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INFORMATION MEMO

Common grain price at middle level from June 1, 1964

Compensatory measures for farms in Germany, Italy and Luxembourg

From 1966 on: Community plans to improve the standard of living of farmers in the EEC

An analysis of the situation in the EEC shows that a resolute settlement of the grain price problem will be an effective instrument for internal development of the EEC and for the development of its relations with non-member countries.

Internal aspects

The establishment of a common grain price level "in one operation" would not only be a decisive step forward in strengthening the Community internally but would also help to iron out political difficulties in individual member countries; the recurrence each year of negotiations on the gradual adjustment of grain prices are a factor making for internal disquiet.

Farm policy aspects

Only when the price level of grain in the Community has been finally settled will economic conditions become so clear that a definite line can be worked out for the adjustments and conversions which are in any case needed in the agriculture of all Member States. The long uncertainty about the level of farm prices, especially grain prices, in the Common Market is making medium-term planning difficult for farmers and may lead to misinvestments which will cause additional difficulty in the necessary process of adjustment.

Commercial policy aspects

When finally fixing the level of its grain prices the EEC can give concrete and visible proof that in its common agricultural policy it does not intend to pursue a policy of high prices which could lead to self-sufficiency, but that it is rather endeavouring to maintain adequate facilities for imports from non-member countries.

The fate of the approaching GATT negotiations clearly depends on whether agreement can be reached on the treatment of farm produce. A lasting solution of the agricultural problem, and one which will satisfy the importing as well as the exporting countries, can be found only if a long-term balance can be established between demand and supply for the most important commodities throughout the world. This means that the production policy - and therefore the price policy - of the Contracting Parties will be the focal point of the negotiations.

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If a common grain price is fixed the Community will be in a position to take an active part in these negotiations and to make a positive contribution to them.

These considerations have led the Commission to submit to the Council of Ministers today a number of proposals which can be summarized in the following six points:

1. Common market for grain with a common price level from 1964/65

For the year 1964/65, which begins on 1 July 1964, one basic target price would for the first time be fixed for each of the various types of grain throughout the Community. These basic target prices would then be reviewed each year, beginning with the year 1965/66. In doing so, special account would be taken of agricultural incomes, prices for the means of production, wages, consumer prices and the supply and market situation.

The basic target prices would apply in the areas of largest deficit in the EEC; these are the regions encompassing the marketing centres of Rotterdam, Amsterdam, Voghel, Terneuzen, Duishurg, Cologne, Brussels, Liège, Ghent and Antwerp, as well as southern Italy and the Italian islands, with the commercial centres of Reggio di Calabria, Messina, Catania, Palermo, Cagliari, and Olbia.

The common basic target prices will serve as a basis for calculating the threshold prices applicable to imports from non-member countries at the common external frontier, for working out the regional target prices applicable in the various areas of cultivation - due account being taken of transport costs - and for determining the intervention prices which protect producers by preventing local market prices dropping below a certain level.

In practice, this would mean that from 1 July 1964 onwards there would be a common market for grain which would have all the characteristics of a domestic market, and a uniform system with uniform threshold prices at the external frontier. This would free intra-Community trade from a number of administrative procedures and eliminate many difficulties which can arise in trade amongst Member States, especially in trade with conversion products. Not only would collection of the levy on grain traded between Member States disappear but also, in the case of all livestock products or products processed from grain, that part of the levy would be eliminated which so far has reflected the differences between grain prices in the Member States; the remaining "levy elements" in intra-Community trade for these products would then in practice be no more than specific duties, automatically eliminated over the transitional period. In the same way refunds in intra-Community trade would disappear; for exports to non-member countries they could be unified.

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2. Common grain price at middle level

The basic target prices for the year 1964/65 would be fixed between the highest and the lowest target price laid down by the Member States in 1963/64. The basic target price for 1964/65 for wheat would be DM 425 per ton and for barley DM 370 per ton (for other currencies see table 1).

The level of the 1964/65 target prices would be mainly determined by the consideration that adjustment of prices must not lead to any undue expansion of grain cultivation in the EEC. Forecasts concerning grain production and consumption in the EEC show that the present total import requirements of approximately 10 million tons of grain could be the same in ten or twelve years from now, provided the acreage under grain in the EEC remains more or less the same. As considerable reserves of arable land are still available in France, special attention must be given to the possible reactions of grain producers in that country. Several inquiries have shown that the proposed raising of target prices in France, which would be less than 10%, is not likely to lead to an expansion of French grain cultivation which would be serious for the Community.

The proposed 1964/65 prices for the other types of grain have been related to the price for wheat in a way which takes account of the EEC's supply situation and import requirements. Whereas there is a tendency to produce more wheat and rye than can be marketed in the Community and outside, the demand for coarse grain (barley and maize) is constantly increasing. If some sensible economic guidance is to be given to the production and utilization of the various types of grain, the difference between bread grain and coarse grain prices must not be too great, especially in France and Italy, therefore, coarse grain prices must be brought closer to wheat prices.

