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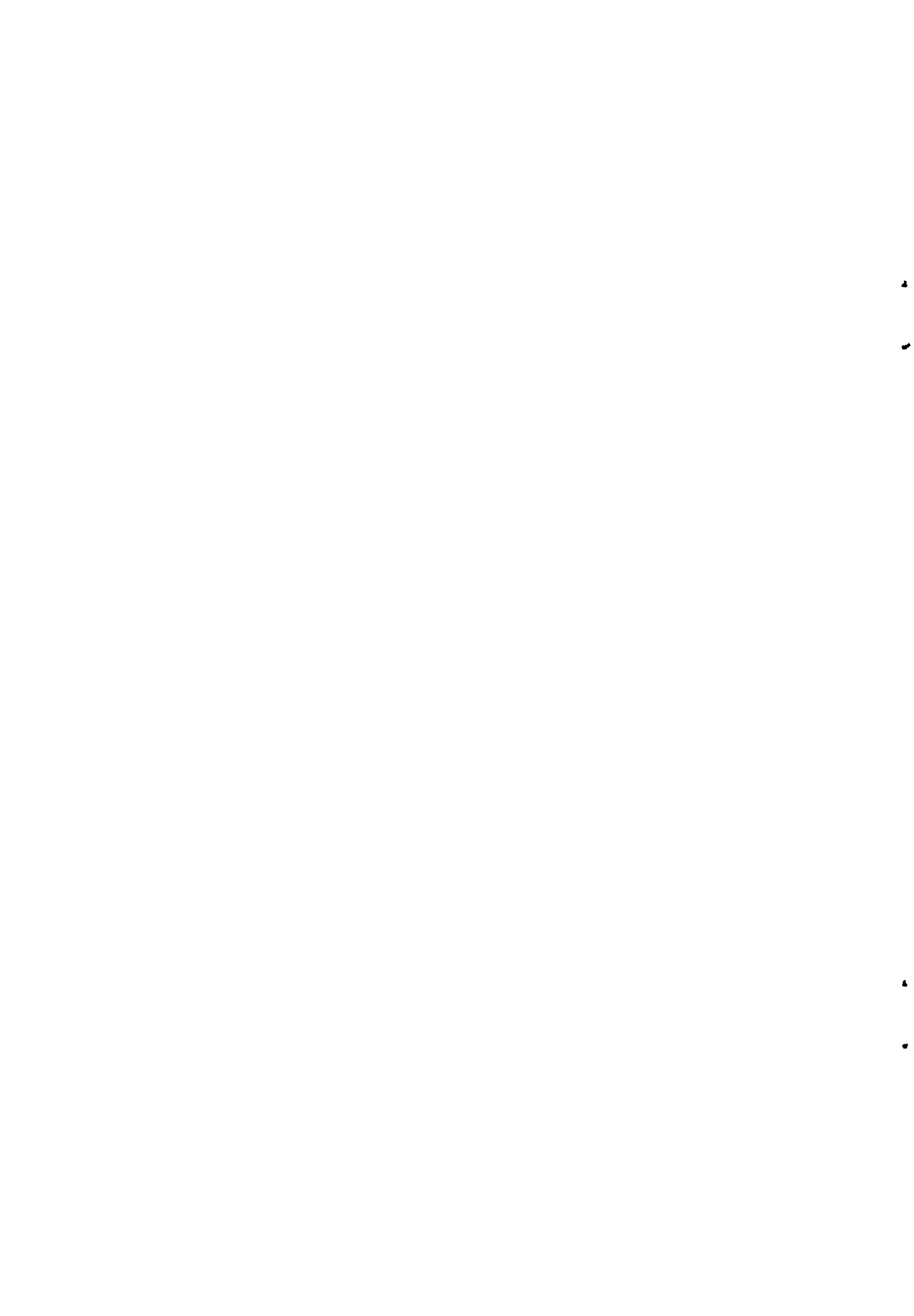
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THE SITUATION ON THE AGRICULTURAL
MARKETS

REPORT 1987

COM(87) 621 final



FOREWARD

This report gives the most complete and detailed account of the situation on the agricultural markets in the Community.

The products covered by a market organization, and alcohol, potatoes and honey, are analysed from the point of view of production, consumption, trade, prices, market management, budgetary expenditure and their place on world markets.

The outlook for the current marketing year is also discussed, on the basis of the information available when the report was drawn up.

The structure of the report is the same as last year, following the new layout, which aims to make the report more attractive and easier to read and to emphasize the homogeneity of the various sections. On the other hand, continuity is safeguarded, enabling the information and analyses contained in previous reports to be updated.

In most of the sections the data referring to Spain and Portugal are already included in the Community totals, although there are sometimes specific references depending on the varying degree of integration in the Community market organizations.

THE SITUATION OF THE AGRICULTURAL MARKETS

REPORT 1987

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THE SITUATION ON THE AGRICULTURAL MARKETS

SUMMARY

MARKETS FOR AGRICULTURAL PRODUCTS

Adaptation of the Common Agricultural Policy has been a dominant feature of the introductory remarks in Annual Reports of recent years. In 87, this adaptation process again warrants such treatment in the report.

In 1987 major adaptations have involved numerous sectors. Consequently in this chapter, which reviews the main developments in various markets over the past year, reference is also made in the product specific sections, to the adaptations made and to the impact they have had on particular markets.

In this introduction it is helpful to recall the circumstances which have made these adaptations necessary, if not to say inescapable. There are essentially two fundamental reasons both of which reflect the marked evolution of conditions of Community agriculture in recent years.

First, the problem of surpluses: when the common market provisions were introduced, the adoption of a policy allowing for restructuring and the extension of agricultural production was widely recognised to be in the Community interest. This feature was therefore reflected in the various legislative provisions. Policy makers, when setting up the bulk of the CAP provisions were much more concerned with food shortages than with surpluses, but the mechanisms established have led progressively to an imbalance of the markets and the accumulation of stocks.

Second, the problem of budget costs: the budget cost of supporting the different market organisations was once relatively modest. In addition the Community, until recently, was endowed with sufficient "own resources" to more than meet in full all expenditure requirements flowing from Community legislation in the agricultural as well as other sectors. The situation is now radically different.

In addition to these basic, internal reasons for making adjustments in the CAP, there are several subsidiary, but not unimportant, factors which militate in favour of adapting the policy to respond to new realities. For example, over a number of years it has become increasingly evident that the income support function the CAP provides to farmers is often poor value for money. Thus, over time, increasing levels of budget expenditure are needed to secure an overall level of income to the agricultural community. For each ECU of income in the agricultural sector, increasing levels of budget expenditure are being used. To a certain extent this development reflects the fact that a significant and growing part of the budget cost was being disbursed for actions of no direct benefit to producers, in particular those associated with the financing of massive intervention stocks. It also reflects the growing level of self-sufficiency of all major agricultural products subject to CAP provisions. This latter development has led to an increasing part of production requiring support from the budget and not simply from consumer expenditure.

Rising self-sufficiency within the Community has inevitably affected trading patterns and has increased the reliance of the Community on exports to dispose of surpluses for a number of products. In many other parts of the world output has also tended to rise more rapidly than effective demand. Thus this increasing reliance has occurred at a time when international prices have been under pressure. The consequences of these developments, both in economic as well as political terms, were highlighted when international trade prices for various goods fell to levels that were not remunerative even for the most efficient producers anywhere in the world. In addition to the income problems these conditions cause for producers in various parts of the world, such low prices contributed to increased budget costs of support both within the Community and in many other countries. In the case of the Community, the gap between its internal prices and those in international trade - a gap that is of fundamental importance to the budget cost of the CAP - widened, even though in many instances the level of the former measured in ECU, as well as in national currency terms, were either stable or even falling.

Developments in international relations have a bearing on policy adaptation. At the hub of the current multilateral trading system, the GATT, as well as in other international fora in which the Community plays an active role, such as the OECD, increasing recognition is being accorded to the negative effects on the economies of many countries of various agricultural support provisions.

It must also be recognised that with the accession of Spain and Portugal, the agricultural dimension of the Community has in many respects changed significantly. Thus although for numerous products transitional measures continue to apply in these two new Member States, Community policy makers are faced with the need to recognise that what may have been appropriate in a Community of "10" is not necessarily in the best interests of a Community of "12". The CAP adjustment process gives due weight to this consideration.

A most notable feature of the adjustment process which was prominent in 1987 was the change in conditions concerning intervention buying. Important decisions in this context were applicable for the first time in the dairy and beef sectors and in those of cereals and oilseeds. Their market impact to date are described in the relevant product sections in this chapter. The impact of various other measures is also recorded.

It must nonetheless be noted that despite the adjustments made in past years, as well as those of more recent date, adequate solutions in most sectors to the underlying problems of market imbalance and of budget cost have still not been fully realised. Data in the remainder of this chapter as well as in the statistical section often demonstrate that the underlying trends in consumption and of production are not yet significantly different from those recorded in the more distant past. Fortunately this is not invariably the case but it helps demonstrate the need for further policy adjustments that are now in hand, and the benefits that successful change can bring.

TABLE

A synopsis of the state of Community commodity markets

EUR 12: million tonnes

:	: Production :		: Domestic use (1) :		: Intervention :	
	: 1986 :	: 1987(2) :	: 1986 :	: 1987(3) :	: 1986 :	: 1987 :
: Common wheat	: 64,9	: 66,3	: 55,7	: 55,4	: 10,2(8)	: 6,4 (9)
: Durum wheat	: 7,2	: 7,4	: 4,8	: 5,0	: 0,9(8)	: 1,7 (9)
: Barley	: 46,9	: 47,8	: 38,8	: 39,0	: 5,2(8)	: 4,1 (9)
: Maize	: 24,9	: 24,5	: 28,0	: 28,1	: 0,4(8)	: 0,02 (9)
: Sorghum	: 0,3	: 0,28	: 0,64	: 0,44	: -	: 0 (9)
: Rye	: 3,0	: 3,2	: 2,96	: 3,0	: 1,2(8)	: 0,98 (9)
: Total Cereals	: 153,5	: 155,5	: 137,8	: 137,1	: 17,8(8)	: 13,2 (9)
: Rice	: 1,91	: 1,88	: 1,14	: 1,14	: -	: 0 (11)
: Sugar	: 14,10	: 13,0	: 10,74	: 10,80	: 0,045(10)	: 0,066(11)
: Olive oil	: 1,4	: 1,5	: 1,3	: 1,3	: 0,05	: 0,07
: Rapeseed	: 3,69	: 6,1	: 4,0(6)	: 5,7(6)	: 0 (10)	: -
: Sunflower seed	: 3,15	: 3,6	: 3,385(6)	: 3,5(6)	: 0 (10)	: 0,033(11)
: Soya beans	: 0,918	: 1,385	: 13,2(6)	: 13,0(6)	: -	: -
: Peas and field	:	:	:	:	:	:
: beans	: 2,8	: 3,75	: 3,0(6)	:	: -	: -
: Lupins	: p.m.	: p.m.	: p.m.	: p.m.	: -	: -
: Flax (fibre)	: 0,1	: 0,1	: 0,1	: 0,1	: -	: -
: Hemps	: p.m.	: p.m.	: p.m.	: p.m.	: -	: -
: Silkworms	: p.m.	: p.m.	: p.m.	: p.m.	: -	: -
: Cotton	: 0,29	: 0,265	: 1,3	: 1,3	: -	: -
: Cauliflowers	: 2,027	:	: 2,001(7)	:	: 0,020(10)	: 0,104(2)(11)
: Aubergines	: 0,54	:	: 0,546(7)	:	: 0,001(10)	: 0 (2)(11)
: Tomatoes	: 10,718	: 11,189	: 10,907(7)	:	: 0,990(10)	: 0,714(2)(11)
: Peaches	: 2,661	: 2,646	: 2,635(7)	:	: 0,365(10)	: 0,352(2)(11)
: Apples	: 8,281	: 8,019	: 8,685(7)	:	: 0,185(10)	: 0,341(2)(11)
: Lemons	: 1,599	:	: 1,396(7)	:	: 0,079(10)	: 0,232(2)(11)
: Pears	: 2,569	: 2,712	: 2,543(7)	:	: 0,029(10)	: 0,033(2)(11)
: Mandarins	: 0,84	:	: 0,825(7)	:	: 0,248(10)	: 0,210(2)(11)
: Oranges	: 5,228	:	: 5,694(7)	:	: 0,262(10)	: 0,574(2)(11)
: Apricots	: 0,556	: 0,517	: 0,561(7)	:	: 0,012(10)	: 0 (2)(11)
: Table grapes	: 2,759	: 2,73	: 2,69 (7)	:	: -	: 0 (2)(11)
: Wine (million	:	:	:	:	:	:
: hl) (4) (5)	: 189,040	: 203,6	: 150,904(15)	: 149,4(15)	: 24,285	: 45 (3)
: Tobacco	: 0,383	: 0,396	: 0,655	:	:	:
: Milk	: 116,9	: 110,9 (3)	: -	: -	: -	: -
: - butter	: 2,170	: 1,874(3)	: 1,644	: 1,850	: 1,403(8)	: 1,037 (17)
: - SMP	: 2,110	: 1,667(3)	: 1,609	: 1,300	: 0,890(8)	: 0,739 (17)
: Beef/veal	: 8,069	: 7,950(3)	: 7,567	: 7,580	: 0,578(12)	: 0,380(13)
: Sheepmeat and	:	:	:	:	:	:
: goatmeat	: 0,878	: 0,931(3)	: 1,116	: 1,154	: -	: -
: Pigmeat	: 12,127	: 12,200(3)	: 11,907	: 12,057	: 0,095(14)	: 0,168(14)

- (1) Marketing years 1986/87 and 1987/88 with the exception of milk and meat (calendar year) and wine (marketing years 1985/86 and 1986/87).
- (2) Provisional figures.
- (3) Forecast.
- (4) All wines (table wine + quality wines psr + other wines).
- (5) Marketing years 1985/86 and 1986/87.
- (6) Sum of figures for seed import/export balance and production only; excludes seed equivalent of pulps and oils.
- (7) Sum of figures for import/export balance and production.
- (8) Public stocks at 30 September 1986.
- (9) Public stocks at 30 September 1987.
- (10) Withdrawals from the market at public expense for the 1985/86 marketing year.
- (11) As above, for 1986/87 marketing year.
- (12) Public buying-in in 1986.
- (13) Public buying-in in 1987 (to 30 september).
- (14) Amounts attracting private storage aid.
- (15) Domestic use = production + import/export balance - Community distillation.
- (16) Production from dairy cows.
- (17) Public stocks at 31 August 1987.

CEREALS

Adverse weather conditions had a depressing effect on the overall harvest for 1987 both in terms of quality and yield. Thus with exceptionally wet conditions during the harvest period in many of the northern parts of the Community cereal growing regions, total production was some 153 million tonnes. This figure contrasts sharply with the estimates made until July of around a 167 million tonnes. Had this forecast not been undermined by ten days or so of wet weather at a critical period of the year, the Community would have been faced with an even more difficult situation.

Although in the southern parts of the Community cereal growing and harvesting conditions favoured the production of high-quality produce, the balance within the Community between quantities of high-quality wheats and those of feed quality moved significantly towards the latter. Prices for better quality wheats were therefore firm whereas low quality produce was sold at a heavy discount. The price gap between the best qualities and stockfeed reached around 20 ECUS a tonne, one of the widest gaps ever recorded.

Prices on international markets were generally low. This situation reflects the high level of stocks in exporting countries and the very competitive nature of sales in certain markets targeted by the United States for subsidised sales. Nonetheless for the first time since 1980/81 world stocks of wheat are likely to be lower than they were in the previous year. This should have a positive impact on market prices. However world stocks of cereals in general are high in relation to internationally traded quantities. For example the total world stock of wheat, of around a 155 million tonnes at the end of 1987/88, is approaching double the volume of international trade (of around 95 million tonnes). The development of the world market for wheat will also be influenced by the, as yet, uncertain needs of the main importers especially the USSR and China which are reported to have suffered production problems this year. The situation is further complicated by uncertainty over the export possibilities of some major suppliers including the Community and Australia.

Community cereal stocks, in intervention, increased from 13.9 million tonnes in 1985/86 to 18.1 Million tonnes in 1986/87, but fell to 14.2 million tonnes in 1987/88.

In mid 1987 the Council introduced specific measures for the import of maize and sorghum from third countries into Spain. These measures were taken in order to implement the E.C./U.S. agreement negotiated to take account of various trading conditions flowing from Spanish accession to the Community. This agreement provides for up to 2.3 million tonnes of maize and sorghum to be imported under special conditions each year from 1987 to 1990, although this quantity will be decreased by the amounts of additional imports of cereal substitute products.

MILK

Significant progress was again made towards restoring market balance. This was achieved mainly through modifications in the quota system and intervention rules.

In December 1986 the Council agreed to reduce the milk quotas by 9.5% from 1987 to 1989 and to adjust the system of penalties. In fact, this reform should result in a lowering of production of 9.5%. It also decided a more attractive Community cessation scheme for milk producers and (in March 1987) introduced limitations on intervention purchases of butter and of skimmed milk powder.

Between 1983 (the year immediately before the introduction of the quota system) and the end of 1986, the dairy cow herd had contracted by some 8% to 23.9 million head. By the end of 1988 the reduction in the size of the cow herd is expected to reach a total of 4.5 million head. Community milk deliveries in 1987 are anticipated to fall by some 5.3% (equivalent to 5.7 million tonnes).

Consumption of dairy products in the Community continues to increase in line with its long term trend of around 0.5% annually. There are nonetheless major differences between various product groups and regions of the Community.

A special two year stock disposal programme designed to dispose of 1 million tonnes of butter was introduced in 1987 along with a novel financing arrangement for its estimated cost of 3 200 MECU. This disposal programme concerns butter in intervention stocks, the level of which fell from a peak of over 1.3 million tonnes to an expected level of under 900 000 tonnes at the end of 1987. The programme involves four distinct actions:

- Special exports (USSR)
- Animal feed
- Industrial use
- Action in favour of consumers.

By the middle of 1987 the objectives of the disposal programme were well on target for special exports and for animal feed although uptake for industrial use and concentrated butter lagged well behind targeted quantities.

The Commission, following the Council decision, exercised its authority to suspend intervention buying of butter once quantities offered exceeded 180,000 tonnes as from 1 March 1987. This quantity was reached in June. Permanent intervention was therefore suspended, as from 29th June. Thereafter a tender system for buying butter into intervention was operated. Early results of the new tender system have been very positive. For example, during August 1987 7,000 tonnes of butter were physically taken over into intervention compared to 69,000 tonnes in the same month last year.

Offers of skimmed milk powder to public intervention decreased very sharply in the first half of 1987 (32 000 tonnes January to June, compared to 392 000 tonnes in the same period of 1986). Consequently the threshold of 100 000 tonnes set by the Council to temporarily suspend such purchases was not reached during the summer period. Intervention being automatically suspended from the 1st September to the 1st March, the result is that skimmed milk powder intervention in 1987 is expected to be at most 55 000 tonnes, a quantity that is less than one tenth of the amount purchased in 1986.

BEEF

Late in 1986 the Council decided to make several significant changes in the beef market organisation. These changes included, in particular, a major weakening of the intervention support system so that intervention purchase prices are now about 15% lower than a year ago.

Supplementary slaughterings, resulting from the reduction of milk quotas, amounted to some 400 000 cows and heifers during the first half of 1987. These slaughterings caused a marked increase in beef supplies but had a smaller impact than was the case in 1984. These slaughterings will however reduce the production potential for the future.

Although exports in 1987 are likely to be lower than the record levels reached in 1986 the fall in exports since last year is due to reductions in the demand for frozen beef from intervention. Exports from the market in 1987 are expected to be greater than in 1986.

Market imbalance in the sector has improved due to cut-backs in production (part of which is a result of cyclical developments), and strong consumption levels, encouraged by low market prices.

Intervention purchases nonetheless remain at a very high level and although likely to be below the record reached last year, overall stock levels are building up. By September they were in excess of 700.000 tonnes.

WINE

The market continues to be under stress in the table wine sector. The quality wine sector remains essentially self supporting whereas it is with table wines where major market problems continue to exist.

The problems in the table wine sector reflect changes especially in consumption but also in production. The output of these wines has tended to stabilise recently. Consumer preferences are however moving away from table wines especially in the major producer and consuming countries. Thus although wine consumption is increasing steadily in various of the non-producing countries this development is from a relatively small base and mainly for quality wines. The net impact of these factors is for table wine consumption within the Community to decrease rapidly and for the surplus to increase.

The 1986/87 marketing year was fortunately not adversely affected by extraneous factors which had such a disruptive effect earlier, in particular the fraudulent adulteration of wine. It was the first market year that the common provisions were applied in full in Spain.

Production in 1986/87 was around 199 million hectolitres of which 133 million were table wine.

Certain of the measures approved by the Council in December 1984 designed to restore balance in the table wine sector had a modest but useful impact during this marketing year and helped to stabilise prices. In particular the obligatory distillation of surplus table wines involved a quantity of around 22.9 million hectolitres (equivalent to 17% of production). In addition, more restrictive limits were applied to the volumes destined for more expensive distillation.

The structural measures decided in 1985 for voluntary uprooting of vines proved to be of very limited use. The Commission therefore continues to press for a Council decision to limit replanting rights.

A proposal was made to set up a specialised group of inspectors who would be charged with the task of ensuring the uniform application of Community provisions. The Commission considers that these controls should considerably help to improve the sound functioning of the market organisation. The Council undertook to decide on this matter before the end of 1987.

SUGAR

The dominant feature of over-supply on the world market which began in the 1980's, persisted in 1987. World prices for sugar have remained very low. Indeed, at around 5.8 US cents a pound (the price in September 1987) they were around half the cost of production of the most efficient producing country. The average rate of export refunds reached a new record high of 44.7 ECU /100 kg.

The outlook for the near future is still not good. Although there is currently an approximate balance in international supply and demand there is little scope for optimism due to high international stock levels. No significant improvement in markets is likely before the level of these stocks has been significantly reduced.

The 1986/87 Marketing Year

The area sown to sugar beet was very similar to that in the previous year, whereas yield of sugar per hectare was well above the average of the last five seasons. One important effect of this development is that EC (of "12") sugar output is around half a million tonnes greater than in the previous year

Sugar consumption within the Community was stable at 10.750 million tonnes.

Community exports of sugar again reached a high level of 4.4 million tonnes (in 1985/86 it was 4.2 million tonnes). Much of the increase is due to larger exports of "C" sugar which this year are expected to be 1.34 million tonnes, as opposed to 1.2 million tonnes the previous year.

In order to ensure complete self finance in this sector a special levy was applied at a rate equivalent to, on average, about 3.2% of the intervention price. The total receipts from this levy amount to 227 MECU. This sum is to be paid by the processors before the end of 1987.

The 1987/88 Marketing Year

Cold weather conditions significantly affected sugar production in the Community in 1987. Consequently although the surface sown to sugar beet was only 3.4% lower than in the previous year, sugar production in the 1987/88 season is expected to be at least 10% less than in the previous year.

Community consumption of sugar, in the expectation of a larger utilisation in the industrial sector, is expected to remain stable at 10.750 million tonnes.

Proposals were made by the Commission to continue to ensure self finance on an annual basis.

FRESH FRUIT AND VEGETABLES

In a Community of "10" production of fruit and vegetables represents about 12% of final agricultural output. With the accession of Spain and Portugal this proportion will increase as in Spain alone these products constitute some 20% of that country's final agricultural output.

Marketing Year 1986/87

Total output of fresh fruit in the Community (of ten) increased by 10% over the previous year.

Despite the large increase in production, market prices were generally satisfactory except for apples, mandarins and lemons.

Intervention activity was greater this year than in the previous one for apples, citrus, peaches and tomatoes. For other intervention products there was little change between the two seasons, but it was less prominent this year both for peaches and apricots.

In 1986, intra Community trade for fresh vegetables increased by 7% in relation to 1985 whereas extra-Community trade increased by 8.6%. Imports from third countries increased by about 4.1%. The export of fresh fruit to third countries decreased by nearly 5% whereas imports increased by 8%. Intra-Community trade in fresh fruit fell by 5%.

As regards processed products, production in 1986 for goods receiving production aid was about 28% below the 1985 level (which in turn was 21% below the quantity in 1984). A major part of these reductions involved tomatoes where in 1985/86 Community self sufficiency reached over 180%.

Between 1984 and 1986 intra-Community trade in processed fruit and vegetables increased by about 7% per year. Imports from third countries were generally stable.

Marketing Year 1987/88

Production development of fresh fruits and vegetables is expected to be very different according to product. A reduction in output of peaches, pears and apples is anticipated, but an increase in production of tomatoes, apricots and nectarines.

As regards prices the basic, as well as buying-in levels were, in ECU terms, frozen at the level of the previous year except for sweet oranges, lemons, apricots, mandarines and peaches where reductions were made of between 2.5% and 5%.

As regards processed products the minimum prices payable to producers were either maintained (in ECU terms) at the 1986/87 levels or were reduced by between 3.5% and 8% .

OILSEEDS

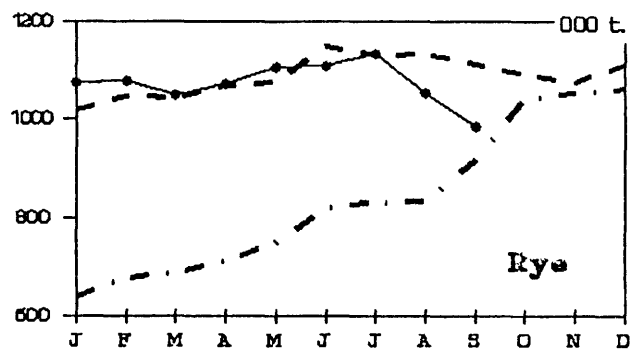
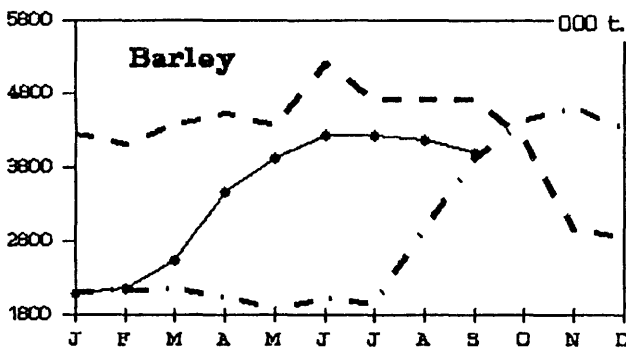
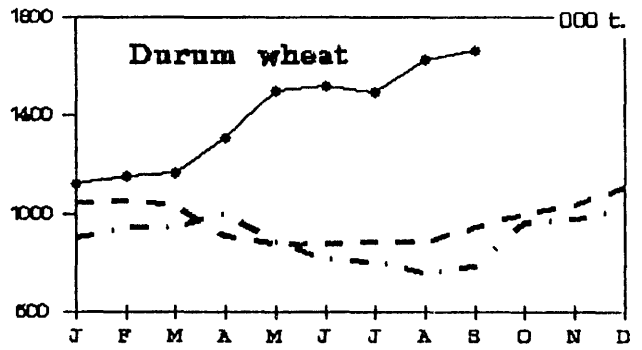
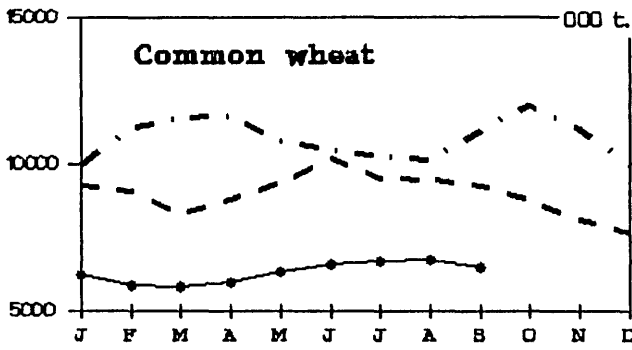
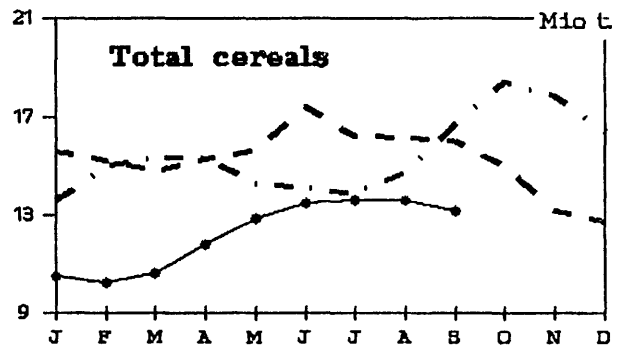
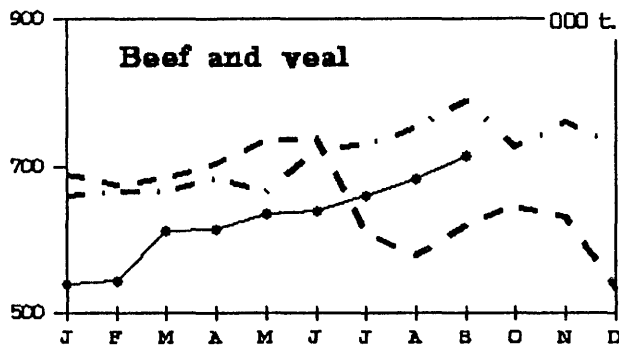
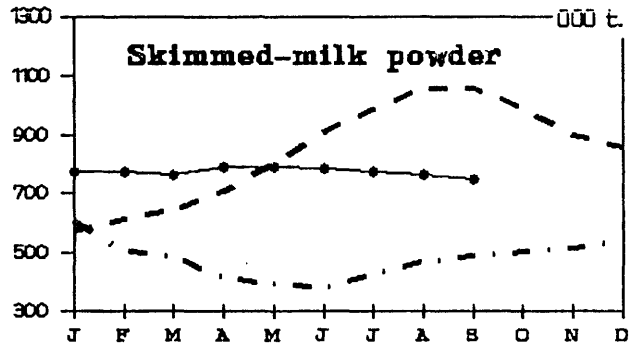
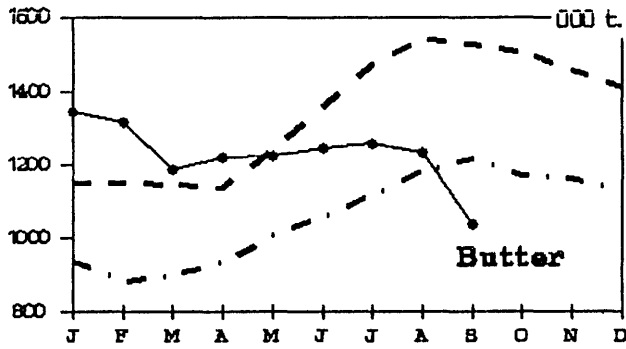
Although this sector represents only some 2% of Community agricultural production it is one where output has expanded rapidly (some tenfold over the last decade). The budget cost of support in this sector risks becoming the most important of any market organisation.

Community production of oilseeds is concentrated on three products; oilseed rape, sunflower seed and soyabeans. In 1987 oilseed rape production is expected to reach 6.1 million tonnes, that of sunflower seed 3.5 million tonnes and soya beans 1.4 million tonnes. The output of these three products in the Community therefore is expected to be around 10.5 million tonnes, an increase of around 35% on 1986. This quantity contrasts with combined threshold amounts of 7.5 million tonnes.

Because the Community support system for oilseeds is based on deficiency payments the budget cost of support is intimately linked to the volume of Community output. Because of the low level of Community import tariffs on these products, which cannot be readily modified due to GATT bindings, the unit cost of deficiency payments is also markedly affected by price conditions on world markets. Prices on these markets in recent times has fallen to low levels.

The combination of these factors explains the explosion in budget costs. In order to moderate these costs, support prices were reduced this year by 10% (in ECU terms). Further reductions are in prospect in subsequent years if output continues to rise and especially once agreement is reached in the Council on the Commission's "stabilising mechanism" proposal. This proposal includes the application of a charge on all vegetable and fish oils consumed on the Community market irrespective of origin. In addition, it is proposed to progressively remove the limits of potential price reductions in the event of output increases. Revenue from this mechanism would help to limit the net budget burden this sector places upon the budget. The removal of the limit on possible price reductions acts in a similar direction.

EC INTERVENTION STOCK SITUATION



· · · 1985 - - - 1986 —●— 1987

THE SITUATION ON THE AGRICULTURAL MARKETS

ANALYSIS BY SECTOR

PART I:

PRODUCTS COVERED BY A MARKET ORGANIZATION

CEREALS1. Introduction

The EEC market organization for cereals was set up on 1 July 1967.

It is governed by Regulation (EEC) No 2727/75 (as last amended by Regulation (EEC) No 1900/87) and covers the following products:

- cereals as grain: common wheat, durum wheat, barley, rye, oats, maize, other
- processed products: wheat groats and meal, malt, starches, glucose, cereal products, wheat gluten, manioc roots.

Once a year the Council of Ministers sets two types of price for this product group.

- (a) Intervention price: since 1987/88, the intervention agencies have bought in, for a limited period, cereals offered to them at a real price of 94% of the intervention price;
- (b) Target price: this is a price derived from the intervention prices fixed for the same cereals; it is used as a component in the calculation of the threshold price ensuring protection at the Community frontiers, fixed annually by the Commission.

The threshold price is fixed by the Commission on the basis of the target price, and governs import arrangements.

The target, intervention and threshold prices are increased month by month by amounts designed to cover, on a flat-rate basis, storage costs entailed by the need to adopt supply, which is heavily seasonal, to demand, which varies much less over the year. The monthly increases have been restricted to the intervention period.

Apart from prices, the Council of Ministers adopts each year measures affecting the market and farmers' incomes, such as production aids and the co-responsibility levy.

To enable completely accurate comparisons of marketing years to be made, the figures for 1985/86 have been harmonized and relate to 12 months, 1 July 1985 to 30 June 1986.

The cereals production of the Community (12 countries), accounts for about 11% of world production, the main items being common wheat, barley and maize.

2. General situation

The twelve-country Community exceeded the self-sufficiency level in 1980/81 for all cereals by 102.4% (the self-sufficiency rate was even higher for the ten-country Community, as Spain and Portugal generally consume more cereals than they grow). This situation is due to an improvement in productivity by the development of new growing techniques, introduction of better varieties and the conversion of grain of cereal.

The increase in production, which has been very sharp in the last ten years, has been due to the increase in yields, which, for common wheat (42% of production) rose from 41.9 q/ha in 1980 to 50.1 q/ha in 1986.

Expanding production of cereals was in fact restricted by the reduction in areas sown, which have fallen since 1980 by about 1.4 million hectares.

Some land, formerly under cereals, is now being used for oilseeds and protein plants especially sunflower, rape and soya, output of which has risen sharply since 1980: areas used for the production of oilseeds have more than doubled in these 7 years.

3. The 1986/87 marketing year

The 1986/87 harvest fell short by 4.4% of that for 1985/86. All types of cereals lost ground except durum wheat, which set a new record of 7.2 million tonnes, because more areas were sown, and triticale, production of which, though small (0.4 m t), made steady progress.

The main aspects of the decline in production in 1986/87 as compared with 1985/86 were generally lower yields, except of durum, and smaller areas sown, especially of barley and oats.

The 1986 drought in the south of the Community largely accounted for the lower yields and justified a transfer to the south of quantities of cereals held in intervention stores. The drought was most serere in the South of France, Spain and Italy, wheat suffering less than barley and maize.

The quality of the harvest was generally very good, and most of it exceeded the requirements, even as now tightened up, for intervention.

The 1987 production of the twelve-country Community may be estimated at close to that for 1986, about 155 million t. However, the heavy rain in the summer of 1987 damaged the crops and serious problems as regards quality must be expected, especially for breadmaking grain.

3.1. Production

The Community's cereals production in 1986 came to 153 5 million t, i.e.4.4% less than in 1985 (160.6 million t).

Output of nearly all the types of cereals (except durum wheat, sorghum, and triticale) was down on 1985, wheat having suffered less than barley from the bad weather.

The decline in production was due mainly to the drought in the southern part of the Community. The weather conditions in 1986 were less favourable than in 1984, when they were exceptional.

However, quality was generally excellent.

(a) Common wheat

In 1986, the production of common wheat was 0.8% down on 1985, at 64.9 million tonnes.

This was essentially a matter of yields, falling from 51 to 50 q/ha but also because of the weather.

From 1984 onwards, the steady tendency for areas under common wheat to increase was reversed. In the last two marketing years, areas have been reduced by 800 000 ha (by 5.8%). This tendency continued in the 1987/88 marketing year.

In France, the quality of wheat set a new record with a national protein content average of 13.4 % [minimum quality of at least 11.5% (Reg. 2731/75 modified by the Reg. 1580/86)], the highest figure in the last six marketing years.

(b) Durum wheat

Durum wheat production in 1986 was 7.2 million tonnes, owing to a sharp increase in areas sown: 2.8 million ha in 1986, compared with 2.5 million ha in 1985. In all the Member States growing durum, except Spain, there is evidence that farmers are showing more interest in this type of grain. Although durum has been regarded as typical of the southern countries of the Community, this crop is catching on in certain northern countries as well, notably Germany and the United Kingdom although occupying rather modest surfaces until now. In Greece, more land is sown to durum than to common wheat. Indeed, this was already the case in 1986, with 0.43 million ha for common wheat and 0.48 million ha for durum wheat.

(c) Barley

Production of barley totalled 46.9 million tonnes in 1986, down by 9.1% on 1985.

This relatively small output falls short of the latest five-year average, 48.2 million tonnes (figure corrected to cover the twelve countries). The decline was heaviest in France, Germany and Denmark.

Of course, the weather has something to do with this, accounting for yield losses in these countries; on the other hand, areas sown have also declined - by 200 000 ha throughout the Community, the sharpest reduction being in France (by 160 000 hectares); in France, the spring barley areas are those which have been reduced.

Changes as regards areas sown tend to vary from one Member State to another: although in France areas have declined sharply, in Spain the opposite has been the case - areas under common wheat have been reduced to make room for an increase in barley (by 7.7% in 1984), which has considerably moderated the negative trend in the twelve-country Community, while, in the ten-country Community there has been a distinct reduction in recent years - by 2.8% per year since 1980, yielding ground to common wheat.

(d) Rye

In 1986, output of rye came to 3.0 million tonnes, i.e. 6.1% down on 1985. Although areas sown show little change at about 1 million ha, yields declined.

Apart from these two record years, 1984 and 1985, yields remained none the less well above those for the other years (on average 27.2 q/ha). The steady decline in areas sown during the 70s seems to have stopped six years ago at about 1 million hectares for the whole Community.

(e) Oats

In 1986, production of this type of cereal was the lowest recorded for many years, at 6.0 million tonnes, 23.5% down on 1985.

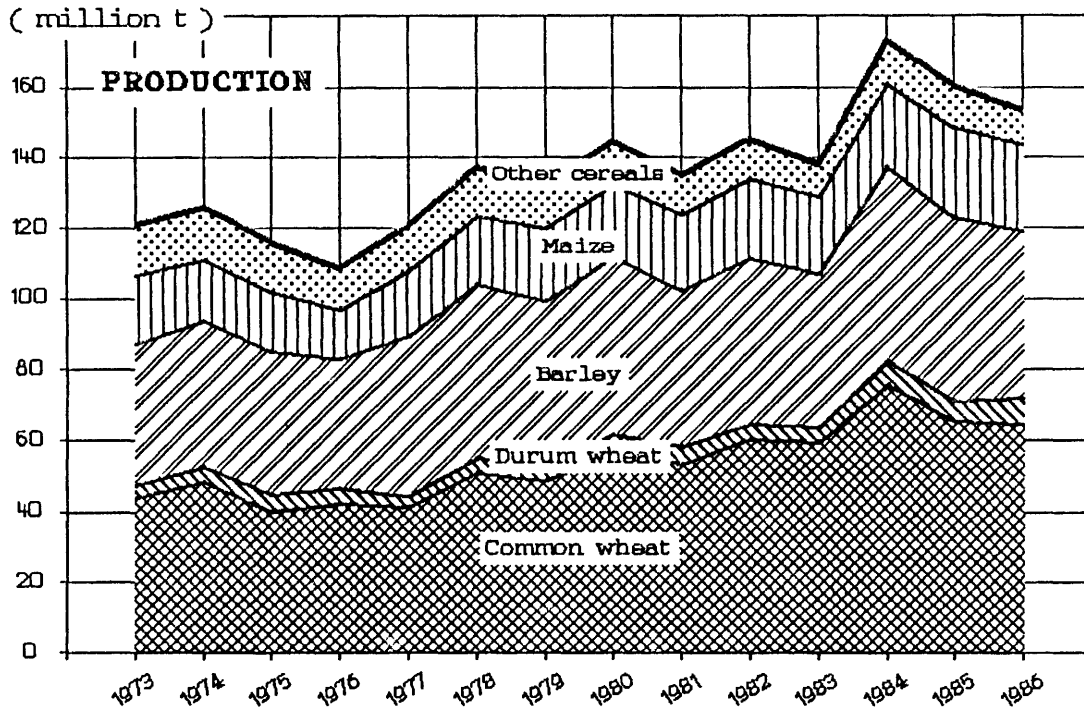
The steady decline in oats production in all the Community countries cannot be mainly a matter of yields, as these have been steadily improving despite difficulties due to bad weather from time to time; on the other hand, it is clear that farmers have been reallocating areas deliberately to other crops: 1.986 million ha in 1986, compared with 2.366 million ha in 1985 (annual rate of change, - 4.5% per year since 1973).

Developments in Spain and Portugal would seem to confirm this trend.

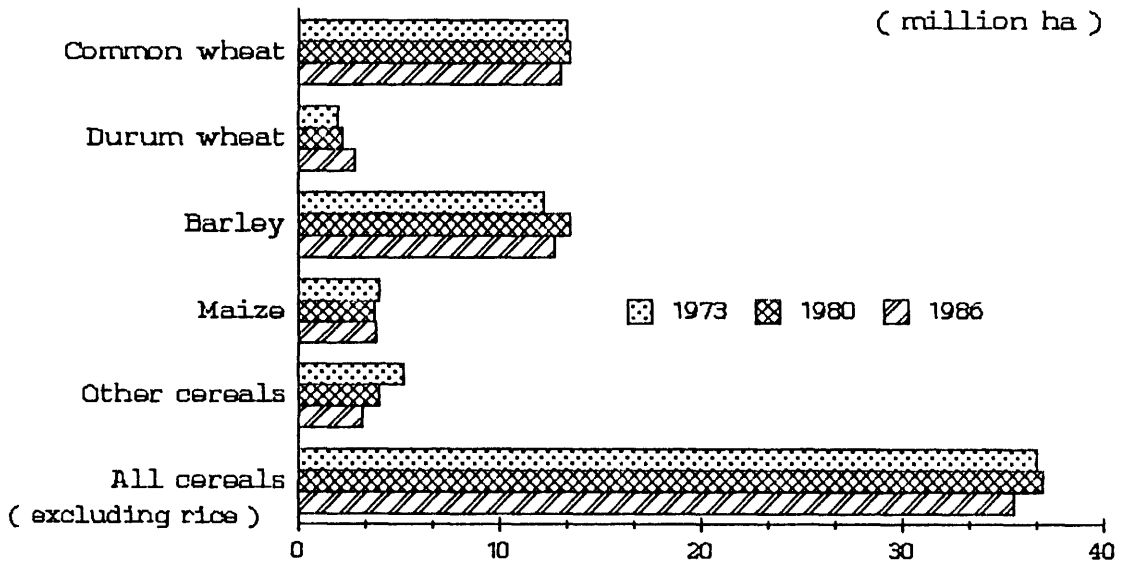
(f) Maize

In 1986 output of maize was 24.9 million tonnes, 4% down on 1985. This decline was more apparent than real. 1985 was a year of bumper harvests, especially for maize, output of which was as high as 25.9 million tonnes, but the average for the three preceding years was only 22.8 million tonnes. In fact, the 24.9 million tonnes for 1986 was the second highest figure in recent years, being accounted for by areas sown, which increased from 3.7 million hectares (average 1981 to 1983) to 3.9 million hectares, with a peak in 1985 of 4.0 million hectares. Yields have also been steadily improving, though down a little in 1986 (at 63.1 q/ha) from the record in 1985 of 64.8 q/ha, but well above the 60.8 q/ha of the preceding years (the 1981 to 1983 average).

CEREAL EUR 12



AREA



Source : EUROSTAT

However, the figures for the whole Community mask wide variations among the Member States; these differences include a steady decline in areas sown in France, which fell from 1.94 million ha in 1973 to 1.74 million ha in 1984.

But there was a recovery in 1985 (to 1.89 m ha) rising to 1.86 million ha in 1986.

In Greece, there has been definite progress since 1979, when areas under maize were 0.123 million ha, but by 1986 0.218 million ha.

3.2. Utilization within the Community

In 1985/86, the total quantity of cereals used in the twelve-country Community was 140.9 million tonnes, i.e. 3.9 million tonnes less than in 1984/85. The breakdown of use in 1985/86 was as follows:

- common wheat	54.6 m t or 38.7%	(37.7 in 1984/85)
- durum wheat	4.7 m t or 3.3%	(3.4 in 1984/85)
- barley	40.9 m t or 29.0%	(29.4 in 1984/85)
- maize	29.1 m t or 20.7%	(21.5 in 1984/85)
- oats	7.9 m t or 5.6%	(5.1 in 1984/85)
- rye	2.9 m t or 2.1%	(2.0 in 1984/85)

These crops were mainly used as animal feed: 87.4 million tonnes, i.e. 62.0% of total utilization, compared with 25.7% for human consumption (36.2 m t), 7.1% for industry (10.0 m t) and 5.2% for seed and losses (5.2 m t).

In 1986/87, total consumption of cereals in the twelve-country Community may be estimated at about 137.8 million tonnes (down 2.2% on 1985/86). The decline in consumption was mainly a matter of reduced use for animal feed.

Maize, oats and barley showed a reduction; but utilization of common wheat probably increased.

In 1986/87, types of utilization were as follows:

Cereals consumption in 1986/87 - Breakdown by type
of cereal and type of utilization (EEC-12)

	Human consum- tion	Animal feed	Industrial uses	Seeds and losses	Total
	%	%	%	%	%
Durum wheat	86.9	1.4	0.1	11.6	100.0
Common wheat	48.2	44.1	2.3	5.4	100.0
Rye and meslin	40.9	49.3	1.1	8.6	100.0
Barley	0.2	79.2	13.9	6.6	100.0
Oats and mixed cereals	5.9	87.6	0.3	6.3	100.0
Maize	9.4	79.1	10.2	1.2	100.0
Sorghum	0.1	98.6	0.6	0.5	100.0
Triticale	-	95.6	-	4.4	100.0

(a) Human consumption

In 1985/86, the use of cereals for human consumption totalled 36.2 million tonnes, i.e. 0.2 million tonnes down on 1984/85. None the less, in the Community of Twelve this total is second only to that for 1984/85. The reduction was sharp in France (by 0.4 m t) and in Italy (by 0.5 m t), but in the United Kingdom consumption rose by 16.4% or about 1 million tonnes. This increase was essentially for common wheat - 5.6 million tonnes in 1985/86 as compared with 4.8 million tonnes in 1984/85.

As for durum wheat, the most noteworthy factor in the trend in human consumption was in France, where this variable fell by 25% from the 1984/85 figure to 0.450 million tonnes, the lowest consumption since 1967/68 in that country.

About 5 million tonnes of maize are used each year for manufacture of industrial products or for human consumption. Maize starch is used for distilling and brewing (0.5 m t of maize processed into groats and meal). Of late, there has also been a remarkable development in the production of wheat starch (1.2 m t of wheat) used in industry and for food.

Consumption in 1986/87 declined by 2.4% (to revert closely to the Community average of 35.3 m t for the last decade).

Use of cereals for human consumption EEC-12

Breakdown by type of cereal

('000 tonnes)

	Quantity used for human consumption (grain equivalent)		
	1984/85	1985/86	1986/87
Common wheat	27 138	28 024	26 833
Durum wheat	4 238	3 903	4 224
Maize	3 219	2 732	2 654
Rye	1 322	1 176	1 213
Oats	350	335	363
Barley	111	70	93

(b) Animal feed

This is the principal outlet for cereals grown in the Community, accounting for 62% of all uses of the various cereals in 1985/86.

Oats (90% of their consumption), barley (80%) and triticale (95%) are products almost entirely used as animal feed.

After setting a new record in 1984/85 (90.71 m t), consumption of cereals as animal feed declined appreciably in 1985/86 (87.4 m t) and should, according to estimates, be down to 85.6 m t for 1986/87, the lowest figure since 1981/82.

The persistent downward movement of the US dollar and the price ratio of cereals to substitutes has obviously been working against cereals. Despite the reduction in the consumption of cereals as a whole, utilization of common wheat has been increasing in recent years and has reached a record rate of use as animal feed (24.5 m t for the 12 countries in 1986/87 compared with 23.2 m t in 1984/85, the previous record).

Use of cereals as animal feed

	1985/86 (m t)	1986/87 (*) (m t)	Change (%) 85/86 - 86/87
TOTAL CEREALS,	87.4	85.6	- 2.1
of which, barley	32.5	30.7	- 5.5
common wheat	22.3	24.5	+ 9.9
maize	23.0	22.3	- 3.0
oats	7.1	5.4	- 23.9

* provisional figures

The figures for consumption of cereals as animal feed have shown, since 1984/85, an increase in the use of common wheat to the detriment of the other cereals, especially barley and maize.

These substantial shifts in the pattern of consumption are accounted for by their high degree of cross-elasticity in reaction to changes in the price hierarchy and the narrowing of the gap between wheat prices and those of other cereals.

Use as cattle feed of cereals grown on the farm or purchased
on the market 1985/86
EEC 12 - breakdown by type of cereal

Cereals	Grown and used on farm ('000 t)		Purchased ('000 t)		Total ('000 t)		%	
	85/86	86/87 *	85/86	86/87 *	85/86	86/87 *	85/86	86/87
Common wheat	9.079	8.360	13.228	16.174	22.307	24.534	25,5	28,7
Rye	987	916	470	545	1.457	1.461	1,7	1,7
Barley	19.404	17.060	13.111	13.676	32.515	30.736	37,2	35,9
Oats, etc.	5.116	3.708	1.990	1.714	7.106	5.422	8,1	6,3
Maize	5.056	5.271	17.975	17.008	23.031	22.279	26,4	26,0
Other	427	545	551	648	978	1.193	1,1	1,4
Total	40.069	35.860	47.325	49.765	87.394	85.625	100,0	100,0
	45,8 %	41,9 %	54,2 %	58,1 %	100 %	100 %		

* provisional

In 1972/73, cereals accounted for more than 62% of the energy of concentrate feeds (i.e. excluding roughage, pasturing, hay, silage, etc.). This proportion fell to 51.6% by 1984/85. Over the same period, the share accounted for by manioc rose from 1.5 to 6% by 1981/82, to decline to about 4.3% by 1984/85, and that of oilseed cake increased from 12% to nearly 17%.

The relative decline in consumption of cereals for this purpose is largely due to competition from products like manioc, oilseed cake and some industrial by-products which can be imported into the Community at low duties or duty free.

Imports of soya and grain substitutes, 1974/86

(m t)

	E U R 1 0							EUR 12
	1974	1978	1982	1983	1984	1985	1986	1986
Soya (1)		14.5	18.5	18.3	16.4	18.6	17.8	21.3
Total grain substitutes, of which:	4.6	11.9	16.2	14.1	13.6	14.8	13.9	15.0
- manioc	2.1	6.0	8.1	4.5	5.3	6.4	5.1	5.8
- corn gluten feed	0.7	1.7	2.8	3.6	3.7	3.5	3.7	4.1
- citrus peel	0.3	1.0	1.3	1.4	1.3	1.5	1.2	1.2

(1) Soya in the form of grain and cake, expressed in cake equivalent.

(c) Industrial uses

Of late, industrial uses of cereals have increased to reach 9.6 million by 1986/87. The use of common wheat has increased since 1982/83, when it was 0.6 m t, to reach 1.3 million t by 1986/87.

(d) Self-sufficiency

The self-sufficiency threshold for cereals was achieved in the Community for the first time in 1980/81. The Community was, however, already self-sufficient in common wheat in 1973/74, and by 1984/85 the rate was 139.6% for this type of grain. This rate has since fallen, partly because of waning interest in this cereal, discernible in the smaller areas sown to wheat (by 800 000 ha since 1984). Interest has declined because yields have remained high (50 q/ha) when prices have been frozen or reduced, and because farmers have been moving more into oilseeds and protein plants.

Counting in Spain and Portugal, the Community is not self-sufficient for maize.

The Community of Ten would have achieved self-sufficiency for the first time in 1985/86: 105.2%, down to 102.9% in 1986/87; these figures have to be revised downwards to 88.7% in 1985/86 and 90.6% for 1986/87 in the larger Community.

Self-sufficiency in maize has been improving only because of the decline in consumption and not because of improving production. Consumption has been declining steadily since 1981/82 (35.4 m t) down to 29.1 million t in 1985/86 and 28.2 million t in 1986/87.

(e) Stocks

According to the latest balance sheet for 1986/87 for the Community of Twelve, stocks at the beginning of the marketing year of all cereals are estimated at 36.0 million t (of which 2.9 million t at the farm) and at 30.5 million t for end-of-marketing-year stocks.

By the end of 1986/87, all stocks bought in, of all types of cereals, were down to a little below 14.3 million t. In the earlier part of the marketing year, the figure was still 18 million t. Despite buying in of 6.3 million t (of which 2.4 m t of common wheat, 0.7 m t of durum wheat, 2.7 m t of barley and 0.5 m t of rye), stocks fell because of disposals on the internal and external markets of about 10 million tonnes, of which 6.6 million tonnes to non-member countries.

In 1986/87, the figure for cereals bought in was about half that for 1985/86 (6.3 m t compared with 12.1 m t).

