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I

(Information)

COURT OF AUDITORS

SPECIAL REPORT OF THE COURT OF AUDITORS

on sales of reduced-price butter within the Community

This report was adopted by the Court of Auditors at its meeting of 18 March 1982, in application of Article 206a (4) of the EEC Treaty. It had previously been sent on 23 November 1981 to the Commission for its comments, which are reproduced in the Annex.

13 April 1982

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1. INTRODUCTION

1.1. The existence of large butter surpluses is a persistent feature in the Community. They were until recently constantly on the increase, due to a continuing growth in production on the one hand (some 1.5% per annum) and a continuing decline in per capita consumption on the other (7.2 kg in 1969 against 6.5 kg in 1979). An analysis of the underlying causes of these trends lies outside the scope of this report.

1.2. The problems raised by the definition of a storage policy are also not dealt with in this report. The fact is that in a situation of permanent over-production, storage is not a suitable means of re-establishing a balance between supply and demand. On the contrary, it serves to increase the associated economic and financial costs. Only where there is some hope that over-production will be temporary is storage acceptable. It then acts as a regulatory mechanism, rather than as a means of merely postponing consequences.

1.3. The problem is one of finding the most effective and least expensive means of disposing of the surpluses, whether they constitute direct pressure on the market or whether they are stored for some time. At an early stage, the Community had to make provision for mechanisms designed firstly to clear the intervention stocks of quantities of butter which could not be normally disposed of during a milk year, then to prevent or re-absorb surpluses which were tending to become structural.

The present report concerns this whole system of mechanisms. It has three aims:

- (1) to provide a comprehensive list of the measures involved;
- (2) to assess the conditions under which they are managed and audited, on the basis of information obtained from the Commission and on-the-spot visits in the Member States;
- (3) to assess their effectiveness by comparing their measurable effects, essentially on consumption, with their unit cost, in order to determine the cost of the additional consumption brought about, or the marginal cost. This evaluation of effectiveness includes comparison with the cost

of exports made with the aid of refunds either on the world market or as food aid.

1.4. The Court has already examined the application of some of the measures to aid disposal of milk products, and butter in particular: in 1978 the so-called 'Christmas butter' operation and in 1979 the supply of butter on special terms to armed forces⁽¹⁾.

1.5.

- (a) Disposal of butter at a reduced price is understood to mean any sale of butter at a price lower than the intervention price, keeping in mind that the latter, which is fixed annually, represents the price of entry into public storage and therefore, normally, the floor price on the market.
- (b) The cost to the budget of the storage and disposal measures has developed as follows:

Year	Expenditure (1) in million EUA	As % of EAGGF, Guarantee Section	As % of general budget of Communities
1975	189.9	4.2	3.0
1979	672.3	6.5	4.7
1980	676.2	6.0	4.2

(1) The expenditure for 1979 and 1980 includes special measures financed through the co-responsibility levy.

- (c) The disposal measures covered by the enquiry are those which enable the sales price of butter to be reduced on the internal market, whether they involve butter brought out of storage, butter on the market or butter imported on special terms.
- (d) All the measures analyzed are based on the basic Regulation (as amended), Council Regulation (EEC) No 804/68 of 23 June 1968 on the common organization of the market in milk and milk products⁽²⁾, with the exception of the special scheme applicable to butter imported

(1) Special report on various measures affecting the management of the EAGGF, Guarantee Section (financial year 1978), OJ No C 258, 6. 10. 1980, p. 2 — Annual Report concerning the financial year 1979, OJ No C 342, 31. 12. 1980, p. 72.

(2) OJ No L 148, 28. 6. 1968.

from New Zealand which derives from Protocol 18 of the 1973 Treaty of Accession.

- (e) The period under review is generally that following the accession of the three new Member States — 1979 being taken as the year of reference. Later events have, however, been taken into consideration wherever they were such as to affect comments or conclusions contained in the report.

2. STATUTORY FRAMEWORK

2.1. CLASSIFICATION OF MEASURES

The table below distinguishes the various measures according to whether they apply: (a) exclusively to stored butter, (b) equally to stored butter or to butter on the market, (c) exclusively to butter on the market.

TABLE I
Summary of measures in force during 1979/80

Type of measure	Implementing Regulations	Regulation (EEC) No 804/68	Origin of butter	Destination of butter	Nature of measure
A. Measures solely applicable to stored butter ⁽¹⁾	1282/72	Article 6	Public	Army and similar forces	Permanent
	1717/72	Article 6	Public	Non-profit-making institutions and organizations	Permanent
	232/75 262/79 1468/79	Article 6	Public and private	Pastry products, biscuits, (formula A), ice-cream (formula B) uncooked dough, powder preparations (formula C)	Permanent
	349/73 649/78	Article 6	Public and private	Direct consumption in the form of concentrated butter	Permanent
B. Measures applicable to stored butter, or butter on the market	2370/77	Articles 6 and 12	Public and private (+ market for Italy)	Direct consumption (Christmas butter 1977/78)	Special measure
	2291/77 (Italy)				
	1901/78 1764/78 (Italy) 2574/78 (UK)	Articles 6 and 12	Public and private (+ market for Italy and UK)	Direct consumption (operation 1978/79)	Special measure
	1269/79 1785/79	Articles 6 and 12	Public and private (+ market for Italy)	Direct consumption (operation 1979/80)	Special measure
C. Measures applicable to butter on the market	470/75 880/77 1269/79	Article 12	Market	General aid to consumption	Permanent
	471/75 1762/78	Article 12	Market	Persons receiving social assistance	Permanent
	226/73	Protocol 18	New Zealand butter	Imports of New Zealand butter into UK	— period in Protocol 18: until 1977
	1655/76				— extension 1978 to 1980

(1) Since 1981, except for aid to concentrated butter (which has been discontinued), these measures have been made applicable to butter on the market.

The quantities covered by the measures described in Table 1, by year from 1973 and by Member State, are given in detail in Annexes I and II. Unless otherwise stated, the rates of reduction or aid given below are those applicable during the milk year 1979/80.

2.2. ANALYTICAL LIST OF MEASURES

2.2.1. Measures solely applicable to butter in storage⁽¹⁾

2.2.1.1. *Sale to the army and similar forces of reduced-price butter⁽²⁾ (from public stocks)*

This measure, which was governed by Regulation (EEC) No 1282/72, and whose application was optional, was applied by all Member States.

Sale was at a price equal to the intervention price, reduced by not more than 170-46 ECU/100 kg.

2.2.1.2. *Sale of reduced price butter to non-profit-making institutions and organizations (from public stocks)*

These sales were governed by Regulation (EEC) No 1717/72 and any organization within the Community was in principle entitled to benefit from them.

The organizations and institutions which could buy this reduced-price butter were determined by each Member State, which also fixed the quantity of butter per consumer. The maximum quantities were therefore limited indirectly.

The terms of sale of the butter were the same as those laid down for the army (reduction of not more than 170-46 ECU/100 kg).

2.2.1.3. *Sale of butter at reduced prices for use in the manufacture of pastry products, ice-cream and other foodstuffs (from public and private stocks)*

(a) public stocks

Sales were governed by Regulation (EEC) No 262/79. Butter had to be processed into bakers' wares, pastry products or biscuits (formula A), into ice-

cream for human consumption or powder preparations for the manufacture of ice-cream (formula B), or into dough for pastry products (formula C).

All European food industries had access to this butter since a permanent tendering procedure was organized by each intervention agency for the quantities of butter concerned which it held.

The minimum sales price was set by the Commission. As an example, for the 13th invitation to tender (submission of tenders on 11 September 1979, the minimum price was set at 106 ECU/100 kg for formulae A and C and at 157 ECU/100 kg for formula B.

(b) private stocks

As from 16 July 1979, in order to ensure that there was no harmful effect on the removal from storage of butter accorded private storage aid, Regulation (EEC) No 1468/79 made provision for the granting of aid where the butter was intended for use in the manufacture of pastry products, ice-cream and other foodstuffs referred to in Regulation (EEC) No 262/79.

The amount of the aid, expressed in ECU, was equal to the difference between the buying-in price of the butter paid by the intervention agency and the minimum selling price under the tendering procedure provided for by Regulation (EEC) No 262/79, less 5 ECU/100 kg.

2.2.1.4. *Disposal at a reduced price of intervention butter intended for direct consumption in the form of concentrated butter (from public and private stocks)*

Because of the nutritional habits of certain Member States (Belgium and Germany), disposal of butter at a reduced price was made possible for direct consumption in the form of concentrated butter.

Regulation (EEC) No 649/78 provided, within quantitative limits to be determined, for the sale at a reduced price of butter from public stocks or for the granting of aid for butter held under a private storage contract. The reduction or the aid was 170-46 ECU/100 kg.

2.2.2. Measures applicable to butter in storage and to butter on the market (special measures of limited duration)

Measures of this type were applied from 1969 to 1973, then again, with different rules each time, from 1977 to 1979.

⁽¹⁾ In addition to the measures mentioned below, there is a measure relating solely to public stocks which is laid down by Regulation (EEC) No 2315/76 and which constitutes the general rule with regard to the sale of butter from public stocks. Annex III gives a short analysis thereof. These sales are made at a price above the intervention price.

⁽²⁾ See Annual Report of the Court of Auditors concerning the financial year 1979, OJ No C 342, 31. 12. 1980, p. 72.

2.2.2.1. For the '1977/78 Christmas butter' operation, a total quantity of 65 000 tonnes was made available, taken from both public and private stocks.

Provision was made for division by Member State. This Regulation did not apply to the United Kingdom as that Member State already benefited from aid to consumption (cf. paragraph 2.2.3.1 below). Italy, which did not have any butter in storage, was authorized to grant aid for 7 000 tonnes of butter on the market.

