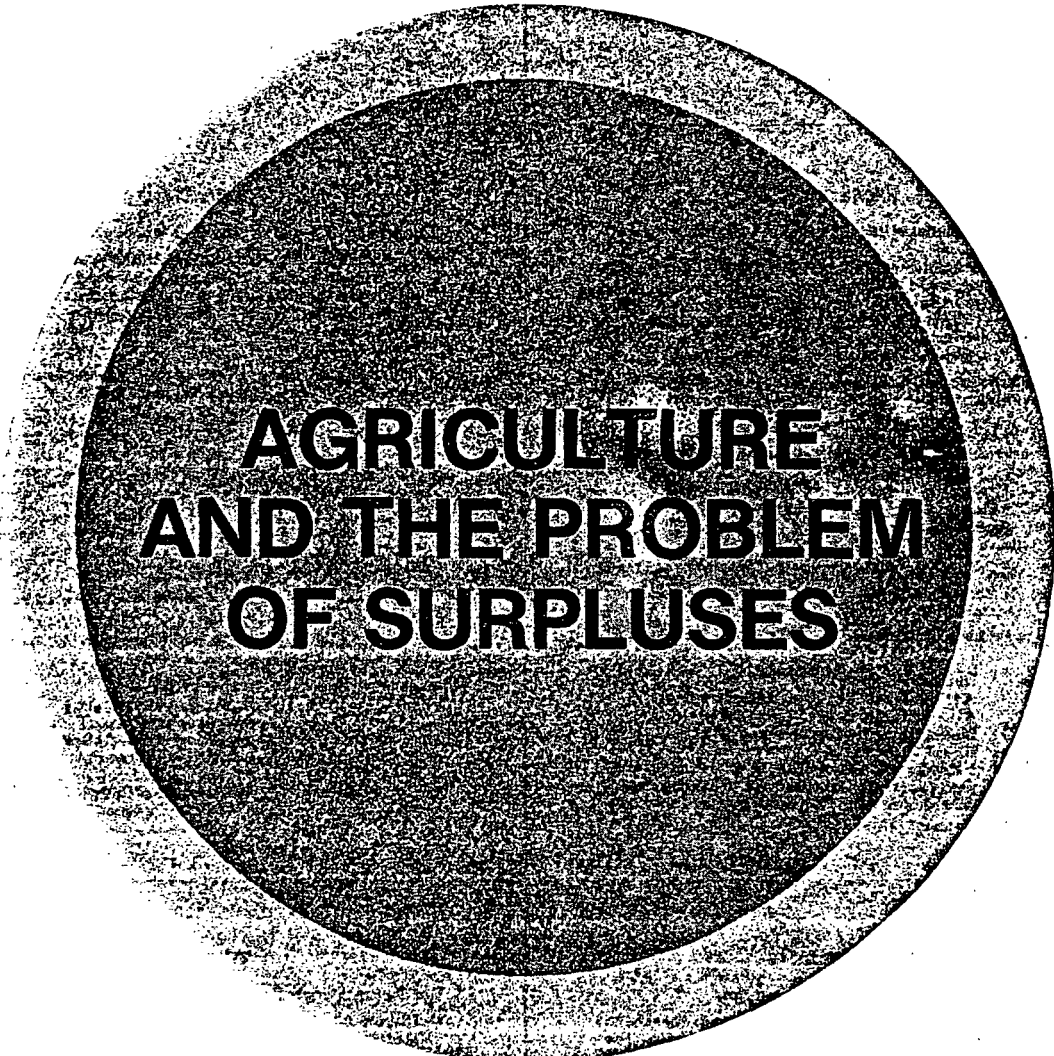


GREEN EUROPE

NEWSLETTER ON THE COMMON AGRICULTURAL POLICY



AGRICULTURE AND THE PROBLEM OF SURPLUSES

Text: Guy Wilkinson



Published by the Agricultural Information Service of the Directorate-General for Agriculture
European Community Commission – 200, rue de la Loi, 1049 Bruxelles
Supplement to the Documentation Bulletin – D/AGR./EN

170

The existence of surpluses has been alleged at different times for nearly all products covered by the CAP - and for some which are not - and their size and cost have been the subject of endless articles, seminars and meetings. One could argue that the existence of a surplus is a sign of technical success, for the producer and for the consumer, and certainly there can be little doubt that the converse is true, that recurring food shortages would be regarded as a serious failing in any agricultural policy. Persistent overproduction may indicate that resources are not being used in the most effective manner, but relatively small adjustments can produce rather large and enduring production effects and persistent shortages may be more wasteful of resources than an abundant supply. In any event, a rather careful consideration of the issue is necessary to avoid exaggeration and to find solutions where these really are necessary. So many quite different meanings have been given to the word surplus that much of its utility has been obscured.

