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REPORT

drawn up on behalf of the Committee on Budgetary Control

on the budgetary costs of the common agricultural  
policy in the cereals sector and the factors which  
may influence these costs

Rapporteur : Mr K. H. W. WETTIG

OR. DE

PE 73.260/fin.



By letter of 26 January 1981 the President of the European Parliament authorized the Committee on Budgetary Control to draw up a report on the budgetary costs of the common agricultural policy in the cereals sector and the factors which may influence these costs.

At its meeting of 15/16/17 March 1982 the Committee on Budgetary Control confirmed the appointment of Mr WETTIG as rapporteur.

The committee considered the draft report at its meetings of 23/24 June and 28/29 September 1982 and at the latter meeting adopted the motion for a resolution by sixteen votes with two abstentions.

The following took part in the vote : Mr AIGNER, chairman; Mr CLUSKEY, Mrs BOSERUP and Mr PRICE, vice-chairmen; Mr WETTIG, rapporteur; Mr COUSTE, Mr FRÜH, Mr van HEMELDONCK, Mr IRMER, Mr JURGENS, Mr KELLET-BOWMAN, Mr KEY, Mr KLINKENBOURG (deputizing for Mr GABERT), Mr MART, Mr NOTENBOOM, Mr PATTERSON, Mr RYAN and Mr Konrad SCHÖN.

The opinion of the Committee on Development and Cooperation is attached.

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A

The Committee on Budgetary Control hereby submits to the European Parliament the following motion for a resolution together with explanatory statement :

MOTION FOR A RESOLUTION

on the budgetary costs of the common agricultural policy in the cereals sector and the factors which may influence these costs

The European Parliament,

- A referring to Article 39 of the EEC Treaty,
- B referring to the principles of the common agricultural policy : a single market, Community preference and financial solidarity,
- C having regard to the large share of the common agricultural policy in total Community expenditure, the sharp increase in EAGGF Guarantee Section expenditure in recent years and the high proportion of expenditure on the cereals policy,
- D having regard to its resolutions (Docs. 1-936/80, 1-256/81 and 1-97/82), which stress the need to promote other policies of particular importance for European unity and the Community's economic future (regional and social policy, industrial and energy policy),
- E taking account in particular of the Community's obligations in the food aid sector,
- F having regard to its resolution (Doc. 1-480/79) on hunger in the world,
- G having regard to the report of the Committee on Budgetary Control and the opinion of the Committee on Development and Cooperation (Doc. 1-680/82),
- 1. Welcomes the fact that, following strong pressure from Parliament's control bodies in the last two years, the Commission has succeeded in slowing down the rate of increase in EAGGF Guarantee Section expenditure, although the trend in world market prices contributed to this success;

2. Further welcomes the Commission's decision to bring EEC cereals prices more into line with those of its main competitors, taking account of the various cost structures, in order to discourage a level of cereals production which is increasing faster than demand;
3. Instructs the Commission to back up this decision by modifying a number of other instruments forming part of the organization of the market in cereals in order to restore greater influence to market forces;
4. Instructs the Commission gradually to raise the standards required of intervention goods, in order to continue its efforts to improve quality, and to abolish compulsory intervention and refunds for lower-quality products; the clearer distinction between quality grades should also be conveyed through clearer price differentiation which could be achieved, for example, by introducing a new method of calculating the rates of the levy on higher-quality goods; at the same time care must be taken to ensure that quality testing is carried out more accurately, in a more practical way and throughout the EEC;
5. Further calls on the Commission to review both the graduation of intervention prices over the year by means of monthly increases and the carry-over payment;
6. Endorses the request made by the Commission in its 'Guidelines' for changes to the aid for durum wheat;
7. Reminds the Commission of its proposal for the long-term dismantling of production refunds (used to support the starch industry);
8. Calls on the Commission to put into action the intention expressed in point 16 of the 'Guidelines' so as to fulfil the responsibility which, as the second largest world producer of cereals and an important partner in world cereals trade, the Community must bear for the world cereals market, and by balancing more effectively domestic policy and world market factors, to base Community trade policy on the world market situation, thereby also producing large savings in refunds;
9. Requests, therefore, the Commission to base decisions on quantities to be exported and taken into storage on the expected trend in world market prices; in this connection various measures could be envisaged to give exporters greater incentive to act more in accordance with market principles;

10. Instructs the Commission to make intensive efforts to achieve the conclusion of a new international grains agreement and in this connection to advocate the stabilization of the world cereals market inter alia through the creation of buffer stocks;
11. Calls on the Commission constantly to monitor the voluntary restraint agreements already concluded for cereals substitutes and the proposed additional agreements (COM(82) 175 final) in order to verify whether their basic premise - the expected increase in imports of substitute products because of their clear competitive advantage - still applies; the agreements should be revoked as soon as this premise becomes invalid following the adaptation of cereals prices;
12. Instructs the Commission, particularly in view of the further price distortion between cereals and substitute products caused by monetary compensatory amounts, to work towards the earliest possible dismantling of all MCAs provided that greater convergence is achieved between the Member States as regards their monetary position;
13. Draws attention to the problems which the development of the EEC market in substitute products could present for the agricultural and food supply situation in a number of developing countries; the Commission should bear these problems in mind and indicate in a report the conditions under which the export of such products may have adverse effects and what action could be taken to counter them;
14. Reiterates the urgent appeal already made in the report by Mr DANKERT (Doc. 1-954/80), to the effect that where necessary or even marginally justifiable, the Commission should simplify, and above all harmonize the legal provisions relating to the organization of the market in cereals in order to guarantee greater legal security for dealers on the market and to facilitate controls;
15. Calls on the Council to adopt at an early date the proposal from the Commission (COM(82) 138 final) concerning authorization for Commission officials to carry out controls in the Member States in order to monitor the operation of the agricultural markets, particularly since these controls could also be of help in uncovering and taking action against irregularities;

16. Urges the Commission to propose regulations designed to harmonize the structure of the intervention agencies and to ensure that they are administered and monitored more effectively;
17. Instructs its President to forward this resolution and the report of its committee to the Court of Auditors, the Council, the Commission and the governments of the Member States.



EXPLANATORY STATEMENTIntroduction:

1. Following the report by the Special Committee of Inquiry, set up by the Commission, on the Guarantee Section of the EAGGF, cereal sector (COM(79) 686 final), the Committee on Budgetary Control drew up a report (Doc. 1-954/80) assessing from its point of view the conclusions reached in the Special Committee's report. Since the real purpose of the Special Committee on Inquiry had been to examine frauds and irregularities and to recommend appropriate measures to prevent their recurrence, it was felt that a supplementary report should be drawn up dealing with the economic efficiency of the common agricultural policy in the cereals sector. The present report is intended in particular to explore the factors which influence the cost of the EEC market organization for cereals and to indicate whether from the point of view of budgetary policy these factors should be adjusted.
2. The creation of the common market and the substantial increase in agricultural production and trade led to a qualitative and quantitative improvement in food supplies and enabled the Community in some sectors to reduce its dependence on imports from third countries and in others even to become self-sufficient. As a result it became less sensitive to speculation on the world market and pressure on its foreign trade balance was relieved.
3. However, this positive trend has since been reversed, since, as a result of the steady increase in agricultural production combined with static or declining demand and the resulting marketing problems, the Community has in some sectors become dependent on exports. Production of cereals, in particular common wheat and barley, has for some years exceeded demand. In 1979/80, the Community's (EEC 10) degree of self-sufficiency in common wheat was 114% and in barley around 111%.

Imports of cereals into the Community fell from 20.3 m t in 1977/78 to 17.9 m t in 1979/80, while exports rose from 11.3 m t to 17.4 m t over the same period. This surplus is exacerbated by the fact that, because of the high cereals prices in the EEC, increasing quantities of cereal substitutes are being imported, some of which can be imported duty-free and some at a lower rate of duty. Fodder imported from third countries (cereals and substitute products in a ratio of 1:3) now account for one fifth of the fodder used in the EEC.

4. It is essential, not least because the Community's own resources will shortly be used up, to examine the operation of the common market organization and, where necessary, to draw attention to opportunities for improvements in the context of Article 39 of the EEC Treaty. Between 1974 and 1979 expenditure from the EAGGF, Guarantee Section, increased more rapidly than the Community's potential revenue from own resources. Expenditure on cereals rose from 621 m EUA in 1975 to 1,600 m ECU in 1979 (1981: 1,900 m ECU, which represents 16.6% of Guarantee Section expenditure and the second largest EAGGF sector after milk and milk products).
5. The following sections will briefly describe the common market organization (Part I) and its operation and, in this connection, the measures available to regulate the market and what they cost.

Part II will consider the world cereals market and the EEC's role as a trading partner, and the internal Community market.

Part III will set out proposals for amendments to the common cereals policy designed to make savings or to use resources more rationally.

## I. COMMON MARKET ORGANIZATION

6. The market in cereals was one of the first for which a common organization was set up (EEC Regulation No. 19 of 4 April 1962), although a single market was not introduced until the end of the transitional period on 30 June 1967 on the basis of Council Regulation No. 120/67 of 13 July 1967, subsequently superseded by Council Regulation No. 2727/75 of 29 October 1975<sup>1</sup>.
7. The common market organization is based on the principles set out in Articles 39 and 110 of the EEC Treaty:

- market stability
- reliable supplies
- fair prices for producers
- reasonable consumer prices
- harmonious development of world trade
- elimination of restrictions in international trade.

8. The central tenet of the common market organization consists in the fixing of the following prices:

The THRESHOLD PRICE as tariff protection: the lowest price at which products from third countries may be imported into the Community to reach the Duisburg wholesale market at not less than the TARGET PRICE, the price which the CMO aims to guarantee the producer as a fair return (market price).

The INTERVENTION PRICE is the price at which the intervention agencies are required to buy in the products offered to them, in order to protect prices on the internal market.

Since 1977/78 a REFERENCE PRICE has been fixed for wheat suitable for bread-making which is designed to ensure that the market price for this wheat exceeds the Community intervention price. These prices are applicable to fixed quality standards and adjustments are made according to quality. Monthly increases (deferred payments) are also fixed for the intervention, threshold, reference and target prices in order to take account of storage costs and interest rates.

<sup>1</sup> OJ No. L 281, 9.11.1975, p.1

The common prices and the deferred payments are fixed once a year for the following financial year.

9. Cereal prices on the world market are in general lower than in the Community. Imports from third countries are therefore subject to a LEVY at the threshold price level, while exporters receive REFUNDS. If world market prices exceed Community prices, a levy may also be charged on the export price, as was the case for some months in 1974 and 1975.
10. Until 1976 basic intervention prices with regional differentiation were fixed for each type of cereal. However, this took no account of the variations in nutritional value, which led to changes in the type of cereal imported and made it impossible to stabilize market prices at the desired level. Since the 1976/77 marketing year a new price system has been in force, generally referred to as the 'silo system'.

11. SILO SYSTEM

The new system is based on the fact that the bulk (60 %) of cereals produced in the Community is used as livestock feed. All cereals, with the exception of durum wheat, compete with each other for this use. The feed grain market shows a shortfall in maize and a surplus of common wheat. The silo system is intended to enable these surpluses to be used to a greater extent on the domestic market and to reduce the need for intervention measures.

12. To simplify the market organization and improve the operation of the cereals market a single intervention price was therefore introduced for common wheat, barley and maize on the basis of which the market prices of the individual cereals are intended to develop in relation to their nutritional value. Further measures in this area include the fixing of a reference price for common wheat of bread-making quality (bread wheat), and the attempt to fix market prices in accordance with the nutritional value of the various types of cereal and to increase preference for EEC cereals by substantially increasing the difference between the intervention price and the threshold price.