The reduction in price (butter from public stocks) or the aid (butter from private stocks or butter on the market) was 70 u.a. (84.63 ECU)/100 kg.

2.2.2.2. At the end of 1978, the Member States were offered a choice between two kinds of operation: one short-term operation with a reduction of 75 u.a. (90.67 ECU)/100 kg or a more extended sale with a reduction of 35 u.a. (42.31 ECU)/100 kg.

The Commission set the maximum quantities per country according to the kind of operation adopted by the Member State, i.e. 35 700 tonnes for Germany (long-term) and 36 400 tonnes for the other beneficiary Member States (short-term).

Italy was again authorized to subsidize 6 700 tonnes of butter on the market.

In the United Kingdom, under the end-of-year measures, additional aid of 20 u.a. (24.18 ECU)/100 kg for a maximum quantity of 51 025 tonnes could be granted, in addition to the general aid to consumption.

2.2.2.3. For the year 1979/80, a choice was offered to all the Member States: either to opt for the new permanent system of general aid to consumption of butter on the market (cf. paragraph 2.2.3.1 below), or to opt for aid for the disposal of butter in stock at a reduced price, for quantities and a period to be determined.

Denmark, Ireland, Luxembourg and the United Kingdom opted for the general aid and the other Member States for temporary aid.

The overall quantity placed at the disposal of the latter amounted to 156 900 tonnes, which was taken from both public and private stocks. Italy was once again authorized to subsidize the sale of 18 350 tonnes of butter on the market.

France preferred a higher rate for a smaller quantity and obtained 150 ECU/100 kg. The other Member States obtained 90 ECU/100 kg.

2.2.3. Measures applicable to butter on the market

These concern two measures which form a direct subsidy to consumption and the special scheme for butter imported from New Zealand.

2.2.3.1. Permanent aid to consumption

(a) Since May 1973 until 1979, various regulations authorized all the Member States to grant aid with the effect of reducing butter prices to the private consumer. The United Kingdom and Ireland took advantage of this possibility in 1973, followed by Luxembourg in 1975 and Denmark in 1977.

(b) Regulation (EEC) No 1269/79, which is currently in force, allows the Member States a choice. *Scheme A* provides for a general subsidy for butter on the market, without a ceiling, the Community contribution being limited to 75% of the actual subsidy but not exceeding 50 ECU/100 kg of butter.

Denmark, Ireland and Luxembourg have taken advantage of the possibilities offered by this Regulation, granting refunds of 98.64, 88.96 and 49 ECU/100 kg respectively.

However, the subsidy which may be granted to the United Kingdom for butter on the market has been fixed at a maximum of 45.94 ECU/100 kg, which is financed entirely by the Community.

Scheme B applies, in fact, to the 'end-of-year' butter operations (cf. paragraph 2.2.2.3 above).

2.2.3.2. Sale of reduced-price butter to persons receiving social assistance

Following on from various previous measures, Regulation (EEC) No 1762/78, which is currently in force, authorizes the Member States to grant aid for the purchase of butter at reduced prices by persons receiving social assistance. The categories of beneficiaries are defined by the national authorities and the quantity subsidized may not exceed a per capita maximum amount fixed by the Member State. The amount of the aid may be fixed freely by the Member State, but the EAGGF finances only 50 u.a. (60.45 ECU)/100 kg of butter.

At present, only Ireland grants this aid, without any national supplement, for 750 grams per beneficiary per month. Since 1979, this aid may be added to the general aid to consumption.

2.2.3.3. *Special scheme in favour of butter imported from New Zealand*

Butter imported from New Zealand is sold on the British market under a quota which benefits from a special levy. These imports, although at first sight constituting a measure unconnected with the internal Community market, come onto a European market with a structural surplus and in consequence entirely replace European butter on the British market. The latter therefore has inevitably to be either offered to intervention, stored, and then disposed of on the internal market at a reduced price, or exported with the aid of refunds.

(a) Fixing of the quota

Protocol 18 of the Accession Treaty authorized the United Kingdom under certain conditions, as a transitional measure, to import from New Zealand certain quantities of butter in decreasing amounts between 1973 and 1977 (165 811 tonnes in 1973, 138 176 tonnes in 1977).

Council Regulation (EEC) No 1655/76 of 29 June 1976 extended until 1980 this exception in favour of imports of New Zealand butter, for the following quantities:

(in tonnes)

Year	Quantities authorized	Quantities finally accepted
1978	125 000	126 501
1979	120 000	119 947
1980	115 000	100 495

(b) Calculation of special levy

The terms of reference for the calculation of this levy are:

- the cif price of New Zealand butter fixed by the Council Regulation, plus various costs

representing the first stage of marketing on the British market,

- and the market price in the United Kingdom of the grade corresponding to that of New Zealand butter, established by the Commission on the basis of declarations by the United Kingdom.

The amount of the levy is fixed by Commission regulation and may vary during the year.

In 1979, the rate of 106.64 u.a. (128.92 ECU) applied until July 1979, when the new system of aid to consumption entered into force (Regulation (EEC) No 1269/79), but there were no imports throughout the whole period, due to the existence of stock in bonded warehouses. From that date, an amount of 45.94 ECU, equal to the aid for consumption of butter of Community origin sold on the British market, was deducted from the special levy, the latter varying between 59.40 and 83.68 ECU for the remainder of 1979. This rate, which was applied to all imports under the 1979 quota, i.e. 120 000 tonnes, should be compared with the normal levy, which at the time was 240.48 ECU/100 kg.

2.2.4. Scale of the measures

If the various measures described above are looked at in terms of quantity, it can be seen that in 1979, of an apparent internal use of 1 697 000 tonnes⁽¹⁾, 679 000 tonnes or 40% of the butter consumed by Europeans was not negotiated at the normal price. The rate amounts to as much as 47% if the 120 000 tonnes of New Zealand butter imported under special terms is taken into consideration.

3. MANAGEMENT AND AUDIT

The implementing regulations in general allow the Member States considerable freedom, particularly in drawing up the provisions which must guarantee that the aid is only granted to the consumers for whom it is intended. Two of them, however, leave little room for Member States' initiative: the regulation

⁽¹⁾ The figures relating to the apparent domestic use which result from the statement of utilization cf. Annex IV, differ slightly from those in respect of consumption as such, which take account of losses and the quantities processed.

concerning the disposal of intervention butter intended for direct consumption in the form of concentrated butter and the regulation organizing the sale of butter intended for the manufacture of pastry products, ice-cream and other foodstuffs.

3.1. AT COMMISSION LEVEL

- (a) In order to manage the butter market, the milk products division has information from various sources at its disposal. Regulation (EEC) No 210/69 of 31 January 1969 ⁽¹⁾ on communications between Member States and the Commission in respect of milk and milk products specifies the information to be provided to the Commission by the Member States. As far as butter is concerned, this involves regular communication of the state of stocks (public and private), prices (on the market, on import, in third countries) and certain information on import and export licences.

The Commission also follows butter prices on the world market, butter production, the prices of competitive oils and fats and the position of securities which have not been released.

Finally, it has available information received through the Management Committee and various professional organizations.

This information should in theory enable the Commission to manage stocks, to adjust the level of aid or reductions where necessary and to prevent speculation.

- (b) It should be noted that the Commission does not have first-hand information and that as a general rule the information in its possession is not up-to-date. The decisions which it has to take are necessarily late as the information in its possession does not allow for an accurate and rapid observation of trends. The disadvantages of this situation are accentuated the more the management seeks to be direct, as is the case with the tendering procedure. Moreover, the Commission does not properly follow up the implementation of the statutory rules, particularly with regard to audit (cf. paragraph 3.2 below) and it does not have any general system of evaluating the results obtained by the

various measures. This point, which was already made in the special report on 'Christmas butter' 1977/78, will be considered again in paragraph 4 below on the effectiveness of the measures.

3.2. IN THE MEMBER STATES

3.2.1. Butter for pastry products and ice-cream

- (a) In 1978 more than 70% and in 1979 more than 65% of the butter in storage disposed of at a reduced price on the internal market was done so initially under Regulations (EEC) No 232/75 and then under (EEC) No 262/79. This measure is significant in terms of quantity and its implementation is complex.

There are in fact dozens of different cases subject to different management and audit systems.

- (b) Purchases of butter may be made from public or private stocks, in the Member State concerned or in another Member State. The butter so purchased may be incorporated directly or may be subject to prior processing. In the latter case, the processed butter may be used in the Member State itself or in another Member State, while passing through a third. The pattern is complicated even further where processing takes place on behalf of a third party. In all these different cases a distinction has to be made between butter intended for pastry products, bakers' wares or ice-cream.

- (c) Since 1976, the largest stocks have been held by Germany and about 35% of the butter disposed of in this Member State goes to Belgium, which is the largest processor in the Community. Moreover, between 50 and 80% (according to the year) of butter from public stocks for use in making ice-cream is disposed of in Germany. This is due to the fact that under the national legislation, the use of a certain percentage of butter is compulsory in the manufacture of ice-cream. This is also the case in law or practice in Denmark and France.

- (d) Border crossings, the various operations of incorporation and processing for use within the receiving Member State or for subsequent re-export, each involve a stage of inspection in several Member States by the different bodies or departments. Thus in Belgium, the tendering procedure is undertaken by the 'Office Belge de

⁽¹⁾ OJ No L 28, 5. 2. 1969.

l'Economie et de l'Agriculture (OBEA). If butter is processed, the 'Office National du Lait' is responsible for identification of the butter when it arrives at the processing firm and monitors the processing operations. The OBEA reports the quantities manufactured on each day of processing and sold by the processor. Subsequent sales and the final destination of the butter are monitored by the 'Inspection Générale Economique'. The latter department is responsible for all the operations where direct incorporation is concerned. This problem has also been found in Italy and in the Netherlands where inspection is carried out by various administrative bodies.

