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Report

drawn up on behalf of the Committee on Agriculture

on the organization of the market in sheepmeat

PART B: EXPLANATORY STATEMENT

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EXPLANATORY STATEMENTI. Introduction

1. The common market organization for sheepmeat was finally adopted in 1980, after repeated calls by the European Parliament for measures to provide support in this important sector. It should be noted at the outset that the common organization of the market in sheepmeat is distorted by the fact that the sheep is not considered in its entirety. Only the sheep's meat is taken into account, whereas its by-products, consisting of its offal, hide and wool, are not, having been omitted from the list of agricultural products established during negotiations on the Treaty of Rome.

2. In its report drawn up by Mr HERBERT⁽¹⁾ in August 1978, the European Parliament deplored the prolonged delay in the submission of proposals on the common organization of the market in sheepmeat, and declared that the following fundamental principles should be respected by the common organization for sheepmeat :

(a) free trade within the Community

(b) Community preference

(c) financial solidarity.

Parliament also considered that realistic price levels should be established which took account of production costs, and that effective action should be taken to alleviate difficulties arising from the transitional period. The report doubted that the transitional arrangements and direct aids would be sufficient to solve the problems which were likely to arise from the immediate introduction of free movement in the Community given the wide gulf between the situations on the national markets.

3. The task before us today is to determine whether this market organization, in force since 1980, has managed to ensure respect for the three fundamental principles laid down by Parliament, and to what extent the apprehensions expressed on the question of free trade in the Community have proved justified. To make a proper assessment, we must understand the difficulties which faced the Community decision-makers when they sought to establish a common regime for sheepmeat and to which the Commission also refers in the report of 28 October 1983.

II. Economic background to the establishment of the common market organization for sheepmeat

4. When the Commission first proposed in 1975 a transitional organization,

(1)

the sheepmeat sector was characterized by very different national market measures and import arrangements. This was reflected in the very wide price margin between France and the United Kingdom: the price level in the United Kingdom being about 50% of that on the French market.

5. Intra-Community customs duties had been abolished since 1970 and the Common Customs Tariff fully applied (20% for meat and 15% for live animals).

6. In France, quantitative restrictions were applied to frozen sheepmeat and trade in live sheep and fresh meat was regulated by countervailing duties. Quantitative restrictions did not exist in other Member States, apart from Germany where they were abolished after 1972.

In the United Kingdom, however, national production was protected by a deficiency payment which made up the difference between guaranteed and market prices.

7. The margin between French and British prices reflected fundamental differences in market support mechanisms and the very nature of the systems of production in the two countries. The French production system is far more intensive with a lower average flock size (40 ewes), dependent on a market for high quality meat from which frozen meat had been virtually excluded (only 3,000 tonnes p.a.). In the United Kingdom, on the other hand, a much more extensive system of production is based on considerably larger production units (average size 300-400 ewes) and an integrated but geographically stratified production, whereby the very extensive mountain flocks (1,000, 2000 or more animals) produce breeding ewes for the hill and lowland farms.

8. Aid to French sheepmeat production represented about 3% of the market price (1% to producer groups and 2% mountain compensatory allowance). This contrasted to the situation in the United Kingdom where total direct aid represented 26% of the market price (6% deficiency payment and 20% direct subsidies).

9. This high level of aid made it possible to protect producers' incomes while importing above one-third of domestic requirements from third countries, and in particular New Zealand and Australia.

10. The political problem at that time in the Community was to reconcile these differences in national interests, production systems and trade links.

11. It was necessary to take into account one further factor: falling consumption in the main area of production - the United Kingdom. The British authorities informed the Commission that price/consumption elasticity for sheepmeat was 1.12. Consequently any price increase of 10% for sheepmeat would lower consumption by around 11% (assuming that the prices of other meats remained unchanged). Given that sheepmeat consumption in the United Kingdom had dropped by 23% between 1971 and 1976, any further fall due to a substantial price increase would have had serious consequences for the United Kingdom and other Community markets, with increased export availabilities.

III. The market organization

12. The above shows that the market organization chosen¹ is rather complex and that this complexity persists in the measures accompanying the Commission's 1984/85 price proposals. The different choices made by France (support of producer incomes) and the United Kingdom (maintenance of consumption) could only be reconciled by dividing the Community into two price zones separated by special mechanisms to ensure that the lower British prices did not directly depress those in France. This 'claw-back' and variable premium system should be abolished in future because it is making it more difficult than originally envisaged to harmonize prices between Member States.

Member States are allowed to choose for each marketing year between three types of market support:

(a) Premiums for producers: used by all Member States

Premiums are paid to producers to offset loss of income. They are based on the difference between foreseeable market prices for the current marketing year and regional reference prices fixed by the Council. It is important to note that in its new proposals the Commission says that there should no longer be any distinction between reference prices and basic prices.

The reference prices had originally been fixed on the basis of 1979 or 1980 market prices in each region and it had been intended that

¹ Regulation 1837/80, OJ No. L 183, 16 July 1980, p.1

they would be fixed each year in order to achieve their alignment over the four-year period.

For each region, the difference between the reference and market price is multiplied by the tonnage of sheepmeat, and the total is divided between the number of eligible ewes in each region. An advance of 50% is paid at the beginning of the marketing year and the balance when the real loss has been calculated. In the event of buying-in the maximum premium is the difference between the reference and intervention prices.

For those countries applying a variable slaughter premium, this is deducted from the standard producer premium.

(b) Intervention buying:

When the Community market price falls below 90% of the basic price, which takes into account on a weekly basis market and production cost developments, aid for private storage may be granted.

A seasonally adjusted intervention price is fixed at 85% of the seasonally adjusted basic price. When the Community price is equal to or below the intervention price in the period 15 July to 19 December, and the representative price of a particular region is below the intervention price, Member States can request intervention buying. The Council may decide that intervention buying can be carried out in other periods in the case of serious disturbances.

When intervention buying is used, the intervention price rather than the market price is used for the calculation of the producer premium.

(c) Variable slaughter premiums: chosen by the U.K.

Instead of intervention, Member States may grant a variable premium amounting to the difference between the market price recorded in that country and a guide level, corresponding to 85% of the basic price, and also seasonally adjusted. The Commission is now proposing an overall ceiling for this premium. Perhaps a ceiling for individual farms would be preferable as the present system without ceilings favour large farms and thus encourages the flight from the land.