Progress in Western Agriculture

In the same way that the economies of the Western industrialised nations have followed fundamentally similar paths since 1945, so the technical and economic development of the agricultural sector of the European Community has had similar roots to those of the rest of Europe and North America. These developments are characterised by a very high rate of growth of agricultural output derived from technical innovation, from the replacement of labour with capital involving a very high level of capital investment, by a continuous progression from smaller to larger sized farms, and by governmental policies aimed at reducing the elements of risk in agriculture and food supply. Yield increases have been remarkable in all sectors, and have usually accounted for a much greater part of the total production increase than has increased numbers of area. In the European Community for example, dairy cow numbers have remained more or less constant at 25 million since 1960, whereas average yields have risen by over 33 % from around 3,000 kg in 1960 to 3,400 kg in 1970 and about 4,000 kg in 1979. Similarly in the case of wheat, average yields have increased by 28 percent between 1968 and 1978. Both improved genetics and better management practices have contributed to these increases.

These rapid increases in productivity have been accompanied by a relatively stagnant demand for foodstuffs at least in terms of the volume of the raw materials. Generally at the high levels of income and the relatively low rates

of population growth characteristic of the Western industrial nations, additional food production finds new internal markets only with great difficulty. For the most part, extra expenditure goes into ever further processing, higher quality and more advanced packaging, than into additional quantities of food.

Improved efficiency and lower prices

Such a situation would normally tend to exert a downward pressure on farm prices and incomes, leading subsequently to a reduction in the number of people and the amount of land and other resources needed to produce the same amount of food. Such developments have indeed taken place on a substantial scale within the European Community and continue to this day. Food prices have generally declined in terms of the time needed to earn their prices. For example, in Germany between 1970 and 1977 the wheat price fell by around 25 % and the milk price by about 15 % in terms of the time needed to earn them. In France during the same period, the reduction for wheat was about 40 % and for milk about 30 %. The number of full-time farm workers in the Community has been reduced by nearly 9 million between 1960 and 1978. So far as land is concerned, there has also been a significant trend to larger farms, and the total farmed area has declined, largely due to the pressures of urban growth and communications needs. These kinds of pressures have placed a premium on increased output by both small farmers, whose incomes are continuously under pressure, and larger scale farmers who face substantial financial charges on capital investments. Indeed it is partly these pressures which have pushed farmers into ever higher levels of production.

There are, however, significant pressures in Western agriculture which have tended to slow down the pace of change and to render more acceptable some of the effects of change. Farmers are reluctant to leave the land even under extreme pressure from low incomes. Secondly, it is a fundamental concern of most Governments to ensure a certain level of agricultural output from their own countries. Thirdly, Governments have, at least within Western Europe, seen it as their duty to ensure a certain basic minimum standard of living in all sectors of the economy and insofar as agricultural incomes tend to fall behind those in other sectors, consistent attempts have been made to maintain comparability with industrial incomes. Finally, and especially in recent years, there has been concern with the maintenance of social and economic structures in rural areas, particularly in the more peripheral regions, and this is

sometimes felt to be incompatible with some aspects of the trends mentioned.

The difficulty for many Governments has been to find policies for agriculture which reconcile the various and often contradictory pressures and trends. In particular, it has proved difficult to reconcile the desire to limit production with the wish to maintain farm incomes within a healthy rural structure. In general, output has tended to increase in most agricultural sectors of the Community despite the reduction in resources used and the reduction in real prices for food.

Objectives and principles of the Common Agricultural Policy

The Common Agricultural Policy, derived as it is from the agricultural policies of the Member States of the Community, reflects in its objectives many of the factors mentioned earlier. Article 39 (the agricultural article of the Treaty of Rome) recognises, and indeed aims to encourage the trends towards increased productivity and considers this to be the most important method of ensuring "a fair standard of living for the agricultural population". Further objectives are to ensure a reasonable stability of food supply and reasonable prices to the benefit of consumers. Article 39 also, however, recognises the special nature of agricultural activity and recognises that the pace of change should not be harmful.

In addition to these objectives, three other principles form the basis of the operation of the Common Agricultural Policy, although they are not written into the Treaty of Rome. Community preference is the principle whereby agricultural production from within the Community is to be given certain (undefined) competitive advantage over produce imported from third countries. The second principle is that of financial solidarity according to which the market support measures of the CAP are to be wholly financed by the European Community's own income (own Resources). The third principle is that of common pricing and free trade in agricultural produce.

Structural improvement

The Article 39 objectives and the two principles mentioned have in practice tended to stimulate the level of agricultural production.

The Community has paid considerable attention to the improvement of agricultural structures and substantial funds have been devoted to investments in

Community agriculture. This policy has in recent years been substantially strengthened by a shift of resources to those regions of the Community where they are most needed. This development, together with the use of integrated programmes is of considerable importance. Increased productivity is, in the Commission's view, the foundation of increased farm incomes and of an improved use of Community resources.

Self sufficiency

Supply and price security and stability imply a certain level of self-sufficiency for the Community as a whole, since it is obviously much more difficult to ensure the availability of supplies and the stability of markets where there is very substantial reliance on imports from third countries. Self-sufficiency is not a Community policy as such, indeed the Community is the world's largest food importer, and relies very substantially on imported protein for animal feedstuffs for example; however, a certain level of production is necessary to ensure these objectives and self-sufficiency ratios within the Community have tended to increase.

