THE E.E.C. SHEEPMEAT REGIME:

ARRANGEMENTS AND IMPLICATIONS

N. BLYTH

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THE AGRICULTURAL ECONOMICS RESEARCH UNIT
Lincoln College, Canterbury, N.Z.

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SUMMARY

The outline on the next page summarizes the arrangements by the EEC to establish a common market in sheepmeats.

A system of intervention buying or deficiency payments ensures that producers are guaranteed a minimum price. In addition, compensatory payments up to a Reference Price level give farmers additional income support during the transition period from 1980 to 1984.

The whole arrangement is protected from imports from third countries with a system of tariffs, licences and "Voluntary Restraint Agreements". EEC exports, subject to a clawback tax under the Variable Premium System, and to refunds under the Intervention System, are maintained at "traditional" levels to current markets.

Any increased production in the U.K. is likely to be exported to the Continent, so the British market should remain stable. N.Z. has agreed to limit sales to the EEC at 245,500 tonnes in return for a reduction in the import levy to 10%. There are a number of disadvantages and benefits for N.Z. attached to this agreement, e.g. no allowance for market growth but higher per unit returns. Whilst there is guaranteed access to the market for this quantity up to 1984, exporters need to keep a close watch on any further long term developments within the EEC.

A SUMMARY OF THE EEC SHEEPMEAT REGIME

Basic Price

An EEC Basic Price is set for the year in ECU's and from this, weekly seasonal Basic Prices are derived. Prices set in ECU's are converted to national currencies using the Green exchange rates.

Private storage aids are introduced when the EEC Market Price falls to 90% of the Basic Price, under the Intervention System.

If market prices fall below 85% of the Basic Price, support can be given through an Intervention System or Variable Premium Scheme.

Intervention System (Seasonal)

Producers sell in to intervention, if price falls below this. Facility available mid-July to mid-December only.

A scale of prices is set for particular types and grades of sheepmeat. (Operative France, W. Germany, Italy, Denmark, Benelux. The Irish Intervention Price is set at 80% of the Basic Price).

Export refunds, to facilitate exports of Intervention Stocks to third countries, may be granted on special request.

Variable Premium (Seasonal)

When the average market price falls below the Guide Price, a Variable Premium is payable (operative in U.K.).

A levy is imposed on exports to other member countries and to third countries, equal to the Variable Premium, and payable at the time of export.

Transitional Arrangements (1980-84)

To harmonize producer prices by 1984, differences will be reduced by 25% each year. To ease adjustment, Income Support will be given. A Reference Price is fixed for each country and if a country's Average Market Price over a year is below its Reference Price, Compensatory Payments will be made direct to producers on a ewe/headage basis.

Imports

Imports from third countries are restricted by voluntary restraint agreements (VRA) and controlled by a system of licensing. A common external tariff is applied to all imports: 10% for VRA countries; but for others, the difference between the import price and basic price is taken as a levy to a maximum of 20%.

DEFINITION OF TERMS

Basic Price:	Set for the marketing year by the Council of Ministers: currently equal to the French market price. Used to derive the other prices.
Deficiency Payment System:	States operating this scheme support producer prices with Variable Premium Payments.
Intervention System:	States operating this scheme support market prices and producer returns by guaranteeing to purchase all supplies offered at that price.
Intervention Price:	Under the Intervention System; set at 85% of the Basic Price - the level at which intervention purchase made.
Guide Price:	Under the Deficiency Payment Scheme, set at 85% of the Basic Price.
Reference Price:	Set at levels close to the current market price in each state; the price producers are guaranteed to receive. Harmonized by 1984.
Private Storage Aids:	Incentives to wholesalers to store product, when the market price falls to 90% of the Basic Price.
Variable Premium:	Weekly payment made to producers under the Deficiency Payment Scheme as the difference between the market price and the Guide Price.
Compensatory Payments:	Twice yearly payment made to producers on the difference between the Reference Price and the Market Price.
Voluntary Restraint Agreement (VRA):	Limitations on trade, agreed between the EEC and third countries.
Export Licence:	Granted by the Government of third countries exporting to the EEC to individual exporters.
Import Certificate:	Granted by EEC on third country imports, within the VRA, to individual exporters.
Export Refunds:	EEC subsidy paid on export of intervention stocks, equal to the difference between the world price and the intervention price.
Import Tariff:	Amount levied on third country imports into the EEC. At 10% for countries who have Voluntary Restraint Agreements and 20% for others.
Export Levy:	Levy equal to the Variable Premium, charged on exports from the U.K. to other EEC countries.
Clawback Tax:	See Export Levy.
ECU:	European Currency Unit: 1 ECU = 62p.
Green Exchange Rate:	A fixed exchange rate used by member states for agricultural products.

1. INTRODUCTION

After many years of discussion, the regulation for a common market in sheepmeats amongst EEC countries has been agreed to by the nine Member States. This paper describes the arrangements as laid down by the EEC Council[1] of Ministers and discusses some of the issues of concern to third countries. The regime, originally intended to become effective on July 15th, 1980, came into operation on October 20th, 1980.

Various papers (NZMPB 1979; Kelly, 1978; Brabyn, 1978) have already discussed possible forms the regime could have taken, and hypothesized about the effects on third countries, such as New Zealand. This paper, in discussing the actual form of the regime, is intended to provide producers, traders and policy makers with a better understanding of the system on which to base their future plans and predictions.

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1 Commission of the European Committees, May 1980. 'A new market organisation : mutton and lamb'.

2. OBJECTIVES OF THE REGIME

The objective of introducing a common policy on sheepmeat in the EEC similar to that already in operation for several other commodities , is to harmonize community sheepmeat prices, and have a single, free internal market in sheepmeat by 1984[2]. The measure is regarded as a necessary requirement of the Treaty of Rome, though there has by no means been unanimous support by the member states for the new regime. The history of the negotiations and the attitudes of the individual Governments towards the regime are discussed in detail elsewhere (Ondiviela, 1980, Agra Europe, No. 900). Briefly, France wishes for preference to be given to community produced meat, for financial solidarity within the EEC, and for a single price level to be used. Germany and the United Kingdom believe that France should subsidize its domestic production in order to maintain producer incomes, without increasing costs to other members of the Community and also allow more access to the French market. A secondary objective of the regime was to make the Common Market system of payments and benefits more equitable to net contributors to the fund, such as the U.K. It was intended that the U.K. should receive a net gain for both producers and consumers from the new scheme.

Whether conflicting national objectives can be resolved,

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2 The regime does not include goatmeat. The EEC (9) has a goat population of 2 million head and Greece has 4.5 million head.

or even whether the objective of a single harmonized market can be achieved under the new regulation remains to be seen.

3. THE EEC SHEEPMEAT MARKET

Before turning to the regime itself, a brief review of the EEC sheepmeat market provides a useful background.

3.1 Production

Sheepmeat production in the EEC is a very minor income-earner; only in the U.K. and Ireland does the sheepmeat sector contribute more than 3% of agricultural revenue (4.1% and 3.1% respectively). Even compared to other meats, sheepmeat is of little importance, being 2.4% of all meat production.