The 1964/65 common grain price level of DM 425 for wheat and DM 370 for barley takes into account not only the EEC's supply situation for the various types of grain, and in particular the EEC's future import requirements, but also represents a balanced compromise between consumers' and farmers' interests in the Community.

The establishment of this common grain price (see table 2) would mean:

i) A reduction of grain prices in Germany - and in Italy and Luxembourg, a reduction for wheat and rye - and thus a loss of farm income in these countries;

ii) A rise of prices in France, Italy and the Netherlands, which - especially where price increases for coarse grain are concerned - would affect consumer prices for eggs, poultry and pigmeat.

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The increase of barley prices in Belgium and Luxembourg would hardly affect consumer prices.

In judging the effects of falling or rising prices for farmers on the one hand and consumers on the other, it must be remembered that price changes for grain are fully reflected in producer prices and producer incomes, whilst their incidence is only one quarter or one third in the case of consumer prices because these contain processing and distribution costs, which are not affected by changes in the grain price.

The grain prices proposed by the Commission for 1964/65 would probably be reflected as follows in the various Member States' producer and consumer prices.

In the Federal Republic of Germany, prices for all types of grain (wheat, rye, barley, oats and maize) would fall; the drop would be between 11 and 15%.

In Luxembourg, the price of wheat would drop by 16%, that of rye by 0% and barley would rise by 7%.

In Italy, wheat prices (durum and other) would decline by about 11%, but maize and barley prices would rise. In Italy's area of largest deficit (Reggio di Calabria) the rise in the intervention price would amount to 23% for maize and 15% for barley. In assessing the effects of higher coarse grain prices on the prices for eggs, poultry and pigmeat it must however be remembered that in Italy market prices for maize and barley will rise by about 18% only, because in 1963/64 they were excessively high for a number of special reasons.

In France and the Netherlands, all grain prices would rise. In France, prices for wheat other than durum would be 8% higher than in the previous year, for barley they would rise by 16% and for maize by 1%. In the Netherlands, the price increase for wheat would be 6% and for barley 15%.

In Belgium, wheat prices would rise by a mere 2%, and barley prices by about 7%.

Looking at agriculture as a whole, the changes in Germany would be marked. The overall drop in prices for the various types of grain, for pigs, eggs and poultry would be about 7%.

For France, on the other hand, it can be estimated that in 1964/65 consumer prices for bread, pastes, pigmeat, eggs and poultry as a whole might be as much as 3% higher than they would otherwise

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CORRIGENDUM P-42

texte français: page 5, alinéa 5, 4^e ligne:

"atteindra dans la zone la plus excédentaire d'Italie
Reggio Emilia)"

texte anglais: page 4, alinéa 6, 2^e et 3^e ligne:

"In Italy's area having the largest surplus (Reggio Emilia)"

have been, 5% higher in the Netherlands and 1 to 2% higher in Italy. In Italy, the higher prices for livestock products would be partly offset by the fall in the price of bread and pastes, of which consumption is heavy. However, there is no reason why all this should lead to any absolute rise in prices in these countries. The adjustment of prices would coincide with one of the cyclical falls in prices characteristic of livestock products. In other words, the price adjustment would mean that the drop in prices for pigmeat and eggs from the very high level which they reached in 1963 would be less marked. In some countries there are, furthermore, ways and means of reducing the difference between producer prices and consumer prices, including the public charges which help to widen the gap.

3. Compensatory measures for farmers in Germany, Italy and Luxembourg during the transitional period

In view of these probable effects of a price adjustment it is clear that for the sake of balanced development in all economic sectors in the Community immediate action must be taken to compensate farmers in Germany, Italy and Luxembourg for the consequences of a "price adjustment in one operation". However, special measures to compensate loss in farm incomes in some Member States resulting from the establishment of a common grain price level throughout the EEC in 1964/65 would be limited to the transitional period. At the latest in 1970 they would be replaced by measures in the form of "Community plans" for the benefit of farmers in all Member States.

The amounts which would be given by way of compensation to farmers in these countries during the transitional period would correspond to the loss of income resulting from the establishment of a common level of grain prices in 1964/65. This loss would amount to:

In Germany (FR)	140 million units of account
in Italy	65 million units of account
in Luxembourg	0.9 million units of account.

This calculation takes into account the fact that changes in prices for coarse grain affect producer prices and therefore the yield which farmers receive from pigs, eggs and poultry.