CEREAL SUPPLY BALANCE IN THE COMMUNITY OF TWELVE

	COMMON WHEAT			DURUM WHEAT			ORGE			MAIS		
	85/86 (m t)	$\frac{1985/86}{1984/85}$ %	1986/87 (*)	85/86 (m t)	$\frac{1985/86}{1984/85}$ %	1986/87 (*)	85/86 (m t)	$\frac{1985/86}{1984/85}$ %	1986/87 (*)	85/86 (m t)	$\frac{1985/86}{1984/85}$ %	1986/87 (*)
Usable production	65.9	- 13 %	64.8	5.8	- 13.7 %	6.9	51.2	- 7 %	46.5	25.4	+ 9 %	25.5
Imports	2.6	- 4.5 %	2.1	0.358	- 45.5 %	0.2	0.1	-	0.3	7.5	- 22 %	3.5
Used within the Community	54.6	- 0.08%	55.7	4.7	- 5.4 %	4.8	40.9	- 3.9 %	38.8	29.0	- 6.7%	28.0
Exports	14	- 20 %	14.9	1.6	- 7.5 %	1.0	9.3	5.2 %	7.6	1.1	- 18.5%	2.1
Changes in stocks	0.084	-	- 3.8	- 0.154	-	+ 1.0	+ 1.2	-	- 0.8	+ 2.7	-	- 1.3

(*) provisional

CEREALS SUPPLY BALANCE IN THE COMMUNITY OF TWELVE

	OATS			RYE		OTHER CEREALS			TOTAL CEREALS			
	85/86 (m t)	$\frac{1985/86}{1984/85}$ %	1986/87 (*)	85/86 (m t)	$\frac{1985/86}{1984/85}$ %	1986/87 (**)	85/86 (m t)	$\frac{1985/86}{1984/85}$ %	1986/87 (**)	85/86 (m t)	$\frac{1985/86}{1984/85}$ %	1986/87
Usable production	7.9	+ 1.2 %	5.5	3.2	- 7.7 %	3	0.7	+ 3.8 %	0.9	160	- 7.6 %	153
Imports	0.04	- 75 %	0.1	0.06	- 7.8 %	0.06	0.1	- 79 %	0.3	10.7	- 21 %	6.7
Used within the Community	7.9	+ 7.6 %	6.2	2.9	+ 1.6 %	2.9	0.7	- 42.7 %	1.2	140.8	- 2.8 %	138
Exports	0.03	- 66 %	0.03	0.1	+ 692 %	0.4	-	- 100 %	0	26.1	- 11 %	26.2
Changes in stocks	- 0.04	-	- 0.5	+ 0.2	-	- 0.14	+ 0.06	-	-	+ 4.0	-	- 5.55

(*) provisional
(**) including triticale

3.3. Trade

(a) Intra-Community trade

The major Community supplier of cereals to the other Member States is France, exports from which, in 1986/87, came to 13.8 million t (including cereal-based products), of which 5.8 million t were common wheat, 5.5 million t were maize, and 1.4 million t were barley. The United Kingdom also delivered 5.4 million t of cereals to the other Member States, including 2.9 million t of wheat and 2.3 million t of barley.

Belgium (4.1 m t), Germany (3.3 m t), Italy (5.9 m t), the Netherlands (4.0 m t) and Spain (2.6 m t) were the main importers of Community cereals. Much of the volume shipped to Belgium was for reexport to non-member countries through Belgium ports.

Intra-Community trade in common wheat totalled 10.1 million t in 1986/87. Italy is the leading importer of Community common wheat, at 3.6 million t in 1986/87. Intra-Community trade in barley totalled 5.0 million t. Deliveries to Italy totalled 0.9 million t. These were shipped mainly from the United Kingdom and France. Spain has become a heavy importer of barley, taking 0.8 million t in 1985/86.

(b) Trade with non-member countries

Imports of cereals from non-member countries totalled about 6.0 million t in 1986/87, of which 2.0 million t were common wheat, 0.6 million t were durum wheat and 3.2 million t were maize. In 1985/86, the total figure for cereals came to 9.5 million t, of which 2.3 million t was common wheat, 0.3 million t were durum wheat and 6.6 million t were maize. Exports of cereals to non-member countries totalled 25.7 million t in 1986/87 (wheat flour, durum wheat meal and barley malt included). This figure should be compared with the 25.5 million t for 1985/86 (including food aid).

Exports of common wheat and flour rose from 13.8 million t in 1985/86 to 15.1 million t in 1986/87. The main customers were the Soviet Union, Poland, North Africa, Black Africa and the Middle East.

Barley exports totalled 6,9 million t in 1986/87, down from the figure of 8.0 million t for 1985/86. On the other hand, exports of malt increased from 1.25 million t (grain equivalent) in 1985/86 to 1.6 million t in 1986/87. Traditionally, the main importers of Community barley are the Soviet Union, Saudi Arabia and the Mediterranean countries. Sales of malt are more diversified.

c) The world market

In 1986/87, surpluses meant very low world prices. World stocks of wheat and feed grain further increased from 326 million t at the end of 1985/86 to 384 million t at the end of 1986/87, given record world grain production in 1986 of 1 383 million t, far ahead of world consumption of about 1 326 million t.

In 1986, the world harvest of wheat came to a record of 535 million t. This was 12 million t more than world consumption. World carryover stocks of wheat rose from 158 million t at the end of 1985/86 to 170 million t at the end of 1986/87, nearly double the volume of the world wheat market, estimated in 1986/87 at 88 million t (against 83 million t in 1985/86).

Among the main wheat exporters, in the United States the harvest was much smaller, falling from 66 million t in 1985 to 56.8 million t in 1986, but was virtually unchanged in Australia (16.2 million t in 1985 and 16.1 million t in 1986) and in Argentina (from 8.7 million t in 1985 to 8.9 million t in 1986) while wheat production forged ahead in Canada from 24.3 million t in 1985 to 31.4 million t in 1986. One of the reasons for the sharp increase in the world wheat harvest in 1986 was the good results in the Soviet Union (92.3 million t compared with 78.1 million t in 1985), and China (90.3 million t compared with 85.8 million t in 1985) or India (46.9 million t compared with 44.1 million t in 1985), due mainly to the use of new varieties and more intensive cropping methods. In Africa production changed from 11.4 million t in 1986 against 10.4 million t in 1985.

Despite good harvests in 1986 in some countries which are major importers, the world market for wheat, which had plummeted from 103.5 million t to 82.2 million t in 1985/86, staged a modest recovery in 1986/87, rising to 87.9 million t. The pattern was similar for feed grain: 102.1 million t in 1984/85, 85.1 million t in 1985/86 and 86.8 million t in 1986/87.

Highest and lowest average daily quotations in 1986/1987, CIF Antwerp/Rotterdam

Type	Highest quotation		Lowest quotation	
	ECU/t	Month	ECU/t	Month
Common wheat	94.76	July 1986	65.37	January 1987
Barley	70.02	July 1986	54.23	June 1987
Maize	96.16	July 1986	60.04	February 1987
Durum wheat	136.58	July 1986	106.28	February 1987

The Export Entancement Programme and easy credit across a broad range granted by the United States have made it increasingly difficult for Community exporters to compete, and they have lost major markets, especially in the traditional Mediterranean countries.

3.4. Market management

(a) Levies and refunds

Import levies varied appreciably as a result of changes in world cereals prices in 1986/87:

- common wheat:
from 156.05 to 202.16 ECU/t, i.e. from 164.7 to 276.4% of the cif price (excl. tax);
- barley:
from 158.49 to 198.78 ECU/t, i.e. from 226.3 to 366.6% of the cif price (excl. tax);
- maize:
from 149.41 to 186,49 ECU/t, i.e. from 155.4 to 289.7% of the cif price (esck. tax).

For wheat, a tendering procedure from the free market activated from the beginning of June 1986 to the end of May 1987 covered most destinations, but Scandinavia and Switzerland were among the exceptions. The total quantity committed under this procedure was 2.5 million t. Another tendering procedure from the free market was activated from mid-January 1987 to the end of April 1987 for exports of breadmaking common wheat. During the marketing year, refunds were very high because the dollar and world prices were so low. The actual amounts fluctuated between 100 and 140 ECU/t.

More than 2.7 million t of common wheat were exported under tendering procedures for export of intervention stocks activated between September 1986 and May 1987. Under these procedures, the cereals are sold to the exporter at the world price. The refund covering the difference between the Community intervention price and world price is thus absorbed into the sale price.

An export tendering procedure for barley from the free market, covering the same period as the export procedure for wheat, was also organized in respect of most destinations, but the exceptions included Scandinavia, Switzerland, Japan and South-East Asia. 3.7 million t were awarded with a refund ranging from 99 ECU/t to 140 ECU/t.

As for wheat, intervention stocks of barley were exported under tendering procedures activated between October 1986 and May 1987. More than 1.9 million t were disposed of in this way.

At the beginning of 1986/87, long-duration certificates were granted for the export of common wheat to countries of Black Africa which are traditional customers of the Community. Ordinary refunds were set for the main basic cereals intended for countries on the Community's borders (mainly Switzerland, Austria, Liechtenstein and Scandinavia) over which the Community has an advantage in terms of logistics as compared with competing exporters. Export refunds were also set through normal procedures for wheat flour, rye flour, durum wheat meal, malt, etc.

Also, 0.4 million t of French maize were exported as a special intervention measure and 0.2 million t were exported from intervention stocks.

(b) Intervention

Intervention stocks of all cereals came to 18.1 million t at the beginning of 1986/87. 6.3 million t were bought in during the marketing year, about half the quantities bought in in 1985/86.

The reduction in intervention stocks is accounted for by:

- a poor harvest (154 million t in 1986/87) about 4% short of the forecast (160 million t);
- Buoyant demand on the Community's internal and export markets (sales of 10,0 million t in 1986/87, compared with 8,7 million t in 1985/86);
- the effect, although limited, of the decision to tighten up minimum qualities required for buying in.

For 1986/87, the Council launched a more selective intervention policy:

intervention price unchanged for breadmaking wheat (179.44 ECU/t) but with tighter qualitative criteria; a scale of reductions is applicable to quality wheats not meeting the physical and technical criteria (down to - 5%).

reduction in the intervention price for barley (- 5%), sorghum (- 5%) and of 5.9% for fodder rye.

A special intervention price was instituted for superior-quality wheat (+ 3.59 ECU) and breadmaking rye (8.97 ECU).

Cereals were bought in only from 1 October to 30 April (seven months). Either, the agencies were authorized to take in cereals one month in the North and two months in the South before 1 October, but with extension of payment deadlines.

Intervention stocks in the Community of Twelve
in 1986/87

'000 t

	Bread- making common wheat	Feed wheat	Durum wheat	Rye	Barley	Maize	Sor- ghum	All cereals
Stocks on 1.7.1986	2 917	7 395	887	1 161	5 296	392	3	18 052
Cereals bought in	2 241	165	712	426	2 692	14	7	6 257
Cereals sold	1 470	3 917	63	425	3 753	383	3	10 014
Net change	+ 771	-3 752	+ 649	+ 1	-1 061	- 369	+ 4	- 3 757
Stocks at 30.6.1987	3 688	3 644	1 537	1 162	4 235	22	7	14 295

The date at which the marketing year started was changed in 1985/86 when Spain and Portugal joined; it now begins on 1 July and ends on 30 June on the following year.

3.6. Budgetary expenditure

EAGGF guarantee expenditure on cereals (excl. rice) was 3 391.3 million ECU. It was estimated at 3 567 million ECU for 1987 (appropriations in the 1987 budget).

Expenditure on cereals has fluctuated widely from year to year because of varying world prices and because of the surpluses; the cost is usually between 10 and 25% of EAGGF guarantee expenditure (in 1986, 15.3% of total expenditure of the Guarantee Section, which was 22 138.2 million ECU).

The amount of 3 391.3 million ECU in 1986 breaks down into 1 711.7 million ECU for export refunds and 1 735.9 million ECU for intervention measures, of which 1 347.4 million ECU were allocated directly to intervention storage operations and 388.5 million ECU for production aid to durum wheat and production refunds for potato starches.

Expenditure on storage is estimated for 1987 at 999 million ECU (appropriation entered in 1987 budget).

In 1986, the co-responsibility levy was activated and yielded accruals of about 56.4 million ECU.

4. The 1987/88 marketing year

4.1. Common prices - adjustments to the market organization

When reviewing prices for 1987/88, the Council decided to maintain its restrictive policy as regards cereals.

This policy includes the following principles:

- maintenance unchanged of intervention prices for all cereals except durum wheat, the price of which was reduced by 2.7%. This was partly offset by an increase of 7% in the aid paid to durum growers;
- tighter rules concerning intervention:
 - . the principle of compulsory intervention for a given period being replaced by a system allowing the agencies to buy in only if the market prices in representative export areas are below the intervention price for a given period;
 - . cereals to be bought in not at the intervention price but at 94% of this price;
 - . tighter qualitative criteria for durum wheat;
 - . limitation, and reduction in the number, of the monthly increases in the intervention price from November to May inclusive;
- maintenance unchanged of the co-responsibility levy and the direct aid to small growers.

However, the co-responsibility scheme was altered by the introduction of a facility allowing charging of the levy at collection level rather than at that of first processing.

France and Italy, so far, have used this facility.

4.2. Starch

The arrangements for starch and starch products were altered fundamentally on 1 July 1986.

The blanket policy of paying production refunds for all starches produced in the Community has been replaced by a compensation system restricted to technical uses not enjoying protection from imports under the common agricultural policy.

Since 1 July 1987, the industries concerned have already had access to starches and starch products at prices comparable with world prices.

The new scheme is being "run in" over a three-year period. Until 1 July 1989, a declining refund will still be paid under the previous arrangements; for 1987/88, this refund was set, on a flat-rate basis, at about half the original amounts.

4.3. Short-term outlook

The figure for output of cereals in the Community is put at 155 million t, i.e. about 1.0 million t more than in 1986. Areas sown showed little change, but there were probably slight increases for common wheat and durum wheat.

None the less, production fell well short of the trend figure of 163 million t. Also, because of very bad weather - humidity and germination problems in the North - quality for breadmaking of common wheat and of rye suffer greatly in those regions, which helped to increase the quantities available for feed. The supply of breadmaking wheat and rye being, if anything, lower, prices on the internal market tended to stabilize.

However, there has been no fundamental change in the behaviour of producers, and, given technical progress, production must be expected to increase further in coming years; barring really bad weather as in recent years - drought in the South in 1986 and too much rain in the North in the same year - the upward curve in cereals output has not really altered substantially in angle.

The estimates for 1987 are as follows:

	PRODUCTION		AREAS		YIELDS	
	1987 m t	1986 = 100	1987 m t	1986 = 100	1987 t/ha	1986 = 100
COMMON WHEAT	66.3	102.1	13.1	100.9	5.07	101.2
DURUM WHEAT	7.4	101.9	2.8	102.6	2.60	99.2
BARLEY	47.8	102.0	12.3	97.1	3.9	105.0
MAIZE	24.5	98.6	3.7	94.0	6.6	104.8
OTHER CEREALS	9.4	101.1	3.0	94.9	3.1	101.6
TOTAL	155.5	101.1	34.9	98.3	4.5	104.7

Source: Member States

RICE1. INTRODUCTION

In the Community of Ten plus Spain the main market management problem as far as rice is concerned is disposal of a structural surplus, estimated for the 1986/87 marketing year at 300 000 tonnes of milled rice. It exists because consumers in Northern Europe demand rice of a different quality from that grown in the Community. To meet this demand some 350 000 tonnes of Indica-type milled rice has to be imported every year.

2. GENERAL SITUATION

Production of paddy rice in the Community of Eleven (excluding Portugal) was some 1 760 000 tonnes in 1986, a 3.3% drop on 1985.

Yields fell markedly (- 6.5%) because of poor weather, and the increase in area (+ 3.4%) failed to compensate.

The first estimate for consumption during the 1986/87 marketing year is 1 136 000 tonnes of milled rice, of which 897 000 tonnes is in the Community of Ten. If these figures prove accurate, consumption will be unchanged from 1985/86.

Substantial stocks of rice were available on the world market (about 23 million tonnes of milled rice). Estimated production in 1986 was 470 million tonnes of paddy rice, an increase of 5 million tonnes on 1985 due principally to increased production in China.

World prices, which began to fall during 1985/86, continued to do so in 1986 and in the first four months of 1987. They stabilized in April, and rose in August given the likelihood of a lower world harvest because of drought and floods in Asia and a drop in areas sown in the United States.

Community market prices during 1986/87 fluctuated around the intervention price, at an even lower level than in 1985/86.

3. 1986/87 MARKETING YEAR

3.1 THE COMMUNITY OF ELEVEN

A. Production

The area planted to rice in the Community was 299 089 ha in 1986, 0.25% of the Community's UAA and 0.2% of the total area under rice in the world.

In France the area was 11 260 ha compared with 11 200 ha in 1985, a rise of 0.5%. In Greece the area fell by 2.4% from 16 410 ha in 1985 to 16 000 ha in 1986. In Italy the area cultivated in 1986 rose 3.0% on 1985 to 192 842 ha. In Spain the 1986 area was 78 990 compared with 74 486 ha in 1985.

The Community of Eleven produced some 1 760 000 tonnes of paddy rice. Of the four producing countries - France, Greece, Italy and Spain - Italy produced 62.7% of the Community harvest, production being 6.4% lower at 1 103 037 tonnes. Spain, the second largest producer, produced 494 000 tonnes of paddy rice or 28.1% of Community production. In France production was 59 440 tonnes, a fall of 3.7%, and in Greece 103 000 tonnes, a fall of 2.8%.

B. Utilisation within the Community

Total utilisation of milled rice, including broken rice, in the Community of Ten in 1985/86 was some 1 229 000 tonnes. Gross human consumption was up 4.9% from 995 00 tonnes in 1984/85 to 1 044 000 tonnes in 1985/86.

Industrial utilisation remains particularly weak at around 36 000 tonnes. The amount of seed used increased slightly to 35 000 tonnes from 33 000 tonnes in 1984/85. Animal feed uses fell about 2% to 106 000 tonnes from 108 000 tonnes in 1984/85.

The Community of Ten used 269 000 tonnes of broken rice in 1985/86, 106 000 tonnes in animal feed, 125 000 tonnes for human consumption and 36 000 tonnes for industrial purposes.

The Community's rate of self-sufficiency in milled rice, including broken rice, was 74.1% in 1985/86 compared with 66.6% in 1984/85.

C. Trade

(a) Trade with non-member countries

In 1986 total imports into the Community of Eleven from non-member countries amounted to 505 000 tonnes in milled rice equivalent (excluding broken rice). This figure includes imports under inward processing arrangements. The main sources were the United States, Thailand and South America (in particular Suriname). Indonesia and Taiwan are beginning to become important suppliers.

Exports in 1986 amounted to 489 000 tonnes in milled rice equivalent, including exports under inward processing arrangements. The main purchasers are the Mediterranean countries, Switzerland and Austria (traditional markets for the Community) but food aid accounts for a substantial proportion of the quantities exported.

(b) Intra-Community trade

This amounted to roughly 529 000 tonnes in milled rice equivalent in 1986, of which 209 000 tonnes or 39.5% was accounted for by exports from Italy to other Member States.

(c) Food aid

The provisional figure for food aid exports of rice in 1986/87 is 100 538 tonnes in milled rice equivalent: 63% is national aid and 37% is Community aid. This is a 21.5% drop on 1985/86.

D. Prices

(a) Common prices

For 1986/87 these were:

- intervention price for paddy rice: 314.19 ECU/t, unchanged from 1985/86,
- target price for husked rice (round grain and long grain): 548.37 ECU/t,
- threshold price for husked rice (long grain and round grain): 541.63 ECU/t.

(b) Market prices

Average market prices in the main production zone (Vercelli) during 1986/87 were:

- for round grain rice: 96% of the intervention price;
- for long grain rice: 99% of the intervention price for the standard varieties (Lido);
- for long grain rice of varieties and types consumed mainly in Italy (Ribe): between 106 and 124.5%.

The 1985/86 figures were 101% for round grain rice and 104% for long grain rice (Lido).

The Lido-type varieties and round grain rice account for 49% of Italian production.

(c) World prices

The world market for long grain milled rice was affected during 1986/87 by very low prices for Thai milled rice.

The opening months of the year saw milled Thai rice cif Rotterdam quoted at around USD 218 per tonne. At the beginning of 1987 the price fell by some 5% in dollars and some 16% in ECU to 165 ECU/t. After a period of stability prices rose in the closing months of the marketing year to reach USD 256 per tonne cif Rotterdam at the end of August, an increase of some 24% given that the value of the dollar was practically unchanged.

A substantial proportion of the Community's import requirements was covered by long grain husked rice from the USA. Quotations for American long grain rice cif Rotterdam began the year at around USD 190 per tonne, falling gradually up to March 1987, when they were 10% lower in dollars and 20% in ECU. They then rose again to reach USD 211 per tonne by the end of the marketing year (+ 23% in dollars).

The world market in medium grain rice saw the supply of American calrose under the Export Enhancement Programmes (Jordan and Turkey) or PL 480.

Where quotations were concerned the market was not always transparent, with prices in the range USD 190 to 210 per tonne cif Mediterranean port. At the end of the year prices for this type also began to show a tendency to rise.

E. Market management

(a) Levies and refunds

Because of the fall of the dollar and very low world price levels import levies were higher than in 1985/86. At the end of the year, however, cif Rotterdam prices began to rise again. Levies on long grain husked rice dropped by approximately 14.4% during August and September 1987.

Average levies in the last four marketing years have been:

(ECU/t)

	<u>1983/84</u>	:	<u>1984/85</u>	:	<u>1985/86</u>	:	<u>1986/87</u>
Husked rice: round grain	183,20	:	276,94	:	380,70	:	415,64
long grain	213,00	:	282,90	:	386,26	:	450,60
Milled rice: round grain	323,54	:	320,46	:	440,92	:	562,51
long grain	455,34	:	538,10	:	644,32	:	695,56
Broken rice	51,28	:	61,33	:	157,65	:	210,95

The existence of a structural surplus of rice for which there are no ready outlets in the Community meant that special export measures had to be taken, firstly to secure the traditional exports of quality products and secondly to dispose of the purely structural surplus elsewhere.

The following measures were adopted to maintain traditional export flows.

- The refund on long grain husked rice exported to Switzerland, Austria and Liechtenstein was set at 210.00 ECU/t at the beginning of the marketing year and at 252.00 up to the end of the year. The refund on long grain milled rice rose from 262.50 to 315.00 ECU/t.
- Refunds were set on milled rice in small packs exported to certain Mediterranean countries. At the beginning of the marketing year they ranged from 320 to 330 ECU/t according to destination and by the end of the year had risen to 340/345 ECU/t owing to the fall of the dollar and the decline in world market prices.

For the disposal of the surplus proper, the tendering procedure was used so that the quantities to be exported and the resulting expenditure could be better controlled. Between 30 October 1986 and 7 May 1987 a total of 122 146 tonnes of long grain milled rice was exported. No invitation to tender was issued for round grain rice.

The maximum amounts granted under these measures were in the range 345 to 365 ECU/t.

(b) Intervention

For the first time since 1972/73 small quantities of rice (236 tonnes of paddy) were offered for intervention as a result of the market situation in one Spanish region.

(c) Monetary compensatory amounts

No monetary compensatory amount has ever been fixed for rice. In order to prevent distortion of trade within the Community a special rice sector rate is used for the conversion of levies and refunds.

F. Budgetary expenditure

EAGGF Guarantee Section expenditure on rice amounted to 102.5 million ECU in 1986, i.e. 0.5% of total Guarantee Section expenditure. This split into 79.0 million ECU for refunds and 23.5 million ECU for intervention.

Estimated Guarantee Section expenditure in the rice sector in 1987 is 104.0 million ECU.

3.2 SPECIAL PROVISIONS FOR PORTUGAL

A. Basic facts

The basic figures for rice production in Portugal in 1986 are:

	Portugal
Area under rice	30 300 ha
Production of paddy rice	143 950 t
Consumption (milled rice equivalent)	149 200 t
Self-sufficiency	57.6%
Annual per capita consumption (milled rice equivalent)	14.8 kg

Portugal is an important producer and consumer of rice in the Community. Portugal is not self sufficient, the self-sufficiency rate being 57.6% and, consequently, is still a large importer.

B. Transitional period

For rice there is a period of transition by stages. The common organisation mechanisms will not apply fully until the end of the first stage.

4. 1987/88 MARKETING YEAR - SHORT-TERM OUTLOOK

The intervention and target prices have been kept at the same level in 1987/88 as in 1986/87. The Spanish intervention price is fixed at 259.76 ECU/tonne. Intervention is restricted to the period from December 1987 to July 1988 and the buying-in price is 94% of the intervention price.

The monthly increases have been reduced and apply to the intervention price for the period from January to July 1988 only.

Threshold prices have been increased slightly because of a drop in Rotterdam-Duisburg transport costs.

SUGAR1. INTRODUCTION

The market organization for sugar applied in Spain and Portugal for the entire marketing year for the first time in 1986/87.

The following report and data therefore relate to the Community of Twelve.

2. GENERAL SITUATION

The main characteristics of the 1986/87 marketing year (Community of Twelve) can be summed up as follows:

- areas sown with beet more or less the same as in 1985/86;
- fairly good sugar yields per hectare (well up on the average for the last five years);
- sugar production up 470 000 tonnes on the previous year;
- consumption steady around 10.8 million tonnes;
- total exports of unprocessed sugar: 4.5 million tonnes (including 1.312 million tonnes of C sugar);
- world sugar prices remaining very low and even down on 1985/86 (13.5% less on the basis of the spot price for white sugar on the Paris stock exchange);
- export refunds for surplus Community sugar of the order of 447 ECU/t (compared with 420 ECU/t during the previous marketing year, i.e. an increase of over 6%).

3. 1986/87 MARKETING YEAR

3.1 THE COMMUNITY MARKET

A. Production

(a) Farm areas and structures

In 1986, the total area under sugarbeet was 1 887 000 hectares, virtually the same as in 1985. Marked decreases were recorded in France (for the second year running, -9.3%), Belgium (-5.6%) and Denmark (-5.5%). Areas increased chiefly in Italy (+22.2%), Ireland (+11.8%) and the Netherlands (+5.4%).

The number of farms growing sugarbeet has fallen steadily since 1970. However, the decline has slowed down somewhat in more recent years. In 1986/87, there were estimated to be roughly 393 000 farms growing sugarbeet in the Community.

The average size of the area under sugarbeet per grower varies from one country to the next, ranging from around 1 hectare in Greece to almost 11 hectares in France. Generally speaking, acreages are large in France and the United Kingdom, medium-sized in Germany, Benelux, Denmark and Ireland and small in Italy, Greece and Portugal. In Spain the average is about 3 ha.

A general plan for restructuring the sugarbeet and sugar sector is currently in progress in Italy. A number of specific implementing plans already approved by the Commission under Articles 92 and 93 of the EEC Treaty have become operational and the whole plan should be completed by 1988.

(b) Structure of the sugar industry

Sugar manufacturers, including refineries, numbered 151 in the Community in 1972/73. The greatest concentration was to be found in France, Germany and Italy. In the same year the number of beet-processing factories was 291.

The figures available for 1986/87 confirm the trend towards concentration in the industry. The number of sugar manufacturers had fallen to 101 (33% less than in 1972/73) and that of processing factories in operation to 215 (26% less).

This trend has generally been accompanied by a modernization of factory installations. In 1986/87 the daily throughput for the entire Community was 1 347 000 tonnes, a figure slightly above that of the previous marketing year and 43% above the corresponding figure for 1972/73 (940 000 tonnes).

(c) Community sugar production

In 1986/87, improving weather in the period leading up to the sugarbeet harvest resulted in a record Community average yield of sugar per hectare (7.29 tonnes), exceeding the "average" yield for the last five marketing years (6.83 t/ha) and even that recorded for the 1985/86 marketing year (7.05 t/ha) which itself was considered fairly "good".

Sugar production, despite virtually identical acreages, was therefore up on the previous marketing year: 14.10 million tonnes, and can be compared with the figures of 16.06 million tonnes recorded in 1981/82 (production record), 12.25 million tonnes in 1983/84 (one of the lowest ever figures) and 13.63 million tonnes in 1985/86.

For the Community of Twelve, production can be broken down by quota as follows. Including the 1 021 000 tonnes carried over from the previous marketing year, production of A sugar reached 10.34 million tonnes, that of B sugar 2.18 million tonnes and non-quota production 1.31 million tonnes (1.22 million tonnes in 1985/86 for the Community of Ten). The quantity of sugar carried over to 1987/88 amounts to 1.28 million tonnes.

(d) World production and consumption

General information about the world market
(million tonnes of raw sugar)

		Production	Consumption	Surplus or deficit	Stock
		(1)	(2)	(3)=(1)-(2)	(4)
World	1981/82	100,9	92,2	+ 8,7	33,4
	1982/83	100,6	94,3	+ 6,3	39,1
	1983/84	98,0	96,3	+ 1,7	39,8
	1984/85	100,4	98,5	+ 1,9	40,2
	1985/86	99,0	100,4	- 1,4	37,9
	1986/87	104,1	103,2	+ 0,9	38,0

World production of sugar in 1986/87, at around 104 million tonnes, was well up (5%) on the previous year's figure of 99 million tonnes.

During the 1986/87 marketing year, the world situation continued to be dominated largely by the existence of surplus stocks resulting from world sugar production exceeding consumption since 1981/82 (apart from 1985/86). World sugar prices are therefore very depressed and very low.

World sugar consumption (103.2 million tonnes) picked up markedly in 1986/87 - with an increase of nearly 3 million tonnes - particularly in India, Brazil, China and the Soviet Union.

The increase in the production and consumption of sucrose-substitute sweeteners (primarily isoglucose (high-fructose corn syrups), cyclamates and aspartame) continued in 1986/87, as can be clearly seen from the trend in isoglucose consumption in the United States.

(in millions of "short tons", dry matter)

1970 = 0,07	:	1982 = 3,10
...	:	1983 = 3,60
1978 = 1,35	:	1984 = 4,30
1979 = 1,67	:	1985 = 5,35
1980 = 2,18	:	1986 = 5,53
1981 = 2,67	:	1987 = 5,65 (estimate)

B. Use of Sugar in the Community

(a) Human consumption

The use of sugar as such and in foodstuffs has shown a steady downward trend since 1978/79. There was a slight increase (human consumption) for the first time during 1986/87 (about 10.6 million tonnes), but consumption per haad of the population remained virtually unchanged: 32.6 kg in 1985/86 and 32.8 kg in 1986/87, account being taken of natural population growth.

(b) Non-food uses

In 1986/87, roughly 149 000 tonnes of sugar were used by the chemical industry (compared with about 122 000 tonnes in 1985/86) and small quantities in bee-keeping. The amount of the production refund varied from one quarter of the marketing year to another, ranging from a minimum of 23.710 ECU/100 kg of white sugar used to a maximum of 29.569 ECU/100 kg. More sugar is expected to be used by the chemical industry in the future following certain investments that are planned.

(c) Self-sufficiency

Community self-sufficiency in sugar reached 130.4% in 1986/87 as against 127.8% in 1985/86.

(d) Stocks

Thanks to the way in which the disposal of sugar surpluses on Community responsibility was managed, the volume of end-of-year stocks (1.64 million tonnes) was below the volume of free and minimum initial stocks (1.71 million tonnes) in 1986/87. These levels can be however considered "normal".

(e) Isoglucose

In 1986/87 production and consumption of isoglucose in the Community amounted to roughly 265 033 tonnes (dry matter). They remained within the limits of the A and B quotas attributed.

Exports of isoglucose to non-Community countries are negligible and imports from such countries non-existent. However, major intra-Community trade flows are to be noted, particularly from France and Belgium to the Netherlands, Italy and Germany.

C. Trade

(a) between Member States

The traditional Italian imports of Community sugar slowed down during 1986/87 as Italy had had a good sugar harvest itself; there was also a marked decrease in the quantities of French unprocessed sugar in transit for export from the port of Antwerp. The other intra-Community trade patterns for unprocessed sugar remained at traditional levels.

The main outlets for sugar in the form of processed products are the Federal Republic of Germany, France and the United Kingdom, which import from the other Member States.

(b) with non-member countries and as food aid

As in the past, most of the preferential sugar imported from the ACP countries went to the United Kingdom in 1986/87. Some was also imported by France (about 10% of total preferential imports). In addition, 169 000 tonnes of raw sugar were imported into Portugal from non-member countries with a reduced levy to cover the supply requirements of Portuguese refineries.

In 1986/87 contracts were awarded by tender for almost all of the sugar exported on Community responsibility. Awards were thus made for 3 058 000 tonnes of sugar (white sugar equivalent), including 16 000 tonnes of white sugar held by the BALM (German intervention agency). In addition, 24 000 tonnes of sugar were committed under the "periodic" refund system.

Including exports of C sugar carried out on producers' responsibility, total exports of unprocessed sugar in 1986/87 should reach about 4.5 million tonnes of white sugar equivalent.

The Community's 1987 food aid programme reserved 4 000 t of sugar for Uganda and UNRWA; the programme is being implemented.

Following initiatives by the Commission and the Council, 4 554 tonnes of sugar from intervention stocks in Italy were placed at the disposal of charity organisations in February 1987 as part of the emergency aid scheme for victims of the cold spell.

D. Prices

(a) Common prices

Sugar prices remained unchanged in 1986/87 compared with the previous year. Only the threshold prices for white sugar and raw sugar were increased by 0.3% as a result of technical adjustments in connection in particular with the transport costs which are taken into consideration in fixing these prices.

(b) Prices on the internal market

Ex-refinery market prices net of tax charged by the sugar industry in 1986/87 were higher than the intervention price in all the Member States (by between 1.1% and 6.1% in October 1987), excluding Portugal where they were slightly below.

The difference between these prices and the intervention price was greatest in Ireland, Denmark, the Netherlands and France.

(c) World prices

For the reasons explained in point 3.1.A(d), world sugar prices, and in particular raw sugar prices, remained at very low levels throughout 1986/87 and were even down on the previous marketing year.

The average price of white sugar for immediate delivery (spot price) at the Paris stock exchange was as follows:

32,32 ECU/100 kg in 1979/80;
53,58 ECU/100 kg in 1980/81;
30,82 ECU/100 kg in 1981/82;
24,07 ECU/100 kg in 1982/83;
26,14 ECU/100 kg in 1983/84;
19,92 ECU/100 kg in 1984/85;
19,88 ECU/100 kg in 1985/86;
17,31 ECU/100 kg in 1986/87;

It can be seen that from 1981/82, the year when surplus stocks started to build up, world sugar prices have in general fallen steadily.

E. Management of the market

(a) Levies and refunds

World prices having remained well below Community prices throughout 1986/87, all exports of sugar covered by the quotas qualified for export refunds.

The average refund on exports for the 1986/87 marketing year was 447 ECU/tonne as against an average of 420 ECU/tonne the previous year (+ 6.4%). Average import levies amounted to 509.3 ECU/tonne of white sugar and 441.7 ECU/tonne of raw sugar in 1986/87.

(b) International Sugar Agreement

The International Sugar Agreement, which the Community joined in 1984 and which entered into force on 1 January 1985, is purely administrative in character. On expiry the Agreement was renewed in September 1987 for an initial period of three years. Efforts by the Community and other major member countries to open new negotiations on an agreement encompassing economic provisions have so far been unsuccessful.

(c) Intervention

The quantities accepted for intervention are generally fairly small: 107 900 tonnes of white sugar in 1984/85, 45 333 tonnes in 1985/86 and 65 703 tonnes in 1986/87. If these figures are compared with the quantities available for export it can be seen that the possibility of intervention for sugar is not used to any great extent.

F. Budgetary expenditure

In recent years, expenditure in the sugar sector has fluctuated considerably on account of changes in world prices and in Community stocks.

Gross expenditure by the EAGGF Guarantee Section was 1 316 million ECU in 1983, 1 631 million ECU in 1984, 1 805 million ECU in 1985 and 1 726 million ECU in 1986, and is estimated at 1 653 million ECU for 1987.

The cost of disposing of surpluses resulting from differences between sugar production and consumption in the Community have to be borne entirely by the producers themselves. This expenditure is covered by revenue from the basic production levy and the B levy payable on production of A and B sugar and isoglucose.

To cover all actual expenditure on the export of surpluses, the Council introduced, in addition to the above-mentioned levies:

- (a) an elimination levy (80 million ECU per year), which is to apply for a period of five marketing years starting with 1986/87 and which is designed to cancel out a deficit of 400 million ECU recorded at the close of the period 1981/82 to 1985/86;
- (b) a special elimination levy for 1986/87 designed to cover the deficit (227 million ECU) for the same marketing year.

Another special levy to equalize storage costs is charged on all sugar produced and disposed of within the quotas, in order to cover the monthly reimbursement of the relevant storage costs.

After deduction of the revenue from the production, elimination and storage levies, net Community expenditure totalled 288 million ECU in 1983, 375 million ECU in 1984, 667 million ECU in 1985 and roughly 534 million ECU in 1986. However, the above net amounts are accounted for almost entirely by expenditure resulting from the need to export a quantity of Community sugar equivalent to the 1.3 million tonnes of preferential sugar imported from the ACP countries; this expenditure has fluctuated between 330 and 560 million ECU in recent years.

4. SHORT-TERM OUTLOOK FOR 1987/88

4.1 PRICES AND AID SCHEMES

For 1987/88 prices in the sugar sector have again been maintained at the same level as in the previous marketing year. This is the third consecutive marketing year for which the intervention prices for white sugar have been frozen at 54.18 ECU/100 kg.

As in previous years, aid (national or Community) has been granted or authorized for:

- Italian and Spanish sugarbeet growers (national aid);
- sugarcane growers and raw sugar producers in the French overseas departments (Réunion and Antilles) (national and Community aid);
- Italian sugar industry (national aid);
- industries refining raw sugar of Community origin (overseas departments and raw beet sugar) in France, the United Kingdom and Portugal (Community aid).

4.2 THE NEW PRODUCTION SYSTEM

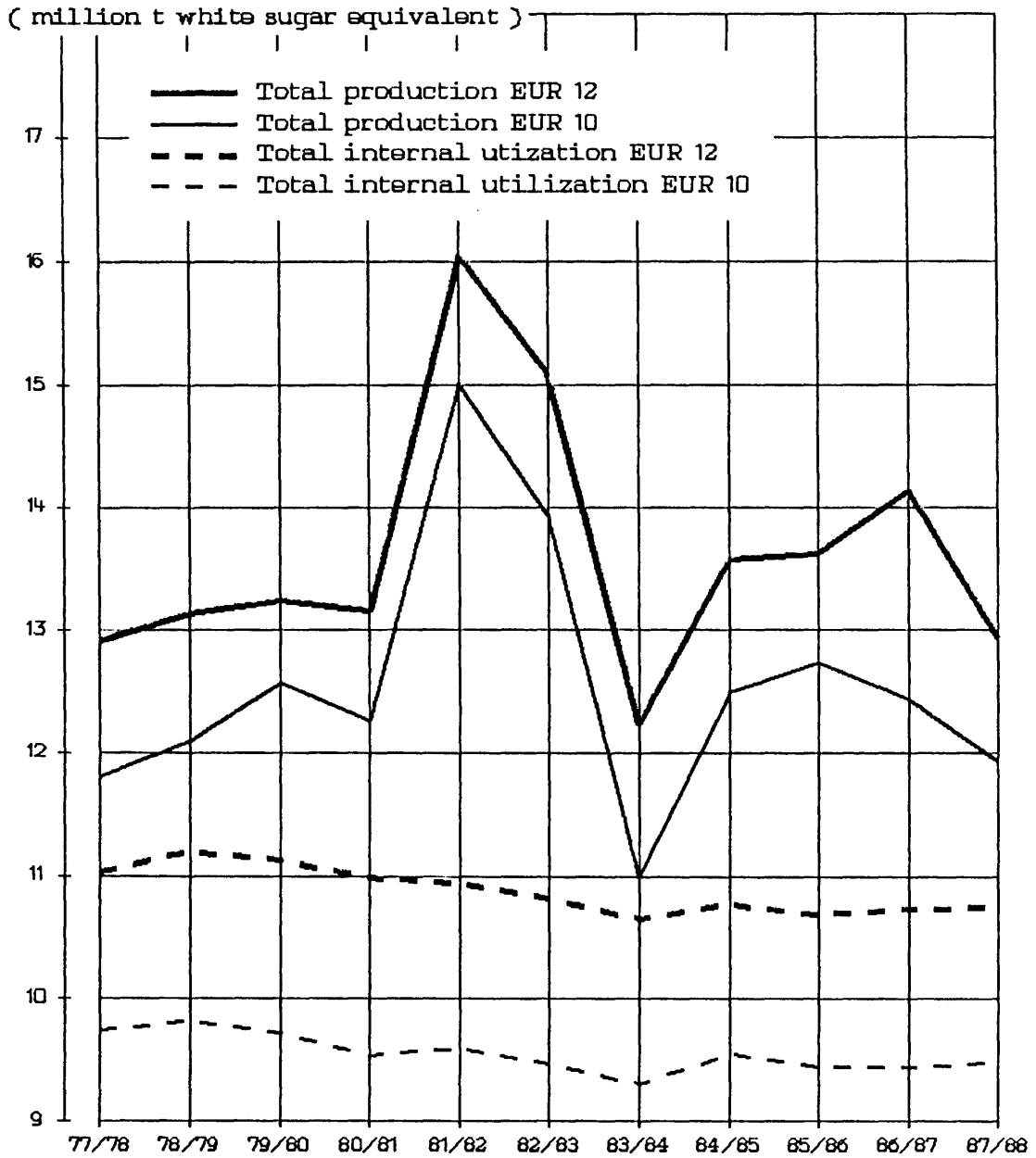
On 15 March 1986 (1), the Council decided to maintain the principle of financing by producers of expenditure resulting from the export of Community sugar surpluses and the principle of a system of quotas for the next five years; for the first two years it also freeze the existing quotas and the ceilings on the production levies payable by producers (beet-growers and processors), though the latter measure was accompanied by the introduction of an elimination levy payable for the five years 1986/87 to 1990/91 to cancel out the deficit of 400 million ECU from previous years (1981/82 to 1985/86).

In the same Regulation (1), the Council laid down that, acting on a proposal from the Commission, it was to determine, before 1 January 1988, for the remaining marketing years (1988/89 to 1990/91), the basic production quantities for A and B sugar and the allocation of the resulting costs for producers. The Commission presented the relevant proposal to the Council on 18 September 1987 (2).

(1) Regulation (EEC) No. 934/86 (OJ L 87, 2.4.1986).

(2) Doc. COM (87) 452 final, 28.9.1987.

SUGAR PRODUCTION AND UTILIZATION IN THE COMMUNITY



Source : EC Commission, DG for Agriculture
1987/88 : forecast

In the explanatory memorandum accompanying the proposal, the Commission states that under the present circumstances it would not be desirable to adjust the level of the quotas during the application of the current five-year arrangement and that an additional levy should be paid by each undertaking for each marketing year when the proceeds of the "ordinary" production levies are not sufficient to cover all the losses resulting from the export of surplus Community sugar for that marketing year. It also proposes for 1987/88, as was the case in 1986/87, that a special elimination levy be introduced to ensure self-financing for the year.

4.3 SHORT-TERM OUTLOOK

A. Production and use of sugar in the Community

The area under sugarbeet in 1987/88 is estimated at 1 822 000 hectares (3.4% down on the previous year).

Surveys carried out in sugarbeet fields up to the beginning of October 1987 and the results for the beginning of the processing year indicate a sugar yield of 6.95 tonnes per hectare. In the autumn of 1987 beet sugar production in the Community can therefore be estimated at 12.66 million tonnes, to which must be added 324 000 tonnes of cane sugar and 19 000 tonnes of sugar obtained from molasses, giving an estimated total of 13.0 million tonnes of white sugar equivalent.

Sugar consumption in the Community is likely to be roughly the same as in 1985/86 (taking into account also increased use in the chemical industry), some 10.80 million tonnes.

If account is also taken of imports of preferential sugar, traditional external trade in sugar in the form of processed products and the amounts of C sugar carried over, the total supplies of sugar available for export - including C sugar - will, on the basis of current estimates, be in the order of 3.8 million tonnes of white sugar equivalent and therefore less than the quantities exported in 1986/87 (4.5 million tonnes).

B. World market outlook

Although it is difficult at the time of writing this report to predict an overall balance for 1987/88, several world market analysts are tending to think that we shall see world production and consumption more or less in balance for this period.

However, the medium-term projections indicate that until a significant cut in world sugar production is envisaged by the main producer countries, a price boom as in 1974 and 1980 is certainly out of the question and even a significant improvement in prices to bring them to a remunerative level is not very likely.

It is wise to suppose that the world market situation in the short-term will not improve enduringly and significantly. An improvement might come about, however, if, for instance, disastrous weather conditions affecting large cane or beet-growing areas were to lead to an exceptional production deficit or if there were a general increase in consumption. These events could lead to a reduction in surplus stocks. This event will also facilitate the negotiation of an international sugar agreement encompassing economic provisions.

THE MARKET IN OILS AND FATS1. Introduction

The oils and fats sector includes:

- vegetable oils and fats, which, in view of the market's structural differences, must be subdivided into olive oil and other oils;
- oils and fats of land animals, which must also be subdivided into butter on the one hand and lard and tallow on the other;
- oils and fats of sea creatures.

The above oils and fats are the basic raw material but may be consumed in their unprocessed state or as prepared oils and fats, such as margarine; they may be used as animal feedingstuffs, for human consumption or for technical purposes. They may be incorporated in other products. The various basic products can also replace one another to a large extent, depending on their ultimate use. The form of ultimate use varies considerably in the Community. For example, oils and fats are consumed principally in the form of butter and margarine in the northern countries, whereas in France, Italy, Greece, Spain and Portugal liquid vegetable oils account for the largest share in the consumption of oils and fats.

The proportions of the various categories in total human consumption vary in general only slightly from year to year. The table below shows the quantities of the different categories of oils and fats consumed in 1985 and the proportion of each category in relation to total consumption.

Table I

Apparent human consumption of each category of oils and fats in terms of quantity and as a percentage of total human consumption - 1985 - EUR 10

	<u>Quantity</u> ('000 t)	(%)
1. Vegetable oils and fats	4 596	57
2. Oils and fats of land animals	1 780	22
3. Oils and fats of sea creatures	410	5
4. Butter	<u>1 333</u>	<u>16</u>
TOTAL	8 119	100

Source: EUROSTAT

Different policies are applied for each category of product in the Community. In the vegetable oils sector, all oilseeds can enter the Community duty-free. Oils are subject to duties ranging from 10% to 15% but lower rates of duty or zero rating are applied to imports of oils from associate countries, which account for 76% of oils imported as such. The prices of vegetable oils in the Community tend, therefore, to be at world market levels, except in the case of olive oil. Similarly, oils and fats of sea creatures and land animals are subject to relatively low import duties. In the case of butter, lard for human consumption and olive oil, however, support prices are fixed in the Community and imports are subject to a levy regimen. This diversity of policies for the various products, which are naturally interchangeable, obviously affects consumption.

2. Production

According to FEDIOL statistics, the production of vegetable oils in the Community, not including olive oil, was 5 618 000 tonnes in 1986 compared with 5 376 000 tonnes in 1985. Of the total quantity of seeds crushed in the Community about 54% were of Community origin.

Table II

Production of vegetable oils (excluding olive oil) - 1986

	('000 t)
Sunflower	1 335
Soya	2 265
Rapeseed	1 520
Others	<u>498</u>
TOTAL	5 618

Source: EEC Seed Crushers' and Oil Processors' Federation (FEDIOL).

Production of olive oil is normally between 1 and 1.4 million tonnes. Since olive trees are perennials, crop does not depend on demand, but principally on weather conditions.

Production of oils and fats of land animals - mainly lard and tallow - may be estimated at almost 1 700 000 t per year. These fats are a by-product of slaughtering, and consequently in this category production is determined principally by animal numbers and the demand for meat.

Production of oils and fats of sea creatures is carried on principally in Denmark, although the United Kingdom and Germany also contribute to Community production, which was about 164 000 t in 1986/87.

Since the introduction of milk quotas, butter production in the Community has not been increasing at the same rate as before. It was 2.3 million tonnes (EUR 10) in 1983, 2.09 million tonnes in 1985 and 2.2 million tonnes in 1986.

In 1986/87 the Community exported more than 1.4 million tonnes of soya, rapeseed and sunflower oil.

3. Consumption

The level of consumption of oils and fats in the Community is determined, as elsewhere, by the following factors :

- absolute population level and rate of growth;
- absolute level of incomes and income trend;
- price and availability of the product;
- level of consumption reached.

In the Community the population is increasing slowly. The level of economic development, although high compared with a large part of the world, has been relatively stagnant in recent years.

Per capita consumption of oils and fats (with the exception of butter) increased from 24 kg per head in 1984 to 25 kg per head in 1985.

Table III

Consumption of vegetable oils - EUR 10 - 1985

	(kg/head)
Sunflower	2.1
Soya	3.9
Rapeseed	1.9
Olive	3.3
Others	1.5

Source: EUROSTAT.

In 1985 apparent human consumption of oils and fats of land animals was 12 kg/head compared to 10 kg/head in 1983. Consumption of oils and fats of sea creatures increased slightly in 1984 to 410 000 tonnes from 373 000 tonnes in 1984.

4. Prices

As stated above, prices in the oils and fats sector show a tendency to remain at the world market level for all products except olive oil and butter, for which prices are fixed in the Community.

The table below gives the price of soya oil as compared to prices for vegetable oils, lard, tallow and oils of sea creatures. The price of soya oil tends to dictate the trend for the other products. It can be seen that since 1985/86 there has been a large decrease in world market prices for oils. The fall continued in 1986/87 until it stabilized to some extent towards the end of the marketing year.

This situation is due largely to the relatively abundant supplies on the world market, caused by the rise in production of palm oil and the strong demand for oilcake, which are bringing about a parallel increase in the production of oils obtained from oilseeds.

Table IV

Selected oil prices (average Oct/Sept) (USD/t)

	<u>1980/81</u>	<u>1981/82</u>	<u>1982/83</u>	<u>1983/84</u>	<u>1984/85</u>	<u>1985/86</u>	<u>1986/87</u> (1)
Soya oil (Netherlands, FOB, ex mill)	540	463	463	722	625	377	322 (1)
Lard (cif UK)	601	601	504	555	581	473	511 (2)
Tallow (USA,cif Rotterdam)	474	443	408	509	465	299	353 (2)
Fish oil (all origins, cif N.W. Europe)	427	363	349	391	299	248	n.a.

Source: "Oil World".

(1) Average Oct/May.

(2) Average Oct/Jan.

OLIVE OIL1. INTRODUCTION

According to available information, 5.3 million ha are planted with olive trees in the Community (2.2 million ha in Italy, 2.1 million ha in Spain, 0.5 million ha in Greece and 0.5 million ha in Portugal), i.e. about 66% of the total world area under olive trees and 4.0% of the Community's UAA. These areas change very little. The total number of cultivated and uncultivated olive trees is, according to certain estimates, about 544 million (188 million in Spain, 185 million in Italy, 117 million in Greece, 49 million in Portugal and 5 million in France).

The number of families involved in olive growing is about 1 million in Italy, 600 000 in Spain, 400 000 in Greece, 250 000 in Portugal and 40 000 in France, and most olive growing is located in the least-favoured areas of the Community.

2. GENERAL SITUATION

The average annual production of olive oil in the Community of Twelve is about 1 325 000 tonnes, over 80% of world production. However, because of the way olive trees bear fruit (in alternate years), production can vary very widely from one year to another.

The accession of Spain and Portugal brought a fundamental change in the situation as regards olive oil supplies in the Community: until 1975 Community production covered about 70% of Community needs. Subsequently, the percentage of requirements covered by home production gradually increased and, when Greece joined, the Community became practically self-sufficient. The average self-sufficiency rate for the present Community is 108%. For the time being, because of action taken with regard to exports in particular, this production surplus raises no major problems for the Community, provided internal consumption does not decline and the volume of the Twelve's exports on the world market remains at (or slightly above) the level achieved in recent marketing years.

3. THE 1986/87 MARKETING YEAR

In both Spain and Portugal, the oils and fats sector (which includes olive oil) is subject to conventional transition with special provisions. The market organisation machinery has been in operation in the two new Member States since 1 March 1986.

The information concerning the 1986/87 marketing year given below concerns the Community of Twelve, except where the data refer to periods before the two new members joined.

A. Production

Since 1984/85, production aid has been granted to olive oil growers who are members of an organisation of producers producing at least 100 kg of olive oil per year on the basis of the quantity of oil actually produced. Aid is granted to other olive oil producers on a flat-rate basis in terms of the number and production potential of the olive trees they grow.

In France, all growers are members of producers' organisations; in Italy, about 97% of growers are organised in this way. In Greece the figure is about 95%, whilst in Spain and Portugal producers' organisations are still being set up.

On the basis of the aid applications submitted, production may be put, for 1985/86, at about 656 000 tonnes in Italy, 334 000 tonnes in Greece and 1 400 tonnes in France. However, it should be noted that in Italy in particular, the quantities for which the aid is actually paid fall short of those covered by applications. For 1986/87 available information suggests that production was below average.

B. Consumption

Most olive oil is for human consumption, used directly or in preserves. However, small quantities are traditionally used by soap makers, cosmetics manufacturers, and as lubricants, etc.

The growers themselves consume a good deal of the product.

Since 1 April 1979 a consumption aid scheme has operated in the Community. The aid is granted for oil put up in containers of a maximum capacity of 5 litres by approved packaging establishments, and is subject to the requirement that the oil must be marketed at a price allowing for the consumption aid. However, packaging establishments have been approved in only six countries: Italy, France, the United Kingdom, Greece, the Netherlands and Belgium.

The purpose of the aid is mainly to enable olive oil production to be marketed in normal conditions by offsetting part of the price difference between olive oil and the main competing vegetable oils.

From the scheme's inception (in 1978/79) until 1982/83, consumption aid applications increased on average by about 25% per year (most being submitted in Italy). Since 1983/84, the increase has been slower, being of only a few percentage points per year.

For 1985/86, the aid applications cover about 506 000 tonnes. For 1986/87, the forecasts, based on figures available at the end of September 1987, are about 560 000 tonnes.

The increase in the quantities qualifying for consumption aid is accounted for partly by increased use of Community oil at the expense of olive oil imported from non-member countries, which does not qualify, and partly by the fact that in Greece the scheme was phased in from 1981 only.

As for the impact of the consumption aid on retail prices, figures for nine years' operation show that the effect has been satisfactory and that as a result, at least in the Member State which is the major user of olive oil, retail prices have increased much more slowly than wholesale prices.

These conclusions were confirmed by the study which the Commission had carried out following the special report by the Court of Auditors on the market organisation for olive oil and the recommendations of the European Parliament. Among other things, the study shows that, within an oilseed price fluctuation range of 20%, the factor which has by far the most influence on olive oil consumption is its real price to the end-user.

C. Trade

a) Intra-Community trade

Among the three main olive oil producing countries, Greece and Spain produce surpluses and are the main suppliers of the other Member States, and more especially of Italy, which is the main importer (and consumer) of this oil, followed by France and Portugal.

b) Trade with non-member countries

In the past, the Community was the world's largest importer of olive oil. Its imports ranged between 100 000 and 200 000 tonnes. Since Greece joined, imports have been roughly halved; with the accession of Spain and Portugal, imports from non-member countries have been confined to the quantities coming from Tunisia, in view of the special measures the Council has adopted to underpin traditional exports from that country.

Exports to non-member countries, on the other hand, are steadily increasing. After average exports of about 17 000 tonnes before 1981 and of 55 000 after Greece joined, the Twelve's exports to non-member countries totalled 130 000 for 1985/86 and could be as high as 150 000 in 1986/87.

c) Food aid

Under the food aid arrangements approved each year by the Community, very small quantities of olive oil are provided to certain countries which are traditional consumers, and which so request.

D. Prices

a) Common prices

The new market organisation arrangement for olive oil entered into force on 1 January 1979.

For 1986/87, the prices and aid were set as follows:

	<u>ECU/100 kg</u>		
	Spain	Portugal	Other Member States
Producer target price	-	-	322.56
Production aid	14.57	7.10	70.95
Intervention price	134.61	199.65	216.24
Representative market price	-	-	166.67
Threshold price	-	-	163.05

The consumption aid is equal to the difference between the producer target price minus the production aid and the representative market price. For 1986/87, the consumption aid was 84.94 ECU/100 kg.

