

# Official Journal

of the European Communities

ISSN 0378 - 6986

C 234

Volume 27

4 September 1984

English edition

## Information and Notices

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Notice No

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Special Report No 2/84 of the Court of Auditors (see inside back cover).

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## I

*(Information)***COURT OF AUDITORS**

**SPECIAL REPORT OF THE COURT OF AUDITORS**  
**on the operation of the common organization of the market in sheepmeat**  
**(84/C 234/01)**  
**(Observations, Article 206a of the EEC Treaty).**

This report was adopted by the Court of Auditors at its meeting of 19 July 1984, in compliance with Article 206a of the Treaty establishing the EEC. Previously, on 10 April 1984 it was sent for comment to the Commission, whose replies are attached.

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## 1. Objectives of sheepmeat regime

1.1. When the sheepmeat regime was introduced, one of its immediate purposes was to facilitate a reconciliation between the inherent differences which existed in the two principal markets, namely the United Kingdom and France. The United Kingdom market is heavily influenced by imports of low-priced frozen sheepmeat, mainly from New Zealand. However, the preamble to the basic Regulation ((EEC) No 1837/80 <sup>(1)</sup>) also cited as one of the objectives of the common organization of the market in sheepmeat the establishment of a single market based on a common price system. In the longer term, therefore, it was clearly hoped that the Regulation would make it possible to establish a common market for sheepmeat within the terms of the Treaty and the common agricultural policy. In addition, the preamble foresaw the need to respect the Community's international obligations in this sector.

## 2. Objectives of the present enquiry

2.1. In the light of experience to date the present enquiry considers how far the regime is likely to achieve its objectives and at what cost. In pursuing this enquiry at such an early stage of this new market, the Court took account of the requirements of Article 34 of Council Regulation (EEC) No 1837/80 which stipulates that the Commission shall submit to the Council before 1 October 1983 <sup>(2)</sup> a report on the functioning of the common organization of the market in order to enable the Council, acting on a proposal from the Commission, before 1 April 1984 to take appropriate measures, if required. In fact, proposals for modification of the aforementioned Regulation were presented by the Commission with its price proposals for 1984 but were not accepted by the Council (see paragraph 6.4). In those circumstances, the Court draws special attention to the observations contained in the present report.

## 3. Production and consumption of sheepmeat

3.1. In the majority of sheepmeat producing countries production is for the domestic market. Exceptions to this are Australia and New Zealand who together account for approximately 80 % of total

world exports of mutton and lamb. Sheepmeat production is relatively unimportant in the Community representing only approximately 4 % of the Community's total production of meat.

3.2. *Annex I*, which covers the joint sheepmeat/goatmeat market, gives the main Community statistics for production, consumption and imports. With the exception of 1981, recent years have been marked by persistent if modest increases in production throughout the Community. This trend is expected to continue under the existing regime.

3.3. The annual level of sheepmeat consumption in the Community has remained relatively stable over the last 20 years at between 900 000 and 970 000 tonnes. Consumption trends have shown a certain price sensitivity. Price elasticity of demand has been estimated at -0,9 in France and -1,4 in the United Kingdom <sup>(3)</sup>.

3.4. With a relatively stable level of consumption and with an increasing level of production the Community's level of self-sufficiency has increased from 61 % in the early 1970's through 69 % (late 1970's) to the current level (after Greek accession) of approximately 76 %. As there are no foreseeable prospects for increased consumption if current market price levels are to be maintained and as production is likely to maintain an upward trend, the level of Community self-sufficiency can be expected to rise in the foreseeable future.

3.5. The gap between Community consumption and production is met by imports, principally from New Zealand. There is also a smaller but important trade in young live lambs from East European countries. The Commission has negotiated a series of voluntary restraint agreements with the principal exporters. These voluntary restraint agreements provide for the following annual quantities:

Origin	Nature of product	Tonnes
New Zealand	Mostly frozen	245 000
Australia	Frozen	17 500
Argentina	Frozen	23 000
East European and others	Mostly live animals	34 500
		320 000

<sup>(1)</sup> OJ No L 183, 16. 7. 1980.