- (e) In view of the number of parties involved in the procedure in question, of the necessity for corresponding checks, of the complexity and technical nature of the regulations, it would be desirable for the Commission to ensure that checks carried out in the Member States offer all the necessary guarantees.

- (c) Because the intervention agency only delivers the butter in quite high minimum quantities (from 150 kg to one tonne), the organizations are authorized by the Regulation to form a group or to purchase the butter via an intermediary. Some Member States fix a maximum profit margin which is known to the interested parties. Other Member States have not adopted any special provisions. In the latter case, the Commission should ensure that the profit margin does not absorb the aid.

- (d) On-the-spot audit of documents to establish the use made of the butter is only carried out in Denmark (one quarter of the organizations inspected each year), Belgium (at least once a year), Germany (the 'Länder' are responsible) and the United Kingdom (each institution, on an average of once every two years). In the other Member States visited, these institutions are subject to virtually no checks. In France, following the Court's visit, measures appear to have been taken to remedy this situation. The Commission should ensure that there is a minimum of standardization in the on-the-spot audits.

3.2.2. Sale of reduced-price butter to institutions and non-profit-making organizations

- (a) All the Member States apply this measure. There are a great number of organizations concerned. In 1979, there were about 2 800 beneficiaries in Belgium, 1 350 in Denmark, 1 700 in the Federal Republic of Germany, 2 100 in France, about 1 000 in Italy, 500 in the Netherlands and 3 000 in the United Kingdom.

All the Member States visited have adopted maximum or target quantities based on the quantities fixed by the Regulations. They are as follows:

Belgium:	2 kg/month,
Denmark:	5 kg/quarter,
Germany:	2 kg/month,
France:	13.5 g/meal,
Italy:	30 g/day,
Netherlands:	5 kg/quarter,
United Kingdom:	150 g/week.

- (b) The quantities thus fixed should at the very least allow the intervention agencies to carry out a check against records. From this point of view, the unit quantities would profit from being more precise and standardized.

3.2.3. Sales to the army and similar forces

The particular conclusions drawn from examination of this measure were the subject of a comment in the Court's 1979 Annual Report⁽¹⁾.

3.2.4. Sales for direct consumption in the form of concentrated butter

About 88% of the sales made under this measure are in Germany and primarily in Bavaria. The processing and further handling up to retail sale is monitored by the external departments of the BALM ('Bundesanstalt für landwirtschaftliche Marktordnung').

3.2.5. The 'reduced-price butter' operations (formerly 'Christmas butter')

- (a) These operations were introduced at the end of 1977. At the request of the Member States, provision has been made for alternatives, gradually leaving the choice more and more between short-term measures with a considerable reduction and longer-term measures,

(1) OJ No C 342, 31.12.1980, paragraphs 4.80 to 4.86.

or even permanent measures, with smaller reductions.

This butter is wrapped in packaging bearing special markings. Any holder of butter must keep accounts showing the name and address of the purchasers and the corresponding quantities, to allow checks to be made on the correct use of the measure. Furthermore, the Member States were bound to take the necessary measures to ensure that the effect of the price reduction would be felt at the retail level.

- (b) This system involves the Member States performing a series of checks at various stages between the time the goods are taken out of storage and when they are put on sale to the final consumer. The Commission is not in a position, for the three successive measures since 1977, to ensure that the various checks carried out in the Member States are sound and consistent.

3.2.6. Sales of butter to persons receiving social assistance

Only Ireland applies this measure at present. According to the criteria adopted by this Member State, about 15% of the population receive this aid. Reduction vouchers are distributed to the beneficiaries. One of the reasons why other Member States have abandoned or do not apply this measure is the difficulty of ensuring adequate controls.

The monitoring of this measure is the responsibility of the Ministry of Social Affairs. At the beginning of 1980 the Irish authorities adopted an on-the-spot inspection programme at retailers in order to ensure the correct use of these vouchers.

3.2.7. Aid to consumption

- (a) In 1977 the British external audit authorities examined the grant of this aid, paying special attention to the quantities declared when the rates of aid were changed.

The United Kingdom implemented a system of keeping a register of beneficiaries, i.e. the packers, producers of farm butter and importers, with the obligation to keep stock accounts. The frequent audits, particularly at the premises of the most important beneficiaries,

essentially consist of comparison of the stock accounts and the financial accounts.

In Ireland, the Ministry of Industry, Commerce and Tourism fixes the maximum price for retail sale, taking into consideration the amount of the aid. Observance of these prices is checked by the prices department. Checks are made when the request for aid by a dairy is above the normal level or where sales are made to retailers who at the same time own, for example, a cake shop. At all events, audits in this Member State are *ex post facto*. A Similar system is in force in Denmark and Luxembourg.

- (b) In view of the scale of this measure, both in volume and in cost, the Commission should itself ensure that all the conditions laid down by the regulations (purchase solely for direct consumption; effect of aid at the retail stage; consumption of subsidized butter within the Member State) are actually fulfilled and that, where applicable, the national contribution is actually paid.

4. ECONOMIC EFFECT OF THE MEASURES

In order to assess the effectiveness of the measures from a financial point of view, an evaluation must first be made of their measurable results from an economic point of view, i.e. their effect on stocks, prices and consumption itself.

4.1. EFFECT ON STOCKS

Annexes IV, V and VI show that until 1980:

- (a) Intervention purchases have greatly increased since the slack period from 1974/75, reaching their highest point in 1978/79.
In 1978 and 1979 the purchase/production ratio reached 16 to 17%, having been 7 to 8% in 1974/75.
- (b) The level of public stocks reflects this trend which, allowing for seasonal variations, reached its highest point in 1979 (347 000 tonnes at 30-6).
- (c) The variation in the private stocks subsidized, which is even more marked due to their role as a seasonal regulator and to the compulsory release

of stocks before 1 April, has nevertheless been quite regular during the period in question.

- (d) The proliferation and diversification of the aid measures appears to have hardly affected the position of the stocks: private stocks played their role of regulator in the normal way, whereas public stocks became more firmly established as a mode of deferment.

The different situation since 1980 results solely from

an increase in exports and in no way affects the abovementioned findings.

4.2. EFFECT ON PRICES

4.2.1. Scale of aid

Table 2 below summarizes the rates of aid or of the reduction applicable at 1 June 1979 and shows the percentage represented by this aid or reduction in the intervention price for the year 1979/80, i.e. 284.97 ECU/100 kg.

TABLE 2
Summary of price reductions
(applicable at 1 June 1979)

	Reduction in u.a. (/100 kg)	Equivalent reduction in ECU (/100 kg)	As % of intervention price
A. Butter in storage			
— Armies (public)	141	170.46	59.8
— Organizations	141	170.46	59.8
— Pastry products/ice-cream (1) (public)			
— formula A/C (pastry products)		178.97	62.8
— formula B (ice-cream)		127.97	44.9
— Pastry products/ice-cream (private)			
— formula A/C (pastry products)		173.97	61.0
— formula B (ice-cream)		122.97	43.2
— Concentrated	141	170.46	59.8
B. End-of-year operations			
— 1979/80 disposal			
— France		150.00	52.6
— Belgium, Germany, Italy and the Netherlands		90.00	31.6
C. Butter on the market			
— Social assistance			
— Ireland	50	60.45	21.2
— Aid to consumption			
— Ireland		50.00	17.5
— including national share		88.96	31.2
— Denmark		50.00	17.5
— including national share		98.64	34.6
— Luxembourg		36.75	12.8
— including national share		49.00	17.2
— United Kingdom		45.94	16.1

(1) Reduction calculated from the minimum prices applied on the reference date.

4.2.2. Development of consumer prices

Annex VII compares the average annual increase of prices as a whole, and prices of foodstuffs, edible fats and butter alone, for the period 1974 to 1979.

It appears that for all the Community countries, with the exception of the United Kingdom, the increase in the consumer price of butter was less than that of prices in general and at most equal to that of food prices. For the eight countries, the average annual increase in the price of butter was 7.1%, as against 8.8% for prices in general and 9.4% for food prices. In the United Kingdom, on the other hand, the increase in the price of butter was one and a half times higher: 23.9%, as against 15% for prices in general and 15.9% for food prices.

4.3. GLOBAL EFFECT ON CONSUMPTION

The impact of the measures in respect of prices must be considered in relation to the development of consumption itself (Annex VIII).

- (a) Over a long period (10 years) and for all the countries which make up the Community, consumption has decreased.

For the period in which the Community has effectively been in operation with nine members (six years), consumption has stagnated:

	1969	1973	1979
— global consumption (1 000 tonnes)	1 796	1 665	1 697
— per capita consumption (kg)	7.2	6.5	6.5

- (b) The level and the trend of consumption differ greatly from one country to another, as can be seen from Table 3 below, which clearly shows well-established nutritional habits (margarine in the Netherlands, olive oil in Italy).

It will be noted that the negative trends relate both to countries which have long been granting general aid to consumption (Denmark, Ireland, United Kingdom) and to those where the other measures have the widest application and intervention is greatest (Federal Republic of Germany).