As for the principle of Community preference, this has, of course, required the defence at the common frontier of the price and income level established within the Community. The level of prices fixed by the Council, which are supported by variable levies or other mechanisms, has in some sectors provided a significant stimulus to production.

These are some of the factors which have been significant in the development of agricultural policy and in the trends of production and consumption in the industrialised world as a whole, and in the European Community in particular. Such a background is necessary to a clearer understanding of the level of production in the Community, and to the issue of surplus production.

The Scale of Community agricultural production

It is essential to see agricultural production and trade in the European Community in its worldwide perspective. Quantities which seem large in isolation, take on a rather different scale when seen in relation to other relevant factors. Because the Community is a major industrial power, it is often not appreciated that it ranks second or third (depending on the product) in the

Table 1

World production of major commodities 1978 Million tonnes

	Production	% world production
1	2	3
<u>Cereals</u>		
World	1204.4	100
USA	267.1	22.5
USSR	229.5	19.0
EEC	116.0	9.6
Canada	41.7	3.5
<u>Sugar (raw value)</u>		
World	92.5	100
EEC	12.8	13.8
USSR	9.4	10.2
Brazil	7.9	8.5
Cuba	7.7	8.3
USA	5.2	5.6
<u>Beef</u>		
World	47.9	100
USA	11.3	23.6
USSR	6.6	13.8
EEC	6.4	13.4
Argentina	3.2	6.7
Australia	2.1	4.4
<u>Butter</u>		
World	6.2	100
EEC	1.9	30.6
USSR	1.4	22.6
India	0.6	9.7
USA	0.5	8.1
New Zealand	0.2	3.2
<u>Skimmed milk powder</u>		
World	4.1	100
EEC	2.2	53.7
USA	0.4	9.8
USSR	0.3	7.3
New Zealand	0.2	4.9
Canada	0.1	2.4

Source : DG VI European Commission

Table 2

World production and trade "1976" (1)

(million tonnes)

	Community production "1977"	World production "1976"	World trade "1976"	World trade as % world production
1	2	3	4	5
All cereals	103.7	1071.6	143.1	13.4
Sugar (raw value)	12.5	99.3	23.2	23.5
Butter	1.7	6.7	0.5	7.4
Milk powders (skimmed and whole)	2.3	6.2	1.1	17.7
Beef and veal	6.4	46.9	1.8	3.8

(1) "1976" = Average figure for 1975, 1976, 1977

Source : DG VI European Commission

world as a producer of temperate agricultural products. As an importer and exporter the Community is the world's major bloc together with the United States of America. Table 1 illustrates the output of the world's major producers for cereals, sugar, beef, butter and skimmed-milk powder in 1978. The Community's share of total world production varies from 10 % for cereals, 13 % for beef and sugar to 54 % for skimmed-milk powder. For all these products, the Community is one of the largest three world producers, and for dairy products, is substantially the largest producer (*).

Table 2 shows the proportion of world production entering into world trade; generally this is well below 20 % and illustrates that at a given consumption level relatively small changes in production levels in any of the three major producing areas is likely to have a significant effect on the quantities available for world trade and prices. In the case of dairy products for example, a reduction of Community butter production by 12 % would, if followed through into extra imports or reduced exports, require one half of current total world trade. Similarly, in the case of beef and veal, a 13 % reduction in Community production would amount to half total world trade.

It is as well to keep these orders of magnitude in mind to provide an instrument for comparison when examining the problems of overproduction in the Community or elsewhere.

What is a surplus ?

The word "surplus" is as often used in connection with the Common Agricultural Policy as it is infrequently given any precise meaning. Most commonly it is used in a pejorative sense, it being understood that surpluses are wasteful and the sign of a failed policy. The mere existence of stocks or of production higher than consumption has been enough to cause shouts of "surplus" and demands for reform of the policy.

However, it is also true that what is a surplus in this pejorative sense in one set of circumstances may well be merely a sensible standby stock against

(*) For more details see "Green Europe Newsletter" No 166

emergencies to another person in different circumstances. To find the term used in a neutral sense, or to find it defined, much less measured, is unusual.

The existence of a public stock of any product, usually in the context of the Common Agricultural Policy, a stock accumulated by intervention purchases, is very commonly taken to mean surplus production of the product. The widespread use of such "topographical" language as "mountains" of butter and "lakes" of wine is an indication of the way in which a product is often supposed to be in surplus if a stock is held by the public authorities. Although such an image is easily appreciated, it is in reality not a very useful approach to the problem on its own. The existence of a stock does not necessarily indicate a surplus, nor does the lack of a stock indicate that no surplus exists. In the former case, it is a commonplace that with or without an agricultural policy traders and wholesalers will hold substantial stocks, both normal pipeline stocks, and at times against expected price increases. Furthermore, within the CAP one may take the example of the regulation, which obliges sugar refineries to hold 10 % of their annual production as a security stock at any given moment. Similarly, the notion of a butter stock as an instrument of price policy has long been a major instrument for international commodity agreements. In the contrary case, that the lack of a stock or of a substantial reduction in stock levels, does not necessarily mean that there is no problem of surplus, can be seen in the case of skimmed-milk powder. In 1976 public intervention stocks stood at 1.4 million tonnes, but have since fallen to the point where in October 1979 they stood at 300,000 tonnes, and were still falling. This very large reduction certainly does not indicate a reduction in the surplus of milk or of skimmed-milk powder; indeed the production of milk has increased substantially since 1976, and the commercial demand for skimmed-milk powder has fallen since then. The decline in stock levels is due in large part to the greater use of other disposal methods, albeit at high budgetary cost.

