

COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION PROPOSALS

On the fixing of prices for certain agricultural products
and on certain related measures

VOLUME I

COM (77) 525 final

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INTRODUCTORY REMARKS

The Commission herewith presents to the Council its proposals concerning the fixing of prices for certain agricultural products for the 1978/79 marketing year and a number of related measures.

The Commission is also presenting to the Council separately a first package of concrete proposals related to Mediterranean agriculture (COM(77) 526 final).

The attached proposals have been formulated in the light of the information contained in the 1977 Report on the Agricultural situation in the Community (report to be published in January 1978 in conjunction with the Eleventh General Report on the activities of the European Communities) and in the 1977 Report on the situation of agricultural markets (COM(77) 490 final).

The legal acts relating to the price determinations for the 1978/79 marketing year and those concerned with related measures are included in Volume II of this document (COM(77) 525 final).

The financial consequences of the attached proposals are laid down in document (COM(77) 639 final).

I. EXPLANATORY MEMORANDUM

A. The General Economic Background

1. The proposals have been framed at a time when the Community is still suffering from its worst and most sustained economic recession since the second World-war. About 6 million workers (5,6 % of the available labour force) are unemployed and the rate of unemployment is increasing. About 40 % of the unemployed are young people.

In 1977, the growth rate of real gross domestic product (GDP) has slowed down to 2,3 %, as compared to 4,7 % in 1976. Inflation is still high (9,1 % for the Community) and differences between Member States remain significant. Various industrial sectors (steel, textiles, construction, shipbuilding) and services face serious problems. Strongly diminished economic results and shrinking order books are leading to redundancies and short-time working.

These non-agricultural sectors of the Community's economy have relatively low protection through tariffs against strong competition from low-cost producers outside the Community. Monetary instability increases the economic uncertainty from which they suffer.

Economic policies are mainly directed towards the alleviation of social hardships; they play a limited role in helping industries and services to solve their basic problems. Within this policy context and under continued unfavourable economic conditions, producers of industrial products and services can only hope to improve their economic situation by drastic and rapid structural adaptations aimed at increasing productivity. Financial constraints and limited demand are seriously hampering these developments.

2. Overall economic prospects for 1978 are mixed, following the slow growth of 1977. Gross domestic product is expected to rise by 3,5 %; inflation will continue to be serious but will be brought further under control; the Community's balance of trade will improve; but unemployment will remain high, with special problems for young people.

B. The Agricultural Background

3. In 1977, agricultural output was above average for most products. Price increases for the means of production were lower than last year (1977, 10 %; 1976, 12,7 %). At the same time producers' prices of agricultural output have only risen by 5,4 %, against 18,1 % in 1976. Wide differences remain between Member States.

Although detailed figures are not yet available, agricultural incomes in 1977 are expected to show some increase against last year when real incomes per head in agriculture rose by 2,7 %. Since 1968, the evolution of real agricultural incomes has varied between Member States as a result of diverging inflation rates, differing productivity growth and diverging agricultural terms of trade (relation between input and output prices).

4. Figures for the real value - added per person employed in agriculture suggest that agricultural incomes do not necessarily follow a parallel course to the evolution of prices and are also different from the evolution of incomes in the rest of the economy. Between 1968 and 1976, it appears that real agricultural incomes increased more than in the rest of the economy. Between 1972 and 1976 it appears that they increased less. These diverging evolutions may be explained partly by the interaction of the growth rate in the general economy and the rate of outflow of agricultural workers and by the difference between cost inflation in the general economy and in agriculture. Furthermore, the statistical concept of incomes per head in both agriculture and the general economy is made uncertain by the different levels of underemployment in agriculture and by the high rate of unemployment in the general economy.

5. The evolution of agricultural price support in relation to prices in the economy in general has also shown a positive trend.

The evolution of common prices expressed in units of account does not provide an accurate indicator of the development of agricultural price support in the member states in recent years; since the agricultural unit of account is related to the value of the snake currencies, which have appreciated considerably, the dismantling of monetary compensatory amounts through the adjustment of green rates has resulted in a net increase in agricultural price support in national currencies.

In order to assess properly the development of agricultural prices it is therefore necessary to examine the combined effect of the common prices and the adjustment of green rates, which provide an indicator of the evolution of agricultural price support in national currencies. If this indicator is then deflated by the rate of inflation in the member states during the period in question, it is possible thus to assess the evolution of agricultural price support in real terms.

Such an assessment yield the following results :

- (a) from 1967/68 to 1977/78 agricultural price support in real terms (EUR 6) decreased by 11 %;
- (b) from 1972/73 to 1977/78 agricultural price support in real terms (EUR 9) increased by 1.8 %; however, this figure lies within the range of statistical error;
- (c) at the level of member states, from 1972/73 to 1977/78, agricultural price support in real terms
 - (i) increased in Ireland (+ 19.0 %), Italy (+ 14.0 %), Germany (+ 8.0 %), Denmark (+ 2 %) and Luxembourg (+ 4 %);
 - (ii) decreased in France (- 6 %), Netherlands (- 6 %), Belgium (- 8 %) and United Kingdom (- 9 %).

The results under (b) and (c) take no account of the price rises which have occurred in the three new member states as a result of the accession arrangements for transition to common prices.

C. Agriculture in the Economy in General

6. The agricultural industry is sheltered from the worst effects of the present economic recession by Community and national policy measures. The important role which public authorities play in agriculture is illustrated by a public expenditure amounting in 1976 to about 17 billion U.A. (24 % of the value of gross agricultural production).

Almost 87 % of gross agricultural production is marketed under the coverage of a common market regulation, 70 % combined with a common price regime. Common prices are annually adapted according to prevailing economic circumstances.

An important number of basic agricultural products benefits from a system of price guarantees for an unlimited quantity (milk, beef, cereals, vegetable oils). Though for sugar beet the guarantee is relatively limited, its level is relatively high.

At the same time, and linked to the internal price regime, many products are benefiting from a regime of external protection through a system of variable levies, sometimes combined with a system of customs duties (beef).

Agricultural intervention products are protected against international monetary instability through a system of monetary compensatory amounts. As a result, exchange rates used in agricultural trade differ from and vary less than real market exchange rates, to which the rest of the economy is subjected.

Agricultural structural adaptations are encouraged by financial contributions from public authorities (national authorities and the Community). About a third of the total agricultural area accounting for about one-eighth of agricultural production in the Community is eligible for financial compensations for maintaining agricultural activities under unfavourable natural conditions.

In respect of the preceding elements, the agricultural industry runs less economic risk than the other sectors of the economy. The price guarantee systems allow farmers to safeguard to some extent their incomes through increased production, a possibility which does not presently exist in many other sectors of the economy.

D. The situation on the Agricultural Markets

7. Several agricultural markets are now characterised by supply - demand imbalance. Structural surpluses currently exist in the milk, wine and sugar sectors. Those for milk and sugar are likely to worsen in 1978. A dangerous situation is also developing for olive oil and for some tobacco varieties. Despite a comparatively low degree of self sufficiency in the beef market (93 - 95 %), intervention stocks are increasing weekly. Market balance in the cereals sector could be threatened by rapidly growing imports of competing animal feedstuffs.

These imbalances are due to a wide range of causes, which differ from one market to another. The firm guarantees at high price levels given to some commodities by the common agricultural policy play a major role. In the milk sector, production receives an unlimited guarantee and producers find a ready market outlet in the intervention stores. The sugar quotas at present levels have not succeeded in bringing supply into balance with demand. The possibility of distillation may encourage wine producers to aim for quantity rather than quality production.

The relatively high level of prices secured for producers has a negative effect on consumption, as has been shown by analyses of market evolution for milk and dairy products and olive oil. In both cases, the easy availability of low-priced substitutes has played a major role : for instance butter-margarine; olive oil- other vegetable oils. The imbalance in the Community's external protection between animal fat and protein and vegetable fat and protein has been at the root of some of the market disturbances.

The continuing economic recession is affecting agricultural production (slow-down in structural change) and is having a major impact on the pattern of food consumption through the reduced growth of real disposable income (resulting, for instance, in a reduction in the growth of beef consumption).

In the following paragraphs, the Commission gives a more detailed survey of the difficult market situations (milk, sugar, wine, olive oil, beef, tobacco) and of the cereals market.

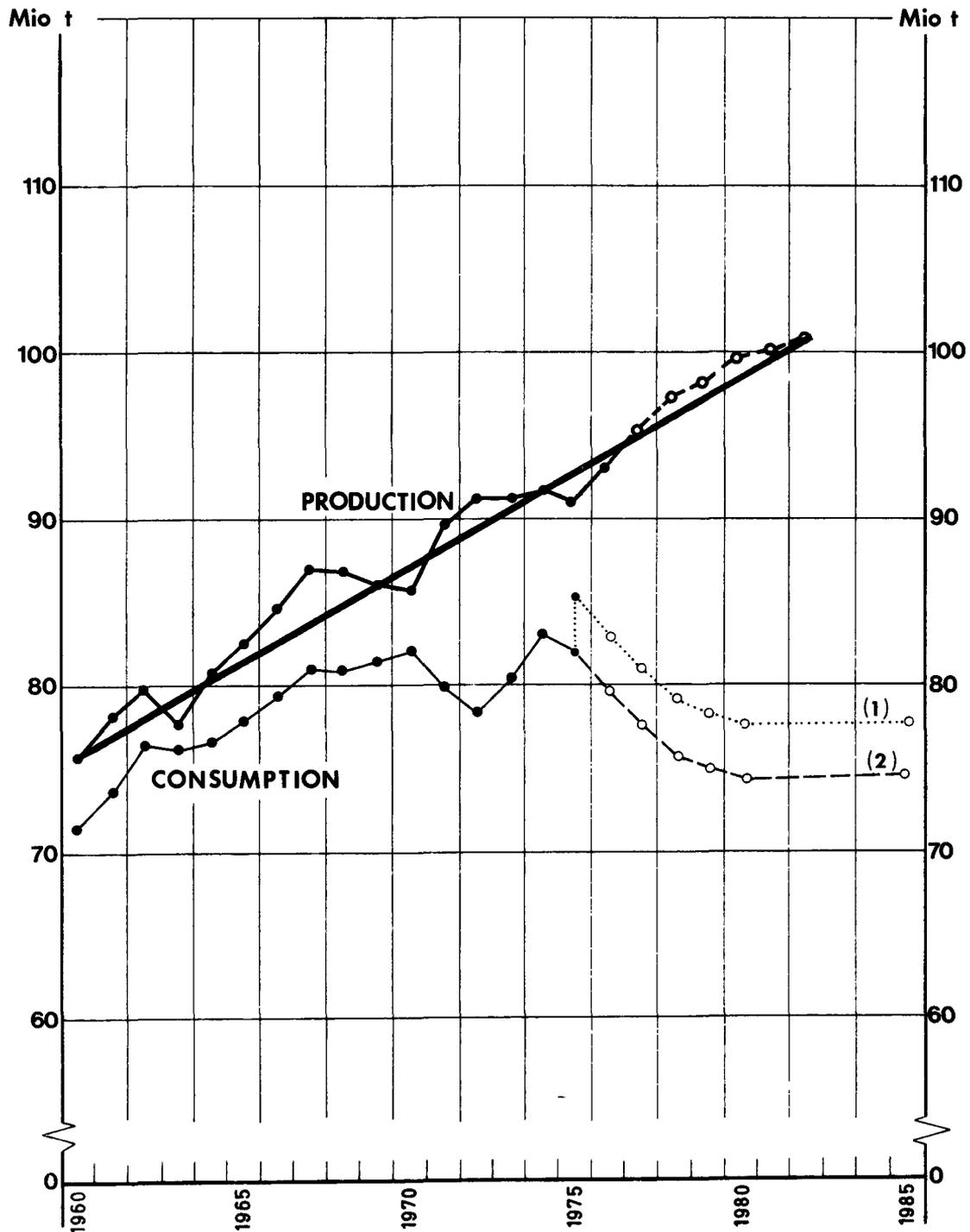
8. Since 1960, milk production in the Community has increased at a long-term growth rate of 1,7 % a year. The factors underlying this upward trend are steadily increasing yields from a more or less stable dairy cow herd. Forecasts up to 1985 show a continuation of this underlying trend as a result of continued technical progress and improved cow management. The proportion of milk produced that is delivered to dairies has increased from 84.9 % in 1968 to 89.4 % in 1976. For 1977 the estimate is 89.8 %.

The growth of human consumption of milk and milk products in whole milk equivalent tended to stop in the late 1960's and is now falling. Besides a slow-down in population growth, the underlying factor is a fall in butter consumption and of liquid milk and other fresh products, which is only partly offset by an increasing consumption of cheese and cream. But one of the most significant developments in the last ten years has been at the level of animal consumption where the use of factory manufactured skimmed-milk powder in place of liquid skimmed milk has accelerated. The level of human consumption is forecast to fall between now and 1985.

As production increases and consumption falls, the present surplus will worsen : it has already increased from 10,4 % of all milk delivered to dairies in 1975 to 14,4 % in 1977. This does not take account of import obligations (New Zealand butter). World markets are saturated making export difficult.

The milk action measures adopted as part of the April price package may prevent a worsening of the surplus in the short term. But projections indicate that the production-consumption imbalance will reassert itself so that further measures will be necessary.