The sheep industry in Europe has a different basic structure from other agricultural enterprises. Although there are some semi-industrialized sheep fattening units, it is essentially a small-holding operation. Breeding flocks tend to be located in hill and mountain regions and other less-productive areas; their size and character being determined more by social and environmental factors than by relative returns. As a consequence, neither breeding nor fattening elements of the industry are particularly responsive in the short/medium term, to market fluctuations. (For the same reason, it seems unlikely that there will be, even in the long term, any substantial increase in sheep numbers or production in the EEC).

Two-thirds of the community's 43 million sheep are found in areas defined by the EEC Commission as "less-favoured". (In France, 70-75% of the sheep flock is located in such regions, whilst in Italy the proportion is 80-90%). In general, sheep farming is declining in lowland regions where other types of enterprise compete with it, whereas it is increasing in upland regions and other less favoured areas. The physical conditions, size of holding, distance from markets, communication difficulties and traditionalism associated with these areas create a complex of problems which cannot be resolved through manipulation of market mechanisms.

There are significant regional differences in sheep production systems and breed of sheep, depending on the relative importance of meat, wool and milk production. The majority of sheep are bred for meat, with milking sheep numbering less than 10% of the flock and confined to Italy and the south of France. Sheep bred exclusively for wool are gradually disappearing.

The community's flock is distributed unevenly among the states: only the U.K. and France have a significant number of sheep and between them account for 79% of EEC sheepmeat production. Though overall stocks and production have been stable, with a small increase since 1976 (Table 1), these figures obscure marked regional trends. However,

TABLE 1

The EEC Sheepmeat Market

	Production		Consumption	
	Sheep Numbers (million head)	Mutton, Lamb and Goat Meat ('000 T)	Per Capita (kg)	Total ('000 T)
1960	41.6	449	3.6	823
1970	41.7	469	3.3	820
1975	43.4	514	3.1	817
1980*	47.9	537	2.9	805

* Estimated

Source: Agra Europe

it is the overall level of production which is important since the common sheepmeat policy will have the effect of uniting the individual states into a single market.

3.2 Consumption

Total annual meat consumption in the EEC is high, compared to world levels, at 87 kg per capita. In relation to this, sheepmeat is comparatively unimportant, and is only 3.4% of all meat eaten at 3 kg per capita (Table 1). Total sheepmeat consumption has varied around 800,000 T over the period 1973-80: this masks the trends within states, with consumption falling in the U.K. but rising in France and Italy.

Consumer attitudes and consumption patterns are also diverse, ranging from continuous consumption at relatively high per capita levels in Ireland and the United Kingdom (11.2 kg) to sporadic, or insignificant "festive" consumption at low levels in Italy and the Netherlands (0.2 kg). In other parts of the community, notably France, lamb is eaten more regularly, but as a luxury, high-priced meat whereas in Denmark and Germany there is evidence that lamb is becoming accepted as a substitute for other meats. Migrant workers and other ethnic groups throughout the EEC often have strong preferences for sheepmeats and are regular consumers of mutton and lamb.

This diversity of consumption patterns is reflected in wide variations in the relationship between the prices of sheepmeats and other meats. In France, where lamb is a luxury meat, retail prices are substantially above those for other meats including beef, whilst in the U.K., lamb sells at about the same price as beef. The price of home-killed lamb in the U.K. is usually less than 60% of that in France, though since 1976 the gap has narrowed, due to rising U.K. prices and falling prices in France.

The structure of sheepmeat prices in the EEC is essentially determined in two markets. Firstly, the U.K. market directly influences prices in the Irish market (though in 1978 the French market had a greater influence). Secondly, the French market determines the level of prices received by producers in states exporting to France (Belgium, Germany, the Netherlands and also Italy).

However, the market price in Germany and Italy is lower than that in France, as their markets are influenced by the price of imports which are often considered to be of a lower quality than home-produced meat. In general though, price differences are narrowing and will continue to do so, as far as the forces of supply and demand are allowed to work freely in the market, under the common regime.

3.3 Trade

Even though the EEC produces only a small part of the world's sheepmeat, in trade terms it plays an important role, as it provides over a third of world trade.

Intracommunity trade is increasing (60,000 T, 1973; 80,000 T, 1978). Most of this trade consists of traditional exports to France (40-50,000 T) from the United Kingdom, Netherlands and Ireland. Since 1975 Germany has also started to export to France.

Imports from third countries, which were subject to a 20% ad valorem duty up to 1980, have decreased slightly, (Table 2). Whilst the community is self sufficient in pig and poultry meat, and normally over 90% self sufficient in beef and veal, substantial imports of sheepmeat have always been necessary. Self sufficiency levels have never exceeded 66%, which gives an import requirement of some 270,000 T.

TABLE 2

EEC Sheepmeat Imports

(000 tonnes)

Source	1973	1978	1979	1981*
New Zealand	251,097	231,766	218,604	245,500
Australia	24,418	12,114	8,885	17,500
Argentina	8,406	11,164	10,899	23,000
Eastern Europe	24,539	22,684	7,725	20,000
Other	5,169	3,578	4,630	NA
Total	313,629	281,306	251,088	

NA: Not Applicable.
(* Voluntarily Agreed Quotas: Includes allowances for sales to Greece, and sales of live animals, in carcase meat equivalents).
Source: Agra Europe.

Apart from a relatively small flow of live animals from Eastern Europe, and small, sporadic shipments from South America and Australia, the EEC imports sheepmeat from only one main source - New Zealand. In the 1974-80 period, New Zealand accounted for 82% of the community's third country imports and supplied one third of total EEC requirements.

Because of this high level of interdependance between the two regions any developments in the market structure are of vital importance; a closer look at the details of the EEC sheepmeat regime will allow a better appreciation of the way trade is likely to develop.

4. INTERNAL SUPPORT[3]

4.1 The Overall EEC Support Price Level

A Basic Price will be set for the EEC for the marketing year (the Basic Price is initially set equivalent to the current French market price[4], but will take into account market development and production costs). From this annual Basic Price, weekly, seasonal Basic Prices will be set, with lowest levels in late autumn (November) and highest levels in spring (mid May).

TABLE 3

Seasonal Basic Prices 1980/81

Basic Price	213p/Kg d.c.w.*
Spring high (mid May 1980)	235p/Kg d.c.w.
Autumn low (end November 1980)	192p/Kg d.c.w.

* d.c.w. = dressed carcase weight.

The seasonal scale tends to follow the pattern of French production rather than that of the U.K. (Adjustments may be made later to reflect the pattern of production in the U.K.). Table 3 shows the seasonal scale of prices. The wholesale market price is intended to be the same as, or close to the Basic Price, and over a transition period all member states are expected to harmonize wholesale prices

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3 This section draws heavily on a paper by Volans (1980).

4 Price at Rungis Wholesale Market, Paris.

at the Basic Price level. If market[5] prices show signs of falling below the Basic Price, market support measures come into operation.

4.2 Market Support

Member countries have the option of supporting farm prices for sheep with either a Variable Premium System or an Intervention System. In many respects this is similar to the beef regime already in operation, except that, for sheepmeats, both support mechanisms cannot be used together in any country, in any one year.

Initially all countries, except the U.K., will adopt the Intervention System. (France is also considering employing the Variable Premium System, which could have considerable advantages for both producer and consumer. See Agra Europe, No. 890, 895).

