

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



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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:

- a) Important proposals for further action to bring about a balance between supply and demand in the dairy sector (see Com(78) 430 final of September 27 1978). As part of these proposals the Commission has made a political choice in favour of a new type of co-responsibility levy.
- b) A new approach to structural policy in agriculture which will be flexible so as to allow adaptation to changing economic circumstances and different needs. This new approach will also permit priority treatment in weaker regions.
- c) Its proposals for agri-monetary measures in the context of the new European Monetary System (EMS).

The attached proposals have been formulated in the light of the information contained in the 1978 Report on the Agricultural Situation in the Community (report to be published in January 1979 in conjunction with the Twelfth General Report on the activities of the European Communities) and in the 1978 Report on the Situation of Agricultural Markets (COM(78) 500 final).

The financial consequences of the attached proposals are laid down in Volume II of document (COM(79) 10 final).

The legal acts relating to the price determinations for the 1979/80 marketing year and those concerned with related measures are included in Volume III of document (COM(79) 10 final).

The Commission has proposed the introduction of the ECU into the common agricultural policy.

For the moment the conversion coefficient between the ECU and the unit of account does not exist; it will not be possible to establish it until the day on which the E.M.S. comes into force.

It is for this reason that the explanatory memorandum and the proposals annexed, including those relating to the representative rates, are based on the unit of account. As soon as the E.M.S. comes into force, the figures contained in these proposals must be considered as converted into ECU's with the aid of the conversion coefficient which will be decided on.

SUMMARY

The Commission's price proposals for the 1979/80 marketing year are made against the following background :

1. The general economic environment remains that of slow growth, serious but declining inflation and high unemployment.
2. The imbalance between supply and demand on several major agricultural markets (in particular, milk and sugar) is still serious. The Community has made major efforts to increase internal and external sales, nevertheless stocks of many products remain high.
3. The major feature of Community agriculture in 1978 is a record harvest of 116 million tons of cereals.
4. Imports of competing animal feedstuffs continue to grow, since import prices continue to fall as a result of the falling value of the dollar and oversupply on the world market.
5. The rate of increase in input prices has slowed down for the third year in succession from 10 % in 1977 to 4 % in 1978.
6. The gap between Community and world market prices is widening for most products.
7. The realignment in October of the snake currencies has widened the gap between positive and negative MCA's.

Under present general economic and agricultural market circumstances, the Commission proposes :

- a) a standstill of common agricultural prices for the 1979/80 marketing year;
- b) a set of measures to restore the market equilibrium in the milk sector;
- c) improvements of the structural policy, in order to achieve better coherence with the marketing policy and to take more account of specific regional needs;
- d) agri-monetary measures.

A. Prices

a) The General Economic Background

1. The background to the 1979/80 price proposals is one of continued gradual recovery from the recession of 1977. The growth rate of real domestic product was between 2 1/2 and 3 per cent in 1978.

Unemployment stabilised in the course of the year; but there are more than six million people (5.8 per cent of the available labour force) without jobs. Inflation is still serious, and the rate of increase of consumer prices remained in the range of 7 to 8 per cent in 1978.

2. There are still important differences between Member States for each of these economic indicators.

These differences are reflected in the evolution of exchange rates between currencies. Tensions within the snake led to a realignment of central rates in October. In the 12 months to December 1978 the Italian Lira and the pound sterling depreciated respectively 7.1 per cent and 3.9 per cent against the European Unit of Account, the French Franc remained approximately stable (although there were speculative movements in the course of the year) while the snake currencies appreciated by amounts ranging from 1.7 to 2.7 per cent.

3. Budgetary and monetary policy, while remaining cautious, moved into a somewhat more expansionary posture in the course of 1978, notably in the framework of the 'concerted action' programme decided in July 1978.

4. As a result some further improvement in growth can be expected in 1979, with GDP now expected to rise about 3 1/2 per cent. Unemployment, however, will only fall slightly, and inflation will remain a serious problem.

The present efforts of the Community to move towards a European Monetary System (EMS) should reduce monetary divergence.

b) The Situation on Agricultural Markets

1. Several agricultural markets are still characterized by supply-demand imbalance. Structural surpluses exist in the milk and sugar sectors and the milk imbalance worsened in 1978. There are potential or actual difficulties for wine, olive oil and some tobacco varieties. Despite a comparatively low degree of self-supply in the beef market (93 - 95 %), intervention stocks are still high. The market balance for cereals is affected by a record Community harvest as well as by rapidly growing imports of competing animal feedstuffs.

The following paragraphs give a more detailed survey of the situation on several markets (milk, sugar, cereals, meat, wine, olive oil, tobacco).

Milk

2. Since 1960, milk production has risen by 1.7 % a year as a result of steadily increasing yields (COM(78) 430 final of 25 September 1978). The growth of human consumption of milk and dairy products, but notably that of milk fat, stopped in the late 1960's and it is now prevented from falling further by a series of special measures. A significant development has been the increasing use of skimmed milk powder in animal feed in place of liquid skimmed milk.

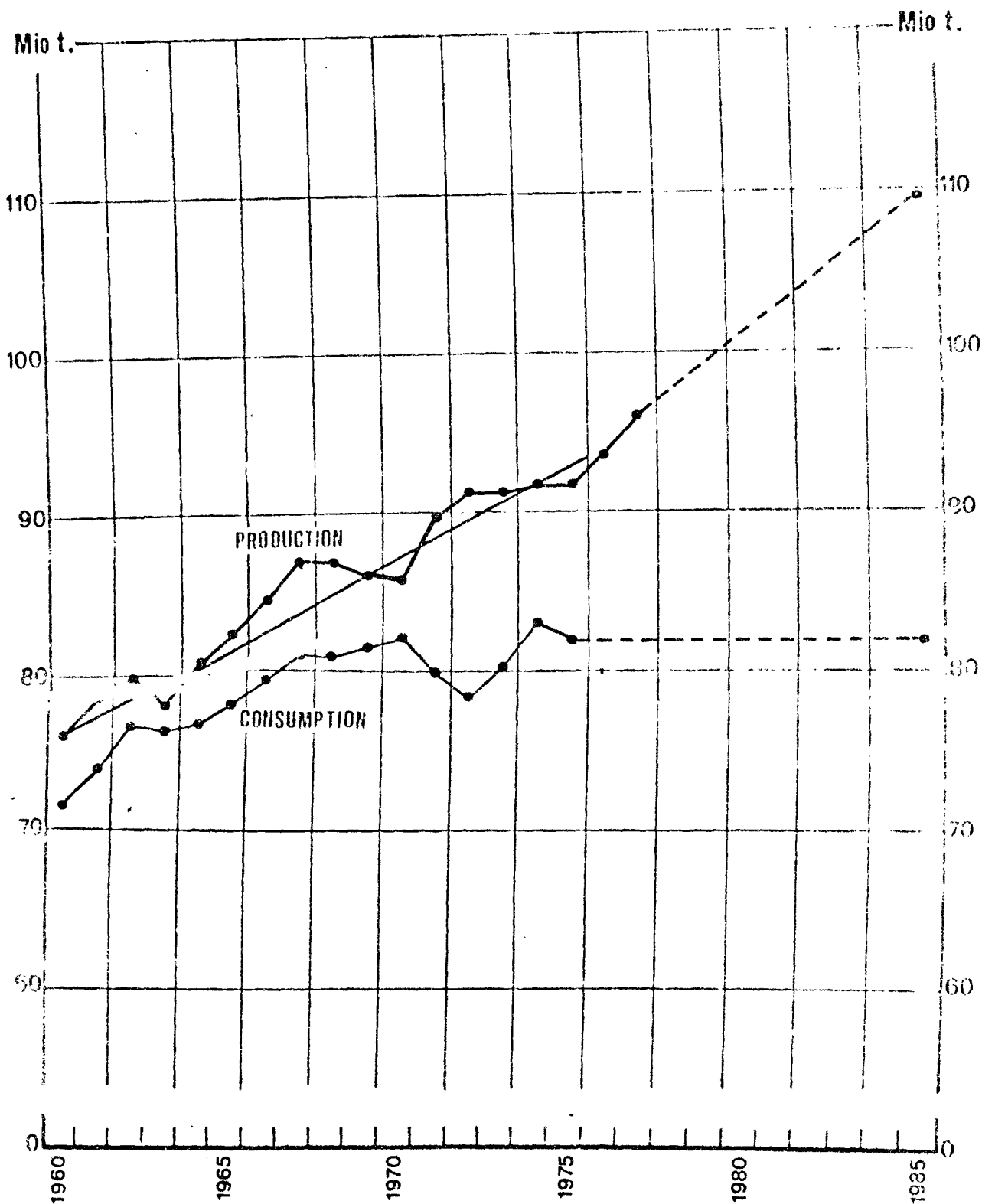
3. The imbalance in the milk market has deteriorated further in 1978. Milk deliveries to dairies are expected to increase by 4.3 %, twice the normal annual growth. Consumption of milk and fresh milk products has been relatively stable and much of the increased production has been made into intervention products. Butter production is expected to increase by 7 % and skimmed milk powder production by 8.5 %.

Stocks of butter are some 140.000 tons higher at the end of 1978 than in 1977. Skimmed milk powder stocks have fallen back to about 700.000 tons due to an increased budgetary effort but are still too high.

EAGGF expenditure for the milk sector has doubled between 1973 and 1977. It is estimated at 3.4 milliard EUA (European units of account) for 1978 (20 % of the value of the product).

4. Forecasts up to 1985 reveal a worsening of the market situation, as a result of increasing production and stagnating consumption. World markets will remain saturated and will not provide additional reasonably-priced outlets. The Community's obligation to import butter from New Zealand (120,000 tons in 1979 and 115,000 tons in 1980) extends until 1980.

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



* Whole milk equivalent (based on fat content)

Sugar

5. Sugar production has grown by about 2.5 % a year since the beginning of the 1960's, with considerable variation between harvests. Consumption reached a peak in 1973/74 - just before the sharp price rise caused by world shortage and is still well below its high point. Domestic production has exceeded human consumption each year since 1975/76. In addition the Community has had since 1974 an obligation to import 1.3 million tons (white value) of preferential sugar a year from ACP countries, the OCT (Overseas Countries and Territories) and from India.

6. In 1977/78, 10.7 million tons of domestic production was available to the internal market. When imports were taken into account, the Community was left with an exportable surplus of 2.6 million tons.