<sup>(2)</sup> This report was in fact issued on 31 October 1983 (ref. COM(83) 585 final).

<sup>(3)</sup> Source: *Agra Europe Special Report No 15, The International Trade in Lamb and Mutton* (September 1982).

3.6. The total amounts provided for under the voluntary restraint agreements are considerably in excess of the gap between Community production and consumption, but in recent years actual imports, especially from New Zealand, have tended to be below the totals allowable under the agreements. In COM(83) 585 final, the Commission has proposed negotiation of a reduction in the amounts allowed under the agreements combined with the introduction of a minimum import price.

#### 4. Principal elements of support system

4.1. The basic Regulation sets out a support system of which the principal elements are:

- (a) premium payments to producers to cover the gap between market prices and 'reference prices', which are determined separately for different regions of the Community <sup>(1)</sup>,
- (b) harmonization of reference prices over four years at the French level, in accordance with criteria which have involved varying annual increases in the regional reference prices, resulting in the gap between them gradually narrowing,
- (c) two distinct forms of premium payment, i.e. ewe premium and variable slaughter payment – the latter so far having been applied in only one region,
- (d) a charge equivalent to the variable premium (clawback) is levied on exports from the region concerned,
- (e) the possibility of applying intervention buying for Member States which do not apply the variable slaughter premium (this possibility has not yet been applied in practice),
- (f) limitation of imports by means of voluntary restraint agreements,
- (g) disposal measures established by the basic Regulation which have not as yet been applied.

4.2. The cost of the regime has risen from 53,0 million ECU in 1980 to over 250,0 million ECU in 1982 and 306,0 million ECU in 1983 (see *Annex III*).

<sup>(1)</sup> The regions are defined as follows:

region 1: Italy; region 2: France; region 3: Belgium, Denmark, Federal Republic of Germany, Luxembourg, Netherlands; region 4: Ireland; region 5: Great Britain, region 6: Northern Ireland; region 7: Greece.

#### 5. Reference prices and harmonization

5.1. Initially reference prices were based on regional market prices (with the exception of the lower-priced United Kingdom region).

5.2. The guidelines for fixing the reference price (Regulation (EEC) No 1837/80, Article 3, paragraph 2) are as follows:

- (a) situation on the sheepmeat market during the current year;
- (b) prospects for the production and consumption of sheepmeat;
- (c) sheepmeat production costs;
- (d) the market situation on the other livestock product sectors, particularly the beef and veal sector;
- (e) past experience.

5.3. The Council accepted that in the circumstances of the sheepmeat market, harmonization of reference prices, which determine the level of support, could not be achieved immediately, and would need to be staged over four years. *Annex II* shows how reference and market prices have moved within the Community and makes clear that harmonization of reference prices, coupled with the annual price decisions of the Council, has involved an increase for all regional reference prices with the gap between them (through acceleration of the increase in lower-priced regions) gradually narrowing. In almost all cases this acceleration has borne no relationship to regional market prices.

5.4. Thus harmonization of reference prices (a main determinant of the level of support) is a costly exercise largely divorced from the pattern of market prices. It is on the harmonization of the latter, however, that any real progress towards the achievement of a common market in sheepmeat depends.

#### 6. Calculation of premium

6.1. The method of calculating a region's global entitlement to premium ('envelope') is identical for each region. A provisional envelope is calculated on the basis of past production and the difference between reference prices and estimated market

prices per region (the 'notional loss' concept which is unique to the sheepmeat regime). Adjustments if necessary are made later in the light of actual market prices. Each Member State has a choice with regard to the distribution of the overall envelope either to pay an annual ewe premium to producers based on the number of ewes kept by them, or to pay a variable slaughter premium<sup>(1)</sup> on lambs offered for sale. In the latter case, the balance of the envelope, if any, is distributed as a ewe premium. Since from the producers' point of view the variable premium payment is similar in its effects to constant intervention, the basic Regulation excludes intervention purchasing measures from a region which applies this type of premium.

