 and 1974. The order of the three producing Member States has not changed: about 75% is produced in France, 15% in Belgium and 10% in the Netherlands.

The exceptional weather conditions seriously affected yields, particularly in France, so that the 1976 harvest only amounted to 44 000 t, half a normal harvest. The areas under paper hemp which had grown considerably over the last five years increased only slightly in 1976: 7 800 ha compared with 7 600 in 1975 (5 500 in 1974). In view of these below-average yields straw production was only 25 000 t against 42 500 t in 1975.

3. Consumption and stocks of fibres

Community consumption of flax fibres in the 1976/77 marketing year was 83 000 t. Exports to traditional customers amounted to 23 400 t during the same period. Consequently, requirements amounted to 106 400 t which was between the figures for 1975/76 and 1974/75.

Requirements have scarcely changed from previous years, but the supply situation has been completely abnormal and unexpected.

As Community production was only 44 000 t (90 000 t normally) users have had to buy even more fibres from non-member countries than in the

¹ See Tables II B/7.1 to II B/7.7 of Part II.

previous year; and stocks were drawn down by 25 300 t. After this second year of withdrawals, stocks were on 31 July 1977 at the insufficient level of 32 300 t.

4. Trade

Since its unit value is too small to justify long-distance transport to scutching concerns, there is no trade in flax straw with non-member countries.

Part of the French and Netherlands production of flax straw is sent to retting and scutching concerns in Belgium to swell the Belgian crop. The quantity purchased in 1976 was lower than in 1975, straw being scarce throughout the Community because of low yields.

Users imported substantial quantities of flax fibres from non-member countries because of the lack of supplies within the Community. Imports thus reached 37 200 t against 32 000 t for 1975/76 and only 25 000 t for 1974/75.

The Community's traditional exports of fibre throughout the world increased slightly in 1976. Imports of hemp were low in 1976 while exports, as always, were on a small scale.

5. Prices

In May 1976, when the low yield was known, there was a rise in flax fibre prices which sharpened as the effects of the drought worsened.

The resulting scarcity of fibres pushed prices to record levels particularly as the spring weather of 1977 delayed sowing and led to fears of low yields for a third consecutive year. However, when these fears evaporated the market reacted and prices came down again in June and July 1977 and at the beginning of the 1977/78 marketing year had reached the same level as at the beginning of 1976/77.

As regards paper hemp, contract prices for straw from the 1977 harvest rose from 64.8 u.a./t for the 1975 and 1976 harvests to 73.8 u.a./t (+14%), users seeking in this way to encourage producers to increase the areas sown to 10 000 ha.

6. Outlook

This trend in flax fibre prices had a favourable effect on flax-growing, so that in 1977 62 000 ha of fibre flax were sown, an increase of about 7% over the previous year.

The straw and fibre yield and the quality of the 1977 harvest can be considered normal and should enable industrial requirements to be met and stocks of long fibres and to some extent short fibres to be rebuilt.

One can therefore expect the balance between production and consumption to be re-established during the 1977/78 marketing year.

The major increase in contract prices for hemp has enabled producers to meet the paper manufacturers' wish for a marked increase in the areas under flax which amount to 10 600 ha producing about 75 000 t of straw.

7. Projections for the 1978/79 marketing year and beyond

Unless unforeseen factors (drop in prices due to excessive imports or a sharp falling off of sales of fibres) upset the market between now and next spring, producers should sow the same area in 1978 as in 1977. If yields are normal the resulting production should be sold without difficulty, particularly in view of the shortage of stocks.

If this assumption is correct, prices would approach the levels reached in 1976 before the price rises of May and June of that year.

While a normal harvest in 1978 should enable users' requirements to be met and stocks to be rebuilt, the outlook is less promising for 1979. Community consumption of long fibres is normally less than production, so that the market balance when stocks are rebuilt will once more depend on exports, possibly at a loss. For some years the flax market has become so narrow that even quite small changes in supply or demand can upset it.

This market balance, particularly delicate for long fibres, can only acquire more stability through the development of much wider outlets for the use of long fibres within the Community.

8. Budgetary expenditure

The amount of aid for fibre flax rose from 188.5 u.a./ha for 1975/76 and 1976/77 to 194.76 u.a./ha for 1977/78, an increase of 3.5%. For hemp, aid rose from 174.04 for 1976/77 to 176.88 for 1977/78 (+1.6%). Fibre-flax seed receives aid under the arrangements for seed-flax seed.

Expenditure by the EAGGF Guarantee Section in respect of flax and hemp amounted to 19.3 million u.a. in 1976.

8. SEEDS¹

1. Introduction

The common market organization in seeds covers the following products:

- dried leguminous vegetables for sowing	CCT 07.05
- hybrid maize for sowing	CCT 10.05 A
- oil seeds and oleaginous fruit for sowing	CCT 12.01
- seeds, fruit and spores, of a kind used for sowing	CCT 12.03

The production of these seeds must be considered not only from the standpoint of the harvest obtained, but also in respect of the function of these species in crop rotation and in respect of the end uses they serve, since the different varieties of a single species can have their own particular use. Leguminous plants are particularly important because they increase the nitrogen content of the soil in which they grow.

World fodder seed production in 1976 totalled 3.6 million quintals (United States, Canada, New Zealand and EEC); the Community produced 0.9 million quintals, or 25% of this total. The Community is a net importer of some species but a net exporter of hybrid maize for sowing.

A new sub-species, *Linum usitatissimum* L. partim (seed flax) (CCT 12.01), has been added to the list annexed to Regulation (EEC) No 2358/71 for the 1977/78 marketing year.

2. Production

Denmark, which produces nearly 28% of the total (and 41% of all grasses), is the main Community producer. France and Italy are the main producers of legumes.

Community seed production in 1976 was about 1 140 000 quintals, a reduction of about 530 000 quintals (32%) over 1975. This drop in production was due to a reduction in total area planted and to the drought. Five species were mainly affected: *Lolium perenne* L (- 240 000 q), *Lolium multiflorum* L (- 110 000 q), *Festuca rubra* L (- 60 000 q), *Festuca pratensis* L (- 25 000 q) and *Trifolium pratense* L (- 30 000 q).

¹ See Tables II.B/8.1; 8.2; 8.3 of Part II.

Total production for 1977 is provisionally estimated at 1 340 000 quintals.

By comparison with 1976, in which aid was granted for 169 000 hectares, the declared area for the 1977 harvest has increased slightly to 203 000 hectares.

The main cause of this increased production is the rise in prices in 1976 leading to increased area and improved yield. Hybrid maize production totalled about 1.4 million quintals.

Community production in 1977 was nearly normal; the early species (*Lolium perenne* L, *Lolium multiflorum*, etc.) showed a good yield while the later species (late *Lolium perenne* L) suffered from rain and storms during harvest and gave a lower than normal yield. Bad weather particularly affected certain areas of Germany, France, the United Kingdom and Italy.

Variations in production mainly affected the following species:

	1976		1977	
	ha	q	ha*	q*
<i>Lolium multiflorum</i> L	21 036	188 000	29 000	311 000
<i>Lolium perenne</i> L.	29 192	271 000	33 000	327 000
<i>Trifolium pratense</i> L.	7 675	11 000	11 000	27 000
<i>Trifolium repens</i> L.	5 424	19 000	3 500	12 000
<i>Pisum arvense</i>	2 817	47 000	4 100	71 000

* provisional Commission estimates.

3. Supply situation

Community supplies have been satisfactory in recent years and our dependence on imports from non-member countries has been reduced. Because of the large quantities in stock, the relatively poor harvest in 1976 did not lead to any shortage in 1976/77, as 2.2 million quintals were available for the 1976/77 marketing year. The Community, with a production of about 1 340 000 quintals in 1977 and demand estimated at 1 540 000 quintals is for the most part able to meet its own needs, but has still to import the seed of certain species from non-member countries, chiefly the United States, Canada and New Zealand.

Stocks at 1 July 1976 totalled 978 000 q, and the estimate for 1977 is 655 000 q (*Lolium perenne* L 261 000 q). This 33% drop is caused by a 10% increase in consumption in 1976/77 because of the need to regenerate parched grassland, and the poor harvest in 1976. Stocks have nevertheless remained high.

Following the 1977 harvest and the carry-over stocks, the amount of seed available for the 1977/78 marketing year is estimated at about 2 million quintals.

The world supply situation is generally good, but difficulties may arise in respect of *Phleum pratense*.

4. Prices

In the 1977/78 marketing year aid in respect of seeds varied between 4 and 33.2 u.a./kg.

This aid represents a total increase of 0.5%, but the increase for certain species was higher (*Cannabis sativa*, *Phleum pratense*, *Trifolium pratense*, *Trifolium repens* + 2 u.a.; *Medicago sativa* + 1 u.a.).

Community market prices rose considerably in 1976, reaching a peak in September, chiefly because of the great demand for some species (especially *Lolium multiflorum*) after the drought. Since then they have fallen slightly and become stable in 1977. Present prices are generally satisfactory to producers.

Prices on the Danish market, the main Community market and one of the largest in the world, were (u.a./100 kg);

	<u>September</u> <u>1976</u>	<u>September</u> <u>1977</u>
<i>Lolium perenne</i> L.	58	55
<i>Lolium multiflorum</i> L.	96	61
<i>Festuca pratensis</i> L.	111	98
<i>Festuca rubra</i> L.	83	90
<i>Poa pratensis</i> L.	122	133
<i>Trifolium repens</i> L.	181	175

The reference price for hybrid maize for the 1977/78 marketing year has been increased by between 2 and 4 u.a./100 kg.

5. Outlook

The considerable reduction (-30%) in Community stocks, which had shown a surplus since 1975, improved the market situation and prices will probably remain stable through the 1977/78 marketing year. However, there are still large stocks of some species (about 260 000 q in the case of *Lolium perenne* L.). Community production of *Trifolium repens* L. fell considerably in 1977, giving rise to a special problem, as Denmark and New Zealand are the only countries in the world producing this species.

The area harvested in 1978 may be estimated at about 200 000 ha. A considerable increase in production of *Lolium multiflorum* in 1977 allowed the Community, which had in the past imported this species, to become self-sufficient. Caution is required in respect of the increase in the area under *Lolium multiflorum* and *Lolium perenne* in 1978, as the Community normally imports large quantities of these species under seed-growing contracts with non-member countries.

World production of fodder seed is expected to increase in 1978/79, as countries such as the USA and Canada traditionally convert some of their area to seed production when cereal prices are low.

6. Budgetary expenditure

Expenditure by the EAGGF Guarantee Section in respect of seed amounted to 23.8 m u.a. in 1975 and 22.7 m u.a. in 1976 and is estimated at 16 m u.a. in 1977, or 0.5%, 0.4% and 0.2% respectively of the Section's total expenditure.

9. W I N E⁽¹⁾

1. Introduction

In 1976 wine represented about 2.5% by value of the Community's final agricultural production. The area under vines totalled 2.394.00 ha or 2.6% of the Community UAA.

According to the FAO world wine production for 1976/77 is put at 313 million hl, negligibly higher than 1975/76 (312.5 million hl) and well below the record levels of 1973/74 and 1974/75 when production amounted on average to about 340 million hl. Community production in 1976/77 was 147 million hl compared with 146 million hl in 1975/76 and 160 million in 1974/75 and therefore represented 46.9%, 46.4% and 47% respectively of world production. The average Community yield is considerably higher than the world average. The area under vines in the Community represents only about 24% of the world area under vines.

2. Production

After an exceptional harvest in 1973 (171 million hl) and an abundant harvest in 1974 (160 million hl) the 1975 (146 million hl) and 1976 harvests (147 million hl) can be considered average. In a sector where weather conditions have a major effect on production a number of harvests must be looked at to discern a trend. The average annual growth in production from "1968/69" (3-year average) to "1974/75" (3-year average) was 2.6% and was shared in by all the wine-producing Member States though not to the same extent (varying from 1% for Italy to 6.2% for Germany).

3. Consumption

In 1975/76 total internal consumption amounted to 149 million hl compared with 169 million hl in 1974/75. The sharp drop is almost entirely due to a drop in exceptional distillations.

(a) Human consumption

In 1975/76 direct human consumption was 130 million hl against 133 million hl in 1974/75 and 125 million hl in 1973/74. In the six original Community countries direct human consumption has remained virtually unchanged from "1968/69" (3-year average) to "1974/75". The slight increase in consumption which has occurred has therefore been due entirely to the enlargement of the Community.

(b) Processing

The quantity processed, which amounted to 35 million hl in 1974/75, dropped to 18 million hl as a direct consequence of a sharp reduction in exceptional distillations.

¹ See Tables II.B/9.1 to II.B/9.4 of Part II.

(c) Self-supply

The Community self-supply rate in 1975/76 was 97.5% (95% in 1974/75) in terms of all internal utilization. If the quantities which were distilled following Council Decisions to relieve the market (slightly over 2 million hl) are deducted from the supply figure, the rate of self-supply for 1975/76 is 99%. This figure was 108% in 1974/75 and 119% in 1973/74. The massive distillations in 1974/75 enabled the volume of end-of-year stocks to be reduced by almost 6 million hl. In 1975/76 a further reduction of 3 million hl brought end-of-year stocks back to less disturbing levels.

4. Trade

In 1975/76 Community imports amounted to 5 million hl compared with 5.3 million hl in 1974/75, a 6% reduction. This reduction follows on that of 26.5% in the previous year, reflecting the abundance of internal supplies.

Exports rose from 4 million hl in 1974/75 to 5 million hl in 1975/76 an increase of 23.2% following that of 12.3% in the previous year.

Thus in 1975/76 imports and exports were level against an import balance of 1.3 million hl in 1974/75.

5. Prices

(a) Common prices

The average increase in guide prices for all types of table wine was 3.5% for 1977/78, compared with an increase of 6.5% in the previous year.

(b) Market prices

All the average prices quoted for the various marketing centres in 1976/77, except for one marketing centre for table wine of type A I which dropped by 0.1%, were higher than market prices for the previous year. Increases varied between 5.5% and 16.7% for table wines of type R I, between 22.1% and 26.5% for table wines of type R II and 6.1% and 23.6% for table wines of type A I. There were spectacular increases for wines of type R III (64%), A II (between 64.2% and 171.5%) and A III (50.9%).

For wines of type R I prices in France remained above the activating price for the whole year and almost always above guide prices. However, in Italy, except for a brief period in May and June, prices remained below the activating price, the annual weighted average price being 3.5% below the activating price and the lowest monthly average 8.5% below. Extremes of about 23% were recorded.

Prices for table wines of type R II were above the activating price and often above the guide price except in a few cases at the beginning of the year. Prices for table wines of type A I remained well below the activating price (on average 7.6% below, in extreme cases 19.6%) except for the price at Bordeaux which from May onwards reached and exceeded the activating price and then the guide price and the price at Treviso which remained at the level of the activating price.

The situation in the previous year as regards prices of table wines of types R III, A II and A III was completely reversed. Where they had been 17%, 35% and 21% respectively below the activating price they were now on average 12.4%, 0 and 11.7% above it.

In general the situation was fairly satisfactory except for table wines of type R I in Italy and for wines of type A I throughout the Community.

(c) World prices

According to the FAO's information, wine prices on the world market were higher than for the previous year. Of the markets which concern us most directly, the Spanish market showed a considerable price increase from April onwards at a time when serious frosts endangered production in certain regions. The gap between world prices and Community prices is still very large and in some cases exceeds 40%. With some few exceptions consignments were offered to the Community at higher prices than the free-at-frontier reference price, thus complying with the corresponding reference prices.

6. Outlook

(a) Short term

Preliminary information suggests that the 1977/78 harvest will give considerably less wine than the previous year. According to preliminary estimates by the Member States production should amount to about 132 million hl. This quantity is considerably below normal foreseeable utilization and although stocks are large a firming of the market and an increase in prices are a possibility. If this occurs, imports may increase, while exports should not vary much.

(b) Medium term

Although the **last** harvest was in balance with normal consumption and the next one, because of weather conditions, is expected to provide less than market requirements, the increase in average yields means that Community wine-growing potential tends to be in excess of almost unchanging market requirements. To check this tendency, the Council will need, before 1 October 1978 to adopt measures to ensure a medium-term balance between production and normal consumption. These structural measures will be in addition to those adopted in 1976 whose impact, although it is difficult to evaluate, appears to have been not inconsiderable.

7. Economic aspects of the measures taken

(a) Levies and refunds

1. Import levies

Import levies known as "countervailing charges" in the wine sector, play only a very minor part, since they do not apply to 18 non-Community countries which have undertaken to observe the reference price and which are the Community's principal suppliers. The level of countervailing charges remained the same throughout the 1976/77 marketing year.

2. Refunds

The increase in the rate of refunds and a less restrictive application as to destination have scarcely changed the total quantities qualifying for refunds.

(b) Quantities in respect of which intervention measures were taken

No exceptional distillation measures were taken in 1976/77. On the other hand, all the "normal" intervention measures provided for in Community rules were applied. The quantities of wine distilled with Community aid under the various measures amounted to about 5,2 million hl (compared with 2,2 million hl of exceptional distillations in 1975/76. It should be noted that for the first time "guarantee" measures were applied to holders of long-term storage contracts. These measures consist of distilling some of the wine and of extending the contracts for the remainder and extend potentially to 8.5 million hl, but in view of harvest estimates the quantities involved will in practice probably be considerably less.

It should also be emphasised that although the quantities distilled were greater than last year, the cost has not increased proportionally as the amount of aid for normal distillation is considerably lower than that needed for exceptional distillations. The monthly average of quantities covered by storage contracts amounted to 12.5 million hl (17 million hl in 1975/76) with a maximum of 21.8 million hl (27.8 million hl in 1975/76).

(c) Stock situation

At the beginning of 1976/77 stocks held by producers in the trade totalled 78.3 million hl. At the end of the marketing year stocks are expected to total 80.5 million hl, well above the normal carry-over stock.

(d) Unity of prices

The compensatory amounts which were re-introduced in spring 1976 for Italy and France still apply. The new representative rates which will apply to the Italian lira and the French franc from 16 December 1977, have already been anticipated, in respect of certain intervention measures on 1 September.

8. Budgetary expenditure

Expenditure by the Guarantee Section of the EAGGF amounted to 139.1 M u.a. in 1975 and 172.9 M u.a. in 1976, and are estimated at 109 M u.a. in 1977, or 2.9%, 3% and 1.5% respectively of the Guarantee Section's total expenditure.

The amount of 109 M u.a. in 1976 breaks down as follows: 2 M u.a. for export refunds, 60 M u.a. for private storage aid, 2 M u.a. for re-storage, 33.7 M u.a. for distillation and 11.2 M u.a. for distillation of the by-products of wine-making.

10. RAW TOBACCO¹

1. Introduction

World tobacco production rose yet again in 1976 by 2.2% compared with the previous year, reaching the record level of 5.5 million t. This situation is due mainly to abundant harvests in Brazil, Turkey, Greece and Korea. Virginia flue-cured makes up about 30% of total production and 50% of all trade. In 1976 Community production (180 000 t) remained at practically the same level as the previous year. The share of baled tobacco production in the value of the Community's final agricultural production in 1976 was slightly less than 1%.

2. Production and structure

Over the last decade there has been at world level a tendency for tobacco production to shift to the developing countries (+ 30%) and the countries with planned economies (+ 40%); indeed, in the industrialized countries production has risen by only 4%. Inflation, the rise in production costs (labour, in particular) which are particularly marked in the latter countries will continue to give impetus to this trend.

Over the same period, Community production has increased by about 35% as a result, particularly, of a marked increase in yields per hectare, especially in Italy and, to a lesser extent, in France and Germany. In Belgium, on the other hand, the downward trend in crop area and production continues. Furthermore, the tobacco sector has undergone a far-reaching change in its production structure (the development of cooperatives) and marketing structure (rationalization and concentration of undertakings, after the entry into force of the common organization of the market (1970), in the direction of better adjustment to actual market requirements.

As regards major types of tobacco, world production increased in 1976 compared with the previous year by about 5% in the case of dark air-cured, by about 10% in the case of sun-cured and by 1% in the case of Burley, while flue-cured decreased by 4%.

At Community level, with due allowance for the very unfavourable weather in 1976, the following emerges for the major types:

- dark air-cured varieties: an increase of 8 % due, in particular, to an considerably increased harvest for the Paraguayan variety;
- light air-cured varieties: a fall of about 11 %;
- flue-cured varieties: a fall of 6%;
- sun-cured varieties: a rise of 21%;
- fire-cured varieties: a fall of 35%.

¹ See Tables Nos II. B/10.1 to II. B/10.8 of Part II.

