

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) 100 final

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(will be presented later)

Draft proposals of Regulations:

- prices
- adaptation of green rates
- related measures

INTRODUCTORY REMARKS

The Commission herewith presents to the Council its proposals concerning the fixing of prices for certain agricultural products for the 1977/78 marketing year and also concerning a number of related measures.

At the same time, the Commission puts forward its proposals on the common prices to be applied in the new Member States insofar as the Act concerning the Conditions of Accession and Adjustments to the Treaties lays down special provisions (milk, beef and veal, flax). These special provisions come to an end on 31 December 1977.

The Commission's proposals follow the guidelines set out in its Memorandum on the improvement of the common agricultural policy (COM(73)1850 final of 31 October 1973) and in its stocktaking of the common agricultural policy (COM(75)100 of 26 February 1975) as well as the Council's conclusions on the Stocktaking of the common agricultural policy (doc. 1/173/75 (Agri. 12) (Fin 60) of 11 November 1975).

The attached proposals have been formulated in the light of the information contained in the 1976 Report on the Agricultural situation in the Community (report published in January 1977 in conjunction with the Tenth General Report on the activities of the European Communities), in the 1976 Report on the situation of agricultural markets (COM(77)50 final) and in the Report on agricultural incomes in the Community (Complement to the 1976 Report on the agricultural situation in the Community) (doc. COM(77)60 final).

The legal acts relating to the price determinations for the 1977/78 marketing year and those concerned with related measures are included in Volume II of this document COM(77)100.

The financial consequences of the attached proposals are laid down in document COM(77) 150 *final*.

A. Explanatory Memorandum

1. The proposals for prices for the 1977/78 marketing year are being framed at a time when the Community is emerging from the worst economic recession it has experienced since its creation.

Although the general economic situation has improved and the Community's gross domestic product increased by 4.3% in 1976, unemployment has remained at an exceptionally high level: towards the end of the year, almost 5.3 million workers, including 2 million young people, were without jobs.

In 1976, the inflation rate was brought below double figures for the first time since 1974, but it is still high (9.3% Community average). Differences between Member States remain significant and have worsened.

2. Overall economic prospects for 1977 remain uncertain, following the slow-down of the recovery process in late 1976. Gross domestic product is expected to rise by 3%, but unemployment will remain high, inflation will continue to be serious and oil price rises may cause renewed balance of payments difficulties.

3. In 1976, agricultural production was hit by the longest drought of the century. Price increases for the means of production, which had reached a high level in the Community in 1974 (17.6%), fell to less than 11% in 1975 but rose slightly in 1976 (11%). At the same time, producers' prices of agricultural output increased on average by 15% in 1976 (13% 1975, 6% 1974).

The overall effect was that in 1976 the average income expressed as the value added by each man employed in agriculture rose by 10.5% in nominal terms, though the rise was smaller (1.0%) in real terms. In 1975 the rise in the value added by each worker was 17.6% in nominal and 2.1% in real terms. Again, there is a considerable divergence between Member States.

The impact of the drought was greater for vegetables (especially potatoes) and maize than for other crops (for example, barley and sugar). The milk industry recovered quickly from the drought and production for the whole year was higher than in 1975 by 1.7%; milk deliveries to dairies increased by 2.5%, whereas consumption remained stable or even declined.

4. Milk production and deliveries to dairies are expected to go on rising in 1977 (3 to 4 %) but beef output, which increased during the drought, is expected to be lower than in 1975 as the production cycle moves downwards. Pigmeat supplies, however, are expected to be high. The year 1977 begins with some world market prices at low levels - for example, wheat and sugar - as world stocks increase following good 1976 harvests. The Community is still carrying surplus stocks of skimmed milk powder, wine and olive oil. If appropriate decisions are not taken in the milk sector, stocks of butter and skimmed milk powder will increase further.

5. This economic background to the price proposals for the 1977/78 marketing year must be seen together with the Community institutions' rather longer-term reflections based on the Stocktaking of the common agricultural policy (1). In particular, the Commission insists on the rapid adoption of measures associated with the milk action programme to combat existing and growing surpluses in the milk sector and of measures to return to a unified agricultural market.

The Commission will back up all these measures by proposing before July 1977 a set of improvements to some current market organizations, in particular those for beef, olive oil and starch.

6. The general economic situation and the pressure which it exerts on public finance makes it still more necessary to implement the common agricultural policy in the most efficient and least-costly way possible, in respect both of economic and budgetary costs. The Commission aims, with its present proposals and with those to be presented before July 1977, to strengthen the overall efforts of the Community and the Member States to fight inflation and yet not impair agriculture's role in the general economic recovery.

The Commission intends to present before July 1977 appropriate measures to improve the current structural policy, taking into account especially the particular problems of the structurally most deficient regions.

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(1) See Stocktaking of the common agricultural policy, doc. COM(75)100 of 26 February 1975, par. 92 and 93.

7. Since the 1972/73 marketing year, the Commission has used the result of the so called "objective method" as the starting point for its annual consideration of agricultural proposals (1).

Taking into account (a) the structure of inputs noted on the reference farms of the Farm Accountancy Data Network (1972, 1973, 1974), (b) the interrelated development in 1974, 1975 and 1976 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 indicates no need for an increase in the general level of common prices of agricultural products for the 1977/78 marketing year.

The result is low because the calculation of the need expressed in u.a. is made on the basis that the differences between the green rates and the market rates of exchange are eliminated. Since there have been limits to an abolition of the MCA's, one has to conclude that there is an additional need of price increase in u.a.

If, for instance, the calculation is made for the Snake countries only (Germany, Benelux, Denmark) where monetary instability has been much less than in the Community at large, the result indicates a need for an increase in the general level of common prices of the order of 5 %.

8. The "objective method" provides only a general indicator, which the Commission uses in combination with others (market situation, general economic evolution), in order to :

- (1) achieve income aims as far as possible,
- (2) move closer to market unity, by adapting the current green rates,
- (3) achieve a better market balance where necessary, in particular in the milk sector,
- (4) support anti-inflationary policies throughout the Community.

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(1) See Stocktaking of the common agricultural policy, doc. COM(75)100 of 26 February 1975, par. 92 and 93.

9. When proposing a method for a permanent adaptation of green rates, the Commission emphasized the numerous distortions arising from abuse of the system of monetary compensatory amounts. While recognising the useful short-term role of MCAs in protecting farmers or consumers against sudden currency movements, the Commission opposes strongly any attempt to maintain them beyond their short-term role. It considers unacceptable their harmful effects - trade distortions, discrimination between commodities and an increasingly serious misallocation of resources.

10. As in previous years, the Commission proposes to include green rate adaptations in the price package, in order to move closer to a unified agricultural market.

This market is now divided into seven monetary zones by MCA's which, despite the recent recoveries of some currencies, remain at historically high levels. The current position is in sharp contrast to that at the beginning of 1976.

11. The year 1976 has seen a new revaluation of the Deutschmark (+ 2 %) and a devaluation of the Danish kroner (- 4 %); the French franc left the snake in March; further falls have taken place in the value of the French franc, the Italian lira and the pound sterling, although these currencies have shown recent recoveries.

These currency movements have been partly offset by a number of green rate adaptations. The size of MCAs on 31 January 1977 was :

Germany	: +	9.3	France	: -	16.1
Benelux	: +	1.4	Italy	: -	19.9
Ireland	: -	9.5	United Kingdom	: -	33.6

12. Faced with this situation, the Commission proposes the following changes :

	<u>Reduction of MCA's</u>	<u>Variation in prices</u>
Germany	2,75 points	- 2,96 %
Benelux	0,4 points	- 0,4 %
Ireland	3 points	+ 2,79 %
France	3 points	+ 2,65 %
Italy	3 points	+ 2,6 %
United Kingdom	8 points	+ 6,31 %

These changes will apply from the beginning of each marketing year, except for milk; in this sector, the change for the revaluing countries will be on 16.9.1977 and for the United Kingdom in two equal steps on 1.4.1977 and 16.9.1977.

Through these adaptations of the green rates, the Community will have taken a step towards restoring market unity. But the Commission still believes that further action should be taken in this field during the marketing year 1977/78 along the lines laid down in the proposed method for a permanent adaptation of the green rates¹.

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13. In proposing different price increases for the various products, the Commission has also considered:

- the existence or the threat of surpluses (milk, wine, olive oil, some fruit),
- the two final steps towards full common prices for the United Kingdom and Ireland,
- the price effects of previous and proposed green rate adaptations,
- the need to consider consumer interests and, in areas where consumption is stagnating or even declining (butter, olive oil, beef), to have a positive effect on consumption,
- possible effects on trade with non-member countries,

14. The Community faces a disastrous situation in the milk market.

The Commission therefore proposes an extremely strict price policy for milk and urges the adoption of a milk action programme before the beginning of the new marketing year. In order that such a programme can be effective in tackling the problem and taking account of the reaction to its earlier proposals, the Commission has rethought some of the measures already proposed and is now putting forward some modifications to its original proposals.

¹ See "Longer term measures to be taken in the field of monetary compensatory amounts", doc. COM(76)600 of 21 October 1976 and COM(76)590 of 4 November 1976.

15. A prudent price policy is also desirable in several other sectors: sugar, some tobacco varieties, some fruit (apples, pears, oranges, mandarins, table grapes) and wine.

In view of the Commission's intention to propose before July 1977 further measures in several sectors, this price package has been kept to a minimum. However some transitional measures for beef and special measures for isoglucose are included in this price package.

Detailed explanatory memoranda for individual products (prices and related measures) will be found in part B of this document.

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10. Price increases, as listed in the attached table, result in an average increase of agricultural prices in u.a. (institutional prices) of the order of 3 %. The average effect on the cost of food to the consumer would be of the order of 1,5 % and on the cost of living in the Community of the order of 0,3 %.

The cumulative effect of price increases in u.a., of an adaptation of the green rates and, where applicable, of aca adjustments in the new Member States, results in an average increase of agricultural prices of the order of 5% (weighted average).

The price package, as laid down in the attached table, emphasizes the Commission's will to strengthen the overall efforts of the Community and the Member States to fight inflation.

