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EXECUTIVE SECRETARIAT OF THE COMMISSION

Establishment
of a common price
level for milk, milk products,
beef and veal,
rice, sugar,
oilseeds
and olive oil

*Explanatory Memorandum
and proposals for Council Resolutions
put forward by the Commission*

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Establishment of a common price level for milk, milk products, beef and veal, rice, sugar, oilseeds and olive oil

Explanatory Memorandum and proposals for Council Resolutions put forward by the Commission

A. GENERAL

1. The EEC Commission's proposals to the Council on the establishment of a common price level for important agricultural products contain two main points:

- a) The Council, acting on a proposal of the Commission, shall, as from 1 July 1967 and for the ensuing marketing year applicable to each product, fix a common price for milk and common threshold prices for milk products, a common guide price for cattle and calves, a common basic target price for rice, a common target price for sugar and a minimum price for sugarbeet, a common norm price for oilseeds and a norm price for olive oil.
- b) Special provisions will be made for

sugar, and in the case of milk products authorization to arrange temporary support for certain products will be given to those Member States where heavy increases can be expected in the prices of the products concerned.

2. Together with these proposals the Commission has laid before the Council a "Report on the probable development of production and of the possible outlets for certain important agricultural products" [Doc. COM (66) 82, final]. The report covers the products for which the Commission is proposing that a common price level be established.

Explanatory memorandum on the level of agricultural prices

3. A common market is not possible without a common price level for the various products. Actual prices in the various areas of the common market and at various times in the year will vary with the supply and demand situation.

For manufactured products this common price level in the Community will be established step by step as duties and other impediments to trade between Member States diminish and the free movement of goods develops.

In the agricultural sector the situation is different. The prices paid for foreign produce do not depend on market laws, but are decided as part of agricultural policy in the various Member States and stabilized or guaranteed through a variety of commercial and marketing measures. The common organizations for these products consequently provide for:

- a) a common set of policy instruments to be used in stabilizing the most important agricultural prices (in particular levies and interventions);
- b) the possibility of the continued existence of different price levels in the several

Member States during a transitional period and, in intra-Community trade of offsetting these differences, by a variety of means, including levies;

- c) the fixing and application of common prices for the most important farm products by decision of the Council taken on a proposal from the Commission.

The common cereals price, basis of every move in the field of agricultural policy

4. On 15 December 1964 the Council of Ministers, acting unanimously on a proposal for the Commission, decided that from 1 July 1967 on a common target price ⁽¹⁾ would be applicable to the main types of cereals ⁽²⁾; for the marketing year 1967/68 the basic target price for wheat other than durum was fixed at DM 425 per ton.

(1) In conjunction with a basic intervention price and derived intervention price.

(2) Wheat other than durum, barley, maize, rye, durum wheat.

For the following reasons in particular this decision is of far-reaching importance:

(1) As cereal prices are a key factor in the structure of agricultural prices, the decision on the level of cereal prices provides a pointer for the future level of prices for farm products in the Community. Not only do cereal prices determine in large measure the costs and consequently the price level of certain important farm products, but in addition the scale and trend of the other farm products that compete for the available land and manpower are influenced by their relationship to the price of cereals.

(2) The decisions on agricultural policy taken by the Council on 15 December 1964 ensured that from 1 July 1967 on only cereals, pigs, eggs, poultry and products derived from cereals would effectively be included in the common market. From that date on the establishment of a common price level and the elimination of levies in trade between Member States will make a reality of free movement of goods in respect of these products.

(3) For weighty reasons ⁽¹⁾, which affect the internal development of the Community, its agricultural policy and its commercial policy — particularly the GATT negotiations — the common price level is to be established on 1 July 1967 for cereals and the products derived therefrom; this represents a deviation from the system of gradual approximation of prices provided for in the regulations on the organization of the market.

On the same date of 15 December 1964, the Council also decided that any expenditure by the Member States on intervention in the cereals market and any refunds on exports of cereals, pigmeat, eggs, poultry, etc. to non-member countries which gave rise to a claim for reimbursement should be taken over in full by the Community.

5. If however the effective establishment of the common agricultural market and of joint financial responsibility were limited to cereals, pigmeat, eggs and poultry, the advantages stemming from the development of free movement of goods and from the joint financing would benefit some agricultural areas of the Community more than others. In addition, farmers would all turn to the production of goods in which action had been taken to put into practice the common agricultural policy with its guarantees of security for the farmer, i.e. cereals, eggs, poultry and pigs.

At the same time the opportunity open to the Community of making a constructive contribution to the agricultural negotiations in the Kennedy round would in large measure be limited to the sector of cereals and livestock products.

To avoid such an unbalanced development, no time must be lost in taking analogous decisions which will ensure that from 1967/68 on common target, norm and guide prices will be applied, that levies and duties between Community countries will be eliminated and that there shall be joint financing for other farm products of importance.

At the Council session of 28-30 June 1965 the principle was agreed that from 1 July 1967 there should be free movement for both agricultural and manufactured goods. If this is to happen there will have to be:

a) Common organizations of the markets in sugar and in oils and fats, and additional provisions for the market organization for fruit and vegetables; the Commission has already submitted to the Council proposals on these points;

b) Common prices for milk, beef and veal, rice, sugar, oilseeds and olive oil, to come into force in the marketing year for each product that begins after 1 July 1967, with the exception of the common price for olive oil, which, in accordance with the decisions taken by the Council, must come into force earlier.

Factors determining common price policy

6. Three economic factors exert a decisive influence on the level of farm prices throughout the world:

- i) The farmer's interest in a reasonable income,
- ii) The consumer's interest in reasonable prices,
- iii) Foreign trade interests.

These three conflicting forces must always be reconciled. How this is done depends on the economic situation of each country and the weight of each of these elements in its economic policy. The concept of what is reasonable, moreover, is subject to quite varied interpretations. Countries that put special emphasis on being industrially competitive on the world market will consider lower producer prices to be reasonable than would countries whose main interest is in developing agriculture. What prices are reasonable to the consumer is also a matter on which views will vary in accordance with the economic situation in the several countries.

(1) These are given in detail in the Commission's explanatory memorandum to its proposal on cereal prices of 20 November 1963 (VI/COM(63)430, final, point 3 a-c).

The essential point is, however, that in all countries agricultural prices have invariably been fixed without regard to any international obligation. In fact, decisions on farm prices, unlike those on trade policy, have always been taken autonomously.

7. In these matters the Community's decisions on farm prices are entirely in line with those taken elsewhere. The only peculiarity in the case of the Community is that the three factors referred to above have been given legal shape in the Treaty.

Under the Treaty the Community must pursue an agricultural policy with the following three aims:

- a) To ensure a fair standard of living for the agricultural population by increasing earnings (Article 39 of the Treaty);
- b) To ensure supplies to the consumer at reasonable prices (Article 39 of the Treaty);
- c) To contribute to the harmonious development of world trade (Article 110 of the Treaty).

These principles laid down in the Treaty for agricultural policy are directly applicable in questions of price policy as elsewhere, because prices are a basic element of the common organization established for each agricultural market.

The Commission has borne these points in mind when preparing its proposals on common prices, and assumed that they were at the basis of the policies pursued to date by the Member States. The Commission also considered that it should try to avoid suddenly upsetting the compromises worked out by the Member States between the interests of the farmer, the consumer and foreign trade.

8. To ensure a reasonable income to farmers, prices should be set as high as is compatible with the other needs of the economy. The prices obtained for farm products are an essential item in the formation of income in agriculture. Since in an expanding economy such as that of the Community, agriculture faces considerable difficulties of adaptation, while the increase in demand for foodstuffs is only slight in relation to the growth of income, policy on agricultural prices has a substantial influence on incomes. However, the range within which these prices can be fixed by the Council is limited by two broad considerations affecting farm prices generally:

i) The basic policy expressed in all the Community's farm prices must be kept in line with the trade policy pursued by the Community (see sec. 10);

ii) The relation between the prices of the various farm products must be such that it not only takes into account both the role which the price/cost situation (see sec. 12) in the several branches plays in determining how much of what commodity is produced by farmers and the trend of agricultural production within the overall expansion of the economy, but also contributes thereby to the profitability of all branches of Community agriculture. This applies in particular to the relation between the prices now to be established and the common prices for wheat, barley, oats and maize.

The common cereal prices already agreed can therefore be taken as a firm basis for the consideration of all price problems.

9. Fixing a common level of prices will mean lower prices for the consumer in some countries and higher prices in others — a consequence that was clear from the time the decision on common cereal prices was taken.

Lastly, the maintenance of a stable pattern of consumer prices for food is helped by the fact that in establishing common prices the Community takes account of their effects on external trade.

10. Consideration of this external angle is unavoidable when fixing agricultural prices, as price has a direct impact on the volume of production and demand. Since the Community's external trade in farm products is chiefly made up of imports to cover the difference between supply and demand, or of exports where production exceeds domestic demand, its repercussions on external trade are immediate. It follows that commercial policy is unquestionably concerned with agricultural prices.

11. In this connection, however, there is a further specific point to be noted. In accordance with its obligations under Article 110 of the Treaty — that it should contribute to the harmonious development of world trade — the Community has declared its readiness in the Kennedy round to bind the amount of support it gives to agriculture providing reciprocity is ensured.

As already explained, the Commission believes that the search for a compromise in the common price policy between the interests of the producer, the consumer and external trade should be made along lines similar to those followed hitherto in the several Community countries and, in fact, in all countries throughout the world. The Community's Kennedy round proposal for reciprocal binding of the level of support,

which involves the level of prices, will mean that the mutual commitments undertaken are of equal value.

This is a new way of solving the problems resulting from the reorganization of world agricultural markets — a method with a favourable effect on the development of world trade. For a Community that is involved in a complex of international economic relations, this idea provides the opportunity of including the level of support — and so the farm prices which are the main factor in the negotiation of worldwide commitments.

This general binding of the level of support is supplemented by the proposal that international arrangements should be negotiated for the major agricultural commodities. The objective is that action be taken to establish on world agricultural markets a balance between supply and demand that will promote international trade in farm products and improve the situation of the countries involved. Naturally, the principles of reciprocity and equivalence will be applied strictly to the developed countries only, and due regard will be had to the special economic situation of the developing countries in the light of the principles worked out at international level.

Guidance for producers

12. In view of the internal supply situation for the commodities under discussion and the quantities to be produced within the Community, the relation between the prices for the various products is an important factor.

The Community's supply situation for those products concerning which the Commission is here presenting proposals for the establishment of common prices can be described briefly as follows (for a detailed discussion, see Part B and Doc. COM (66) 82 final). The Community is self-sufficient — or slightly more than self-sufficient — in milk and milk products. Appreciable quantities of beef and veal have to be imported because home production cannot keep up with demand. Sugar production just meets or slightly exceeds demand, depending on the harvest. The Community as a whole needs to import rice, especially long-grain rice. The gap to be covered by imports is particularly wide for vegetable oils; this applies both to oils extracted from arable plants (colza, rape, sunflower) and to olive oil.

13. Given this situation and the level of cereal prices, it would seem appropriate, by and large, to encourage production of beef and veal (rather than milk, in particular),

while pursuing a somewhat cautious price policy for milk itself and for sugar. Since import requirements are heavy and demand for vegetable oils is growing rapidly, it might also be a good thing to provide an incentive to production by making oilseed prices more attractive. Rice production should be maintained at its current level.

14. Success in guiding production towards specific types of farming will depend on the relative price/cost ratios ⁽¹⁾ for the various agricultural products. Within certain technical limits, farmers can step up their output of those products that bring in most revenue. How far farmers will complain when uneven changes occur in the price/cost ratios of the various farm products will depend on the general — technical — conditions which facilitate or hamper switches in production. For an assessment of the medium- and long-term effects of price changes, the trend of production costs must be taken into consideration. Here the two most important factors are the rapid increase in agricultural wages and the benefits drawn from rationalization, especially from improvements to production methods. As wage increases affect the various sectors of agriculture differently, depending on their labour intensity, and as there are appreciable divergences in technical advance also, there will inevitably be, in the medium and long term, shifts in the relative production costs of the various items.

15. Consequently, we must expect the trend of production to vary if given ratios between the prices of farm products are maintained over a certain length of time, and a decline in the production of some commodities is possible. If, on the other hand, production in the various sectors is to increase at about the same rate, the price ratios will have to be adjusted from time to time to take account of shifts in production costs.

The significance of this for Community price policy is that price ratios must be seen as part of current developments and not as a static factor. Both the impact of earlier changes in price ratios on the supply and demand situation and the trend of production costs are relevant.

16. Cereal prices occupy a key position among agricultural prices. They determine the common price level of those livestock products which derive chiefly from cereals — pigmeat, poultry and eggs. Cereals and these livestock products make up 30 to 40% of the revenue from sales of farm products.

(1) See Annex, Graphs 6 to 13, for developments in these price ratios.

In most parts of the Community, more than 50% of all arable land is sown to cereals. In view of the significance of relative price/cost ratios for the pattern of agricultural production, the decision on the future level of cereal prices must therefore be taken into account in fixing prices for other major farm products.

17. The link between cereals and other products is a consequence of interchangeability in production. The same kind of direct link is also found between sugarbeet and colza on the one hand and cereals (mainly wheat) on the other and between rice and maize. There is a certain connection, though it is far from being so close, between the pasture and fodder crops sector and cereals (1).

In assessing the price of cattle and of products derived from cattle it should be borne in mind that many farmers can change over from slaughter cattle to milk or vice versa as prices change. Olive-oil prices bear no relation to cereal prices, so they are not discussed in this connection.

These relationships show that in fixing common prices for the products referred to trend of the following price ratios:

Sugarbeet: Wheat

Rice: Maize

Colza: Wheat

Milk: Wheat and feed grains (barley)

Slaughter cattle: Milk.

18. On the whole it may be assumed that the ratios obtaining in the member countries in recent years between the producer prices for the farm products considered here (milk, beef and veal, rice, sugarbeet, colza) and cereal prices represent a suitable compromise between the interests of the producer, the consumer and foreign trade. In view of these price ratios, of the probable trend of costs and of the opportunities for rationalization in the various sectors of farming, an attempt should therefore be made to achieve balanced progress in the pattern of production and equilibrium of the market by fixing common prices in such a way that the price ratios at producer level can vary in each member country within the following limits:

Wheat: Sugarbeet	= 100:16	— 18
Maize (2): Rice (2)	= 1: 1.56	— 1.60
Wheat (2): Colza (2)	= 1: 1.79	— 1.83
Wheat: Milk	= 1: 0.98	— 1.05
Milk: Top-quality beef	= 1: 7.3	(6.75 — 7.50)

These limits apply — given common basic target prices — to the ratios between average

producer prices in the various member countries. For since both cereal prices and milk prices within the Community will vary from region to region, even after a common price level has been fixed, different price ratios will as a rule be established in the individual member countries. The same holds good for the major producing areas.

Level and structures of common prices

19. The prices that are to apply to each product in the marketing year that begins after 1 July 1967 have been worked out on the basis of the considerations set out above, i.e.

a) Dependence of the level of farm prices on cereal prices,

b) Agricultural income, consumer prices and the Community's obligations in respect of world trade,

c) The availability of the relevant products in the Community,

of the guidance the price ratios elaborated on the basis of these considerations will give to producers, and also of the market situation of each commodity as detailed in Part B of this memorandum; these prices are given in Table I below.

Special measures

20. Because the prices now current in the member countries, especially for milk products and sugarbeet, vary widely, and in view of the Community's supply situation for both milk and sugar, it would be reasonable if the establishment of a common price level were accompanied by measures under which certain of the Member States would be authorized to grant — over a limited period — consumer subsidies for those milk products which are subject to marked price increases at the consumer stage; the purpose of this concession would be to ensure that the trend of consumption in the items concerned (butter in the Netherlands, medium-hard cheese in Germany) should not be threatened.

(1) Interchangeability here is often restricted for technical reasons. Moreover, it is difficult for producers to get an overall view since as a rule they can only calculate the value of dry roughage and green roughage indirectly via their revenue from stockbreeding. Any attempt to assess prices on the basis of the comparative feed value of other feeds available in concentrate form and of the prices paid for these can be of only limited help.

(2) Intervention price.

TABLE 1

Common prices for milk and milk products, cattle and calves, rice, sugarbeet, oilseeds and olive oil

(per 100 kg)

Product	u.a.	DM	FF	Bfrs./Lfrs.	Lit.	Fl.
<i>Milk</i>						
Target price	9.5	38.00	46.90	475.00	5 937	34.39
<i>Butter</i>						
Intervention price	176.25	705.00	870.16	8 812.50	110 156	638.03
Threshold price	191.25	765.00	944.21	9 562.50	119 531	692.33
<i>Grown cattle (on the hoof)</i>						
Guide price ⁽¹⁾	66.25	265.00	327.08	3 312.50	41 406	239.83
<i>Calves (on the hoof)</i>						
Guide price ⁽¹⁾	89.50	358.00	441.87	4 475.00	55 937	323.99
<i>Rice</i>						
Basic target price	18.12	72.48	89.46	906.00	11 325	65.59
Intervention price Italy	12.00	48.00	59.24	600.00	7 500	43.44
— France	12.30	49.20	60.73	615.00	7 688	44.53
Threshold price	17.78	71.12	87.78	889.00	11 113	64.36
<i>Sugar</i>						
Common target price for white sugar	21.94	87.76	108.38	1 097.00	13 712	79.42
Intervention price for white sugar	20.84	83.36	102.89	1 042.00	13 025	75.44
Minimum price for sugarbeet (per metric ton)	16.50	66.00	81.46	825.00	10 312	59.73
<i>Oilseeds</i>						
Common norm price	18.60	74.40	91.83	930.00	11 625	67.33
Intervention price	17.40	69.60	85.91	870.00	10 875	62.99
<i>Olive oil</i>						
Common norm price	111.00	444.00	548.01	5 550.00	69 375	401.82

⁽¹⁾ Medium grade.