6.2. Until now only region 5 (Great Britain)<sup>(2)</sup> has used the variable slaughter premium system. Under the variable premium system, the Community budget provides the support which in other regions is provided by the consumer in the form of market prices which are higher than those in region 5. Where market prices are below guide level<sup>(3)</sup> (as is the case for region 5), the variable premium system, being a weekly payment, has a natural attraction.

6.3. Region 5 is also, as illustrated below, the market's most significant importer. While harmonization ensures an increasing reference price, the particular circumstances of this region leave the market prices unaffected. The clawback, which is intended to insulate one region of the Community market from the rest, although effectively removing any incentive towards harmonization of market prices between the different Community regions, is an essential mechanism to prevent further disruption of the Community market as long as the system aims to harmonize prices at the French level. The two key factors in establishing Community budgetary expenditure are, as the system operates at present, thus diverging, e.g. the 1983/84 reference price for region 5 was some 40% higher than that established at the beginning of the market in 1980/81 while the average market prices for the 1983/84 marketing year are running

some 40 ECU per 100 kg below the average for the calendar year 1981.

6.4. In document COM(83) 585 final the Commission has made certain proposals designed to limit the cost of the variable slaughter premium. The Commission has proposed that premium be granted only to region 5 as a transitional measure and that the amount of the premium per animal be limited to a percentage of the guide level (25% limitation proposed initially). However, the Council, in fixing prices for the 1984/85 marketing year, while noting the Commission's proposals, decided not to place a limit on the variable slaughter premium until a minimum import price could be negotiated with New Zealand and other third countries.

6.5. *Annex III* gives figures for the budgetary costs of the regime and makes clear the importance of the variable premium in that context.

#### 7. Effectiveness of voluntary restraint agreements

7.1. Given the market statistics outlined in *Annex I*, it is clear that the level of imports at prices far below reference prices affects the possibility of achieving a harmonized market. By all indications the level of Community self-sufficiency will increase and consequently the market requirement for imports will diminish. It has been one of the effects of the sheepmeat regime that producers' confidence in the market's prospects has increased and has resulted in modest production increases in most regions with continuing increases anticipated in certain regions (notably the United Kingdom and Ireland).

7.2. It is not possible to evaluate the operation of the market without making a full appraisal of the crucial impact of the voluntary restraint agreements. They are relevant to disposal problems because the Community, for its part, has given certain undertakings in this context with regard to disposal of intervention stocks and export refunds.

7.3. But their greatest importance to date has been the establishment of a ceiling of 320 000 tonnes. Even if the degree of Community self-sufficiency were to remain static (all indications are to the contrary),

<sup>(1)</sup> From the beginning of the 1984/85 marketing year this premium is limited to region 5.

<sup>(2)</sup> Until 1982/83, the whole of the United Kingdom applied the slaughter premium.

<sup>(3)</sup> The guide price is the name given to the intervention price in regions where the variable premium system is applicable.

this ceiling would exceed market requirements if the exporting countries, in particular New Zealand, were to adopt a more aggressive policy with regard to use of the available quotas.

7.4. At the market's inception in 1980/81, imports remained well below the voluntary restraint agreement quotas and the market was able to operate without serious disruption. However, this stability was displaced during 1982 as the exporting countries who were signatories of the agreements increasingly availed themselves of their quotas. The agreements include safeguard clauses for the Community, but these cannot be applied as long as 'the traditional pattern of presentations' is respected. It is from this source that a very serious threat to the stability of the Community sheepmeat market emanates.

7.5. Since New Zealand is the main supplier under the voluntary restraint agreements, it is particularly important to analyze the trend of imports from this source in recent years.