**COWS' MILK PRODUCTION AND HUMAN CONSUMPTION OF MILK
AND MILK PRODUCTS ***
EUR "9"



* Whole milk equivalent (based on fat content)
 (1) including condensed milk and whole milk powder
 (2) excluding condensed milk and whole milk powder

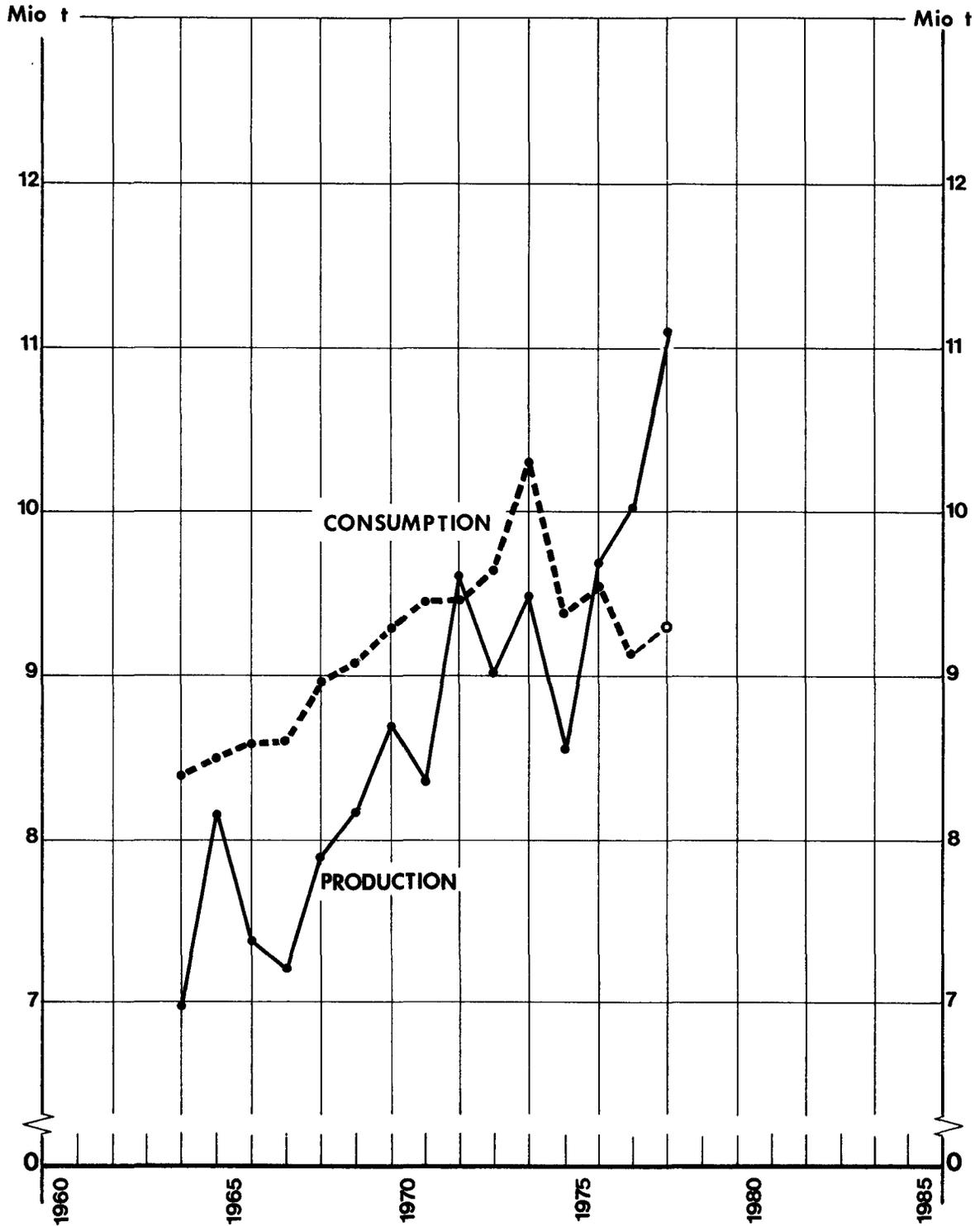
9. Since the beginning of the 1960's, sugar production in the Community has increased at a long-term growth rate of 2,6 % a year. Until the 1970's, yield increases were the major cause of production increase; since the shortage in 1972, an important extension of the area under beet production has more than compensated for three bad crops in succession (1974, 1975, 1976); in 1977 normal yields with a reduced area resulted in record sugar production of nearly 11,3 mio t. Forecasts up to 1985 show no reasons why sugar production should decline.

Until the beginning of the 1970's, sugar consumption regularly increased as a result mainly of population growth and a slightly increasing consumption per head. Since 1974, sugar consumption has fallen. Possible expansion of sugar consumption will be hampered by a slow-down in population growth and the influence of substitutes (isoglucose).

In 1977/78, sugar production is expected to exceed consumption by 2,0 mio t. Import obligations cover 1,3 mio t. from ACP countries. The quantities available for exports would therefore be of the order of 3,3 mio t. The disposal of the Community's sugar surplus on world markets will be more difficult because of worldwide overproduction. Refunds are now about 70 % of the EEC sugar price.

The long-term outlook shows a continuing disequilibrium unless production is further restrained by quotas. At the last price fixing, the Commission proposed a reduction in the "B" quota from 135 to 125 and the Council, while retaining the quota at 135, decided "if the present prospects for the Community and world sugar market continue, there will be reduction in the maximum sugar quota with effect from the 1978/79 sugar year".

PRODUCTION AND CONSUMPTION OF SUGAR *
EUR "9"



* White value

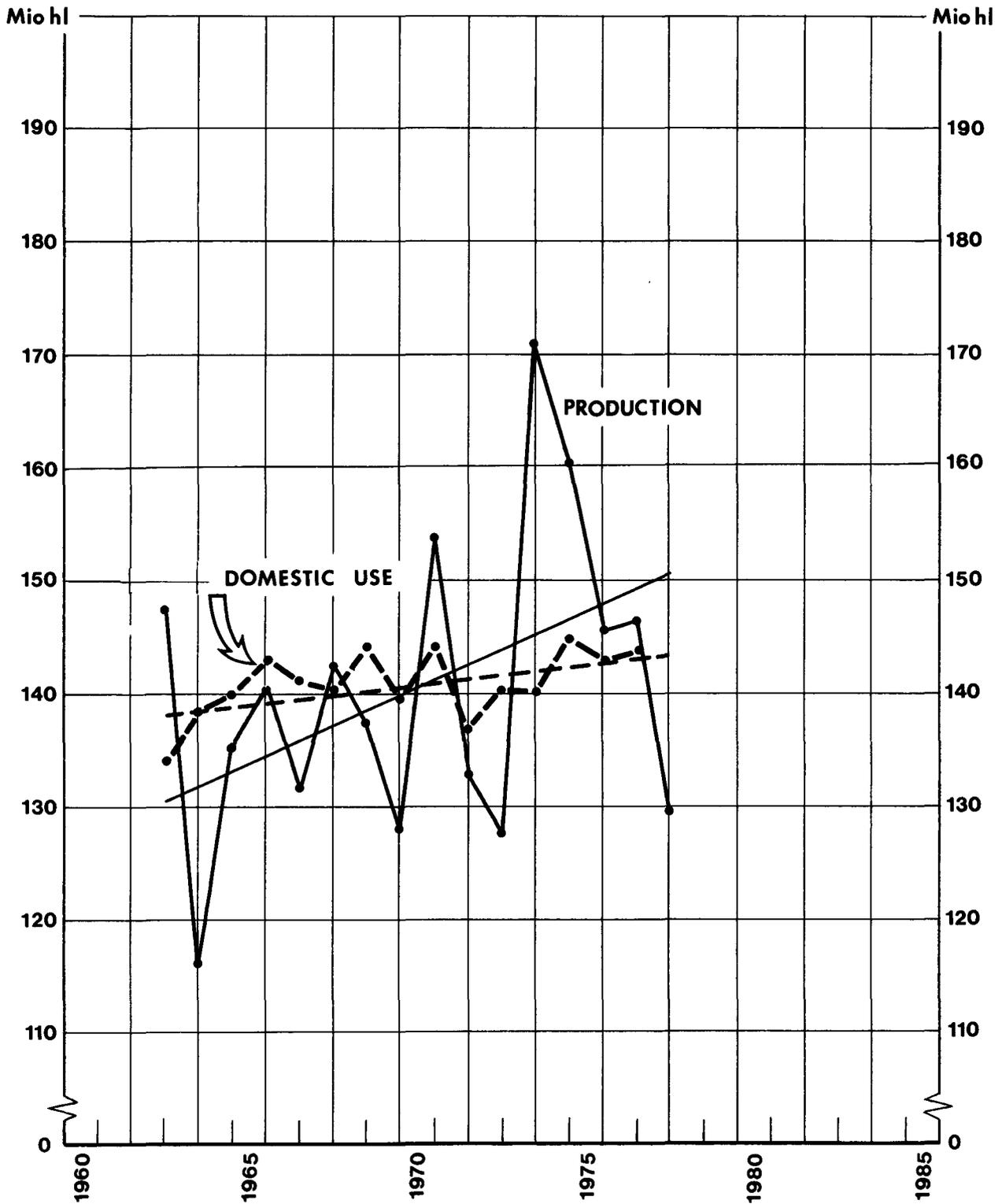
10. Between the beginning of the 1960's and 1975/76, wine production in the Community (France, Italy, Germany, Luxembourg) increased at a long term growth rate of 2,2 %. Harvest variations for the Community from year to year may be as great as 40 %. The main factors underlying this upward trend are steadily increasing yields (as a result of more productive vines) from a slightly increasing area.

Consumption has been more or less stagnant over the last 15 years. Consumption per head varies considerably between Member States (100 litres per head per year, France, Italy; 2 litres per head per year, Ireland) due to different habits and excise taxes.

The wine market organisation was established in 1970. Private storage and distillation premiums were used to handle the surpluses produced in 1973 and 1974 and preventive distillation was introduced in 1976. A two-year ban on new plantings was introduced in 1976 and is due to end in 1978. A grubbing-up premium for vines was also started in 1976 to last for three years.

The Council engaged itself in May 1976 to adopt before October 1978 measures to adapt wine production potential to wine consumption.

PRODUCTION AND DOMESTIC USE OF WINE



N.B. The figure for domestic use does not allow for exceptional distillation: for Germany (harvest 1974/75), for France and Italy (from the 1970/71 harvest)

11. Statistical difficulties make it impossible to draw up a graph showing the precise evolution of production and consumption of olive oil. Production and consumption of olive oil are concentrated in Italy.

According to the Commission's estimations, however, the production of olive oil has slightly increased since 1960 as a result of technical improvements; the number of trees appears to have remained unchanged. There is reduced scope for an increase in production in the future.

During the period 1970/1974, some increases in consumption of olive oil in the Community took place; this evolution is reflected in the increase in imports during these years. Since 1975, however, consumption has fallen sharply, due to an unfavourable relationship between consumer prices for olive oil and competing oils. The trend of falling consumption can be expected to continue in the absence of policy measures which are designed to lower consumer prices for olive oil.

12. While the Community's self supply is only 30 %, intervention regularly takes place for some raw-tobacco qualities. The EAGGF expenditure for this sector amounts to 3 % of total expenditure and represents 40 % of the value of Community produce, measured as packed tobacco. This 40 % represents the gap that exists between the Community cost price and the world market price for competing varieties.

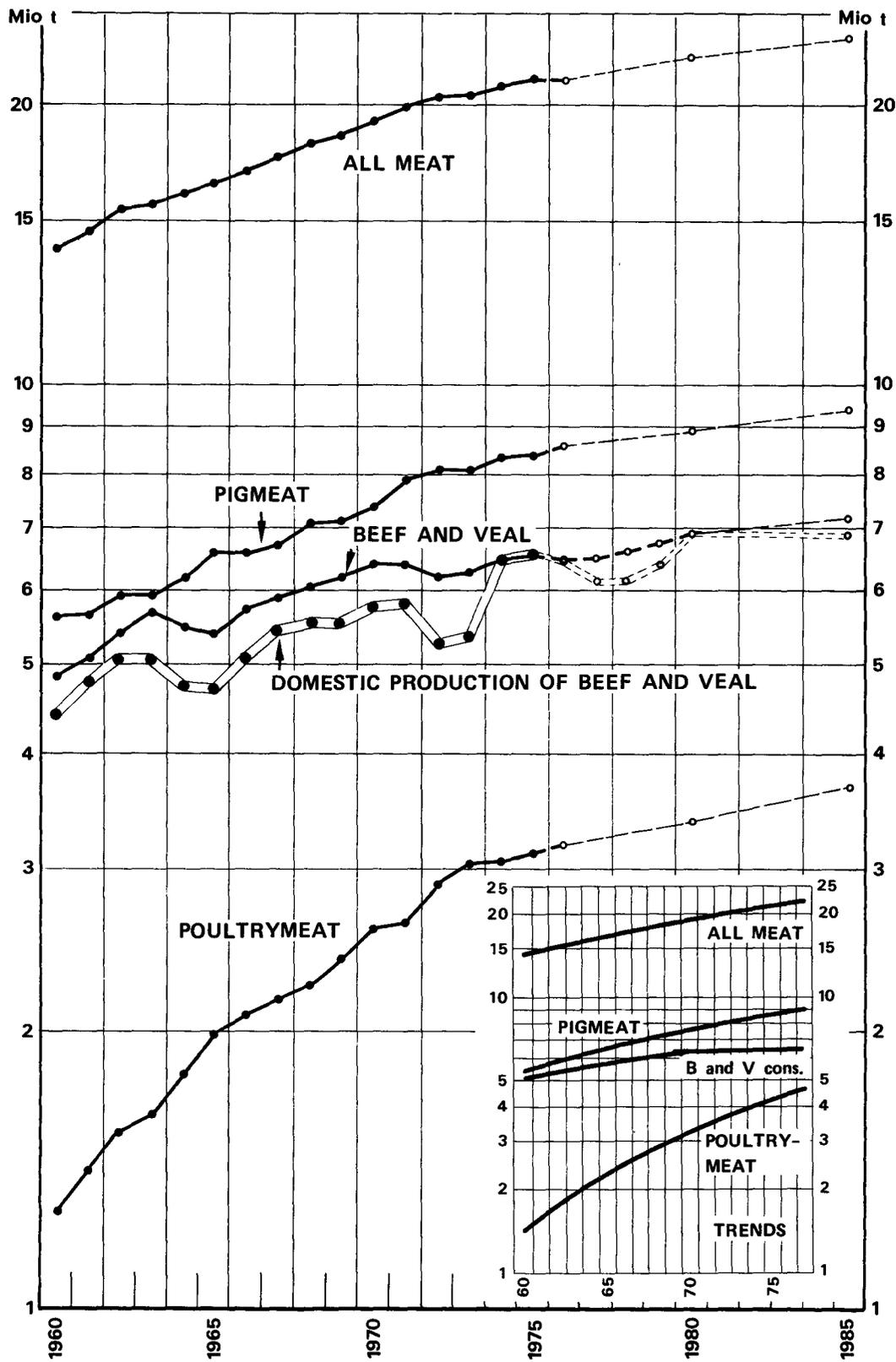
Community protection is provided only by the CCT. Customs duties are nil for goods imported from several countries (Greece, Turkey, ACP) or are reduced as a result of preferential agreements (SPG) or the provisions of the GATT treaty.

13. Since 1963 beef production in the Community has increased at a long-term growth rate of 2,7 % a year. The factors underlying this upward trend are the increase in cattle numbers and an increase in average slaughter weights. Forecasts up to 1985 show a continuation of this upward trend as cattle numbers go on increasing.

The growth of beef consumption has been slower than that of production (1,5 % a year 1960-1976) and consumption of other meats (pigmeat and poultrymeat) has increased more quickly than that of beef. In the short-term, the competitive position of beef and veal is determined mainly by its price. Beef and veal is not only dearer than competing meats but its price is rising more rapidly than that of pigmeat and poultry (where the increases in productivity are greater). Beef consumption is forecast to grow only slowly up to 1985.

The faster growth of production than of consumption could mean that beef production will in future be more often situated in the zone of overproduction. The Community must therefore give continuous attention to the management of this market. Suggestions for improving the beef market organisation in a way that could lead to increased consumption are currently before the Council.