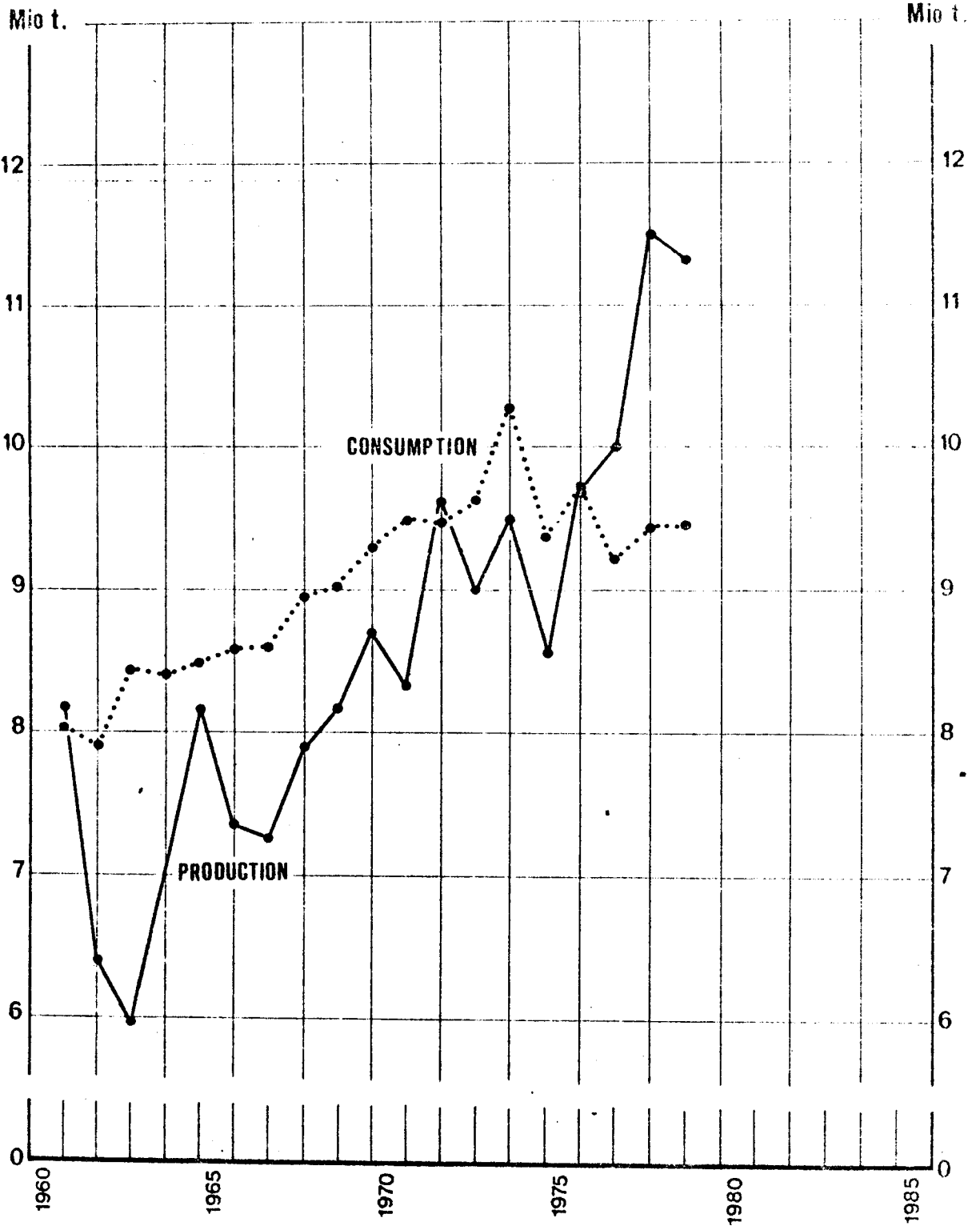
During the 1977/78 campaign, world market prices fell to about 30 % of Community sugar prices.

The 1978/79 harvest is expected to yield 10.9 million tons for the internal market. The Community's exportable surplus will again be more than 2.6 million tons, of which 1.2 million tons correspond to imports of A.C.P. sugar.

EAGGF expenditure on the sugar sector more than trebled between 1973 and 1977. In 1978 it rose to 909 million EUA, a further increase of 50 %. EAGGF income from the production levy and storage levy for sugar reached 482 million EUA in 1978.

7. The present quota system for sugar expires on June 30, 1980. However, the Community's obligation to import 1.3 million tons of preferential sugar is of an indefinite duration. Forecasts up to 1985 show that Community consumption is not likely to increase significantly, while sugar production, apart from fluctuations due to climatic conditions, will be affected by the new production policy to be adopted by the Council in 1979.

PRODUCTION AND CONSUMPTION OF SUGAR*
EUR "9"



* White value

Cereals

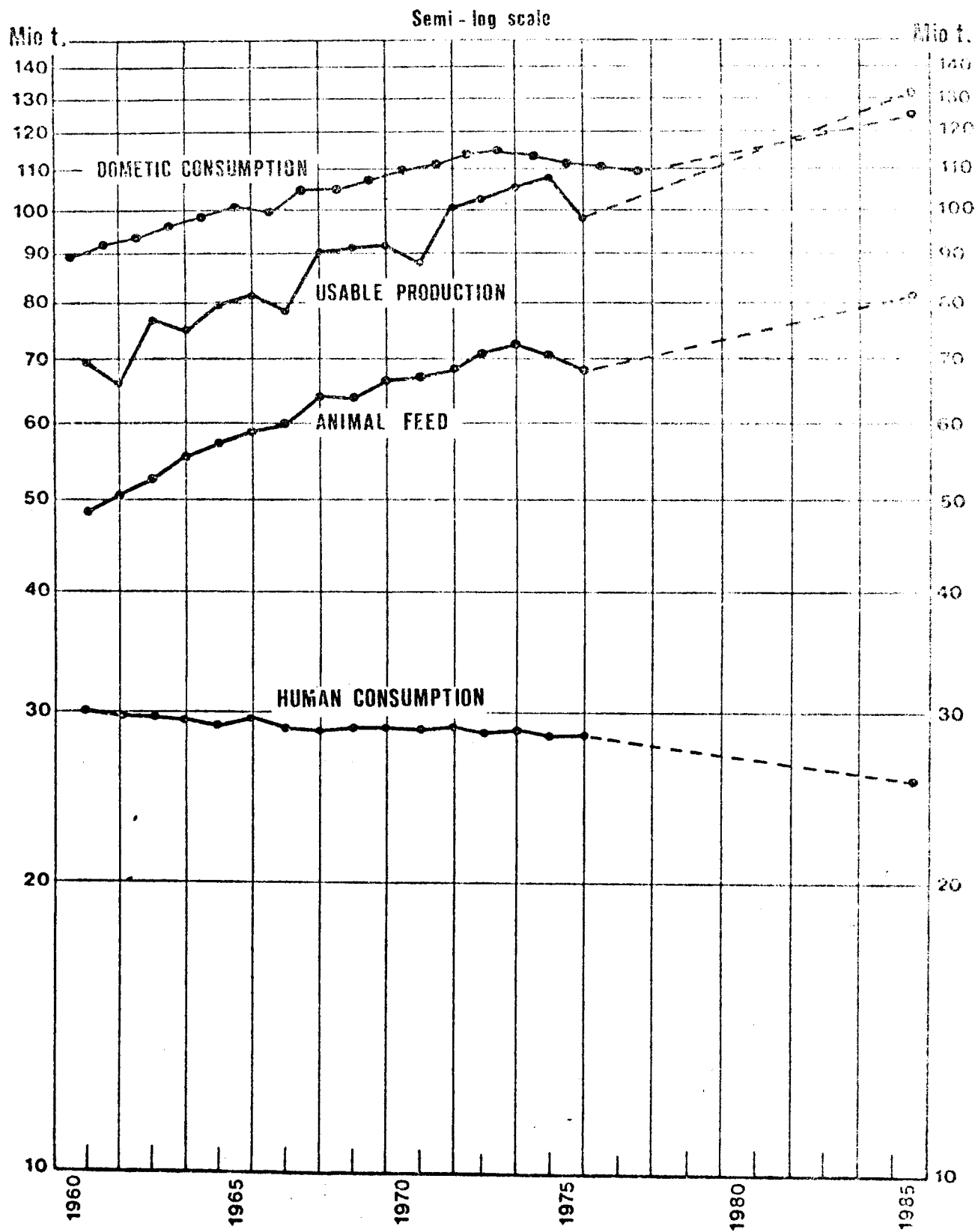
8. Community cereals production has grown at 0.7 % a year since 1968. Maize (+ 4.6 % a year) and durum wheat (+ 2.4 %) have shown the fastest growth rates, though from low levels. Common wheat and barley, which together account for 70 % of cereals production, grew at 0.6 % and 1.3 % respectively. Each of these increases is partly due to higher yields, though for maize, barley and durum wheat increased acreage has played an important part. Human consumption remains more or less stable. The fall in the use for animal feeds in the last few years has been due to rapidly increasing use of cheap cereal substitutes (of tapioca, almost 6 million tons in 1978).

9. The 1978 harvest is expected to reach 116 million tons, a rise of 11 % on 1977. Within this figure, common wheat has increased by 21 % and barley by 6 %. For the first year in its history, the Community has a level of self-supply greater than 100 %. Community cereal prices are currently more-than-double world market prices for wheat, barley and maize. This situation may worsen as a result of increased supplies on world markets.

EAGGF expenditure in the cereals sector varies according to the level of the Community harvest. It rose to 1 580 million EUA in 1978 -- two-and-a-half times as high as in 1977.

10. Forecasts up to 1985 indicate a move towards greater difficulties of disposal for an increasing Community cereal crop. This demands moderation in pricing and strict attention to the most efficient operation of the revised support system (the "silo").

TOTAL PRODUCTION AND USE OF CEREALS EUR "9"



Meat

11. Beef production since 1963 has been increasing by 2% a year. Consumption has increased more slowly (1.7% a year) largely due to competition from pigmeat and poultry (annual growth rates of 3.0% and 5.5% respectively). The structure of beef production is changing rapidly : the number of beef production units is decreasing and average herd size is increasing. More than 80% of beef produced has its origin in the dairy and dual purpose herd and the number of cows of beef breeds has fallen each year since 1975.