Similar measures could be taken to prevent surplus production of sugar by limiting the sales and price guarantees offered to Community producers.

These measures to allow adjustment of the Community sugar market could be implemented under certain circumstances only, but they must be available for use over a period long enough for the task of adjustment to be carried through.

Economic and financial effects of common prices

21. It is important to know how the prices proposed for milk, cattle and calves, rice, sugar, oilseeds and olive oil — on the assumption that they are applied in conjunction with

the special measures — really take into account the general criteria for price policy set out earlier in this study. To facilitate a sound assessment of this point the reactions which follow will examine the effect of the proposals on production, external trade and consumer prices, and also on the calls that will be made on the Agricultural Guidance and Guarantee Fund (EAGGF) ⁽¹⁾.

Effects on production

22. Technical progress in agriculture can be seen to be increasing production (higher yield per hectare, better yield per animal)

(1) More details can be found in Doc. Com. (66) 82 final.

even when prices remain constant. This, of course, does not necessarily mean that the growth of production will not be greater in areas or types of farm with natural or economic circumstances that are particularly favourable for a given product. On the other hand, the proposed guide price for beef and veal should provide an incentive for the production of more meat in relation to milk. In four of the six member countries the producer price for milk is already at or above the proposed target price, so that prices will go up in only two countries (France and the Netherlands). But since the cost of milk production is increasing relatively sharply and beef prices are also going up in these two countries, an increase in the cow population should not be expected. The norm price for oilseeds provides a certain attraction for producers in the Benelux countries, but production is limited in these countries by certain natural features. Furthermore, the decline in oilseed production expected in France should be at least as big, so that with the slight expansion in Germany Community production of vegetable oils is unlikely to exceed the growth resulting from technical progress.

The proposed prices will not provide any incentive at all to producers of rice and olive oil. In the case of rice, the only real consequence will be to restore the price ratio that used to exist between it and maize (which once before led to a drop in Italian maize production).

To sum up, then, it can be assumed that the prices proposed will not cause agricultural production to rise more than demand in the Community.

Effects on the consumer, as at present calculable

The purpose of the following is to show the effects of farm-price policy — in so far as they can be worked out at this stage — on consumer price indices in the various countries. These calculations take into account the effect of changed producer prices only, all other factors remaining unchanged. It has been assumed that changes in producer prices will be passed on fully — but no more — to the consumer. It is not possible to include all the other factors that can send prices up (marketing and processing margins, special market situations, etc.).

Account is, however, taken of the effects of aligning cereal prices as well as the effects of the prices proposed in this document.

23. The following procedure is used to estimate the effects of the common price policy on the cost-of-living index.

Starting from the prices fixed in 1965 (wholesale or retail), the prices that may be assumed for 1967/68 are indexed and weighted in accordance with the importance of the item in the cost-of-living indices of the various member countries.

The fixing of common prices for milk, beef and veal, rice, sugar, oilseeds and olive oil results in the following changes in cost-of-living indices (see Annexes A/1 to A/6):

Belgium	+ 0.30
Germany	+ 0.14 ⁽¹⁾
France	+ 0.48
Italy	— 0.29
Netherlands	+ 0.63 ⁽¹⁾

The establishment of common cereal prices and the concomitant changes in the price of livestock products derived from cereals (rolled oats, spaghetti and the like, pigmeat, eggs and poultry, etc.) give the following changes in the cost-of-living indices ⁽²⁾:

Belgium	+ 0.10
Germany	— 0.16
France	+ 0.19
Italy	— 0.11
Netherlands	+ 0.36

The total change in cost-of-living indices resulting from the fixing of a common agricultural price level is thus:

Belgium	+ 0.40
Germany	— 0.02 ⁽¹⁾
France	+ 0.67
Italy	— 0.40
Netherlands	+ 1.00 ⁽¹⁾

Effects on external trade

24. The full effect on external trade that will be produced by the alignment of agricultural prices will be felt only when production and consumption have been adapted to the new situation thus created. This will be perhaps two or three years after the common prices have first been put into effect, i.e. about 1970.

(1) Provided no special measures (temporary consumer subsidies for medium-hard cheese and butter) are taken.
(2) See also Doc. VI/S/0207/64 final of 3 February 1964: Commission Memorandum to the Council on prices and price policy for agricultural products in the EEC.

The supply situation for the various products in 1970 is likely to be as outlined below ⁽¹⁾.

Greater quantities of a certain number of products (including beef and veal, rice and vegetable oils) will have to be imported. Surpluses may be expected in milk, and these could be met by specific measures (consumer subsidies for butter in the Netherlands and for medium-hard cheese in Germany). Some limit should be placed on the sales and price guarantees for sugarbeet in order to avoid an excessive rise in production.

Financial repercussions

25. When the financial consequences of fixing common prices are being considered, the first point to be examined is the expenditure that would have to be borne by the EAGGF.

To obtain an estimate of the resources needed, the year that must be considered is the one in which producers and consumers will feel the full economic effects of the common prices — 1970; gross exports and the full amount of the refund necessary must be taken into account.

In the assessment given below, no allowance has been made for the effect and cost of special provisions such as consumer subsidies or measures to limit price and sales guarantees.

26. The following table shows the estimates for EAGGF expenditure in 1970.

(1) For details on individual products, see „Report on the probable development of production and of the possible outlets for certain important agricultural products”.

TABLE 2

Estimated EAGGF expenditure in 1970 (gross exports, 100% refund)

(in million u.a.)

Product	Type of expenditure ⁽¹⁾	Expenditure
Milk products	a) ⁽²⁾	150
	b)	30
	c1) ⁽³⁾	190
	c2) ⁽³⁾	80
Beef and veal	a)	2
	b)	possible
Rice	a)	10
	b)	possible
Sugar	a)	45
	b)	—
Oilseeds	a)	—
	b)	32
Olive oil	a)	—
	b)	140
Total		679

⁽¹⁾ a) Refunds on exports to non-member countries.

b) Intervention on domestic markets.

c) Other types of intervention.

⁽²⁾ a) See Table 15, p. 23.

⁽³⁾ c1) Aid for skim milk for animal feed.

c2) Effect of binding Emmental and Cheddar cheese and casein.

For the calculations relating to the separate products and groups of products, we refer the reader to the “Report on the probable

development of production and of the possible outlets for certain important agricultural products”.

B. THE INDIVIDUAL COMMODITIES

Reasons for the level of the proposed prices

The following part of this document on the establishment of a common level of prices for a number of important agricultural products will deal the specific aspects which affect each of the products.

Milk and milk products	B I
Beef and veal	B II
Rice	B III
Sugar	B IV
Oilseeds	B V
Olive oil	B VI

This will be followed by the Commission's proposals for Council resolutions on the prices to be fixed and the special measures to be taken.

The chapter on each product will normally be broken down as follows:

The situation on the market

Long-term trend

Production

Consumption
Prices
Current situation
Production
Consumption
External trade
Prices
Price ratios

The level of the common prices

Level of the common prices, and commentary
System of guaranteeing the common prices
Special measures

Price changes resulting from the common prices

Producer prices
Market prices
Consumer prices

I. MILK

The situation on the market

Long-term trend

Production and deliveries to dairies

1. Since 1950, dairy herds, milk production and deliveries to dairies have been rising sharply in some parts of the Community (see Annex BI/1), with production, and even more the quantities delivered to dairies, going up much more sharply than herds. The reasons for this are higher yield per cow and a reduction both in the number of dairies supplying their own needs and in the amount of milk consumed on the farms; the decline in consumption on the farm is probably due to less milk being used for feed and for processing.

2. Between 1962 and 1964 there was no great change in the aggregate production of

milk in the Community, though deliveries to dairies continued to rise 2 to 3% per annum during this period.

The most recent figures on dairy herds show the following trend from 1961 to 1964:

1961	22.0 million head
1962	22.3 million head
1963	21.9 million head
1964	21.4 million head

After several years of regular increase the size of herds reached a peak in 1962 and has since been diminishing. This trend has been much the same in each of the member countries.

3. The most recent counts show that herds in Belgium, the Netherlands and Germany together, at 8.6 million in May/June 1965, were again rather larger than in May/June

1964 (8.5 million). No recent figures are available for France and Italy. Consequently, we can reach no definite conclusion on the further trend of herds in the Community.

4. The volume of production for the market, however, depends not only on the trend of

dairy herds and milk yield per cow but chiefly on quantities delivered to dairies after farmers have used what they need for feed and human consumption. Deliveries to dairies have increased more rapidly than production over the last few years, i.e. the proportion of milk retained on farms has declined.

TABLE 3

Milk production and deliveries to dairies in the EEC, 1961-64

Year	Production		Deliveries	
	Million metric tons	1962 = 100	Million metric tons	1962 = 100
1961	64 701	98.5	42 668	96.7
1962	65 662	100	44 112	100
1963	65 804	100.2	44 885	101.8
1964	65 777	100.2	46 014	104.3

5. The use of whole milk in feed on farms is particularly important in this connection. Especially in recent years, farmers have been going over increasingly to using skim milk powder, which is processed into compound feeds and supplemented by vegetable or cheap animal fats. This is putting more and more strain on the milk/fat balance (butter-fat), since the fat content of skim milk for powdering is made into butter, while the milk/protein balance is not affected.

Consumption

6. Consumption per head of the major milk products has also been rising in the long term in the Community (see Annex BI/2). Like milk production, however, it has shown no appreciable increase since 1962. The additional consumption of the non-agricultural population was covered by bigger deliveries to dairies and by a decline in net exports. Average consumption per head of fresh milk and cream, on the other hand, has shown little long-term change.

Prices

7. Producer prices for milk have also been going up in the Member States over the

years. The increase has been gradual in Germany, France and the Netherlands, but in Belgium, Italy and Luxembourg prices remained largely stable between 1952 and 1962 and went up only between 1963 and 1965, during which time the increase in Belgium and Italy was particularly vigorous (see Annexe BI/3).

8. In France and Italy the higher producer prices for milk have been passed on in full — and in Belgium for the most part — in the market prices for milk products. This was not the case in Germany, Luxembourg and the Netherlands, where the effect on market prices was partly offset by direct aids. Here too, however, some of the products (fresh milk, condensed milk, etc.) fetched at least the producer price for milk. The consumer prices of the major milk products probably went up more sharply than producer prices for milk or market prices for milk products, since manufacturing and distribution costs also went up.

Current situation

9. For 1965/66 the Member States have fixed target prices for milk and intervention prices for butter within the bracket laid down by the Council, as shown in Table 2.

TABLE 4

Target prices for milk and intervention prices for butter in the Community — 1965/66

(per 100 kg)

	Target price for milk			Intervention price for butter		
	National currency	u.a.	DM	National currency	u.a.	DM
Upper limit	—	10 300	41.20	—	—	—
Lower limit	—	8 250	33.00	—	—	—
Belgium	492.70	9 854	39.42	9 750.00	195.00	780.00
Germany	38.00	9 500	38.00	680.00	170.00	680.00
France	42.00	8 507	34.03	830.00	168.12	672.47
Italy	6 435	10 296	41.18	93 500	149.60	598.40
Luxembourg	495.00	9 900	39.60	8 546.00	170.92	683.68
Netherlands	32.00	8 840	35.36	469.50	129.69	518.78

10. Producer prices for milk in 1965/66 will probably prove to have been more or less the same as the target prices.

Market prices for milk products — like producer prices for milk — have hardly changed at all over the last three years in France (see Annex BI/4). In Belgium and Italy the particularly sharp increase in producer prices for milk was fully reflected in the market price of milk products. In Germany and Luxembourg only some of the increase has been passed on to market prices. This, however, was offset in Germany by an above-average rise in prices for fresh milk. Market prices for milk products have in recent years been increasing much more steeply than producer prices for milk in the Netherlands. Direct aids per kilogram of milk were consequently reduced (see Annex BI/5).

11. Except for Italy, all the Member States expend a considerable amount of public funds in ensuring that farmers receive the target price for milk. They pay direct aids for milk and milk products, subsidize exports, intervene to ensure seasonal balance and sell surpluses cheaply on the domestic market. In 1965 the Member States allocated a total

of some 475 million u.a. of public funds for the milk market (see Annex BI/8).

Price ratios

12. Compared with cereal prices, milk prices have moved favourably in all member countries over the last fourteen years. Consequently, the ratio of wheat prices to milk prices has dropped considerably. At the beginning of the fifties the prices of milk was 61 to 89% of the price of wheat, while in 1964/65 it was 87 to 100%.

Despite this favourable trend of milk prices, dairy farmers are producing only slightly more than the minimum needed to make the Community self-sufficient in milk (see Annex BI/6). This is mainly because production costs for milk have risen comparatively sharply — chiefly owing to wage increases; production is particularly sensitive to large wage increases because of the high labour intensity of the industry. Furthermore, the economic effect of possible rationalization measures is less in milk production than in other types of farming as a result of the varying degree of technological development in the various branches of farming and because of the predominantly peasant structure of this particular branch.

TABLE 5

Price ratio ⁽¹⁾ of milk to cereals

	Belgium	Germany	France	Italy	Luxembourg	Netherlands
Milk : Wheat ⁽³⁾ (wheat = 1)						
I. Av. 1951/52-1953/54	0.78	0.61	0.81	0.68	0.85	0.89
II. Av. 1957/58-1959/60	0.78	0.76	1.01	0.73	0.76	0.97
III. 1960/61	0.78	0.75	0.96	0.69	0.81	0.88
1961/62	0.76	0.79	0.95	0.74	0.89	0.85
1962/63	0.81	0.82	0.99	0.75	0.85	0.91
1963/64	0.86	0.86	0.99	0.82	0.92	0.88
1964/65	0.96	0.87	1.07	0.94	0.92	0.88
1965/66	1.00	0.88	1.07	0.93	0.92	0.91
IV. 1968/69 ⁽²⁾	0.98	0.99	1.00	1.05	1.01	0.99
Milk : Fodder barley (barley = 1)						
I. Av. 1951/52-1953/54	1.01	0.71	1.20	0.90	—	0.77
II. Av. 1957/58-1959/60	1.06	0.89	1.21	1.03	—	1.14
III. 1960/61	1.07	0.88	1.14	0.96	—	1.10
1961/62	0.87	0.92	1.19	1.05	—	0.98
1962/63	0.96	0.90	1.18	1.02	—	1.03
1963/64	1.07	0.99	1.30	1.17	—	1.09
1964/65	1.15	0.97	1.35	1.28	—	1.08
1965/66	1.19	0.97	1.35	1.26	—	1.03
IV. 1968/69 ⁽²⁾	1.13	1.11	1.18	1.17	—	1.14

⁽¹⁾ Average producer prices; 1968-69 producer prices for cereals and milk are estimates based on common target prices.⁽²⁾ Forecast.⁽³⁾ Wheat other than durum.

13. If we consider the trend of price ratios in the last fourteen years and the foreseeable trend of costs in milk production and cereal production, a ratio of 1:1 between the producer price of milk and that of wheat

seems to be an appropriate average for the near future. The various regions of the Community, however, will diverge from the average as production and marketing conditions vary.

Level of common prices

The common target price

14. It is proposed that the common target price for milk ex farm with a 3.7% fat content be fixed at 9.5 u.a. per 100 kg.

A common target price of 9.5 u.a. puts milk prices into a position that makes good sense in the context of agricultural prices. This does not mean that the ratio of milk prices to cereal prices is being improved throughout the Community, as has happened in the past: only in Germany, Luxembourg and the Netherlands does milk gain in relation to cereals. The ratio to cattle prices is fixed to the advantage of beef and veal.

A price of 9.5 u.a. also means in effect that the price level of recent years will stay where it is in four of the member countries. However, this does seem necessary when it is remembered that in recent years the rise in producer prices for milk has considerably exceeded the average price rise in some member countries.

15. The common price of 9.5 u.a. will bring producer prices for milk down in some member countries. In Belgium the price will still be appreciably higher than in the years before 1963/64 (see Annex BI/3). The same will apply — though to a lesser extent — for Luxembourg. In both countries there have in the past been reductions in price which were more serious. At the same time it is expected that the lower receipts from milk be offset by higher earnings on grown cattle and on calves, so that overall revenue from stockbreeding should not be reduced in any member country.

16. Where milk prices will have to go up — in France and the Netherlands — the probable increase is not such as could provide an incentive for producers strong enough to disturb the balance of the milk market in the Community. This applies especially to France, where at best milk prices will be in no better position in relation to cereal prices than they were before (see Table 3).

Measures to guarantee the common target price

17. In Article 18(1) of Regulation No. 13/64/CEE the Council laid down the following definition of the common target price:

“This common target price shall be the producer price for milk which, at the single-market stage, it is the aim of market policy to guarantee to all Community producers for the total volume of milk produced and marketed in the milk year.”

Measures to guarantee the common target price must be based on this Council decision, and some means should be found of attaining the common target price through market policy.