**MEAT CONSUMPTION
EUR " 9 "**
(Semi-log scale)



14. Total cereals production in the Community has grown at about 1,0 % a year since 1968. Barley production has grown at about the same rate (1,0 % a year) and soft wheat at about 1,5 % a year but maize production has increased more quickly (4,6 % a year). These upward trends are caused by either a steady increase in yields (common wheat), a rapid increase in acreage combined with an increase in yield (maize) or a slight increase in both acreage and yield (barley). These upward tendencies (especially of yields) are forecast to continue into the 1980's.

Human consumption of cereals has remained constant since 1968. The use of cereals for animal feeds reached a peak in 1973/74 but has fallen since. The factor underlying this downward trend is the level of Community cereal prices in relation to the prices of available substitutes. An example is the increased use of manioc root; Community imports are increasing sharply (about 4 million tonnes 1977 against 2,1 million tonnes 1974).

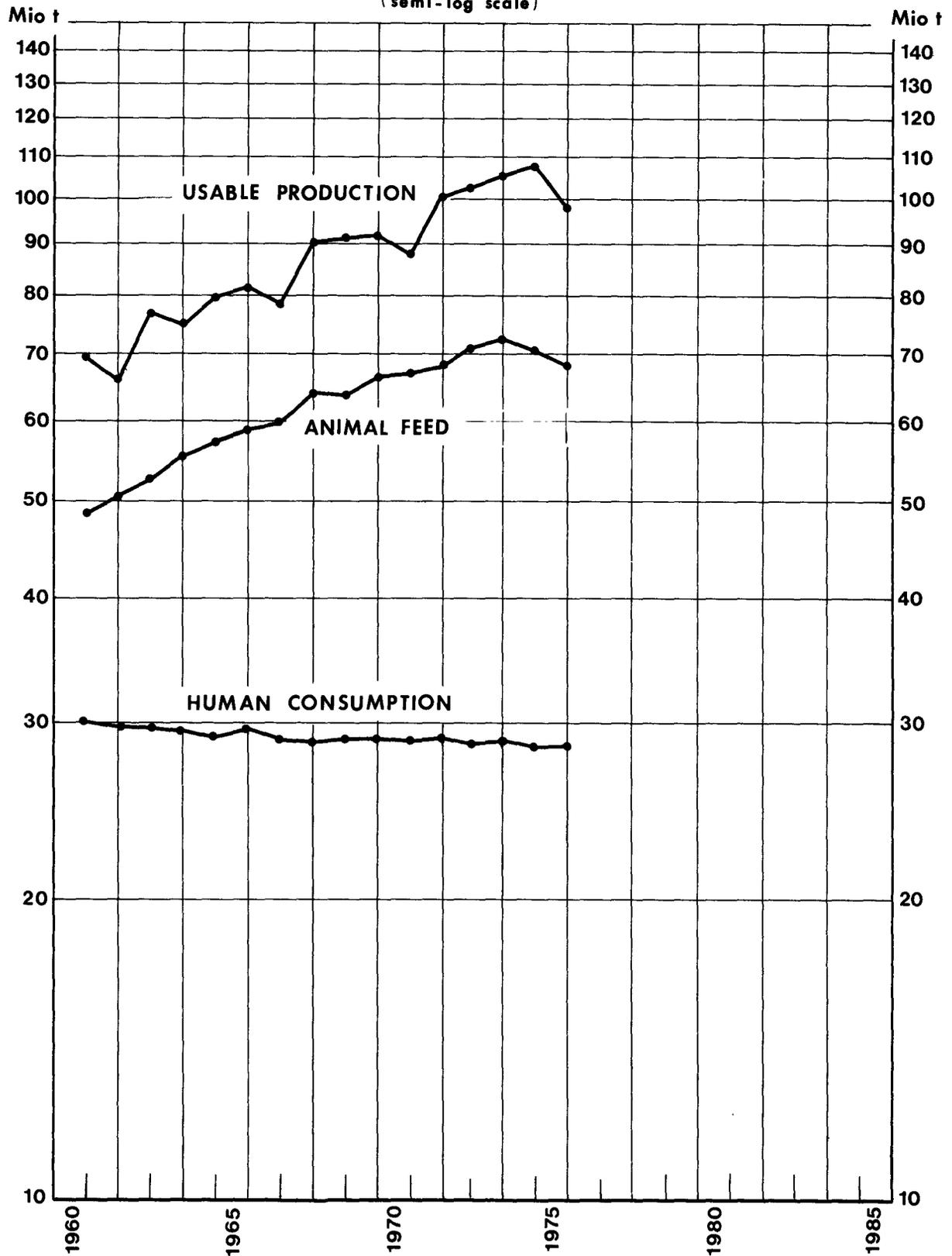
World cereal markets are now in a position of considerable surplus (prices at Community frontiers are about 50 % of the threshold prices for soft wheat, barley and maize).

One of the results of the improvements in the cereals market organisation is a more rational use of Community-produced cereal and, consequently, a probable halt to the downward trend of the consumption of Community-produced cereals in animal feed.

TOTAL PRODUCTION AND USE OF CEREALS

EUR "9"

(semi-log scale)



E. The Objective Method

15. Since the 1972/73 marketing year, the Commission has used the result of the objective method as the starting point for the annual agricultural price review.

Taking into account (a) the structure of inputs noted on the reference farms of the Farm Accountancy Data Network (1973, 1974, 1975), (b) the interrelated development in 1975, 1976 and 1977 of input prices, of comparable income, of the increases in common prices in u.a. and of the evolution of national currency exchange rates and (c) a fixed technical progress coefficient of 1,5 % per year, the result of the calculation suggests an increase in the general level of common prices of agricultural products for the 1978/79 marketing year of 4,2 %.

16. The higher figure resulting from the objective method for the 1978/79 marketing year (4,2 % against 0,1 % for 1977/78) is due to the following :

- a) The objective method indicates the price need calculated on the base of the last 3 years and deducts from that need the price increase awarded during the previous 2 years.
- b) The price rise given in the 1975/76 marketing year (9,4 %) was higher than that of the 1977/78 marketing year (3,9 %), mainly because of higher inflation. In the 1978/79 calculations, the price increase awarded in 1975/76 (9,4 %) disappears to be replaced by the 1977/78 price increase (3,9 %).
- c) The following table illustrates the change in the calculations :

	1977/78 (EUR "7")	1978/79 (EUR "9")
1. Gross need for price rise (index)	117,7	116,4
2. Price rise already awarded (index)	117,6	111,7
3. 1 : 2 (Index)	100,1	104,2

17. The Commission uses the result of the objective method as one of the elements to be taken into account in its annual price review.

It must be emphasised that :

- a) The method relates only to the prices in units of account and not to those in national currencies.
- b) It provides quantitative guidelines only with respect to the development - not the absolute level - of common agricultural prices.
- c) It considers only the average increase of common agricultural prices and not that of individual commodities.
- d) It is an approximation of the needs of the farming community and it takes into account neither the market situation of different commodities, the general economic background nor the interest of consumers.
- e) It does not reflect the actual development of agricultural incomes.

F. Agri-monetary Measures

18. As in previous years, the Commission considers that green rate adaptations should take place as part of the price package, in order to move closer to a unified agricultural market.

This market is now divided into seven monetary zones by monetary compensatory amounts (MCAs) which, despite the recent recoveries of some currencies, remain at historically high levels.

There has been a greater degree of monetary stability in 1977 than during the last years. The Danish krone was devalued twice : by 3 % on April 4 and by another 5 % on August 29. These devaluations were followed by adaptations of the krone's representative rate in order to eliminate the Danish MCA's. The fluctuations of the freely floating currencies have been relatively reduced but no green adaptations have taken place, except in the context of the price decisions for 1977/78.

19. The Commission presented on October 31, 1977 a revised proposal for a permanent system for adjusting MCA's (1). The Commission also will soon present a report on the economic and financial impact of the present MCA system.

The Commission considers that this proposal (1) constitutes the basis for green rate adaptations and these would be the minimum adjustments to be adopted in the context of the 1978/79 price package. This proposal means a minimum reduction of one-seventh of the existing MCA stock.

However the Commission reserves the possibility to propose greater adjustments in the light of discussions in the Council with due consideration to the development in the past.

(1) Proposal for a Council Regulation relating to the fixing of representative conversion rates in agriculture (COM(77) 482) of October 31, 1977

G. Conclusions

20. The results of the objective method suggest an average price rise in units of account of 4.2 %. Given the nature of the objective method, this figure is only a starting point for the Community's reflections for the 1978/79 price review. It must be seen against the general economic background, the evolution of agricultural prices and incomes, and the difficult market situation for several products, where the Community faces the existence or threat of surpluses and a stagnating or even declining level of consumption. These elements have been described in the preceding pages.

21. Against such a background, the Commission believes that the average increase in common prices should be clearly below the 4.2 % resulting from the objective method. The increase in common prices will be accompanied by changes in green rates, which will have different effects from one member state to another, but which, taken overall, will also increase the average level of agricultural prices.

22. The Commission therefore proposes the increases in common prices listed in the attached table, which result in an average increase in units of account of the order of 2 %. When combined with the average increase in the order of 1 % resulting from the minimum adjustments of green rates already mentioned, this would result in an overall increase in agricultural price support in the member states of the order of 3 %. The average effect on the cost of food to the consumer would be of the order of 0,5 % and on the cost of living in the Community of the order of 0,1 %.

The Commission's proposals for the 1978/79 marketing year are the expression of a prudent price policy. In the Commission's view the moderate price increases proposed, as well as going far to meet the concerns of consumers, are in the longer-term interest of a balanced Community agriculture and the common agricultural policy, to which the Commission attaches great importance.

Product	Category of price or amount	Amounts fixed 1977/78 u. a./tonne	1978/79 proposals		Period of application of the proposed prices
			u. a./tonne	Percentage change from 1976/77 to 1978/79	
1	2	3	4	5	6
Durum wheat	Target price	224.27	218,46	- 2,59	1.8.78 - 31.7.79
	Single intervention price	203.01	195,72	- 3,59	
	Aid	60 UC/ha	66 uc/ha (1)	-	
Common wheat	Target price	158.08	162.39	2.72	1.8.78 - 31.7.79
	Common single intervention price	120.06	121.57	1.26	
	Reference price for bread-wheat	135.59	139.80	3.10	
Barley	Target price	144.97	147.23	1.56	1.8.78 - 31.7.79
	Common single intervention price	120.06	121.57	1.26	
Rye	Target price	155.12	154,65	- 0,30	1.8.78 - 31.7.79
	Single intervention price	128.96 (2)	127,00 (2)	- 1,52	
Maize	Target price	144.97	147.23	1.56	1.8.78 - 31.7.79
	Single intervention price	118.03	121.57	-	
	Common single intervention price	-	-	(3,0)	
Rice	Target price - husked rice	295.71	296.15	0.15	1.9.78 - 31.8.79
	Single intervention price - paddy rice	171.55	171.55	0.0	
Sugar	Minimum price for sugarbeet	25.43	25.73	1.16	1.7.78 - 30.6.79
	Target price for white sugar	345.60 (3)	349.60	-	
	Intervention price for white sugar	328.30 (3)	332.10	1.16	
Isoglucose	Production contribution (4)	50.00	50.00	-	1.7.78 - 30.6.79
Olive oil	Production target price	1 877.80	1 877.80	0,0	1.11.78 - 31.10.79
	Market target price	1 419.10	-	-	
	Intervention price	1 346.20	1 454.90	8,07	
	Production aid	-	350.00	-	

Product	Category of price or amount	Amounts fixed 1977/78 u.a./tonne	1978/79 proposals		Period of applica- tion of the proposed prices
			u.a./tonne	Percentage change from 1977/78 to 1978/79	
1	2	3	4	5	6
Oilseeds	Target price				
	. Colza and rape seed	285.30	296.70	4.0	1.7.78 - 30.6.79
	. Sunflower seed	307.80	320.10	4.0	1.9.78 - 31.8.79
	Basic intervention price				
	. Colza and rape seed	277.10	288.20	4.0	1.7.78 - 30.6.79
	. Sunflower seed	298.90	310.90	4.0	1.9.78 - 31.8.79
	Guide price				
	. Soya seed	306.40	318.70	4.0	1.11.78 - 31.10.79
	. Flax seed	311.80	324.30	4.0	1.8.78 - 31.7.79
. Castor seed	-	400.00	-	1.10.78 - 30.9.79	
Fixed rate aid (per ha)					
. Cotton seed	104.52	108.70	-	1.8.78 - 31.7.79	
Dried fodder	Fixed rate aid	9.55	3.00	-	1.4.78 - 31.3.79
	Guide price	-	102.00	-	
Peas and beans	Activating price	-	230.00	-	1.7.78 - 30.6.79
	Minimum price	-	150.00	-	
Flax and hemp	Fixed rate aid (per ha)				1.8.78 - 31.7.79
	. Fibre flax	194.76	202.55	-	
	. Hemp	176.88	183.96	-	
Seeds	Aid (per 100 kg)				1.7.78 - 30.6.79
	. Monoecious hemp	9.00	10.50	-	
	. Fibre flax	13.00	14.50	-	
	. Seed flax	10.00	11.50	-	
	. Grasses	10 to 33	10 to 38	-	
	. Legumes	4 to 25	4 to 28	-	
TableType RI wine:Type RII Type RIII :Type AI Type AII Type AIII	Guide price	2.03	2.07	2.0	16.12.78 - 15.12.79
	(per degree/hl or per hl according to type)	2.03	2.07	2.0	
		31.65	32.23	2.0	
		1.90	1.94	2.0	
		42.18	43.02	2.0	
		48.16	49.12	2.0	

Product	Category of price or amount	Amounts fixed 1977/78 u.a./tonne	1978/79 proposals		Period of appli- cation of the proposed prices
			u.a./tonne	Percentage change from 1977/78 to 1978/79	
1	2	3	4	5	6
Raw tobacco	Guide price Intervention price	(5)	(5)	2.0 on average	1.1.78 - 31.12.78
Fruit and vegetable	Basic price Buying-in price	(6)	(6)	2,0	1978 - 1979
Milk	Target price for milk Intervention price . for butter . for skimmed-milk powder . for cheese - Grana padano 30 - 60 days - Grana padano 6 months - Parmigiano-Reggiano 6 months	173.50 2 309.50 940.90 2 237.20 2 693.40 2 925.70	177,00 2 353,30 956,30 2 273,10 2 731,30 2 963,60	2,0 1,9 1,6 1,6 1,4 1,3	1.4.78 - 31.3.79
Beef and veal	Guide price for adult bovines (live weight) Intervention price for adult bovines (live weight)	1 229.00 1 106.10	1 244,40 1 120,00	1,25 1,25	4.4.78 - 3.4.79
Pigmeat	Basic price (slaughter weight)	1 202.00	1 238,10	3.0	1.11.78 - 31.10.79
Silkworms	Aid per box of silk seed Aid to recognized producer groups (per box)	40.20 14.07	50.00 -	- -	1.4.78 - 31.3.79

- (1) Aid limited to the Italian zone A.
- (2) In 1977/78 a special increase of 3.11 u.a./t was granted for rye of breadmaking quality with an amylographic index of at least 200; an increase of 6.1 u.a./t is proposed for 1978/79.
- (3) Not including the contribution towards storage costs.
- (4) Extension of the proposed contribution system until 30 June 1980.