3. Degree of self-supply

Consumption

The degree of self-supply in the Community is about 30%. Compared with 1975, world tobacco consumption in 1976 rose by around 3%, particularly in the USA (6.5%), Japan (6%) and Brazil (10%). Consumption in the nine-member Community has more or less stabilized as a result, mainly, of the economic recession, the increase in taxes and the anti-smoking campaigns. Nevertheless, certain downward trends are evident in certain countries, such as France and the United Kingdom. It should be pointed out, moreover, that, although at world level the rise is 3%, this rise exceeds 5% on average and shows peaks of 10 to 15% in the developing countries. The steep rise in the consumption of "light cigarettes" (low nicotine and tar content) continued in 1976 and trade may be expected to move to those countries exporting neutral reaction tobacco for filling. The introduction, also, of cigarettes containing tobacco substitutes on the United Kingdom market does not seem, at the present stage, to have much effect on the level of consumption.

4. Trade

World exports in 1976 amounted to 1.27 million t, which is an increase of 3.4% on 1975 though less than that of 1974.

After the policy of running down stocks throughout 1975 it seems that in 1976 there was a return to more normal levels and that factories are considering building up stocks again.

It should be noted at the same time that, because of new manufacturing techniques involving a reduction of tobacco per unit of consumption and, also, because of increased prices (tax measures) and health considerations, a drop in consumption and, consequently, in import demand may be expected, especially in the industrialized countries. It should also be emphasized that the developing countries and the countries with planned economies are taking an increasing share of world trade.

Community exports in 1976 have fallen by around 12% compared with 1975 (around 37 000 t) and imports by 1%. About 57% of total imports are Virginia flue-cured tobacco while the Burley variety accounts for only 10%. Furthermore, it should be noted that about one-third of imports enter the Community at zero or preferential duty under the terms of the EEC policy towards the developing countries (generalized preferences, ACP).

This policy on tobaccos directly in competition with those produced in the Community implies also the need for greater support measures under the common organization of the market (premiums and export refunds).

5. Prices

Prices on the world market have increased sharply compared with the previous year: in the United States, the most representative market on a world level, the Virginia flue-cured and the Burley reached FOB export prices of between \$4 and \$5 per kg. The rise in the prices of Kentucky was also very marked (approx. \$3 per kg) and the demand for this variety is continuing in 1977.

After three years of rising prices oriental tobaccos are showing the effects of over-production in Turkey, Greece, Bulgaria and Yugoslavia: minimum export prices have been lowered, export subsidies have been granted as well as credit facilities. In Turkey it is even intended to destroy large quantities of inferior quality tobacco. This situation shows no signs of changing over the next two marketing years.

As far as the situation within the Community is concerned, planters generally received the norm price for the 1976 crop, but in Italy prices, which in 1975 had reached very high levels (particularly oriental varieties), dropped considerably chiefly because of the relatively mediocre quality of the 1976 crop as well as of the situation on the world market for oriental tobaccos. While the average increase in the level of the norm price was 4.97% between 1975 and 1976, the rise between 1976 and 1977 was 1.84% (expressed in units of account).

6. Outlook

First indications for 1977 are that world production of raw tobacco will drop, particularly in the United States. Even if yields in the main producer countries remain at normal levels, it will be difficult to offset the drop expected in the USA.

Nevertheless, with more particular reference to the Community position, it should be stressed that the structural difficulties which exist for certain varieties (especially the Beneventano) will continue and that, in spite of the drop in production, the Burley variety seems to have reached its ceiling. As regards the oriental tobaccos major intervention buying is expected. It will probably be necessary to invoke the procedure of Article 13 of the basic Regulation.

7. Economic aspects of the measures taken

To deal with the well-known marketing difficulties of the Beneventano variety, a conversion plan extending over three years was approved by the Council and applied for the first time to the 1977 crop; early results relate to roughly 1 200 hectares (approx. 27% of the total crop area) converted mainly to the Kentucky and Paraguay varieties. In the course of 1977 there have been two tendering procedures for the export sale of tobacco held by the German and Italian intervention agencies (3 888 t of the 1972, 1973, 1974 and 1975 crops and

2 362 t of the 1972 and 1974 crops). Thus the intervention agencies still hold in storage roughly 8 800 t of the 1973, 1974 and 1975 crops.

The granting of export refunds was certainly a factor in enabling the Community to increase its share of world trade. The Community varieties, hitherto little known, have now established their place in world trade. Indeed, although exports in 1970 reached only about 4 000 t, as from the 1973 crop - the year when the system of export refunds was introduced - exports have been reaching fairly high levels on the international market, namely some 25 to 27 000 t.

8. Budget expenditure

The expenditure of the Guarantee Section of the EAGGF for raw tobacco was 228.5 M u.a. in 1975 and 229.9 M u.a. in 1976, or 4.8% and 4.1% respectively of the total expenditure of the Guarantee Section of the EAGGF. In 1977 expenditure is provisionally estimated at 203.2 M u.a., or 2.8% of total expenditure. This development may be explained by the fact that production, after increasing because of the entry into force of the common organization of the market, has practically stabilized. In 1976 total expenditure (229.9 M u.a.) broke down as follows: export refunds 2.5 M u.a.; storage 2.5 M u.a., price compensation measures: 224.8 M u.a.

11. FRESH FRUIT AND VEGETABLES¹

1. Introduction

Fruit and vegetable production in 1976, including crops for processing, represented 11 % by value of final agricultural production, which is not very different from previous years (11.5% in 1974 and 11.9% in 1975).

The output of the main producing Member States was as follows (1 000 t):

1976	1st Member State		2nd Member State		3rd Member State	
<u>Fruit</u>	Italy	9970	France	3635	Germany	2775
Apples	Italy	2143	France	1711	Germany	1487
Pears	Italy	1523	France	464	Germany	388
Peaches	Italy	1392	France	522		
<u>Vegetables</u>	Italy	9738	France	3900	United Kingdom	2520
Cauliflowers	Italy	545	France	443	United Kingdom	193
Tomatoes	Italy	2838	France	625	Netherlands	360

2. Production

Commercial fruit production² in the Community in 1976 amounted to 18.08 million t, an increase of 2.5% compared with 1975. This is due to a particularly large increase of about 12.3% in France, more limited increases in the United Kingdom (5.1%), Italy and Belgium (about 3.5%),

¹See tables II.B/11.1 to II.B/11.20 of Part I

²This is "biological production", i.e., total production, even if not harvested, excluding that from household gardens.

and a minor increase in the Netherlands (1.6%), while the other Member States recorded a drop, 6.3% in Ireland, 8.3% in Luxembourg and about 11% in Germany and in Denmark.

These variations, which for the most part contrast with those recorded between 1974 and 1975, are due to the phenomenon of alternation of fruit crops and do not signify a particular trend. Thus, the annual rate of change between the 1975 harvest and that of "1968" is only -0.2 for the whole Community and, excluding Luxembourg and Germany, where the rate of change is -5.9 and -3.4 respectively, it fluctuates for the other Member States between -1.1 and +0.8. It can therefore be said that fruit production has remained fairly stable.

The following observations may be made about the main fruit crops:

- in apple production, which accounts for about 36% of Community fruit production, the 1976 harvest was 14% down on 1975. Though it increased a little in Italy (+0.8%), there was a drop of 19.5 and 26.9% respectively in France and Germany, the largest producer Member States after Italy.
- the pear harvest on the other hand increased by 12.6% over 1975. This increase was recorded in all Member States in varying degrees. Production more than doubled in the United Kingdom and almost doubled in the Netherlands, but only increased by 4.8 and 13.2% respectively in the two main producer countries, Italy and France.
- the peach harvest was 59% up on 1975, but it should be kept in mind that production was particularly low in France in 1975 (about 20% of normal).
- Citrus fruit production, mainly Italian and accounting for some 15% of Community fruit production, was almost identical to that of 1975, an increase of 2.6% in the orange crop being offset by a drop of 7.6% in the lemon crop.

Commercial vegetable production in the whole Community reached 20.5 million t, a drop of 8.2% on 1975, and affecting all Member States in varying degrees, except Ireland and Denmark.

While the drop in tomato production is due primarily to a decline in area cultivated in Italy (-12.4%), it will be remembered that 1976 was a year of severe drought in many Community regions, with much reduced yield for many products; the following examples can be quoted:

Product	Community production (1976 as % of 1975)	Member State	Average yield (1976 as % of 1975)
Cauliflowers	93.7	United Kingdom	78
		Belgium	81
Carrots	87.9	Belgium	48
		United Kingdom	88
Onions	90.9	Netherlands	75
Peas	64.5	Belgium	53
		United Kingdom	69
French beans	32.8	Belgium	73
		Germany	84

3. Consumption (all kinds)

In 1975/76 internal consumption of fruit¹ in the Community rose to 23.5 million t, an increase of 2.8% on the previous year.

Internal consumption of vegetables, at 29.0 million t, shows a small increase of 1.2% on 1974/75.

(a) Human consumption

Human consumption of fresh or processed fruit was 90.5% of all consumption.

Per capita annual consumption in the Community rose to 82 kg (of which 23 kg citrus fruit), but there are substantial differences between Member States: 111 kg in Germany; 40 kg in Ireland.

Human consumption of vegetables was 88.6% of all consumption. Per capita annual consumption was 99 kg; again, there are large differences between Member States: 155 kg in Italy; 47 kg in Denmark.

¹Including citrus fruits, excluding tropical fruits and dry or dried fruits. Preserves and fruit juices are included.

In the original Community, for which alone data are available, individual consumption of both vegetables and all fruit dropped by a scarcely perceptible 0.3% from "1967/68" to "1974/75". However, within the total, citrus fruits (+3.1%) seem to be gaining in favour at the expense of other fruit (-1.4%).

(b) Animal consumption and industrial uses

These two outlets, which include industrial uses for non-food purposes, tend to be adventitious and the quantities of fruit and vegetables which they absorb are generally very small, even less significant than losses during marketing.

(c) Rate of self-supply

The Community's self-supply rate is particularly high for vegetables, reaching 95% in 1975/76; the figure is 79% for fruit and 43% for citrus fruits.

4. Trade

The Community's total imports of fresh fruit in 1976 amounted to 4.4 million t, intra-Community trade accounting for 2.4 million t. Thus there was a drop of 3.7% in imports from non-member countries and an increase of 5.7% in trade between Member States compared to the previous year.

Citrus fruits from non-member countries, at 3.2 million t, were the predominant import, followed by apples, at 1.05 million t from other Member States and 0.43 million t from non-member countries.

Fruit exports totalled 0.83 million t (+6.6%). Trade between Member States came to 2.6 million t (+7.9%). The principal exports were potatoes (0.26 million t), pears (0.06 million t), oranges and lemons (0.28 million t).

Imports of fresh vegetables in 1976 totalled 1.1 million t, an increase of 8.1% on 1975. Trade between Member States (2.1 million t) was 24.6% up on 1975.

Exports of vegetables totalled 0.39 million t (14.9% up on 1975). Trade between Member States, at 2.2 million t, has increased by 13.8%.

5. Prices

(a) Common prices

The basic prices and buying-in prices for the 1976/77 marketing year have been increased so that the resulting average withdrawal prices, at which producer groups buy back their members' unsold produce, are 4% higher than in 1975/76 marketing year for apples and pears and 8% higher for other products.

The average increase for 1977/78 was 2.5% for table grapes, 3.5% for apples, pears, oranges and mandarins and 4.5% for lemons, cauliflowers and tomatoes.

The reference prices, which determine the minimum level of entry prices for certain products imported from non-member countries, showed an average increase from 1975/76 to 1976/77 of about 7% for apples and pears and 8% for other products. For lemons, oranges and mandarins, however, reference prices have remained at the level of the previous year due to the relationship which exists, in respect of these products, between basic and buying-in prices, penetration premiums and reference prices (see 7(e)).

Reference prices, other than those of citrus fruits, increased by 4% from 1976/77 to 1977/78.

(b) Market prices

Fruit and vegetable prices fluctuate constantly and vary considerably from one time of the year to another, from one market to another and even from one consignment to another.

An analysis of the data available leads to the following conclusions based on average basic and buying-in prices for pilot products:

- apples (Golden Delicious, quality class I, 70 mm or over).
Since there was an exceptionally abundant crop in 1975/76 which brought prices down, it is not surprising that there was a general increase in prices in 1976/77; while this increase was moderate in Italy and Denmark, in Germany, Luxembourg and France it reached 140, 144 and 152% respectively of average prices in the previous marketing year.

Generally speaking average monthly prices were higher than the basic price level, apart from a few months on the Belgian market and from time to time on other markets.

- Pears (various, quality class I, 60 mm or 70 mm or over according to period).

Apart from Denmark (increase of 16.8%), average pear prices for the 1976/77 marketing year were between 14.6 and 27.6% lower than those of 1975/76 on all Community markets.

Average monthly prices nonetheless remained generally higher than the basic prices, except for a few months in Italy.

- Peaches (various, quality class I, size 51/61 mm or 61/67 mm according to period).

On the Italian market the average price was 50% down on 1975, and average monthly prices, which rarely reached the basic price, were often about 2 to 7 u.a. below it.

The very low production in 1975 in France robs price comparisons between 1976 and 1975 of significance. For 1976, only the monthly average prices for July are higher than the basic price, those of the other months being lower by about 1 to 4 u.a.

- Table grapes (various, quality class I).

Prices in the 1976/77 marketing year were 31.3% up on 1975/76 in Italy and 9.9% down in France. However, Italian prices were still less by half than those in France and, except for the month of August, were 3 to 4 u.a. below the basic price.

- Oranges (various, quality class I, size 67/80 mm).

The annual average price of oranges was 8.9% up on 1975/76. Average monthly prices were lower than the basic price and, in February, were even very close to the buying-in price.

- Mandarins (quality class I, size 54/64 mm).

The average annual price was 5.3% down on 1975/76, and average monthly prices were generally below the basic price, to varying degrees, depending on the markets and periods.

- Lemons (quality class I, size 53/62 mm).

The average annual price for lemons in 1975/76 was about 27% higher than in the previous marketing year.

Apart from certain markets at the beginning of the season, the average monthly prices were always higher than the corresponding basic prices, and, as in the case of mandarins, the differences varied according to markets and periods.

- Cauliflowers ("with leaves" or "trimmed", according to the period, quality class I)

In all Member States the annual average price of cauliflowers was higher than in 1975.

While this increase was small in Germany and in Denmark (1.1 and 3.9%) it was 43% in Italy, 55% in France and about 20% in the other Member States.

With rare exceptions, the monthly average prices were higher, in some cases much higher, than the basic prices.

- Tomatoes ("round", quality class I, size 57/67 mm)

The annual average price changed on 1975 varied according to Member State; increases of between 6.9 and 15.5% in Ireland, France, Denmark and Belgium; falls of between 0.4 and 10.4% in Germany, the United Kingdom, the Netherlands and Italy.

With one exception, monthly average prices were always higher than the basic prices.

Obviously, the often rapid change in daily prices and in the coefficients applied to products which differ from the pilot products may explain why some products fell short of the withdrawal price and were withdrawn from the market by the producer groups, even when the average prices of the pilot product were higher than the basic price.

(c) World prices

Fruit and vegetable prices, due to the perishable nature of the products, are fixed more or less independently on the principal markets. There is, therefore, strictly speaking, no world market for such products and consequently no world prices.

However, to limit competition facing Community products from abnormally low-priced imports from non-member countries, certain measures can be taken under the system of reference prices.

(d) Consumer prices

In view of the wide diversity of products - types, varieties, qualities, sizes, - and the wide variations of price for a given product at consumer level, it would appear more useful to illustrate trends by means of price indices than in actual retail price terms.

The 1975 increase in these indices over 1974 was 37.4% in the United Kingdom, 31.1% in Ireland; in other Member States between 13.2 and 19.6%.

The 1976 increase over 1975 was greatest in Luxembourg and Ireland (31.0% and 27.4% respectively) and least in Germany (3.4%); in the other Member States it varied between 14.3 and 23.5%.

6. Outlook

Pending the results of the survey of orchards carried out by the Member States in 1977 pursuant to Council Directive 76/625/EEC of 20 July 1976, there is little cause to depart from the conclusions of the first such survey which indicated that:

- as regards apples, an increase in production followed by a slowdown or stagnation could be expected in the medium or long term,
- as regards pears, a fairly similar development could be expected, except that here there was a smaller proportion of orchards of less than 10 years standing,
- as regards peaches, no great change in production was to be expected,
- as regards oranges, the decline in new plantations should lead to a reduction in production.

The grubbing of 4% of Community apple and pear orchards (see 7f) should accelerate the slowing down or stabilization production, provided there are no new plantings. In any case, it may be hoped that by reducing the production of varieties the supply of which exceeded market demand, the grubbing measures will have the effect of stabilizing this market at more favourable prices.

In the case of vegetables, the rapid succession of crops, with often two harvests per plot, and the availability of fixed or movable means of protection, are factors making for flexibility and enabling production to adapt itself rapidly to demand.

In view of the trends in vegetable production over the last few years, no major changes are to be expected for some time to come.

7. Economic aspects of the measures taken

(a) Import and export measures

(i) Countervailing charges on imports

During the 1976/77 marketing year, countervailing charges were imposed on imports of the following products:

- cucumbers from Spain, Bulgaria and Greece;
- tomatoes from Romania and Bulgaria;
- peaches from Greece;
- lemons from Spain, Cyprus, Greece and Israel;
- plums from Spain and Czechoslovakia;
- mandarins from Algeria;
- certain varieties of oranges from Algeria and Greece.

These measures, some of which were applied for only a short time, resulted in higher prices for the imported products following a drop or even a complete halt in shipments to the Community.

(ii) Suspension in 1976 of Common Customs Tariff duties

Following the harvest losses in certain vegetables due to the drought, temporary measures suspending Common Customs Tariff duties were adopted to facilitate the arrival of fresh products on the Community market from outside.

The products concerned were white and red cabbages, cauliflowers, peas, carrots, onions and celery.

The suspensions, which were 8% or 0% depending on the products and the periods, were not granted after 30 September 1976 in the case of cauliflowers nor after 31 October 1976 in the case of the other products.

(iii) Export refunds

Export refunds were fixed during the 1976/77 marketing year for fresh sweet oranges, fresh mandarins, fresh lemons, fresh table grapes, walnuts in shell, shelled almonds, shelled hazelnuts, apples other than cider apples, peaches and tomatoes.

These refunds, which vary according to the product and are generally low, were fixed only for destinations which afforded real export outlets and only if there were export difficulties to be overcome.

(iv) Protective measures

No protective measure was applied during the 1976/77 marketing year.

However, for the sake of completeness and to avoid any confusion, mention should be made of the protective measure adopted in June 1976 in respect of dessert apples from Chile and covering the end of the 1975/76 marketing year, and the measures adopted in July and August 1977 in respect of peaches from Greece, covering the 1977/78 marketing year.

(b) International agreements

In view of the small quantity of apples expected from the Southern hemisphere countries, and since stocks of Community apples were at normal levels a discussion with the principal supplier countries on a possible voluntary restraint or a change in the timing of their shipments to the Community was not necessary.

(c) Withdrawals from the market

The quantity of apples withdrawn from the market in 1976/77 was relatively small. It amounted to 165 000 t (or 2.55% of commercial production), and, since the entry into force of the intervention system (1967) withdrawals have only been lower in the marketing years 1968/69 and 1972/73 and 1974/75. Intervention took place mainly in Italy where 148 000 t (6.91% of production) were withdrawn.

Withdrawals of pears on the other hand amounted to 327 000 t (12.25% of commercial production) and only two marketing years (1970/71 and 1971/72) have registered greater withdrawals. While, in terms of quantity, withdrawals were very high in Italy (269 000 t: 17.69% of production), they were very substantial as a proportion of national production in the Netherlands and in Belgium (18.95 and 15.06% of production respectively).

As regards peaches and oranges, withdrawals, at 355 000 t and 300 000 t respectively, largely exceeded any interventions in previous years. Effected mainly in Italy, these withdrawals involved some 18.5% of Community production for each product.

The quantities of mandarins withdrawn from the market were lower than in 1975/76 but nonetheless represented 9% of Community production.

Withdrawals of lemons have continued to increase since 1974/75 (first year in which there was intervention for lemons) to reach 55 000 t, or 7.3% of Community production.

Finally, withdrawals of table grapes, cauliflowers and tomatoes were almost insignificant as they involved only 0.11, 0.27 and 0.50% of Community production respectively.

Although information is not yet available, it is possible to say that, to varying degrees according to the products, a sometimes substantial proportion of the products withdrawn from the market were used as provided for in the Regulation in particular distribution free of charge to charitable organizations and persons in need, processing into alcohol, animal feed etc.

(d) Unity of prices

(i) Accession compensatory amounts

With effect from 1 February 1973, accession compensatory amounts were introduced for certain products and certain periods. These amounts are reduced by 20% each year in accordance with the Treaty of Accession.

(ii) Monetary compensatory amounts

No monetary compensatory amount was fixed for fresh fruit and vegetables.