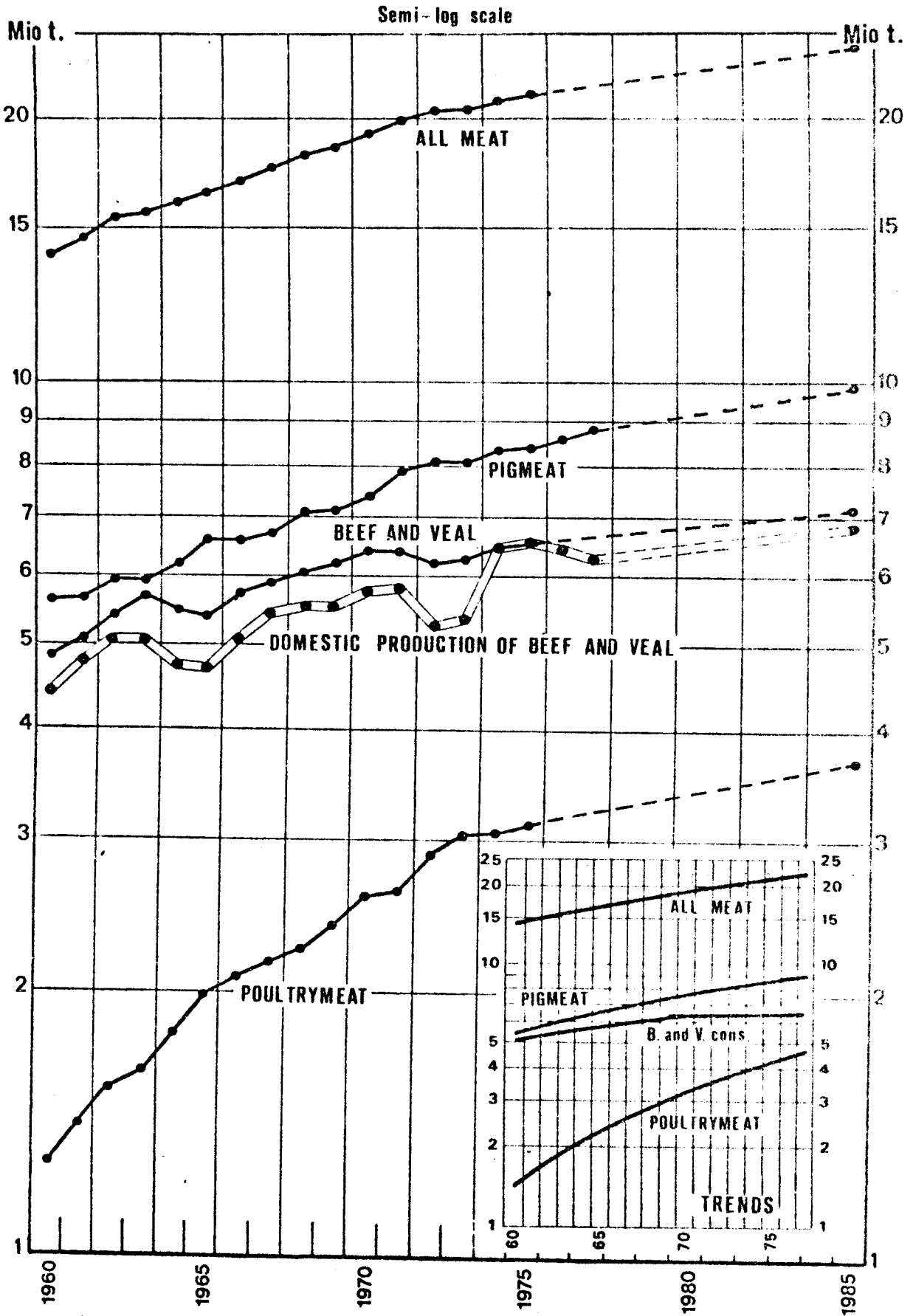
12. Beef production in 1978 is estimated at 6.3 million tons, about the same level as 1977, following a cyclical fall that started in 1975. Consumption is estimated at 6.7 million tons. Imports have stabilised at around 385.000 tons with exports at around 195.000. The market deficit in 1978 was made up by a reduction in intervention stocks.

EAGGF expenditure for the beef sector in 1978 is estimated at 502 million EUA, half of the peak attained in 1975.

Production within the Community is expected to grow slowly over the next few years (about 1% a year). World market prices have recently improved and supplies on world beef markets are expected to decrease in 1979, indicating that prices will probably be at least sustained. Forecasts up to 1985 indicate a narrow gap between demand and supply on the Community beef market.

13. Producer prices for pigmeat, eggs and poultry have been under serious pressure. This reflects the continuing strong increases in production, particularly of pigmeat in certain Member States, which must be seen in association with the level of animal feed costs.

MEAT CONSUMPTION EUR "9"



Wine

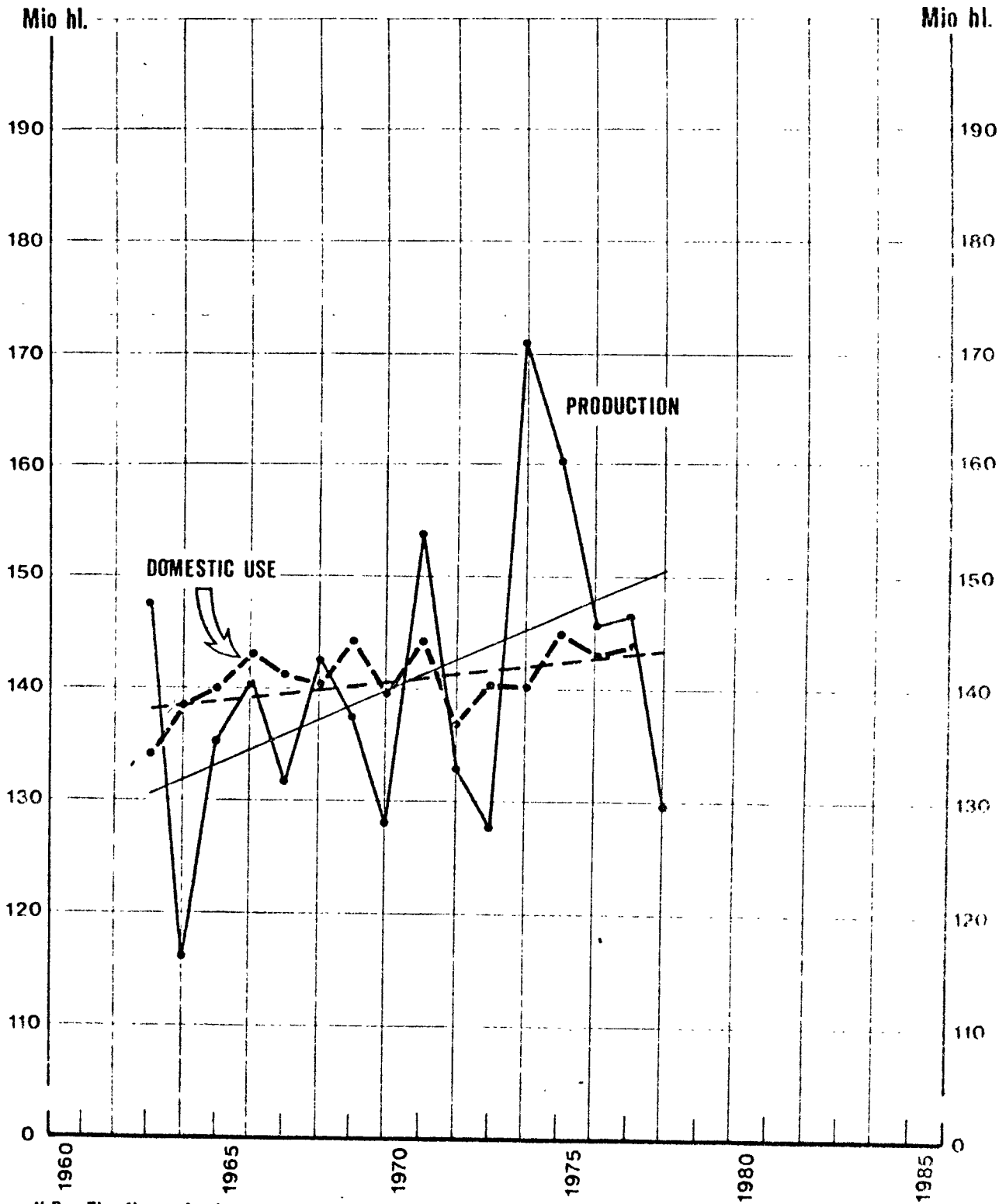
14. Wine production in the Community is growing at a long-term rate of 1 % a year (1960 - 1977) due to increasing yields and a slightly increasing area. Year-to-year harvest variations are sometimes as great as 40 %. Consumption has been more or less stable over the last 15 years. Per capita consumption varies widely between Member States - being high in the main producing countries (France, 103 litres per head) and abnormally low in Ireland (2 litres) and the United Kingdom (6 litres). This difference is due to different consumption habits and fiscal policies. The stability of consumption and the long-term trend of increased production mean that above-average harvests will lead to increasing surpluses.

15. Wine production in 1978/79 is estimated at 130 million hectolitres and, being below average, will not cause any market difficulties.

EAGGF expenditure in the wine sector varies with the harvest. The expenditure of 231 million EUA for 1978 reflects problems of previous years, and will be substantially underspent.

16. The Commission's programme (COM(78) 260 of July 31, 1978), if adopted by the Council, will reduce by 89,000 hectares the area under vines (a drop of 3,5 %). The reduction of high excise duties would also stimulate consumption. Forecasts up to 1985 reveal an imbalanced wine market even in years of average harvest, if the Commission's proposals are not accepted.

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)

Olive oil

17. 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 1970/74, 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. Measures are now being taken to halt the fall in consumption through the introduction of an aid for consumption which will reduce consumer prices. In November 1978, intervention stocks were at a level of 95,000 tons.

EAGGF expenditure on olive oil is estimated at 214 million EUA for 1978, 2.5 % of EAGGF guarantee expenditure.

Tobacco

18. While the Community's self-supply is only 25 %, intervention regularly takes place for some raw-tobacco qualities. The EAGGF expenditure for this sector amounts to 3 % of total guarantee expenditure and represents 45 % of the value of Community produce, measured as packed tobacco. This 45 % 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.

c) The agricultural background

1. Since "1970" real agricultural incomes (gross value added at market prices per person employed) have increased by more than 3 % a year which is slightly more than in the economy as a whole. The raw material crisis of 1974 sharply affected agricultural incomes everywhere in the Community (- 6.7 %). Since the general economic recession began, agricultural incomes have recovered, although not at the same rate in all countries.
2. Regional income disparities are still very high; the spread of incomes is particularly high in France and in Italy.

Income disparities between sectors are also important, arable farms faring twice as well as cattle farms; income fluctuations are more substantial for pigmeat than for other livestock sectors.

3. Income figures are not yet available for 1978, but available indicators show that 1978 was a fairly satisfactory year.

Agricultural output was again above average for many products (cereals : + 11 %; milk + 4.3 %, sugar + 1.7 %). Cereals producers benefited from a much higher volume of production and livestock producers from abundant, stable and in some cases cheaper feed. The increase of producer prices is estimated at 2.6 % on average. The value of gross output at current prices is expected to increase by 7 to 8 % (1977 : 10 %).

As in 1977, this result is negatively influenced by a substantial decrease in receipts from potato production.

Agriculture was also helped by a lower inflation rate in the general economy. The rate of increase of input prices has slowed down for the third year in succession (1978 : 4 %; 1977 : 10 %). Prices for some inputs (animal feed) even decreased, due to the falling value of the dollar and ample supplies on world markets.

As a result of forces acting on agricultural markets, but excluding the substantial fluctuations on the potato market for which no common price policy is applied, gross value added at market prices per farm worker increased by 13 % in 1978. Taking account of the rate of inflation this means a real increase of 4 %. Real agricultural income measured in terms of gross value added at factor cost, which take account of subsidies and indirect taxes, increased by more than 3 % (potatoes excluded) and 1.6 % (potatoes included).

