

THE EEC SHEEPMEAT REGIME:

ONE YEAR ON

N. BLYTH

Discussion Paper No. 59

Agricultural Economics Research Unit

Lincoln College

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THE AGRICULTURAL ECONOMICS RESEARCH UNIT
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PREFACE

The recently introduced EEC sheepmeat regime is of utmost significance to N.Z. sheepmeat exports and, as such, an important factor affecting the future of the N.Z. economy. The regime has been in operation now for just over one year. This paper reviews the first year's operation of the regime and discusses the future prospects and implications from a N.Z. perspective.

The paper should be viewed as a sequel to a previous paper on the EEC sheepmeat regime by Ms Blyth (published as AERU Discussion Paper No. 51).

P.D. Chudleigh,
Director.

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SUMMARY

The EEC Sheepmeat Regime was introduced in October 1980, in order to establish a common market in sheepmeats within the Community.

During the first year (1980/81) higher support prices led to increased supply in the U.K. whilst the imposition of a Clawback tax and the strength of the £ sterling reduced exports from Britain. The British market was somewhat depressed for these and other reasons.

Imports into the EEC from N.Z. were also considerably lower than the Voluntary Restraint Agreement (VRA) allows for, though returns from trade were higher, due to the reduction in the import tariff.

Assessment of the Regime indicates that it is progressing satisfactorily, but at some high and increasing expense to the EEC (FEOGA) fund.

The outlook to 1984/5 is for increased supply in most EEC countries, with a further small decline in consumption in the U.K. Intra-EEC trade will increase, but third-country imports are likely to fall. There is some uncertainty surrounding these projections, especially on price movements, because of possible changes in the Regime and in the usual market forces.

The EEC is likely therefore to remain a major but declining market for N.Z. unless efforts are made to fulfill the voluntary quota by expanding the continental market to offset the forecast decline in exports to the U.K.

1. INTRODUCTION

The EEC Sheepmeat Regime was introduced in October 1980 in order to establish a common market in sheepmeats within the Community (See Blyth, 1980 for a full description of the Regime).

The Regime has been in effect for twelve months and this paper describes the events during that period, and the implications for the future.

A review of events in the EEC market during 1980/81 provides a useful background for assessing the progress of the regime. The effects on production, consumption, trade and prices are outlined and modifications or points of clarification since the introduction of the regime are detailed.

An assessment is made of the extent to which the regime is achieving its objectives and the costs and benefits incurred in doing so.

Possible adjustments to the Regime which could be made in the 1984/85 discussions are considered against projections of the state of the market in the coming three years. From this, conclusions are drawn about the market in general with particular implications for N.Z. exporters being examined.

2. REVIEW OF THE REGIME

The objectives of the EEC Sheepmeat Regime were to harmonise Community sheepmeat prices and to have a single, free internal market in sheepmeat by 1984/85. This conforms with many other commodities as is provided for in the Treaty of Rome, 1968.

The methods of achieving the objectives are through the use of one of two alternative price support schemes (using intervention buying or deficiency payments); and income supports and restrictions on third country imports (with both quantitative and tariff measures). During the transition period there will be restrictions on intra-EEC trade (Clawback Tax) to prevent excessive U.K. exports to France. Details of the mechanisms of the Regime can be found elsewhere (Blyth, 1980; MLC, 1981; Volans, 1981).

In comparison with other common policies in the EEC, the Regime is only moderately interventionist or protectionist. So far, consumer prices, especially in the U.K., have not been inflated by the Regime. Imports are allowed in on a relatively generous scale, and tariff protection is only 10% (compared to an average nominal rate of 56% and an effective rate of 158% for key agricultural products - cereals, meats, fruits and vegetables, calculated by Sampson and Yeats (1977)). As yet no restitutions have been paid on exports and no Intervention purchasing or Private Storage has

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taken place. Since October 1980 minor modifications to the arrangements have been made.

One of these resulted from the enlargement of the EEC to include Greece in January 1981 (see MLC (1978) for the implications for the Community's sheepmeat market). This effectively expanded EEC sheep and goat numbers by 25% to 62½ million head and consumption by 16% to 936 kilo tonnes (Kt). Following accession, a Reference Price was established for Greece at the same level as the French Reference Price, and the VRA's became applicable to the Greek market. A second modification was made as a concession to U.K. exporters through the removal of the Clawback tax on exports to non-EEC countries.

At the EEC Commission's annual price review* new levels were set for the Reference Prices for each country, with an average increase of 7.5%. Individual Reference Prices were adjusted to allow for convergence towards the common level planned for 1984/85. Thus the increase in the U.K.'s Reference Price was 12.3% while the increase for Italy was only 5.3%. The French and Greek prices, set at the same level as the Basic Price, were increased by 7.5% (see Table 1).

* It should be noted that the Basic Price (and the Reference Prices during the transition period) are set by the Commission as part of a general EEC package. Any changes depend on the overall support price changes negotiated. Specific sheepmeat prices are determined as some proportion of the overall change, according to the performance and problems of the industry throughout the year and the outlook for the forthcoming season.

TABLE 1

EEC Regional Reference Prices

Country	1980/81	1981/82	% Change
Italy	375.00	395.06	5.3
France) Greece)	345.00	370.88	7.5
West Germany) Denmark) Benelux)	315.00	346.69	10.0
Ireland	310.00	342.66	10.5
U.K.	293.00	328.00	12.3

SOURCE: Agra Europe, No. 923

Annual Premia are paid to producers when average returns from the market and from Variable Premia fall below the Reference Price. They are paid on a ewe headage base, not in p/kg, and will form an increasing proportion of payments to farmers as Reference Prices rise (see Figure 4. Volans, 1981, gives details of how payments to producers are calculated). Contrary to what was thought when the Regime was first introduced in October 1980, U.K. producers are not only technically eligible for these annual ewe premiums, but were actually paid the premium during 1980/81. For countries which had

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not signed VRA's by October 1980, special arrangements had to be made at a later stage. Concessions on customs duties were allowed on certain quantities during the year and VRA's have now been negotiated (at the levels shown in Table 2) with most importers.