This premium must be repaid on exports to other Member States. This is why it is called the clawback. It was decided that the clawback would no longer be paid on exports to third countries so that the variable premium becomes a form of refund on exports to these countries.

On 23 June 1983 it was decided to ban the practice whereby animals could be sold and the premium claimed but kept on for fattening and slaughter at a much later date. The variable premium no longer related to the net market price received. Animals must now be slaughtered within 21 days of the grant of the variable premium.

This deficiency payment system can disrupt the market for other types of meat as sheepmeat, for example, represents a substitute for beef in the United Kingdom.

(d) Trade with third countries

(i) imports

Imports into the Community are now regulated by voluntary restraint agreements with third countries. In return for an overall limit of 321,790 tonnes, import duties have been reduced from 20% (level of consolidation in GATT) to 10%.

Sales by third countries to certain sensitive areas (France and Ireland) are subject to provisions to prevent disruption to these markets.

The annual quotas have been set at 0 for Ireland and 7,180 tonnes for France.

Under the Commission proposals, these provisions seem unlikely to change.

(ii) exports

No export refunds are paid on sheepmeat. The non-payment of the claw back on exports to third countries has been considered by some as a discriminatory payment of an export refund to countries applying the variable premium (see 12(c) above).

Mountain, Hill and Less Favoured Areas Directive, 75/268

Under this directive, compensatory aids are granted to breeding ewes to offset the additional costs of production, for example shorter growing seasons, difficult and sloping ground, difficulties in producing forage. The directive establishes minimum and maximum amounts that can be paid. The directive is applied in a very uneven fashion according to Member State. For example, the full amount is paid on all ewes in Ireland while in other countries a lower figure is paid. In France, the compensatory aid is paid on a maximum number of ewes (266) per holding. In the U.K. the aid is paid only to ewes of a mountain or hill race. The EAGGF reimburses Member States 25% of the cost of these aids (35% in the case of Ireland and Italy). The aids are paid in addition to all other payments.

13. These various forms of aid have not succeeded in restoring equilibrium to the Community sheepmeat market. A certain amount of money has been wasted via these premiums in that no criteria for quality have ever been considered so that, for each country, the poorer the average quality the more premiums it receives. Not only has quality production not been encouraged, it would appear that mediocrity is at a premium.

IV. Prices

14. Community sheepmeat prices are determined primarily by the United Kingdom and French markets. The British market has a direct influence on price levels on the Irish market. The French market determines the level of prices obtained by producers in those Member States which mainly produce qualities suitable for the French market, i.e. the Netherlands, Germany, Belgium and, to a lesser extent Italy.

15. Up to about 1976, prices on the British market had been 50% lower than those on the French market. In 1976, British market prices rose by 13%, Irish prices by 22.5%, compared to an increase of only 5.4% in France. This brought the differences in prices down to 40% in 1976, and this trend has continued so that the difference is presently about 30%. The latest figures for 1983, however, show the prices beginning to drift apart once more.

Sheepmeat prices ECU/100 kg - green rate

	<u>1973</u>	<u>1974</u>	<u>1977</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
France	274.86	354.71	378.57	345.65	368.81	391.37
U.K.	169.33	148.39	272.18	215.91	258.83	270.22

It is also clear that in 1977 and 1980 prices were depressed in the great majority of Member States, and although they have recovered in 1982 and 1983, there still exists considerable pessimism in France and Ireland concerning future market prospects.

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
France	+5.1	+4.7	+0.7	+10.6	+9.4
Ireland	+53.3	+9.1	-9.8	+21.4	+2.1
U.K.	+11.2	+7.7	-10.4	+19.9	+4.4
Italy	+19.1	+15.8	+6.5	+22.1	+5.4
Neths.	+2.4	-1.6	-2.7	+14.8	-4.0

TABLE 4

ANNUAL PRICES : Sheepmeat

Ecu/100 kg - Green rate

Country	Weighting Coefficient	1973	1974	1975	1976	1977	1978	1979	1980	Weighting Coefficient	1981	1982
	(2)									(2)		
Germany	2.45	198.50	198.98	214.38	218.26	248.31	270.41	276.39	275.888	2.09	346.973	355.428
France	24.66	274.86	313.53	336.62	354.71	378.57	371.73	366.37	345.657	21.54	368.817	391.373
Italy	19.38	216.89	177.72	207.09	330.6	362.57	321.15	411.70	390.119	16.63	450.417	454.147
Netherlands	1.16	273.14	265.33	321.96	327.89	318.98	326.86	322.36	314.988	1.07	359.307	349.403
Belgium	0.19	259.20	284.10	324.48	329.56	375.50	307.38	308.50	300.549	0.15	363.278	411.266
United Kingdom	46.83	169.33	172.61	174.63	198.39	272.18	267.63	267.30	215.918	39.55	258.838	270.222
Ireland	5.21	193.25	90.64	181.40	223.51	204.02	294.36	312.89	280.344	4.31	329.387	331.724
Denmark	0.12	229.33	211.37	246.07	242.15	241.51	240.70	255.71	278.272	0.10	247.789	273.741
Greece					(274.77)	(288.04)	(282.83)	(340.228)	383.643)	14.56	494.439	521.068
Regions 3 - (4)									288.448		348.892	352.843
Weighting EUR 9	100.00	207.98	211.27	224.27	266.17	312.50	305.86	323.02	288.035		(330.288)	
Weighting EUR 10										100.00	354.652	369.862

(1) Prices before 9.4.1979 have been converted into ECU with the coefficient 1.20053

(2) Up to and including 1980

(3) From 1981 onwards (EUR 10)

(4) Weighted average of prices in the following Member States : Germany, Netherlands, Belgium, Denmark

(c) % CHANGE BY COMPARISON WITH PREVIOUS YEAR
IN ECU AND NATIONAL CURRENCIES (N.C.)