(5) Nineteen varieties of tobacco, the prices for which apply to the calendar year.

(6) Products in Annex II of the Council Regulation of 18 May 1972 and periods varying according to the product;

Cauliflowers:	1.5.1978 to 30.4.1979	Lemons:	1.6.1978 to 31.5.1979	Apples:	1.8.1978 to 31.5.1979
Tomatoes:	1.6.1978 to 30.11.1978	Pears:	1.7.1978 to 30.4.1979	Mandarins:	16.11.1978 to 28.2.1979
Peaches:	1.6.1978 to 30.9.1978	Table grapes:	1.8.1978 to 31.10.1978	Sweet oranges:	1.12.1978 to 31.5.1979

Increases of 2% for oranges, mandarins and clementines are proposed in the financial compensation designed to assist disposal of Community citrus production on Community import markets; compensation for lemons is maintained on a degressive basis.

NB: Aid for the 1976 hop harvest ranged from 200 to 550 u.a./ha according to variety.

II. DISCUSSION OF
INDIVIDUAL PRODUCTS

CEREALS

A. Prices

1. The price proposals have been based on the following analysis of the situation in the cereals sector:

- . Cereals production has been affected by two years of extreme weather conditions: drought in 1976 and a wet summer in 1977. Nevertheless, the production estimate for 1977 (103.6 million t) is above average (1972/1976: 100.9 million t), a considerable increase over 1976 (90.2 million t).
- . Common and durum wheat production is similar to 1976 (about 39.5 million t), but within this figure common wheat increased to about 37 million t while durum wheat, which is sensitive to bad weather, fell to 2.4 million t.
- . 1977 has seen a record barley harvest of 37.5/38 million t (29.7 million t in 1976).
- . The area under rye increased for the second consecutive year (+6% in 1977 after an 8% increase in 1976). As the yield has greatly improved, production rose to 3.5 million t, 20% up on 1976 and the highest figure since 1972.
- . Maize production improved to an estimated 14.5 to 15 million t, 3.5 million t above the 1976 figure. However, this figure is still below that for 1973 (about 16 million t) and considerably below total consumption (about 25 million t).

2. The Commission considers that the amendment of the cereals system (improved price ratios), decided on when prices were last fixed, has proved advantageous. The 1977 crop, which is above average in volume but not everywhere of a particularly high quality, is selling to the advantage of both producers and consumers (including stockfarmers) and without any major intervention, except for rye. As this measure has proved satisfactory, it should therefore be continued.

3. Article 3 of Council Regulation (EEC) No 2727/75 of 29 October 1975 on the common organization of the market in cereals¹, as amended by Council Regulation (EEC) No 1143/76 of 17 May 1976² and by Council Regulation (EEC) No 1151/77 of 17 May 1977³, provides that the following are to be adopted according to the procedure laid down in Article 43(2) of the Treaty:

- the common single intervention price for common wheat, barley and maize and the single intervention price for rye and for durum wheat;
- the reference price for common wheat of breadmaking quality;
- the target prices for common wheat, durum wheat and rye and the common target price for barley and maize.

4. In the context of the general policy on agricultural prices and of the proposed agri-monetary measures, it should be stressed that this proposal, compared with the previous year:

1. brings the guaranteed price for maize into line with that for other feed-grains;
2. gives further encouragement to the production of common wheat of average breadmaking quality;
3. facilitates the disposal of common wheat of inferior, high-yield quality as animal feed, while improving the wheat/maize price ratio;
4. constitutes an initial stage towards the alignment of the price for rye;
5. further improves the durum wheat/common wheat price ratio and brings it closer to a more normal level.

To achieve these aims, it is proposed to:

- (a) to increase the common intervention price for feed grains by 1.26% and the price for maize by 3%, in order to attain the common price level;

¹OJ No L 281, 1.11.1975, p. 1.

²OJ No L 130, 19.5.1976, p. 1.

³OJ No L 136, 2.6.1977, p. 1.

- (b) to fix a reference price for common wheat 15% higher than the common single intervention price so as to encourage production of common wheat of medium breadmaking quality. This percentage represents the difference between the return on one hectare of common wheat of medium breadmaking quality and the return on one hectare of common wheat which is not of breadmaking quality. It is also proposed, in accordance with Article 8 of Regulation (EEC) No 2727/75, as amended by Regulation (EEC) No 1151/77 of 17 May 1977, when applying special intervention measures to support the market development for common wheat of breadmaking quality, to make a reduction of 4% to the reference price for common wheat of breadmaking quality which does not meet the chemical and biochemical characteristics required of bread-wheat;
- (c) to fix the target price for common wheat 6.50% above the reference price for common wheat of breadmaking quality (this percentage representing a market component) in order to allow the market to develop an adequate price spread in relation to quality, and a component representing Ormes-Duisburg transport costs at 13.50 u.a./t;
- (d) to take a first step towards approximating the single intervention price for rye to the common single intervention price by reducing the gap between the two.

The difficulty of disposing of this cereal on the market, which is nonetheless deficient in fodder cereal, is evidenced by the large quantities of rye offered for intervention. It is difficult to sell this rye again and its disposal causes problems.

However, in order to continue encouraging the production of rye of good breadmaking quality, the Commission proposes to augment the special increase for rye of this quality from 3.11 u.a./t to 6.1 u.a./t;

- (e) to improve the intervention price ratio between durum wheat and common wheat by fixing it at 140 instead of 149.6;
- (f) to fix the target price for durum wheat at 4.7% above the single intervention price (this percentage representing a market component), which will be sufficient to improve disposal while continuing to improve

the intervention price ratio between common and durum wheat;

1976/1977: 152 /218.8 = 143.9
1977/1978: 158.08/224.27 = 141.8
1978/1979: 162.39/218.46 = 134.5

(g) to fix the common target price for barley and maize at 10% above the common single intervention price (this percentage representing a market component) plus a component representing Ormes-Duisburg transport costs at 13.50 u.a./t.

This proposal forms a package, in line with the 1976 and 1977 amendments to the basic Regulation No 2727/75.

The various increases proposed by the Commission, pursuant to the basic Regulation, give an average rise in cereal prices of nearly 2%.

Aid for durum wheat

As proposed last year, aid for durum wheat is to be granted only in those regions of the Community where structures are such that, otherwise, serious social problems would arise; this is not the case in all regions where it is currently granted. Hence the Commission's renewed proposal to limit the aid to those parts of Italy meeting these criteria. However, it appears desirable to increase the aid in the regions where it is to be continued. This aid per hectare is therefore intended to supplement the producer's income in such a way as to allow him to obtain a comparable income to that of producers of other cereals.

B. Related measures

1. Amendment of an Article of Regulation (EEC) No 2727/75

As may be seen from the provisions in Article 5 of Regulation (EEC) No 2727/75 on the common organization of the market in cereals, the threshold prices for common wheat, durum wheat, barley, maize and rye are only prices derived respectively from the target price of each of these cereals.

It is therefore proposed, in view of the technical character of this fixing, that the Commission fix the threshold prices for the 1978/79 marketing year in accordance with the procedure laid down in Article 26.

Article 5(5) of the said Regulation must therefore be amended.

A document reporting on the calculation of the threshold prices, as requested by the Special Committee on Agriculture in June 1977, is annexed hereto.

2. Monthly increases

Given that interest rates have stabilized and even decreased, it is not proposed to change these.

3. Carry-over Payment

In line with the undertaking which it gave to support the cereals market and in particular that of common wheat of bread-making quality, the Commission proposes to fix a carry-over payment for common wheat and rye of bread-making quality and maize held in stock on the market on 31 July 1978. This payment is equal to the difference in national currency between the target prices of these cereals on 31 July and 1 August 1978 respectively.

PRICE PROPOSALS FOR CEREALS FOR 1978/79

Product	1976/77	inc- rease	1977/78	Proposal	
	u.a./t	%	u.a./t	inc. %	1978/79 u.a./t
<u>COMMON WHEAT</u>					
Single intervention price bread-wheat	131.00	-	-	-	-
Common single intervention price	(116.00)	+3.5	120.06	+1.26	121.57
Reference price bread-wheat	-	-	135.59	+3.10	139.80 ¹⁾
Target price	152.00	+4.0	158.08	+2.72	162.39
<u>RYE</u>					
Single intervention price	124.00	+4.0	128.96	-1.52	127.00 ²⁾
Target price	149.15	+4.0	155.12	-0.30	154.65
<u>BARLEY</u>					
Single intervention price	116.00	-	-	-	-
Common single intervention price	116.00	+3.5	120.06	+1.26	121.57
Target price	137.80	+5.2	144.97	+1.56	147.23
<u>MAIZE</u>					
Single intervention price	112.20	+5.2	118.03	-	-
Common single intervention price	-	-	-	-	121.57
Target price	137.80	+5.2	144.97	+1.56	147.23
<u>DURUM WHEAT</u>					
Single intervention price	202.00	+0.5	203.01	-3.59	195.72
Target price	218.80	+2.5	224.27	-2.59	218.46
Aid (u.a./ha)	0-21-50		60	+10	66 ³⁾

- 1) A reduction of 4% is proposed for common wheat of breadmaking quality
- 2) meeting only the minimum requirements for bread-making.
- 3) A special increase of 6,1 u.a./t is proposed for rye of bread-making quality with an amylographic index of at least 200.
- 3) Aid limited to the Italian zone A.

RICE

A. Prices

1. Article 3(1) of Council Regulation (EEC) No 1418/76 of 21 June 1976 on the common organization of the market in rice provides for the fixing of a single intervention price for paddy rice and a target price for husked rice. This target price is derived from the intervention price taking into account the most favourable transport rates between the area with the largest surplus (Vercelli) and the area with the greatest deficit (Duisburg) in the Community, the milling costs for the conversion of paddy rice into husked rice and the market component representing the difference between the market price for paddy rice and the intervention price (Article 4).

2. In the Community rice is grown in Italy and France. Between 1973/74 and 1976/77 the sown areas increased in Italy by 7.7% while in France they decreased by 53%. In the 1977/78 marketing year, however, there was an increase in the areas both in France (+33%) and in Italy (+1.7%). Despite this increase the 1977 harvest, which was over a month late, will probably be inferior to that of the previous year because of bad weather conditions. These poor harvest prospects resulted in market prices in Italy which at the beginning of the current marketing year maintained the high level reached at the end of the 1976/77 marketing year and subsequently exceeded the level of the threshold price.

Italy, the main rice producer in the Community, is traditionally an exporting country. In 1976/77 the exportable surplus amounted to about 290 000 tonnes of which two-thirds was marketed within the Community. 102 000 tonnes were exported to non-member countries and of this 40 000 tonnes went as food aid. These quantities were less than in the 1975/76 marketing year. Exports for the current marketing year will probably be less again. The very high level of prices and the delay in the new harvest obliged Italy, for the first time since the common organization of the market was established, to import considerable quantities of rice from non-member countries. This suggests that the level of the market price in that country will be affected more by the threshold price than by the intervention price.

Since Italy and France have depreciated currencies, the various adjustments in green currency rates which have taken place have meant an increase in price substantially higher than that expressed in u.a. In addition rice producers enjoy additional protection because the monetary compensatory amounts are not applied to this product. In view of all these considerations the Commission proposes to maintain the intervention price at its present level for the 1978/79 marketing year. A slight increase (0.15%) in the target price results from the updating of the derived components (transport costs).

u.a./tonne

	1977/78	Proposal 1978/79
1. Intervention price at Vercelli - increase in relation to the preceding marketing year	171.55 (+4.5%)	171.55
2. Market component (11%)	18.87	18.87
3. Husking costs for paddy rice		
- Lit 25 000	25.96	-
- Lit 26 750	-	25.97
4. Price of husked rice at Vercelli (1 + 2 + 3 x coefficient 1.25)	270.48	270.49
5. Transport costs (Vercelli-Duisburg)	24.90	25.66
6. Target price for husked rice at Duisburg (4 + 5) - increase in relation to the preceding marketing year	295.71(a) (+3.8%)	296.15 (+0.15%)
(a) This price is the result of an autonomous increase by the Council. It does not correspond therefore to the calculated result.		

B. Related measures

1. Component for the protection of the industry to be included in the threshold price of milled rice

Since the 1975/76 marketing year this protective component has been 11.50 u.a. per tonne. This component can be maintained unchanged in view of the volume of imports of milled rice (basis: licences issued):

1973/74: 83.527 t
1974/75: 55.834 t
1975/76: 33.948 t
1976/77: 26.333 t

As in the case of flour, this protective component is not to be considered as requiring to be fixed each year when decisions on prices are taken. So as to limit these decision to the minimum it is proposed that the fixing of this amount should not in future be limited to a single marketing year, an arrangement which does not prevent the amount from being amended when necessary.

2. Monthly increases

As in the case of prices, no increase is proposed.

3. Amendment to Regulation (EEC) No 1418/76

It is proposed that for the 1978/79 marketing year the threshold prices for round husked rice and broken rice be fixed by the Commission in accordance with the Management Committee procedure. Accordingly, Article 14(4) and (5) and Article 15(3) of Regulation (EEC) No 1418/76 must be amended.

A document reporting on the calculation of threshold prices, as requested by the Special Committee on Agriculture in July 1977, is annexed hereto.