18. In the case of two important milk products there are limits to what the market will bear.

It will hardly be possible to market increasing quantities of butter at appreciably higher prices than obtained currently in Belgium/Luxembourg, Germany, France and Italy. As matters stand at present, therefore, it will not be possible to raise the wholesale price for butter in the Community beyond 175-185 u.a. (DM 700-740) per 100 kg.

It also seems unlikely that the price of skim milk powder, when used as animal feed, will stand any increase above the current average of about 35 u.a. (DM 140) per 100 kg.

These market prices, however, mean that the milk price can be at most 8.25 u.a. (DM 33) per 100 kg. Such a price would in some cases be well below present target prices in the member countries.

19. The Community will therefore be obliged — like the Member States today — to intervene on the milk market in order to guarantee dairy farmers a reasonable income. The system to be introduced will include the following element:

a) Establishment at 70:30 of the value ratio of fat to skim milk in milk with a 3.7% fat content;

b) Calculation of the threshold prices of all milk products on the basis of the target prices;

c) Fixing the intervention price for butter 15 u.a. per 100 kg lower than the threshold price for butter;

d) Reducing the price of skim milk for animal feed;

e) If necessary, measures to make up for inadequate external protection for products whose external tariffs are bound under GATT.

Value ratio of milk fat to skim milk

20. Fixing the value ratio of milk fat to skim milk at 70:30 means, in all member countries but Italy, a better return on the non-fat part of the milk, and this — especially the better return on protein — reflects the general trend on the milk and fat market. As long as it is impossible to raise the fat content of the milk, this is the only way to increase dairy farmers' earnings.

TABLE 6

Value ratio of fat to skim milk in milk with a 3.7% fat content (1968/69 for the Community and 1965/66 for the Member States)

Community	70 : 30
Belgium	80 : 20
Germany	84 : 16
France	73 : 27
Italy	65 : 35
Luxembourg	76 : 24
Netherlands	73 : 27

Threshold prices for milk products

21. In order to offer guarantees to milk producers and to provide suitable support for the markets in milk products, the Council has in accordance with Regulation No. 13/64/CEE established threshold prices for these products applicable in each Member State. Article 20 of the regulation requires that these threshold prices shall be gradually aligned. Table 5 shows the Member States' threshold prices for 1965/66 together with common threshold prices for 1968/69, calculated provisionally under Article 20 of the regulation.

The calculation was made on the following basis:

a) Common target price;

b) Value ratio of 70:30 between milk fat and skim milk;

c) Provisional uniform costs and yields obtained from investigations to date carried out by the Commission's staff in conjunction with the delegations of the Member States;

d) No differentiation between the return on the various products or groups of products;

e) Inclusion of an amount to protect manufacturers of dairy products.

Intervention price for butter

22. The level of the common intervention price for butter must be calculated in such a way that the target price for milk can be attained even in years when production of milk and butter is abundant (see Article 21(6) of Regulation No. 13/64/CEE).

It is proposed to fix the difference between the threshold price and the intervention price for butter at 15 u.a. per 100 kg — corresponding to the arrangements made for 1966/67 under Article 4(3) of Regulation No. 13/64/CEE. The intervention price for butter would therefore be 176.25 u.a. per 100 kg (DM 705). Butter bought by the intervention authorities would thus fetch about 0.3125 u.a. per 100 kg (DM 1.25) less than the target price for milk.

Consequently, market prices for butter could fluctuate between the intervention price of 176.25 u.a. (DM 705) and the threshold price of 191.25 u.a. (DM 765). As long as there are surpluses of butter, market prices will be in the neighbourhood of the intervention price. Only if there are no surpluses — in the six winter months, for instance — will they rise towards the threshold price.

23. Even when market prices for butter are close to the intervention price, there are prospects of attaining the current target price, for the following reasons.

In the Community, as hitherto in the several member countries, the return on milk processed into various products will be variable. We may assume that the other products will sell for a milk price that is about 0.25-0.50 u.a. per 100 kg (DM 1-2) higher than the price of milk used in making butter. If the receipts from the various products are weighted by the respective quantities involved, the figures given in Annex BI/9 will work out at an average producer price in the Community that is not too far removed from the target price even at times when action is being taken by the intervention agencies. It should be assumed that the

TABLE 7

Threshold prices calculated on a target price of 9.5 u.a. per 100 kg,
and threshold prices in 1965/66 in the Member States

(u.a. per 100 kg)

Group	Product	Threshold price calculated on a target price of 9.5 u.a. per 100 kg	Threshold price in 1965/66					
			Belgium	Germany	France	Italy	Luxembourg	Netherlands
1	Milk powder	21.50	16.870	17.750	21.612	26.510	16.870	16.221
2	Whole milk powder	100.75	71.620	77.863	91.472	99.200	71.620	67.746
3	Skim milk powder	51.25	36.430	31.950	42.772	53.600	36.430	33.848
4	Condensed milk, unsweetened	45.50	46.980	40.000	53.354	68.800	41.280	45.638
5	Condensed milk, sweetened	61.00	79.000	78.548	69.651	88.000	79.000	54.566
6	Blue-veined cheese	131.00	108.516	108.515	118.763	120.714	108.516	120.761
7	Parmesan	186.25	147.460	147.460	147.475	147.460	147.460	147.409
8	Emmental	146.00	110.000	110.000	110.000	110.000	110.000	110.000
9	Medium-hard cheese (Gouda)	120.75	97.120	81.878	107.420	116.000	97.120	79.464
10	St. Paulin and the like	114.00	103.260	96.975	108.433	113.600	103.260	94.674
11	Soft cheese (Camembert)	118.00	114.308	114.308	114.308	114.308	114.308	114.308
13	Lactose	40.25	34.350	36.500	44.7798	50.210	34.350	33.572
14	Butter	191.25	207.260	180.750	182.498	161.960	179.520	142.373
	Cheddar	131.25	76.260	76.260	76.260	76.260	76.260	76.260
	Tilsit	120.75	97.120	84.378	107.420	116.000	97.120	80.177

(1) Calculated on a whey value of 0.375 u.a. per 100 kg delivered to manufacturer.

producer price in the winter months will be close to the target price — perhaps even slightly above it.

24. The intervention prices for 1965/66 in the individual States ought therefore to be amended as follows:

TABLE 8

	u.a./100 kg	DM/100 kg
Belgium	— 18.75	— 75.00
Germany	+ 6.25	+ 25.00
France	+ 8.13	+ 32.53
Italy	+ 26.25	+ 106.60
Luxembourg	+ 5.33	+ 21.32
Netherlands	+ 46.56	+ 186.22

25. An intervention price for butter of 176.25 u.a. and corresponding market prices will presumably be the maximum attainable on the Community butter market in 1968/69. And the attempt must be made to reach this maximum, because otherwise a milk price of 9.5 u.a. per 100 kg would be attainable only if greater financial resources were made available or market prices were higher for the other milk products.

Reduction in price of skim milk for animal feed

26. With a producer price of 9.5 u.a. per 100 kg for milk ex farm and a value ratio of 70:30 between milk fat and skim milk, the price of skim milk delivered to the dairy would be 3.015 u.a. per 100 kg (DM 12.06), the threshold price for skim milk powder 51.25 u.a. per 100 kg (DM 205). At such a price, neither skim milk nor skim milk powder can compete with the other protein feeds. Consequently, skim milk and skim milk powder used as feed must be made cheaper.

In present circumstances we may expect skim milk for feed to cost 1.75 u.a. per 100 kg (DM 7) ex dairy. This corresponds to a market price of 35 u.a. per 100 kg (DM 140) for skim milk powder. The difference between 1.75 u.a. and 3.015 u.a. must be made up by payments for liquid or dried skim milk used as feed.

Possible measures for products bound under GATT

27. As bound under GATT, milk processed to make Emmental or Cheddar cheese fetches 7 and 4.875 u.a. per 100 kg (DM 28 and 19.50) respectively. If Community output of these products is to be maintained, the difference between this price and the target price will have to be made up by aids.

The same applies in principle to casein. At current prices skim milk processed to make casein sells at about 1.75 u.a. per 100 kg (DM 7). Milk processed to form casein fetches as much as skim milk used as feed. It should therefore receive the same amount of aid as is granted to skim milk used as feed.

Cost of intervention

28. The annual cost of financing the measures outlined in secs. 22-27 is estimated as follows: (see Table 9, p. 21).

These calculations have been based on the favourable prices for milk protein that have been obtained for some time. If these prices should drop and surpluses occur, correspondingly bigger sums would have to be found. The sums earmarked to make up for the effects of binding might also increase — particularly if the consumption of Cheddar

TABLE 9

Measures	in million u.a.
Reduction in price of skim milk used as feed	190
Seasonal compensation for butter	30
Effects of binding — Emmental	50
Effects of binding — Cheddar	15
Effects of binding — casein	15
Total	300

were to spread in the Community as a result of its very low price.

Additional sums will be needed for export refunds, but these have not been considered here (see Part A, Table 2).

Price changes resulting from the common guide price

Changes in producer prices for milk

29. To calculate the price likely to be paid for milk in the individual member countries,

the same method can be adopted as is used in Annex BI/9 for the average Community price.

Account can thus be taken of variable cost elements, which can now be established with sufficient accuracy, i.e. the collection costs of milk (see Table 10).

The calculated threshold prices in Table 5 were determined on the assumption of uniform collection costs of 0.55 u.a. per 100 kg of milk. The producer prices forecast for milk in the member countries were calculated, on the other hand, from the actual collection costs in each country.

TABLE 10

Country	u.a./100 kg of milk
Belgium	0.40
Germany	0.40
France	0.77
Italy	0.72
Luxembourg	0.44
Netherlands	0.28
Average	0.55

30. The average producer prices in the member countries for 1968/69 can thus be

estimated (see Annex BI/10) at:

TABLE 11

Country	u.a./kg 100	DM/100 kg
Belgium	9.50	38
Germany	9.50	38
France	9.25	37
Italy	10.25	41
Luxembourg	9.50	38
Netherlands	9.625	38.50

Apart from the varying collection costs, which are lowest in the Netherlands at 0.28 u.a. per 100 kg of milk and highest in France at 0.7775 u.a. per 100 kg ⁽¹⁾, the various uses made of the milk were also taken into account. Other factors such as manufacturing and marketing costs and quality of the products concerned also have an effect on the producer price. However, it is not at present possible to give figures for these items.

31. The actual producer prices for milk can thus be estimated to show the following changes on 1965/66 (see Table 12):

Changes in market price
of milk products

32. For each of the fourteen groups into which milk products are broken down, a pilot product has been selected. In general, market prices for these pilot products correspond to the threshold prices in the individual

TABLE 12

Country	u.a./100 kg	DM/100 kg
Belgium	— 0.35	— 1.4
Germany	no change	no change
France	+ 0.75	+ 3.0
Italy	no change	no change
Luxembourg	— 0.45	— 1.8
Netherlands	+ 0.75	+ 3.0

countries (see Annex BI/11). It is only in Italy that market prices are often much higher than the threshold prices, and this is due to the peculiarities of the Italian market. When the single-market stage has been

reached, market prices for the pilot products will still be related to the threshold prices. However, it is quite possible that in the long run market prices for a number of products will not reach the threshold prices calculated in Table 5, as at this stage the various products will be manufactured where this can be done best and most cheaply. The move to such areas will often be reflected in lower costs and lower market prices.

(1) As long as costs for collection of milk in France are higher than the Community average, the earnings of French milk producers will be correspondingly lower than average Community earnings.

Changes in consumer prices
of milk and milk products

33. It is not really possible to predict how consumer prices for milk products will develop: there is not even enough information today on retail prices. On the other hand, it should be possible to estimate the consequences of changes in market prices on retail prices. This can be done by working out the difference between current market prices ex wholesaler for the major milk products and the threshold prices less the standard amount as calculated provisionally by the method laid down in Article 20 of Regulation No. 13/64/CEE. This difference is then expressed as a percentage of the estimated retail price.

34. In Belgium the price of butter may be expected to fall by 10% or a little less.

Whole and skim milk powder are not sold direct to consumers but go chiefly to chocolate manufacturers and, less frequently, to the food manufacturing industries. It would seem that the share of milk powder in the raw materials used rarely exceeds 15%. Belgium produces only relatively small quantities of St. Paulin-type cheeses, consumption of which should hardly be affected by a price increase of 8% over two years. The increases in the price of soft cheese remain within the bounds of the overall increase in prices, which will, it is assumed, amount to at least 6% for 1966/67, 1967/68 and 1968/69 together.

There might be some difficulty in the case of medium-hard cheese, since the requisite price increase of 15% exceeds the rate of 4-5%. However, any decline in consumption due to this factor should be more than offset by the effect of the reduction in butter prices.

TABLE 13

Belgium

Product	Probable price change		% of consumption of		% of consumption of cheese
	Bfrs. per kg	% of retail price	Milk	Milk fat	
Butter	- 10	- 9	-	76	-
Liquid milk	-	-	-	17	-
Condensed milk	Slight reduction possible		2	2	-
Blue-veined cheese, fresh cheese, imp. Ital. cheese	-	-	-	-	-
Skim milk and skim milk powder for animal feed	-	-	18	-	-
Skim milk powder for human consumption	+ 6	+ 30	4	-	-
Whole milk powder	+ 14	+ 30	5	3	-
Soft cheese	+ 4	+ 5	-	-	9
St. Paulin and the like	+ 6	+ 8	-	-	4
Medium-hard cheese	+ 12	+ 15	-	-	54
Total cheese	+ 7	.	17	12	100

35. In Germany no price increases are to be expected for milk and a considerable proportion of milk products. This fact should have a stimulating effect on consumption. Retail prices for butter will probably be 3-5% higher than at present — and so within the bounds of the general rise in price that is expected. Whole and skim milk powder are not sold direct to the consumer but are mainly processed to make chocolate; smaller quantities are also used in the food manufacturing industry. Blue-veined cheese and cheese of the St. Paulin type are specialist items manufactured in relatively small quantities,

and consumption is hardly likely to be affected by a 10-14% price increase over three years. How much the price of unsweetened condensed milk will actually go up cannot be assessed, since this is sold under specific brand names and it is not possible to judge what manufacturers' price policies will be under the new competitive conditions in the Common Market. Major difficulties are likely to occur only with medium-hard cheese. Special measures will be needed here. The above products account for just on 10% of milk products consumed, or about 25% of cheese consumed today.

TABLE 14

Germany

Product	Probable price change		% of consumption of		% of consumption of cheese ^a
	DM per kg	% of retail price	Milk	Milk fat	
Liquid milk	} No substantial change		17	17	—
Condensed milk, sweetened			0	0	—
Fresh cheese, soft cheese			.	.	—
Imp. Ital. cheese			.	.	—
Skim milk powder for animal feed			8	—	—
Butter	+ 0.25	3-5	—	59	—
Condensed milk, unsweetened	+ 0.20	10	7	5	—
Whole milk powder	+ 0.80	25	1	1	—
Skim milk powder for human consumption	+ 0.70	50	2	—	—
Blue-veined cheese	+ 0.70	10	.	.	0.5
St. Paulin and the like	+ 0.80	15	.	.	1.0
Medium-hard cheese	+ 1.60	30	.	.	31.0
Total cheese	+ 0.51	.	26	17	100.0

36. In France it is only in industrially processed whole and skim milk powder for human consumption that increases of over

5% are likely. How far the necessary increases in fresh milk prices will exceed 5% is not yet sufficiently clear.

TABLE 15

France

Product	Probable price change		% of consumption of	
	FF per kg	% of retail price	Milk	Milk fat
Condensed milk	Slight reduction possible		2	1
Butter	No change, or slight increases up to 2.5 %		—	58
Cheeses other than Emmental and Cheddar			40	27
Skim milk and skim milk powder for animal feed	+0.04-0.05	5 - 7	11	—
Liquid milk	+0.02-0.04	2 - 4	17	13
Skim milk powder for human consumption	+ 0.50	25	1	—
Whole milk powder	+ 0.75	15	1	1

37. In Italy the ultimate single market will probably see a short-term decline in the prices of condensed milk and milk powder for human consumption, which are scarcely manufactured at all in the country itself. Conversely, the price of skim milk powder for animal feed will go up. No substantial changes are expected in the price of other products — at least initially.

Butter is a special case in Italy. While the wholesale price is relatively low at about Lit. 950 per kg (about DM 6), the retail

price at more than Lit. 1400 per kg (about DM 9) is the highest in the Community. The reason for this is the structure of the Italian market. In Italy butter is manufactured almost exclusively as a byproduct of cheese production. Collection and marketing of this low-quality butter is very costly. As soon as packaged high-quality butter can be imported into Italy without levies at the single-market stage, a reduction of current retail prices is quite conceivable. It will also be possible that the butter produced in Italy will still be sold at the price of DM 5-6 charged at present.

TABLE 16

Italy

Product	Probable price change		% of consumption of	
	Lit. per kg	% of retail price	Milk	Milk fat
Condensed milk	— 155	— 20	1	0
Whole milk powder	— 30	— 4	1	0
Skim milk powder for human consumption	— 50	— 12	4	—
Skim milk powder for animal feed	+ 25	+ 10	8	—
Other	—	—	86	100

38. Luxembourg has the same threshold prices as Belgium — except for butter and unsweetened condensed milk — and therefore similar market prices. The same can therefore be said about price changes in

Luxembourg as in Belgium. Only in the case of butter and condensed milk are price increases — at 3 and 10% respectively — likely to differ from the Belgian.