13. The silo system may be graphically represented as follows:

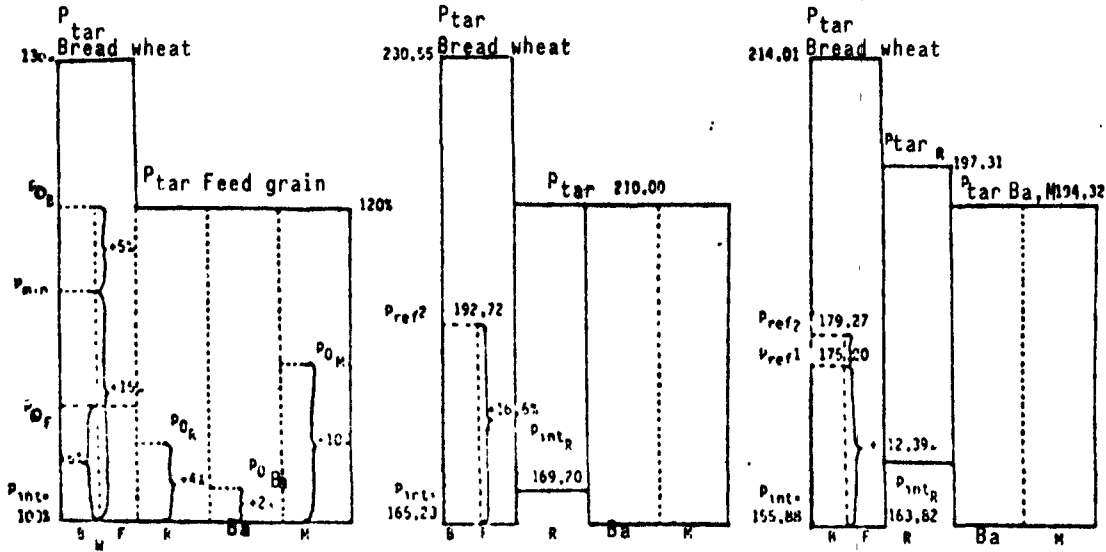
Diagram of the price system

- prices in ECU/t -

Silo system in its final form  
(1982/83)

System in 1981/82

System in 1980/81



$P_{min}$  = minimum price for bread wheat = 115%  $P_{int} = P_{res}$

$P_{OFB}$  = theoretical market price in main surplus region for feed grain and bread wheat

$P_{OR,Ba,M}$  = theoretical market price in main surplus region for rye, barley, maize

$P_{int}$  = intervention price

$P_{tar}$  = target price

$P_{pref}$  = reference price

1 Based on lowest quality

2 Based on average quality

W = wheat

B = bread wheat

F = feed grain

R = rye

Ba = barley

M = maize

Source: EEC organization of the market in cereals 1980/81, Toepfer International 9/81

Measures to regulate the market

14. Apart from the monthly adjustments to the intervention, target and threshold prices, additional measures can be decided:

- private storage aids: in return for a special premium, holders of cereal stocks undertake to keep a certain quantity for a given period so that it is not taken directly into intervention;

- measures relating specifically to common wheat of bread-making quality, such as
  - . a right of preemption by the intervention agencies for products in respect of which storage aid has been granted to prevent speculative stockpiling;
  - . buying-in by the intervention agencies at the reference price;
  - . buying-in by means of public invitations to tender;
- carry-over payments for stocks held at the end of the marketing year, in particular to support the reference price for bread wheat, to forestall massive intervention in cereals at the end of the marketing year. This is because prices are as a rule considerably lower at the beginning of the next marketing year. The carry-over payment is calculated on the basis of the difference between the intervention price at the beginning of the old marketing year, increased by eleven monthly instalments, and the intervention price at the beginning of the new marketing year.
- sales of cereals from intervention stocks: exclusively by means of public invitation to tender for resale on the EEC market, in which case the resale price must be equal to the local market price, or for export, in which case prices must be similar to those for export on the free market.
- measures for transfers between intervention agencies: to restore a normal supply situation in regions which traditionally have a cereals deficit.

15. ADDITIONAL MEASURES UNDER THE INTERVENTION SYSTEM

- Production refunds for basic products used in the starch industry,
- Aids for durum wheat in certain regions.

## Trade with third countries

- Import levies
- Export refunds or, where appropriate, export levies
- Issuing of import and export licences, where necessary with advance fixing of the levy or refund (possibility of suspending or reducing the advance fixing in the case of severe price fluctuations)
- Application of the safeguard clause in the event of disruptions to trade with third countries (Article 20d of Regulation No. 2727/75 of 29 October 1975).

## MONETARY COMPENSATORY AMOUNTS

Since 1969 the exchange rates between the currencies of the EEC Member States, which were originally fixed, have become increasingly uncoordinated as a result of unilateral measures taken by individual Member States to revalue, devalue or float their currencies.

Since the common prices (e.g. intervention prices) are expressed in Community currency, parity changes directly affect agricultural prices and incomes expressed in national currency. Revaluation reduces prices, devaluation increases them. At the same time there is a shift in the hard-won balance between the prices of individual products and the cost of agriculture in the various Member States. Since parity changes are often not fully implemented in the agricultural sector (in the case of revaluation, for example, the old rate is maintained for agriculture to prevent a fall in farmers' earnings), the market rate and the 'green rate' of a particular currency cease to coincide. In the case of trade both between the Member States and with third countries, these exchange rate differences are balanced through the payment of monetary compensatory amounts (MCAs, countervailing duty).

Countries whose currency has been revalued vis-à-vis the 'green parity' levy compensatory amounts on imports and grant them on exports, while countries which have devalued do the opposite. Since 1975 expenditure and revenue relating to the MCA system has been calculated through the EAGGF, with expenditure outweighing

revenue. In recent years, however, expenditure on MCAs has fallen, partly as a result of the relatively stable currency system. In 1979 the MCA system cost the EAGGF 702 m ECU, in 1980 299 m ECU and in 1981 163 m ECU.

Because of the distortions of competition, the deflection of trade, particularly in processed goods, and the ample opportunities for fraudulent practice resulting from the MCAs, it was proposed as long ago as 1977 that the system should be progressively and totally dismantled within seven years. The Member States have also undertaken to abolish new MCAs within two years. However, little success has so far been achieved in this field because the economic situation still varies widely from one Member State to another.

In the case of cereals and processed cereal products MCAs count towards the refunds and levies. They are particularly problematic in this sector because they give rise to further distortions of competition in relation to substitute products, which are not subject to the MCA system.

#### 18. COST OF THE ORGANIZATION OF THE MARKET IN CEREALS

The rules laid down in the organization of the market in cereals for the operation of the domestic market and of foreign trade involve the EAGGF, Guarantee Section, in expenditure on intervention measures and aid (domestic market) and export refunds (foreign trade). The following table shows the relationship between these two categories of expenditure and the way they have developed since 1978.



	1978	1979	1980	1981	1982
EAGGF, Guarantee Section	8 672.7	10 440.7	11 314.9	11 570.5	13 703.1
Increase over previous year	+ 25.7 %	+ 20.4 %	+ 8.4 %	+ 3.2 %	+ 8.4 %
Expenditure on cereals	1 112.5	1 563.7	1 669.3	1 931.0	2 036.2
As share of EAGGF, Guarantee Section	13 %	15 %	14.8 %	16.6 %	15.5 %
Export refunds	831.9	1 184.7	1 174.7	1 250.0	1 327.2
As share of total expenditure on cereals	74.8 %	75.8 %	70.4 %	64.7 %	65.2 %
of which: refunds for food aid	48.6	29.6	26.2	33.0	61.7
Refunds for food aid as share of total refunds	5.8 %	2.5 %	2.2 %	2.6 %	4.6 %
Intervention	280.6	379.1	494.6	681.0	709.0
of which:					
Production refunds	117.0	143.3	148.4	144.0	135.0
Aid for durum wheat	89.0	115.4	129.0	156.0	162.0
Storage	72.3	88.9	212.8	378.0	410.0

## II. CEREALS MARKET

### World market

In 1980 world cereals production was broken down as follows<sup>1</sup>:

	Wheat	Feed grain
	(m t)	
USA	64.5	198.9
Canada	19.1	21.7
Australia	10.8	5.1
EEC	54.8	69.6
Other	295.9	429.3
	445.1	724.6
	total: 1,169.7 m t in 1980	

<sup>1</sup> Sources for the statistical data in this section:  
Report of the Special Committee of Inquiry concerning the Guarantee Section of the EAGGF, cereal sector (COM(79) 686 final), Volumes I and II; the tables contained in the Commission report on the agricultural situation in the Community in 1981, and 'Agrarwirtschaft', 12/81, Strotheverlag, Hannover

## 19. WORLD CEREALS TRADE

In 1980/81 world trade in cereals showed an increase over the previous year and reached a total volume of 198 m t (around 17% of world cereals production), comprising 93 m t of wheat and 105 m t of feed grain. The bulk of the demand for cereals was concentrated in a handful of countries. Between July 1980 and June 1981 the USSR imported 33 m t, Japan 25 m t, South and Central America (in particular Mexico) 19.9 m t, the EEC (10) 17.2 m t and the People's Republic of China just under 15 m t of cereals. Cereal exports were dominated by an even smaller group of countries. Feed grain is largely exported by the USA, which in 1980/81 accounted for 70 m t out of total world imports of 105 m t. World wheat exports also originate predominantly in the USA, which supplied 41 m t in 1980/81. Canada was the second largest exporter in 1980/81 with 16.2 m t, while the EEC (10) exported 15.2 m t, Australia 10 m t and Argentina just under 4 m t. In 1980/81 the EEC (10) accounted for 9% of world cereals imports and 16.3% of world exports of wheat and wheat flour. It has thus become an important trading partner on the world cereals market.

## 20. WORLD MARKET PRICES

Until 1971 there had been a long period of price stability on the world cereals market. Since 1972 there has been a steep increase in cereals prices because of the shortfall in the USSR and the reduction in the area under cereals in the USA. By 1974 prices had tripled and for a few months in 1974 and 1975 the world market price was higher than the Community price. In 1976 prices fell sharply to around the 1971 level. Since 1979 prices have again been rising.

21. Since 1976 world market prices have become less sensitive to fluctuations in supply and demand as a result of stabilization measures. On the other hand, market prices are quoted in dollars and are thus subject to fluctuations in this currency. Since the end of April 1981 prices seem again to be rising following the lifting of the embargo on supplies to the USSR.

2. In general demand on the world cereals market is considered to be on an upward trend. Cereals production in the state-trading countries is in structural deficit and, as a result of the rapid development of the oil-producing countries, there is likely to be a substantial rise in demand for cereals both for human consumption and for livestock. In addition, the population explosion in the developing countries will also lead to an expansion - which is difficult to estimate - in international trade in cereals. The growth in demand is therefore likely to exceed the increase in production, resulting in a further rise in world market prices.
3. The area under cereals in the Community, which since 1978 has remained virtually stable at around 26.8 m ha., has been increased by the accession of Greece by approximately 1.6 m ha. However, these figures disguise different trends for the various cereals. The areas under oats or rye have been halved and there has likewise been a decline in the area under wheat. On the other hand, over the last twenty years there has been a substantial increase in the cultivation of barley and maize, although there has been a growing tendency to replace maize and other feed grains by common wheat.
4. Production has nevertheless increased over the last twenty years: from around 70 m t in 1960 to around 124.7 m t in the marketing year 1980/81 (10.6% of world production and a 5.3% increase over the 1979/80 harvest). The average yield per hectare rose from 2.6 t in 1960 to 4.4 t in 1980. Production of durum wheat rose from 1.1 to 2.8 t/ha and of maize from 3 to 5.9 t/ha.

Community production in m t:

	1972/73	1980/81
Common wheat	41.3	50.1
Barley	34.5	41.2
Maize	16.3	17.6

25. Total cereal consumption within the Community has not risen at the same rate. Following a sharp increase from 90 m t in 1959 to 115 m t in 1974, there was a fall of around 4 m t between 1974 and 1978. The figure for the marketing year 1980/81 was 120 m t. Sixty per cent of total cereal production was used for animal feed, 34.4% for human consumption and industrial purposes and the remainder as seed. Taking account of the population increase, human consumption of cereals, per capita rose by 0.1% in 1980 as compared with the previous year. The increase in the consumption of cereals as animal feed, which in the 1960s more than compensated for the decline in the use of cereals for human consumption, has declined since 1974 as a result of the growing use of substitute products for animal feed (see table below).

Cereal consumption within the Community

	(m t)		
	1977/78	1978/79	1979/80
Common wheat	36.2	38.2	39.1
Barley	34.2	35.8	35.8
Maize	28.4	29.3	29.2
Oats and summer cereals	8.0	8.7	8.1
Durum wheat	4.1	4.5	4.5
Rye	3.2	3.1	2.9

26. Since the creation of the common market there has been a substantial increase in intra-Community trade. In the marketing year 1973/74 it reached a peak of 12 m t, since when it stagnated at around 8 m t. Enlargement of the Community opened up interesting possibilities for wheat and maize which, however, could not be realized because of the relatively poor harvests in 1975 and 1976. There has nevertheless been a further increase since 1977/78. With a total volume of 7.6 m t in the marketing year 1980/81, France remained by far the largest supplier of cereals in intra-Community trade.

27. The Community's degree of self-sufficiency increased from 77% at the beginning of the 1960s to about 105% in 1981. In 1978 the Community for the first time showed a surplus. However, the situation varies widely for the different types of cereal:

in 1979/80 imports of maize totalled 11.4 m t (degree of self-sufficiency : 62.1%) and imports of durum wheat 1 m t (degree of self-sufficiency : 90.5%). In the same year there was a production surplus of 11 m t of common wheat and barley (degree of self-sufficiency 114% and 111% respectively).