7.6. Imports from New Zealand had shown a pattern of decline in the years immediately prior to the market establishment and in 1981 were 182 000 tonnes. In 1982 there was a substantial increase to 224 000 tonnes <sup>(1)</sup>, i.e. over 90 % of the voluntary restraint agreement quota. The reason for this has been attributed to New Zealand's difficulties in the Middle Eastern markets where demand for sheepmeat had increased substantially in recent years, but where payment difficulties encountered caused New Zealand exporters to concentrate again on the traditional European market. The great bulk of New Zealand exports have been to Great Britain. At present, France and Ireland are recognized, under the voluntary restraint agreements, as sensitive zones where imports are limited to specific quantities. Concern at the effect of imports, particularly during certain periods, has been expressed by certain other Member States.

#### 8. Disposal measures established by the basic Regulation

8.1. The regulatory framework must be read in conjunction with the terms of the voluntary

restraint agreements. The Regulation provides the following possibilities for dealing with a market surplus:

#### *Export refunds*

8.2. Article 17 of the basic regulation provides for export refunds 'to the extent necessary to enable the products . . . to be exported'.

8.3. The voluntary restraint agreements provide that such assistance be limited to 'traditional shares . . . of world export trade'. However, under a concession which is renewed annually during price negotiations, exports from Region 5 to third countries are not subject to clawback.

#### *Intervention storage*

8.4. Experience in other markets has indicated that once intervention purchasing is initiated, market prices subsequently show no pattern of recovery from that level. Furthermore, the need to freeze intervention stocks would complicate the problem by creating the possibility of placing extra tonnages of this cheaper priced meat on the Community market, thus putting further pressure on the market price levels of Community-produced fresh sheepmeat.

8.5. It is clear nevertheless that in the event of a significant surplus of sheepmeat in the Community, the only measure capable of dealing with such a situation is intervention purchasing. All indications are, however, that such a measure would involve a very heavy charge for the Community budget.

8.6. In addition to the cost of intervention purchasing the Community would still have a liability for ewe premium payments. These are the normal means of support in a region not applying the variable slaughter premium, though the total cost of the ewe premium would be restricted under the Regulation to the difference between intervention and reference prices. For the management of the market, therefore, intervention purchasing can only be regarded as a very expensive last resort.

8.7. The same applies to private storage which, although foreseen as a possibility in the Regulation, is unattractive commercially unless the levels of aid available were considerable.

<sup>(1)</sup> There was, however, some falling off of imports in 1983.

### 9. Particular problems in certain countries

9.1. Italy and Greece are not limited by the application of the 'envelope' principle in determining the amount of premium payable. These regions are entitled to apply ewe premiums equal to that determined in region 2 (France) irrespective of the level of domestic prices where beneficiaries have shown to the competent authority that the lambs born of these ewes will not be slaughtered before two months of age<sup>(1)</sup>.

9.2. There is no indication that market prices for this category of lambs cannot be measured in the price reporting system for which the regime provides. It is difficult therefore to explain this departure from the basic concept contained in Council Regulation (EEC) No 1837/80 that premiums are paid to compensate producers for the difference between the regional reference price and the market price. The possible application of this measure for the first time in the 1983/84 marketing year is likely to involve elements of control beyond those necessary in the payment and control systems of other regions.

9.3. The application, under the original arrangements, of the variable premium (with clawback) in Northern Ireland gave rise to a serious problem of smuggling to the south with a view to benefiting from the higher prices prevailing there and at the same time avoiding clawback. To counter this, Northern Ireland was from 1982 designated a separate region applying only the ewe premium. While a major incentive to illegal cross-border traffic was removed some difficulties persist, as the prices prevailing in the two parts of the island remain substantially different. Furthermore, the new arrangements have opened up new possibilities for illegal traffic between Northern Ireland and the rest of the United Kingdom.