(e) Measures to promote the marketing of Community citrus fruits

Measures to promote the processing of oranges

Measures to assist the marketing of products processed from lemons

For the 1976/77 marketing year, the financial compensation - the so-called penetration premiums - laid down with a view to promoting the marketing of Community citrus fruits were fixed at the following levels for the 1976/77 marketing year:

8.42 u.a. per 100 kg net for oranges of the Moro, Tarocco, Ovale calabrese, Belladonna, Navel, Valencia late varieties,

7.23 u.a. per 100 kg net for oranges of the Sanguinello variety,

4.75 u.a. per 100 kg net for oranges of the Sanguigno and Biondo commune varieties,

7.23 u.a. per 100 kg net for mandarins,

4.21 u.a. per 100 kg net for clementines,

5.10 u.a. per 100 kg net for lemons.

Compared with 1975/76, the financial compensations were increased by the total percentage fixed for the increase in basic and buying-in prices of the same products, i.e. 8%.

In application of Council Regulation (EEC) No 2601/69 of 18 December 1969 laying down special measures to encourage the processing of certain varieties of oranges, the minimum price to be paid by processors to producers of oranges and the financial compensation payable to these processors were fixed at the following levels for the 1976/77 marketing year:

Grade of product	Minimum price per 100 kg net	Financial compensation per 100 kg net
I	7.90 u.a.	5.30 u.a.
II	6.50 u.a.	3.90 u.a.
III or mixed	5.10 u.a.	2.50 u.a.

Finally, for the sake of completeness, mention should be made of the measures adopted by the Community in May 1977 to assist the marketing of products processed from lemons, even though these measures will not be applied until the 1977/78 marketing year.

(f) Measures to improve the efficiency of Community fruit production

In April/May 1976 the Community introduced a premium system for the grubbing of apple and pear trees of surplus varieties, in particular the Golden Delicious, Starking Delicious and Imperatore varieties of apples, and the Passe Crassane variety of pears, such grubblings to be carried out before 1 April 1977, i.e. during the winter of 1976/77.

According to the information available, premiums were applied for in respect of 12 517 ha (8 482 ha of apple trees and 4 035 ha of pear trees).

(g) Expenditure

In 1977 estimated expenditure by the EAGGF for fruit and vegetables will amount to 147.5 M u.a., of which 121.5 M u.a. for fresh products; this breaks down into 31.0 M u.a. of expenditure on export refunds and 90.5 M u.a. on intervention measures.

12. PROCESSED FRUIT AND VEGETABLES

1. Introduction

From 1975 to 1976 production of processed fruit and vegetable products changed as follows:

PRODUCTS PROCESSED FROM	'000 t	
	1975	1976
VEGETABLES	3 735	3 278
FRUIT	1 600	1 879

Production of processed vegetables fell by 12% from 1975 to 1976 owing to the drought in 1976.

The production of jams, marmalades and jellies in 1976 was higher than in 1975, by 8%. Production of these fruit preserves in 1976 was some 25% above the 1975 level. The increase in the production of all fruit juices (i.e. citrus fruit juices and others) from 1975 to 1976 was some 18%.

Community production of some sensitive products was as follows:

- (a) Tomato concentrates: owing to the effect of bad weather on the crop, production was 142 000 t in 1976 compared with 180 000 t in 1975, a drop of 21%;
- (b) Peeled tomatoes: production was also affected by weather conditions and fell by 9.6%, from 582 200 t in 1975 to 526 000 t in 1976;
- (c) Tomato juice: production increased by 13.5%, from 37 000 t in 1975 to 42 000 t in 1976;
- (d) Preserved mushrooms: production increased from 154 500 t in 1975 to 160 000 t in 1976, a rise of 3.5%;
- (e) Preserved peaches: production was 25 800 t in 1975 and rose to 49 401 t in 1976.

This represents an increase of 91.5%, since the 1975 harvest was largely destroyed by frost;

- (f) Citrus fruit juices: production in some Member States is based on the reconstitution of citrus fruit juices from non-member countries. The production of orange juice in Italy (from fresh Community citrus fruit) was 72 500 t in 1975 and rose by 3.4% to 75 000 in 1976. Lemon juice production, however, fell from 44 500 t in 1975 to 38 000 t in 1976, a drop of 8.5%.

2. Consumption and trade

The general state of trade in this sector is shown in the following tables:

1975

	IMPORTS		EXPORTS	
	t	EUA ('000s)	t	EUA ('000s)
TOTAL	3 549 613	1 659 675	1 953 614	886 713
INTRA EEC	1 642 758	747 303	1 675 188	728 065
NON-MEMBER COUNTRIES	1 897 031	970 533	258 133	150 982

1976

	IMPORTS		EXPORTS	
	t	EUA ('000s)	t	EUA ('000s)
TOTAL	4 171 802	2 222 220	2 390 878	1 239 996
INTRA EEC	1 933 081	1 024 441	2 033 644	1 033 340
NON-MEMBER COUNTRIES	2 226 699	1 194 184	357 204	206 494

The available quantities of tomato concentrates and peeled tomatoes fell from 1975 to 1976 by 20.21%. This was basically due to a drop in production.

The quantities of tomato concentrates available for consumption were 228 000 t in 1975 and 192 000 t in 1976.

Imports rose, from 104 900 t in 1975 to 145 360 t in 1976, as did exports, which increased from 33 000 t in 1975 to 63 000 t in 1976.

Intra-Community trade during these two years rose from 72 000 to 123 000 t.

Imports of peeled tomatoes fell from 53 500 t in 1975 to 44 452 t in 1976, while exports rose from 33 400 t in 1975 to 64 320 t in 1976. The quantities available for consumption fell from 602 300 t in 1975 to 506 130 t in 1976. Intra-Community trade was some 184 000 t for both years.

Imports of tomato juice dropped from 10 000 t in 1975 to 4 800 t in 1976. Exports also fell, from 1 100 t in 1975 to 890 t in 1976.

Imports of preserved peaches fell from 163 000 t in 1975 to 132 953 t in 1976. Exports, at some 300 t, were at a low level.

The quantities available for consumption varied only slightly from 1975 to 1976, being 188 600 t and 181 860 t respectively.

The available quantities of orange juice increased by + 8.67% from 278 000 t in 1975 to 304 406 t in 1976.

Imports rose from 212 600 t in 1975 to 241 514 t in 1976; exports also increased, from 6 500 t in 1975 to 12 108 t in 1976.

Intra-Community trade was 116 300 t in 1975 and 126 300 t in 1976.

The quantities of lemon juice available for consumption fell from 1975 to 1976 by 15%, reaching 37 900 t in 1976. Imports fell from 800 t in 1975 to 65 t in 1976, and exports dropped from 250 t in 1975 to 89 t in 1976.

The quantities of preserved mushrooms available for consumption increased slightly from 178 600 t in 1975 to 180 906 t in 1976. Imports fell from 44 600 t in 1975 to 28 890 t in 1976; exports also fell, from 20 500 t in 1975 to 8 000 t in 1976.

3. Prices and measures taken

The fall in the world prices of tomato concentrates recorded at the beginning of 1975 persisted throughout the year. At the beginning of 1976 prices fell again, since the main producer and exporter countries had large stocks which depressed the market. Although production was reduced in 1976 the stocks held by processors increased owing to a fall in demand. The level of refunds was increased to cope with this situation in May, and again in November, 1976.

In the course of 1976 the protective measures for preserved mushrooms, in force since August 1974, were gradually eased. The return to normal on the market which was apparent at the end of 1975 continued throughout 1976 and led to the abolition of the measures from 1 January 1977.

The situation of preserved peaches, preserved apricots and prunes was not always entirely satisfactory, but did not give rise to special problems.

The wholesale prices of other processed fruit and vegetable products remained fairly stable during 1975 and 1976, both for Community and imported produce.

4. Outlook

Production of tomato-based products in 1977 will be up on 1976. In the first half of 1977 world prices recovered a little, but they remain considerably below Community price levels.

The prices of preserved peas and preserved green beans fell prematurely owing to the prospect of a bumper harvest after the 1976 drought. However, the bad weather and early frosts point rather to a slightly lower harvest than normal. Nevertheless, the low prices at which contracts were made at the beginning of the year affected product quality unfavourably. The rush to buy which was seen in 1976 seems to be taking its toll. Prices will remain fairly low.

The prices of preserved mushrooms settled at a satisfactory level in 1977 after abolition of the protective measures. The quantities of imports foreseeable remain within acceptable limits and this trend seems likely to continue for the time being.

5. Budgetary expenditure

Expenditure by the Guarantee Section of the EAGGF in respect of processed fruit and vegetables amounted to 6.5 M u.a. in 1975 and 15.4 M u.a. in 1976. It is estimated at 26.0 M u.a. in 1977. These figures represent 0.15%, 0.28% and 0.37% respectively of total expenditure by the Guarantee Section.

The sum of 26.0 M u.a. for 1977 comprises expenditure of 20.0 M u.a. on export refunds and 6.0 M u.a. on intervention, including 2.1 M u.a. on compensatory amounts for preserved tomatoes and 3.9 M u.a. on the system of aid for preserved pineapple.

13. LIVE PLANTS¹

Introduction

The position occupied by this sector in relation to agriculture as a whole remains unchanged at 3% of the final agricultural production of the Community. However, rising production costs and attempts by non-member countries to penetrate the market are causing increasing concern.

Total production

The value of production in this sector may be estimated at 2 100 m u.a. divided as follows:

Year	m u.a.			% change		
	Bulbs	Nursery products	Cut flowers and pot plants	Bulbs	Nursery products	Cut flowers and pot plants
1973	160	324	1 498	- 4%	+ 7%	+ 7%
1974	154	304	1 592	- 4%	- 6%	+ 6%
1975	150	304	1 605	- 3%	+ 0%	+ 1%
1976	163	308	1 615	+ 8%	+ 1%	+ 0%

The area under bulbs remains relatively stable; fluctuations in the total value of these products is caused by variations in the crop due to climatic conditions and variations in price. The apparent stability in cut flowers and pot plants in fact reflects a reduction in the demand for cut flowers and an increase in the demand for pot plants.

Trade

Between 1975 and 1976 intra-Community trade increased by 12.5% (from 1 050 to 1 182 m u.a.) while trade with non-member countries increased by 19.5% (from 263 to 314.2 m u.a.). Imports from non-member countries are increasing more rapidly (21%) than exports to non-member countries (18.82%). However, exports are far more valuable than imports (215.6 m u.a. against 98.6 m u.a.).

Consumption

In the absence of specific statistics, any assessment of changes in consumption levels must be based on an analysis of the markets. This suggests that total demand is more or less stable, though it seems to be shifting from cut flowers to pot plants.

¹ See Table II.B/11.21 of Part II

Outlook

The trends which appeared after the 1973 energy crisis have been confirmed by a certain overall stability in this sector which is nevertheless adjusting to constant changes, especially in consumer needs, production costs, and imports from non-member countries. These trends will continue in the immediate future.

14. HOPS¹

1. Introduction

Hops are a worldwide market, with considerable trade between countries. They are very sensitive to changes in the weather, to disease and to parasites and the market thus fluctuates widely from one year to the next. In 1976, world production was 108 000 t, down 5% on 1975.

During the period 1969-74, the world's hop-producing areas increased to a greater extent than demand, the result being a drop in prices. The imbalance between supply and demand results from the increasing use of hop extracts in the brewing industry and from the high demand for varieties rich in alpha acid. This has resulted in the use of fewer hops per unit of beer. In addition, new techniques for the manufacture of hop powders and extracts enable these products to be stored for several years. Merchants' and brewery stocks from the 1973 harvest surplus exerted pressure on the 1974 market, and in 1975 there was again a surplus. Even after the drought in Europe in 1976, which reduced stocks to some extent, they were still about 30% above normal at the beginning of 1977. Hop production accounted for 0.1% of the value of final agricultural production in the Community.

2. Structure

In 1976, the Commission recorded that there were 8 502 hop growers in the Community, including 7 557 members of recognized producer groups, the setting up of which is encouraged under Regulation (EEC) No 1696/71, as well as 416 members of non-recognized groups and 529 independent growers.

3. Production

EEC production was 39 900 t in 1976 (about 37% of world production of hops), 11% down on 1975. The area under hops was 27 821 ha (down about 1 200 ha on 1975). In 1977, the area is about 27 264 ha and production is estimated at 44 700 t.

The abovementioned increase in demand for varieties rich in alpha acid has led to large-scale replantings with those varieties in all the Member States. The two main types of variety - aromatic and bitter - account for 52% and 47% of the EEC area respectively, as compared with 73% and 26% in 1971.

¹ See Tables II.B/12.1 - II.B/12.6 in Part II.

4. Consumption

The brewing industry is the only user of hops. The annual increase in the demand for beer is about 3.5% in the world (the highest increase in beer production is in the Third World and Eastern European countries) and 1-2% in the EEC. For the reasons stated above, the demand for hops is increasing less rapidly, by about 1% in the world, and is more or less stationary in the EEC.

5. Trade

In 1976 the EEC exported 46% of its production to non-member countries. A study of the figures shows that imports of cones and extract from non-member countries were up on 1975. Exports of cones and extract to non-member countries were roughly the same as in 1975, despite the poor harvest in 1976.

6. Prices

In 1975 average prices increased by 1% compared with 1974. In 1976, however, they were up 6% for hops sold under contract and 31% for hops not sold under contract, a situation very similar to that of prices on the world market. However prices in the Community did not reach their level for 1972, a year of relative balance on the market. With a world surplus, high inflation and Community production well in excess of internal demand, the tendency of producers to sell on the open market explains the drop in prices since 1972. For this reason sales under contract are steadily falling as regards both quantity and price. Given the size of the 1977 harvest and the prospect of surpluses, the large quantities sold on the open market explain the fall in prices for 1977.

7. Medium-term forecast

As stated in the Commission's report on the 1976 harvest, there is likely to be a reduction of about 600 ha in the total world area under hops for the 1977 harvest; the area in the EEC may be about 950 ha less, while for the rest of the world there could be a slight increase. Despite the reduction, if the yield is normal, supply can be expected to exceed demand. Given the size of stocks on the world market, even though these fell following the drought in 1976, the price level will remain inadequate.

For the 1978 harvest, and for subsequent years, attention should be drawn to the growing use of hop powders and extracts and the reduced bitterness of beers, which means that fewer hops are used per unit of beer; despite an increase in beer production of about 3.5%, therefore, demand for hops will rise only slightly (by about 1%). It may thus be concluded that the restoration of a satisfactory market balance will require the world area under hops to be reduced more than is forecast for 1977.

8. Revision of the basic Regulation

As a result of the surplus on the world and Community markets during 1973, 1974 and 1975, the Commission forwarded to the Council in February 1976 a proposal to change the present system of production aid with a view to ensuring effective control of the Community market. On 17 May 1977 the Council adopted a decision on this proposal, which provides for:

- a strengthening of the role of producer groups on the market;
- the development of a contractual hop market;
- the encouragement of reorganization operations, linked with a partial reduction in the area under hops;
- the granting of production aid according to groups of varieties in order to meet market demand more effectively;
- a two-year ban on the extension of the Community area under hops.

The Council has also adopted a Regulation on the Community certification of hops, laying down quality standards and rules on mixtures.

9. Economic aspects of the measures adopted

In 1976, production aid was granted to offset producers' losses following the drought. In view of the world and Community surpluses, however, the Commission applied Article 12(4) of the basic Regulation to refuse aid for new plantings.

10. Budgetary expenditure

The expenditure of the EAGGF Guarantee Section was 8 M u.a. in 1975 and 14.0 M u.a. in 1976 and is estimated at 8.0 M u.a. in 1977, or 0.2%, 0.3% and 0.1% respectively of the Guarantee Section's total expenditure. This expenditure took the form of aid to subsidize producers' incomes.

15. MILK AND MILK PRODUCTS¹

1. Production and utilization of milk

- (a) The Community dairy herd increased unexpectedly by some 1% in 1976, to reach 25 million dairy cows at the end of December 1976. This is all the more surprising in that the long drought in large areas of the Community in 1976 and the resultant increase in fodder prices would normally have led milk producers to reduce their dairy herds. In view of the general economic situation and the absence of alternative solutions for milk producers, particularly outside agriculture, the Community milk producers have clearly chosen a slight increase in their herd. No substantial change in the number of cows should be expected in 1977. The measures introduced by the Community from 1 July 1977 to reduce the dairy herd will not take effect before 1978.
- (b) In spite of the long drought in 1976 the output of cow's milk in the Community rose again by 2% compared with 1975. A further growth in production is apparent in 1977, as a result both of a higher cattle count and a higher average output per cow.

The expected reduction in the cattle count, as a result of the non-marketing and conversion premiums will, according to past experience, be compensated by a higher average output per cow.

- (c) Deliveries of milk to dairies in 1976 exceeded those of 1975 by 2.8%. This rise is caused partly by higher output and partly by the quota for deliveries to dairies which has meanwhile gone up to 89%. A further increase of 2-3% is probable in 1977. This increase will probably level off in 1978, if the measures taken for the progressive achievement of balance in the milk market succeed in their purpose.

2. Production and consumption of the principal milk products

(a) Liquid milk for human consumption

Production and sale of liquid milk for human consumption increased again in 1976 following a rise in consumption in the spring. This was encouraged by the long period of hot weather in 1976. The signs are that it will not be possible to maintain this level of consumption in 1977.

The concentration that was noticeable in previous years in this sector continued. More UHT and sterilized milk and less pasteurized milk were drunk in the Community. The enormous rate of growth of previous years in yoghurt seems to be levelling off, but the growth remains substantial. Consumption of cream is increasing slowly and steadily.

¹See Tables II.B/13.1 to II.B/13.26 in Part II.

(b) Butter

Butter production rose again by 4.6% in 1976. Yet consumption at market prices has dropped again, particularly in Germany and the United Kingdom. Part of the reason for this in Germany is the limited consumer choice, while in the United Kingdom the relatively sharp price increase due to the progressive alignment of prices is one of the main causes. Even the substantial consumer subsidies in the United Kingdom have only been able to reduce, rather than check, the fall in consumption.

Although production of butter in 1977 will probably be lower than in 1976, the imbalance on the market is increasing owing to the continuing fall in consumption. The efforts to relieve this situation, by special sales at much-reduced prices within the Community, by commercial exports and by food aid, are insufficient to reduce stocks. It should be realized that the market is substantially affected by imports for reasons of trade policy, the effect of which can only be compensated by the use of substantial public funds.

In spite of the increased commercial exports in 1977, particularly to state-trading countries, there will be some 250 000 t in stock at the end of the year. This does not include the large stocks maintained by industry, trade and processing concerns in the United Kingdom on the occasion of the end of the transitional period.

(c) Skimmed milk powder

Production of skimmed milk powder depends on the amount of milk used for other products and particularly on the quantity of skimmed milk which is fed in liquid form to animals or processed into cheese.

Production in 1976 reached 2 million t, 3.3% more than in 1975. A slight drop is anticipated in 1977, since more of the available milk will be used in other sectors.

Production of skimmed milk powder is far greater than the demand at market prices. Only some 12% of the powder can be sold in the Community at the set price. 60% of it has to be sold 40% cheaper for use in rearing and fattening calves; 6% can be exported at commercial rates to non-member countries, with substantial refunds.

Furthermore, skimmed milk powder cannot be disposed of, whether inside the Community for feeding pigs or outside the Community for animal feed or as food aid, at rates which even cover the costs of drying and packing the powder.

(d) Cheese

Cheese production and consumption have also continued to increase in the Community in 1976. This trend, already apparent for many years, seems to be continuing in 1977. The reasons for this are an ever-improved quality and presentation, together with an energetic trading policy on the part of manufacturers in the whole of the Community.

(e) Whole milk powder

Production has risen in the last few years, basically owing to greater exports. However, Community consumption has scarcely changed. Any fluctuations in this sector will primarily be determined by world demand in the future as well.

(f) Concentrated milk

Production has increased, also as a result of increased demand on the world market for Community concentrated milk. On the other hand, consumption in the Community remains stagnant, as it has been for several years. This situation appears likely to continue in 1977.

(g) Casein

Production of casein and caseinates in the Community is only possible with substantial public subsidies, since it is well known that the import duties in the most important tariff categories have been bound at a very low level within GATT. If the very high level of production in 1974 is ignored, producers have been able to maintain their market share both within the Community and on the world market.

The future prospects on this market will depend basically on the level of subsidies and the supply capacity of certain non-member countries.

3. World market situation and international trade

World market

In general, the quantities of dairy products entering into international trade improved in 1976. The substantial drop in world trade in 1975 was due to a number of factors: the general impact of the energy crisis and economic recession; the lack of trade confidence in future price developments, notably in the animal feed/protein sector; and the uncertainty concerning the direction of many governments' future policy towards coping with the growing imbalance between production and consumption.

After falling to the established GATT-minimum price level for skimmed milk powder, international prices in 1976 again started to improve slowly, when at the same time the introduction of a temporary GATT derogation has allowed lower prices for skimmed milk powder for animal feed.