Given the steady increase in production (a growing number of farmers are turning to cereal cultivation, since it is less problematic than animal farming and there is a more ready market) and the gradual decline in consumption it is likely that the surpluses of barley and common wheat will increase still further. If the wide disparity between Community and world market prices continues, expenditure in the cereals sector will inevitably rise still higher. The Community is at present still unable to meet its maize and durum wheat requirements.

Annex I shows the trends in production and consumption of cereals in the Community in the next few years, as estimated by the Commission.

#### FACTORS WHICH INFLUENCE THE COST OF THE COMMON ORGANIZATION OF THE MARKET IN CEREALS

The table on page 23 shows the trend in EAGGF Guarantee Section expenditure in the cereals sector since 1973.

#### PRICE POLICY

As can be seen from the table on page 23, well over half of the cost of the common organization of the market in cereals is accounted for by export refunds. This expenditure could be substantially reduced if the Commission could implement rapidly the objectives, set out in its 'Guidelines' (points 59 and 60), of narrowing 'the gap between its prices and those applied by its main competitors in the world market'<sup>1</sup>.

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<sup>1</sup> See table in Annex II for relationship between the EEC threshold price and the relevant world market price

Because of their wide fluctuation and the fact that they at least partially constitute dumping, world market prices cannot be taken as a direct point of comparison. The Commission therefore recommends that the prices received by cereals producers in the USA should be taken as a compulsory yardstick. In a recent period these prices were on average 20% lower than in the Community, although the gap was wider in the case of certain types of cereal. For example, in 1980/81 wheat prices were 30% and maize prices 34% lower than in the Community. Price alignment is not to be achieved by means of nominal price reductions. Moreover, a comparison of the price trends in the USA and EEC shows that this process of alignment has already been under way for six years. Whereas in the USA the guaranteed prices for cereals have increased by around 10% each year - since 1974/75 by 12% - cereals prices in the EEC have risen as follows (intervention prices, percentage increase in ECU) :

1977/78	0.5 %
1978/79	0.0 %
1979/80	1.5 %
1980/81	4.5 %
1981/82	7.5 %
1982/83	8.5 %

The problem both of cereals surpluses and of substitute products (for more details see point 37 ff) and hence the increase in expenditure in the cereals sector of the EAGGF, Guarantee Section, can undoubtedly be solved in the medium term only by fixing prices in accordance with market principles. This is therefore the principal starting point for improvements to the economic efficiency of the common organization of the market in cereals. It is now for the Council to support these moves.

EAGGF GUARANTEE SECTION EXPENDITURE ON CEREALS

m ECU

YEAR	1973 <sup>1</sup>	1974 <sup>2</sup>	1975 <sup>2</sup>	1976	1977	1978	1979	1980	1981	1982 <sup>3</sup>
Total expenditure	1 051.4	383.0	589.3	655.9	629.9	1 112.5	1 574.2	1 669.3	1 931.0	2 036.2
Refunds	542.2	66.5	329.9	403.4	365.7	831.9	1 209.4	1 174.7	1 250.0	1 327.2
Intervention (measures to regulate internal market)	509.2	316.5	259.4	252.5	264.2	280.6	364.8	494.6	681.0	709.0
Storage aid and other measures	-	-	-	15.6	1.4	-	-	of which: 212.8	of which: 378.0	of which: 410.0
Subsidies for imports of feed grain into Italy	1.2	0.4	0.4	0.4	0.6	2.2	1.6	-	-	-
Carry-over payments	31.1	3.5	0.5	- 0.1	-	13.0	35.8	-	-	-
Denaturing and incorporation <sup>4</sup>	128.7	16.4	0.3	-	- 0.1	0.1	-	-	-	-
Buying-in and consequent measures	52.1	32.1	64.5	102.6	51.0	59.4	65.8	-	-	-
Production refunds <sup>5</sup>	185.4	194.8	90.6	51.2	76.7	117.0	135.2	148.4	144.0	135.0
Aid for durum wheat	110.7	69.3	103.1	82.8	134.6	89.0	126.4	129.0	156.0	162.0

Source: Report concerning the EAGGF, Guarantee Section, cereals sector (COM(79) 686 final, vol 1, p.26)

<sup>1</sup> Twelve-month period

<sup>2</sup> Adjustment for the monetary compensatory amounts included in the refunds

<sup>3</sup> Figures for 1980-82 taken from : The Agricultural Situation in the Community, 1981 Report, p. 244

<sup>4</sup> Measure discontinued on 1 August 1976 by Article 3 of Council Regulation No. 1143/76, amending Article 7(3) of Council Regulation No. 2721/75

<sup>5</sup> Including production refunds for potato starch, rice starch and broken rice for brewing

NOTE: For comparability, the figures have been converted into million ECU taking account, where necessary, of the effect of the double rate.

REFUNDS/EEC EXPORT POLICY

32. Refunds are granted to cover the difference between the EEC price and the price on the world market. This gives the Commission adequate room for manoeuvre to exercise a decisive influence on market trends and the flow of goods. Under Article 2 of Regulation 2746/75 refunds are fixed in accordance with the following criteria:

- (a) cereal prices ruling on the various representative markets of the Community,
- (b) the most favourable quotations recorded on the various markets of importing third countries,
- (c) the prevention of disturbances on the Community market,
- (d) the economic aspects of the exports concerned.

The Commission's Management Committee fixes the level of refunds each week; if the market situation so requires, adjustments may also be made to the rates between committee meetings. The rate of refund varies, depending on the destination of the exported cereal, to take into account differences in freight costs. The granting of an additional amount for more distant destinations is conditional upon proof that the products have reached their destination, whereas the basic refund is paid as soon as the products have left Community territory.

Refunds may be fixed in advance. In this case a premium (corrective amount) is used to offset fluctuations in the forward prices to prevent speculation. The premium is increased when the forward prices are at least 0.125 ECU per tonne lower than the cif prices on the date of the advanced fixing.

33. A comparison between the Community's export policy and the trend in world market prices for cereals clearly reveals that the EEC cereal exports are largely unaffected by the situation on the world market. A seasonal study shows that world market prices for wheat are extremely low in April and still relatively low



in August (the situation is similar for other types of cereal). However, in August exports are at their highest level and in April still above average. By contrast, in December, when world market prices are highest the quantities exported are almost the lowest in the whole year (see Annex 3, Parts A and B). A comparison between the level of world market prices and cereal exports in the same month over the last three years likewise shows that there is virtually no correlation between the two figures (see Annex 4).

A study of the price trend on the world cereals market over one year shows that it does not make economic sense to export wheat continually throughout the year. A large proportion of export refunds could be saved if EEC cereals were exported in principle only when the difference between EEC and world market prices was at its lowest. For this purpose a tendering procedure should be used to obtain the lowest level of export refund; in other words, the quantities of cereals available for export would be put out to tender and awarded to the bidders offering (claiming) the lowest export refund.

It should, however, be left up to the grain merchants to resell the cereals acquired by them under licence whenever they anticipate making the highest profit.

34. In the past the Community has failed to fulfil its role as a major trading partner on the world cereals market and to help stabilize this market. On the contrary, it has generally transferred fluctuations on its domestic market to the world market, thereby contributing to the destabilization of the world cereals market. In defining its new role as a major partner in the world cereals trade, the Community admittedly faces a conflict of interests. It would be in its own interests to negotiate with the other major trading partners on measures designed not only to stabilize the market but also to achieve a certain level of world market prices. However, this would be run totally counter to the interests of cereals purchasers, particularly the developing countries, which would welcome the greatest possible stability on the world market and supra-national measures to offset fluctuations in supply.

The Commission should therefore step up its efforts to bring about the conclusion of a new international wheat agreement centred on measures to stabilize the market. Such an agreement should also cover the creation of international buffer stocks.

35. The Commission's export policy, which largely ignores the world market, has resulted in substantial losses for the Community budget which could have been

prevented by better coordination. The Commission must be urged to adopt an approach based on sound market principles. As the gap between EEC prices and those of its main competitors narrows, this problem will become less acute. In the meantime the following changes in the present arrangements might persuade exporters to adopt an approach which takes more account of the realities of the world market :

- as long as refunds fully cover the difference between EEC and world market prices there is no incentive for exporters to export their products when this difference is only very slight. The rate of refund which could be achieved by means of the procedure proposed in point 33 should therefore be sufficiently low as to compensate only for minimal price differences.
- At present export licences are valid for a maximum of four months. This means that the dealer may be obliged to export at a time when it is illogical to do so given the market situation. Licences should therefore be extended so as to facilitate a more flexible organization of the export trade.
- The main problem with cereals exports is that of obtaining credit to finance amounts up to the full sum to be paid by the importer. The granting of credit is handled differently in the individual Member States, since it is subsidized or underwritten by the state and there is as yet no joint credit institution for the EEC. Thus French cereals exporters, for example, can insure their exports to a greater extent on the basis of credit than their German counterparts. In order not only to harmonize conditions of competition between the Member States but also to encourage exports of cereals, there should be a uniform system for the granting of export credits within the EEC.
- Depending on the trend in EEC or world market prices and in storage costs it may be worthwhile for a dealer not to store quantities of cereals needed at a later date but first to export and subsequently re-import them. To facilitate this type of trade, a second kind of licence should be issued. In addition to licence A entitling the holder to export cereals and to collect export refunds, there should be a licence B authorizing the holder to export and re-import a fixed volume of a specific type of cereal within a given marketing year. Although this measure would involve scarcely any saving of EEC funds, it would nevertheless enable dealers to operate on an economically more rational basis and is therefore advisable in terms of the economy as a whole.
- The variation in refunds according to destination appears to serve little purpose, since the competitiveness of EEC exporters does not depend primarily on freight costs but equally on the level of EEC prices, of the prices of

other suppliers and of those in the importing countries. In a liberalized trading system national prices would differ anyway depending on transport costs and each exporter could make a similar profit irrespective of the distance of carriage involved. Under the present system prices are determined primarily by instruments of market control, that is, mainly by customs duties and similar levies, transport costs being a minor factor. It would therefore be preferable to grant refunds at a uniform rate irrespective of transport costs, particularly since the differentiation of the rates according to distance has given rise to frequent irregularities and fraudulent practices.

36. The Commission should submit proposals as soon as possible designed to bring the Community's export policy into line with the situation on the world cereals market.

#### Problem of substitutes

37. The high level of EEC cereal prices has made cereals substitutes, most of which can be imported into the EEC duty-free or subject to a minimal levy, increasingly attractive as feedingstuffs. As the table on the following page shows, imports of cereals substitutes have risen sharply in recent years while imports of cereals have fallen. In Member States which grant monetary compensatory amounts (MCAs) there is an especially strong incentive to use substitutes, since the effect of the MCAs is to make cereals prices excessively high and to create a particularly wide gap between these prices and those of substitutes, which do not come under the MCA system. The Commission should therefore increase its efforts to speed up the dismantling of all monetary compensatory amounts. In the federal Republic of Germany in 1979 approximately one quarter of animal products were based on imported feedingstuffs whereas the equivalent proportion in France was only 9 % (see Annex 5).

EEC (9) Imports of specific feedingstuffs

- 1,000 tonnes -

Feedingstuffs	1974	1975	1976	1977	1978	1979	1980	% change between 1980 and	
								1974	1979
Maize, total	13 431	15 493	18 185	6 477	17 756	11 252	9 906	- 26	- 12,0
of which:USA	9 916	12 603	15 662	73 841	10 562	9 172	9 053	- 9	- 1,3
Manioc, total of which:	2 073	2 222	2 904	1 801	5 976	5 375	4 866	+135	- 9,5
Thailand	1 739	1 873	2 706	1 639	5 668	4 529	4 116	+137	- 9,1
Indonesia	259	314	179	166	719	694	372	+ 44	- 46,4
Bran, total of which:	976	1 237	1 839	1 903	1 798	1 806	1 707	+ 75	- 5,5
Argentina	504	588	887	944	936	919	697	+ 38	- 24,7
Canada	135	205	254	236	307	273	343	+154	+ 25,6
Corn gluten feed, total	694	930	1 167	1 486	1 685	2 021	2 596	+274	+ 28,5
of which: USA	619	861	1 057	1 365	1 568	1 916	2 476	+300	+ 29,7
Corn meal total, of which:	.	525	629	817	971	1 036	1 058	+102 *)	+ 2,1
S.Africa	.	369	422	513	559	603	548	+ 49 *)	- 9,1
USA	.	49	105	191	243	237	281	+473 *)	+ 18,6
Citrus pulp/peel, total	327	480	646	968	1 000	1 205	1 571	+380	+ 30,4
of which:USA	178	263	338	476	604	674	932	+424	+ 38,3
Brazil	123	196	263	257	363	492	609	+395	+ 73,8
Soya beans total of which:	9 095	8 096	9 156	11 755	10 843	11 716	11 754	+ 29	+ 0,3
: USA	6 896	5 752	7 274	7 768	8 921	9 111	9 849	+ 43	+ 8,1
Brazil	2 028	2 214	1 665	917	363	368	496	- 76	+ 34,8
Argentina	7	8	60	959	1 371	1 970	1 206	.	- 39,0
Soya meal total, of which:	3 264	3 321	4 240	4 730	5 918	6 153	7 175	+120	+ 16,6
: USA	2 498	2 013	2 768	4 563	2 674	2 610	3 618	+ 45	+ 34,6
Brazil	666	1 149	1 702	2 225	2 767	3 155	3 226	+384	+ 2,3
Other oil cakes and meal total,	3 355	3 833	4 922	5 011	5 109	6 018	5 856	+ 75	- 2,7
Fish meal	594	681	632	563	578	636	587	- 1	- 7,7

\* ) 1980 compared to 1975

Source: SOEC

38. The largely duty-free importation of cereals substitutes has put the EEC budget under strain owing to:

1. lower levies (falling cereal imports) and higher refunds (increasing cereal exports from the EEC),
2. market organization costs arising from the processing of surpluses,
3. higher subsidies to make EEC products competitive with substitutes.