4. Despite serious imbalances on several markets, agricultural price support has increased. The modest rise in common prices in 1978/79 has also to be seen in conjunction with the various adaptations in green rates. Thus support prices were maintained or increased in real terms in Member States accounting for over 60 % of agricultural output (France, Italy, United Kingdom). Where real prices decreased, this was generally in Member States where support prices are currently above the common price level as a result of undervalued green rates (Germany and to a lesser extent Benelux); the October adjustment in snake currency central rates increased the amounts by which support prices in these countries were above the common price levels.
5. Supplies of most important commodities on world markets are relatively high and prices are low. This development has a double effect on Community agriculture. The gap between the Community's price support level and world market prices for most products is widening despite the policy of agricultural price prudence. The possibilities of selling Community produce on world markets at a reasonable cost are therefore reduced. Lower prices for animal feedstuffs (soya; manioc, favour Community livestock producers and are a cause of increased output.
6. The situation of agriculture affects consumers and the evolution of food consumption. As a result of the prudent price policy pursued by the Community and improvements in productivity, the Community's consumers have had the benefit this year of good levels of farm production which have restrained or reduced prices for several important farm products. Recently average market prices for bread-making wheat, barley, and poultry were slightly below last year's levels while eggs and pigmeat were substantially below. At least two-thirds of the increase in food prices in the Community in the first six months of 1978 was due to increased processing and distribution costs. This phenomenon is being studied by the Commission.
7. The 1978/79 price package resulted in reinforced measures to encourage consumption. This effort is most developed in the milk sector where a considerable budgetary stimulus has been given to internal and external sales. The proceeds of the co-responsibility levy contributed only marginally. Consumers are also benefitting from increased efforts in the field of the harmonisation of legislation (food quality, public health).
8. Many of the Community's special import arrangements bring direct or indirect advantages to consumers. Lower world prices for vegetable fats and proteins have been passed on to the consumer through relatively lower prices for poultry, eggs, pigmeat, edible oils, margarine and so on.

d) Conclusions

1. A worsening imbalance on major agricultural markets calls for a price standstill for the 1979/80 marketing year. The prudent price policy, followed during the last two campaigns, has proved to be insufficient to tackle as serious market problems as those prevailing for instance in the milk sector. Additional measures prove to be ineffective if they are partially neutralized by price incentives.
2. The Commission considers that the price policy plays a central role for the development of production and consumption of agricultural products. The Commission believes that a rigorous price policy is essential so long as major market imbalances persist. Under present general economic and agricultural market circumstances, it therefore proposes a standstill of common agricultural prices for the 1979/80 marketing year.
3. The Commission also considers that the general income situation of the farming Community does not preclude such a price policy. The results of the objective method corroborate this conclusion.
4. The present price package contains comprehensive proposals to restore the market equilibrium in the dairy sector, as well as arrangements which take account of the situation of small dairy farmers.

The introduction of this system will help to avoid socially unacceptable consequences of such a policy. Specific regional needs will be met by an improved structural policy, for which the Commission also presents a new approach.

The following table shows the proposed prices which are unchanged except for proposals linked with amendments to the regime or in respect of quality (rye, colza, linseed and flax)

Product	Category of price or amount	Amounts fixed 1978/79 u a/tonne	Increase % per year		1979/80 proposals	
			1978/79 first year (5)	1978/79 1977/78	amounts u a/tonne	Remarks
1	2	3	4	5	6	7
Durum wheat	Target price	224,27	5,5	0,0	224,27 (1)	
	Single intervention price	203,01	5,1	0,0	203,01	
	Aid	63 ua/ha	-	-	63 ua/ha	
Common wheat	Target price	162,39	3,9	2,72	162,39 (1)	
	Common single intervention price	121,57	1,9	1,26	121,57	
	Reference price for bread-wheat	136,96 (2)	-	1,01	136,96 (2)	
Barley	Target price	147,23	4,5	1,56	147,23 (1)	
	Common single intervention price	121,57	3,3	1,26	121,57	
Rye	Target price	155,12	4,7	0,0	155,12 (1)	Aid of 26 u.a./ ha in specific regions
	Single intervention price	130,25	3,7	1,0	121,57	
Maize	Target price	147,23	4,5	1,56	147,23 (1)	
	Single intervention price	-	-	-	-	
	Common single intervention price	121,57	-	(3,0)	121,57	
Rice	Target price - husked rice	301,26	4,7	1,9	301,26 (1)	
	Single interv. price - paddy rice	174,98	3,4	2,0	174,98	
Sugar	Minimum price for sugarbeet	25,94	4,3	2,0	25,94	
	Target price for white sugar	352,50	4,7	2,0	352,50	
	Intervention price for white sugar	334,90	4,7	2,0	334,90	
Olive oil	Production target price	1.915,40	4,3	2,0	1.915,40	
	Market target price	-	-	-	-	
	Intervention price	1.411,40	5,7	4,8	1.411,40	
	Production aid	431,10	-	-	431,10	

Product	Category of price or amount	Amounts fixed 1978/79 u a/tonne	Increase % per year		1979/80 proposals	
			1978/79 first year (5)	1973/79 1977/78	amounts u a/tonne	Remarks
1	2	3	4	5	6	7
Oilseeds	Target price					
	• Colza and rape seed	296,70	3,5	4,0	302,70	
	• Sunflower seed	323,20	4,3	5,0	323,20	
	Basic intervention price					
	• Colza and rape seed	288,20	3,5	4,0	294,20	
	• Sunflower seed	313,80	4,3	5,0	313,80	
	Guide price					
• Soya seed	321,70	8,4	5,0	321,70	} system equiva- lent to castor, peas and beans.	
• Flax seed	324,30	5,8	4,0	324,30		
• Castor seed	420,00	-	-	420,00 additional and temporary aid of	
Fixed rate aid (per ha)					100 u.a./ton	
• Cotton seed	108,70	-	-	108,70		
Dried fodder	Fixed rate aid	5,00	-	-	5,00	
	Guide price	103,00	-	-	103,00	
Peas and beans	Activating price	285,00	-	-	285,00	
	Minimum price	175,00	-	-	175,00	
Flax and hemp	Fixed rate aid (per ha)					
	• Fibre flax	202,55	-	-	202,55	
	• Hemp	183,96	-	-	183,96	
Seeds	Aid (per 100 kg)					
	• Monoecious hemp	10,50	-	-	10,50	
	• Fibre flax	14,50	-	-	23,00	
	• Linseeds	11,50	-	-	20,00	
	• Grasses	10 - 38	-	-	10 - 38	
• Legumes	4 - 28	-	-	4 - 28		

Product	Category of price or amount	Amounts fixed 1978/79 u a/tonne	Increase % per year		1979/80 proposals	
			1978/79 first year (5)	1978/79 1977/78	amounts u a/tonne	Remarks
1	2	3	4	5	6	7
Table TypeRI wine: RII RIII AI AII AIII	Guide price	2,07	4,9	2,0	2,07	
	(per degree/hl or per hl	2,07	5,9	2,0	2,07	
	according to type)	32,28	4,7	2,0	32,28	
		1,94	4,6	2,0	1,94	
		43,02	4,9	2,0	43,02	
		49,12	4,9	2,0	49,12	
Raw tobacco	Guide price	(3)	-	2,0	(3)	
	Intervention price			on average		
Fruit and vegetable	Basic price	(4)	-	2,0	(4)	
	Buying-in price					
Milk	Target price for milk	177,00	5,6	2,0	177,00	
	Intervention price					
	. for butter	2.357,20	3,1	2,07	2.357,20	
	. for skimmed-milk powder	957,80	8,8	1,80	957,80	
	. for cheese					
- Grana padana 30 - 60 days	2.311,30	6,4	3,3	2.311,30		
- Grana padano 6 months	2.804,80	6,5	4,1	2.804,80		
- Parmigiano-Reggiano 6 months	3.060,30	6,5	4,6	3.060,30		
Beef and veal	Guide price for adult bovines (live weight)	1.259,70	6,4	2,5	1.259,70	
	Intervention price for adult bo- vines (live weight)	1.133,70	4,5	2,5	1.133,70	
Pigmeat	Basic price (slaughter weight)	1.226,04	4,8	2,0	1.226,04	
Silkworms	Aid per box of silk seed	55,00	-	-	55,00	
	Aid to recognized producer groups (per box)	-	-	-	-	

- (1) It will be necessary to take into account changes in various technical elements, in accordance with the basic Regulations for cereals and for rice (for example transport costs). The Commission will transmit these later.
- (2) This price applies to the minimum bread-making quality. It is derived from the nominal reference price for the average bread-making quality by subtracting a quality adjustment of 2.84 u.a./t.
- (3) Nineteen varieties of tobacco, the prices for which apply to the calendar year.
- (4) Products in Annex II of the Council Regulation of 18 May 1972 and periods varying according to the products;
- | | | | | | |
|--------------|--------------------------|--------------|--------------------------|---------------|---------------------------|
| Cauliflowers | : 1.5.1979 to 30.4.1980 | Lemons | : 1.6.1979 to 31.5.1980 | Apples | : 1.8.1979 to 31.5.1980 |
| Tomatoes | : 1.6.1979 to 30.11.1979 | Pears | : 1.7.1979 to 30.4.1980 | Mandarines | : 16.11.1979 to 28.2.1980 |
| Peaches | : 1.6.1979 to 30.9.1979 | Table grapes | : 1.8.1979 to 31.10.1979 | Sweet oranges | : 1.12.1979 to 31.5.1980 |
- Increases of 2 % for oranges, mandarines, clementines and Lemons have been fixed in the financial compensation designed to assist disposal of Community citrus production on Community import markets.
- (5) i.e. Annual rate of increase since the introduction of the support arrangement.

NB : Aid for the 1976 hop harvest ranged from 200 to 500 u.a./ha according to variety.
 Aid for 1977 : in u.a./tonne for aromatic varieties 375 (+ 9,6 %), bitter 285 (+ 17,3 %) and others 600 (- 8,75 %)

B. Related measures

- . Cereals and Rice
- . Sugar
- . Oilseeds
- . Seeds
- . Fibre flax and hemp
- . Wine
- . Tobacco
- . Fruit and vegetables
- . Beef and Veal

CEREALS AND RICE

1. The organization of the market in cereals requires a few adjustments in the following areas to complete the new Community cereals organization and to improve its operation:

- transport costs should be updated to ensure fluidity of the Community market;
- the competitive position of barley on the feed grain market should be improved;
- rye should be included in the general system;
- the durum wheat : common wheat price ratio should be improved.

Even if these changes are not completed this year, these are the objectives to aim at.

2. Having regard to the general approach adopted for fixing prices, it is proposed that the intervention prices for the main cereals and for rice be kept unchanged. In accordance with the basic regulation on cereals, a market component and the most economic transport costs should be added to arrive at the target prices. So that the figures for transport costs may be as up-to-date as possible, the Commission will forward them at a later date.

3. On the basis of an unchanged single common intervention price of 121.57 u.a./t, allowing for a difference of 15% designed to encourage the production of common wheat of average bread-making quality, the reference price for this quality comes to 139.80 u.a./t (as in 1978/79).

However, it is proposed that, as in 1978/79, market support be provided, not at this level, but at that of the minimum bread-making quality, i.e. with a reduction of 2.84 u.a./t, the resultant price of 136.96 u.a./t being the same as in 1978/79.

4. As regards rye, it is proposed that its intervention price and the calculation of its target price be aligned on the barley and maize prices. This means lowering the intervention price for rye by 8.68 u.a./t which must be offset in the regions in which rye production is essential to the economy by a premium per hectare based on a standard yield of 3 t/ha, which gives a premium of 26 u.a. per hectare. The purpose of this premium is to maintain rye producers' incomes in those regions only.