Country	1974		1975		1976		1977		1978		1979		1980		1981		1982	
	ECU	N.C.	ECU	N.C.	ECU	N.C.	ECU	N.C.	ECU	N.C.	ECU	N.C.	ECU	N.C.	ECU	N.C.	ECU	N.C.
Germany	+ 0.2	+ 0.2	+ 7.7	+ 5.8	+ 1.8	- 1.1	+13.8	+12.1	+ 8.9	+ 7.9	+ 2.2	+ 1.6	- 0.7	- 1.4	+25.8	+21.9	+ 2.4	- 0.4
France	+14.1	+14.0	+ 7.4	+ 8.7	+ 5.4	+ 5.6	+ 6.7	+ 8.9	- 1.8	+ 5.1	- 1.4	+ 4.7	- 5.7	+ 0.7	+ 6.7	+10.6	+ 6.1	+ 9.4
Italy	-18.1	- 1.5	+16.5	+31.6	+59.7	+72.8	+ 9.7	+20.2	-11.4	+19.1	+28.2	+15.8	- 5.2	+ 6.5	+15.5	+22.1	+ 0.8	+ 5.4
Netherlands	- 2.9	- 6.2	+21.3	+20.6	+ 1.8	+ 1.3	- 2.7	- 2.8	+ 2.5	+ 2.4	- 1.4	- 1.6	- 2.3	- 2.7	+14.1	+14.8	- 2.8	- 4.0
Belgium	+ 9.6	+13.6	+14.2	+13.5	+ 1.6	+ 1.0	+13.9	+13.7	-18.1	-18.1	+ 0.4	+ 0.1	- 2.6	- 3.-	+20.9	+21.4	+13.2	+17.4
United Kingdom	+ 1.9	+ 4.5	+ 1.2	+11.5	+13.6	+25.1	+37.2	+33.2	- 1.7	+11.2	- 0.1	+ 7.7	-19.2	-10.4	+19.9	+19.9	+ 4.4	+ 4.4
Ireland	- 1.4	+ 1.7	- 4.8	+ 9.7	+23.2	+35.5	- 8.7	+10.4	+44.3	+53.3	+ 6.3	+ 9.1	-10.4	- 9.8	+17.5	+21.4	+ 0.6	+ 2.1
Denmark	- 7.8	- 7.9	-16.4	+16.5	- 1.6	- 1.0	- 0.3	+ 7.3	- 0.3	+ 4.1	+ 6.2	+ 8.4	+ 8.8	+16.2	-11.-	- 9.2	+10.5	+14.1
Greece							+ 4.8		- 1.8		+20.3		+12.8		+28.9		+ 5.4	+13.3
Region 3															+21.-		+ 1.1	
Weighting EUR 9	+ 1.6	-	+ 6.2	-	+18.7	-	+17.4	-	- 2.1	-	+ 5.6	-	-10.8	-	+14.7	-		
Weighting EUR 10																	+ 4.3	-

V. Production

16. The Community sheep flock, with 59.4 million head in 1983 accounts for 4% of the world sheep flock, and breaks down into 90% meat and 10% milk production.

17. Sheep numbers were relatively stable in the period 1973-1980 (+ 1.5%), with a more pronounced increase in the Netherlands (+ 3.9%), and to a lesser extent in France, Italy, Germany and Belgium (+ 2.5%). Ireland is the only major producer country where the flock has fallen since 1973 (- 2.7%) mainly due to an increase in beef production.

18. Since 1980, the picture has been changing more radically. Production in the Community as a whole has been increasing by up to 2% per year, with a growth in all countries except the Netherlands, a rebuilding of Irish flocks to 1977 levels, and a substantial increase in the British flock.

	1970	1973	1977	1978	1979	1980	1981	1982	1983
Ger.	843	1,016	1,135	1,136	1,145	1,179	1,108	1,100	1,100
Fr.	10,065	10,274	11,415	11,642	11,911	12,980	13,090	13,100	13,200
Italy	7,948	7,809	8,694	8,973	9,110	9,277	9,592	9,900	10,000
Neth.	575	657	800	841	895	858	815	718	753
Bel/Lux.	71	80	88	96	89	90	83	80	84
U.K.	18,499	20,193	20,504	21,719	21,609	21,604	22,183	22,810	23,195
Irl.	2,836	2,929	2,526	2,418	2,360	2,344	2,398	2,425	2,560
Dk.	70	56	56	56	54	56	55	57	58
Greece	7,535	8,367	8,075	8,029	8,043	8,048	8,131	8,433	8,460
Eur. 10	48,442	51,381	53,293	54,907	55,216	56,436	57,458	58,623	59,416

Sheepmeat production

19. The gross internal production of 740,000 tonnes, about 8% of world production has increased in all Member States, except Belgium, and Ireland where it is at the same level. For the principal producers, production increased notably in 1974, and continued to increase steadily in France.

between 1977 and 1979 due to restrictions on trade with France, only to increase substantially in 1980 with the new market organization. For Ireland production fell from 47,000 tonnes in 1975 to 35,000 in 1979, but has been increasing in recent years to return to 1973 levels. The changes in Irish production can be largely explained by a conversion to beef production and disruption in trade with the United Kingdom, offset later by the increased attractiveness of sheepmeat production under the new market organization.

	in 1000t carcase weight									
Internal Production	1972	1973	1975	1977	1978	1979	1980	1981	1982	1983
Eur.10	550	566	644	621	638	650	720	699	710	740
Germany	11	12	18	19	18	18	19	20	20	22
France	126	128	131	144	147	159	174	175	180	181
Italy	29	32	48	52	51	51	55	55	58	59
Netherlands	11	10	18	18	18	20	25	21	22	22
Lux./Bel.	4	4	2	2	4	4	4	4	3	3
U.K.	224	235	264	228	237	239	283	264	265	289
Ireland	45	42	47	37	41	35	39	40	40	42
Denmark	1	1	1	0,5	0,5	1	1	1	1	1
Greece	99	106	115	122	122	123	120	119	121	121

20. There are important differences in each region in lamb carcase quality. In the United Kingdom and Ireland those marketed in the spring are slaughtered very young (3 to 4 months). They thus fetch much higher prices than those marketed in the summer or autumn, which although not markedly heavier, are older and generally fatter (4 to 9 months). The seasonal variation in prices is therefore very marked.

21. In France, Germany and the Benelux countries, quality is more uniform despite certain specific regional production system features and seasonal variations in market prices are less marked, though of course substantially higher returns can be obtained from production in the counter season.

22. In Italy there are two clearly defined carcase types : light (agnelli), from 6 to 10 kg, produced all year, and heavy (agnelloni), from 12 to 20 kg. produced at certain times and in certain areas.