### 10. Overall assessment

10.1. The basic Regulation attempted to reconcile the inherent differences that existed between the continental regions on the one hand and the United Kingdom (and to a lesser extent Ireland) on the other. However, the regulatory framework has

<sup>(1)</sup> Article 5 (4) of Regulation (EEC) No 1837/80, OJ No L 183, 16. 7. 1980 (for Italy) and Regulation (EEC) No 1195/82, OJ No L 140, 20. 5. 1982 (extending the measure to Greece).

tackled the basic problems simply by providing Community support to bridge the price gap between the regions operating the different systems, but the fundamental differences remain. The movement of market prices in the two main regions since the introduction of the regime highlights this point vividly:

Average market prices

(ECU per 100 kg)

Marketing year	United Kingdom (Great Britain only from 1982/83 onwards)	France
1981/82	286	376
1982/83	260	408
1983/84 (six months to November 1983)	214	423

10.2. The reference prices, through harmonization measures, rose from 329 to 416 ECU per 100 kg during the same period in the United Kingdom and from 371 to 432 ECU per 100 kg in France. Thus:

(a) harmonization of regional reference prices creates a harmonized market only in a theoretical sense;

(b) a formula which attempts to bridge the gap between the systems by utilization of Community funds in such a manner provides no incentive to move towards the harmonization of prices in real terms.

10.3. At the same time the external pressures on the market caused by imports have not been resolved by the voluntary restraint agreements because:

(a) the ceilings established by these agreements were too high especially when account is taken of the constant progress towards Community self-sufficiency;

(b) the agreements severely restrict the Community's powers with regard to disposal of possible future surplus stocks. (See paragraph 8.3 above.)

10.4. Intervention buying has not operated as yet, but the price elasticity estimates quoted in paragraph 3.3 indicate that, if the regime were successful in promoting harmonization of market prices at the French level, a significant fall-off in consumption

could occur, especially in the United Kingdom. The danger exists, therefore, that if prices rose sharply in the United Kingdom that region could move from its present important deficit position towards or into a surplus, with a consequential need for intervention or other disposal measures. The danger would be increased if no steps were taken to curb imports.

10.5. It is clear that intervention purchasing and/or private storage would bear heavily on the Community budget.

10.6. As already outlined above, the operation of the market under the present regulatory framework has:

(a) seen market prices fail to keep pace with reference prices in all but regions 1 (Italy) and 7 (Greece). Even in those regions demands for protective measures have already been made;

(b) allowed a marked depression of market prices in the largest producing region, a situation which in turn has serious repercussions for the other regions;

(c) done nothing to ensure overall market stability as it is doubtful if the system can cope with the potential problems at a reasonable cost.

10.7. In such circumstances, it is difficult to avoid the conclusion that the effective regulation of the sheepmeat market no longer remains within Community control. Nonetheless, the Community budget is obliged to bear a heavy charge to support this system, and the available evidence suggests that this charge will continue to increase in future years. Overall, therefore, the provisions of the common organization of the market in sheepmeat are not easy to reconcile with the principles of sound financial management of Community funds.

These observations were adopted by the Court of Auditors at its meeting of 19 July 1984.

Luxembourg, 27 July 1984.

*For the Court of Auditors*

Pierre LELONG

*President*

## ANNEX I

## Community market statistics - sheepmeat and goatmeat

(1 000 tonnes)