TABLE 17

Luxembourg

Product	Probable price change		% of consumption of	
	Lfrs. per kg	% of retail price	Milk	Milk fat
Liquid milk	—	—	14	21
Condensed milk, unsweetened	+ 2.5	10	2	2
Butter	+ 3.0	3	—	61

39. The price of liquid and condensed milk may show little change in the Netherlands. Butter, cheese and milk powder, on the other hand, are likely to suffer price increases

which could in some cases be considerable. In order to keep any decline in consumption to a minimum, special measures must therefore be authorized, as in Germany.

TABLE 18

Netherlands

Product	Probable price change		% of consumption of		% of consumption of cheese
	Fl. per kg	% of retail price	Milk	Milk fat	
Liquid milk	—	—	35	34	—
Condensed milk	—	—	7	7	—
Fresh cheese and most imported cheeses	—	—	.	.	—
Skim milk powder for animal feed	—	—	26	—	—
Skim milk powder for human consumption	+ 0.60	45	2	—	—
Whole milk powder	+ 1.20	45	3	3	—
St. Paulin and the like	+ 0.90	20	.	.	—
Medium-hard cheese	+ 1.50	35	.	.	97
Butter	+ 1.60	30	—	49	—
Total cheese	+ 1.50	—	21	19	100

40. Emmental and Cheddar cheeses, external duties on which are bound, present a rather special case. If the problem of this binding can be solved to the satisfaction of the Community, the price of both cheeses would rise in all member countries to the same level as

other cheeses. The change in Cheddar prices would only affect the price of processed cheese, since Cheddar is consumed directly in only very small quantities in the Community, being predominantly used in manufacturing processed cheese.

II. BEEF AND VEAL

The situation on the market

Long-term trend

Production

1. Cattle stocks and meat production in the Community had been rising steadily since 1950 when in 1962 the trend was reversed. Annex BII/1 shows that the quantities slaughtered in 1962 and 1963 because of the shortage of feed resulting from the dry summer of 1962 reduced stocks so drastically that production in 1964 was 7.4% down on 1963. This was the first time since 1950 — when the Community's cattle population had again reached prewar level — that a fall in production was due to a reduction in total stocks.

From the counts made in the member countries and the slaughtering figures in the first half of the year, we can estimate 1965 production at 3.52 million metric tons — a little less than in 1961.

Consumption

2. Demand for beef and veal rose constantly between the end of the war and 1963. This was due not only to population growth but also to the rise in consumption per head from 14.8 kg in 1955/56 to 24.3 kg in 1963 — a 65% increase.

An examination of the figures in Annexes BII/2 and BII/3 shows that both per capita consumption and total consumption declined in 1964 for the first time in twenty years. In 1964 consumption shifted from beef and veal to pigmeat and poultry, prices of which were very attractive to the consumer, particularly the low-income consumer.

3. Consumption per head of beef and veal seems likely to have fallen off slightly in 1965, but an increase is expected to follow in 1966 as a result of more plentiful supplies, rising pigmeat prices (which will make it compete less effectively against beef and veal) and higher wages.

Prices

4. The figures needed for calculating the weighted average wholesale price of grown cattle in pursuance of Regulation No. 14/64/CEE are available only from January 1960, those for calves only from July 1960. The information on the movement of wholesale prices for cattle in the Community given in Annex BII/4 therefore begins with these months. The tables show that prices were affected chiefly by the slaughterings in the second half of 1962 and at the beginning of 1963. This is why in 1962 prices in Germany, Belgium, Luxembourg and the Netherlands were lower than in 1961. German prices for grown animals were lower between April 1962 and May 1963 than in the corresponding period of 1961/62, and so too were prices for calves from February 1962 to April 1963. In Belgium the decline in price lasted from April 1962 to June 1963 in the case of grown animals and from May 1962 to July 1963 in the case of calves. The corresponding periods in the Netherlands were from April 1962 to September 1963 and from January to December 1962.

5. Average figures for 1962 and 1963 in France and Italy were above the corresponding figures for 1961. In France the SIBEV support arrangements kept the price of grown animals above the 1961 level, but the price of calves in April-May and October-November 1962 did show a decline on 1961. In Italy there was no intervention, but vigorous demand sent up per capita production from 13.8 kg in 1961 to 17.3 kg in 1963 and prevented any collapse of prices.

As we pointed out above in the case of the "northern" member countries, prices generally began to rise during the second half of 1963; this trend subsequently spread to France and Italy.

There was a shortage of supplies in 1964, typified by a vigorous and general increase in prices — as can be seen in Table 19, below.

In 1965 the first effect of the replenishment of cattle stocks was the decline in prices

during the second half of the year. This brings the situation back to normal, since

the decline resulted from the familiar seasonal differences in production.

TABLE 19

Weighted average price of grown cattle and calves in the EEC 1961-65
(% change on previous year)

Country	1961	1962	1963	1964	1965	1961/1965
Grown animals						
Germany	0	- 2.8	+ 3.4	+ 15.8	+ 8	+ 25.6
Belgium	+ 1.6	- 2	+ 10.6	+ 23	+ 1.6	+ 35.4
France	+ 1.1	+ 7.8	+ 16.7	+ 14.9	+ 4.2	+ 37.6
Italy	- 4.7	+ 4.5	+ 13.3	+ 13.5	+ 1.8	+ 36.8
Luxembourg	0	- 0.5	+ 0.5	+ 10.8	+ 8	+ 19.8
Netherlands	+ 2.1	- 4.7	+ 1.7	+ 33	- 2.4	+ 25.7
	1962	1963	1964	1965	1962/1965	
Calves						
Germany	- 2.4	+ 4.6	+ 9.2	+ 7.6	+ 19.7	
Belgium	- 6.4	+ 9.7	+ 10.1	0	+ 13	
France	+ 3.7	+ 14.9	+ 5.3	+ 8.8	+ 36.4	
Italy	+ 2.1	+ 8.8	+ 13.2	+ 2.9	+ 29.3	
Luxembourg	+ 1.8	+ 7.6	+ 16	+ 6.9	+ 35.9	
Netherlands	- 10.5	+ 26.3	+ 12.4	+ 3	+ 30.9	

Apart from Luxembourg, where there is a system of consumer subsidies, prices in 1965 were 25.6 to 37.6% higher than in 1961 for grown animals and 13 to 36.4% higher for calves, depending on the country.

If the prices given in Annex BII/4 are weighted by the cattle population of each member country, the following average prices are obtained for grown animals in the EEC as a whole:

TABLE 20

	1960	1961	1962	1963	1964	1965
	196	195.4	200.3	214.2	249.4	259.6
Change on preceding year	—	- 0.3 %	+ 2.5 %	+ 6.9 %	+ 16.4 %	+ 4 %
Change on 1961	—	—	—	—	—	32.8 %

In all member countries prices for good-quality products showed much the same trend as the weighted average of the prices calculated in accordance with Regulation No. 14/64/CEE.

Current situation

Production

6. The FAO considers (World Meat Economy) that exports of beef and veal from Latin America and Oceania cannot expand substantially between the present time and 1970; furthermore, the trend of production in the Community has hitherto been the same as in the traditional exporting countries of Europe. Although Britain exported appreciable quantities of beef and veal to Germany, the Netherlands and Belgium in 1965, this does not necessarily mean that these exports will persist. For the production capacity of the countries traditionally exporting beef and veal to the Community has its limits.

In short, the Community will have to rely on an increase in home production to cover its growing requirements.

7. The latest available figures (May or June 1965) are encouraging.

In Belgium total cattle stocks in May 1965 were 2.6% up on 1964. There was an increase of 1.8% in young cattle of up to three months and of 8.7% in those of three months to a year; store cattle also showed an increase (6.4%), as did dairy cows (1.1%); the heifer population, on the other hand, declined, from which it can be concluded that the number of dairy cows will not rise substantially in 1966.

In Germany the total cattle population in June 1965 was 2.3% higher than in June 1964. Young cattle of up to three months, bulls of over one year and "fatstock - other" were much higher in number than in June 1962, when the total herd was 133 900 head more than in June 1965.

According to the October 1965 census in France, stocks were 1.3% up on October 1964 — an increase of 272 000 head. The favourable impression gained from the 1964 census — to the effect that the cattle population was being built up again and getting younger — has thus been confirmed.

Total stocks in the Netherlands in May 1965 were 4.5% higher than in May 1964. Young animals of up to one year and heifers of over one year increased markedly in number (4.3% and 5% respectively). Although the number of dairy cows was 1.8% higher than in May 1964, the May 1962 figures had been better still; there was a rather vigorous

increase on May 1964 in the individual fatstock grades.

Developments in Luxembourg are similar to those in Belgium; in Italy there has been no census since 1961.

8. Given the increase of 1.7% in EEC cattle stocks according to the 1965 censuses, 1966 and 1967 will probably see — now that the effects of the 1962/63 crisis have been overcome — a return to normal production figures; with a high volume of imports (15% of consumption) included, production and consumption should be more or less in equilibrium.

In 1965 the number of cows fell 4.3% below the 1961 figure, while the number of bulls of up to one year increased 8.1% and yearlings (including heifers) rose 4.4%. The composition of stocks obtaining in 1965 must be maintained; it would then be possible to consider action to make milk production more stable than it was in the Community between 1958 and 1961 and to increase the absolute numbers of fatstock above the figures for that period.

The 1965 situation can only be maintained if:

(1) Breeders know the guide price they are to receive at least eighteen months in advance.

(2) The total cattle population is kept at the level attained early in 1966, and — in order to ensure regular replenishment of the fatstock population — the number of dairy cows is not reduced;

(3) An attractive guide price is fixed. As it is technically difficult to introduce a general, permanent system of bounties or subsidies to encourage the breeding of calves, increased output will have to be achieved mainly through price and market policy.

9. Market prices were undoubtedly attractive in the Community in 1965, and this made it possible not only to obtain a certain increase in the cattle population after the 1962 crisis but also to improve its composition. As we have already noted, the latest counts available showed that the number of cows has gone down slightly since 1961; on the other hand, numbers of young cattle, including store animals, were 6.3% up on 1961.

So the pattern of stockbreeding in the Community showed something of a shift towards meat production in 1965.

There is, however, a negative psychological factor: although there has been a general price increase since 1963, the beef producer will inevitably be concerned about future developments since prices began to fall again

in July 1965 — a sign that the situation is coming back to normal. This is another reason why the common guide price must be fixed at a level that will not discourage producers.

10. Production of beef and veal in 1966 will reach an estimated 3.7 to 3.77 million metric tons (by weight of carcass including fat), depending on whether the average of the slaughtered animals is the same as in 1964 (267 kg for grown cattle, 71 kg for calves) or is slightly higher (278 kg and 75 kg respectively).

Consumption

11. Consumption is likely to fluctuate between 4.29 million metric tons (a rise of 0.5 kg in per capita consumption) and 4.38 million metric tons (a rise of 1 kg in per capita consumption). The Community's import requirements for 1966 are consequently estimated at 520 000 to 680 000 metric tons.

12. To summarize, 1966 should be much the same as 1962 from the production angle, but this does not apply to consumption, which — despite a reduction in 1964 and 1965 — is likely to be rather more than 10% higher than in 1961; this explains why the Community's self-sufficiency dropped from 97.3% in 1961 to 84.8% in 1965 (see Annex BII/3).

External trade

13. The EEC, the United States and Britain are the three biggest importers of beef and veal. The Community's net imports since 1960 have been as follows:

1960	317 000 metric tons
1961	250 000 metric tons
1962	297 000 metric tons
1963	463 000 metric tons
1964	587 000 metric tons

Imports of frozen meat are included in these figures, since until 1964 this commodity was part of a single customs heading together with fresh and chilled meat.

In 1964 the Community imported 240 000 metric tons of frozen beef and veal, including bones; in 1965 imports totalled 207 000

metric tons. In view of the constant need of processing industries for lean meat, Community imports of frozen beef and veal are in the years to come likely to reach at least 200 000 to 220 000 metric tons per annum.

Community exports of all kinds of meat are low (20 000-30 000 metric tons per annum); it was only in 1962 and 1963 that they reached considerable proportions — when some member countries, particularly France, had to sell on the world market frozen meat acquired as a result of government intervention. For 1962, exports to non-member countries amounted to 108 000 metric tons, and for 1963, 68 000 metric tons.

Prices

Guide prices

14. The following are the maximum and minimum limits of the guide prices fixed by the Council for the period 1 November 1964 - 31 March 1965:

Grown cattle:

minimum 51.25 u.a. (DM 205) per 100 kg live weight

maximum 58.75 u.a. (DM 235) per 100 kg live weight

Calves:

minimum 76.25 u.a. (DM 305) per 100 kg live weight

maximum 86.25 u.a. (DM 345) per 100 kg live weight

In Regulation No. 25/65/CEE the Council laid down the following maximum and minimum limits to the guide prices for the year beginning 1 April 1965 and ending 31 March 1966:

Grown cattle:

minimum 57.50 u.a. (DM 230) per 100 kg live weight

maximum 61.25 u.a. (DM 245) per 100 kg live weight

Calves:

minimum 78.00 u.a. (DM 312) per 100 kg live weight

maximum 85.00 u.a. (DM 340) per 100 kg live weight

Within these limits, the Member States fixed their guide prices last year as follows:

TABLE 21

(per 100 kg live weight)

Country	Grown cattle		Calves	
	u.a.	DM	u.a.	DM
France	58.13	232.53	81.43	325.70
Netherlands	58.70	234.81	78.43	314.92
Germany	60.00	240.00	84.00	336.00
Belgium	60.00	240.00	78.00	312.00
Italy	60.00	240.00	82.50	330.00
Luxembourg	60.00	240.00	85.00	340.00

The prices for grown cattle represent a weighted average of 59.15 u.a. (DM 236.6), which is 6.32% higher than the weighted price in 1964/65.

reduced the gap for grown cattle to 1.87 u.a. (DM 7.47), but left it unchanged for calves.

Although the gap between the maximum and minimum limits of the guide price was fixed in Regulation No. 20/65/CEE at 3.75 u.a. (DM 15) for grown animals and 7 u.a. (DM 28) for calves, the Member States have

Market prices

15. The following average market prices per 100 kg live weight obtained on reference markets in the Member States between 1 January 1965 and 31 December 1965:

TABLE 22

(per 100 kg live weight)

Country	Grown cattle		Calves	
	u.a.	DM	u.a.	DM
Belgium	65.00	260	84.25	337
Germany	67.50	270	98.75	395
France	62.25	249	92.75	371
Italy	68.75	275	108.00	432
Luxembourg	63.50	254	96.50	386
Netherlands	60.00	240	93.25	373

These figures show that in 1965 the gap between the highest and the lowest market prices within the Community was 8.75 u.a. (DM 35) for grown animals and 23.75 u.a.

(DM 95) for calves. The corresponding figures for 1964 were 9 u.a. (DM 36) and 20.75 u.a. (DM 83).

In the closing months of 1965, however, there was a perceptible reduction in these gaps, which might well become permanent once normal conditions of production are established.

16. In view of the seasonal variation in production, the price curve for grown cattle ought to be a sine curve with its crest in the critical May-June period and its trough between October and December when cattle are being brought in from pasture, but prices rose steadily throughout 1964 — a year of shortages — so that in October-December they were in most member countries higher than in May-June. The production situation returned to normal in 1965, with prices lower in the second part of the year. This decline in prices resulted in a half or full levy being temporarily imposed in all Community countries with the exception of Luxembourg.

17. From April to the end of June there was a general drop in calf prices, when a half or full levy had to be imposed in all countries but Italy. This is a sign that the situation is returning to normal, as most calves are born in the spring.

18. If the prices in each member country are weighted by its total cattle population,

an average Community price of about 63.13 u.a. (DM 256.50) per 100 kg live weight for grown cattle in 1965/66 is arrived at.

The development of this weighted average price was shown above: the biggest rise was of 16.4% from 1963 to 1964; in 1965 the price was 4% higher than in 1964. Producer prices are 8 to 10% lower than wholesale prices, with the difference accounted for by transport costs and the dealer's margin.

Incidentally, the directive on health requirements for intra-Community trade came into effect on 1 July 1965 and has facilitated trade between the member countries.

Intervention prices

19. Under Article 10 of Regulation No. 14/64/CEE the Member States are entitled to intervene on the home market for grown cattle when the prices ruling on their reference markets are equal to or lower than the intervention price, which they themselves fix at 93 to 96% of the guide price.

Luxembourg and Italy had notified the Commission that in 1964/65 they did not envisage adopting measures of intervention. The other Member States had fixed their intervention prices as follows:

TABLE 23

Country	u.a.	National currency	% of guide price
Germany	53.76	DM 215.04	96
Belgium	53.20	Bfrs. 2 660	95
France	52.06	FF 257	94
Netherlands	51.11	FL. 185.07	93

The following countries stated that in 1965/66 they would intervene on their home

market, if the situation required, at the following prices:

TABLE 24

Country	u.a.	National currency	% of guide price
Germany	57.50	DM 239	95.83
Belgium	57.00	Bfrs. 2 850	95
France	55.80	FF 275.50	96
Netherlands	54.60	FL. 197.63	93

However, the movement of prices in the Community has since November 1964 obviated the need for intervention in any member country, prices everywhere having been higher than the intervention price.

Price ratios

20. In order to assess the prices of cattle products, we must remember that many producers can channel their production towards slaughter cattle or milk products, whichever looks like fetching the better price.

Table 25 shows the ratios between the prices obtaining in the various member countries from 1960/61 to 1964/65, and the ratios that will apply once common prices have been instituted. For milk products the price taken is that obtained by the producer, but for beef first the wholesale prices for good-quality grown animals and then average prices for all grades calculated on the weighting coefficients given in Annex III to Regulation No. 14/64/CEE.