. This has prompted calls, particularly from France, for an import levy on substitutes. To estimate the effects of such a levy it has been assumed that all substitutes (34 m t of cereal units) would be subject to a levy determined by the organization of the market in cereals, that is, which would bring the prices up to the level of those in the EEC. This would relieve pressure on the budget as follows:

- higher levies and lower refunds would save the budget at least 2,000 m ECU (34 m t x 60 ECU);
- milk production is quoted as a prime example of the way in which market organization costs could be saved in the processing field. However, it should be assumed that even a rise in the price of cereals substitutes would cause only a small decline in milk production. Since approximately 2 kg of milk can be produced from 1 kg of concentrated feed, intensive milk production is still profitable even if prices of concentrated feed rise;
- a reduction in aids for the production of protein feedingstuffs within the Community would make little difference to the budget;
- a reduction in the skimmed milk subsidy could hardly be achieved by taxing cereals substitutes, since they are scarcely used in calf feed and in the case of pig feed the price differential between animal and vegetable protein is so great that even the assumed increase in the price of vegetable protein would reduce the subsidy only insignificantly (approximately from 7.5 ECU/100 kg to 7 ECU/100 kg).

40. The assumed reduction in imports would have a massive impact on agriculture as a whole. There would be a substantial increase in the price of compound feedingstuffs:

- in the short term this would lead to calculable losses in income of some 19% on average for fully commercially operated farms. Processing operations in north-west Germany and the Netherlands would be particularly affected, with losses in income of more than double this figure;

- farm-produced feed mixtures, on the other hand, would become more attractive and this would increase the competitiveness of the processing sector in areas of cereal surpluses;
- losses in income would be reduced significantly if the additional costs were passed on to the consumer, which it can be assumed would occur in the medium term;
- in addition, an increase in the price of cereals substitutes would bring with it demands for further price rises for processed products.

41. There would be a considerable impact on consumer prices. Assuming that costs were passed on in full, food prices in the Federal Republic of Germany would rise by 1.2% (see Annex 6). For example, the price of a fattened bull would increase by between DM 40 and DM 240, depending on quality, the price of a fattened pig by between DM 30 and DM 40, and the price of an egg by Dpf 3. In terms of the economy as a whole it does not make sense to save resources in the budget only to increase the amount spent by consumers and taxpayers, since part of the resources saved in the cereals sector of the budget would ultimately be provided, albeit indirectly, by the consumer to support cereal prices, although this could not be proven or controlled.

42. Calls for restrictions on imports of cereals substitutes will have a disruptive effect on the Community's external trade relations. The country most concerned by the substitutes issue is the USA. Supplies of soya and corn gluten feed to the EEC are of major economic importance to the United States: in 1980 the value of substitutes imported from the USA was DM 9,400 m. In view of the importance of agricultural exports for the US trade balance (19.3% of exports) and for agricultural incomes (29.1%) the USA would regard any restriction on exports of cereals substitutes as a fundamental issue, particularly since the US administration is currently under strong pressure in this area in view of the considerable difficulties facing its agricultural sector. Of all third countries, the USA is the EEC's most important trading partner. In addition

to the USA, a large number of other countries would be concerned, including developing countries for whom exports of cereals substitutes represent their only, or one of few, sources of foreign currency. In the event of any unbinding of the customs duties agreed under GATT, the supplying countries would be entitled to compensation. The EEC would therefore have to offer compensation in respect of imports to the value of 15,500 m ECU, which could not be found in the industrial sector. If it were possible to come to an amicable arrangement, the countries concerned would be entitled to take retaliatory measures.

43. The Commission has recently submitted a proposal to amend the conditions under which certain products for use as animal feed are imported into the Community (Doc. 6383/82 ; COM(82) 175 final). Under the proposal, imports of substitutes would be limited to the volume imported in 1981 until such time as the realignment of cereals prices had reduced the competitive advantage of substitutes. An agreement with Indonesia and a regulation on import arrangements for manioc are proposed to complement the voluntary restraint agreement already concluded with Thailand. The Commission should examine at regular intervals whether the necessary conditions for these arrangements shall prevail, i.e. whether an increase in manioc imports can still be anticipated in view of a clear competitive advantage. As soon as the adjustment in cereals prices eliminates this competitive edge the trade restrictions should be lifted. The proposal to start negotiations on unbinding for corn gluten feed under Article 28 of GATT is unacceptable for the reasons outlined in point 42. The Commission should re-examine whether there is in fact still a discernible upward trend in imports of cereals substitutes (in the Federal Republic of Germany, for example, the use of oil cakes and meal fell by 12% in 1981). Should it transpire that, despite the relatively small increase in cereals prices in 1982/83, imports of cereals substitutes are continuing to increase, the Commission should perhaps attempt to reach an amicable solution with the United States in informal discussions.

44. The Community market for substitutes created by the high cereals prices in the EEC has prompted various developing countries to expand considerably their production of these crops as a source of foreign currency. A number of experts in the field of development aid have expressed concern that this may jeopardize - and in some countries is already jeopardizing - the cultivation of crops for human consumption. A further problem is that manioc takes large amounts of nutritive substances out of the soil. Consequently, without intensive use of fertilizers and where, moreover, manioc is perhaps the only crop, the soil is completely exhausted after a few years. The Commission should bear these problems in mind and draw up a report on the effects of EEC demand for cereals substitutes on agriculture in the developing countries. Such a report should also investigate under what circumstances it is wise both in macro-economic terms and for the farmers concerned to expand production of these cash crops at the expense of food crops and how such a development could be prevented as far as possible.

#### Community storage policy

45. The Guarantee Section of the EAGGF defrays the technical and financing costs of public storage facilities, grants monthly premiums (deferred payments), on the common cereals prices to balance out storage costs and can make a carry-over payment at the end of the marketing year.
46. The costs of storage extending beyond the production period amount to some 10% of the producer price. In the 1981/82 marketing year storage costs in Germany worked out at 20 - 25% of the producer price. According to data from German grain merchants <sup>1</sup>, storage costs in October 1981, based on a wheat price of 500 DM/t, could be broken down as follows:

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1

Source: Ulrich Koester, The EC Grain Economy and Trade in Grain, unpublished manuscript 1982.



Loss (16% humidity) 1% of value	0.50 DM/t
Interest (11 - 16%)	5.50 - 5.85 DM/t
Storage costs for silo	
Land	2.50 DM/t
Sea	3.50 - 4.00 DM/t
Insurance	0.10 DM/t
-----	
Total costs:	
Land	8.60 DM/t
Sea	9.60 - 10.40 DM/t

7. The severing of the link between cereals prices on the Community market and those on the world market, the fact that the price differential is fully covered by refunds and the capital investment required by the high cereals prices in the EEC have created a situation in which there is virtually no long-term storage on a private basis. Storage is mainly carried out by public agencies.
8. It can be shown (cf. Koester, loc.cit., p.5-28 et seq.) that in the past the authorities responsible for public storage clearly have consistently operated on the basis of inaccurate forecasts of future cereals prices on the world market. Thus the quantities stored in the EEC continued to increase in years in which world market prices were extremely high, such as 1973 and 1974, although it was foreseeable that prices would fall again in the near future. An analysis of the Community's storage policy in relation to the price trend over several years (cf. Koester, pp. 5-29, 5-30) also proves that this policy cannot be seen as economically rational with regard to exports.
- . The same applies to storage policy in relation to imports. As mentioned above, exportation and re-importation could provide a viable alternative to storage. Thus, for example, while wheat import prices fluctuate sharply over the year, domestic wholesale prices in the Federal Republic of Germany rise continually throughout the year (see Annex 7). This shows that the price fixing in the course of the year in Germany is clearly not based on cost saving principles. It would pay to operate fewer storage facilities and to export and import more instead.

50. In the 1960s and 1970s the monthly increases fixed annually to balance out storage costs served their purpose to a large extent, since interest rates were not such an important factor in storage costs. Since then, storage costs have come to be determined largely by the level of interest rates, which may fluctuate widely during a given year. Since the increases are managed in an extremely inflexible way, private storage operators repeatedly receive unintended subsidies, since their actual storage costs are lower than the payments received. On the other hand, in 1981 there were many instances in which actual storage costs were not covered by the increases owing to high interest rates. Private storage then ceased to be an attractive proposition. Since it is virtually impossible to find a system for these increases that reflects the actual trend in costs, the graduation of the increases over the year should be abandoned. It is to be anticipated that the price trend will adjust to take account of storage costs as the result of market forces. Similarly, after geographical differentiation was abandoned (varying intervention prices) prices automatically adjusted to reflect transport costs, again as a result of market forces. The carry-over payment at the end of the marketing year should in any event be discontinued on the understanding that prior notice is given in good time. This mechanism, which made good sense when the market organization for cereals was introduced, i.e. when the EEC cereals market was in deficit, can scarcely be justified in the present surplus situation. Since in addition it offers considerable scope for fraudulent practices, its dismantling would be particularly welcome for reasons of budgetary control. Forecasts that the EEC cereals market would be seriously disrupted by the elimination of these measures must be regarded as speculation in the same way as similar fears expressed before the abolition of the geographical differentiation in intervention prices which proved to be unfounded.

51. The Commission should submit proposals concerning measures to put the Community's storage policy on a sounder footing. These proposals could take the following factors into account :

- Although private storage is encouraged by the system of monthly increases and the carry-over payments, the conditions for this type of storage are so unfavourable that EEC cereals are stored predominantly by public agencies. The conditions should be changed to make private storage a more attractive proposition.

- In addition to storage incentives, greater incentives should be given to trade.
- This could be achieved inter alia by adapting the EEC storage policy and the timing of its exports to anticipated changes in world market prices.
- Transfers between intervention agencies, which have already been criticized in the report by Mr Dankert (Doc. 1-954/80), should be more strictly controlled and limited to unavoidable exceptions. Should such a restriction prove to be impracticable, the arrangement should be abolished altogether.

### Intervention/aids

52. Under Article 7 of Regulation 2727/75 the national intervention agencies are obliged throughout the marketing year to buy in cereals which are offered to them and have been harvested in the Community, provided that they comply with the minimum quality standards laid down in Regulation 1569/77. If the quality of the cereal is different from the standard quality the prices are increased or reduced. In respect of common wheat of bread-making quality (bread wheat), the quality of which has been tested, intervention agencies may buy in at the reference price. Durum wheat and starch producers are granted additional aid.
53. The price differentials between the various types of cereal in the EEC do not correspond to those on the world market. The development of the 'silo model' is designed to achieve a graduated scale of prices based on the fodder value of the various types of cereal. This would, it is claimed, minimize the charge on the budget at the given price levels. However, a more detailed analysis (see Koester, loc.cit., pp.5-13, 5-14) shows that, even under the above conditions, optimal price differentials cannot be determined if only one factor (fodder value) is taken into account. Optimal price differentials can be found only if other factors (differentials on the world market, flexibility of supply and demand, etc.) are also considered. This has, moreover, been borne out in practice, since the silo model, which has been used since 1976,

has failed to solve the problems of the cereals market. Thus, for example, the price differential between maize and barley does not provide sufficient incentive to use the surplus barley produced.