Proposed prices and amounts

Product	Category of price or amount	Amounts fixed 1976/77 u.a./tonne	1977/78 proposals		Period of applica- tion of the proposed prices
			u.a./tonne	Percentage change from 1976/77 to 1977/78	
1	2	3	4	5	6
Durum wheat	Target price	218.80	223.20	2.0	1.8.77 - 31.7.78
	Single intervention price	202.00	202.00	0.0	
	Aid	0-21-50 UC/ha	50 UC/ha	-	
Common wheat	Target price	152.00	156.50	3.0	1.8.77 - 31.7.78
	Common single intervention price	-	119.50	3.0	
	Single intervention price for bread-wheat	131.00	-	-	
	Reference price for bread-wheat	-	135.00	-	
Barley	Target price	137.80	144.20	4.7	1.8.77 - 31.7.78
	Single intervention price	116.00	-	-	
	Common single intervention price	-	119.50	3.0	
Rye	Target price	149.15	153.60	3.0	1.8.77 - 31.7.78
	Single intervention price	124.00	127.70	3.0	
Maize	Target price	137.80	144.20	4.7	1.8.77 - 31.7.78
	Single intervention price	112.20	117.50	4.7	
Rice	Target price - husked rice	284.52	292.98	2.97	1.9.77 - 31.8.78
	Intervention price - paddy rice	164.16	-	-	
	Single intervention price - paddy rice	-	170.73	4.0	
Sugar	Minimum price for sugarbeet	24.57	25.31	3.0	1.7.77 - 30.6.78
	Target price for white sugar	348.70	361.40	3.6	
	Intervention price for white sugar	331.40	344.20	3.9	
Olive oil	Producer target price	1 850.00	1 868.50	(1)	1.11.77 - 31.10.78
	Market target price	1 448.90	1 412.00		
	Intervention price	1 376.40	1 339.50		

Product	Category of price or amount	Amounts fixed 1976/77 u.a./tonne	1977/78 proposals		Period of applica- of the proposed prices
			u.a./tonne	Percentage change from 1976/77 to 1977/78	
1	2	3	4	5	6
Oilseeds	Guide price for soya seed	285,00	305,00	7.0	1.11.77 - 31.10.78
	Target price				
	. Colza and rape seed	275,70	284,00	3.0	1.7.77 - 30.6.78
	. Sunflower seed	286,30	306,30	7.0	1.9.77 - 30.6.78
	Basic intervention price				
	. Colza and rape seed	267,70	275,70	3.0	1.7.77 - 30.6.78
. Sunflower seed	278,00	297,50	7.0	1.9.77 - 31.8.78	
	Guide price flax seed	290,00	313,20	8,0	1.8.77 - 31.7.78
Dehydrated fodder	Fixed rate aid	9,00	9,50	-	1.4.77 - 31.3.78 Dehydrated potatoes 1.7.77 - 30.6.78
Cotton seeds	Fixed rate aid (per ha)	103,20	104,00	-	1.8.77 - 31.7.78
Flax and hemp	Fixed rate aid (per ha)				
	. Fibre flax	188,15	191,91	-	1.8.77 - 31.7.78
	. Hemp	174,04	176,00	-	
Seeds	Aid (per 100 kg)				
	. Monoecious hemp	8,00	9,00	-	
	. Fibre flax	13,00	13,00	-	
	. Seed flax	-	10,00	-	1.7.77 - 30.6.78
	. Grasses	10 to 31	10 to 33	-	
	. Legumes	4 to 25	4 to 25	-	
Table wine:	Guide price	1,96	2,02	3,0	
	(per degree/hl or per hl according to type)	1,96	2,02	3,0	
	Type R III	30,58	31,50	3,0	16.12.77 -
	Type A I	1,84	1,90	3,0	15.12.78
	Type A II	40,75	41,97	3,0	
	Type A III	46,53	47,93		

Product	Category of price or amount	Amount fixed 1976/77 u.a./tonne	1977/78 proposals		Percentage change from 1976/77 to 1977/78	Period of applica- tion of the proposed prices
			u.a./tonne			
1	2	3	4		5	6
Raw tobacco	Norm price Intervention price	(3)	(3)		1,5 (on average)	1.1.77 - 31.12.77
Fruit and vegetables	Basic price Buying-in price	(4)	(4)		2 5	1977 - 1978 (4)
Milk (5)	Target price for milk Intervention price . for butter (6) . for skimmed milk powder . for cheese - Grana padano 30-60 days - Grana padano 6 months - Parmigiano-Reggiano 6 months	162,90 167,60 2 180,00 2.238,00 901,60 913,70 2 089,10 2.137,90 2 506,90 2.558,40 2 718,10 2.769,60	167,60 172,60 2 238,00 2.298,00 913,70 936,50 2 137,90 2.192,40 2 558,40 2.616,00 2 769,60 2.827,20		3,0 2,68 2,49 2,55 2,25 2,08	1.4.77 - 31.3.78
Beef and veal	Guide price for adult bovines (live weight) Guide price for calves (live weight)	1 187,40 1 390,40	1 223,0 -		3,0 -	1.4.77 - 2.4.78
Pigmeat	Basic price (slaughter weight)	1 144,80	1 190,60		4,0	1.11.77 - 31.10.78
Silkworms	Aid per box of silk seed Aid to recognized producer groups (per box)	40,00 15,00	40,00 13,61		- -	1.4.77 - 31.3.78

(1) 1 % increase in the producer target price in u.a. Retention of market target price both in Italian liras and French francs. Retention of the difference between the market target price and the intervention price. The amount of the aid moves from 401,1 u.a. a tonne to 456,5 u.a.

(2) Prices differentiated for new Member States:

		<u>United Kingdom</u>		<u>Ireland</u>	
Fibre flax	Aid	161.34 u.a./ha		(191.91 u.a./ha common level)	
Butter	Intervention price	1 April 1977	1 996.30 u.a./t	1 April 1977	2 199.20 u.a./t
		16 September 1977	2 050.20 u.a./t	16 September 1977	2 258.60 u.a./t
Adult bovines	Guide price		1 177.00 u.a./t		
			up to 31.12.1977, then common level		

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

(4) Products in Annex II of Council Regulation 3052/72 of 18 May 1972 and periods varying according to the product:

Cauliflowers:	1.5.1977 to 30.4.1978	Lemons	: 1.6.1977 to 31.5.1978	Apples	: 1.8.1977 to 31.5.1978
Tomatoes	: 1.6.1977 to 30.11.1977	Pears	1.7.1977 to 30.4.1978	Mandarins	: 16.11.1977 to 28.2.1978
Peaches	: 1.6.1977 to 30.9.1977	Table grapes:	1.8.1977 to 31.10.1977	Sweet oranges:	1.12.1977 to 30.4.1978

Increases of 2% for oranges, mandarins and clementines and 2.5% for lemons are proposed in the financial compensation designed to promote the marketing of Community citrus production on Community import markets.

(5) In this sector, two periods of application in 1976/77, from 15.3.1976 and from 16.9.1976; and in 1977/78, from 1.4.1977 and from 16.9.1977 (price changes from 16.9.1977). Increases are calculated in relation to the second period of the previous marketing year.

(6) Consumer subsidy for butter in 1976/77 a maximum of 50 u.a./100 kg (of which a maximum of 16,25 u.a. payable by the EAGGF); in 1977/78 the same maximum with EAGGF contribution of 25 % between 0 and 20 u.a. and of 50 % between 20 and 50 u.a. (of which a maximum of 20 u.a.). Maintenance of the present level of subsidy for skimmed milk powder for use as animal feed.

NB Aid for the 1975 hop harvest ranging from 200 to 650 u.a./ha according to variety.

With regard to fishing, different prices for each product covered by the Council Regulation of 20 October 1970. In December 1976 fixing of (guide) prices for products in Annex I, A and C of this Regulation (guide) prices for products in Annex II of this Regulation, intervention prices and Community production prices for the 1977 marketing year. Intervention prices for sardines and anchovies are automatically calculated at the rate of 45% of guide prices.

B. DISCUSSION OF INDIVIDUAL PRODUCTS

CEREALS

A. PRICES

1. Article 3 of Council Regulation (EEC) No 2727/75¹ of 29 October 1975 on the common organization of the market in cereals, as amended by Council Regulation (EEC) No 1143/76 of 17 May 1976², provides that the following should be adopted according to the procedure laid down in Article 43(2) of the Treaty:

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

2. As an increase in the general level of common agricultural prices is desired, and in view of the agri-monetary measures proposed:

- (a) there should be a 3% increase in the common single intervention price for feed-grains, except maize, for which a 4.7% increase is proposed as a second step towards a common single price;
- (b) in order to encourage the production of common wheat of medium bread-making quality, the reference price for it should be calculated by adding 15% to the common single intervention price. This corresponds to the ratio between the output of the medium bread-making and non-bread-making qualities of common wheat. However, in view of current economic conditions, the reference price for 1977/78 should be set for the minimum quality for bread-making, with a 13% difference only from the common single intervention price.

¹OJ No L 281, 1.11.1975, p. 1.

²OJ No L 130, 19.5.1976, p. 1.

- (c) the target price for common wheat should be calculated by adding to the reference price for common wheat of bread-making quality a market component of 6.5%, in order to allow the market to develop an adequate price spread depending upon quality, and a component representing Ormes-Duisburg transport costs at 12.76 u.a./t;
- (d) there should be the same rise in the single intervention price for rye as in the common single intervention price, viz. 3%;
- (e) there should still be a separate system for rye, with the intervention and target prices being increased by the same percentage as for other cereals;
- (f) there should be no increase in the single intervention price for durum wheat, so as to improve the intervention price ratio between durum wheat and common wheat of bread-making quality:

$$1976/77: 131/202 = 154$$

$$1977/78: 135.00/202 = 149.6$$

- (g) the target price for durum wheat should be calculated by adding to the single intervention price a market component of 4.2%, which will be sufficient to increase fluidity while not too seriously affecting the intervention price ratio between common and durum wheat:

$$1976/77: 152/218.8 = 144$$

$$1977/78: 156.5/223.2 = 142.6$$

- (h) the common target price for barley and maize should be calculated by increasing the common single intervention price by a market component of 10% and a component representing Ormes-Duisburg transport costs at 12.76 u.a./t.

This proposal constitutes a single whole designed to serve as the framework within which a price range may develop freely on the market in terms of the comparative technical quality of the various cereals. This system is based on the difference between barley and maize in their conversion value for use as feed, which is commonly assessed at 8%, with an extra market margin of 2% for barley, in order to avoid intervention buying of barley, being the cereal with the lowest conversion value. This is

how the 10% market component of the target price for barley and maize is arrived at.

The various increases proposed give an average rise in cereal prices as a whole of about 3.1% .

Aid for durum wheat

Special mention should be made of the proposal on aid for durum wheat.

The Community market in durum wheat has been disturbed by a bad price ratio between common and durum wheat. This has led to production being encouraged - sometimes to the detriment of quality - in regions not well suited to growing durum wheat, while users have been discouraged by prices which were excessive for the lower qualities offered. It was thus imperative to re-establish a more normal intervention price relationship between common and durum wheat and to improve the fluidity of Community trade.

The aid for durum wheat is to be granted only in those parts of the Community where structures are such as to make it indispensable, which is not the case in all regions where it is currently granted. Hence the Commission's proposal to limit the aid to that part of Italy in which it will be most useful and to make no increase in its amount, which is considered sufficient.

3. The price proposals were based on the following analysis of the situation in the cereals sector:

- Cereals production, which accounted for about 10.5% of the value of the final agricultural production of the Community in 1975, covers about 28% of the utilized agricultural area. After a fall of 10.2% in 1975, production was about 90.9 million tonnes in 1976, a drop of 6.4% due principally to a fall in yields as a result of the drought.