21. The decision on the level of the common guide price for slaughter cattle is affected only indirectly by the decision on common cereal prices — inasmuch as cattle prices have to be expressed in a given ratio to milk prices.

In most countries prices for slaughter cattle have shown a *more favourable* trend than milk prices. This applies particularly to France. In the early fifties the price ratio of milk to good-quality slaughter cattle was lowest in France at 1:5 and highest in the Netherlands at 1:7.7. Over the period 1960/61 to 1964/65, on average, the price ratio in France expanded to 1:6.6, while in the Netherlands the gap narrowed.

This development was due to the extremely sharp rise in demand for beef and veal. Production was able to keep pace with demand only by means of an increase in cattle prices and a price ratio to milk that was favourable to stockbreeding. If produc-

tion of slaughter cattle rather than milk is to remain attractive in the future, either *a)* a market price for good-quality cattle must be aimed at that is about 7.3 times the producer price for milk in the major producing areas, or *b)* a market price must be fixed for grown animals of all grades that is seven times the producer price for milk in those areas.

Level of common prices

Proposal

22. All the surveys on the foreseeable trend of supply and demand indicate that the Community's policy should be to encourage production of beef and veal; the decisive policy factor will be the level of the guide price. A better return on beef and veal production seems also to be called for as part of the general agricultural price arrangements at Community level.

At least some of the risk of surpluses occurring in milk and milk products would be reduced if price policy for the cattle-breeding industry were to be slanted rather more towards meat production and rather less to milk.

At the same time the difficulties of a number of commercial crops, particularly cereal crops, would be reduced if the feedingstuffs they represent could be converted into livestock products, especially beef and veal, this branch of production absorbing greater quantities of feed grain.

23. Consequently, the tendency to go over to beef and veal production observed in 1965 must be maintained, but this can only be done if:

a) The price obtained by the producer ensures that his standard of living remains at its present level;

TABLE 25

Ratio between average producer prices for milk and cattle prices

Grown cattle: milk (milk = 1)

Period	Belgium		Germany		France	
	Good quality (1)	All grades	Good quality (1)	All grades	Good quality (1)	All grades
I. Av. 1951/52-1953/54	6.68	—	7.08	—	4.98	—
II. Av. 1957/58-1959/60	6.68	—	7.02	—	6.34	—
III. 1960/61	7.05	6.61	7.41	6.65	6.10	6.03
1961/62	7.61	6.69	7.05	6.34	6.22	6.12
1962/63	6.74	6.18	6.52	5.86	6.10	6.05
1963/64	7.56	7.16	6.88	6.28	6.68	6.57
1964/65	7.18	6.94	7.71	7.01	7.30	7.26
IV. 1968/69	7.27	6.97	7.27	6.97	7.50	7.20
	Italy		Luxembourg		Netherlands	
	Good quality (1)	All grades	Good quality (1)	All grades	Good quality (1)	All grades
I. Av. 1951/52-1953/54	5.76	—	5.76	—	7.70	—
II. Av. 1957/58-1959/60	6.21	—	6.42	—	6.67	—
III. 1960/61	6.98	6.74	6.38	6.15	6.93	6.45
1961/62	6.37	6.57	6.15	5.93	7.12	6.70
1962/63	6.49	6.58	5.99	5.73	6.08	5.63
1963/64	6.86	6.77	5.83	5.63	7.47	6.91
1964/65	6.98	6.79	6.47	6.15	7.66	7.15
IV. 1968/69	6.75	6.48	7.31	7.01	7.14	6.85

(1) Germany: Bullen A and Färsen A.
Belgium: Bœufs et génisses 55 %.
France: Bœufs (1st qual.) and vaches (1st qual.).

Italy: Buoi (1st qual.) and vacche (1st qual.).
Netherlands: Slachtrunderen (1st qual.).
Luxembourg: Taureaux, etc. AA.

b) The opportunities for converting into livestock products the feedingstuffs produced on the farm or bought as compounds or concentrates are kept at an adequate level;

c) The profitability of stockraising enables farmers, whether breeders or fatteners, to cover the extra building costs that will be needed if animals hitherto slaughtered within

three months of birth are to be kept until the age of twelve to sixteen months as baby beef or until eighteen to twenty-four months as slaughter bullocks, bulls or heifers;

d) The ratio between the price of milk and that of beef and veal in 1965, which favoured meat production, remains more or less the same in the coming years.

This will require the average of present Community prices to be increased by at least 5%.

24. The weighted target price for milk for 1965/66 in the Community was 36.71 Pf. per kg for milk with a 3.7% fat content. The common target price of 38 Pf. for 1967 is 3.51% higher. If this rate of increase is applied to the weighted average Community price of DM 256.50 for beef in 1965/66, a guide price for grown cattle of DM 265.50 is obtained, rounded off to DM 265 or 66.25 u.a. per 100 kg live weight.

This gives for the EEC as a whole a ratio of 7:1 between the wholesale price for grown cattle of all grades per kg live weight and the producer price per kg of milk.

Since the overall Community price of good-quality animals as defined in the footnote to page 12, weighted by the cattle population in each member country, is 4.2% higher than the price for all grades, the DM 265 corresponds to a good-quality price of

$$265 \times \frac{104.2}{100} = \text{DM } 276, \text{ or } 69 \text{ u.a. per } 100 \text{ kg live weight.}$$

The nominal ratio between the wholesale price of good-quality grown cattle per kg live weight and the producer price of milk per kg is 7.26:1.

25. The ratio between the weighted average price of calves and the weighted average price of grown animals has since 1961 varied between 1.59:1 and 1.42:1. It was highest at the time of the heavy slaughterings at the end of 1962 and in 1963.

To ensure the production of as much beef as possible, slaughterings of calves should not be encouraged; it is therefore proposed that the ratio between the price of calves and that of grown animals be fixed at 1.35:1, which gives a guide price for calves of DM 358 or 89.50 u.a. per 100 kg live weight.

26. Compared with the 1965/66 guide prices fixed by the Member States, the proposed prices of 66.25 u.a. per 100 kg (DM 265) for grown animals and 89.50 u.a. per 100 kg (DM 358) for calves represent the following percentage increases.

TABLE 26

Proposed guide prices for cattle in EEC countries
Change on 1965/66 prices

Country	Grown animals		Calves	
	u.a.	%	u.a.	%
Belgium	+ 6.25	+ 10.4	+ 11.50	+ 14.7
Germany	+ 6.25	+ 10.4	+ 5.50	+ 6.5
France	+ 8.12	+ 14.0	+ 8.07	+ 9.9
Italy	+ 6.25	+ 10.4	+ 7.00	+ 8.5
Luxembourg	+ 6.25	+ 10.4	+ 4.50	+ 5.3
Netherlands	+ 7.55	+ 11.9	+ 10.77	+ 13.7

These price increases are appreciable, but they would be much less so if compared with 1965 market prices — as is evident

from Table 27. In Germany and Italy the price of grown animals would actually fall.

TABLE 27

Market prices for cattle in EEC countries
Expected change on 1965/66

Country	Grown animals		Calves	
	u.a.	%	u.a.	%
Belgium	+ 1.25	+ 2	+ 5.25	+ 6
Germany	- 1.25	- 2	- 9.25	- 9
France	+ 4.00	+ 6	- 3.25	- 4
Italy	- 2.50	- 4	- 18.50	- 17
Luxembourg	+ 2.75	+ 4	- 7.00	- 7
Netherlands	+ 6.25	+ 10	- 3.75	- 4

Measures to keep market prices at the level of guide prices

27. Regulation No. 14/64/CEE provides for two kinds of measure:

a) Imposition on imports from outside the Community of a levy applicable when the price recorded on representative markets in the Member States is below the guide price, and of half the levy when the price is up to 5% above the guide price.

b) For grown animals the Member States are empowered to intervene when the prices recorded are lower than or equal to the intervention price; the intervention price is fixed at 93-96% of the guide price.

When the common market is fully established, these provisions of Regulation No. 14/64/CEE will have to be adapted so that account can be taken of the common guide price and the fact that intervention will have to be in the hands of Community agencies.

**Price changes resulting
from the common price**

Wholesale prices

28. It may be assumed that in 1966 and 1967 — if there is an easing of the severe shortage of beef and veal which the Community experienced until 1964 — prices will not continue to rise at the same rate as over the last two years. As a result of the

additional protection ensured by the full levy or the half levy when prices fall, market prices should stay close to the guide price. Within the single Community market, however, prices will not be uniform: they will be higher in member countries with a deficiency than in those with a surplus. For example, transport costs alone represent a difference of 2.50 u.a. per 100 kg between average prices in France and Germany. And the price trend for the various qualities, as we showed above, will not correspond to that for the weighted average, since the Community's deficit is mainly in meat for processing and the situation for good-quality cattle is less critical. Moreover, market prices for the Community as a whole will not fall below the intervention price, which is thus in effect a guaranteed price.

Consumer prices

29. In general, retail prices follow closely behind any rise in wholesale prices, but if wholesale prices fall, there is often a considerable time lapse before retail prices follow suit. However, it is to be expected that trade margins will tend to stabilize at a time when production and consumption are in balance. As the price of grown animals was 66.25 u.a. (DM 265) and even higher during 1965 in Germany, Belgium and Italy, retail prices should alter little in these three countries.

30. In 1965 the price of calves was 89.50 u.a. (DM 358) — or even higher — in all

member countries. If market prices are in the region of the guide price, it can therefore be assumed that retail prices for veal will be at much the same level as was recorded in the member countries at some periods in 1965/66.

3. Demand for beef and veal is influenced not only by their price but also by the price of competing meats (chiefly pigmeat and poultry). In Germany, however, the establishment of a common price for feed grains will bring down pigmeat and poultry prices. Feed-grain prices will rise in Italy, but this will have slight influence on pigmeat

consumption, which is rather low in this country. If market prices in these two member countries are about the same as the guide price, the increase in market prices can be ignored for all practical purposes. Consequently, the establishment of a Community guide price will not have an adverse effect on beef and veal consumption in these two countries.

In view of the general upward trend of prices in the economy, the real price increases forecast for beef and veal may be assumed to be very slight in the other Community countries.

III. RICE

The situation on the market

Long-term trend

Production

1. Out of a total world output of some 150 million metric tons of husked rice, the Community currently produces about 600 000 tons. Only two member countries are rice producers — France with 100 000 tons and Italy with 500 000 tons (see Annexes BIII/1 and 2).

The trend of rice production in these two countries has been different over the last fifteen years.

a) It is only since 1945 that rice has been grown in France in any considerable quantities, and high growth rates in output have been recorded over the last few years — 150-180% up on 1950 and 50-70% up on 1955. This increase was due to the expansion of the area under rice, though it did settle down at about 30 000 hectares in 1958. Yield per hectare is some 4 000 kg of paddy.

b) Italian production has fallen off in recent years — 10-20% down on 1950 and 25-35% on 1955 — owing to a decline in the area sown to rice, which reached a maximum at 180 000 ha in 1952-55 and then fell to about 50 000 ha, levelling off at 120 000-130 000 ha in 1958. The decline set in when world market prices, which had been falling since 1955, began to make it difficult for Italian rice to find foreign markets and the Italian Government introduced production controls — largely by freezing its support price for a number of years in succession. Yield has remained high at 5 300 kg per hectare.

2. Yields in France (4 000 kg) and Italy (5 300 kg) are among the highest in the world, comparing with those in Australia (6 300 kg), Spain (6 200 kg) and Portugal (4 700 kg). Average yields for the world's rice-growing areas over the past three years were:

Europe	4 700 kg per ha
Oceania	4 700 kg per ha
North America	4 000 kg per ha
Middle East	2 800 kg per ha
Latin America	1 800 kg per ha
Far East	1 700 kg per ha
Africa	1 200 kg per ha

Consumption

3. Rice production in the EEC is insufficient to meet requirements. The Community's total consumption is between 720 000 and 750 000 tons of husked rice per annum (see Annex BIII/3).

The Community is thus 82% self-sufficient, but it must be remembered that long-grain rice is preferred by consumers in the non-producing member countries, who create a demand for imports of this quality, while there is even a slight surplus of the round-grain rice chiefly grown in the Community.

Annual per capita rice consumption in the EEC is low at an average of 3 kg of rice ready for consumption. This figure has remained practically unchanged for the last ten years, with considerable variation from one member country to another (see Annex BIII/4). Italy, with a per capita consump-

tion of 5.4 kg, is the only member country whose consumption is above average; the figure for the Netherlands is 2.4 kg, for Germany and France 1.7 kg and for B.L.E.U. 1.6 kg.

Average producer price

4. Over the last fifteen years the prices paid to French and Italian producers for 100 kg of paddy have developed on practically parallel lines, with a differential of about 2 u.a. per 100 kg, French prices having risen from 10.50 to 13 u.a. and Italian from 9 to 11.50 u.a. (see Annex BIII/5).

Average figures for the years 1950 to 1962 are just above or just below the price paid to producers in the United States; while French producers received 12.20 u.a. per 100 kg of paddy and Italian producers 9.70 u.a., the price in the United States was 10.90 u.a.

5. Broadly, the trend of prices in the EEC shows a decline between 1950 and 1956 and a very slow increase since 1956. Producer prices in 1964/65 were 12.88 u.a. in France and 10.68 u.a. in Italy.

These prices were only slightly above the intervention prices that these two member countries had fixed for the 1964/65 rice year, which was the first since the common organization of the rice market came into effect.

Current situation

Aspects of the common market organization

6. The common organization of the rice market, which has been in force since 1 Sept-

ember 1964, has the same basis as the cereal market organization and thus includes target prices, intervention prices and threshold prices. However, this system of prices applies only to the two producer member countries: the other four already constitute a single market with a common threshold price.

With a view to the establishment of a common market the following prices must be fixed in accordance with Article 22(2) of Regulation No. 16/64/CEE:

- i) A common basic target price,
- ii) A single threshold price,
- iii) Intervention prices based on the derived target prices expressed in terms of paddy and reduced by 4% (at present 5% in France and 7% in Italy).

The Council has not yet decided what is to be considered the area with the greatest deficit to which the basic target price would apply, but it might be the Duisburg area, which was selected in the case of cereals, in which case the threshold price could be calculated for Rotterdam.

Fixed prices

7. The prices fixed for the first rice year after the introduction of the common market organization include various imposts both in France and Italy, whereas the common prices — as in the case of cereals — have to be fixed without imposts. A proper comparison of the present situation with the final stage should therefore be based on present prices excluding imposts, but not the fixed prices ⁽¹⁾; prices (less imposts) for the beginning of 1964/65 are:

(1) The prices as fixed were (see Annex BIII/6):

(u.a.)

	France	Italy
Threshold price	19.64 (including bags and imposts)	17.73 (including bags and imposts)
Basic target price	19.21 (including imposts)	17.77 (including bags and imposts)
Derived target price	18.20 (including imposts)	16.69 (including bags and imposts)
Intervention price	12.85 (including imposts)	10.50 (including bags)

Apart from an increase in the Italian intervention price (11.23) and a reduction in the French threshold price (19.13), these prices apply to the whole rice year 1965/66, which however does not begin till 1 September 1965.

TABLE 28

(u.a. per 100 kg)

Price	France	Italy	Non-producer member-countries
Threshold price (husked rice)	18.92	16.33	14.20
Basic target price (husked rice)	18.49	16.37	—
Derived target price in producing area (husked rice)	17.38	15.29	—
Intervention price in producing area (paddy)	12.30	10.50	—

Producer prices

8. The prices received by paddy growers in the two producer member countries in 1964/65 (see Annex BIII/5) slightly exceeded the above intervention prices. These average producer prices — 12.88 u.a. in France and 10.68 u.a. in Italy — show a slight increase (0.30 u.a. per 100 kg) on the previous year, which confirms the general tendency observed since 1956.

Supply situation

9. In recent years the EEC has been 75-85 % self-sufficient. The Community's requirements not covered by French and Italian output were supplemented by net imports of 100 000 to 150 000 metric tons.

Of the 150 million tons harvested throughout the world only 6 million, or 4%, came onto world markets, and of these 6 million tons, 3 million were exported by Asian countries (Burma, Thailand, mainland China, Cambodia and Vietnam) and 750 000 by the United States.

10. The Community's gross imports of 300 000 to 400 000 tons come mainly from the United States, Thailand and the United Arab Republic — in that order.

These figures include a bare 30 000 tons from the Associated African States and the overseas territories of the member countries — mainly from Madagascar (including 14 000 tons imported by France) and Surinam (including 12 000 tons imported by Germany).

EEC imports account for only 5% of world trade, but as the amounts involved are of the hard and long-grain qualities that cannot

be produced in the Community, some continuity of external trade is ensured.

Price ratios between rice
and other products

11. In the elaboration of a proposal for the common rice price, account must be taken of the fact that rice producers can either continue to grow rice or change over to other crops. The price should therefore be based on the maintenance of a balance between the various substitute products.

With certain regional exceptions, it should be technically possible to replace rice by other cereals, by sugarbeet, fruit or vegetables, provided a certain amount of soil improvement is effected and irrigation or watering can be provided for some of these crops. In certain cases, particularly in soil containing salt, these measures may perhaps be inadequate. Converting from one crop to another in this way would naturally require corresponding investments for the various types of crop involved (machinery and equipment, seeds, fertilizers, etc.), except where these crops are already grown near areas currently sown to rice.