Production and consumption balance

On its own the balance between consumption and production within the Community does not produce a satisfactory definition or measure of surplus either. Consumption may well be maintained at a particular level by the use of

subsidies and surpluses can, at least within the limits of price elasticities and available financial resources, be made on this definition to disappear simply by increasing the consumption subsidy or even by requiring the use of the product for particular purposes. Some 40 % of butter and up to 90 % of skimmed-milk powder is currently sold with some level of subsidy on the internal Community market. So far as milk products are concerned there is the additional complication that the milk output required to meet Community self-sufficiency in butter, with no imports or exports, would still leave a substantial quantity of skimmed-milk powder which could not be sold at non-subsidised prices.

Imports and exports

Any consideration of production and consumption balance evidently needs to come to terms with the existence of imports and exports. It would normally be accepted that existence of exports or even of a net export surplus does not necessarily imply an undesirable or excessive level of production where exports are undertaken on a commercial basis or for food aid purposes. Food aid evidently requires a certain level of production over and above current commercial demand if it is to be provided. However, it becomes a question of semantics to decide whether a country having what is considered one week to be a production level above normal unsubsidized internal demand, the next week has no surplus as a result of a deliberate and genuine response to additional food aid requirements. In this context, it should be noted that the Community's food aid commitments for 1978 were for 150,000 tonnes of skimmed-milk powder, 55,000 tonnes of concentrated butter (butteroil), 800,000 tonnes of cereals, and 6,100 tonnes of sugar. In the converse case, imports can take place for particular policy reasons under circumstances different to those normally existing under the Community import regime. Such is the case for cane sugar imports from certain African, Caribbean and Pacific (ACP) countries under Protocol No 3. of the Lomé Convention, for beef imports from a number of third countries, and for butter from New Zealand. In the absence of any other adjustments, such imports increase the overall level of self-sufficiency.

Financial and economic costs

Quite commonly, a criterion of cost, usually of financial cost, is used to define the existence of surplus production. It is clear that this can give

some indication, although it is not a very satisfactory method of measurement. To say that a budgetary cost of 3,770 million e.u.a. (*) (the draft 1980 budget estimate for the dairy sector) is a sufficient definition or measurement of the existence and extent of surplus in that sector presupposes that any level of public expenditure on market support indicates the existence of a surplus. It implies that a surplus exists whenever public funds are necessary for the disposal of production whether internally or externally. In this case, a concept of "normal" consumption is set up related to unsubsidized market demand, and to which the production level should be suited. This approach includes not only financial cost, but also economic cost, that is the extent to which an economy goes without other goods because resources are being used for the particular objective under consideration. In this case, even where there is no financial cost, there could be a significant economic cost. Substantial financial and economic costs can of course exist where internal production is substantially below consumption. This may be the case for example with deficiency payments or direct income support systems which can weigh heavily on the budget. The way in which the Community budget is presented tends to exaggerate for some sectors the financial costs associated with the Common Agricultural Policy; income derived from levies on agricultural imports, and from the charges on producers of sugar and milk that are intended to recover some of the policy costs are treated quite separately from the expenditure on the same products. This approach to the definition and measurement of surplus can certainly be used as one indicator amongst others, but as a short-term approach and carried too far, it can remove much of the meaning from discussion of surpluses.

Seasonal and structural surpluses

In addition to these elements, a distinction has to be made between the short and long term. All the indicators in one season may point to surplus production; high stock levels, substantial excess of production over consumption, financing costs. If however the same features do not occur again in following seasons, then it would be unreasonable to approach the problem in the same way as a persistent and enduring trend. It is precisely to mitigate the effects on producers and consumers of substantial year to year, or cyclical fluctuations in production or consumption that agricultural policy exists.

(*) e.u.a. = European unit of account

In the wine sector the average level of production in the Community between 1969 and 1978 was 143 million hectolitres. Production in 1973 was 31 % higher than in the previous two years, and 25 % higher than the average of the previous eight years. The measures taken to deal with this type of situation, and the costs associated with them should be seen as being aimed at dealing with a normal fluctuation and not necessarily indicating the need for changed policies. By contrast a structural surplus exists when a divergence becomes clear in the longer term trends of consumption and production, when stock levels remain persistently high and when the costs associated with marketing the production increase to substantial levels.

Like an elephant, a surplus is rather easy to recognise, but rather difficult to define and measure accurately. Of the various elements, the most important aspects to be examined should be the overall balance sheet (Annexes I - V), the financial cost of the sector, the economic cost and the extent to which these can be seen to persist over the medium to long term.