. the previous year's 17% increase in durum wheat was replaced in 1976 by a fall of 11.3%. Common wheat and rye went up by 4.9% and 1.4% respectively, while output of all other cereals fell - barley by 7.6%, oats by 17.4%, maize by 23.2%. The fall was thus mainly in the coarse grains.

4. As regards the monthly increases, an increase from 1.42 to 1.46 u.a./t is proposed for all cereals except durum wheat, for which a rise from 1.52 to 1.56 u.a./t is put forward. A parallel rise in monthly increases is proposed for flour, groats and meal.

5. In view of the supply and market situation, the Commission has no intention of proposing carry-over payments for cereals.

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In the proposed figures included in the following table, the percentages have been rounded off to the first decimal point.

PRICE PROPOSALS FOR 1977/78

Product	1975/76	Increase	1976/77	Increase ¹	1977/78
	u.a./t	%	u.a./t	%	u.a./t
<u>COMMON WHEAT</u>					
Single intervention price) bread-wheat)	-	-	131.00	-	-
Common single intervention price	-	-	(116.00)	+ 3.0	119.5
Reference price bread-wheat	-	-	-	-	135.- ²
Basic intervention price	125.93	-	-	-	-
Target price.	139.44	+ 9.0	152.00	+ 3.0	156.5
<u>RYE</u>					
Single intervention price	119.76	+ 3.5	124.00	+ 3.0	127.7 ³
Target price	138.74	+ 7.5	149.15	+ 3.0	153.6
<u>BARLEY</u>					
Single intervention price	110.96	+ 4.5	116.00	-	-
Common single intervention) price	-	-	116.00	+ 3.0	119.5
Target price.	126.99	+ 8.5	137.80	+ 4.7	144.2
<u>MAIZE</u>					
Single intervention price	103.43	+ 8.5	112.20	+ 4.7	117.5
Target price.	126.41	+ 9.0	137.80	+ 4.7	144.2
<u>DURUM WHEAT</u>					
Single intervention price	190.53	+ 6.0	202.00	0	202.0
Target price.	207.33	+ 5.5	218.80	+ 2.0	223.2
Aid	24.92 u.a./t		0-21-50 u.a./ha		50 u.a./ha ⁴

¹Percentage rounded-off to the first decimal point.

²Common wheat of bread-making quality meeting only minimum requirements for bread-making.

³A special bonus of 3.1 u.a./t is proposed for rye of bread-making quality with an amylographic index of 200 or more.

⁴For southern Italy only.

B. RELATED MEASURES

1. Proposal for a Council Regulation amending Regulation (EEC) No 2727/75 on the common organization of the market in cereals

The aim of the proposed amendments is to adapt Regulation (EEC) No 2727/75 to the new price system which is to enter into force on 1 August 1977, following the transitional system for the 1976/77 marketing year.

This adjustment takes account of certain observations put forward after the adoption of the compromise on the Commission proposals at the time of the 1976/77 price decisions.

Consideration has thus been given to the desire of certain delegations to have specified the quality in respect of which the reference price for common wheat of bread-making quality is fixed. To do this, it was necessary to introduce into the basic regulation the concept of a medium bread-making quality on the basis of which the reference price is fixed and to leave it to the Council to determine both the minimum requirements for bread-making and the medium bread-making quality. The basic regulation (Article 4) contained only transitional arrangements for the 1976/77 marketing year.

Nevertheless, provision is made for a derogation for 1977/78 for which year, because of present economic conditions, it is proposed to fix the reference price at the level of the minimum quality required for bread-making.

Similarly, it was deemed appropriate to adopt that part of the transitional Article 4 concerning the method to be followed which has to be established in accordance with Management Committee procedure.

To demonstrate the Council's willingness to extend special intervention measures to producers of common wheat of bread-making quality, an addition has been made to the article on special intervention measures, to the effect that such measures may be applied to qualities which met the minimum requirements but which are other than that in respect of which the reference price is fixed.

It was considered necessary to specify the manner of calculating transport costs in all cases where this is provided for in the regulation. For this purpose a rule was adopted which existed at the time when intervention prices were derived. This rule applies to the calculation of both the target price and the threshold price.

The amendment to the second indent of Article 10(5) of the basic regulation is intended to make it simpler to establish the quality where reference to the variety is sufficient guarantee of the characteristics required for pasta-making, thus facilitating controls and reducing their cost.

2. Proposal for a Council Regulation on minimum bread-making requirements in respect of common wheat

This regulation follows on the amendment to the basic regulation whereby it is left to the Council to establish the minimum requirements which common wheat must satisfy to be considered suitable for bread-making.

This proposal incorporates the determination of minimum requirements as laid down by the Council in respect of the 1976/77 marketing year.

3. Proposal for a Council Regulation supplementing Regulation (EEC) No 2731/75 fixing standard qualities for common wheat, rye, barley, maize and durum wheat

The sole aim of this proposal is to include the reference price in the list of prices to which the definition of standard quality applies. There has been no other change.

RICE

A. Prices

1. Articles 2 and 4 of Council Regulation (EEC) No 1418/76 of 21 June 1976 on the common organization of the market in rice provides for a target price for husked rice and intervention prices for paddy rice in rice-producing areas (Vercelli and Arles). It is proposed that the intervention prices be replaced by a single intervention price for 1977/78 (Vercelli).

2. In the Community, rice is grown in Italy and France. Over the last 10 years (1966-76), sown areas have increased in Italy by 39% (from 132 000 ha to 183 500 ha), whereas in France they have decreased by 71% (from 28 000 ha to 8 100 ha). Over the same period, the yields per hectare have also increased by 86% in Italy and 6.7% in France. This has meant a 57% increase in paddy rice production in Italy (1966: 621 250 t; 1976: 975 000 t) while in France there has been a 68% decrease (1966: 100 000 t; 1976: 32 400 t).

Italy is, therefore, the only important producer of rice in the Community and the rise in production has led to a structural surplus which may be estimated at 330 000 t (milled rice) for the current marketing year. The Community also imports about 500 000 t, of which about 187 000 t could be covered by Italian rice, that is, about half of the Italian surplus; the remaining 140 000 t would have to be exported to non-member countries.

3. In fixing rice prices, account should be taken of the interchangeability of maize or sugar beet crops with rice crops. The prices of such substitute crops, and maize prices in particular, are therefore a determining factor for rice production. The intervention price for rice should therefore be increased by a percentage corresponding to that applied to maize.

With an increase of 4% in the intervention price of paddy rice, the target price of husked rice is as follows:

u.a./t

	1976/77	Proposal 1977/78
1. Intervention price at Vercelli Increase in relation to preceding marketing year	164.16 (+ 6%)	170.73 (+ 4%)
2. Market component (including ACP/OCT preference of 1.5 u.a./t)	17.32 (10.55%)	18.78 (11%)
3. Husking costs for paddy rice	23.95	25.96
4. Price of husked rice at Vercelli (1 + 2 + 3 x coeff. 1.25)	256.79	269.34
5. Transport costs (Vercelli-Duisburg)	27.73	23.64
6. Target price for husked rice at Duisburg (4 + 5) Increase in relation to preceding marketing year	284.52 (+ 9%)	292.98 (+ 2.97%)

4. The target price calculated from the new intervention price is increased by slightly less than 3%. Three factors have to be considered in determining the target price:

(a) Market component

By analogy with the approach to cereals, the system for rice should also be based on the fact that market prices in the area of production normally rise above the intervention price. This rise which may occur, called the market factor, has been estimated at about 10% for the 1976/77 marketing year. It is proposed to increase the market component for 1977/78 to 17%, by including half the ACP/OCT preference (= 1.5 u.a./t) which was previously taken into account in the derivation of the target price.

(b) Processing component

The intervention price applies to paddy rice, whereas the target price is fixed in respect of husked rice. For this reason, both the processing costs and the processing coefficient (1.25) should be taken into account when the price is calculated.

The processing costs adopted for 1977/78 are 8.4% higher than those adopted for the previous marketing year.

(c) Transport component

The transport component covers the most favourable transport rates between Vercelli and Duisburg. These costs relate to combined transport, that is, rail from Vercelli to Basle and barge from Basle to Duisburg. They are 15% lower than those adopted for 1976/77; this reduction is due in particular to the sharp decrease in rail transport costs (tariff) in Switzerland.

B. Related measures

1. Amendment to the basic regulation on rice (1418/76)

In accordance with the provisions of Regulation (EEC) No 1418/76 currently in force, the intervention prices for Arles and Vercelli are to be derived from the target price at Duisburg.

By analogy with the new system for cereals, a single intervention price (Vercelli) is now also proposed in respect of rice; this price will have to form the basis for calculating the target price. The components described in 4(a) to (c) should be taken as criteria for the calculation.

The proposed amendment in question also includes a precise definition of the criteria to be observed in deriving the threshold price.

2. Amount for the protection of the industry to be included in the threshold price for milled rice

This protective amount is at present 11.50 u.a./t. This amount may be maintained at the same level in view of the volume of imports of milled rice.

Imports of milled rice

1974	119 073 t
1975	74 738 t
1976 ¹	57 469 t

¹9 months, Netherlands 8 months, Italy 6 months.

3. Monthly increases

For the 1976/77 marketing year, the amount of the monthly increases was fixed at 1.74 u.a./t, that is, a slight increase (1.16%) over the previous marketing year. For 1977/78, it is proposed that the amount of the monthly increase for paddy rice be raised to 1.80 u.a./t, or an increase of 3.4% over the 1976/77 marketing year. The resulting amount for husked rice is 2.25 u.a./t, or an increase of 3.2%.

SUGAR

1. Council Regulation (EEC) No 3330/74 of 19 December 1974 on the common organization of the market in sugar provides in Articles 2, 3, 4 and 25 for the fixing of the target price for white sugar, the intervention price for white sugar in the area having the largest surplus, the minimum price for beet in the said area and the coefficient for fixing the maximum quota.
2. In view of the desire for an overall increase in agricultural prices, and taking into account the agri-monetary measures and the sugar surpluses on the Community market and the world market, a 3% increase in the minimum price of beet is proposed for the 1977/78 marketing year.
3. A 1.5% increase (0.60 u.a. per 100 kg of white sugar) in the processing margin is proposed. This is the amount adopted hitherto as the quality premium in calculating intervention prices for raw sugar. The Commission proposes excluding that premium in future when calculating intervention prices and at the same time abolishing the premium for first grade sugar applicable to buying-in. The purpose of these measures is to match the quality of supply more closely to demand.
4. At the negotiations with the ACP countries on guaranteed prices for the 1976/77 sugar marketing year and at the EEC/ACP Council of Ministers discussions in July 1976 there was a divergence of views concerning the interpretation of Article 5(4) of Protocol No 3 to the Lomé Convention. This provides that the guaranteed price must be negotiated within the range of prices obtaining in the Community. The ACP countries argue that the guaranteed price for this marketing year is 26.70 u.a. per 100 kg of raw sugar, whereas the lowest intervention price in the Community is 28.15 u.a.