4.2.1 The Intervention System

The Intervention System is based on an Intervention Price set for the EEC for the marketing year at 85% of the Basic Price (except in Ireland, where the Intervention Price is set at a lower 'derived' level - 80% of the Basic Price, in recognition of the lower prices obtained by Irish sheep farmers). Table 4 gives the average annual intervention prices.

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5 The term 'market' hereafter refers to wholesale level, unless otherwise stated.

TABLE 4

Intervention Prices (Annual Average) 1980/81

Italy, Western Germany, Denmark, Benelux, France.	181.4p/Kg d.c.w.
Ireland	170.9p/Kg d.c.w.

Intervention prices are adjusted seasonally, corresponding to the seasonal Basic Price. The seasonal scale of intervention prices is given in Appendix 1. Intervention is available only between July 15th and December 15th, and then only if the EEC market price falls to the Intervention Price. Producers may then sell to Government agencies who are responsible for releasing the stocks on to the market at a later date, when prices have improved. The agreed Intervention System will be triggered by a fall in the average EEC market price - which means that a weak Irish market may not be able to make use of intervention if a buoyant French market is keeping up the average price.

Under the Intervention System, of course, the market price cannot fall below the Intervention Price.

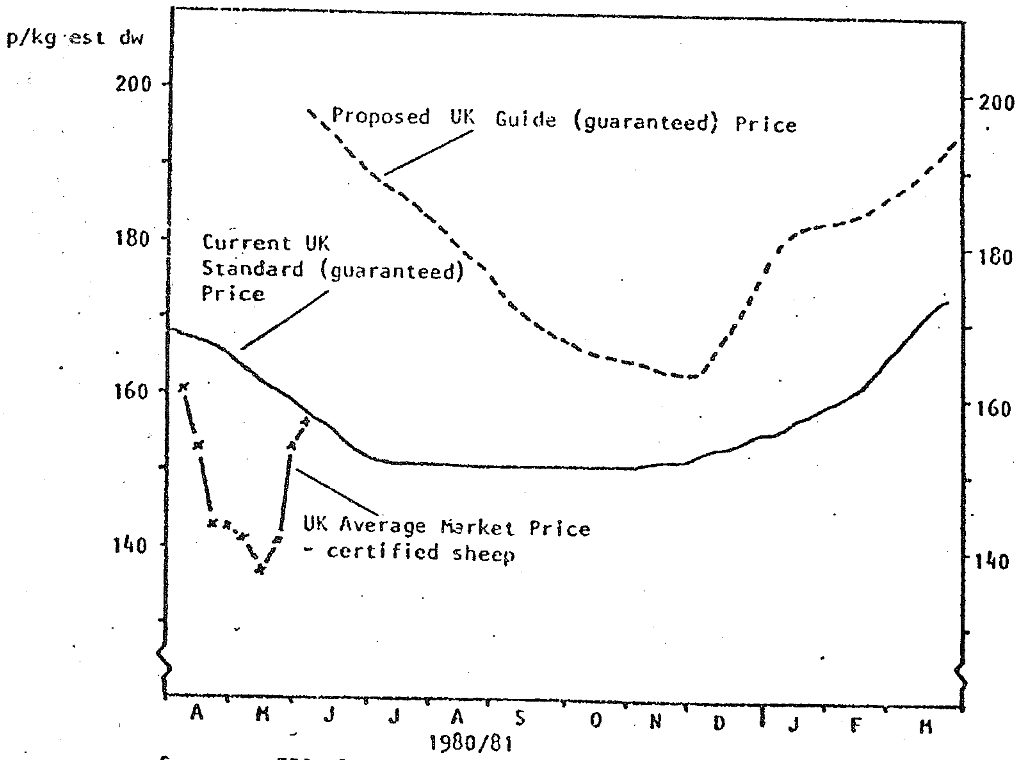
4.2.2 The Variable Premium System

The Variable Premium System is similar to the U.K. Fat Sheep Guarantee Scheme (FSGS).

A Guide Price, (synonymous with the present U.K. Guaranteed Price) is set annually, at a level equal to the Intervention Price. This is 85% of the Basic Price. Adjustments are made for transport costs, and seasonal changes in the market. The U.K. Guide Prices for 1980/81, together with the U.K. FSGS Guaranteed Prices for 1980/81 are shown below in Figure 1 and Appendix 2.

FIGURE 1

Fat Sheep U.K. Support and Market Price Levels 1980/81



Source: EEC, ESCA

The system will work in the same way as the FSGS; when the U.K. market price falls below the Guide Price in a particular week, a variable premium will be paid on all sheep certified[6], equal to the difference between the Guide Price and the market price. Payments will be made on actual amounts marketed.

6 For details of certification, see Volans (1975). It is unclear whether French or U.K. certification standards are to be applied. The U.K. Government would prefer as little change as possible to the present standards, except where changes are needed anyway to accommodate recent changes in wholesale and export demand.

All U.K. producers would receive the payment on each lamb certified, regardless of whether they individually obtained less or more than the declared U.K. market price. Thus farmers in some areas could receive considerably less, or more, than the Guide Price.

The regime also states that where variable premia apply, as in the U.K., a levy equal to the variable premium will be imposed on exports to other EEC countries. This is to prevent U.K. sheepmeats flooding on to the higher priced French and other continental markets, though it will still be attractive to export whenever the price of these markets is above the Guide Price, plus transport costs.

Since the week in which the variable premium is applied may be different from the week of export, an export levy which reflects the general level of premia over several weeks is likely to be applied. The levy may also be reduced to allow for the proportion of non-certified stock exported.

Producer prices in Britain are forecast to increase in 1980/81 by an average of 17% (and up to 30% in certain weeks), with further increases during the harmonisation period. U.K. wholesale market prices will be allowed to fluctuate freely, as determined by supply (domestic and import) and demand (domestic and export).

The increased payments to be made to farmers (as a result of higher Guide Prices and possibly falling market prices during the transition period) will not become an additional burden on the U.K. Treasury, since payments are to be made by FEOGA[7] (see Section 4.4). This will partially compensate the British for significant net contributions made to the EEC fund during the late 1970's.

France may also adopt the Variable Premium System, since it has considerable advantages over the Intervention System for domestic producers and consumers, at no extra direct cost to the national Government. However, this could place an intolerable burden on the Community funds.

4.2.3 Private Storage Aids

Private Storage Aids may be applied if the EEC Market Price is lower than 90% of the Basic Price in countries using the Intervention System. These Aids allow payments to be made to wholesalers to hold product off the market, thus reducing supplies and keeping up the market price. The stored meat is then released on to the market when the situation has improved. Since the meat will be frozen, it will compete more with alternative frozen supplies (mainly N.Z. lamb) than with fresh supplies.

The price to the housewife is therefore unlikely to fall below 90% of the Basic Price (plus the marketing margin) and cannot fall below 85% of the Basic Price in states using the Intervention System[8].

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7 The European Agricultural Guidance and Guarantee Fund.

8 No details are known of the holding time allowed for, which will obviously be a major factor in wholesalers' decisions to purchase and store sheepmeats.

4.2.4 Export Refunds

Export refunds (or subsidies) are provided for, to dispose of intervention stocks on the world market.