In the end, the idea of a surplus, that is the quantity produced over and above needs, has meaning only in the context of a declared policy. Surpluses exist when the quantities produced are significantly more than the policy calls for. The difficulty arises when the policy aims at an objective, and produces a surplus as a side effect. The definition of a surplus is therefore a rather subjective matter depending not only upon the trends of production, consumption, stocks and costs, but also upon declared policy. Annexes I to V give the balance sheets for the major products, providing in a simplified form much of the objective data necessary for any assessment.

The Community's stocks Policy

Intervention stocks are so closely associated in people's minds with surpluses that some explanation is necessary of the way in which the Community's stock system operates and to show why it is not a useful indicator of surplus problems. There are four main instruments used by the CAP :

a) Public purchases

Intervention purchasing has been a central element in the CAP's price support system for some major products from the outset.

Public intervention (cereals, sugar, olive oil, beef, butter, skimmed-milk powder and tobacco) gives a producer has the right to offer, and the intervention agency has the obligation to buy, any quantity of the product offered at the buying-in price provided that it meets the minimum conditions laid down. In practice it tends to be less the producers than dairies, cooperatives or traders who do the actual selling to the intervention agencies which exist under the authority of the Member States. There are normally marked seasonal and cyclical patterns to intervention buying which thus has as one of its aims the reduction of short and medium term fluctuations arising from the variability of supply. Evidently market prices will tend to be lowest, and intervention purchases at their annual high point either just after harvest in the case of arable crops, or in the spring and autumn in the case of meat and dairy products. In the same way the intervention system has the ability to remove the peaks and troughs of production and price cycles and to enable a constant supply to be maintained.

Sales from intervention, the opposite aspect, may take place throughout the year as in the case of skimmed-milk powder used for animal feed, or intermittently depending upon demand, upon the level of stocks and upon the rate of purchase into stock. Generally, sales from intervention stocks are undertaken by a system of open tender to ensure equality of opportunity, and maximum returns to the intervention agency. The process of public storage may involve a lowering of the product value, i.e. frozen beef is worth less than fresh beef. This, and the costs associated with storage, make it desirable not to let stocks go too high and to ensure that there is, so far as market conditions will permit it, a regular programme of sales from intervention stocks. Intervention stocks can and do play an important stabilizing and security role in the Community. In addition to sales aimed at smoothing supply and price fluctuations over the season and from one season to the next, intervention stocks are used to balance supply and demand between Member States. On a number of occasions, public stocks of wheat, skimmed-milk powder and beef have been transferred to Italy, a Member State which tends to produce less than its consumption of many temperate products.

Intervention stocks may be sold for export, to consumers within the Community, to the food processing industry or to the animal feed industry. In recent years the Community has increasingly followed a policy of giving the major benefit of intervention sales to Community consumers. The past two years (and again in 1979) have seen special short term sales of butter from intervention stocks. The possibilities for such sales are limited by the budget and by the need to avoid undermining the market support system. This could happen if too large quantities are put back onto the market at times of the year when supply is particularly abundant.

In practice, the use that has been made of intervention has varied significantly from one sector to another. At one end of the scale, in the milk and beef sectors, for example, intervention has been the basis of the support system, with purchases and sales taking place on a continuous basis throughout the year with only limited seasonal variations. Recent modifications to the beef intervention system have made it more flexible and purchases can be suspended for certain categories in certain market conditions. However, the intervention system remains central to the support regime. For cereals and sugar, although intervention is used to a substantial degree, it is rather the weekly export tender sales that are the main means of managing the market, and stock levels have in the past been more of a residual element than the result of a market support policy at a particular price level. At the other end of the scale are products such as pigmeat and fruit and vegetables, for which intervention buying does exist in the relevant regulations, but which is in practice seldom if ever used, and other means of market support have been found.

- b) Private storage aids are provided for in the case of butter, certain cheeses, beef, pigmeat and wine. By contrast to the intervention system, the product remains the property of the private operator, and the Community pays a part of the costs of storage. The operator is obliged to hold the quantity in stock for the time period laid down in the regulations and the Community is therefore provided with an additional means of managing the flow of products onto the market. The system is of course much less costly than intervention purchasing.

- c) Withdrawal of produce from the market is provided for in the fruit and vegetables market. Intervention purchasing exists in the base regulations, but is in practice not used. Recognized producer organizations and cooperatives may however decide that if market prices go below a certain level, they will withhold their produce. Provided that the price level chosen is consistent with Community support price levels, then compensation is payable for a limited number of products - cauliflowers, tomatoes, peaches, pears, apples, lemons, oranges, mandarins and table grapes. Clearly, in the case of such highly perishable products, storage possibilities are extremely limited and there is a serious risk that the products will become unsaleable very rapidly. Consequently the system requires that the withdrawn produce should be put to any of a number of useful ends - donations to charitable organizations, distillation and further processing where this is feasible, or animal feed if this is appropriate.
- d) Compulsory minimum stocks are held in the sugar sector, equivalent to 10 % of the output of any refinery as a basic security stock. This measure was introduced in 1976 following the experience of shortages in previous seasons, with the aim of protecting supplies to the Community's internal market in years of poor beet harvest.