TABLE 2

Voluntarily Agreed Quotas for Sheepmeat

Imports into the EEC

=====

Country	1980/81 Volume (tonnes)* (Carcase Meat Equivalent)
New Zealand	245,500
Australia	17,500
Argentina	23,000
Eastern Europe	26,800
Uruguay	5,800
Chile	500
Spain	500
Others	1,200
Total:	<u>320,800</u>

=====

* Includes allowances for live animals in carcase meat equivalents.

SOURCE: Agra Europe, No. 936.

3. THE EEC MARKET DURING 1980/81

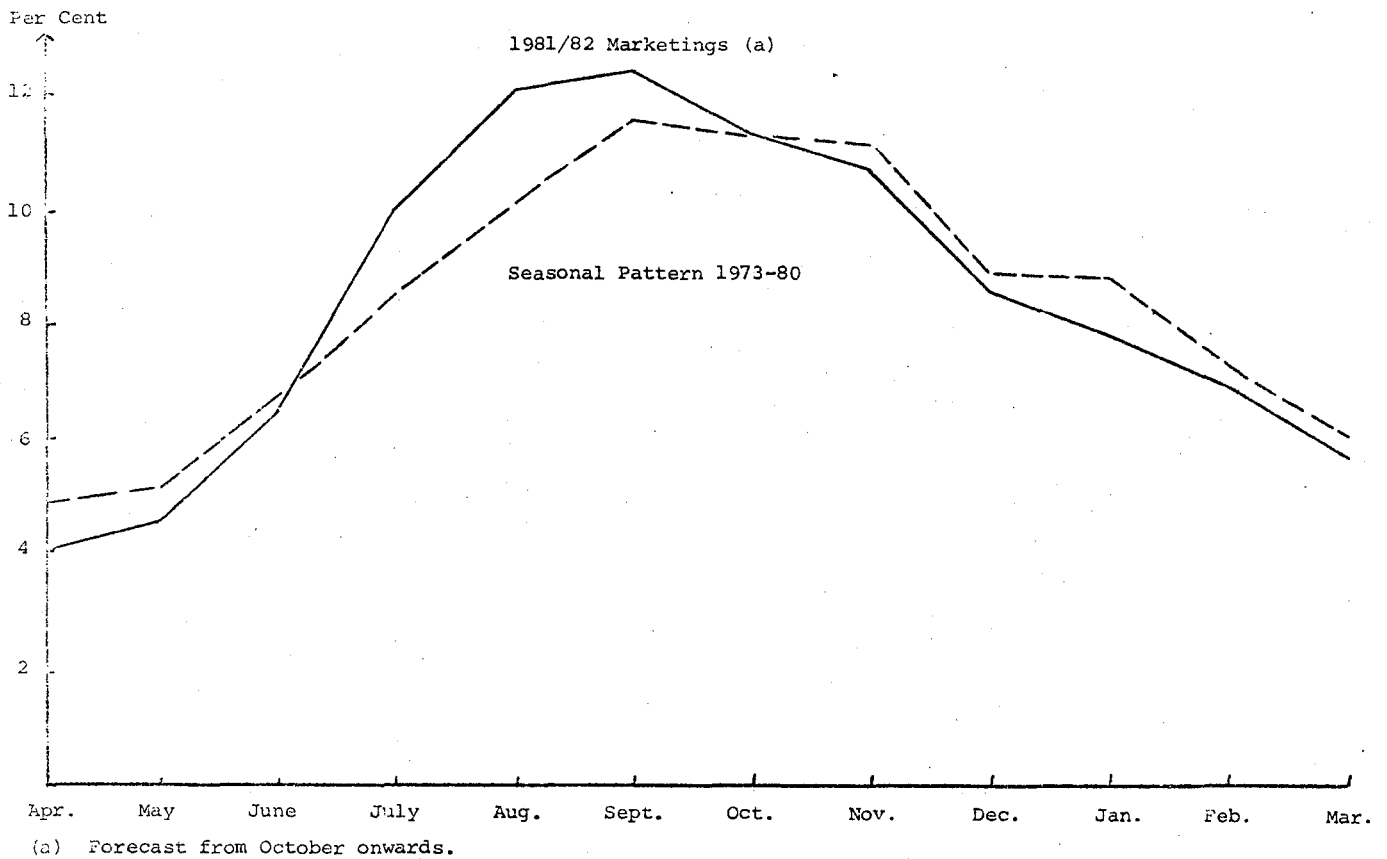
3.1 Production

As a result of the rise of 16% in support prices in the U.K. provided for by the new Sheepmeat Regime, lambs were held off the market until after the introduction of the Regime (in October 1980) after which slaughter immediately increased by some 50%.

The sudden increase in domestic lamb supply resulted in a price collapse, and as a consequence, high variable premium payments were required in the first few weeks of the Regime until the market adjusted. The fall in U.K. lamb prices also had a depressing effect on prices for N.Z. lamb which was compounded by the uncertainty regarding U.K. lamb exports under the Clawback provisions and the strong value of the £ sterling against Continental currencies. Furthermore, the pattern of the weekly guaranteed prices provided farmers with the incentive to market animals as early as possible, shifting the strong traditional seasonality of supply as Figure 1 shows. Changes in the grading system for overfat lambs also encourages earlier sales as overfat lambs do not qualify for variable premiums (Cherrington, 1981). Overall mutton and lamb production in the U.K. increased substantially between 1979 and 1980 (Table 3).

Figure 1

Comparison of the Distribution of Marketings in 1981/82
With the Previous Normal Seasonal Pattern in the U.K.



SOURCE: MLC, 1981.