54. The Commission's policy of bringing the EEC cereals market more into line with conditions on the world market should not be limited to price levels alone. In the medium term at least, price differentials should also be brought into line with those on the world market (the present differences are shown in Annex 8). This is the only way ultimately to prevent disturbances both on the world market and within the EEC, which, moreover, result in charges on the EEC budget, for example as a result of export refunds which could be avoided.
55. Until such time as this adjustment is complete, consideration should be given, for example, to authorizing arbitrage operations, which might relieve pressure on the budget by reducing the quantities supplied to intervention agencies. Merchants would have to undertake to purchase wheat in the EEC and sell it on the world market and to purchase maize on the world market for sale in the Community. The difference in prices in the EEC and on the world market would make such operations profitable and no refunds would therefore be paid, although no levies would be collected either. However, steps must be taken to prevent imported cereals being sold to intervention agencies because of low market prices. Since arbitrage operations are feasible in the beef sector, where a system has been devised to prevent sales to intervention agencies, the possibility of introducing a similar system in the cereals sector should be investigated.
56. However, market disruptions within the EEC do not arise only because of the problem of price differentials between the different types of cereals; the evaluation of different quality standards for the same type of cereal bears little relation to the market situation. The EEC imports high-quality wheat and exports wheat of lower quality. In view of the difference between import and export prices, such operations seem to make little sense, at least from the macroeconomic point of view (see Annex 9). This situation is attributable to the fact that the compensatory coefficients applied to take account of quality differences when calculating the import levy have

not changed substantially since the setting-up of the common organization of the market in cereals. Since cereal prices have since risen, however, high-quality wheat is now undervalued in the EEC as compared with the world market. This price distortion could easily be removed by calculating the import levy in relative rather than absolute terms. To give an example : if the cif price for standard-quality wheat were 300 \$/t and the EEC threshold price 500 \$/t, the rate of the levy would be 200 \$/t in absolute terms and 66.67 % in relative terms. If the cif price for higher-quality wheat were \$330, that is, 10 % higher than for standard quality, this price would have to be multiplied by 1 plus the relative rate of the levy, that is, by 1.66, giving a threshold price of 550 \$/t. This means that the threshold price would also be 10 % higher than that of standard quality wheat. This method would rule out price distortions.

57. This would also be a step towards a clearer differentiation of quality standards for cereals in the EEC. In view of the increasing quantities in particular of common wheat of low quality which are being offered to the intervention agencies, the Commission should increase its efforts to raise standards of quality. The standards of fodder cereals eligible for intervention should be raised and the obligation on intervention agencies to buy in cereals of lower quality should be lifted. The criteria used to distinguish wheat of bread-making quality and fodder wheat should be more clearly defined. Most of the wheat currently accepted as being of minimum bread-making quality is used for fodder. The standard for wheat of bread-making quality should be raised significantly. At the same time the quality control methods applied to cereals offered for intervention should be devised in such a way that they can be applied uniformly by all intervention agencies.
58. Moreover, quality criteria should also be taken into account for the payment of export refunds. Cereals that do not come up to the standard required for intervention should be excluded from the refund system and exported under the conditions prevailing on the world market.
59. In support of the measures outlined above to put EEC cereals policy on a sounder economic footing, consideration should be given to making the intervention obligation for feed grain more flexible. It could for example be limited to the months following the harvest and a system of optional intervention could be introduced which would be put into effect only to prevent foreseeable disruption of the market.

60. The Commission has already referred to the specific problems of aid for durum wheat producers in its 'Guidelines for European Agriculture' (paragraph 58). In 1979/80 durum wheat production was 4.1 m t as compared with consumption of 4.5 m t. In the absence of any change in the existing policy it is forecast that by 1988 production will increase to 5 m t while consumption will decline to 4.1 m t. Expenditure on this type of aid is increasing dramatically; it has risen from 89 m ECU in 1978 to 162 m ECU in 1982. The problem again arises in connection with this aid in that it is granted indiscriminately, i.e. those really in need often do not receive adequate support whereas the less needy are subsidized. Here a solution is required that would remove the incentive to expand production. This system of aid should be abolished and the resources released invested in specific regional and structural programmes in the areas concerned.
61. The 'production refund' granted under the common organization of the market in cereals is designed to enable the starch industry to sell its raw materials on the EEC market at prices comparable to those on the world market. The Commission has already proposed that these refunds should be abolished in the long term but it has not yet been able to implement this suggestion, partly owing to a ruling by the Court of Justice of the European Communities. Since the narrowing of the gap between EEC cereals prices and those of its main competitors will improve the competitiveness of raw materials produced within the Community for the manufacture of starch, the Commission should progressively abolish production refunds as and when competitive pressure lessens.

#### Frauds and irregularities

62. Although the ultimate responsibility in this area lies with the authorities of the Member States, the Commission nonetheless has the task of giving momentum to and coordinating their activities. The disproportionate rise in such cases, which in 1980 led to an (estimated) loss to the Community coffers of more than 20 m ECU (four times as high as in the previous year), illustrates the extent of the problem. Regrettably,

Directive 77/435, providing for the scrutiny of commercial documents which could reveal cases of fraud at an early stage, has not yet been implemented satisfactorily in all the Member States.

In this context reference should also be made to the problem of the final closing of the accounts, since the long delays which have arisen here could result in the Member States, or firms benefiting from the EAGGF Guarantee Section or government organizations infringing the regulations over a period of several years without it being possible to take corrective action in time.

At the time the Special Committee of Inquiry enumerated a number of typical cases of fraud and irregularities, which are summarized below.

- (a) Carry-over payments: to qualify for end-of-year premium the beneficiary must, among other things, have a specific quantity of stocks in his possession when the premium becomes due. This is open to abuse if the transfer of ownership is carried out at the level of the seller. In the case of maize, moreover, stocks may be transported to a different region merely for the purposes of obtaining the payment, which is only granted in areas of surplus production.
- (b) Production refunds: here the risk of irregularities lies mainly in failure to comply with the quality provisions or in the use of the manufactured products for purposes other than those originally intended.
- (c) Aid for durum wheat: here the measures taken in the individual Member States to check quantity and quality are not sufficiently accurate.
- (d) Monetary compensatory amounts: irregularities are possible here by declaring false customs tariff headings in order to take advantage of more advantageous MCA rates, and also by smuggling the production of new compound feedingstuffs, etc.

- (e) Export refunds or import levies: irregularities can for instance result here from the submission of inaccurate documents to the payment offices. This applies in particular to false declarations regarding the condition of the goods or the country where the refund is to be made if the refund rates vary.
- (f) Processed products: even if it is possible to make a chemical analysis of the composition of processed products, in many cases it is much more difficult to determine on which of the original products the level of refund or MCA should be based.

The Commission has already drawn up proposals for new regulations designed to deal with a number of irregularities but in other cases stricter controls are still awaited.

The Commission recently submitted to the Council a proposal for a regulation on the strengthening of controls on the application of Community rules on agricultural products (OJ No. C 79, 31.3.1982). This regulation should enable officials appointed by the Commission to carry out on-the-spot checks on the territory of the Member States even of aspects which do not necessarily affect the financing of the CAP.



The only condition is that the control should relate to the proper application of Community rules to ensure orderly management of the market. This proposal is unreservedly welcome since it will ensure better monitoring of the market and particularly of trade flows. In addition, it will ensure better control and coordination between Community and national control bodies in detecting and taking action against irregularities. In future special emphasis should be placed on the recovery of the amounts involved.

#### Common agricultural policy and food aid

63. In its resolution on possible improvements to the common agricultural policy (OJ No. C 172, 1981) the European Parliament emphasized that food aid should be treated as a policy in its own right and therefore separate from the common agricultural policy; in other words food aid should not be granted simply because the Community produces surpluses of certain agricultural products. Parliament's resolution on the campaign against hunger in the world<sup>1</sup>, states that:

'The European Parliament considers that to eliminate mass hunger and undernourishment it is essential for as many of the developing countries as possible to achieve self-sufficiency in food; for this purpose it is necessary to strengthen the ability of those developing countries which import food products to satisfy their own requirements by expanding their agricultural development;'

The quantities of cereals made available by the Community under its food aid programme have remained fairly constant over a long period (+ 720,000 t per year); the commitments given under the Food Aid Convention provide for an increase to approximately 927,600 t in 1982. Most of this aid takes the form of soft wheat for which the Community's degree of self-sufficiency has risen from 103.3 to 114.2 over the period 1978-1980.

If, as requested by the European Parliament, food aid from the Community and the Member States in the form of cereals is increased to 2.5 million t, purchasing costs in 1982 will amount to 310,500,000 ECU while resources of 229,500,000 ECU will be required for export refunds (food aid expenditure is based on the world market price plus the cost of f.o.b delivery. For technical

<sup>1</sup>Ferrero report, Doc. 1-341/80

budgetary reasons, the amount of the export refund has to be added to this figure (the price plus the amount of the refund give the Community price at which the cereals are actually bought up).

On 18.11.1980 the Council approved the proposal that the food aid policy should be operated on the basis of multiannual projects, including the constitution of stocks. Moreover, in view of the consequences of the disastrous drought in the Sahel area, it is considering the possibility of building up emergency reserves which could be made available without delay as soon as they were needed.

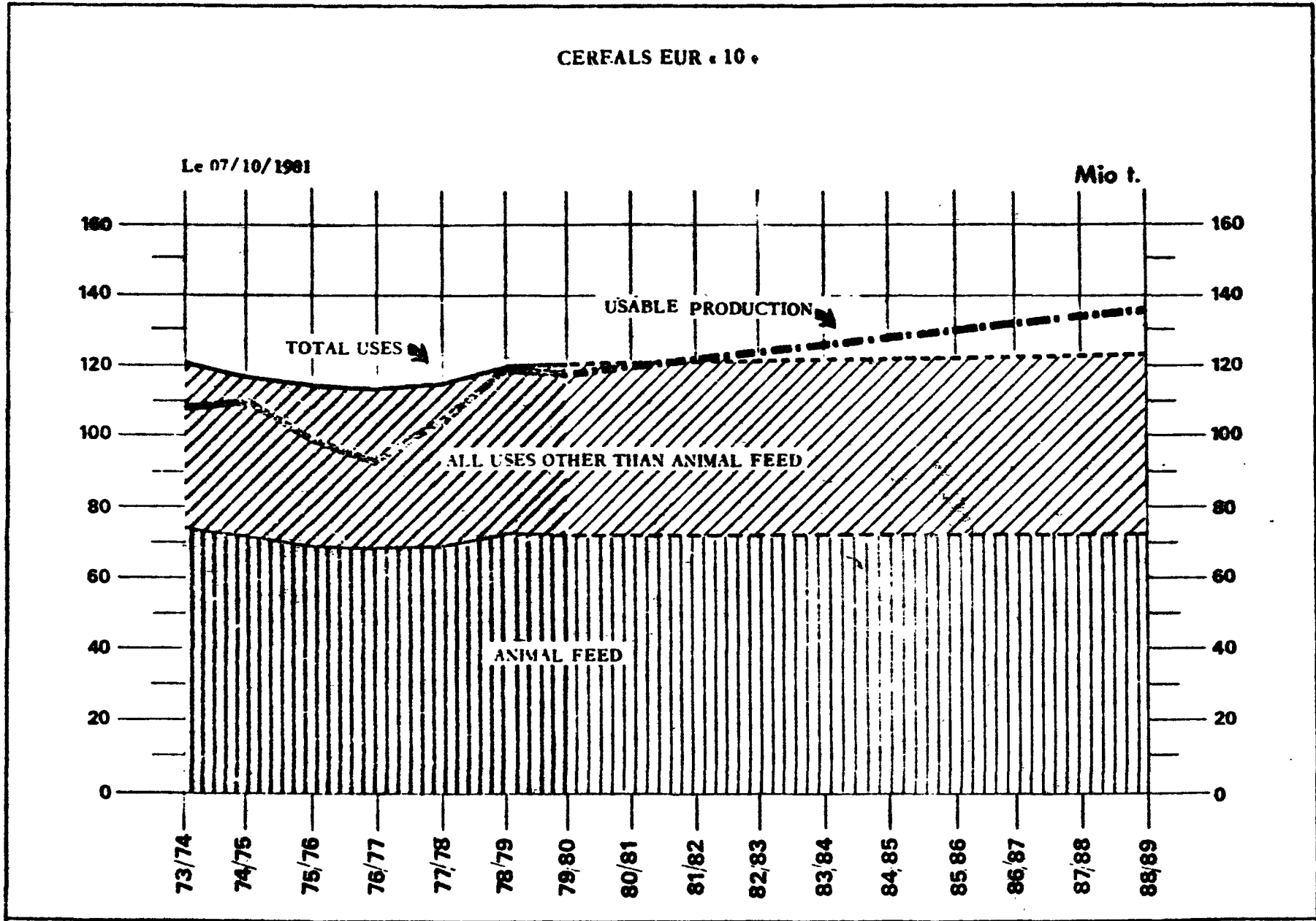
At present cereal deliveries made under the food aid programme are based on data relating to requirements in recent years and estimates for the immediate future. This is a significant step forward since it will now be possible to plan the programme instead of improvising as in the past. The constitution of a cereal reserve corresponding to 17% of the Community food aid programme will enable immediate and effective action to be taken in emergencies. This is also in the interests of the Community since it can prepare for the anticipated costs on a well-founded basis.