Milk and dairy products

Foremost amongst all products in the Community, it is generally accepted that there is a surplus production of milk, finding its physical expression in butter and skimmed-milk powder (the major storable milk products) since these are the main products covered by the intervention system. The European Commission has for long considered that a substantial surplus exists in this sector, that there should certainly be no further increases in milk production, and that some reduction would be desirable. Since the common milk market organization was first introduced in 1968, there have been a series of proposals and measures aimed at curbing production and at maintaining or increasing consumption. Following Commission memoranda in 1968, the first year of the milk market organization, a freeze on the Community price of milk, butter and skimmed-milk powder was introduced. This freeze lasted for three seasons, but in 1973, in its "Memorandum on the Improvement of the CAP" a substantial surplus was noted and further measures were proposed. In its price

proposals for 1974/75, further proposals were made, as also in the "Stock-taking of the CAP" in 1975 and in the "Situation on the market in milk products" also published in 1975. In 1976, the "Action programme for the progressive achievement of balance in the milk market" proposed the introduction of a co-responsibility levy, which was adopted by the Council in 1977. In 1978 the Commission put forward further proposals to deal with the surplus in the milk sector. These were not adopted by the Council and because the Commission is convinced that action needs to be taken, it has made new proposals to recover the cost of further increases in milk production. The milk market is characterised by all the features associated with a surplus, as can be clearly seen from the balance sheet (Annexes I & II). Budgetary costs are very high and rising rapidly, production of milk is increasing, but overall consumption of milk and dairy products is stagnant, stock levels for butter are high and rising and skimmed-milk powder stock levels have been declining only because of the introduction of a series of special measures aimed at putting the product onto a comparable price basis with vegetable protein used in animal feeds. This illustrates the danger of placing too much reliance on stock levels as a measure of surplus. Public intervention stocks for butter stand at 345,000 tonnes and for skimmed-milk powder at 310,000 tonnes (September 1979), equivalent to 20 % of production for SMP and 18 % of butter production. This can be expressed as less than 3 months Community consumption of butter and only 2 1/2 months for SMP.

Intractable surplus problem

The milk sector represents the most serious and at the same time the most intractable surplus problem that faces the Common Agricultural Policy. The sector as a whole has been described in more detail in No. 166 of this series, and combines many of the features which give rise to problems for agricultural policy as a whole. It combines a relatively high rate of growth of productivity (higher milk yields, larger herds) continuing over a lengthy period, with a particularly stagnant, and even declining, consumption pattern for the most important dairy products, a pattern which is unlikely to change significantly in the future. Increasing production has been particularly influenced by the ready and cheap availability of vegetable proteins, and in particular of soya, which has meant that farms have been able to expand their output without an increased land surface.

These production and consumption features have been aggravated by a very wide range in herd sizes and in yields. At one extreme, 10 % of dairy farms hold 39 % of dairy cows, and at the other, nearly 60 % of all dairy herds have less than 10 cows. Moreover, this 60 % is largely to be found in the upland and peripheral regions of the Community, where alternative agricultural or industrial employment is extremely limited, and where the rural infrastructure is already relatively weak.

Reducing milk production

If it is clear that a surplus exists, what measures are being taken to deal with it? A clear distinction needs to be made, but often is not, between the measures taken to deal with the underlying problem, and those aimed at the efficient disposal of the surplus production in the short to medium term. So far as the underlying problem is concerned, the measures taken to date on the production side have not been successful. The Council of Ministers decided in June 1979 to modify the more stringent proposals put forward by the Commission for a co-responsibility levy which would have made it variable with the level of deliveries to dairies. Apart from this measure, a severe price policy has been, and continues to be, the basis of any policy aimed at curbing milk production. Although this policy has been quite successful at the level of the common price, it has to some extent been undermined by the effects of monetary instability. Other measures taken to meet the basic problem are also described in No. 166 of this series.

Increasing milk consumption

The uses to which surplus production is put, have given rise to considerable controversy in the past. From an economic and financial point of view it might be considered desirable to use in priority those measures which give rise to the lowest budgetary costs. In the case of skimmed-milk powder, extra sales have been achieved at the expense of vegetable protein, requiring a subsidy that may go up to 85 % of the price paid for the powder by the intervention agency. The costs have been kept down to some extent by reducing the storage periods and by developing the market for liquid skimmed-milk, thereby avoiding the costs associated with drying. For butter the problem is more difficult. The least cost approach tends in practice to be the one where the most additional butter is bought for a particular level of subsidy. There is no doubt

that this is the case for exports outside the Community, where for a given rate of subsidy, all the butter sold is additional. At the opposite extreme, generalized consumer subsidy schemes tend to give rise to only limited extra consumption for the same subsidy level, and the financial effectiveness is less. Nevertheless, the European Community has in recent years followed a policy of giving priority to its own consumers, and the quantities of butter on which subsidies have been paid to the internal market have been significantly greater than the quantities exported. In 1978, exports with export refunds were at 214,000 tonnes whereas specially subsidized internal sales amounted to 266,000 tonnes, and in addition, a general consumer subsidy was paid on a further 390,000 tonnes, notably in the United Kingdom. In addition, some 55,000 tonnes of butter in the form of butteroil were earmarked for the Community's food aid programme. Since Community consumption of butter is about 1,700,000 tonnes, a high proportion is subsidized.