VI. Consumption

23. Consumption has, on average, remained fairly stable (979,000 tonnes in 1983 compared to 980,000 tonnes in 1972), although there was a sharp fall in the United Kingdom (-29%) between 1962 and 1976, and a steep rise in Germany (+178%), France (+67%) and Italy (+26%).

24. Since 1976 consumption has fallen even more sharply in the United Kingdom, from 434,000 tonnes to 396,000 tonnes, and has continued to rise in France from 195,000 tonnes in 1976 to 230,000 tonnes in 1983. As regards other countries, consumption has increased steadily in Germany, fallen in Ireland and remained stable in the other Member States.

25. The stabilization in sheepmeat consumption in the United Kingdom at a low level compared with the early 70s (while consumption of poultrymeat and pork has increased) as due to

- (a) the general economic situation
- (b) the increase in consumer prices (+ 10% in real terms between 1978 and 1980)
- (c) the preference of the agrifood industry for other types of meat

Total human consumption

in 1 000t carcase weight

	1972	1973	1975	1977	1978	1979	1980	1981	1982	1983
EUR 10	980	929	955	901	909	936	971	897	959	979
Germany	18	25	38	43	46	53	53	47	48	50
France	173	180	190	199	202	208	218	224	228	230
Italy	61	61	77	77	81	84	83	83	82	83
Netherlands	3	3	3	4	5	7	8	8	7	5
Lux./Bel.	10	11	13	18	20	21	22	16	17	18
U.K.	531	468	471	396	388	401	430	358	412	423
Ireland	33	32	34	33	30	26	28	28	26	26
Denmark	2	3	2	2	3	3	2	3	3	3
Greece	149	147	127	129	134	133	127	128	136	141

26. Consumption per head is approximately 3.6 kg per year, but varies considerably from state to state:

	1978	1983
Greece	14.7 kg	14.5 kg
Ireland	9.1 kg	7.0 kg
United Kingdom	6.9 kg	6.9 kg
France	3.8 kg.	4.5 kg.
Belgium-Luxembourg	2.0 kg	2.0 kg
Italy	1.7 kg	1.5 kg
Germany	0.8 kg	0.9 kg
Denmark	0.6 kg	0.8 kg
Netherlands	0.3 kg	0.7 kg
COMMUNITY AVERAGE	3.5 kg	3.6 kg

VII. Trade in the Community

27. Intra-Community trade is increasing, having gone from 60,000 tonnes in 1973 to 97,000 in 1981. The bulk of this trade consists of a long-standing flow of 40 to 50,000 tonnes to France, mainly from the United Kingdom, the Netherlands, Germany and Ireland. Concerning these trade flows to France, one can notice that the 1982 levels are slightly below those for the United Kingdom for 1973 after having dropped to about 4½ thousand tonnes in 1979 and 1980. Irish exports on the other hand increased from 4,959 in 1973 to 14,290 in 1978, to 11,486 in 1982. In general, the export levels to France and other Member States are fairly stable. The dramatic increase in German, and to a lesser extent Dutch, exports in 1976-1980 was clearly the result of the transfer of British exports to the French market.

French Sheepmeat Imports

(tonnes)

Country of origin	1973	1976	1978	1980	1981	1982
France	-	-	-	-	-	-
Lux.Bel.	24	57,4	14,0	145	583	1.318
Netherlands	8.724	15.647,9	14.780,5	18.223	12.391	9.192
F.R. Germany	1.894	9.523,9	11.535,1	8.890	2.783	1.401
Italy	1.508	742,8	553,7	288	195	89
U.K.	25.755	15.993,4	8.930,8	4.365	20.437	24.407
Ireland	4.959	1.175,8	14.290,1	13.809	12.561	11.486
Denmark	1	0	0	21	0	6
Greece	-	-	-	-	0	0
Total MS	42.865	43.141,2	50.104,0	45.741	48.950	47.899
3rd coun.	9.333	5.864,5	5.662,0	2.306	6.506	6.777
Total gen.	52.198	49.005,7	55.766,0	48.047	55.456	54.676

VIII. Trade with third countries

28. With a net balance of sheepmeat imports of 270,000 in 1982, this accounts for a third of world trade. The Community's level of self-sufficiency is increasing steadily from 59.4% in 1979 to 75% in 1981.

29. Imports of carcasses fell steadily during the decade 1970-1980, before stabilizing at around 270,000 tonnes in 1982 and 1983. There is also a certain amount of trade in live animals, mainly from Eastern Europe and intended for fattening.

Trade in mutton and lamb by EEC countries and principal overseas countries

('000 tonnes, fresh, chilled and frozen, including goatmeat)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
EEC countries											
Imports	398	347	283	339	320	323	339	330		218	270
of which by											
U.K.	331	266	213	244	226	219	226	220			
France	39	47	44	52	42	46	47	42			

30. Imports are effected almost exclusively in the framework of voluntary restraint agreements :

<u>Origin</u>	<u>Imports accorded under voluntary restraint agreements</u> (carcase tonnes)		
	<u>Live animals</u>	<u>Meat</u>	<u>Total</u>
Argentina	-	13846	13846
Australia	-	11401	11401
Austria	296	27	323
Bulgaria	1948	1249	3197
Czechoslovakia	9	716	725
Hungary	10731	1271	12002
Island	-	399	399
New Zealand	-	223702	223702
Poland	4727	6	4733
Rumania	562	85	647
Uruguay	-	2757	2757
Yugoslavia	123	4336	4459
TOTAL	18396	259796	278191

31. Imports not covered by voluntary restraint agreements account for less than 1%.

Autonomous imports

	<u>Chile</u>	<u>Spain</u>	<u>Others</u>
<u>1982</u>			
Live animals	-	-	70
Fresh meat	-	441	159
Frozen meat	1 347	-	238
<hr style="border-top: 1px dashed black;"/>			
TOTAL	1 347	441	467
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Self Sufficiency

	<u>1975</u>	<u>1977</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Germany	47.4	44.2	34.0	37.7	42.6	42.9
France	68.9	72.4	76.5	79.9	78.1	79.3
Italy	62.3	67.5	60.7	66.3	66.3	62.7
Netherlands	600.0	450.0	285.7	312.5	262.5	
Bel./Lux.	15.4	11.1	19.0	18.2	22.2	27.8
U.K.	55.6	57.0	54.0	65.2	67.5	62.9
Ireland	138.2	112.1	134.6	139.3	142.9	
Denmark	50.0	0.0	0.0	0.0	0.0	0.0
Greece	90.6	90.3	92.5	94.5	93.0	87.4
Eur. 9	63.6	64.4	65.2	70.8	72.2	
Eur. 10	67	68	69	74	75	

IX. Future trends

32. On the production/consumption side there is likely to be an increase in the level of self-sufficiency as production increases faster than consumption. This is of course based on the continued existence of a variable premium in the U.K. An increase in price due to the removal of this premium would be likely to increase sharply the level of self-sufficiency.