#### Food aid and development aid

64. According to the World Food Council's estimates, hunger and under-nourishment in many third world countries will continue to increase in the 1980s. Already in the 1970s, the production of food in many African countries fell by 15% per head of the population, mainly owing to the population explosion. In this context, food aid alone would not be effective aid. The World Food Council suggests a combination of various measures: technical and financial assistance, vocational training, infrastructural improvements and promotion of food production in the countries themselves. Food aid should be limited to aid in the event of emergencies and natural disasters or should form part of wider development aid programmes, for instance 'food-for-work' projects.
65. A study of the cereal market policy by a committee of the European Parliament should not ignore this aspect, in view of the resolutions on food aid and on hunger in the world referred to above. Any liberalization of the Community's cereal market

policy and greater efforts to stabilize the world cereals market will also be in the interests of the developing countries. In addition, at least some of the resources saved by a reorganization of the cereals market should be used to increase Community expenditure on development aid. In order to avoid empty declarations of intention, when the possible savings have been estimated a resolution should be drawn up on the amount of additional available resources to be allocated to development aid. On the basis of this resolution the Committee on Development and Cooperation should draw up a scheme for the most effective possible use of these resources.

CEREALS EUR • 10 •



Source: Guidelines for European Agriculture (COM(81) 608 final)

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PE 73.260/fin.

Table 2.1: World Market and EC-Threshold Prices for Grain

Year	Wheat			Barley			Maize		
	World Market Price 1)	EC Threshold Price	Normal Rate of Protection	World Market Price 1)	EC Threshold Price	Normal Rate of Protection	World Market Price 1)	EC Threshold Price	Normal Rate of Protection
1967/68	63,10	104,38	0.65	58,4	89,0	0.52	54,7	88,4	0.62
1968/69	63,40	104,38	0.65	47,8	92,2	0.93	53,8	92,7	0.72
1969/70	59,76	104,38	0.75	48,1	93,2	0.94	61,5	93,7	0.52
1970/71	67,36	104,38	0.55	64,2	93,2	0.45	69,0	93,7	0.36
1971/72	64,79	114,46	0.77	56,6	104,4	0.84	59,2	100,9	0.70
1972/73	104,37	128,36	0.23	87,9	117,3	0.33	94,5	114,5	0.36
1973/74	173,23	142,86	-0.18	139,2	130,6	-0.06	138,1	127,5	-0.03
1974/75	145,92	165,74	0.14	145,1	150,0	0.03	146,5	148,5	0.01
1975/76	147,54	171,07	0.16	142,4	155,5	0.09	131,8	154,7	0.17
1976/77	110,19	190,42	0.73	125,8	172,3	0.37	118,4	172,3	0.46
1977/78	121,27	222,89	0.84	108,3	204,0	0.88	123,0	188,9	0.54
1978/79	164,9	255,63	0.55	113,0	231,3	1.05	122,6	231,3	0.69
1979/80	199,15	276,23	0.39	161,3	250,3	0.55	141,6	250,3	0.77
1980/81	210,63	264,85	0.26	178,6	239,9	0.34	180,8	239,9	0.33

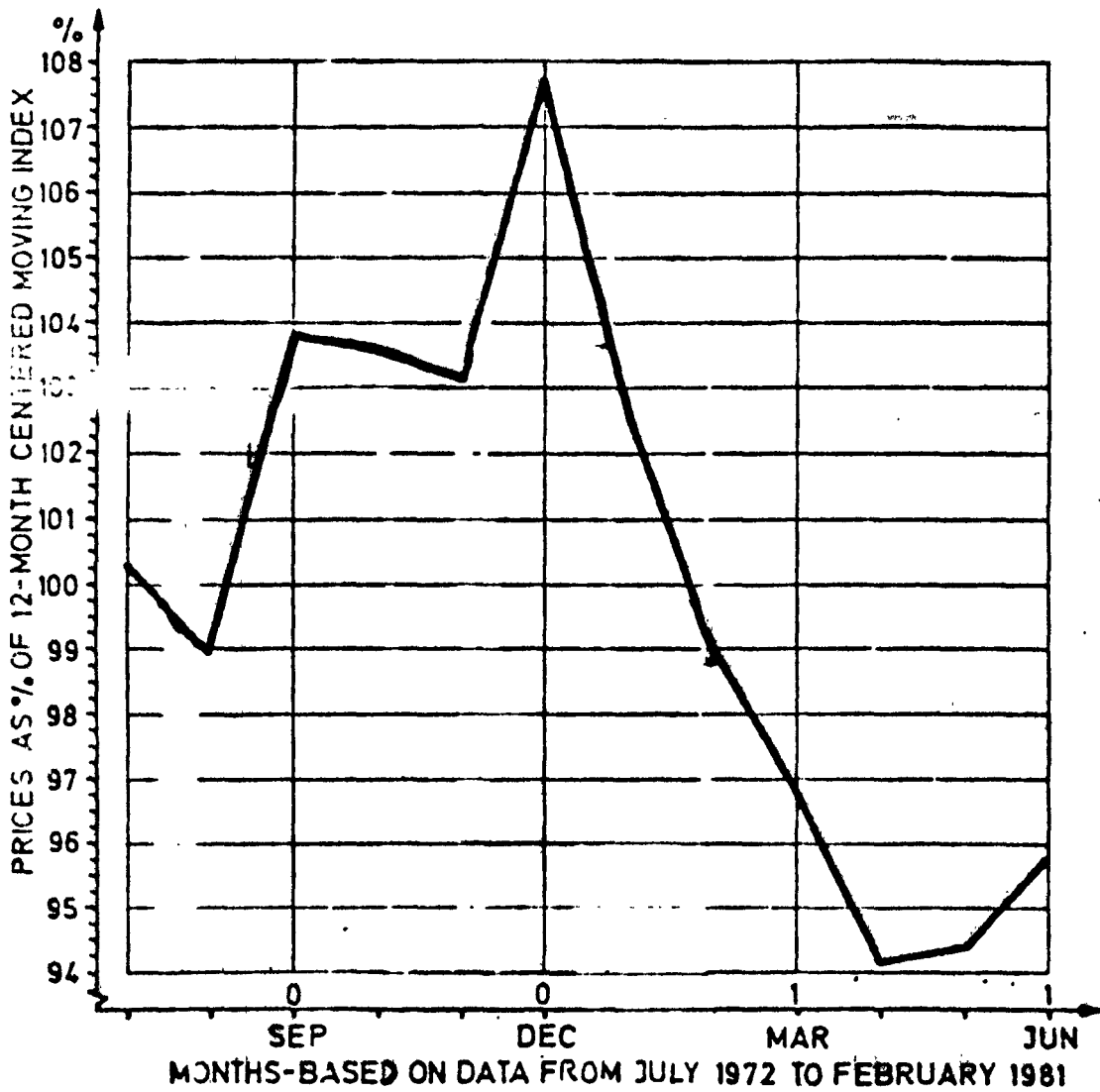
1) cif Rotterdam

Source: Commission of the European Community. The Agricultural Situation in the Community, several Reports.

Source : Ulrich Koester, The EC Grain Economy and Trade in Grain, unpublished manuscript, 1982

Figure 5.1:

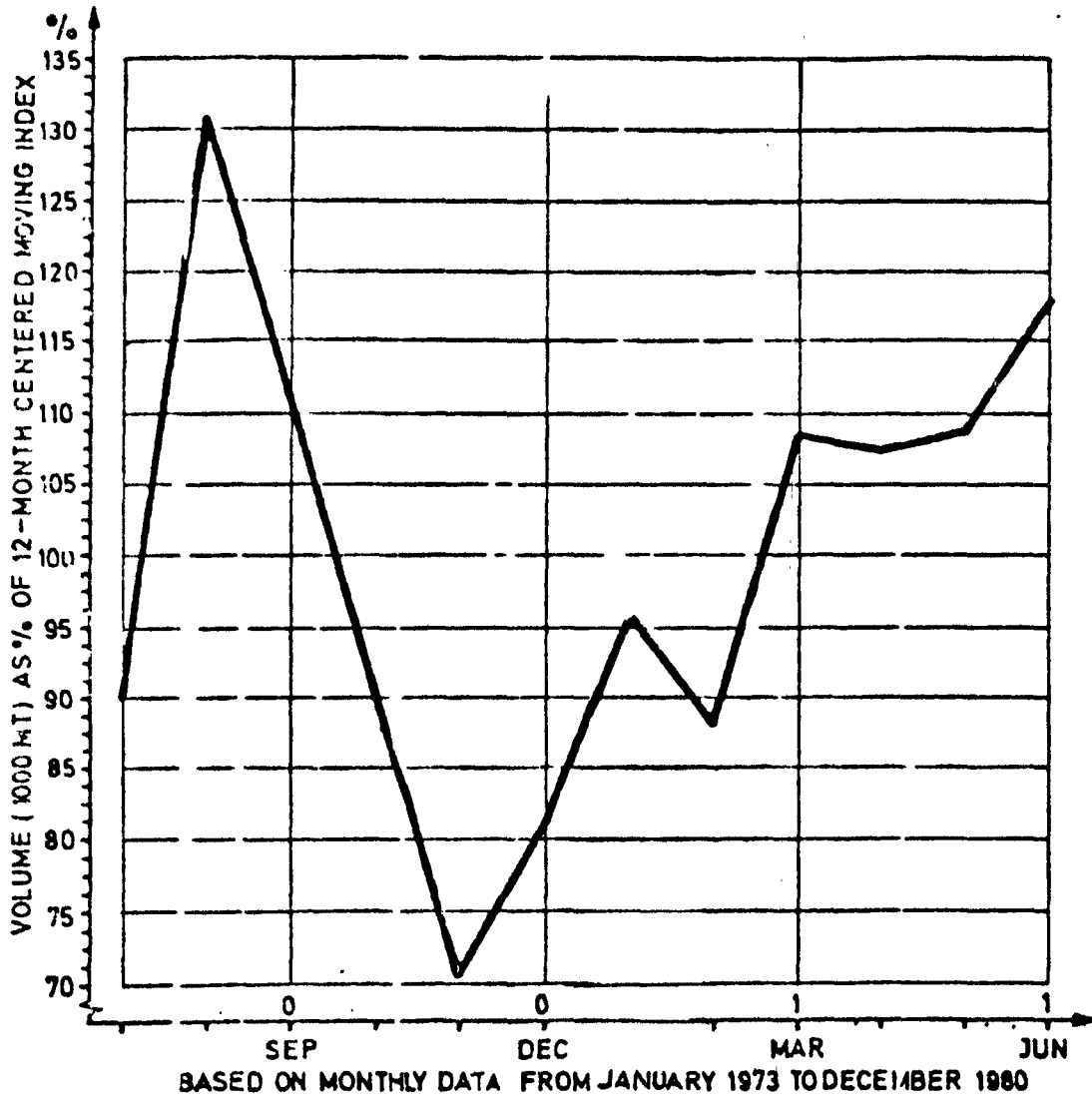
### SEASONAL INDEX OF EC WHEAT EXPORT PRICES



Source : Koester, loc. cit.

Figure 5.2:

## SEASONAL INDEX OF EC WHEAT EXPORT VOLUME



Source : Koester, loc. cit.