If considerable attention has been paid to the dairy sector, it is because the problems are at the same time the clearest and the most difficult to deal with.

Sugar

The problems in the sugar sector are of rather more recent origin than those in the dairy sector, and arise from a rather different set of circumstances. Annex IV gives the balance sheet for sugar from which it can be seen that once again stock levels are on their own a poor indicator. Estimated stock levels for the end of the 1978/79 season are 1.6 million tonnes on a production of 11.8 million tonnes. However, 10 % of production, or about one million tonnes, is required by regulation to be held in stock at all times, and the end of season stock should more reasonably be seen as about 600,000 tonnes or three weeks consumption for the Community. The balance of internal production and consumption gives rise to exports of around 1.2 million tonnes. However, as part of its development aid programme, the Community imports 1.3 million tonnes from the African, Caribbean and Pacific (ACP) producers on preferential conditions under the Lomé Convention. In practice this increases the quantity available for export to a total of about 2.5 million tonnes in 1979. So far as the gross budgetary costs are concerned, these are reduced by the income derived from charges on production, and bring down the gross

budget cost from 917 million to 475 million European units of account (1980 draft budget). The cost of exporting a quantity equivalent to the imports from ACP countries is included in these figures.

These production and consumption patterns and their associated costs are of relatively recent origin compared with the dairy sector. The period of severe world sugar shortage in 1973/74 and 1974/75 had its effects both on the trend of production and of consumption. In 1973/74, consumption rose significantly, but fell back to its original level of around 9.4 million tonnes in 1975/76. It has remained at around 9.5 million tonnes since, with little likelihood of significant increases in the future as a result of health preoccupations and other factors. Production by contrast, increased substantially as a result of the deliberate stimulus given to sugar production during the shortage period. In the four years before 1973/74, production (of Nine countries) averaged 8.9 million tonnes. In the four years after 1974/75, it averaged 10.7 million tonnes, the increase of 1.8 million tonnes being very largely due to an increased planting area. If this increase is added to the imports of preferential sugar from ACP countries, the reasons for the present situation become clear.

The sugar regime is based on a system of production quotas. Production up to the basic (A) quota receives the full Community guarantee price. Beyond this (B quota) the guarantee is reduced by a levy on producers and refiners. Finally, production above the maximum quota (A + B) may only be sold outside the Community and without export refund.

The Commission is of the view that the current level of production is too high and that without some remedial action, there is little reason to suppose that the situation will improve. For 1979/80, the Commission had proposed to reduce the maximum quotas and to make no increase in the price level. These proposals were not however accepted by the Council of Ministers. The current sugar regime comes to an end in July 1980, and the Commission has proposed that production within the quotas be reduced to bring production and consumption into better balance, and that the levy on producers be raised.

Wine

In one other sector the Commission has taken the view that there is a significant risk of the development of an undesirable imbalance between production and consumption. This is in the viticultural sector where the Council has accepted far reaching proposals aimed at limiting the production of low quality table wines and at encouraging a higher quality through the restriction of plantings to the areas most suitable for quality production.

No public intervention

The indicators used in the dairy and sugar sectors do not provide quite such a clear picture for table wine. There are no public intervention stocks of wine since market support is provided through distillation of wine into alcohol, and by aids for the storage of wine for specified periods. The quantities of wine distilled as a market support measure have, with the exception of 1974/75 remained at between 2 and 4 percent of total wine production. The trends of production and consumption (Annex V) have been moving apart over the years, with declining consumption in France and Italy not being offset by the increases in other Member States. Production has been increasing slowly over the years through a combination of increased yields and area under production. The budgetary costs of the wine sector have not been very high at around 64 million e.u.a. in 1978, but this is estimated to rise to 350 million e.u.a. in 1980.

Substantial harvest fluctuations

The need of distinguish between short term fluctuations and longer term trends is particularly important in this sector which is peculiarly subject to wide variations in output from one year to the next. As an example it is the case that the extra production in 1973/74 and 1974/75 over the average of the previous five years would have been sufficient to provide 25 extra litres of wine to every soul in the Community. This was the wine "lake" headlined by so much press comment. Such production fluctuations are bound to produce rather severe effects on the market, but it would not be reasonable to count this as a problem of the same kind as for example the long term milk surplus. 1979/80 seems likely to produce another record harvest.