A special request has to be put to the EEC Council of Ministers before refunds can be granted. The EEC Commission has indicated that it is unlikely that they would ever be granted whilst the EEC is only 65% self sufficient in sheepmeats. Also, the use of refunds is politically unpopular, both with domestic voters and with other exporters. An agreement has been reached with third countries (who want an assurance that the world market will not be undermined), that the EEC will export only to "traditional" markets. Table 5 shows the main buyers of EEC sheepmeat and live sheep for slaughter since 1977.

4.3 Transitional Measures

The regime will be phased in over a four year period, with complete harmonization of prices by 1978 (the gap between the U.K. and French prices will be narrowed by 25% each year). Various transitional measures have been devised to cushion producers from any adverse effects; in 1984 both the transitional measures and the market support mechanisms could (but would not necessarily) be dismantled.

Income support measures are intended to compensate Continental and Irish producers for the fall in average

TABLE 5

EEC Sheepmeat Exports to Traditional Non-EEC Markets

(tonnes)

	1977	1978	1979
Switzerland	1,610	1,794	1,844
Algeria	1,160	572	872
Libya	760	172	366
West Indies	290	35	87
Iraq	1	-	-
Iran	29	10	-
Saudi Arabia	147	22	238
Kuwait	30	1	2
Bahrain	67	7	17
United Arab Emirates	141	221	331
North Yemen	42	37	40
Other	559	526	474
Total	4,836	3,397	4,271
Live Sheep (Tonnes, Dressed Carcass Weight Equivalent)	643	254	202

Other Small Markets: Ghana, Greenland, Scandinavia, Portugal, Egypt, Ivory Coast, Nigeria, Zaire, Syria and Austria, each purchasing generally less than 100 tonnes.

Source: Statistical Office of the European Community.

prices caused by the regime[9]. Producers are to receive direct Compensatory Payments, based on the number of ewes owned[10], in the spring (on account), and at the end of the marketing year. The Compensatory Payments will equal the difference between a Reference Price (Table 6) and the market price in the particular region.

The Reference Price will be calculated based on the level of meat prices in the previous year in that country, but will be gradually adjusted so as to bring the different price levels towards one common level by 1984 (see Time Chart in Section 6).

TABLE 6

Reference Prices 1980/81

Region	p/Kg d.c.w.	Maximum Payment*
Italy	232	50.6
France	213	32.0
West Germany, Denmark, Benelux	195	13.5
Ireland	192	10.4
United Kingdom	181	nil**

* Maximum Payment is the difference between the Reference Price and the Intervention Price.

** Under the Deficiency Payment Scheme (e.g. the U.K.) the maximum is equal to the difference between the Reference Price and the Guide Price. Since these are equal in 1980/81, payment is nil.

9 Payments are not intended for the U.K., where prices are expected to rise considerably. If however, expenditure on the Variable Premium System is less than the amount allocated by FEOGA, compensatory payments could be made in the U.K.

10 The basis on which amounts calculated in p/Kg are converted to a payment per ewe is not yet known.

In countries operating this system an "annual loss of income" for the sheep industry will be calculated and divided up among producers according to individual production levels. This EEC total will be calculated in advance of the marketing year by deducting the total expected revenue gained by producers in the market, from the supposedly higher revenue which they would have received had they received the Reference Price for all the meat sold. The total compensation - the difference between the two - will be divided among producers on the basis of the number of ewes kept. If it proves too difficult to assess each producer's ewe numbers, then the Compensatory Payment may be made on the estimated number of lamb slaughterings. The payments will be adjusted in relation to the level of actual market prices and consequent actual loss of income (if any).

4.4 Financing the Scheme

Finance for the scheme is to come from the EEC (FEOGA). It has been estimated (see Agra Europe 851) that the regime will cost £96m annually - £78m for Variable Premiums, £3m for Private Storage Aids, and £15m for Intervention[11]. (Heavy intervention buying in France could move the cost nearer to £150m). The payments to compensate sheep farmers for loss of income in the transition period should be phased out over the transition

11 These estimates are based on a 4-8% increase in U.K. prices in the first year, and a 12-15% fall in French prices. As section 4.2.2 showed, U.K. producer prices are likely to rise at least 15-18%, whilst French market prices are unlikely to fall more than 10% - to the level where Private Storage Aids become effective, which would avoid intervention buying.

period, assuming that Reference Prices are either abolished in 1984, or set equal to the Intervention Price.

Green Exchange rates will be used to convert EEC support prices, fixed in European Currency Units (ECU's) into national currencies[12]. Initially, Monetary Compensatory Amounts (MCA's) will not be applied to trade between member states. MCA's are usually applied to prevent distortion of trade between states, where green exchange rates are used[13]; without them trade is likely to become distorted. (For example, the support price in Germany could be undercut by other states if no German MCA import tax was levied).

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12 Initially spot currencies or stabilized market rates were to be used. For the European Monetary System (EMS) currencies, this meant their ECU Central rates; for Italy and the U.K. it meant an averaging of their market rates against the narrow-band EMS currencies. In the latter case, rates would be changed only once or twice a year, or whenever their values changed by more than 5%. The proposal was rejected.

13 The need for MCA's arises from the fact that several member states apply fixed "green" or agricultural exchange rates with the ECU, which differ from the market exchange rates of the individual currency. Several member states are presently requesting that MCA's be applied to avoid any discrepency.

5. EXTERNAL PROTECTION

5.1 Tariffs and Voluntary Restraints

In order to protect the new system, and restrain imports at around 1979/80 levels, the EEC offered importers a reduction in the 20% ad valorem duty in return for an undertaking that imports would be "voluntarily restrained". A reduction to 10% has been negotiated, with a voluntary quota of 245,500 tonnes for New Zealand, and a total of 50,000 tonnes for other importers (Australia, Eastern Europe, Argentina) from 1981 (see Table 2).

Voluntary quotas have also been negotiated to restrain exports of live sheep from Eastern Europe to West Germany and France at 1979/80 levels.

The EEC cannot force exporters to reduce supplies, since the 20% duty is bound under the GATT and the EEC would be required to compensate exporters for loss[14] of market. Since direct compensation is impractical, the reduced duty is being offered as a non-trade compensation. However, if voluntary restraints were not respected,

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14 A safeguard clause will be introduced, as is used for other CAP products: "If, by reason of imports or exports, the Community Market...experiences or is threatened with serious disturbance which may endanger the objectives set out in Article 39 of the Treaty of Rome 1958, appropriate measures may be applied in trade with non-member countries until such disturbances or threat of disturbance has ceased". (Article 16, Proposal of a Council Regulation on the Market in Sheepmeat, 1978). Article 19 of the GATT sets out the conditions for the use of safeguards in exceptional circumstances.

measures would be taken to restrict trade. For countries not abiding by the Voluntary Restraint Agreements, an import levy will be applied to all live animals and chilled or frozen meat. In the case of fresh and chilled meats, the levy will be the difference between the seasonally adjusted Basic Price and the free-at-frontier offer price of the Community. In all cases (fresh and frozen) the actual levy will be limited to the amount of the bound Common External Tariff of 20%.

5.2 Licences

Another unpopular aspect is the Community stipulation that a complex system of import licences should be introduced. The comment has been made that if the Community does not create a lamb mountain it will certainly create a paper mountain. However, the Commission considers licensing necessary for regulation of the sheepmeat market.