To resolve this problem, the Commission proposes fixing the intervention and target prices for the Community without incorporating the storage costs levy. The Community could then adopt the same approach to the guaranteed price for raw sugar as to that of white sugar, taking the Community intervention price as a direct guide.

In the event of a sale to the intervention agency, storage costs are payable by the latter. The future market price will thus still have to be at least equal to the intervention price plus the storage levy.

5. In 1976 the area sown with beet in the Community again increased by 2%, the increase being greatest in Italy. On account of the drought, the sugar yield per hectare was very low, especially in the United Kingdom and France, to such an extent that total production was only 10 million t of white sugar. This nevertheless exceeds foreseeable consumption by over 0.5 million t. Counting preferential imports, the Community has a surplus of about 1.8 million t in 1976/77.

Assuming that the present area under beet (1.88 million ha) remains substantially unchanged in 1977/78 and that yields are normal (cf 1969/75 = 5.8 t/ha), the Community could well produce 11.2 million t of white sugar. This figure has to be seen together with a foreseeable consumption of 9.5 to 9.6 million t. The total exportable surplus, taking preferential imports into account, would then be 2.9 million t. Since there have been increasing surpluses on the world market since mid-1976 and prices have been low, only a little more than half the Community price, serious difficulties are to be expected in the export of such large surpluses.

In view of this, the maximum quotas for 1977/78 should be fixed at 125% of the basic quotas, from July 1978 the possibility provided for in Article 32 of Regulation (EEC) No 3330/74 ("mixed price" scheme) should be abolished, the maximum laid down for the production levy should be, as in the current marketing year, 30% of the intervention price, the maximum provided for in the basic Regulation, and consequently the minimum price for beet produced over and above the basic quotas should be fixed at 70% of the minimum price for beet produced within the basic quota.

6. In addition, the Commission recalls that, under Article 5(4) of Protocol No 3 to the Lomé Convention, guaranteed prices for preferential sugar imports have to be negotiated annually and must be fixed by 1 May at the latest. It will shortly present to the Council a proposal on a mandate for such negotiations.

	1976/77 marketing year		1977/78 marketing year	
	u.a.	%	u.a.	%
1. Minimum price per tonne of beet	24.57	100	25.31	103.0
2. (a) Intervention price per 100 kg of white sugar	33.14	-	32.65	-
(b) Storage costs levy	(1.76)	-	1.77	-
(c) Total a + b	33.14	100	34.42	103.9
3. (a) Target price per 100 kg of white sugar	34.87	-	34.37	-
(b) Storage costs levy	(1.76)	-	1.77	-
(c) Total a + b	34.87	100	36.14	103.6
4. (a) Intervention price per 100 kg of raw sugar	28.15	-	27.10	-
(b) Storage costs levy	(1.62)	-	1.63	-
(c) Total a + b	28.15	100	28.73	102.1
5. Threshold price per 100 kg of white sugar	38.21	100	39.53	103.5
6. Refund of storage costs for white sugar (ql/month)	0.27 u.a.		0.30 u.a.	
7. Coefficient for fixing the maximum quota	1.35		1.25	

ISOGLUCOSE

1. A process has been developed in recent years in the United States, Japan and more recently in Europe for the manufacture of a new sweetener, here called "isoglucose" (or high-fructose glucose). It is at present produced from maize starch and to a much lesser extent wheat, although it can also be obtained from potato starch and manioc, for instance.

It is a liquid sugar produced by the conversion of maize starch into glucose by the action of an enzyme, isomerase. Its fructose content exceeds 20% of the dry weight and is as a rule about 45%. Its sweetening power is similar to that of sugar proper (saccharose) for which it may be substituted in a 1:1 ratio in most uses in the processing industries. In the United States, isoglucose production is likely to total 1.2 million t in 1976/77, according to some reports.

In the Community production capacity at the end of 1976 was estimated at about 150 000 t dry weight and could reach about 400 000 t by the end of 1977. Isoglucose production in 1976 is put at about 70 000 t dry weight, about 85% of that total being produced from maize and 15% from wheat. Isoglucose at present accounts for less than 1% of total sugar consumption in the Community (+ 9 500 000 t) but could represent about 3 to 4% of consumption in 1977/78, having regard to isoglucose production capacity and the potential market, which could greatly exceed one million tons if isoglucose were to replace liquid sugar obtained from saccharose and raw sugar in solution used by processors.

Since isoglucose is therefore in competition with sugar it automatically benefits from the full intervention price for sugar which is guaranteed in the Community. It has been possible to fix the price for sugar above the equilibrium price level since the quota system applied to sugar prevents any intolerable increase in production. The advantage gained by isoglucose may be estimated at between 10 and 15% of the Community sugar price.

The direct consequence of substituting isoglucose for liquid sugar in Community consumption will be that more sugar will be exported, representing an additional burden for the EAGGF - on the basis of present guarantee measures and world prices - of about 150 to 180 u.a./t for the requisite refunds (a total of 12 million u.a. at the present volume of isoglucose production and a total cost of 60 million u.a. by the end of 1977 with world prices at the current level).

2. In the light of the conditions outlined above, the Commission considers it essential to take common measures in respect of isoglucose. It has already proposed appropriate measures to the Member States to prohibit the granting of investment aids. The Council has already decided to abolish production restitutions for starch glucose processed into isoglucose as from 1 August 1977.

3. The further measures proposed to the Council by the Commission are as follows:

- (a) the establishment, for a two year period, in conjunction with the system of quotas for sugar, of a production levy for isoglucose to cover part of the cost of export refunds; this levy should be the same as that for sugar produced within the limits of the maximum quota ("B" quota);
- (b) the establishment of an appropriate trade system with third countries taking account of the existing provisions applicable to glucose and sugar.

4. The Commission emphasizes that these measures are proposed for a limited period. It intends to take account of the implications of the development of this new product in its future proposals on prices and other measures in the sugar sector, and also in the proposals that it intends to make before July 1977 concerning starch.

5. The Commission also wants to remove obstacles to the utilisation of isoglucose and to bring about fiscal harmonization in this sector. In this context it will examine the food and health legislation and the excise duties and other taxes applied by the Member States in this sector and will shortly propose to the Council measures which it considers appropriate.

The Commission also intends to pursue a coherent policy in respect of aids in the sector concerned.

OLIVE OIL

I. In accordance with the request made by the Council in March 1974, the Commission will be presenting to it before July 1977 its conclusions regarding the problems in the olive oil sector, accompanied by the necessary proposals.

The recent developments in the Community market in olive oil, particularly as regards consumption, and the problems which will arise in connection with the foreseeable enlargement of the Community constitute new factors which will have to be given further consideration before a choice can be made as to the mechanisms to be employed to maintain equilibrium in the sector.

The Commission considers, however, that it should put forward its proposal here and now concerning common prices in this sector for the 1977/78 marketing year, including the producer target price which is a determinant factor for producers' incomes and which must therefore be considered in the context of the discussion on prices for the other agricultural products.

II. Producer target price

1. For the 1976/77 marketing year this price was fixed at 185 u.a./100 kg, i.e. the same amount in u.a. as for 1975/76. However, as a result of the adjustment to the value of the "green" lira, this price rose by about 12% in Italian lire. It is proposed to increase it to 186.85 u.a./100 kg for the 1977/78 marketing year.

2. The general situation in Italy, the leading producer country, and the considerable impact of the cost of labour on the final cost of olive oil production justifies an increase in the price paid to producers for the 1977/78 marketing year. In view of the monetary measures envisaged, it is proposed to limit the producer target price increase in u.a. to 1%, i.e. 186.85 u.a./100 kg for the 1977/78 marketing year.

3. Since olives are a perennial crop, the level proposed for the target price in no way affects the level of production of olives and hence of olive oil.

III. Market target price

For the 1976/77 marketing year this price was fixed at 144.89 u.a./100 kg.

The criteria to be adopted with regard to this price required that it be fixed at a level at which Community production can be marketed normally having regard to prices for competing products, i.e. seed oils.

It would appear to be very difficult at this stage to forecast the level of seed oil prices with sufficient accuracy in 1978. The information available to the Commission indicates, however, that they will in any case not be lower than those obtaining in recent months and that there is reason to hope that they will be slightly higher.

The predilection of Italian and other consumers for olive oil would suggest that a 2.5:1 ratio should not be too high for achieving the target set.

In the light of the foregoing, the Commission considers that if in the 1977/78 marketing year the price of olive oil on the Community's major consumer markets is kept at roughly the same level as that resulting from the current market target price expressed in national currency, this should enable the Community production to be marketed normally and a certain pattern of trade to be established with non-member countries, particularly the associated countries.

In view of the agri-monetary measures envisaged, it is proposed that the market target price for the 1977/78 marketing year should be fixed at 141.20 u.a., which means that it would be kept at its present level in terms of both French francs and Italian lire.

IV. Intervention price

The current difference between the market target price and the intervention price is 7.25 u.a./100 kg.

The factors taken into consideration in fixing this difference do not justify any adjustment. It is therefore proposed that the intervention price should be fixed at 133.95 u.a.

V. Monthly increases

The amount fixed for the monthly increases for the 1976/77 marketing year was 1.12 u.a./100 kg.

This amount still appears to be sufficient to ensure the harmonious marketing of Community production.

It is therefore proposed that it be kept at its present level.

OIL AND PROTEIN SEEDS

The oil and protein seeds sector basically comprises colza and rape, sunflower, soya, flax and cotton seeds.

A. Colza, rape and sunflower seeds

1. Each year, pursuant to Regulation No 136/66/EEC¹, a target price and a basic intervention price are fixed for colza, rape and sunflower seeds.

The prices for the 1976/77 marketing year and the proposed prices for the 1977/78 marketing year are as follows:

	<u>u.a./100 kg</u>	
	<u>1976/77</u>	<u>1977/78</u>
(a) colza and rape seeds:		
- target price	27.57	28.40
- basic intervention price	26.77	27.57
(b) sunflower seeds:		
- target price	28.63	30.63
- basic intervention price	27.80	29.75

The increase proposed for colza and rape seeds amounts to 3%, and for sunflower seeds 7%.

2. The moderate increase proposed for colza and rape seeds is needed in view of the difficult market for colza oil in the Community.

While this situation persists a certain caution is called for in the fixing of prices to prevent any aggravation of the difficulties.