The various aspects of the market in these products, especially their disposal, together with the disadvantages of salty soil in the case of areas under rice in France, suggest that for all practical purposes maize is the only crop fulfilling all the conditions for substitution, particularly as the future price of this product has already been fixed by the Council, and so offers farmers a fairly firm basis for comparison.

12. In the two rice-producing member countries the ratio between the average prices of maize and rice has been 1 to about 1.5

since 1960/61. The ratios for each year since 1951 are given below:

Cereal Year	France	Italy
1951/52	2.05	1.16
1952/53	1.59	1.15
1953/54	1.60	1.39
1954/55	1.65	1.37
1955/56	1.60	1.20
1956/57	1.57	1.25
1957/58	1.51	1.50
1958/59	1.37	1.49
1959/60	1.41	1.39
1960/61	1.75	1.61
1961/62	1.58	1.59
1962/63	1.51	1.53
1963/64	1.55	1.48
1964/65	1.48	1.49

Should the common maize price be introduced in 1967/68 with no change in the price of rice, the ratio would alter only slightly in France, but in Italy — where maize prices are going up sharply — the present ratio would alter to the disadvantage of rice.

If it is remembered that rice has been grown for only a relatively short period in France, which implies that growers still have to amortize part of their outlay, and that in Italy rice production has already declined by more than a quarter because of the big labour force and high wages demanded, there might well be a sharper decline in areas under rice if reduction of the price gap between these two products caused any appreciable deterioration in the price ratio.

The price ratio should therefore be not less than 1 to 1.5.

Level of the common price for 1967/68

13. On the basis of the price charged at the beginning of 1964/65 by growers in Italy, the major producer member country, and the change in maize prices, the producer price for 1967/68 may be fixed as follows:

TABLE 30

<i>(u.a. per 100 kg paddy)</i>	
Price of rice	
Producer price in 1964/65	10.68
Effect on rice prices of change in maize price ⁽¹⁾	+ 1.30
Producer price for 1967/68	12.00

⁽¹⁾ Change in producer price for maize in 1967/68 compared with present prices, multiplied by maize yield in areas under rice, and divided by rice yield.

In Italy the derived intervention price for the major producing area would be fixed at 12 u.a. per 100 kg of standard-quality paddy.

On the basis of this price, which is 1.50 u.a. higher than the intervention price fixed for 1964/65, a ratio of 1 to 1.56 could be attained in 1967/68 between the intervention price for maize (7.70 u.a.) and the intervention price for rice.

It should be pointed out that this ratio is much the same as the ratio of 1 to 1.54

between the average producer prices for maize and rice in Italy between 1960/61 and 1964/65.

In France the derived intervention price for the major producing area would be fixed at 12.30 u.a. per 100 kg of standard-quality paddy, with allowance for price zoning.

On the basis of this price, which corresponds to the intervention price for 1964/65 less imposts, it would be possible to attain a ratio of 1 to 1.60 in 1967/68 between the

intervention price for maize (7.70 u.a.) and the intervention price for rice.

This is quite close to the ratio of 1 to 1.57 between average producer prices for maize and for rice in France between 1960/61 and 1964/65.

Price changes resulting from the common price

On the basis of the balance between producer prices for maize and those for paddy in the years 1964/65 to 1967/68, two prices for rice growers were calculated, and these in

turn serve as basis for fixing the various prices that form part of the common organization of the market.

With a producer price of 12 u.a. per 100 kg in the Italian producing area, the normal price difference between paddy and husked rice, the gap to be established between intervention price and target price, and the abolition of the standard amount and of regional prices in accordance with natural price formation would together give the intervention, target, and threshold prices shown in the table below, which also indicates the percentage change on 1964/65 prices (excluding imposts):

TABLE 31

(u.a. per 100 kg)

	France		Italy		Non-producer countries	
	1964/65	1967/68	1964/65	1967/68	1964/65	1967/68
<i>Intervention price</i> in producing area (paddy)	12.30	12.30	10.50	12.00	—	—
Change on 1964/65 (%)	—	0	—	+14.3	—	—
<i>Derived target price</i> in producing area (husked rice)	17.38	17.20	15.29	16.81	—	—
Change on 1964/65 (%)	—	-1.0	—	+9.9	—	—
<i>Basic target price</i> (husked rice)	18.49	—	16.37	—	—	18.12
<i>Threshold price</i> (husked rice)	18.92	17.78	16.33	17.78	14.20	17.78
Change on 1964/65 (%)	—	-6.0	—	+8.9	—	+25.2

In Italy the increase in the producer price for rice fixed as a result of the increase in the producer price for maize will send up the intervention and threshold prices in relation to current prices (excluding imposts).

In France retention of the current intervention price (excluding imposts) will mean a fall in the threshold price.

In the non-producer member countries the threshold price will rise 25%.

IV. SUGAR

The situation on the market

Long-term trend

Production

1. Sugar output in the Community (including the French overseas departments) has averaged 5.7 million metric tons over the last five years (see Annex BIV/2). Since the first half of the fifties it has increased by 1.7 million tons, an average of 3.2% per year. All member countries contributed to the increase, but the highest rate of growth was in Germany.

The increase in output was attained chiefly by bigger yields per hectare. In addition, however, areas under sugarbeet were extended considerably in Germany, Italy and the Netherlands — the importing countries — particularly in the fifties (see Annex BIV/1).

The considerable fluctuations in sugar production from one year to the next — sometimes more than 20% — are mainly due to the weather.

Consumption

2. In the last five years sugar consumption in the Community has on average totalled 5.4 million tons, as against 3.8 million tons in the years 1950 to 1954. It has therefore been growing almost as fast as production; per head, the rise has been from 23.2 kg to 30 kg. The sharpest increase in consumption was in Italy (see Annex BIV/2).

The Community's degree of self-sufficiency (including the overseas departments) did not change over the period under review; it averaged 106%.

Prices

3. In the last fifteen years ex-factory prices for sugar (excluding taxes) and sugarbeet prices in all member countries have been raised by 20 to 40% (see Annex BIV/4).

4. This means that the trend of sugarbeet prices has been more favourable to the producer than that of cereal prices. To the extent that the raising of beet prices corresponded to the actual movement of production costs, which is largely determined by the general trend of prices and wages, it could be justified by the general objectives of agricultural policy. In practice, however,

growing beet at the prices fixed by the Member States proved to be so advantageous for producers that there was a tendency particularly after the end of the fifties, to expand cultivation more vigorously than was warranted by the possibilities of the market. A major contributing factor was probably the considerable improvement in production methods over the last six of eight years (utilization of single-germ seeds, development of more efficient chemical herbicides and pesticides, full mechanization of harvesting), which had a favourable effect on production costs.

5. To maintain the balance between production and sales outlets, all Member States were obliged at least from time to time to take measures which would directly or indirectly counteract the tendency for production to expand. The parallel development of production and consumption referred to above is thus the result both of a price policy that encourages production and of the measures taken to limit it.

The current situation

Production and consumption

6. To illustrate the current supply situation in the member countries, it is best — in view of the wide fluctuations in production — to confine oneself to average figures for the last five years.

Table 32 shows that in France and Belgium production is well above consumption, with the surpluses of over 400 000 in the overseas departments accounting for much of the total French surplus. In Germany and the Netherlands production is sometimes more, sometimes less than consumption. Only in Italy has production failed to keep up with the vigorous rise in consumption in recent years. As a result of sharp price increases since 1963/64, however, beet growing expanded appreciably last year in Italy too.

External trade

7. The Community's trade with non-member countries has over the last ten years averaged 700 000 tons of exports and 600 000 tons of imports per annum. While the Community still had a small surplus of imports in the second half of the fifties, the rise in exports and a decline in imports during the sixties produced an export surplus that averaged 200 000 to 300 000 tons.

TABLE 32

EEC sugar production and consumption (annual average 1961/62 to 1965/66 ⁽¹⁾)

('000 metric tons)

	Germany	France ⁽²⁾	Italy	Netherlands	BLEU	EEC ⁽²⁾
Production	1 610	2 306	925	491	385	5 717
Consumption	1 808	1 513	1,225	536	313	5 395
Deficit or surplus	— 198	+ 793	— 300	— 45	+ 72	+ 322
Self-sufficiency (%)	89	152	76	92	123	106
Per capita consumption (kg)	31.0	30.8	24.2	44.4	32.4	30.0

⁽¹⁾ Provisional or estimated figures for 1965/66.⁽²⁾ Including French overseas departments.

8. Since the beginning of 1965 supplies on the world sugar market have been abundant and prices have been extremely low. In September 1965 prices dropped to 3.53 u.a. per 100 kg of raw sugar and 5.47 u.a. per 100 kg of white sugar (average ex-factory price in the EEC in 1964/65 — 21.25 u.a. per 100 kg). This situation is a result of a number of factors: in 1964/65 and 1965/66 world sugar production exceeded consumption by 55 to 57 million tons (in terms of white sugar), demand in most countries was inelastic because of market controls and, as a result of the broad dichotomy in the world market for sugar,

the surplus was concentrated on the narrow free market. Of the total import requirements of about 14 million tons (white sugar), about two thirds were obtained under preferential agreements with certain exporting countries and only one third on the free world market.

Prices

9. The sugar and sugarbeet prices obtaining in the member countries in 1964/65 were:

TABLE 33

	Belgium	Germany	France	Italy	Netherlands	Arithmetic mean
Sugar ⁽¹⁾						
— Consumer price	27.61	29.75	23.50	34.40	31.58	
— Ex-factory price ⁽²⁾ (excluding taxes)	20.46	22.17	18.76	24.35	20.52	21.25
Sugarbeet ⁽³⁾	16.86	18.13	13.09	19.05	16.26 ⁽⁴⁾	

⁽¹⁾ U.a. per 100 kg, white sugar.⁽²⁾ But including beet tax in Belgium, France and Italy.⁽³⁾ Basic price in u.a. per metric ton of beet with 16% sugar content.⁽⁴⁾ Price when producers' claim for return of beet chips is allowed for; the price would otherwise be 17.96 u.a. per ton.

10. The highest beet prices in the Community are in Italy and Germany, the lowest in France, where the production potential is greatest. Prices in the Netherlands and Belgium are midway between the two extremes. The same differentiation is found in ex-factory prices for sugar. Italy and the Netherlands have the highest consumer prices, with above-average taxes on sugar in both cases.

In 1964/65 prices went up in all Community countries but France. The increase was particularly vigorous in Italy and the Netherlands (see Annex BIV/4), where prices were raised again — though not so much — for 1965/66. Average prices obtained by producers in France and Belgium in 1964/65 were 13.4% and 16.5% respectively below the basic prices given above, since export surpluses were extremely high and world

market prices extremely low, so that producers had to accept particularly heavy export losses.

Price ratios

11. It has already been pointed out that over the last fifteen years sugarbeet prices have shown a more favourable trend than cereal prices. Although beet prices were only 12 to 15% of wheat prices at the beginning of the fifties, by 1964/65 they were 15 to 18% of wheat prices. If for France and Belgium the decline in average producer prices caused in 1964/65 by beet growers' extremely heavy export losses is left out of account, the percentage of beet prices to wheat prices ranged from 16.4% in France to 17.2% in Italy.

TABLE 34

Average producer prices for sugarbeet as percentage of those for wheat in the member countries

Period	(Wheat = 100)				
	Belgium	Germany	France	Italy	Netherlands
I. Av. 1951/52-1953/54	13.3	14.4	12.3	12.2	14.5
II. Av. 1957/58-1959/60	14.2	16.0	16.0	13.6	16.3
III. 1960/61	13.2	16.1	13.7	13.2	13.6
1961/62	12.5	16.0	14.2	13.9	14.9
1962/63	15.5	16.0	13.8	13.7	14.9
1963/64	16.5	15.9	14.7	14.9	15.4
1964/65	14.4 ⁽³⁾	17.1	14.2 ⁽³⁾	17.2	16.8
IV. 1967/68 ⁽¹⁾	14.5 ⁽³⁾	19.3	12.3 ⁽³⁾	19.6	16.7
⁽²⁾	17.0	17.2	17.9	17.0	16.9

⁽¹⁾ Average producer prices for sugarbeet in 1964/65 expressed as percentage of forecast producer prices for wheat in 1967/68.

⁽²⁾ Proposed minimum sugarbeet price (16.5 u.a. per ton) expressed as percentage of forecast producer prices for wheat in 1967/68.

⁽³⁾ But if the 1964/65 basic sugarbeet price is taken as the basis and allowance is made for the unusually high losses in sugar exports that year, the following percentages are obtained: France, 1964/65: 16.4, 1967/68: 14.2; Belgium, 1964/65: 17.2, 1967/68: 17.3.

If sugarbeet prices in 1964/65 are compared with the wheat prices for 1967/68 fixed by the Council, beet in Germany and Italy is put into a much better position in relation to wheat because of the decline in wheat prices: beet prices would then be 19.3% of the price of wheat in Germany and 19.6% in Italy. In France, on the other hand, the price situation of sugarbeet would deteriorate appreciably: the beet price would be only 14.2% of the wheat price, as against 16.4% in 1964/65. Such extreme price ratios, however, would be sure to lead to an unbalanced trend of production.

A sugarbeet price of 16 to 18% of the wheat price would represent a balanced price ratio in the member countries.

Market organization

12. The sugar market is regulated in all member countries. Market and consumer prices are fixed annually, and in most countries the basic prices for sugarbeet as well. In Germany and in France the possibilities for factories to dispose of their sugar on the domestic market are in any case restricted at present. There are quantitative restrictions on imports, and import prices are brought up to the domestic level of prices. In the two exporter countries, France and Belgium, part or all of the losses incurred by selling abroad are shared out among producers.

13. The common organization of the sugar market proposed to the Council by the Commission in 1964 provides — like the market organization for cereals — for the fixing of target, intervention and threshold prices for sugar and for a minimum price for sugarbeet derived from the intervention price. The intervention price for sugar will provide a guarantee for growers in that the intervention agencies will have to buy all the sugar offered to them at that price. Imports and exports are to be regulated by a system of levies and refunds.

Level of common price for 1967/68

14. Supply in the Community has hitherto been more or less in balance over an average of several years, though measures to restrict production are in force in some Community countries.

Compared with France, prices are relatively high in all the other member countries. In so far as such prices are necessary to secure a fair standard of living for those employed in agriculture, they must also be taken into account when the common level of prices is fixed.

15. As was explained in Section 11, the common sugarbeet price should be 16 to 18% of the wheat price in order to ensure a balanced price ratio. Since:

a) Production costs will probably go up again once the possibilities of rationalization worked out over the last ten years have been exhausted and

b) Fixing the price too low would — in view of the sums invested in beet farming and in the sugar industry — have extremely serious consequences that could hardly be reversed,

it is recommended that the common beet price be fixed at 17 to 18% of the wheat price, i.e. 16.50 u.a. per ton of sugarbeet with a 16% sugar content.

16. But as the technical possibilities for expanding production are still relatively great, it is not impossible that production will rise until it is well ahead of demand in the Community. Considerable difficulties would occur, however, if large surpluses were to be exported. It would run counter to the common interest in the harmonious development of world trade and constitute a very heavy burden on the EAGGF.

The world market for sugar is already heavily oversupplied. The extremely low prices on the free world market hardly cover the cost of processing sugarbeet and of marketing. No change in the situation can be foreseen. In these circumstances producing sugar for export does not make economic sense. It is therefore to be recommended, in case production should outstrip consumption by a wide margin, that special provision be made to ensure that production is kept in line with potential outlets (for the individual measures proposed and the grounds for proposing them, see Sections 21 to 28 and the text of the Resolution).

17. Under the Commission's proposal (and an agreement reached in the Council) the market organization for sugar is to be based on a uniform system of target and intervention prices for white sugar. A minimum price is also to be fixed for sugarbeet, and this implies indirectly the fixing of a uniform margin to cover manufacture.

18. This margin, including the average transport costs paid by factories for beet, varied in 1964/65 between 8.15 u.a. per 100 kg in Belgium and 10.16 u.a. in Italy.

The beet transport costs included in this margin varied between 1.16 u.a. per 100 kg of white sugar in Belgium and 1.98 u.a. in Germany.

If an average distance of 20 to 25 km and the French railway rates are taken as typical, it seems necessary to provide for transport costs of 1.60 u.a. per 100 kg.

The factory margin excluding transport costs in 1964/65 was about 7 u.a. per 100 kg of sugar in Belgium and France, 7.55 u.a. in the Netherlands, 8.04 u.a. in Germany and 8.32 u.a. in Italy.

Since the processing capacity now available exceeds demand and the intention is to avoid a margin high enough to encourage expansion of capacity, the processing margin allowed when the common intervention price is fixed should be 7.50 u.a. per 100 kg of white sugar (see Annexes BIV/6 and 7).

19. If the cost of sugarbeet at the proposed minimum beet price of 16.5 u.a. per ton is added to the average transport costs and the processing margin mentioned above, and if the value of molasses is taken as 0.95 u.a. per 100 kg, a Community sugar price of 20.84 u.a. per 100 kg is arrived at, which should be regarded as the intervention price.

20. As there is relatively little risk involved in marketing sugar, a margin of 5% between the target price and the intervention price may be considered adequate. The common target price for white sugar would thus work out at 21.94 u.a. per 100 kg.

Special measures upon application of common prices

21. For sugar there is as yet no common organization of the market like those operating for most agricultural products. In several member countries measures are in force which limit production, and this makes it particularly difficult to estimate the effects on production of the changes in sugar and sugarbeet prices involved in applying the common prices.