- (c) It appears that over a long period the reductions in the price of butter, where effectively passed on to the consumer, have at the most served to

TABLE 3

Consumption trends

Country	Average consumption 1969 to 1979 (kg/per capita/year)	Average trend 1969 to 1979 ⁽¹⁾ (in %)
Belgium/Luxembourg	9.2	- 1.48
Denmark	8.8	- 4.97
Germany	7.4	- 23.24
France	9.0	+ 10.61
Ireland	12.6	- 6.30
Italy	2.0	+ 0.89
Netherlands	2.7	+ 5.68
United Kingdom	8.2	- 11.17
EUR 9	6.7	- 6.03

(1) Development is determined by the slope of the straight determined by the method of least squares.

check the decline in consumption. The real increase in prices in the United Kingdom, despite the aids to consumption (including those for New Zealand butter), is probably one of the factors behind the downward trend of consumption in that country.

5. SPECIFIC EFFECT ON CONSUMPTION

5.1. WEAKNESS IN THE SYSTEM OF ASSESSMENT

The general objective of the measures based on Regulation (EEC) No 804/68 is, it will be recalled, to dispose of the surpluses held in storage and to prevent the creation of new surpluses. The expansion of the internal market, i.e. the increase of direct and indirect butter consumption in Community countries by means of reducing the selling price, thus represents one possible way of achieving this objective. Given the diversity and cost of the measures analyzed above, it would be of use to be able to evaluate the results individually rather than on an overall basis.

A system of regular assessment, set up and supervised by the Commission, would appear to constitute a normal method of rational management. No such system exists, however, as already noted by the Court and acknowledged by the Commission in the special report on the 1977/78 'Christmas butter' operation. The Commission is certainly interested in data for assessing the effectiveness, in terms of additional consumption, of the measures which it proposes or

prescribes, but hitherto, this has only been possible on the basis of the data supplied by institutions or national organizations which must be presumed reliable in themselves, but which cannot offer equally satisfactory guarantees as regards the comparability of the methods used.

The Court has had no option but to use these same data, after checking the sources, and has endeavoured to derive its own interpretation from the information.

5.2. DEFINITIONS: ELASTICITY, SUBSTITUTION AND EFFECTIVENESS

- (a) If it is supposed that the quantity of butter bought varies in accordance with the price at a given moment, the amount of variation will be measured by the price elasticity of demand. The elasticity coefficient shows the demand which can be expected from a 1% change in the price, all other things being equal.

Usually the coefficient is preceded by a minus sign, to indicate that when prices increase, purchases fall: if a coefficient were found of -0.50 in a given Member State, it would mean that, in percentage terms, the quantity consumed decreases half as quickly as the price increases.

In the opposite case then, a fall in price will result in an increase in consumption of the same magnitude, shown by a plus sign preceding the coefficient.

- (b) The quantitative effect on purchases of the reduction in price can be calculated by the use of such elasticity coefficients.

Thus, for a given type of sale at a reduced price, with a given level of aid, this effect may be measured:

1. either by the *substitution rate* n : 100 kg disposed of with aid are substituted for n kg sold in the normal way without aid;
2. or by the *rate of effectiveness* n' : out of 100 kg disposed of with aid, n' kg are sold in addition to those which would have been sold in the normal way without aid.

The arithmetical relationship between the two rates can be expressed as: $n + n' = 100$ (1).

5.3 RATE OF EFFECTIVENESS OF THE BUTTER DISPOSAL MEASURES

The rates, as adopted at the time by the Commission, are shown in Table 4 below (column 1) and are compared with the corresponding quantities sold in 1979 (column 2) in order to obtain the additional quantities consumed as a result of the aids or price reductions (column 3).

- (1) Independently of the effect of a change in price, all consumption may be substituted by another type of consumption or by a different use (savings): hence the concept of 'substitution rate'. For the sake of consistency with Commission terminology, however, the concept of 'rate of effectiveness' will be used in this report in the sense of physical effectiveness, as opposed to financial effectiveness which will be discussed under paragraph 6 and in the conclusion of the report.

TABLE 4

Rate of effectiveness and additional consumption 1979

	Column 1	Column 2	Column 3
A. Butter in storage			
Armies	95	8 600	8 170
Organizations	95	24 400	23 180
Pastry products/bakers' wares	88	84 000	73 920
Ice-cream	55	32 000	17 600
Concentrated butter	50	4 000	2 000
		153 000	124 870
B. End of year 1979/80			
France (short period)	12.9	46 500	6 000
Italy (market)	18	19 000	3 420
Other Member States (long period)	36.4	86 500	31 500
		152 000 (1)	40 920
C. Butter on the market			
Social assistance	20	5 000	1 000
General aid to consumption			
United Kingdom	6.9	285 000 (2)	19 660
Others	11	84 000	9 240
		374 000	29 900
Total A + B + C (tonnes)		679 000	195 690

(1) The total sales benefiting from the end-of-year aid are deemed to have been effected in 1979 (measure not renewed at the end of 1980/81).

(2) Excluding 120 000 tonnes of New Zealand butter which benefited from a reduction in the special levy by an amount equal to that of the aid to consumption of butter.

These findings call for the following comments:

- (a) the effectiveness of the measures should be assessed in relation to the size of the market in question and to its scope for expansion; the army market is limited and with no room for expansion; that of the organizations is bigger and undoubtedly has somewhat more room for expansion, albeit not indefinitely;
- (b) the ice-cream market is partially a captive market because of the rule in certain countries that a certain proportion of butter must be incorporated in the manufacture of ice-cream (Federal Republic of Germany, Denmark, France);
- (c) the effectiveness of the end-of-year measures has shown a tendency to decline; it was estimated at 30% for 1977/78, and fell to 25% for 1978/79. This trend, which stabilized in 1979/80 at around 27%, conceals significant differences

between the five countries concerned and according to the type of measure;

- (d) the relatively low effectiveness of social aid, limited to Ireland (20%), may be explained by the already high level of consumption and of general aid to consumption;
- (e) the lowest rate of effectiveness is that of the general aid to consumption. In the United Kingdom, price elasticity of demand varies between -0.37 and -0.47, depending upon the source, and, taking into account price reductions on the normal market, i.e. 16 to 17%, the rate of effectiveness in 1979 was in the region of 7% and on the decline;
- (f) on the basis of the rates of effectiveness adopted by the Commission (calculated from data supplied by the Member States), all other things being equal, an additional 196 000 tonnes of butter was disposed of in 1979 as a result of aids and price reductions. Without these measures, the level of internal consumption would have

been around 1 500 000 tonnes only, instead of 1 697 000 tonnes. Consumption was thus 13% higher than what it would have been had normal prices applied. The effectiveness of the measures is, however, gradually declining, as special management measures adapted to a certain type of market are being superseded by general and permanent measures which favour the consumer rather than consumption.

6. COST EFFECTIVENESS OF THE MEASURES

6.1. GLOBAL COST AND UNIT COST OF THE MEASURES

6.1.1. Table 5 below shows the unit and global cost of each measure in 1979, on the basis of the aids or reductions analyzed above and taking into account, where applicable, storage costs for the whole year in

TABLE 5

Unit cost and global cost of total measures in 1979

Measure	Tonnage	EAGGF reduction ECU/ tonne	Public storage costs (one year) ECU/ tonne	Private storage costs (six months) ECU/ tonne	Unit cost ECU/ tonne	Total cost million ECU
A. Butter in storage						
Armies	8 600	1 704.60	365.96	—	2 070.56	17.8
Organizations	24 400	1 704.60	365.96	—	2 070.56	50.5
Pastry products/ice-cream (public)						
— formula A/C	77 500	1 789.70	365.96	—	2 155.66	167.1
— formula B	31 700	1 279.70	365.96	—	1 645.66	52.2
Pastry products/ice-cream (private)						
— formula A/C	6 500	1 739.70	—	233.00	1 972.70	12.8
— formula B	300	1 229.70	—	233.00	1 462.70	0.4
Concentrated butter (public)	1 300	1 704.60	365.96	—	2 070.56	2.7
Concentrated butter (private)	2 700	1 704.60	—	233.00	1 937.60	5.2
Total A	153 000	1 660.23 (³)	357.70 (³)		2 017.93 (³)	308.7
B. End-of-year operations						
End of year 1979/80 ⁽¹⁾						
France (public)	15 000	1 500.00	365.96	—	1 865.96	28.0
(Short period) (private)	31 500	1 500.00	—	233.00	1 733.00	54.6
Other Member States (public)	63 500	900.00	365.96	—	1 265.96	80.4
(Long period) (private)	23 000	900.00	—	233.00	1 133.00	26.1
Italy (market)	19 000	900.00	—	—	900.00	17.1
Total B	152 000	1 083.55 (³)	272.54 (³)		1 356.09 (³)	206.2
C. Butter on the market						
aid to consumption						
— Denmark	41 000	500.00	—	—	500.00	20.5
— Ireland	40 000	500.00	—	—	500.00	20.0
— Luxembourg	3 000	367.50	—	—	367.50	1.1
— United Kingdom	285 000	459.40	—	—	459.40	130.9
Social assistance	5 000	604.50	—	—	604.50	3.0
Total C	374 000	469.39 (³)			469.39 (³)	175.5
Grand total A + B + C (For the record, New Zealand) ⁽²⁾	679 000 (120 000)				1 016.82 (1 768.00) (³)	690.4 (212.0)

(1) This butter is deemed to have been completely disposed of in 1979.

(2) The minimum total cost of the special scheme applicable to New Zealand butter has been calculated in Annex XI. This amount includes the additional cost of 55 128 000 ECU resulting from the reduction in the special levy by 459.4 EUA/tonne, equivalent to that of the aid to butter consumption in the United Kingdom.

(3) Weighted average values.

the case of public storage and for an average of six months in the case of private storage⁽¹⁾.

It may be noted, in particular, that the total consumption subsidized was 679 000 tonnes⁽²⁾ at a cost of 690 million ECU. The average unit cost amounted to 1 016 ECU/tonne, i.e. a reduction of 35.5% on the intervention price for the year 1979/80 (2 849.7 ECU/tonne).