World market prices and exports of common wheat from the EC,  
January 1979 to December 1981

ANNEX 4a

(Source: Graph based on data provided by EC Commission)

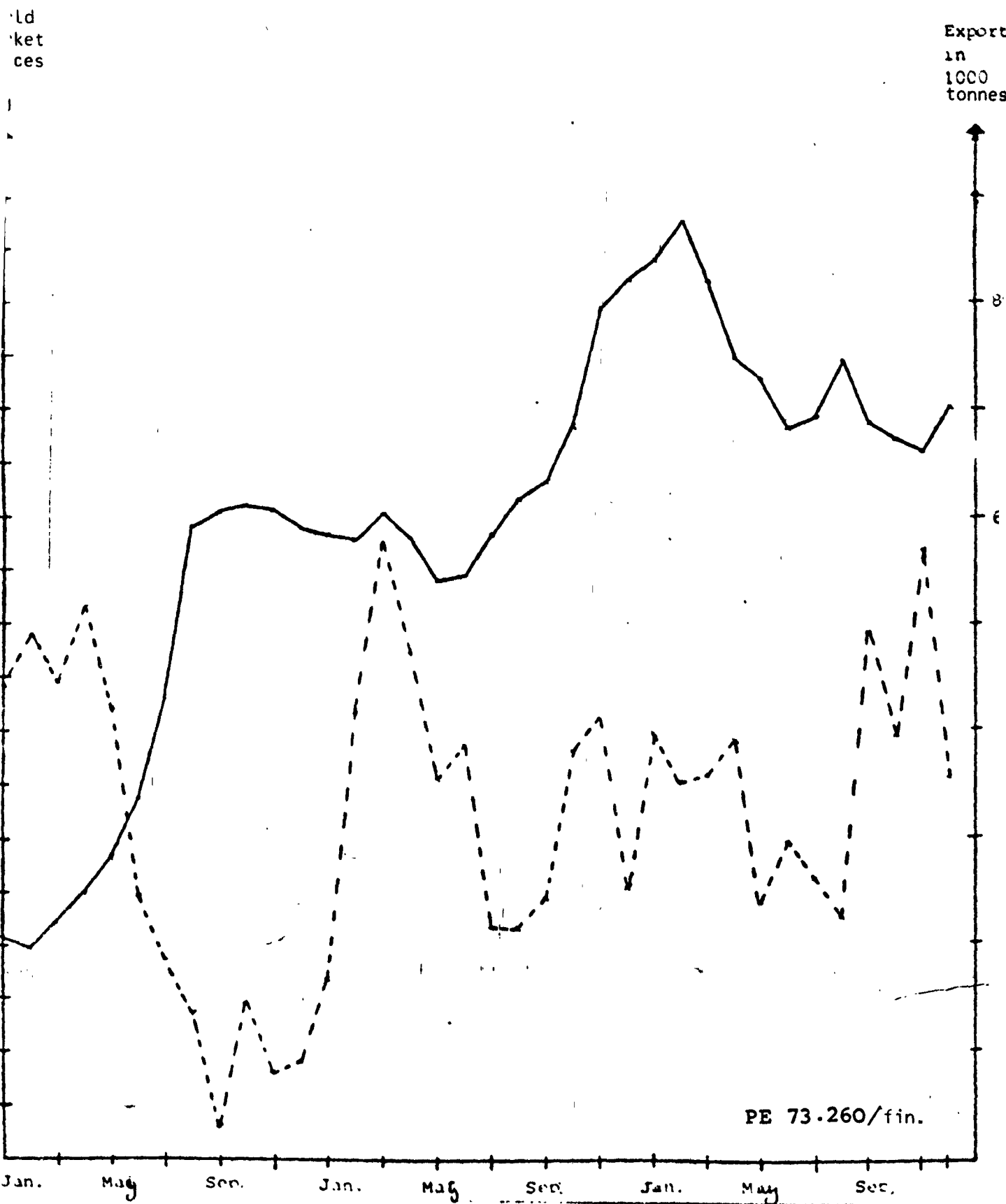




January 1979 to December 1981

(Source: Graph based on data provided by EC Commission)

— World market prices  
- - - Volume of exports



PE 73.260/fin.

ANNEX 5

Importance of fodder from third countries 1979

Area	Fodder from third countries		Area equivalent of fodder from third countries			
	including fodder cereals	excluding fodder cereals	including fodder cereals		excluding fodder cereals	
	Mill. t CE		Mill ha	% <sup>3</sup>	Mill. ha	% <sup>3</sup>
L	12,8	10,3	2,9	24	2,4	18
F	5,1	5,1	4,1	3	1,1	3
I	8,8	2,8	2,6	15	0,8	4
NL	13,1	10,8	2,4	119	2,0	97
B/L	4,6	2,9	1,0	60	0,6	38
UK	6,0	3,6	1,3	7	0,8	4
Irl	0,8	0,5	0,2	3	0,1	2
DK	3,1	2,8	0,7	25	0,7	24
Total :	54,2	38,7 <sup>4</sup>	.	.	.	.
of which intra-Community trade	9,5	4,4	.	.	.	.
Imports from third countries	44,7	34,3	10,6	11	8,1	9

<sup>1</sup>Fodder from third countries excluding fodder cereals is virtually identical to the import of substitutes.

<sup>2</sup>The amount of fodder from third countries divided by the respective national or Community yield per hectare for cereals gives the area that would (theoretically) be required to produce the amount of imported fodder within the Community.

<sup>3</sup>Area equivalent expressed as a % of the respective utilized agricultural area.

<sup>4</sup>Difference in total due to the rounding up of figures for each country.

Source: SOEC

Consumer price increases as a result of  
restrictions on imports of substitutes<sup>1</sup>

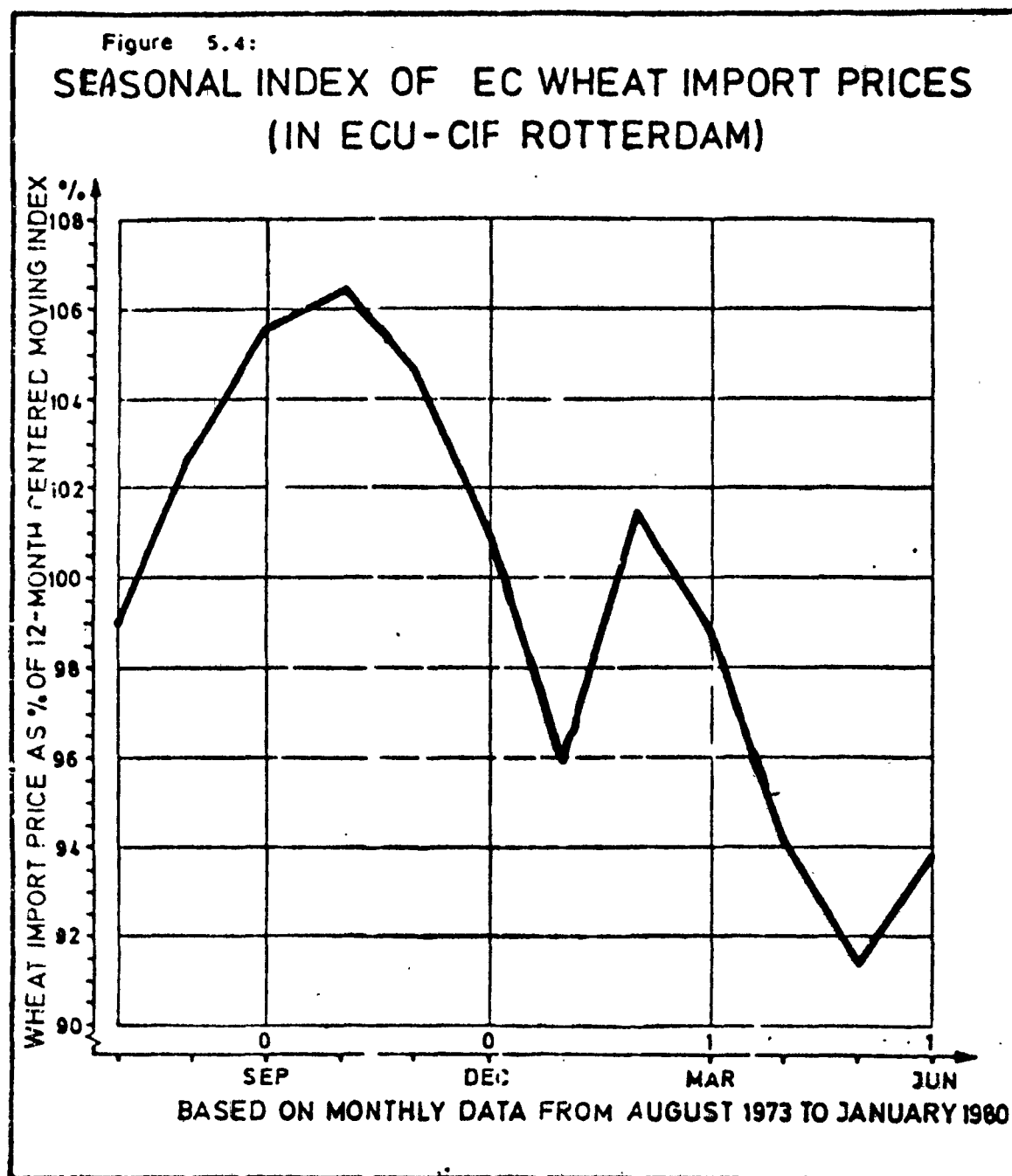
	Sales proceeds 1979/80 incl. VAT	Rise in costs <sup>2</sup>	'Required' sales proceeds	Increase compared with 1979/80	Incidence	Estimated increase in consumer prices
	DM m	DM m	DM m	%	%	%
Cattle	9 119	393	9 512	+ 4.3 )	46 <sup>3</sup>	+ 2.0
Pigs	11 005	656	11 661	+ 6.0 )		+ 2.8
Poultry	997	125	1 122	+ 12.5 )		+ 5.8
Eggs	2 186	135	2 321	+ 6.2	30	+ 5.0
Milk	14 100	591	14 691	+ 4.2	60	+ 2.5
Total	37 407	1 900	39 307	+ 5.1	52	+ 2.7 <sup>4</sup>
excluding milk	23 307	1 309	24 616	+ 5.6	48	+ 2.7

<sup>1</sup> With all the costs being passed on to the consumer, and constant production quantities and trade margins

<sup>2</sup> Calculated total cost increase of DM 1,900 M divided between the categories in accordance with consumption to feed concentrates

<sup>3</sup> Breakdown by type of meat not feasible

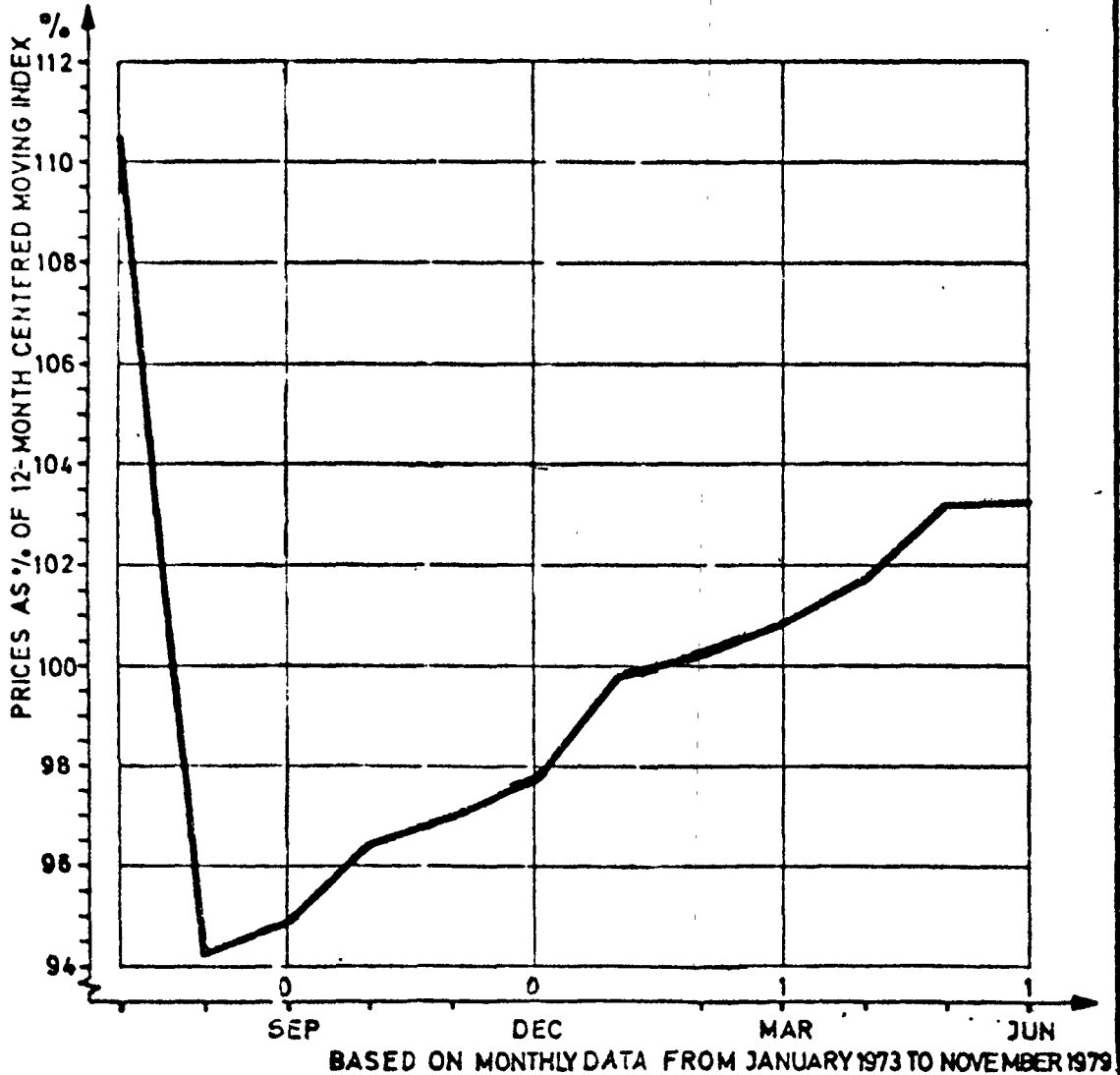
<sup>4</sup> Total for fodder alone + 1.2 %



Source : Koester, loc. cit.