SUGAR

1. Council Regulation (EEC) No 3330/74 of 19 December 1974 on the common organisation of the market in the sugar sector provides - in particular by its Articles 2, 3, 4, 25 and 32 - for the fixing of a target price for white sugar for the Community area having the greatest surplus, of a minimum beet price for that area, and of the coefficients determining the maximum quota and the special maximum quota.
2. Taking into account, on the one hand, the proposed general increase in agricultural prices and the agri-monetary measures and, on the other, the sugar surplus in the Community and on the world market, it is proposed that for the 1978/79 marketing year, the minimum beet price and the intervention price for white sugar should each be increased by 1.16 %
3. In 1977/78, for the first time since 1968, there was a reduction in the Community's beet area. Compared with the previous year this reduction was about 5 % (i.e. 100 000 hectares) and was most marked in Italy. The overall yield per hectare was slightly higher than average, thanks to excellent climatic conditions in the autumn, being 20 % more than that in 1976/77 when it was low as a result of the drought.
Production in 1977/78 will increase by about 13 % and will exceed 11.3 mio tonnes of white sugar. This figure must be compared with total consumption, which fell to 9.0 mio tonnes in 1976/77 and which is estimated to be at best no more than 9.3 mio tonnes in 1977/78. These figures indicate a degree of self-sufficiency of around 122 % and a Community-produced surplus exceeding 2.0 mio tonnes. Thus, taking into account preferential imports, the exportable surplus will exceed 3.3 mio tonnes, and it is very doubtful whether it will be possible to export the whole of this surplus to the world free market. This is because the total net imports from that market in 1978 will be an estimated 15 mio tonnes (raw value) of which 9.0 tonnes will be by those developed country importers who are expected to join the 1977 ISA, in which case their imports from non-members of the ISA (including the Community) will be insignificant. The total exportable Community surplus represents 24 % of the total demand on the world free market and more than 60 % of the demand on that market by developing countries. An appreciable proportion of the latter demand is already covered under long-term contracts with certain exporting countries.
The surplus world sugar supply situation has continued to depress world prices so that the restitutions necessary for the export of Community sugar currently represent 70 % of the intervention price, and one cannot bank on

the ISA achieving a reversal of this situation in 1978. In these circumstances the exportation of the Community's surplus sugar would require more than 600 MUA in restitutions for the marketing year 1977/78, of which only 25 to 30 % would be covered by receipts from the production levy paid by the Community producer.

4. An improvement in this situation in the 1978/79 marketing year is unlikely in the absence of measures designed to restore some equilibrium. This argument was accepted by the Council when it fixed the prices applicable to the 1977/78 marketing year. At that time the Council agreed "that if the present prospects for the Community and world sugar market continue, there will be a reduction in the maximum sugar quota with effect from the 1978/79 sugar year" and that "this reduction will be taken into account for the fixation of the special maximum quota for the Member States applying the mixed price system".

Since that time the sugar situation in the Community and on the world free market has considerably worsened. It is therefore essential that the maximum quota be reduced, and it is proposed that it should be fixed at 120% of the basic quota for the 1978/79 marketing year and that the special maximum quota be fixed at 220 % of the basic quota for the 1978/79 and 1979/80 marketing years. In addition, the maximum level of the production levy permissible under the basic sugar Regulation (i.e. 30 % of the intervention price) should be imposed and, in consequence, a minimum price for beet produced above the basic quota should be fixed at 70 % of that fixed for beet produced within the basic quota. The net effect of all these proposed measures, together with the low level of world market prices which will discourage the production of beets and sugar outside maximum quota, should result in an appreciable reduction in the beet area and thus in the Community's production of sugar.

5. Moreover, the Commission wishes to call attention to the fact that Article 5(4) of Protocol No 3 annexed to the Convention of Lomé requires that the guaranteed prices for ACP sugar must be negotiated annually, and determined not later than 1 May.
After the Council's decisions on Community prices the Commission will submit a proposed mandate for this negotiation.

	1977/78 marketing year UA	1978/79 marketing year UA
1. Minimum price per tonne of beets	25.43	25.73
2. Intervention price per 100 kilograms of white sugar	32.83	33.21
3. Target price per 100 kilograms of white sugar	34.56	34.96
4. Intervention price per 100 kilograms of raw beet sugar	27.25	27.57
5. Threshold price per 100 kilograms of white sugar	39.72	40.24
6. Storage reimbursement for white sugar (ql/month)	0.30	0.30
7. Coefficient determining the maximum quota	1.35	1.20
8. Coefficient determining the special maximum quota for the sugar marketing years 1978/79 and 1979/80 : 2.20		

ISOGLUCOSE

1. During the 12 months preceding the introduction on 1 July 1977 of common measures in the isoglucose sector, which provided in particular for the application of a production levy of 5 ua/100 kilograms of dry matter, total Community production of isoglucose reached 85 000 tonnes. Because of these measures the rate of increase in actual production has been less than earlier estimates. In these circumstances the Commission thinks it appropriate to recommend to the Council that, following this first period of application from 1 July 1977 to 30 June 1978, for which a specific levy (5 ua/100 kg) was provided as a transitional measure, the basic isoglucose Regulation (EEC) No 1111/77 should be modified as regards the levy. Unless this is done the production levy which will apply to isoglucose in future will be the same as that applying to sugar, in conformity with the principle established by Article 9 of that Regulation. In 1978/79 the sugar production levy would be virtually double the present levy of 5 ua applicable to isoglucose.

2. The aim of the isoglucose production levy is to ensure that this sector shares the costs of disposing of surplus sugar, because all isoglucose produced and marketed in the Community displaces a corresponding quantity of sugar which then has to be exported. As the Commission pointed out during the Council's discussion of the proposal to introduce this levy with effect from 1 July 1977, since isoglucose is in direct competition with sugar it benefits automatically from the full price guaranteed to sugar on intervention in the Community. Since 1968 it has been possible to fix this price at a level significantly higher than the equilibrium price thanks to the quota system, which has been applied in such a way as to prevent an excessive increase in sugar production. That this remains an objective is borne out by the Commission's proposal to the Council that for 1978/79 the maximum quota should be reduced from 135 % to 120 % of the basic quota of each enterprise. The Commission also considers that, as was the case in the first period, the isoglucose production levy for 1978/79 must be fixed so that it does not exceed the economic advantage enjoyed by isoglucose as a result of the existence of the quota system for sugar. In the Commission's view this advantage corresponds to the difference between the sugar price determined by the Council, taking into account the quota system, and the price which would have had to be accepted in the absence of that system. Having taken this

advantage into account in its 1978/79 price proposals in the sugar sector the Commission proposes that the Council should retain for the second period of application of the common measures applying to isoglucose a production levy of 5 ua/100 kilograms of dry matter, on the understanding that if the levy on sugar production during the same period turns out to be less than 5 ua then ^{the} same lower levy would apply to isoglucose. The amount of 5 ua corresponds to 14.3 % of the intervention price proposed for white sugar in 1978/79, including the storage levy (33.21 + 1.77).

3. The Community's future policy towards isoglucose cannot sensibly be defined independently of that to be defined in the sugar sector because of the close links between the markets for these two products. The Commission also regards it as necessary that the period of temporary application of a levy system for isoglucose must now be aligned with the period of application of the quota system in the sugar sector and must extend to the period from 30.6.1979 to 30.6.1980, but that the fixation of the amount of the production levy applicable to the last period should, nevertheless, be deferred until the fixation of sugar prices for 1979/80.
4. Finally, the Commission wishes to inform the Council that it is initiating an enquiry among the Community enterprises concerned as to the comparative costs of invert sugar, liquid sugar and isoglucose. The results of this enquiry are not likely to be available before the end of 1977. The Commission will inform the Council of any conclusions it may be able to draw from the enquiry in a manner which will allow them to be taken into consideration when final decisions are being taken on the price proposals.

OLIVE OIL

Concurrently with the price proposals for the 1978/1979 marketing year the Commission has presented a proposal for a Council Regulation amending the common organization of the market in olive oil. Assuming that this proposal is adopted by the Council in good time, the Commission proposes the following prices and aid for the 1978/1979 marketing year :

I. Production target price

Since the 1975/1976 marketing year the production target price for olive oil has been increased only once, by 1.5 %. It is recalled that since the 1975/1976 marketing year this price was fixed as follows :

1975/1976	1976/1977	1977/1978
185 u.a./100 kg	185 u.a./100 kg	187.78 u.a./100 kg

However, the devaluation of the agricultural rate for the Italian Lira at the beginning of the 1976/1977 and 1977/1978 marketing years had the effect of increasing the production target price expressed in lire by 12.37 % in 1976/1977 compared with the 1975/1976 marketing year and by 8.56 % in 1977/1978 compared with the previous marketing year.

In view of the foregoing and the foreseeable changes in the representative agricultural rate for the Italian Lira, it does not seem necessary to increase the production target price in terms of u.a. It is thus proposed that for the 1978/1979 marketing year it should be maintained at its previous level, i.e. 187.78 u.a. per 100 kg.

II. Production aid

Article 5 of the new Regulation on the organization of the market in olive oil makes provision for production aid. Given the importance of this aid for producers in view of the difficulties outlined in the explanatory memorandum concerning the new organization of the market in olive oil and in view of the criteria laid down in Article 5 of the draft Regulation, it is proposed to fix the production aid at 35 u.a. per 100 kg for 1978/1979.

III. Intervention price

In order to guarantee the producer an income as close as possible to the production target price taking the production aid into account it is proposed to fix the intervention price at 145.49 u.a. per 100 kg. This price gives producers guarantee equivalent to that provided during the 1977/1978 marketing year.

IV. Monthly increases

● The amount of the monthly increases for the 1977/1978 marketing year has been fixed at 1.12 u.a. per 100 kg.

This amount still seems adequate to ensure normal disposal of Community production. It is thus proposed to maintain it at its present level. In view, however, of production and consumption prospects, it is proposed to reduce the number of monthly increases for the 1978/1979 marketing year from 10 to 7.

V. Market target price

Under the new market organization in the olive oil sector it is proposed that the market target price be fixed at a date as near as possible to the commencement of the marketing year, in any case before 1 October for the following marketing year. The Commission will thus present a proposal relating to the market target price for the 1978/1979 marketing year before 1 October 1978.

It may be indicated, however, on the basis of the data available at present, that the application of the criteria for the fixing of the market target price, namely the level of competing seed oil prices and the relationship between them and olive oil prices considered necessary, i.e. 2.2/1, would give a market target price of 130 u.a. per 100 kg.

OIL AND PROTEIN SEEDS

The sector of oil and protein seeds currently comprises colza and rape, sunflower, soya, cotton and linseed.

A. Colza, rape and sunflower seed

1. Each year, pursuant to Regulation No 136/66/EEC⁽¹⁾, a target price and a basic intervention price are fixed for colza, rape and sunflower seeds.

The prices for the 1977/1978 marketing year and the proposed prices for the 1978/1979 marketing year are as follows :

	u.a./100 kg	
	1977/1978	1978/1979
a) colza and rape seed		
- target price	28.53	29.67
- basic intervention price	27.71	28.82
b) sunflower seed		
- target price	30.78	32.01
- basic intervention price	29,89	31.09

These proposals represent an increase of 4 % for colza and rape seed, and 4 % for sunflower seed.

2. The market for colza and rapeseed has experienced difficulties for the past few years. It was stated that colza oil, with a high content of erucic acid might be detrimental to health. Consumption of this oil dropped. Since 1973, however, Community producers have made considerable efforts to change over to new varieties of seed, which contain a very low percentage of erucic acid. This effort has been encouraged by measures excluding the old varieties from intervention level and by the Directive limiting the erucic acid content of oils and fats for use in feedstuffs. Moreover, in accordance with the decision taken by the Council on the principle of limiting the subsidy to low erucic acid seeds - except where the oil from the high erucic acid varieties is destined for non-food use - the Commission has prepared a proposal for a regulation to this end.

(1) OJ No 172, 30.9.1966, p. 3025/66

Since the oil from the new varieties of colza seed does not incur the same criticism on health grounds, consumption of colza oil has now started to improve in the Community. To further this development, a consumer information campaign is scheduled to begin in Spring 1978. Although consumption of colza oil is still below the levels reached in 1973, the potential advantage of this production remains considerable and a 4 % increase in the target and intervention prices for colza and rapeseed is proposed.

3. The Community is deficient in sunflowerseed and there is a strong demand for sunflower oil. Since the large increase in acreage in 1975, the area devoted to sunflower seed has declined slightly. Moreover, this crop is produced only in the Southern countries of Europe, where a special effort is being made with the framework of the mediterranean policy to foster agricultural development. An increase of 4 % is therefore proposed for sunflower seed.

4. Monthly increase

The objective of the monthly increases is to permit the sale of colza, rapeseed and sunflower seed to be spread over the marketing year. The excessive reluctance of producers to sell in some countries has hindered orderly marketing, and has been made possible by the level of these increases. Furthermore, interest rates play a major role in the cost of storage, and these rates are falling throughout the Community. For these reasons, it is proposed to maintain the monthly increases for colza, rapeseed and sunflower seed at their present level for the 1978/1979 marketing year.

B. Soya beans

1. Under Regulation (EEC) No 1900/74⁽¹⁾ the Council each year fixes a guide price for soya beans produced in the Community. This price was fixed at 30.64 u.a./100 kg for the 1977/1978 marketing year. It is proposed to increase it to 31.87 u.a./100 kg.

2. Although it has been supported since the 1974/1975 marketing year, so far soya cultivation has not progressed beyond the launching stage.

In order to bring about the desired development in soya cultivation the Council has already decided to ensure that during the next three marketing years aid will be granted in respect of a soya production of at least 20 quintals per ha. To the same end the price relationship between soya and maize, the main competing product in the crop rotation, should be improved.

In these circumstances a 4 % increase in the guide price for soya is proposed.

C. Flax seed

1. Under Article 1 of Regulation (EEC) No 569/76⁽²⁾ the Council fixes a guide price for flax seed each year. This price was fixed at 31.18 u.a./100 kg for the 1977/1978 marketing year and in addition a minimum amount of aid of 105 u.a. per ha was proposed for seed flax.

It is proposed to fix the guide price for the 1978/1979 marketing year at 32.43 u.a./100 kg. In accordance with the decision of principle adopted by the Council at its meeting on 25/26 April 1977 it is not proposed to retain the minimum amount of aid.

2. In 1977 the areas under seed flax declined compared with 1976, owing mainly to the poor yields in 1976 and the changeover to the new system of aid.

(1) OJ No L 201, 23.7.1974, p. 5

(2) OJ No L 67, 15.3.1976, p. 29

The relatively high increase in the guide price, the maintenance of a minimum amount of aid and the satisfactory yields enabled seed flax producers to obtain a fair income in 1977.

A slightly higher increase in the guide price for flax seed for the 1978/1979 marketing year than that proposed for competing products in the crop rotation should, despite the abolition of the minimum amount of aid, revive producers' interest in this crop and consequently halt the decline in the areas cultivated.

In these circumstances an increase of 4 % of the guide price is proposed.

D. Cotton seed

1. Article 1 of Regulation (EEC) No 1526/71⁽¹⁾ provides for the annual fixing of a subsidy per hectare of cotton seed sown and harvested. The subsidy was fixed at 104.52 u.a. per ha for the 1977/1978 marketing year. It is proposed to increase it to 108.70 u.a. per ha in the 1978/1979 marketing year.
2. It is considered that the combined effect of a higher increase in the flat-rate subsidy than that proposed on average for the price of other agricultural products and the agri-monetary measures envisaged for the lira should bring about an increase in producers' income which would be adequate to maintain interest in this crop in the less-favoured areas where it is grown, albeit on a very limited scale.

Thus an increase of 4 % is proposed.

E. Castor seed

The Commission has proposed to the Council that the growing of castor seed in the Community be supported as from the 1978/1979 marketing year. Article 1 (1) of the proposal provides for a guide price for castor seed to be fixed each year.