Such compensatory measures are justified not only because it would be incompatible with the spirit of the Treaty of Rome or the objectives of the common agricultural policy if the establishment of a common agricultural market were to be accompanied by a noticeable decline of farm incomes in certain parts of the Community. They are justified by economic considerations too. For instance, the medium- and long-term investments made by farmers in the past years -

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largely with borrowed capital - rested upon calculations of interest and amortization based on the present price level. In the overall economic context this level also corresponded with the costs situation and with the structure and organization of farming in the countries concerned. These, as well as the still existing differences in competitive positions - for instance as a result of tax policy or social policy in the various countries - will be only gradually aligned as the Common Market develops.

Compensatory measures could take the following forms:

- a) Direct payments to farmers whose incomes are reduced by the reduction of grain prices;
- b) Contributions to improved social benefits made specifically available to farmers and their families;
- c) Aids granted to improve productivity and to rationalize farms;
- d) Aids granted to producers of durum wheat under terms and conditions to be laid down by the Council.

The Member States would be free to allocate to any of these four forms whatever part of the overall compensation amount they chose. It goes without saying that these measures are not intended to take the place of anything already done in the Member States to improve agricultural incomes, but would be additional to it. On the other hand, the proposal that compensatory measures could also take the form of contributions to improve social services or to increase productivity does not in any way restrict the Member States' freedom of action in these fields.

However, if the Member States decided to make direct payments, they would have to adhere to certain principles. Direct payments must not be tied to the price of certain agricultural products or means of production. Furthermore, provision must be made for the capitalization of direct payments, for instance to enable a farmer to rationalize his farm, to turn marginal land into woodland or to take up a new, non-agricultural, activity if he decides to quit the land. This would give direct payments a dynamic character. Above all, however, direct payments under the annual compensation plan could only be paid up to a maximum total amount. For 1964, 1965 and 1966 this maximum amount would be the same as the calculated loss of income, that is to say, the Member States could pay the total amount of compensation in the form of direct payments. In subsequent years the maximum amount of direct payments would be gradually reduced, so that in 1969 a maximum of two-thirds of the calculated loss of income could be compensated through direct payments and at least one third would have to be made available in one or more of the other forms mentioned above.

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4. Financing of compensatory measures from the EEC Budget

Since the "adjustment of grain prices in one operation" is a measure intended to strengthen the Community internally and to reinforce its position in the coming international negotiations, the compensatory measures would be financed from the EEC Budget.

For the first three years (1964 to 1966) this would be done in the form of payments from the Community Budget amounting to the full amount spent by the Member States on compensatory measures. From 1967 onwards these payments would be gradually reduced in such a way that in 1969 they would still amount to two thirds of the original amount, because the first "Community Plan", proposed for 1966, provides for financial contributions by the Community to measures which are similar to the compensatory measures. This is true in particular of steps taken to increase farm productivity and to improve social benefits for the farming population. The financial contributions to be made available from Community funds to Germany, Italy and Luxembourg under the first Community plan must be at least equal to the amount by which the financial contributions to the compensatory measures would be reduced.

5. Complete financing of refunds and of intervention on the domestic market by the Guidance and Guarantee Fund from 1964/65 onwards

If, as a result of the establishment of a common level of grain prices, the Community accepts responsibility for the injurious effects on farm incomes in some Member States, it is fair that the Community should also take upon itself all other financial burdens arising under the common market regulations for grain and the livestock products based thereon, particularly in view of the fact that the fixing of uniform basic target prices and threshold prices for grain and the regionalization of the target and intervention prices at Community level would in practice establish a common market for grain. The Commission therefore proposes that from 1964/65 onwards the Member States' expenditure on refunds for grain, flour, pigmeat, egg, and poultry exports to non-member countries and on domestic interventions relating to grain should, in derogation from Article 5(1) of Council Regulation No. 25 on the Financing of the Common Agricultural Policy, be fully borne by the Guidance and Guarantee Fund.

6. From 1966 on: Community plans to improve the standard of living of farmers in the EEC

While political and economic considerations demand that in connection with the establishment of the common grain market certain immediate measures be taken to prevent a slump of farm incomes in certain Member States, it must just at this important stage of

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the EEC's development also be recalled that the objectives of the Treaty and of the common agricultural policy are not limited to establishing common market organizations for agricultural products. One of the main aims is to ensure an adequate standard of living for the farming population. At present, however, the standard of living and incomes is unsatisfactory in many agricultural areas of the EEC when compared with the standard of living and incomes in other economic sectors. At the same time, therefore, as the Commission submits proposals which it is convinced will prove of major importance to the development of the Community and to its relations with non-member countries, it is also proposing "Community plans to improve the standard of living of farmers in the EEC". These plans are to be drawn up on a proposal by the Commission and put into operation from 1966 onwards by Member States, with financial support from the Community.

