

No. 5/1979

February 9, 1979

AGRICULTURAL PACKAGE FOR 1979/80 PROPOSED

The European Community's Commission has proposed an agricultural package for 1979/80 that calls for maintenance of current prices, stricter measures to reduce the dairy surplus and a more rapid phase-out of monetary compensatory amounts (MCAs) that balance currency fluctuations in agricultural dealings among the nine member states.

The annual agricultural package is the central policy mechanism for the Community's Common Agricultural Policy (CAP), which has been criticized by some member states as contributing to the build-up of agricultural surpluses and by the United States for its export subsidies. This year's package indicates the Commission's continuing determination to reform the CAP and to bring the agricultural sector into line with other sectors of the European economy. The start-up of the European Monetary System is also conditional on gradual elimination of the MCAs.

The EC Council began its deliberations on the agricultural policy this month and is expected to approve the 1979/80 program by April or May.

Explaining the current package proposal in a recent speech, Agriculture Commissioner Finn Olav Gundelach declared 1978 a record year for European farm production and defended the CAP as "the economic foundation for agricultural well-being." But he acknowledged concern about the "growing gap between consumption and production." In recent years, said Gundelach, farmers have improved their incomes even more rapidly than those in the rest of the economy. "But the CAP also exists to help consumers," he said. "They argue that they support farmers by paying higher prices in years of short supply and are therefore entitled to some benefits when supplies are abundant."

CURRENT AGRICULTURAL PICTURE

The Commission's agricultural proposals for 1979/80 were made against the following background:

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

AGRICULTURAL PRICE STANDSTILL

The Commission believes the maintenance of current prices is justified because agricultural production costs have decreased and real incomes in agriculture have continued to increase. Since 1970, agricultural incomes have grown at about 3.5 % annually, slightly more rapidly than the 3% growth evidenced in other sectors of the economy.

Surpluses have continued to increase in some sectors, however, despite the prudent price policy of the past two years and the Community efforts to increase sales.

MILK MEASURES TO REINFORCE ANTI-SURPLUS PROGRAM

Milk deliveries to dairies in 1979 are expected to increase by more than previously expected (about 4.3% compared with 1977) and in some member states, production of butter and skimmed milk powder may rise by up to 30%. To counteract this imbalance in production and demand, the Community proposal suggests setting a revised co-responsibility levy that will vary

according to the level of production. Such a variable levy would help to regulate dairy product supply, and funds from the levy could be used to aid consumption. Levy exemptions would continue for dairy farmers in mountain regions and for small farmers who deliver not more than 60,000 liters of milk a year or whose agricultural holding is not more than 25 hectares.

The rate of the levy would be determined by the increase or decrease in volume of milk delivered to dairies, but would not fall below 2% of the target price. The levy would be subject to review three times a year and would be fixed at twice the percentage change in milk deliveries -- for example, an increase of 1.5% in milk deliveries would mean a co-responsibility levy of 3%. The present levy of 0.5% of the target price, would continue until May 31, with the new arrangements due to become effective June 1.

STRUCTURAL POLICY FOR AGRICULTURE

The Commission proposes to improve the structural policy to achieve better coherence with the marketing policy and to take more account of specific regional needs. A study of direct income aids as a possible solution to hardship situations would be continued, but the Commission intends also to increase efforts to adopt specific measures at Community level for the less-favored regions. It proposes, for example, that programs be set up to allow Community financing of investments designed to develop, modernize or convert toward production some types of stock farming in Mediterranean regions or sheep farming in Greenland. To ease the transfer of farmland, the Commission also plans to substantially increase the retirement annuity for assistance, and to introduce a Community system of annuities for persons aged 50 or more who will give up farming at 60 or earlier.

MONETARY MEASURES IN AGRICULTURE

The expected beginning of the European Monetary System, under which -- at present -- eight of the nine member states have pledged to align their currencies, should reduce monetary divergence.

The Commission recognizes, however, that the system of monetary compensatory amounts (MCAs) already has been warped by the general disorder of the currency situation. In a document sent to the Council late last year, the Commission stated: "The system of monetary compensatory amounts and green rates, which was introduced to cope with the effects of monetary upheavals on agriculture, has, by eliminating the normal consequences of exchange rate changes and generating artificial distortions in competition, led to a virtual isolation of the agricultural sector within the Community economy as a whole. The continuation of the system jeopardizes the Common Agricultural Policy itself."

Instructed by the Council to reduce the existing MCAs gradually and to avoid creating new MCAs, the Commission now proposes to decrease existing

MCAs for France, Italy, Ireland and Britain according to the following scheme.

	France	Italy	Britain	Ireland
Devaluation of "green rates"	5%	5%	5%	4,306%
Reduction of existing MCAs in points	5,6	6	6,5	3
Consequences for the guaranteed prices in national currencies	+5,3%	+5,3%	+5,3%	+4,5%

Those MCAs still in force at the beginning of the EMS -- probably Germany and Benelux states -- should be dismantled gradually, but no later than within two marketing years after the end of the initial stage of the EMS or four years after the introduction of EMS.

The Commission proposes that new MCAs be reduced after the EMS is in operation by at least 50 per cent not later than the beginning of the first marketing year following that of their introduction, and that the other 50 per cent be eliminated not later than the beginning of the second marketing year following that of their introduction. It suggests that these provisions be integrated into a definitive system at the end of the initial phase of the European Monetary System.

Tables on the specific price proposals follow. Prices listed are given in the agricultural unit of account, which was \$1.64 during the first week of February 1979.

* A 422-page annual report on the agricultural situation in the Community, the 1978 Report, can be obtained from the Washington office of the European Community. The report contains analyses and statistics on the general situation (economic environment and world market), the factors of production, the structures and situation of the markets in the various agricultural products, the obstacles to the common agricultural market, the position of consumers and producers and the financial aspects. General prospects and the market outlook for agricultural products are also covered. The 1978 Report was completed on 30 October 1978. It is available for \$25.80.

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

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

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

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

(1) It will be necessary to take into account changes in various technical elements, in accordance with the basic Regulations for cereals and for rice (for example transport costs). The Commission will transmit these later.

(2) This price applies to the minimum bread-making quality. It is derived from the nominal reference price for the average bread-making quality by subtracting a quality adjustment of 2.84 u.a./metric tons.

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

(4) Products in Annex II of the Council Regulation of May 18, 1972 and periods varying according to the products :

Cauliflowers:	1.5.1979 to 30. 4.1980	Lemons	: 1.6.1979 to 31. 5.1980
Tomatoes	: 1.6.1979 to 30.11.1979	Pears	: 1.7.1979 to 30. 4.1980
Peaches	: 1.6.1979 to 30. 9.1979	Table grapes	: 1.8.1979 to 31.10.1979

Apples	: 1. 8.1979 to 31.5.1980
Mandarines	:16.11.1979 to 28.2.1980
Sweet oranges	: 1.12.1979 to 31.5.1980

Increases of 2% for oranges, mandarines, clementines and lemons have been fixed in the financial compensation designed to assist disposal of Community citrus production on Community import markets.

(5) i.e. Annual rate of increase since the introduction of the support arrangement.

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