This was partly due to the unusual marketing pattern in 1980, but also because of increased lambing rates. In 1981 U.K. production is forecast at 265 Kt, a sizeable decline compared with 1980 and results mainly from reduced lamb carcass weights and flock rebuilding (MLC, 1981). Production rose slightly in 1980 in all other EEC countries except Greece, giving an overall increase of 10.5%, or 68.4 Kt as Table 3 shows.

TABLE 3
EEC Production of Sheepmeat (Kt)

Country	1979	1980	1981*
Benelux	24.4	28.9	29.4
Denmark	0.8	0.8	0.8
West Germany	18.1	19.5	22.1
Greece	123.0	119.8	122.8
France	159.5	175.0	182.0
Ireland	35.0	39.1	39.0
Italy	51.0	55.0	58.0
U.K.	239.0	281.1	265.0
EEC (10)	650.8	719.2	719.1

* Forecast.

SOURCE: EUROSTAT.

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3.2 Consumption

As Table 4 indicates, overall consumption in the EEC (10) rose only 32.8 Kt, or 8.2% between 1979 and 1980, considerably less than the increase in production. In 1981, estimated consumption fell 3% as a result of the decline in the British market. Consumption in France and Italy rose 4.1% and 8.4% respectively, whilst consumption in the rest of the EEC remained stable.

TABLE 4

EEC Consumption of Sheepmeat (Kt)

Country	1979	1980	1981*
Benelux	28.4	29.5	30.0
Denmark	3.0	3.6	3.6
West Germany	53.0	53.0	52.1
Greece	135.0	124.2	126.4
France	208.0	219.0	228.0
Ireland	26.0	25.0	25.0
Italy	84.0	83.0	90.0
U.K.	401.0	433.8	387.0
EEC (10)	938.4	971.1	942.1

* Forecast.

SOURCE: EUROSTAT.

One advantage of the Regime for the British housewife is that consumer prices are allowed to find their own level and are not underpinned by Intervention buying which would effectively raise market prices to 85% of the Basic Price (a rise of 30% over 1981 consumer prices). Average retail prices in the U.K. therefore increased only by about 7% though this is slightly more than the general rise in all meat prices. Total sheepmeat consumption in 1981 is forecast to be 387 Kt and 11% below 1980 (which in any case was considered to be at an inflated level (MLC, 1981)) but is not far below the quantity consumed in 1979. This follows the general downward trend in U.K. mutton and lamb consumption since the mid-1960's resulting from relative price movements, stagnation of real disposable incomes and changing taste and demand patterns (Sheppard, 1980).

3.3 Trade

3.3.1 EEC Exports*

Exports were at reduced levels in the first 12 months of the Regime. This was due partly to the operation of the Clawback tax, whereby any Variable Premium payments are removed from U.K. exports

* This section draws on a paper presented by Dr R. Bansback; MLC, 1981.

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to other EEC countries and partly to the strength of £ sterling in comparison to other European currencies.

Table 5 shows that U.K. exports in 1981 (September year) were estimated to have amounted to only 32 Kt, the lowest level for several years.

TABLE 5
U.K. Exports of Sheepmeat

	1977/78	1978/79	1979/80	1980/81*
	(October/September: Kt)			
Total Exports	44.6	39.1	38.1	32.0
of which to:				
France	15.4	4.5	1.3	14.0
Belgium	12.9	14.0	14.8	6.0
West Germany	11.1	12.6	14.9	6.0
Other EEC and non-EEC Countries	5.2	8.0	7.1	6.0

* Forecast.

SOURCE: MLC.

Moreover, there has been a significant change in the initial destination of U.K. exports; there was a notable increase in direct exports to France, chiefly because the Clawback tax amounts have generally been much less than the variable levy which used to be

applied to French imports from the U.K. (Previously, because of the variable levy, exports to France were directed through other EEC countries). The Clawback tax has severely affected U.K. exports to Belgium and West Germany, as the tax is now applied to those exports and there is no incentive for indirect trade with France. Exports to non-EEC countries fell slightly to 6 Kt despite the exemption from the Clawback payments for such sales.

3.3.2 Imports into the EEC

Quantities imported into the EEC have been much below the levels negotiated under the VRA. This is mainly the result of N.Z. lamb imports into the U.K. being substantially lower than in the previous year. The Regime appears to have had comparatively little to do with the situation; rather, it was the result of the British seamen's strike in early 1981 and the favourable alternatives for selling to Middle Eastern countries. Major exporters were in a similar position regarding the diversion of trade and the VRA countries were generally well within the quota limits.

Table 6 shows N.Z. trade with the EEC in comparison to its VRA quota.

TABLE 6

N.Z. Exports to EEC Countries (tonnes)

Country	1979/80	1980/81
Belgium/Luxembourg	1,762	1,850
Denmark	1,297	1,008
France	285	2,308
Greece	4,664	10,497
West Germany	4,722	6,112
Italy	3,109	4,162
Netherlands	2,137	2,744
U.K.	184,329	186,287
Total:	194,641	186,287
VRA Allowance:		245,500

SOURCE: NZMPB.

There have been a number of positive developments in markets other than the U.K. as a result of the regulation. The most significant of these was the recovery in trade with France as improved access was negotiated under the VRA. Trade with West Germany also improved as a result of changes in NZMPB policy. The recovery in exports to Greece was the result of market forces and, as approval of pro-forma invoices

is no longer required by the Greeks, some of the rigidities have been eliminated from the system. Despite the growing demand for B grade lambs by the Italians, the market overall in Italy remains considerably down on previous levels.

The expansion in trade with continental EEC countries has partly offset the long term decline in the British market.