For 1987/88 the prices set by the Council are as follows:

	<u>ECU/100 kg</u>		
	Spain	Portugal	Other Member States
Producer target price	-	-	322.56
Production aid	20.83	14.19	70.95
Intervention price	144.81	201.72	216.24
Representative market price	-	-	174.61
Threshold price	-	-	177.15
Consumption aid	-	-	77.00

b) Trends on the Community market

In view of the volume of production and the heavy stocks at the beginning of the 1986/87 marketing year, market prices were generally fairly near the intervention prices, with some exceptions in certain producing countries for specific qualities. The only exception is Greece, where, because of the wide gap between the "green" rate and the real rate for the drachma, olive oil prices persisted throughout the marketing year at a high level, at least until monetary compensatory amounts were introduced on 7 September 1987.

Because of the high level of consumption aid, oil was sold on the market on acceptable terms, despite the competition from other vegetable oils, prices for which were at a consistently low level throughout the marketing year.

E. Market management

a) Import levies

Since June 1976 the levy has been set by tender, allowing not only for the world market but also for the Community market and its requirements and for levy offers bid by the operators. During the 1986/87 marketing year there was no particular problem with regard to levy fixing.

During 1986/87 the Council, acting unilaterally and in anticipation of the entry into force of the Additional Protocol to the Co-operation Agreement between the European Community and the Republic of Tunisia on 1 November 1987, decided to facilitate the sale within the Community of 46 000 tonnes of olive oil from that country by applying a reduced levy.

b) Refunds

To allow for developments in the trade of the Community of Twelve, and in view of the lack of world market price quotations, the Council decided from 1986 onwards to allow the refund to be set by tender as well as by the normal procedure. Accordingly, a permanent tendering procedure for the refund was open throughout the 1986/87 marketing year, for edible-quality oils in bulk or in small packages.

As in previous years, a general refund was granted for exports of certain qualities of olive oil put up in packages of 5 litres.

c) Intervention

At the beginning of the 1986/87 marketing year, Community intervention stocks totalled 271 000 tonnes. The high level in relation to previous years is due to the take-over on 1 March 1986 of 172 000 tonnes of Spanish and Portuguese public stocks.

According to information available in October 1987, around 70 000 tonnes (of which 22 000 tonnes in Italy, 47 000 tonnes in Spain and 1 000 tonnes in Portugal) were bought in during the 1986/87 marketing year, and 53 000 tonnes (of which 2 400 tonnes for export) were sold.

The intervention stock at the end of the marketing year was as follows:

Spain	182 000 tonnes
Italy	99 000 tonnes
Portugal	9 000 tonnes
Greece	- tonnes
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Total	290 000 tonnes

F. Budgetary expenditure

Expenditure on olive oil depends on intervention, aid paid to growers, consumption aid paid to packaging plants and export refunds.

EAGGF Guarantee Section expenditure on olive oil totalled 605 million ECU in 1986, i.e. 2.7% of total guarantee expenditure. For 1987, foreseeable expenditure totals 1 342 million ECU. It should be pointed out that expenditure in this sector can fluctuate considerably from one year to the next because of the variable spread of payments.

4. NEW MEASURES ADOPTED BY THE COUNCIL

The Council has adopted a number of measures, due to come into force on 1 November 1987, which will alter the market organisation considerably.

A. Maximum guaranteed quantity

A maximum quantity for which production aid is payable has been introduced; should this quantity be exceeded, the amount of aid will be reduced accordingly.

For 1987/88 to 1990/91, this maximum quantity has been set at 1 350 000 tonnes.

B. Arrangements applicable to small producers

Producers whose average production does not exceed 200 kilograms of olive oil per year will not be affected by any reduction in aid arising from the application of the maximum guaranteed quantity.

Moreover, the aid payable to small producers has been increased for 1987/88.

Production aid for small producers (ECU/100 kg)

Spain	Portugal	Other Member States
21.95 (+ 1.12)	15.31 (+ 1 12)	80.95 (+ 10)

C. Discontinuation of the monthly increases

The monthly increases which used to be applied to the intervention price, the threshold price, the levies and the refunds have been discontinued. Taken cumulatively, these increases were worth 12.53 ECU/100 kg over one marketing year.

D. Limit on intervention

Buying in by intervention agencies has been limited to the last four months of the marketing year, namely July, August, September and October.

E. New descriptions and definitions

The use of the descriptions and definitions of olive oils and olive-pomace oils laid down by the Council has been made compulsory as regards the marketing of the products concerned within each Member State and in intra-Community trade.

Furthermore, only a limited number of qualities of oil may be marketed at the retail stage, so as to simplify the choice for the consumer.

Member States may obtain an exemption of up to two years with regard to these marketing rules, but only within their territory.

F. Monetary compensatory amounts

Monetary compensatory amounts have been introduced in the olive oil sector as from 7 September 1987, because of the distortions caused in intra-Community trade by the gap between "green" and real currency rates. The amounts are calculated with a neutral margin of 10%.

OILSEEDS

The Community meets an increasing proportion of its oil and oilcake needs but continues to be a major importer. In 1986/87 it imported 693 000 t of oils and fats, 21 172 000 t of oilcake, 43% of which was soya cake, and 14 197 000 t of oilseed, 94% of which was soya beans.

With a view to a controlled rise in the production of oilseeds, the Community has introduced a system of maximum guaranteed quantities for these products. During the 1987/88 marketing year, production far exceeded those maximum quantities, in the case of rape and sunflower seed for the Community of Ten and in the case of soya beans for the Community of Twelve. The Commission accordingly reduced the institutional prices by 10% of the target price, causing a reduction of aids.

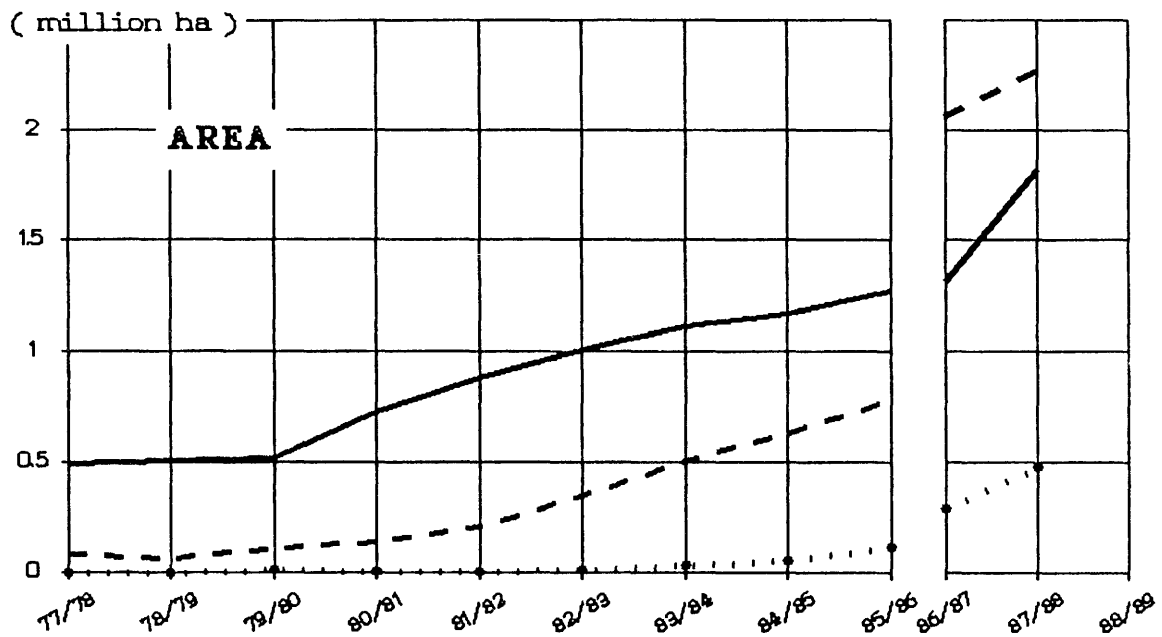
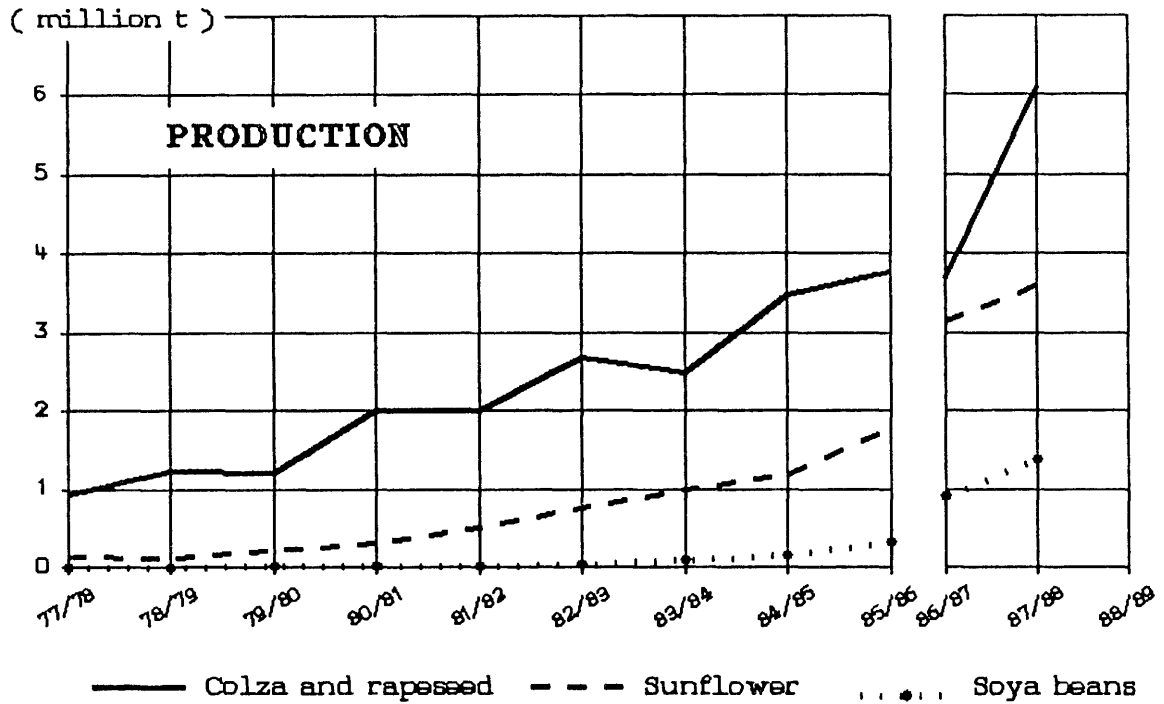
For the 1987/88 marketing year, the Council has extended the bonus paid on both the target price and the intervention price for "double-low" rapeseed. This measure was introduced to improve the quality of oilcake so that its use in feedingstuffs can be increased.

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OILSEEDS



Source : EC Commission, DG for Agriculture.

86/87 EUR 12 - 87/88 forecast

I. RAPESEED AND SUNFLOWER SEED

1. The 1986/87 marketing year

A. Production

In 1986 the Community area under rapeseed was 1 313 200 ha, which represents a further increase of 2% on the figure for 1984. In 1980 the area was less than 740 000 ha. The increase in 1986 was general except in France (- 18.5%) and the Netherlands (- 42.6%).

In France the drought that year prevented farmers, who had purchased great quantities of seed, from sowing in time. In the spring most of them turned to sunflower seed.

Average yields declined slightly to 28 quintals per hectare, though the change was not the same in all Member States. They rose in Belgium, Germany, the Netherlands and the United Kingdom but fell in Denmark, France, Ireland and Italy. Total production thus fell slightly from 3 737 000 t to 3 690 000 t.

World production of rapeseed was 19.7 millions tonnes as compared to 18.6 million tonnes in 1985. The Community's share of world production fell to 19% from 20% the previous year.

The area under sunflower seed in the Community also rose, to 2 060 400 ha from 1 809 500 ha in 1985, an increase of 13.9%. With the exception of Spain, this trend was evident in all the producer Member States: France (+ 41%), Greece (+ 58.5%) and Italy (+ 10.5%).

As yields also improved (+ 2.7%), Community production reached a new record of 3.15 millions t, up 16.7% on 1985.

World production of sunflower seed fell in 1986, owing largely to the poor harvest in Argentina, to 18.7 million t (from 19.6 million t in 1985), which enabled the Community to increase its share of world production from 14% to 17%.

B. Consumption

The demand for rape and sunflower seed depends on the demand for rapeseed and sunflower oil and cake; the latter is in turn determined by the overall demand for oil and oilcake and by the relationship between the prices of rape and sunflower oil and cake and the prices of alternative products. This being the case, two sets of consumption data will be given, one for oil and the other for oilcake.

(a) Oil

Consumption of rapeseed oil in 1986/87 fell slightly in the Community compared with 1985/86 (1 129 000 t as against 1 245 000 t). Sunflower oil consumption rose by 4.6% (1 419 000 t as against 1 357 000 t in 1985/86).

(b) Oilcake

Consumption of rapeseed cake in 1986/87 fell by 2% compared with 1985/86 (2 270 000 t as against 2 316 000 t). Sunflower cake consumption rose by 1.4% from 2 403 000 t to 2 436 000 t.

C. Trade and food aid

Imports of rapeseed into the Community rose from 404 000 t in 1985/86 to 523 000 t in 1986/87 while the increase in Community sunflower seed production brought imports down by 235 000 t to 123 000 t.

Exports of rapeseed amounted to 158 000 t, far above the 6 000 t exported in 1985/86.

Trade in rape and sunflower seed within the Community mainly involved imports into Germany, the Netherlands, Belgium and Luxembourg from France. Rapeseed is also exported from the United Kingdom to Germany.

During the 1986/87 marketing year, around 6 300 t of rapeseed oil and around 2 000 t of sunflower oil were exported as food aid to various countries in Africa, Latin America and Asia.

D. Prices

* Common prices

For the 1986/87 marketing year the Council maintained the target and intervention prices for rape and sunflower seed. However, the prices for sunflower seed were adjusted to take account of the higher oil content of the standard quality, which rose from 42% to 44%. The 1986/87 institutional prices are the following:

<u>rapeseed</u> :	target price:	46.41 ECU/100 kg
	intervention price:	42.15 ECU/100 kg
<u>sunflower seed</u> :	target price:	58.35 ECU/100 kg
	intervention price:	53.47 ECU/100 kg

The guarantee threshold system laid down for rape and sunflower seed did not operate with the anticipated effectiveness. The Council decided that a system of maximum guaranteed quantities similar to that applicable for cotton be introduced; if the maximum quantity is exceeded, there will be a corresponding reduction in the subsidy.

At the start of the marketing year, a forecast is made of the forthcoming harvest, and the subsidy, the export refund and the intervention price are adjusted according to the ratio between the estimated production and the maximum guaranteed quantity. The maximum quantities fixed for 1986/87 were 3.5 million t for rapeseed in the Community of Ten and 10 000 t for Spain and 1.7 million t for sunflower seed in the Community of Ten and 1.2 million t for Spain. The production estimates for rapeseed were 3.2 million t for the Community of Ten, 7 000 t for Spain and nil for Portugal. As the production estimates were lower than the maximum quantities, there was no reduction in the level of subsidies.

The estimated production of sunflower seed for 1986/87 was 1.93 million t in the Community of Ten, 800 000 t in Spain and 32 000 t in Portugal. The quantity for the Community of Ten exceeded the maximum guaranteed quantity and there was therefore a reduction of 2.918 ECU/100 kg in the subsidy. There was no reduction for Spain and Portugal.

* Market prices

- World market prices

World production of oilseeds continued to rise during 1986/87. Prices fell to some extent, but less than in previous years thanks to firm demand for oilcake. However, the market in oils, which is dependent to a large extent on soya bean oil, a by-product of oilcake production, continued to be sluggish. The downward trend in the dollar compared with the main European currencies persisted, which had the further effect of depressing prices mainly in terms of ECU.

- Community market

During the 1986/87 marketing year prices obtained by producers for both sunflower seed and rapeseed were in the main higher than the intervention price.

E. Market management

* Subsidy and refunds

The subsidy for rapeseed in the 1986/87 marketing year fluctuated between 26.86 ECU/100 kg at its lowest and 39.59 ECU/100 kg at its highest. The average subsidy was 34.01 ECU/100 kg. The export refund for the same period varied between 24 ECU/100 kg and 35.7 ECU/100 kg.

For sunflower seed the subsidy varied between 35.935 ECU/100 kg and 42.772 ECU/100 kg. The average subsidy was 40.1 ECU/100 kg. No export refunds were fixed for this product because of the Community shortfall.

* Intervention

During the 1986/87 marketing year, 32 651 t of sunflower seed were taken into intervention. This occurred in Portugal. The sunflower seed was sold during the year. No rapeseed was taken into intervention and the 150 t bought in during the previous year in Denmark were sold.

F. Budgetary expenditure

EAGGF guarantee expenditure on rape and sunflower seed amounted to 1 804 100 ECU in 1986. This was 84% more than in 1985. The appropriations allocated for 1987 are 1 665 000/ECU.

II. THE 1987/88 MARKETING YEAR

1. Short-term outlook

In the Community of Ten, recorded production of rapeseed in 1986/87 exceeded the maximum guaranteed quantity by approximately 180 000 t and forecasts for the 1987/88 marketing year indicate a substantial increase. Production is expected to reach 6.1 million t for rapeseed and 3.6 million t for sunflower seed. This situation vindicates the decisions adopted by the Council. These are to:

- reduce the target price and intervention price for rapeseed by 3%;
- maintain the same level of prices for sunflower seed but reduce the moisture content of the standard quality from 10% to 9%;
- define a buying-in price of 94% of the intervention price. The buying-in period is limited to the period 1 October to 31 May;
- reduce the monthly increments by 20% and fix their number at seven.

Furthermore, in accordance with the maximum guaranteed quantities system, the institutional prices and subsidies have been reduced by 10% of the target price for both rape and sunflower seed, except for Spain and Portugal.

The buying-in prices as a result of these measures are therefore as follows:

rapeseed:	Spain:	33.840 ECU/100 kg
	Portugal:	38.314 ECU/100 kg
	other Member States:	34.083 ECU/100 kg
sunflower seed:	Espagne:	37.290 ECU/100 kg
	Portugal:	50.262 ECU/100 kg
	Other Member States:	44.777 ECU/100 kg

Where applicable, those prices should be increased:

- by the bonus for "double-low" rapeseed of 2.5 ECU/100 kg
- by the monthly increments (from November to May) of 0.397 ECU/100 kg for rapeseed and 0.473 ECU/100 kg for sunflower seed.

2. "Double-low" rapeseed

The maximum glucosinolate level for "double-low" rapeseed was kept at 35 micromoles/gram of seed until the end of the 1988/89 marketing year.

II. SOYA BEANS

Community production of soya beans is rising dramatically from year to year. It was 160 000 t in 1984/85, 348 000 t in 1985/86 and 918 000 t in 1986/87. Estimated production for 1987/88 is 1 385 000 t. The Community soya crop, however, accounts for only a very small proportion of world production (slightly below 100 million/t) and in 1986/87 the Community imported 12.3 million t of soya beans and 11 million t of soya cake.

For the 1986/87 marketing year, the guide price was fixed at:

- 42.34 ECU/100 kg for Spain
- 57.58 ECU/100 kg for the other Member States.

The minimum price was fixed at:

- 35.43 ECU/100 kg for Spain
- 50.67 ECU/100 kg for the other Member States.

Aid for soya beans in the 1986/87 marketing year fluctuated between 39.286 ECU/100 kg and 42.319 ECU/100 kg with the average being 40.817 ECU/100 kg. The aid at the start of the 1987/88 marketing year was 33.615 ECU/100 kg.

EAGGF guarantee expenditure on soya beans amounted to 200.2 million ECU in 1986. The appropriations allocated for 1987 are 204 million ECU.

For the 1987/88 marketing year, the prices agreed by the Council represent a decrease of 3% in the guide price and of 3.4% in the minimum price, to which the consequences of the extension to this crop of the maximum guaranteed quantity system must be added. The Council set the maximum guaranteed quantity for soya beans at 1.1 million t.

The institutional prices are as follows:

- minimum price: 35.80 ECU/100 kg for Spain
48.94 ECU/100 kg for the other Member States
- guide price: 42.71 ECU/100 kg for Spain
55.85 ECU/100 kg for the other Member States.

As forecast production for 1987/88 exceeds the maximum guaranteed quantity by 285 000 t, the reduction in the amount of the aid is the maximum possible (10% of the guide price), i.e. 4.271 ECU/100 kg for Spain and 5.585 ECU/100 kg for the other Member States.

III. FLAX SEED

Two types of flax are grown in the Community: fibre flax which is grown mainly for the production of fibres but which also yields large quantities of seed, and seed flax cultivated solely for seed. Flax seed is used either as such (in food or feed), or crushed, in which case the resulting oil and cake are used in industry or as animal feed respectively.

With about 65 000 ha producing 65 000 t of seed in an average year, the cultivation of flax (1) accounts for only a very low proportion of the Community UAA and of world production of flax seed (5.0 million ha and 2.9 million t in 1986 according to the FAO, against 5.0 million ha and 2.5 million t in 1985).

This crop makes only a modest contribution to meeting the Community's large requirements, since imports in 1986 amounted to 476 000 t of flax seed (455 000 t of which came from Canada), 7 600 t of oil (7 100 t from Argentina) and 381 000 t of oilcake (272 000 t from Argentina and 45 000 t from the United States).

After falling steadily for several years the cultivation of seed flax picked up to a certain extent in the Community in 1985. In 1986 9 978 ha (17 250 t) were planted compared with 4 333 ha (7 060 t) in 1985, 1 991 ha in 1984, 2 790 ha in 1983 and 3 162 ha in 1982. Production has made great strides in the United Kingdom (6 808 ha in 1986 as against 3 130 ha in 1985) and in Denmark (1 779 ha as against 141 ha). However, in Italy (705 ha) and in France (600 ha), where the crop was once quite important, it is difficult to get planting going again. Trials are being conducted in Germany. The average yield in 1986 was 1 728 kg/ha in 1986 as against 1 629 kg ha the previous year. In the case of fibre flax both the total area and the yield fell in 1986 (59 200 ha and 885 kg ha, as against 75 600 kg ha and 929 kg ha in 1985) and the production of seed as a by-product of the fibre flax crop totalled only 52 390 t, compared with 70 000 t in 1985. At present Spain and Portugal produce practically no flax seed.

Areas under flax in the Community thus amounted to 69 178 ha in 1986, producing 69 636 t of seed. The average yield was therefore 1 000 kg/ha or almost twice the world average.

(1) Fibre flax and seed flax.

Community aid for flax seed consists of a subsidy equal to the difference between a guide price and the world market price. Flax seed and cake enter the Community without restriction or duty, but for imports of flaxseed oil duty is payable at the rate of 5% or 8%.

For the 1986/87 marketing year, the guide price was kept at 55.41 ECU/100 kg. The average world market price having been only 14.194 ECU/100 kg (as against 25.939 ECU/100 kg in 1985/86) the aid paid was 41.216 ECU/100 kg compared with 29.471 ECU/100 kg for 1985/86.

EAGGF guarantee expenditure on flax seed was 23.1 million ECU in 1986. EAGGF guarantee expenditure on flax seed is estimated at 21 million ECU for 1987 (0.1% of total expenditure by the Guarantee Section).

For 1987/88 the guide price is unchanged at 55.41 ECU/100 kg (it has been set at 47.77 ECU in the case of Spain). Although the possibility of flax being grown in Spain cannot be ruled out, the development of seed flax growing in the Community generally is being hampered by the fact that yields in most of the Community's production areas tend to be lower than those of other oilseeds.

FRESH FRUIT AND VEGETABLES1. INTRODUCTION

In the Community of Ten, production of fresh fruit and vegetables represents 12% of final agricultural production. The importance and tasks of the fresh fruit and vegetable sector in the enlarged Community are bound to increase as a result of the accession of Spain and Portugal, where fruit and vegetables occupy an essential place in the agricultural economy.

2. GENERAL SITUATION

During the 1986/87 marketing year total fresh fruit production in the Community of Ten rose by 10% compared with the previous year while citrus fruit production rose by 8%. Total production of fresh vegetables fell by 6%, while tomato production was down 21% on 1985.

For 1986/87 the institutional prices (basic price and buying-in price) were fixed so that the new ratios between the basic price and the buying-in price resulted in a fall in the average withdrawal prices for peaches, tomatoes, apricots, lemons, mandarins and sweet oranges, while the prices of other products remained stable or rose slightly.

Market prices were satisfactory, except for apples, mandarins and lemons, despite fluctuations according to product, market or period of the marketing year.

Reference prices were raised by around 3%, except for citrus fruit, where the increases were greater because of the gradual reduction in the "penetration premium".

Some countervailing charges were applied with greater frequency than in 1985/86.

The situation as regards intervention, which was worse for apples, citrus fruit and tomatoes than in 1985/86, was unchanged for other products and even improved for peaches and apricots.

Trade in vegetables, both within the Community and with non-member countries, was much the same in 1986 as in the previous year. The same applies to exports of fresh fruit. Imports of fresh fruit into the Community rose by 6%, however, while intra-Community trade in fresh fruit fell slightly by around 3%.

The production estimates for 1987/88 suggest that the trend will vary depending on the product: down for peaches, pears and apples, up for tomatoes, apricots and nectarines.

As regards institutional prices, the most important thing to bear in mind is the fact that the Council has decided to maintain the basic and buying-in prices at the level for the previous year, except for sweet oranges, lemons, apricots, mandarins and peaches for which the prices have been reduced.

It should also be borne in mind that, in accordance with the Act of Accession, the new Member States will not be applying all the mechanisms of the market organization in fruit and vegetables until the start of the second stage of the transitional period.

3. THE 1986/87 MARKETING YEAR

Both in Spain and Portugal, the fresh fruit and vegetable sector is the subject of transition by stages. Until the end of the first stage, therefore, the integrated market, i.e. the market to which the EEC market organization applies, is the Community of Ten.

It should be noted, however, that for the processing of oranges and lemons Spain and Portugal qualify under the Community aid system in accordance with the Act of Accession (period of conventional transition and limitation of aids to fixed quantities for Spain during the first four years following accession).

3.1 THE INTEGRATED MARKET

A. Production

(a) fresh vegetables

Production of vegetables harvested for sale was 29.6 million tonnes in 1986, 6.3% down on 1985.

This fall may be seen in Italy, Greece and France. Italian production of fresh vegetables, which accounted for 37.4% of the Community total, was down by around 11% while for Greece and France (with 12% and 17% respectively of the EEC output) the drop was 12% and 5%.

Community production of tomatoes in 1986 was 7.8 mio t. (- 21% compared with 1985).

The fall is of some importance in Greece and Italy (24%).

(b) fresh fruit

At 22.9 million tonnes, Community production of fresh fruit harvested for sale was up 10% in 1986 compared with 1985.

The situation by product was as follows:

- In the case of dessert apples (32% of Community fruit production in 1986), harvested production in 1986 was 16% up on 1985. The rise occurred in all Member States.
- In the case of dessert pears (10% of Community fruit production in 1986), the 1986 harvest was up by around 12% on 1985. However, the trend in production compared with the previous year varied according to Member State. While production rose steeply in Germany and Italy, it was steady or fell in the Member States.
- In the case of peaches (10% of Community fruit production in 1986) production in the Community of Ten rose by 2% on 1985. Output rose in Germany and Greece, but fell in France and Italy.
- In the case of table grapes (9% of Community fruit production in 1986) the 1986 harvest was up 20% on 1985. Output increased sharply in Greece and Italy but fell in the other Member States.
- In the case of citrus fruit (20.5% of Community fruit production in 1986) production rose in Italy and Greece by 3% and 27% respectively compared with 1985 but fell in France by 7%. In the Community as a whole, production was up 8% compared with 1985.

B. Internal consumption

Internal consumption of fresh fruit in the Community of Ten in 1986 was 19.2 million tonnes, excluding citrus fruit of which 7.5 million tonnes were consumed.

Internal consumption of vegetables amounted to 30.8 million tonnes.

(a) human consumption

In 1986 total per capita consumption of fruit in the Community of Ten amounted to 99 kg, up 7.6 % on 1985. However, consumption of citrus fruit remained stable (27.7 kg) while that of other fruit rose (71.3 kg compared with 64.5 kg). Human per capita consumption of vegetables was 114 kg in 1986, a 3% rise over 1985.

(b) animal consumption and industrial uses

These outlets are often only sporadic and industrial uses are for non-food purposes. The quantities of fruit and vegetables involved are appreciably less significant than wastage during marketing.

(c) self-sufficiency

The Community of Ten's self-sufficiency rate was around 96% for vegetables in 1986. The figure for non-citrus fruit was 83% and for citrus fruit 63%.

C. Trade

(a) trade with non-member countries

- fruit

In 1986 a total of 4.7 million tonnes of fresh fruit was imported into the Community, 6.8 % more than in the previous year. Citrus fruit accounted for 68% of fruit imports, with 3.2 million tonnes (oranges 1.7 million tonnes, lemons 0.3 million tonnes, grapefruit 0.38 million tonnes, clementines 0.50 million tonnes).

Imports of apples, which occupied second place, amounted to 0.51 million tonnes, up 6% on 1985.

Exports to non-member countries were down 12% at just over 0.97 million tonnes, including 0.17 million tonnes of apples, 0.19 million tonnes of lemons, 0.01 million tonnes of peaches and 0.02 million tonnes of oranges.

- vegetables

Imports of fresh vegetables from non-member countries amounted to 1.63 million tonnes (+ 4%) while exports reached 0.40 million tonnes (+ 8%).

(b) intra-Community trade

- fruit

Although the volume of intra-Community trade was less than what the Community imported from non-member countries, it still amounted to 3.2 million tonnes (slight fall of 3% on 1985).

Apples were the main product traded (1.1 million tonnes), followed by peaches (0.39 million tonnes) and oranges (0.3 million tonnes).

- vegetables

In the case of vegetables, on the other hand, intra-Community trade involved 3.1 million tonnes, about twice the quantity imported from non-member countries. Tomatoes were the main product traded within the Community (0.61 million tonnes).

D. Prices

(a) common prices

Basic prices and buying-in prices were fixed for the 1986/87 marketing year in such a way that the resulting average withdrawal prices at which producer groups buy back their members' unsold produce were 1% higher than in the 1985/86 marketing year for cauliflowers and aubergines, remained stationary for pears, table grapes and apples and fell by 7.5% for peaches and tomatoes, by 4% for apricots and by 2.5% for lemons, mandarins and sweet oranges.

In the case of Greece, basic prices and buying-in prices for 1986/87 were fixed by the Council to continue the gradual adjustment required by the Act of Accession. Common prices are applied in Greece for all products taken into intervention except tomatoes and peaches. For those two products the common regime will be applied in 1988.

Reference prices, which determine the minimum level of entry prices for a number of products imported from non-member countries, were increased in real terms by between 1.25% and 2% between 1985/86 and 1986/87 for tomatoes, peaches and artichokes. For broad-leaved endives, cabbage lettuces, plums and courgettes, the increase in real terms in 1986 was between 2 and 3%. Reference prices in 1986/87 for citrus fruit were up 6.98% and 6.09% on 1985/86 for lemons and clementines respectively. For mandarins and oranges, the reference prices were the same as those for the previous year.

(b) market prices

Fruit and vegetable prices fluctuate frequently and may 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 average figures collected for the pilot products in connection with the management of the system of basic and buying-in prices leads to the following conclusions:

- Apples (Golden Delicious, quality class I, 70 mm or over)

Average prices for the 1986/87 harvest were 15.6% down on the average prices recorded in 1985/86, mainly because production was up. Prices fell in all Member States.

The monthly analysis made throughout 1986/87 shows that apple prices were frequently below the basic price, in particular in the Netherlands and Belgium.

- Pears (various, quality class I, 60 mm or over/70 mm or over according to time of year)

The prices in 1986/87 were up in all Community countries except Belgium and Italy, where prices fell substantially. The average increase over the previous year was 2.9% with peaks of 12% in France and 18% in Greece. Ireland and Luxembourg do not have meaningful quotations for this product.

The monthly analysis showed that there was some fluctuation in prices. However, they were above the basic price at all times.

- Peaches (various, quality class I, 51/61 mm or 61/67 mm according to time of year)

In 1986, prices were 5.8 % higher than in 1985 in Greece, 10.9 % higher in France and 21.9% higher in Italy. The seasonal pattern was normal, however, and the monthly averages were above the basic price even in August when prices were at their lowest.

- Table grapes (various, quality class I)

Grape prices were 7.7% up on the French market but 10% down on the Italian market compared with the previous year. French prices were well above the basic price, whereas Italian prices fell below it (- 26%).

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

Prices in 1986/87 were 2.9% up on the previous marketing year in Greece and 7% up in Italy. Prices were below the basic price except in April and May.

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

The average price for mandarins was down on 1985/86 by 11.3% in Italy and 5.7% in Greece. Prices were below the basic price in December and January in Greece and from November to January in Italy but rose significantly in both countries in February (to above the basic price).

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

Average prices for lemons in 1986/87 were 37 % down on the previous year in Italy while they were 3.8% up in Greece. In Italy prices remained below the basic prices throughout the year and particularly from February onwards (-24%). In Greece prices were above the basic prices except in June and March.

- Cauliflowers (with leaves or trimmed according to time of year, quality class I)

Compared with the previous marketing year, average prices in 1986/87 were up 43% in Greece but down in all the other Member States. They also varied quite markedly from one Member State to another, ranging from 57 ECU/100 kg in Denmark to 20 ECU/100 kg in Italy, the average basic price being around 22 ECU/100 kg.

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

In 1986/87 market prices rose in all the Community countries compared with the previous year. Overall the rise was 3.9%. The monthly analysis, however, shows that daily prices were above the basic price in all the Member States except Italy, where they were below it in August and November. In the latter month prices were 52% below the basic price.

- Aubergines

Average Community prices were slightly lower than in 1985/86 (-4.5%). Prices were above the basic price, however, particularly in the Netherlands and the United Kingdom.

- Apricots

Compared with the previous year, average Community prices were up 5% in Greece and down 5.7% in Italy. However, prices were well above the basic price in both countries.

(c) world prices

The prices of fruit and vegetables - highly perishable products - are established more or less independently on the main markets. There are no real world markets for such products and consequently no world prices.

(d) consumer prices

In view of the large number of varieties, quality classes and sizes of fruit and vegetables, and in view of the wide differences in prices for an apparently identical product from one retailer to another, it is not possible to determine consumer prices for the various products.

E. Market management

(a) refunds

Export refunds were fixed during the 1986/87 marketing year for fresh sweet oranges, fresh mandarins, fresh lemons, table grapes, walnuts in shell, shelled almonds, shelled and unshelled hazelnuts, peaches, dessert apples and tomatoes.

These refunds, which varied according to product and were generally low, were fixed only for destinations which afforded real export outlets and only if there were export difficulties to be overcome. Greece was eligible for the same level of refunds as the Community of Nine except on peaches; here the refund was corrected in order to take account of the price difference.

(b) countervailing charges on imports

In 1986/87 countervailing charges applicable to products imported from non-member countries were imposed more frequently.

The countries of origin concerned are listed below:

- Cucumbers from Spain, the Canary Islands, Poland and Romania
- Tomatoes from Romania, Spain, the Canary Islands, Poland, Morocco, Bulgaria, Turkey and Albania
- Apples from Turkey, Poland, Portugal, Hungary and Chile
- Pears from Poland
- Peaches from Spain and Greece
- Some varieties of plums from Yugoslavia, Spain, Poland, Hungary and Romania
- Courgettes from Spain
- Cherries from Bulgaria
- Clementines from Morocco, Tunisia, Algeria and Cyprus
- Broad-leaved endives from Spain
- Apricots from Spain
- Table grapes from Turkey
- Oranges from Algeria
- Lemons from Israel, Uruguay, Turkey, Argentina, Australia, Cyprus, Spain and Morocco
- Artichokes from Spain, Egypt and Morocco
- Aubergines from Spain

(c) protective measures

No measures to restrict imports into the Community were taken during the 1986/87 marketing year.

(d) apples from the southern hemisphere

In view of the situation on the Community market for apples and the export forecasts of countries in the Southern hemisphere, the Commission requested the co-operation of exporting countries to avoid aggravating the situation. The Commission informed all the interested third countries of the level of exports which it would consider as compatible with the situation outlined, and which would allow for a normal development of the sales of Community production. In addition, the Commission requested co-operation with regard to administrative information on exports. With regard to internal matters it adopted a Regulation with the aim of obtaining speedy information from the Member States on imports. According to the initial statistical data, the overall quantity fixed does not appear to have been exceeded, and certain countries like Argentina and New Zealand have not even exported the quantities fixed. Only Chile has exceeded its reference quantities.

(e) intervention

- fruit

In 1986/87 intervention in respect of apples and pears involved 4.6% and 1.5% respectively of production harvested in the Community. For pears the situation is the same as for the previous year. For apples the higher withdrawals are mainly due to an increase in production (16%). Preventive withdrawals for apples, which at the beginning of the marketing year were subject to a limit of 286 000 tonnes, in fact only involved 105 000 tonnes.

Withdrawals of apricots were negligible (100 tonnes against 1 1500 tonnes in 1985/86).

Withdrawals of peaches affected the same percentage of harvested production in Greece and Italy as in the previous year, i.e. 28% and 14% respectively. In France the situation improved, as withdrawals fell as a percentage of production from 11% to 5%.

The quantities of table grapes withdrawn from the market were negligible.

Withdrawals of citrus fruit in Italy amounted to 365 000 tonnes of oranges, 288 000 tonnes of lemons and 202 000 of mandarins, i.e. 16%, 36% and 82% respectively of Italian production of the fruit in question.

This represents a deterioration compared with the previous year for all citrus fruit and in particular for mandarins, where the situation continues to worsen. In Greece the withdrawals situation is also bad since, while intervention was nil in 1985/86, it involved 9%, 10% and 26% of harvested production of lemons, mandarins and oranges respectively in 1986/87.

- vegetables

Provisional data for 1986/87 show that withdrawals involved negligible quantities of production harvested in the Community in the case of aubergines (0.3%) but higher quantities in the case of cauliflowers (5.8% against 0.9% in the previous year).

In the case of tomatoes, withdrawals are likely to represent 9% of total production harvested in the EEC (8.2% in 1985/86). Intervention in Italy should be around 593 000 tonnes, or 13% of production against 6% in 1985/86 and 0.06% in 1984/85. In France and Greece, withdrawals of tomatoes were 3% and 4.7% respectively of harvested production.

(f) measures to promote the marketing of Community citrus fruit
measures to promote the processing of oranges measures to assist
the marketing of products processed from lemons

The "penetration premiums" (financial compensation to promote the marketing of Community citrus fruit) were fixed at the levels below for 1986/87:

15.38 ECU per 100 kg net for oranges of the Moro, Tarocco, Ovale calabrese, Belladonna, Nevel and Valencia late varieties;

13.20 ECU per 100 kg net for oranges of the Sanguinello variety;

8.69 ECU per 100 kg net for oranges of the Sanguigno and Biondo comune varieties;

12.95 ECU per 100 kg net for mandarins;

1.97 ECU per 100 kg net for lemons.

The financial compensation was kept at the same levels as in the previous marketing year, except in the case of clementines and lemons. For clementines the penetration premium has been abolished and for lemons it is gradually disappearing under the amended "acquis communautaire".

Pursuant to 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 and the financial compensation payable to processors were fixed for 1986/87 at the levels shown in the table below:

ECU/100 kg net

Type of product	Minimum price			Financial compensation		
	SPAIN	PORTUGAL	OTHER MEMBER STATES	SPAIN	PORTUGAL	OTHER MEMBER STATES
Oranges of the following variety:						
<u>Biondo comune</u>						
class I)						
class II)	9.73	6.98	11.32	4.92	2.17	6.51
class III)						
<u>Class III or mixed oranges of the following varieties:</u>						
Moro and Tarocco	15.07	10.81	17.53	10.21	6.00	12.72
Sanguinello	13.99	10.04	16.28	9.18	5.23	11.47
Sanguigno	11.83	8.50	13.78	7.02	3.69	8.97

Aids for 1986/87 for the marketing of processed lemon products were fixed as follows:

ECU/100 kg Net

	SPAIN	PORTUGAL	OTHER MEMBER STATES
- minimum price to producers	11.21	11.76	20.03
- financial compensation to processors	2.86	3.41	11.68

F. Budgetary expenditure

EAGGF Guarantee Section expenditure on fresh fruit and vegetables amounted to 556.8 million ECU in 1986, i.e. 2.6% of total EAGGF Guarantee Section expenditure. It can be broken down into 65 million ECU for refunds, 338 million ECU for intervention, 27 million ECU for penetration premiums for citrus fruit and 126.8 million ECU for financial compensation to assist the processing of citrus fruit.

3.2 THE ENLARGED COMMUNITY MARKET - SPECIAL PROVISIONS CONCERNING SPAIN AND PORTUGAL

Spain is a major producer of fruit and vegetables. In 1986 it produced 24% of all fruit, 44% of citrus fruit and 22.5% of vegetables produced in the Community of Twelve. Portugal's share is smaller; Portugal accounts for 2.2% of Community fruit production and 4.7% of Community vegetable production.

The organization of the market in fresh fruit and vegetables in Spain and Portugal at the time of accession was such that a special two-stage transition procedure extending over ten years in all was adopted for applying the EEC market organization in those two Member States. The first stage, which lasts for four years in the case of Spain and for five years (which can be reduced to three) in the case of Portugal, is devoted to carrying out the necessary restructuring organization. The internal market organization in force in the period prior to accession is retained, with some modifications. Spain and Portugal are also adjusting their trade arrangements in accordance with the Act of Accession. There are quantitative restrictions on imports of some sensitive products. The Community of ten for its part is dismantling the customs duties it applies to imports from the new Member States but the measures at the frontiers, such as the application of reference prices, remain in force with some modifications;

The second stage will run until the end of the transitional period and will comprise the same elements as the conventional transition applied in other sectors (alignment of prices and aids, etc.).

For the first stage of the transitional period the Commission, in conjunction with the Spanish and Portuguese authorities, has drawn up specific action programmes which are now being implemented. One of the projects under way is the introduction of compulsory standards for the fruit and vegetables covered by Community rules.

Spain has organizations within the meaning of Community rules and has already begun the process of applying for Commission recognition of a number of groups, as provided for in the Act of Accession.

Since August 1986 Spain has been forwarding regularly to the Commission the prices recorded on Spanish markets for products covered by Regulation (EEC) No 1035/72.

The Act of Accession provides for Spain and Portugal to apply a prices and aids discipline. In this connection it should be noted that the Spanish authorities have fixed institutional prices for apples, pears, tomatoes, aubergines, cauliflowers and lemons.

They carried out withdrawals of lemons in 1986/87.

4. THE 1987/88 MARKETING YEAR - SHORT-TERM OUTLOOK

4.1 PRICES AND AIDS

A. Prices

For 1987/88 the Council has decided to keep basic prices at the same level as in the previous year for table grapes, apples, pears, aubergines, tomatoes and cauliflowers. In the case of cauliflowers, however, account is now taken, for May and from November to April, of the "trimmed" form of presentation by the application of a "trimmed"/"with leaves" factor to the price of the pilot product "with leaves". For sweet oranges and lemons, the basic price is reduced by 2.5%. For apricots, mandarins and peaches, the basic price is 5% down on the previous year.

The Council has also fixed the amounts of the "penetration premiums" to assist the marketing of Community produce:

- 15.38 ECU per 100 kilograms net for oranges of the Moro, Tarocco, Ovale calabrese, Belladonna, Navel and Valencia late varieties
- 13.20 ECU per 100 kilograms net for oranges of the Sanguinello variety
- 8.69 EUC per 100 kilograms net for oranges of the Sanguigno and Biondo comune varieties
- 12.95 ECU per 100 kilograms net for mandarins.

Starting from the 1987/88 marketing year, there are no more "penetration premiums" for lemons. The Council has also amended the basic Regulation (EEC) No 1035/72 to introduce an intervention threshold mechanism for tomatoes, with a penalization system if the threshold is exceeded.

As part of the prices package, it was agreed that the Commission would make proposals for regulations:

- to include clementines and satsumas in the basic and buying-in prices mechanism with a penalization system as from the next citrus fruit marketing year;
- to include nectarines in the basic and buying-in prices mechanism with a penalization system as from the next marketing year.

As regards the new conversion factors to be applied to the buying-in price in the fruit and vegetables sector, adopted by the Commission in November 1986, it was agreed during the 1987/88 price review that the Commission would take the measures necessary so that the factors relating to sizes and quality classes for tomatoes, pears, apples, peaches and oranges were fixed for 1987/88 at a level corresponding to 50% of the difference between the factors fixed previously and the factors provided for in Regulation (EEC) No 3587/86 with not factor exceeding 1. It was also decided that the variety factor would be fixed at 1 for tomatoes of the San Marzano variety and at 0.85 for other elongate tomatoes and for pears of the Passe Crassane variety. For 1988/89 the balance of the above mentioned difference will be eliminated.

B. Aids

The aids for the processing of oranges (Regulation (EEC) No 2601/69) and lemons (Regulation (EEC) No 1035/77) have been fixed as follows for 1987/88:

- Oranges

ECU/100 kg net

Product	Minimum price			Financial compensation		
	SPAIN	PORTUGAL	OTHER MEMBER STATES	SPAIN	PORTUGAL	OTHER MEMBER STATES
Oranges of Biondo comune variety						
class I)						
class II)	9.89	7.62	11.20	5.08	2.81	6.39
class III)						
Class III or mixed oranges of the following varieties:						
Moro, Tarocco and Sanguinello	13.12	10.11	14.86	8.31	5.30	10.05
Sanguigno	10.21	7.88	11.57	5.04	3.07	6.76

As part of the 1987/88 prices package, it was agreed that the Commission would make proposals for the granting of aid for the processing in the Community of up to 3 000 tonnes of raw material of the Shamouti variety of oranges and for the processing in Spain of a total of 10 000 tonnes of raw material of the Cadenera, Castellana and Macetea varieties in 1987/88.

- Lemons

ECU/100 kg Net

	SPAIN	PORTUGAL	OTHER MEMBER STATES
- Minimum price	12.36	12.81	19.53
- Financial compensation	4.51	4.96	11.68

4.2 OUTLOOK FOR 1987/88

The latest figures available concerning production in 1987 reveal trends which vary depending on the product and the Member State. A slight increase of around 3% is expected in tomato production both in the Community of Ten and in the Community of Twelve, compared with the previous year which showed a 10% fall. Production of peaches should be 4% down in the Community of Ten and stable in the Community of Twelve. Compared with the previous year, pear production is expected to fall by 3% in the Community of Ten while rising by 4% in the Community of Twelve. The trend in apple, nectarine and apricot production is expected to be the same for the Community of Ten and for the Community of Twelve, i.e. -10%, + 6% and +7% respectively.

It is difficult to identify a precise trend in producer prices at this stage of the marketing year.

As regards the application of reference prices in 1987/88, countervailing charges have been imposed as frequently as in 1986/87 on products imported from non-member countries, and this is true for all products subject to reference prices.

5. CONCLUSION

In the case of vegetables - most of which are annuals - the rapid succession of crops and the use of fixed or movable means of weather protection make for flexibility and enable growers to adapt production promptly to demand.

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

In the case of many fruits, too, analysis of production trends over a relatively long period shows a certain stability, albeit with considerable fluctuations from one season to another. Apple production in the Community is a typical example of this. For some fruits such as lemons, clementines and nectarines, however, production is undergoing major development.

PROCESSED FRUIT AND VEGETABLES1. INTRODUCTION

Over the last ten years both production and trade in the processed fruit and vegetable sector have expanded considerably.

The aid system set up for certain products in 1977 was modified in March 1984 by the Council, with the introduction of a system of guarantee thresholds. As a result of increased production of processed tomato products, it was decided to limit aid to the threshold quantities.

2. GENERAL SITUATION

In 1986, production of processed fruit and vegetables receiving production aid was approximately 28% below the 1985 figure. The aided production for 1985 had been 21% below the 1984 figure.

Minimum prices to producers for processed fruit and vegetables went down partly as a result of the basic and buying-in prices fixed by the Council and partly on account of the overall trend of Community production in the last few years.

The continuing upward trend of production, particularly of processed tomato products, caused the Council in 1985 to further restrict Community aid to certain quantities. In 1985, production of processed tomato products showed a decrease of 24.6% on 1984 production and, in 1986, a decrease of 31.1% on 1985 production. Between 1984 and 1986 this represents a decreased production of 48% (Community of Ten).

3. 1986/87 MARKETING YEAR

A. Production

In the Community of Twelve, Italy is by far the largest producer of processed fruit and vegetable products; in the case of peaches and processed tomato products, Italy accounted for 59.7% and 44.7% of the fresh peaches and tomatoes used by the Community processing industry in 1986/87. In second place, Greece accounted for 36.7% of peaches and 14.4% of tomatoes used by the processing industry. Spain and Portugal accounted for 9.8% and 11.1% of tomatoes used for processing respectively, and 13.4% and 2.1% of peaches.

Italy and France are the main producers of pears in syrup (accounting for 68.3% and 26.1% respectively of Community production). Germany alone accounts for 61.7% of processed sour cherries produced in the Community.

Greece produces nearly all the Community's dried grapes and dried figs. Processed pineapple products are produced almost entirely in the French overseas departments (Martinique).

Community production of fruit and vegetables receiving aid for processing is shown in the table on the following page (Table 1).

Production of processed tomato products fell by 31.1% between 1985 and 1986 for the Community of Ten, and by 30.9% for the Community of Twelve.

In the case of fruit in syrup, only sour cherries showed an increase in production between 1985 and 1986; production of other fruit in syrup for which Community aid is limited to certain quantities decreased over the same period by between 9.6% in the case of peaches in syrup and 44.2% in the case of bigarreau cherries.

TABLE 1: PROCESSED FRUIT AND VEGETABLE PRODUCTS

PROCESSED PRODUCTS	Community of Ten				% Change 1986/87 1985/86	Community of Twelve 1986/87	Community of Twelve 1986/87
	Production		(tonnes of fresh product used)				
	1984/85	1985/86	1986/87	1985/86			
1) Tomatoes							
Tomato concentrate	4.900.468	3.999.508	2.616.815		- 34,6	5.207.760	3.476.519
Whole peeled tomatoes	1.799.955	1.091.486	790.499		- 27,6	1.245.878	892.530
Other tomato products	737.247	517.294	457.601		- 11,5	622.203	520.052
Total tomatoes	7.437.670	5.608.288	3.864.915		- 31,1	7.075.841	4.889.101
2) Fruit in syrup							
Peaches in syrup	371.755	489.959	442.804		- 9,6	556.644	513.195
William pears in syrup	87.842	76.449	62.752		- 17,9	115.453	64.993
Bigarreau cherries in syrup	21.666	17.702	9.878		- 44,2	22.955	11.859
cherries in syrup	50.940	46.769	48.666		+ 4,0	46.769	48.666
Total fruit in syrup	532.203	630.879	564.100		- 10,6	741.821	638.713
3) Dried fruit							
Prunes	44.438	27.152	36.071		+ 32,8	(3) 33.000	(3) 33.000
Dried grapes	146.000	158.000	158.000		-	(3) 165.000	(3) 165.000
of which:							
sultanas	78.000	90.000	90.000		-	93.000	(3) 93.000
currants	68.000	68.000	68.000		-	69.000	(3) 70.000
moscatel grapes	-	-	-		-	3.500	(3) 3.500
Dried figs	(1) 28.000	(1) 12.941	(2) 12.000		- 7,0	(3) 22.900	(3) 22.900
Total dried fruit	218.438	198.093	206.071		+ 4,0	(3) 221.400	(3) 221.400
4) Pineapples							
	24.039	26.820	22.939		- 14,0	(3) 27.000	(3) 27.000
Total products receiving aid	8.212.350	6.464.080	4.658.025		X	X	X

Source : Directorate-General for Agriculture, Commission of the European Communities.

- (1) Total production.
- (2) Production receiving aid.
- (3) Estimate.

Dried fruit production in 1986 fell overall by 7% with production of sultanas and currants, for which guarantee thresholds have been fixed, remaining stable.

Production of processed pineapple products fell by 14.5% between 1985 and 1986.

B. Trade

Figures on trade are given in Table 2 on the following page. Generally speaking, intra-Community trade in processed fruit and vegetables increased by about 7% per year between 1984 and 1986.

Intra-Community of Twelve trade in tomato concentrate and peeled tomatoes taken together increased by 3.8% between 1985 and 1986, and whereas exports of these products to non-member countries rose by 14.4% between 1984 and 1985 they fell by 17.3% between 1985 and 1986.

Between 1985 and 1986 there was an increase in intra-Community trade in peaches in syrup (+ 1.4%), cherries in syrup (+9.3%) and pineapples in syrup (+13.6%). Over the same period, there was a fall of about 18% in intra-Community trade in prunes and a fall of 4.9% in pears in syrup. Trade in dried grapes remained stable.

Imports from non-member countries are generally stable. The main imported products in 1986 were dried grapes other than currants (44% from Turkey and 22% from the United States), prunes (85% from the United States), processed pineapples (20% from Kenya and 27% from Thailand), pears and peaches in syrup (51% and 93% respectively from South Africa). With 94% of Community imports, China was the main supplier of mushrooms preserved in brine.