To offset the consequences of the alignment of rye prices on those of barley and maize (feed grains), it is proposed that, to maintain the necessary fluidity of the market in rye of good bread-making quality, a negative coefficient of equivalence at least equal to the reduction in the intervention price be introduced. By way of derogation, for the first marketing year, however, it is proposed that the target price for rye be kept at 155.12 u.a./t. The coefficient of equivalence mentioned above would accordingly be reduced by the difference between the target prices for rye and for barley.

It is proposed that the intervention increase for rye of good bread-making quality be maintained at 4.50 u.a./t.

5. It is proposed that a compensatory allowance be fixed for common wheat in storage on the market at the end of the 1978/79 marketing year. A carryover payment subject to the same conditions is also proposed for rye of bread-making quality and for maize in storage in areas with a surplus. This measure is designed to support the cereals market in general and the common wheat market in particular.
6. As regards rice, Community production of medium and long-grain varieties continues to supplant round-grain rice which, however, finds a better market both in the Community and outside. For this reason, in the past two marketing years, Italy has had to import round-grain rice from non-member countries.

This situation is attributable to the current system of target prices for long-grain rice. To encourage production of rice for which there is more demand, the Commission envisages abolishing the corrective amounts on intervention prices for long-grain rice and suppress the gap between the threshold prices for long-grain and round-grain rice. (1)

(1) See also COM(78) 730

SUGAR

1. In 1978/79 the sugar supply situation in the Community is as in 1977/78. A reduction in the area under beet in Denmark, Germany and France has been offset by increases in the other Member States, particularly Belgium and Italy. Thanks to the excellent autumn weather, the sugar yield was above normal. Total production, 11.7 million t, is slightly above the level of the previous year. It exceeds foreseeable consumption by 2.2 million t. These figures point to a self-supply rate of 123 %. The total quantity available for export, allowing for imports of 1.2 million t of preferential sugar, will reach 3.35 million t. of raw sugar.
2. The big world surplus also persists. According to the latest estimates, world production in 1978/79 will again considerably exceed consumption. It is therefore not surprising that the International Sugar Agreement which came into force on 1 January 1978 has not succeeded in improving world prices which stand at only 70 to 80% of the lower limit fixed in the Agreement and at about 30% of the Community price.

Exports of Community sugar continue to necessitate refunds amounting to over 600 million u.a., which is a heavy burden on the EAGGF even allowing for the fact that a large percentage is linked with our undertakings to import ACP sugar and a quarter is covered from revenue from the production levy paid by producers. Apart from these financial aspects, the sugar export policy is also coming under increasing criticism from non-member countries, notably within GATT: it is claimed that it enables the Community to obtain an unfair share of the world market.

3. For all the reasons indicated, the maximum quota should be fixed at 120% of the basic quota for the 1979/80 sugar year and the special maximum quota should be reduced to 223.75% of the basic quota for both 1978/79 and 1979/80.

In addition for the production levy there should be a maximum amount equal to 30% of the intervention price, the ceiling provided for in the basic regulation and, consequently, a minimum price established for beet produced over and above the quota, equal to 70% of the minimum price for basic quota beet.

4. The Commission would also point out that pursuant to Article 5(4) of Protocol No 3 annexed to the Lomé Convention the guaranteed prices for preferential sugar are to be negotiated annually and fixed not later than 1 May. The Commission will make a proposal to the Council on the brief for these negotiations after the decision on Community prices has been adopted.

OILSEEDS

Colza and Rapeseed

With effect from 1 July 1975 the standard quality for colza and rapeseed was adjusted by reducing the oil content in the seeds from 42% to 40%. This amendment was carried out in order to take account of the fact that the new varieties of colza and rapeseed, which have a low erucic acid content, gave a lower oil yield; and since it was essential to encourage producers to cultivate these new varieties, it was necessary to avoid a situation where producers suffered a loss by such a change.

These new varieties are now well established, and are yielding an oil content equal to the old varieties. It is therefore appropriate to raise the oil content of the standard quality to take account of this improvement, and it is consequently proposed to fix the target price for a standard quality with a 42% oil content.

In order to maintain the producer's income at the same level as during 1978/79 the target price should be increased by 6 u.a./ton to 302,70 u.a./ton.

Soya beans

At the 516th meeting of the Council of Ministers for Agriculture in May 1978, the Commission undertook to study the effects of the system of semi-standard aid currently applicable to soya beans and to propose any appropriate amendments.

Although the area under soya has increased in 1978, it must be acknowledged that Community soya production, which has received support since 1974/75, has not really got under way (1 300 ha in 1976, 1 200 in 1977, 3 900 in 1978), despite improvements to the system which provided for a minimum yield of 2 000 kg/ha and different target yields for different methods of cultivation.

Although it considers that the aid system is not the sole cause of the present difficulties, the Commission proposes that it be replaced by a system on the lines of that adopted for castor seed and for peas and field beans. The system would be based on the payment of aid to the industrial user for the quantities of Community soya beans actually purchased and processed and on a policy of contracts between processors and producers, enabling the latter to obtain for the quantity actually produced a minimum price very close to the guide price.

The Commission is of the opinion that such a system is more likely than that currently in force to guarantee the desired development of Community soya production.

Castor seed

Now that the special measures for castor seed have been in force for a few months, it is clear that the difficulties are greater than initially expected. They arise mainly from problems of managing this crop, the need to purchase adequate harvesting equipment and the uncertainty on the part of producers as to the income they can expect. In view of these difficulties and the fact that the aid measures were adopted late, only a few dozen hectares were sown in 1978.

Without incentives it is to be feared that the demand for this crop will fall short of the target.

Therefore, on the one hand to encourage the seed-crushing industry to take an interest in this crop and, on the other hand, to protect producers against the considerable risks attendant on this new crop and to help them buy the requisite equipment, the Commission proposes that additional starting-up aid of 100 u.a./t be granted on a temporary basis. This aid would be paid to the processing industry, on condition that the benefit was passed on to the producer.

The Commission proposes that the amount be granted for three marketing years and considers that such a period should be sufficient to overcome the difficulties described above.

Flax Seed

1. At the 516th meeting of the Agricultural Council, the Commission undertook to look into the advisability of the measures designed to encourage the cultivation of flax and the questions arising from the fact that two categories of aid are granted in respect of flax seed.

2. Since measures relating to flax seed were introduced in 1976 (Regulation (EEC) No 569/76 of 15 March 1976), there has been a marked decrease in the area under seed flax (about 7 000 ha in 1978, as compared with 20 000 ha in 1977 and 28 000 in 1976). This reduction occurred despite an improvement to the system initially envisaged (grant of a minimum aid per hectare for two marketing years; differentiation of the yield on the basis of homogeneous production areas). The Commission accepts that other factors have contributed to this decline, but it is convinced that fresh impetus could be given to the cultivation of seed flax by replacing the existing system of semi-standard aid by arrangements similar to those adopted for castor seed and for peas and field beans, provided that appropriate adjustments are made to take account of the characteristics of each individual market. A change in the system for fibre flax seed, which is also eligible for aid under Regulation (EEC) No 569/76, is not justified on the same grounds; in fact, this amendment should not affect the areas sown which, since the introduction of Community measures in 1970 have each year totalled about 60 000 ha.

3. Amending the system of aid in respect of flax seed in the way indicated above would also have the advantage of resolving the problem of dual aid.

Certified seed of fibre flax and seed flax is currently eligible for both the aid provided for in Regulation (EEC) No 569/76, and the aid provided for in Regulation (EEC) No 2358/71 of 26 October 1971 on seeds. If the new system is adopted, flax seed would be eligible for the latter aid only.

This amendment would have little effect as regards seed flax because little certified seed is produced. On the other hand, since a large percentage of fibre flax seed (60% in the Netherlands and 50% in Belgium) is certified for sowing, the change in the system would greatly reduce the incomes of producers of such seed.

The Commission considers that the way to offset this loss for the producer is to increase the amount of aid granted in respect of certified seed. Since this would offset the loss only partially, the difference between the prices for certified and non-certified seed would be proportionately greater.

To prevent too large a difference from leading to increasing use of non-certified seed and hence to a drop in yields and deterioration in quality of the flax straw and flax fibre, the Commission is prepared to propose, if necessary, that the standard-rate aid per hectare for fibre flax be made conditional upon proof that certified seed has been used.

FIBRE FLAX AND HEMP

At its 516th meeting the Council "noted the Commission's willingness to undertake a thorough study of the advisability of measures to and to encourage the use of fibre flax of Community origin in the textile industry".

The Commission notes that the consumption of Community flax fibres fell from around 88 000 tonnes in 1974/75 to 76 000 tonnes for the 1977/78 marketing year. This fall (14%) is due in particular to:

- the difficult economic situation of the textile industry in general which has also affected the flax industry,
- replacement by other fibres in certain traditional flax markets,
- the very sharp rise in prices for flax fibres following the indifferent yields of the 1976 harvest.

The more normal level of the price for flax fibres since the middle of 1977 and a considerable effort to win new markets supported by a campaign aimed at informing consumers which was conducted by the trade have enabled flax to regain half of the ground lost (consumption estimated at 81 000 tonnes for 1977/78).

To the extent that this recovery in consumption proves temporary and insufficient, the Commission anticipates proposing to the Council before the end of the 1978/79 marketing year appropriate measures having the effect of producing a level of consumption of Community fibres in the EEC permitting normal marketing of Community production which, it should be noted, is carried out over an area which has been more or less unchanged for several years (about 65 000 hectares).

SEEDS

1. Regulation (EEC) n° 2358/71 of October 1971, as last amended by Regulation (EEC) n° 1346/78 of 19 June 1978, concerning the common organisation 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. The aid shall be fixed every two years before 1 August for the marketing year beginning in the following year and for the subsequent year. This proposal therefore concerns the marketing years 1980/81 and 1981/82.
2. This proposal is based on the following conditions :
 - a) The estimate of the harvest 1978 (+ 1,520.000 qx) shows an increase for all three groups of seeds (oil seeds, grass seeds, legume seeds) in comparison with 1977 (1,485.000 qx). In 1977/78 the trade balance with third countries has improved with a stabilization of exports accompanied by an import reduction of 14 %.
 - b) With a stock level of + 785.000 qx (and for certain species - i.e. *Lolium perenne* L., *Lolium multiflorum* L. - well above normal) the Community's available supplies for 1978/79 are + 2,305.000 qx. With a normal consumption (+ 1,600.000 qx) and a normal stock level (+ 550.000 qx), supply is thus well assured.
 - c) As a consequence of this situation, the prices for seeds at present are in general reasonable for the producer but show a tendency to slight decrease for the species in surplus.
 - d) A possible revision of Regulation (EEC) n° 569/76 of 15 March 1976, laying down special measures for lin (in the sector of oil seeds), to exclude certified flax seeds and lin seeds for sowing from aid under this regulation, would significantly influence the economy in this sector with risks for the future stability of the Community's supply of quality seeds. Thus a retention of the balance in the economy between the seeds for oil purposes and certified seeds would mean a necessary increase in price for the latter of + 50 %.

This would probably mean an increase in production costs for 1 ha of linseeds and flax of $\pm 1\%$. The Commission considers that at present the market can not adequately provide for this increase and is therefore prepared to propose an adjustment of the aid given to the above two species under Regulation (EEC) n° 2358/71.