6. SUMMARY OF THE REGIME

The outline below, and the 'time chart' on the following page summarize the details of the regime.

Basic Price

An EEC Basic Price is set for the year in ECU's and from this, weekly seasonal Basic Prices are derived. Prices set in ECU's are converted to national currencies using the Green exchange rates.

↓

Private storage aids are introduced when the EEC Market Price falls to 90% of the Basic Price, under the Intervention System.

↓

If market prices fall below 85% of the Basic Price, support can be given through an Intervention System or Variable Premium Scheme.

Intervention System (Seasonal)

Producers sell in to intervention, if price falls below this. Facility available mid-July to mid-December only.

A scale of prices is set for particular types and grades of sheepmeat. (Operative France, W. Germany, Italy, Denmark, Benelux. The Irish Intervention Price is set at 80% of the Basic Price).

↓

Export refunds, to facilitate exports of Intervention Stocks to third countries, may be granted on special request.

Variable Premium (Seasonal)

When the average market price falls below the Guide Price, a Variable Premium is payable (operative in U.K.).

↓

A levy is imposed on exports to other member countries and to third countries, equal to the Variable Premium, and payable at the time of export.

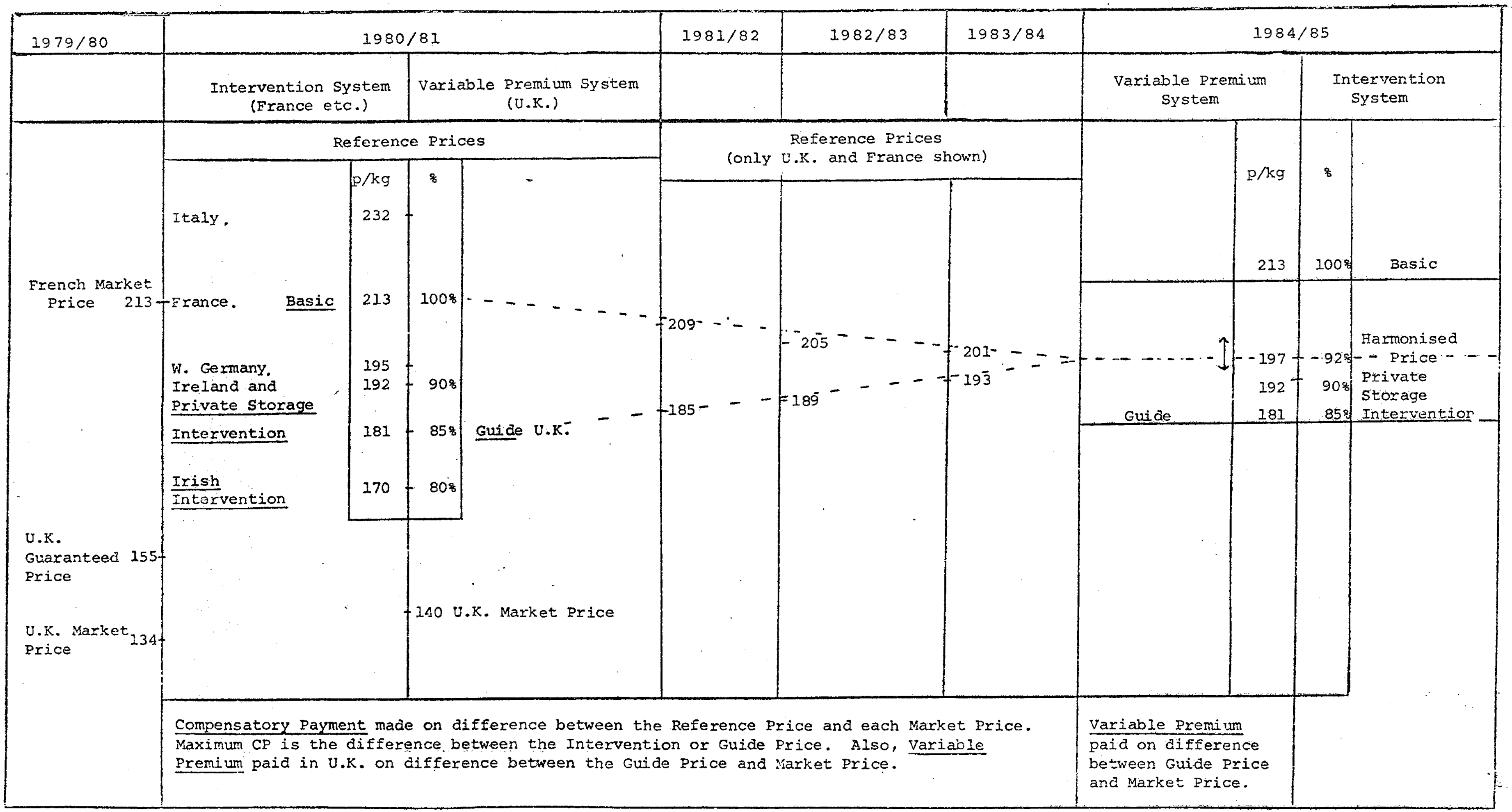
Transitional Arrangements (1980-84)

To harmonize producer prices by 1984, differences will be reduced by 25% each year. To ease adjustment, Income Support will be given. A Reference Price is fixed for each country and if a country's Average Market Price over a year is below its Reference Price, Compensatory Payments will be made direct to producers on a ewe/headage basis.

Imports

Imports from third countries are restricted by voluntary restraint agreements (VRA) and controlled by a system of licensing. A common external tariff is applied to all imports: 10% for VRA countries, but for others, the difference between the import price and basic price is taken as a levy to a maximum of 20%.

'Time Chart' of the EEC Sheepmeat Regime (p/kg)



7. THE EFFECT OF THE REGIME ON THE EEC MARKET

7.1 Producers

7.1.1 Prices

The alignment of prices in the EEC will mean that for the four years following the introduction of the regime, producers in the U.K. will receive substantial support price increases, whereas in other EEC countries the change will be moderate or prices may even decline. (This depends on the level of reference prices negotiated each year).

The U.K. fat sheep Guarantee Price in 1979 was 155p/kg while the 1980/81 Guarantee Price was set at 173p/kg. The new average Guide Price for the U.K. is however, 181.4p/kg with seasonal variation between 163p/kg (November 1980) and 200p/kg (March 1981). This will give an average producer price increase of 17%, (with seasonal increases of between 5% and 29%). U.K. producers will not receive the full 17% in 1980/81 because the new regime only applies to a proportion of the marketing year[15].

The returns to U.K. sheep producers will increase significantly as a result of the regime, and during the remainder of the transition period will continue to rise, but at a lower rate; the annual increase will equal 12½% of the difference between the U.K. and the French Reference

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15 As the regime was introduced in Autumn 1980, a weighted average of Guide Prices gives producers an 8-9% increase, over and above the Guaranteed Price for 1980/81.