	Belgium/ Luxem- bourg	Denmark	Germany	Greece	France	Ireland	Italy	Nether- lands	United Kingdom	Total	
1980	Production	4	1	20	119	174	39	55	25	283	720
	Consumption	-22	-2	-52	-128	-218	-28	-83	-8	-430	-971
	Balance	-18	-1	-32	-9	-44	11	-28	17	-147	-251
	Intra Community:										
	Imports	17	—	-23	—	46	3	6	1	1	97
	Exports	-7	—	-12	—	-2	-16	—	-20	-40	-97
	Balance	-8	-1	-21	-9	—	-2	-22	-2	-186	-251
	Imports from third countries: (of which: New Zealand)	7 (1)	2 (2)	19 (5)	5 (3)	2 (-)	— (-)	24 (2)	2 (1)	187 (184)	248 (198)
	Exports to third countries:	—	—	—	—	-1	—	-1	—	-3	-5
	Stock variation	+1	-1	+2	+4	-1	+2	-1	—	+2	+8
1981	Production	4	1	19	120	175	40	55	20	265	669
	Consumption	-18	-3	-47	-130	-223	-27	-83	-7	-380	-918
	Balance	-14	-2	-28	-10	-48	13	-28	13	-115	-219
	Intra Community:										
	Imports	14	—	8	—	49	1	5	1	2	80
	Exports	-3	—	-4	—	-4	-18	—	-15	-36	-80
	Balance	-3	-2	-24	-10	-3	-4	-23	-1	-149	-219
	Imports from third countries: (of which: New Zealand)	2 (1)	2 (2)	23 (7)	9 (5)	7 (3)	— (-)	20 (4)	1 (1)	161 (159)	225 (182)
Exports to third countries:	—	—	—	—	-1	—	-1	—	-4	-6	
Stock variation	+1	—	+1	+1	-3	+4	+4	—	-8	—	
1982	Production	4	1	21	119	175	40	56	21	274	711
	Consumption	-19	-3	-51	-129	-228	-28	-83	-9	-420	-970
	Balance	-15	-2	-30	-10	-53	12	-27	12	-146	-259
	Intra Community:										
	Imports	14	—	8	—	48	1	8	—	1	80
	Exports	-3	—	-3	—	-6	-16	—	-13	-39	-80
	Balance	-4	-2	-25	-10	-11	-3	-19	-1	-184	-259
	Imports from third countries: (of which: New Zealand)	3 (2)	2 (1)	26 (6)	13 (6)	7 (3)	— (-)	22 (4)	1 (1)	207 (201)	281 (274)
Exports to third countries:	—	—	—	—	-1	—	—	—	-3	-4	
Stock variation	+1	—	-1	-3	+5	+3	-3	—	-20	-18	
1983	Production	5	1	21	120	176	42	52	19	285	721
	Consumption	-22	-3	-52	-140	-231	-26	-83	-7	-411	-975
	Balance	-17	-2	-31	-20	-55	16	-31	12	-126	-254
	Intra Community:										
	Imports										
	Exports										
	Balance										-254
Imports from third countries: (of which: New Zealand)										259	
Exports to third countries:										-5	
Stock variation										-5	

Note: For 1983 figures are provisional and incomplete.

## ANNEX II

## Community sheepmeat market: average market prices by region and Member State (1981 - 1983)

(prices in ECU/100 kg)

Region	Member State	Marketing year prices			Average market price for calendar year	
		Marketing year	Reference price	Average price		
1	Italy	1980/81	375	430	1981	450
		1981/82	395	462		
		1982/83	428	441		
		1983/84	442	445 <sup>(1)</sup>		
2	France	1980/81	345	361	1981	367
		1981/82	371	376		
		1982/83	410	408		
		1983/84	432	421 <sup>(1)</sup>		
3	Denmark	1980/81	315	203	1981	248
		1981/82	347	261		
		1982/83	392	281		
		1983/84	423	292 <sup>(1)</sup>		
	Belgium/ Luxembourg	1980/81	315	329	1981	363
		1981/82	347	379		
		1982/83	392	409		
		1983/84	423	443 <sup>(1)</sup>		
	Germany	1980/81	315	311	1981	347
		1981/82	347	359		
		1982/83	392	352		
		1983/84	423	348 <sup>(1)</sup>		
Netherlands	1980/81	315	344	1981	359	
	1981/82	347	361			
	1982/83	392	349			
	1983/84	423	364 <sup>(1)</sup>			
4	Ireland	1980/81	310	302	1981	330
		1981/82	343	331		
		1982/83	389	342		
		1983/84	421	333 <sup>(1)</sup>		
5	United Kingdom	1980/81	293	227	1981	259
		1981/82	329	286		
		1982/83	379	260		
		1983/84	416	219 <sup>(1)</sup>		
6	Northern Ireland	1982/83	379	286	1982	265
		1983/84	416	273 <sup>(1)</sup>		
7	Greece	1980/81	345	417	1981	494
		1981/82	371	518		
		1982/83	428	511		
		1983/84	442	508 <sup>(1)</sup>		

<sup>(1)</sup> Average market prices for period June - December 1983.