In addition, higher food aid donations (notably USA and EEC) and the exceptional EEC scheme to increase the use of skimmed milk powder in animal feed, contributed substantially to restoring confidence in the international market. To this should be added the impact of policy measures to reduce milk production in Canada, Australia and Switzerland and - not least - the presentation of an EEC 'Action Programme' in the milk sector. Even the drought in Europe and Australia helped to slow down the increases in milk output and - in the EEC - temporarily increased milk consumption.

Cheese consumption increased considerably in the USA and - to a lesser extent - in Canada. The Japanese imports of butter and skimmed milk powder almost recovered from the drastic fall-back in 1975, whereas cheese imports continued their slow but steady growth. In the developing countries sector and notably in certain oil exporting countries, a growing interest in increased imports of dairy products is being observed and not only orientated towards the traditional products of condensed milk and skimmed milk powder, but to an increasing degree towards whole milk powder for different recombining purposes and cheese.

Thus, except for butter/butteroil which increased by 8% compared with 1975, the world trade in 1976 of most other dairy products more than regained the level of 1973/1974 (cheese: + 12%, skimmed milk powder: + 65%, whole milk powder: + 16% and condensed milk: + 24%).

Casein trade started to recover, though mainly because of contracts for important quantities at low prices, between New Zealand and US importers.

The positive developments which were observed in world trade through the latter part of 1976 have continued in 1977 and have grown even firmer. However, it must be clearly underlined that the world market for dairy products remains extremely fragile as there are generally more incentives to increase production than to increase demand. In North America as in most European countries, support price levels for milk production/basic dairy products are still significantly higher than current international market prices. Thus, major increases in world trade will depend on significant increases in subsidy amounts. Furthermore, in the short term, increases in milk production per cow will continue, mainly owing to the improved relationship between support price levels for milk and prices of feed concentrates.

The following additional information can be given as to recent developments in some major producing/exporting countries outside of the EEC.

In the United States, milk production in 1976 increased by 4%, mainly because of higher yields, for cow numbers continued to decrease slowly. Liquid milk consumption remained fairly stable whereas butter consumption decreased by 7%. On the other hand cheese consumption increased by 10%. Reflecting these changes, butter production remained stable, skimmed milk powder production fell by 8%, whereas cheese production increased by 19%. In April 1977, important increases were granted in support prices - on average + 9% - and milk production in 1977 is expected to increase by about 2% on 1976. Butter consumption will probably remain at a low level, and as the rate of increase in cheese consumption is significantly lower than in 1976, in 1977 there will be again substantial increases in the production of butter and skimmed milk powder. Consequently the pressure on intervention stocks is increasing. Uncommitted intervention stocks at the end of June 1977 amounted to 73 000 t of butter, 24 000 t of cheese and 238 000 t of skimmed milk powder. At the same time in 1976, only skimmed milk powder was in stock totalling 178 000 t. Exports - for food aid purposes - of skimmed milk powder of 57 000 t in 1975 and 46 000 t in 1976 seem disappointingly low compared with earlier expectations.

Milk production in Canada in 1976 fell by 1% and milk deliveries by 3.5% as a result of the quota/penalty system introduced in April 1976. Cow slaughterings accelerated and dairy cow numbers fell by 4%. A further substantial reduction has taken place in 1977. Thus, by the end of 1977, Canadian milk production will probably be 6% below the 1975 peak level and milk deliveries may be even further down. However, from this reduced level and based on a possible stabilization of cow numbers, milk production would again tend to increase due to higher yields.

A slight increase in liquid milk consumption was recorded in 1976, and this trend may continue in 1977. Butter consumption continues to decrease and the same downward trend is apparent in consumption of Cheddar cheese. However consumption of other cheeses is growing. In 1977, the tendency is towards producing more cheese whereas butter/powder production will probably decrease by 10% thus reflecting the decrease anticipated in milk availabilities.

In Australia a combination of bad weather and uncertainty on future policies reduced milk production in 1976 by 13%. Because of improved yields, a slight increase in production is expected in 1977. Over the coming years continued decreases in cow numbers could tend to outstrip increases in yields. During 1976, production of butter, skimmed milk powder and cheese fell drastically. In 1977, the fall in butter and skimmed milk powder will continue whereas cheese production could improve slightly against a background of increased milk deliveries and relatively higher returns for it than for other products. After a fall-back in 1976, cheese consumption is again improving in 1977. However, the increase is mainly in favour of non-Cheddar varieties. Butter consumption continues to decline (about 5% per year) mainly due to competition from margarine - the former margarine market quotas have been abolished.

The Commonwealth Government has decided to continue the underwriting (guarantee) arrangements with respect to equalizing returns from domestic and export sales for butter, cheese, skimmed milk powder and casein for the 1977-78 season. Legislation has been introduced on the so-called "Stage I" of the new marketing arrangements, and implements a

compulsory levy/disbursement system. This legislation replaces former voluntary industry arrangements with the same aim of giving manufacturers equalized returns for domestic and export sales. A further "Stage II" is planned, aiming at a national market entitlement scheme to ensure that market 'signals' will encourage production to be in line with market conditions.

In New Zealand milk production in 1976 increased by 10%, arising from extremely favourable weather conditions and a small increase in cow numbers. In 1977 milk supplies will probably remain relatively unchanged or slightly below the 1976 level. Significant changes have taken place in the production pattern: considerable increases in the production of whole milk powder and casein, reductions in cheese and skimmed milk powder. As stocks of skimmed milk powder were reduced and those of casein remained large, a reversed trend back to milk powder became evident through 1977. On the other hand, because of market difficulties, cheese production continued to decrease. To balance milk supplies the production of butter/butteroil increased by nearly 45 000 t during the market year 1976/77. For the milk year 1977/78 the basic price for butterfat was increased by 10% whereas that for skimmed milk remained unchanged, thus indicating an overall increase in milk price of about 6%.

Community exports

Total Community butter exports in 1976 increased by 50 000 t or 74%. However, with food-aid deliveries remaining constant, commercial exports still remained 20 000 t or 18% below the 1974 level. Hereby the Community's share of world trade increased to 25% compared with only 16% in 1975 (revised figure) and 28% in 1974.

Cheese exports increased by 40 000 t or 26% thereby reaching about 38% of world trade compared with 34% in 1975 and 38% in 1974. The increase represented a partial recovery in exports to the USA and increases in other overseas markets.

The increase in skimmed milk powder exports in 1976 was only 20 000 t (both food aid and commercial) and led to the lowest EEC market share over the past years: 23% (1975: 32%, 1974: 45%).

With increases in Community exports of whole milk powder and condensed milk of 19% and 23% respectively the EEC market shares stayed almost unchanged at 68% (whole milk powder) and 92% (condensed milk).

Thus, for cheese, whole milk powder and condensed milk the Community exports benefited from a general trade expansion and kept their market shares. However for butter and skimmed milk powder quantity expansions were limited and EEC market shares remained at low levels.

Community imports

Revised Community imports statistics for butter show that quantities stayed about 160 000 t in 1974 and 1975 and then fell to 132 000 t in 1976 reflecting mainly a decrease in the inward processing activities (butteroil for re-export). Imports of butter from New Zealand in 1976 under Protocol 18 of the Act of Accession amounted to some 122 000 t. Cheese imports from New Zealand under the same Protocol amounted to some 30 000 t. The total Community cheese imports increased by 8% and represented - unchanged - about 20% of world trade in cheese.

4. Prices

(a) Producer prices for milk

The target price for milk was set at 17.35 u.a./100 kg for the marketing year 1977/78, with effect from 1 May 1977, an increase of 3.5% over the previous year. The intervention prices for butter, skimmed milk powder and certain Italian cheeses have been adapted accordingly, to reach the target price set in accordance with the definition in Article 3 of Regulation No 804/68.

Actual producer prices for milk varied in 1976, mainly for monetary reasons following the fixing of representative rates for the different national currencies against the unit of account. Moreover, there were variations between dairies and between different regions of the Community, owing to the use to which the milk is put and the individual cost and market situations.

(b) Wholesale and consumer prices

Because of the general economic situation and the competition on the market, it has recently become more and more difficult for producers to pass on an increase in the raw material price and manufacturing and selling costs in the sale prices of milk products. In many cases the market situation has not permitted the immediate application of these price increases, which means that incomes from milk have not increased as had been hoped. This has generally meant increased offers of butter and skimmed milk powder to intervention agencies.

Owing to economic and monetary differences between the Member States and some national measures in respect of consumer prices, these prices in national currencies have undergone widely varying increases in 1976 compared with 1975:

drinking milk	from + 2.8% to + 35.9%
butter	from + 5.7% to + 31.9%
cheese	from + 4.9% to + 47.1%.

The moderate price policy for the 1977/78 milk marketing year suggests that the situation may become somewhat calmer.

5. Market outlook

At the end of 1976, dairy herds in the EEC were about 0.8% larger than in the previous year. This expansion suggested: a reversal of the trend over the last three years; an increase of about 1% by the end of 1977; and perhaps 2% by the end of 1978 might have been expected. However, the impact of the 1976 drought on the number of replacement heifers, the limited price increases for the milk year 1977/78, the producer co-responsibility levy and other measures taken at Community level to inhibit milk surpluses, in particular the non-delivery premium and conversion scheme, will certainly affect the size of dairy herds in the coming years. Thus it can at present be estimated, albeit tentatively, that herds will not expand further in 1977, whilst in 1978 the increase will be considerably less than originally expected (+ 1% compared with 1977).

While estimations for 1977 are that milk production and deliveries could increase by 2% and 2.7% respectively compared with 1976, the combined effect of increases in both herds and yields could in 1978 increase milk supplies to dairies by another 2.5-3%.

The lower production levels in 1977 of butter and skimmed milk powder (estimations: -1.7% and -1.5% respectively) were mainly caused by increases in the production of cheese (+ 4%) whole milk powder (+ 14.5%) and casein. In 1978, it will thus depend on the further market developments for these latter products to what extent the rise in milk deliveries will again be converted into higher production of butter and skimmed milk powder. As, at the same time, total consumption of liquid milk and fresh products (in whole milk equivalent) tends to stagnate or decrease - after the positive hot weather impact in 1975 and 1976 - more milk will be available for butter and skimmed milk powder production.

The increased butter production together with the stagnating butter consumption will most likely lead to higher EEC butter intervention stocks during 1978.

Depending on the effect of certain new measures, e.g. higher aids for liquid skimmed milk and fresh skimmed milk powder for animal feed, it is possible that EEC intervention stocks of this product will not change significantly during 1978.

The recovery in trade starting in 1976 has firmed in 1977 and, as a consequence, EEC exports of most dairy products in 1977 will reach significantly higher levels than during the three preceding years. This is notably the case for skimmed milk powder, due to increased food aid and exports of powder for animal feed, and for whole milk powder.

On the international market, milk supplies will continue to increase in 1978, however, at a slower rate than in 1976 and 1977. In the USA higher yields tend to outstrip the fall in cow numbers. In New Zealand production will not reach the high 1976/1977 level whereas in Canada and Australia production tends to stabilize following the substantial reductions in 1976/77. In Eastern European countries the global production is improving and may again reduce the need for imports.

Thus, generally, the world market is likely to remain under pressure, particularly for bulk products.

6. Economic aspects of the measures taken

(a) Import system

Article 14 of Regulation (EEC) No 804/68 requires the import levy to be equal to the difference between the threshold price and the Community free-at-frontier price. In the fixing of prices for the milk marketing year 1977/78, the threshold prices were adjusted to the change in the target price. The fixing of levies did not lead to any disturbance on the market through imports of milk and milk products.

The minimum prices for the appropriate tariff headings and quantities were changed under trade agreements between the Community and several non-member countries so that the agreed import conditions for butter, various types of cheese and baby food could be maintained.

(b) Export system

The export trend in most milk products was favourable owing to increased world demand in 1976 and early 1977. So that exports could take place, it was still necessary to grant substantial refunds. It was possible to hold these at the same level for long periods for most milk products.

There were some temporary difficulties in spring 1977 in exports of butter to state-trading countries, mainly owing to the competitive position of commercial undertakings, which is not the same in the Community as in state-trading countries. The export refund system under Article 17 of Regulation (EEC) No 804/68 has been in force for some years now and during the period covered by this report it has generally worked satisfactorily.

(c) Subsidies for skimmed milk, skimmed milk powder and casein

These subsidies were as follows from 1976:

	u.a./100 kg
Skimmed milk for animal feed	
from 1.1.1976	3.39
from 1.5.1976	4.00
Skimmed milk powder for animal feed	
from 1.1.1976	36.50
from 1.4.1976	38.00
from 1.5.1977	39.00
Skimmed milk processed into casein	
from 1.1.1976	4.80
from 1.4.1976	5.30
from 1.5.1977	5.55

Further, from 24.8.1976 to 31.5.1977 aid of 5.50 u.a./100 kg were granted for skimmed milk for use as feed in areas suffering from drought. This aid was replaced by a general measure relating to special aid measures.

A special aid measure was introduced from September 1977 for skimmed milk powder for feeding animals other than young calves. The amount of this subsidy is determined in each case by the tendering system.

In 1976 the quantities have continued to increase in all the sectors for which aid is granted. In particular, it has been possible to effect a substantial increase in the use of skimmed milk powder in animal feed, mainly through laying down a minimum content of 60% skimmed milk powder in compound feed as a condition for granting the subsidies.

(d) Storage

Butter

In 1976 257 000 t of butter were bought in by intervention agencies; in the same period, 107 000 t of butter have been disposed of by means of special measures and 38 000 t from public stocks were allocated to food aid. As a result, public stocks of butter were 176 000 t at the end of 1976.

During 1976, private storage aid was granted for 242 000 t of butter. At the end of the year there were only 79 000 t in store.

Skimmed milk powder

In 1976, 620 000 t of skimmed milk powder were bought by intervention agencies; 638 000 t have been taken out of stock during the same period, of which 512 000 t under special measures, including the obligation to purchase within the Community, 78 000 t for export and 48 000 t for food aid.

Italian cheese, long-keeping cheese

Hardly any Grana or Parmesan was bought in during 1976. On the other hand, aid for private storage of some long-keeping cheeses, which has been applied on a regular basis since 1974, has been granted in 1976 and 1977 as well.

(e) Food aid

Since 1970, the Community has granted a larger amount of food aid in the form of butteroil and skimmed milk powder.

The quantities provided are as follows:

	Butteroil	Skimmed milk powder
1976	45 000 t	150 000 t
1977	45 000 t	105 000 t

Deliveries are effected under the established procedures as soon as the recipients announced that they are ready to take delivery. The food aid in the form of milk products which has been provided up to now has shown that the recipient countries are unlikely to be able to make good use of larger quantities in the near future.

7. Unity of prices

Accession compensatory amounts

The accession compensatory amounts will be finally abolished on 31 December 1977, when the transitional period for accession ends. No special problems worth mentioning were encountered in the milk sector in the application of the accession compensatory amounts, nor in harmonizing prices within the nine Member States. Temporary provisions had, however, to be introduced to prevent deflection of trade on account of violent price changes for butter in the United Kingdom.

Monetary compensatory amounts

These are also fixed in the milk sector on the basis of the general agri-monetary provisions. For some time, however, the Commission has observed certain deflections of intra-Community trade in milk products, and has accordingly altered the calculation procedure as from 5 September 1977. In principle, monetary compensatory amounts are calculated for all sectors of agriculture on the basis of agricultural products; this is not the case in the milk sector, where the basis is butter and skimmed milk powder and not milk. The changes adopted will restore a better balance.

8. Budgetary expenditure

Expenditure by the Guarantee Section of the EAGGF in respect of milk and milk products amounted to 1 149.8 million u.a. in 1975, 2 051.5 million u.a. in 1976 and has been estimated at 2 484.9 million u.a. for 1977, that is, 24.3%, 36.8% and 35% respectively of the Guarantee Section's total expenditure. The sum of 2 484.9 million u.a. can be broken down into 968.7 million u.a. for refunds, 672.2 million u.a. for expenditure on storage, 20.6 million u.a. for premiums for the non-marketing of milk and conversion to beef and veal production and 823.4 million u.a. for price support, from which have been deducted 35.3 million u.a. representing the co-responsibility levy paid by producers.

16. BEEF AND VEAL¹

1. Introduction

Beef and veal production (adult cattle and calves) accounted for 15,8% of the value of final agricultural production in 1976.

The number of farms engaged in beef and veal production is about 3 million, or nearly two thirds of all farms in the Community. The area under fodder represents about 60% of the Community's UAA. Since cattle rearing is dependent on land, it is not surprising that most beef and veal is produced in the countries with large areas of pasturage.

The Community, with about 14% of world production, is in second place, with the USSR, among world producers of beef and veal, but far behind the USA.

2. Production

(a) Cattle count

The number of cattle has fallen steadily since December 1974, when it stood at a record level of 79.3 million head; the reason for the fall is a certain loss of confidence among beef and veal producers.

In December 1976 there were 76.9 million head of cattle. The cattle count had therefore fallen again, by 0.5% compared with 1975; the number of cows, which had been declining since the December 1973 census, stabilized in December 1976, owing to opposing trends for dairy cows (up by 0.5%) and cows of beef breeds (down by 2.1%).

Similarly, the number of calves (cattle under one year old), after two successive falls of 1.1% in December 1974 and 4.5% in December 1975, held steady at 21.2 million head in December 1976.

The average increase in cattle numbers has been about 1% per year, while the number of cows has remained stationary.

It therefore seems that the cattle count is now at the bottom of its cycle, particularly bearing in mind the fall in the number of cows and heifers of beef breeds accentuated by large-scale slaughterings due to the drought in summer 1976 in some grassland regions of the Community.

(b) Production of beef and veal

Slaughterings

Although still at a fairly high level, owing in particular to the slaughterings made necessary by the exceptional drought of summer 1976, the total number of cattle slaughtered in 1976 was some 3.5% below the 1975 figure; the reduction in slaughterings was very marked in Ireland and in the United Kingdom (nearly 20% between 1976 and 1975). In 1976,

¹ See Tables II.B/14.1 to II.B/14.8 in Part II.

slaughterings of adult cattle exceeded 21 million head in the Community, some 3.7% below the 1975 figure; in the first half of 1977 the number of slaughterings of adult cattle was about 4.5% lower than the figure for the same period in 1976.

On the basis of the trend in the Community cattle count and in spite of the slaughterings of cows under the reorganization programme in the milk sector, it is estimated that some 4-5% fewer adult cattle will be slaughtered over the whole of 1977.

Slaughterings of calves have shown a different trend from slaughterings of adult cattle in past years; whereas the latter have increased by about 2% per year, slaughterings of calves have fallen by about 3.5% per year.

In 1976, slaughterings of calves, at 6.8 million head, were 2.8% down on 1975; but in the first half of 1977 the number of calves slaughtered increased by some 4.5%.

Total slaughterings of cattle, at 28.1 million head in 1976, and particularly those of cows and calves carried out in grassland regions affected by the drought in summer 1976, helped to prolong the slaughter trend which began in autumn 1973.

Slaughtering coefficient (i.e. the relationship between slaughterings and the cattle count)

In 1976, for the third year running, the slaughtering coefficient remained high, partly because of the drought.

The limited replacement of breeding stock, particularly of cows of beef breeds, could mean a decline in the production of beef and veal in the coming years.

Average slaughter weight

In 1976, the average slaughter weights, 274.4 kg for adult cattle and 101.7 kg for calves, returned to levels close to those recorded up to 1973.

After falling in 1974 and 1975, when market prices were low compared with production costs thus encouraging breeders to send stock to market early, the average slaughter weight of adult cattle went up by 2% in 1976 over 1975, mainly because of the very good grazing conditions and fodder supply in spring and autumn 1976.

Similarly, the average weight of calves, which fell considerably in 1975, made a no less remarkable recovery in 1976, increasing by more than 6%.

Production of beef and veal

As in 1974 and 1975, net production of beef and veal in 1976 remained above 6.5 million tonnes, mainly owing to the slaughterings during the drought in summer 1976.

In 1976, production of beef in the Community fell by 1.8%; indeed, in the first half of 1977, a fall in production of some 4% was recorded.

Production of veal rose by 3.7% in 1976 owing to a large increase in the average slaughter weight. In the first half of 1977, production of veal has again increased by nearly 6% over the same period in 1976.

Over the medium term ("1968-75") the production of beef and veal rises on average by about 2% a year.

In recent years stock-rearing structures have greatly changed:

- there are fewer stock farmers, mainly because of the disappearance of small farms, and
- more animals per farm.

In December 1975 the average size of cattle herds per farm was over 25 head for the Community as a whole, about 10 in Italy and nearly 70 in the United Kingdom.

Beef and veal production takes three main forms corresponding to the three main categories of animal reared, namely:

- cull cows and young calves (milk production);
- grass-reared adult cattle (beef animals);
- young male cattle fattened on cereal-based feedingstuffs (maize silage) in special production units.

As a result of the great advance in the organized production of young bulls up to 1974, the proportion of young male animals slaughtered is increasing and now represents about one third of all adult cattle slaughtered.