6.1.2. The data relating to the cost of the measures for disposal on the internal market at reduced prices, calculated on the basis of their unit cost, and the quantities involved in 1979, are to be compared with:

- (a) the data relating to *external sales*, which amounted to 440 000 tonnes in commercial exports and 60 000 tonnes in food aid, and cost the EAGGF 994 million ECU in refunds⁽³⁾;
- (b) *the budgetary data* based on the amounts charged to the budget for 1979: the total cost of

⁽¹⁾ For the calculation of storage costs, see Annex X.

⁽²⁾ The total is 799 000 tonnes if butter imported from New Zealand is included. The slight difference from the 791 000 tonnes in Annex IV is explained primarily by problems of taking into account end-of-year operations.

⁽³⁾ The amount of 1 989 ECU/tonne for the refunds, applicable until 16 November 1979, has been taken for the whole year. The exports of butteroil have been converted into butter-equivalent.

the measures was 690 million ECU for 679 000 tonnes, compared with 672 million ECU actually charged to the financial year under Chapter 62. The fact that the discrepancy is so small is purely a coincidence, since part of the financial cost of both 'disposal of reduced-price butter 1978/79' and of part of the same operation in 1979/80 were charged to the financial year 1979.

In calculating the total cost of the measures, on the other hand, only the 1979/80 operation was taken into consideration, but considered as being charged in total to 1979.

6.1.3. In 1980 there was a decline in volume (564 000 tonnes) and in cost (543 million ECU). The amount in the budget did however increase slightly (676 million ECU) over 1979. This is the result of the combined effect of a not inconsiderable carry-over of expenditure due to the 'end-of-year 1979/80' operation and to the absence of such a measure in 1980/81. No account was taken of this in the calculation of the cost (see 6.1.2.b).

External sales increased significantly, particularly in the form of commercial exports (631 000 tonnes for 702 million ECU). The average unit cost of internal sales was considerably closer to that of the disposal measures. The latter, i.e. 963 ECU/tonne is equal to a reduction of 33% on the 1980/81 intervention price (2 916 ECU/tonne).

TABLE 6

Comparison of unit costs and global costs in 1979 and 1980

Destination	Quantities (1 000 tonnes)	Average unit cost (ECU/tonne)	Global cost (million ECU)
Disposal on the internal market			
1979	679	1 016	690
1980	564	963	543
External sales			
1979	500	1 989	994
1980	631	1 112	702

6.1.4. Summary

In 1979, 679 000 tonnes of butter, i.e. 40% of internal consumption, benefited from an average reduction of 35.5% on the intervention price. In 1980, with equal production and with stocks beginning to be reabsorbed because of the development of exports, subsidized internal consumption (564 000 tonnes) represented no more than 35% of total consumption, itself declining markedly. The average reduction on the intervention price was no more than 33%. The unit cost of the external sales, however, was markedly closer to that of the disposal measures⁽¹⁾.

6.2. MARGINAL COST OF THE MEASURES

6.2.1. Definitions

- (a) The cost of the additional consumption brought about by the aid measures, as assessed individually or on an overall basis in section 5, obviously represents a determining factor in the financial assessment of the effectiveness of these measures.

The cost should also constitute one of the main criteria in choosing which measures are to be promoted, maintained or abolished in pursuit of the general objective of the current statutory provisions, which remains the disposal of Community produce.

- (b) The cost of additional consumption or marginal cost is obtained by comparing the rates of effectiveness and the unit costs obtained previously. Table 7 shows the marginal cost for each measure including exports, and therefore the *financial effectiveness* of the measures in 1979, taking into account any storage costs. The Commission data for 1980, although disregarding storage, confirm this pattern on every point (Annex XII b and c).

⁽¹⁾ In its utilization summaries (cf. Annex IV) the Commission includes imported New Zealand butter among the quantities consumed on the internal market and benefiting from aid to butter consumption. Had this factor been taken into account in the present report, the quantities would have been 799 000 tonnes subsidized in 1979 and 664 000 tonnes in 1980 and the corresponding expenditure would have been increased by 212 million ECU in 1979 and 102 million ECU in 1980.

6.2.2. Exports

As already stated in the introduction to the report (paragraph 1.3.3), any measure of the effectiveness of the disposal measures on the internal market involves comparison with the cost of the exports made with the aid of Community refunds.

In terms of unit and global costs, this comparison was made above in paragraph 6.1, and it is not especially favourable to exports, despite a marked tendency towards a fall in refund rates in 1980.

The situation is completely different if the marginal costs are considered, i.e. the cost of the additional consumption brought about by the aid measures: it may be assumed, in fact, that every export with the aid of refunds represents an additional quantity sold and may be assigned a physical effectiveness rate of 100, while only a part, and sometimes a very small part, of each internal disposal measure represents additional consumption.

Therefore, if storage costs are not taken into account, only internal measures such as aid for consumption by armed forces and organizations, of limited application in any case, appear less expensive than export. If, on the contrary, storage costs are taken into account and given that the vast majority of exports come directly from the market, external sales appear as cheaper by far than any of the internal measures.

This conclusion must be qualified in one respect only: the absorption capacity of the external market. It is not certain whether, in 1979 or 1980, the latter would have absorbed, at the same cost, the 200 000 or so additional tonnes that would have been available in the absence of any internal measure. The conclusion nevertheless remains that it was proper, in terms of sound financial management, to favour exports in the situation prevailing.

6.2.3. Financial effectiveness

- (a) In the market situation prevailing in 1979, the external sale of an additional kilogram of butter, considering the fact that virtually none of the exports involved storage costs, proved far less expensive than any disposal measure on the internal market.
- (b) Where intervention was still necessary, resulting in higher public stocks, it proved relatively

TABLE 7
Marginal cost of disposal measures in 1979

	Rate of effectiveness in %	Unit cost		Cost of additional 100 kg	
		without storage	including storage	without storage	including storage
	column 1	column 2	column 3	column 4 $\frac{(2)}{(1)} \times 100$	column 5 $\frac{(3)}{(1)} \times 100$
A. Butter in storage					
Armies/organizations	95	170	207	179	218
Pastry products/bakers' wares: public	88	179	215	203	244
private		174	197	197	233
Ice-cream: (public)	55	128	164	232	298
Concentrated butter: public	50	170	207	340	414
private			193		386
B. End-of-year operations (1979/80)					
France: public	12.9	150	186	1 162	1 442
private			173		1 341
Germany, the Netherlands and Belgium: public	36.4	90	126	247	346
private			113		310
Italy: market	18		90	500	500
C. Butter on the market					
Aid to consumption					
United Kingdom	6.9	46	46	666	666
Other countries: Ireland, Denmark and Luxembourg	11	50	50	454	454
		36	36	327	327
Social assistance	20	60	60	300	300
D. External sales					
Export refunds:					
— stocks ⁽¹⁾	100	199	236	199	236
— market		199	199	199	199

(1) Each 100 kg withdrawn from stock for export-bore a net storage cost of 36.6 ECU. These quantities represent at the most 6% of exports.

effective to use disposal measures designed for a specific type of market, such as organizations, or pastry and ice-cream.

- (c) The sale at reduced prices of butter in private storage proved more profitable than disposal of butter in public storage on the same terms.
- (d) Measures to encourage the direct consumption of butter on the market by means of aid to consumption, since they involve large amounts with a low level of Community aid and no national aid, as is the case in the United

Kingdom, appear to be among the most expensive. In the last analysis, they are aid to the consumer and not disposal measures. The end-of-year measures also tend to be of the same nature and have not, in fact, been repeated.

- (e) In 1980, despite a very different situation due to the development of the external market, the relative effectiveness of the measures remained the same: export is, for the time being, by far the most effective measure in terms of marginal cost, i.e. of the budgetary expenditure for each additional quantity sold.

7. GENERAL CONCLUSIONS

From the preceding observations a number of general conclusions may be drawn for all of the measures for the disposal of butter at reduced prices examined in this report.

- (a) The objective of the regulations which are still today the basis for the various measures was the disposal of Community butter production, which had outstripped the needs of the internal market, by encouraging additional consumption: this objective has not been achieved, since consumption has continued to decline. The measures, however, have until recently proliferated and their cost has increased considerably, as if the initial objective was gradually but surreptitiously being replaced by another: that of slowing down the increase in the price of butter for the benefit of the Community consumer. Such a development today requires a clear choice and thus, where necessary, a revision of the basic legislation, if only because any assessment of the measures' effectiveness presupposes, from the outset, a specific objective.
- (b) Whatever the objective pursued, it is absolutely essential that the Commission adopt a permanent and reliable system of measuring the results obtained: this is not, at present, the case, since the persons responsible for management assemble the data necessary for their decisions or proposals solely from information provided, with some delay, by the Member States themselves, and with no guarantee as to its homogeneity or objectivity.
- (c) With regard to the officially declared objective and in so far as information on effectiveness is nevertheless available and accepted in Community discussions, there appears to be considerable variation in the marginal cost of the different measures, i.e. of the cost per additional quantity marketed.
- (d) A rational management of the measures implies not only an assessment of their economic and financial effectiveness but also a strict appraisal of the actual circumstances in which they are implemented, in particular to ensure observance of the legal conditions and to prevent the butter being used for a purpose other than that intended by the regulations.

The above comments were adopted by the Court of Auditors at its meeting of 18 March 1982.

Luxembourg, 13 April 1982.