ANNEX III  
Budgetary appropriations and payments for sheepmeat and goatmeat (1980 - 1983)

(Millions ECU)

	Year and budget line	Original budget	Final appropriations	Payments	Analysis of payments		
					Measure	Member State	Amount
1980	Chapter 73 736	50,00	53,50	53,47	Variable premium	United Kingdom	53,53
					Clawback	United Kingdom	- 0,06
Total							53,47
1981	Chapter 71 Sheepmeat	p. m.	191,70	191,51	Ewe premium	United Kingdom	50,65
	710 Refunds				United Kingdom	155,58	
	711 Intervention in respect of sheepmeat				United Kingdom	- 18,70	
	7110 Premiums				Total United Kingdom	187,53	
	7111 Storage						
7112 Other intervention	p. m.		Ewe premium	Ireland	3,98		
Total chapter 71							191,51
1982	Chapter 22 Sheepmeat and goatmeat	p. m.	252,00	251,72	Ewe premium	United Kingdom	38,30
	220 Export refunds for sheepmeat and goatmeat				United Kingdom	202,30	
	221 Intervention for sheepmeat and goatmeat				United Kingdom	- 12,30	
					Total United Kingdom	228,30	
	2210 Premiums				France	11,78	
	2211 Storage				Germany	1,80	
	2219 Other intervention				Netherlands	1,08	
	Ireland	8,76					
Total chapter 22							251,72
1983	Chapter 22 Sheepmeat and goatmeat	p. m.	305,60	305,60	Ewe premium	United Kingdom	} (1)
	220 Export refunds for sheepmeat and goatmeat				Variable premium	United Kingdom	
					Clawback -	United Kingdom	
					Total United Kingdom	286,25	
	221 Intervention for sheepmeat and goatmeat				Ewe premium	Denmark	0,14
					Ewe premium	Germany	3,73
					Ewe premium	Greece	1,15
					Ewe premium	France	0,65
	2210 Premiums				Ewe premium	Ireland	11,43
	2211 Storage				Ewe premium	Italy	0,22
2219 Other intervention	Ewe premium	Luxembourg	0,02				
	Ewe premium	Netherlands	2,01				
Total chapter 22							305,60

(1) Analysis not yet available.

## REPLIES OF THE COMMISSION

## 1. Implementation of Council's Regulations

The Commission notes that the comments made by the Court of Auditors show that they concern mostly matters which result from existing Regulations decided by the Council, rather than from the day-to-day management of the market by the Commission.

With reference to these Regulations, the Commission recalls that the Council is able to amend the Commission's proposals and did in fact make several amendments of this particular one.

The report to the Council on the functioning of the market <sup>(1)</sup> and the price proposals for 1984 <sup>(2)</sup> included precise proposals for improvement which the Council did not retain. The Commission has to manage in accordance with the Council Regulations.

## 2. Specific comments on the overall assessment of the Court of Auditors (Point 10)

The Court of Auditors' assessment questions specifically (a) the divergence in market prices between Great Britain and France, (b) the external regime, and (c) the possibility of using intervention and/or private storage because of their implications for the Community budget.

It finally suggests that the provisions of the common organization of the market in sheepmeat are not easy to reconcile with the principles of sound financial management of Community funds (d).