3. Consumption

(a) Consumption of beef and veal

As in 1974 and 1975, beef and veal consumption was curbed in 1976 by continuing economic difficulties, such as the fall in the growth rate as a result of the energy crisis and the big increase in unemployment.

Thus, beef and veal consumption in 1976, at about 6.5 million tonnes, was much the same as in 1974 and 1975. Similarly, the consumption trend for the coming years is expected to be less favourable than in the period 1960-73, when great economic expansion took place in the Community.

Bearing in mind the general economic problems and the unemployment situation in the Community, and more particularly the economic difficulties in the main importing countries, Italy and the United Kingdom, there is unlikely to be a substantial increase in beef and veal consumption in 1977.

However, from autumn 1977, the supply of other meats, and in particularly grain-fed meat (pigneat) will again be smaller and, accordingly, this meat will be sold at less attractive prices.

Meat consumption is affected by the following factors:

- population growth, which in recent years has slowed down considerably;
- expansion of the economy, and the pattern of private expenditure in particular;
- the availability of meat on the market and the short-term fluctuations in its price;
- lastly, the size of the trading margin between producer and consumer prices.

Annual per capita consumption of beef and veal increased steadily from 1964 to 1971; in 1972 and 1973, however, it stabilized in the Community at around 24.5 kg, about 1 kg less than the maximum attained in 1971. After strong growth in 1974, per capita consumption levelled out again in 1975 and 1976 at 25.2 kg in the Community, except in Italy (18% VAT) and the United Kingdom where it has fallen considerably in recent years. It seems that the continuing economic crisis and unemployment have temporarily halted the very rapid rise in the consumption of beef and veal recorded in the past decade.

Although per capita consumption increased by an average of about 1% per year over the past decade, which was marked by considerable economic expansion, this figure appears now to have fallen well below 1% as a result of the present economic difficulties.

In the medium term, per capita consumption of beef has increased by about 2 kg while consumption of veal has dropped by about 0.5 kg.

In 1976 per capita consumption of beef amounted to 22.6 kg while that of veal was 2.6 kg.

Due to a substantial growth in population, overall consumption of beef and veal grew considerably from 1963 to 1971 (by more than 1.5%); but in 1972 and 1973 it fell from the 1971 level, no doubt on account of the cyclical fall in production.

Although consumption of beef and veal increased considerably in 1974, when production rose sharply, it remained stationary at around 6.5 million tonnes both in 1975 and 1976.

The annual rise in total consumption of beef and veal in future will probably be less than in the past 10 years because of the drop in the birth rate and in the rate of economic activity.

In the short term, the competitive position of beef and veal is mainly a question of price. However, consumer reaction to price changes is largely dependent on the transparency and efficiency of the distribution system. A rise in producer prices is more sharply and swiftly felt than a price reduction.

(b) Degree of self-supply

In 1976, the Community's degree of self-supply in beef and veal was 99%, whereas in 1974 and 1975 the Community had reached self-supply.

In the late 1970's the degree of self-supply should drop because of the cyclical fall in production without, however, reaching the level of 1973.

The large imports in 1973 and the buying-in by the intervention agencies in 1974, 1975 and 1976 have left a considerable quantity of meat in stock. In autumn 1977 some 0.44 million tonnes of intervention beef (bone-in), including meat receiving private storage aid, remained in stock. It is likely that there will still be a considerable quantity in storage at the end of 1977.

4. Trade

Intra-Community trade in beef and veal in 1973 and 1974 amounted to less than 1 million tonnes, but in 1975 it reached some 1.3 million tonnes and in 1976 more than 1.1 million tonnes.

Total imports of beef and veal from non-member countries reached the record level of nearly one million tonnes in 1973. Since 1974, imports of beef and veal from non-member countries have been controlled under the protective clause (July 1974 - March 1977) and amounted to:

0.432 million tonnes	in	1974	
0.255	"	"	1975
0.377	"	"	1976.

Amounting to about 550 000 tonnes in 1973, imports of frozen beef and veal were:

171 000 tonnes	in	1974
77 000 tonnes	in	1975
154 000 tonnes	in	1976.

Exports of beef and veal to non-member countries in 1976, as in 1974 and 1975, were some 0.2 million tonnes. The Community's external trade deficit in beef and veal reached a maximum in 1973 of some 0.9 million tonnes; this deficit was mainly attributable to Italy (about 40% of total imports). The beef and veal deficit, which was insignificant in 1975, was some 0.2 million tonnes in 1976. The USA, the Community, Japan and the USSR have been the world's main beef and veal importers.

The Community's external trade

('000 t)

Trade	Period	1974	1975	1976
<u>Imports from non-member countries</u>				
Beef and veal		432	255	377
of which live animals		102	35	54
('000 head)		(517)	(183)	(265)
fresh or chilled meat		83	29	47
frozen meat		171	77	154
preserves		76	114	122
<u>Exports</u>		195	232	200
of which preserves		17	15	29
Net trade balance		237	23	177

The main suppliers of beef and veal to the Community in 1976 were:

- Argentina and Uruguay, which supplied some 45% of total imports and 60% of imports of frozen meat;
- Eastern Europe, which supplied about one fifth of total imports and two thirds of live animals imported, the latter in particular from Hungary and Poland (33%);
- Australia and New Zealand, which supplied about 10% of total imports;
- Yugoslavia, which supplied more than one third of imports of fresh and chilled meat;
- Austria, which supplied some 16% of live animals imported;
- lastly, ACP countries (Botswana, Swaziland, Kenya and Madagascar), which supplied nearly 10% of total imports, mostly in the form of frozen meat.

Our main customers in 1976 were:

- the USSR and Eastern European countries, which took more than one fifth of our total exports;
- Mediterranean European countries (Spain, Portugal, Greece and Turkey), which also took one fifth of our total exports;
- Arab and Middle Eastern countries, particularly Egypt and Iran, which took one fifth of our total exports and more than 50% of our exports of preserves.

5. Prices

(a) Common prices

The guide price for adult cattle for the 1977/78 marketing year has been fixed at 122.90 u.a./100 kg live weight for the Community; for Ireland and the United Kingdom the price has been fixed until 31 December 1977 at 118.27 u.a./100 kg.

The guide price is the price, valid for all categories of adult cattle sold on representative markets in the Community, which it is sought to achieve in a normal marketing year by means of Community rules.

The Council also fixed the intervention price for the Community at 110.61 u.a./100 kg live weight (106.44 u.a./100 kg live weight for Ireland and the United Kingdom until 31 December 1977), or 90% of the guide price, thereby derogating from Regulation (EEC) No 805/68 for this marketing year.

(b) Market prices

In 1973 there was a reversal in the trend in beef and veal prices in the Community; this trend had been upward since the 1968/69 marketing year, but a downward trend in market prices began in 1973/74.

Trend in adult cattle prices
(u.a./100 kg live weight)

Price	1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	Change 77/78/ 76/77
Guide price	75.00 78.00	86.20	96.50/ 101.33	109.94	118.74	122.90	+ 3.5%
Intervention price	69.75 72.54	80.166	89.745/ 94.237	99.42	106.87	110.61	+ 3.5%
Market price							
- in money terms	92.11	89.24	86.36	96.81	102.91	107.65*	+ 6.7%
- as % of guide price	118.1%	103.5%	85.2%	88.1%	86.7%	87.6%*	
Import price	70.63	77.50	58.80	56.32	61.85	62.50*	+ 0.0%

* March to September 1977.

Community market prices for adult cattle rose by only 7.3% on average in 1976, which is less than the inflation rate, mainly because of the drop in prices brought about by large-scale slaughterings due to the drought in summer 1976. The prices of adult cattle sagged to a level well below the Community intervention price and this led to special measures to support the market.

In mid-September 1977, the Community market prices recorded for all qualities of adult cattle were almost 90% of the guide price.

(c) Import prices

The import prices recorded for live animals and fresh and chilled meat in 1973 and 1974 showed a similar downward trend to that of market prices in the Community, but much more marked.

In 1975, import prices remained relatively stable at a level some 25% below the 1973 figure. In 1976 they rose by almost 7% compared with 1975, but are still lower than in 1973.

Similarly, world market prices for frozen meat slumped in 1974 and 1975, and have settled at a very low level in 1976. However, in winter 1976/77 there was a slight improvement in world prices, particularly for frozen meat.

(c) Consumer prices

Consumer prices for beef and veal rose sharply in 1973; the average rise in consumer prices was about 4.8% in 1974, 13.6% in 1975 and 15.0% in 1976. As there was only a moderate rise in producer prices, this means that there was again a relative increase in the trading margin in 1976.

(e) Cost of animal feed

After a very sharp rise in prices in 1973/74, the cost of feedingstuffs steadied somewhat in 1974 and 1975, mainly because of a drop in the prices of oilcake and protein-rich meal on the world market in 1975.

However, there has been an increase in the cost of animal feed since the beginning of the 1976/77 marketing year, as a result of the fodder shortage caused by the drought in summer 1976; this increase was accentuated by a rise in the prices of soya and other protein-rich products.

On the other hand, since spring 1977 a fall in world prices for feed grains has reduced the prices of protein-rich products somewhat.

6. Outlook

(a) The fall in cattle numbers, especially in the numbers of breeding animals of beef breeds, which has occurred in the Community since the end of 1974 and has been confirmed by several surveys, points to a drop in beef and veal production in the years to come.

Already in 1976, following a reduction in slaughterings of about one million head in spite of the large-scale slaughterings made necessary by the drought, net production of beef and veal fell by 1.2%.

Community production of beef and veal is expected to fall by some 3.5% in 1977.

It is estimated that there will be a further drop in Community production of beef and veal in 1978, to reach the lowest point of the production cycle.

At the end of the decade, however, an upturn in the Community production cycle is anticipated.

Consumption of beef and veal has remained fairly steady in 1976 in spite of a drop in consumption in the United Kingdom.

Since consumption of beef and veal depends not only on the general economic and unemployment situations and the rate of population growth, but also on the supply of beef and veal compared with other meats, consumption of beef and veal is expected to level off in 1977 and to some extent in 1978.

Bearing in mind the probable trends in production and consumption, and the existing stock of intervention meat to be sold in the coming months, net imports can be assessed at about 0.2 million tonnes for both 1977 and 1978.

The degree of self-supply, which was nearly 100% in 1974, 1975 and 1976, will drop in 1978.

Since supplies of beef and veal will fall off again in the face of more stable demand, the rise in market prices for adult cattle and particularly for calves, already under way in 1977, will probably accelerate in 1978.

(b) In 1977 and the following years, beef and veal production is expected to fall not only in the major non-member countries using intensive rearing methods, particularly the USA, but also in the countries using extensive rearing methods where natural conditions have not been very conducive to stock rearing (drought in Australia).

At the end of the decade the traditional importing non-member countries such as the USA will have increased import requirements, and now that new markets have opened (Middle East, Egypt) the world prices of beef and veal can be expected to rise substantially from their present fairly low level in 1978 and 1979.

7. Economic aspects of the measures taken under the common organization of the market in beef and veal

(a) Unity of prices

Until the end of 1977, when Ireland and the United Kingdom will align their guide prices on the Community price, accession compensatory amounts still apply to trade with those countries (4.63 u.a./100 kg live weight as the basic compensatory amount for adult cattle for the 1977/78 marketing year, compared with 8.93 u.a./100 kg live weight in 1976/77).

(b) Market support measures

In order to mitigate the fall in prices, the Community has continued to operate a number of measures to balance supply and demand:

- Special protective measures at frontiers, including the control of imports of beef and veal from outside the Community, in application of the protective clause adopted in July 1974. This measure was successively relaxed by the EXIM procedure and by authorizing the import of a specific number of calves and young cattle for fattening and subsequently by the "linked sales" system, which allows beef and veal to be imported from non-member countries following the acquisition of beef by tender from the intervention agencies; the safeguard clause was withdrawn when the amendments made by the Council to the system of trade with non-member countries took effect on 1 April 1977;
- Market clearance measures:
 - . granting of export refunds, with the possibility of advance fixing;
 - . direct buying-in by public intervention agencies (0.41 million t in 1975, 0.36 million t in 1976 and 0.15 million t up to the beginning of September 1977);
 - . granting of private storage aid for carcasses and forequarters of adult cattle (with provision for boning);
- Measures to stimulate consumption (publicity campaigns (1975), sale at reduced prices to social organizations (1975 and 1976) and to social welfare categories (1975); sale of 40 000 tonnes of intervention meat on the Italian market through the Italian intervention agency (1977));
- Possibility of granting variable premiums for the slaughter of certain beef cattle (clean cattle); only the United Kingdom has made use of this;
- Lastly, the continued grant of a calving premium in Italy;
- In October 1977, the Commission presented a communication to the Council on the reform of the common organization of the market in beef and veal. The experience gained during recent marketing years, together with the foreseeable market trend, allows a better understanding of the respective merits of the various measures employed and, accordingly, of the proposed alterations.

(c) International agreements

Under the GATT, the Community has agreed to the following annual import quotas:

- 38 500 t (in terms of boned meat) of frozen beef and veal, at the rate of 20%;
- 30 000 heifers and cows of certain mountain breeds and 5 000 head of certain Alpine breeds, other than animals intended for slaughter, at the rate of 4%.

Under the ACP/EEC Lomé Convention, a special system was established for the import of 27 532 tonnes (in terms of boned meat) of beef and veal from Botswana, Kenya, Madagascar and Swaziland. In addition to exemption from customs duties, the agreement also provides for the reduction of other import charges.

Under an agreement concluded with Austria, Sweden and Switzerland, specific levies may be fixed on imports of live cattle and fresh and chilled beef and veal from those countries.

Reduced levies may also be applied to certain imports from Yugoslavia (baby beef) when market conditions are normal.

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

8. Budgetary expenditure

Expenditure by the Guarantee Section of the EAGGF on beef and veal was 320.8 M u.a. in 1974, 980.0 M u.a. in 1975, 643.2 M u.a. in 1976 and is estimated at 495.4 M u.a. in 1977, or 10.5%, 20.7%, 11.5% and 7.0% respectively of its total expenditure. The sum of 495.4 M u.a. includes 110.4 M u.a. for export refunds and 385.0 M u.a. for intervention, 231.3 M u.a. of this figure being for public and private storage and 153.7 M u.a. for premiums.

17. PIGMEAT¹

1. Introduction

In December 1976 there were in the Community altogether 70.1 million pigs, for breeding or fattening, on about 2.7 million farms.

Pig farms with more than 200 animals numbered in December 1975 only 71 000, (2.7% of the total).

There are still considerable structural differences in pig production from country to country: 171 pigs per farm in the United Kingdom, 7 per farm in Italy, while the Community average is 26 per farm.

Specialization in pig production is still continuing: between 1973 and 1975 the number of farms with over 200 pigs increased by 12.7% and breeding farms with over 50 breeding sows have increased by 23.8%, while the total number of farmers keeping breeding sows has decreased by 4.7%.

This general tendency has not been followed in Italy where the total number of pig farmers increased by 5.6% between 1973 and 1975 and the number of large production units decreased considerably and there was a big increase in the number of smaller units and in the number of pigs kept.

The geographical distribution of pig production has not changed much: it remains concentrated in the areas bordering the North Sea and the English Channel and in Northern Italy.

In 1976 pigmeat accounted for almost 13% by value of the gross final production of agriculture and almost 38% by value of meat production in the Community; quantitatively it holds first place in the meat sector (about 42% of all meat produced).

The Community is the second largest pigmeat producer in the world, after China.

¹See Tables II.B/15.1 to 15.8 of Part II.

2. Production

Of the 70.1 million pigs in the Community on 1 December 1976 8.3 million were sows.

Compared with December 1975 the total number of pigs has risen by 2.3% and the number of sows by 3.9%.

The increase in the number of breeding pigs following the cyclical phase of high prices indicated an increase in pigmeat supplies during 1977.

This increase amounted from the beginning of the year to over 5% compared with the same period of the previous year.

In 1976 the EEC produced 8.5 million t of pigmeat, 2.7% up on 1975.

During the first half of 1977 pigmeat from slaughterhouses in the Community was about 5.8% up on the first half of 1976. However, in the second half of 1977 the increase over the comparable period of 1976 has been less marked.

For the whole of 1977, pigmeat production is estimated to be about 3% higher than in 1976.

The sharp increase in production during the first half of 1977 caused an imbalance between supply and demand which led to a considerable drop in producer prices for pigmeat and in a reduction in imports from non-member countries.

3. Consumption

In 1976 the consumption of pigmeat increased throughout the Community by about 1.6% over 1975 (8.6 million t in 1976 and 8.5 million t in 1975). Per capita consumption was 33.3 kg.

Germany remains by far the largest consumer (37.5% of the Community total) with a per capita consumption of 52 kilos; Italy is in last place with 18.0 kg per capita (pigmeat including offal and lard) although there was an increase on 1975 (17.8 kg per capita).

The balance between gross home production and consumption in 1976 shows slight variations compared with 1975.

Denmark still has the highest self-supply rate in the Community (320%) although it is there that there was the greatest drop in the rate (1975: 360%). Germany (88.7%), France (86.5%) and Ireland (198.1%) have increased their self-supply rates while in the BLEU (170%) and the Netherlands (212.3%) the rate is virtually unchanged and in Italy (73.5%) and in the United Kingdom (56.6%) it has dropped slightly.

The Community self-supply rate in 1976 was 98.8%.

4. Trade

The export-import balance in the various Member States is as follows:
(all intra-Community and extra-Community trade)

	Net imports (t)	Net exports (t)	% change 1976/1975	
			Net imports	Net exports
BLEU		264 700		± 0.0
Denmark		497 700		- 7.1
Germany	324 700		- 8.6	
France	246 100		- 2.4	
Ireland		62 400		+ 198.5
Italy	270 800		+ 16.4	
Netherlands		540 300		+ 3.1
United Kingdom	649 500		- 1.6	

The positive trend in intra-Community trade which has steadily increased over the years shows that the integration of the Community pigmeat market is continuing satisfactorily.

In 1976 the quantity of pigmeat products traded between the member countries amounted to 1.66 million t i.e. an increase of 4.3% over 1975 (1.59 million t).

Trade figures for the first half of 1977 confirm the trend towards an increase in intra-Community trade.

In trade with non-member countries in 1976 311 000 t were imported and 200 000 t exported.

Compared with 1975 imports from non-member countries have decreased by 20.7% while exports to non-member countries have also fallen by 14.1%.

The Community trade deficit went down compared to 1975 (net imports fell from 158 100 t in 1975 to 110 450 t in 1976). However, it is still higher than in 1974 (81 450 t).

Figures on trade with non-member countries in the first half of 1977 indicated a reversal in the Community trade balance which for the first time was in surplus by about 2 000 t. During these months Community imports from non-member countries contracted by 23.1% compared with the first half of 1976 (108 850 t January-June 1977, 141 600 t January-June 1976) while exports to non-member countries increased by 10.3% (110 900 t January-June 1977 and 100 600 t January-June 1976).

The breakdown into types of products imported or exported has changed little since 1976:

	Imports from non-member countries	Exports to non-member countries
Live pigs	13.4%	0.14%
Fresh and salted meat	43.6%	25.2%
Lard	18.5%	6.6%
Offal	16.3%	7.8%
Prepared and preserved meat	8.2%	60.3%
Total	100%	100%

The Community is still a net exporter of processed pigmeat products.

External trade in 1976 was with the traditional trading partners:

Suppliers: - United States of America (notably offal, lard)

Eastern European countries (notably live pigs and meat)

China (boned meat)

Sweden

Customers: - The United States of America (meat preserves)

Japan (meat and meat preserves)

Sweden

5. Prices

(a) Common prices

Basic price

Management of the Community pigmeat market depends on the basic price fixed annually for the marketing year from 1 November to 31 October and which applies to class II carcasses on the Community scale.

The basic price should represent an equilibrium whereby pigmeat production can develop and provide a fair return to producers while preserving the balance between supply and demand.

Intervention measures provided for in Community rules may be taken when prices of the representative markets fall below 103% of the basic price.

From October 1975 the basic price was 106 u.a. per 100 kg of carcass weight, but because of increases in certain production costs it was increased to 114,48 u.a./100 kg on 15 March 1976 (an increase of 8 %) ahead of the date (1 November) on which the new basic price normally comes into force.

To allow for the general rise in production costs a new basic price of 120.20 u.a./100 kg of carcase weight (+ 5%) has been fixed to apply from 1 November 1977 to 31 October 1978.

Sluice-gate prices

The sluice-gate prices which are fixed every quarter are considered to be the normal world market offer prices at the Community frontier at which products from non-member countries may enter and comply with the prices aimed at through the organization of the market. Changes in these prices depend on changes in the prices of feed grain on the world market. After a moderate increase in 1976, these began to fall in February 1977.

