

Brussels, November 1966
P-63INFORMATION MEMOArrangements for processed foodstuffs

On 27 October the EEC Council issued a regulation governing trade in certain goods processed from farm products (1).

It is intended to regulate intra-Community trade and trade with non-member

countries in certain goods that do not appear in Annex II (2) to the Treaty but are processed from certain basic farm products - cereals, milk and cream (preserved, concentrated or sweetened), butter, sugar and molasses - that do appear there. The outline regulation will be supplemented by implementing regulations mainly of a technical nature.

The new arrangements provide an overall solution to the numerous problems raised for processors of these goods, in the manufacturing costs of which the price of the basic product is an important item.

The difficulties to be resolved derived chiefly from the fact that the Treaty contains different provisions for the basic (listed) products and for goods that are not listed but are processed from the basic products.

A consequence of this was that when the protection given to these goods in intra-Community trade was eliminated there was no concomitant alignment of the prices of the basic products. This discrepancy, aggravated by the grant of export subsidies, resulted in the paradoxical situation that each member country is better able to compete in selling these goods on the markets of other Community countries than on its own market.

In trade between member countries and non-member countries, the difficulties result from the lack of alignment between the protection accorded the basic products (for instance, the levy on cereals) and that on goods processed from them (ad valorem duty).

In order to cope with these difficulties, the Council issued a decision on 4 April 1962 - to be valid for three years - providing in certain conditions for countervailing charges on imports of certain goods processed from sugar, molasses, cereals, potato starch, chicory root and milk. But the implementation of this decision

(1) Official gazette of the European Communities No. 195, 28 October 1966, pp. 3361-67.

(2) Annex II to the Treaty lists the products subject to the provisions concerning the common agricultural policy.

produced only an imperfect and fragmentary solution to the twofold problem of price adjustment and protection.

These considerations led the Commission in July 1964 to submit to the Council the proposals just adopted. The new regulation will take effect on 1 April 1967.

One of the features of the new system is the reorganization of the conventional type of tariff protection into two elements that will replace today's customs duties and charges with equivalent effect:

- (i) A fixed ad valorem component to protect processors; to take account of progress already made in the elimination of customs duties, the component is fixed at 1% for intra-Community trade. It will be abolished on 1 July 1967. The fixed component in respect of non-member countries is fixed at a reasonable level.
- (ii) A variable component to be fixed quarterly by the Commission.

In intra-Community trade the variable component is intended to bring the price charged on the home market of the exporting member country for the basic farm product incorporated in the goods in question into line with the price charged for the same basic product on the home market of the importing country.

In the case of imports from outside the Community, the variable component is intended to bring the price of the basic product on the world market to the level of the home market price of the importing member country.

In each case the component is calculated in a similar way to the agricultural levies on the basis of Community ratios of equivalence between finished goods and basic products.

The new regulation also lays down precise rules for refunds on exports both to member countries and to non-member countries. The amount of these may not exceed that of the variable components. The regulation also prohibits recourse to processing traffic arrangements in intra-Community trade.

Through this machinery, the new regulation will help to put processing industries in all Community countries on the same competitive footing as regards the supply of basic products. It will also enable Community industries to meet competition from similar industries in non-member countries, thanks to a form of protection adapted to fluctuations in the world prices of basic products.

The goods to which the new arrangements apply are given in the attached list. As this list is not an extensive one, it can be seen that the new regulation is an exceptional measure, applying only to goods in the price of which the cost of the basic products incorporated is a relatively important factor.

At the same time as this regulation the Council approved two other Commission proposals concerning:

- (i) The determination of the level of protection to be accorded processors of these goods when the new systems comes into effect, and the offer concerning the protection of processing industries which may be made in the Kennedy round.
- (ii) A resolution on the Community's financial responsibility for exports to non-member countries of basic farm products incorporated in certain goods not listed in Annex II to the Treaty - especially the goods affected by the new regulation ⁽¹⁾.

The Council's instructions to the Commission for the Kennedy round take account both of the wish to provide adequate protection for Community industries and of the export problems involved. It should not be forgotten that the concept of agricultural product used in GATT negotiations is broader than that contained in the Rome Treaty extending as it does to products of further processing not listed in Annex II.

The provisions of the Council's resolution on common financing for exports of processed farm products outside the Community assure the relevant EEC industries of a logical follow-up to the trade arrangements laid down by the Council, which will enable them to compete on equal terms on world markets and to expand their business with as much chance of success as competing industries from non-member countries. Adequate provisions to this effect will be made within each common market organization. This measure is to take effect on 1 July 1967. Export refunds will be voluntary for Member States until uniform prices have been introduced and compulsory thereafter. Expenditure arising from this operation will be eligible for repayment from the Guarantee Section of the European Agricultural Guidance and Guarantee Fund.

(1) The resolution and the list of products are published in official gazette No. 195, 28 October 1966, pp.3369-71.

List of goods covered by new regulation

| <u>CCT Heading</u> | <u>Description</u> |
|--------------------|--|
| ex 17.04 | Sugar confectionery, not containing cocoa: B. Chewing gum C. Other |
| 18.06 | Chocolate and other food preparations containing cocoa |
| 19.01 | Malt extract |
| 19.02 | Preparations of flour, starch or malt extract, of a kind used as infant food or for dietetic or culinary purposes, containing less than 50% by weight of cocoa |
| 19.03 | Macaroni, spaghetti and similar products |
| 19.04 | Tapioca and sago; tapioca and sago substitutes obtained from potato or other starches |
| 19.05 | Prepared foods obtained by the swelling or roasting of cereals or cereal products (puffed rice, corn flakes and similar products) |
| 19.06 | Communion wafers, empty cachets of a kind suitable for pharmaceutical use, sealing wafers, rice paper and similar products |
| 19.07 | Bread, ship's biscuits and other ordinary bakers' wares, not containing sugar, honey, eggs, fats, cheese or fruit |
| 19.08 | Pastry, biscuits, cakes and other fine bakers' wares, whether or not containing cocoa in any proportion |
| ex 21.01 A | Roasted coffee substitutes made from cereals |
| ex 21.06 | Natural yeasts (active or inactive): A. Active natural yeasts: Other B. Inactive natural yeasts |
| ex 21.07 | Food preparations not elsewhere specified or included, containing sugar, milk products, cereals or cereal products |
| ex 22.02 | Beverages with a basis of milk |
| ex 35.01 | Caseins, caseinates and other casein derivatives; casein glues: A. Casein C. Other |
| 35.05 | Dextrin and dextrin glues; soluble or roasted starches; starch glues: |
| 38.12 A I | Prepared glazings and prepared dressings, with a basis of starchy substances. |

+ From 1 July 1967.