- (a) Considerable divergence in market prices between Great Britain and France is regarded as undesirable by the Commission. In both the report to the Council <sup>(1)</sup> and in the price proposals for 1984 <sup>(2)</sup>, the Commission proposed the introduction of a ceiling of 25 % of the guide price on the variable premium payable in Great Britain *inter alia* in order to increase the market price there. However, because the British market price for lamb is markedly influenced by the New Zealand lamb price on the British market, the Council did not follow the Commission's proposal to introduce a ceiling on the variable premium until a minimum import price could be negotiated with New Zealand and other third countries. On the successful conclusion of these negotiations it is envisaged that British and French market prices will begin to converge with resultant savings in the budget.
- (b) The maximum quantities to be imported under the Voluntary Restraint Agreements with twelve countries were based on the trading patterns of the Community with these countries over the previous three years. Community production has increased over the period of the regime and in document COM(83) 585 the Commission points out that a reduction in these quantities is required to achieve a greater balance between supply and demand on the Community market. Given the discouraging results of the exploratory discussions the Commission has held, it has not so far been politically possible to open formal negotiations on voluntary restraint agreements with the third countries concerned.
- (c) The possibility of introducing interventions for lamb in the period 15 July to 15 December each year, and indeed private storage also, arises from the fact that the bulk of lamb production occurs at this time each year. Should a situation exist, in the absence of the present system of variable premium/clawback, that British lamb was to be exported in large quantities to France during this period, it is likely that French and some other Community producers who export to France would be forced by conditions of oversupply to accept a very low price for their produce. In those circumstances the low price would have to be compensated by high ewe premium payments. Should this situation continue for

<sup>(1)</sup> Doc. COM(83) 585 final.

<sup>(2)</sup> Doc. COM(84) 20.

a lengthy period, it would have a twofold effect of causing the collapse of French and probably Irish prices and also of encouraging increased imports of third country lamb, notably from New Zealand, in order to replace some British lamb now absent on the British market.

The possibility of resorting to intervention and/or private storage would aid in preventing a collapse of prices and thus reduce the risk of high ewe premium payments.

Additionally, should intervention measures be actually taken, the meat purchased at intervention price could subsequently be sold on the Community market in the late winter and early spring period when prices are higher due to the seasonality of the sheep market. The Commission does not share the view of the Court of Auditors that intervention purchase would necessarily lead to important financial losses.

The problem of FEOGA financial losses in the form of clawback not paid on unrecorded movements of sheep and sheepmeat between Northern Ireland and Ireland arising from the limited possibility of border control was tackled by removing at the start of the 1982/83 marketing year the major incentive to cross-border traffic, namely the variable premium payable in Northern Ireland. Clawback must now be paid on sheepmeat coming from Great Britain into Northern Ireland but in practice this trade does not exist due to animal health restrictions. Additionally marking of all carcasses in Great Britain has become compulsory since August 1983 hence allowing easy identification of their origin.

The Commission does not share and even regrets the view of the Court of Auditors that the new arrangements have built possibilities for renewed illegal traffic.

- (d) The Commission supports the Court's view that the important differences between the two major producing and consuming regions will not be easy to reconcile in the short term, as both farming practices and consumer habits and attitudes are markedly different. The level of expenditure in this sector results from the Council's need to secure a fundamentally political compromise, in order to allow any kind of sheepmeat market to function. It has been the Commission's role to ensure that the best use of financial resources has been made within the Regulations established by the Council, and to continue to propose to the Council appropriate modifications to the existing regime. The Commission recalls that on 31 March 1984 the Council has adopted only a limited part of the proposals made by the Commission for savings in this sector, for example the extension of the clawback of the variable premium to certain seasoned meats, and the restriction of ewe premium payments to cover loss of income from lamb instead of all sheepmeat as formerly. The result of this last measure is an estimated saving of 15 % of expenditure in the sheepmeat sector.
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**COURT OF AUDITORS**

**Special Report No 2/84 of the Court of Auditors on the management of  
Community development aid funds by the European Investment Bank**

The text of the above report was adopted by the Court of Auditors at its meeting  
of 10 May 1984.

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