(b) Market prices

Market prices for pigs slaughtered during the first half of 1976 reached the peak of the upward cycle which began in 1975. Although the downward movement started in the summer of 1976 it was only at the beginning of 1977 that prices reached levels which necessitated intervention measures.

In April 1977, support measures in the form of aid for private storage were adopted by the Commission but these measures were abolished as soon as market prices rose once again above the level of 103% of the basic price (end of September 1977) and economic conditions for production improved.

The upward trend in pig carcase prices will probably continue during 1978.

Pig carcase prices

	u.a./100 kg pig carcase				
	1 Nov.73 to 6 Oct.74	7 Oct.74 to 31 July 75	1 Aug.75 to 14 March 75	15 March 76 to 31 Oct.77	1 Nov.77 to 31 Oct.78
<u>Basic price</u>	86.00	97.65	106.00	114.48	120.20
percentage change	100.00	113.50	123.30	133.10	139.80
<u>Market price</u>	98.10	100.81	119.30	116.62	
percentage change	100.00	102.70	121.5	110.00	
as % of basic price	114.20	103.20	112.50	101.9	
<u>Sluice-gate price</u>	84.59	97.01	86.20	85.98	
percentage change	100.00	114.70	101.90	101.60	

(c) World prices

Of the non-member countries with a market economy, the USA is the most important as regards production. Changes in the price of pigs in the USA were similar to those in the Community, although the fluctuations were much greater.

The other countries producing pigmeat on a large scale are the Eastern European countries with State-run economies.

(d) Consumer prices

The consumption of fresh pigmeat is only about half of all uses, and cuts and presentations vary from one country to another. A totally accurate comparison of prices and qualities at European level is therefore impossible.

It is however clear that consumer prices do not always follow the trend of producer prices.

Consumer prices, with some exceptions, continue to show an upward trend and reflect but little the cyclical and seasonal falls in producer prices.

6. Production costs

Feedingstuffs

Prices of feed grain on the world market, which were fairly stable in 1976, fell sharply from spring 1977 onwards.

On the Community market on the other hand these prices rose slightly in line with agricultural prices.

The relationship between the price of feed barley and pig carcass prices in the Community has improved considerably since May and June 1977.

The prices of the protein ingredients of feed (in particular soya and fishmeal) followed the drop in cereal prices on the world market from spring 1977 onwards after having risen considerably in 1976.

In the short term the prices of feedingstuffs are expected to remain fairly stable at their present levels.

Other costs

Although new techniques have resulted in more efficient and profitable pigmeat production, increases in salaries and energy costs, and inflationary trends in general, are factors making for higher production costs, independently of the cost of feedingstuffs. It is probable that these costs, which at present make up 25% to 35% of the total cost of production, will follow the general trend of agricultural and non-agricultural production costs in the various countries.

7. Outlook

1977 saw the bottom of the cycle, with production up and prices down.

After the particularly critical period from April to September, Community supplies of pigmeat fell off and prices rose, thereby initiating a new cycle (production down and prices up).

The feature of 1978 will therefore be this new phase, though production may fall off little or even not at all because of the fall in the prices of feed grain and proteins.

Consequently the increase in the price of pig carcasses, originally expected for 1978, may be only a limited one.

8. Economic aspects of the measures taken under the common organization of the market in pigmeat

(a) Levies and refunds

Trade arrangements with non-member countries provide for the fixing of levies and if necessary "additional amounts" on imports; export refunds may also be granted.

The fixing of levies depends on the trend of world and Community feed grain prices.

Additional amounts were re-introduced at the end of January 1977 after an interval of fourteen months. They helped to maintain the prices of imported products at a fair level in line with Community internal prices.

Export refunds were maintained for processed products, but at low levels so as not to disturb established trade flows. Refunds were introduced for fresh meat once again in February 1977 and then abolished at the end of October.

(b) Intervention

Following the drop in the price of pig carcasses on the representative markets in April 1977, the Commission adopted support measures in the form of aid for private storage for certain types of frozen pigmeat and for dried and dried-and-smoked hams.

The effect on prices in the market for pig carcasses was positive. As early as September prices of pig carcasses on the representative markets exceeded 103% of the basic price and stabilized at that level; it was therefore possible to discontinue the intervention measures from 30 September.

About 70 000 t (i.e. about 0.8% of annual Community pigmeat production) qualified for aid for private storage of which 70% was frozen meat and 30% dried or dried-and-smoked hams.

The application of aid measures and the results obtained showed that the amount of aid and the choice of products were appropriate.

(c) Special intervention

Outbreaks of swine fever in certain parts of the Netherlands in March 1977 led the Commission to take special health measures limiting the entry of live pigs and fresh pigmeat into other Member States from the Netherlands.

To prevent serious damage to the Netherlands pigmeat market from these measures, particularly in a period when the price cycle was at its lowest, the Commission undertook special measures to support the pigmeat market in the Netherlands for the period 23 March to 5 April 1977.

The measures consisted of providing aid for the private storage of carcasses and fresh cuts of frozen pigmeat for limited periods.

These exceptional measures were applied to 7 886 t (0.8% of annual production in the Netherlands).

9. Budgetary expenditure

Expenditure by the Guarantee Section of the EAGGF in 1976 amounted to 27.9 M u.a. of which 22.1 M u.a. was for export refunds and 5.8 M u.a. for the remaining payments under intervention measures for the 1974/75 marketing year.

For 1977, budget appropriations are 90 M u.a. of which 63 M u.a. are for export refunds and 27 M u.a. for intervention. It is not expected that expenditure will reach these amounts, as refunds have been kept at modest levels throughout the year and it was possible to discontinue the intervention measures after five months of application.

18. EGGS¹

1. Introduction

Recent estimates of the relative value of egg production in the Community underline its importance.

	<u>1975</u>	<u>1976</u>
Eggs/animal products	6.5%	6.6%
Eggs/total agriculture production	3.8%	3.9%

Production continues to be concentrated in a smaller number of enterprises but the trend towards greater horizontal or vertical integration seems to have stabilized.

At the professional level there have been many contacts in the Community between representative groups and associations, but, to date, a single European representative organization has not been established.

2. Production

Statistics on the number of laying hens in Member States indicate a slight increase (0.3%) in 1976 or 1975 for the Community as a whole, but in individual Member States changes vary from -5% to +8%.

Figures on the number of chicks hatched in the Community indicate an overall increase of 1.3% in 1976 compared with 1975, although some member countries show much greater increases.

These two factors, the present and future numbers of laying hens, illustrate the cyclical pattern of production and provide an indication as to production in 1976 and 1977. The numbers in 1976 were roughly the same as in 1975 and production remained at the same level for the Nine. For the Six the reduction in production was more noticeable than the reduction in numbers. Future numbers, indicated by the number of eggs incubated, will be higher than in 1976 and there has already been an increase in the production of eggs in 1977. The overall production in 1976 of 3 773 000 t is about 21% of world production according to published estimates.

3. Consumption

The consumer prices for eggs in 1975 were very attractive, falling in money terms in most Member States, and therefore showing a considerable reduction in real terms while other foodstuffs generally rose in price.

¹See Tables II B/14.1 to II B/16.7 of Part II.

In 1976 prices increased considerably in all Member States even taking into account the depreciation of the currencies used in the comparisons. The per capita consumption scarcely changed between 1975 and 1976 which confirms the relative inelasticity of demand for eggs (consumption does not decrease noticeably when prices rise).

4. Supplies and trade

Community requirements are covered by the production of Member States. Trade between Member States is active in particular with Germany. 200 000 t were imported by Germany, supplied in almost equal proportion by the Netherlands and Belgium. Total intra-Community trade in 1976 (300 000 tonnes) amounted to just under 8% of production, while trade with non-member countries amounted to 68 000 t (imports: 31 000 t; exports 37 000 t) which is only 1.8% of production. Imports from Eastern European countries, mainly effected under the arrangements provided for in Article 8 of Regulation (EEC) No 2771/75, are exempt from additional amounts and are made at sluice-gate prices, but these imports did not exceed 4 600 t in 1976.

In the northern regions of the Community some firms continue to import large quantities of eggs in shell and egg products under the inward processing arrangements and this certainly accounts for the greater part of deliveries from non-member countries. Products are then reshipped in the form of egg products and certain industrial products with an egg base (biscuits and cakes, mayonnaise, pasta, etc.).

The Community exports few eggs (1% of 1976 production) and the main markets are the Middle East, Switzerland and Austria.

The Community has a self-supply rate of 100% for eggs. For this reason slight changes in production or trade have an exaggerated effect on the market and on price levels.

5. Prices

In 1976 market prices were generally much higher than in 1975, ranging from 13% to 37% according to Member State. It is difficult to evaluate price changes because of inflation, but the 1976 increase over 1975 exceeded the annual inflation rate in all the Member States, suggesting that producers have improved their position as to price, but the substantial rise in the price of compound feedingstuffs in 1976 runs counter to this conclusion.

It can be seen from the price tables that market prices have risen more sharply than consumer prices, although these are also up in real terms. This difference is typical of a situation where the primary producer is subjected to greater price fluctuations than those which affect other links in the supply chain. 1976 has to some extent compensated for 1975 when market prices fell more sharply than consumer prices.

6. Outlook

The production of eggs in shell seems to have a long-term cycle and this cycle reached its lowest point towards the end of 1976.

The number of laying chicks incubated during the first half of 1977 is 1% up on 1976, so that production in 1977 and early 1978 will be slightly higher than in 1976.

This forecast can be influenced by various factors on which we have little information, in particular the degree of artificial moulting practised, and the slaughtering of culled laying hens. Nevertheless prices in 1977 will probably stimulate an increase in production.

7. Measures taken within the framework of the common market organization

- (a) The high prices of feed grain on the world market meant that sluice-gate prices were also high, while levies, based on the difference between these prices and Community prices fell, the fall being offset on 1 August 1976 by the higher prices for the new marketing year.

In 1977 this situation was spectacularly reversed due to the drop in prices on the world market, particularly in the spring and summer. In September 1977 there was a slight revival which will have little effect before 1 February 1978.

However, on 1 August 1977 the new prices for the marketing year further accentuated the increase in levies while the sluice-gate prices fell considerably each quarter.

- (b) Refunds granted up to 1 May 1976 were only for eggs in shell (12 u.a./100 kg), but were extended after that date to egg products (from 10 to 40 u.a./100 kg depending on the product).

While the amount granted for these egg products did not change, the refund for eggs in shell was changed several times; 9.5 u.a./100 kg on 1 June 1976, 13 u.a./100 kg on 15 July 1976 and finally 10.00 u.a./100 kg on 15 April 1977.

Three months advance fixing is authorized only for eggs in shell.

- (c) The accession compensatory amounts were fixed for 1976 and the first half of 1977 for all products. On 1 August 1977 the date when these amounts were fixed for the last time a list of the products concerned was drawn up including whole, liquid or frozen eggs.
- (d) Monetary amounts in this sector raise no particular problems. The estimate of offer prices for the purpose of applying the sluice-gate price always takes the monetary compensatory amount into account, as was stated in 1976.

8. Budget expenditure

Budget expenditure for the combined eggs and poultrymeat sector amounted to 8.4 m u.a. in 1975, 13.1 m u.a. in 1976 and is estimated at 25.0 m u.a. for 1977, i.e. 0.2%, 0.3% and 0.4% respectively of the total expenditure of the EAGGF Guarantee Section.

The rate of refund on eggs in shell in 1976 was, on average, higher than in 1975, but exports were 8 000 tonnes less (18%). As regards poultrymeat, refunds were granted only on cocks, hens and chickens, but in 1976 this refund and exports were both higher than in 1975.

In 1977 the refund on eggs was slightly reduced by comparison with 1976, but exports will probably be considerably lower than in 1976. For poultrymeat (cocks, hens and chickens) the refund is higher than in 1976 and exports will very probably increase.

19. POULTRYMEAT¹

1. Introduction

In 1976 the relative value of poultrymeat production is still substantial and fairly similar to that of eggs, that is, together about 13.3% of animal production and 7.9% of total agricultural production. The figures relating to poultrymeat alone are:

	<u>1975</u>	<u>1976</u>
Poultrymeat/animal products	7.0%	6.7%
Poultrymeat/total agricultural production	4.1%	4.0%

Poultrymeat production is still characterized by concentration and integration, both horizontal and vertical. The degree of concentration is greater in the poultrymeat sector than in the egg sector with a very large proportion of the production of some Member States being in the hands of very few industrial-scale producers.

Even under such conditions, which would be expected to lead to some form of central organization to avoid the repeated crises, no European group covering all interests has yet emerged, although certain sectors of the industry have strong representative groups.

2. Production

Incubations of day-old table chicks showed an increase in all Member States in 1976. Considerable variation exists in the relative increase in different Member States, and for the Community the average is 8.2% over the number of chicks hatched in 1975. Data for poultrymeat production show that the change in production was not as great as that implied by the figures of incubations, being actually 5% lower. The explanation is two-fold: firstly, the incubation figures are for broilers only and, secondly, the effect of trade is not taken into account.

Incubations of day-old broiler chicks increased by 8%.

Exports of these chicks to non-member countries increased by more than 50% in 1976 over 1975. Incubations of day-old chicks of the other main meat-producing species all increased in 1976, particularly turkeys, which showed an increase of 24%.

¹See Tables II.B/17.1 to 17.6 in Part II.

The total production of the Community in 1976 was estimated to be 3 303 000 tonnes, the degree of change, in comparison with 1975, varying considerably as between the Member States, although there has been an increase in production in all States.

While the growth in production in Italy was below 1%, it was 8% in the United Kingdom and more than 20% in Ireland. It should be noted that these increases follow a reduction in 1975.

According to the estimates available, Community production of poultrymeat represents some 21% of world production.

3. Consumption

Poultrymeat is probably the cheapest form of meat available to consumers and evidence from other countries suggests that there is scope for an increase in consumption levels in the EEC.

Consumption per head in the EEC indicates that, in the six original Member States, a long period of increase took place, but that in 1976 the rate of increase went down to 0.8%. In the Community as a whole the reduction in consumption per head between 1974 and 1975 was reversed in 1976, when there was a rate of increase of 2.7%. Poultrymeat is one of several forms of meat whose consumption is influenced by the relative availability and price of beef and pigmeat. Any forecast is made difficult by fluctuations in those other sectors.

4. Supplies and trade

For several years the Community has been between 101 and 103% self-supplying. Trade with non-member countries represents around 2% (69 000 tonnes) of Community production in terms of imports, and about 6% (185 000 tonnes) in terms of exports.

Imports from non-member countries increased by 4%, but the quantity (3 000 tonnes) is too small to require comment.

Most imports from Eastern Europe benefit from the system in Article 8 of Regulation (EEC) No 2777/75, whereby additional amounts are not imposed if sluice-gate prices are respected, and these imports totalled 7 500 tonnes of ducks and 7 800 tonnes of geese in 1976. Imports of turkeys and turkey parts from the USA reached 10 000 tonnes in 1975 and 1976.

Exports to non-member countries in 1976 were 34% higher than in the previous year. This increase of 47 000 tonnes is mainly made up of 36 000 tonnes of chicken, but there was also an increase in exports of boned meat (+1 400 tonnes), wings (+1 600 tonnes), preserved meat (+3 000 tonnes) and other derived products.

Intra-Community trade, at 258 000 tonnes in 1976, was 6% lower than in 1975, and mainly concerned 172 000 tonnes of chicken, 5 600 tonnes of duck, 11 000 tonnes of turkey, 53 000 tonnes of poultry cuts and 18 000 tonnes of meat preserves.

The principal trade flows are from other Member States towards West Germany, which continues to import 45% of its consumption. In contrast, the Netherlands exports 70% of its production. Health, veterinary and zootechnical regulations continue to inhibit free exchange of produce between Member States.

5. Prices

In 1975 there was a considerable improvement in the situation and in the middle of 1976 market prices remained at a fairly high level. This movement reached a peak in the months of July-September 1976, and since then the prices have fallen but remain reasonable in view of the price of feed. As in any discussion of prices, the real changes are confused by the effects of the changing real value of the different national currencies.

Market price increases in France, Italy, the United Kingdom and Ireland in 1975 were sharper than in the other Member States, but these four countries suffered more from inflation than the others. In 1976 price movements varied from +1% (in France) to +18% (in Italy). In money terms, prices in 1976 were higher than in 1975; this is probably also true in real terms with the exception of France and Ireland.

Changes in consumer prices varied widely according to Member State and compared to the previous year. Once again the rate of inflation in the countries concerned should be taken into account, but it seems nevertheless that consumers in certain Member States have seen greater price increases than producers.

6. Outlook

It is difficult to forecast poultrymeat production accurately on the basis of parent stock. The problem lies in the very short production period necessary to increase parent stock - a matter of 6-12 months - and a large margin of variability in the number of utility chicks used in relation to the potential available.

Poultrymeat production is variable and depends on many factors including the recent price situation, costs of feedingstuffs, export possibilities and the general trend of demand. Since the last quarter of 1975 prices have increased and have remained satisfactory. This has stimulated an increase in production which became apparent during 1976 and which continued during the first three months of 1977, yet although prices remained at a satisfactory level, the volume of production is showing a slight fall which will probably continue up to the end of 1977.

7. Measures taken within the framework of the common market organization

- (a) Sluice-gate prices and levies have been fixed quarterly on the bases set in 1974 (coefficients and standard amounts).

The high world prices for feed grain from May 1975 to September 1976 caused repeated rises in the sluice-gate prices.

The substantial rise in cereal prices within the Community on 1 August 1976 had a similar effect on the levies.

It should be emphasized that world prices have been coming down in 1977 and sluice-gate prices are dropping steadily while levies increase; this increase is accentuated by a further rise in Community cereal prices on 1 August 1977.

- (b) Refunds granted in this sector in 1976 are still limited to chicken meat exported to certain non-member countries, particularly in Europe and the Middle East. The amount of this refund was 5.00 u.a./100 kg up to 31 May 1976 and was set at 8.5 u.a./100 kg from that date. The figure will be increased to 12.00 u.a./100 kg on 1 April 1977.

These refunds may be fixed in advance (for three months).

- (c) Accession compensatory amounts have been set for all products in the sector in 1976 and up to 31 July 1977. On 1 August 1977 these amounts, which disappear on 31 December 1977, were fixed for the last time and a list of the products in question was drawn up to include only ducks and geese and certain cuts thereof.

- (d) The methods of calculating the monetary compensatory amount and the measures taken to check observance of the sluice-gate price when recording offer prices have not been changed in the course of the last year.

- (e) Water content of frozen chickens:

On a proposal from the Commission, which had undertaken research in collaboration with the Member States, the Council has laid down a maximum water content for frozen chickens placed on the market.

Analysis and control methods are also laid down and are to be applied for several months on an experimental basis in all Member States.

8. Budgetary expenditure

The budgetary expenditure for the combined eggs and poultrymeat sector amounted to 8.4 m u.a. in 1975, 13.1 m u.a. in 1976 and is estimated at 25.0 m u.a. for 1977, i.e. 0.2%, 0.3% and 0.4% respectively of the total expenditure of the Guarantee Section of the EAGGF.

The rate of refund on eggs in shell in 1976 was, on average, higher than in 1975, but exports were 8 000 tonnes less (18%). As regards poultrymeat, refunds were granted only on cocks, hens and chickens, but in 1976 both this refund and exports were higher than in 1975.

In 1977 the refund on eggs was slightly reduced by comparison with 1976, but exports will probably be considerably lower than in 1976. For poultrymeat (cocks, hens and chickens) the refund is higher than in 1976 and exports will very probably increase.

20. SILKWORMS¹

Silkworm rearing which is practised in Italy and on a small scale in France represents only a tiny fraction of Community agricultural activity and of world sericulture, which according to the FAO produced in 1975 52 000 t of raw silk from about 425 000 t of cocoons. Due to the poor demand for cocoons in 1975 because of the extremely low price of raw silk on the world market (average price about Lit 16 000 kg against 24 000 in 1974) only 7 200 boxes were cultivated in 1976 in the EEC (15 200 in 1975) producing 175 t of cocoons (390 in 1975). It should, however, be noted that a certain quantity of boxes in cultivation were destroyed by earth tremors and floods.

A marked increase in world market prices for silk (Lit 24 000 in 1976 and the beginning of 1977) and the granting of supplementary aid during the last two marketing years meant that the defeatist attitude of silkworm rearers has been replaced by a degree of confidence which is reflected in the increase in the number of boxes cultivated in 1977, provisionally put at 8 664 boxes (+20%) producing 210 t of cocoons.

For 1977/78 aid has been fixed at 40.20 u.a. per box of silk seed in cultivation compared with 40 u.a. for 1976/77; a supplementary aid of 14.07 u.a. (15 u.a. in 1976/77) is granted when the cocoons produced are marketed by an approved producers' group. Total aid therefore amounts to 54.27 u.a. against 55 u.a. for 1976/77.

Expenditure by the Guarantee Section of the EAGGF in the silkworm sector amounted in 1976 to 0.6 million u.a.