(1) OJ No L 167, 17.7.1971, p. 1

Should the Council take a decision in time, the proposed price would have to take into account :

- the prices proposed for other competing crops, in particular durum wheat, and the relatively high production costs of castor seed;
- the investments necessary, since this crop would have to be reintroduced into the Community, taking into account also that the system of aid for castor seed might be reviewed after a trial period.

In view of these considerations a guide price of 40 u.a./100 kg is proposed for the 1978/1979 marketing year.

DRIED FODDER

1. The common organization of the market in dehydrated fodder, set up by the Council (Regulation (EEC) No 1067/74⁽¹⁾) to ensure a better supply of the Community market in proteins, entered into force on 1 May 1974. This common organization of the market mainly involves the implementation of a system of production aid for drying plants which produce dehydrated fodder and the introduction of trading arrangements with non-member countries.

Article 5 of Regulation (EEC) No 1067/74 provides that :

"The system of aid provided for under this title shall apply until the end of the 1977/1978 marketing year (31 March 1978). Before the end of that year, the Council, acting by a qualified majority on a proposal from the Commission, shall decide whether to maintain and, if necessary, alter this system."

2. The 1977/1978 marketing year is therefore the fourth one in which a common organization of the market applies. Since the Community aid system has been in existence, production of dehydrated fodder in the Community has been between 1.5 and 1.6 million tonnes, except for 1976, when production fell to 1.2 million tonnes following the serious drought.

The Council's adoption of Community measures in the dehydrated fodder sector coincided with the sharp increase in energy prices which began at the end of 1973. Aid for dehydrated fodder partly offset the increased production costs which followed the rise in fuel prices, and thereby prevented a sharp drop in dehydrated fodder production.

If Community production of dehydrated fodder is to be maintained at least at its current level, incentives must continue to be granted. If no support is forthcoming, the drying industry may be unable - in low price years - to pay a remunerative price to green fodder producers. This would lead to a decline in areas under green fodder in the Community and to their replacement primarily by sugarbeet and cereal crops, the disposal of which is already causing the Community some difficulty.

Moreover, it is in the Community's interest to maintain dehydrated fodder production in the Community, since it has a large deficit in animal feed prote

(1) OJ No L 120 of 1.5.1974, p. 2

Of the Community crops which can be considered as protein products, dehydrated fodder is the most important, both as regards the overall supply to the Community and protein yield per hectare.

Dehydrated lucerne yields 2 000 kg of protein per hectare, compared, for example, with 700 kg for soya beans and field beans and 425 kg for colza seed. Finally, at cultivation level, lucerne is a very good crop for rotation purposes, since it makes possible savings on nitrogenous fertilizers.

Although convinced that it is necessary to continue to support dehydrated fodder production, the Commission nonetheless considers, in the light of the experience gained during the present system's period of application, that the system could be improved.

3. Under the present system, the amount of aid for the production of dehydrated fodder is fixed and remains valid for a whole marketing year. A fixed aid system has the advantage of facilitating administration. On the other hand, such a system cannot take account of economic reality, and in particular it cannot adapt to market price trends. This disadvantage affects both the drying plants and the green fodder producers. There are no measures to stabilize Community market prices, which fluctuate considerably, even during the same marketing year, depending on the movement of prices for imported dehydrated fodder and those for other protein products. Consequently, when the market price of dehydrated fodder falls in the course of a marketing year, as was the case in the second half of 1975 and 1977, the aid is no longer sufficient to cover the difference between the market price and the cost price. Where a drying plant buys green fodder under contract, guaranteeing a certain price to the farmer, it is the industry itself which suffers the consequences of the insufficient aid and which is obliged to sell at a loss. The farmer will suffer the consequences later, namely the following year, when the buyer will no longer be able to pay him a remunerative price. In the case of a drying cooperative, it is the member producers who suffer directly the consequences of the inadequate aid. In both cases, however, difficulties arise which might cause a drop in the area under green fodder. On the other hand, when the market price of dehydrated fodder is relatively high and exceeds the cost price of the product, as was the case intermittently in summer 1976 because of the drought, the granting of aid is un-

necessary and constitutes needless expenditure of Community funds.

4. The Commission considers that these disadvantages, which are inherent in a fixed aid system, can be eliminated if the aid system for dehydrated fodder is made more flexible from the 1978/1979 marketing year onwards. On the basis of the principle that the manufacturer should receive a fair price for his products so that he in turn can pay a fair price to green fodder producers and cover the costs of manufacturing the dehydrated product, the Commission proposes that the Council fix, before the beginning of each marketing year and for the first time for the 1978/1979 marketing year, a target price which takes the two factors into account. On the other hand, note should also be taken of the world market price for dehydrated fodder on the basis of offers made and prices quoted. When the target price is higher than the world market price, aid will be granted for dehydrated fodder produced in the Community.

5. In order that the administration of the common organization of the market in dehydrated fodder should not become unnecessarily complex and that a system can be found which will achieve the desired objectives, the Commission considers it sufficient to determine the world market price periodically, for example, once every quarter. The aid for dehydrated fodder should not cover the whole difference between the target price and the world market price; it is proposed that the aid should cover only 80 % of this difference.

Firstly, the variable aid thus becomes an important instrument for the automatic stabilization of Community dehydrated fodder production. When market prices drop, this means that availabilities are sufficient to satisfy demand; in this event, the incentive to production can be reduced by granting aid which covers only a specific percentage of the difference between the target price and the world market price. Such a provision is justified for other reasons, too : the special structure of the sector means that Community dehydrated fodder is not sold at the world market price in some Member States. Even in the Member States where the selling price is determined according to the world market price, the drying plants can obtain a more favourable price for quantities sold in consumer areas close to the factories.

6. While the first objective is to remedy the unfavourable consequences of price fluctuations during a marketing year by means of the variable aid, a second objective is the long-term orientation of dehydrated fodder production in the Community. This objective can be achieved by a specific incentive consisting of a fixed amount of aid, albeit at a modest level.

7. A solution to the disposal difficulties encountered by certain undertakings following sharp and temporary increases in imports would have been to conclude storage contracts with holders of dehydrated products.

The Commission considers that the common organization of the market in dehydrated fodder can also be improved in this respect and proposes that aid should be granted for private storage when an imbalance between dehydrated fodder availabilities and estimated demand renders this necessary. Such aid is provided for in several basic regulations governing other agricultural products.

8. Originally Council Regulation (EEC) No 1067/74 applied to dehydrated fodder proper, namely dehydrated lucerne, clover, etc. (ex 12.10 B of the Common Customs Tariff). From 1st July 1975 the scope of this Regulation was extended to cover dehydrated potatoes (ex 07.04 B and ex 11.05 of the C.C.T.). Since then, the Commission has proposed that dehydrated potatoes should come within the common organization of the market in potatoes⁽¹⁾.

While differing in certain respects (e.g. manufacturing costs), sun-dried lucerne meal has much in common with dehydrated lucerne. Such meal is a source of protein and it comes in a form which facilitates marketing, but it can only be produced in the southern regions of the Community. Consequently, aid for the production of sun-dried lucerne meal will help to ensure a better equilibrium between agricultural production in the North and that in the South of the Community. Provided that the production of sun-dried lucerne meal can be properly monitored, there is no reason why aid should not be granted at a level commensurate with the manufacturing costs.

The extraction of protein from green fodder (lucerne and grass in particular) has now left the experimental stage and is beginning to be applied

(1) OJ No C 61, 17.3.1976, p. 2

industrially. The product obtained has a protein content approaching that of soya cake and is used in animal feed. The Commission considers that the proteins extracted from green fodder can help reduce the Community's deficit in protein, and therefore proposes that these products should be included in the new regulation and covered by the same system of aid as that applying to dehydrated fodder.

9. The Commission intends to report to the Council before the end of the 1981/1982 marketing year, to inform it of the experience gained and the results of the amendments which are to be made to the system of aid for dehydrated fodder.

Prices and aid

10. The system proposed above for processed fodder provides for a flat rate and a guide price.
11. In its "Report on the Community's protein supplies", the Commission outlined a policy directed towards reducing the Community's dependence on third countries in respect of proteins for animal consumption. Green fodder crops are a major source of protein in the Community; per hectare they yield for more protein than other products; and they are excellent rotation crops. It therefore appears appropriate to fix a flat rate aid which will represent an incentive for the production of dehydrated and dried fodder and protein concentrates derived from grass and lucerne.
12. The guide price for dehydrated fodder comprises two main elements :
 - the price which must be paid to the producers of green fodder crops in order to avoid that they switch to other crops
 - the costs of processing the green fodder.
13. Should the Council accept this proposal, the Commission proposes to fix the flat rate aid for processed fodder for 1978/1979 at 3 units of account per tonne, and the guide price for 1978/1979 at 102 units of account per tonne.

The standard quality for which the proposed guide price would be fixed is based on the average quality of dehydrated fodder produced in the Community.

FIBRE FLAX AND HEMP

1. Fibre flax

1. Article 4 of Regulation (EEC) No 1308/70⁽¹⁾ provides for the annual fixing of a set amount of aid per hectare for fibre flax. The amount of the aid was fixed at 194.76 u.a. per ha for the 1977/1978 marketing year. It is proposed to increase it to 202.55 u.a. per ha in 1978/1979.
2. Although it is difficult at present to assess what the market situation will be in 1978/1979, it is hardly to be expected that the necessary increase in the incomes of fibre flax producers during the marketing year in question will come from an increase in the price of fibre (in view of the prospects, it seems as though there will be an abundance rather than a shortage of fibre). The increase in incomes should therefore be ensured mainly by the measures adopted concerning prices.

In view of the proposed increase for flax seed, which also applies to fibre flax seed, an increase of 4 % in the set rate of aid should enable producers to obtain an increase in their income comparable to that for types of farming which compete in the crop rotation.

2. Hemp

1. Article 4 of Regulation (EEC) No 1308/70⁽¹⁾ provides for the annual fixing of a set amount of aid per hectare for hemp. The amount of the aid was fixed at 176.88 u.a. per ha for the 1977/1978 marketing year. It is proposed to increase it to 183.96 u.a. per ha in 1978/1979.
2. The slight increase in the contract price of hemp straw, which is valid for the entire production, and an adjustment of 4 % in the amount of the aid per ha should result in an adequate increase in producers' incomes.

(1) OJ No L 146, 4.7.1970, p. 1

SEEDS

A. Prices

Regulation (EEC) no 2358/71 of 26 October 1971 concerning the common organization of the market in seeds lays down in Article 3 that, where the situation on the Community market for one or more of the products listed in the Annex and its foreseeable development do not ensure producers a fair income, aid may be granted to those species. In view of the proposal to fix aid for two marketing years (see below) and taking account of the proposed agri-monetary measures, the aid should be increased somewhat more than the average agricultural price increase but differentiated separately for the different groups of species and individual species.

This proposed increase is based on the following conditions:

1. The estimate of the harvest 1977 (± 1.340.000 qx) is an increase in comparison with 1976 (1.120.000 qx) due to an increase in areas under seed and a better yield per ha. The harvest has in general been normal but certain regions have suffered from bad climatic conditions during the harvest and therefore the supplies of certain species (particularly legumes) are short. In 1976/77 trade with third countries showed a significant increase in imports (± 60 %) and a small reduction in exports. Thus the Community was a net importer of ± 450.000 qx (imports - 608.000 qx, exports - 158.000 qx).
2. Taking into account the stock situation (± 700.000 qx), the quantities available for the 1977/78 season are ± 2.040.000 qx. With normal consumption (± 1.600.000 qx) and normal stocks in reserve representing ± 30 % of the consumption, there exists a certain balance on the Community market.
3. As a consequence of this situation, the prices for seeds at present are in general reasonable for the producers. The large fluctuation in prices resulting from the increased demand after the drought for some species has ended and the prices have in general stabilized. However, the increase in cereal prices during the last

year has been seen to compete favourably with seeds production and producers have converted areas under seeds to cereal.

4. Taking into account that the forecast for the 1978 harvest for the grass species shows a certain increase in the area, in particular for the Lolium species, an average yield and normal trade with third countries can, in general, secure Community supplies. However, there are species for which Community supplies are insufficient (Phleum pratense, Festuca arundinacea a.o.).

For the legumes, which are difficult crops to grow and for which the production in recent years has been inadequate (Medicago sativa, Trifolium repens, Trifolium pratense, Vicia sativa) Community supply is insufficient and the future development somewhat uncertain. However, two species (Vicia faba and Pisum arvense) have shown significant development at Community level and the forecasts are favourable. It is in the Community's interest to maintain and increase the production of legumes in view of the importance of these crops for the soil condition and the supply of protein.

The forecast for oil seeds for sowing is generally good with market supply and demand in balance.

5. In the light of the above analysis of the market and the fact that this present Commission proposal concerns two consecutive marketing years, the following adjustments of the Community aid are proposed:
 - i. for grasses - a certain stabilization for the group of Lolium species, with some adjustments to direct production **towards** higher quality
 - a more substantial aid up to 4.8 u.a./100 kg for the species which need an encouragement at Community level
 - ii. for the legumes a significant increase up to 4.9 u.a./100 kg for species which have decreased in production and which need encouragement at Community level
 - iii. for oil seeds a certain adjustment to secure the continued balance in this market.

B. Related measures

In concluding its report prepared at the request of the Council on 26 April 1977 on the causes of the fluctuations on the Community seed markets during the last three years, the Commission considered that certain measures should be adopted in order to improve the stability of the market.

This proposal concerns two of these measures and involves the amendment of Regulation (EEC) No 2358/71 on the common organization of the market in seeds with regard to the following points:

1. Production aid: it is proposed to replace the current method of fixing aid for each marketing year by a system of fixing aid for two consecutive marketing years.

By linking the fixing of aid to the pluri-annual nature of most seed production and by ensuring a certain stability of the aid this measure should enable production to be better planned.

2. Seed production under multiplication contracts in non-member countries. It is proposed that registration of these contracts be made compulsory in order to allow a better forecast of supply in the short term and therefore an improved knowledge of the prospects for the market.

W I N E

1. Article 2 (1) of Council Regulation (EEC) N° 816/70 of 28 April 1970 laying down additional provisions for the common organization of the market in wine requires a guide price to be fixed annually, before 1 August, for each type of table wine representative of Community production.

Article 2 (2) of the same Regulation requires the guide price to be fixed on the basis of average prices recorded for the type of wine in question during the two wine-growing years preceding the date of fixing and on the basis of price trends during the current wine-growing year.

Trend of wine prices in the EEC (as notified by Member States in accordance with Regulation (EEC) N° 816/70)

	R I u.a./°/hl	R II u.a./°/hl	R III u.a./hl	A I u.a./°/hl	A II u.a./hl	A III u.a./hl
Wine-growing year 1975/76	1,667	1,589	19,49	1,412	23,03	32,03
Wine-growing year 1976/77	1,903	1,970	31,96	1,579	37,71	48,33
Wine-growing ¹ year 1977/78	1,887	1,999	39,40	1,635	43,07	-

2. The prices recorded for all types of table wine during the 1976/77 wine-growing year were higher than those in 1975/76.