Prices[16]. (The French price will be reduced by 12½% of the difference, each year, to give equal producer prices by 1984). The difference between the U.K. and French Reference Prices in 1980/81 was 32p/kg (181p/kg and 213p/kg respectively). This would imply that U.K. producer prices will rise at 4p/kg, or 2.2% in each of the successive transition years (assuming no other changes in price levels occur). By 1984, prices will be harmonised, theoretically, at an annual average Reference Price of 197p/kg[17]. (Normally, under the CAP when prices are set at a common level they are set at the highest level previously prevailing and all other countries adjust prices upwards).

The result of the price changes will be a large increase in U.K. production during late 1980, as farmers release stocks on to the market, to benefit from higher returns. In the longer run they will undoubtedly expand the breeding flock somewhat which will increase the EEC's self sufficiency. The response is likely to be greatest in the U.K. and production should stabilise in the other member states.

7.1.2 Marketing

The effect of the regime on the pattern of marketing in each of the EEC states and on the type of sheep produced, depends on the nature of the seasonal scale

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16 The French Reference Price is the Basic Price.

17 In 1984 the Reference Price may be abolished, and the Intervention and Guide Prices adjusted up to its level of 197p/kg. This point is not made clear by the Commission.

of Guide Prices agreed, and the certification standards used. The proposed seasonal scale of Guide Prices and certification standards differ from those in current use in the U.K. though allowances could be made later for this. Recent U.K. payment scales have encouraged the production of lighter, leaner animals, but the sheer size of EEC subsidy payments could swamp this improvement. Thus efforts, especially by importers, to improve housewives' attitudes to lamb by reducing fat levels could be negated by indifferent supply from domestic producers.

7.2 Intra - EEC Trade

7.2.1 Background

Before discussing the implications and the likely effects of the regime on intra-EEC trade several points should be made concerning the nature of the market, and of the policy mechanism.

- Up to 1980, there have generally been no effective restrictions to intra community trade in sheepmeats, with the exception of the U.K. - French trade and the Franco-Irish Agreement in 1978.

- Consequently, there is little reason for the traditional retail price relativities between Continental EEC members and Ireland to change significantly with the introduction of the sheepmeat regime.

- The form of the regime allows the 'status quo' to continue at retail market level; only producer prices are to be harmonised at a single level.

- A major reason for the existing price differences, as quoted by Continental EEC markets, is that the quotes are based on different qualities of meat. National consumer preferences for a particular grade will persist, regardless of attempts to harmonise markets.

The main intra-EEC flows have traditionally been from Ireland and the U.K. to France and to a lesser extent, West Germany, Italy and the Benelux countries. Whilst Irish exports have declined notably in recent years, U.K. exports of sheepmeats have expanded considerably since becoming a member of the EEC (11,000 tonnes in 1970; 27,000 tonnes in 1973; 41,000 tonnes in 1979), (see Volans, 1976 for details of the trade). Since the French/ Irish lamb deal in 1978, U.K. exports to France have fallen, whilst U.K. exports to Belgium, Luxemburg and West Germany have increased.

7.2.2 Possible Changes

The introduction of the regime is unlikely to affect adversely the volume of U.K. exports, but trade diversion may occur. The recent trend of declining sales to France could be reversed, especially if Irish exports to France are reduced as a result of Intervention.

However, U.K. exporters will have to pay a levy (called a clawback tax) related to the amount of any variable premium being paid at the time of export[18]. At the start of the regime,

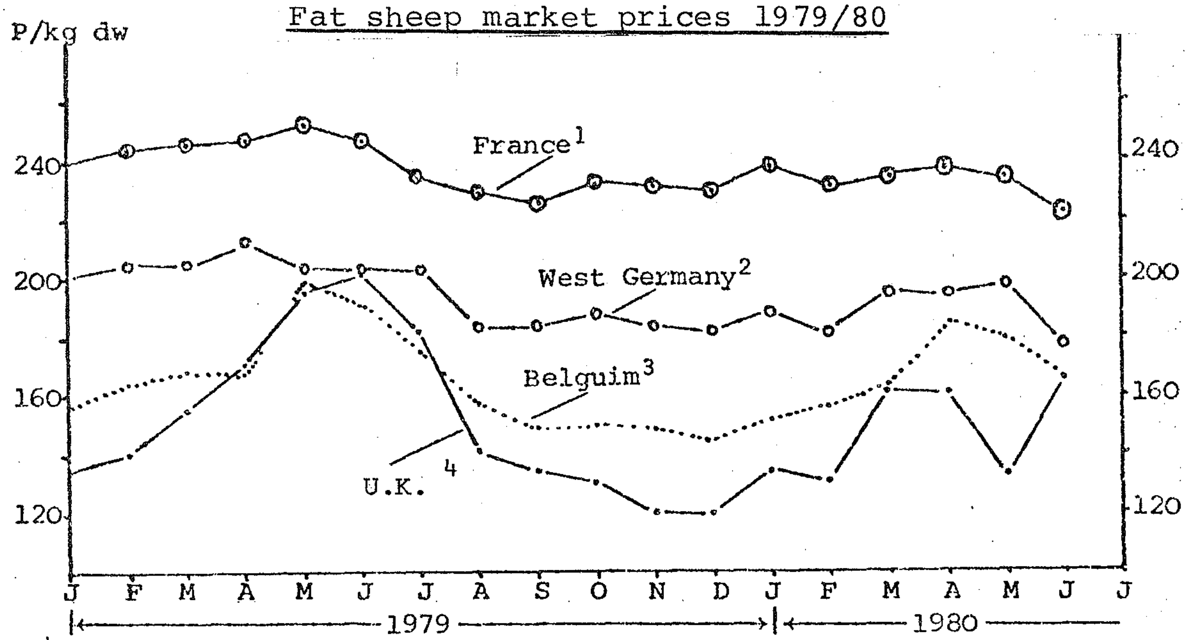
18 Unless this levy is applied across the board, to both certified and uncertified carcass sheepmeat, and live sheep, there would be an opportunity to export live store sheep for eventual slaughter and sale on the Continent.

Continental buyers were looking to Ireland for supplies, since Irish exports are not subject to this "clawback" tax.

The U.K. Guide Prices have been set at a similar level to West German market prices, and although French market prices are expected to fall, there should still be sufficient incentive for the profitable export of U.K. sheepmeat[19] (as long as French market prices are above the Guide Price plus transport costs). Figure 2 compares EEC fat sheep market prices.

FIGURE 2

Fat sheep market prices 1979/80



1 France: Lambs (Couvert R, 13-19 kg dw). Average price for 4 regions.
2 West Germany: Lambs (Grade 1, up to 23 kg dw). Average price for Rhineland - Pfalz.
3 Belguim: Imported lamb (Anderlecht).
4 U.K.: Hoggets (Jan/May) Lambs (June/Dec) 18-20.5 kg est dcw, Average market prices.

Source: Meat and Livestock Commission.

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19 Regional price differences in the U.K. will make it especially attractive to some producers to export. For example, Scottish prices are well below the U.K. average in February to June.

Since both French and Irish producers will be able to sell into Intervention, it is possible that increased market opportunities will exist for the U.K. on the Continent. A further attraction for U.K. exporters will be the possibility of selling half carcasses and cuts direct to French wholesalers, once French import regulations are eliminated.

The extent to which any increased production in the U.K. is exported, will affect the market price in the U.K., the market price being freely determined by supply and demand. Though exports can be expected to be high initially, whilst considerable price differentials exist between States, the intention to harmonise prices will reduce the attraction in the longer term. Coinciding with fully adjusted production, this could lead to a weak market in the U.K. by 1984.