¹See Table II/B 18.1 in Part II.

II. PRODUCTS NOT SUBJECT TO COMMON MARKET ORGANIZATION

21. Agricultural alcohol
22. Potatoes
23. Sheepmeat
24. Honey

21. AGRICULTURAL ALCOHOL¹

1. Introduction

In the absence of a common organization of the market, the lack of order in the agricultural alcohol sector became more marked.

During the year in question (1976), not only was this sector subjected to the effects of the massive distillation decided upon in the wine sector in the preceding years, but the adjustment of the German monopoly alone caused such disturbance on this market that the Commission was forced to take protective measures based on Article 46 of the Treaty.

2. Production

Production of agricultural alcohol in 1976 returned to a normal level after the large surpluses of vinous alcohol recorded in previous years. These surpluses continue to burden the market since it is difficult to dispose of them.

The fall in production (- 6.9%) is particularly noticeable in the wine sector (- 59.5%) and in the potato alcohol sector (- 29.9%) where climatic conditions were unfavourable.

On the other hand, production of molasses alcohol increased overall (+ 13%) but unevenly according to Member State. It increased substantially in Denmark (+ 82.5%), in Italy (+ 46.6%), in the United Kingdom (+ 11.2%) and in Benelux (+ 9%), but fell in France (- 18.8%) and in Germany (- 8.8%).

Production of agricultural alcohol in other sectors did not change substantially.

France is still the Community's main producer of agricultural alcohol with 34% of production, followed by Italy (29%).

3. Consumption

The use of agricultural alcohol remains steady on the whole. A slight drop, however, is noticeable in human consumption, as a result of the general economic situation.

4. Prices

The reduction recorded during the previous year, particularly in molasses alcohol, did not persist and the prices of agricultural alcohol have, in general, been affected by the rises recorded in the other sectors.

¹ See table II.B/19a of Part II

5. Trade

The adjustment of the German monopoly opened up this market to alcohol from other Member States. On 14 April 1976, the Commission introduced a countervailing charge on French alcohol to counter the threat that the influx of alcohol sold by the French monopoly at heavily-subsidized prices represented to the stability of the German and Benelux markets. Since then the situation has returned to normal and only Italian alcohol continues to come on to the German market. Nevertheless, between 17 February 1976 and 31 December 1976, 278 000 hl of alcohol were supplied to the German market, equivalent to some 28% of German production. 201 000 came from Italy, 43 000 from France and 33 000 from Benelux.

6. Outlook

The establishment of a common organization of the market is more and more urgently necessary since the countervailing charge is only a partial remedy for the difficulties. There is a risk of further problems, particularly in the adjustment of the French monopoly.

7. Expenditure

A token entry only, since in the absence of a common organization of the market no expenditure is recorded in the budget for this sector.

22. POTATOES¹

1. Introduction

No common market organization yet exists for potatoes. A proposal was presented by the Commission to the Council on 23 January 1976 concerning the whole range of fresh and processed products.

The proposal provides for:

- marketing standards;
- measures promoting the formation of producer groups;
- support measures aimed at market stability;
- a system of trade with non-member countries, including a reference price system for new potatoes.

Products such as potato starch², dehydrated potatoes³, products processed from potatoes⁴, are already subject to a common market organization. The marketing of seed potatoes is subject to a Council Directive⁵.

2. Production

In 1976 the value of potato production represented 12,5% of the value of crop production and 5% of the value of total agricultural production in the Community. The number of farms growing potatoes is around 2.4 million in the enlarged Community. At national level the production structure is very variable, average crop area per farm being 5,5 hectares in the United Kingdom and 0.4 hectares in France and Italy.

Over the last twenty years the total area under potatoes in the EEC has dropped by about 60%: 3 512 000 hectares in 1951 to 1 384 000 in 1976. The new potato crop area, on the other hand, has remained almost static (-1.9% over the 1968-1976 period for the six-member Community); yet it increased by 4.2% in 1976 following the high prices recorded in 1975 in the nine-member Community. However, the increase in unit yields, generally speaking, apart from exceptional years (drought), has enabled internal consumption to be met (+38 million t of production in 1977). There were, however, supply problems in the Community following a significant reduction in supply in 1975 (32 889 000 t) and in 1976 (29 066 000 t) due in particular to two extremely dry summers.

¹See Tables II.B/19.b1 to 19.b4 of Part II.

²Regulation (EEC) 120/67 of 13.6.1967, OJ L 117 of 19.6.1967, p. 2209.

³Council Regulation (EEC) 1420/75 of 26.5.1975, OJ L 141, 3.6.1975.

⁴Council Regulation (EEC) 516/77 of 14.3.1977, OJ L 73, 21.3.1977.

⁵Consolidated version of Council Directive of 14.6.1966, OJ 66, 8.6.1966, p. 35.

In 1976 the world harvest was 291 654 000 t according to FAO statistics. The Community's production of 29 million t, was about 10% of world production against about 14% in 1974.

The average yield per hectare in the Community is roughly double the world yield.

The net exporting countries in the Community are: Netherlands, France, Denmark and Ireland. The other countries are importers.

3. Consumption

Most human consumption of potatoes is of the product in its natural state. Lesser quantities go into animal feed while the quantities turned by the processing industry into products for human consumption continue to increase.

(a) Human consumption

Per capita consumption of potatoes in the natural state has tended to diminish over the last few years. It has gone from 109 kg per capita in 1956/57 to 73.5 in 1975/76 in the EEC of Six. For the EEC of Nine consumption is 75.9 kg per capita.

(b) Animal feed

In 1975/76 use in animal feed stood at 3.57 million t in Germany, 400 000 t in Italy, 328 000 t in France and somewhat less in the other countries.

(c) Products processed for human consumption

The quantities taken by the processing industry are on the increase in certain Member States (France, Netherlands, United Kingdom) and static in others. However, even in a year of shortage such as 1975, the quantities processed in the EEC were roughly 2 820 000 t as against 2 904 000 t in 1974. These quantities go mainly into the manufacture of dehydrated products, potato crisps, pre-cooked raw chips and deep-frozen products.

4. Trade

Overall, intra-Community trade in potatoes represents only about 4% of total production while trade in seed potatoes and new potatoes stands at between 10 and 12%. In 1976, however, following the severe shortage in several regions of the Community, sizeable imports were made from non-member countries, particularly from the USA.

As regards the structure of trade in processed products in the Community, the situation is similar to that in unprocessed products. The main exporting countries are the Netherlands and France while the other countries are importers.

5. Prices

Prices are very unstable, varying from year to year and fluctuating within the same year. In 1976, following the shortage, they reached very high levels at the beginning of the marketing year (19.07 u.a. per 100 kg, on 26.9.1976 on the Rotterdam Wholesale Market), but prices came down at the end of the marketing year (9.23 u.a. per 100 kg on 2.6.1977 on the Rotterdam Wholesale Market). This fall in prices may be explained by a certain drop in human consumption as a result of very high market prices and by the poor quality of stocks. World prices in 1976 (USA mainly) stood at a lower level than in Europe. (In January 7.62 u.a./100 kg in New York as against 20.12 in Rotterdam). Imports have helped to hold down the level of European prices.

6. Outlook

The 1976/77 marketing year was one of high prices until January 1977. Since then, prices fell steadily until the end of the marketing year. Taking account also of the level of prices reached by seed potatoes, the area planted in 1977 was almost equal to that in 1976 (1 382 000 ha in 1976, 1 390 000 ha in 1977, i.e. +0.6%). On the other hand, rainfall was normal in the EEC in the summer of 1977 and the harvest also was normal. Forecasts suggest around 38 million t, a figure which is well up on 1976 (29.0 million t) but more or less in line with the average normal harvest. However, taking account of the poor demand on European markets, the 1977/78 marketing year has opened with extremely low prices.

Prices will probably remain low over the next few months, with only limited export possibilities for potatoes for human consumption (a satisfactory harvest in the other European countries); substantial quantities of ware potatoes will consequently go into animal feed.

Nevertheless, a rise in prices for the spring of 1978 cannot be ruled out. The good quality of stocks and low prices may stimulate human consumption of both fresh and processed products.

7. Economic Aspects of the Measures Taken

In order to alleviate the situation of shortage and high prices in the 1976 marketing year the Council, on a proposal from the Commission, decided to suspend the Common Customs Tariff duties for the following periods:

- ware potatoes: from 1 August 1976 to 15 April 1977
- new potatoes: from 1 January 1977 to 31 March 1977
- seed potatoes: from 12 September 1976 to 28 February 1977

23. Sheepmeat¹

1. Introduction

World production of sheepmeat, at 6.8 million t, is fairly small compared with that of beef and veal (44 million t), pigmeat (42.5 million t) or poultrymeat (21.2 million t).

However, sheepmeat has a certain importance in world trade. In 1975, world exports of sheepmeat were of 0.8 million t as against 3.3 million t for beef and veal and 1.8 million t for pigmeat. The Community, with 42 million head, has only 4% of the world flock. Nevertheless it achieves 7.5% of world production and, in particular, one-third of world trade.

Within the Community, 90% of sheep are bred for meat and 10% for milk (restricted to Italy and the south of France). Flocks kept only for their wool are phasing out, whereas in the rest of the world wool is the dominant specialization.

In most areas of the world consumption of sheepmeat is low and steady, at between 1 and 3 kg per inhabitant per year; the latter figure is also the Community average. Some countries are big consumers, such as Australia and New Zealand (30 kg per head per year), Greece (15 kg), the United Kingdom (10 kg). For some years consumption has been increasing strongly in Arab oil-producing countries.

2. Production

(a) Sheep numbers

Since 1968 the Community flock has been fairly steady. Apart from Denmark, where sheep farming is of negligible importance, Ireland is the only Member State where the number of sheep has fallen substantially, since 1975.

In the United Kingdom, the Member State with half the Community flock, the numbers are steady with cyclical variations (minima in 1970 and 1975, maxima in 1968 and 1974). On the other hand, there has been a steady increase in numbers in the six original Member States, except for Italy where, after a steady fall until 1972, numbers are now on the increase. Regionally speaking, sheep farming in the Community is tending to shift from the plains (where other types of farming compete with it, including stock farming) to the mountainous and less-favoured areas.

In all the Member States there are farms with sheep in less-favoured areas within the meaning of Directive No 75/268/EEC on hill farming.

Altogether, two-thirds of the sheep in the Community are in less-favoured areas (28 million sheep out of the 43 million in the Community.)

¹See Tables II.B/19.C.1 to 19.C.7 in Part II.

(b) Sheepmeat production

In 1976, gross production of sheepmeat within the Community was 502 000 t, very unevenly distributed amongst the Member States. The United Kingdom is the predominant producer country with 50% of Community production, followed by France (25%), Ireland (9%), Italy (7%), Germany (4%), the Netherlands (3%), the BLEU and Denmark.

For 12 years Community production has been relatively stable, but, since 1973, it has tended upwards in all Member States except Ireland.

3. Consumption

Consumption of sheepmeat in the Community has remained fairly stable at about 800 000 t per year for the last 15 years. Yet this relative stability conceals two divergent trends: firstly a considerable and regular fall in consumption in the United Kingdom, and secondly a substantial increase in France and Germany. Between 1962 and 1976 consumption went from 617 000 tonnes to 438 000 tonnes in the United Kingdom (-29%), from 117 000 to 195 000 in France (+67%), from 50 000 to 63 000 in Italy (+26%) and from 14 000 to 39 000 in Germany (+178%).

There are large differences in the annual average per capita consumption of sheepmeat between the Member States of the EEC. In 1976 this was 9 kg in Ireland, 8 kg in the United Kingdom, 4 kg in France, 1.3 kg in the BLEU, 1 kg in Italy, 1 kg in Germany, 0.4 kg in Denmark and 0.2 kg in the Netherlands. This represents a Community average of 3 kg.

4. Trade

(a) Trade with non-member countries

The Community, which produces only 64% of its requirements, is accordingly largely dependent upon imports. The increase in production since 1973 has raised the self-supply rate (1973: 59.4%; 1976: 63.9%) and caused a falling-off in Community imports (1973: 315 000 tonnes; 1976: 284 000 tonnes). In 1976 the main suppliers of the Community, New Zealand, Argentina, Australia and Hungary supplied respectively 81.4%, 5.3%, 4.6% and 3.2% of total imports. The United Kingdom is by far the main importer within the Community. In 1976 that Member State imported 225 000 tonnes, or four-fifths of Community imports (278 000 tonnes), and 200 000 of this was frozen lamb from New Zealand. The remaining one-fifth of imports is distributed between Germany (20 000 tonnes), Italy (20 000 tonnes), France (6 000 tonnes), the BLEU (4 100 tonnes), and the Netherlands (1 200 tonnes).

Australia is the only non-member country amongst the Community's main suppliers whose exports have increased substantially in 1976.

In contrast to its imports, Community exports are small: 4 000 t in 1975 and 6 000 t in 1976, mainly to certain Mediterranean countries and to Switzerland. They are tending to increase, in particular towards Arab countries (Libya).

These exports go mainly from the United Kingdom and Ireland.

(b) Intra-Community trade

This trade is developing as follows:

1973: 60 000 t
1974: 60 000 t
1975: 85 000 t
1976: 82 000 t

Most of this trade is made up of a traditional flow of 40 to 50 000 t of meat towards France, mainly from the United Kingdom, the Netherlands, Germany and Ireland (respectively 16 000, 15 600, 9 500 and 1 200 t in 1976). The United Kingdom's exports to France have been fairly steady since 1973, but those from the Netherlands have increased and those from Ireland have fallen. It is noticeable that, since 1975, a new trade flow has developed from Germany, which has in this way become France's third supplier. The trends are given in detail in the table in the Annex. This table shows that France covers 90% of its deficit from within the Community.

5. Market prices

The pattern of sheepmeat prices in the Community is basically set by the British and French markets. The British market has a direct influence on prices in the Irish market. The French market determines the price level for producers in the Member States producing a quality intended for the French market (Netherlands, Germany, Belgium and, to a lesser extent, Italy). It is noteworthy that the German and Italian market prices are lower than the French price, since the representative markets in these two Member States are influenced by imports to satisfy internal demand, often of a lower quality than the home production intended for supply to the French market. The difference in the market price between France and the United Kingdom is very high. Indeed, since 1968, the British market price has been some 50% of the French market price; this difference has even increased since accession under the influence of monetary phenomena.

Nevertheless, in 1976 this price difference has started to diminish, owing to an increase in the U.K. price (+ 13.4%) and the Irish price (+ 22.5%), while the French price has only risen slightly (+ 5.4%).

The difference in price may continue to diminish. In 1977, the French price should grow only slightly, while the British price should continue to rise. Thus, in September 1977, the price level in the United Kingdom was 60% of that in France.

6. Outlook

In the medium term (1980), one can estimate Community production at about 540 000 t and consumption at 830 000 t; the rate of self-supply, 65%, would therefore be slightly higher than the present rate.

This estimate assumes that both production and consumption will rise in the continental Member States, that in the United Kingdom production will rise and consumption level off, and that in Ireland both production and consumption will fall.

These assumptions, based on present trends in sheep farming and on national measures to support producers' incomes, may be affected by the policy to be laid down within the future common organization of the market.

Any substantial reduction in the incomes of producers in the less-favoured areas of the Community would involve a sharp reduction in the number of sheep in those areas.

On the other hand, a rapid rise in the market price in the United Kingdom would bring about a reduction in this Member State's deficit in sheepmeat, particularly by reducing consumption.

24. HONEY¹

1. Introduction

Honey is not subject to a common market organization. The only general charge on import is a 27% customs duty.

2. Production, consumption and trade

The EEC produces more than 30 000 t of honey and imports between 70 000 and 80 000 t. The main producer is normally the Federal Republic of Germany, but production in that country fell off sharply in 1975/76.

The Federal Republic of Germany is by far the biggest importer in the EEC and consumption in this State is much higher than in other countries. Basically the EEC may be divided into countries with a high degree of self-supply (France, Italy, Denmark) and those dependent on imports for most of their requirements. France increases its degree of self-supply by applying quantitative restrictions on honey imported from certain countries, and by applying Article 115 of the Treaty of Rome (protective clause) to others.

The divergent trade policies of the Member States render it difficult to set up a common market organization.

3. Common measures to assist beekeeping

Between 1968 and 1973 the EEC granted aid to beekeepers in the form of a premium for denatured sugar intended as winter food for bees. This aid was abolished in 1974 because of the sugar shortage. In 1976 the EEC granted direct aid amounting to 2.5 million u.a. to associations of beekeepers from special funds voted by the European Parliament and not from the EAGGF Budget.

Because of the improvement in sugar supplies, the EEC will in 1977 once again grant a premium for denatured sugar used as winter food for bees.

¹See Table II.B/19d of Part II.

C. SURVEY OF CERTAIN SECTORAL GROUPS

25. MEAT¹

1. Gross meat production within the Community

Community meat production in 1976 reflects the changes that have come about in the three largest sectors: beef and veal, pigmeat and poultrymeat.

Gross production has increased by about 1%, from 20.4 million t in 1975 to 20.6 million t in 1976. The breakdown of this figure is as follows:

pigmeat	41.3%
beef and veal	31.3%
poultrymeat	16.0%
sheepmeat and goat meat	2.5%
horse meat	0.3%
other meat (rabbit and game)	2.4%
offal	<u>6.2%</u>
	100.0%

Comparison of these data with those for previous years brings out the following general points:

- pigmeat and poultrymeat continue to advance, largely as a result of the steady improvement in production structures
- beef and veal has undergone a cyclical check
- sheepmeat and goat meat and rabbit and game are advancing slightly
- horse meat is steady or declining.

Meat production

(a) Pigmeat production in 1976, at 8.5 million t, was some 3% higher than in 1975 (8.3 million t). This increase then accelerated during the first half of 1977 (+ 5.8% over the first half of 1976) and conforms to the traditional pigmeat production cycle. The relative fall in production anticipated for 1978 will not at first affect quantities, except as a reduction in growth compared with the potential increase in demand (mainly increase in population).

Pigmeat production goes through alternate phases of growth and decline under the influence of the market price for slaughtered pigs.

World prices of feed grain and vegetable proteins are such as to favour an increase in production in the pig sector as a whole. In this way the expected cyclical downturn in pigmeat production could be largely offset.

¹ See table II.B/20.1 to 20.3 of Part II.

(b) Beef and veal After reaching its high point in 1974-1975, production began the decline which should accelerate in the course of the next year.

In 1976 production was about 6.5 million t, some 2% below the 1975 figure in spite of the slaughterings brought about by the drought in summer 1976. Production of beef fell by 3% in 1976, and in the first half of 1977 went down by some 2% compared with the same period in 1976.

Production of veal in 1976 was, however, higher than in 1975 by 4.3%, mainly through a substantial increase in the average slaughter weight.

Beef and veal production as a whole will probably be 3.5% lower in 1977 than in 1976, and drop further in 1978.

A phase of increase in beef and veal production could begin again towards the end of this decade.

(c) Poultrymeat Market prices for poultry in 1976 brought about an increase in production of some 4.5% compared with 1975.

In view of the pattern of world prices for cereals and the trend in chicken prices within the Community, 1977 will probably see a further growth in the production of poultrymeat.

(d) Sheepmeat and goat meat Production of these meats in the Community is fairly steady, with differing trends according to country. There has accordingly been an upward trend since 1973 in some Member States (Federal Republic of Germany).

Production in 1976 was 0.5 million t, or 2.7% below that of 1975.

No substantial change is expected in the level of production of this meat.

(e) Horse meat Production in 1976 rose by 26.0% over that in 1975, which is all the more remarkable in that it follows a long period of decline. However, this increase does not necessarily indicate a trend for the future.

(f) Other meat Production of game and rabbit appears stable at some 0.5 million t. It is very difficult to make an objective analysis of production of these meats on the basis of past statistics, since production before the sixties was largely intended for home consumption.

Production of rabbit has become increasingly market-oriented in the last ten years only. Its future is largely determined by the market for feed grain and the results of genetic and veterinary research. In the medium term production of rabbit is expected to rise, but not dramatically. The existing situation on the cereal market could encourage an increase in production for 1978.

(g) Edible offals. Production is dependent on the number of slaughterings of cattle, pigs and sheep. 1.3 million t were produced in 1976, 0.5% less than in 1975.

2. Meat consumption in the Community

In 1976, per capita consumption of meat in the Community was up by 1% on 1975 (81.8 kg in 1975, 82.5 kg in 1976).

Per capita consumption of meat has gone up only 1.5% since 1973. One can therefore conclude that, on the whole, meat consumption in the Community is fairly steady.

There are, however, substantial differences by country and by type of meat.