3.4 Prices

Market prices in the ten regions of the EEC have always varied widely (Kelly, 1978; NZMPB, 1978) and although the sheepmeat Regime was intended to harmonise the market, it can be seen (Fig. 2) that the variation is still considerable.*

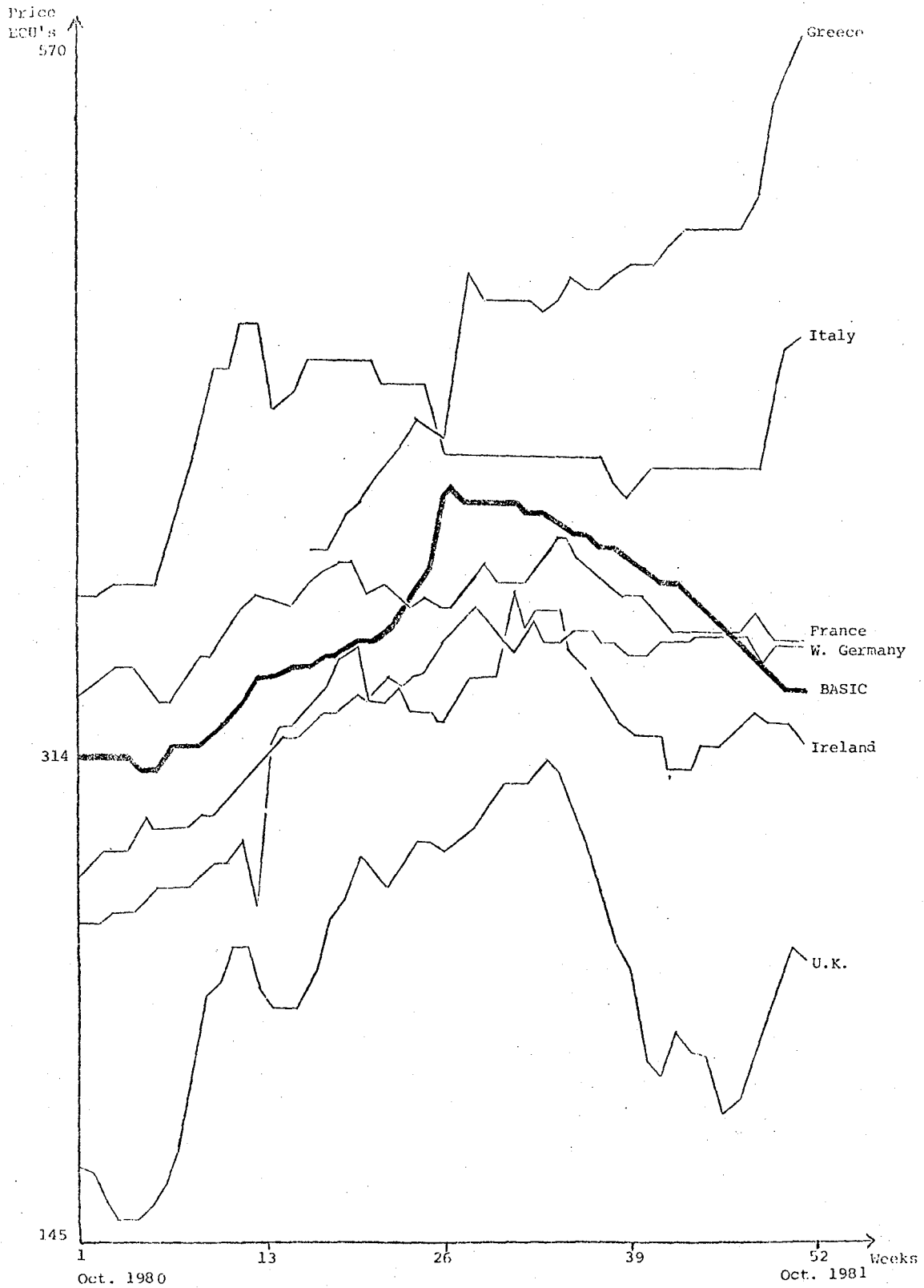
For reasons given earlier, prices in the U.K. were particularly weak in 1980/81 at around 60p/lb or about 60% of the Basic Price.

* There may be some distortion in the market price comparison, due to disparity in regional classification standards (Agra Europe, No. 934).

Figure 2

Weekly Market Prices In Relation to the Basic Price

(October 1980 - October 1981)



4. ONE YEAR ON: AN ASSESSMENT OF THE REGIME

4.1 The Internal Effects of the Regime

A fundamental question in a discussion of the EEC Sheepmeat Regime is whether or not it is achieving its objectives and at what cost to the EEC and other countries.

- The cost to FEOGA* of supporting sheep farmers, in 1980, was estimated to be 53.5 million ECU (or 0.47% of the EEC Guarantee expenditure). The cost in 1981 is estimated to be nearly five times higher at 264m ECU and take 1.6% of expenditure. In addition to this (due to the reduction in the import tariff in the same period) the EEC sustained a loss of some 63 million ECU.
- Inherent in the system is an inbuilt cost explosion; a conservative estimate is that the cost of support, from increased production, higher producer prices and lower market prices, will be many times higher by 1983/84. So despite the recent talk of cutting EEC expenditure, the sheepmeat regime reinforces the problems.