TABLE 2: PROCESSED FRUIT AND VEGETABLE PRODUCTS - TRADE

PRODUCTS	1984				1985				1986			
	INTRA		EXTRA		INTRA		EXTRA		INTRA		EXTRA	
	IMPORT.	EXPORT.	IMPORT.	EXPORT.	IMPORT.	EXPORT.	IMPORT.	EXPORT.	IMPORT.	EXPORT.	IMPORT.	EXPORT.
Vegetables (whether or not cooked) preserved by freezing (07.02)	626,2	47,1	853,9	60,7	137,0	894,8	112,9	65,4				
Vegetables preserved in brine (07.03)	28,6	7,9	28,9	8,9	20,6	32,1	27,1	8,2				
Dried vegetables (07.04)	19,5	36,3	21,6	24,4	35,8	26,4	34,0	23,3				
Sub-total	674,3	154,7	904,4	94,0	193,4	953,3	174,0	96,9				
Fruit (whether or not cooked) preserved by freezing (08.10)	91,2	7,6	101,2	8,1	137,5	117,4	157,3	9,6				
Fruit provisionally preserved (08.11)	35,5	25,8	31,7	13,9	19,6	33,5	19,3	13,7				
Dried fruit (08.12) and peel of citrus fruit (08.13)	28,0	11,4	29,9	7,8	50,3	26,5	50,1	7,2				
Sub-total	154,7	218,3	162,8	29,8	207,4	177,4	226,7	30,5				
Vegetables prepared or preserved:	70,2	65,0	74,1	42,4	61,1	82,0	48,8	43,1				
- 20.01	1 486,6	189,1	1 479,5	867,1	189,8	1 606,8	212,1	744,2				
Fruit prepared or preserved:	0,5	0,2	0,3	0,2	0,1	0,3	0,1	0,4				
- 20.03	26,0	1,8	24,8	4,7	1,9	25,1	2,0	4,7				
- 20.04	94,5	9,8	91,5	41,4	9,1	97,9	8,7	38,6				
- 20.05	667,2	435,3	684,3	177,7	424,8	697,2	464,0	145,7				
- 20.06												
Fruit juices:	679,3	529,4	692,6	196,6	489,7	753,6	674,1	176,3				
Sub-total	3 024,3	1 230,6	3 047,1	1 330,1	1 176,5	3 262,9	1 409,8	1 153,0				
TOTAL	3 853,3	1 603,6	4 114,3	1 453,9	1 577,3	4 393,6	1 810,5	1 280,4				

SOURCE : EUROSTAT - NIMEXE

TABLE 3

	1 000 t						% TAV	
	1983/84	1984/85	1985/86	1983/84	1984/85	1985/86	1983/84	1984/85
00								
01	4.5.4.7	Market balance						
02		- processed tomatoes						
03		- processed peaches						
04								
05								
06								
07								
08								
09								
10	1							
11								
12								
13		Processed tomatoes						
14								
15		Sales by commercial producers	6670	8971	7038		34,5	-21,5
16		Imports	122	133	89		9,0	-33,1
17		Exports	3148	3069	3248		-2,5	5,8
18		Intra-EC trade	1486	1601	1552		7,7	-3,1
19		Change in stocks	-591	-40	X		X	X
20		Internal use	4253	5073	3899		19,3	-23,1
21		of which:						
22		- animal feed losses (market)	0	0	0		X	X
23		- human consumption (1)	4253	5073	3899		19,3	-23,1
24		Human consumption (kg/head)	13,3	15,8	11,8		18,8	-25,3
25		Degree of self-supply	156,8	176,8	180,5		12,7	2,1
26								
27								
28								
29		Processed peaches						
30								
31		Sales by commercial producers	587	602	624		2,5	3,6
32		Imports	76	27	30		-64,5	11,1
33		Exports	143	103	102		-28,0	-1,0
34		Intra-EC trade	126	134	148		6,3	10,4
35		Change in stocks	0	0	0		X	X
36		Internal use	513	526	552		2,5	4,9
37		of which:						
38		- animal feed losses (market)	16	14	0		12	-
39		- human consumption (1)	513	526	552		2,5	4,9
40		Human consumption (kg/head)	1,6	1,6	1,6		-	-
41		Degree of self-supply	114,4	114,4	113,0		-	-1,2
42								
43								
44								

45 Source : Eurostat.
 46 (1) According to market balance.
 47 * provisional

C. Consumption and self-sufficiency (Table 3)

The Community of Ten is more than self-sufficient in processed tomato products, as it attained a rate of 180.5% in 1985/86. The rate for processed peaches was 113%. The corresponding figures for 1984/85 were 176.8% and 114.4% respectively.

D. Prices

(a) Basic data

The common organization of the internal market in processed fruit and vegetable products is based on payment of a minimum price to producers and aid for processing.

Limits on the quantities eligible for aid were laid down when the aid system was introduced for bigarreau and morello cherries and Williams pears.

As early as 1982, the Council introduced guarantee thresholds for tomato concentrate and whole peeled tomatoes but did not specify what steps should be taken if they were exceeded. In 1984, guarantee thresholds were fixed at the following levels:

- 2 987 850 tonnes for tomato concentrate;
- 1 307 150 tonnes for whole peeled tomatoes;
- 405 000 tonnes for other processed tomato products; (in weight of fresh tomatoes utilized)

and for dried grapes:

- 65 000 tonnes for currants (70 000 tonnes from 1986/87);
- 93 000 tonnes for sultanas.

On the same occasion it was decided that if the thresholds for tomato products were exceeded the level of aid for the subsequent marketing year would be reduced automatically in proportion to the amounts by which the threshold quantities had been exceeded. If the thresholds for dried grapes were exceeded, the minimum price for the subsequent marketing year would be reduced. In both cases, overruns were to be calculated on the basis of average production in the three marketing years preceding the year for which the aid or the minimum price was to be fixed.

As there has been a spectacular increase in the production of processed tomato products in recent marketing years, far in excess of the guarantee thresholds, the Council decided in 1985 that for a limited period of three marketing years, aid would be granted solely in respect of the threshold quantities which would be shared between the producer Member States and categories of processed product.

(b) Aid levels and minimum prices (1)

For many products the aid was lower in 1986/87 than for the previous marketing year. For peaches in syrup the aid was down by 25%, for dried grapes down by 21% and for figs by 8%.

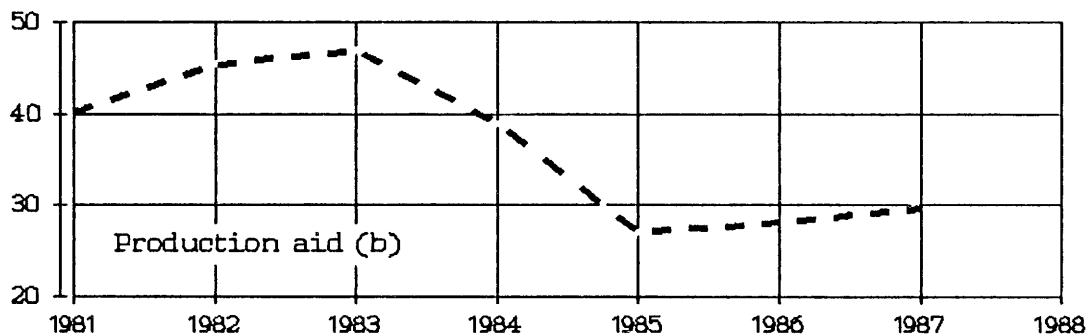
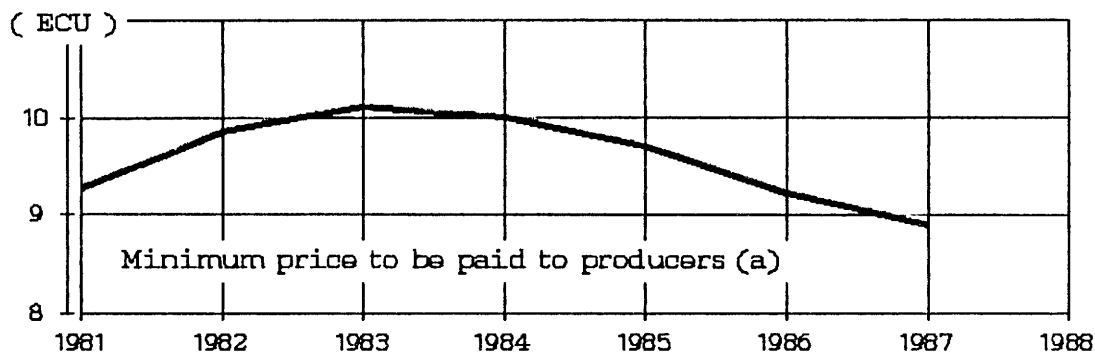
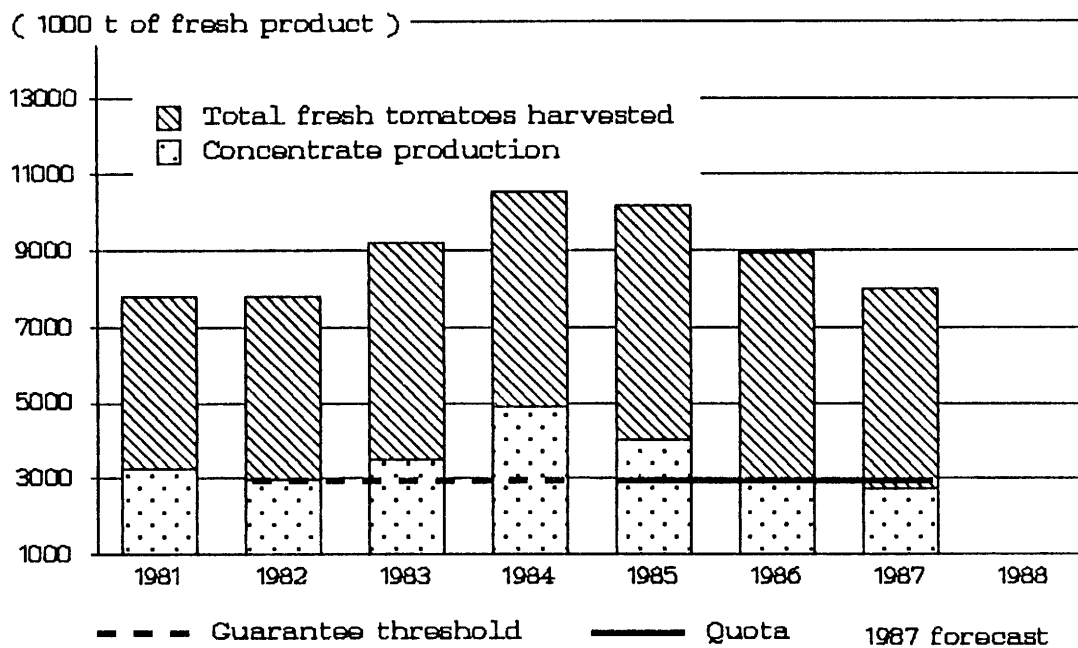
In view of the trend in the market prices of different tomato-based products and the effect caused by exceeding the guarantee thresholds the aid for tomato concentrate was increased by 4.66% but was reduced by percentages from 18.75% to 0.91% for the other tomato-based products.

Aid was increased for pears (8%), cherries (approx 2%) and pineapples (22%) because of the trend in third country prices.

For the aid levels and minimum prices of Greek, Spanish and Portuguese products account was also taken of the rate of alignment laid down in the Acts of Accession.

(1) See Tables 4 and 5 in the section entitled "1986/87 marketing year".

TOMATO CONCENTRATE PRODUCTION EUR - 10



Source : EUROSTAT and EC Commission, DG for Agriculture

(a) per 100 kg of fresh product

(b) per 100 kg of finished product, from 1981 to 1983 : inc. immediate packings , from 1984 to 1986 : net

The minimum prices payable to producers for currants, sultanas, figs and pineapples were maintained at the 1985/86 level but were reduced for all other products, from 3% in the case of prunes to 10% in the case of peaches.

E. Management of the market

(a) Minimum import price for dried grapes

The Community introduced a minimum import price for dried raisins in view of the market difficulties caused by low-price imports. If prices fall below the minimum level, a countervailing charge is applied, which varies according to the difference between the price recorded at the frontier and the minimum price.

In 1986/87 the minimum import price was 1 108.8 ECU/tonne for dried grapes other than currants and 1 059.87 ECU/tonne for currants.

(b) Protective measures

In 1985 and 1986, protective measures were applied to imports of certain processed morello cherries following the marked deterioration of the Community market caused by massive imports at very low prices from non-member countries.

Protective measures were also introduced early in 1986 for provisionally preserved raspberries but were not renewed when they expired in December 1986.

(c) Export refunds

In March 1986, in accordance with the rules laid down in the Act of Accession of Spain and Portugal, the system of refunds was extended to the new Member States, taking account, where necessary, of the prices of the products concerned in the two countries.

Tomato concentrate (heading ex 20.02 C) was added to the list of products eligible for export refunds for the period from February 1987 to May 1987. This measure was introduced for a limited time to promote disposal of the large stocks of concentrate held by processors.

F. Budgetary expenditure

EAGGF Guarantee Section expenditure for processed food and vegetables amounted to 429.2 million ECU in 1986, or 1.9% of all Guarantee Section expenditure. 250.4 million ECU was paid as aid for tomato products, 160.5 million ECU as aid for fruit (1) and 6.3 million ECU for pineapples. In 1987, expenditure is estimated at 501 million ECU, or 2.18% of EAGGF Guarantee Section expenditure.

4. 1987/88 MARKETING YEAR - OUTLOOK IN THE SHORT TERM

4.1 MINIMUM PRODUCER PRICES AND AIDS (see Tables 4 and 5)

For dried grapes, dried figs and pineapples the minimum prices payable to producers have been maintained at the same levels as for the 1985/86 and 1986/87 marketing years. For all other products these prices have been reduced by between 3.5% and 8%.

The aid for cherries was fixed at zero. Reductions of between 1.38% and 9.47% were realised in the aids fixed for peaches in syrup, and for certain tomato based products (see table 4). Despite reductions in minimum prices and processing costs, trends in third country prices resulted in increases in aid for tomato concentrate (5.2%), tomato juices (4.64% and 4.65%), prunes (10.71%) and figs (11.51%). Increases of 0.06% and 0.48% were fixed for pears and dried grapes respectively.

Aid for pineapples, for which there has been a sharp drop in world prices, was increased by 43.8%.

Aids and minimum prices for Spain and Portugal were fixed in accordance with the rules laid down in the Act of Accession.

(1) Including dried grapes and dried figs.

TABLE 4 : PROCESSED FRUIT AND VEGETABLE PRODUCTS

Aid

PRODUCT	ECU/100 kg net												Percentage change 87/88 86/87
	84/85			85/86			86/87			87/88			
	EUR 9	Greece	EUR 9	Greece	EUR 9	Greece	Spain	Portugal	EUR 10	Spain	Portugal	EUR 10	
Tomato concentrate	30,98	30,87	27,-	23,88	28,258	25,981	15,731	18,428	29,727	17,270	19,441	5,20	
"San Marzano" whole peeled and whole peeled frozen tomatoes	15,21	9,16	12,41	8,31	11,746	8,733	3,917	-	11,584	3,566	-	- 1,38	
"Roma" whole peeled and whole peeled frozen tomatoes	11,21	6,68	7,59	6,32	8,642	6,808	4,119	2,361	8,227	3,262	1,848	- 4,80	
Peeled and frozen tomatoes, not whole	7,06	4,21	4,79	3,32	3,892	3,066	2,471	1,417	3,700	2,461	1,168	- 4,94	
Tomato juice (7 - 8% CCT heading (8 - 10% No 20.07)	10,58	8,38	6,85	6,05	6,300	5,793	4,068	4,766	6,593	4,466	5,028	4,65	
Tomato juice (CCT-heading (3,5 - 5% (5 - 7%	12,69	10,05	8,22	7,26	7,560	6,951	4,882	5,719	7,911	5,360	6,033	4,64	
Tomato juice (CCT-heading (3,5 - 5% (5 - 7%	15,51	12,29	10,04	8,88	9,240	8,496	5,967	6,990	9,670	6,551	7,374	4,65	
Tomato juice (CCT-heading (3,5 - 5% (5 - 7%	6,35	6,35	3,56	3,56	3,276	3,276	2,116	2,478	3,428	2,323	2,614	4,64	
Tomato flakes	136,10	107,78	88,08	77,93	81,064	74,532	52,346	61,321	84,829	57,467	64,692	4,65	
Peaches in syrup	22,23	13,18	19,50	12,46	14,625	9,482	10,553	14,625	14,363	11,242	14,363	- 1,79	
Prunes	59,36	59,36	52,11	52,11	51,938	51,938	21,940	-	57,501	33,753	-	10,71	
William pears in syrup	18,51	17,92	17,14	17,14	18,520	18,520	3,549	2,872	18,531	6,631	6,093	0,06	
Cherries: Bigarreau (1) Morello Other	14,20	13,-	16,27	16,27	(16,585	16,585	(1,987	(16,585	0	0	0	-	
Sultanas	75,55	75,55	66,03	66,03	51,972	51,972	-	-	52,224	-	-	0,48	
Dried figs, quality C	39,95	39,95	35,46	35,46	32,505	32,505	32,505	32,505	36,247	36,247	36,247	11,51	
Pineapples			51,07		62,505	62,505	62,505	62,505	89,884	89,884	89,884	43,80	

(1) Stoned.

TABLE 5 : PROCESSED FRUIT AND VEGETABLE PRODUCTS

Minimum prices

PRODUCT	Minimum price in ECU/100 kg fresh product												Percentage change 87/88 86/87		
	84/85			85/86			86/87			87/88					
	EUR 9	Greece	EUR 9	Greece	EUR 9	Greece	Spain	Portugal	EUR 10	Spain	Portugal	EUR 10			
Tomato concentrate	10,0238	8,3052	9,72	8,61	9,234	8,707	5,358	5,814	8,911	5,794	6,161	8,911	5,794	6,161	- 3,5
"San Marzano" whole peeled and whole peeled frozen tomatoes	16,7597	14,3540	16,26	14,70	15,447	14,706	7,939	-	14,752	8,776	-	-	-	-	- 4,5
"Roma" whole peeled and whole peeled frozen tomatoes	12,7630	10,7035	12,38	11,05	11,761	11,129	7,413	6,175	11,349	7,853	6,857	11,349	7,853	6,857	- 3,5
Peeled frozen tomatoes, not whole	10,5520	8,8518	10,24	9,14	9,472	8,963	6,935	5,729	8,911	6,922	5,977	8,911	6,922	5,977	- 5,9
Tomato juice (CCT heading No 20.07)	10,0238	8,3052	9,72	8,61	9,234	8,717	5,358	5,814	8,911	5,794	6,161	8,911	5,794	6,161	- 3,5
Tomato juice (7 - 8% (8 - 10% (10 - 12%	10,0238	8,3052	9,72	8,61	9,234	8,717	5,358	5,814	8,911	5,794	6,161	8,911	5,794	6,161	- 3,5
Tomato flakes	12,7630	10,7035	12,38	11,05	11,761	11,129	7,413	6,175	11,349	7,853	6,857	11,349	7,853	6,857	- 3,5
Peaches in syrup	35,2935	29,9795	34,76	31,27	31,284	29,714	26,725	31,284	28,781	25,286	28,781	28,781	25,286	28,781	- 8,00
Prunes	172,19	172,19	172,19	172,19	167,024	133,609	133,609	-	158,673	132,222	-	158,673	132,222	-	- 4,99
William pears in syrup	33,8453	33,8453	33,34	33,34	31,673	17,097	17,097	16,438	30,215	18,629	18,105	30,215	18,629	18,105	- 4,60
Cherries: Bigarreau (1) Morello Other	58,341	58,341	58,341	58,341	58,341	58,341	40,812	58,341	55,424	41,547	55,424	55,424	41,547	55,424	- 4,99
Sultanas	133,17	133,17	133,17	133,17	133,170	-	-	-	133,170	-	-	133,170	-	-	0
Dried figs, quality C	67,65	67,65	67,65	67,65	67,650	67,650	67,650	67,650	67,650	67,650	67,650	67,650	67,650	67,650	0
Pineapple			31,64	31,64	31,640	31,640	31,640	31,640	31,640	31,640	31,640	31,640	31,640	31,640	0

(1) Stoned.

4.2 THE COMMUNITY MARKET OF TWELVE - SPECIAL PROVISIONS FOR SPAIN AND PORTUGAL

The Act of Accession of Spain and Portugal makes provision for a "classical" transition for the sector.

From the 1986/87 marketing year, the new Member States are eligible for Community aid as provided for by Regulation (EEC) No 426/86 where such products are produced in those countries. The aids are calculated on the basis of the costs of the raw material which the Spanish and Portuguese processors must pay, as compared with the costs paid by processors in the Community of Nine.

Payment of the minimum price to producers is a prerequisite for processors to be eligible for aid processing in respect of quantities covered by contracts between producers and processors.

The difference between the minimum prices in the new Member States and in the Community of Nine determines the level of aid applicable. The minimum prices in the new Member States are to be gradually aligned on the Community minimum price in the course of the transitional periods.

For the first four years, the Act of Accession limits the quantities eligible for Community aid in Spain and Portugal to the following:

1) <u>Tomato products</u>	<u>Spain</u>	<u>Portugal</u>
Concentrate	370 000 t	685 000) tonnes
Peeled tomatoes	209 000 t	9 600) of raw
Other products	88 000 t	137) material

2) Products in syrup

Peaches	80 000 t	(no limit finished product fixed) (net weight)
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The quantities fixed for Williams pears and bigarreau cherries for the Community or Ten have been increased to take account of the quantities produced in Spain and Portugal.

4.3 OUTLOOK IN THE SHORT TERM

The outlook for the disposal of supplies of processed fruit and vegetable products in the Community of Twelve is not unfavourable. The introduction of guarantee thresholds and production quotas for most products eligible for aid has enabled supply to be related to outlets. However, the overall impact of enlargement on certain products can only be assessed once several years' experience has been gained.

5. CONCLUSION

The aid and minimum price system in force in the processed fruit and vegetable products sector can operate satisfactorily provided that operators comply with the ceilings laid down for Community production.

LIVE PLANTS AND FLORICULTURAL PRODUCTS

1. INTRODUCTION

One of the features of this sector is the great variety of products, which are all covered by Regulation (EEC) No 234/68: cut flowers and greenery, bulbs and live plants including nursery products and pot plants. Each of these branches has its own characteristics with regard to both production and marketing. Cut flowers and, to a lesser extent, live plants must be regarded as the sensitive products.

2. GENERAL SITUATION

On the market in cut flowers Community products, in particular carnations and roses, have to compete with imports from non-member countries. The enlargement of the Community to include Spain and Portugal has brought about a change in the situation. Spanish production intended for the principal importing Member States, such as Germany and the United Kingdom, is increasing. Cut flowers from the Canary Islands benefit from the same reduction in customs duties as products from the Spanish mainland.

The Act of Accession provides for transitional arrangements of the usual type. Specific measures in the form of the supplementary trade mechanism (STM) are to be applied to exports of rose bushes, ornamental plants, cut flowers and asparagus ferns from the other Member States to Portugal. Since the ceiling laid down for ornamental plants in the first half of 1987 was already reached in March, the issue of STM licences was suspended until the end of June.

3. 1986

A. Production

The statistics do not give a complete picture of production of the various products covered by the EEC market organization. As regards the value of production, the Commission's staff does not yet have sufficiently detailed figures but it is estimated that the overall production of this sector represents 3-4% of the value of final production in agriculture in the Community.

B. Consumption

Consumption varies considerably from one Member State to another, depending on per capita income and consumer habits. Consumption per head of population is highest in Germany, the Netherlands and Denmark and lowest in France, Greece, the United Kingdom and Ireland.

C. Trade

a) Intra-Community trade

Intra-Community trade (EUR 10) rose by 12.2% in 1986 (1985: 10.5%)
1985 1 994 million ECU
1986 2 424 million ECU
(EUR 12: 1986 2 458 million ECU)

b) Trade with non-member countries

Imports from non-member countries in 1986 increased by 11.1% (1985: 6.2%) and exports to non-member countries by 10.6% (1985: 15.1%).

Imports from non-member countries:	1985	343 million ECU
	1986	380 million ECU
	(EUR 12: 1986	341 million ECU)

Exports to non-member countries:	1985	702 million ECU
	1986	746 million ECU
	(EUR 12: 1986	712 million ECU).

This exports exceeded imports by 366 million ECU, as against only 359 million ECU in 1985 (EUR 12: 1986 371 million ECU).

D. Prices

It should be noted that the prices recorded on the main Community markets show major fluctuations during the season because of short-term fluctuations in supply and demand; they may also vary considerably from one market to another at any given period.

4. 1987 - SHORT-TERM OUTLOOK

In the framework of negotiations with the Mediterranean countries the Council has agreed to grant a tariff quota for cut flowers from Israel and the other Mediterranean countries so that these products can have access to Community markets on similar terms to those which existed prior to accession. The conditions for applying these quotas has still not been adopted in autumn 1987.

5. CONCLUSION

It is to be supposed that the accession of Spain and Portugal will modify the Community's trade flows and result in an increase in exports and intra-Community trade.

W I N E1. INTRODUCTION

The wine market is divided into two distinct sectors: the market in "quality wine", which is autonomous in principle, and the market in "table wine". The latter is characterized by a large, permanent surplus of production over consumption. Even though the increase in production caused by the replacement of old vine varieties by new, higher-yielding varieties is tailing off and the area under vines is shrinking, the gap between production and consumption has still not stabilized. The imbalance is now due mainly to the continuing fall in consumption. Consumer tastes have changed and the demand for table wine keeps falling in the main producer countries. The increase in wine consumption in the non-producing countries, stimulated by the harmonization of indirect taxes on alcoholic beverages, has not helped sufficiently to bridge the gap. Half the wine produced in the world comes from the Community, which is also a major exporter.

2. GENERAL SITUATION

No serious events affected the 1986/87 wine year, as occurred in previous years. Although the structural and market management measures advocated by the European Council in Dublin in December 1984 as a means of restoring balance to the table wine market did not have as positive an impact as in the previous year, they did contribute towards stabilizing prices to some extent. These measures apply in particular to a reduction of production potential by means of aids for grubbing, a freeze on guide prices for all types of table wine, toughening of the rules on distillation and effective and balanced application of the "compulsory distillation" scheme, and a reduction in the price paid for wines delivered for compulsory distillation so as to discourage the production of additional surpluses.

All the market management measures were applied in the spirit of the Dublin agreement to reduce excess production while alleviating the resulting burden. A total of approximately 22,8 million hectolitres of table wine, broken down between the Member States on the basis of the quantities of table wine they had produced during the year and between the persons subject on the basis of their yields and taking into account the situation in their regio, were sent for compulsory distillation while limits were placed on the quantities sent for voluntary distillation at a high price. Prices and aids were frozen at the levels for the previous year.

Two supplementary instruments were made available to the Commission which should enable it to monitor production better.

The first is the Community vineyard register, the general and detailed rules for the application of which were adopted and which is beginning to take shape in some Member States. The second is the possibility of instituting a small corps of agents specializing in wine sector controls, entrusted by the Commission with ensuring by all means necessary, including participation in controls conducted by Member States, that the Community provisions are applied uniformly. The Commission hopes that this system will improve the operation of the market organization and restore confidence in it after the frauds (diethylene glycol and methanol detected in certain wine) which seriously affected the sector in the previous year.

Figures currently available forecast a large harvest for 1987/88: around 193 million hl (not including the harvest in Portugal, which is estimated at around 9,7 million hl), including 137 million hl of table wine. This is, however, slightly down on the 1986/87 wine year, the latest figures for which are 199 million hl (Portugal excluded), including 133 million hl of table wine.

3. 1985/86 WINE YEAR

In 1986, wine's share of the value of the final output of agriculture in the Community was 5,6% (EUR 10). In 1985/86 the productive area under vines was approximately 2.184.000 ha (total area: 129.023.000 ha), corresponding to 1,69% of Community UAA; over six years the total area has fallen by 258.000 ha (11%).

The FAO puts world wine production in 1985/86 at 307 million hl, which is down by 15 million hl on the previous year and on the average production for the last five years (340 million hl).

A. Production

Production in the Community of Ten was 145 million hl in 1985/86, compared with 149 million hl in 1984/85 and 172 million hl in 1982/83. This represented respectively 45% (in 1985/86), 46,4% (in 1984/85) and 49,5% (in 1983/84) of world production (on the basis of FAO figures).

B. Consumption

Total internal utilization accounted for 140 million hl, which was 12 million hl less than in the previous year.

a) Human consumption

Human consumption per head in 1985/86 was 38,5 l, which confirms the decline recorded for some years.

b) Processing

The quantities processed amounted to 33,7 million hl against 39,3 million hl the previous year.

The quantities distilled under Community intervention measures in the course of the year fell sharply (24,3 million hl against 30,2 million hl in 1984/85) owing to the reduction in quantities coming forward.

c) Self-sufficiency

In 1985/86 the self-sufficiency rate of the Community of Ten was 102,1% (97,1% in 1984/85) if all internal utilization is taken into account. If the quantities distilled under the various intervention measures (24,3 million hl) are deducted from the supply balance, the self-sufficiency rate becomes 123,0 for 1985/86, compared with 120,8% in 1984/85 and 130,0% in 1983/84.

d) Stocks

At the end of 1985/86 stocks in the Community amounted to 97 million hl, down on the previous year (99,0 million hl).

C. Trade

In 1985/86 imports remained fairly stable at 4,6 million hl, against 5,0 and 5,2 respectively in 1984/85 and 1983/84. Exports, however, were down: 9,4 million hl in 1985/86 against 11,4 million hl in 1984/85 and 7,8 million hl in 1983/84.

D. Prices

a) Institutional prices

For 1985/86 the guide prices for all types of table wine were frozen at the same level as for the previous year.

b) Average prices for the wine year

- Red wine of type R I

Prices were stable in France (about 78% of the guide price) but irregular throughout the year in Italy (about 83% of the guide price). The few Greek quotations taken into account were at 89% of the guide price. Two Spanish quotations were taken into account after 1 March 1986; they were at 66% and 72% of the guide price.

- Red wine of type R II

The only French quotation, for Bastia, was low throughout the year (72% of the guide price). The Italian quotations available rose slightly and stabilized at about 78% of the guide price. There was no Greek quotation. Spanish quotations fluctuated between 80% and 86% of the guide price.

- White wine of type A I

Quotations were rather irregular throughout the year. Starting fairly low (except in France), they strengthened and stabilized about June at 92% of the guide price in France, 83% in Italy and 95% in Greece. Spanish quotations were much lower, at around 63% of the guide price.

- German wine

Quotations for white wine of type A II, which had recovered strongly in 1984/85 from the very low levels of the previous two years, were down and in August they were at 65% of the guide price. In the case of white wines of type A III, quotations were more stable but also remained low, at around 85% of the guide price.

Quotations for red wine remained well above the guide price (216%).

E. Market management

a) Import levies

In the wine sector, levies are called "countervailing charges". They remained unchanged.

b) Export refunds

The level of export refunds for wine remained unchanged at 1,55 ECU/% vol/hl; except on exports to Africa, for which the refund was kept at 1,15 ECU. Refunds for liqueur wines other than quality wines psr were kept at 17,25 ECU/hl. Refunds applicable to Spain were fixed from 1 March 1986 (0,13 ECU/% vol/hl for some white table wines, 0,70 ECU/% vol/hl for some red or rosé table wines).

c) Intervention

All the measures provided for in Community rules were implemented in the course of the year (preventive distillation, distillation of wine made from dual-purpose grapes, distillation of the by-products of winemaking, "garantie de bonne fin" distillation for the holders of long-term storage contracts, compulsory and support distillation, long-term storage).

Around 24 million hl of wine were distilled under Community intervention measures compared with 30 million hl in 1984/85.

The monthly average quantity of wine which was the subject of storage contracts was 12 million hl (13 million hl in 1984/85) with a maximum of 16 million hl (18,1 million hl in 1984/85).

d) Aids

As in previous years, the following aids were granted:

- aid for the restorage of table wine stored during 1984/85,
- aid for products used in the production of grape juice,
- aid for musts used in winemaking,
- aid for British and Irish wines and for home-made wines.

4. 1986/87 WINE YEAR

A. The integrated market of the Community of Eleven

The provisions relating to the management of the market in table wine will only apply from 1991 whereas the wine sector legislation has applied in Spain since 1 March 1986. (As the intervention measures, with the exception of refunds, have applied only from the beginning of the 1986/87 wine year, the following points e), f) and g) give figures for the Community of Ten only).

a) Production

According to the latest figures, wine production in 1986/87 was 195,8 million hl, up 20 million hl on the previous year.

b) Consumption

Total internal utilization accounted for 187 million hl, compared with 140 million hl in 1985/86 for the Community of Ten.

- Human consumption

The last provisional figure for 1986/87 direct human consumption is 128,3 million hl.

- Processing

The quantities processed amounted to 57,7 million hl compared with 39,7 million hl in the previous marketing year.

The quantities distilled under Community intervention measures during the year are up (the expected figure is 45 million hl against 24,3 million hl in 1985/86).

c) Stocks

At the start of 1986/87 stocks with producers and the trade in the Community of Ten amounted to 124 million hl (compared with 123 million hl at the beginning of 1984/85). A quantity of around 119 million hl is expected at the end of the marketing year.

d) Trade

In 1986/87 imports were 3,6 million hl and exports were 16,5 million hl on account of Spain's entry into the Community balance sheet.

e) Prices

- Institutional prices

The guide prices for all types of table wine were set at the same levels as for the previous year.

- Average prices for the wine year

Table wine quotations, generally speaking, declined slowly but steadily, except for Spanish quotations, which have been picking up slightly since the middle of the wine year. According to the data available, average prices for the wine year are estimated as follows in relation to the guide prices:

For red wine of type R I : 76% in France, 77% in Italy, 64% in Spain and 94% in Greece;

For red wine of type R II: 70% in France, 68% in Italy and 74% in Spain;

For white wine of A I : 83% in France, 76% in Italy, 61% in Spain and 97% in Greece;

For German wine, type R III stayed well above the guide price (around 200%) while types A II and A III continued to drop sharply, reaching 65% and 50% respectively in August.

- Price unity

Monetary compensatory amounts in the wine sector were abolished at the start of the 1986/87 wine year on 1 September 1986) for all Member States except Greece, for which they continued to rise. They were reintroduced for Spain in November 1986. The revaluation of the German mark, Dutch guilder, Belgian franc and Luxembourg franc led to the reintroduction of MCAs in France and Italy and to an increase in MCAs in Greece and Spain from 15 January 1987.

The agricultural rates used in the wine sector held steady throughout 1986/87, except for the rates applied to liqueur wines, which follow the rates used for recording world market data.

B. Market management

- Import levies

Import levies, which are called in this sector "countervailing charges" remained unchanged compared with the previous year. These charges in any case play only a minor part since they do not apply to 18 non-member countries which have undertaken to observe the reference prices and are the Community's principal suppliers.

- Export refunds

Export refunds for wine remained unchanged: 1,55 ECU/% vol/hl for all destinations, and 17,25 ECU/hl in the case of liqueur wines other than quality wines psr. The rates applicable in Spain were raised to 0,50 and 0,90 ECU/% vol/hl for white and red table wine. A refund of 0,45 ECU/% vol/hl was fixed for grape must in Spain.

The quantities qualifying for refunds rose about 20% in 1986 (1,15 million hl against about 0,95 million hl in 1985).

- Intervention

As the previous marketing year, all the instruments of intervention were employed:

- . Compulsory distillation was intended to remove from the market a total of 22.9 million hl of table wine.
- . Because of the results expected from this distillation operation, support distillation was restricted to 4 million hl.
- . The quantities of table wine withdrawn from the market by means of other forms of distillation may be put at the following, on the basis of data currently available:
 - distillation of wine made from grapes of dual-purpose varieties: 2 535 530 hl , including 828 380 hl in France, 1 410 690 hl in Italy and 6 691 hl in Greece;
 - preventive distillation: Contracts were concluded for 13 403 860 hl, including 3 700 137 hl in France, 4 947 135 hl in Italy and 220 000 hl in Greece. Part of these quantities, however, may be delivered for compulsory distillation;
 - "garantie de bonne fin" distillation: 7 406 332 hl, including 3 453 332 hl in France, 3 723 000 hl in Italy and 230 000 hl in Greece;
 - 19 million hl were the subject of long-term private storage contracts.
- . As in previous marketing years, aids were granted for:
 - the restorage of table wine stored during 1985/86;
 - the use of must to increase the alcoholic strength of wine and in the manufacture of grape juice and British, Irish and home-made wines.

C. Budgetary expenditure

Expenditure by the Guarantee Section of the EAGGF on wine amounted to 1 087 million ECU in 1986, is assessed at 1 278 million ECU (EUR 12) in 1987 and is estimated at 1 492 million ECU for 1988 (EUR 12), or 5,0%, 5,6% and 5,5% respectively of total expenditure by the Guarantee Section. The figure of 1 278 million ECU for 1987 can be broken down into 46 million ECU on refunds and 1 232 million ECU on intervention.

5. THE MARKET OF THE COMMUNITY OF TWELVE AND THE SPECIAL PROVISIONS ON THE TRANSITIONAL PERIOD FOR AGRICULTURE IN PORTUGAL

The application of the Community rules in Portugal will take place for wine sector products according to transition by stages involving two periods of five years:

- 1 March 1986/31 December 1990
- 1 January 1991/31 December 1995.

A. First stage

- Portugal will apply its national rules while endeavouring to achieve the objectives of the Treaty (elimination and adaptation of state agencies, liberalization of trade, control of planting and adjustment of prices system);
- Portugal continues to be subject to observance of the reference price;
- tariff quotas for liqueur wines have been abolished since 1 March 1986;
- customs duties are to be abolished from 1 March 1986 according to the following timetable:
 - after 2 years (liqueur wines with a registered designation of origin)
 - after 3 years (vinhos verdes and Dão)
 - after 5 years (other wines ranking as quality wines psr)
 - after 8 years (other wines);
- there can be no Community intervention;
- Community measures to improve wine sector structures are being implemented.

B. Second stage

- Application in Portugal of the common organization of the market and all its instruments;
- fixing of institutional prices (guide price);
- application of a regulatory amount in trade;
- elimination of certain vine varieties.

6. CONCLUSION

Despite the major reform in 1985, much remains to be done to reduce surpluses and control supply while keeping down expenditure.

That is why it is more than ever necessary to toughen and apply the measures laid down, and in particular the compulsory distillation of table wine, which was designed to be a vital means of restoring balance on the market, and whose dissuasive effect on production should be stepped up by reducing the price gradually. Furthermore, while management measures can be used to close the gap between supply and demand (the fall in the latter not yet having been offset by an increase in consumption in some Member States) and to achieve a measure of balance, structural surpluses may nevertheless not be eliminated by these means alone. The structural measures to limit replanting rights which the Commission considers indispensable to keep wine-growing potential within limits in line with market requirements.

COTTON1. INTRODUCTION

In the Community, cotton is a minor crop in respect of acreages and in respect of the number of farmers. Nonetheless, for the relatively less-favoured regions of Greece and Spain where it is concentrated, it is a vital economic and social asset. The Community has approximately 100 000 producers (75 000 in Greece and 25 000 in Spain) and all raw cotton production is ginned and most of it spun in the producer Member State. Producers in Italy are attempting to reintroduce cotton cultivation.

In view of the importance of the crop in Greece, Protocol 4 annexed to the Treaty of Accession of Greece explicitly acknowledged the agricultural character of cotton and, although it is not an Annex II product, an aid scheme was set up. That Protocol was amended on the accession of Spain to take account of cotton production in that Member State. Like Spain, Portugal has an important cotton industry but does not produce cotton.

In 1986 Community areas under cotton totalled approximately 290 000 ha, or 1% of the world figure. After the accession of Spain and Portugal, the Community of Twelve continued to have a substantial shortfall of cotton, the self-sufficiency rate being only about 20%.

2. GENERAL SITUATION

There are three main features of the general situation.

In the first place, the steady increase in the areas under cotton which had been observed since the introduction of the aid scheme came to an end in 1987. With the national aid arrangements in force before accession, the areas under cotton had not been maintained in Greece: they had declined from 183 000 ha in 1977 to 141 000 ha in 1980. In 1981, the first year in which the Community aid scheme was operated, the area under the crop reached 126 000 ha. From 1982 it rose steadily to reach 168 000 ha in 1983, 192 000 ha in 1984, 209 000 ha in 1985 and 210 000 ha in 1986, the highest figure since 1963 (231 000 ha). In 1987 the figure of 200 000 ha, which had also been exceeded in 1961 and 1962, was topped once more but the areas sown (202 000 ha) were slightly down compared with 1986 figures. Areas sown in Spain, however, continued to rise, reaching 81 200 ha compared with 80 600 ha in 1986. Areas under the crop in the Community therefore totalled 283 200 ha as compared with 290 000 ha in 1986.

Secondly, the decline in world prices for cotton fibre, which started in the summer of 1984 and continued throughout the 1985/86 marketing year, came to an end on 1 September 1986, the date on which the 1986/87 marketing year commenced. Since then prices have increased steadily, and at the end of 1986/87 they were once more at the level which they reached in 1981/82, 1982/83 and 1983/84.

Lastly, the co-responsibility system introduced to forestall an excessive increase in Community production and in the resultant expenditure was actually applied in the 1986/87 and 1987/88 marketing years. As the maximum quantity (752 000 t) had been exceeded in both those marketing years, the aid was reduced according to the degree to which that quantity was exceeded.

The combination of these three factors should lead to a reduction in EAGGF expenditure on cotton following on the significant increase since the introduction of Community aid arrangements in 1981/82.

3. THE 1986/87 MARKETING YEAR

1. Production

In 1986, 290 683 ha of cotton were sown in the Community, producing 948 000 t of unginned cotton of standard quality, 291 000 t of ginned cotton (fibre) and 479 000 t of cotton seed.

According to the ICAC (International Cotton Advisory Committee), world production of cotton fibre for 1986/87 is estimated at 15.8 million t from 30.7 million ha as compared with 17.1 million t and 32.3 million ha respectively for 1985/86. China (4.2 million t), the USSR (2.6 million t), the United States (2.3 million t), India (1.5 million t), Pakistan, Brazil, Turkey and Egypt are the leading producers; alone they total 13.3 million t, i.e. 84% of world production. The decline in 1986/87 is due to the slump in world prices. Despite the reduction, world production is still well above that for 1983 (14.7 million t) and average production for 1979-81 (14.5 million t). The average world fibre yield was 515 kg/ha compared with practically twice that (1 000 kg/ha) for the Community.

The Community's share was therefore 1% of world area under cotton and 2% of world production of cotton fibre.

2. Trade

Since, for technical and economic reasons, it is difficult to transport unginned cotton (raw cotton) over long distances, there is no world trade in the product in this form.

As the Community has spinning capacity far exceeding its output of fibre, there are heavy imports. In 1986, the Community of Ten imported 1 054 000 t of cotton fibre (raw cotton plus linters). Pakistan (157 000 t), the United States (117 000 t), the Soviet Union (116 000 t), Israel (65 000 t), Syria (55 000 t), Zimbabwe, Turkey, China, Egypt and Chad were the 10 main suppliers in 1986 (69% of total deliveries). Community exports of cotton fibre reached 24 000 t in 1986, 12 000 t of which were delivered by Greece and 6 000 t by Spain.

Intra-Community trade amounted to only 59 000 t.

3. Consumption

In 1986, apparent consumption of cotton fibre in the Community came to 1 300 000 t, 23% of which was covered by Community production.

4. Prices and aid

(a) World prices

For the purposes of calculating the aid, a notional world market price for unginning cotton is worked out on the basis of the value of the products obtained from ginning, minus ginning costs.

The world price for unginning cotton, which had persisted at very high levels since the beginning of the 1983/84 marketing year, began to ease down in June 1984, following the forecast of a satisfactory world crop. Since then the downward movement has continued because of ample supplies of cotton on the world market, despite a steady increase in consumption (by about 2% per year). Thus, by the end of 1985/86 (31 August 1986), the Community price for unginning cotton had fallen to 18.0 ECU/100 kg compared with 40.2 ECU at the end of the preceding marketing year (- 55%) and 61.6 ECU at the end of 1983/84. At the beginning of 1986/87 the fall stopped and throughout that marketing year the price rose to reach 38.3 ECU at 31 August 1987.

The price of cotton fibre on the world market, which had been running at the extremely low level of 41.00 cts/lb (81 ECU/100 kg) at the end of the 1986/87 marketing year, more than doubled during 1986/87 and at 31 August 1987, the end of the marketing year, was at 89.38 cts/lb (154 ECU/100 kg), a level comparable in terms of the dollar with that recorded during the 1982/83 and 1983/84 marketing years. However, in ECU terms the world price at the end of the marketing year was relatively low owing to the dollar's weakness compared with the ECU.

(b) Community aid

The aid scheme supports unginced Community cotton by granting an amount matching the difference between a guide price fixed by the Council and the world market price.

The full aid is granted only for a limited quantity and any excess production results in a reduction in aid for all growers.

For the 1986/87 marketing year, the Council set the guide price at 96.02 ECU/100 kg, the minimum price at 91.23 ECU/100 kg and the quantity of unginced cotton attracting the full aid at 752 000 t. The prices in ECU were therefore maintained at their old level.

During 1986/87, the Commission fixed the aid for unginced cotton 26 times to take account of trends on the world market. On 1 September 1986 the aid was 77 979 ECU/100 kg, but because of the steady rise in cotton prices throughout the marketing year it had fallen to 57 705 ECU/100 kg by 31 August 1987. Thus, for the 1986/87 marketing year the average aid during the ginning period was 70.10 ECU, compared with 63.19 ECU for 1985/86, 31.94 ECU for 1984/85 and 24.78 ECU for 1983/84.

5. Budgetary expenditure

EAGGF guarantee expenditure on cotton came to 668 million/ECU in 1986/87, compared with 355 million/ECU in 1985/86, 154 million/ECU in 1984/85, 106 million/ECU in 1983/84 and 125 million/ECU in 1982/83.

4. THE 1987/88 MARKETING YEAR - SHORT-TERM OUTLOOK

4.1. PRICES AND AID

For 1987/88, the Council has set the guide price and the minimum price at the same level as for the preceding marketing year (96.02 and 91.23 ECU/100 kg). These prices will apply to Spain and Portugal as well.

As was the case for the 1986/87 marketing year, the quantity of unginced cotton attracting the full aid has been set at 752 000 t, i.e. the maximum possible under Protocol 4. However, the co-responsibility arrangements have been changed to make them similar to those existing for most oilseeds. The change has in particular the major advantage of enabling any variation between actual production and that estimated before the beginning of the marketing year to be penalized by increasing or reducing the guaranteed quantity fixed for the following marketing year.

4.2. SHORT-TERM OUTLOOK

In 1987, areas under cotton in the Community totalled about 283 606 ha, of which 202 000 ha were in Greece, 81 306 ha in Spain and 300 ha in Italy. Community production is estimated at 828 850 t of unginned cotton, of which 541 110 t in Greece and 287 140 t in Spain.

As foreseeable production exceeds the maximum guaranteed quantity the Commission has fixed the reduction in the aid at 5.761 ECU/100 kg, representing 6% of the guide price, in accordance with the new provisions on co-responsibility.

The disposal of Community production should not raise any problems given the low rate of self-sufficiency in the Community and the nature of the Community aid scheme.

In the medium terms most analysts consider that the prices could stabilize in the world market for cotton fibre at a level close to the 1987/88 marketing year one.

5. CONCLUSION

Beginning with the accession of Greece, followed by an increase in areas sown and then the accession of Spain, there has been a major increase in Community production of natural fibres in general, and cotton fibre in particular. However, the Community's level of self-sufficiency remains very low. It is unlikely to increase sharply in coming years, as a major extension of cotton growing would require a very marked increase in irrigated land in very hot areas, of which there are few in the Community. However, an extension of areas under cotton in Italy (Sicily) should not be ruled out.

In view of the maintenance of the guide price, the rise in the world price, the effect of the co-responsibility arrangements and the tailing off of the increase of Community production, EAGGF guarantees expenditure should fall in 1987/88 in contrast to the sharp rise recorded since the inception of the EEC market organization in the sector.

FIBRE FLAX AND HEMP

1. INTRODUCTION

The area under flax and hemp is less than 0,1% of the Community UAA, but these crops are of considerable importance for the regions in which they are concentrated. Also, flax fibre is processed into yarn and fabrics or finished products in almost all Member States. About 30 non-member countries buy flax fibre from the Community.

For the last ten years the Community area under fibre flax has averaged about 60 000 ha, with approximately 10 000 growers located in north-west France, in Belgium and in the Netherlands. The Community accounts for only 5% of the total world area under this crop (1.3 million ha in 1985 according to the FAO) but for about 15% of world production of flax fibre (711 000 t) because yields are well above the world average. The quality of Community fibre is also well above that of flax grown elsewhere in the world (USSR, Eastern Europe, China and Egypt). The straw from 2 000 ha is purchased by the paper industry but the remaining flax straw is processed into fibre in about 180 retting and scutching concerns in north-west France (30), Flanders (140) and the Netherlands (10).

Hemp is grown only in small areas in France and Spain. Community area under hemp accounts for only 1 to 2% of the world total, which amounted to 390 000 ha in 1985 according to the FAO. The USSR (117 000 ha), India (105 000 ha) and China (62 000 ha) account for 73% of the world area under this crop. Community hemp production is used solely by the paper industry, but attempts are being made to recover certain outlets in the textile industry.

2. GENERAL SITUATION

The 1985/86 marketing year was marked by an imbalance on the market in flax and hemp line and the slump in sales of those fibres led to a fall in the Community areas under fibre flax and hemp in 1986. On account on the one hand of the strong demand for flax, particularly in the clothing industry, and on the other hand of the foreseeable decline in fibre supplies, the flax market has recovered since summer 1986, resulting in a marked increase in areas sown in 1987. However, the situation has improved little in the hemp sector and the fall in areas sown is continuing.

3. THE 1986/1987 MARKETING YEAR

A. Production

In 1986, about 66 400 ha of fibre flax was sown, compared with 75 800 ha in 1985, 64 800 ha in 1984 and 53 000 ha in 1983. The relative shares of the producer Member States have changed little (80% for France, 13% for Belgium and 6% for the Netherlands), although some other Member States (United Kingdom, Denmark and Germany) have attempted to start growing this crop. Dew retting continues to replace water retting. This trend facilitates mechanization of retting and gathering but in unfavourable weather conditions it is liable to jeopardize the incomes of growers and scutchers and the supply of good quality certified seed.

Weather conditions have tended to be unfavourable, yielding a mixed crop in terms of both quality and quantity. The straw and fibre yield was lower than normal. As a result, Community production fell sharply, to 403 000 t of straw and 75 800 t of fibre, compared with 650 000 t and 123 800 t for 1985 and 521 000 t and 108 800 t for 1984.

After the steady fall in previous years, the recovery in areas under paper hemp in France in 1985 (6 457 ha) was not confirmed in 1986, as areas under this crop fell to 5 481 ha. As Spain also grows this crop (1 420 ha), Community areas under hemp totalled 6 901 ha in 1986.

B. Trade

Since its unit value is too small to justify long-distance transport, there is no trade in flax straw with non-member countries. Intra-Community trade is confined to Belgian imports from France and the Netherlands. In 1986, retting and scutching concerns in Belgium bought 65 000 t of flax straw in France and the Netherlands to top up the Belgian crop, the same amount as in 1985 (60 000 t in 1984).

Imports of flax fibre totalled 28 500 t in 1986, a sharp increase on the figure for 1985 (18 600 t) and, although lower than the 1984 figure (34 500 t), well above the 1983 (19 500 t) and 1982 (11 400 t) levels. Quantities exported (40 300 t) were well above the already high figure for 1985 (36 800 t) and came close to the record level of 1984 (40 700 t).

The Community needs more low- and medium-quality fibre than it produces, and the shortfall is imported from Eastern Europe, Egypt and China, where this fibre is produced in large quantities. However, it supplies the entire world and in particular Eastern Europe with long fibres, especially good and superiod quality fibre which is not produced elsewhere.

Imports of hemp fibre totalled 3 200 t in 1986, the same as in 1985 (compared with 7 300 t in 1984). The USSR, China and especially the countries of Eastern Europe are the suppliers. Exports, which were only about 1 500 t in 1985, compared with 3 400 t in 1984, fell still further in 1986 (600 t).

C. Consumption and stocks

Community consumption of flax fibre seems to have increased slightly during the 1986/87 marketing year, in particular because the success of flax in the garment industry has continued.

Stocks of flax fibres held by scutching firms, dealers and spinning undertakings, estimated by the trade at what was already an excessively high level of 53 000 t at the beginning of the 1985/86 marketing year (compared with 38 000 t at the beginning of 1984/85), built up further during the year and totalled 88 000 t at the end of 1985/86. However, some stocks were sold off during the 1986/87 marketing year. Despite the continuing very high level of fibre stocks, the market recovered its balance during the marketing year, owing on the one hand to the fact that output from the 1986 harvest was down sharply (in areas and yields), particularly for long fibres, and in particular good quality fibres, and on the other hand to the fact that the yield and quality of fibres from the 1987 crop were seriously threatened by the unfavourable weather conditions.

D. Prices and aid

Prices for flax straw, which had fallen sharply in 1985/86 after rising steeply in the preceding four marketing years, made a strong recovery in 1986/87 without, however, reaching the level recorded in 1983/84 and 1984/85. The revenue of most growers was also slightly better, while remaining well below that for 1983/84 and 1984/85. Average selling prices for flax line, which had been falling since May 1984, levelled out in summer 1986. Subsequently they have increased to some extent but have not yet reached their previous, admittedly high, level.

The contract price for hemp straw agreed between users and producers, which had been adjusted regularly until the 1985/86 marketing year, fell from FF 720.50/t in 1985/86 to FF 700/t for 1986/87, a decrease of 2.8%. The situation on the market in hemp line improved owing to the effect of the increase in the price of flax tow but the marketing of hemp seed continues to pose serious problems. Because of Chinese offers at low prices, French growers obtained only about FF 160/100 kg compared with FF 210 in 1985 and FF 385 in 1984.

The aid for fibre flax was kept at 355.09 ECU/ha for 1986/87. Of this amount, 28.41 ECU (8%) goes to financing schemes to encourage the use of flax line, compared with 22.85 ECU (6.4%) for 1985/86.

For hemp the aid for 1986/87 was kept at 322.48 ECU/ha.

E. Budgetary expenditure

EAGGF guarantee expenditure for fibre flax and hemp in 1986 totalled 32.3 million ECU.

EAGGF guarantee expenditure for fibre flax and hemp in 1987 is estimated at 29 million ECU (0.1% of total expenditure by the Guarantee section).

4. THE 1987/1988 MARKETING YEAR - SHORT-TERM OUTLOOK

4.1. PRICES AND AID - COMMUNITY MEASURES

The flat-rate aid per hectare was maintained at 355.09 ECU/ha for flax and 319.29 ECU/ha for hemp, the aid for Spain and Portugal being two sevenths of those amounts.

The amount intended to contribute to the financing of schemes to promote the use of flax line was increased from 28.41 ECU/ha to 35.51 ECU/ha (10% of the aid, compared with 8%).

The contract price for hemp straw was reduced from FF 700/t to FF 685.695/t, 2% below the figure for the preceding marketing year.

The Council agreed to maintain, without any time limit, the measures started to promote the use of flax line, i.e. information measures on the one hand and efforts to find new outlets on the other. This will be financed entirely from part of the flat-rate aid paid for fibre flax.

4.2. OUTLOOK

Community areas under fibre flax have recovered markedly, rising from 59 200 ha in 1986 to about 67 100 ha in 1987 (+13%).

In France, 4 500 ha of hemp were sown in 1987, compared with 5 500 ha in 1986 and 6 500 ha in 1985, while 707 ha were sown in Spain compared with 1 420 ha. Thus, Community areas under hemp total 5 207 ha in 1987 compared with 6 920 in 1986 (-25%).

Yields of flax straw from the new crop were estimated before pulling to be well above average overall. However, pulling and especially dew retting took place in very difficult conditions. The fibre yield appears to have been seriously affected and is likely to be very varied but on the whole lower than average, with in addition an unusually high proportion of short fibres. A relatively firm market for flax line may be anticipated as foreseeable supplies of Community flax fibres, and in particular long fibres, are markedly down on the previous marketing year.

As for hemp, the market situation for fibre will largely depend on that for short flax fibres; however, there is likely to be a good supply if account is taken of the average quality of straw from the 1987 crop. Furthermore, forecasts with regard to seed prices are not very optimistic.

As anticipated, the reduction in areas under flax in 1986 and the rather poor yields from the crop have re-established the balance on the flax market which was upset during the 1985/86 marketing year. This situation may be expected to continue throughout the 1987/88 marketing year and even beyond. The success of flax in the garment sector is continuing and the outlook for other sectors has improved. However, the trend on the market in past marketing years clearly shows that this sector's future is guaranteed in the long term only in so far as flax manages to conquer an increasing share of the range of textile products competing on the market, not only in the clothing industry but also in other sectors.

6. CONCLUSIONS

Flax and hemp growing, being very sensitive to weather conditions, have remained high-risk enterprises despite steadily developing mechanization. Private storage of fibre has, on three occasions, served to support the market through temporary market disequilibria. However, in the long term, maintenance of the equilibrium of the flax sector, and perhaps its development, can be ensured only through an increase in outlets. This consideration induced the Council to extend for an unlimited period the measures to promote the use of flax and to increase the proportion of the aid used to finance such measures.