Proportion of the various meats

pigmeat	40.2%
beef and veal	30.5%
poultrymeat	14.8%
sheepmeat and goat meat	3.7%
horse meat	1.2%
other meat (rabbit and game)	2.6%
offal	7.0%
<u>Total meat</u>	<u>100.0%</u>

(a) Pigmeat

The increase in pigmeat consumption has been confirmed in 1976. The annual rate of change in per capita consumption is 0.5% since 1973. The difference by country remains very large (from some 52 kg per capita in the Federal Republic of Germany to 18 kg in Italy), the Community average being 33.2 kg (excluding offal). The share of pigmeat in total meat consumption in 1976 was 40.2%. Pigmeat is the essential raw material for an expanding prepared-meats industry, and should accordingly consolidate its position amongst other meats.

(b) Beef and veal

The proportion of beef and veal in meat consumption in the Community as a whole has dropped during the last year. Total consumption had undergone a considerable rise of some 1.5% per year up to 1973; it then steadied at around 25 kg per capita. The BLEU remains the largest consumer of beef and veal in the Community with nearly 31 kg per capita, and Denmark has the lowest consumption with less than 15 kg per capita. Consumer preference appears to be substantially influenced by the price level, and to be veering towards cheaper meats.

(c) Poultrymeat

In 1976 consumption of poultrymeat remained at its 1975 level of some 12 kg per capita.

The share of poultrymeat in overall meat consumption is around 15%.

(d) Sheepmeat and goat meat

The consumption of sheepmeat and goat meat was always mainly a traditional matter. Yet for some years there has been evidence that consumption of these products is spreading beyond the traditional boundaries, for example the increase recorded in the Federal Republic of Germany.

However, there is no question of overall increase. Consumption of sheepmeat and goat meat in 1976 has stayed fairly steady at about 3 kg per capita in the Community. Although there has been an increase, particularly in France and in Germany, there has been a substantial drop in the United Kingdom. The difference in consumption per head in different countries remains extreme (9 kg per head in Ireland, 0.2 kg per head in the Netherlands). The probable future trend is a rise in consumption in continental countries and levelling off, or even a decrease, in the United Kingdom.

(e) Horsemeat consumption remains at 0.9 kg per head in the Community in 1976; it has always been about 1%. The distribution by country is roughly what it has been in the past; the greatest consumption of this meat, at 4 kg per head, is in the BLEU, where there has even been an increase of some 10% on 1975; the lowest consumption has been in Ireland, the United Kingdom and in Germany.

(f) Other meats

Consumption of rabbit and game in 1976 was the same as in 1975, at 2.2 kg per head, and the proportion was 2.7%. Consumption seems to have levelled off, but some trade circles consider that there has been a slow increase in rabbit meat and this could become fairly substantial in the future.

(g) Edible offals

Consumption of edible offals has steadied between 1975 and 1976 at 5.7 kg per head, a proportion of some 7%.

3. The rate of self-supply in meat

Community meat production is some 96% of overall Community requirements, but the rate of self-supply varies substantially by country and by product. The lowest rate of self-supply is in horse meat (26%), and the highest is in poultrymeat (104%).

The Community is accordingly a substantial net importer of meat, at a rate which varies from year to year.

In 1976 these net imports were over 0.9 million t, whereas in 1975 they were not quite 0.7 million t.

This increase in net Community imports is attributable to beef and veal which recorded a net balance of imports of some 0.2 million t in 1976, after having a net export balance in 1975. The net import balance for other meats in 1976 was practically the same as in 1975.

Sheepmeat and goat meat is still the highest import category, followed by horse meat.

Compared to the rate of consumption, the trade deficit in rabbit and game is large at some 0.08 million t.

Imports of edible offals are becoming more and more significant in trade with non-member countries. The net balance of imports in 1976 seems to have increased remarkably since 1975.

Expenditure on the management of the meat markets

The meat products which are subject to common market organization and which give rise to expenditure by the Guarantee Section of the EAGGF are: pigmeat, beef and veal and poultrymeat. Overall these represent more than 88% of all meat and edible offals produced within the EEC: pigmeat 41%, beef and veal 31%, poultrymeat 16%. Expenditure incurred in the management of these three markets in 1976 was 678.8 M u.a., or 14.4% of total expenditure borne by the Guarantee Section of the EAGGF during that financial year. The breakdown of these 678.8 M u.a. was as follows:

pigmeat	27.9 M u.a. (4.1%)
beef and veal	643.2 M u.a. (94.8%)
poultrymeat	7.7 M u.a. (1.1%)

26. OILS AND FATS (1)

1. Introduction

The sector of oils and fats comprises:-

- oils and fats of vegetable origin, which must be subdivided, in view of the structural market differences, into olive oil, on the one hand, and all other vegetable oils on the other
- oils and fats of animal origin, which again must be subdivided between butter, on the one hand, and lard and tallow on the other
- oils and fats of marine animals.

The above are the basic raw materials, but they may be consumed as they are, or in the form of prepared oils and fats, such as margarine; they may be used for animal or human consumption, or for technical purposes; they may be incorporated into other products. Further, depending on end-use, a large degree of substitutability is possible between the different basic products. The form of end-use varies considerably within the Community. For example, in the Northern countries, consumption of oils and fats is largely in the form of butter and margarine, whereas in France and Italy, oils and fats consumption is preponderantly in the form of fluid vegetable oils.

The importance of the different categories in total human consumption varies only slightly from year to year. The following table shows the proportions for 1975, and the degree of self-sufficiency of the Community in each category.

TABLE 1

Apparent Human Consumption of each category of oils and fats as a proportion of total human consumption; and degree of Community self-sufficiency.

	1975	
	<u>Consumption</u>	<u>EEC Self-sufficiency</u>
Vegetable oils & fats	51,3%	20%*
Oils & fats of land animals	20,9%	80%
Oils & fats of marine animals	5,7%	20%
Butter	22,1%	100% +
Total	<u>100%</u>	<u> </u>

* If olive oil is excluded, self-sufficiency falls to less than 11%

For each category of products, different policies are applied in the Community. In the vegetable oil sector, all oilseeds enter the EEC free of duty. Oils are the subject of duties ranging from 10% to 15%, but lower or zero tariffs are applied to oil imports from associated countries - and these imports represent up to 70% of oil imported as such. Hence vegetable oil prices in the Community, apart from olive oil, tend to be at

(1) See tables No's II.B/21.1 and 21.2 in part II.

world market level. Similarly, oils and fats of marine and land animal origin are subject to relatively low import duties. For both butter and olive oil, however, there are support prices fixed within the Community, and imports are closely monitored. This dichotomy of policy regarding products which are naturally substitutable has an inevitable effect on consumption.

2. Production

Factors determining the production in the Community of the different groups of oils and fats vary according to the category concerned.

In the quantity of oilseeds crushed in the Community, soya represents over 70%. Soya is mainly processed for its oilmeal content, which represents 80% of its content. Its oil is a secondary product which nonetheless, amounting to some 1.5 mio t. annually, equals one-third of Community vegetable oil requirements. Another 30% of our vegetable oil production derives from other oilseeds crushed within the Community, and the remainder is imported in the form of oil. Of the total quantity of seed crushed (12 mio t.) just over 10% is of Community origin. The important aspect of the EEC vegetable oil production, apart from the lack of self-sufficiency is that demand for meal, rather than demand for oil, is the major determinant of quantity and type of seed crushed, and hence of the availability in the EEC of different oils produced in the Community.

According to the official figures, vegetable oil production in the EEC fell from 3.419 mio t. in 1973 to 3.395 mio t. in 1974 and rose again to 3.539 mio t. in 1975.

Since olive trees are perennial plants, output depends not on demand, but mainly on climate conditions. Production of olive oil usually ranges from 400,000 t. to 600,000 t. annually in the Community.

Output of oils and fats derived from land animals - mainly lard and tallow - amounts to nearly 2 mio t. annually. In this category again, insofar as these fats represent a by-product of the slaughtering industry, it is largely the size of the livestock population, and the demand for meat, which determines the output of these fats. The quantity produced was 1.738 mio t. in 1973. In 1974 it rose to 1.886 mio t., but it fell again to 1.855 mio t. in 1975.

The production of oils and fats derived from marine animals is mainly concentrated in Denmark, although the UK and Germany also contribute to Community output. The output has increased slightly over the past years, rising from 97,000 t. in 1973 to 122,000 t. in 1974 and 131,000 t in 1975.

The determinants of butter production in the Community are the number of cows, the milk yield and demand for milk and cheese. The EEC is more than self-sufficient in butter, for which demand is stagnant or declining. So once again demand is not the sole determinant of output of this product. Production ranged from 1.74 mio t. in 1973 to 1.66 mio t. in 1974 and 1.71 mio t. in 1975 - it is relatively stable, therefore.

3. Consumption

The level of consumption of oils and fats in the Community is determined, as elsewhere, by the following elements:-

- absolute level and rate of growth of population
- absolute level and evolution of income
- price and availability of the product
- level of consumption already attained.

Within the Community the population is growing only slowly. The level of economic development, while high compared to a large proportion of the world, has been relatively stagnant over the past few years. Consumption per head of oils and fats (excluding butter), fell between 1973 and 1974 from 20,1 kg per head in 1973 to 19,5 kg per head, largely due to the dramatic increase in price for oils and fats between the two years in question, and rose again to 20 kg per head in 1975. As regards butter, consumption per head rose from 5,4 kg in 1973 to 5,7 kg in 1974 but fell again in 1975, doubtlessly due in part to the price evolution for competing products mentioned above.

For all vegetable oils and fats, the total consumption fell from 4.746 mio t. in 1973 to 4.458 mio t. in 1974 and to 4.303 mio t. in 1975. As mentioned above, the price rise in this sector between mid-1973 and end-1974 which reflected a world-wide shortage of oilseeds amounted in some cases to a doubling of cost, and this at a time when economic recession was setting in in the EEC.

Although this price trend was reversed in 1975 two factors inhibited an upward adjustment in overall consumption. On the one hand, the economic situation continued to be unfavourable, and on the other, there is a time-lag between price movements, and reactions in terms of demand; so that not until 1976 could an increase in overall demand be expected to be revealed in total consumption statistics.

In 1974 consumption of olive oil declined in the Community, since its increase in price was even higher than the increase for competing vegetable oils. When the price for other oils fell in 1975, that of olive oil, being fixed, could not follow the trend, and consumption continued to decrease.

Due to the rate of slaughtering of livestock, and especially beef, in 1974, availability of oils and fats of animal origin increased over that for 1973 -contrary to the situation described above for vegetable oils - and total consumption rose in the EEC from 2.145 mio t. to 2.286 mio t. which represents an increase of 6.6%. In 1975, however total use of animal fats fell back to 2.179 mio t.

In the marine oils and fats category, total consumption fell between 1973 and 1974 from 574,000 t. to 517,000 t. and rose again in 1975 to 550,000 t.

As already stated, consumption of butter rose in 1974 compared to 1973, but in 1975 this trend was reversed again.

4. Trade

As mentioned above, the Community imports the major part of its vegetable oil requirements (apart from olive oil) either in oilseed or oil form. Imports are therefore an exact reflection of demand - but demand for protein-rich oilmeal as well as demand for oil. Between 1973 and 1974 the total of oilseeds imported and crushed in the Community rose - but the major part of the increase was accounted for by soya beans which, as already stated, tend to be processed for their protein content. In 1975 the drop in demand for oil due to the high prices thereof during 1974 caused imports of oilseeds to fall slightly. With regard to vegetable oil imported as such, the total fell between 1973 and 1974 - from 1.988 mio t. to 1.815 mio t. and again in 1975, to 1.652 mio t. Exports of vegetable oil from the Community represent 12% to 14% of total supply, averaging 650,000 - 750,000 t. per year.

With regard to fats and oils of animal origin, trade is relatively unimportant, given that the EEC is 80% self-sufficient in this sector. Exports are negligible.

The situation in respect of fats and oils derived from marine animals is quite otherwise. Imports represent between 70 and 80% of total uses, but in fact since EEC production has been increasing, imports have fluctuated in response to demand, or according to availability world-wide. Thus between 1973 and 1974 imports fell from 446,000 t. to 387,000 t. due to a world shortage, and then in 1975 they increased to 405,000 t. In this category there are effectively no exports.

Although the Community is more than 100% self-sufficient in butter production, imports nonetheless ranged between 120,000 t. and 160,000 t. from 1973 to 1975 in spite of the existence of more than adequate stocks in intervention. The major part of these imports were due to international commitments taken on by the Community to New Zealand in 1973. Exports are partly under the form of food aid and partly sold at world market prices with the aid of a refund.

5. Update of the Situation

Official statistics are not available for 1976 for the sector of oils and fats but from the information available some deductions may be drawn.

The quantity of oilseeds crushed in the Community increased significantly, due partly to demand for oilmeal which rose following the drought in Europe. Imports of oil as such also rose, so that apparent consumption should be well above the depressed levels of 1974 and 1975. For olive oil consumption again declined.

Output and demand for animal and marine oils and fats appears to have remained rather static in 1976, and consumption of butter fell. Hence it would appear that all the increase in demand consequent upon falling oils and fats prices and a slightly improved economic situation was filled by an increase in consumption of vegetable oils and fats.

6. Prices

As was indicated earlier, prices in the oils and fats sector tend to be at world market level for all of the products concerned except olive oil and butter, where prices are fixed within the Community.

The following table sets out prices quoted at Rotterdam for soya oil, the effective price leader for vegetable oils, lard, tallow and marine oils.

TABLE III

Prices of selected oils quoted at Rotterdam (\$/t.)

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u> (August)
Soya oil (Dutch)	436	832	563	438	493
Lard	373	602	479	480	608
Tallow (US)	356	448	340	377	397
Fish oil (any origin)	342	559	344	373	435

This table gives support to the assumption that in 1976 increased demand for oils and fats was satisfied by vegetable oils and fats, since only in this category were prices still falling in 1976. During the same period, the prices fixed for butter and olive oil were as follows:

TABLE IV

ua/100 kg

<u>Olive oil market target price</u>				
<u>1972/73</u>	<u>1973/74</u>	<u>1974/75</u>	<u>1975/76</u>	<u>1976/77</u>
79,60	95,00	101,86*	149,96	144,89
<u>Butter - intervention price</u>				
186,00*	176,00	183,58	209,58*	223,80*

* Where two prices were fixed during marketing year, highest price is indicated

7. Outlook for 1977 & 1978

In view of the high prices which obtained in the oils and fats sector during the first six months of 1977, and taking into account the relatively poor economic situation in the Community, consumption of oils and fats may have declined during this period. However, the world is now faced with abundant supplies in this sector and prices have fallen, and may continue to do so. So for all oils and fats for which free market prices obtain, consumption may be expected to increase again. For olive oil and for butter, however, the prospects are less encouraging, as the consumption of these two products will presumably be adversely effected by the expected low price levels for competing products.

27. FEEDINGSTUFFS¹

1. Introduction

Statistics on fodder are not always easy to prepare, so that available figures must always be used and interpreted with great caution.

Somewhat over half of the raw materials used as feed are obtained through the market; somewhat under half are used directly on the farm. This subdivision means little in relation to 1976 since the unusual weather conditions meant that nearly all fodder was bought or resulted from industrial processing (pulps - straw - hay etc.). Figures for the production of compound feedingstuffs, in particular cattle feed, show an exceptional annual growth rate which will not occur again in coming years unless the weather is similar to that of 1976.

Statistics therefore give a false impression of the economic situation and to discern the trend account must be taken of the special conditions underlying them.

2. Supply and consumption

The quantities of cereals produced and available in the Community in 1975/76 were slightly less than in 1973/74 and 1974/75. For this reason the quantity used in animal feed is slightly less than in preceding years (-3.5%). This decline in the use of feed grain was offset by an increase in the consumption of oilcake (16 502 000 t compared with 14 453 000 t in 1974/75) and a greater consumption of substitutes such as manioc. Consumption of this product increased from 2 400 000 t in 1974/75 to some 3 000 000 t in 1975/76.

The use of potatoes for animal feed fell steeply in 1975/76, basically as a result of a general drop in production.

3. Feed requirements of livestock

(a) basic principle

On the basis of a known cattle count, fodder needs were calculated in fodder units (FU) as in the past. This system of calculation, made popular some fifty years ago by Professor A.M. Leroy, is at present coming under criticism because animal needs have been better defined and the system penalizes the coarser feedingstuffs from the statistical point of view. However, the system allows a calculation to be made of the quantity required of each ingredient of a total feed for a herd expressed in livestock units (LSU).

¹See table II.B/2.2.1 to 2.8 of Chapter II.

(b) the situation in 1975-1976

Comparison of 1976 with 1975 shows that fodder needs expressed in FU increased for each group of animals, with the exception of cattle where there was a slight drop.

Although feed requirements increased for sheep, goats, horses and donkeys, it should be noted that numbers in the horses and donkeys sector are in fact falling. The slight increase in the poultry sector is distributed evenly between the eggs and poultrymeat sectors and the same is true in the pigmeat sector as between fattening and breeding pigs. Annual variations are different in the beef and veal sector. The drop in requirements for year-old breeding cows and dairy cows is remarkable since it is in the region of 5%, while the fodder requirements for breeding bulls and fattening cattle rose by more than 20%. The requirements for cattle less than a year old show very little change in comparison with 1975.

(c) the compound feedingstuffs industry's contribution to supplies

As there is no separate recording of the raw materials used in compound feedingstuffs the extent to which requirements are met by industrial feedingstuffs can only be estimated.

Although the production of compound feed for cattle increased in spectacular degree, most of the additional fodder units came from farm-produced fodder. The ratio of compound feedingstuffs to fodder requirements was about 10.4% in 1975 and 12.6% in 1976. As stated in the introduction, caution is required when interpreting this figure in view of the special weather conditions in 1976. In the pigmeat sector, the supply/demand ratio for 1975 was 66.9%, so that about 70% of fodder requirements were met by compound feedingstuffs; the ratio for 1976 is 70.6% representing a coverage of about 74%. The amount of compound feedingstuffs used in this sector increased by comparison with 1975.

In the poultry sector the ratio between supply and demand was 61.5% in 1975, which means that about 64% of all requirements were covered. The ratio for 1976 is 62.7%, giving about 65% coverage for compound feedingstuffs. The use of compound feedingstuffs in this sector has thus also increased slightly. It is impossible to interpret these ratios for other animals.

4. Raw material prices

In general the price of all raw materials increased in 1976 by comparison with 1975. Overall, although cereal prices were 10% higher than those of the previous year at the wholesale stage (consumers - feed processors), manioc prices increased by only 6%, maize germ flour by 16% and maize gluten by 19%. The increases were most spectacular in the protein sector,

where they averaged a 35% increase over 1975. It should not be forgotten that oilcake prices were particularly low in 1975, which led to forecasts of a reasonably firm market in 1976. Soya prices increased by an average of only 30%. Here too it must be noted that the drought particularly favoured the cheaper oilcakes, mainly intended for animal upkeep or fattening. This is confirmed by the price of beet pulp, which in 1976 was on average 20% higher than in 1975.

5. Effect of the cost of raw materials on compound feedingstuffs

A general rise in the cost of raw materials must obviously affect the cost of compound feedingstuffs, although the industry can often vary its choice of raw material by replacing expensive ingredients by cheaper ones. Moreover, all Community countries except Denmark and Germany have for some time controlled the price of compound feedingstuffs, so that a rise in the cost of raw materials does not automatically mean a rise in the cost of compound feedingstuffs.

Although the cost of feedingstuffs in the Netherlands increased by an average of 11% over the previous year, the rise varied greatly according to product. Thus, cattle feed in Belgium increased by more than 50% over the year, while the total average increase was only 13.5%. Prices in Ireland rose by an average of 15%, while in France the increase averaged only 7% as a result of anti-inflationary measures and price stabilization. For the Community as a whole, the rise in the cost of feedingstuffs was between 10.6 and 35% for pig feed; between 12 and 38% for poultry feed and between 12 and 32% for cattle feed.

6. Trends and probable developments

Fodder requirements for the livestock sector as a whole vary very slightly from one year to another. This does not mean, however, that there are not considerable variations or changes in trend within each sector.

Because of the marked shortage of grass in the dry summer of 1976, there was an increased demand for compound feedingstuffs for animals normally put to graze. The shortage of farm-produced fodder in 1976 will encourage farmers to be more economical in the next few years and even to increase the amount of silage they produce, so that their herds are less dependent on compound feedingstuffs. It is even expected that a large proportion of the grain consumed by cattle will be released and returned to the market, unless of course rainfall is even less than in 1976. A return to the pre-1976 feed pattern will probably take two or three years.

This is not the only factor to affect the demand for grain. For several years past the consumption of substitute products such as manioc, beet pulp, citrus pulp, cereal brans and residues has been on the increase, because their cost per fodder unit is less.

Consumption or incorporation of grain in fodder greatly depends on the price of oilcake, and it is this that finally determines the demand for grain. There is every reason to expect that the production of the main types of oilcake will not encounter any major problems, even though the market may become a bit tight at times.

With regard to forecasts for the production of compound feedingstuffs, volume is certainly expected to increase in relation to the figures for 1975, but cattle feed production is unlikely to return to the 1976 level for several years.