¹ from 6 September to 4 October 1977

This improvement has been achieved in spite of fairly high stocks at the beginning of the year and a production level slightly higher than normal requirements. It is particularly noticeable in the case of the northern table wine types (A II, A III and R III) and French and Italian red table wines (R I and R II). It has been possible to support the market for the latter merely by means of preventive distillation measures at low prices and by granting aid for long-term and, temporarily, short-term storage. The market for white A I table wines, however, is still in serious difficulty, the only significant improvement relating to Bordeaux where spring frosts caused prices to pick up from May 1977. All the usual intervention measures have been made available to these wines, including the grant of short-term storage aid without interruption since April 1974. If this situation were to persist during the 1977/78 wine-growing year, the Commission would have to propose to the Council, for a decision in November 1978, some limit on the level of the activating price for this type of wine.

Moreover, the Commission wishes to emphasize its constant market management policy of selectively excluding the lowest quality wines from the application of some intervention measures. This is why, during the recent revision of the conditions for granting private storage aid², it was decided to withhold such aid from wines of less than 10° (instead of 9.5° as previously). Further criteria can be fixed in the short-term by the Member States, and the Commission will examine the possibility of fixing more restrictive Community analysis criteria, in particular for long-term contracts.

On the basis of the rules laid down by Regulation (EEC) No 816/70 and in view of the agri-monetary measures, an increase of 2 % on the guide prices for table wines is proposed for the 1977/78 wine-growing year.

² Commission Regulation (EEC) No 2206/77 of 5 October 1977 amending Regulation (EEC) No 2015/77 on storage contracts for table wine, grape must and concentrated grape must (OJ No L 255, 6.10.1977, p. 13)

RAW TOBACCO

Article 2 of the basic Regulation on the common organization of the market in raw tobacco (Council Regulation (EEC) No 727/70 of 21 April 1970) provides that before 1 August of each year the intervention prices for leaf tobacco of each variety produced in the Community are to be fixed.

As in recent years, at the request of all the delegations of the Member States, the Commission is also forwarding to the Council the proposals fixing premiums and derived intervention prices for the 1978 harvest.

Taking into account also the agro-monetary measures, the Commission proposes an average increase of about 2 % in prices and an increase of 3 % in premiums for the 1978 harvest. This cautious policy on prices and premiums reflects the Commission's concern over the expansion of areas and production recorded for the 1975 and 1976 harvests, which was not in line with trends in demand, and over the consequent recurrence of marketing problems. However, by providing for different average rates of increase depending on the types and varieties of tobacco, in particular with regard to the premium, adequate support is given to those types of production which best correspond to the trends in world demand.

I. Situation on the world market

The trends in areas and production at world level following a period of shortage and high prices from 1972 to 1974 should, despite the subsequent increase in production in 1976, result in a reasonable balance between supply and demand. World tobacco consumption increased a further 3 % in 1976 as a result mainly of the larger increases recorded by developing countries. Consumption in the Community, on the other hand, is holding steady, with a downward trend in some Member States.

Reflecting demand, prices have followed opposing trends. In the case of flue-cured and light air-cured varieties they reached unprecedented levels, while the prices of other varieties (Oriental) dropped considerably. An analysis of supply and demand by large groups of varieties gives a clearer idea of the factors which influenced the marketing of Community tobacco

and thus makes it possible to define the production objectives to be pursued. The trend in world demand towards the American-blend type of cigarette has been responsible for a steady increase in the production of flue-cured tobacco (Virginia type), which in the period 1962-75 increased by a considerably higher percentage than overall tobacco production (+ 58 % against + 35 %). According to medium-term expert forecasts, in 1980/81 production of flue-cured tobacco will account for over 45 % of total world production and over 50 % of trade.

There is thus scope for expanding production of this type of tobacco. A comparable situation to that outlined above applies in the case of light air-cured tobacco (Burley), although on a much smaller scale because this type of tobacco represents only 10 % of total world production at present. With regard to changes in geographical location, even though considerable increases in production are recorded in some developing countries it must not be forgotten that over 50 % of world production comes from the United States and is of high quality.

In the case of oriental tobacco on the other hand, given the high production costs, which it is difficult to reduce because mechanization of the cultivation operations cannot be speeded up, and the sharp rise in export prices in recent years, a serious imbalance between supply and demand has existed on the world market for some time. The manufacturing industries have progressively moved towards the replacement of oriental tobaccos, - technically possible even in the case of large quantities - with other less costly types of tobacco. This has led the major producing and exporting countries to accumulate considerable stocks (equal to about 40 % of world consumption) and thus apply policies aimed at artificially reducing prices on the world market. Current production levels should be reduced in the medium term so as not to accentuate the existing sales difficulties.

Despite the progressive decline in the relative importance of the consumption of dark air-cured tobaccos (Paraguay, Philippine, Beneventano, etc.) in industrialized areas of the world - production fell from 25 to 20 % of total world production between 1962 and 1975 - no marketing difficulties are to be expected overall. This production, which is localized mainly in

developing countries with a high rate of increase in consumption, will be used mostly for internal consumption.

In view of the steady decline in the consumption of cigars, production of special wrapper tobacco for cigars is bound to continue downwards or at best remain unchanged.

Fire-cured tobaccos (Kentucky), which are in a situation comparable to that of dark air-cured tobaccos, present more possibilities for use and thus production could be increased without too much difficulty.

II. Situation on the Community market

Community production, which as a result of the application of the common market organization has become progressively integrated with the world market, has undoubtedly developed along lines similar to those described above with reference to the international situation. While the group of dark air-cured varieties has gradually dropped from 41 to 33 % of the total area and from 50 to 40 % of production, the group of light American tobaccos (flue-cured and light-cured) has increased from 24 to 30 % of the total area and from 33 to 37 % of production.

It should also be pointed out that in the case of tobaccos of the dark air-cured type some varieties are being replaced by others in response to trends in demand; the most significant aspects of this phenomenon are the continued expansion of the Paraguay variety and the sharp reduction in Beneventano (- 35 % of the area cultivated between 1975 and 1977), due mainly to the Community programme for changing to other varieties.

The provisional data for overall Community production in 1977 show a slight reduction in the areas under tobacco (- 3 %) and a greater drop in production (- 5 %). This can be attributed to the reduction already mentioned in the Beneventano variety but more especially to reductions in the oriental varieties, which show a decrease of 20 % in area. At marketing level the conditions of sale for recent harvests, 1976 in particular, have again given rise to difficulties for some varieties, which are due mainly to an unsatisfactory production policy. While it must be emphasized that there is

a basic imbalance between supply and demand for oriental tobaccos on the world market it is clear that the volume of production recorded for the 1975 and 1976 harvests far exceeded the real marketing possibilities for these tobaccos even if conditions on the world market had been favourable (compare the 1973 and 1974 harvests). If it is considered that the increase in production was achieved mainly by forcing unit yields to the detriment of the quality of the product it is not surprising that forecasts for the 1976 harvest indicate that 10 000 to 12 000 tonnes, i.e. about 30 % of production, will be delivered to the intervention agency. The Burley variety, which is produced in Italy, also seems to have exceeded slightly the real marketing possibilities on both the Community and world markets. Since the 1975 harvest, deliveries to intervention have amounted to between 2 000 and 3 000 tonnes, thus fluctuating between 5 and 7 % of the production volume. Lastly, there are still structural difficulties concerning the sale of some varieties (Beneventano, Badischer Geudertheimer and Badischer Burley); these difficulties should be eliminated in the medium term by means of the special measures adopted by the Council (Beneventano).

The prices received by growers for the 1976 harvest were satisfactory, and even higher than the Community norm price, for almost all varieties. In view of the market situation described above, however, large increases in producer prices were recorded for the Bright and Kentucky varieties in particular while the prices of oriental tobacco dropped by 20 to 25 %.

III. Prices and premiums per variety

With a view to ensuring an equitable income for growers on a long-term basis, the Community prices policy should contribute to the carrying out of production programmes consistent with the quantitative and qualitative trend of world demand. The Commission proposals for the 1978 harvest therefore aim at:

- orienting production towards bright tobaccos of the American type (flue-cured and light air-cured) while advocating great caution with regard to the Burley variety which, as indicated above, has already exceeded the normally marketable volume of production. The highest increases in prices are thus proposed for the Bright variety (+ 3 %) and the Maryland variety (+ 2 %), with a very limited increase for Burley tobaccos (+ 1 %);

- maintaining the overall volume of production of dark air-cured tobaccos, although reducing the varieties experiencing structural difficulties (Beneventano, Badischer). This reduction should be offset by the development of varieties with good prospects for use either in the manufacturing industry (Paraguay) or in the nicotine extraction industry (Brasile selvaggio). It is therefore proposed that the highest increase in prices (+ 3 %) be granted for the last-mentioned varieties, with a slight increase (+ 1 %) for the Badischer Geudertheimer and Nostrano varieties. Prices for the Beneventano variety will be frozen;
- reducing production of oriental tobaccos, especially of the qualities in least demand on the market (Erzegovina) by freezing prices and granting more favourable premiums for the Xanti and Perustitza varieties;
- maintaining or expanding production of those types of tobacco which, while they do not represent an important volume of Community production, either meet traditional internal demand (Virgin, Semois, Appelterre, for example) or have good marketing prospects at international level (Kentucky). It is proposed to increase prices for these varieties by 2 to 3 %;
- containing the volume of production of special wrapper tobacco within existing limits; accordingly no price increase is proposed.

With regard to premiums, the Commission proposals aim at applying a policy in line with the production trends indicated above. They take into account increases in processing costs and the other prices obtaining on the world and Community markets for tobaccos competing with home-grown tobaccos. An increase in processing costs, based on objective factors emerging from the Community study requested by the Council, is conceded only for the following varieties: Virgin and Paraguay (+ 10%), Nijkerk, Misionero, Semois and Bright (+ 5 %). It is not proposed to concede any increase for varieties which are difficult to market, as the increased processing costs are reflected entirely in the level of the intervention prices for baled tobacco.

The Commission proposes to fix the premiums for the 1978 harvest as follows:

- status quo for the Beneventano and Erzegovina varieties;
- an increase of 0.020 u.a./kg for the Burley (Burley Bel), Xanti and Perustitza varieties;
- an increase of 0.030 u.a./kg for the Badischer Geudertheimer, Badischer Burley, Burley I and Nostrano varieties;
- increases of between 0.040 and 0.050 u.a./kg for all other varieties, with the exception of the Brasile selvaggio variety (+ 0.080) in view of the extremely low level of the premium at present and the Round Tip variety (+ 0.100) on account of the considerable reduction in the offer prices of competing tobaccos on the Community market.

FRESH FRUIT AND VEGETABLES

A. PRICES AND MARKETING PREMIUM

1. Basic prices and buying-in prices

Under Article 16 of Council Regulation (EEC) No 1035/72, the Commission is required to propose a basic price and a buying-in price for the products listed in Annex II to that Regulation.

For the 1977/78 marketing year, the basic and buying-in prices were fixed in such a way that the prices paid to producers in cases of withdrawal from the market show, by comparison with the 1976/77 marketing year, an increase of :

- 2.5 % for table grapes
- 3.5 % for apples, pears, mandarins and oranges
- 4.5 % for cauliflowers, tomatoes, peaches and lemons.

Since an increase in the general level of common agricultural prices is desired, an increase of 2 % in the price actually paid to producers in the event of market intervention is proposed for the 1978/79 marketing year .

This increase in the intervention prices has been arrived at by applying to the basic prices a percentage increase which is identical with that applied to the buying-in prices.

In consequence, the buying-in prices for all products are within the brackets provided for in Article 16(3) of Regulation (EEC) No 1035/72. Such a position, whilst avoiding for producers too great a fall in income during a period of market instability, is not likely to result in structural surpluses in the Community, since the intervention prices are at a much lower level than the normal market prices, between 40 and 70 % depending on product.

2. Marketing premium for oranges, mandarins clementines and lemons

Article 7 of Council Regulation (EEC) No 2511/69 of 9 December 69, laying down special measures for improving the production and marketing of Community citrus fruit, as last amended by Regulation (EEC) No 1034/77, provides that, beginning with the 1976/77 marketing year, the amount of the marketing premium for community oranges, mandarins and clementines, as well as - up to the end of the 1977/78 marketing year - for lemons, is to be fixed taking into account both the previous levels of this amount, and the trend of the basic and buying-in prices of the products concerned.

For the 1978/79 marketing year it is proposed, by comparison with the preceding marketing year :

- to increase the amount of the marketing premium by 2 % for oranges, mandarins and clementines
- to retain the marketing premium for lemons, whilst providing for it to be run down, over two marketing years (see related measures which follow).

B. RELATED MEASURE

Retention, over two marketing years, of a decreasing marketing premium for lemons

To avoid that an abrupt termination of the financial compensation applicable to lemons should affect the favourable development which has been noted in their marketing, it is proposed to retain this compensation, whilst limiting it to

50 % in 1978/79 and

25 % in 1979/80

of the amount applicable during the 1977/78 marketing year.

It will be necessary therefore to derogate from the criteria laid down in Article 23 of Regulation (EEC) No 1035/72 in fixing the reference price for lemons, by applying to its calculation the criteria set out in Article 23(2) for products other than those benefitting from the system of financial compensation, but limiting the amount included on account of transport costs to the difference between the financial compensation applicable during the 1978/79 and 1979/80 marketing years and that applicable during the 1977/78 marketing year.

MILK

A. Market situation and outlook

1. Community milk production will rise by 2 per cent in 1977. Deliveries of milk to dairies will be 2,4 to 2,7 per cent higher than in 1976. In spite of these increases, however, butter and skimmed milk powder production will be 20,000 and 40,000 tons respectively lower than in 1976, owing to the greater use of milk in the manufacture of other milk products. Production of cheese will be 4 per cent higher than in 1976 and that of whole milk and semi-skimmed powder 14 1/2 per cent higher.
2. Total consumption of liquid milk is static or slightly falling in line with the trend of recent years. Consumption of butter at normal market prices is expected to fall in 1977 by 2 to 3 per cent to just under 1,6 million tons, compared with butter production at 1,8 million tons (and imports from New Zealand of 138,000 tons). Consumption of skimmed milk powder at full market prices for human consumption will probably account for only 13 per cent of total Community consumption of over 1,8 million tons in 1977. Consumption of cheese has continued to increase - approximately 2 per cent - but stocks remain at high levels.
3. The prospect for 1978 is for continued surplus with increases in milk production and milk deliveries owing to higher milk yields. Dairy cow numbers will probably be static or increase only slightly reflecting some effect from the non-delivery and conversion schemes introduced in 1977. Nevertheless, the underlying cyclical tendency for cow numbers to increase will probably remain and higher levels of production of butter and skimmed milk powder are likely.
4. Despite recent price increases in the international market, prices of butter and skimmed milk powder are still very low compared with domestic prices in important producing countries in Europe and North America. This discrepancy is likely to persist. Although the forecasts for world milk production in 1977 and 1978 do not foresee higher rates of increase than in 1976, demand prospects, with the exception of cheese, are generally unfavourable in the developed countries. Thus, surpluses are increasing rapidly in the USA. Further, as the current production recovery in U.S.S.R. and other Eastern European countries is likely to continue, import demand

of these countries will probably decrease. Therefore, the world market is likely to remain under pressure, particularly for bulk products. However, imports into oil-exporting countries should continue to rise.