These Community plans would comprise the following categories of measures:

- a) Steps to improve farm incomes in economically under-developed areas. This would in particular involve co-ordinated financial assistance for structural changes both in agriculture and in other sectors (regional economic policy);
- b) Special programmes to benefit certain farms whose economic and social situation is particularly unsatisfactory, for instance farms in high and medium altitudes, on sandy soils, of inadequate size, or far removed from markets, and farms in areas affected by the division of Germany;
- c) Improvements to social policy systems in agriculture, in line with the principles established in the Commission's Action Programme.

Such measures could be temporarily supplemented by aids to income paid to certain farmers in accordance with common criteria but independently of what they produced. This facility should be used where the measures listed above are not sufficient to provide, in good time, a lasting improvement in the standard of living of the farming population in certain areas.

The Community would contribute financially to the implementation of the Community plans. Where the provisions governing these Funds permit, the necessary means would be provided by the Agricultural Guidance and Guarantee Fund and by the Social Fund. Any further means required to operate the Community plans drawn up by the Council would be provided from the Community budget.

Enclosures: Table 1
Table 2

TABLE 1: Basic target prices, basic intervention prices and threshold prices at the beginning of the 1964/65 year

	National currency/ton				
	DM	FF	Lit.	Bfrs. Lfrs	Fl.
<u>Wheat other than durum</u>					
Basic target price	425	524.56	66 406	5 312.5	384.63
Basic intervention price	395	487.54	61 719	4 937.5	357.48
Threshold price	420	518.39	65 625	5 250.0	380.10
<u>Rye</u>					
Basic target price	375	462.85	58 594	4 687.5	339.38
Basic intervention price	350	432.00	54 688	4 375.0	316.75
Threshold price	370	456.68	57 813	4 625.0	334.85
<u>Barley</u>					
Basic target price	370	456.68	57 813	4 625.0	334.85
Basic intervention price	345	425.82	53 906	4 312.5	312.23
Threshold price	365	450.51	57 031	4 562.5	330.33
<u>Maize</u>					
Basic target price	375	462.85	58 594	4 687.5	339.38
Basic intervention price	350	432.00	54 688	4 375.0	316.75
Threshold price	370	456.68	57 813	4 625.0	334.85
<u>Durum wheat</u>					
Basic target price	500	617.14	78 125	6 250.0	452.50
Basic intervention price	470	580.11	73 438	5 875.0	425.35
Threshold price	495	610.96	77 344	6 187.5	447.98

TABLE 2: Intervention prices in DM/ton at the beginning of the 1963/64 and 1964/65 marketing years

	Wheat other than durum		Rye		Barley		Maize		Durum wheat	
	1963/64	1964/65	1963/64 ¹⁾	1964/65	1963/64 ¹⁾	1964/65	1963/64 ¹⁾	1964/65	1963/64	1964/65
GERMANY										
Duisburg	442.50	395.00	402.50	350.00	383.50	345.00	-	350.00	-	-
Passau	427.50	368.99	387.50	323.99	368.50	318.99	-	323.99	-	-
LUXEMBOURG										
(1964/65 Mersch)	444.00	382.68	401.76 ²⁾	337.68	323.20	332.68	-	337.68	-	-
BELGIUM										
(1964/65 Brussels)	388.80	395.00	300.80	350.00	323.20	345.00	-	350.00	-	-
NETHERLANDS										
(1964/65 Rotterdam)	372.37	395.00	269.75 ³⁾	350.00	300.06 ³⁾	345.00	-	350.00	-	470.00
FRANCE										
Lille	346.68	389.33	265.58	344.33	282.92	339.33	323.75	344.33	-	-
Chartres	346.68	374.74	265.58	329.74	279.68	324.74	306.25	329.74	-	-
Toulouse	346.68	362.23	265.58	314.59	286.16	309.59	305.04	314.59	423.98	452.69
ITALY										
Reggio di Calabria	419.20	395.00	382.47 ⁴⁾	350.00	263.79	345.00	254.51	350.00	547.20 ⁵⁾	433.52
Reggio Emilia	400.00	357.92	382.47 ⁴⁾	298.11	263.79	293.11	254.51	312.92	531.20	-
Rome	409.60	368.32	382.47 ⁴⁾	314.63	263.79	309.63	254.51	323.32	531.20	451.13

1) For the Netherlands, Luxembourg and Italy, the 1963/64 intervention price assumed at 93% of target price.
 2) Applicable only to milling quota.

3) Excl. area subsidy for sandy soils (DM 193/ha), which is equivalent to -
 DM 55.00/ton for barley (3 500 kg/ha)
 DM 64.30/ton for rye (3 000 kg/ha).

4) Target price and intervention price calculated on threshold price.

5) Intervention price incl. producers' bonus which, in Calabria and Sicily, amounts to DM 25.60/ton and to DM 41.60/ton in Sardinia.