* European Guarantee and Guidance Fund

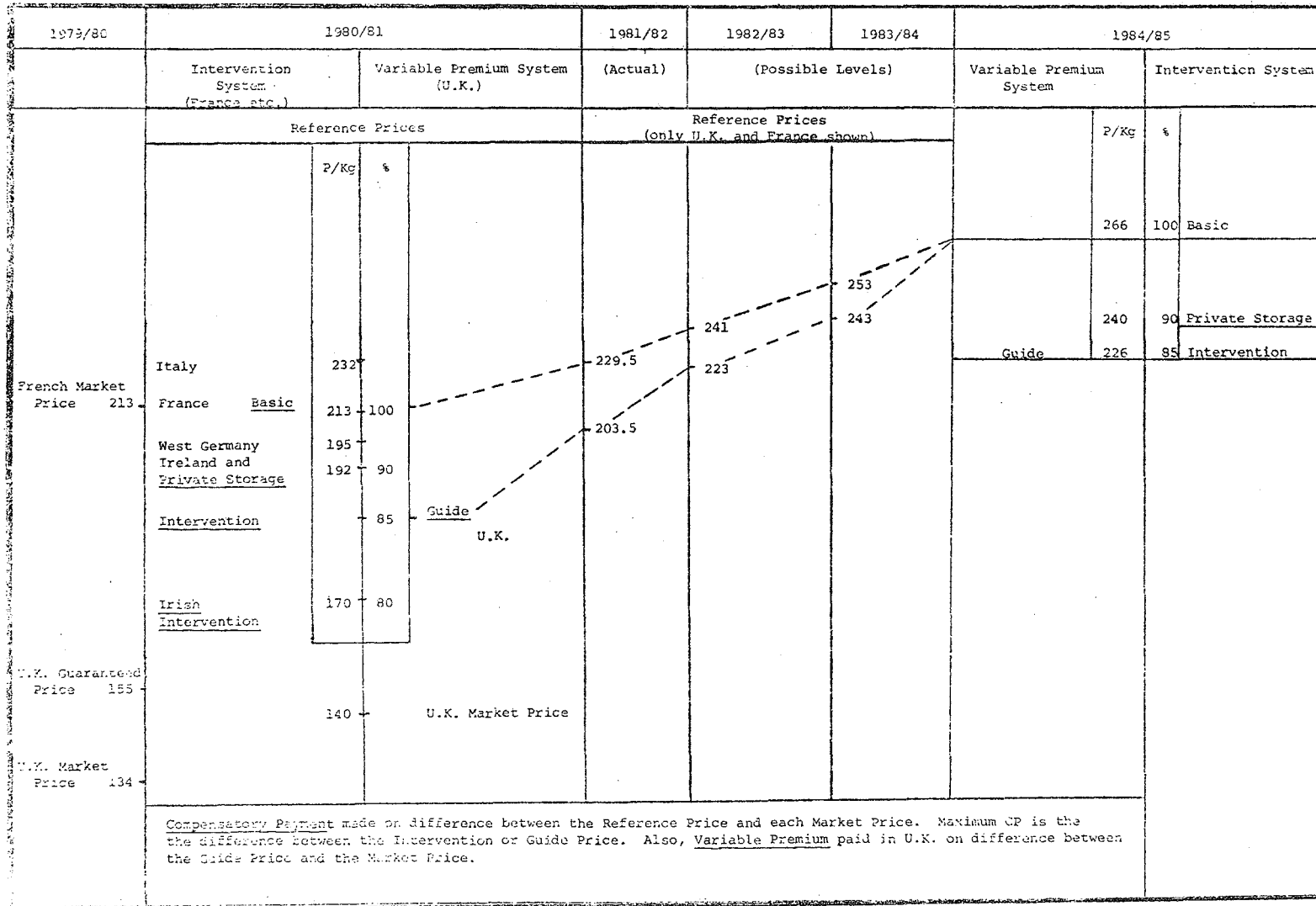
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- EEC production has been rising over the past two decades, whilst consumption has been falling. This has brought the Community's self-sufficiency up from 58% in the 1960's to 66% in 1979/80 and 75% in 1980/81. The VRA's assure traditional suppliers access for 320,800 tonnes of sheepmeat (compared with 250,000 tonnes imported in 1979), which in effect allows for an availability rate of 109%, or a structural surplus of 41,000 tonnes.
- The actual effect on the market in terms of prices and quantities sold was outlined earlier, but despite the higher producer prices noted, there appears to have been little move towards the convergence of national market prices. Figure 2 showed the variation in market prices over the first 52 weeks of the Regime, in relation to the Basic Price. Whereas the Italian Reference price has been around 28% higher than the U.K. Reference price, the Italian market price was 91% higher, and the Greek market price was 138% higher than the U.K. market price.
- It is often assumed that the Reference prices would be aligned at the French level, as Figure 3 shows*, but it is unlikely that Italy and

* An explanation of Figure 3 is given in AERU Discussion Paper No. 51.

Figure 3

'Time Chart' of the EEC Sheepmeat Regime (Nominal P/Kg)



Greece would accept the necessary reduction in their price levels, however "Communautaire" it might seem. Even higher support prices are therefore likely (though it already seems incredible to many New Zealand farmers that a British producer can get the equivalent of around \$72 for a lamb whereas he would get around \$15 for that in New Zealand!).

- One further area of disruption in the market, mentioned above, has been the Clawback tax imposed on U.K. exports. This, and the strengthening of the U.K. pound during 1980 have made British lamb uncompetitive on European markets, since no MCA's are payable on sheepmeats to compensate for currency changes. It was calculated that if MCA's were applied, at the rate of 10% in the U.K. they would effectively act as a subsidy on U.K. exports to the tune of around £189/tonne (\$NZ425), increasing British exports and reducing pressure in that market. However, the MCA would also act as a tax on imports by a similar amount which would remove any advantage that importers had gained through the reduction in tariff rate.

Against these "costs", so-called "benefits" to the Community have occurred in terms of progress towards achievement of their objectives. Self-sufficiency rose from 69% in 1979/80 to over 75% in 1980/81, whilst prices to consumers showed no great change. Farm incomes were well supported and no Intervention purchases nor Private Storage Aids were necessary. No restitutions were made on exports.

On the internal side, the Regime appears to have been generally satisfactory if somewhat costly to the tax-payer. It has also managed to "preserve diversity in unity", permitting each country to pursue its own objectives according to the structure of its sheep industry.

4.2 The External Effects of the Regime

The outline of events and trade above, indicates that the first 12 months of the Regime have been generally satisfactory for importers into the EEC. Many of the fears which traders had about a common policy for sheepmeat were allayed by the negotiation of the favourable VRA's; prophesised problems (e.g. subsidised exports, artificially high U.K. market prices) have largely failed to materialise so far.

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The reduction in the Ad Valorem tariff to 10% has increased returns to N.Z. producers by some 20¢ per kilogram, or NZ\$2.89 per carcass. Moreover, importers were guaranteed access for a large part of their trade and, though they failed to fill that quota, sales in Continental EEC countries were expanded. The EEC also provided a stable base in times of uncertainty in other world markets.