Forecast of the evolution of production and consumption of sheepmeat and goatmeat in the Community						
	Gross internal production			Total human consumption		
	1980/82	1985	1990	1980/82	1985	1990
EUR 10	710	768	807	942	1,003	1,046
F.R. Germany	20	23	25	49	55	65
France	177	186	193	223	245	275
Italy	56	60	65	83	85	90
Neth.	23	25	28	8	10	12
Lux./Bel.	4	4	4	18	20	25
U.K.	271	300	315	400	390	370
Ireland	40	44	46	27	25	25
Denmark	1	1	1	3	3	4
Greece	120	125	130	130	145	150

33. With regard to farm production, we are likely to see French producers making the fullest use of their housed systems to move more and more towards late winter and spring production, so benefitting from the higher prices. In the United Kingdom, the variable premium diminishes the incentive to produce the more costly early lamb. Heavy summer/autumn slaughtering is likely to remain the pattern. These two trends allow the development of two complementary production systems ensuring that each country makes best use of its advantages and types of production. The possibility exists for the development of a more integrated production at European level, able to avoid the conflicts seen in recent years.

X. Structure of production

34. There is a sharp difference in the production structures between the Member States, particularly in terms of size and production methods. The United Kingdom stands out both in terms of the average size of sheep holdings (344 head as compared to a Community average of 87) and the numbers of holdings with more than 400 sheep (25% as compared to the average of 4.6%).

35. The differences are even more striking if seen in terms of total numbers. In the United Kingdom there are 82,000 producers for more than 28 million ewes compared to 173,000 producers in France for 10,956,000 ewes, a relationship in the size of herding of 1 to 5. (1977 figures)

	EUR 9	Deutsch-land	France	Italia	Niederland	Belgique/Belgie	Luxemb- bourg	United Kingdom	Ireland	Danmark	Ellas
1	2	3	4	5	6	7	8	9	10	11	12
1. Holdings with sheep (1977)											
- number of holdings with sheep (< 1 000)	584	37	173	209	21	11	0,2	82	48	4,0	212
- holdings with sheep as % of all holdings	10	4,3	14	7,9	14	8,4	4,2	30	21	3,1	22
- number of animals (x 1 000)	50 986	870	10 956	6 512	800	116	3,5	28 101	3 570	56	8,619
- average size (number of animals/holding)	87	24	63	31	38	11	15	344	75	14	41
2. Holdings with 1 to 9 animals (1977)											
- holdings as % of holdings with sheep	39	72	32	59	28	71	67	4,9	7,9	65	
- heads	1,7	11	2,2	6,5	3,8	27	22	0,1	0,6	19	
3. Holdings with 400 animals or more (1977)											
- holdings as % of holdings with sheep	4,6	1,4	2,2	0,7	0,5	0	0,0	25	1,7	0	
- heads	48	33	22	13	7,4	0	0,0	7,1	16	0	

36. In France, the Netherlands and Italy, sheep production has become more specialized and the average flock size has increased.

37. More significantly (with the exception of some pasture regions in the North-West of the European continent where sheepmeat production is complementary to milk production) Community sheep rearing is increasingly concentrated in areas where natural conditions are less suitable for other crop and livestock production.

In these regions, sheep rearing is the main source of farm income, and in many cases the only one.

38. In the Member States where the sheep flock is more representative of the Community total, a large proportion of the sheep are to be found in regions covered by Directive 75/268/EEC on mountain and hill farming and farming in certain less-favoured areas :

<u>Country</u>	<u>Livestock in mountain and hill-farming regions and less-favoured areas</u>
Italy	80-90%
Ireland	70-75%
United Kingdom	55-60%
France	70-75%

Accordingly, two-thirds of the sheep in the Community are in the less-favoured areas.

39. Equally important to differences in size, are the differences that arise from the stratification of sheep production in the United Kingdom, whereby hardy types of ewes kept in the mountainous areas are crossed with lowland rams to produce very prolific halfbred ewes which are then sold to farms in more favourable areas. This stratification provides higher returns to farmers in the mountainous areas and a constant source of supply of prolific healthy breeding ewes to the hill and lowland farmer. Returns, therefore, are dependent upon the expectations of other farmers concerning future market trends as much as on the price for lambs sold for meat.

France

Although sheep are found in all parts of France there has been a rapid decline in sheep numbers in Northern France. This has been balanced by an increase in the centre and south. Seventy per cent of sheep meat is now produced south of the River Loire mainly in upland and mountainous areas. In much of this area herbage growth is limited by lack of rainfall in summer and by relatively severe winters with a long period of snow cover at the higher altitudes.

Because of the climatic conditions the flock is usually housed at night and during periods of snow cover. Lambs often remain housed throughout their lives, and at slaughter receive a premium price. Labour costs are high but on family farms this system is becoming increasingly important as small cow herds are abandoned. The system is usually associated with autumn lambing and all-year-round lambing is becoming common.

Very significant advances in management techniques have been developed in France, for example, synchronized lambing, which allow for the optimum use of installations and market opportunities.

Centre-West

Twenty per cent of the farms have sheepmeat production as a main enterprise. The sheep remain at pasture throughout the year in a low input system.

Auvergne

This mountain area with hard winters has very good summer herbage growth. Small hardy breeds with long breeding seasons are generally kept in a semi-housed system.

Bouches-du-Rhone

Large flocks (300-3000) of hardy Merinos d'Arles are kept in a transhumance system. They spend the winter in the Rhone delta and are then transported to graze from May to October on Alpine pastures.

Alpes - Provencales

The small family farms in this area commonly have small flocks. A semi-housed system is used and the ewes are fed by-products or graze on poor natural pasture.