The Community has always been and still is in substantial deficit as regards vegetable oil production. At the present time the Community self-supply rate for all these oils together (excluding olive oil) is 11%. But for several years colza oil has been an exception to the general rule, and the Community has, indeed, become a net exporter of this oil; for 3-4 years the net quantities for export have, moreover, increased

¹OJ No 172, 30.9.1976, p. 3025/66.

considerably, as the following figures show:

Colza oil - EUR-9

(1 000 t)

Year	Production	Consumption	Surplus (quantities for export)
1972	588	494	94
1973	579	400	179
1974	490	320	170
1975	338	182	156
1976 (estimated)	420	220	200

The main cause of the fall in consumption of colza oil shown above is to be found in the anti-colza campaign based on the claim that colza oil, because of its high erucic acid content, might be detrimental to the health of consumers. This campaign has been primarily conducted in France and Italy, the Member States where the very considerable fall in colza oil consumption has occurred.

In addition, it is becoming more and more difficult to export colza oil, even to traditional markets, because of the policies pursued by certain non-member exporting countries.

3. During recent years the producers have made considerable efforts to change over to new varieties of colza with a low erucic acid content. Similarly, measures have been introduced at Community level in order to facilitate this change (exclusion of the old varieties from intervention) and to revive consumer interest in colza oil (restrictions on the erucic acid content of oils and fats for use in foodstuffs).

These measures do not appear sufficient to achieve the required results.

The Commission thus intends to propose to the Council, as soon as possible, the following supplementary measures:

- (a) in order to ensure the conversion of the entire Community production to the new varieties, a proposal that, as from the 1978/79 marketing year, aid should be granted only for these varieties. However, in

view of the requirements of the chemical industry for a certain quantity of oil of high erucic acid content, aid could also be granted for the quantity of seeds of the old varieties that the industry can absorb;

- (b) In order to revive consumption of colza oil, a proposal to mount a consumer information campaign concerning the quality of colza oil obtained from seeds of the new varieties. This campaign might need to continue for several marketing years;
- (c) Pending the effect of the campaign referred to in (b), a proposal to facilitate the export of the quantities of colza oil which cannot be disposed of on the Community market.

4. When the European Parliament and the Council considered the price proposals for the 1976/77 marketing year the Commission promised to present its conclusions concerning in particular the effects of the abolition of the supplementary aid granted for colza seeds processed in Italy.

This supplementary aid, introduced for the 1967/68 marketing year as a temporary measure to compensate for certain difficulties which the Italian industry was experiencing as a result of its distance from the principal colza seed production centres in the Community, was abolished from the 1974/75 marketing year.

- (a) An examination of the trend of net imports to Italy of colza seed shows that these imports, which had increased considerably since 1968, were already beginning to fall off in 1973 and fell even more rapidly in the last few years, as the following figures show:

				(tonnes)
1968	1971	1973	1975	
148 960	376 161	261 371	11 828	

It is interesting to note that the trend in net colza oil imports was similar, although less marked.

			(tonnes)
1968	1971	1973	1975
22 750	45 191	25 820	13 979

From the above figures it can be concluded that the considerable fall in imports of colza seed to Italy, whether of Community origin or from non-member countries, has been principally due to consumer disaffection for this oil, because of the anti-colza campaign which has developed in Italy since 1973. In fact, consumption of the oil fell from almost 200 000 tonnes in 1971 to 21 000 tonnes in 1975. The adverse effects of this campaign still appear to persist, in spite of a slight increase in imports of seeds and above all of colza oil during the first months of 1976 (January to September 1976: 12 959 tonnes of seed and 19 594 tonnes of oil).

- (b) In this connection, it should be noted that for some time past imports to Italy of all the principal liquid oils have shown an upward trend, which became more marked in 1976, while in the same period seed imports have been relatively stable. Thus, apart from the specific problem of consumer disaffection for colza oil in Italy, there appears to be a more general problem concerning the crushing industry in that country.
- (c) Independently of the economic aspects of the problem, the Commission must draw the Council's attention to the objections of principle which it would have to any supplementary aid based on the distance of the users from the production areas; the Commission has already expressed these objections in connection with last year's price proposals.

5. As regards sunflower seeds, the proposed price increase, which is above average, is justified not only because the Community only produces a very small part of its requirements of this product, and its development should thus be encouraged, but also because the effect of this increase should be felt above all in Italy where the development of the sunflower crop could compensate, at least in part, for the effects on the crushing industry of any lack of supplies of colza seed of Community origin.

Monthly increases

During the last two marketing years the level of the monthly increases seems to have been among the factors which have contributed to upset the rhythm of the market for much of the Community production of colza seed.

Given this situation, it is proposed that the monthly increases should stay at their present level for the 1977/78 marketing year.

B. Soya beans

1. Each year, pursuant to Regulation (EEC) No 1900/74¹, the Council fixes a guide price for Community produced soya. This price was fixed at 28.50 u.a./100 kg for the 1976/77 marketing year.

It is proposed to increase the guide price for soya to 30.50 u.a./100 kg.

2. The development of this crop, which has been supported since the 1974/75 marketing year, has proved more difficult than was foreseen at that time. This is partly due to the lower than expected yields, due to bad weather conditions and to problems in getting production started and partly to the fact that the relationship between the guide price for soya and the price of products competing with it on the same land, in particular maize, worked to the disadvantage of soya. In order to establish a better balance between the prices for the various crops, the guide price for soya should be increased by a larger percentage than for maize.

In the circumstances an increase of 7% seems appropriate.

¹OJ No L 201, 23.7.1974, p. 5.

C. Flax seeds

1. Pursuant to Article 1 of Regulation (EEC) No 569/76¹, a guide price for flax seed was fixed for the first time, applying to the 1976/77 marketing year. This price was 29 u.a./100 kg. It is proposed to increase it to 31.32 u.a./100 kg for the 1977/78 marketing year.

2. When the guide price for the 1976/77 marketing year was fixed, it was estimated that its level would permit some progress to be made by this crop, or at least that it would be maintained, taking into account the prices fixed for the agricultural products competing with it.

But, although in the first marketing year the Council granted to producers as a transitional measure a minimum aid of 125 u.a./ha, the area under seed flax in the Community fell by 10%. This fall is due to the fact that the guide price proved insufficiently attractive to producers, particularly in France.

Taking into account also the elimination of the minimum aid for the 1977/78 marketing year, it is necessary to bring the guide price for flax seed into line with the prices for competing products if a further fall in production of this seed, of which there is a substantial Community deficit, is to be avoided.

In these circumstances, it is proposed to increase the guide price by 8%.

D. Cottonseed

1. Each year, pursuant to Article 1 of Regulation (EEC) No 1516/71², aid is granted per hectare of land sown and harvested with cottonseed. For the 1976/77 marketing year aid was fixed at 103.20 u.a. per hectare.

It is proposed to increase this to 104 u.a./ha for the 1977/78 marketing year.

2. It is estimated that, taking into account the agri-monetary measures planned for the lira a token increase in the aid expressed in u.a. should be sufficient to sustain a certain interest in this crop which is of a very limited importance

¹OJ No L 67, 15.3.1976, p. 29.

²OJ No L 160, 17.7.1971, p.1.

DEHYDRATED FODDER

1. The 1976/77 marketing year was the second year of operation of the common organization of the market, introduced by Council Regulation (EEC) No 1067/74¹ of 30 April 1974. This organization provides for the granting of aid for dehydrated fodder produced in the Community. For the 1976/77 marketing year, the aid was fixed at 9 u.a. per tonne and it is proposed to increase this amount to 9.5 u.a. per tonne for the 1977/78 marketing year.

2. In view of the rather tight situation which may be expected in 1977 on the market in proteins as a whole, it is very likely that the dehydrating industry will be able to obtain higher prices for their products in 1977/78 than those which were the basis for the aid fixed for the 1976/77 marketing year.

This will enable the industry to pay higher prices to farmers producing green fodder. And, indeed, if farmers are not to be discouraged from producing green fodder, they must be paid a price for it which gives them an income per hectare in line with what they can obtain with competing crops, such as cereals. It seems unlikely, however, that the expected increase in prices will be sufficient in itself to give producers of green fodder the needed income increase.

Finally, following the 1976 drought, the production of dehydrated fodder in the Community has decreased to a greater extent than most other crops. Steps are therefore needed to ensure the recovery of this production.

For these reasons it is necessary to increase the aid for dehydrated fodder. The proposed increase should be sufficient for the purposes in view.

¹OJ No 120, 1.5.1974, p. 2.

FIBRE FLAX AND HEMP

1. Fibre flax

1. Article 4 of Regulation (EEC) No 1308/70¹ provides for an annual fixed rate of aid per hectare. For the 1976/77 marketing year the amount of aid was fixed at 188.15 u.a./ha. It is proposed to raise the rate to 191.91 u.a./ha for the 1977/78 marketing year.

2. In order to maintain interest in the cultivation of fibre flax, the increase in the income of flax producers must be comparable with the increases proposed for competing crops in the rotational cycle. It should be possible to bring about this increase in income mainly through

- (a) a probably favourable movement of flax straw prices in view of the foreseeable shortage of flax fibre; the Community production of flax fibres, following the low yields from the 1976 harvest, is lower than demand and import availabilities are too limited to prevent a drawing down of fibre stocks;
- (b) the increase in the guide price for flax seed, which also applies to fibre flax seed.

In these circumstances it is considered that the desired increase in producers' income can be achieved by a 2% increase in the rate of aid.

3. Pursuant to the provisions on harmonization, it is proposed to increase the rate of aid for the United Kingdom from 143.20 u.a./ha to 161.34 u.a./ha.

¹OJ No L 146, 4.7.1960, p. 1

2. Hemp

1. Article 4 of Regulation (EEC) No 1308/70¹ provides for an annual rate of aid per hectare. For the 1976/77 marketing year this amount was fixed at 174.04 u.a./ha.

It is proposed to raise this amount to 176 u.a./ha for the 1977/78 marketing year.

2. It is considered that hemp producers will obtain a sufficient increase in their income, in comparison with the average increase proposed, through disposing of their production on more favourable terms, seeing that the price agreed with the papermills for the 1977 crop is well up on that of the last two crops and will apply to all producers, since almost all the production is under contract.

A 1% increase in the aid seems necessary, however, in order to give further stimulus to this crop, which up to the last few years has not been very popular with farmers.

¹OJ No L 146, 4.7.1970, p. 1.

SEEDS

Article 3 of Council Regulation (EEC) No 2358/71 of 26 October 1971 on the common organization of the market in seeds provides that where the situation on the Community market for one or more of the products listed in the Annex does not provide producers with a fair income, aid may be granted for the production of those species. In view of the desired increase in the general level of common agricultural prices and the proposed agri-monetary measures, and bearing in mind the effects of the drought, it is proposed that, for the 1977/78 seed marketing year, the amount of the aid previously granted for certain species should be slightly increased.

The increase proposed is based on the following:

1. The estimated 1976 crop (about 1 100 000 ql) is well down on 1975 (about 1 700 000 ql) owing to a reduction in the areas sown because of the very low prices obtained in 1975 and the effects of the drought upon yield.

In 1975/76 imports from non-member countries (418 000 ql) were well up on 1974/75 (366 000 ql); exports declined from 233 000 ql in 1974/75 to 183 000 ql in 1975/76. Compared with 1973/74, while exports have stabilized (1973/74: 199 000) imports have decreased considerably (1973/74: 499 000).