Any ill-effects of the EEC market (the weak U.K. price and market for imports) caused by the Regime have not had a serious impact on N.Z. exports due to the fortuitous increase in demand in the Middle East for N.Z. lamb. So, without directly harming third country suppliers, the Community has introduced a common policy and protected its domestic producers from the vagaries of world trade.

5. THE OUTLOOK FOR THE MARKET

There is clearly much uncertainty regarding the future EEC sheepmeat situation and forecasts can only indicate possible directions.

Factors affecting the market to 1984/85 can be divided into two segments: (i) the normal market forces affecting supply and demand, and (ii) the effects of the Regime which influence the market. Any changes made in the Regime after 1984/85 (or in the level of Reference Prices set between now and then) will obviously have different effects on the situation and will be dealt with in a later section. Here, the factors affecting the market up to that date are dealt with, and some tentative projections given.

5.1 Market Forces Affecting Sheepmeat Supply and Demand

On the supply side, the main factors affecting breeding ewe numbers and supply to 1985 will be future margins for sheep producers, future margins for competing enterprises and alternative uses of the land, and attitudes of producers towards the viability of production up to and beyond 1985. The climatic situation and trends in average carcase weights will also affect lambing rates and the amount of meat produced.

Although there has been some increase in EEC production in 1980/81, it is likely that the full effects of the increased support prices are yet to appear and that production will therefore increase more rapidly in the next few seasons. Not only are producer prices now much higher, but the Regime has put an important psychological "bottom" in the market which is always an encouragement to farmers to produce more.

On the demand side, the main factors affecting consumption will be trends in the price of lamb relative to those for other meats; movements in disposable incomes; underlying demand factors; advertising, and availability of lamb.

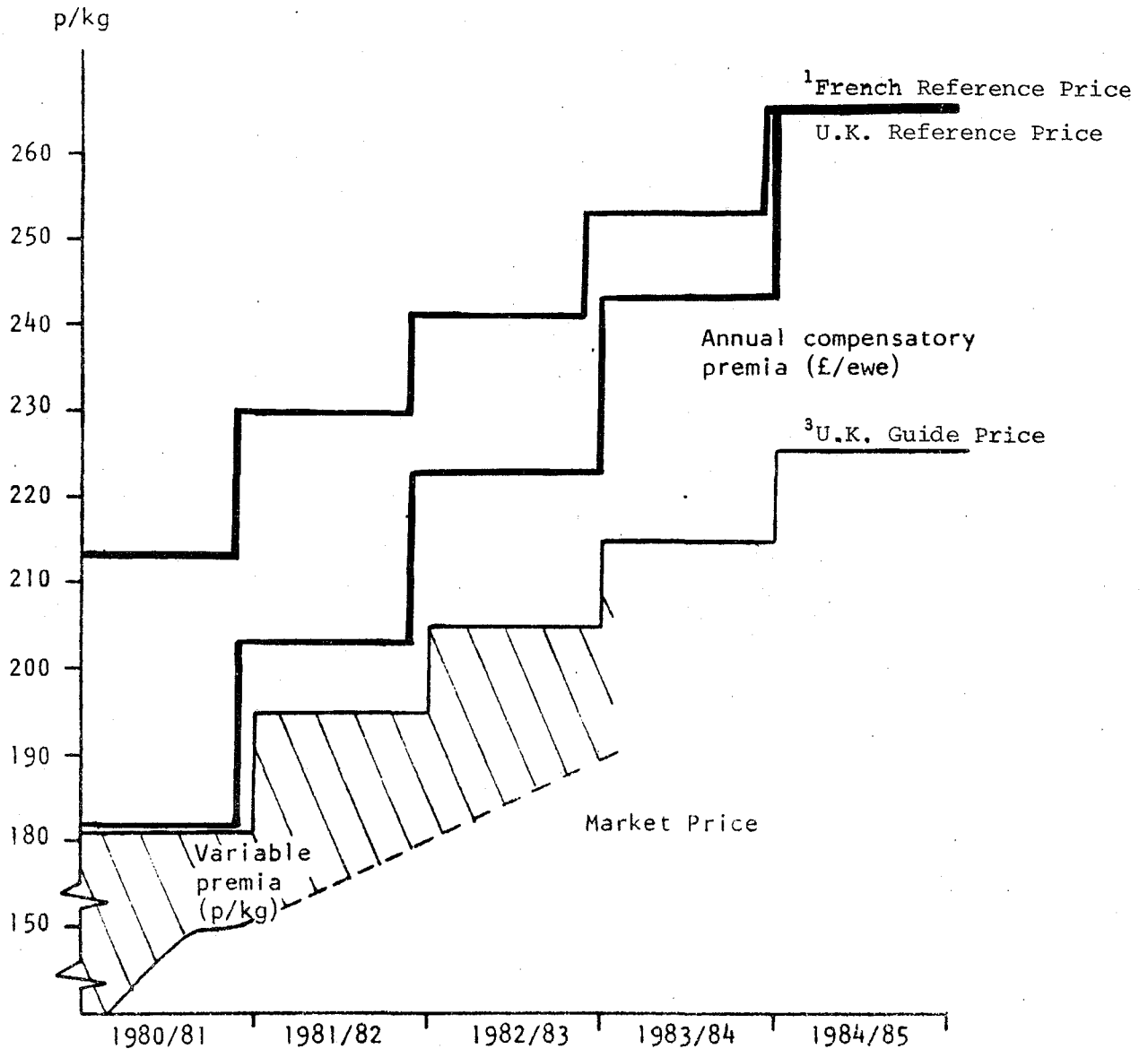
It seems highly probable that lamb prices will tend to increase relative to prices for other meats, particularly pork and poultry. In France and other EEC countries, substitution will not be as strong as in the U.K. since lamb is regarded more as a quality meat with a high income elasticity of demand. Increases in incomes are, however, likely to be minimal, following the recession and stagnation in European economies. Other factors affecting lamb demand will be changes in taste and consumption patterns, the age distribution of the population, the image created by promotion, and sheepmeat use in

manufacturing and catering (Baron, 1979; Brabyn, 1978). The consumption levels resulting from these market forces are outlined in Section 5.3 below.