In conclusion, and considering that this proposal concerns two marketing years (1980/81 and 1981/82), with a possibility of modification for the second year, the following are proposed :

- a) the aid for all species should be maintained at the present level,
- b) if the aid system under Regulation (EEC) n° 569/76 is changed, the aid to flax seeds and linseeds should be increased by 8,5 u.a./100 kg,
- c) as the aid to seeds for the marketing year 1979/80 has already been fixed (Regulation n° 1347/78 of 19 June 1978), a derogation is required for the fixing of the aid to the above two species for this marketing year.

WINE

1. Article 2(1) of Council Regulation (EEC) No 816/70 of 28 April 1970 laying down additional provisions for the common organization of the market in wine requires that a guide price be fixed annually, before 1 August, for each type of table wine representative of Community production.

Article 2(2) of the abovementioned Regulation lays down that the guide price is 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.

Community wine prices (based on communications by the Member States pursuant to Regulation (EEC) No 816/70

Wine-growing year	R I ua/°/hl	R II ua/°/hl	R III ua/hl	A I ua/°/hl	A II ua/hl	A III ua/hl
1976/77	1.903	1.970	31.96	1.579	37.71	48.33
1977/78	2.060	2.116	38.93	1.785	31.71	38.35
1978/79 ¹	2.203	2.221	45.36	1.806	36.84	40.97

¹from 5 September to 31 October 1978

2. The prices recorded during the 1977/78 wine-growing year and the early months of 1978/79 were higher than those in 1976/77 for mass-produced table wine in France and Italy. This increase is particularly marked for French and Italian red table wines (R I and R II) and much smaller for the southern white table wines (A I). The prices recorded for white table wines of the northern type (A II and A III), however, have dropped considerably over the same period.

3. Prices in France and Italy have picked up following a very small, below-demand harvest, resulting in modest availabilities despite very considerable stocks at the beginning of the marketing year. This favourable market situation can be expected to continue for the 1978/79 wine-growing year by reason of a modest harvest, amounting to slightly less than normal consumption, and declining stocks.
4. The difficulties on the market in white wines have been confirmed by the adoption, because of the level of representative prices, of measures confined to holders of long-term storage contracts for these wines (guarantee of performance).
5. The upward trend of prices for the current year, expected in view of the reduced availabilities, must, however, be seen as the consequence of two consecutive below-average harvests, and the price level must therefore be viewed with caution. The present situation is in fact a short-term one and the Commission considers that a balanced wine sector can be established on a durable basis only by implementing the 1979-1985 action programme which it has presented to the Council (COM(78) 260 final of 31 July 1978).

TOBACCO (1)

1. Article 2 of the basic regulation (Council Regulation (EEC) No 727/70 of 21 April 1970) on the common organization of the market in raw tobacco lays down that prices for leaf tobacco must be fixed annually, before 1 August, for each variety produced in the Community.

As it has done in recent years, the Commission is also forwarding to the Council its proposals for the fixing of premiums and derived intervention prices for the 1979 harvest.

2. World production and consumption appear to be more or less in balance since 1977, except in the oriental tobacco sector (which accounts for about 18% of total production). In the Community, where production meets only 25% of demand, the market situation is generally speaking satisfactory as far as marketing is concerned.

It should be stressed, however:

- that for certain oriental varieties difficulties of disposal still remain, principally because of the imbalance between supply and demand and a deterioration in quality. The Commission has presented a report to the Council on this subject (COM(78) 417 of 28 September 1978).

Similarly, for Beneventano, the structural difficulties of which are well-known, a conversion programme was approved by the Council and is in its second year of application (Regulation (EEC) No 488/77 of 10 March 1977);

- Community preference has been eroded somewhat by the fall of the dollar against the European currencies. This situation particularly affects Community wrapper leaf tobacco (Round Tip) following the appearance on the market of new producer countries (notably in Central America) with low production costs.

(1) See also COM(78) 730

To offset the market consequences of the decline in the dollar's exchange value, the Commission proposes that the premium be increased by 0.020 u.a./kg (about 1-2% up on the 1978 level). This adjustment will apply only to those varieties for which demand balances supply, i.e. excluding Xanti, Erzogovina, Perustitza and Beneventano. The adjustment proposed for Round Tip is 0.100 u.a./kg, equal to the average increase allowed for the other varieties (about 1.8%).

3. In its proposal the Commission also presents an amendment to the list of varieties produced in the Community, to bring it closer to market realities. Variety No 6 (Burley) is deleted because it is no longer grown. Varieties Nos 8 (Philippin) and 9 (Semois), by reason respectively of their similarity with Dragon Vert and the small volume of production, have been classified as variety No 4 (Paraguay and Dragon Vert). Variety No 19 (Brasile Selvaggio) (30 ha) has been included with Beneventano.
4. The Commission proposes an amendment to Article 13 of the basic regulation (Regulation (EEC) No 727/70 of 21 April 1970).

The common organization of the market in tobacco was the first in which a system of market management was introduced. However, experience has shown on several occasions that the instruments provided for were inadequate. The failure, in laying down dates and time-limits, to take account of the characteristics of the product, particularly the long period between harvesting and marketing, makes it impossible to take appropriate action in time. The special measures to be adopted and the compensatory action to be taken, where necessary, are not clearly defined. To adapt this system to the reality of the market, it is therefore proposed as a first priority that the time of intervention be modified. If they are to be significant and establish that a situation of structural, not short-term, imbalance exists, conclusions should be drawn not from a single harvest but two successive ones. On the other hand, it

should be possible to implement measures at the end of the second harvest not only if the imbalance is proven but also if a risk of imbalance is apparent.

The immediate action to be taken must consist of special measures to deal with an exceptional situation, rather than price and premium arrangements which are an instrument of normal market management applied annually to guide production.

Lastly, the procedures should be specified in greater detail and the respective roles of the Council and the Commission better defined, together with the measures to be taken for the purpose of compensation.

5. At the same time, the maximum quantities and percentages of each variety of tobacco which may be taken into intervention and which when exceeded bring the market management instruments into play should be adjusted in line with changes in Community production policy since 1970. To that end, the Commission proposes an amendment to Regulation (EEC) No 1469/70 of 20 July 1970.

FRUIT AND VEGETABLES

1. It is proposed to continue for the coming marketing year the marketing premium for fresh lemons.

It is clear that the premium has, since its introduction in September 1975, had a beneficial effect on consignments of Italian lemons to the other Member States, particularly as far as the proportion of Category I products to the total quantities consigned is concerned, as is shown in the following table :

Consignments to the Community (in tonnes)

Years	Total	Category I	Category II
1973/74	76.900	42.000	34.200
1974/75	108.100	43.500	64.300
1975/76	105.400	91.700	13.400
1976/77	87.900	83.400	4.300

Maintenance of this premium during the next marketing year should enable this favorable development to continue.

It should be noted that the grant of the premium will be accompanied by no change in the reference prices.

2. Study of the last processing season is not yet completed but the possibility should be foreseen of having in 1979 to limit the quantity of produce on which the processing aid is payable, so as to avoid an imbalance between production and sale possibilities.
3. The Commission recalls that its proposal on preventive withdrawals (article 4 of the proposed amendment of Regulation (EEC) n° 1035/72 of 18 May 1972 in COM(77) 526 final of 9 December 1977) remains on the table.

BEEF AND VEAL

1. In view of the situation on the beef and veal market, the Commission is proposing once again to fix the intervention price at 90% of the guide price, i.e. 113.37 u.a.a./100 kg live weight. Buying-in has continued at a high level at this intervention price despite the fact that the Community was not self-sufficient in 1978.

2. The Commission is of the opinion that the possibility of suspending intervention buying-in in particular Member States for particular qualities when the market price of a quality exceeds the buying-in price for that quality, and, conversely, of restoring buying-in when the market price is lower than the buying-in price, should be continued for the 1979/80 marketing year.

This provision should be applied uniformly throughout the Community.

3. As the conditions which led to the grant of a premium for the birth of calves, provided for in Council Regulation (EEC) No 997/78 of 12 May 1978 continue to obtain, it is proposed that the premium be granted for a further period of twelve months during the 1979/80 marketing year.

4. It is also proposed that the system of variable premiums granted in the United Kingdom for the slaughter of clean cattle be maintained and the rules currently in force continue to apply.

C. Milk and milk products

1. The Commission has examined the various elements of the market for milk and milk products in the Community in considerable depth in COM(78) 430 final of 25 September 1978. The document points to increasing difficulty in the future due to continued increases in milk output in circumstances in which demand for milk products is at best static. More recent information provided by the Member States indicates that milk deliveries to dairies this year will increase by more than previously foreseen (about 4.3% compared with 1977) and that in some Member States production of butter and skimmed milk powder may rise by up to 30 per cent.
2. The Commission now proposes to the Council that the support prices for milk and milk products should not be increased above their present levels for the milk year 1979/80. The only exception would be the threshold prices for whey powder and lactose for which strong technical and marketing reasons indicate the need for changes.
3. In its report (COM(78)430 final) the Commission set out guidelines for the milk sector for the next few years and also certain options for further action. In particular, it indicated that a better balance could be established in the market either by linking intervention prices to the level of Community production or by making the co-responsibility levy variable in accordance with the level of Community production and hence using this levy also as a regulator of supply. The first alternative would be straightforward, from the point of view of administration and impact on producer decisions, and would have the most direct effect on consumption through restraint on prices. The second alternative provides funds to alleviate the budget and, provided that these funds are used effectively in aid of consumption, could have a comparable effect in both restraining production and expanding the available markets. The soundings made since the publication of the Commission's report indicate that there is a predominant preference for the second alternative. Without going back on the merits of the first alternative the Commission now proposes that the new form of variable co-responsibility levy should be introduced.
4. The changes which the Commission proposes in the levy arrangements are significant and are specifically intended to make it a new and important

instrument for two purposes: to act as a disincentive to increased production so long as large surpluses exist and to strengthen the measures necessary to increase consumption and to expand the markets for dairy products. The Commission thus accepts the continued co-responsibility of milk producers themselves but is fully committed to making the co-responsibility levy a more effective arm of the policy of market equilibrium. Under the Commission's new proposal the level of the levy will be determined by the increase (or decrease) in the total volume of milk delivered to dairies subject only to the provision that, taking into account the volume of deliveries in 1978 and in order to maintain continuity of financing for certain measures in aid of consumption, the levy would not fall below 2% of the target price. The change in the volume of milk delivered to dairies will be established for a four-month period by comparison with the average of the milk deliveries in the corresponding period in the reference years (1977/78 and 1978/79). Adequate time will be allowed for the establishment of the appropriate statistical data. Thus the levy will be subject to review three times a year and will be fixed at twice the percentage change in milk deliveries (for example an increase of 1.5% in milk deliveries would give rise to a co-responsibility levy of 3%).

5. The limited exemptions under the present co-responsibility levy scheme (in particular for the mountain areas) will continue. The Commission has also given careful consideration to ways of protecting the revenue of small farmers with little or no alternative uses for their resources except in milk production and to the extent that their production is predominantly based on grass and their own feedstuffs. The Commission, therefore, now proposes that there should be an exemption from the levy for those farmers who fulfil all the following requirements:

- a) whose principal occupation is farming
- b) who are under 55 years of age; or are between 55 and 60 years of age⁽¹⁾ and enter into a commitment to cease farming at the age of 60 years consistently with directive 72/160
- c) who deliver not more than 60.000 litres of milk a year
- d) whose agricultural holding is not more than 25 hectares
- e) who undertake not to increase their number of dairy cows
- f) who have not more than 1 dairy cow per ha.