Figure 5.5:

### SEASONAL INDEX OF GERMAN DOMESTIC WHOLESALE WHEAT PRICES



Source : Koester, loc. cit.

World Market Prices and EC-Prices for Grain

Year	World Market						Germany					
	Prices in \$ per m. t.			Price Ratios			Market Prices in DM per m. t.			Price Ratios		
	Wheat <sup>1)</sup> fob Gulf (Hard Winter) Ordinary	Barley <sup>2)</sup> fob Gulf	Maize <sup>3)</sup> cif Rotterdam	Wheat Barley	Wheat Maize	Barley Maize	Soft Wheat	Barley	Maize	Wheat Barley	Wheat Maize	Barley Maize
1968/69	63	54,2	53,8 <sup>4)</sup>	1,16	1,17	1,01	405,4	349,9	398,1	1,16	1,02	0,88
1969/70	53	55,4	61,5 <sup>4)</sup>	0,96	0,86	0,90	390,9	347,3	393,1	1,13	0,99	0,88
1970/71	60	54,5	66,0 <sup>4)</sup>	1,10	0,91	0,82	387,7	344,1	368,6	1,13	1,05	0,93
1971/72	60	54,7	54,0 <sup>4)</sup>	1,10	1,11	1,01	380,1	336,9	371,2	1,13	1,02	0,91
1972/73	91	63,8	73,4 <sup>4)</sup>	1,43	1,24	0,87	395,9	344,9	402,0	1,15	0,98	0,86
1973/74	177	113,5	112,4 <sup>4)</sup>	1,56	1,57	1,01	404,4	360,5	415,7	1,13	0,97	0,87
1974/75	164	142,6	117,4 <sup>4)</sup>	1,15	1,40	1,21	434,9	404,8	460,8	1,07	0,94	0,88
1975/76	152	155,7	113,6 <sup>4)</sup>	0,97	1,34	1,37	477,8	447,5	483,3	1,07	0,99	0,93
1976/77	113	124,1	106,2 <sup>4)</sup>	0,91	1,06	1,17	517,8	469,0	506,2	1,10	1,03	0,93
1977/78	116	108,9	108,7 <sup>5)</sup>	1,06	1,07	1,01	487,8	431,2	524,3	1,13	0,93	0,83
1978/79	141	108,8	122,5 <sup>5)</sup>	1,30	1,15	0,89	490,0	438,6	533,3	1,12	0,92	0,83
1979/80	174	126,5	141,1 <sup>6)</sup>	1,38	1,23	0,90	498,0 <sup>7)</sup>	449,4 <sup>7)</sup>	522,5 <sup>7)</sup>	1,11	0,95	0,86
1980/81	185	140,2	167,1 <sup>6)</sup>	1,32	1,11	0,84	513,8 <sup>7)</sup>	459,3 <sup>7)</sup>	558,5 <sup>7)</sup>	1,12	0,92	0,82

Source: 1) International Wheat Council, Review of the World Grain Situation, London, Several Reports: Ratio Bushel/Metricton calculated with 1 metricton = 36,7 bushel. 2) FAO, Trade Yearbook: Calculated Value/Quantity of Export; Data in Calendar Years. 3) Commission of the European Community, The Agricultural Situation in the Community, Several Reports. 4) Source for Exchange ratio EUR/\$ and ECU/\$: Statistical Office of the European Community, Yearbook of Agricultural Statistics, various Reports. 5) Original price in ECU: Calculated \$-Price with monthly average of exchange rates ECU 1977/78 and 1978/79: Monthly exchange rates from Statistical office of the European Community, Statistics of Foreign Trade, 1979 and 1980. 6) FAO, Monthly Bulletin of Statistics, Vol. 4, October 1981, US-Yellow Maize cif North Sea Ports. 7) Bundesministerium für Ernährung, Landwirtschaft und Forsten, Statistisches Jahrbuch über Ernährung, Landwirtschaft und Forsten, 1981.

Aus: Koester, a.a.O

EC-Export and -Import Prices for Wheat  
 Export-Prices fob Rouen Zone Va Import  
 Price cif Rotterdam<sup>1)</sup>  
 in US\$ /metr. ton

	Export Price	Import Price	<u>Import Price</u> <u>Export Price</u>
1972/73	106	100	0.94
1973/74	185	202	1.09
1974/75	168	204	1.21
1975/76	139	188	1.35
1976/77	n.a.	141	n.a.
1977/78	97	134	1.38
1978/79	127	158	1.24
1979/80	169	200	1.18

1) US-No. 2 Dark Northern Spring 141.

Source: International Wheat Council, World Wheat  
 Statistics 1981, London 1981.

Source : Koester, loc. cit.

OPINION

of the Committee on Development and Cooperation

Draftsman : Mr E. Kellett-Bowman

On 23 April 1981 the Committee on Development and Cooperation appointed Mr Kellett-Bowman draftsman.

It considered the draft opinion at its meeting of 20 October 1981 and adopted it with one abstention.

Present: Mr Poniatowski, chairman; Mr Denis, vice-chairman;  
Mr Kellett-Bowman, draftsman; Mr Cohen, Mr Enright, Mrs Focke, Mr Fuchs,  
Mr Irmer, Mr C. Jackson, Mr Pearce, Mrs Rabbethge and Mr Vergès.



## Introduction

Only one aspect of the topic at present under consideration, the budgetary costs of the common agricultural policy in the cereals sector, falls within the competence of the Committee on Development and Cooperation, namely, the use of cereals for food aid including emergency aid. This opinion will accordingly limit itself strictly to this topic.

## Food aid in cereals

By far the largest part, and consequently the most costly part of the Community's food aid programme is the granting of food aid in cereals. Several cereal products are involved, as can be seen from the following list, but the most important are common wheat and wheat flour. This list<sup>1</sup> covers the period 1.1.1977 to 30.9.1979.

<u>Commodity</u>	<u>Tonnes</u>
Common wheat	929,950
Durum wheat	35,800
Wheat flour	487,024
Rice	145,679
Sorghum	12,100
Maize	38,200
Maize meal	19,522
Rolled oats	19,686
Barley	15,543

The greatest part of Community food aid in cereals is acquired in the Community, though certain cereals can be purchased in non Member States, particularly those in the same part of the world as the recipient (three-way or triangular transactions). Greater use of this procedure is favoured by the Committee on Development and Cooperation and by the European Parliament<sup>2</sup>.

The budgetary effects of food aid in cereals can be seen in

- Title 9, article 920 (food aid in cereals);
- Title 6, items 6001 and 6002 (refunds on cereals in connection with Community food aid), and items 6101 and 6102 (refunds on rice in connection with Community food aid).

The following table gives the figures for food aid and refunds on cereals as voted in the annual budgets of the European Communities.

<sup>1</sup>Source: Court of Auditors Special Report on Community Food Aid, 30.10.1980

<sup>2</sup>See para. 34, Ferrero Report on Hunger in the World, Doc. 1-341/80, OJ No. C265 of 13.10.1980, page 37.

Item	Heading	mEUA						
		1975	1976	1977	1978	1979	1980	1981
9200	Prior programmes for cereals other* than rice (food aid) (1980,1981)	25	p.m.	5	p.m.	4.818	4.997	p.m.
9201	Programme for the year for cereals* other than rice(food aid)(1980,1981)	91.3	97.27	82.2	88.8	96.117	81.282	103.781
9202	Prior rice programme* (1980,1981)						149	p.m.
9203	Rice programme for the year* (1980,1981)						29.78	30.88
6001	Refunds on cereals in connection with Community food aid for the current financial year	6.232	33.86	37.38	96.9	46.6	22.043	40.18
6002	Refunds on cereals in connection with Community food aid under previous programmes	p.m.	p.m.	p.m.	p.m.	3.1	1.355	p.m.
6101	Refunds on rice in connection with Community food aid for the current year	3.2	1.19	3.2	3.3	7.2	18.9	17.64
6102	Refunds on rice in connection with Community food aid under previous programmes	p.m.	p.m.	p.m.	p.m.	0.5	0.095	p.m.
	TOTAL	125.732	133.02	127.78	189.0	158.335	307.452	112.121

\* NB For years prior to 1980, rice and other cereals were accounted for together under Item 9200 - prior programmes, and 9201 - programme for the year.

In addition, it should be noted that a high proportion of emergency food aid takes the form of food aid in cereals. In 1980, for example, 59,500 tonnes of cereals other than rice and 35,000 tonnes of rice (making an overall total of 94,500 tonnes of cereals) was granted as emergency food aid by the Community.

The figures quoted on page 56 for food aid in cereals appear considerable, but it should be noted that total appropriations entered in the budget under titles 6 and 7 (EAGGF Guarantee Section) amounted to 12,675,000,000 EUA in 1981, 11,485,510,000 EUA in 1980 and 10,417,518,729 EUA in 1979.

The general principles behind food aid have been dealt with on several occasions by the Committee on Development and Cooperation notably, in the:

- Report by Sir Fred Warner on the proposal for regulations concerning food aid in 1981 (Doc. 1-178/81) adopted by the European Parliament on 8.5.1981
- Report by Mr Michel on the proposals for regulations concerning food aid in 1980 (Doc. 1-105/80) (OJ No C117 of 12.5.80, page 71)
- Report by Mr Lezzi on the proposals for
  - (i) a regulation on the management of food and
  - (ii) a regulation amending regulation EEC Nos 2052/69, 1703/72 and 2681/74on Community financing of expenditures incurred in respect of the supply of agricultural products as food aid, and repealing decisions 72/335/EEC (Doc. 669/78) (OJ No. C93 of 9.4.79, page 75)
- Report by Mr Aigner on the communications from the Commission of the European Communities to the Council concerning the 1978 programmes for food aid, and the nutritional and developmental perspectives for dairy products in the Third World (Doc. 492/77) (OJ No. C36 of 13.2.78, page 54) and particularly in
- Mr Ferrero's report on the European Community's contribution to the campaign against hunger in the world (Doc. 1-341/80) (OJ No. C265 on 13.10.1980, page 37)

Two points in particular stand out in the reports cited above. Firstly it is the committee's view that food aid should be increasingly independent of Community agricultural surpluses, its volume being determined by the requirements of the hungry throughout the world who could not be fed otherwise.

The second point concerns the budgetary classification of food aid. The Council has repeatedly taken the view that food aid in cereals, which has been supplied within the framework of the 1971 food aid convention and its successor, should be classified as compulsory expenditure. The Committee on Development and Cooperation, and the European Parliament

in several reports, including those by Mr Lezzi<sup>1</sup> and Mr Michel<sup>2</sup>, have taken the view that this expenditure should be non-compulsory as it in no way could be claimed to result from the treaties instituting the European Communities. The budgetary powers of the European Parliament are at stake here, and this is a matter of such importance that no suitable occasion should be missed to reiterate the Parliament's demand in this regard.

Further comments with regard to food aid in cereals:

The Community's food aid policy has come under serious criticism. Irregularities have occurred, sub-standard grain has been sent abroad<sup>3</sup> and considerable delays frequently occur. It should be noted, however, that the staff of the Commission service dealing with food aid is quite inadequate. Your draftsman wonders if the unreasonably small staff complement allocated to this service should be taken as an indication of the seriousness of the Community's commitment to food aid and the relief of hunger in the third world.

Your draftsman would like to make a positive suggestion which, he feels, could go a long way towards increasing the efficiency of Community food aid. Community owned and administered warehouses, in which stocks of cereals available for aid purposes could be stored, should be maintained in different parts of the world. Much of the grain in these stores could be purchased locally, and it should be stressed that food aid must not be regarded as merely a means of disposing of Community agricultural surpluses. Ideally, these contingency stores should be placed in third countries which would not object to their contents being sent to any other State in the region for which the food is intended. The Commission should be empowered to take decisions regarding the granting of food aid without the need to seek prior Council authorisation.

Conclusions

The topic under consideration is one which comes largely outside the scope of the Committee on Development and Cooperation, apart from the importance of food aid as a utiliser of Community produced cereals. The Committee on Development and Cooperation takes the view that food aid should not be organized according to the volume of surplus cereals available, but rather as a consequence of the needs of the populations of areas suffering from serious food shortages. In addition, it is the view of this Committee that every effort should be made to have expenditure on food aid in the cereals sector classified as non-compulsory in future Community budgets.

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<sup>1</sup>Doc. 669/79, OJ No C93 of 9.4.79, p.75

<sup>2</sup>Doc. 1-105/80, OJ No C117 of 12.5.80, p.71

<sup>3</sup>These irregularities concern some 5% of the food aid provided by the Community