2. Including stocks (about 1 000 000 ql), the quantity of seed available for the 1976/77 marketing year will be about 2 100 000 ql. Since, owing to the exceptional circumstances created by the drought, consumption will reach about 1 800 000 ql and normal reserve stocks equal about 30% of normal consumption (1 500 000 ql), the drawing on stocks will make for a reasonably well balanced Community market.

3. As a result of this situation, the prices of most species are at levels generally acceptable to producers. The prices of certain species (for example, *Lolium perenne*, *Lolium multiflorum*) are now very much higher than the very low levels of previous years (market surplus).

4. In the light of the forecasts, since the areas sown in 1977 are much the same as in 1976, and assuming an average yield and continued trade with non-member countries, supplies should be generally satisfactory in the 1977/78 marketing year. However, there are species for which it has been difficult in the last few years to meet Community requirements, and species for which the supply forecasts are unfavourable. It is in the Community's interests to maintain the production of legumes, in particular, at a level which meets demand.

5. In the Community, there are some favourable prospects for the production of seed flax. In view of the need to ensure supplies of good quality varieties of this species, it should be entered in the Annex to Regulation (EEC) No 2358/71.

6. The following is therefore proposed:

(a) an increase of

(i) 1 u.a./100 kg for - *Cannabis sativa* L. (monoica),
- *Medicago sativa* L. (varieties),

(ii) 2 u.a./100 kg for - *Phleum pratense* L.,
- *Trifolium pratense* L.,
- *Trifolium repens* L.

(b) inclusion in the Annex to Regulation (EEC) No 2358/71 of *Linum usitatissimum* L. partim (seed flax) ex 12.01 A. It is proposed to grant aid of 10 u.a./100 kg for this species.

WINE

1. Article 2(2) of Council Regulation (EEC) No 816/70 of 28 April 1970 laying down additional provisions for the common organization of the market in wine, provides for 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 provides for 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 year.

Trend of wine prices in the EEC (on the basis of communications from Member States in accordance with Regulation (EEC) No 816/70)

Wine-growing year	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
1974/75	1.545	1.550	17.00	1.316	20.06	31.20
1975/76	1.667	1.589	19.49	1.412	23.03	32.03
1976/77 ¹	1.888	1.939	29.05	1.562	33.02	47.50

2. The prices recorded for all types of table wine during the 1975/76 wine year and during the first five months of the current wine year were higher than those recorded in 1974/75.

¹From 7 September 1976 to 18 January 1977.

The exceptionally low level of prices in 1974/75 was due to the two successive very abundant harvests of 1973 and 1974. Despite recourse to all the intervention measures provided for by the market rules, and in particular large-scale distillation, prices did not recover. It was not until the 1975/76 wine year, in which there was a balance between production and requirements but also a considerable volume of stocks, that an improvement was recorded. This trend gathered strength at the beginning of the current wine year owing to a similar size of harvest as in 1975.

On the basis of the rules laid down in Regulation (EEC) No 816/70 and in view of the desired increase in the general level of agricultural prices and the agri-monetary measures, a 3% increase in the guide prices of table wines is proposed for the 1977/78 wine year.

RAW TOBACCO

Article 2 of Council Regulation (EEC) 727/70 of 21 April 1970 on the common organization of the market in raw tobacco provides that norm prices and intervention prices shall be fixed each year before 1 August for each variety of Community-produced leaf tobacco.

As in recent years, the Commission, at the request of the delegations of all Member States, is also transmitting proposals to the Council for the fixing of the premiums and derived intervention prices for the 1977 crop.

Since a general increase in the common agricultural prices is desired, and in view of proposed agri-monetary measures, an average increase of about 1.5% in prices and 3% in the premiums is proposed for the 1977 crop. This cautious price policy, accompanied by a relatively larger increase in the premiums, is dictated by the increase in the volume of Community production and the sharper divergence between Community and world market prices, despite the conservative price policy followed by the Community in recent years.

I. SITUATION ON THE WORLD MARKET

1. World trends as regards area and production are generally more stable after the period of shortages and high prices in the years 1972-74. After the strong rise in production in 1975, the resulting price movements, together with certain climatic factors, have led to an improvement in the balance between supply and demand. However, prices still reflect the high level of stocks accumulated during the 1975/76 marketing year.

2. A more selective analysis of production trends and world trade show that production is being geared more towards the American varieties (light tobaccos) and that the developing countries are participating to a greater extent in international trade.

3. Consumption of tobacco products continued to rise slightly (2-3%) as a result of two contrasting trends:

- (a) relative stability in the industrialized countries where, sometimes as a result of substantial tax increases, a slight decline occurred
- (b) increases exceeding the world average in the developing countries.

II. SITUATION ON THE COMMUNITY MARKET

The constant expansion of Community production and its growing integration into the world market continues to give rise to certain marketing problems in view of the changed supply and price situation in international trade.

1. Area and production

From 1970 to 1975 production rose from 127 000 t to 179 000 t, i.e. an average annual increase of 8%. However, the provisional figures for 1976 suggest a production of about 170 000 t; the decline as compared with the previous year is, however, due to the marked fall-off in Italy (- 9 000 t) resulting from weather conditions. The increase in Community production, partly due to the expansion of the areas under tobacco, but also to the higher unit yields as a result of improvements in production techniques, was accompanied by a change in the mix of varieties planted in line with demand. An increase in the production of American varieties (Burley, Bright and Maryland), the Paraguay variety and the oriental tobaccos was offset by a trend away from varieties less in demand by Community and world industry (e.g., Badischer Geudertheimer, Nostrano).

2. Marketing

Although the situation described above resulted in a clear improvement in the marketing of Community tobacco in recent years and, in particular, in a considerable reduction in the quantities offered for intervention (7-8% of total production in 1970/71 against 2% for 1973/74), the strong rise in production in 1975 caused renewed marketing difficulties

- at least for certain varieties. In addition to varieties for which "structural" difficulties exist (e.g. Beneventano), for others, such as Burley and the Oriental varieties in Italy, production seems to have exceeded real outlet possibilities within the EEC, taking utilization in manufacturing processes into account. In view of this, the system of export refunds has undoubtedly helped to improve the market outlets for Community tobacco, especially by promoting the diversification of export flows to non-member countries.

3. Prices

Producer prices in the various Member States were generally at satisfactory levels, sometimes higher - even considerably so - than the norm prices fixed by the Community.

In this connection, it should be stressed that producer prices for some varieties were so high as to constitute an incentive to big increases in production; at the same time, the competitiveness of these tobaccos on international markets was reduced.

III. PRICES AND PREMIUMS BY VARIETY

To conclude, since Community production is expanding at a higher annual rate than consumption, difficulties exist in marketing several Community-produced varieties and there is a growing gap between Community and world price levels, it is proposed that tobacco prices should be increased to a lesser extent than the average general increase in agricultural prices for the 1977/78 marketing year. Details of the proposals for each variety (see Annex), which take into account the effects of the proposed agri-monetary measures, are based on the following considerations:

1. Norm prices

- an increase of 2-4% is proposed for varieties in steady demand, the lower figure applying only to those varieties for which the agri-monetary measures already imply an increase in terms of national currencies (Paraguay, Nijkerk, Misionero, Burley BB and Bright);

- a zero or 1% increase is proposed for varieties (e.g. Beneventano and the Oriental varieties) where supply and demand are not evenly matched, with the exception of Badischer Geudertheimer and Badischer Burley for which the 3% increase takes into account the effects of the proposed agri-monetary measures.

2. Premiums

In view of the various factors which determine the level of the premium, namely:

- the level of the norm price for leaf tobacco;
- processing costs;
- the trend of offer prices on the world market;
- the trend in producer prices in the Community,

a different solution is proposed for each variety.

As regards processing costs, on the basis of the preliminary findings of the Community study on the subject, the Commission granted an initial "adjustment" of 20% for varieties where costs differed widely from those so far assumed; for some other varieties, increases varied between 5 and 10%, whilst for varieties where qualities had been submitted for intervention, no adjustment has been made to the costs in view of their automatic repercussions on the intervention price levels. The following is, therefore proposed:

- (a) a general increase in the premium equivalent to the effects of the higher norm prices and processing costs (Virgin D, Bright, Maryland, Philippin, Semois, Paraguay, Misionero, Kentucky, Nijkerk, Burley B and Burley I);
- (b) no increase in the premium, or a small increase (1%), for those varieties where a considerable imbalance exists between supply and demand (Beneventano, Nostrano and Perustitza);

- (c) the use of the fixed component of the premium (Article 4(b)) of Regulation (EEC) No 727/70 to grant an additional increase to some varieties (Badischer Geudertheimer, Badischer Burley) to bring contract production prices up to the level of the norm prices.

T O B A C C O

N.	VARIETY	INCREASES 1977/76		
		Norm prices for leaf tobacco %	Processing costs %	Premium %
1	Badischer Geudertheimer	3	0	4.5
2	Badischer Burley	3	0	4.5
3	Virgin D	4	20	8
4	Paraguay	2	20	5
5	Nijkerk	2	10	3
6	Burley (B + B)	2	10	3
7	Misionero	2	10	5
8	Philippin	4	0	6
9	Semois	4	10	6
10	Bright	2	5	4
11a	Burley I	1	0	2
11b	Maryland	1	0	3
12	Kentucky	1	0	3
13	Nostrano	0	0	0
14	Beneventano	0	0	0
15	Xanti Yakà	0	0	0
16	Perustitza	0	0	1
17	Erzegovina	0	0	0
18	Round Tip	0	0	0.5
19	Brasile	3	10	8
TOTAL EEC		± 1.5		3

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 1976/77 marketing year basic prices and buying-in prices were fixed in such a way that intervention prices rose by 8% in comparison with the 1975/76 marketing year, except in the case of apples and pears, for which the increase was only 4%.

Since an increase in the general level of common agricultural prices is desired, the Commission proposes for the 1977/78 marketing year increases in the prices actually paid to producers in the event of market intervention of 5% for cauliflowers, tomatoes, peaches and lemons, 3% for apples and pears and 2% for table grapes, oranges and mandarins.

As regards apples, pears and grapes, the percentage increase in the intervention prices paid to producers is less because there are structural surpluses of certain varieties. As regards grapes the increase should in any case be lower so as not to cause an imbalance with the wine sector.

The proposed increase for oranges and mandarins is lower in order to encourage producers to continue the conversion of existing plantations.

The increase in the intervention prices has been calculated 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 situation ensures that producers do not suffer too great a fall in income during a period of market instability and is not likely to result in structural surpluses in the Community since the intervention prices are between 40 and 70% below the normal market prices, depending on the product.

2. Marketing premiums for oranges, mandarins, clementines and lemons

Article 7 of Council Regulation (EEC) No 2511/69 of 9 December 1969 laying down special measures for improving the production and marketing of Community citrus fruit provides that, beginning with the 1976/77 marketing year, the amount of the marketing premium for Community oranges, mandarins, clementines and 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.