(1) The Commission also draws attention to its proposal OJ Volume 20 Number C 69 of April 19, 1977, page 40

This will safeguard the revenue of small farmers. It also represents some differentiation between milk from feed produced on the farm and milk from feed imported on to the farm, since it is based on the volume of milk and not on the number of cows.

6. In order to take account of the preparations for the new form of co-responsibility levy and to take account of the seasonality in milk deliveries, the Commission proposes that in any event the present levy of 0.5% of the target price should continue until 31 May 1979 and that the new arrangements will come into effect on 1 June 1979. The use of the funds generated by the short further extension of the co-responsibility levy on its present basis, together with the funds not yet spent, will be the subject of a further report by the Commission to the Council. This will follow discussion in the co-responsibility group and the consultation of the Advisory Committee on ways in which these funds can be most effectively used to enlarge the market for milk and milk products.
7. The new levy will be part of the common market organization intervention system in the dairy sector. Under the new proposal funds, which in certain circumstances could be substantial, will generally be pumped back in the form of lower prices or other benefits for consumers (including, in the case of animal feed, livestock farmers). The funds will be used primarily to support sales to Community consumers of butter, skimmed milk powder and other milk products, e.g. liquid milk for schoolchildren, and for the expansion of markets through promotional and research activities. The Commission indicates, in addition, that it intends to continue the existing discussion in the co-responsibility group and consultation of the Advisory Committee on specific measures relating to publicity, promotion and market research and to continue this programme in future years at or about its planned level.

Aid for investment

8. It is clear that the steady expansion of milk deliveries to dairies within the Community has been fuelled by substantial investments benefitting from aids from public funds. The Community's efforts to improve the milk market situation, however, must not be jeopardized by measures which directly or indirectly promote higher production.
9. The Commission, therefore, reiterates its view that those aids for investment on the farm which are directly linked to milk production and which favour

increased production must now be suspended, except in the case of certain farms in certain regions to be defined by the Council on a proposal from the Commission, until the market balance in the milk sector has been restored to a more reasonable level.

10. As far as marketing and processing of dairy products are concerned, the Commission will take the appropriate measures in order to ensure a strict limitation of aids to investments. Aids will only be permitted for investments concerning pasteurized liquid milk not otherwise treated, utilization of liquid skimmed milk for animal feeding, research, production of new products, energy saving and environmental protection.

Aids to consumption

11. The disposal programmes for skimmed milk powder on the internal market have been successful. The volume of exports in 1978 has also been close to the high level achieved in 1977. As a result of the various measures, including a substantial programme of aid for the use of skimmed milk powder and skimmed milk for animal feed, the intervention stocks on 1 January 1979 are about 265,000 tonnes below the level on 1 January 1978 and about 700,000 tonnes below the peak figure. This result has been achieved despite a large increase in the Community's production of skimmed milk powder. The high level of expenditure on the various disposal schemes which the Commission has put into effect is already a recognition of the social importance attached by the Community to the revenue of its 1,9 million milk producers.
12. The Commission stresses the importance which it attaches to a continuing disposal programme for the surpluses of skimmed milk, whether in the liquid or powder form. In particular, in order to allow for longer-term planning and practical arrangements necessary for the maintenance or increase of the use of liquid skim for animal feed, the Commission intends to continue the system of aid for a period of years; it does not see this aid as a temporary measure.
13. The development of the butter market is less satisfactory. The public intervention stock is about 220,000 tonnes. The Commission is of the opinion that a special effort is necessary in order to avoid further increases in stocks in 1979
 - the "social butter" scheme, the reduced price sales to defence forces and non-profit making institutions and the reduced price sales for pastry and ice-cream manufacture must be maintained. An increased list of products which can benefit from Regulation (EEC) No 232/75 is now being examined and the Commission is confident that offtake for use in food manufacture can be increased.

- consistent with its policy of giving preference, where reasonable, to Community consumers and also of avoiding surplus products passing through the intervention stores, the Commission proposes that the Community contribution to the general butter subsidy under Regulation (EEC) No 880/77, be increased substantially to 75 per cent of total cost up to a maximum Community contribution of 42 u.a. per 100 kg
- while recognizing that Community exports of butter in 1978 have been below the level achieved in 1977, prospects for significant increases in 1979 are limited, even with the maintenance of an active export policy.

Conversion to other enterprises

14. The Commission is of the view that the system of premia for non-marketing of milk and milk products and for conversion to beef and sheep are essential elements in the re-establishment of balance in the milk market. By the end of December 1978 some 700,000 cows were already accounted for in approved applications under this scheme. This represents about 2.78% of the Community dairy herd. The Commission will present a more complete report on the operation of these schemes early in 1979. In the meantime, in order to avoid uncertainty about the future of these schemes and since the modifications introduced in 1978 have been significant, both in the higher level of aid and changed procedures, the Commission proposes to the Council that these schemes be extended unchanged up to the end of the marketing year 1979/80.

15. The non-marketing/conversion scheme is a useful method of encouraging those who may wish to give up dairying. In addition, as indicated in the Commission's report on the common organizations of the beef market (COM(77) 220, October 5, 1977) it is becoming more evident that it will be necessary to accompany the milk programme with additional steps to stimulate specialised beef production. The Commission will present in due course proposals to this effect.

Other measures

16. In the last two years, when the intervention prices for milk products were increased, prefixed refunds for some or all milk products were adjusted in cases where the products were manufactured after the beginning of the new campaign. This approach has been found reasonable by the Member States. In order to be consistent, to provide for greater equity between producers who sell on the open market and those who sell to intervention and to avoid windfall gains under the present legislation, the Commission proposes that for purchases of butter and skimmed milk powder into intervention, the buying-in prices applicable either in units of account or national currencies shall be those of the date of manufacture of the products.

D. Agricultural Structures Policy

1. An analysis of the agricultural situation shows:
 - the need for improved productivity in broad groups of farms, many of them located in regions suffering severe disadvantages;
 - the disparity between agricultural activity and the overall development of these regions and of other regions of the Community;
 - the stagnation in employment and land mobility consequent on the economic recession;
 - the worsening of permanent market imbalances for several important agricultural products.

2. The Commission is convinced that the socio-structural policy is an essential element of the common agricultural policy. It is the instrument which is designed "to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production, in particular labour" (Article 39(1)(a)). In this respect it should complement and support the markets policy.

It is through this policy that the Community must take account of "the particular nature of agricultural activity, which results from the social structure of agriculture and from structural and natural disparities between the various agricultural regions" (Article 39(2)(a)). Consequently, it is also an objective of the agricultural structures policy to reduce disparities of income between agricultural regions.

Finally, this policy must serve to resolve or prevent clashes between the demands of agriculture and of environmental protection and improvement.

3. The agricultural structures policy must be concerned with the medium and long term: yet must allow for certain major constraints:
 - the present situation and the medium- and long-term prospects of the economy in general;
 - the situation and prospects of the agricultural markets;
 - the specific development requirements of the structurally weakest agricultural regions;

The Commission considers that a long-term policy must be developed and adjusted along the following lines:

- it must be flexible to meet both changing economic situations and requirements which are different in kind and scale;
- it must be consistent with other Community and national policies;
- it must give priority attention to the structurally weakest regions.

4. The structural measures already adopted must clearly be amended or extended to respond fully to these principles and guidelines. It is true that, regardless of the extent to which the Directives or Regulations already implemented have been applied, the existing measures have not been such as to bring about improvement in the structural situation of a substantial number of farms, particularly those which are small and especially those in difficult areas.

To exclude these categories of farm from the "benefits of the common structures policy" is also extremely unsatisfactory for the overall economic development of those regions.

5. Thus, while pursuing its study of direct income aids as a possible solution to hardship situations, the Commission considers that a further effort should be made to bring about a change in this situation by adopting at Community level specific measures which it will be possible to apply in the regions in question.

To this end the Commission will propose, for some particularly less-favoured regions with a large proportion of small farms, that programmes be set up for the Community financing of investments designed to develop, modernize or convert towards production which is particularly suitable for these regions¹.

The Commission considers that the measures to be undertaken within these programmes should be supplemented by other specific measures to encourage withdrawal from farming even where the land thus made available would not be directly used for carrying out a development plan.

¹ For example, the development of some types of stockfarming in Mediterranean regions, sheepfarming in Greenland and certain programmes in the French overseas departments spring to mind.

6. In the same way, the Commission is still convinced that the agricultural structures policy cannot and must not be a substitute for social, economic or regional policies, but that it should complement and support them. The Commission accordingly intends to work for an integrated approach to the overall development of less-favoured regions. For this purpose, it will implement development programmes in small, geographically distinct areas, deploying various ways and means at Community, national and regional levels.

7. With regard to the existing structural measures which are of general application throughout the Community, the Commission still considers that they should be adjusted in certain respects in order to take account of the changed socio-economic context in which they have to be implemented.

These adjustments should be such as to make it possible to apply the Community provisions more selectively, by concentrating them on farms which are in real need, while at the same time steering such farms towards economically sounder types of farming.

8. In this connection the Commission recalls that it has already transmitted to the Council certain amendments to the socio-structural Directives. It intends to amplify or amend these proposals.

In order to achieve the objectives stated above, Directive 72/159/EEC on the modernization of farms should be amended so that

- farms exceeding a certain scale should be excluded from its scope
- access to development plans should be broadened by reducing the level of the target income and by easing the rules for achieving it
- aid to investment and development of farms can be concentrated on lines of production which have good demand prospects and, accordingly, aid would no longer be granted to investments in dairy farms, greenhouses, and pig units (except certain types of investment in some regions to be defined).

With regard to Directive 72/160/EEC, the priority aim must still be to transfer land to farms which need it to be able to modernize.

In order to improve land mobility with this end in view, the Commission feels it is necessary

- to make a substantial increase in the amount of the retirement annuity eligible for assistance
- to introduce a Community system of annuities for persons aged at least 50 who undertake to give up farming completely at the age of 60 at the latest and neither to increase the size of their farm nor the volume of their agricultural output.

With regard to Directive 72/161/EEC concerning the provision of socio-economic guidance for and the acquisition of occupational skills by persons engaged in agriculture, the Commission considers it necessary

- to make Community finance available for training managers and personnel for producer groups
- to align the rate of the EAGGF contribution to the cost of vocational training measures on that of the European Social Fund, namely 50%.

9. The Commission will shortly translate its plans into formal proposals to the Council; at the same time it will revise the proposals it put forward in 1976 for adjusting the various amounts provided for in the socio-structural Directives to take account of changes in purchasing power.