As for hemp, the lack of diversified outlets (it is used only for paper making) and the difficulties in marketing seed are curtailing its expansion. In the other term, this sector could benefit from better marketing of short flax fibres, as both flax and hemp fibres may be used as the raw materials for paper making.

SILKWORMS

Silkworms, reared in Greece and Italy, and on a small scale, for research purposes, in France, account for only a tiny part of Community agriculture and of world silkworm production. There is no production in Spain or Portugal.

According to the FAO, world production of raw silk (including waste) in 1986 was 72 000 t, compared with 68 000 t in 1985 and 65 000 t in 1984. The industry is virtually an Asian monopoly (62 000 t): China (39 000 t) and Japan (19 000 t) account together for more than 80% of world production.

Community production, which had been steadily declining in recent years - mounting costs being insufficiently offset by changes in market prices - staged a recovery in 1984, which, however, proved short-lived.

In 1986, 6 000 boxes (3 900 in Italy and 2 000 in Greece) were used, compared with 6 600 in 1985 (-9%) and 11 100 in 1980. Cocoon production was 153 t, compared with 161 t in 1985, and 308 t in 1980; it declined in both Italy and Greece.

For 1987/88, the aid has been set at 112 ECU per box (108.67 ECU for 1986/87), which represents an increase of 3%. For Spain and Portugal, where this sector is subject to conventional transition arrangements, the aid is 31.60 ECU.

EAGGF guarantee spending on silkworms was 0.6 million ECU in 1986.

TOBACCO

1. INTRODUCTION

Tobacco-growing plays a unique role in Community agriculture as it is the only source of income for very labour-intensive holdings situated in the least-favoured areas of Greece, Italy, Spain and Portugal. A total of more than 220 000 holdings are involved in growing tobacco.

Tobacco-growing has also become particularly important in France, Belgium and Germany because of the important supporting role it plays on small mixed farms where the main activity is cereal or milk production or stockfarming. Tobacco, which is often grown on less than 10% of the farm's area, may provide up to 60% of the farmer's gross margin.

2. THE SITUATION GENERALLY

World production of leaf tobacco in 1986 was estimated at 6 million tonnes, 12.6% down on 1985. This decrease is chiefly due to lower production figures in China, the world's leading producer, whose output fell by about 28% to 1.7 million tonnes. In the USA, the world's second largest producer, production fell by about 18% to 677.000 tonnes.

The production of leaf tobacco in the Community of Twelve fell by 5.7% to 383 000 tonnes, 6.4% of the total world harvest.

Harvest forecasts for 1987 are for a world production of 6.5 million tonnes (up 7.8% on 1986), including 2.1 million tonnes in China (up 25.3%), 672 000 tonnes in the USA (down 0.7%) and 396 000 tonnes in the Community of Twelve (3.4% up on 1986 and 2.5% less than the all-time high recorded in 1985).

In 1986, world cigarette production, which absorbs more than 85% of world tobacco production, rose by 2.5% (0.1% if China's output, which was 10% up and accounted for 26% of total world production, is not included) to reach 4 970 million units.

US output fell 2.3% to 650 million units.

In the Community of Twelve, production was 2.8% down, to 631 million units.

The combined total for Eastern Europe and the Soviet Union (745 million units) was 1% up.

Asia's cigarette production rose 6.4% in 1986, the figures for Japan, Singapore and the Philippines notwithstanding.

In 1986 cigarette production in South America and Africa increased by 8% and 4.3% respectively.

If the figures for China are excluded, the world's production of cigarettes showed only a slight rise in 1986, since an appreciable increase in the developing countries and a more modest increase in Eastern Europe and the Soviet Union were offset by lower output in North America and the Community.

3. THE 1986 HARVEST (Community of Twelve)

A. Production

Community production of leaf tobacco in 1986 was 383 024 tonnes, 5.7% less than in 1985.

The tobacco-growing area decreased by 1.3% to 221 381 hectares. The last three years' figures for the area under cultivation and for production are set out, both by type of tobacco and by Member State, in the tables below.

Tobacco-growing area and tobacco production
in the Community of Twelve's producer countries in 1984-86

	AREA (ha)			PRODUCTION (t)		
	1984	1985	1986	1984	1985	1986
Federated						
Rep. of Germany	3.042	2.988	3.153	7.230	8.113	7.791
France	14.538	14.912	14.952	35.094	35.658	37.766
Belgium	527	543	512	2.054	2.097	2.315
Italy	75.528	80.977	79.035	161.139	165.828	145.255
Greece	92.713	98.680	99.477	143.088	148.475	148.055
Spain	22.434	24.404	22.260	43.189	42.085	37.496
Portugal	1.645	1.799	1.992	3.465	3.947	4.347
EUR-12	210.427	224.303	221.381	395.264	406.203	383.024

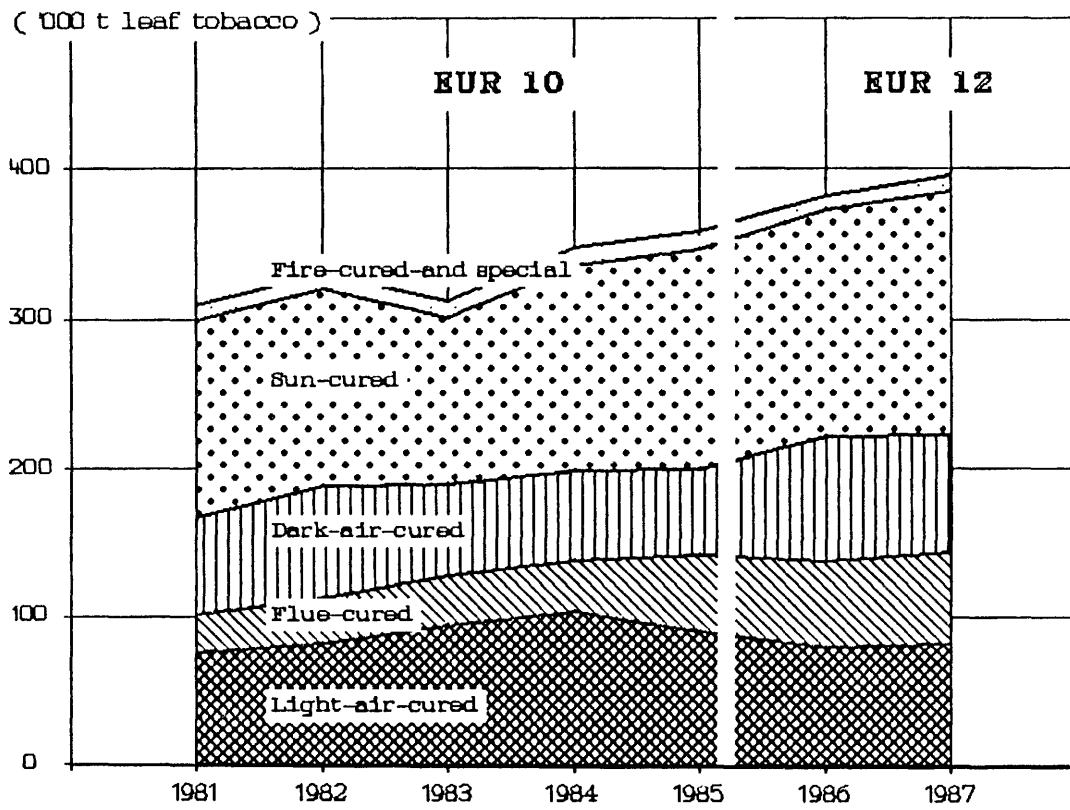
Area used for the cultivation of the various types of tobacco grown
in the Community of Twelve and actual quantities produced in 1984-86

TYPE	AREA (ha)			PRODUCTION (t)		
	1984	1985	1986	1984	1985	1986
Light air cured	34.075	34.477	30.701	106.748	97.765	80.227
Flue cured	22.049	29.489	28.526	43.195	64.387	58.300
Dark air cured	45.951	44.080	40.733	95.649	83.950	84.237
Sun cured	101.714	109.660	116.176	137.265	148.037	151.571
Fire cured	6.615	6.577	5.203	12.389	12.038	8.630
Special tobacco	13	20	42	21	26	62
Total EUR-12	210.427	224.303	221.381	395.264	406.203	383.024

Percentage change in the tobacco-growing area and in the
production of the various types of tobacco grown in the Community of Twelve

TYPE	AREA (%)			PRODUCTION (%)		
	1984/83	1985/84	1986/85	1984/83	1985/84	1986/85
Light air cured	+ 6,6	+ 1,2	- 10,9	+ 12,2	- 8,4	- 17,9
Flue cured	+ 21,4	+ 33,7	- 3,3	+ 10,3	+ 49,1	- 9,5
Dark air cured	- 5,5	- 4,1	- 7,6	- 5,4	- 12,2	+ 0,3
Sun cured	- 0,8	+ 7,8	+ 5,9	+ 22,2	+ 7,8	+ 2,4
Fire cured	+ 13,3	- 0,6	- 20,9	+ 16,2	- 2,8	- 28,3
Special tobacco	- 72,3	+ 53,8	+ 110,0	- 67,7	+ 23,8	+ 138,4
Total EUR-12	+ 1,6	+ 6,6	- 1,3	+ 10,3	+ 2,8	- 5,7

TOBACCO Production by type



Source : EC Commission, DG for Agriculture

The rise in leaf tobacco production has slowed down since the beginning of the present decade: with the exception of the sharp rise recorded in 1984 following a moderate harvest (caused by bad weather in Greece) a year earlier, total production in the Community of Ten is now increasing by only 3,2% annually, compared with about 7% in the early 1980s.

In the light of that slower rate of growth, the 1985 harvest (406 203 tonnes produced on a total of 224 303 hectares) emerges as the high point of the Community of Twelve's tobacco production in the first half of the present decade.

Since 1986 there have been signs of a trend towards lower production in the Community. That trend, as evidenced by reduced acreages, was particularly marked in 1986, owing to lower yields and bad weather.

The main facts of the Community's 1986 harvest can be summarised as follows:

(Production)

- the Community produced 383 000 tonnes of leaf tobacco (5.7% less than in 1985);
- the total area under tobacco in the Community of Twelve was 219 403 hectares (1.3% less than in 1985);
- the overall yield was 4.4% down on 1985 (to 1 730 kg/ha), as a result of bad weather and efforts aimed at curbing production;

(Types of tobacco)

- the production of sun-cured tobacco (151 600 tonnes) was 2.4% up;
- the production of dark air-cured tobacco (84 200 tonnes) was almost unchanged (+ 0.3%);
- the production of flue-cured tobacco (58 300 tonnes) was 9.5% down;
- the production of light air-cured tobacco (80 200 tonnes) was 17.9% down;
- the production of fire-cured tobacco (8 600 tonnes) was 28.3% down;
- the production of special tobacco (62 tonnes) was 138.5% up.

On the other hand, after rising rapidly, the production of light air-cured varieties is now declining sharply because of severe non-structural marketing problems (particularly in the case of Burley).

B. Community use

The industry used an estimated 655 000 tonnes of baled raw tobacco in 1986. The figure for the Community of Ten is 587 531 tonnes, i.e. 4.9% less than in 1985, which was a record year. This means that the Community of Twelve produces 51% of the raw tobacco used by its industry.

In 1986, after rising for four consecutive years, cigarette production (a commonly-used indicator) fell 2.8% in the Community of Twelve, to 631 000 million units, roughly equalling the average for 1975-79.

In 1986 cigarette production rose in:

- Germany, by 2.1% to 169 000 million units,
- the Netherlands, by 6.9% to 49 900 million units,
- Greece, by 1.7% to 29 000 million units,
- Denmark, by 2.3% to 11 200 million units,

but fell in:

- the United Kingdom, by 9.6% to 112 000 million units,
- Spain, by 1% to 76 500 million units,
- Italy, by 3.9% to 75 600 million units,
- France, by 12.3% to 59 100 million units,
- Belgium/Luxembourg, by 5.1% to 26 900 million units,
- Portugal, by 2.4% to 13 700 million units, and
- Ireland, 0.2% to 7 700 million units.

As these figures show, the pattern of cigarette production in the Community is changing.

In 1986 the United Kingdom accounted for only 18% of the Community of Twelve's cigarette production, compared with about 25% in 1975-79.

On the other hand, Germany's share rose from 13% in 1975-79 to 26.8% in 1986.

During the same period, France's share fell from 13% to 9.5%, whereas that of Spain and the Netherlands rose from 9.8% and 5.6% to 12.1% and 7.9% respectively.

C. Tobacco consumption

Calculated as production plus imports minus exports, apparent consumption of cigarettes in the Community of Twelve fell by 2.6% in 1986, to a total of 581 000 million units. Cigarette consumption increased in only two Member States: Greece (up 1.5% to 28 900 million units) and the Netherlands (up 2.3% to 15 900 million units).

Consumption fell in the other Member States, as follows :

- Germany	: down 1.2% to 121 700 million units,
- Italy	: down 6.8% to 105 200 million units,
- United Kingdom	: down 0.9% to 96 000 million units,
- France	: down 1.7% to 94 600 million units,
- Spain	: down 1.3% to 76 800 million units,
- BLEU	: down 13.9% to 14 200 million units,
- Portugal	: down 2.1% to 13 700 million units,
- Ireland	: down 2.0% to 6 300 million units,
- Denmark	: down 2.7% to 8 500 million units.

The Community of Twelve's self-sufficiency in cigarettes (expressed as the percentage of production over consumption) was more or less unchanged in 1986 (108.6% compared with 108.8% in 1985), the reduction in Community use having matched that of production.

D. Trade

World exports of baled raw tobacco totalled 1 310 000 tonnes in 1986, 7.3% less than in 1985. The Community of Ten exported a total of 233 000 tonnes, i.e. 5.7% more than in 1985. Intra-Community exports totalled 99 000 tonnes (EUR 10), 10% more than in 1985.

The Community of Twelve exported 132 500 tonnes to non-member countries (1.1% more than in 1985), thus accounting for 10.1% of total world exports in 1986.

In 1986 the Community of Twelve imported 456 000 tonnes from non-member countries, 6.9% less than in 1985, accounting for more than 30% of total world imports in 1986.

The Community of Ten imported 88 864 tonnes (EUR 12: 90 214 tonnes) from ACP countries (the imports in question were exempt from customs duties) in 1986, 7.3% less than in 1985, when there had been a year-on increase of 30%, and 169 998 tonnes (EUR 12: 201 335 tonnes) from countries benefitting from the GSP, 14% less than in 1985 (the preferential tariff arrangements were subject to a limit of 66 000 tonnes in the case of flue-cured Virginia tobacco and 17 000 tonnes in the case of other types of tobacco).

Virginia-type tobacco made up some 55% of total imports in 1986, as against 62% in 1984. Intra-Community trade in cigarettes was more or less unchanged, at 124 600 tonnes, while cigarette trade with non-member countries decreased by 8.3% to 35 868 tonnes.

E. Prices

(a) Common prices

Decisions taken by the Council led to reductions of up to 6% in the norm and intervention prices for Community tobacco harvested in 1986.

(b) World prices

The prices of tobacco imports into the Community moved as follows.

The average price of flue-cured Virginia tobacco (stripped or otherwise), a variety which accounts for about 58% of Community imports, fell from US \$ 3.69/kg in 1983 to US \$ 3.44/kg in 1984 but rose to US \$ 3.87/kg in 1985 (EUR 10) and then on to US \$ 4.69 in 1986 (EUR 12). Because of changes in the exchange rate, however, there was a steady rise in the price expressed in ECU, from 4.14 ECU/kg in 1983 to 4.37 ECU/kg in 1984 and 5.07 ECU/kg in 1985 (EUR 10), followed, in 1986, by a fall to 4.77 ECU/kg (EUR 12)..

The average price of light air-cured Burley tobacco (stripped or otherwise), a variety which accounts for about 11.5% of Community imports, increased from US \$ 4.40/kg in 1983 to US \$ 4.79/kg in 1984, US \$ 4.91/kg in 1985 (EUR 10) and US \$ 5.70/kg in 1986 (EUR 12). The price in ECU rose from 4.95 ECU/kg in 1983 to 6.07 ECU/kg in 1984 and 6.44 ECU/kg in 1985 (EUR 10), before coming down to 5.79 ECU/kg in 1986 (EUR 12). The above figures are weighted averages: prices for stripped and unstripped tobacco moved differently, in some cases in opposite directions. In 1984, for example, prices for unstripped Burley fell by nearly 23% while stripped Burley prices rose by 14% (in dollar terms).

Average import prices for oriental sun-cured tobacco, which accounts for 6.5% of Community imports, fell from US \$ 2.91/kg in 1983 to US \$ 2.85/kg in 1984 and rose again to US \$ 2.93/kg in 1985 (EUR 10) and US \$ 3.53/kg in 1986 (EUR 12). Although prices expressed in dollars were virtually stationary until 1985 and later rose in 1986, in terms of ECU they nevertheless increased from 3.26 ECU/kg in 1983 to 3.61 ECU/kg in 1984 and 3.84 ECU/kg in 1985, before slipping back to 3.59 ECU/kg in 1986 (EUR 12).

F. Market management

For the 1986 harvest, in order to bring production more into line with demand and to discourage sales into intervention, the ratio of intervention price to norm price was set permanently at 85%.

With a view to achieving greater control over production, recognised production areas have, for the first time, been fixed for each Community variety of tobacco. The intervention prices and premiums are payable only if the tobacco was grown in those areas.

A total of 27 784 tonnes of tobacco from the 1985 harvest was sent into intervention, i.e. 8.9% of total Community production, as against 3.3% for 1984. The increase stemmed from severe non-structural marketing difficulties affecting light air-cured varieties, particularly Greece's Burley.

In 1986 the Commission sold by tender for export without a refund about 12 000 tonnes of tobacco from the 1983 and 1984 harvests which was held in intervention. Since then, and again in line with its policy of reducing intervention stocks and shortening the storage period for intervention tobacco, the Commission has put up for sale by tender 22 000 tonnes of tobacco from the 1985 harvest so that, in the first few months of 1988, there will again be no intervention stocks left.

Also in 1986, refunds were fixed for tobacco from the 1985 harvest, and the period of validity of the refunds for tobacco from the 1983 and 1984 harvests was extended.

G. Budgetary expenditure

EAGGF guarantee expenditure on tobacco was 782 million ECU in 1986, i.e. 3.6% of the Fund's total guarantee expenditure that year. The figure for 1987 is estimated at 867 million ECU (3,3% of the Guarantee Section's total expenditure).

4. THE 1987 HARVEST

A. Production

The 1987 harvest of leaf tobacco should be around 396 000 tonnes, 3,4% more than in 1986. The production will then be at the 1984 level, but 2,5% less compared with the second peak of the 1985 harvest. This evolution in 1987 shows a new 1% decrease for the area under cultivation to 219 402 hectares, but it is also the result of exceptional yield in Greece and the return to average yields in Italy.

The estimates of the different types of tobacco produced are shown in the table on the following page.

B. Adaptation of the common market organization

- It should be noted that in 1987, following the Commission's proposal, the Council for the second time defined the recognized production areas of each Community variety, with the aim of obtaining a better control of production. The Council also modified the Community Regulation to allow for refunds for sales by tender.

C. Prices

The prices and premiums decided for the 1987 harvest showed a defferentiation in the relative changes in prices and in premiums. In fact, the Council decided variations for the norm prices from +3 to -6%, and from +5 to -4% for the premiums.

Production estimates for the 1987 tobacco harvest, by type of tobacco and by Member State

EUR-12

TYPE	ESTIMATED PRODUCTION IN 1987 ('000 tonnes)							
	EUR-12	ITALY	GREECE	SPAIN	FRANCE	FED.REP. GERMANY	PORTUGAL	BELGIUM
Light air cured	81,9	52,0	13,7	8,9	3,2	2,8	1,4	-
Flue cured	62,0	38,0	1,6	10,8	7,6	1,0	3,0	-
Dark air cured	79,5	33,3	-	16,4	24,9	3,8	-	1,1
Sun cured	162,9	27,5	135,4	-	-	-	-	-
Fire cured	9,5	9,5	-	-	-	-	-	-
Special tobacco	0,09	0,04	0,03	0,03	-	-	-	-
TOTAL ('000 tonnes)	396,0	160,4	150,7	36,2	35,7	7,6	4,4	1,1

5. CONCLUSION

There is, on the whole, a shortage of raw tobacco in the Community. However, although the Community is more or less 50% self-sufficient in terms of volume, it exports some 42% of its production and imports 72% of its requirements each year because of the increasing consumption of "American blend" cigarettes in the Community. The varieties and qualities produced in the Community should change significantly to meet market requirements.

In spite of the achievements of recent years as regards varietal conversion, the market prospects for Community-grown tobacco are still somewhat uncertain.

Product quality has deteriorated, the dollar has been falling against the ECU (making Community-grown tobacco less competitive on world markets, where prices are fixed in dollars) and world production has exceeded demand. For these reasons, Community-produced tobaccos which have traditionally been in great demand (such as the light air-cured type), face some difficulties.

It should be noted, however, that Community production of raw tobacco, particularly of the light air-cured types, is already being adjusted.

An improvement in the quality of the product might, therefore, enable Community-produced tobacco to satisfy a demand which, although lower, seems to be holding steady at pre-1981 levels.

HOPS

Community production (Community of Twelve) in 1986 was 43 510 tonnes or 38.2% of estimated world production, from an area of 26 871 ha, or 32% of the total estimated world area of 84 000 ha. The area in production in the Community of Twelve was thus 1 055 ha less than in 1985; world area was reduced by approximately 2 700 ha. The average yield in the Community, 1.62 t/ha, was below both that of the previous year and also the 1978-84 average of 1.78 t/ha. The average alpha acid content of the Community crop in 1986 was 6.05%, which was somewhat low compared with the exceptional alpha acid content of the 1984 harvest, viz. 6.84%; alpha acid is the principal bittering substance contained in hops. Total estimated Community of Twelve and world production of alpha acid in 1986 were 2 627 tonnes and 7 218 tonnes respectively, compared with 2 711 tonnes and 7 136 tonnes in 1985. Alpha acid contents can vary from year to year and exert a major effect on the annual balance between supply and demand. Much of the difficulty in marketing the 1985 and 1986 crops can be traced back to the effect of high alpha acid contents in 1984; the Commission estimates that world stocks expressed in terms of alpha acid dropped from the high level of 5 600 tonnes on 1 September 1985 to 5 100 tonnes (- 9%) a year later. The 1986 harvest was broadly in line with annual brewing requirements and, when allowance is made for depreciation, a slight reduction in stocks may be expected to have taken place by the eve of the 1987 harvest. However, there will still be some 10 months' brewing supplies in stock throughout the world.

The outlook for an estimated world beer production level for 1986 of 1 000 million hectolitres has not substantially altered over the past two years. After having grown consistently in the 1970s at annual rates of 2% to 4%, and having stabilized in 1981, 1982 and 1983, world beer output has been rising slightly since 1983. Production continues to grow in the Far East, notably in China. There has also been some revival of output in parts of Central and South America, particularly Mexico and Brazil. In general, there remains considerable potential demand in developing countries, but the expansion of output to meet it is often very sensitive to balance of payments and debt problems. However, the growth observed in these sectors of the market has been balanced by the stagnation of production in developed economies, especially in the United States, the EEC and Japan, and a drop in production in the USSR.

HOPS Production, exports and imports



Source : EC Commission, DG for Agriculture

74/75 - 85/86 EUR 10 - 86/87 EUR 12

During the September 1985 to August 1986 marketing year, Community net exports amounted to 12 412 tonnes, compared with 8 940 tonnes in the previous marketing year, 10 370 tonnes in 1983/84, 11 889 tonnes in 1982/83 and 13 236 tonnes in 1981/82. In recent years, there has been a steady growth in imports to the Community. Exports remain of primary importance to Community producers and gross exports have held up well in a world market that has been depressed since 1982. The scale of this depression, now in its fifth consecutive year, is clearly reflected in the average price on spot markets in the Community which, having dropped from 92 ECU/50 kg to 63 ECU/50 kg, has fallen below the corresponding figure for the 1984 harvest (70 ECU/50 kg). The average spot price in 1981 was 226 ECU/50 kg. Prices in 1986 were better for aromatic hops than for bitter hops; it was often very difficult to find a market for the latter. However, three quarters of the harvest were sold under forward contracts, many of which were struck before the downturn in the market. The average contract price in 1985 was 171 ECU/50 kg. This provided some degree of protection for the incomes of growers under contract.

It is significant that the proportion of production under contract, though at approximately 75% always by far the major part, differs considerably between Member States, and that it is showing a downward trend.

The level of producer income aid for the 1986 harvest was fixed at 390 ECU/ha for "bitter" and "other" varieties, and at 310 ECU/ha for "aromatic" varieties, resulting in total expenditure of 9.4 million ECU. Annual income aid will be granted in respect of Spanish and Portuguese hop production as from the 1986 harvest. Because of continuing difficulties in marketing most bitter hops, and the particularly precarious situation of hop producers in certain areas of the Community, the Council has envisaged the granting of special aid of 2 500 ECU/ha for conversion from bitter to aromatic and super-alpha varieties of hops, up to a limit of 800 hectares per Member State.

Though several harvests have seen a decline in the area under hops, there is likely to be a small rise in this area worldwide in 1987, chiefly because of a 14% rise in the United States. Production in the Community, meanwhile, is likely to continue to drop.

Despite the tendency towards better tailoring of hop production to the level of demand, the state of the market as a whole remains uncertain, because of stocks built up over previous years. The application of the US Food Security Act, dictating the level of pesticide residues permissible in hops imported into the United States, worsened this situation by disrupting trade, particularly with the Community. It is nevertheless possible that the 1987 harvest may be the first since 1980 to fall short of annual brewing requirements, although this will obviously depend on yields. Nonetheless, a significant reduction of stocks will be necessary before prices revive.

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SEEDS1. INTRODUCTION

The seeds sector includes only a limited number of species. However in 1986 fodder seed from Community origin produced a 13 549 000 ha crop of green fodder in the Community, while permanent grasslands covered an area of around 52 690 000 ha. The total quantity of hybrid maize seed available (about 1.8 million quintals) is sufficient to put approximately 7 million ha under maize and forage maize. It should also be stressed that indigenous varieties, particularly of legumes, are generally more persistent (long-lived) than imported varieties.

It should also be borne in mind that:

- seed production calls for the use of advanced technology and tends to be labourintensive, both on the farm and at grading and packing stations;
- seeds can provide an alternative to grain production;
- there is a very close link between seed production and genetic research.

The EEC market organization covers the following products:

- | | |
|------------------------------------------------------|---------------|
| - dried leguminous vegetables for sowing | CCT 07.05 A |
| - spelt for sowing | CCT 10.01 A |
| - hybrid maize for sowing | CCT 10.05 A |
| - rice for sowing | CCT 10.06 A |
| - hybrid sorghum for sowing | CCT 10.07 C I |
| - oilseeds and oleaginous fruit, for sowing | CCT 12.01 A |
| - seeds, fruit and spores, of a kind used for sowing | CCT 12.03 |

2. GENERAL SITUATION

In 1986 production of fodder seed in the Community was nearly 4 million quintals (about 1 million quintals of grass seed and 3 million quintals of legume seed). The situation on the supply side was accordingly favourable, in particular in the case of legume seed. Prices remained about the same for grass seed, and fell slightly for legume seed.

The supply of hybrid maize seed was also satisfactory in 1986/87, with production estimated at 1 800 000 quintals (EUR 12); imports, however, were 13% up on the previous marketing year. The Community's production of rice for sowing was approximately 600 000 quintals in 1986; Community production and demand are evenly matched.

Among the measures adopted in 1986 and 1987, it should be mentioned that the level of subsidies was fixed for the 88/89 and 89/90 marketing year.

3. 1986/87

The EEC market organization has been applicable in Spain and Portugal since 1 March 1986. The present marketing-year review covers the Community of Ten, with a special section on seed production in Spain and Portugal.

3.1. THE COMMUNITY OF TEN

A. Production

Denmark is the main Community producer of grass seed; the Netherlands and the United Kingdom are also large-scale producers. France and Italy are the main producers of legume seed.

In 1986 the Community's production of fodder seed was about 4 million quintals (3 million quintals in 1985). The areas approved for control were:

Graminae:	96 848 ha in 1986 as compared with 100 374 ha in 1985
Leguminosae:	166 419 ha in 1986 as compared with 129 963 ha in 1985.

The production of rice for sowing was about 600 000 quintals (1986). With the granting of Community aid, the use of certified seed has greatly increased. Community aid thus seems to be having a positive effect.

Production of hybrid maize seed is around 1.8 million quintals (1986). The situation is thus little different to that of 1985.

B. Supply situation

Community supplies of fodder seed continue to be sufficient. With some 4 million quintals available to meet an estimated demand of some 3 200 000 quintals, the Community is able to cover its requirements for most of the species grown. The increase in production has mainly been in large-seeded leguminous crops. Trade with non-member countries is continuing, however, in particular in the case of certain species which are in short supply in the Community (*Phleum pratense*, *Trifolium repens*, *Vicia sativa*, etc.).

C. Trade

The Community imports about 550 000 quintals and exports about 200 000 quintals of fodder seed each year. Intra-Community trade totals about 740 000 quintals.

In the case of hybrid maize the situation is still unstable. Imports rose between 1979/80 and 1982/83, but fell to 287 290 quintals during the 1983/84 marketing year, compared with 386 987 quintals in 1982/83. During 1986/87, however, they rose again to 521 541 quintals (Community of Twelve). Intra-Community trade remains at about 150 000 quintals, and involves mainly French exports.

The trade in rice for sowing chiefly involves the export of fairly small quantities from Italy to France (about 13 000 quintals).

3.2. THE COMMUNITY OF TWELVE - SPECIAL PROVISIONS FOR SPAIN AND PORTUGAL

Spain's fodder seed production is 25-30 000 quintals, i.e. about 1% of total output in the Community of Ten, while its production of rice for sowing (about 8 000 quintals) corresponds to 2% of the total EUR 10 figure. The output of hybrid maize for sowing is higher: about 125 000 quintals (7-8% of the EUR 10 total).

In Portugal, hardly any fodder seed is grown and the quantities of hybrid maize for sowing (about 6 000 quintals, i.e. 0.4% of the EUR 10 total) and rice for sowing (about 12 000 quintals, i.e. 3% of the corresponding EUR 10 figure) are fairly small.

The situation in the Community of Twelve is therefore unlikely to change substantially, apart from an increase in intra-Community trade.

The seeds sector is subject to conventional transition in the case of Spain and Portugal; no special rules are applicable during the transitional period. The system of Community subsidies came into effect in Spain and Portugal from 1 March 1986 for certain species and from the beginning of the 1986/87 marketing year in other cases.

4. 1987/88 - SHORT-TERM OUTLOOK

4.1. COMMON PRICES

For 1987/88 the reference prices for hybrid maize have been fixed as follows:

I. Double cross and top cross hybrids:	95 ECU/100 kg
II. Three-way hybrids :	110 ECU/100 kg
III. Single cross hybrids :	235 ECU/100 kg

In the case of hybrid sorghum the reference price has been set as follows:

I. Single cross hybrids for sowing:	135 ECU/100 kg.
-------------------------------------	-----------------

In October 1987 the countervailing charges on hybrid maize imports ranged from 10.2 to 98.2 ECU/100 kg, depending on the country of origin and the type of hybrid concerned. At the same date, the countervailing charge on hybrid sorghum was 46.2 ECU/100 kg.

4.2. OUTLOOK

The area declared for control by the Member States totalled 291 000 ha in 1987; thus there has been very little change compared with 1986.

Production, in particular that of fodder seed, is expected to remain at about the same level as in 1986.

Wholesale trade prices are fluctuating in relation to 1986. Prices were as follows in Denmark, the Community's main fodder-seed market:

	ECU/100 kg	
	<u>September 1986</u>	<u>September 1987</u>
Lolium perenne L. (var. tardives)	114	95
Lolium multiflorum L.	82	70
Festuca partensis L.	93	104
Festuca rubra L.	117	120
Poa pratensis	245	198

5. CONCLUSION

The 1987 seed harvest is expected to be more or less the same as in 1986, in particular in the case of fodder seed and rice for sowing. However, fluctuations in price from species to species appear to be greater than last year.

THE ANIMAL FEED MARKET IN 1986

1. THE ROLE of animal feed products under the common agricultural policy and their influence on economic equilibria are of growing importance. In all developed countries, human consumption of cereals is marking time. It is therefore probable that the production surplus, in particular that of wheat, will be accounted for mainly by the animal feed sector, because:
- exports are hampered by mounting difficulties (demand for which there is no financial resources, ambitious export programmes);
 - the production of importing countries, like the USSR and China, is increasing;
 - progress in biochemistry means increasing yields throughout the world;
 - carry-over stocks are heavy and costly to finance.
2. THE SUPPLY for animal feed (1) amounted to approximately 300 million t feed units in 1985 for the Community of Ten.
- More than half (55% or 165 million t feed units) is accounted for by feeds generally not marketed, comprising annual fodder crops (including forage maize) and perennial fodder crops (mainly from meadows and pastures), whose importance has tended to decrease since 1981, although maintaining the first place within the feed balance sheet.
 - The remainder (45% or 135 million t feed units) comprises marketable feeds (cereals, substitutes, oilcake, etc.), where competition in terms of price and feed value is the fiercest and imports account for more than one quarter of consumption; animal consumption in this category shows a steady decline in the proportion of cereals and an increase in the proportion of substitutes and oilcake.

Breakdown of animal consumption of marketable feeds

	%		
	1975	1980	1985 (provisional)
Cereals	61	54	51
Substitutes (imports)	5	9	11
Oilcake	13	17	17
Other	21	20	21
Total	100 (116 million t feed units)	100 (134 million t feed units)	100 (135 million t feed units)

(1) Source: EUROSTAT, 1985 Feed Balance Sheet (provisional) EUR 10.

This global trend is all the more significant in that total animal consumption of these products has ceased to progress since 1980 and has stabilised at approximately 135 million t feed units: an increase in consumption of one group of products in this context can now only take place at the expense of another.

3. OVERALL DEMAND FOR FEEDINGSTUFFS

Expressed in terms of feed units for EUR 10 is estimated at 281 million t feed units for 1986, nearly 3 million t feed units down on 1985; the fall in demand in the cattle sector (meat and dairy) was not offset by an increase in demand in the pig and poultry sectors. The contraction of overall demand for animal feed is a new factor since 1984 which accentuates the competition between the feeds available for animal consumption.

4. SUPPLIES of raw materials for the manufacture of feedingstuffs in 1986 were facilitated by the existence of abundant internal and external supplies. The upward trend in the use of substitute products, together with an increase in animal consumption of oilcake, was once more evident, in view of the favourable price ratios compared with feed grains in the Community.

4.1 Imports of products mainly intended for livestock feed to the Community of Twelve from non-member countries between 1984 and 1986 showed the following main trends:

- a) imports of cereals fell from 14 to 6 million t, a decrease of 57% (mainly affecting maize);
- b) imports of oilcake and protein-rich products increased from 25,4 to approximately 30 million t (in oilcake equivalent);
- c) imports of cereal substitutes listed in Annex D of Reg 2727/75 rose from 13 to 15 million t and those of other energy-rich products from 3.1 to 3.6 million t;
- d) overall, imports of products mainly intended for livestock feed declined from 56 million t in 1984 to 54 million t in 1986: the fall in cereal imports was almost cancelled out by the increase in imports of substitutes, oilcake and other products.

4.2 Community production used for animal consumption rose mainly in the oilseeds and protein plants sector.

Production of oilseeds and protein plants in the Community
(million t)

											PROTEIN PLANTS			
											PEAS	SWEET	DRIED	TOTAL
											AND	LUPIN	FODDER	for
											FIELD	BEANS		animal
											for			con-
											animal			sumption
											consumption			
EUR 9	1975/76	0,9	0,2	0,004	1,1	0,6	(0,7)		1,5	(2,2)				
	1979/80	1,2	0,2	0,022	1,4	0,7	0,9		1,7	2,6				
EUR 10	1980/81	2,0	0,3	0,018	2,3	1,2	1,0		1,6	2,6				
	1985/86	3,8	1,8	0,3	5,9	3,0	2,1		1,4	3,5				
	1985/86	3,8	2,7	0,3	6,8	3,5	2,1		1,6	3,7				
EUR 12	1986/87	3,7	3,2	0,8	7,7	4,1	2,7		1,8	4,5				
	1987/88	6,1	3,6	1,4	11,1	6,0	3,3	0,004	n.a.	n.a.				
	forecast													

(1) Average yield of rapeseed and sunflower seeds in terms of oilcake: 0.5.
Average yield of soya beans and sunflower seed in terms of oilcake: 0.8.

Source: EUROSTAT and DG VI.

Community production of cereals has grown while animal consumption of cereals, once more declined in 1986 owing to competition on prices, in particular from imported products. The animal consumption is still the main outlet on the cereals balance sheet.

Total animal consumption of cereals in the Community compared with total cereals production

(million t)

		Total cereals production	Total animal consumption of cereals	Ratio as %
		a	b	c = b/a
EUR 10	1975/76	100.0	69.9	70%
	1979/80	117.8	72.9	62%
	1985/86	138.7	69.9	50%
EUR 12	1985/86	160.5	87.4	54%
	1986/87	153.5	85.6	56%
	1987/88	155.5	84.5	54%
	forecast			

Source: EUROSTAT and DG VI.

- 4.3 The self-sufficiency rate in feed units for animal consumption in the Community is 73% for all marketable products, mainly on account of purchases of imported substitutes and of animal consumption of oilcake, the self-sufficiency rate for which is estimated at 11%. For all feed units offered for animal consumption (concentrates and roughage) the self-sufficiency rate is 88%.
5. INDUSTRIAL PRODUCTION OF COMPOUND FEEDINGSTUFFS amounted to 96.9 million t in the Community in 1986 (1): it increased by approximately 3% over the previous year see Table 2 in Annex but did not equal the record of 99 million t in 1983. Growth was most marked in the case of cattle (meat and dairy) and pig feeds.

Cereal substitutes, oilcake, fats and other products tended to be used increasingly as raw materials for the manufacture of compound feedingstuffs. The quantity of cereals used for this purpose has remained at between 26 and 30 million t since 1975 for EUR 9: there has been no increase in this quantity as a result of the rise in industrial production of compound feedingstuffs and, consequently, the average incorporation rate for cereals fell from 45% to approximately 34% in 1986.

6. THE PRICE remains the first criterion for the choice of raw materials to obtain balanced rations at less cost. Competition between products or mixtures of products of equivalent nutritional value is dependent on price differences and their differential development. The fall in the price of cereals on the internal market in 1986 did not bring about an increase in animal consumption of cereals, mainly on account of the greater fall in the price of imported feeds as a result of the decline in the dollar as compared with the ECU and the fall in world prices.

The decrease in the price of raw materials of Community origin and imported raw materials in 1986 led to a fall in the price of animal feeds (1) and consequently played a part in the fall in production costs in the livestock sectors while bringing about an increase in the price ratios between livestock production and feedingstuffs.

(1) EUR 12; without Greece and Luxembourg - Source: FEFAC.

(2) - 9,3% in 1985 as compared with 1984

- 5,3% in 1986 as compared with 1985

Source : EUROSTAT - Variation in the deflated EC indices for purchase prices of the means of agricultural production - EUR 11.

Table 1

IMPORTS OF SUBSTITUTES FROM NON-MEMBER COUNTRIES

	1975	1976	1977	1978	1979	1980	1981**	1982	1983	1984	1985	1986***
07.06 (Manioc)	2.222	2.984	3.801	5.976	5.375	4.866	6.677	8.101	4.504	5.257	6.336	5.822
07.06.90	115	55	9	6	81	324	88	55	142	101	351	602
Sweet potatoes												
23.02.01	267	417	280	145	205	233	279	222	265	190	80	11
Maize, rice, bran												
23.02.09			15	6	3	5	5	6	7	4	3	3
Maize, rice, bran												
23.02.21	1.237	1.839	1.903	1.798	1.806	1.707	1.704	1.733	1.679	1.002	887	665
Bran, other												
23.02.29			4	6	0,1	5	6	2	7	1	3	4
Bran, other												
23.03.81						190	284	390	529	417	488	321
Beet pulp												
23.03.15	930	1.147	1.486	1.685	2.021	2.596	2.837	2.842	3.566	3.734	3.542	4.097
Maize gluten feed												
23.03.90	57	94	116	161	204	290	365	377	498	416	436	633
Brewers' grains												
23.04.06	465	564	709	790	869	856	790	735	735	609	530	571
Maize germ cake 3% fat												
23.04.08	60	65	108	181	167	202	242	328	567	427	428	869
Maize germ cake 8% fat												
23.06.20	10	19	17	7	9	38	57	35	42	38	8	0
Grape must												
23.06.50	480	646	968	1.000	1.205	1.571	1.351	1.265	1.430	1.322	1.467	1.237
Citrus peels												
23.06.90	56	136	164	117	177	156	103	130	157	95	106	207
Other fruit waste												
TOTAL excl. manioc	3.677	4.982	5.779	5.902	6.747	8.173	8.111	8.120	9.624	8.356	8.329	9.220
TOTAL incl. manioc	5.899	7.966	9.580	11.878	12.122	13.039	14.788	16.221	14.128	13.613	14.665	15.042

(**) Greece included

(***) Spain and Portugal included

Source : EUROSTAT/COMEXT

Table 2

PRODUCTION OF COMPOUND FEED IN THE COMMUNITY

Comparison 1985-1986

Feed for:	1 000 t																	
	Cattle				Pigs				Poultry				Other				Total	
	1985	1986	% TAV 1985/86	% TAV 1985/86	1985	1986	% TAV 1985/86	% TAV 1985/86	1985	1986	% TAV 1985/86	% TAV 1985/86	1985	1986	% TAV 1985/86	% TAV 1985/86		
BRD	7110	6938	- 2,4 %	- 0,5 %	5829	5799	- 0,5 %	0,7 %	3228	3249	0,7 %	502	492	- 0,2 %	16669	16478	- 1,1 %	
F	3519	3742	6,3 %	3,5 %	4326	4477	3,5 %	3,8 %	5534	5743	3,8 %	1342	1404	4,6 %	14721	15366	4,4 %	
I	3850	4015	4,3 %	3,6 %	2350	2435	3,6 %	2,1 %	4050	4135	2,1 %	350	385	10,0 %	10600	10970	3,5 %	
NL	5720	5766	0,8 %	5,2 %	6886	7241	5,2 %	4,8 %	3353	3191	- 4,8 %	258	335	29,8 %	16217	16533	1,9 %	
B	1391	1355	- 2,6 %	4,5 %	2550	2665	4,5 %	1,5 %	937	951	1,5 %	143	107	- 25,2 %	5021	5078	1,1 %	
UK	4517	4903	8,5 %	2,6 %	2142	2197	2,6 %	7,1 %	3229	3457	7,1 %	532	637	19,7 %	10420	11194	7,4 %	
IRL	1186	1559	31,5 %	1,4 %	443	449	1,4 %	7,1 %	294	315	7,1 %	77	102	32,5 %	2000	2425	21,3 %	
DK	1720	1788	4,0 %	7,3 %	1955	2097	7,3 %	2,5 %	522	509	- 2,5 %	129	141	9,3 %	4326	4535	4,8 %	
EUR-10 (a)	29013	30066	3,6 %	3,3 %	26481	27360	3,3 %	1,9 %	21147	21550	1,9 %	3333	3603	8,1 %	79974	82579	3,3 %	
ESP	2424	2356	- 2,8 %	- 1,4 %	4188	4130	- 1,4 %	3,3 %	3992	3860	- 3,3 %	1086	1065	- 1,9 %	11690	11411	- 2,4 %	
P	635	738	16,2 %	21,0 %	933	1129	21,0 %	4,0 %	910	946	4,0 %	100	112	12,0 %	2578	2925	13,5 %	
EUR-12 (a)	32072	33160	3,4 %	3,2 %	31602	32619	3,2 %	1,2 %	26049	26356	1,2 %	4519	4780	5,8 %	94242	96915	2,8 %	

(a) Greece and Luxembourg excluded

Source : FEFAC

DRIED FODDER, PEAS, FIELD BEANS AND SWEET LUPINSI. Dried fodder1. INTRODUCTION

The common organization of the market in dried fodder covers the following products: dehydrated fodder and dried legumes, protein concentrates obtained from lucerne and grasses, and by-products obtained in the manufacture of protein concentrates.

2. THE 1986/87 MARKETING YEARA. Production

Production of dehydrated fodder in the Community in 1986 was 1 547 664 t. The main producer Member States were France (795 000 t), Denmark (176 400 t), Italy (173 282 t), Germany (124 531 t) and the Netherlands (122 068 t). Production of sun-dried fodder, mainly in Spain, was 300 000 t.

These figures represent an increase on the previous year for dehydrated fodder (1,441 066 t), but a fall for sun-dried fodder (350 000 t).

B. Trade

Community imports of dehydrated fodder rose from 99 143 t in 1985 to 162 449 t in 1986. Exports were 85 107 t compared with 60 160 t in 1985.

C. Prices, aids and budgetary expenditure

1. The 1986/87 marketing year

The Council fixed the 1986/87 guide price for dehydrated fodder at 178.92 ECU/t for the Community of Ten and Portugal and at 152.45 ECU/t for Spain.

The flat-rate aid introduced by the Council to encourage the production of protein in the Community was kept at its level for the previous year (8.49 ECU/t).

2. The 1987/88 marketing year

The guide price for 1987/88 is the same as for 1986/87, i.e. 178.92 ECU/t, and it also applies to Portugal. The guide price for Spain is 156.86 ECU/t. However, the flat-rate aid has been discontinued for 1987/88 and the following marketing years.

The variable aid for dehydrated fodder has been fixed by the Council at 100% of the difference between the guide price and the world market price. For sun-dried fodder, a fixed amount of 43 ECU per tonne to be deducted from the variable aid for dehydrated fodder was determined by the management committee procedure.

3. Budgetary expenditure

EAGGF guarantee expenditure on dried fodder was 154 million ECU in 1986 and the 1987 budget forecast is 208 million ECU.

II. Peas, field beans and sweet lupins used in animal feed

1. INTRODUCTION

Since the Community's demand for feed protein greatly exceeds production, on 22 May 1978 the Council adopted special measures designed to expand the utilization of peas and field beans in animal feed. From the 1984/85 marketing year onwards, the Council agreed that these measures should be extended to include sweet lupins. At the start of the 1985/86 marketing year the Council adopted a system of monthly increments for support prices and agreed different minimum prices for peas and for field beans.

2. THE 1986/87 MARKETING YEAR

In 1986/87, 1 670 638 t of peas, 382 571 t of field beans and 1 139 t of lupins were declared as having entered feed compounding undertakings. This represents an increase of 19% in the case of peas and 54% in the case of field beans compared to 1985/86. These figures indicate that these products are used increasingly in compound feedingstuffs.

For the 1986/87 marketing year, the activating price for aid was set at 50.96 ECU/100 kg for peas and field beans in the Community of Twelve and at 48.50 ECU/100 kg for sweet lupins in the Community of Ten and Portugal and 44.96 ECU/100 kg in Spain. The minimum purchase price was fixed at 28.63 ECU/100 kg for peas in the Community of Twelve and at 27.62 ECU/100 kg for field beans. The minimum price for sweet lupins was fixed at 31.11 ECU/100 kg for the Community of Ten and Portugal and at 29.90 ECU/100 kg for Spain.

The overall effect of the price changes was an increase of 1% in the minimum price, and an increase of 0.6% in the activating price for peas and field beans and of 0.5% in the activating price for sweet lupins.

For 1986/87, the Council also agreed an increase from six to eight in the number of monthly increments applying to the guide price and to the minimum price.

3. THE 1987/1988 MARKETING YEAR

In order to ensure that developments in this sector, which has experienced exceptional growth rates, is more reasonable in the future, the Council has decided to apply a rigorous price policy entailing a 10% reduction in the minimum price. There are still eight monthly increments and their level is unchanged, i.e. 0.18 ECU/100 kg in the case of those to be applied to the guide price and the minimum price and 0.40 ECU/100 kg in the case of those to be applied to the activating threshold price, which is fixed at 44.76 ECU/100 kg.

These provisions apply to Spain and Portugal, except as regards the level of prices for sweet lupins, which are as follows:

	<u>Spain</u>	<u>Other Member States</u>
minimum price	27.19	28.90
activating threshold price	40.43	43.05

III. Peas and beans for human consumption

1. INTRODUCTION

On 18 May 1982, by Regulation (EEC) No 1432/82, the Council adopted a new set of special measures for peas and beans, extending the aid system to peas and field beans used for human consumption. The new system entered into force on 1 August 1982.

The aid for peas and field beans intended for human consumption is granted on a different basis from that applicable for peas and field beans for animal feed. In the case of human consumption, the aid granted is equal to the difference between the guide price and the world market price recorded at the Community frontier for peas and field beans of varieties capable of competing with Community production.

2. THE 1986/87 MARKETING YEAR

The quantity of peas and field beans declared as having been used by undertakings processing them for human consumption in 1986/87 was 182,643 t, representing a decrease of 10% on 1985/86. The guide price for 1986/87 was set at 32.80 ECU/100 kg. The world market price started the marketing year at 17.48 ECU/100 kg in September 1986, dropping in July 1987 to 17 ECU/100 kg.

IV. Budgetary expenditure on peas, field beans and sweet lupins

In 1986 EAGGF guarantee expenditure in this sector totalled 305 million ECU compared with 255.5 million ECU in 1985. This increase is the result of the increased utilization of peas and field beans in feedingstuffs. The appropriations allocated for 1987 amounted to 471 million ECU.

Milk and Milk Products

I. INTRODUCTION

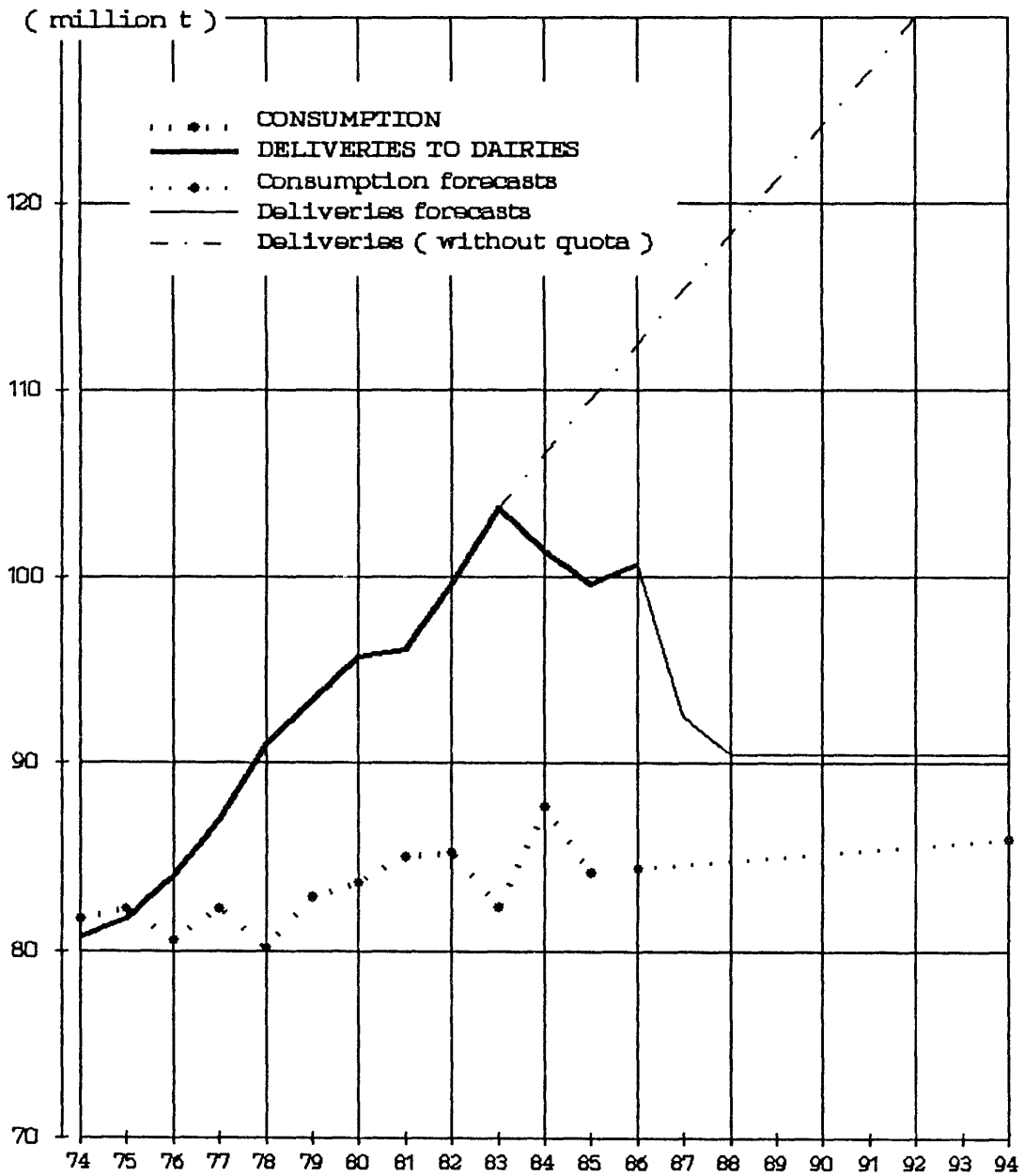
The Community milk market is still characterised by a structural surplus situation. However, important policy measures to reduce milk deliveries to dairies and to limit public intervention purchases have started to show significant results. The first signs of market improvement internally, as well as on the international market, are slowly becoming visible and could, hopefully, in the course of time, recompense efforts to adapt production to the market possibilities.

II. GENERAL SITUATION

In December 1986, the Council decided to reinforce the milk quota system through further reductions of the guaranteed quantities by 9.5% over two years, and by improving the Community cessation scheme for milk producers. In March 1987, the Council introduced limitations on the intervention buyings of butter and skimmed milk powder. Agreement was also reached on the means to finance a 2-year stock disposal programme for a total of 1 mio tonnes of butter. These decisions clearly demonstrated the Council's intentions of curbing surplus milk production, contributing to a normalisation of budgetary and commercial developments. In the international perspective, the Council stressed the importance that other countries responded to Community efforts by similar production limiting measures, in order to improve international market conditions. The international milk supply, which was reduced in 1987, not least due to EEC efforts, is again forecast to expand. The possible negative impact of such expansion and the risk of stocks beginning to increase again, in spite of the important efforts made in certain countries, does underline the necessity for some international agreement on a coordination of policies.

As to the effects on the EEC market, a reduction of 16% or 4.5 mio dairy cows is foreseen between 1983 and 1988, of which 2.5 mio head had already disappeared by end 1986. Community (12) milk deliveries in 1986 were already 2.2 mio tonnes or 2% below peak year 1983 and will fall by a further 5.9 mio tonnes or 5.5% in 1987 and an additional 3.4 million tonnes or 3.4% in 1988. Also, the production of butter and skimmed milk powder fell dramatically in 1987, as did the quantities of these products bought into intervention. Hence, a more balanced situation is already in hand as far as the Community skimmed milk powder market is concerned. For butter, a significant improvement is foreseen in the course of 1988. As the stock situation gradually becomes more manageable, there is some scope for optimism in the short-term, depending, however, on export markets and the cooperation of other important producers and traders of dairy produce.