Sugar production in the Community has in recent years repeatedly exceeded consumption. As the technical scope for expanding production is still relatively great, output may yet exceed demand in the Community by an even wider margin than hitherto.

As the export of large surpluses would be contrary to the common interest in the harmonious development of world trade and would put a very heavy burden on the EAGGF, special measures should be available should it prove necessary to bring production into line with the outlets available.

In view of the general principles on which the common market policy for agriculture as a whole was worked out, and which are

of major importance not only to the Community's farm policy but also to its foreign relations, the supplementary provisions for sugar should be put into effect only if an actual imbalance between production and consumption should manifest itself.

22. In view of the expected process of adaptation, the validity of the measures now to be prepared may be limited to a given period. The most effective measure is likely to be one under which the price and sales guarantee could be curtailed.

If curtailment of this guarantee should prove necessary, account should in each case be taken of the volume and trend of production during the period of adaptation. Since the cultivation of sugarbeet in the present areas of production is very important from the angle of farm management and agricultural structure and, furthermore, is bound up with extensive investments in agriculture and in the sugar industry, it seems reasonable to set for each producer a basic quota that will correspond to his past output and for which the price guarantee will not at first be subject to curtailment.

23. In order to prevent overproduction, all producers should be given a ceiling for their price and sales guarantees. The ceiling, which will be related to the basic quota, should be worked out in such a way that production can still be expanded considerably in the areas of the Community most suitable for growing sugarbeet.

On this basis regional specialization can be ensured, while excessive surpluses are avoided, if arrangements are made for a levy on the quantities produced between the limits formed by the basic quota and the ceiling.

The levy will serve as a guiding light for production if its level is fixed in accordance with each year's sugar surplus in the Community. The limiting of the price guarantee through a levy should, however, itself be limited by the fixing of a maximum amount for the levy.

24. In order to avoid heavy surpluses it is necessary, in addition to the above steps, to prevent any quantities produced by individual manufacturers in excess of the ceiling from being sold on the internal market or from benefiting from export refunds.

25. It is to be expected that within a few years the economic conditions to which sugarbeet and sugar production are subject will by and large be aligned throughout the Community. From 1973/74 on, therefore, the proposed production levy could be

TABLE 35

Price changes on 1964/65 resulting from the prices proposed for 1967/68,
and price ratio to wheat (1)

	Belgium	Germany	France	Italy	Netherlands
	Price and price changes				
I. Basic sugarbeet price 1964/65 (u.a. per t)	16.86	18.13	13.09	19.05	16.26
Basic sugarbeet price 1967/68 (u.a. per t)	16.50	16.50	16.50	16.50	16.50
Difference (u.a. per t)	— 0.36	— 1.63	+ 3.41	— 2.55	+ 0.24
Difference (%)	— 2.1	— 9.0	+ 26.1	— 13.4	+ 1.3
II. Sugar price ex-factory 1964/65 (u.a. per 100 kg)	20.46	22.17	18.76	24.35	20.53
Intervention price 1967/68 (u.a. per 100 kg)	20.84	20.84	20.84	20.84	20.84
Difference (u.a. per 100 kg)	+ 0.38	— 1.33	+ 2.08	— 3.51	+ 0.31
Difference (%)	+ 1.9	— 6.0	+ 11.1	— 14.4	+ 1.5
III. Consumer price 1964/65 (u.a. per 100 kg)	27.61	29.75	23.50	34.40	31.58
Consumer price 1967/68 (u.a. per 100 kg)	27.99	28.42	25.58	30.89	31.89
Difference (u.a. per 100 kg)	+ 0.38	— 1.33	+ 2.08	— 3.51	+ 0.31
Difference (%)	+ 1.4	— 4.5	+ 8.9	— 10.2	+ 1.0
	Ratio between basic sugarbeet price and producer price for wheat (wheat = 100)				
1964/65	17.2	16.7	16.4	17.1	16.7
1967/68	17.0	17.2	17.9	17.0	16.9

1) See also Annex, Graphs 11 and 12.

increasingly related to overall production. In this way progressive harmonization of producer prices will be achieved for output within the basic quota and beyond, even if the special measures are applied.

26. In order to ensure that these measures are effective, it is necessary to arrange that they shall also influence the beet growers.

27. In Italy there are special natural and structural difficulties which affect beet and sugar production. The situation resulting from the Mediterranean climate and the leeway to be made good in applying modern production methods justifies the granting of subsidies for sugarbeet growing. Since,

moreover, sugarbeet processing is rendered more expensive, in particular, by the shortness of the beet season, a consequence of the climate, it seems appropriate to provide a system of subsidies so that the sugar factories can be adapted.

28. The Treaty provides for the inclusion of the French overseas departments in the common market organizations, but they do not automatically benefit from the EAGGF. As the EAGGF is an important factor in view of the price guarantee which producers enjoy in the framework of the common market organizations, its application should also be extended to the French overseas departments because of the special significance which sugar production has for them.

**Price changes resulting
from the proposal for a common price**

29. With the common beet price for 1967/68 at 16.5 u.a. per ton, there will be a sharp rise in French prices compared with those obtaining in 1964/65, only a slight change in Belgium and the Netherlands, and a decline of 9% in German beet prices and of 13% in Italian prices.

A comparison of the 1964/65 ex-factory prices for sugar with the common intervention price for 1967/68 shows that changes in all member countries but Italy will be

appreciably less than the changes in beet prices. This is partly due to the removal of the beet tax now imposed in France, Belgium and Italy and to the relatively slight changes in the margin for the manufacturer. This explains why in France, for instance, the beet price will go up 26.1% but the ex-factory price only 11.1%.

If the terms of trade and transport rates remain constant and taxes on sugar are uniform in absolute terms, the consumer price will go up another 8.9% in France — the only country to suffer a relatively vigorous price increase — while in Italy it will fall by 10.2%.

V. OILSEEDS

The situation on the market

Production

1. Oilseed production in the Community is concentrated chiefly on colza, rape and sunflower seeds. Colza and rape are grown chiefly in the north while the sunflower requires a warmer climate. At present producer prices are guaranteed for colza and rape in Germany and France only, and for sunflower seed in France only. For this reason it is only in these two countries that there is an appreciable production of colza seed and rapeseed; sunflowers are grown exclusively in central and southern France (see Annex BV/1).

The cultivation of colza, which played an important part in the agriculture of some Community countries at the beginning of the century, did not expand again until

during and after the Second World War, particularly at the time of the Korean War (1950-53) and in the last few years.

2. This trend is due to the important and often essential role of colza and rape in crop rotation and the utilization of certain soils; and with this type of crop fuller use can also be made of farm machinery.

In recent years output per hectare has been increased considerably by improved cultivation and harvesting methods; the current yield is between 1 900 and 2 200 kg per hectare.

The ratio established in France since 1961 between the price of these oilseeds and that of crops that can replace them in the rotation of crops may have encouraged the expansion of oilseed growing, as can be seen from the figures in Annexes BV/1 and 2.

TABLE 36

Expansion of colza and rape growing in Germany and France 1951-1965

Period	Germany				France			
	Area ('000 ha)	Index	Production (hundred t)	Index	Area ('000 ha)	Index	Production (hundred t)	Index
1951/53	34	100	580	100	113	100	1 610	100
1954/56	13	38	250	43	65	58	920	57
1957/59	30	88	610	105	115	102	1 630	101
1960/62	39	115	860	148	72	64	1 170	73
1963/65	49	144	1 040	179	124	110	2 390	148

3. Sunflower cultivation has developed favourably in France only in recent years,

since the producer price was raised (see Annex BV/1).

TABLE 37

Expansion of sunflower growing in France 1951-1965

Period	Area ('000 ha)	Index	Production (hundred t)	Index
1951/53	5	100	7	100
1954/56	5	100	5	71
1957/59	3	60	4	57
1960/62	9	180	15	214
1963/65	21	420	30	428

Prices

4. Producer prices for colza and rape have followed divergent trends in the two major oilseed-producing countries (see Annex BV/3).

In France, where the market organization has been operating only since the 1955 harvest, prices have risen gradually to level off at FF 79.8 per 100 kg, or 16.16 u.a. per 100 kg.

In Germany, on the other hand, prices were fixed for the first time in 1954 at DM 75 per 100 kg and were lowered in 1958 to DM 66, which at the present exchange rate corresponds to 16.5 u.a. per 100 kg. It was possible to reduce the producer price in Germany mainly because output increased from 1 670 kg per ha in 1951-53 to 2 090 kg per ha in the last three harvests.

Producer prices for sunflower seed remained at about FF 45 per 100 kg in France until 1960, since when they have risen rapidly to the same level as colza, which now fetches FF 79.8 per 100 kg (see Annex BV/4).

Consumption

5. Oilseeds are consumed in the form of oil, and the extent to which one vegetable oil can be substituted for another is practically unlimited. The Community's oil consumption should therefore be examined in the light of consumption of vegetable oils and fats generally. If the unusually high output of 200 000 tons achieved in 1965

is taken as a basis, the Community's production of oil from rapeseed and sunflower seed amounts to less than 9% of the average consumption of oils and fats other than olive oil. Olive-oil consumption, which is constantly on the rise, has totalled about 2.3 million tons over the last few years.

6. The balance sheets for oils and fats established by the Community for the years between 1955/56 and 1962/63 show that consumption of vegetable oils and fats other than olive oil within the Community rose from 1 867 000 tons to 2 178 000 tons — an increase of 300 000 tons (Statistical Office of the European Communities, Agricultural Statistics 1965/2).

About 30 000 tons of this increase in consumption was accounted for by oil extracted from the colza, rape and sunflower seeds grown in the EEC.

Consequently, the expansion of consumption has in the main benefited exporters outside the Community.

External trade

7. As with consumption, trade in these seeds and oils must be seen in the broader context of vegetable oils other than olive oil.

Total net imports by the member countries of these commodities, in the form of oil or of oleaginous seeds and fruits, rose from

1 673 000 tons in 1955/56 to 1 923 000 tons in 1962/63 (oil equivalent), i.e. by 250 000 tons.

8. Net imports of colza, rape and sunflower seeds and oils increased over the same period, despite higher production of these seeds in France and Germany, from 25 000 tons in 1955/56 to 113 000 tons in 1962/63 (oil equivalent), i.e. by 90 000 tons. In the last three years, increased output in the Community, particularly of colza, has led to a reduction in imports of colza seeds from non-member countries, and in 1964 imports of colza and rapeseed were lower than exports for the first time (see Annex BV/5). France was the major exporting country, having had to export a considerable proportion of its exceptionally good colza harvest and to import groundnuts from certain franc-area countries in accordance with earlier commitments.

The Community continues to import nearly 90% of its requirements in sunflower seed and oil.

Measures of market organization

9. As the EEC Council has not yet extended the common agricultural policy to vegetable oils and fats, the market regulations of the Member States still apply.

In Germany the producer price for colza and rape is fixed, and sales of home production are assured by the compulsory use of oil extracted from these seeds in the manufacture of margarine, prepared fats and edible oil.

A producer price is also fixed in France for colza and rape up to a specified limit. This ceiling, however, was reached only in 1964. The price is guaranteed to producers by controls on imports and exports of edible oil carried out through a "Société interprofessionnelle".

French growers of sunflowers seeds benefit from the same provisions as those of colza and rapeseed.

Level of the common prices for 1967/68

Market organization proposed by the Commission

10. The Commission's proposal to the Council aims at the establishment of norm and intervention prices for colza, rape and sunflower seed grown in the Community. Since all seeds and oils can be imported at the world market price — and oilseeds are even duty free — the price of oilseeds grown in the Community is also to be reduced to the world market price, and purchasers will be given a subsidy to make up the difference between the norm price and the world market price.

The proposal for a common price has been worked out on the basis of the arrangements proposed by the Commission; in the present proposal the difference between the producer price and the norm price was fixed as 1.6 u.a. per 100 kg. As no criteria are available yet for fixing the norm prices, they were worked out on the basis of an estimate (see Table p. 39).

Price ratio

11. There is very little difference at the moment between German and French colza prices: the French price is only 3% below the German. This results in an unequal ratio between colza prices and cereal and sugarbeet prices in these two member countries, the ratio being more in favour of colza in France than it is in Germany (see Annexes BV/2 and 3).

The ratio between the colza price and the price of wheat in the two countries has been as follows since 1951/52:

TABLE 38

Period	<i>(Wheat = 1)</i>	
	Germany	France
1951/52 - 1953-54	1.70	—
1957/58 - 1959/60	1.68	1.81
1960/61	1.54	1.99
1961/62	1.53	2.00
1962/63	1.53	1.94
1963/64	1.52	1.89
1964/65	1.52	2.02

The fixing of common prices will of necessity lead to a change in these ratios, to the disadvantage of colza in France and to the disadvantage of wheat in Germany.

In France, which at the moment is the major producer of colza and the only producer of sunflowers, both wheat and sugarbeet prices will presumably go up, while in Germany they will both fall. It should also be noted that the ratios obtaining in France since 1961 and in Germany since 1959 between the price of colza and the price of wheat and sugarbeet resulted in a relatively vigorous increase in cultivation of colza in France and, despite everything, a slight rise in Germany also.

The behaviour of French and German growers was doubtless influenced partly by factors unrelated to price, such as higher yields of colza in both countries and certain limitations of the price guarantees for the principal crops, but in 1967/68 these factors will no longer have the same significance. It should therefore be expected that farmers will be inclined, after the common prices are introduced, to opt — as far as technical considerations permit — for growing the crops that will secure them the highest increase or the least reduction in income per hectare cultivated.

Level of the common norm price for colza and rapeseed

12. If, then, the prices of colza for 1967/68 were fixed in such a way as to guarantee growers substantially the same income as they have at present — this would mean an average ratio between colza and wheat of about 1.75 to 1 — the result would be a marked decline of colza production in France, which would be offset only in part by a certain expansion of production in Germany and of the area under colza in the Benelux countries. The price of colza could, of course, be fixed at such a level that French producers might look forward to a rise in income per hectare comparable with the rise they could achieve if they grew wheat; this price would have to make due allowance both for the financial burden of disposing of surpluses of those crops, particularly wheat, for which colza can be substituted (see Annex BV/7), and for the disproportion between the small quantity of oilseeds grown in the Community and the large quantities con-

sumed. But the average ratio of colza prices to wheat prices would then be some 1.90 : 1, and this would lead to an increase of output in Germany and the Benelux countries that might make it more difficult to attain the objectives of the Council Resolution of 23 December 1963 and would give rise to marketing difficulties within the Community because outlets for colza-oil cake are limited.

To sum up, then, the various crops competing in respect of production will by and large be able to maintain their present share of production only if the price of colza is fixed somewhere between the two extremes referred to. The Commission's proposal takes account of this requirement. It will introduce a mean ratio of colza to wheat prices of about 1.81 to 1. This corresponds to a producer price of 17 u.a. per 100 kg for colza, which gives a norm price of 18.6 u.a., as is shown in the following table:

TABLE 39
(u.a. per 100 kg)

1. Producer price 1967/68	17.0
2. Margin for conversion to wholesale prices	0.
3. Intervention price	17.4
4. Margin between norm price and intervention price	1.2
5. Norm price	18.6

Level of the common norm price for sunflower seeds

13. It is proposed that the norm price and intervention price for sunflower seeds be the same as for colza and rape.

Price changes resulting from the proposal for a common price

Producer price

14. A comparison of present producer prices in France and Germany with the prices guaranteed for 1967/68 shows the following increases:

TABLE 40

Countries	Present producer price	Commission proposal for 1967/68	Increase 1967	
			u.a. per 100 kg	%
Germany	16.68	17.0	0.32	1.9
France	16.16	17.0	0.84	5.1

Consumer prices

13. Because of the adjustment of direct production subsidies decided upon by the

Council, the level of the common prices has no effect on consumer prices, which are aligned on world market prices.

VI. OLIVE OIL

The situation on the market

Production

1. Olive-oil production in the Community is concentrated in Italy, particularly southern Italy, and France, though French output averages only 1 200 tons per annum.

The peculiarities of the olive tree, which produces its first crop only after several years but sometimes keeps on bearing for over a century, permit of no rapid change in the existing olive-tree population. The development of olive-oil production depends only slightly in the short term, but more

so in the medium term, on the improved methods of cultivation and on regeneration.

In the short term, climate is the decisive factor in the fluctuation of Italian harvests: variations in their size and regularity cannot be explained by changes in growing methods, prices or area under cultivation. The increase in production that is evident in the following table is due to the three exceptionally good harvests since 1961, particularly the 1964 harvest — which was followed by only mediocre results in 1965.

As these fluctuations do not seem to represent a longer-term trend, no production indices were calculated for the period concerned.

TABLE 41

Olive-oil production in Italy 1951-65 (1)

(100 tons)					
Year	Production	Year	Production	Year	Production
1951	2 020	1956	2 030	1961	4 250
1952	3 980	1957	1 940	1962	4 380
1953	2 240	1958	3 940	1963	3 400
1954	3 920	1959	2 920	1964	5 850
1955	3 190	1960	3 180	1965	3 200

(1) Average production over the 15 years = 3360.

TABLE 42

Area under olive trees in Italy 1948-63

(000 ha)

Cultivation	1948	1951	1957	1963
Specialized cultivation	854	861	893	899
Mixed cultivation	1 436	1 449	1 340	1 391
Total	2 290	2 310	2 233	2 290

Prices

2. In Italy producer prices are not fixed by the Government but are formed freely, though with considerable protection. They

have been going up steadily, as is shown by the table below, which gives the prices on the most important market in Apulia, a region which accounts for 27% of Italian output.