For the Court of Auditors

The President
Pierre LELONG

LIST OF ANNEXES

- I. Butter disposal measures (by year)
- II. Butter disposal measures (by Member State)
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ANNEX I

BUTTER DISPOSAL MEASURES

Summary by measure

(tonnes)

	1973	1974	1975	1976	1977	1978	1979	1980
Armies ⁽¹⁾	5 871	8 552	8 866	9 644	7 819	8 214	8 584	8 609
Non-profit-making bodies ⁽¹⁾	8 188	14 468	14 649	17 986	20 495	22 396	24 384	26 227
Pastry products/ice-cream (public)	84 196	80 354	76 736	67 305	71 774	103 430	110 302	141 982
(private) ⁽¹⁾	—	—	—	—	—	—	7 847	10 406
Concentrated butter (public)	6 610	4 717	4 222	3 554	2 500	2 804	1 332	2 421
(private) ⁽¹⁾	—	—	610	216	—	1 412	2 636	2 303
A.	104 865	108 091	105 083	98 705	102 588	138 256	155 085	191 948
Christmas 1977/78 ⁽¹⁾	—	—	—	—	64 594	—	—	—
Disposal 1978/79 ⁽¹⁾	—	—	—	—	—	65 400	—	—
Disposal 1979/80 ⁽¹⁾	—	—	—	—	—	—	156 900 ⁽⁴⁾	—
Aid to consumption Italy ⁽¹⁾	—	—	—	—	7 000	6 700	—	—
Aid to consumption United Kingdom ⁽¹⁾	—	—	—	—	—	51 025	—	—
B.	—	—	—	—	71 594	123 125	156 900	—
Social assistance ⁽³⁾	679	1 847	1 451	1 355	3	66	3 705	6 000
Aid to consumption ⁽²⁾	266 396	547 839	531 183	480 391	329 906	465 503	368 622	349 400
New Zealand butter ⁽¹⁾	130 895	117 358	119 816	121 947	137 713	126 501	119 947	100 495
C.	397 970	667 044	652 450	603 693	467 622	592 070	492 274	455 895
Grand total	502 835	775 135	757 533	702 398	641 804	853 451	804 259	647 843
For the record: + 2.5 u.a./100 kg (+ 3 u.a. for 1973 and 1974) ⁽¹⁾	9 322	11 396	—	5 690	58 160	8 416	28 690	40 928

Sources: (1) DG VI — D 1.

(2) IBAP, Danish Court of Auditors, Department for Rural Economy of Luxembourg, Ministry of Agriculture, Ireland.

(3) Ministry of Agriculture, Ireland.

(4) Volume provided for in the programme.

ANNEX II

BUTTER DISPOSAL MEASURES 1973 to 1980

(tonnes)

	Belgium	Denmark	Germany	France	Ireland	Italy	Luxembourg	Netherlands	United Kingdom	EEC
Armies (1)	5 354	—	30 691	20 285	5	833	2 534	2 646	3 811	66 159
Non-profit-making bodies (1)	19 316	6 403	71 603	20 790	89	863	1 372	5 871	22 486	148 793
Pastry products/ice-cream	23 534	21 293	483 790	93 690	—	3 290	2 596	79 006	37 133	754 332
Concentrated butter	2 927	—	32 031	—	—	—	143	76	160	35 337
A.	61 131	27 696	618 115	134 765	94	4 986	6 645	87 599	63 590	1 004 621
Christmas 1977/78										
Disposal 1978/79	23 506	4 300	129 805	91 583	3 600	19 000	200	14 900	—	286 894
Disposal 1979/80										
Aid to consumption										
Italy	—	—	—	—	—	13 700	—	—	—	13 700
Aid to consumption										
United Kingdom	—	—	—	—	—	—	—	—	51 025	51 025
B.	23 506	4 300	129 805	91 583	3 600	32 700	200	14 900	51 025	351 619
Social assistance (3)	—	—	—	—	15 106	—	—	—	—	15 106
Aid to consumption (2)	—	128 722	—	—	283 993	—	13 800	—	2 912 725	3 339 240
New Zealand butter	—	—	—	—	—	—	—	—	974 672	974 672
C.	—	128 722	—	—	299 099	—	13 800	—	3 887 397	4 329 018
Grand total	84 637	160 718	747 920	226 348	302 793	37 686	20 645	102 499	4 002 012	5 685 258
For the record:										
+ 2.5 u.a./100 kg										
(+ 3 u.a. for 1973 and 1974)	11 802	5 971	7 727	62 650	2 603	4 514	—	4 015	63 320	162 602

Sources: (1) DG VI—D 1.

(2) IBAP, Danish Court of Auditors, Department for Rural Economy of Luxembourg, Ministry of Agriculture, Ireland.

(3) Ministry of Agriculture, Ireland.

ANNEX III**SALE OF BUTTER FROM PUBLIC STOCKS AT A HIGHER PRICE**

(Normal sale)

This measure is used by operators who are obliged to meet short-term contracts for a certain quality of butter which they do not have available.

Regulation (EEC) No 2315/76 allows for the intervention agencies in this event to sell butter in public storage under the following conditions:

- sale price equal to the purchase price applied by the intervention agency on the same day, plus a fixed sum of 2.5 u.a. (3.02 ECU)/100 kg. In 1973 and 1974 this amount was 3 u.a. (3.62 ECU)/100 kg,
- the butter disposed of must have been in storage for at least six months.

The 2.5 u.a. (3.02 ECU)/100 kg covers only a small part of the storage expenses incurred by the intervention agency for the butter marketed for at least six months. Nevertheless, in the absence of such a transaction, the stored butter would, in the end, be disposed of anyway at an even lower price, since it would always be lower than the intervention price.

In 1979, 28 690 tonnes of butter from public stocks were sold under these conditions and in 1980 over 40 900 tonnes.

ANNEX IV

BUTTER SUPPLIES AND DISAPPEARANCE

('000 tonnes)

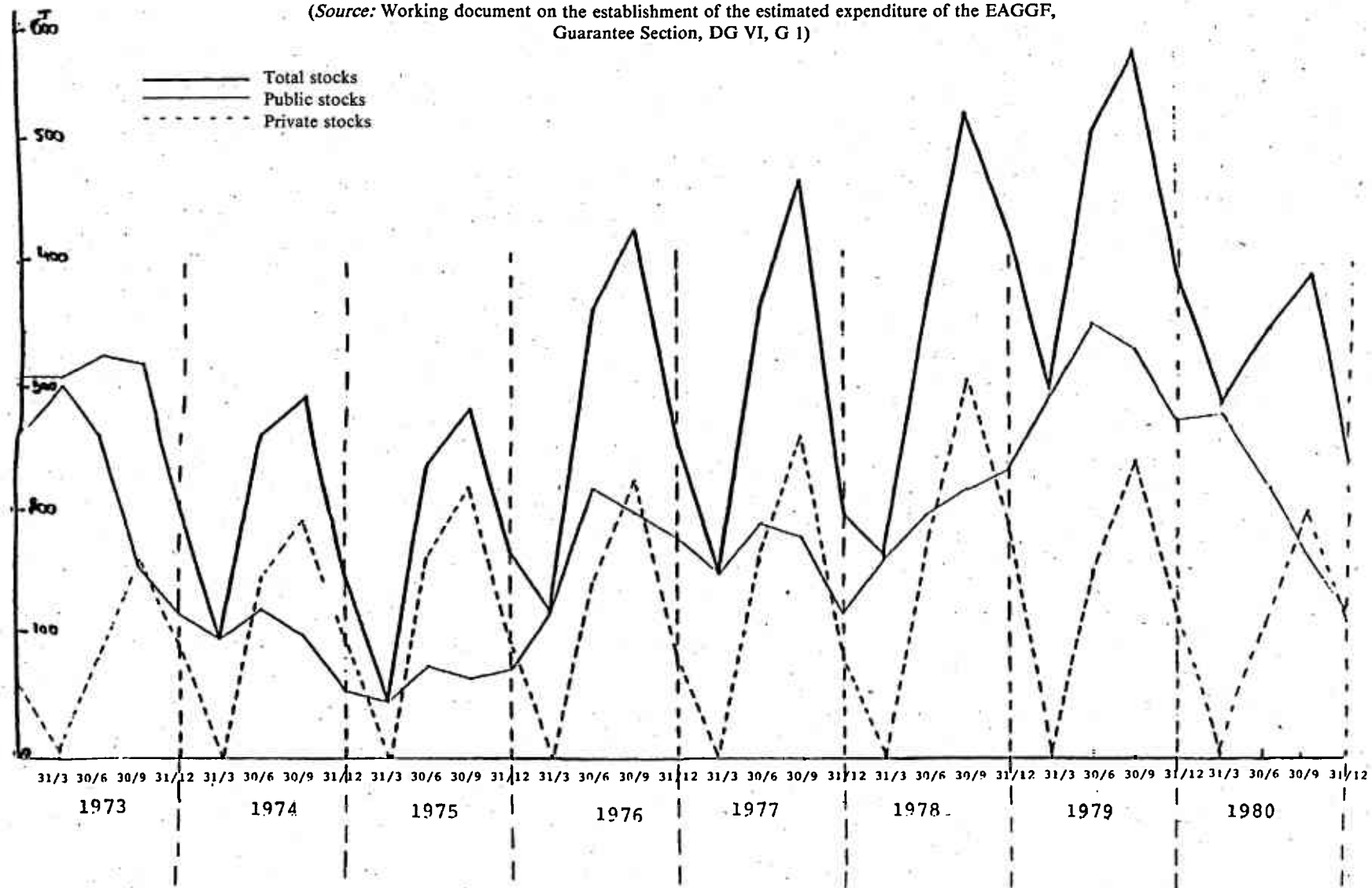
	Statistics							
	1973	1974	1975	1976	1977	1978	1979	1980
Stocks at 1 January	393	201	147	164	255	245	418	372
of which: public		117	53	71	176	117	231	271
private		84	94	93	79	78	187	101
estimate of pipeline stock United Kingdom	—	—	—	—	—	50	—	—
— Production	1 733	1 663	1 727	1 803	1 827	1 974	2 009	2 010
— Import	150	154	159	164	136	130	120	97
— Available	2 276	2 018	2 033	2 131	2 218	2 349	2 547	2 479
— Domestic utilization (without the losses)	1 665	1 774	1 778	1 689	1 689	1 656	1 697	1 609
of which: — butter neither benefiting from aids nor special measures	1 544	1 123	1 124	1 103	1 199	922	906	950
— butter benefiting from aid to consumption		510	536	481	320	474	496	447
— butter benefiting from special disposal measures (a)		651	654	586	490	734	791	659
	121	141	118	105	170	260	295	212
— Exports	410	99	66	157	269	254	500	631
of which: — commercial	306	67	30	110	218	191	440	577
— food aid (buteroil expressed as butter)	18	32	36	47	51	63	60	54
— special measures	86	—	—	—	—	—	—	—
— Stocks at 31 December	201	147	164	255	245	418	372	239
of which: public		53	71	176	117	231	271	128
private		94	93	79	78	187	101	111
estimate of pipeline stock United Kingdom		—	—	—	50	—	—	—
— Statistical discrepancy, losses and variations in pipeline stock		-2	25	30	11	5		
Average public stocks rounded off		99	61	164	171	186	303	226