MILK Deliveries and consumption EUR 10



Source : EUROSTAT and EC Commission, DG for Agriculture

Consumption is calculated on the basis of an overall milk balance in milk equivalent (by reference to fat content)

III. DEVELOPMENTS IN 1986

A. EUR (10) : Production and Utilisation

At the end of 1986, the Community dairy cow numbers were 451.000 or 1.9% lower than at the end of 1985. The average yield per dairy cow in 1986 was estimated at 4.500 kg, or 3.8% higher than in 1985. This reflects a continuous structural, genetic and management development at farm level, as well as a return to more normal feeding in comparison with 1984, when feeding practices were considerably influenced by the introduction of the additional levy system.

The proportion of the milk production delivered to the dairies amounted to 92.3%, indicating a slight increase compared to 1985.

The introduction of the superlevy system as from April 1984 resulted in an immediate reduction in deliveries, which, since then, have been running considerably below the peak year 1983 and amounting to approximately 101 million tonnes in 1986. The reduction in deliveries was obtained either via reduction in dairy cow numbers or via reduced utilisation of compound feeding stuffs (or via a combination of the two) and, consequently, the dairy cow number dropped by 2.055 million head or 7.9% between 1983 and 1986.

However, due to a weakening of the dissuasive effect of the quota system, the deliveries again started to increase from mid 1985 and the deliveries in 1986 were 1.4% higher than in 1985. This development was reflected in the butter and skimmed milk powder (SMP) production, showing increases in 1986 of 6% and 9% respectively. However, despite these increases, the productions in 1986 were still lower than in 1983 : 5.7% for butter and 13.2% for SMP.

As to individual products, the development of production and consumption can be summarised as follows :

a) Drinking milk and fresh milk products

The overall use of milk in the Community for liquid milk and fresh milk products was still moving in a positive direction in 1985 and in the beginning of 1986, but at a very slow rate in most member states. The disaster in Chernobyl in May last year resulted in important temporary decreases in consumption, especially in Germany, Italy, the Netherlands, Greece and certain areas of the United Kingdom. However, the temporary decline in consumption, due to the Chernobyl disaster, has almost been counterbalanced by the development in the rest of the year.

The general tendency of the last ten years to consume more semi-skimmed milk and less whole milk continued also in 1986. In France, the general tendency of increase in total consumption of drinking milk has been replaced by a decrease and decline in total consumption has also been experienced in Germany and the United Kingdom.

The total share of UHT milk of the Community consumption of whole and semi-skimmed milk increased slightly in comparison with 1985, with the highest levels found in France and Germany.

b) Butter

After having experienced a decline in butter production of 269.000 tonnes or 11.7% between 1983 and 1985, the production again started to increase, reaching 2.170.000 tonnes in 1986 or 138.000 tonnes or 6.8% more than in 1985. This development was partly due to a slight increase in deliveries and partly to a smaller utilisation of milkfat in other dairy products. The total domestic butter consumption in 1986 increased by 13.000 tonnes or 0.8% compared to 1985. However, the increase is mainly due to increased sales of subsidised butter under traditional disposal schemes and the general tendency of decline in butter sales at normal market price has continued. Thus, an important part of the domestic market relied on special measures, which, together with reductions in the intervention price for butter decided on for 1984/85 and 1985/86 have contributed to the global stabilisation of Community butter consumption. Such policy measures have had a particular importance against the background of unemployment and other economic/social difficulties.

Sales of butter at reduced prices to food industries, non-profit-making institutions, etc. increased by 45.000 tonnes or 19% in 1985 and by a further 65.000 tonnes or 23% in 1986 compared to 1985 and the increase in sales under traditional disposal measures will be continued in 1987.

c) Skimmed milk powder

Also for skimmed milk powder, the decline in production (-7.3%) experienced in 1985 was replaced by an increase of 10% or 195.000 tonnes more than in 1985. However, the production of 2.110.000 tonnes in 1986 was still considerably lower (-325.000 tonnes or -13%) than in the peak year of 1983. The increase in production of SMP in 1986 was less than the increase in deliveries should indicate due to a continuous increase in the uptake of skimmed milk in other dairy products.

The manufacture of skimmed milk powder in the Community still far exceeds human demand at market prices, which amounts to less than 11% of total production. Whereas, in earlier days, animals were fed on the farm with whole milk or skimmed milk returned from butter production, the increasing use of compound feed made by the animal feed industry and based on imported proteins, has created the background for the production of SMP and for aid schemes for the incorporation of SMP in feed compounds.

d) Cheese

Community cheese production remained relatively stable in 1986, increasing by only one per cent in comparison with 1985. As internal cheese consumption increased by 2.3%, the reason for only limited expansion of production, in global terms, was, as for 1985, a reduction of exports. Thus, the upward trend in consumption continued and at a lower rate than in 1985. No doubt, one of the main reasons for this continued increase is the availability to the Community consumers of a wide range cheese types and qualities, including imports of approximately 100.000 tonnes of cheese from third countries.

e) Whole milk powder

Traditionally, the production of whole milk powder in the Community is linked to the development on the international market. Having increased by more than 60% from 1978 to 1980, the international market came to stagnation in 1981 and exports decreased by 15% both in 1982 and 1983. After the improved exports of more than 100.000 tonnes in 1984, 1985 showed stagnation, before another increase of 40.000 tonnes or 5.6% again occurred in 1986. Nevertheless, Community production decreased by some 5% compared with 1985, reflecting a very unsettled situation on the international market, in particular in the first part of the year.

f) Condensed milk

As for whole milk powder, condensed milk production is mainly dependent on some few international markets, where economy is very fragile. Reflecting the international outlets, the Community condensed milk production in 1986 decreased slightly, by some 6%, in 1986, bringing the production back down to the 1984 level.

g) Casein

EEC production of casein is linked to a system of aids paid for skimmed milk used for the production of casein and caseinates. Community casein production increased by 22.000 tonnes or 18% in 1985 and the increase continued in 1986, although at a lower rate (+ 2.000 tonnes or + 1%).

B. International Supply Situation

Total milk deliveries in OECD, USSR and the East Block amount to some 350 mio tonnes or 75% of world milk production⁽¹⁾. However, these countries account for the main part of world trade of dairy products.

(1) Cows' milk only

Milk Supply (mio tonnes)	1983	1985	1986 (prel.)	1987 (fore- cast) ⁽²⁾
OECD (22 countries)	213.8	213.1	214.5	207.7
of which: EEC(12)	109.1	105.6	106.9	101.0
Eastern Block	137.4	140.7	143.2	145.6
of which : USSR	96.5	98.6	101.1	103.0
TOTAL (29 countries)	351.2	353.8	357.7	353.3

From these figures, it is evident that reduced EEC milk deliveries since 1983 (milk quotas started in 1984) have been totally outweighed by increases in other countries. In particular, increases were noted for the USA (+ 1.9 mio tonnes), New Zealand (+ 0.5 mio tonnes), Australia (+ 0.3 mio tonnes) and Japan (+ 0.3 mio tonnes).

If, comparing the high 1983 levels with the forecast for 1989 recently provided for the OECD, the changes in milk deliveries are projected as follows :

EEC (12)	- 11.1%	Finland	- 6.7%
Canada	+ 5.4%	Sweden	- 5.6%
USA	+ 3.9%	Norway	+ 0
New Zealand	+ 2.9%	Switzerland	+ 0
Japan	+ 2.9%		
Austria	+ 2.7%	<u>Total 22 countries</u>	: -4.3%
Australia	+ 1.7%		

The OECD Group on Dairy products concluded in June 1987 that even with continued EEC quotas (as in 1988/89), the total OECD milk production could begin to grow at about 0.5% annually from 1989 onwards and thus, due to unchanged milkfat consumption, produce an increasing surplus.

(2) Forecast by DG VI

Another question is whether production increases in the East Block will be outweighed by consumption increases within the same region. As to production, however, it is a crucial fact that the supply policy in the East Block is largely outside the political influence of OECD countries. The adaptation of over-supply to market possibilities is, therefore, a problem for the OECD group of countries mainly.

As the global OECD/East Block milk supply in 1986 increased by 4 mio tonnes, or more than one percent, and the OECD butter stocks increased over the year by 260.000 tonnes to nearly 1.7 mio tonnes, the international market remained under pressure for the main part of 1986, in particular as far as international market prices were concerned. Only in October 1986 could prices for milk powders and cheese see some moderate improvements. The weakness of the market situation in 1986 was also reflected by a reduction of international dairy exports by some 4% (milk equivalent basis).

The supply situation for 1987 is showing a significant improvement, mainly because of a foreseen reduction of OECD milk supplies by more than 6.5 mio tonnes of milk or by some 3%. Also the OECD butter stocks have fallen over the first half year of 1987 by 280.000 tonnes and are forecast to be reduced further, as the Community destocking programme takes full effect, by end 1988. This scheme includes - over 2 years - 400.000 tonnes of old butter for animal feed, 400.000 tonnes of exports to particular destinations, 130.000 tonnes as concentrated butter for direct consumption and 100.000 tonnes for special industrial purposes. By end September 1987, all of these schemes, with the exception of the concentrated butter and butter for industrial use, were running well ahead of target.

C. Community Consumption, Self-sufficiency and Stocks

a) Consumption

Consumption of dairy products in the Community is normally measured as the market disappearance, in milk equivalent terms, by taking account of the milk supply, exports and imports, as well as stock changes. As to human consumption, it is generally assumed that calculations of the milk equivalent should be based on the market disappearance of milk fat only, as distinct from total milk disappearance, which includes a substantial quantity of skimmed milk (- equivalent) for animal feed. Due to important stock variation, mainly linked to the application of special schemes for stock disposal, the human consumption in the Community should be considered in terms of trends and levels, rather than focusing on particular year-to-year variations.

The global Community (EUR-10) consumption of all dairy products is developing according to a long-term trend of + 0.5% annually and representing, for the time being, a level of approximately 85 mio tonnes of milk. Consequently, the long-term additional sales represent less than 500.000 tonnes of milk annually. In the short-term, developments are more irregular and recent indications point to a stabilisation of milk consumption rather than a continued increase.

In particular, when assuming no special measures for internal EEC disposal of butterfat, the global Community milk consumption would stagnate at a level of 79-80 million tonnes or 6-7 mio tonnes of milk (or 8-9%) below the actual annual consumption.

The overall trend for EEC butter consumption is close to - 1% annually. Without special sales measures, the trend would most likely be - 2.5% annually.

For all other ("non-butter") dairy products, the actual long-term trend of consumption is + 1.8% annually, representing, on average, additional sales of some 800.000 tonnes of milk per year.

b. Self Sufficiency

At the actual 1986 level of all milk deliveries⁽¹⁾ and internal consumption of 85 million tonnes in EUR (10), the rate of Community self-sufficiency would equal 120% or slightly higher than in 1985, due to increased milk deliveries. In 1986, on a milkfat basis, the milk equivalent of imports represents about 2.5 mio tonnes and that of exports about 12 mio tonnes of milk. Thus the measure of self-sufficiency is not necessarily an expression of "surplus". For that purpose, several additional elements should also be considered, e.g. measures of market disposal and stock-developments. As to the necessary support to enable the commercialisation of milk products on the internal and external markets in 1986, 20% of the butterfat delivered to dairies and 37% of the skimmed milk, received some kind of price subsidy. The comparative figures for 1985 were 26% for butterfat and 38% for skimmed milk. However, as butter stocks increased in the course of 1986, these aids did not improve the overall offtake, and, in particular, did not prevent a further decrease of exports.

c. Storage of butter, SMP and cheese

- Butter : In 1986, 647.000 tonnes of butter were bought in by the Intervention Agencies. In the same year, 211.000 tonnes of intervention butter were sold within the Community in connection with special measures, while 36.000 tonnes were allocated for food aid. At the end of 1986, public stocks of butter were 1.283.000 tonnes. During 1986, private storage aid was granted for

(1) Including cream, goats' and ewes' milk

164.000 tonnes of butter. At the end of 1986, 83.000 tonnes were still in private storage. Certain programmes for internal, special sales measures for intervention butter also grant an equivalent aid for market butter. In 1986, 182.000 tonnes were sold with aid, directly from the market.

- Skimmed milk powder : In 1986, 602.000 tonnes of skimmed milk powder were bought in by the intervention agencies, while 350.000 tonnes were removed from storage, of which 322.000 tonnes for internal EEC measures and 28.000 tonnes for food aid. Public stocks at the end of 1986 amounted to 772.000 tonnes. Since the turn of the year, a drastic decline in the quantities of skimmed milk powder bought in by the intervention agencies was noticed.
- Italian cheeses, long-keeping cheeses : Private storage aids for certain long-storage cheeses have been applied regularly in 1986.

D. Trade

a. World Market Exports

Overall world dairy exports (milk equivalent) of dairy products⁽²⁾ fell by 4% in 1986 in comparison with 1985. This decrease was not evenly shared by milkfats and skimmed milk in exported products. As to fats, there was a decrease of 12%, whereas the skimmed milk content fell by 4% only. Consequently, the average "milk" exported as dairy products saw a decrease of the fat content from 4.1% in 1985 to 3.8% in 1986. This largely reflects the important decrease of butter exports and condensed milk exports and even a further 5% decrease of cheese exports. Also skimmed milk powder exports fell, by some 6%. In fact, only whole milk powder exports increased in comparison with 1985 by 6%, but could not balance the important fall in butterfat exports represented by other products.

World market trade conditions have been very difficult throughout the main part of 1986 due to a series of factors of which unstable currencies and low economic growth rates (high debt burdens in developing countries, low/stagnating oil prices), as well as surplus disposal measures, have been the most important.

In particular, the weight of international butter stocks and non-commercial disposal arrangements kept the market prices for butter and butteroil down to GATT minima for the whole of 1986 and even well into 1987.

(2) Casein and fresh products not included

For milk powders and cheese, some improvements in the stock situation for SMP as in the market for WMP and for certain cheeses, resulted in slight upward corrections of GATT minimum prices for these products as from 2 October 1986. The sustained tendency of market improvements for milk powders led to further adaptation of these GATT minima as from 25 June 1987 and for milk powders and cheese as from 23 September 1987, where the GATT minimum prices (US dollar/tonnes, f.o.b.) were fixed as follows :

	<u>23.9.87</u>	<u>25.6.87</u>	<u>2.10.86</u>
SMP/BMP	825	765	680
WMP	950	900	880
Butter	1.000	1.000	1.000
Butteroil	1.200	1.200	1.200
Certain cheeses	1.120	1.030	1.030

Thus, the downward international price movement for dairy products which started in 1982 has now come to a period of stabilisation for some products and improvement for others, one of the main reasons undoubtedly being the signs of new policies to curb dairy surplus productions and reduce the size of the stocks overhanging the market. Admittedly, the Community has not been able to reduce its stocks as rapidly as other important world market exporters. Consequently, through this period of non-commercial disposals and falling world market prices, the Community has continued to lose market shares for dairy products in relation with the record levels of 1980. From a global export share of 60% in 1980, EEC exports only represented 48% of the world market in 1984 and even fell to 43% in 1986, the lowest level in the last decade. A comparison of developments through recent years reveals the following results :

<u>Market share (%)</u> ⁽¹⁾	<u>1977</u>	<u>1979</u> ⁽²⁾	<u>1982</u>	<u>1984</u>	<u>1986</u>
EUR (10)	50	58	52	48	43
New Zealand	:	12	14	14	16
Australia	:	6	5	6	7
USA	:	5	7	12	16
Canada	:	5	7	5	4
Nordic countries	:	4	4	4	4
East Block countries	:	5	4	4	4
Other countries	:	5	7	7	6
Total		100	100	100	100

Hence, the most significant gain in this market is made by the USA, and New Zealand and Australia have also improved their market shares over the period in question.

- (1) Based on milk equivalent (skimmed milk and milkfat combined) of exports, not including fresh products and casein, but including food-aid and non-commercial (concessionary) trade.
- (2) Comparable GATT information only available since 1979.

b. Community Exports and Imports

In quantity terms, the exports of WMP from the Community in 1986 maintained its level from 1985, whereas all other main products groups showed decreases in comparison with 1985 : butter/butteroil : minus 15%, SMP : minus 12%, cheese : minus 5%, condensed milk : minus 20%, casein : minus 3%, fresh milk, etc. : minus 20%. In milkfat terms, EEC exports in 1986 amounted to the equivalent of 12.8 mio tonnes milk, or 12% less than in 1985. The skimmed milk content of casein exports fell by 3% and that of all other dairy products exported by nearly 7%. As to individual products, nearly 32% of Community butter exports in 1986 went to the USSR, with Egypt in second place and Poland, Algeria, Syria and Saudi Arabia as other important and traditional outlets for EEC butter/butteroil exports. Another traditional EEC market, Iran, buying annually 40-50.000 tonnes of butter at the end of the seventies and beginning of the eighties, have fallen to limited quantities of 8.000 tonnes in 1985 and 1.500 tonnes in 1986. Community food aid exports of butteroil in 1986 remained unchanged at about 35.000 tonnes butter equivalent. On the other hand, reduced deliveries of SMP for food aid was the main reason for decreased SMP exports from the Community in 1986. However, substantial variations occurred between countries. Exceptionally, Brazil topped the list of destinations accounting for 16% of all Community SMP exports in 1986. Algeria and Mexico remained, with some 23% in total, as the most stable element of the EEC SMP exports. Important quantities have been exported to India over the years, in the context of food-aid programmes (e.g. 68.000 tonnes in 1981, 39.000 tonnes in 1984), but are, in 1986, reduced to some 13.000 tonnes. Also Iran, Tunisia and Cuba imported significantly less SMP from the Community in 1986 compared with earlier years.

Cheese exports from the Community in 1986 fell by 20.000 tonnes or by 5% in comparison with 1985, being even 8% lower than the peak level of 1984. Exports to Iran were 10.000 tonnes higher than the (very low) level of 1985, and the (new) exports of 14.000 tonnes to Brazil weighed positively against reductions to the USA (- 14.000 tonnes), Egypt (- 14.000 tonnes), Turkey (- 12.000 tonnes), Iraq and other countries.

Total Community WMP exports remained stable in 1986 in comparison with 1985, but variations between countries of destination were important, e.g. Algeria (+ 20.000 tonnes), Brazil (+ 27.000 tonnes), Saudi Arabia (+ 7.000 tonnes), Peru (+ 5.000 tonnes), and Iraq (- 23.000 tonnes), Venezuela (- 34.000 tonnes), Angola (- 13.000 tonnes), Syria (- 4.000 tonnes), Libya (- 4.000 tonnes).

A decrease of 150.000 tonnes in the world trade of condensed milk or 20% in comparison with 1985 has had the same impact on both Community and non-Community trade, leaving the EEC market share unchanged at nearly 71%. The trade is dominated by the Community and Canada, accounting together for some 85% of the market. In total, EEC exports fell by more than 100.000 tonnes, explained on the one hand by important decreases in Algeria (- 84.000 tonnes), Libya (- 10.000 tonnes), Nigeria (- 7.000 tonnes), Angola (- 8.000 tonnes) and several other countries, and some few increasing export markets, e.g. Saudi Arabia (+ 12.000 tonnes), Ivory Coast (+ 6.000 tonnes).

Total butter imports into the Community closely follow the pattern of the special arrangement for New Zealand butter, according to the Treaty of Accession allowing for imports into the United Kingdom of 81.000 tonnes in 1985 and 79.000 tonnes in 1986.

Cheese imports into EUR (12) increased in 1985 to 112.000 tonnes, but fell in 1986 to 98.000 tonnes, or by 12%. 54% of the cheese imports came from Switzerland and 16% (in total) from New Zealand, Australia and Canada. Finland was also an important exporter of cheese to the Community in 1986, representing some 9% of all Community cheese imports.

In the international perspective, the Community's imports amounted in 1986 to 12% of the global world butter exports (including USSR) and equally to 12% of the world cheese exports.

c. Internal Community Trade

It is worth noting that internal Community trade in dairy products reflects the institutional system of the common milk policy, as well as normal commercial relations between Member States. This is in particular true for intervention products (butter, SMP) being shipped from one country to another for public or private storage, irrespective of its final use or destination. Butter may also be sent to one Member State for transformation to butteroil and transshipped to another destination. In these cases, trade figures reflect the degree of "activity", rather than the degree of commercial development.

Internal butter/butteroil trade increased from 515.000 tonnes in 1985 to 560.000 tonnes in 1986, or by 9%. For SMP, an increase of 15% to 863.000 tonnes was still more significant, however, not reaching the high levels of 1983 and 1984. On the other hand, internal cheese trade increased by 4% - once again -, or by 40.000 tonnes in comparison with 1985.

E. Common Prices

The introduction of the superlevy system in 1984 was accompanied by a restrictive price policy which was maintained in 1985 and 1986 where the increase in target price (in ECU) was limited to 1.5% in total. However, higher increases in average nominal producer prices actually obtained for milk did occur and amounted to about 3% in 1985 and 1.5% in 1986. In deflated terms, average milk producer prices fell by less than 1% in 1986. A comparison between the producer prices obtained in 1986 and the target price fixed for 1986/87 reveals⁽¹⁾ that milk producers in Italy, Germany and Denmark received more than the target price, whereas producers in the other Member States and in particular the U.K. received less. Producers in Belgium and France received about 10% less than the target price, with Denmark and Germany in the range of plus 2% of the target. The developments and comparisons in national currencies will be different due to changes in green rates over time.

After the price decisions in 1984 and 1985, which included a change in the fat/protein milk value of the target price, the deflated butter prices have continued to decline - by a little more than 1% in 1986 - while that of margarine increased by approximately 4%. Consequently, the consumer prices in real terms have, especially after 1982, continued to improve compared to that of margarine. However, this development has not been sufficiently reflected in a positive development in domestic butter consumption at normal market prices, which has continued to decline in most member states.

F. Market Management 1986 and 1987

a. Imports

Import levies as foreseen under Article 14 of Regulation (EEC) n° 804/68 continue to represent the difference between the threshold price and the lowest offer price, free at Community frontier. As the target price for milk and the value ratio milk fat : skimmed milk were fixed unchanged for the year 1987/88, no changes were made in the threshold prices. In 1986, the Council prolonged its suspension of imports of dairy products under the Inward Processing Arrangement to the end of the milk year 1988/89 (with a temporary exception for whey only).

(1) EUROSTAT, Agricultural Prices, Selected Series

The quantities fixed for butter imports into the United Kingdom from New Zealand in accordance with the Protocol 18 of the Treaty of Accession amount to 79.000 tonnes, 76.500 tonnes and 74.500 tonnes in the calendar years 1986, 1987 and 1988 respectively.

b. Exports

As mentioned in a previous chapter, the world market remained under pressure from stocks, unstable currencies and non-commercial disposals through 1986 and well into 1987. However, refunds are fixed under observance of GATT minima and in reflection of currency fluctuations.

c. Food Aid Decisions

Council Regulation (EEC) n° 3972/86 on food-aid policy and food-aid management introduces new arrangements in respect of the Community policy on the supply of food-aid.

Briefly, the provisions which entered into force on 1 August 1987 provide that the Commission should be in charge of all operations, from the aid's mobilisation to its delivery to the recipient country, whereas responsibility for such operations was, under earlier provisions, given to the Member States' Intervention agencies, subject to consultation of the Management Committee for Milk and Milk Products.

The Commission Decision of 10 March 1987 fixes the following overall quantities for food-aid supplies in 1987 : 94.100 tonnes of milk powder and 27.300 tonnes of butteroil.

d. Intervention and Storage of butter

In 1986, the purchases of butter into public intervention were the highest ever noted, amounting to approximately 30% of the total butter production. At the end of 1986, 51% of the public butter stocks represented an age of more than 18 months old, and some 53.000 tonnes or 4% were more than 36 months old. In view of this situation, the Council decided in March 1987 on a package of measures, including limitation of intervention purchases, and extension of the social butter scheme and a special butter stock disposal programme. This programme involves a quantity of 1.030.000 tonnes to be disposed of over a period of two years, partly as export sales to certain destinations and mainly for inter-Community purposes as incorporation into feeding stuffs and for industrial use. As a consequence of the measures taken to reduce milk production, a considerable reduction has been noted since March 1987, as far as purchases of butter into public intervention is concerned.

e. Aid for Skimmed Milk, Skimmed Milk Powder and Casein

The aid fourchette for SMP was not changed at the beginning of the 1987/88 milk year; within these limits (60-90 ECU/100 kg - maximum aid for the pigs and poultry scheme, however, limited to 110 ECU/100 kg), aids for the use of skimmed milk were as follows :

- skimmed milk powder for animal feed 80 ECU/100 kg (no change compared with 1985/86);
- liquid skimmed milk for calf feed 7.27 ECU/100 kg (idem);
- liquid skimmed milk for other animals 11.0 ECU/100 kg (idem);
- SMP for pigs and poultry 110 ECU/100 kg;
- liquid skimmed milk for the manufacture of casein 9.30 ECU/100 kg.

Compared with 1985, the use of liquid skimmed milk in animal feed in 1986 showed a decrease of 8%; the use of SMP increased by 2%, while the quantities of skimmed milk transformed into casein and caseinates increased by 3%. Some 280.000 tonnes were made available from stocks for incorporation in pigs and poultry feed in 1986 (August-December).

f. Budgetary Expenditures

Expenditure in the milk sector amounted in 1986 to 5.406 mio ECU, corresponding to a decrease of 9% in comparison with 1985, whereas 1985 showed an increase of 9% compared with 1984. In 1986, the milk sector accounted for 24% of the total guarantee section expenditure. 72% of the milk sector expenditure, or 3.864 mio ECU, were allocated to internal Community measures, including surplus disposal measures and intervention storage costs. Receipts from the ordinary co-responsibility levy amounted to 552 mio ECU in 1986, whereas the additional "super" levy paid on over-quota deliveries amounted to 165 mio ECU, thus raising the amount of producer levies to a total of 717 mio ECU.

The estimated expenditure for the milk sector in 1987 amount to 5.730 mio ECU, of which receipts from co-responsibility and "super" levies could represent about 700 mio ECU.

IV. ENLARGEMENT

a. Spain

Spain's dairy sector has been incorporated into the EEC market organisation : the transition was of the conventional type and the market organisation became applicable from 1 March 1986.

Spain's milk production (about 5 million tonnes, i.e. 5% of the Community total) is concentrated in the north west, which has 57% of the country's potential production and over half its milk output. Herds are more evenly spread out in the rest of the country. The sector's final production accounts for 9.4% of total agricultural Community production.

Applying quotas may help better to reorganise Spain's milk sector on the basis of an economically sounder distribution of viable undertakings. The volume applicable to Spain in year one was 5.4 million tonnes of milk, based on the most favourable reference period compared with that chosen for the Community of Ten.

As regards trade, to avoid frequent use of the safeguard clause and the formation of structural surpluses, it was decided to provide for a supplementary trade mechanism (STM) designed to allow trade to develop harmoniously. Imports of milk, butter and cheese into Spain are accordingly subject to STM arrangements under which annual guide quantities are set from 1986 to 1989 so as to ensure smooth disposal of the products concerned. The number of applications for STM licences by Community traders was very high at first but, thanks to several changes in the rules, has now been contained. The STM has met mainly with difficulties of an administrative nature, but does allow close monitoring of trade and the gradual opening up of the Spanish market.

It should be noted that Spain, which tends to import products in the milk sector, has since 1 March 1986 been sending into intervention large quantities of skimmed milk powder and butter⁽¹⁾, representing 30% and 50% respectively of its overall production of those two products. This can be attributed to the fact that the intervention prices set during the negotiations were too high in relation to market prices.

As far as other aspects are concerned, the application of the EEC market organisation for milk in Spain has not given rise to any specific problems, thanks to the transitional measures provided for in the Act of Accession.

b. Portugal

The consequences of Portugal's accession have not yet been felt in so far as the Portuguese authorities will, for a five year period, remain in charge of the management of the domestic market and milk products will, in trade, continue to be treated as products from non-member countries.

(1) Since 1 March 1987, Spain has sent into intervention 7.504 tonnes of skimmed milk powder (2.418 tonnes in the Federal Republic of Germany). The total quantity of butter sent into intervention since accession has already reached 20.000 tonnes by 31 July 1987.

During this first five year period, Portugal will merely comply with certain rules and gradually adapt its milk sector in order to move towards full compliance with the EEC market organisation.

In structural terms, Portugal's milk production is about 1 million tonnes (1% of the Community total) and, on the mainland, is concentrated on the "Entre Douro e Minho" and "Beira Litoral" regions. The Azores (a total of nine islands) is a major milk producer.

V. ACTUAL SITUATION AND OUTLOOK

a) Deliveries compared to quota

The decision in 1984 on the additional levy system has broken the trend of continued increases of Community milk deliveries. During the first period of application of the system (1984/85), all Member States except for the Netherlands and Ireland, respected their guaranteed quantities and the Community as a whole lacked 0.4 mio tonnes to reach the global guaranteed quantity. In the second period of application (1985/86), all Member States except Greece have exceeded their global quantities, resulting in a total excess of 0.9 mio tonnes or less than 1%. The most important excesses were experienced in Germany, France and the Netherlands, accounting for approximately 0.8 mio tonnes. The deliveries compared to quota for the third period are given below, and indicate an excess of 0.8 million tonnes before adjustments for increased fat content of the milk. The most important excesses were found in Germany, the Netherlands and the United Kingdom.

Member States' deliveries compared to quotas in 1986/87 ('000 tonnes)

3rd period 1986/87 (a)			
	Quota	Collection e)	Difference f)
B	3.211	3.256 (d)	+ 45
DK	4.882	4.859	- 23
D	23.423	23.981	+ 558
GR	537	460 (e)	- 77
F	25.634	25.612 (c)	- 22
IRL	5.583	5.533	- 50
IT (b)	8.798	8.898 (b)	+ 100
LUX	290	290.6	+ 0.6
NL	11.979	11.181	+ 202
UK	15.394,574	15.505	+ 99
TOTAL	99.731,574	100.575	+ 832

- (a) Provisional estimates and excluding the application of art. 6a of Reg. (EEC) n° 857/84 (except for UK).
- (b) Provisional figures for collect including deliveries relating to transferred quantity from direct sales quota.
- (c) 12 months.
- (d) Excluding imported cream of 34. No application of Art. 6a of Reg. 857/84.
- (e) Provisional estimates.
- (f) Excl. upwards adjustments to deliveries to be made due to changes in the milkfat content.

Source : EEC Commission DG VI

The level of deliveries in 1985/86 and 1986/87 were considerably higher than the level envisaged when introducing the additional levy system, mainly due to the allowance of transfer of reference quantities from direct sales to deliveries, acceptance of compensation among producers/purchasers within and between regions (Article 4a of Regulation (EEC) No 857/84) and, finally, the producers' non-respect of their obtained reference quantities. These factors have resulted in a diminution of the dissuasive effect of the whole system as the average level of the effective levy to be paid in most Member States has been limited.

b) Butter and skimmed milk production

The development in deliveries was reflected in the production of the two intervention products. Between 1983 and 1985, the butter production dropped by 269.000 tonnes or 11.7%. However, since the middle of 1985, the production started to increase and, as this development continued in 1986 where increases of 138.000 tonnes or 6.8% for butter and 195.000 tonnes or 10% for SMP were experienced.

The relative high level of quotas and certain categories of producers non-respect of their reference quantities, together with developments in imports, domestic consumption and exports did result in unacceptable high purchases of butter and SMP production into intervention. Since the introduction of the quota system and until end December 1986, as much as 25% of the butter production and 21% of the SMP production were purchased into intervention.

c. Policy Orientation

On the basis of the above background, the Commission's communication to the Council⁽¹⁾ concerning emergency action in the milk sector and the Commission's report to the Council⁽²⁾ concerning the application of the quota system emphasised the necessity of moving back to a better market balance, a more market orientated economy and a more efficient quota system with reduced global guaranteed quantities for the Member States. The Council, therefore, decided :

- to suspend the buying in of SMP for intervention during the winter months (1 October - 31 March);
- to reduce the deliveries by 9.5% over two years, to be obtained via
 - a 3% permanent reduction as already agreed in April 1986. To facilitate the necessary change in production, the Commission introduced a cessation scheme granting an aid over a seven-year period to producers successfully applying for the scheme and definitively ceasing milk production. The Member States may purchase additional quantities for redistribution to difficult or special cases, e.g. young producers or producers with a development plan.
 - a 5.5% temporary quota suspension and the producers are compensated in 1986/87 by 10 ECU/100 kg for the suspended quantities, with an option for Member States to increase this compensation to 12.5 ECU/100 kg for 1987/88.
 - a 1% decline due to producers respect of their reference quantities because of a stricter quota system.
 - to facilitate regional and structural development, the Council prolonged - for the remaining period of the present quota system - the possibility of transferring non-utilised reference quantities within and between regions.

(1) COM (86) 510 final of 11 September 1986

(2) COM (86) 645 final of 14 September 1986

- to suspend traditional intervention of butter if the quantities offered into intervention exceed 180.000 tonnes as from 1 March 1987. The system shall be reintroduced in a Member State if the market price for butter falls below 92% of the intervention price. However, if physical stocks exceed 250.000 tonnes, not including offers to intervention before 1 March 1987, the suspension of buyings is only lifted when the market price for butter falls below 90% of the intervention price.

The Commission will, if needed, stabilise the markets by other means, for example, buying into intervention through a tendering procedure.

- to suspend normal intervention of SMP also during the summer months, if the offers exceed 100.000 tonnes as from 1 March 1987. The market would, in case of suspension, be supported via an aid scheme for private storage.
- To introduce a disposal programme over two years for butter involving sales of more than 1 million tonnes and estimated costs of 3.2 billion ECU. This would diminish the depressive effect on the domestic, as well as the international markets of the existence of large butter stocks.

Furthermore, the Council decided⁽¹⁾ that, for the 1987/88 marketing year, the target price (27,84 ECU/100 kg) and the intervention prices (313,20 ECU/100 kg for butter and 174,04 ECU/100 kg for SMP) for the second time should be unchanged. The coresponsibility levy was maintained at 2% of the target price and sales of salted butter into intervention shall be suppressed from the 1989/90 marketing year.

The above mentioned decisions were necessary emergency actions to avoid that the situation in the milk sector deteriorates further during the remaining part of the present five year quota arrangement and also the decisions are essential to move towards a more market orientated economy and a better market balance within the milk sector.

d. The Present Market Situation

Reactions to the Council decisions have certainly been registered. The deliveries in most Member States diminished as from January 1987, although not sufficiently to respect the overall Community quota for the third period of application of the system. The decline continued during the first four months of the fourth period at a rate of -4.5% compared to the corresponding period in 1986 and, although still in excess of quota, there are tendencies of moving towards the required reduction for respecting the quota at the end of the period. The development in deliveries was reflected in the production of butter and SMP, showing declines of - 12% and - 19% respectively for the period January-July.

(1) OJ L182 of 3 July 1987

The exports have, for all dairy products except condensed milk and cheese, shown increases in the first 6 months of 1987 compared to the same period of 1986, when, however, the commercial exports were at a low level.

Intervention purchases of butter were suspended end June 1987 after the 180.000 tonnes ceiling was reached. Since then the purchases through a tendering procedure have - without a fall in the market price for butter, but rather, in certain periods, a tendency to increase - been very limited. Total purchases into intervention in 1987 are expected to be less than 50% of the purchases in 1986. Together with sales of more than 500.000 tonnes of butter under the special disposal programme, this will, naturally, positively influence the stock levels. For SMP, the 100.000 tonnes ceiling was not reached and total purchases in 1987 are expected to be approximately 10% of the purchases last year.

e. Continuation of the Quota System

The milk sector has, both before and after the introduction of the quota system, had some enormous difficulties, but the situation is still far better than it would have been without the quota system.

The Commission has submitted a report to the Council⁽¹⁾ concerning the application of the quota system describing in detail the operation of the system and developments during the first periods of application. The Commission's main conclusions and recommendations are :

- The quota system has been an efficient means of halting increases and implementing decreases in deliveries. If the deliveries had continued to increase, by say +2.6% as in earlier years, they would have reached 121 million tonnes in 1989, resulting in cumulative additional deliveries from 1984 to 1989 compared to the present quota level of approximately 102 million tonnes, corresponding to 4.8 million tonnes of butter and 8.8 million tonnes of SMP. In this context, the positive effect of the quota system cannot be contested.
- Also the structural development has continued at both farm and dairy level and even at an accelerated rate in some Member States due to the operation of national cessation schemes and the reallocation of the released quantities through national reserves. The number of producers has continued to decline and the average herd size and the average deliveries per holding have increased. Improved management at farm and dairy level continued and after an initial period of decline in average yields, this factor has also reverted to an increasing trend. The number of dairies has continued to decrease and the average intake and efficiency of the industry has continued to increase.

(1) COM (87) 452

The milk price/feedingstuff price ratio has improved markedly which, together with low interest rates and declines in energy costs, especially in 1986, has had a positive influence on producer incomes. It is, therefore, proposed that the system continue after the termination of the present five 12 month periods.

- However, certain main modifications of the system are proposed.

On the basis of the present prospects, the Commission believes that the quota system should continue in the milk sector, but, once market equilibrium is reached, opportunity should be provided for greater specialisation in the sector through the application of a more flexible system. Essentially therefore, a quota system should continue even after market equilibrium is achieved, but it should apply at the level of milk purchaser/dairy only.

f. World Market Situation

As to the overall, international consumption of dairy products, the developments in recent years have been characterised by stagnation in certain economically developed countries (e.g. within OECD) and by decrease in developing regions, partly through difficulties in maintaining import levels and of improving local production capacities. Very recently, a few signs of positive economic orientations within the countries importing dairy products have been visible, e.g. the bottoming out of the oil prices and temporary advantages for countries in debt in the falling US dollar value. Ongoing international considerations concerning the unstable currency developments and the debt burdens of certain developing countries could decisively support the positive market signals, if practicable solutions to these basic problems could be agreed. For the time being, no obvious solutions are in sight.

The importance of increased consumption of dairy products in the East Block and particularly in the USSR should also be mentioned. These few and limited improvements, in addition to the efforts made in certain producing exporting countries, to curb the surplus production and to eliminate burdensome surplus stocks, have created a basis for prudent optimism. As already mentioned, some increases of the GATT minimum prices for milk powders and cheese took place both in June and September 1987. The EEC exports of butter, skimmed milk powder and whole milk powder (commercial exports only) improved somewhat over the first 6-8 months of 1987. However, a prudent evaluation is recommended, as global EEC dairy exports fell by 7% in 1986 and in particular decreased during the first half of 1986.

Uncertainty concerns the world market. As stated by the OECD Group on Dairy Products in June 1987, the consequence of a new increase in milk production could be increasing surplus in the milk sector. This could, again, have a negative effect on the first signs of real market improvement. It is, therefore, of utmost importance to the development of the international dairy market that world production is more related to demand.

VI. CONCLUSION

In 1986, milk deliveries increased and exceeded quota levels. Buyings into intervention were higher than ever before. The EEC share of international dairy exports fell to its lowest level in a decade, whereas global Community consumption remained relatively stable. To enable the commercialisation of milk products on internal and external markets, special subsidies were granted to quantities corresponding to 20% of the milkfat and 37% of the skimmed milk in all milk deliveries to dairies. Against this background, the council decided, in December 1986 and March 1987, to further reduce milk quotas, introduce improved Community and national cessation schemes, to reduce significantly the automatic intervention buyings of butter and skimmed milk powder and to install a two-year butter stock disposal programme.

As from June 1987, only limited quantities of butter and no skimmed milk powder were bought in by the intervention agencies. Forecast milk deliveries in 1987 will be down by 6% compared to 1986 and will be reflected in decreases of 15% in butter production and of 22% in SMP production. Hence, the internal Community market situation is rapidly improving. Export markets remain fragile, in particular for butter and butteroil, but the GATT arrangement allowed certain increases of the minimum prices for milk powders and cheese in October 1986 and further in June (milk powders only) and in September 1987. A higher degree of international economic stability through more stable currency developments and a longer term solution to the debt burdens of developing countries could decisively support the actual, positive market signals. However, these problems remain unsettled and recent forecasts on milk production given to OECD indicate renewed tendencies of increases in certain countries, which could put the preliminary market improvements at stake. This underlines the necessity of international coordination of policies in the direction of a more market orientated production.

THE MARKET IN MEAT

1. INTRODUCTION

In the Community of Ten the production of meat - of all types - accounted for 33% of final agricultural production in 1985, and was thus the main farming enterprise in the Community. To illustrate the importance of this sector, it may be noted that the share of the tonnage of cereals used for animal feed, especially for the production of meat, is 60%, while the share for human consumption is about 25%.

The Community accounts for about one sixth of the production of meat in the world, and is the third-ranking world producer, after China and the United States.

2. THE COMMUNITY MARKET

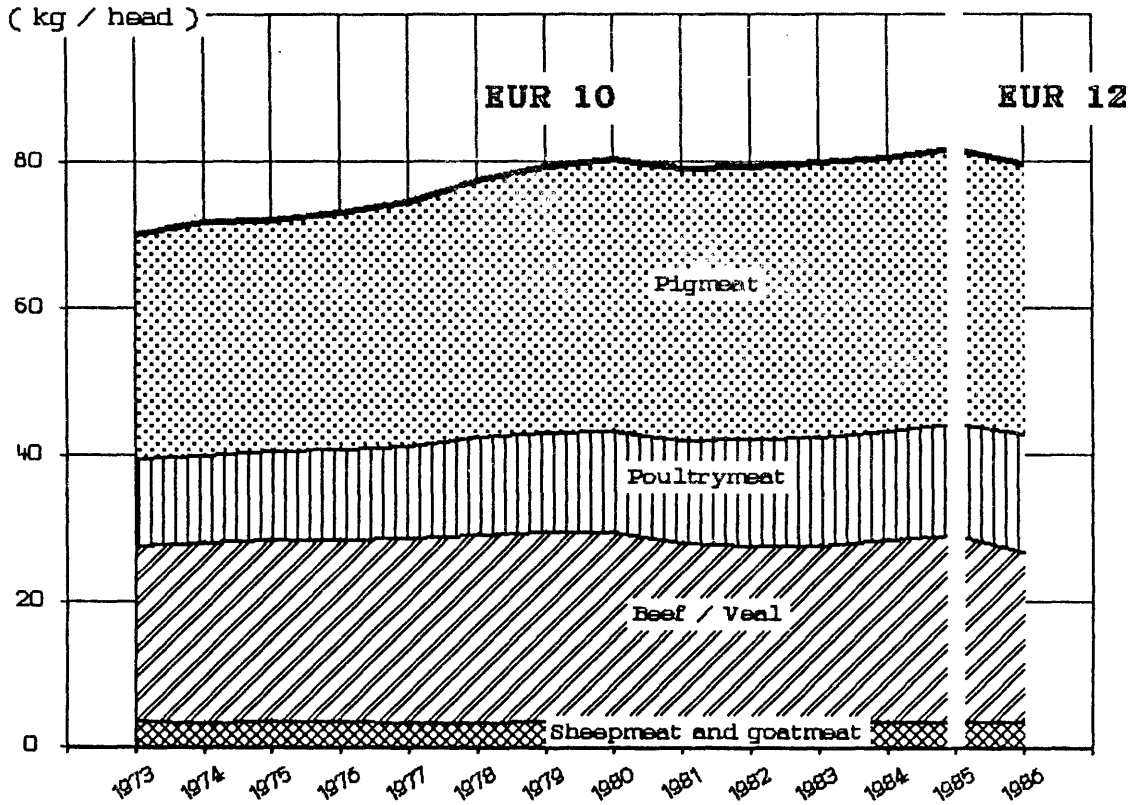
A. PRODUCTION

In 1986, gross internal production of meat (of all types, including edible offals) increased significantly, by 2.6%. The upward trend was sharper in the pigmeat and poultrymeat sectors, while the production of beef/veal rose mainly on account of an increase in the average slaughter weight. The fall in the production of sheepmeat in 1986 was first and foremost the result of unfavourable weather conditions.

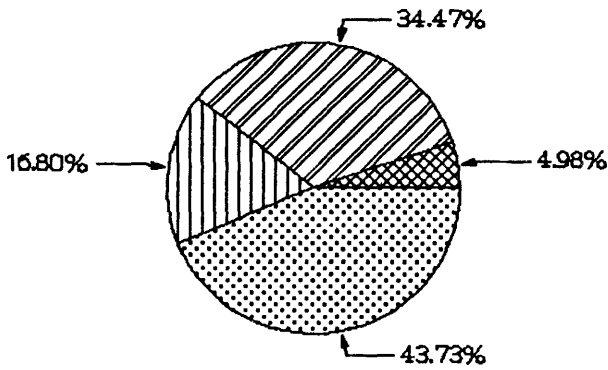
A further increase in the production of meat in the Community, of about 1%, is expected for 1987. This overall increase masks a slight fall in the production of beef/veal (-0.1%) and an increase in the production of other meat.

The decline in the production of beef/veal follows a reduction in cattle numbers spurred on by the action taken with regard to milk. The production of sheep- and goatmeat is increasing, especially in the United Kingdom, while the production of poultry should increase once again in all the Member States. In 1987/88 the increase in the supply of pigmeat should slacken in most Member States.

CONSUMPTION OF MEAT PER HEAD

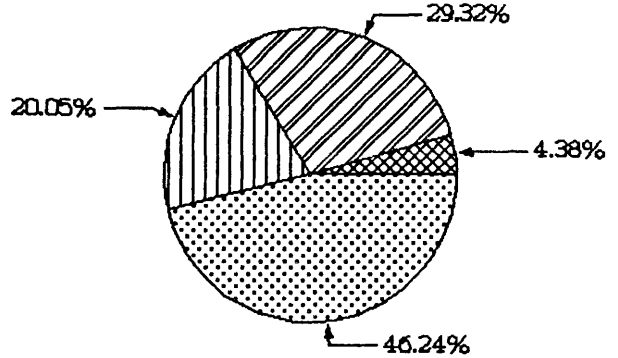


1973 EUR 10



- ⊠ Sheepmeat and goatmeat
- ▨ Beef / Veal
- ▤ Poultrymeat
- ⊞ Pigmeat

1986 EUR 12



B. CONSUMPTION

From 1981 to 1983, the consumption of meat per inhabitant had been lower than in 1980, mainly because of the recession. Since that time, there has been appreciable increase in the consumption of the three main types of meat - pigmeat, beef/veal and poultrymeat - paralleling the recovery in economic activity and because of ample supplies available. While the consumption of sheepmeat tends on average to be stable in the Community, that of other meats (rabbit and game) and of equines has continued to decline, and is now lower than the level reached in 1980.

The outlook for consumption will depend mainly on the economic situation (determining consumers' incomes) and on the relative prices of the various types of meat, the present low level of which is also the result of the fall in feed prices. According to estimates now available, it seems likely that overall consumption could increase in 1987 and 1988. For 1987, the consumption of all main types of meat appears to be increasing, but with a slight falling off of beef/veal.

C. TRADE

Intra-Community trade in the various types of meat depends mainly on the differences in the self-sufficiency of the Member States, so that it is related to the respective degrees of concentration of production and/or consumption. Intra-Community trade in pigmeat and beef/veal, accounting for approximately 20% of total consumption in the European Community, is more active than trade in sheepmeat (11%) and poultrymeat (9%).

The higher figures for beef/veal and pigmeat reflect greater uniformity in levels of consumption and/or some degree of specialization in the production of given types of meat (bacon, store cattle, high quality beef); for sheep- and goatmeat and for poultrymeat, production is high in the main consumer countries. However, trade in sheepmeat has increased since 1980.

The volume of intra-Community trade in meat expanded over the twenty years from the inception of the Community; in general, it is now tending to lose momentum to settle at about one sixth of total consumption, after the more marked expansion which followed the first enlargement of the Community. The 1986 enlargement also contributed towards and increase in trade in meat and livestock, particularly with Spain.

As for trade with non-member countries, the supply situation had been in overall equilibrium from 1981 to 1983 for all types of meat taken together. Subsequently, the Community' net exports made gains in 1983 and 1984. This was mainly due to the increase in exports of beef/veal and pigmeat. On the other hand, exports of poultrymeat declined after 1981, because of slack demand and keen competition on the world market.

In 1986, net exports of beef/veal increased, including in particular exports from intervention stocks following a special supply situation in Brazil, while exports of other meat hardly changed. For 1987, a decrease in exports of beef/veal is expected (less than 1 million tonnes), but pigmeat and poultrymeat will probably equal the previous year's results.

It should be stressed that the Community has become not only a major exporter of poultrymeat, beef/veal and pigmeat, winning new markets in the Middle East (poultrymeat, beef/veal) and in the Far East (pigmeat), but that it also supplies poultrymeat, pigmeat and beef/veal to regions having long livestock farming traditions but which have become dependent on imports because of difficulties besetting their farm sectors. Nonetheless, the Commission is also among the major world importers of beef/veal and sheepmeat, products in respect of which it has concluded a number of preferential agreements both with industrial countries like Australia and New Zealand and with developing countries in Africa and South America.

D. PROVISIONS FOR SPAIN AND PORTUGAL

Total consumption of meat per capita is lower in Spain (about 70 kg) and particularly in Portugal (50 kg) than in the Community of Ten. Among the various types of meat, only the consumption of poultrymeat in Spain (20 kg) exceeds the Community average.

The level of self-sufficiency in the new Member States was high and the volume of their trade is relatively small, but is definitely on the increase as regards intra-Community trade.

The EEC market organization for sheep- and goatmeat has been fully operative since 1 March 1986 in the two new Member States, but differing arrangements have been agreed for the other products. For Portugal, the Act of Accession provides for transition by stages for beef/veal, pigmeat and poultrymeat.

In Spain all types of meat are subject to conventional transition. In this Member State, the alignment of prices is accompanied, for beef/veal, by the application of the Supplementary Trade Mechanism (STM) for imports from the rest of the Community by quantitative restrictions on imports from non-member countries; such restrictions are also applicable to pigmeat.

Furthermore, special transitional measures have been taken in the latter sector in 1987 to limit imports into Spain of piglets from the Community of Ten, since an excessively fast rate of increase in trade could have caused serious difficulties for Spanish piglet producers.

BEEF/VEAL1. INTRODUCTION

The economic upturn in the last few years has been responsible for an increase in the consumption of meat, and in particular beef/veal. A large number of farms (about one in two) are involved in beef/veal production, which has a high economic value (accounting for about 15% of final agricultural production).

2. THE SITUATION GENERALLY

In the mid-80s the beef/veal market was in the phase of liquidation of breeding stock. Added to this cyclical trend were large-scale slaughterings of dairy cows following the introduction of milk quotas. The Community therefore saw its intervention stocks of beef swell and market prices fall steadily. The downward trend in beef/veal prices was accentuated by the simultaneous fall in feed prices, which boosted production of grain-based meats competing with beef/veal (pigmeat and poultrymeat).

Buying-in therefore increased substantially, inevitably putting pressure on the budget. From autumn 1985 to the end of 1986, however, sales of intervention meat, particularly large-scale special sales to certain outside markets (USSR, Egypt, Brazil), exceeded buying-in, thereby reducing Community intervention stocks somewhat.

In addition, in order to limit buying-in and cut the cost to the budget of the beef/veal sector, the Council decided in December 1986 to reduce the intervention buying-in prices from 6 April 1987 by some 14% and to grant a special temporary premium in some Member States by way of compensation for farmers, amounting to 25 ECU/head of adult male cattle put on the market (18 ECU/head in Ireland).

Community production of beef/veal is currently showing a downward trend despite very low feed prices which encourage fattening. Community consumption has increased in recent years (+ 0.7 kg/head/year) despite the strong competition from other types of meat. Once the stock of intervention meat has been absorbed, the market will thus move towards a more balanced supply/demand situation after the massive quantities (coming onto the market from dairy cows slaughtered on account of milk quotas.

3. 1986/87

Transition, in the case of the beef/veal sector, is of the conventional type for Spain, whereas for Portugal it is to be in stages. The integrated market, i.e. that in which the EEC market organization rules apply, has accordingly consisted of the Community of Ten plus Spain since 1 March 1986.

3.1. THE COMMUNITY MARKET

A. Production

(a) in the Community

After the cyclical trough in the early 80s, production of beef/veal by the middle of the decade was about 9-10% up on its previous level.

In 1986 production in the Community of Twelve totalled 8.1 million tonnes, about 1.9% up again on 1985.

Beef production was about 1.6% up on account of a slight increase in slaughterings of adult male cattle and, above all, a marked rise in the average slaughter weight of these cattle. During the first half of 1987 beef production rose as a result of low feed prices, which encouraged the fattening of young bulls, and in particular on account of further large-scale slaughterings of female cattle.

Veal production rose very slightly (+ 0.3%), while the average slaughter weight continued to rise sharply. During the first six months of 1987 veal production was slightly up on the corresponding period of 1986.

(b) slaughterings

In 1986 about 24.0 million head of adult cattle were slaughtered, slightly more (+ 0.2%) than in 1985; during the first half of 1987 there was an upward trend in slaughterings, particularly of female animals, undoubtedly as farmers aimed to keep more rigorously to the milk quotas.

After the high number of slaughterings of females (cows and heifers) recorded in 1984 and the first half of 1985 the pace of slaughterings speeded up again during the first half of 1987.

In 1986 the figure for calf slaughterings (7.8 million head) was slightly down on 1985; during the first half of 1987 the number of calf slaughterings was well up on that for the first half of 1986.

Slaughtering coefficient (i.e. the ratio of slaughterings to cattle numbers). After having been relatively low in both 1982 and 1983 and after picking up sharply in 1984, the slaughtering coefficient for adult cattle remained high in 1985 and 1986. The slaughtering coefficient for calves, which was also low in 1981, 1982 and 1983, rose sharply in 1984 and remained high in 1985 and 1986.

The average weight of adult bovine animals sent for slaughter in 1986 (294.8 kg) was up on 1985 (290.9 kg), mainly as a result of an appreciable increase in the average weight of male beef cattle; in line with the trend recorded in recent years, the average weight of calves sent for slaughter was again sharply up, at 128.4 kg in 1986 (1985: 126.9 kg).

(c) Cattle numbers, farm structures

The reduction in cattle numbers continued in 1985, particularly in the case of dairy cows, due to the cyclical rise in slaughterings and, above all, to the measures taken in the spring of 1984, and confirmed at the end of 1986/beginning of 1987, to limit milk deliveries.

The cattle survey carried out in December 1986 gave a result of 82.0 million head, including 33.0 million cows, down 2.1% and 1.4% respectively on the previous year. Similarly, the number of calves (cattle less than one year old), was down about 1.2%. The number of beef cows, on the other hand, was up by about 1.2%, totalling around 7.4 million head.

Contrary to the situation observed in the past, cattle numbers are now showing a downward trend in the medium and long term.

In recent years, the structure of cattle-raising has undergone far-reaching change:

- a decline in the number of cattle farmers at the rate of roughly 4% per year, in particular through the elimination of small farms, and
- a slight increase in the number of animals per farm (36.2 head in December 1985).

Producers fall into three main categories, corresponding to the three categories of animals reared:

- cull cows and young calves (milk production),
- suckler herds and grass-reared adult cattle (bullocks),
- young male cattle fattened on cereal-based feedingstuffs (maize silage) in special production units.

As a result of the sharp expansion in the organized production of young bulls, young male animals now account for over one third (36.7%) of all the beef/veal produced in the Community.