5. The enlargement of the range of disposal measures within the Action Programme seems, although very costly, to be generally successful.

For skimmed milk the first results of the recently introduced scheme for feeding liquid skim to pigs, in particular, especially after the adoption of more simplified procedures, indicate the possibility of increasing the offtake in this sector. The new subsidy scheme for fresh, skimmed milk powder for pig and poultry feed has also had a good response.

For butter, 70,000 tons of butter from intervention and private aided stocks for the special "Christmas sale" have been placed on the market throughout the Community (except the United Kingdom which has the fully FEOGA-financed subsidy) ; this butter will be available at about 30 % below the normal retail price. Four Member States now apply a continuing consumer subsidy - the United Kingdom, Ireland, Luxembourg and Denmark - with an estimated impact on consumption of 27,000 tons in 1977. Measures for the sale of butter out of intervention to social institutions, the armed forces, the baking industry and as butter concentrate are likely to amount to 100,000 tons in 1977. In early November 1977 sales at lower prices of butterfat for ice cream manufacture have recommenced ; in a full year this may increase total consumption by about 30,000 tons.

6. The recovery in trade starting in 1976 has firmed in 1977 and, as a consequence, EEC exports of most dairy products in 1977 will reach significantly higher levels than during the three preceding years. This is notably the case for skimmed milk powder, due to increased food aid and exports of powder for animal feed, butter and butteroil and for whole milk powder.
7. There is a clear structural surplus in the milk sector, with production increasing more than offtake. Nonetheless, as a result of the new measures, particularly with the aids to consumption within the Community, and the improved balance between internal and external market operations including the participation in export market opportunities, the Community is expected to begin 1978 with a stock of butter in public intervention of about 120,000 tons, which is below the level on 1 January 1977

(176,000 tons), and intervention stocks of skimmed milk powder of one million tons (1,14 million tons last year).

Intervention stocks of butter, however, may again start to increase rapidly in 1978, especially if sales from pipeline stocks move slowly in response to the price adaptation as from January 1978. More than 40 % of the Community's production of butter is now sold with varying levels of aid. For skimmed milk powder, only 240,000 tons are sold annually without a high level of subsidization. The gap between production and consumption continues to widen.

B. Proposals

1. In the context of the common organization of the market in milk and milk products, the Council has to fix annually for the following marketing year :
 - the target price for milk ;
 - the intervention price for butter, skimmed milk powder and certain cheeses (Grana Padano and Parmigiano Reggiano) ;
 - threshold prices ;
 - the free-at-frontier price of certain cheeses bound under GATT.
2. In the 1977/78 milk year, the Council increased the target price for milk by 3,5 % from 1 May 1977, raising the price from 16,76 to 17,35 ua/100 kg.

Taking into account the continuing structural imbalance in this sector and the general proposal on monetary compensatory amounts, the Commission proposes that the target price for milk should be increased by 2,0 % from 1 April 1978, raising the price from 17,35 to 17,70 ua/100 kg.

3. The intervention prices for butter, skimmed milk powder and certain Italian cheeses should be increased by the impact of the changed target price, with no changes in the ratio between milk fat and skimmed milk or in the margins.
4. The Commission proposes that the Council adjust the threshold prices by reference to the increase in the target price.

5. Annex II of Regulation (EEC) No 823/68 provides that a number of conditions will apply to imports into the Community of Emmental, Gruyère, Sbrinz, Berghäse and Appenzell cheeses falling within Common Customs Tariff heading No 04.04 A 1. Among these conditions it is specifically stipulated that the Community free-at-frontier prices should be respected. Following the increase in the target price for milk, the free-at-frontier price will have to be revised. In addition, the Commission is proposing to take into account recent developments in the packaging of condensed milk products in the Customs Tariff.
6. In view of the continuing decline of butter consumption and the impact of the monetary measures in the agricultural sector, the Commission proposes to maintain the consumer subsidy for butter provided for under Regulation (EEC) No 880/77. The financial participation of the Community for the United Kingdom, between 1.4.1978 and 31.12.1978, will amount to :
- from 1.4.1978 to 30.6.1978 :
in respect of that portion of the subsidy not exceeding 28 ua/100 kg :
100 %
 - from 1.7.1978 to 30.9.1978 :
in respect of that portion of the subsidy not exceeding 23 ua/100 kg :
100 %
 - from 1.10.1978 to 31.12.1978 :
in respect of that portion of the subsidy not exceeding 18 ua/100 kg :
100 %
 - in respect of that portion of the subsidy in excess of the aforementioned levels : 25 %.
7. In the decisions in the fixing of prices for 1977/78, the Council made available extra funds for increasing butter consumption within the Community in the light of its decision not to go forward with a tax on vegetable oils and fats. The Commission will assess the results of the sale of Christmas butter at reduced prices and, on the basis of this assessment, will decide whether a proposal for additional funds for action with a similar objective should be made for 1978/79.

8. For the period from 16 September 1977 to the end of 1977/78 milk year, the co-responsibility levy is fixed at 1,5 % of the target price for milk. The Commission proposes that this level of levy be maintained for the duration of the 1978/1979 marketing year.
9. In the light of the discussion in the co-responsibility group and the advisory committee and of the communication already presented to the Council on the use of levy funds (R/2648/77), the Commission proposes that the aid for school milk be fixed at 13,00 ua/100 kg of whole milk and that this aid be financed only partially by levy funds.
10. Following the decisions in the Council on the milk action programme, the Commission has implemented the aids for fresh skimmed milk powder and the higher aid for liquid skim, incorporated in rations for animals other than young calves. The Commission has also recently adopted more simplified procedures for the aid for liquid skimmed milk. While these schemes have been in operation for a relatively short period, it is clear that they provide reasonable outlets for skimmed milk without it first being offered to intervention. The Commission considers that these measures supplemented where necessary, can play an effective role in supporting producers' incomes while reducing reliance on intervention and the volume of intervention purchases of skimmed milk powder. They intend therefore, to actively pursue this policy.
11. The Commission notes that according to Regulation 1078/77 introducing a system of premiums for non-marketing of milk and milk products and for the conversion of dairy herds, it shall report to the Council and the European Parliament, on the basis of the information supplied by the Member States, on the operation of the premium system before 1 February 1978. When presenting this report the Commission will draw conclusions on the effectiveness of this scheme and, if it deems it appropriate, will propose any necessary modifications to the Council, including duration of application.

12. Whereas the milk market is characterised by a serious imbalance due to production in excess of needs, the Community agricultural structural policy should take into account efforts to re-establish a balance on the milk market.

Because of this situation on the milk market and to face up to a great intensification of production, it is necessary to limit the incentives to investments in the milk production sector, if the farm in question does not produce the greater part of the feed necessary for the cow herd.

However, such a limitation to investment incentives in this sector does not seem to be necessary in certain less-favoured areas which are characterised by a very low density of dairy cows per hectare of utilisable agricultural area and also by deliveries to dairies which do not meet the demand for liquid milk.

BEEF AND VEAL

A. Prices

1. Under Council Regulation (EEC) No 805/68⁽¹⁾, the Commission must propose a guide price for adult bovine animals for the 1978/79 marketing year.
2. The current guide price for adult bovine animals is 122.90 UA/100 kg live weight, this being the result of successive increases of 8.5 % in 1975/76, 8 % in 1976/77 and 3.5 % in 1977/78.

Taking account of the market situation and the proposed agri-monetary measures, the Commission proposes that the guide price for adult bovine animals for the 1978/79 marketing year should be 124,44 u.a./100 kg live weight, i.e. an increase of 1,25%.

3. On 5 October 1977, the Commission presented a report to the Council on the respective merits of the system of premiums and the intervention measures in respect of beef and veal (doc. R/2291/77 - AGRI 632 - FIN 584) and a memorandum concerning improvements to the common organization of the market in beef and veal (doc. R/2292/77 - AGRI 633 - FIN 585).

A full examination of both these documents is already in progress. The Commission considers that it would be premature to make specific and detailed proposals on the improvements contemplated in the abovementioned memorandum.

(1) Council Regulation (EEC) No 805/68 of 27 June 1968 on the common organization of the market in beef and veal (OJ No L 148, 28.6.1968), as last amended by Regulation (EEC) No 425/77 (OJ No L 61, 5.3.1977, p. 1).

4. In view of the economic situation currently characterising the beef market, it is proposed to continue, as in the marketing years 1976/1977 and 1977/1978, fixing the intervention price at 90 % of the new guide price, i.e. at 112,00 UA/100 kg live weight and to retain in force during the 1978/79 marketing year the possibility which existed in the 1976/77 and 1977/78 marketing years of suspending intervention buying when the market price in a Member State reaches or exceeds 95 % of the guide price⁽²⁾.

B. Related measures

Since the conditions which justified the granting of a premium for the birth of calves for which provision is made in Council Regulation (EEC) No 871/77⁽³⁾, continue to apply to a considerable degree, it is proposed to prolong the premium for a further twelve months for the 1978/1979 marketing year.

(2) Council Regulation (EEC) No 869/77 of 26 April 1977.
(OJ No L 106, 26.4.1977, p. 12).

(3) Council Regulation (EEC) No 871/77 of 26 April 1977.
(OJ No L 106, 29.4.1977, p. 16).

PIGMEAT

1. Under Council Regulation (EEC) No 2759/75⁽¹⁾, the Commission is required to propose a basic price for pig carcasses. The basic price is fixed taking into account the sluicagate price and the levy applicable from 1 August each year.

For the 1977/78 marketing year the basic price was fixed at 120.20 UA/100 kg.

2. It is necessary to fix the basic price at a level at which it will help to stabilize market prices and at the same time avoid causing structural surpluses in the Community.

The overall trend of the various cost factors entering into the production of pig carcasses calls for an adjustment of the basic price for this product by 3 % for the forthcoming marketing year.

3. Consequently, to enable the price system to contribute to a stable pigmeat market by mitigating the cyclical fluctuations in production

and prices and, in view also of the proposed agri-monetary measures, it is proposed that the basic price be fixed at 123.81 UA/100 kg for the 1978/79 marketing year. This price will enter into force on 1 November 1978.

⁽¹⁾ Council Regulation (EEC) No 2759/75 of 29 October 1975 on the common organization of the market in pigmeat (OJ No L 282 of 1 November 1975).

SILKWORMS

1. Article 2 of Regulation (EEC) No 845/72⁽¹⁾ provides that each year the Council is to fix aid per box of silk seed used. This aid was fixed at 40.20 u.a. for the 1977/1978 rearing year. It is proposed to increase this amount to 50 u.a. for the 1978/1979 rearing year but to cease granting the additional aid of 14.07 u.a./100 kg granted for the 1977/1978 rearing year to rearers who are members of a producer group.

2. The additional aid was introduced in 1976/1977 and continued in 1977/1978 in order to enable silkworm rearers to withstand the sharp drop in the prices of raw silk on the world market. Since these prices have recovered it is no longer necessary to continue the additional aid. In view of the existing level of silk prices and their foreseeable trend, however, the abolition of the additional aid should be partially offset by a considerable increase in the normal aid so as to enable rearers to receive the necessary increase in their income comparable to that obtained for other products.

(1) OJ No L 100, 27.4.1972, p. 1

PEAS AND FIELD BEANS

1. The Commission has proposed to the Council to set up special measures for peas and field beans which are used in animal feed-stuffs. The measures proposed include the fixing of an activating price for the aid for peas and field beans, calculated for soya meal - the major competing product - and a minimum price for peas and field beans. Should the Council accept the draft proposal, the Commission proposes to fix the activating price for the aid at 23 units of account per 100 kg, and the minimum price for peas and field beans at 15 units of account per 100 kg.

2. The activating price for the aid for peas and field beans is to be fixed for soya meal at a level which permits peas and field beans to compete with this product, while ensuring a fair return to the producer of peas and field beans. It appears that when the price of soya meal is 23 UA/100 kg, the market can pay a price for peas and field beans which represents a fair return to the producer : at that price, therefore, no aid is necessary.

The activating price should refer to a standard quality which is representative of the soya meal sold in the Community.

3. The minimum price for peas and field beans should be fixed at a level which ensures that the compound feed manufacturers pay a price which represents a fair return to the producers, after deduction of a certain amount which takes into account normal market fluctuations and transport costs from producer to processing zones.

SHEEPMEAT, POTATOES AND ALCOHOL

1. The Commission reiterates the importance which is attached to the removal of barriers to intra-Community trade in sheepmeat, potatoes and alcohol and to the early establishment of common organizations of the market for these products.
2. In January 1976 the Commission proposed (R/238/76) a common organization of the market for potatoes. This proposal has been extensively examined and the Commission has indicated in recent discussions in the Special Committee on Agriculture those changes which it is prepared to make with a view to an early agreement in the Council. Since national import restrictions continue to exist in intra-Community trade and can no longer be applied after 1 January 1978, the Commission considers it equitable that a common market organization should be in place as soon as possible and in any event before the beginning of the next potato marketing year (1 August 1978).
3. In March 1972 the Commission tabled a proposal for a common organization of the market in alcohol. After full discussion the Commission put forward a completely revised proposal (R/2959/76) in December 1976. The market in alcohol is extremely complex but the establishment of the common organization of this market is in the Commission's view essential if difficulties both in this sector and possibly in the operation of the support arrangements for wine are to be avoided. The Commission therefore seeks agreement with a view to operation of the common regime from 1 October 1978.
4. In October 1975 the Commission tabled a proposed interim arrangement for the sheepmeat market. The Council was unable to reach agreement on that text. The Commission now intends to table proposals for the common organization of the sheepmeat market which will take account of the views expressed in the earlier discussion. Prices and marketing systems for sheepmeat differ greatly within the Community. For this reason and since national import restrictions continue to exist in intra-Community trade but can no longer be applied after 1 January 1978, the Commission considers that particular attention must now be given to the market returns and revenues of sheep producers and to avoiding sharp rises in consumer prices, while assisting the development of intra-Community trade. Certain national support measures in France and the United Kingdom have been established for the marketing year. In the Commission's view it is realistic to aim for the establishment of the common market organization for sheepmeat from the beginning of the next marketing year (3 April 1978).