(a) Including the quantities disposed of with the aid for persons receiving social assistance.

Source: Working document on the establishment of the estimated expenditure of the EAGGF for 1982 (Doc. VI/100/81, Rev. I of 31 August 1981).

ANNEX V EVOLUTION OF BUTTER STOCKS

(Source: Working document on the establishment of the estimated expenditure of the EAGGF, Guarantee Section, DG VI, G 1)



ANNEX VI

PURCHASES OF BUTTER BY THE INTERVENTION AGENCIES
IN THE EUROPEAN ECONOMIC COMMUNITY

(tonnes)

Country	1973	1974	1975	1976	1977	1978	1979	1980
Germany	153 250	63 820	57 975	125 914	111 791	199 213	193 275	108 273
France	126 498	40 700	54 079	67 555	17 903	35 211	34 631	11 887
Italy	—	—	—	—	4 993	—	—	10
Netherlands	28 919	—	17 627	20 883	28 540	33 524	27 395	439
Belgium	20 372	8 807	11 739	11 510	8 345	22 372	22 918	2 649
Luxembourg	2 072	290	634	1 212	1 936	2 835	3 023	1 173
United Kingdom	20 948	—	—	19 781	18 139	38 625	48 141	18 983
Ireland	—	—	—	—	—	—	—	2 903
Denmark	32 084	2 742	2 125	9 746	4 508	9 763	1 661	—
EEC total	384 153	116 359	144 179	256 601	195 860	341 543	331 044	146 317

Source: Annual report of FORMA.

ANNEX VII

PRICES: ANNUAL AVERAGE RATE OF INCREASE — 1974 TO 1979

	Germany	France	Italy	Netherlands	Belgium	Luxembourg	United Kingdom	Ireland	Denmark	EUR 9	EUR 8 (excluding United Kingdom)	EUR 6
Total consumer prices	+4.4	+ 9.8	+14.7	+6.5	+7.1	+7.0	+15.0	+14.6	+ 9.4	+10.1	+8.8	+9.2
Foodstuffs	+3.3	+10.1	+15.5	+5.2	+6.2	+6.6	+15.9	+15.0	+10.0	+10.8	+9.4	+9.3
Butter, animal and vegetable fat	+3.2	+ 7.3	+13.7	-0.3	+5.5	+5.5	+22.0	+15.0	+ 3.6	+ 7.7		
Butter	+3.4	+ 9.1	+11.9	-5.2	+5.2	+3.5	+23.9	+11.7	+ 4.6	+12.6	+7.1	+7.0

Source: Statistical office of the European Communities.

ANNEX VIII

EVOLUTION OF PER CAPITA BUTTER CONSUMPTION

(gross human consumption kg per capita)

Member State	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Belgium/Luxembourg	9.6	9.6	8.7	8.7	9.5	9.3	9.3	9.6	9.6	8.5	9.7	8.5
Denmark	9.2	9.1	8.7	8.6	8.2	8.9	8.7	7.7	8.4	9.8	10.6	10.5
Germany	8.5	8.8	7.9	7.1	7.3	7.1	6.7	6.4	6.6	6.8	7.0	7.1
France	9.2	9.0	8.3	8.6	8.8	9.3	9.4	9.5	9.6	9.3	9.8	9.6
Ireland	12.6	12.2	13.4	12.6	12.8	13.3	11.8	12.7	12.2	12.1	11.6	12.3
Italy	2.0	2.0	2.0	2.0	2.2	2.2	1.9	2.2	2.1	2.0	2.0	2.0
Netherlands	2.8	2.8	2.0	2.1	1.9	2.3	4.2	2.8	3.5	2.4	3.3	3.6
United Kingdom	9.1	8.7	8.0	7.2	7.6	9.0	9.3	8.0	7.5	7.3	6.8	5.8
EUR 9	7.2	7.1	6.6	6.2	6.5	6.9	6.9	6.5	6.5	6.3	6.5	6.2

Source: Data supplied by Eurostat.

ANNEX IX

EVOLUTION OF PER CAPITA MARGARINE CONSUMPTION

(gross human consumption kg per capita)

Member State	1973	1974	1975	1976	1977	1978	1979	1980
Belgium/Luxembourg	11.7	11.5	11.1	10.5	10.2	9.7	9.5	9.4
Denmark	16.1	15.1	15.0	11.4	12.0	11.6	11.7	11.9
Germany	7.6	7.6	7.2	7.7	7.6	7.5	7.3	7.3
France	2.9	2.9	2.9	3.0	3.1	3.2	3.2	3.4
Ireland	3.9	3.5	3.5	3.7	4.0	3.9	4.2	4.1
Italy	0.5	0.6	0.6	0.6	0.6	0.7	0.8	0.8
Netherlands	14.7	13.4	13.5	13.3	13.1	12.5	12.0	12.0
United Kingdom	4.9	4.5	4.4	5.2	5.7	5.3	6.0	6.4
EUR 9	5.2	5.0	4.9	5.1	5.2	5.1	5.1	5.3

Source: Data supplied by Eurostat.

ANNEX X**A. Calculation of the cost of public storage (one year/1979)**

Basis: 1 tonne

Period: 365 days

Intervention price: 2 849.7 ECU/tonne.

(a) entry costs:

12.03 ECU/tonne

(b) storage costs: 0.33 ECU/tonne/day:

120.45 ECU/tonne

(c) financing costs at 8% per annum:

227.98 ECU/tonne

(d) withdrawal charges:

5.50 ECU/tonne

365.96 ECU/tonne

B. Calculation of the cost of private storage (six months/1979)

Basis: 1 tonne

Period: 180 days

Intervention price: 2 849.7 ECU/tonne

(a) fixed cost per tonne:

20.43 ECU/tonne

(b) cost of storage: 0.375 ECU/tonne/day:

67.50 ECU/tonne

(c) financing at 9.5% per annum:

135.37 ECU/tonne

(d) fixed amount per tonne for quality risk for a minimum storage period of four months:

9.70 ECU/tonne

233.00 ECU/tonne

ANNEX XI

COST OF THE SPECIAL MEASURE ON IMPORTS OF NEW ZEALAND BUTTER

In 1977, in reply to a question in Parliament, the Commission provided certain information indicating the basis of such a calculation⁽¹⁾.

On the basis of this information, the following calculation could be made for 1977 and for 1979, considering that imports from New Zealand come onto a European market with a structural surplus and that they entirely replace European butter on the British market. The European butter is therefore inevitably offered to intervention, stored, and then either disposed of on the internal market, at a reduced price, or exported with the aid of refunds. As the latter measure is the least expensive it has been adopted to calculate a minimum cost to European finances of the special system applicable to New Zealand butter.

Refunds:

1977: 137 756 tonnes × 1.597.5 u.a. × 1.208 953 (2)	= 266 048 495 ECU
1979: 119 947 tonnes × 1 989.0 ECU	= 238 574 583 ECU

Storage (one year):

1977: 137 756 tonnes × 300.0 u.a. × 1.208 953 (2)	= 49 962 159 ECU
1979: 119 947 tonnes × 365.96 ECU	= 43 895 804 ECU

Monetary compensatory amounts (granted on imports of New Zealand butter):

1977: 56 100 000 u.a. (1) × 1.208 953 (2)	= 67 822 263 ECU
1979: (3)	= 9 659 000 ECU

Special levy (collected on imports of New Zealand butter):

1977: 106 700 000 u.a. (1) × 1.208 953 (2)	= 128 995 285 ECU
1979: 64 400 tonnes × .594 ECU = 38 253 600	
35 060 tonnes × 703 ECU = 24 647 180 (3)	
20 487 tonnes × 836.8 ECU = 17 143 522	= 80 044 302 ECU

	1977	1979
Refunds	266 048 495	238 574 583
Storage	49 962 159	43 895 804
Monetary compensatory amounts granted	67 822 263	9 659 000
	383 832 917	292 129 387
Levies	- 128 995 285	- 80 044 302
Total net cost	254 837 632	212 085 085
Unit net cost	1 850 ECU/tonne	1 768 ECU/tonne

(1) Written Question No 938/77 of 23 December 1977 (OJ No C 88, 11. 4. 1978). The Commission mentions 137 756 tonnes, which differs very slightly from the total given on page 12.