Moreover, Article 23(2) of Regulation (EEC) No 1035/72 on the common organization of the market in fruit and vegetables provides that from the same year reference prices for the said products must be fixed at a level equal to that of the previous marketing year, adjusted as necessary by a percentage not exceeding the difference between the percentages representing respectively the variation in basic and buying-in prices and in the marketing premiums provided for by Regulation (EEC) No 2511/69.

For the 1976/77 marketing year it is proposed:

- to increase the marketing premium for oranges, mandarins and clementines by 2%, leading for example to a premium of 8.59 u.a./100 kg for the Moro and Tarocco varieties,
- to maintain the marketing premium for lemons for a further marketing year while limiting the increase therein to 50% of the percentage increase in the basic and buying-in prices for this product (see below reasons for maintaining this compensation for lemons).

This limited increase in the marketing premium for lemons compared to the increase in basic and buying-in prices will permit, if market prices justify it, a maximum increase of $2\frac{1}{2}\%$ in reference prices, bearing in mind the complementarity between the premium and the reference price provided for in the two abovementioned Regulations.

B. RELATED MEASURES

1. Blood oranges

Unlike other products, blood oranges are not suited to the various uses laid down in Article 21(1) of Regulation (EEC) No 1035/72 for products withdrawn from the market under Article 18 or bought in under Article 19 of that Regulation, and in particular the use of the fresh or processed product for animal feed.

The technical problems attached to the manufacture and conservation of the juice of blood oranges are an obstacle to the other use provided for in Regulation (EEC) No 1035/72, namely free distribution of the processed product to charitable organizations and foundations and the economically less favoured.

It is therefore proposed, in order to facilitate an outlet for a product which is withdrawn in large quantities in some years, to retain as a normal and permanent option the sale of the quantities withdrawn from the market to processing industries.

Since the disposal of other products withdrawn from the market does not raise the same problems, it is proposed that this option should in future be restricted to blood oranges.

2. Fresh and processed lemons

At the agriculture meeting of the Council in Luxembourg on 23 and 24 June 1975, a compromise was reached in respect of wine and fruit and vegetables in the context of the negotiations for an overall agreement with the Mediterranean countries. This led to the decision that the Commission would make a detailed study of the situation on the Community market in lemons and would report to the Council, proposing measures, as necessary, to overcome any problems in marketing this product, whether fresh or processed.

The main conclusions of this study may be summarized as follows:

1. As regards fresh lemons, it would appear that their external aspect (skin softness and colour), together with a seasonal shortage of supplies and an imperfect market structure places Italian lemons at a disadvantage.

These factors are linked in part with the situation in Italy itself, where the number of producers and the small size of farms lead to variations in production and where the uneven professional capacity of exporters and the limited scale on which some of them operate do not always allow them to collect information on the state of the market and make the best use of it.

2. Italy is to date the main supplier of lemon juice to the Community market. However, certain factors act against the Italian product, in particular the relatively high cost of the raw material and the fact that some competing countries give aid to the industry or the processed product.

Moreover, the export price of Italian juice has fallen (653 u.a./t in 1973, 553 u.a./t in 1974, 557 u.a./t in 1975) as the Italian industry has to compete with imported juice.

As regards fresh lemons, it is proposed that the system of marketing premiums already in existence for oranges, which the Council adopted as a temporary measure in September 1975 until the end of the 1975/76 marketing year and prolonged for a further year in April 1976 when fixing certain prices and other amounts applicable in the agricultural sector for the 1976/77 marketing year, be prolonged for the coming marketing year, i.e. until the end of May 1978.

It would in fact appear that this premium in its first year of application had a beneficial effect on exports of Italian lemons to other Member States, if not on the overall volume at least on the relative importance of products in quality Class I, as shown by the table below:

Exports to the EEC	1973/74	1974/75	1975/76
<u>Total</u>	76 900 t	108 100 t	105 400 t
Class I	42 000	43 500	91 700
Class II	34 200	64 300	13 400

Maintaining this premium during the coming marketing year should allow this favourable trend to continue.

The premium will naturally be granted only if transport costs are not included when calculating the reference price.

In order to restore lemon juice to a more competitive position vis-à-vis the same product from non-member countries, it is proposed to aid the industry in accordance with the principles adopted in respect of oranges in Regulation (EEC) No 2601/69, but with the following restrictions:

- Contrary to the procedure for oranges, the minimum buying-in price paid to the producer would be based on the withdrawal price for Class III alone. For oranges the system applies only to varieties which are not suitable for consumption when fresh and which are normally used by industry, while industry uses only poor quality lemons.

- Financial compensation, equal to the difference between the minimum buying-in price and the prices paid for the raw material in competing non-member countries, would be granted for only 85% of the quantities bought in at the minimum price. This percentage corresponds to exports of Italian lemon juice compared with total Italian production, the remainder being absorbed by the Italian market. Since the juice of citrus fruits (especially lemons) has not been freed from controls on import into Italy, the national industry is not faced with any competition and does not need aid for that part of its production sold on the internal market. However, the Commission should reserve the right to grant compensation for a higher percentage if the applicant proves that more than 85% of the total quantity marketed by him was disposed of outside Italy.

These two proposals should take the form

(a) as regards the first, of an amendment to Council Regulation (EEC) No 2511/69 of 9 December 1969 laying down special measures for improving the production and marketing of Community citrus fruit, extending for one marketing year the period during which financial compensation may be granted for deliveries of fresh lemons, and an amendment to Council Regulation (EEC) No 1035/72 of 18 May 1972 on the common organization of the market in fruit and vegetables in order to bring lemons into line for the coming year as regards the fixing of reference prices with the other citrus fruits for which financial compensation is paid, namely oranges, mandarins and clementines;

(b) as regards the second, of the adoption by the Council of a Regulation laying down measures for encouraging the marketing of products processed from lemons.

MILK

I. Market situation and outlook

In its Action Programme (1977-80), COM(76)300, the Commission concludes that there is a surplus of milk delivered to dairies in the Community of the order of 10%, and that this surplus has a tendency to increase.

Even with the impact of the severe drought in 1976, milk production in the EEC increased by 1.7% and milk deliveries to dairies by 2.5%.

At the end of 1976 butter stocks (intervention and private-aided) amounted to 260 000 tons and intervention stocks of skimmed milk powder to 1 130 000 tons.

In 1977 the gap between production and utilization of milk and dairy products will continue to widen with milk production increasing by 2-3% and milk deliveries increasing by 3-4%. Total EEC butter consumption may decrease by a further 4%.

Even with the use of special measures already effective under present regulations, and those in process of being adopted, stocks of both butter and, notably, skimmed milk powder, may increase in the course of 1977.

The situation on the international market also shows clear signs of increasing imbalance between supply and demand, and a tendency towards more protectionist measures to hamper foreign trade in dairy products, notably for cheese.

II. Action Programme (1977-80)- The progressive achievement of balance in the milk market

(1) The Action Programme has already been thoroughly discussed in the Council but no decision has yet been taken. The Commission has re-examined the situation in the milk sector, taking into account the actual stock position, the likely developments in the market in 1977, and the discussions to date on the package of measures before the Council. In the light of this re-examination, the Commission is of the view that the milk sector should have priority in the discussions on price levels for 1977/78. It reiterates its position that significant measures must be introduced at the earliest opportunity to establish market balance in this sector, or at least create a tendency in this direction.

Together with the elements of the Action Programme, a very prudent price policy must be pursued. Thus, it is the view of the Commission that the price for milk should increase by significantly less than the prices for other agricultural products.

(2) In the framework of the Action Programme, the Commission has proposed the following measures:

- (a) a co-responsibility levy and measures for expanding markets in the milk and milk products sector,
- (b) a tax on certain oils and fats,
- (c) temporary suspension of certain national and Community aid in the milk and milk products sector,
- (d) supply of milk at reduced prices to pupils in schools,
- (e) general rules for the exclusive use of butterfat and milk proteins,
- (f) Community eradication of brucellosis, tuberculosis and leucosis in bovines,
- (g) a system of premiums for the non-marketing of milk and milk products and for the conversion of dairy herds.

(3) The Commission maintains its proposal for the application of a co-responsibility levy of 2.5%, as from 16.9.1977, to all milk deliveries except in mountain areas; it being understood that the utilization of the levy will be subject of close consultation with the interested concerned. It announces its intention to carry out a review of the dairy market in the autumn of 1977 and will, if necessary, put forward further proposals to redress the situation.

(4) The Commission has already proposed a tax on certain (vegetable and marine) oils and fats. However, it recognises that objections have been raised to the implementation of such a tax, and indicates that, if the Council is unable to reach agreement, it will be necessary to increase Community expenditure by an equivalent amount to that which would have resulted from the tax on oils and fats in order to increase the consumption of dairy products, and notably butter.

(5) In view of the market imbalance in the dairy sector, it is clear that the overall size of the industry will have to be reduced. The Commission therefore maintains its view that Community and national funds must not continue to be used to facilitate further inflows of capital into the industry through the granting of aid. It therefore also maintains its view on the suspension of aid, though in a modified form. While granting no increase in the manufacturing margins for skimmed milk powder and butter within the context of intervention prices for these products the Commission considers that the following measures should also be envisaged:

- a total ban on aid for investment in the production and marketing of butter and skimmed milk powder, including the pre-treatment of milk, with the exception of aid for restructuring butter-dairies with a capacity of less than 50 tonnes per year;
- in respect of the other milk products, a ban on all investment aid which entails an increase in existing capacity for milk utilization, and the provisional retention of the rates of investment aid at present in force in the Member States pending the harmonization of all aid in the livestock sector. An exception will be made for aid for investment in research and in the production of new products serving to increase the commercial outlets for milk, and for investment in the use of liquid milk in animal feed;
- these prohibitions and restrictions will apply until 31 March 1980; the Commission will take position with regard to them pursuant to Article 93(1) of the Treaty.

The Commission proposes to restrict the suspension of the provisions of Directive 72/159/EEC concerning the granting of investment aid, provided for in its proposal COM(76)527 final of 7 October 1976, to the suspension of aid for the purchase of dairy cows intended for milk production. To that end it presents the attached proposal for a Council Regulation.

The Commission therefore withdraws its proposal in COM(76)527 final of 7 October 1976.

(6) The Commission maintains its proposal on the granting of aid for the supply of milk at reduced prices to pupils in schools (Doc. R/2389/1/76).

(7) While maintaining the objective behind its proposal on exclusive use of milk fat and milk proteins in dairy products, and in the light of the discussions on this matter, the Commission now proposes to pursue a less restrictive policy based on the conditions under which dairy products may be marketed. As this modified proposal also embraces ice cream, and in order to facilitate the ice cream industry in adapting to the increased offtake of milk fat, the Commission states its intention to make butter available at reduced prices for this industry during a transitional period.