Programme for balance

Nevertheless, there is a potential problem, and in July 1978 the Commission put forward a comprehensive programme to restore balance in the wine market. This was accepted by the Council and will go far to removing the threat of imbalance. The proposals provide for a ban on all new vine plantings for the production of table wines. All vine-growing areas are classified according to their suitability for wine production, and this classification is to be used to determine eligibility for various Community and national aid measures. The Community measures include aids for grubbing up and restructuring vineyards, and for encouraging the permanent abandonment of holdings. The aim is to reduce the total productive capacity of low quality table wines and to encourage a movement into higher quality wines.

Other sectors

Other sectors may exhibit some of the features of surplus production from time to time but none present a need for changes in policy in the same way that the milk, sugar and wine sectors do. The beef sector for example faced very severe problems for a number of years after 1974/75 caused by a strong build-up of production in the early 1970's encouraged by the public authorities followed by substantially increased costs and a stagnating consumption arising from the oil crisis. Imports were restricted very severely, stocks rose to substantial levels and there were considerable associated budgetary costs. However, at the worst point of the crisis, production within the Community was only 2 % above consumption or about one week's consumption, and since 1976 has remained below consumption thus providing for an increasing level of net imports.

ANNEX I

BALANCE SHEET FOR SKIMMED MILK POWDER

(000 tonnes)

	1974	1975	1976	1977	1978	1979
Opening stocks						
- aided	300	279	136	204	159	251
- intervention	166	365	1,112	1,135	965	674
Production	1,839	1,989	2,060	2,024	2,149	2,160
Import	2	10	1	-	-	-
Availability	2,307	2,643	3,309	3,366	3,333	3,085
Consumption						
- commercial	209	203	220	240	240	240
- aided sales	1,143	1,047	1,584	1,581	1,758	1,300
Exports						
- commercial	264	93	96	323	286	430
- food aid	47	52	70	98	124	140
Closing stocks						
- private aided	279	136	204	159	251	252
- intervention	365	1,112	1,135	965	674	230
Budgetary cost (milk and dairy products) m.e.u.a.	1,258	1,194	2,278	2,924	4,015	4,459

Source : DG VI European Commission

BALANCE SHEET FOR BUTTER

(000 tonnes)

	1974	1975	1976	1977	1978	1979
Opening stocks						
- aided	84	94	93	79	78	187
- intervention	117	54	71	176	117	231
Production	1,663	1,722	1,797	1,817	1,966	1,988
Imports	157	160	132	120	125	120
Availability	2,021	2,030	2,093	2,192	2,286	2,526
Consumption	1,738	1,798	1,720	1,727	1,591	1,686
Exports						
- commercial	103	32	84	219	214	350
- food aid	32	36	34	51	63	55
Closing stocks						
- private aided	94	93	79	78	187	150
- intervention	54	71	176	117	231	285

Source : DG VI European Commission

ANNEX III

BALANCE SHEET FOR BEEF AND VEAL

(000 tonnes/carcasse weight)

	1974	1975	1976	1977	1978
Opening stocks					
- aided	-	40	130	150	55
- intervention	23	300	310	310	324
Production	6,626	6,619	6,461	6,338	6,384
Imports	254	255	365	347	371
Consumption	6,492	6,531	6,528	6,595	6,680
Exports	168	232	273	171	189
Closing stocks					
- aided	40	130	150	55	
- intervention	300	310	310	324	265
Budgetary cost (million e.u.a. budget year)	322	923	616	467	639

Source : DG VI European Commission

ANNEX IV

BALANCE SHEET FOR SUGAR

(000 tonnes, white value)

	1974/75	1975/76	1976/77	1977/78	1978/79
Opening stocks (1st October)	426	906	949	1,592	1,431
Total production (1)	8,570	9,703	10,003	11,536	11,776
Imports (2)	1,835	1,570	1,575	1,487	1,381
=====					
Total availability	10,831	12,179	12,527	14,615	14,588
Internal consumption	9,561	9,535	9,036	9,470	9,489
Exports (3)					
- with refunds	310	1,540	1,745	2,914	2,695
- without refunds	19	97	153	793	807
Closing stocks	941	1,007	1,593	1,438	1,597
Budgetary costs (million EUA budget year)	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
- gross	271	229	598	878	(credits) 1,005
- net	185	96	277	472	

(1) Includes "C" sugar

(2) Includes sugar in processed products

(3) Includes 405 m EUA attributable to preferential imports from the ACP

Source : DG VI European Commission

ANNEX V

BALANCE SHEET FOR WINE

(000 hl)

	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80
Opening stocks	86,986	81,004	77,833	81,583	75,684	78,171
Production	160,245	145,375	148,416	128,795	139,000	167,000
Imports	5,297	4,980	5,496	5,872	6,296	5,617
Availability	252,528	231,359	231,745	216,250	220,980	250,788
Consumption						
- direct	132,782	130,241	127,059	125,237	124,497	125,948
- processing	36,426	18,963	18,443	10,922	11,966	28,763
Exports	2,316	4,322	4,660	4,407	6,346	5,696
Closing stocks	81,004	77,833	81,583	75,684	78,171	90,396
Budgetary cost (million e.u.a. budget year)	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u> (credits)	<u>1980</u>
	141	134	90	64	94	350

Source : DG VI European Commission