(2) Conversion rate from u.a. into ECU.

(3) The monetary compensatory amounts and the levies calculated take account of the fact that in 1979 imports were in fact suspended until 19 July.

ANNEX XII (a)

MEASURES FOR THE DISPOSAL OF BUTTER IN THE COMMUNITY (in 1979)

Nature of the measure	Quantity sold in 1979 (in 1 000 tonnes)	Current level of aid or price reduction borne by the EAGGF (ECU/100 kg)	Estimate of annual cost on basis of current aid (million ECU)	Rate of effectiveness (assessment)	EAGGF marginal cost (per 100 kg of additional butter) (ECU/100 kg)
Sale to army and similar forces	8.6	170.5	14.7	95	180
Sale to non-profit-making organizations	24.4	170.5	41.6	95	180
Commercial export of butter	302.1	181.0	546.8	100	181
Commercial export of butteroil (in butter equivalent)	197.0	193.0	380.2	100	193
Sale to cake shops and bakers	84.0	190.0	159.6	88	215
Sale to ice-cream producers	32.0	134.0	42.9	55	244
Food aid: butteroil (in butter equivalent)	59.5	300.0 (3)	178.5	—	300
Persons receiving social assistance	5.0	60.4	3.0	20	302
Sale of concentrated butter	4.0	170.5	6.8	50	340
Aid to consumption (1)					
— United Kingdom	285.0 (2)	45.94	130.9	6.9	660
— Denmark	41.0	50.0	42.0	11.0	380
— Ireland	40.0	50.0			
— Luxembourg	3.0	36.75			

(1) See Annex XII (c).

(2) Not including butter from New Zealand.

(3) Only the amount of the refund falls to the expense of the EAGGF; the other costs are borne by the 'Aid to developing countries' budget.

Source: Working document DG VI, D 1 of 1 March 1980.

ANNEX XII (b)

MEASURES FOR THE DISPOSAL OF BUTTER IN THE COMMUNITY (in 1980)

Nature of the measure	Quantity sold in 1980 (1 000 tonnes)	Current level of aid or price reduction borne by the EAGGF (ECU/100 kg)	Estimated annual cost on basis of current aid (million ECU)	Rate of effectiveness (assessment)	EAGGF marginal cost (per 100 kg of additional butter) (ECU/100 kg)
Sale to army and similar forces	8.6	170.5	14.7	95	180
Sale to non-profit-making organizations	26.2	170.5	44.7	95	180
Commercial export of butter	348.4	105.0	365.8	100	105
Commercial export of butteroil (in butter equivalent)	228.7	118.9	271.9	100	119
Sale to cake shops and bakers	108.1	171.0	184.9	75	228
Sale to ice-cream producers	44.2	111.0	49.1	60	185
Food aid: butteroil (in butter equivalent)	54.4	118.9 (3)	64.7	—	119
Persons receiving social assistance	6.0	60.4	3.6	20	302
Sale of concentrated butter	4.7	170.5	8.0	80	213
Aid to consumption (1)					
— United Kingdom	265.0 (2)	45.94	121.7	6.2	740
— Denmark	41.5	50.0	20.8	19.0	264
— Ireland	40.4	50.0	20.2	18.4	273
— Luxembourg	2.5	36.83	0.9	9.0	410

(1) See Annex XII (c).

(2) Not including butter from New Zealand.

(3) Only the amount of the refund falls to the expense of the EAGGF; the other costs are borne by the 'Aid to developing countries' budget.

Source: Working document DG VI, D 1 of 16 March 1981.

ANNEX XII (c)

SUBSIDY FOR THE CONSUMPTION OF BUTTER (in 1980)

		Denmark	Ireland	United Kingdom	Luxembourg
1.	Total subsidy (ECU/100 kg) (a)	96.20	92.83	45.94	49.00
	of which: EAGGF contribution	50.00	50.00	45.94	36.83
	national contribution	46.20	42.83	—	12.17
2.	Total butter consumption in 1980 (tonnes) (b)	41 500	40 391	265 000 (d)	2 500
3.	Total cost to EAGGF (million ECU)	20.75	20.20	121.70	0.92
4.	Price elasticity of demand	-0.50	-0.45	-0.37	-0.55
5.	Reduction of consumption in the event of non-application of the subsidy				
	— %	19	18.4	6.2	9.0
	— in tonnes } (c)	7 865	7 400	16 400	224
6.	Total marginal cost (ECU/100 kg)	508	507	740	550
	EAGGF cost (ECU/100 kg)	264	273	740	410

(a) Communicated by the Member States, March 1981.

(b) Communicated by the Member States, December 1980.

(c) On the basis of a normal consumer price of 350 ECU/100 kg in Denmark and Luxembourg, and 320 ECU/100 kg in the United Kingdom and Ireland.

(d) Not including New Zealand butter.

Source: Working document, DG VI, D 1 of 16 March 1981.

COMMISSION

Comments on the Court of Auditors' report on 'Sales of reduced-price butter within the Community'

General observations on the main points and the conclusions

1. *Preliminary comments*

This report examines the disposal, by special and generally expensive measures, of the surplus part of butter production. The Court of Auditors' report contains a detailed survey and a valuable analysis of the various measures for the disposal of butter at reduced prices.

It is the Commission's view that certain conclusions drawn by the Court of Auditors should be qualified. Further, the data on which the Court bases its analysis end at 1979 and therefore do not take sufficient account of recent developments. Thus the situation in the butter sector has changed considerably, particularly due to a reduction in the quantities of this product in public storage. Stocks fell from 270 750 tonnes at 31 December 1979 to 9 986 tonnes at 31 December 1981. Expenditure for storage and disposal operations, which amounted to 657.9 million ECU in 1979 fell to 433⁽¹⁾ million ECU in 1981.

2. *The objective of the measures*

In this report, the Court expresses the view that 'the objective of the legislation has not been achieved, for instead of increasing, consumption can be seen to have declined'. The Commission would like to point out that the main objective of the legislation (Article 12 of Regulation (EEC) No 804/68) is the

⁽¹⁾ Provisional figure based on 11 months of recorded expenditure and estimated expenditure for the 12th month.

disposal of surplus production. It was impossible for consumption to increase in absolute terms due to the structural development of diminishing consumption of oils and fats in general and the increased competition between butter and vegetable-based oils and fats. In this context, the sale of 200 000 tonnes of surplus butter resulting from these measures in 1979 (12% of consumption) constitutes a check on the decline in internal consumption. The effect of these measures should be assessed in the light of what would have been the probable development of consumption in their absence and in comparison with the other possibilities of disposal.

3. *Cost of the measures*

The Court of Auditors mentions that the average cost of the measures divided by the additional quantity disposed of varies considerably according to the measure in question. This finding is correct, but care is needed if conclusions are to be drawn as to future changes in the measures. A typical example is the sale of butter to the armed forces. This measure is extremely effective (95%) and its average cost is not too high (180 ECU/100 kg). An increase in aid would not, however, result in an appreciable increase in consumption. A similar effect may equally occur in the case of the other measures. Once a certain threshold of saturation is reached, increase of the aid results in hardly any increase in consumption.

4. *Exports*

The Court finds that, considered as an additional means of disposal, export with refund is 100%

effective. It stresses therefore that, considering the lower level of effectiveness of internal disposal measures, export definitely appears to be the least expensive of all the internal measures. This finding is also correct, but here again any conclusions should be drawn with care. The removal of internal measures would necessitate additional exports of 200 000 tonnes (an extra $\pm 40\%$ over present exports). There is reason to believe that such an additional quantity could only be disposed of on the world market at a price lower than that at present obtained, with even the risk of a collapse of prices on the world market. In that case, the basis of the present assessment would be radically altered.

5. *Assessment of the effectiveness of the measures*

As far as assessing the economic effectiveness of the measures is concerned, in particular determining the average cost per additional quantity disposed of or, what is more difficult, assessing the additional quantity which it is hoped will be disposed of in the event of intensification of the existing measure, the Commission departments are not in a position to carry out detailed enquiries for all these measures or in each Member State. The Commission, therefore, must limit itself to enquiries, calculations and estimates made by administrative departments in the Member States or derived from other specialized sources. Together with the Commission's data on quantities, conditions of sale, costs, etc., this information affords an overall view (admittedly

sometimes approximate) which has improved over the years and which the Commission's departments are still seeking to improve and to supplement.

Considerable efforts have also been made recently to harmonize and speed up the transfer of information from the Member States, as illustrated by recent Commission Regulations. There is thus a minimum of delay in obtaining information for day-to-day management. In particular with regard to tenders, the Commission receives the necessary details (level of stocks, prices and other market factors) at the time of the decision.

6. *The audit provisions*

It is first and foremost the Member States who are responsible for implementing the various disposal measures. Their controls must comply with the requirements of Community legislation. How detailed these rules are depends upon the scale of the measure and the fraud risks involved. The Member States inform the Commission of the audit and control procedures used and these are examined by the Commission's departments.

The latter may also carry out special audits at any time, in particular where there is doubt as to the regularity of the operations and controls. The system of audit and control used by the Member States is also examined when checks are made for the purposes of clearance of accounts.

THE AGRICULTURAL SITUATION IN THE COMMUNITY

1981 Report

This report is the seventh published version of the annual Report on the Agricultural Situation in the Community. It contains analyses and statistics on the general situation (economic environment and world market), the factors of production, the structures and situation of the markets in the various agricultural products, the obstacles to the common agricultural market, the position of consumers and producers, and the financial aspects. The general prospects and the market outlook for agricultural products are also dealt with.

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