(8) The Commission is still of the view that the implementation of a Community scheme for the eradication of brucellosis, tuberculosis and leucosis in bovines will together with the measures indicated below (§ 9), help to reduce the over-production of milk in the Community in the short term. Consequently, it retains its proposal on this matter.

(9) In the Commission's view, the non-marketing and beef conversion schemes offer the greatest possibilities for an early reduction of milk deliveries in the Community. Therefore, in principle, it maintains its position with regard to the scope of these measures; however, in Member States where the dairy herds have already declined by a significant amount (over 20% in the last seven years) the obligation to implement these measures will not apply. The Commission recognizes the difficulty for Member States with the financial provisions as foreseen, and therefore proposes to increase the Community contribution to these schemes from 50% - as originally proposed - to 80%, to be financed with 40% from the EAGGF Guidance Section and 40% from the EAGGF Guarantee Section. This improvement in the contribution from Community funds is proposed in the context of a scheme which applies to all sizes of dairy farms and where the maximum premium is related to not less than 120 000 kg.

In recognition of the difficulties which a rigorous price policy may have, notably for smaller milk producers, the Commission proposes a somewhat higher level of aid for producers with an output of less than 30 000 kg.

In order to offer older farmers whose income comes mainly from milk deliveries a socially acceptable and durable alternative enabling them to cease farming either immediately or after a period during which they undertake not to market milk, the Commission proposes to introduce for such farmers a Community premium per hectare. This premium would be granted to farmers aged between 55 and 65 at least 50% of whose gross agricultural product is obtained from milk. The premium would be granted provided that, by 1 October 1981, the farmers had slaughtered their dairy cows and replacement heifers, that the holding had been wound up and that the land had been incorporated into other existing holdings. The premium would amount to at least 50 and no more than 100 u.a. per year and per hectare of fodder area intended for dairy farm use in 1976; it would be paid until the 65th birthday of the farmer.

This premium would be granted over and above the aid measures already introduced by the Member States in implementation of Directive 72/160/EEC.

Those farmers entitled to the Community premium per hectare who have promised not to market their milk and who, by the end of the second year of such non-marketing (1.10.80), undertake to cease farming as specified above before the end of the third year of non-marketing would receive for the three years of non-marketing a non-marketing premium equal to 87.5% (instead of 75%) of the premium normally granted for five years.

The Guidance Section of the EAGGF would bear 50% of the costs incurred by the Member States in respect of the Community premium per hectare, up to a maximum of 1,600 u.a. per holding.

Furthermore, the eligible amount referred to in the third indent of Article 2(1)(a) of Directive 72/160/EEC is increased to 1,500 u.a., or 1,000 u.a. in those cases where the recipient of this allowance is also receiving the Community premium per hectare.

(10) The Commission has recently proposed to the Council a regulation aimed at the utilization of liquid skimmed milk, under contract, by pig producers. In order to facilitate the effective implementation of the scheme, and, in particular, to ensure availability during the winter months, the Commission proposes to restrict the right to deliver skimmed milk powder to intervention agencies for dairy enterprises which are unwilling to enter into contracts to supply liquid skimmed milk to pig producers, on a year-round basis.

III. Price proposals for milk-year 1977/78

1. In the context of the common organization of the market in milk and milk products as at present structured, 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 1976/77 milk year, the Council increased the target price for milk twice:

- 15 March 1976: 4.5% increase raising the price from 15.59 to 16.29 u.a./100 kg;
- 16 September 1976: increase of 3% raising the price from 16.29 to 16.76 u.a./100 kg.

Taking into account the continuing structural imbalance in this sector, the Commission proposes that the target price for milk should remain unchanged from 1 April 1977 and be increased by 3% from 16 September 1977.

The Commission further proposes that the price change should be made in such a way as to maintain in principle the present ratio between milk fat and skimmed milk.

3. The Commission proposes that the Council adjusts the threshold prices by reference to the increase in the target price.

4. 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, Bergkäse 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 price should be respected. Following the increase in the target price for milk, the free-at-frontier price will have to be revised.

5. In view of the continuing decline of butter consumption and the impact of the monetary measures in the agricultural sector, the Commission proposes to prolong the consumer subsidy for butter provided for under Regulation (EEC) No 562/76 and to adjust the financial participation of the Community in this measure.

6. In the light of the trend of production and the use of butter and skimmed milk powder, the Commission proposes to prolong the temporary suspension of inward processing arrangements for butter, butteroil and skimmed milk powder. This measure is designed to ensure that Community undertakings have priority in the processing of Community production.

7. In accordance with Article 52(2)(a) and taking into account Article 52(3) of the Act of Accession, the intervention price of butter for the 1977/78 marketing year in Ireland and the United Kingdom will be:

	<u>1 April 1977</u>	<u>From</u> <u>16 September 1977</u> ¹
Ireland	219.92 u.a./100 kg	225.86 u.a./100 kg
United Kingdom	199.63 u.a./100 kg	205.02 u.a./100 kg

8. To sum up, the Commission proposes the following prices and intervention measures for the 1977/78 marketing year:

	<u>1 April 1977</u>	<u>Applicable from</u> <u>16 September 1977</u>	(u.a./100 kg)
(a) Target price for milk	16.76		17.26
(b) Intervention price			
<u>Butter</u>			
Ireland	219.92		225.86 ¹
United Kingdom	199.63		205.02 ¹
Other Member States	223.80		229.80
<u>Skimmed milk powder</u>			
Intervention price	91.37		93.65
<u>Grana Padano</u>			
Aged from 30 to 60 days	213.79		219.24
Over 6 months	255.84		261.60
<u>Parma Reggiano</u>			
Aged over 6 months	276.96		282.72

¹ According to Article 52(4) of the Act of Accession, as from 1 January 1978, these prices will be replaced by the common price of 229.80 u.a./100 kg.

BEEF AND VEAL

Prices

1. Under Council Regulation (EEC) No 805/68¹ the Commission must propose a guide price for adult bovine animals for the 1977/78 marketing year; the guide price for calves is abolished under the new provisions decided on recently as regards trade with non-member countries.

By way of derogation from Article 4 of the said Regulation it is proposed that the 1977/78 marketing year begin on Friday 1 April 1977 to coincide with the date on which the new arrangements for trade with non-member countries begin to apply, instead of beginning, as is usual, on the first Monday in April.

2. The current guide price for adult bovine animals is 118.74 u.a./100 kg liveweight, this being the result of successive increases of 17.6% in 1974/75 (including the 5% increase decided on from 7 October 1974), 8.5% in 1975/76 and 8% in 1976/77.

In view of the desired increase in the general level of common agricultural prices and in view of the proposed agri-monetary measures, the proposed guide price for adult bovine animals for the 1977/78 marketing year is 122.30 u.a./100 kg liveweight, i.e. an increase of 3%.

On the other hand, in accordance with Article 52 of the Act, the Commission proposes to fix the guide price for adult bovine animals in the United Kingdom and Ireland at 117.70 u.a./100 kg liveweight.

¹Council Regulation (EEC) No 805/68 of 27 June 1968 on the common organization of the market in beef and veal (OJ No L 148 of 28 June 1968), as last amended by Regulation (EEC) No (OJ No L of February 1977, p.).

Pursuant to Article 52(4) of the Act this guide price for adult bovine animals will be in force until 31 December 1977.

From 1 January 1978 the guide price fixed for the original Community and Denmark is also valid for the United Kingdom and Ireland.

3. The Council, at its 386th meeting held from 2 to 6 March 1976, noted the Commission's intention to present before 1 November 1976 a report on the respective merits of the intervention system and the system of slaughter premiums and on the implementation of the calving premium system, together with any necessary proposals.

The preliminary studies for this report are under way and the Commission intends to present the report by 1 June 1977.

In the light of the abovementioned report, the Commission will make proposals for decision by the Council by 31 July 1977 on the application of a premium system and on general rules for applying the intervention system, included the percentages mentioned hereafter.

4. In view of the foregoing it is proposed to continue fixing the intervention price at 90% of the new guide price, i.e. at 110.0 u.a./100 kg liveweight (in the United Kingdom and Ireland until 31 December 1977 at 105.93 u.a./100 kg) and to retain in force the possibility which existed in the 1976/77 marketing year of suspending intervention buying when the market price in a Member State reaches or exceeds 95% of the guide price¹.

¹Council Regulation (EEC) No 568/76 of 15 March 1976 amending Regulation (EEC) No 805/68 (OJ No L 67 of 15 March 1976, p.28).

In addition, it is proposed to extend until 31 July 1977 the authorization to Member States to grant a variable premium for the slaughter of certain beef animals¹.

¹Council Regulation (EEC) No 797/76 of 6 April 1976 authorizing Member States to grant a premium on the slaughter of certain adult bovine animals intended for slaughter during the 1976/77 marketing year (OJ No L 93 of 8 April 1976, p.8).

PIGMEAT

Prices

1. Under Council Regulation (EEC) No 2759/75¹, 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 1976/77 marketing year the basic price was fixed at 114.48 u.a./100 kg and as an exceptional measure it was brought into force on 15 March 1976.

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 +4% for the forthcoming marketing year.

3. Consequently, to enable the price system to contribute stability to the pigmeat market by mitigating the cyclical fluctuations in production and prices, in view of the desired increase in the general level of common agricultural prices, in view also of the proposed agri-monetary measures, it is proposed that the basic price be fixed at 119.06 u.a./100 kg for the 1977/78 marketing year. This price will enter into force on 1 November 1977.

¹Council 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 Council Regulation (EEC) No 845/72¹ provides that aid is to be fixed each year per box of silk seed employed. For the 1976/77 marketing year aid was fixed at 40 u.a. This amount was insufficient to compensate silkworm breeders for the sharp fall in the prices of raw silk on the world market. The Council, which considered at the time that this fall was exceptional and therefore temporary, decided to grant for the 1976/77 marketing year supplementary aid of 15 u.a. per box to breeders who were members of a producer group, provided that they marketed their cocoons jointly (Regulation (EEC) No 708/76²).

For the 1977/78 marketing year it is proposed

- to retain the normal aid at 40 u.a.;
- to keep the supplementary aid for a further marketing year but to reduce it to 13.61 u.a.

2. It is considered that the necessary increase in the income of breeders compared with that of other agricultural producers may be achieved by increasing the price paid on the Community market, in view of the considerable improvement in the situation on the world market. However, the foreseeable trend of the world market price does not yet enable the supplementary aid to be abolished. To show the Commission's intention to abolish it from the 1978/79 marketing year, it is proposed that the supplementary aid expressed in u.a. be reduced by an amount such that the total aid to silkworm breeders, expressed in national currency, is equal to that granted for the preceding marketing year (silkworm breeding is confined to Italy).

¹OJ No L 100, 27 April 1972, p.1.

²OJ No L 84, 31 March 1976, p.3.

C. Financial implications

The financial consequences of the Commission's proposals are laid down in document COM(77) 150 *final*.