5.2 The Effect of the Regime on Future Trends

Turning now to the Regime and some of the mechanisms which can be expected to play a role in affecting the market, the most obvious is the effect of increasing nominal support prices. Not only will the U.K. Reference Price increase, but all other countries' Reference Prices are likely to increase (see Figure 2) to remain constant in real terms. Full alignment should be achieved by 1984/85. Over the period, however, the Clawback tax will have a diminishing adverse effect on U.K. exports as the gap between the U.K. and the French Reference prices narrows. Assuming that alignment will continue to be towards the French Reference Price, which is currently equal to the Basic Price, the trend in U.K. support prices will be as portrayed in Figure 4. This figure indicates the growing significance of Annual Premia payments during the transition period as alignment takes place and the diminishing importance of the Variable Premia. Nevertheless, the French market will not necessarily be any more attractive to British exporters, unless the French market price rises above the U.K. Reference Price (plus transport costs).

Figure 4

EEC Sheepmeat Regime - U.K. Producers' Returns²

¹ The French Reference Price is currently equal to the EEC Basic Price.

² Assumes a 5 per cent increase in the French Reference Price (Basic Price), and annual increases of 5 per cent in the U.K. Guide Price, for each marketing year 1982/83, 1983/84, 1984/85.

³ The U.K. Guide Price is equal to the Intervention Price, and 85 per cent of the Basic Price.

SOURCE: Volans, 1981.

Exchange rates will continue to play an important role in the profitability of trade if MCA's are not applied. Whilst it is difficult to predict £ sterling movements, it seems unlikely that there will be any further significant depreciation against the French franc and the Italian lira. Exports from the U.K. to these countries are therefore likely to expand marginally as a result of currency and clawback changes.

5.3 Outlook to 1984/85

On the basis of the aforementioned factors, a series of forecasts have been made (MLC, 1981). The most plausible of these assumes no change in real terms in producer returns or market prices for lamb. It assumes a gradual improvement in the possibilities for U.K. exports, through reductions in the Clawback tax and more favourable exchange rates. Given this scenario, the U.K. production is forecast (Table 7) to increase by 4% to 290 Kt, and consumption to decline by 12% to 380 Kt by 1985. Exports would rise to 55 Kt, over 20 Kt more than in 1980/81. Imports would be reduced to about 145 Kt, a decline of 24% or 47 Kt over the 1980 figure, but only 12 Kt, or 7.5% below the estimated 1981 figure.

TABLE 7
Possible Developments in U.K. Production,
Consumption and Trade to 1985

	1980	1985	Per cent change
Production	278	290	+4
Consumption	434	380	-12
Exports	37	55	+49
Imports	192	145	-24

SOURCE: MLC, 1981.

Two variations in the assumptions allow for either a more difficult or a more favourable situation for U.K. exporters. Under the first variation this would give a fall in real prices in the U.K. and a 27% fall in imports to 140 Kt. However, given the second, more favourable situation prices would rise and the import demand decline to only 150 Kt, or 22%. Offsetting the decline in British consumption and imports, the market situation in the other EEC countries is forecast to improve. Table 8 sets out consumption and net imports into the other main markets.

TABLE 8
Estimated Consumption and Net Imports
Into EEC Countries

	Consumption		Net Imports*	
	1980	1985	1980	1985
Belgium/Luxembourg	21	23	17	19
Denmark	2	3	2	3
France	219	265	45	45
Greece	130	140	10	15
Italy	83	100	29	41
West Germany	53	55	33	30
Total of above Countries:	508	586	136	153

* Net Imports are the difference between indigenous production and consumption; they therefore reflect the balance of trade in sheepmeat as well as the meat equivalent of the net trade in live animals.

SOURCE: MLC, 1981.

The above table shows an overall increase of 15%, or 78 Kt in consumption and an increase of 12.5%, or 17 Kt in imports. The main consumption increases should be in France and Italy though only imports into Greece and Italy are predicted to rise. In total the EEC production then is forecast to be 780 Kt by 1985 (Commission of the European Communities, 1981) which,

30.

with an estimated total consumption of 980 Kt indicates an EEC deficit of 220 Kt against a current import quota total of 320 Kt.

Other forecasters fail to agree on the magnitude of trade by 1985, ranging from the optimistic (Spackman, 1981) to the rather bleak prospects for N.Z. exporters (Revell, 1981).

6. FUTURE ISSUES

Whilst it is rather early to predict changes in the market beyond the review of the Regime in 1984/85, there are a number of issues which can usefully be considered at this stage. These issues relate to (i) long term effects of the Regime on the market, (ii) changes in the Regime itself, and (iii) long term structural changes in the EEC.

Firstly the long term effects of the Regime, particularly as they affect N.Z. and other exporters, are outlined here (details can be found in Blyth, 1980) and relate to increased production levels, Intervention buying, subsidisation of exports and market prices. Many of the fears about these effects which traders had prior to the VRA's may still be valid despite the air of euphoria during 1980/81. The major effect will be the increased domestic supplies coming on stream as producers adjust to higher prices. The full effects could not have been seen in the first or even second years.

Even though no Intervention purchases have yet been made, there is every possibility that they will be in future. Distortions in the frozen meat market would then occur as these stocks were released on to the market. Furthermore, the traditional role of

importers in the market as off-season suppliers of frozen meat will be reduced further as EEC producers adapt to price incentives to spread domestic supplies more evenly. Some of this change was seen in 1980/81 and NZMPB was forced to recommend that exporters concentrate the majority of their shipments early in the season instead of their usual encouragement to smooth the flow.