TABLE 43

Average prices and indices for three-year periods in the main production area in Apulia 1959-65

(u.a. per 100 kg)

Period	Extra-Vergine		Semifino Vergine 3°		Lampante	
	Average Price	Index	Average Price	Index	Average Price	Index
1959-1961	87.6	100	81.9	100	71.5	100
1960-1962	88.6	101	82.9	101	74.0	103
1961-1963	95.9	109	89.5	109	82.0	115
1962-1964	105.2	120	92.6	113	84.2	118
1963-1965	116.4	133	96.7	118	85.3	119

3. In the other member countries prices are formed freely on the basis of world market prices, which in recent years have been more than a third below Italian prices. However, consumer prices are very high in these countries, since dealers' margins at the various stages of marketing are very high — presumably because of low turnover (see Annex BVI/1).

Consumption

4. Italy is also the major consumer of olive oil in the Community; only 5% of total Community consumption is accounted for by all the other member countries (see Annex BVI/2).

According to the oils and fats balance sheet drawn up by the Community, consumption

went up from 279 000 tons in 1955/56 by more than 200 000 tons to 502 000 tons in 1962/63 (SOEC, Agricultural Statistics 1965/2).

This increase is due to the growth of population and of consumption per head. The same trend can be observed in other vegetable and animal fats, percentage consumption of which went up even more sharply than that of olive oil.

However, olive oil was only able to profit from the general increase in consumption because the Italian Government took steps to regulate the market.

Consumption of olive oil is very low in the other member countries — except in France, where consumption is still quite appreciable, without showing any marked tendency to increase or decline.

External trade

5. Italy accounts for the major part of the Community's imports and exports of olive oil.

Imports, which vary with the volume of home production, rose sharply from 57 000 tons in 1959 to 128 000 tons in 1963. In 1964 imports dropped temporarily to the 1959 level because of the extremely good harvest. Exports have fluctuated only slightly between 8 000 and 14 000 tons.

The aggregate imports of the other member countries varied from 22 000 to 28 000 tons between 1956 and 1964, there was a marked decline in 1963 because of shortage of supply on the world market and the consequent rise in prices.

Measures to regulate the market

6. As the Council has not yet extended the common agricultural policy to cover vegetable oils and fats, national market regulations still apply in Italy, the only member country whose market in olive oil is regulated.

The income of Italian olive-oil producers is at the moment not assured by a system of guaranteed prices but by a series of measures imposed at the frontier and on the home market.

These consist in a standard-rate production tax on all seed oils and an equalization levy on imports of olive oil, seed oils and oilseeds. This levy, the amount of which varies from product to product, can be varied as required and ensures that the price of imported olive oil is aligned on the price aimed at for home-produced olive oil and that the seed-

oil price remains in a given relation to the price of olive oil, thus ensuring that the latter can be sold.

Level of common price for 1967/68

Market organization proposed by the Commission

7. The Commission proposal now before the Council provides for a norm price to ensure a fair income for producers and a guide price to facilitate sales of this product with due regard to the prices of competing products (seed oils).

If the target price falls below the norm price, producers are given a subsidy to make up the difference.

An intervention price is derived from the target price to enable producers to sell their products as nearly as possible at the target price.

8. The proposal for a uniform olive-oil price put forward in this document refers only to the norm price, which is all that concerns producers. The fixing of the target price also depends on the prices of competing products, the probable level of which in 1967 cannot yet be expressed in figures.

The assumptions on which the common price is based were derived from the system proposed by the Commission. The amount by which the producer price is to be raised so as to attain the norm price was fixed at 8.5 u.a. per 100 kg. As the Council has not yet decided on the basis of calculation for the norm price, this is an estimated figure.

Level of the common norm price for olive oil

9. In the case of olive oil — unlike products that have to be replanted every year — the norm price would cause a short- or medium-term change in the level of production only if it were too low, because producers would then be induced not to gather the harvest in certain groves. Nor does the norm price have any influence on consumption: the target price has a much more decisive influence here — and also, as a result, on the volume of trade in olive oil with non-member countries.

10. The norm price for Semifino Vergine 3° should be not less than 111 u.a. per 100 kg. The two main reasons for this are the importance of olive oil for farm incomes in certain regions of Italy, where it represents

over 20% of the total value of agricultural output, and the need to maintain the purchasing power of the price paid for olive oil. Other contributing factors are the upward trend of olive-oil prices in Italy (a trend also visible in Spain, the world's leading producer of the commodity) and the trend of farm wages in southern Italy (wage costs account for over 50% of the cost of producing olive oil — see Annex BVI/4). The figure is arrived at by projecting the current price trend until 1967. The upward trend of Semifino Vergine 3° is less pronounced than

with other qualities, but this quality was chosen because it accounts for the major part of the olive oil produced for direct human consumption.

11. Over the last six years the upward trend of the price of Semifino Vergine 3° can be put at an annual 3% (see Table 3). If this rate of increase is maintained, it will mean a price of 102.5 u.a. per 100 kg for 1967/68 (1.06 times the price of 96.7 u.a. noted between 1963 and 1965).

TABLE 44

Basis for fixing norm price for olive oil (Semifino Vergine 3°)

		<i>(u.a. per 100 kg)</i>
Producer price according to trend		102.5
Margin producer price/wholesale price	1.5	8.5
Other margins provided for in proposal (Article 5)	7.0	
Norm price		111.0

Price change resulting from assumed common price

Producer price

12. Comparison of the price obtained by olive-oil producers between 1963 and 1965 (96.7 u.a. per 100 kg) and the price guaranteed for 1967/68 (102.5 u.a.) shows an increase of 5.8 u.a. per 100 kg, or 6%. It should, however, be noted that the average producer price of Sefifino Vergine 3° in

Bari during the first eleven months of 1965 was 102.7 u.a. per 100 kg.

Consumer price

13. The level of the common norm price does not have an impact on consumer prices, which are affected much more by the target price, which in turn is fixed by the Council in the light of the price of competing products.

Commission proposal for a Council resolution on common prices for milk and milk products, beef and veal, rice, sugar, oils and fats, and olive oil

The Council of the European Economic Community,

Having regard to the proposal of the Commission;

Whereas the Council, in its decision of 15 December 1964, fixed the common level of cereal prices for the cereal year beginning 1 July 1967;

Whereas common prices must be instituted for each of the other major agricultural products for the year beginning after 1 July 1967;

Whereas the common agricultural policy is intended to ensure a fair standard of living for the agricultural population, to guarantee regular supplies and to ensure reasonable prices for consumers; whereas, in line with the commercial policy of the Community, a price policy that might hinder the harmonious development of world trade should be avoided; and whereas, in consequence, the Community prices for these products in the year beginning after 1 July 1967 must be fixed with due regard to the importance of each of the above-mentioned policy aims and to the need to maintain a balance between the prices of these products,

Agrees upon the following principles:

I. From 1 July 1967 a system of common prices shall be applicable for milk, milk products, beef and veal, rice, sugar and oil-seeds, taking effect for each product at the beginning of the marketing year for that product.

II. The prices of these products for that marketing year shall be as follows:

Milk and milk products

The Community target price for milk shall be 9.5 units of account par 100 kg for milk, ex farm, with a 3.7% fat content.

The threshold prices for the several milk products shall be as follows:

<i>Product</i>	<i>u.a. per 100 kg</i>
Group No. 1	21.50
Group No. 2	100.75
Group No. 3	51.25

Group No. 4	45.50
Group No. 5	61.00
Group No. 6	131.00
Group No. 7	186.25
Group No. 8	146.00
Group No. 9	120.75
Group No. 10	114.00
Group No. 11	118.00
Group No. 13	40.25
Group No. 14	191.25
Cheddar	131.25
Tilsit	120.75

The Community intervention price for first-quality fresh butter shall be 176.25 units of account per 100 kg.

Beef and veal

The Community guide price for grown cattle shall be 66.25 units of account per 100 kg live weight.

The Community guide price for calves shall be 89.50 units of account per 100 kg live weight.

These prices correspond to prices for medium grades, obtained by multiplying the prices of the various grades of cattle and calves produced in the Community by the weighting coefficients given in Annex III to Regulation No. 14/64/CEE and by coefficients which express the size of the cattle population in each Member State.

For grown cattle this guide price is equivalent to a price of 69 units of account per 100 kg live weight, and corresponds to prices for first-quality beef obtained by multiplying the price of the grades shown below by coefficients which express the size of the cattle population in each Member State.

The grades selected for this purpose are as follows:

Belgium: Bœufs et génisses 55%

France: Bœufs (1st qual. and vaches (1st qual.)

Germany: Bullen A and Färsen A

Italy: Buoi (1st qual.) and vacche (1st qual.)

Luxembourg: Génisses, bœufs, taureaux AA and vaches AA

Netherlands: Slachtrunderen (1st qual.)

Rice

The basic Community guide price for husked rice shall be 18.12 units of account per 100 kg.

This shall be the price at the wholesale purchasing stage for goods delivered to store, but not unloaded, in Duisburg, the marketing centre in the area with the biggest deficit in the Community.

The Community threshold price for husked rice shall be 17.78 units of account per 100 kg.

This price shall apply to husked rice of standard quality, as laid down in Article 17 of Regulation No. 16/64/CEE.

The intervention prices for paddy shall be 12.30 units of account per 100 kg for Arles and 12 units of account per 100 kg for Vercelli.

These intervention prices shall apply at the wholesale purchasing stage for goods delivered to store but not unloaded.

These prices shall apply to standard-quality paddy as laid down in Article 18 of Regulation No. 16/64/CEE.

The intervention prices for the other major marketing centres in the producing areas shall be fixed at a later date.

Sugar

The Community target price for white sugar shall be 21.94 units of account per 100 kg.

The Community intervention price for white sugar shall be 20.84 units of account per 100 kg.

These sugar prices shall apply to standard qualities, ex factory, in bulk, found on transport of customer's choice.

The Community minimum price for sugar-beet shall be 16.50 units of account per metric ton.

The sugarbeet price shall apply to beet with a sugar content of 16%, delivered to collection centre.

Olive oil and other oleaginous fruits

The Community norm price for olive oil shall be 111 units of account per 100 kg.

This price shall apply to Semifino Vergine 3°.

The Community norm prices for colza, rape and sunflower seeds shall be 18.60 units of account per 100 kg.

The Community intervention prices for colza, rape and sunflower seeds shall be 17.40 units of account per 100 kg.

These prices shall apply to seed, in bulk, in sound condition and of commercial quality:

a) with 2% impurity and, in the seed as such, 43% oil and 9% humidity for colza and rape seeds;

b) with 2% impurity and, in the seed as such, 41% oil and 9% humidity for sunflower seeds.

III. The prices given under Section II shall apply net of tax.

The Council of the European Economic Community accordingly invites the Commission to submit proposals for the implementation of these principles in good time.

Commission proposal for a Council resolution on certain special measures for milk and milk products

The Council of the European Economic Community,

Having regard to the proposal of the Commission;

Whereas common prices for milk and milk products are to be introduced for the milk year beginning after 1 July 1967;

Whereas these common prices require the support measures for milk and milk products to be aligned by elimination of the aids linked with particular milk products and the subsidies paid on milk sold by producers and by the establishment of a system of intervention at Community level for skim milk for animal feed (in view of the competition from other products used in animal feed)

and for milk to be processed into products the duty on which has been bound under GATT;

Whereas the elimination of existing aids will bring about an appreciable increase in the price of certain cheeses in Germany and of butter in the Netherlands; whereas this price increase threatens to entail a substantial decline in consumption, and the States concerned should consequently be enabled to grant degressive national aids involving the temporary introduction of compensatory amounts for exports and subsidies for imports of these products;

Agrees upon the following principles:

I. The granting of state aids linked with particular milk products and of the subsidies paid on milk sold by producers is incompatible with the application of the common price.

II. The intervention system shall include the following measures in addition to intervention for first-quality fresh butter:

a) Intervention in support of skim milk and skim milk powder for animal feed; this shall offset the difference between the amount that must be imputed to skim milk in order to attain the common target price (given the price of butter) and the net return on skim milk for animal feed.

b) Intervention in support of Emmental and Cheddar cheese to offset the difference between the threshold price resulting from the application of a uniform level of costs and yields in calculating the common target price and the threshold price fixed with due

regard to the binding of these products under GATT.

c) Intervention in support of skim milk processed into casein to offset the difference between the value of the skim milk resulting from the common target price and the net return on skim milk processed into casein.

III. Germany and the Netherlands shall be authorized — Germany for Group No. 9 products and Tilsit cheese and the Netherlands for butter — to grant consumer subsidies for quantities sold on their territories on the conditions stipulated below:

The incidence of the aids on the price of these products may not exceed the difference between the common threshold price of the product and the threshold price valid until 31 March 1968. The aids shall be degressive and shall be abolished on 1 January 1970.

The Member States making use of this authorization shall:

a) Levy a compensatory amount on exports to another Member State or shall reduce by this amount the refund granted on exports to non-member countries of the milk products in question;

b) Grant a subsidy equal to the compensatory amount when importing these products.

The compensatory amount shall equal the incidence of national aids on the price of the product.

The Council of the European Economic Community accordingly invites the Commission to submit proposals for the implementation of these principles in good time.

Commission proposal for a Council resolution on certain special measures for sugar

The Council of the European Economic Community,

Having regard to the proposal of the Commission;

Whereas sugar production in the Community has in recent years repeatedly run ahead of sugar consumption; and whereas production may well outstrip demand in the Community even more in the future;

Whereas, given the surpluses on the world market, the export of large surpluses from the Community would be contrary to the common interest in the harmonious development of world trade; whereas it would also put a very heavy burden on the EAGGF; and whereas special measures must be intro-

duced in order to bring production into line with demand, though these should be put into effect only if there is an actual imbalance between production and consumption;

Whereas, to this end, provision should be made for a basic production quota corresponding approximately to present sugar production, for which a complete price and sales guarantee will initially be granted; whereas, in order to prevent overproduction, the price and sales guarantee should not apply to such quantities as exceed a specified ceiling; and whereas regional specialization of production can in these circumstances be ensured through a production levy imposed at first only on manufacturers who produce quantities in excess of their basic quota but below their ceiling and later extended so

that all Community producers pay part of the levy;

Whereas sugarbeet production and sugar production in Italy are in an unfavourable situation resulting from the Mediterranean climate and — in the case of sugarbeet — the leeway to be made good in applying rational methods of production; and whereas provision should therefore be made for the granting of subsidies;

Whereas the rules governing the EAGGF, which must be brought in if prices are to be guaranteed, do not yet cover the French overseas departments; and whereas, in view of the importance of sugar production to the economies of these territories, the scope of the provisions governing the EAGGF Guarantee Section should be extended to include these departments,

Agrees upon the following principles:

I. 1. The provisions for limiting the price and sales guarantee shall not be applied unless:

a) From the 1968/69 sugar year on, production in 1967/68 was more than 115% of consumption;

b) From the 1969/70 sugar year on, the average production in 1967/68 and 1968/69 was more than 110% of consumption;

c) From any subsequent sugar year till 1977/78, the average production of the three preceding sugar years was more than 110% of consumption.

2. There shall be a basic quota for every sugar manufacturer in the Community (including the French overseas departments). This shall correspond to the manufacturer's average output of sugar in the years 1961/62 to 1965/66. For this basic quota the common price and sales guarantee shall apply without limitation up to and including 1972/73 and, with the proviso specified in Section 5, until 1977/78.

3. Starting from the basic quota, there shall be a ceiling up to which sales are free and intervention is compulsory. This ceiling shall until 1970/71 be 135% of the basic quota for each manufacturer. It may be adapted each year to the actual trend of production and consumption. For each subsequent sugar year up to 1977/78 it shall be fixed so as to include as big a proportion of total output as possible.

Sugar produced beyond this ceiling may not be sold on the home market; manufacturers shall bear the full financial responsibility.

4. It shall be established annually for the Community whether and by how much total sugar output within the ceiling exceeds 105% of consumption. Where this figure is exceeded, the loss incurred in exporting the excess quantity shall be calculated, and the total loss shall be imputed to the excess production of all manufacturers who have exceeded their basic quota, quantities produced in excess of the ceiling being ignored.

The amount lost per 100 kg of sugar shall be paid by each manufacturer in respect of his output above the basic quota but below the ceiling. However, this amount may not exceed a maximum to be fixed annually.

5. In 1973/74 one fifth of the total loss referred to in the first paragraph of Section 4 shall be spread over total Community production, the quantities given in the second paragraph of Section 3 being ignored. This amount is to be paid by manufacturers, the remainder of the loss being met under the arrangements set out in Section 4. In each subsequent year, the share of total losses spread over total production shall be increased by a further fifth.

6. By 1 October 1977 the Council shall decide, on a proposal by the Commission, what measures should be taken from 1978/79 on.

II. In the case of Italy there are good grounds for granting:

a) An adjustment grant for sugarbeet growers in areas put at a disadvantage by the Mediterranean climate and by the leeway to be made good in applying rational methods of production;

b) An adjustment grant for sugar manufacturers in view of the shortness of the season — a consequence of the climate.

III. Article 40(4) of the Treaty, and the provisions made to implement it, shall be applied in the case of sugar to the French overseas departments as far as the Guarantee Section of the EAGGF is concerned.

The Council of the European Economic Community accordingly invites the Commission to submit proposals for the implementation of these principles in good time.

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