Channel region

Small flocks of prolific breeds are kept as a subsidiary enterprise on the dairy farms of the departments along the Channel. These spring lambing flocks remain at grass throughout the year.

Northern France

Sheep production has declined in the areas of arable production in Northern France. In the past large flocks of sheep, which utilised arable by-products in a semi-housed system, were common.

Milk production

600,000 ewes are kept in France to produce milk for the manufacture of Roquefort cheese. The main areas for milk production are Aveyron, Basses-Pyrenees and Corsica.

Aveyron is an important area for sheep production. Although fewer ewes are milked now, production of milk has been increased by selection, use of artificial insemination.

West Germany

Although the consumption of sheep meat is very small and the sheep density is very low in West Germany, both have been increasing rapidly. New systems of production are being tried as the traditional systems have changed little since the time when wool production was important.

In the northern coastal area most sheep are kept outside in large flocks which are shepherded in the day and then folded at night. Many of the flock owners, who commonly do their own shepherding, own no land and rent grazing and arable land after harvest. Some flocks travel two or three hundred miles in the year. The others are kept within a few miles of the owners' houses and generally housed in winter. The labour costs are high in these systems but feed costs are relatively low except when the ewes are housed in winter.

Bavaria and Baden-Wurtemberg

Thirty-five per cent of the national sheep flock are kept in the two southern states of Germany.

Hessen and Westfalia

Large flocks are shepherded on rented land close to the owner's home.

Schleswig-Holstein and Niedersachsen

Flocks are kept on many farms particularly on the coast and along the river banks. Many of the fields have fences or ditches and the flocks do not have to be shepherded.

Holland

Eighty per cent of the sheep are kept on the grassland, dairy farms in the coastal provinces of Zuid-Holland, Nord-Hol and (which includes the island of Texel), Friesland and Groningen. Average flock size is 30 sheep, and 95 per cent are of the Texel breed, which produces a large carcass with a minimum of fat. Ninety per cent of production is exported to Northern France.

Belgium

The numbers of sheep and carcasses imported and exported make it difficult to see the trends in consumption and production in Belgium.

Commercial sheep production is found mainly on dairy farms in Flanders, but a large proportion of the sheep are kept as a hobby by owners of orchards and large gardens.

Denmark

Sheep production is of little importance in Denmark. The few sheep are kept on the sea dykes and the marshy areas of the Jutland coast.

Italy

Sheep are kept mainly on the mountains and hills of southern Italy. Milk for the manufacture of cheese is the most important sheep product and 85 per cent of the ewes are milked. When milking is started 4-6 weeks after lambing most lambs are slaughtered and there has been little development of lamb fattening systems. Most flocks are shepherded on natural pasture or arable land after harvest and are rarely housed. On natural pasture the milk yield fluctuates widely from year to year with variations in annual rainfall. In spite of a poor milk yield and the low value of wool, triple-purpose (wool, milk, meat) breeds still make up at least a third of the national flock.

Sardinia

2.2 million ewes, a third of the national flock, graze the natural pastures of this island. The only breed is the small hardy Sardinian which is well adapted to milking. Most of the cheese is manufactured in co-operative factories and exported to the Italian mainland and the U.S.A.

Puglia

Three triple-purpose breeds are kept in this area. A fine-wool Merino breed, is used in a transhumance system to graze the cereal stubbles of the Foggia region in winter and then transported to the mountains of Abruzzi behind Rome for the summer.

Further south in the Murge hills breeds with mattress wool are shepherded throughout the year near flock owners' farms.

Lazio and Tuscany

The population of the triple-purpose, fine-woolled breed has declined and there is a trend to specialised milk production, often with machine-milking.

Irish Republic

There are about 0.8 million hill ewes in Ireland. Cheviot ewes are used in Wicklow in the east and in the hills and mountains of Waterford, Kerry, Mayo, where the hardier hill breeds are common, Sligo and Donegal.

In Galway, Roscommon and Clare about 0.5 million ewes are kept on permanent pasture to produce store lambs slaughtered at 8-12 months of age.

A further 0.5 million ewes mainly crossbreeds produce fat lambs on the mixed arable and stock farms of Leinster and parts of Munster and Ulster.

NEW ZEALAND SHEEP INDUSTRY PROFILEThe Land

The land area of N. Z. is 26.9 million hectares (about the size of UK or Japan). Varied topography with over three quarters of land surface 200 metres above sea levels.

Some 14 million hectares is occupied grassland, 90% of which is used for sheep, beef and dairy cattle. Nearly 26,000 farm holdings comprising 11 million hectares are farmed with sheep providing 50% or more of total farm income. There are 23,000 full time working owners and 9,700 full time paid employees on sheep farms with a further 16,000 paid part time or casual workers. General reliable, mild climate throughout year means sheep remain in open and pasture growth occurs throughout the year in most regions.

The Flock

Total sheep numbers as at 30 June 1982 are estimated to be 70.5 million, of which 50 million (71%) were breeding ewes. This is a 0.8% increase on 1981.

Lambing percentage are normally less than 100%, and are affected by climatic conditions and pasture growth. In 1981 the lambing percentage was 97.3, 1980 100.1%, 1979 99.6%, 1978 90.4%.

Wool production per head is approximately 5.3 kgs.

Export lamb carcass weight averages about 13.3 kgs, although to UK average PM grade is 14.1 kg per carcass.

Total meat shipments (000 tonnes) years ended 30 September:

	<u>1980/81</u>	<u>1981/82</u>	<u>1981/82 percentage</u>
Lamb	377.2	333.9	45.6
Mutton	91.5	108.3	14.8
Total sheepmeat	<u>468.7</u>	<u>442.2</u>	<u>60.4</u>
Beef and veal	226.0	222.2	30.3
Other	<u>72.0</u>	<u>68.4</u>	<u>9.3</u>
Total (Meat)	767.3	732.8	100.0

In September year 1982 New Zealand's major export markets for lamb and mutton were:

	<u>tonnes</u>	<u>percentage</u>
EEC	233,841	53
Middle East	69,427	16
Eastern Europe	63,079	14
Japan	32,586	7
North America	15,624	4
Other		6
	-----	--
Total all destinations	442,240	100

Annual Sheepmeat Exports to EC
(September years) (000 tonnes)

	<u>EC (10)</u>	<u>UK as % of EC</u>	<u>EC as % of total sheepmeat exports</u>
1960	319.7	97.8	-
1970	329.2	95.1	-
1977	234.1	93.0	57.6
1978	231.1	83.9	61.1
1979	244.3	86.2	56.1
1980	202.3	91.1	44.9
1981	186.3	84.6	39.6
1982	233.8	87.7	52.8

Export receipts

In 1982 (year ended 30 June 1982), exports from the sheep industry (lamb, mutton, wool, sheep skins and pelts and sausage casings) represented 32% of New Zealand total export earnings. Sheepmeat accounted for 14% of total exports, with the same percentage for wool.