(d) World production

World production of beef/veal increased in 1986 as a result of low feed prices and large-scale slaughterings of dairy cows due to the measures designed to curb milk deliveries. There was a significant improvement in beef/veal prices on non-Community markets; this price rise is currently encouraging capitalisation of cattle herds, particularly in Australasia, which is leading, in the short term, to a reduction in beef/veal production, especially in the countries free from foot and mouth disease.

With about 16% of the world's production, the Community is the second largest producer of beef/veal, ahead of the USSR, but well behind the United States.

B. Consumption and self-sufficiency

(a) Consumption

Because of the recession, consumption of beef/veal remained stationary in the early part of the decade; since then, with the upturn in economic activity and the availability of plentiful supplies, it has risen from 7.2 million in 1983 to 7.3 million t in 1984, 7.5 million t in 1985 and about 7.6 million t in 1986.

The trend in consumption of beef/veal is determined by the following factors:

- the demographic trend, which, in recent years, has shown a marked slowing of its annual growth rate;
- the general level of economic growth, and in particular the upturn in private consumer expenditure;
- the availability of meat on the market and its price level (both in absolute terms and in relation to other types of meat);
- lastly, changes in the mark-up between the farmer and the consumer.

Beef/veal consumption per head of the population per year rose steadily - by an average of 0.5% - 1% annually - from about 23 kg in the early 1970s to nearly 24 kg at the end of the decade. After falling slightly in the early 1980s it has been rising again (about about 2 - 3% annually), since 1983, partly as a result of lower beef/veal prices. In 1986 the annual consumption per head of the population (about 23.5 kg) was again at its 1980 level.

(b) rate of self-sufficiency

In past years, the Community had abundant supplies of beef/veal as a result of fairly steady production, import commitments entered into and intervention stocks.

C. Trade

Intra-Community trade in beef/veal increased in 1986 to somewhere in the region of 1.7 million tonnes.

Since 1974, imports of beef/veal from non-member countries have averaged about 450 000 t:

412 000 t in 1979
356 000 t in 1980
364 000 t in 1981
440 000 t in 1982
448 000 t in 1983
437 000 t in 1984
466 000 t in 1985 and
465 000 t in 1986.

Many of these imports enter the Community on special terms since, in addition to the beef/veal imported under normal import arrangements, the Community is committed to allowing in large quantities each year in accordance with certain bilateral and multilateral agreements (see 3.1, E. (b)).

The Community's trade in beef/veal with non-member countries

('000t, carcase-weight equivalent)

Period	1979	1980	1981	1982	1983	1984	1985	1986
Trade								(1)
<u>Imports</u>	412	356	364	440	448	437	466	465
of which								
live animals	73	59	50	66	64	60	66	63
('000 head)	(451)	(361)	(310)	(488)	(505)	(463)	(455)	(480)
fresh or chilled meat	63	61	55	72	87	95	115	130
frozen meat	141	114	121	164	153	134	135	116
preserves	135	122	138	138	144	148	150	156
<u>Exports</u>	338	642	662	480	603	790	805	1.167
of which								
live animals	36	65	100	88	103	96	72	50
fresh or chilled meat	97	249	184	118	146	187	158	170
frozen meat	135	298	340	236	316	463	534	904
preserves	70	30	38	38	38	44	41	43
Net trade balance	- 74	286	298	40	155	353	339	702

(1) EUR 12 from 1986.

In 1986, exports of beef/veal to non-member countries totalled 1 167 000 tonnes (carcase-weight equivalent). The Community's beef/veal external trade surplus thus amounted to over 700.000 tonnes.

The main suppliers of beef/veal to the Community in 1986 were:

- Latin-American countries (in particular Brazil, Argentina and Uruguay), supplying nearly half of total imports and about two thirds of imports of frozen meat;
- East European countries, supplying more than 10% of total imports and nearly 60% of imports of live animals, mainly from Poland;
- Australia and New Zealand, supplying about 3% of total imports;
- Yugoslavia, supplying around one fifth of imports of live animals and of the fresh and chilled meat;
- Austria, supplying about 15% of imports of live animals and 45% of imports of fresh meat;
- lastly, ACP countries (Botswana, Swaziland, Kenya, Madagascar and Zimbabwe), supplying about 8% of total imports.

The Community's main customers were:

- Mediterranean European countries, in particular Yugoslavia, taking about 5% of total exports;
- East European countries, taking about one fifth of total Community exports, the USSR accounting for about 12%;
- North African countries, taking about 6% of total exports, with Libya taking one quarter of the exports of live animals;
- Middle East countries, taking about one third of total exports, with Egypt accounting for about 17%;
- lastly Brazil, taking over one fifth of total exports, principally meat, from intervention stocks as a result of particular supply difficulties in Brazil.

D. Prices

(a) Common prices

For the last four marketing years the guide price for adult cattle was fixed for the whole Community at 205.02 ECU/100 kg liveweight.

The guide price is the price, valid for all categories of adult cattle marketed on Community representative markets, which the Community seeks to achieve, by means of Community regulations, during a normal marketing year.

For 1987/88 the intervention price was fixed for adult male cattle carcasses of quality R 3 under the Community classification scale at 344 ECU/100 kg carcase weight.

(b) Market prices

The fairly low meat prices now obtaining on the market reflect the very low feed prices.

Market price trend for beef

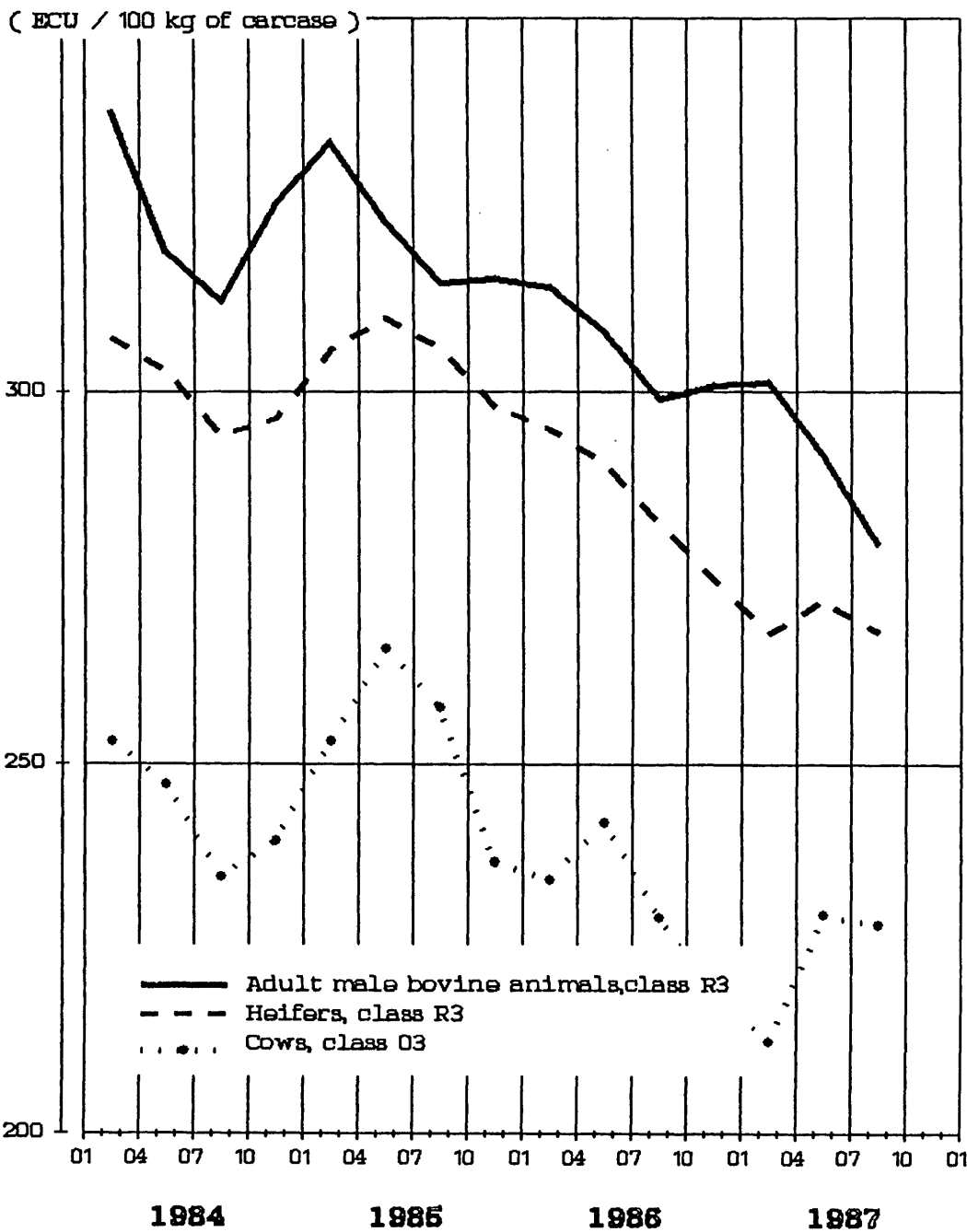
(R 3 adult male cattle carcasses)

in ECU/100 kg carcase weight

Period	1984/1985	1985/1986	1986/1987	1987/1988	% difference
Prices					1987/1988
					1986/1987
Interv. price.				344,00	=
Buying in price				295,90	- 14,0 %
Market price					
- in money terms	322,59	316,89	302,45	285,58	- 6,0 %
				(1)	
- as % of					
interv. price	93,8 %	92,1 %	87,9 %	83,0 %	
				(1)	

(1) Half-year April-September 1987.

BEEF
Trend quarterly averages for market prices ⁽¹⁾
 1984 - 1987 EUR 10



Source : EC Commission, DG for Agriculture

(1) : quarterly averages

(c) Import prices

A certain upturn in the world economy has led to a significant rise in prices, expressed in US Dollars, on the world beef/veal market, despite feed prices remaining very low. Community free-at-frontier offer prices expressed in ECU have been relatively more stable, in particular in the case of frozen meat. Thanks to lower (and in some cases much lower) exchange rates for their countries, certain exporting countries in the southern hemisphere have, however, been able to cope with lower world prices expressed in US dollars, while continuing to obtain a fairly good return on their products.

(d) Consumer prices

In past years consumer prices for beef/veal expressed in national currency rose at an average rate comparable to the Community inflation rate.

E. Management of the market

(a) Market support measures

- intervention

In December 1986 the Council adopted measures making the intervention system significantly more flexible. The effect of the measures was to reduce the intervention buying in price by about 14% from the beginning of April 1987.

Direct buying-in by public intervention agencies totalled:

330 000 t in 1979,
410 000 t in 1980,
280 000 t in 1981,
268 000 t in 1982,
445 000 t in 1983,
496 000 t in 1984,
453 000 t in 1985,
578 000 t in 1986 (representing 8.2% of Community beef production).

Public buying in up to 1 July 1987 totalled 380.000 t, a level comparable with that for the corresponding period of 1986.

Private storage aid with or without boning and/or export after a minimum two-month period was granted in autumn 1986 in respect of about 157 000 t of beef carcasses, forequarters and hindquarters.

Private storage aids for about 22 000 tonnes of meat of adult male cattle were granted at the end of 1986 to support the market in certain regions of Italy affected by the outbreak of foot and mouth disease.

- exports

The amount of the export refunds was reduced at the end of 1986 on account of a certain increase in prices on external markets; it was also decided to vary the refund in some cases according to the category of animal.

Large export sales took place, aided by a relative shortage in certain non-member countries; as a result, despite heavy buying in, the stocks of unsold beef at the end of 1986 totalled about 570.000 t.

- measures to boost consumption

The following measures were actively pursued:

sales, via the intervention agencies, of intervention meat intended for direct consumption; sales to processors of certain quantities of frozen meat from intervention stocks for processing in the Community; sales, at reduced prices, of intervention meat to welfare categories and institutions.

During the winter of 1986/87 there was also an emergency scheme involving the free distribution of about 11 000 tonnes of meat from intervention stocks to the needy, following the tough weather conditions.

- Aid measures

In December 1986 the Council extended the system of premiums with some adjustments. The following apply from 6 April 1987 to 31 December 1988:

- . a variable premium for the slaughter of clean cattle in the United Kingdom;
- . a calf premium in Italy, Ireland and Northern Ireland;
- . a special temporary premium of 25 ECU/head for adult male cattle on up to 50 head per farmer and per year in Member States other than United Kingdom and Italy (18 ECU a head in Ireland);
- . a Community premium for keeping suckler herds of 15 to 25 ECU/head and a supplementary premium for Ireland, Northern Ireland and Greece; the suckler cow premium represents an income supplement for producers specialising in quality meat.

- Adjustments to the intervention system

As in previous marketing years, the Commission restricted intervention buying to certain categories (male animals) and forms of presentation (carcasses, quarters) by reference to developments, mainly seasonally, in the market situation. In connection with the adjustment of the rules in this sector, the Council fixed the Community scale for the classification of beef carcasses and the Commission laid down the provisions for applying the scale and defined the arrangements for recording the market prices of beef carcasses on entry to the slaughterhouse. Since 9 April 1984 the Community scale for the classification of beef carcasses has been used for intervention buying.

To ensure that buying-in by the public intervention agencies returned to its primary role of stabilising the market, it was decided in December 1986 that intervention would be opened during the transitional period (April 1987 - December 1988) when

- i) the average market price in the Community for the quality or the group of qualities eligible for intervention was less than 91% of the corresponding intervention price;
- i) the average market price at national or regional level for the quality of group of qualities concerned was less than 87% of the corresponding intervention price.

The buying-in price for the qualities eligible for intervention will be the weighted average of the market prices in the Member States or regions where intervention buying-in takes place, plus 2.5% of the intervention price; however, the buying-in price may not be less than the highest average market price in the Member States or regions in which intervention buying-in takes place.

(b) International agreements

Under the GATT, the Community opens annual tariff quotas for the import of:

- 42 600 head (from 1 July 1986) of heifers and cows of certain mountain breeds at the rate of 6%, and 5 000 head of certain Alpine breeds at the rate of 4%, other than animals intended for slaughter;
- 50.000 t (in terms of boned meat) of frozen beef at the rate of 20%.

Under the arrangements for "high-quality" cuts, the Community undertook to raise, as from 1983, the annual tariff quota for fresh, chilled and frozen beef imported at the rate of 20% from 21 000 t to 29 800 t, as follows:

10 000 t from the United States and Canada
5 000 t from Australia
12 500 t from Argentina
2 300 t from Uruguay,

and to import a tariff quota of 2 250 t (in terms of boned meat) of frozen buffalo meat from Australia, also at 20%.

Under the Lomé Convention, special arrangements were introduced for the import of an annual maximum of 38 100 t (in terms of boned meat) from Botswana, Swaziland, Kenya, Madagascar and Zimbabwe. The agreement provides for exemption from customs duties and the reduction of other import charges.

In the forward estimates for 1987, the Community provided for the possibility of importing:

- 15 000 t (in terms of unboned meat) of frozen beef for processing;
- 168 000 head of young male cattle for fattening (145 200 for Italy, 22 200 for Greece and 600 for other Member States).

At the same time, the Community decided to open a special autonomous tariff quota for 1987 for the importation of 8 000 tonnes of high quality meat.

Under a trade agreement with Yugoslavia, 50.400 t of fresh or chilled baby beef may be imported annually from that country with a reduced levy.

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

Given the distance by sea, the Community has agreed to the advance fixing of the levy for fresh and chilled meat imported from Argentina and Uruguay. The levies on frozen meat imported from Romania, Argentina, Uruguay, Australia and New Zealand may also be fixed in advance.

Moreover, there is provision for imports with customs duties bound under GATT, i.e. with no levy or quantitative limit; this applied to pure-bred breeding animals (duty-free) and to preserves (26%).

F. Budgetary expenditure

EAGGF guarantee expenditure on beef/veal was 3 482 million ECU in 1986, i.e. 15.7% of the total. The figure of 3 482 million ECU breaks down into 1 214 million ECU in refunds, 2 031 million ECU in intervention expenditure for public and private storage and 237 million ECU in premiums, mainly the calf premium and the premium for maintaining suckler cows.

3.2. THE COMMUNITY RULES - SPECIAL PROVISIONS CONCERNING SPAIN AND PORTUGAL

The Council decided in December 1986 to apply the common arrangements for intervention buying-in and institutional prices in Spain as well from 6 April 1987. The Spanish intervention price was thus aligned from the start of the 1987/88 marketing year on the Community intervention price of 344 ECU/100 kg for quality R 3 adult male cattle carcasses.

Transition is to be by stages in the case of Portugal's beef/veal sector. For Spain, however, provision has been made for conventional transition arrangements, and the EEC market rules concerned have been applicable there since 1 March 1986.

Both Portugal and Spain have charged CCT rates of duty on their trade with third countries since 1 March 1986.

Spain's imports of beef/veal are subject to the supplementary trade mechanism, which provides for a guide quantity in the case of imports from other Member States and quantitative restrictions on imports from non-member countries.

There are special arrangements for trade between Portugal and the Community of Ten: special levies based on the difference between the guide price and the market price of reference-quality carcasses (R3 carcasses of adult bovine animals).

4. 1987/88 - SHORT-TERM OUTLOOK

4.1. COMMON PRICES

For 1987/88:

- the guide price for adult bovine animals is 205.02 ECU/100 kg, the same as for 1986/87, and
- the intervention price is 344 ECU/100 kg carcass weight for reference quality class R 3 adult male cattle carcasses.

The system of premiums in the sector has been extended until 31 December 1988, and a special premium of 25 ECU per head of male cattle, except in the United Kingdom, Italy and Portugal. In Ireland the amount of the premium is only 18 ECU/head.

4.2. PROSPECTS

At the end of 1986 the number of female breeding animals was about 6.2% down compared with the end of 1983. The cyclical reduction of breeding herds was accentuated by the slaughtering of female animals, particularly dairy cows, which followed the introduction of milk quotas.

Beef production is thus expected to decline in 1987, from about 8.6 million tonnes in the Community of Twelve in 1986, to around 7.9 million tonnes. The decrease is expected to be even more marked in 1988: of the order of -3% to -4%.

Market prices fell more sharply during the first six months of 1987/88: by about 6% compared with the corresponding period of the previous year. In the case of the qualities eligible for intervention, market prices were about 17% below the intervention price and 3 to 5% below the buying-in price.

As far as exports are concerned, they are likely to be even greater in 1987, allowing the Community to maintain its position as the world's leading exporter of beef/veal.

In view of the prospects for production and consumption and the current level of intervention stocks to be sold, supplies of beef on the Community market will continue to be plentiful. In the medium term, self-sufficiency is likely to continue above 100%.

As the level of market prices is very low, there should be a moderate increase in market prices for adult cattle in the next year or two.

As regards the world market outlook, an increase in beef/veal production is expected in exporting countries in Australasia, where cattle numbers have built up again in recent years. The quantities available for export from these countries will doubtless be absorbed by their traditional markets (USA, Canada, Japan, Taiwan). In North America, beef/veal production is expected to be relatively low.

The world's production of beef/veal is likely to be down in 1987; the economic upturn in certain developed countries could well, in the medium term, lead to an increase in world market prices for beef/veal.

5. CONCLUSION

Overproduction in the milk sector has, in many countries, been followed by large-scale slaughterings of dairy cows; the resulting glut of beef has been a factor in the build-up of large intervention stocks.

The fall in cattlefeed prices, in particular of imported cereal substitutes and soya cakes, has encouraged production - especially in the case of the meats which compete with beef/veal (pigmeat and poultrymeat) - and has driven down all meat prices in the Community.

The demand for meat, beef/veal in particular, is currently being underpinned by the upturn in the economy and a reversal of the market trend for this type of meat can be expected before too long in the Community as well.

SHEEPMEAT AND GOATMEAT1. Introduction

On the accession of Spain and Portugal in 1986 the Community became the worlds leading producer of sheepmeat and goatmeat in addition to being its major importer. Nevertheless, this sector accounts for less than 2% of the Community's final agricultural production.

2. General Situation

In 1986 the Community's sheep population of 85 million head accounts for about 8% of the world's sheep population although its annual output of approximately 900 000 t represents 15% of world production. The other leading producers are the USSR (800 000 t), New Zealand (650 000 t), Australia which contains the world's largest sheep flock (600 000 t) and India (500 000 t). New Zealand, although its production is currently in decline, dominates world trade in sheepmeat with annual exports of over 500 000 t, while Australia is the leading exporter of live sheep with annual levels of up to 7 million head.

Although production is widespread throughout the Community and carried out on over 800 000 farms sheep numbers are concentrated in just five Member States. The United Kingdom with 30%, Spain 21%, Italy 14%, Greece 13%, and France 12% together account for 90% of the total flock. Production is concentrated in just six Member States the United Kingdom 33%, France 18%, Spain 16%, Greece 13%, Italy 6% and Ireland 5% together making up 91% of the total.

3. The 1986 Marketing Year3.1. Productiona) Production of Sheepmeat and Goatmeat

Production reached 878 000 t in 1986 a decrease of 3.6% on 1985. The principal decreases took place in Ireland 6%, France 5.9%, Greece 5.7% and The United Kingdom 4%. Climatic difficulties in Ireland, France and The United Kingdom allied to continued destocking in France and post Chernobyl consumer resistance to lamb in Greece were main causes of this decrease which is not in keeping with the longer term increase in production measured at 1.0% per annum in the period 1961-79 and 1.4% in the period 1981-85.

b) Sheep and Goat Numbers

Sheep numbers rose by 3.7% in December 1986 to reach 85.4 million head. The principal increases took place in Greece 10.4%, The United Kingdom 5.9%, Ireland 5.1% and Italy, while numbers declined by a further 2% in France. In keeping with the overall increase, breeding female sheep numbers rose by 3.3% to 61 million head. The long term trend in sheep numbers is upwards the rate for 1961-79 being 0.4% per annum and 2.3% in the period 1980-86.

Goat numbers reached 12.2 million head in 1986, a rise of 7.4% on 1985 due to increases in the Greek and Spanish flocks.

3.2. Consumption and Self-sufficiency

Consumption at the level of 1 116 000 t in 1986 decreased by 2.2% on that of 1985. Increases in consumption were recorded in Italy, 9% and France, 3.7%, but there were very significant decreases in Greece, 8.3% and the United Kingdom, 5.6%. Consumption in the Community of 3.5 kg per head represents 4% of total meat consumption but the level of consumption varies markedly among the Member States. Consumption is highest in Greece at 13.8 kg per head followed by the United Kingdom 6.9 kg, Ireland 6.9 kg, France 4.6 kg and Spain 3.6 kg. In Germany, the Netherlands and Denmark on the other hand annual consumption is less than 1 kg per head.

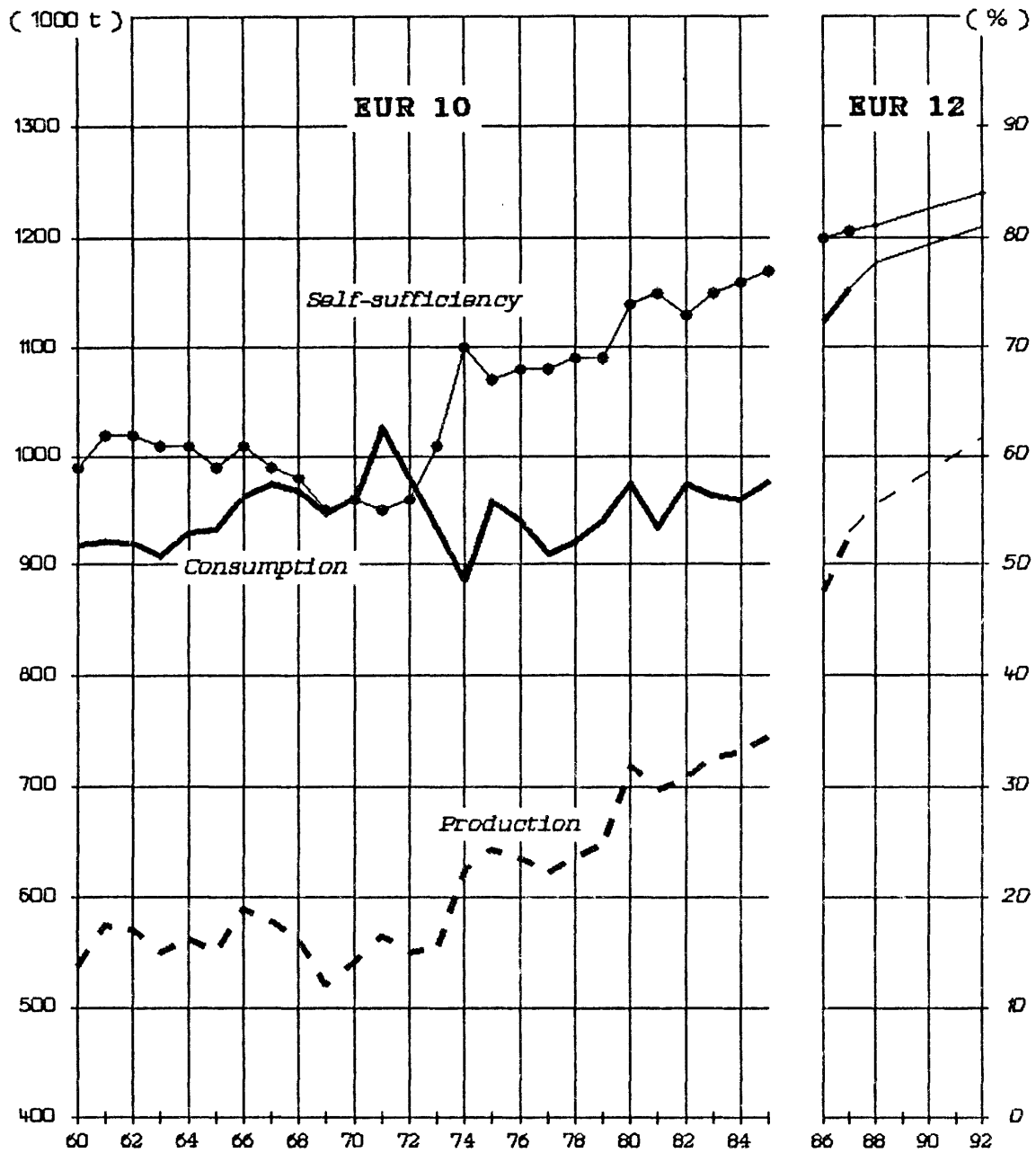
Consumption increased in the Community by 0.1% per annum between 1961 and 1979 while in the period 1981-86 this rate has accelerated to 1.1% each year. This growth is particularly evident in France while British and Irish consumption after some years of decline now appears to have levelled out.

As a result of the decreased levels of production and consumption the self-sufficiency rate decreased slightly in 1986. The balance in recent years has been as follows :

	<u>Deficit (Consumption less production) t</u>	<u>Self-sufficiency %</u>
1980	251 000	75
1981	232 000	75.1
1982	269 000	72.4
1983	232 000	75.9
1984 (1)	228 000	79.7
1985	230 000	79.8
1986	238 000	78.7

(1) Figures based on EUR 12 from 1984 onwards.

SHEEPMEAT AND GOATMEAT Production, consumption and self-sufficiency



Source : EUROSTAT.

1987 Estimate - 1988 / 1992 forecast

3.3. Trade

a) Intra Community

In 1986 intra Community trade at 124 000 t was up by 17% on 1985 a continuation of a trend evident since the inception of the sheep and goat regime in 1980. The United Kingdom accounted for most of the rise increasing its exports by 13 700 t (30%) to 59 300 t due largely to favourable exchange rates in the second half of the year. Ireland with 23 300 t and the Netherlands 11 000 t, were the other main exporters while Spain in its first year exported almost 6 000 t to its Community partners and mainly to France. France itself with an increase in imports of 27% accounted for 87 000 t, 72% of total internal trade.

b) Non Community Countries

In 1986 imports into the Community amounted to 249 000 t, a decrease of 2% on 1985. This decline in imports was accounted for mainly by a drop of 2% in imports from New Zealand, which reached 193 000 t, resulting from industrial difficulties in that country in early spring 1986. Additionally there were declines in imports of 5% each from Australia and Hungary, while Uruguay after some years of decline increased its exports to the Community from 500 t in 1985 to 3 000 t in 1986. In keeping with the trend visible since the inception of the sheep regime in 1980 imports of chilled lamb from the traditional suppliers of frozen meat to the Community rose again in 1986 although as yet they account for less than 2% of imports from these countries.

The United Kingdom, with imports of 151 000 t, accounted for 61% of total imports although its level dropped by 5% on 1985. Germany with 32 000 t, Italy 25 000 t and Greece 17 000 t were the other principal importers, while Spanish imports reached just 5 000 t and Portuguese less than 100 t in the first year of their membership of the Community.

Exports from the Community at 4 400 t were 17% down on 1985. The United Kingdom accounted for 2 900 t and France and Spain 600 t each.

3.4. Supply Balance

For 1986 the supply balance was as follows :

Gross indigenous production	878 000 t
Total consumption	1 116 000 t
Consumption/production deficit	238 000 t
Import/export deficit	244 000 t
- Imports from non Community countries	248 000 t
- Exports to non Community countries	4 000 t
Changes in stocks	6 000 t

3.5. Prices

a) Institutional Prices and Related Measures

For the 1986 marketing year commencing 6 January 1986

- The basic price was fixed at 432.32 ECU per 100 kg carcass weight of lamb, up 1% from 1985
- The intervention price was fixed at 367/47 ECU per 100 kg and the derived intervention price at 347.66 ECU per 100 kg.

Goatmeat was included in the premium regime for the first time in 1986 in limited areas of the Community. These areas include all Greece and Portugal, most of Spain and parts of France and Italy. Producers of goatmeat in these areas may receive, subject to the same conditions as those applying to sheepmeat producers, a premium equal to eighty percent of the premium payable per ewe in their region.

b) Market

In 1986, the Community of 12 market price reached 367.891 ECU per 100 kg. However, the Community of 10 market price at 363.002 ECU per 100 kg was down by 1.3% on the corresponding figure for 1985 continuing the downward trend set in that year. Greece, because of post Chernobyl consumer resistance during the summer months, and France, due to greatly increased import levels notably from the United Kingdom, were the principal contributors to this downturn. Additionally the variation in prices among Member States, evident since the inception of the regime, was again obvious in 1986 and there were also appreciable differences in price developments as follows :

	<u>ECU per 100 kg</u>	<u>Variation from 1985 %</u>	<u>National Currency Variation from 1985 %</u>
Germany	340.109	- 1.2	- 1.2
France	351.866	- 7.8	- 4.1
Italy	452.273	3.1	7.6
Netherlands	364.683	- 4.6	- 4.6
Belgium	506.892	13.2	14.5
United Kingdom	304.765	7.4	9.1
Ireland	297.228	- 2.2	0.9
Denmark	323.421	- 0.8	0.3
Greece	434.569	-11.0	0.9
Portugal	349.405		
Spain	387.807		

The trend towards price convergence between France and Great Britain in ECU rather than national currency terms, was again evident in 1986 as French prices continued to move downward in response to ever increasing imports. The relationship in recent years has been as follows.

	1983	1984	1985	1986	1987*
British price, ECU per 100 kg as a percentage of the French price.	60	70	74	86	90

* Forecast

3.6. Market Management

a) Variable Premium (Great Britain Only)

The total paid under the variable premium scheme in 1986 was 182 MECU as opposed to 223 MECU in 1985. This amounts to an arithmetic mean of 77.436 ECU per 100 kg and represents 25.4% of the average market price in Great Britain in the 1986 marketing year.

Market prices above the guide level April-June 1986 led to non payment of the variable premium during seven weeks at this time. In contrast the highest level of variable premium was paid for the week commencing 13 October; at 130.125 ECU per 100 kg this represented 67% of the market price for that week.

b) Ewe Premium

Ewe premia levels, and hence goat premia levels, were fixed for all regions (1) of the Community for the 1986 marketing year. Additionally the level of advance on the premium, originally set in August at 30% of the estimated premium, was raised in October to 50% and again in November to 75% of that amount in order to alleviate the difficult market situation facing producers. Furthermore, because of the particularly serious problems in Greece in the Chernobyl aftermath the advance was unusually extended to producers in Region 1. The amount of premium payable per ewe and per goat and the estimated total expenditure in respect of these amounts per region are as follows :

	<u>Premium</u> <u>ECU per ewe</u>	<u>Premium</u> <u>ECU per nanny goat</u>	<u>Total</u> <u>MECU</u>
Region 2	15.434	12.347	120
Region 3	17.426		20
Region 4	24.384		61
Region 5	8.054		127
Region 6	20.594		20
Region 7	7.200	5.760	105

In region 1 the same level of premium per ewe, for ewes deemed eligible for the premium, and per nanny goat, was payable as in Region 2. Total payments for region 1 are estimated at 124 MECU. Thus total ewe premia payments in respect of the 1986 marketing year are estimated at 578 MECU. The principal beneficiaries are the United Kingdom 147 MECU and France 120 MECU.

c) Total Expenditure

Total expenditure on premia in the sector in respect of each marketing year in recent years and the percentage of that payable in the United Kingdom is estimated as follows :

(1) Regions are made up as follows : 1, Italy and Greece. 2, France. 3, Belgium, Denmark, Germany, Luxembourg and the Netherlands. 4, Ireland. 5, Great Britain. 6, Northern Ireland. 7, Portugal and Spain.

(million ECU)

Marketing year	1983/84	1984/85	1985	1986
(1)				
Ewe Premium	239	274	362	578
Variable Premium	252	200	141	143
(Net of clawback)				
Total Expenditure	491	474	503	721
Of which Uk	75%	72%	68%	40%

(1) Includes Portugal and Spain.

The clawback of the variable premium on exports from Great Britain rose from 27 MECU in the 1985 calendar year to 39 MECU in 1986.

d) Refunds

No refunds in 1986. The Community has not in any case adopted implementing rules as yet.

e) Management of the Voluntary Restraint Agreements

The mechanisms provided for in these arrangements operated normally in 1986. However, imports from Poland exceeded the quantity set within the V.R.A. by approximately 300 t and the quantity to be imported in 1987 was reduced accordingly.

f) Intervention

No public intervention purchasing took place in 1986 although the market conditions necessary for its triggering were fulfilled during autumn in France. However, because of the difficult market conditions pertaining, a limited aid to private storage scheme, which attracted only 100 t lamb, was introduced in France.

4. The Market in 1987 - Short Term Outlook

4.1. Institutional Prices and Related Measures

For the 1987 marketing year the basic price was again fixed at 432.32 ECU per 100 kg carcase weight, unchanged from 1986.

- The intervention price was fixed at 367.47 ECU/100 kg and the derived intervention price at 347.66 ECU/100 kg.

- For the 1988 marketing year the basic, intervention and derived intervention prices were fixed at the same level as for 1987 and 1986.

For the 1987 and 1988 marketing years the ewe and goat premia payable in Portugal and Spain shall be calculated based on two elements. Added to the level of the premium per ewe and per nanny goat calculated in the normal way, shall be an amount equal to half the difference between this level and amount of the premium payable per eligible ewe and per nanny goat in Region 1.

4.2. Report on the Sheep and Goat Sector

A second report on the functioning of the common organisation of the market in sheepmeat and goatmeat was presented by the Commission to the Council on 1 October 1987. (COM(87) 452 final volume IIc). It contains proposals for the stabilisation of expenditure in the sector, the unification of the market organisation by 1992 and for certain adjustments to the external regime.

4.3. Outlook

a) Production and livestock Numbers

Production is forecast to recover from the low level of 1986 and rise by 6% in 1987 to reach 931 000 t due mainly to an increase in British production of 24 000 t (8.3%). Important increases are also forecast in Denmark (13% from a very low base), the Netherlands 22.6%, Ireland 8.4% and Germany 6.3%.

Sheep numbers are also set to rise in 1987 to 87.1 million head up 2% on 1986, the major increase again coming in the United Kingdom where a rise of 3.2% will increase total flock size by almost 800 000 head. Increase of about 5% are expected in Spain, Ireland, the Netherlands and Denmark, while only in France is a decrease in flock size forecast (-0.8%). Breeding female sheep numbers are also likely to rise by 2% to reach 62.4 million head but goat numbers are expected to remain static or fall by up to 1%.

b) Consumption and Self-sufficiency

A significant increase of 2.7% in consumption taking it to 1 154 000 t is expected with recovery in Greece by 11.3% the major factor. Further growth is also forecast in Italy, 3.2%, France, 1.6% and Spain 1.3% while British consumption though rising by 1% will, nevertheless, not recover to 1985 levels. The deficit between production and consumption is set to decline to 223 000 t resulting in a self-sufficiency rate of 80.7%.

d) Trade

Intra Community trade is again set to grow in 1987 as favourable exchange rates continue to encourage exports from Great Britain. Total trade is likely to reach 140 000 t with France receiving over 100 000 t.

Under the voluntary restraint agreements with the Community a number of non Member States may export up to a maximum of 321 290 t (1) of live animals and sheepmeat expressed as carcase weight equivalent. In 1987 it is likely that imports from these states will follow the same pattern as in 1986 and that import levels will reach approximately 250 000 t. Non Community countries in Europe will export close to the agreed limits as will Australia.

Argentina is set to export slightly more than in 1986 but imports from Uruguay may decline noticeably. New Zealand, the major exporter, is likely to export slightly less than 200 000 t of its voluntary restraint quantity 245 500 t about the same level as in 1986. However, increased exports to Spain and Portugal (up to 12 000 t) may lead to reduced exports from New Zealand to the United Kingdom.

Exports from the Community are expected to reach 5 000 t.

e) Market Prices

A marked decrease is now forecast in market prices with the Community average likely to decline by 7% to 342 ECU per 100 kg. Decreases of up to 15% are forecast in the Spanish and Portuguese prices, 10% in France, 4% in Ireland and 2% in Greece, Italy and the United Kingdom.

(1) Including 1 790 t granted under the autonomous quota for non Community countries which have not concluded such agreements.

f) Market Management

Because of particular difficulties on the Spanish and Portuguese markets, related mainly to the import of frozen lamb from New Zealand, two schemes of aid to private storage were introduced in these Member States during early summer 1987, attracting approximately 1 000 t lamb. In addition, due to the generally weak state of the market throughout the Community, the advance on the ewe premium was fixed at 50% rather than 30% of the foreseeable premium, although due to budgetary constraints this advance will not be payable until November 1987. The total cost of the sector including all premia in respect of the 1987 campaign is forecast at over 1 000 MECU.

g) Supply Balance for 1987

On the above basis, the supply balance for the Community is estimated as follows :

<u>Tonnes</u>	
Gross indigenous production	931 000
Total consumption	1 154 000
Consumption/production deficit	223 000
Import/export deficit	245 000
- Imports from non Community countries	5 000
- Exports to non Community countries	250 000
Changes in stocks	+ 22 000

PIGMEAT1. INTRODUCTION

Pigmeat's share of final agricultural production in the Community is 11% by value. Traditionally ahead, on volume, of all other types of meat, it accounted for an estimated 42% of the Community's total meat production in 1986. The importance of the pigmeat sector derives from its own dynamism, which is reflected in the trend towards larger production units, not necessarily accompanied by a corresponding increase in agricultural area and by a progressive decrease of the feed needed per kg of pigmeat. The Community's production is concentrated along the North Sea and in western France, northern Italy and Catalonia.

2. GENERAL SITUATION

- 2.1 Spurred on by lower feed prices, pig numbers in the Community maintained an upward trend in 1986. The consequent increase in pigmeat production at lower cost led to a decline in market prices.
- 2.2 The trend towards increased pig numbers and lower feed prices on the one hand, coupled with declining prices for pigmeat on the other hand, continued during the first three quarters of 1987. However, for many producers, the decline in input costs was insufficient to compensate for the lower return for their produce with the result that profits were affected.
- 2.3 Encouraged by low prices the consumption of pigmeat increased in 1986; this was underpinned by an increase in economic activity and by higher purchasing power, at least in some parts of the Community.
- 2.4 Foreign trade (which accounts for only 2-4% of the pigmeat market) fell slightly in 1986, leaving the Community with a lower positive balance. This was due, in part, to increased intra-Community trade following the accession of Spain and Portugal. It is, however, expected that the figures for foreign trade for 1987 will lead to an improvement in the net balance.
- 2.5 Private storage aids were granted in 1986 and 1987 to absorb the traditional springtime market depression. Specific market-support measures were also adopted in regions affected by foot and mouth disease in Italy.

2.6 Some progress was made in the application of the new Community scale for grading pig carcasses by means of objective methods aimed at increasing market transparency. By October 1987 four Member States had had their grading methods approved by the Commission while two (Germany and the Netherlands) had actually implemented the new scale. A Commission report on progress on the implementation of the new scale presented to the Council in September 1987 emphasized the need for the remaining Member States to accelerate the work in this regard in order to respect the deadline for implementation of 1 January 1989.

3. THE INTEGRATED MARKET

3.1 The common market organization for pigmeat became applicable in Spain on 1 March 1986, whereas in the case of Portugal it will be introduced by stages. The integrated market (i.e. that in which the common market organization mechanisms apply) has accordingly consisted of the Community of Ten plus Spain since 1 March 1986. This year's analysis of the integrated market concerns the Community of Eleven members unless otherwise indicated.

A. Production

The Community is the second-largest pigmeat producer in the world, after China. In 1986 production increased by about 2% on the previous year to reach 11.92 million tonnes. Of the individual Member States only Italy showed a decrease in production.

Some further overall increase in production is expected in 1987, but the rate of expansion is expected to decline due to falling profitability of production.

The total Community pig herd in December 1986 numbered just over 100 million head. Excluding Spain, the figure for the Community of Ten (85 million head) represents a record level. Germany has 24% of the Community's pig population, Spain 15.7%, the Netherlands 14%, France 11.9%, Denmark 9.3%, Italy 9.2%, the United Kingdom 7.9% and Belgium 5.8%.

It should be noted that the greatest increase in the pig population was in the Netherlands where the authorities have, for environmental reasons, drawn up plans to restrict production.

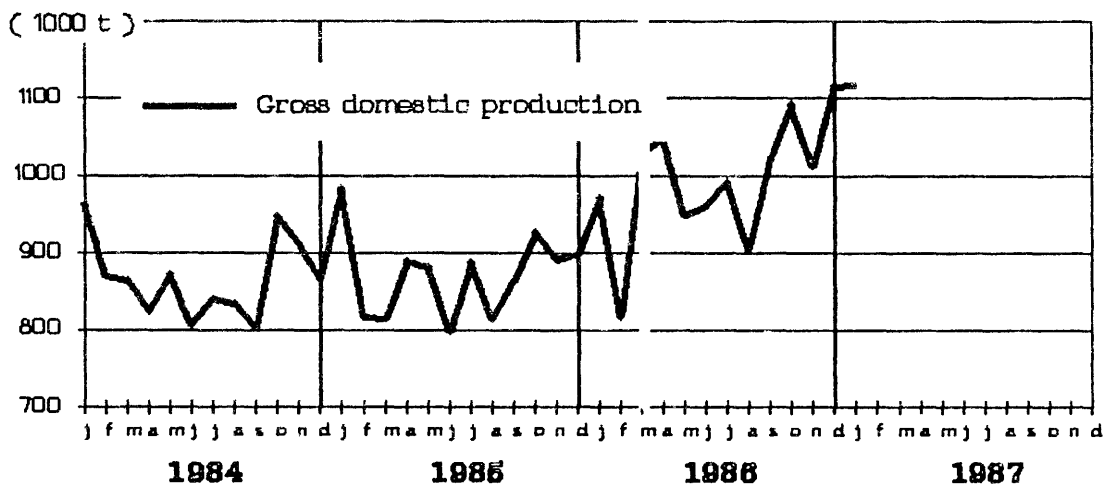
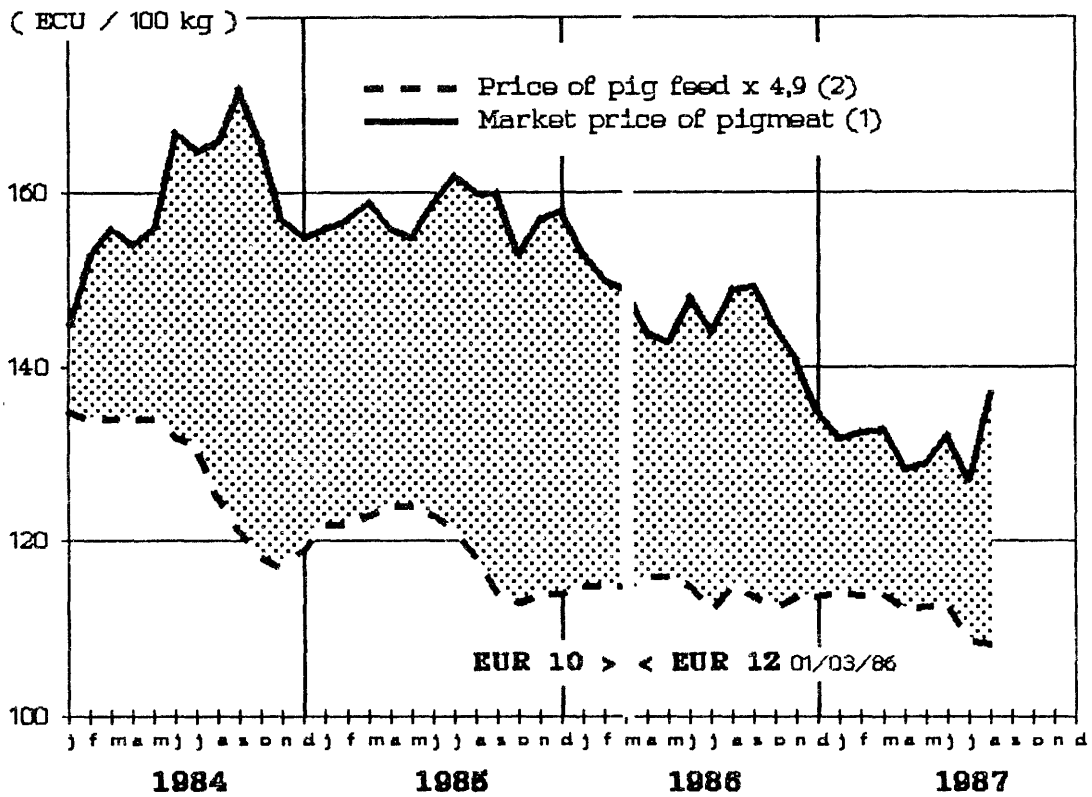
The main features of the structural change in production are the drop in the number of pig farms, the gradual disappearance of farms keeping fewer than 200 pigs and the increase in the average pig herd per farm. Herd size varies greatly from one Member State to another: in December 1985 (latest available figures) it averaged 343 pigs per farm in the Netherlands, 336 in the United Kingdom, 206 in Denmark, 179 in Belgium, 140 in Ireland, 66 in France, 55 in Germany, 36 in Luxembourg, 19 in Greece and 15 in Italy. The Community average (EUR 10) was 58 pigs per farm.

Production costs other than fattening feed represent about 30% of the total cost of a pig carcass and, as in previous years, have been influenced by the general downward trend in inflation and interest rates. The following table shows the development of pigmeat and pig feed prices between December 1985 and August 1987.

Member State	December 1986/1985		August 1987/1986	
	Pig carcasses	Feed (a)	Pig carcasses	Feed (a)
France	- 15 %	0	- 15 %	- 2.6 %
Belgium	- 21 %	- 4.1 %	- 17 %	- 6.9 %
Netherlands	- 23 %	- 5.5 %	- 19 %	- 9.9 %
Germany	- 22 %	- 8.4 %	- 20 %	- 6.7 %
Italy	- 10 %	- 1.7 %	- 17 %	- 2.9 %
United Kingdom	- 6 %	+ 1.0 %	- 1 %	+ 0.3 %
Denmark	- 15 %	- 3.8 %	- 4 %	- 3.0 %

(a) Fattening feed.

MARKET PRICE OF PIGMEAT, PRICE OF FEED, AND PIGMEAT PRODUCTION



Source : EUROSTAT and EC Commission, DG for Agriculture

(1) Price per 100 kg of carcasse

(2) On average, the production of 1 kg of carcasse requires 4,9 kg of feed

B. Consumption

Consumption rose from 11.4 million tonnes in 1985 (36.6 kg per head of the population) to 11.7 million tonnes in 1986 (37.5 kg per head of the population), while the degree of self-sufficiency fell slightly from 102.6% in 1985 to 101.9% in 1986. Consumption is expected to rise again somewhat in 1987, with self sufficiency remaining unchanged.

Annual consumption per head of the population varies considerably from one Member State to another, ranging from 61.1 kg in Germany to 28.0 kg in Italy, 24.4 kg in the United Kingdom and only 22.2 kg in Greece. The degree of self-sufficiency shows an even greater variation: from 353% in Denmark to 66% in Italy.

INTRA-COMMUNITY TRADE IN PIGMEAT IN 1986 (1)

		(Tonnes)												
FROM	TO	BELGIUM/ LUX.	DENMARK	GERMANY	GREECE	FRANCE	IRELAND	ITALY	NETHER- LANDS	UNITED KINGDOM	EUR 10	SPAIN	PORTU- GAL	EUR 12
Belgium/Lux.			6353	64435	19489	425	2731	119748	1830	215011	42			215052
Denmark	1207			2004	65	25	34	196	223	3754		147		3901
F.R. Germany	67025		109280		10569	6588	23090	367414	33304	617294	21			617315
Greece	4143		12444	20375	447		264	31892	10	69575				69575
France	186746		78976	34951	20	9983	10551	195116	5073	521416	2342	42		523800
Ireland	721		620	51		67	27	1617	21761	24864				24864
Italy	85811		74109	60192	67	41439	1732	293246	648	557243	79	10		557332
Netherlands	28563		1394	49811	895	62	1325		1988	84038	202	1		84241
U. Kingdom	49981		260053	30382	8189	25811	8726	165582		548722				548722
TOTAL(EUR-10)	424196		543228	262201	110	81161	44627	1174811	64838	2641916	2685	200		2644802
Spain	14720		5486	16195	27605	196	405	47408	1670	113687		7		113694
Portugal	883		3109	21	120	2	1	528	13	4677	52			4729
TOTAL(EUR-12)	439799		551823	278417	110	108886	44825	1222747	66521	2760280	2737	207		2763225

(1) Excluding lard and offal

Source: EUROSTAT

C. Trade

a) Intra-Community trade (EUR 10 and EUR 12)

In line with the trend recorded over the past ten years, total intra-Community trade rose from 2.137 million tonnes in 1985 to 2.763 million tonnes on 1986, i.e. an increase of 29.1%. This increase was in part attributable to the expansion of the Community from 10 to 12 Member States in 1986. These figures, which cover all trade in pigmeat products (except lard and edible offal) between Member States, represent about two-thirds of the world total concerned.

The accession of Spain in March 1986 provided an attractive market for Community exporters with the result that 113 694 tonnes of pigmeat was sent there by the other Member States in 1986. Prior to accession the Spanish market had been effectively closed to Community exports.

The foregoing Table shows that, in intra-Community trade, smaller Member States, particularly the Netherlands, Denmark and Belgium, are the suppliers to the larger Member States (Germany, France, United Kingdom and Italy).

b) Trade with non-member countries

In terms of product weight, Community exports to non-member countries in 1986, at 397 464 tonnes, were 9.6% down on the previous year. On the same basis, imports from non-member countries fell by 17.3% during that period, from 218 000 tonnes in 1985 to 180 263 tonnes in 1986. In terms of volume, the positive trade balance was lower in 1986, totalling 217 201 tonnes as compared with 221 827 tonnes in 1985. Details of the Community's trade with third countries in pigmeat and pigmeat products are shown in the following table:

Products	EXPORTS			IMPORTS			BALANCE		
	1985 (EUR10)	1986 (EUR 12)	%	1985 (EUR10)	1986 (EUR 12)	%	1985 (EUR 10)	1986 (EUR 12)	86/85
Live pigs	304	245	0.1	11 874	24 917	13.8	-11 570	-24 672	113.2
Meat and unrendered pig fat	180 283	166 985	42.0	95 471	63 056	35.0	84 812	103 929	22.5
Lard	28 507	16 642	4.2	39 285	40 943	22.7	-10 778	-24 301	125.5
Offal	31 043	35 805	9.0	56 580	38 591	21.4	-25 537	-2 786	-89.1
Sausages, prepared and preserved meats	199 750	177 787	44.7	14 850	12 756	7.1	184 900	165 031	-10.7
TOTAL	439 887	397 464	100.0	218 060	180 263	100.0	221 827	217 201	-2.1

(tonnes)

The two main categories of pigmeat traded by the Community are fresh and frozen meat on the one hand and processed products on the other. In the former category the Community's positive trade balance improved significantly in 1986 mainly as a result of a fall in imports. However, because of a less favourable external economic environment exports of processed products fell significantly so that the positive trade balance in these products also declined.

The main market for processed products is the United States whilst Japan is the largest buyer of frozen meat. Besides, a wide range of processed products is exported to many different countries.

As in the past, the East European countries, led by Hungary, were the Community's main suppliers, but mention should also be made of Sweden and, for offal and fats, Canada and the United States.

D. Prices

a) Common prices

Management of the Community pigmeat market depends on the basic price, which is fixed annually normally for the period 1 November to 31 October and, since August 1986, applies mainly to Class V of the new scale, which corresponds to a large extent to the old Class I pig carcasses of the Community scale. For 1987/88 the basic price was left unchanged at 203.33 ECU/100 kg.

Sluice-gate prices, which are fixed every quarter, are considered to be the minimum prices of import into the Community which third countries are expected to respect. Products from third countries which undercut the Community's sluice-gate price are in principle subject to a special charge called an additional amount aimed at covering the price shortfall. Sluice gate prices depend largely on world market prices for cereals, the continuous fall of which has driven down the sluice-gate price for pig carcasses from 101.36 ECU/100 kg in August 1986 to 84.92 ECU/100 kg in August 1987.

b) Market price

Throughout 1986 the weekly average Community market price moved in a range between 156 and 133 ECU/100 kg carcass weight. In fact the market remained remarkably stable up to the end of September when, due to the effect of increased supply, a fairly sharp decline set in bringing the average price to the minimum point of the range at the end of the year. At the beginning of 1987 the price fell to about 131 ECU/100 kg but subsequently stayed relatively stable up to the end of the third quarter within the range 125 to 134 ECU/100 kg. Details of the development of common and producer market prices for pig carcasses for each marketing year since 1982/83 are given in the following table:

Pig carcass prices

(ECU/100 kg)

	1.11.82 31.10.83	1.11.83 31.10.84	1.11.84 31.10.85	1.11.85 31.07.86	1.08.86(1) 31.10.87
	Grade I I carcasses				Grade I carcasses
<u>Basic price</u>					
Absolute value	194.68	205.687	203.33	203.33	203.33
Percentage change	10.5	5.5	-1.0	0.0	0.0
<u>Market price</u>					
Absolute value	153.69	159.41	157.73	149.85	134.37
Percentage change	-4.8	3.7	-1.1	-5.0	-10.3
As a % of the basic price	78.9	77.6	77.6	73.7	66.1
<u>Sluice-gate price</u>					
Absolute value	124.99	152.12	152.58	123.11	90.05
Percentage change	-5.6	21.7	0.3	-19.3	-26.9

(1) The 1986/87 marketing year began, exceptionally, on 1 August 1986.