7.3 Consumers

Several trends in sheepmeat consumption have been apparent in the EEC in recent years, notably a decline in the U.K. and Ireland, and an increase in most of the other States.

Any further changes in consumption need to be seen against this background, and not seen as direct results of the common regime. Further obscuring the regime's effects are changes in the relative prices of other meats (beef, pork and chicken) and high inflation rates which are likely to make real moves in sheepmeat prices small or even negative. These factors, coupled with rising income levels and taste changes may off-set or compound any effects of the regime.

However, price levels will continue to play a major role in determining purchases of mutton and lamb[20] and the price harmonisation in the long run is likely to cause a small increase in consumption in the currently higher-priced markets, but a larger decline in the U.K. and Ireland.

These trends will be brought about if supply on the Continent is increased, either through U.K. exports or domestic supply, causing the price there to fall. Correspondingly, consumption in the U.K. would decline if exports increase; or third country imports are restricted further; or a different system of market support is introduced, whereby the market price is held artificially high. These trade flows will only occur where suitable grades of carcase are being produced for the alternative markets. Admittedly new segments of a market could be developed, with either lamb as a luxury meat, or mutton as a low priced protein, in non-traditional consuming States, but the possibilities are long term and limited.

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20 See R. Sheppard 1980.

8. IMPLICATIONS FOR NEW ZEALAND

New Zealand has agreed to limit exports of lamb, mutton and goat meat to the Community (including Greece from January 1, 1981) to 245,500 tonnes per calendar year. This tonnage is slightly more than New Zealand has sent to the EEC in the last few years, but considerably less than in the early 1970's.

In order to ensure that only the agreed tonnage is exported from New Zealand, exporters to the EEC require a certificate issued by the New Zealand Meat Producer's Board (NZMPB). On presentation of the export certificate to a designated authority in each member State the exporter obtains an import licence for that particular consignment. With this system both New Zealand and the Commission are able to monitor trade, and the necessity for importers to place deposits is avoided. (See Appendix 3 for Licence Issuing Procedures).

As a further part of the agreement, New Zealand will separately limit the volume of lamb and mutton exported to France and Ireland up to March 31, 1984. After that New Zealand should have free access for its quota to all the ten countries.

8.1 Problems

There are also several impositions and possible future problems inherent in the new regulation. Apart from short term uncertainty regarding price levels in the U.K., the main dangers to New Zealand arise from longer term implications.

With substantially improved prices to British farmers, they will be encouraged to expand production, and the same may occur in other States. The extent to which production increases, will greatly influence the cost to the Community of supporting farmer-incomes, and there may be future calls for a reduction in imports. A similar reduction in imports might be made if it was found that EEC prices were not moving closer together as intended.

There may also be increasing pressure to change the means of producer support, since the Community is already finding it difficult to justify the high current expenditure on agriculture. A change to a system whereby consumers were forced to pay higher prices would mean that they, rather than the Commission, were supporting producers' incomes. In the U.K. this price rise would cut consumption (and hence imports) dramatically[21].

With intervention used as a support measure there is a real danger of future disruption to the market for frozen lamb within the Community, and in other world markets through subsidised EEC exports. The Commission has assured third

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21 See R. Sheppard, 1980.

countries that they will restrict exports to "traditional" markets. (During the late 1970's the EEC exported around 4,000 tonnes annually, mainly to Switzerland, Algeria and Middle East countries).

Another disadvantage for New Zealand in the medium term is the restriction on access to France, one of the few markets in the EEC where a sizeable potential demand for lamb exists. However, it is likely to remain an attractive market in the longer term, since the "clawback" mechanism will discourage cheaper British supplies flooding directly across the Channel, once producer prices are harmonised.

The traditional seasonality of supply in Europe is likely to become less marked, as the seasonal price incentives encourage more spread of domestic production and as Private Storage Aids smooth domestic supply to the market. This will reduce the need for off-season imports - a place which New Zealand has always filled, and which allowed New Zealand to benefit from higher prices. In addition, one immediate effect on New Zealand exporters is the considerably increased documentation load, resulting from the export/import licensing.

8.2 Advantages

There are several benefits accruing to New Zealand from the agreement to restrict the volume sent to the EEC. Against the above difficulties must be weighed the fact that New Zealand has guaranteed access for lamb into the EEC for the duration of the Regulation. Though this means that the British market can no longer be used by the industry as a residual clearing house, it does provide a secure base for a major percentage of New Zealand lamb exports, and the restriction could encourage a more co-ordinated marketing approach by N.Z. exporters.

In addition, the reduction in the levy to 10% gives New Zealand increased foreign exchange earnings of around NZ$36 million on 1980 prices and quantity, which is an increased return of approximately 20¢/kg, or $2.89 per carcase. This should give an improvement in returns of over $41 million at expected 1981 sales levels.

New Zealand will gradually gain access to the more attractive EEC markets, and in the longer term should be able to develop trade with them (provided their market prices remain above the U.K. market price in order to compensate for additional market development expenses). A larger portion of the voluntarily agreed quota could be switched to the Continent, though attention needs to be paid to the specific carcase requirements of each market.

8.3 Conclusions

Thus the new sheepmeat regulation, while it contains some potential dangers is in several respects more advantageous to New Zealand than the system during the 1970's. However, should the U.K. market become weak - either through reduced demand or increased supply, or if the cost of market support becomes too great, there will no doubt be a call for a reduction in imports.

New Zealand cannot therefore be complacent and needs to keep a wary eye on such developments within the EEC to ensure continuing access to its most important lamb export market.

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APPENDICES

APPENDIX 1

SEASONAL SCALE OF SHEEPMEAT PRICES FOR 1980/81 (ECU/100 kg)

Week beginning		Week No.	Basic price	Intervention price	Derived intervention price*
April	7	1	368.0	312.8	287.8
	14	2	370.0	314.5	289.5
	21	3	373.0	317.0	292.0
	28	4	376.5	320.0	295.0
May	5	5	378.0	321.3	296.3
	12	6	379.5	322.6	297.6
	19	7	378.0	321.3	296.3
	26	8	376.0	319.6	294.6
June	2	9	374.0	317.9	292.9
	9	10	371.5	315.8	290.8
	16	11	367.0	311.9	286.9
	23	12	362.5	308.1	283.1
	30	13	358.0	304.3	279.3
July	7	14	356.5	303.0	278.0
	14	15	354.2	301.1	276.1
	21	16	352.0	299.2	274.2
	28	17	349.0	296.6	271.6
August	4	18	345.0	293.2	268.2
	11	19	341.5	290.3	265.3
	18	20	338.0	287.3	262.3
	25	21	335.0	284.7	259.7
September	1	22	328.0	278.8	253.8
	8	23	325.0	276.2	254.2
	15	24	322.0	273.7	248.7
	22	25	320.0	272.0	247.0
	29	26	318.0	270.3	245.3
October	6	27	316.5	269.0	244.0
	13	28	315.0	267.7	242.7
	20	29	314.0	266.9	241.9
	27	30	313.5	266.5	241.5
November	3	31	312.5	265.6	240.6
	10	32	311.5	264.8	239.8
	17	33	310.5	263.9	238.9
	24	34	310.0	263.5	238.5
December	1	35	311.0	264.3	239.3
	8	36	317.3	269.7	244.7
	15	37	322.5	274.1	249.1
	22	38	328.0	278.8	253.8
	29	39	337.5	286.9	261.9
January	5	40	343.0	291.5	266.5
	12	41	344.5	292.8	267.8
	19	42	346.8	294.8	269.8
	26	43	347.2	295.1	270.1
February	2	44	348.8	296.5	271.5
	9	45	349.8	297.3	272.3
	16	46	351.4	298.7	273.7
	23	47	354.0	300.9	275.9
March	2	48	355.5	302.2	277.2
	9	49	359.0	305.1	280.1
	16	50	363.5	309.0	284.0
	23	51	367.5	312.4	287.4
	30	52	373.0	317.0	292.0

* For region 4 (Ireland)

Source: Agra Europe, June 6, 1980 No. 880.