Return to N.Z. Farmer

The New Zealand farmer is currently receiving 146 cents (N.Z.) per kg for lamb and 51 cents (N.Z.) per kg for mutton. Using exchange rate of 1 ECU - 1.345 NZ\$ (11 July 1983) comparative prices currently received by NZ and EC farmers for lamb are as follows:

	<u>ECU_per_100_kg</u>
NZ	108.55
UK	416.07 reference price 1983/84
France	422.96 basic price 1983/84
Ireland	416.07 reference price 1983/84

In recent years continuing inflation in costs both on and off-farm have had a significant negative impact on incomes and investment levels in the meat and wool industry. In the year to January 1982, on-farm costs increased by 17.1% following on increases in the two previous years of 23.0 and 22.4% respectively. For the three most recent years N.Z. on-farm costs have increased by 76%. Off-farm costs have also increased. Slaughtering charges increased 20% in year to January 1982 and 27% in the previous year.

Gross income per farm in 1981/82 increased by 12% over the previous year but was lower than increased costs with consequence that farm expenditure and investment was reduced. Farm investment at \$7.82 per stock unit was considerably below the \$8.80 per stock unit considered to be the minimum necessary for maintenance of the industry.

Net income per farm increased by 4.5% in money terms but in real terms fell by 10.6% on 1980/81 year, and was 20% below the level of 1979/80.

The consequence has been a slow down in growth of stock numbers.

Provisional net income (current terms) for sheep and beef farms (per farm - all classes average) in 1981/82 (ye. January) was NZ \$23,200 (ECU 17,100).

The New Zealand Meat Processing Industry

In the year ended 30 September 1982 some 31.1 million lambs, 6.5 million sheep and 2.6 million cattle were slaughtered in 48 meat export slaughter works.

The average age at slaughter of New Zealand lambs is approximately 4.5 months. Once the animal is 12 months old or its carcass is heavier than 25.5 kg it is not classified as lamb.

The export slaughterhouses are all owned by 19 New Zealand registered companies, two of which have majority overseas shareholding and account for approximately 15% of the slaughter capacity. These two companies were, however, involved in the industry from its beginnings.

The meat processing sector of the industry employs some 34,000 workers at the seasonal peak (total NZ labour force was estimated at 1.3 million people in 1981).

Shipping

New Zealand has been exporting frozen meat and butter to the United Kingdom for more than 100 years. Until comparatively recently the UK was virtually the only market for New Zealand sheepmeat, butter and cheese. It is not surprising therefore that most of this trade was for many years carried in British owned refrigerated ships. This situation has changed very significantly. Today there are 10 shipping lines operating in the NZ/Europe trade. Three are UK, one French, two German, one Dutch, one Danish, one Italian and one New Zealand. Some European lines as well as Japanese and US lines are also involved in NZ meat trade to other markets.

Changing N.Z. Trading Patterns

Over the last three decades the pattern of N.Z. trade has changed markedly. For example in 1950 the UK took 66% of all NZ exports, in 1970 it was 33% and by 1980 it had fallen to 14%. In year ended June 1982 UK accounted for 15% of total export receipts. New patterns of trade showed growth in exports to Japan, Australia and the US. A more recent change has been the rapid growth in the last ten years of new markets including USSR, China, Iran, Iraq, South East Asia and the Pacific.

Direction of N.Z. Trade (Invisibles excluded): Percent (O. E.T.S. June Years)

Trade with:	1966	1970	1975	1980	1981	1982	1983
EC (1)	53	43	30	24	19	23	20
of which UK	41	33	20	14	12	15	11
(EC (excluding UK)	12	10	10	10	7	8	9
USA	13	15	13	14	15	13	16
Canada	3	4	2	2	2	2	2
Australia	12	14	17	16	16	14	12
Japan	7	9	13	13	14	14	15
Other	12	15	25	31	34	34	35
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	100	100	100	100	100	100	100

(1) Greece included under EC as from October 1981

Current Account Balance

In year ending 30 June 1982 NZ recorded a surplus on visible trade of NZ\$ 394.6 million, a deficit on invisible trade of NZ\$1,881.1 million, giving an overall current account deficit of NZ\$1,486.5 million. NZ has shown a deficit on current account for the last ten years. The 1982 deficit was a record and twice the level of the previous year.

NZ/EC Current Account Balance (years ended 30 June)

New Zealand buys more goods and services from the EC than the EC buys from New Zealand. Although NZ has shown a surplus on visible trade with the EC in seven of the eleven years since UK accession, these have been offset by substantial deficits on invisible trade (e.g. transport charges) in each of the last ten years which have resulted in current account deficits in all except two years in the period.

NZ Overseas Exchange Transactions with EC

<u>y.e. 30 June</u>	<u>Visible (trade)</u> <u>balance</u>	<u>Invisible</u> <u>balance</u>	<u>Current A/C</u> <u>balance</u>
1973	+ 235.2	- 100.7	+ 134.5
1974	- 54.6	- 69.0	- 123.6
1975	- 229.8	- 126.2	- 356.0
1976	- 128.9	- 209.4	- 338.3
1977	+ 200.8	- 294.7	- 93.9
1978	+ 247.8	- 366.0	- 118.2
1979	+ 352.4	- 427.8	- 74.4
1980	+ 349.6	- 475.8	- 126.2
1981	+ 438.5	- 427.8	+ 10.7
1982 (1)	+ 419.6	- 534.1	- 114.6
1983 (1)	+ 147.8	- 706.3	- 558.5