E. Management of the market

a) Levies and refunds

Under the system of trade with non-member countries, levies and (where appropriate) additional amounts are charged on imports, and refunds may be granted on exports.

Levies followed the trend in world and Community prices for feed grain. The fall in world feed-grain prices resulted in an increase in the levy for pig carcasses from 72 ECU/100 kg on 1 August 1986 to 80 ECU/100 kg on 1 August 1987.

Additional amounts were fixed for certain products and countries of origin throughout 1986 and 1987 in the light of changes in the free-at-frontier Community prices.

Due in large measure to the continuous fall in the value of the US \$, export refunds were increased on a number of occasions in 1986 and 1987 in order to maintain the competitiveness of Community exports.

b) Intervention

Private storage aid was granted throughout the Community from 1 April to 18 July 1986 and from 19 January to 29 June 1987. Because of increasing production the quantity of pigmeat benefitting from aid increased in 1986 to 95 000 tonnes and again in 1987 when the quantity stored rose to the record figure of 166 000 tonnes surpassing the previous highest level attained (in 1983) by almost 30%.

c) Monetary Compensatory Amounts (MCAs)

As part of the 1987/88 prices package two important changes to the system of MCAs applicable in the pigmeat sector were adopted. In the first place the use of a percentage (35%) of the basic price as the basis for calculating all MCAs was confirmed. Secondly, it was decided that no further increase in pigmeat MCAs should take place. In order to prevent such increases the Commission was authorized to adapt the agricultural or "green" rates of exchange as necessary. However, in order to avoid distortions of trade and competition this new arrangement only applies where the difference between the monetary gap in the pigmeat sector and that in the cereals sector is eight percentage points or less.

d) Special measures

As in previous years, major pigmeat producing regions in Italy were affected by foot-and-mouth disease in 1986 and 1987 leading to the introduction of trade restrictions and special market support measures. Under two separate private storage schemes in the spring and autumn of 1986 a total of approximately 20 000 tonnes of pigmeat benefitted from aid. And in the first half of 1987 a further special measure including a national complementary aid resulted in 22 500 tonnes being taken into storage in the affected regions.

F. Budget expenditure

EAGGF Guarantee expenditure on pigmeat in 1986 totalled 151.8 million ECU, including 75.3 million ECU for export refunds and 76.5 million ECU for intervention measures, as compared with 165.4 million ECU in 1985 (refunds: 102.9 million ECU, intervention: 62.5 million ECU).

EAGGF Guarantee expenditure on pigmeat for 1987 is estimated at 234 million ECU or about 1% of total Guarantee section expenditure.

3.2 Special provisions concerning Portugal and Spain

The Act of Accession provides for a classical transition in the case of the pigmeat sector in Spain; the rules of the market organization have accordingly been applied there since 1 March 1986. In the case of Portugal transition is by stages: the national arrangements applicable before accession remain in force, subject to certain adjustments, so that the market organization mechanisms can be applied on completion of the first transitional phase.

The two new Member States may export to the rest of the Community only those pigmeat products which have undergone sufficient heat treatment to immobilize the virus of African swine fever, which is endemic in those two countries.

Prior to accession Spain's pigmeat market was tightly protected with the result that Community exports of pigmeat to Spain were negligible. The opening up of the Spanish market to the rest of the Community on 1 March 1986 resulted in considerable exports of both live animals and pigmeat to Spain. In the case of piglets the sudden and substantial development of trade to Spain from the other Member States seriously depressed prices and threatened the livelihood of many small and specialized Spanish piglet producers. To alleviate this situation special transitional measures were adopted under Article 90 of the Act of Accession so as to limit piglet imports into Spain by quota during the period February to December 1987. These measures helped to avert a crisis for Spanish piglet producers while permitting a reasonable level of imports to continue.

As regards Portugal, a draft action programme for the pigmeat sector, designed to facilitate the transition from the Portuguese national market organization to that of the Community at the beginning of the second stage, was drawn up by the Commission in consultation with the Portuguese authorities.

4. OUTLOOK

- 4.1 With market supplies plentiful and consumption at historically high levels, it is expected that pigmeat prices will remain at a low level for the remainder of 1987 and at least the first part of 1988.
- 4.2 The reduction in producers' profits which developed in 1987 is expected to continue into 1988 leading to a further slowing down in the growth of pig breeding. This might lead to a somewhat better balance between supply and demand in pigmeat in the second half of 1988 with a consequent improvement in prices to producers.

5. PIG PRODUCTION IN THIRD COUNTRIES

- 5.1 Of the "market economy" non-member countries, the largest producers are in North America. In the United States, pig herds fell during the three years up to 1986 after reaching a peak in 1983 which came close to matching the record numbers of the period 1979-1981. Consequently, pigmeat output started to decrease slightly as from 1984, followed by a steeper fall in 1985 and 1986. However, the June 1987 census showed a reversal of the trend in pig numbers with a 7% increase in the total herd. An increase in production in line with the increase in herd size is therefore expected in 1987. In the case of Canada a further small increase in production in 1987 of 1-2% is forecast.
- 5.2 Of the countries with state-run economies, China is the world's largest pigmeat producer, with an estimated yearly production of possibly 17 million tonnes, which indicates that production has steadily grown since the end of the 1970's. Because of its huge internal demand, however, China trades little on the world market, except for sales to Hong Kong. In Eastern Europe production trends in 1987 are expected to vary, a relatively stable situation being indicated for the largest producer, the USSR, a small increase in the German Democratic Republic and some decline in Poland and Hungary.

6. CONCLUSION

- 6.1 In 1987 pigmeat production in the Community was approaching the upward peak of its cycle which was reflected in record production and relatively low producer prices. While lower feed costs helped to partially offset the lower returns to producers their profit margins were nevertheless adversely affected. The application of private storage helped to support the market and to achieve a considerable degree of price stability.

- 6.2 With the prospect of a reduction in the growth of production some improvement in producer prices can be expected but possibly not before the second half of 1988.

POULTRYMEAT1. INTRODUCTION

In 1985 poultrymeat accounted for 8.0% of the value of livestock production and 4.4% of total agricultural production in the Community.

Production is characterized by concentration and by various forms of vertical and horizontal integration. The degree of concentration, particularly in the chicken sector, is greater than in egg production, particularly in the northern countries of the EEC, where 90% or more of production is accounted for by holdings with more than 10 000 birds.

In 1985, with nearly 18% of world production, the Community of Twelve was the world's largest producer after the USA, not only for all types of poultrymeat but also for chickens and turkeys. It remains the largest exporter, ahead of Brazil, the USA and Hungary.

2. GENERAL SITUATION

In 1986 total production of poultrymeat in the Community of Ten was 4.53 million tonnes, a 3.3% increase on the 1985 figure of 4.38 million tonnes. This was the highest figure ever recorded, the previous record year exceeding the figure for 1982. Production increased in all Member States with the exception of Greece, where there was a decline. Production of chicken meat rose by 2.6% on 1985, of turkey meat by 10.7% and of duck meat by 9.8%.

Consumption in 1986 increased by 3% on 1985 to reach 4.263 million tonnes, which allowed per capita consumption of 15.6% kg year (13.9 kg in 1980). The rise in consumption stems largely from the growing success of cuts and preparations. The popularity of frozen chickens ready for cooking has been dropping for some years.

Intra-Community trade continued the steady increase that began in 1980, to reach a total volume of 420 000 tonnes (up 14.1% on 1985). Most of it is meat exported from France and the Netherlands to Member States that consume large quantities but cannot produce all of their own requirements, namely Germany and the United Kingdom and in smaller measure Italy and Greece.

The volume of trade with non-member countries amounted to some 410 000 tonnes in 1986 (342 000 tonnes of exports and 68 000 tonnes of imports).

Exports to non-member countries, which have been falling since 1981 (when they were 469 000 tonnes), scarcely changed in 1986, bearing in mind enlargement. There are a number of reasons for this drop: economic difficulties in the importing countries resulting from the fall in earnings from oil and/or a state of war, increased domestic production in those importing countries and increased competition from other exporters, in particular Brazil and the USA.

Imports fell by 20% in 1986, principally because of the Chernobyl accident which slowed down exports from Eastern Europe.

In the Community of Twelve 1987 is expected to see a further increase in production of 4.5%. Consumption, too, is expected to rise by 5%. Exports should remain stable while imports are again up. The market situation for poultrymeat deteriorated in 1987, returning to a normal level vis-à-vis previous exceptional years. This less satisfactory situation led to a slowing down of production in some Member States in the second half of the year.

3. 1986/87 MARKETING YEAR

The common organization of the market in poultrymeat has embraced Spain since 1 March 1986. In the case of Portugal the solution adopted was transition by stages. The integrated market, namely that to which the mechanisms of the common market organization apply, has therefore comprised the Community of Ten and Spain since 1 March 1986. The market analysis for this year deals, however, only with the Community of Ten since sufficiently comparable statistics are not available for Spain. A special section at the end of this part of the report is devoted to poultrymeat in Spain and Portugal.

3.1. THE COMMUNITY OF TEN

A. Production

Total production of poultrymeat in the Community of Ten in 1986 is estimated at 4.53 million tonnes, a 3.3% increase on 1985. Production increased in all Member States, notably Ireland (+ 12.7%), Germany (+ 5.6%) and the United Kingdom (+ 5%), except Greece, where it dropped by 6.5%.

France with 1.327 million tonnes is the leading Community producer, and also the leading world exporter (intra-Community trade included), ahead of the USA and Brazil.

With 1 million tonnes, Italy is the second largest Community producer but its high domestic consumption means that it is not self-sufficient. Nor does the United Kingdom, in third place with 920 000 tonnes, cover its requirements and large quantities are imported, mainly from the rest of the Community. The Netherlands in fourth place with 442 000 tonnes is the second largest Community exporter and ranks fourth in the world.

In production of chicken meat (3 002 000 tonnes in 1986, 2.6% more than in 1985), France (784 000 tonnes) continues to take first place followed by the United Kingdom (687 000 tonnes) and Italy (558 000 tonnes).

Production of turkey meat rose from 727 000 tonnes in 1985 to 805 000 tonnes in 1986 (+ 10.7%), with France still in first place followed by Italy.

At last, concerning duck meat, the Community production has constantly increased, and reached 145 000 t in 1986 (+ 9.8%). France is the main producer with 55% of the total, followed by Germany (15%) and the United Kingdom (12.5%).

The chicken meat market was influenced, in 1986, by the rise of fresh poultry demand on one hand, and by the difficulties of exports to the world market, on the other hand. Consequently the slaughterhouses oriented a larger amount of their production towards outlets like fresh products, cuts and processed, namely in Benelux, United Kingdom and Ireland.

B. Consumption

Consumption of poultrymeat rose by 2.4% in 1986 and is expected to continue to increase in 1987 (by approximately + 5%). Annual per capita consumption, which rose from 15.2 kg in 1985 to 15.6 kg in 1986, will cross the 16 kg threshold for the first time in 1987. This results mainly from the growing success of fresh products and of new derived products (cuts and processed chicken and turkey meat).

C. Trade

(a) Intra-Community trade

In 1986 420 000 tonnes, some 9.2% of total production, was exported to other Community countries. This was a 14.1% increase on the 368 000 tonnes traded in 1985.

Of the Member States involved, the Netherlands was the leading exporter followed by France. The main importers remained Germany, followed by the United Kingdom, in particular for slaughtered chickens.

(b) Trade with non-member countries

This had been dropping for a number of years until 1985. In 1986 the amount traded remained stable at around 414 000 tonnes, 347 000 tonnes of which was exported and 67 000 tonnes imported.

After falling in 1985 exports to non-member countries remained firm in 1986 (+ 1%), principally because of an increase in exports of some poultry cuts. The main export, however, continues to be whole chickens (262 000 tonnes in 1986) to the Middle East and certain North African countries. The Community was able to maintain its position as world market leader but the total volume of exports, which had already dropped markedly in 1985, fell further in 1986. The end of 1986 and the first four months of 1987 saw a recovery in exports on account of the temporarily lower

exports from Brazil. Since May 1987 the situation has been reversed following a new offensive from Brazil and increasing deliveries from the USA under the export enhancement programme. The traditional Middle Eastern and North African markets are steadily contracting for a number of reasons: economic difficulties because of the fall in oil income, war, increased domestic production and increased competition from other exporting countries (Brazil and the USA). Cuts, wings, breasts and legs are still very good sellers but whole birds are less and less in demand.

Imports, which were down 21% on 1985 on account of consumer reticence following the Chernobyl accident, accounted for 1.6% of consumption in 1986. They consist mainly of geese and ducks (25 000 tonnes in 1986) from the countries of Eastern Europe. Imports of turkey meat, including uncooked preparations, fell by around 3 000 tonnes in 1986, mainly where whole birds and boned meat from Eastern Europe are concerned. Imports of other poultry cuts, i.e. chicken breasts and legs from Eastern Europe, Brazil and Thailand, increased.

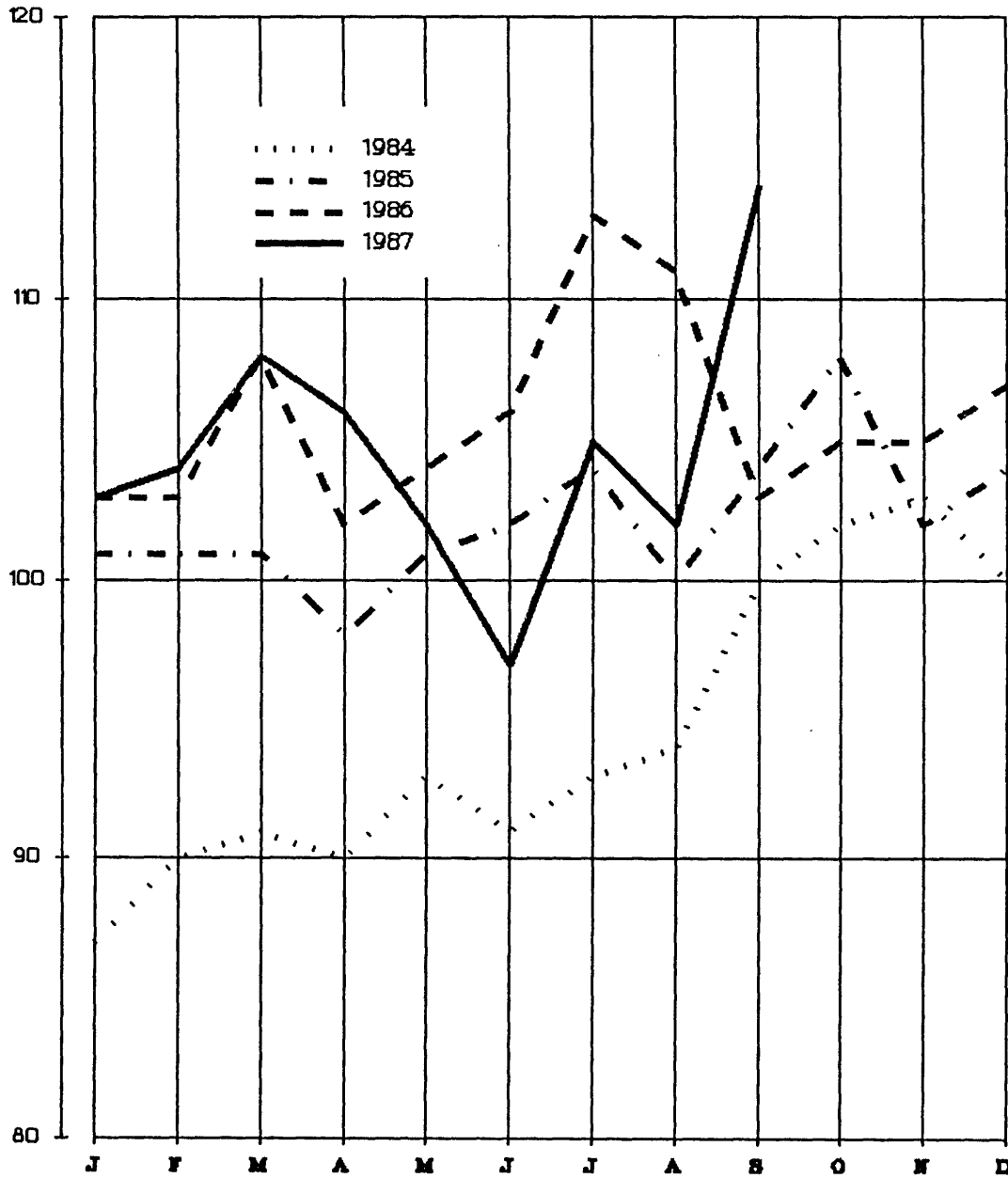
D. Prices

In 1986 production and supplies increased and exports remained at a standstill, while the increase in domestic consumption was lower than the rise in production.

This brought about a fall in prices in all countries except Greece where there was a rise of around 25%. The fall ranged from 2.1% in Ireland to 5.8% in Germany (in national currency).

The prices for chicken on the Community market were lower overall in 1986 and 1987 than in 1985. This is a result principally of the increase in supplies on the Community market, in particular from France, and of the drop in exports of whole chickens in 1986.

" CHICKENS "
Monthly trend in profitability index⁽¹⁾
1984 - 1987 EUR 10



Source : EC Commission, DG for Agriculture

(1) Ratio between wholesale price for chickens and price of compound feedingstuffs - base 100 = average for 1980-81-82

As in 1986, however, feed prices in 1987 followed the drop in poultry prices, so enabling better margins to be maintained than those recorded in 1986.

E. Market management

(a) Levies and refunds

Under the arrangements applying to trade with non-member countries, levies and, if necessary, additional amounts are imposed when products are imported and refunds can be granted on exports.

The sluice-gate prices, fell continuously in 1986 following the drop in world cereal prices. The levies, which are based essentially on the difference between feed grain prices in the Community and on the world market, moved in the opposite direction.

In October 1986 the Council adopted the Commission's 1983 proposals for adjustment of the coefficients and other factors entering into the calculation of the sluice-gate prices and levies. The new method of calculation was used from 1 February 1987.

In view of the conditions of competition on the world chicken market the export refunds on slaughtered chickens, set at 18 ECU/100 kg since 1 November 1985, were raised in 1986 to 24 ECU/100 kg on 1 February, to 26 ECU/100 kg on 1 May, to 31 ECU/100 kg on 1 August and to 35 ECU/100 kg on 1 November. The same considerations led to an increase in the refund on slaughtered chickens to 37 ECU/100 kg on 1 February 1987.

The refunds on derived products and on other poultry species were raised by the same proportions on the same dates.

Since 21 September 1987 a higher refund has been applied to exports of whole chickens and certain chicken cuts to Egypt, Iraq and the Canary Islands.

(b) Monetary Compensatory amounts

Following the monetary realignment of 9 April 1986 the Commission suspended until 30 June 1986 in the poultrymeat sector application of the part of the negative monetary compensatory amounts introduced as a result of the realignment. The Council then decided that from 1 July 1986 the monetary gap would until 30 September be reduced by 4.8 points for France and by 4.5 points for the United Kingdom pending a final decision on the new rules to be adopted for calculating the monetary compensatory amounts in the sector. The period of validity of this measure was later extended to 30 June 1987.

At that date, a 5 point franchise was applied in the poultrymeat sector, combined with a modification of the green rates, resulting in monetary compensatory amounts of zero for all Member States except Italy, Greece and the United Kingdom.

F. Budgetary expenditure

EAGGF Guarantee Section expenditure on poultrymeat amounted to 70.44 million ECU in 1986 (0.32% of total EAGGF Guarantee Section expenditure), spent entirely on refunds. The figure entered in the 1987 budget is 91 million ECU and the estimate for 1988 is 128 million ECU.

3.2. THE COMMUNITY OF TWELVE - SPECIAL PROVISIONS FOR SPAIN AND PORTUGAL

The basic figures for the sector in the two new Member States are as follows (1986 estimates):

	Spain	Portugal
Production (tonnes)	759 000	155 000
Annual per capita consumption (kg)	20.5	15.7
Degree of self-sufficiency (%)	98.6	100

Poultry production in Spain and Portugal accounts for more than 16% of the total production of the Community of Twelve. Average per capita consumption has risen by 0.4 kg in the Community because of the high rate of consumption in Spain. The degree of self-sufficiency has fallen by approximately 1 point.

The Act of Accession provides for conventional transition for the Spanish poultrymeat sector. The mechanisms of the common market organization have therefore applied to Spain since 1 March 1986. Accession compensatory amounts have not been applied in this sector.

The accession of Spain has increased trade with the Community of Ten. Spanish imports have increased twofold from 7 000 t in 1985 to 15 000 t in 1986 but represent only 2% of Spanish output.

In the case of Portugal transition is by stages. The national arrangements in force before accession continue to apply but are to be adjusted to permit application of the common market organization mechanisms at the end of the first stage, during which Portugal may retain quantitative restrictions on the importation of turkey and other chicks from the Community of Ten and non-member countries.

The Commission established, in order to facilitate the transition from the national portuguese market to the common market, and in consultation with the portuguese authorities, a programme with specific actions for this sector.

4. 1987/1988 MARKETING YEAR - SHORT-TERM OUTLOOK

4.1. COMMON PRICES

As poultrymeat sector products are considered to be derived from cereals the sluice-gate prices and levies are fixed quarterly on the basis of feed grain prices recorded on the world market and those fixed in the Community for a twelve-month period beginning on 1 July of each year.

The sluice-gate prices set for poultrymeat and derived products, after rising appreciably on 1 February 1987 following the application of the new calculation factors, fell very slightly on 1 May and 1 August because of the fall in feed grain prices on the world market. Import levies were increased on 1 February and 1 May 1987 but were reduced slightly on 1 August.

4.2. SHORT-TERM OUTLOOK

Production of poultrymeat should once more increase in 1987, by 4.3% to reach 4 738 000 tonnes for the Community of Ten. A 4.9% increase in chicken meat production to 3 149 000 is expected as a result of a Community-wide increase in production to which Denmark alone, whose production would remain stable, will be an exception. Similarly, the expansion of production in Germany and the Netherlands is expected to slow down during the second half of 1987 and at the beginning of 1988. Production of turkey meat should increase by 3.6% to 834 000 tonnes. Production of duck meat is expected to rise 5.5% to 153 800 tonnes.

Production of poultrymeat in the Community of Twelve is expected to be 5 690 000 tonnes in 1987 as against 5 446 000 in 1986.

Consumption of poultrymeat is also expected to rise again in 1987, by around 5%.

Exports, however, are expected to remain stable throughout 1987 with an increase in the first half of the year and a drop in the second half.

At the beginning of the second half of 1987 production was tending to rise steeply with the resulting threat of a more marked fall in prices. A short-term economic crisis would appear to have been averted, a wiser policy having been adopted by the industry for the rest of the year. This policy should be maintained in 1988, present forecasts being for a smaller increase in supplies in 1988 than in 1987 (+ 2.5%).

5. CONCLUSION

Over the last few years the results attained in the poultrymeat sector have been satisfactory for Community producers despite the steady drop in exports to non-member countries. The constant rise in Community consumption and the drop in feed prices have been the main factors contributing to this outcome.

There is no doubt that poultrymeat producers and their organizations appear for a number of years to have found a way of coping with market trends. They have been remarkably successful in adjusting supply to demand and at the same time enlarging the range of products offered and responding ever more effectively to the wishes of consumers who are particularly careful and demanding.

EGGS1. INTRODUCTION

Eggs account for some 5.4% of the value of total production and for some 3.0% of the value of total agricultural production in the Community of Ten. National figures indicate that in most Member States more than 50% of production (76% in the United Kingdom and in the Netherlands) is accounted for by holdings with more than 10 000 laying hens.

The Community of Ten is the world's second largest egg producer (approximately 14%), lying behind the USSR but ahead of the USA and China. It is the leading exporter, with 30% of world exports (eggs in shell and egg products), ahead of the USA.

2. GENERAL SITUATION

Production of eggs in the Community (4 130 000 t) dropped again in 1986 for the fourth year in succession, by 0.5% compared with 1985. As the fall in demand was greater than the decrease in production, the result in 1986 was a crisis which was at its height in the summer. Subsequently placings were reduced and enabled a recovery to be made, bringing the Community market back to a satisfactory level in early 1987 and keeping it in equilibrium for the rest of the year.

Human consumption fell from 3 850 000 t in 1985 to 3 815 000 t in 1986 (-0.9%). In 1987, stagnation or even a decline in consumption has been evident in most Member States. Fairly favourable prices and advertising campaigns seem to have had no effect other than to maintain the existing state of affairs. Consumption per capita varies within very narrow limits, and for several years has tended to decline.

The volume of trade with non-member countries is estimated at 183 000 t in 1986, 129 000 t of which was exported (3.1% of production) and 54 000 t imported. Exports of eggs for consumption dropped 13% in 1986 compared with 1985, while exports of eggs for hatching dropped 10%, in particular on account of smaller purchases by non-member countries which are traditional customers. This was owing to a series of factors including an increase in national production, the economic crisis besetting those countries and greater competition from other exporting countries. The decline was more than offset by an increase in exports of egg products (+65%), in particular albumins, partly resulting from inward processing traffic.

Imports also dropped, by some 2.2%, in 1986. This fall involved all egg products with the exception of albumins.

The market drop in exports of eggs in shell, the contraction in internal consumption in 1986/87 and the resulting permanent saturation of the market call for special efforts on the part of producers to adjust supply.

3. THE 1986/87 MARKETING YEAR

The EEC market organization for eggs has covered Spain since 1 March 1986. It was decided that in the case of Portugal, transition would be by stages. The integrated market, i.e. that to which the EEC market organization mechanisms apply, has therefore consisted of the Community of Ten plus Spain since 1 March 1986. Analysis of the integrated market for the 1986/87 marketing year, however, covers the Community of Ten alone since comparable statistics are not available for Spain. A special section dealing with the egg market in the two new Member States follows the market analysis for the Community of Ten.

3.1. THE COMMUNITY OF TEN

A. Production

Total estimated production of eggs in shell (eggs for consumption and for hatching) in 1986 was 4 130 000 t for the Community of Ten, a drop of 0.5% compared with 1985.

Production fell in particular in Ireland (-2.1%), Germany (-2.8%), the Netherlands (-1.4%) and the United Kingdom (-0.4%). It increased in the other countries except Italy, where it remained stable.

France remained the leading producer among the Member States in 1986 with 909 000 t, followed by the United Kingdom (772 000 t), Germany (743 000 t), the Netherlands (654 000 t), Italy (628 000 t) and the Belgo-Luxembourg Economic Union (184 000 t).

FAO statistics show the USSR to be world leader with 4 202 800 t in 1984, followed by the Community, the United States (4 035 000 t) and China (3 956 200 t). With the accession of Spain, the enlarged Community (EUR 11) becomes the leading world producer, since Spanish production is the same as that of the Netherlands (approximately 650 000 t in 1986).

B. Consumption

In 1986 gross consumption of eggs in the Community fell slightly according to the estimates, from 4 086 000 t to 4 049 000 t (-0.9% compared with 1985). Utilization of eggs for hatching remained stationary (220 000 t), as did industrial uses (11 000 t).

Human consumption fell slightly by 0.9% to 3 815 000 t. The changes in production and export figures meant that the degree of self-sufficiency was up slightly from 101.6% in 1985 to 102% in 1986.

Per capita consumption, at 13.9 kg per year, was down 1.4% and fell below 14 kg for the first time since 1981.

C. Trade

a) Intra-Community trade

Intra-Community trade, which accounted for 13.6% of production, increased by approximately 2.9% in 1986 (562 000 t) compared with 1985 (546 000 t). More than half the quantities traded were intended for Germany, and came mainly from the Netherlands. In 1986 Italy was still the second largest Community importer. France became a net importer for the first time in 1986.

b) Trade with non-member countries

In 1986 trade with non-member countries was estimated at 183 000 t, 129 000 t of exports and 54 000 t of imports.

Exports of eggs for consumption dropped by 13% from 1986 to 1985, and exports of eggs for hatching by 10%. The figures were down not only for certain Middle Eastern (Iraq and Saudi Arabia) and African (Egypt and Algeria) countries but also for Switzerland and Austria, as these importing countries are now producing more eggs themselves.

Imports were about 1.8% down in 1986. The figures were down for both eggs in shell (mainly inward processing traffic) and egg products (with the exception of liquid and frozen whites).

Imports of eggs for hatching (turkey and goose eggs as well as chicken eggs) were significantly lower in 1986 than in 1985.

D. Prices

Despite the drop in supplies of Community eggs in 1986, there was a fall in prices. Throughout 1986 average prices were in fact lower than those recorded during 1985, except in Greece. While there was a reduction in feed prices also, it was less than the drop in the price of eggs and profit margins became negative in 1986, indicating a short-term crisis on the market for that year.

In the first nine months of 1987, the fall in supplies at the end of 1986 led to significantly higher price levels than in the corresponding period of 1986.

E. Market management

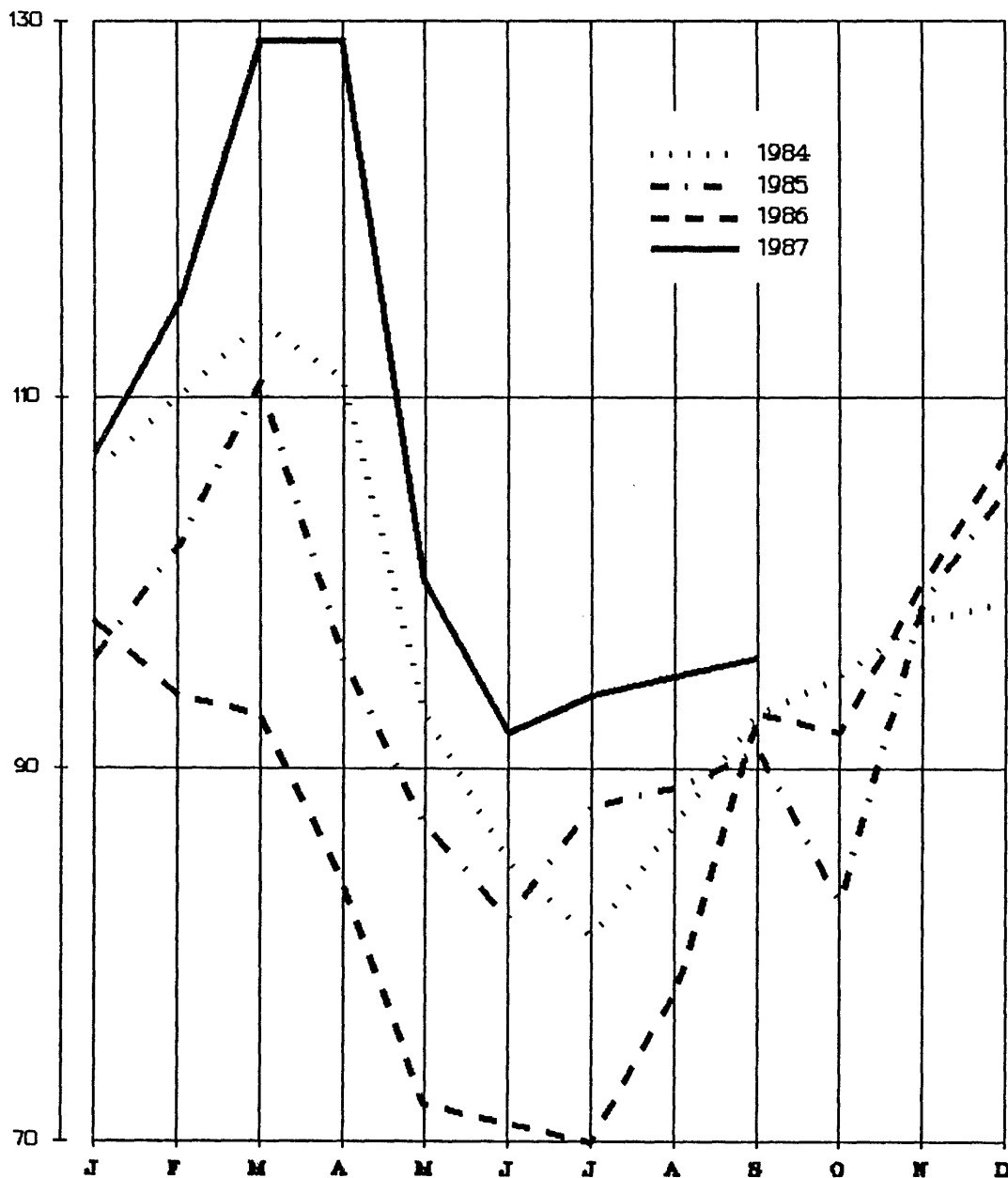
a) Levies and refunds

Levies and, if required, additional amounts are imposed on imports from non-member countries, and refunds can be granted on exports.

Sluice-gate prices fell steadily in 1986, after the fall in the price of cereals on the world market. They had recovered by 1 February 1987 but had fallen again slightly by 1 May. The levies, which are in essence the difference between feed grain prices in the Community and on the world market, moved in the opposite direction.

In October 1986 the Council adopted the Commission's 1983 proposals for adjustment of the coefficients and other factors entering into calculation of the sluice-gate prices and levies. The new method of calculation was applied from 1 February 1987.

" EGGS FOR CONSUMPTION "
Monthly trend in profitability index ⁽¹⁾
1984 - 1987 EUR 10



Source : EC Commission, DG for Agriculture

(1) Ratio between wholesale price for eggs and price of compound feedingstuffs - base 100 = average for 1980-81-82

In view of the drop in world market prices and the situation on the Community market, refunds on eggs in shell, set at 20 ECU/100 kg since 1 November 1985, were increased to 25 ECU/100 kg on 1 February 1986, 28 ECU/100 kg on 1 May 1986, 32 ECU/100 kg on 1 August 1986 and 36 ECU/100 kg on 1 November 1986. Subsequently, the Community market situation enabled refunds to be reduced to 32 ECU/100 kg on 1 May 1987 and 30 ECU/100 kg on 1 August 1987.

The refunds on eggs for hatching, however, were increased in view of the competition difficulties on the world market, while those on egg products were kept at their February 1987 level.

b) Monetary Compensatory amounts

Following the monetary realignment of 9 April 1986, the Commission suspended until 30 June (in the egg sector) application of that part of the negative compensatory amounts introduced as a result of the realignment. The Council then decided that from 1 July 1986 in the sector the monetary gap would until 30 September be reduced by 4.8 points for France and by 4.5 points for the United Kingdom, pending a final decision on the new rules to be adopted for calculating the monetary compensatory amounts in the sector. The period of validity of this measure was extended to 30 June 1987. On that date the introduction of a 5 points neutral margin in the sector, combined with an adjustment of the green rates, cancelled out the monetary amounts for all Member States with the exception of Italy, Greece and the United Kingdom.

F. Budgetary expenditure

EAGGF guarantee expenditure on eggs amounted to 27.3 million ECU in 1986 (0.1% of total EAGGF guarantee expenditure), spent entirely on refunds. The figure entered in the 1987 budget is 50 million ECU and the estimate for 1988 is 46 million ECU.

3.2. THE COMMUNITY OF TWELVE - SPECIAL PROVISIONS FOR SPAIN AND PORTUGAL

The basic figures for the sector in the two new Member States are as follows (1986 estimates):

	Spain	Portugal
Production (tonnes)	723 000	80 000
Annual per capita consumption (kg)	17.7	7.9
Degree of self-sufficiency (%)	100.6	99.5

The accession of these two countries to the Community increased its production by some 800 000 t of eggs and average per capita consumption in the Community by 0.2 kg, because of the high rate of consumption in Spain. The degree of self-sufficiency of the Community remained virtually unchanged.

The Act of Accession provides for conventional transition for the Spanish eggs sector. The mechanisms of the EEC market organization have therefore been applied in Spain since 1 March 1986. Since on that date there were appreciable differences between the Spanish and Community market prices for the main feed grains, accession compensatory amounts were applied in trade between the Community and Spain for an initial period. From 30 June 1986 those amounts were discontinued since the price disparities had become negligible.

In the case of Portugal, transition is by stages. The national arrangements in force before accession continue but are to be adjusted to permit application of the EEC market organization mechanisms at the end of the first stage, during which Portugal may retain quantitative restrictions on the importation of eggs for hatching and for consumption from the Community of Ten, Spain and non-member countries.

In order to facilitate the transition from the Portuguese national market to the EEC market organization, the Commission has drawn up a specific action programme for the sector in conjunction with the Portuguese authorities.

4. THE 1987/88 MARKETING YEAR - SHORT-TERM OUTLOOK

4.1. COMMON PRICES

As egg sector products are considered to be derived from cereals, the sluice-gate prices and levies are fixed quarterly on the basis of feed grain prices recorded on the world market and those fixed in the Community for a twelve-month period commencing on 1 July each year.

The sluice-gate prices set for eggs and derived products from 1 August 1987 have dropped very slightly because of the fall in feed grain prices on the world market. Import levies have been reduced. On 1 November 1987 they were left unchanged until 31 January 1988.

4.2. SHORT-TERM OUTLOOK

Production in the Community of Twelve is expected to drop in 1987 by 0.9% to 4 887 000 t. The figures are expected to be down in all Member States except Italy (+3%) and Greece (+0.8%). The satisfactory market situation has, however, led to a further increase in placings of layer chicks since spring 1987, which will result in production exceeding the 1986 level in certain Member States.

In 1988 an increase in production is expected, in particular in France, the Netherlands, Italy, Greece and Spain, which will lead to an increase for the Community of Twelve of between 1 and 1.5%.

In most Member States the trend is for demand to remain stationary or even in particular where purchases by households are concerned. The fall in the consumption of eggs in shell is not offset by consumption of egg products, despite the industry's efforts to develop and promote the latter.

Competition on non-member country markets has increased in the case of eggs for consumption, especially following recent subsidized exports from the United States to certain Middle and Far Eastern countries (including Iraq and Hong Kong). Even before these subsidies, Community exports had fallen by 26% in the first six months of 1987.

The same is true of eggs for hatching, exports of which fell by 9% in the same period, while exports of egg products continued at a satisfactory rate, in particular owing to strong demand in Japan.

On the basis of short-term supply and demand forecasts, a more critical situation may again be expected on the market in the first six months of 1988. Apparently warnings to producers in 1987 not to jeopardize the shaky equilibrium obtained during that year were not heeded for a sufficient period.

5. CONCLUSION

After the period of crisis in summer 1986, the Community market in eggs recovered to a satisfactory level in early 1987 and has been in balance for the rest of the year. This improvement was due to the recovery of prices and the constant fall in feed prices. However, in some Member States the improvement has already led to a tendency for flocks to increase again, which could give cause for concern.

In a market such as that in eggs, with no intervention or production quotas, the only possible solution to the crisis situation is for producers and the in organizations to review their operations and carefully adjust production to stationary demand and an oversupplied market. Particular attention ought to be paid to the supply of higher quality products, such as eggs produced by alternative systems, for which there is increasing demand in certain Member States, and to the development of new egg products.

PART II :

PRODUCTS NOT COVERED BY A MARKET ORGANIZATION

20. A L C O H O L1. INTRODUCTION

Ethyl alcohol of agricultural origin is not subject to Community rules.

2. GENERAL SITUATION

A continuing feature of the situation is the large production surplus. Efforts are being made to dispose of the surplus quantities.

3. MARKETING YEAR UNDER CONSIDERATION (1985/86 marketing year or 1986 calendar year)A. Production

Out of a production of approximately 12 million hl of agricultural alcohol, alcohol of vinous origin accounts for almost 5 million hl and is thus the principal Community agricultural alcohol. Molasses alcohol comes second with 3.7 million hl. Other alcohols (beet, potato) account for only around 3.4 million hl of the total. The production of alcohol of vinous origin is constantly on the increase while that of other types is relatively stable.

B. Consumption

Unchanged.

C. Trade

Internal trade is on the increase but so far the quantities are marginal, except for consignments to Germany. Exports outside the Community are rising appreciably, principally on account of the development of the markets in fuel alcohol.

D. Prices

Prices have weakened. Fuel alcohol for export has been selling at very low prices but this is a very specialized market which should be considered separately.

E. Costs

Also for the record: the distillation measures are a burden on the budget costing almost 1 000 million ECU. In 1986 the Community did not itself dispose of any wine alcohol. The Member States, on the other hand, exported the bulk of their stocks.

4. SHORT-TERM OUTLOOK

The current situation is unsound.

Member States' sales of alcohol of vinous origin at very low prices will certainly not help sales by the Community.

12. POTATOES

1. INTRODUCTION

Unlike some other products, potatoes can be stored for only a limited period each year and there are therefore no stocks to carry over from one marketing year to the next.

The characteristics of each marketing year tend to differ. There is no world market in potatoes except when there is a major shortage (1975-6). There is, however, a world market in seed potatoes, while new potatoes are traded in the Mediterranean area.

There is no EEC market organization for potatoes. A proposal covering the whole range of fresh and processed products was, however, presented by the Commission to the Council on 23 January 1976.

Products such as potato starch (1), dehydrated potatoes (2) and products processed from potatoes (3) are, however, already subject to a common organization. The marketing of seed potatoes is governed by the provisions of a Council Directive (4).

2. GENERAL SITUATION

One of the main features of the 1986/87 marketing year was satisfactory prices, in particular in the case of large-sized potatoes (+ 50 mm), whilst the + 35 mm size fetched very low prices, particularly on the Rotterdam market. The output in 1986 was 39 549 000 tonnes (EUR 12), and thus lower than the output in 1985, which was 42 832 000 tonnes (- 7.7%).

In autumn 1986, prices on the Rotterdam market began at a higher level than in 1985/86 for both sizes. During the winter, however, the difference between the price levels for the two sizes continued to increase, partly as a consequence of high demand from the processing industry for + 50 mm potatoes.

In spring 1987 the marketing season for early potatoes began satisfactorily but there was a sharp drop in prices from the end of May onwards, due to the concentration of supply from several European regions.

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- (1) Council Regulation (EEC) No 2727/75 of 29 October 1975, OJ L 281, 1.11.1975.
 - (2) Council Regulation (EEC) No 1117/78 of 22 May 1978, OJ L 142, 30.5.1978.
 - (3) Council Regulation (EEC) No 516/77 of 14 March 1977, OJ L 73, 21.3.1977.
 - (4) Consolidated version of the Council Directive of 14 June 1966, OJ L 66, 8.6.1974.

There was a great deal of intra-Community trade because of the drought affecting certain Member States (especially Spain and Portugal).

In conclusion, this marketing year can be considered as somewhat abnormal in relation to other years.

Potato production in 1987 is about 41 million tonnes.

3. 1986/87

3.1. THE COMMUNITY OF TEN

A. Production

According to FAO statistics, the world harvest in 1986 was 308 546 000 tonnes. At 39 549 000 in 1986, the Community of Twelve's production accounts for some 13% of world production. The Community's average yield per hectare is almost double the world average.

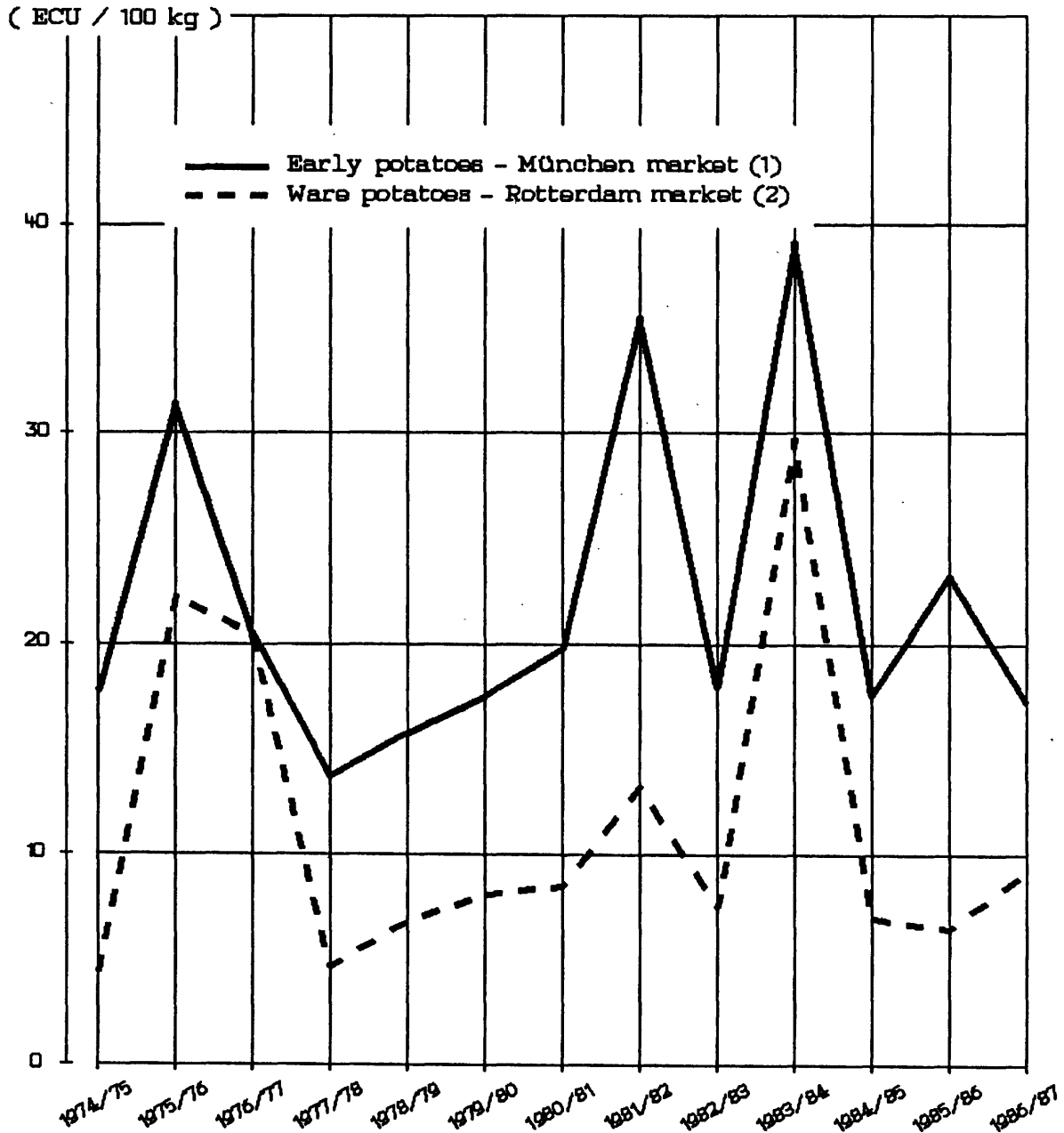
By value, potato production represented 2% of the value of the Community's final agricultural production in 1986. According to recent statistics (1983) about 1.3 million holdings grow potatoes. At national level, the production structure tends to vary from one Member State to another, the average area per farm being 3.8 hectares in the Netherlands, 0.4 ha in France and 0.3 ha in Italy.

In 1985-55, the total area under potatoes in the Community of Six was about 3 510 000 ha. In 1986, the sown area in the Community of Twelve was 1 463 000 ha (- 58%). Production, which was 61 957 000 t in 1951 (EUR 6), was 39 549 000 t in 1986 (- 36%).

The area under early potatoes, which was about 110 000 ha in the Community of Ten, has risen to about 145 000 ha. Output has increased from about 2.2 million t to around 3 million t.

The area under seed potatoes in the Community in 1986 remained at around 100 000 ha. About 2.6 million tonnes were harvested, mainly in the Netherlands, the United Kingdom, France and Germany.

COMPARISON BETWEEN THE MARKETS FOR WARE AND EARLY POTATOES EUR 10



Source : EC Commission, DG for Agriculture

- (1) ' Sirteña of Naples ', in 25 kg bags, free at point of dispatch
- (2) ' Bintje ' + 50 mm, in bulk, free at point of dispatch

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Processed products (crisps, instant potato, chips, etc.) are also important in the potato sector. About 5 million tonnes of potatoes are processed annually in the Community. Some varieties are particularly suited to processing and are grown mainly under contracts between farmers and the processing industry. Development has been very rapid and conditions are right for the further expansion of some products in the near future.

B. Utilization within the Community

Potatoes are used mainly unprocessed as foodstuffs and, to a lesser extent, as feedingstuffs. The quantities processed into food products represent about 22% of total human consumption.

Although the Community of Ten was, generally speaking, self-sufficient, supply problems tended to occur after severe droughts.

a) Human consumption

Per capita consumption of unprocessed potatoes is more or less stationary. After a sharp drop (to 69.1 kg per person) in 1976/77 as a result of the shortage caused by the 1976 drought, it climbed from 76.2 kg in 1982/83 (EUR 10) to 80.7 kg in 1985/86 (EUR 12).

b) Animal consumption

The quantity fed to livestock ranges from about 2 million tonnes to about 7 million tonnes, depending on the volume of the harvest. In 1985/86 it was about 6 million tonnes: 1.5 million t in Germany, 755 000 t in France, 110 000 t in Italy, 1.2 million t in the Netherlands, 531 000 t in the United Kingdom, 114 000 t in Ireland and 963 000 t in Spain.

c) Products processed for human consumption

Consumption of products processed from potatoes (about 5 million tonnes were processed in 1986) is continuing to increase. Consumption of certain products such as deep-frozen pre-cooked chips should increase still further, particularly when the current economic situation starts to look up.

C. Trade

Intra-Community trade in maincrop and seed potatoes absorbs 8 to 10% of total production while for early potatoes the figure is around 14%. The net exporters are the Netherlands, France and Ireland. The United Kingdom exports seed potatoes and imports early potatoes. Italy exports early potatoes and imports seed potatoes and maincrop potatoes. Denmark and the BLEU also have a large-scale import/export trade.

The structure of Community trade processed products is similar to that of trade in unprocessed products: the Netherlands and France are exporting countries and the other countries are importers.

Trade with non-member countries is mainly in seed potatoes and early potatoes. Seed potatoes are exported to South America, Africa and Asia and early potatoes are imported from the countries around the Mediterranean. Exports of seed potatoes stand at roughly 500 000 tonnes whereas around 300 000 tonnes of early potatoes are imported (EUR 12).

D. Prices

Prices are very unstable, varying from year to year. Because of the inelasticity of demand, plentiful harvests influence price levels.. Prices may also be affected by other factors such as the weather or unexpected exports to countries with shortages.

With production down, the 1986/87 marketing year began with higher prices than the year before. On 22 September, Bintje (+ 50 mm) fetched 7.95 ECU/100 kg in Rotterdam (compared with 6.03 ECU in 1985, and 8.22 ECU/100 kg at Arras in France (3.87 ECU in 1985).

On 2 February 1987, the prices were as follows: 10.92 ECU/100 kg for Bintje (+ 50 mm) in Rotterdam (4.96 ECU in 1986) and 8.23 ECU/100 kg for Bintje (+ 40 mm) at Arras 3.86 ECU in 1986).

Prices began to fall at the beginning of June: 6.12 ECU/100 kg for Bintje (+ 50 mm) in Rotterdam (5.55 ECU in 1986) and 4.89 ECU/100 kg for Bintje (+ 40 mm) at Arras (4.04 ECU in 1986).

3.2. THE COMMUNITY OF TWELVE - SPECIAL PROVISIONS FOR SPAIN AND PORTUGAL

Spain's production tends to fluctuate between 5 and 6 million tonnes while Portugal produces about 1 million t. Although the Community of Twelve's total output in 1987 should be about 41 million tonnes, demand in the two new Member States is usually fairly high.

Spain imports seed potatoes (some 25-30 000 t from the Community of Ten) and exports early potatoes (some 80 000 t). Portugal imports seed potatoes (about 50 000 t) but is not normally an exporter.

Spanish and Portuguese membership will boost intra-Community trade. The Community will remain self-sufficient in maincrop potatoes but a net exporter of seed potatoes and will continue to have a shortfall in early potatoes, which will be offset by imports, mainly from Cyprus, Egypt and Marocco (about 300 000 t).

In accordance with the provisions of the Act of Accession of Spain and Portugal, the Supplementary Trade Mechanism (STM) is applicable for potatoes.

It covers Spain's exports of early potatoes from 1 March 1986 to 31 December 1995. The indicative ceiling which must be fixed each year in accordance with the STM has, for 1987, been set at 88 000 tonnes.

In the case of seed potatoes the mechanism applies to Spain's imports from 1 March 1986 to 31 December 1989. An indicative ceiling of 17 818 tonnes has been fixed in respect of 1987/88.

4. 1987/88 - SHORT-TERM OUTLOOK

Early estimates suggest that potato production is up on last year: about 41 million compared to 39.6 million t in 1986. However, there are worries as to the quality of the produce and storage problems are likely to arise during the winter in the case of certain stocks.

On the Rotterdam market, which opened on 14 September, prices were markedly lower than in 1986: Bintje (+ 50 mm) was selling at 5.50 ECU/100 kg (8.62 ECU in 1986). The price for Bintje (+ 40 mm) recorded at Arras in France was 3.30 ECU/100 kg (9.28 ECU in 1986). Given the inelasticity of demand, there is little room for optimism about developments during this marketing year.

5. CONCLUSION

Spanish and Portuguese membership will not substantially alter the situation on the Community market: the Community of Twelve will continue to be self-sufficient in maincrop potatoes and a net exporter of seed potatoes, and its output of early potatoes will still fall short of demand.

13. HONEY

1. INTRODUCTION

There is no EEC market organization for honey. The only general charge on imports is a 27% customs duty, which is reduced to 25% for most developing countries and Malta, 5.4% for Turkey and nil for ACP States. The 38 least advanced developing countries are exempted from customs duties.

2. MARKET SITUATION

2.1. Production, consumption and trade

In 1984/85 the Community of Twelve produced 67 000 t of honey. Germany, France, Greece and Spain account for 72% of the Community's production, the latter on its own accounting for 24%. Consumption, which exceeds 1 kg per person per year in only two countries (Germany and Greece), rose in 1985/86 in Denmark and particularly in the United Kingdom, but it fell in Greece and seems to be marking time in the other Member States.

The Community as a whole is 34% self-sufficient in honey, but the situation varies widely between Member States: Greece was normally self-sufficient until 1984/85 but was no longer so in 1985/86; France is increasing its rate of self-sufficiency by applying a licensing system to imports from certain countries and, like Italy, by applying bilateral quotas in trade with State-trading countries.

In 1984/85 the Community imported a total of 104.000 t of honey, mainly from Latin America, China, Eastern Europe and Australia. Germany is the biggest importer of honey in the Community (59% of the Community total), followed by Italy (11%).

2.2. Special provisions for Spain and Portugal

Customs duties on imports into the Community of Ten from Spain and Portugal will be phased out by 1 January 1993 and 1 January 1992 respectively. They were accordingly reduced, with effect from 1 January 1987, to 20% in the case of Spain and 19,2% in the case of Portugal.

Similarly, the two new Member States are dismantling in eight stages the customs duties which were being applied to imports from the Community of Ten. On 1 January 1987 the rate of duty applied by Spain was 4,2%, while that applied by Portugal was 20,2%.

3. COMMON MEASURES TO ASSIST BEEKEEPING

In order to combat a disease which threatens Europe's entire bee population the Commission has put into effect the second stage of its varroasis research programme by concluding several new research contracts at the beginning of 1986. The programme provides, inter alia, for the co-ordination and exchange of findings within the Community.

Moreover, thanks to the 500 000 ECU earmarked in both the 1986 and 1987 budgets for varroasis eradication, groups of beekeepers in the hardest-hit regions should be in a position to step up diagnosis and awareness programmes.