Similarly, there is the threat of subsidised exports from the EEC. Whilst no such exports have yet been made, at a future date the Commission could be in the position of having to dispose of stocks.

N.Z. has the advantage of being guaranteed access to the market for some years to come and now faces a lower tariff barrier. However, the price received for these imports may weaken given the outlook in Section 5. Total returns to imports will not therefore improve greatly in the long term unless sales can be expanded in markets other than the U.K.

The second issue which could change the long term situation is change in the Regime itself. The EEC Commission is to report to the Council before 1 October 1983 on the functioning of the Regime so that the Council can take appropriate measures on the

basis of their proposals before 1 April 1984. The VRA also is to be examined before 1 April 1984 in order to make any adjustments which both parties agree are necessary.

It is assumed that at this stage Reference Prices will have been aligned according to the intention of harmonisation. Market prices, however, may still vary widely. The Commission is therefore keen to establish a uniform pricing system throughout the Community which would be logically impossible under the present two-part (but hardly tandem!) system.

There could be pressure for the removal of the Variable Premium system which would force the U.K. to adopt the Intervention system for supporting lamb prices. This is an unlikely move because of the British Government's philosophy of firstly, maintaining farmers' incomes and secondly, of keeping down prices at retail level (Gardner, 1981). Such a change would however be disastrous for N.Z. importers (Bryant, 1981) but there will be strong budgetary pressure to adopt Intervention as spending on Variable Premiums increases.

An alternative method of encouraging price alignment is to reduce third country imports, especially as the current level of support must stimulate domestic production in most regions. The structural domestic surplus outlined in Section 5 either has to go into storage or be exported and if imports are added to this, the problem becomes more serious with a large excess having to be disposed of. In any event,

a weakening of prices is likely with increased support expenditure being necessary which could provoke EEC authorities to impose further limits on imports. The Commission may feel particularly justified in doing so if importers have previously not fulfilled their VRA allowances. Other possible changes in the Regime relate to the limitation of producer price guarantees as FEOGA runs into expenditure difficulties, or even a return of all regions to operating their own National policies (i.e. the Guaranteed Price Scheme in the U.K. and import controls in France). In both cases, imports could tend to increase slightly.

Finally, the long term structural changes which are likely to occur in the EEC and which will affect the market, include the U.K. joining the EMS* and the further enlargement of the EEC incorporating Spain and Portugal.

As far as the sheepmeat market is concerned, Spain is quite important. It is a large producer and consumer with current annual production of 130 Kt. External trade is small with imports running at 2 Kt and exports at 1 Kt. Output is concentrated on spring lamb with consumption and prices falling off rapidly in summer months. Under the influence of the EEC

* European Monetary System

support Regime however, Spain could expand production but forecasts suggest that exports will be only 2 to 3 Kt in Spring by 1985 (MLC Symposium, 1981).

7. CONCLUSIONS AND IMPLICATIONS FOR N.Z.

An assessment of the first twelve months of the operation of the EEC Sheepmeat Regime suggests that it has been generally satisfactory. Minor modifications have taken place in the mechanisms of the Regime, and some of the moves towards harmonisation of the Community market have taken place. Production is increasing steadily in most regions. Consumption for the Community as a whole has stabilised with increased consumption in France and other EEC regions offsetting the long term fall in the U.K. Trade again fell below previous levels.

N.Z. however remained the major import source, holding some 80% of the EEC (10) import market and 98% of the U.K. import market. Moreover, N.Z. supplies 44% of U.K. consumption which emphasizes the importance of N.Z.'s role. From the other side, although the importance of the EEC as a sheepmeat market has declined for N.Z., due to the timely appearance of a strong Middle East market, it remains the main destination for exports. In 1980/81 the EEC purchased 44% of N.Z. sheepmeat exports. The EEC provides a relatively wealthy, stable market and given the uncertainty in other areas of world trade, it is likely to remain an important market for N.Z. for some time to come.

The outlook for import demand in the Community is not so encouraging as EEC production of sheepmeat is going to increase during the 1980's and it is unlikely that this increase will be matched by an appreciable increase in consumption. Furthermore, there may be increased pressure from interest groups within the Community to reduce imports beyond the levels dictated by the market. The effects of the Regime during the transition period to 1984/85 will reduce imports anyway.

The reviews in 1984 will provide N.Z. with another opportunity to state its case to persuade the EEC that the Regime should not include measures which have led to surplus production in other agricultural sectors and to retain the generous VRA allowances. Despite N.Z. exporters' sense of euphoria about the first 12 months of the Regime, there is no room for complacency over the EEC market as the situation there is likely to be increasingly difficult in the coming years.

There are several options for N.Z. in the face of a decline in its major EEC market, the U.K. Firstly, it could accept the decline and attempt to diversify further into other world markets. Secondly, it may be possible to extend sales in the other EEC regions using intensified, co-ordinated marketing. There is no unified view on the Commission's response to this approach, but it is likely to be accepted if N.Z. were seen to be expanding total sales rather than displacing

EEC supply.

Another area where some expansion could take place is in sales of chilled lamb since there is greater demand for chilled than frozen meat throughout the Community. A similar reaction to the above is likely from the Commission since VRA's negotiated with Eastern European countries for fresh meat had market growth components built in. Alternatively, at the lower end of the scale, there may be room for expanding mutton sales for manufacturing.

Finally, given the availability of suitable product from N.Z. and heavy advertising and promotion, it may be possible to extend the market for cut and processed meats. The only constraint on the expansion is that the VRA allowance is determined in carcase weight (not product weight) equivalents, though it is unlikely that N.Z. could fill the quota even with this limitation.

N.Z. faces a dilemma over the EEC; should the quota be filled at the risk of depressing prices in the U.K., or should sales to the EEC be restricted at the risk of have the VRA quota reduced? Perhaps the best solution can be found by compromising and expanding sales to Continental Europe and by encouraging sales of cut and processed meat as far as is practically possible. Thus the quota may be maintained and pressure reduced in the British market.

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