E. Agri-monetary measures

1. The monetary compensatory amounts (MCA) and the green exchange rate system were originally created to prevent a situation in which changes in currency parities automatically involved abrupt identical changes in the various common agricultural policy amounts, in particular prices, expressed in national currencies. The end purpose of this progressive adjustment was to avoid either sharp inflation when a currency devalued or, a big drop in agricultural incomes if it revalued. The monetary compensatory amounts were originally
 - (a) to be decided case by case by the Community
 - (b) to be temporary
 - (c) to have the conditions for their dismantling fixed by the Council at the moment they were instituted.
2. The general disorder of the currency situation since 1971, particularly the floating of many currencies, has warped the system. The introduction of compensatory amounts has become automatic and is not accompanied by the conditions for their abolition.

The consequences of this are as follows:

- (a) The monetary compensatory amounts have swollen in both the positive and negative directions to such a point that price unity, the basis of the common agricultural policy, has disappeared.

MCA rates on 31 January 1979

Germany	= + 10.8	Denmark = 0	Ireland	= - 3
Belgium	= + 3.3		France	= - 10.6
Luxembourg	= + 3.3		Italy	= - 17.7
Netherlands	= + 3.3		United Kingdom	= - 28.2

The maximum variation is thus almost 40 points between Germany, which has the highest positive amount, and the United Kingdom, which has the largest negative amount.

The disappearance of price unity effectively robs of reality what was intended to be one of the key devices of the common agricultural policy, namely the annual fixing of prices.

- (b) In the long run, the gap between the prices actually applied in each Member State and the common price level creates distortions of production. Generally speaking, the countries with devalued currencies, which have by definition had to face higher increases in their input costs, must apply producer prices lower than the common prices. The converse is naturally the case for countries with re-valued currencies.
 - (c) When they increase, the monetary compensatory amounts are liable to create distortions in competition insofar as it is difficult to base them on purely objective considerations. This is the case with the majority of products of first-stage and second-stage processing, for which the aim is, by using a range of coefficients, to differentiate between the basic product, to which MCAs would apply, and the value added by the processing, which should be free of MCAs.
3. The Commission has been pointing out all these disadvantages for a long time past: proposals were made to the Council in 1976 and 1977 (COM/76/590 and COM/77/482), but in vain.

More recently, in the document it submitted to the European Council on 5 December 1978 (COM/78/700), the Commission noted:

"The system of monetary compensatory amounts and green rates, which was introduced to cope with the effects of monetary upheavals on agriculture, has, by eliminating the normal consequences of exchange rate changes and generating artificial distortions in competition, led to a virtual isolation of the agricultural sector within the Community economy as a whole. The continuation of the system jeopardizes the Common Agricultural Policy itself."

The European Council, approving the Commission's analysis, requested the Council to discuss and come to a decision on the Commission's proposal on the impact of the European Monetary System on the common agricultural policy (COM/78/658). (See para. 6(1)(1) of the Resolution of the European Council).

On this it clearly gave the following guidelines:

"The European Council stresses the importance it attaches to avoiding the creation of permanent MCAs in the future and to the gradual reduction of the existing MCAs in the aim of reestablishing the unity of the common agricultural policy prices while taking due account of the prices policy."

4. The following three main principles emerge from these guidelines:

- (a) If certain monetary adjustments are still to occur, there will need to be rules guaranteeing that any MCAs introduced are not of lasting nature.
- (b) In order to restore price unity, the reduction of the present MCAs must be gradual but effective.
- (c) The taking into account of the prices policy means two things: first, it is clear that the rhythm of reduction must not result in intolerable situations for farmers; secondly, it must not result in excessive annual price increases.

5. Basing itself on these principles the Commission considers that the main lines of the following scheme should be observed in the case of the Member States whose currencies are maintained within a fixed maximum spread; the situation of the other Member States must be the subject of an annual examination and decisions by the Council, on the basis of a Commission proposal, the aim being the dismantling of the monetary compensatory amounts.

A. The new Compensatory Amounts

- (a) They would only be introduced by Council decision. That follows from the fact that the return to greater monetary stability ought to make their introduction an exceptional act justifying the calling of a Council meeting immediately after any change in the

revaluation of the central rates.

The return to greater monetary stability justifies returning to the procedure existing before 1971. The EMS by its monetary characteristics (central rates, but adjustable) recalls the international monetary system existing at that time.

The Council would then, on a proposal from the Commission, have the choice between two possibilities:

- it could decide not to create MCAs but to adjust the green rates immediately. This course could be envisaged notably in cases where the value of the central rates changed only slightly. The Council could at the same time decide on any additional measures that might be needed;
- or it could decide to create new MCAs and the conditions for their elimination.

Should the Council not take any decision there would have to be automatic creation of new MCAs.

(b) Dismantling of the new MCAs

Procedures would need to be laid down for dismantling MCAs, i.e. for preventing them from becoming permanent, in cases where the Council did not make provision for this when creating them and in cases where they were introduced automatically.

These procedures would have to make provision for two separate things:

- the dismantling procedure and its duration
- accompanying measures.

On the dismantling procedure the question arises whether it should be automatic or not.

The Commission considers that dismantling must be linked to the progress achieved in the operation of the EMS.

It is clear that the favourable effects of the EMS on the harmonization of economic conditions in the various Member States and on currency stability will only make themselves felt gradually. An automatic procedure must therefore be introduced gradually while respecting the European Council's guidelines, i.e. the duration of the new monetary compensatory amounts must be precisely defined.

The MCAs introduced after the date of entry into force of the EMS would be automatically dismantled in the following way (i.e. if the Council did not decide otherwise):

- they would be reduced by 50% not later than the beginning of the first marketing year following that of their introduction
- the other 50% would be eliminated not later than the beginning of the second marketing year following that of their introduction.

However, the Council acting on a proposal from the Commission, may defer by one year all or part of the adjustment to be made in each of these two stages.

These provisions must be integrated into a definitive system at the end of the initial phase of the European Monetary System.

Lastly, with regard to the measures to accompany the dismantling process, the Commission takes the view that arrangements could be made to facilitate the elimination of the new compensatory amounts and in particular that these arrangements could be defined when the amounts were instituted.

But it is against any procedure under which elimination of the MCAs would be made automatically conditional upon an increase in prices expressed in units of account.

B. The old compensatory amounts

The dismantling of the old compensatory amounts must:

- (a) be progressive
- (b) take account of the prices policy.

These two conditions are not mutually exclusive but throw light on each other.

It is clear to the Commission that the dismantling must be fairly rapid if it is to be meaningful, but that other considerations must be borne in mind, in particular the possible introduction of new compensatory amounts, and price policy requirements, whether seen from the farmer's point of view or from that of general economic policy or of the consumer.

Once these general principles are stated, two matters must be decided, namely:

- the duration of the dismantling period and the procedure
- the conditions governing the dismantling.

1. Duration and procedure

The Commission considers that it would run counter to the principles outlined above to fix a rigid "timetable" for dismantling the stock of MCAs existing at the time of entry into force of the EMS.

On the other hand, it considers it desirable to fix a deadline by which this stock should have been phased out.

The Commission propose to fix this deadline at two years (or 2 marketing years) following the end of the initial stage of the EMS or, 4 years (or 4 marketing years) from the date of its introduction.

2. Conditions governing the dismantling process

It is clear that the dismantling of the positive compensatory amounts creates more problems than that of the negative amounts, although, with regard to the latter, care must be taken not to re-activate inflation.

The Commission considers that it cannot propose that the elimination of the positive amounts should automatically entail an equivalent increase in prices expressed in units of account.

On the other hand, the Commission feels that the timetable for dismantling the positive amounts can and should be adjusted in such a way that, combined with the requirements of an objective price policy the result would be tolerable for farmers.

Likewise, on condition that it would be authorized and monitored by the Community authorities and that it would not give rise to distortions of competition, the Commission considers that some temporary national compensation could be paid if the trend in the net incomes of farmers warranted it. With regard to the application of these principles to the 1979/80 marketing year, the Commission proposes :

- (a) A dismantling of the negative compensatory amounts entailing a price increase of 4.5 % for Ireland, thus enabling the amounts to be abolished in that Member State, and of 5 % for France, Italy and the United Kingdom. These 5 % include for France, the devaluation which has already been decided for the marketing year 1979/80, except for pigmeat for which the 5 % is to be added to the 3.6 % already decided. The decisions which the Council could adopt in the immediate future, in respect of which another proposal is being presented at the same time, would be set off against these figures.
- (b) As for the positive compensatory amounts, the need for rigour as regards prices means that dismantling should not exceed a scale justified in economic terms and tolerable at political level.

In view of present circumstances and proposals, the Commission is not proposing a revaluation of the green rates entailing positive compensatory amounts, but keeps the option to put forward complementary proposals at an appropriate time.

Conclusion

6. In conclusion, the Commission must stress the serious and urgent need for the adoption of interrelated decisions upon which not only the future development of the Community, but even its very preservation, may well depend. These decisions concern
 1. The establishment of the European Monetary System, an indispensable instrument for bringing closer together the economic and monetary policies of the Member States, in a word, the key to the progress of the Community.

2. The rationalization of the common agricultural policy through the elimination within a reasonable period of the monetary compensatory amounts.
3. The safeguarding of the common agricultural policy by means of an objective price policy properly related to conditions on the markets, producers' requirements and consumer capacity.

If, in order to arrive at definitive, satisfactory and mutually consistent solutions to these three fundamental problems, it should prove desirable to make slight adjustments to certain Community policies in force or to submit certain supplementary proposals, the Commission would be prepared to do so on condition that the essential meaning of the three major projects mentioned above would not be impaired.

F. FOOD AID

In the preliminary draft budget for 1979 the Commission had proposed to the Council that the following quantities should be fixed for food aid : 1 135 000 t of cereals, 150 000 t of milk powder and 55 000 t of butteroil. The "Budget" Council followed the Commission's proposal as regards milk powder but reduced the quantity of cereals to 720 500 t and that of butteroil to 45 000 t. The Commission still feels that the quantities fixed for these two products are insufficient and will fail to meet the growing needs of the developing countries in 1979.

1. CEREALS

The Commission would stress that the data in this document which relates to quantities of cereals do not anticipate the decision to be taken at the negotiations for a new Food Aid Convention.

On 28 November 1977 the Council gave the Commission a brief to negotiate the new Food Aid Convention, the Community's annual participation to be 1 650 000 t.

The "Budget" Council of 18 July 1978 maintained, in the draft budget, the same quantity as for 1978, i.e. 720 500 t, while giving the following undertaking :

"Should the Community participate in the World Food Aid Convention in 1979, the Council undertakes to draw the appropriate conclusions at budgetary level." (1)

In line with this undertaking given by the Council, the Commission therefore intends to submit to the Budget Authority a preliminary draft Supplementary Budget to that effect, once the Convention has been signed (probably late February or early March 1979).

(1) Doc. R 2449 f/78 of 25 September 1978

2. BUTTEROIL

The 45 000 t which the Council has fixed as the quantity for butteroil under the 1979 budgetary procedure will be insufficient to meet the minimum requirements of many developing countries, since considerable aid must still be supplied to India under the large-scale rural development programme entitled "Operation Flood II" (annual delivery of 12 700 t). The Commission considers therefore that its original proposal of 55 000 t should be adopted (preliminary draft budget for 1979).

The Budget Authority will translate this increase into budgetary terms when a Supplementary Budget is presented covering both cereals and butteroil (see point 1 above).