(1) Includes Greece

COMMISSION

CHAPTER 22 — SHEEPMEAT AND GOATMEAT

CHAPTER 23 — FIGMEAT

Article Item	Heading	Appropriations 1984	Appropriations 1983	Outturn 1982
	CHAPTER 22			
220	<i>Export refunds for sheepmeat and goatmeat</i>			
	Non-differentiated appropriations	p.m.	p.m.	0,—
	Compulsory expenditure			
221	<i>Intervention for sheepmeat and goatmeat</i>			
2210	Premiums			
	Non-differentiated appropriations	325 680 000	357 037 914	251 722 390,52
	Compulsory expenditure	(1)		
2211	Storage			
	Non-differentiated appropriations	17 000 000	p.m.	0,—
	Compulsory expenditure			
2219	Other intervention			
	Non-differentiated appropriations	p.m.	p.m.	0,—
	Compulsory expenditure			
	<i>Article 221 — Total</i>	342 680 000	357 037 914	251 722 390,52
	CHAPTER 22 — TOTAL	342 680 000	357 037 914	251 722 390,52

Article Item	Remarks
220	Council Regulation (EEC) No 1837/80 of 27 June 1980 on the common organization of the market in sheepmeat and goatmeat (OJ No L 183, 16. 7. 1980, p. 1), as last amended by Regulation (EEC) No 1195/82 (OJ No L 140, 20. 5. 1982, p. 22), and in particular Article 17 thereof.
221	
2210	Appropriation to finance income premiums and/or slaughter premiums under Articles 5 and 8 of Council Regulation (EEC) No 1837/80 of 27 June 1980 on the common organization of the market in sheepmeat and goatmeat (OJ No L 183, 16. 7. 1980, p. 1). An appropriation of 8 320 000 ECU is entered in Chapter 100.
2211	Appropriation to finance storage expenditure under Article 6 of Council Regulation (EEC) No 1837/80 of 27 June 1980 on the common organization of the market in sheepmeat and goatmeat (OJ No L 183, 16. 7. 1980, p. 1).

MOTION FOR A RESOLUTION (Document 1-80/83)

tabled by Mr DAVERN, Mr MOUCHEL, Mr DE LA MALENE, Mrs ANGLADE, Mr ANSQUER, Mr BORD, Mr COUSTE, Mr CRONIN, Mr DELEAU, Mr DENIAU, Mr FLANAGAN, Mr GERONOMI, Mr ISRAEL, Mr JUNOT, Mr LALOR, Mr NYBORG, Mr REMILLY, Mrs SCAMARONI, Miss DE VALERA, Mr VIE and Mrs WEISS

pursuant to Rule 47 of the Rules of Procedure

on the changes required in the common organization of the market in sheepmeat

The European Parliament,

- A - having regard to Regulation 1837/80 establishing a common organization in the sheepmeat market,
- B - having regard to the difficult situation faced by European sheepmeat producers in view of the stagnation in the market with prices in November 1982 equal to only 97% of the base price, as compared with 110% in November 1981,
- C - whereas this situation is attributable to defects in the conditions set out under Regulation 1837/80 and is aggravated by certain administrative measures adopted by the Commission,

As regards the internal aspects of the regulation:

- 1 - Points out that the application of Regulation 1837/80 has caused serious disparities between Member States with the result that, in 1981, 97.9% of expenditure under this regulation benefitted just one Member State;
- 2 - Draws attention to the disparities caused by the existence side by side of two different systems for guaranteeing producers' incomes, one of which obtains in only one Member State and yet has a permanently depressive effect on the whole market;
- 3 - Believes that this state of affairs works against the creation of a single market;
- 4 - Points out that the claw-back mechanism can no longer perform its corrective function in this respect because of the possibility of abuse due to authorization of the variable slaughter premium on live animals, and thus the possibility of this premium being granted at a time other than that when the slaughter takes place, in conditions and at rates bearing no relation with those prevailing at the time of the marketing of the carcasses;

- 5 - Deplores the distortion of competition thus engendered;
- 6 - Points out that these distortions are increased by the exemption from the claw-back of exports to third countries in the absence of refunds;
- 7 - Believes that such distortions should be eliminated:
 - a. by abolishing the exceptional arrangements for the variable premium, which has been adopted by only one Member State;
 - b. in the immediate future, by granting the variable premium only at the rate prevailing on the day of slaughter and by reimposing the claw-back where exports to third countries are concerned;

As regards the external aspects of the regulation:

- 8 - Points out that voluntary restraint agreements permit imports on preferential conditions of 322,000 tonnes of sheepmeat per year;
- 9 - Points out, however, that quantities of sheepmeat from third supplier countries for 1978, 1979 and 1980 amount to only 274,000 tonnes;
- 10 - Is concerned at conditions in which the possibility of importing 48,000 tonnes in excess of EEC requirements could be created for no reason, in contempt of Community preference;
- 11 - Points out that this amount is shown to exceed EEC requirements by the fact that the volume of actual imports for 1981 was only 254,000 tonnes;
- 12 - Believes however that these initially favourable conditions granted to third supplier countries constantly risk creating serious disruption of the Community market, if, with their other outlets blocked, these third supplier countries were thus able to divert their sales to the EEC;
- 13 - Points out that these risks are increased by the long-term tendency for sheepmeat consumption to fall off in the EEC, owing to the purchase by consumers of other types of meat;
- 14 - Is concerned at the threats posed to the system of sensitive areas by Commission proposals to make constant increases in the quotas for such areas, whereas equilibrium in these markets must be preserved and therefore the system must be strictly maintained;
- 15 - Believes that this situation must be remedied:
 - (a) by reducing by voluntary restraint agreements the amount which may be imported to the level required to meet the needs of the Community; this measure will not cause hardship to third supplier countries whose actual volume of trade will not be reduced;

- (b) by adjusting for the future the amount to be imported each year under these agreements according to the EEC's supply deficit of the previous year,
- (c) by concluding an agreement with New Zealand guaranteeing her export earnings, thereby ensuring that such a measure does not damage her interests.

16 - Calls on the Commission:

- (a) as part of the revision of Regulation 1837/80, due before 1 April 1984, to submit to the Council proposals along the lines of the measures set out above, as regards both the internal and external aspects,
- (b) in the meantime to take transitional measures along the same lines, within the limits of its administrative authority,

17 - Instructs its President to forward this resolution to the Council and Commission.