APPENDIX 2

U.K. Fat Stock Guarantee Price and Guide Price Levels 1980/81

(p/kg est dcw)

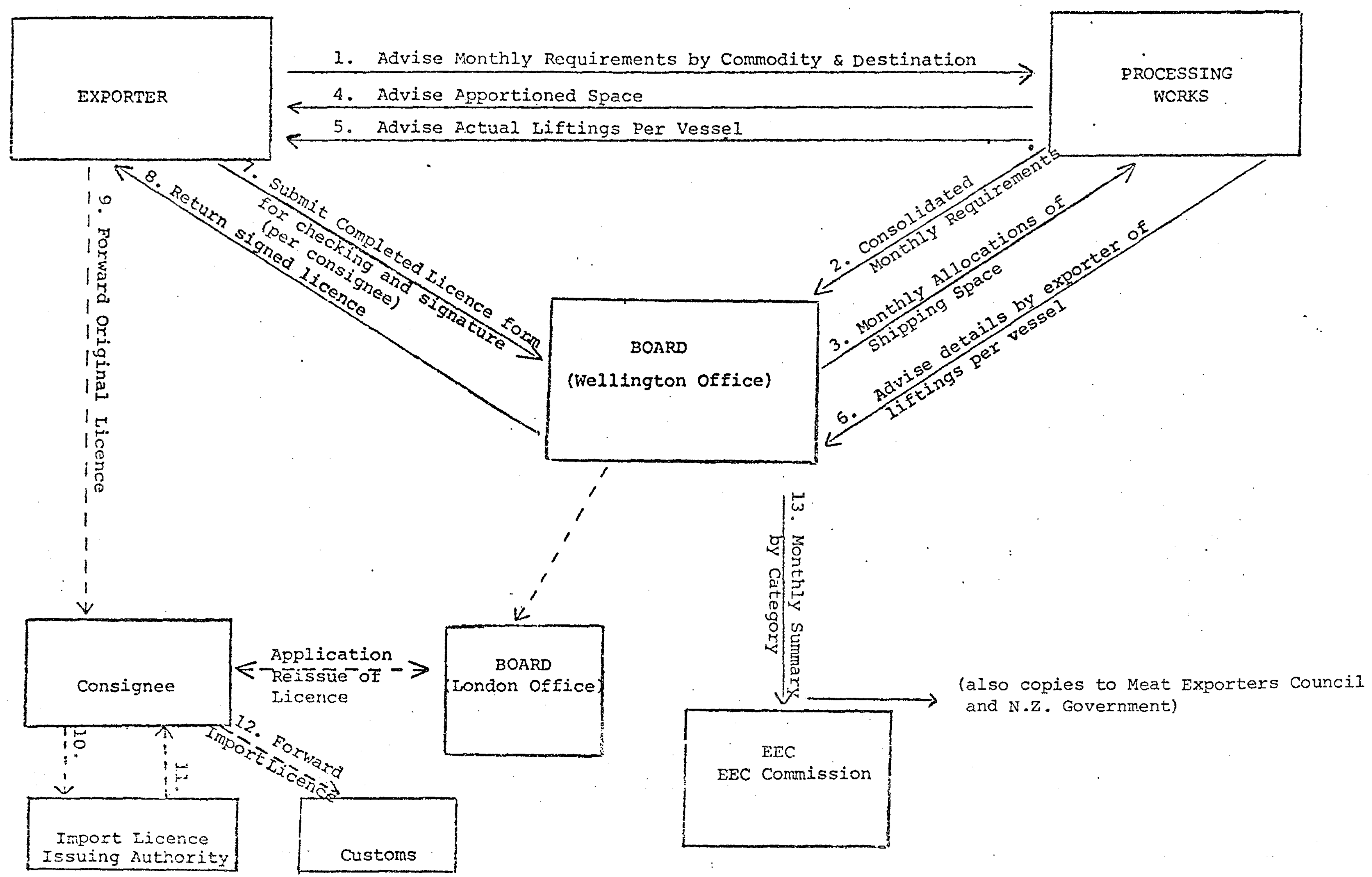
Week Commencing	Fat Stock Guarantee Price	Guide Price	Week Commencing	Fat Stock Guarantee Price	Guide Price
1980					
Jun 9	156.2	195.4	Nov 24	151.9	163.0
16	154.9	193.0	Dec 1	152.6	163.6
23	153.3	190.6	8	153.0	166.9
30	151.8	188.3	15	153.4	169.6
Jul 7	150.7	187.5	22	154.7	172.5
14		186.3	29	154.7	177.5
21		185.1	1981		
28		183.7	Jan 5	155.2	180.3
Aug 4		181.5	12	156.1	181.1
11		179.6	19	157.4	182.4
18		177.7	26	158.7	182.8
25		176.2	Feb 2	159.9	183.4
Sep 1		172.5	9	161.2	183.9
8		170.9	16	163.1	184.7
15		169.3	23	165.0	186.2
22		168.3	Mar 2	167.3	187.0
29		167.2	9	169.9	188.8
Oct 6		166.5	16	171.9	191.2
13		165.6	23	173.2	193.3
20		165.1	30		196.2
27		164.9			
Nov 3	150.7	164.3			
10	151.1	163.8			
17	151.4	163.3			

	p/kg est dcw	EU/100 kg
U.K. Guide Price (average for year)	181.4	293.25
Seasonal high, mid-May 1980 would have been	200.0	323.0
Seasonal low, last week in November	163.0	263.5

Source: EEC; Ministry of Agriculture, U.K.

APPENDIX 3

Export Licence Issuing Procedures for Sheepmeats from N.Z. to EEC



APPENDIX 4

New Zealand Sheepmeat Exporters to the EEC

Under the new agreement made with the EEC, the current shipping allotment procedures will continue for N.Z. exporters.

All exporters are entitled to ship to the EEC a percentage of their individual production. This percentage is based on their total carcase weight production proportional to national production and the VRA tonnage.

An exporter can convert his VRA lamb entitlement to mutton, at will. Boneless product is converted to carcase weight equivalent using a coefficient of 1.67 for lamb and 1.82 for mutton.

Export licences continue to be granted to traders by the NZMPB which restrict sales to development markets in the EEC (such as West Germany, where five companies are licensed to sell N.Z. sheepmeat).

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