European Communities – Joint Information Service

NEWSLETTER ON THE COMMON AGRICULTURAL POLICY

Weekly

No. 2 November 1963

Published by the Division for Agricultural Information in collaboration with the Directorate General for Agriculture of the EEC Commission – 12, Avenue de Broqueville, Brussels 15

THE EFFECTS OF GRAIN PURCHASES BY THE SINO-SOVIET BLOC ON PRICE FORMATION IN THE COMMON MARKET

It has been known for some years that the People's Republic of China has entered the world grain market as a considerable buyer. The real cause for the sudden appearance of China as a large-scale buyer on the world grain market was the failure of the 1959/60 bread and coarse grain crops in that country. Since then, China has never ceased making large-scale purchases. In the past year, 1962/63, Chinese import requirements even passed the five million ton mark. This means that China took no less than 500,000 tons more than Britain, and so became the world's leading importer.

It is interesting that the Chinese turned first to Australia to satisfy their requirements, and only afterwards went to Canada and later to France. The Federal Republic of Germany also had a remarkable share in wheat flour exports to China. Hardly anything was drawn from the USSR.

In all likelihood China's position as a wheat importing country will remain unchanged for a long time to come, especially as the population will continue to increase. In other words, the People's Republic of China will in future maintain its annual imports of wheat and coarse grain. It has not succeeded in stimulating agricultural production sufficiently to keep pace with demographic growth.

Population increase in China:

1937	500 million inhabitants
1957	650 million inhabitants
1962	700 million inhabitants.

The Chinese are not experiencing any major difficulty in paying for their wheat imports. They are the world's largest producers of silver, and silver is in constantly rising demand, especially for space research.

In view of heavier grain crops and rising stocks China's import requirements had a settling effect on the world grain markets and helped the exporting countries to balance supply and demand, but the grain purchases made by the USSR from September last came rather as a surprise. Although they did not dislocate the world's grain trade, because stocks are too large for that, the Russian orders came unexpectedly and took the freight market by surprise.

International freight rates have been on the move since October 1962. By September 1963 they had risen from 35 shillings per ton to 55 shillings per ton for shipments from the East Coast of Canada to the North Sea ports, and from 72s.6d. to 90s. per ton from Australia to North Sea ports. During the same period the index number of the international freight index rose from 80.8 to 107.6.

.../...

Taking into account traditional shipments to Europe and Japan, it is probable that Canadian and Australian shipping capacity will be fully booked until July 1964 with the USSR and China trade.

The following are the latest figures for freight rates from the most important grain ports to the EEC:

	Shillings per ton		
	Beginning of Oct. 63	Last week Sept. 63	Beginning of Oct. 62
St. Lawrence	62s.6d.	61s.3d.	32s.6d.
Great Lakes	97s.6d.	82s.6d.	70s.0d.
US Gulf	72s.6d.	72s.6d.	37s.6d.
North Pacific	67s.6d.	57s.6d.	45s.0d.
River Plate	95s.0d.	85s.0d.	57s.6d.

Under the EEC Cereals Regulation (Reg. No. 19) the levies which the Community charges on grain imports from non-member countries are based on cif prices. These of course include, as the phrase implies, cost, insurance and freight. They are used in calculating the levies and are worked out on the basis of the most favourable purchasing possibilities in the world market.

Clearly, cif prices have been affected by the increased freight rates referred to above. Rising world market prices mean lower levies on imports from the world market into the Community, as the only purpose of the levies is to level out differences between the lower prices on the world market and the higher prices obtaining in the Community. If, therefore, world market prices rise the levies to be paid by grain importers must logically decline correspondingly.

Whereas throughout the past year the graph of cif prices was steady and showed only minor fluctuations, the curve has been rising more and more steeply since the Soviet purchases began.

Cif prices worked out by the EEC Commission in Brussels in August, September, October and November 1962 (rounded off to one decimal place)

	dollars per ton				
	Durum wheat	Other wheat	Barley	Maize	Sorghum
August					
27	99	59	54	50	45
September					
3	96	59	54.50	50	45
9	96	58.50	54.50	50	46
16	97	58	54.50	51	46
27	95.50	57	53.50	51	46

.../...

	Durum wheat	Other wheat	Barley	Maize	Sorghum
					dollars per ton
October					
3	91	55.50	52.50	51	45
9	90	56	53	51.50	46
15	90	57	53	51.50	47
27	83	58.50	52.50	53	46.50
November					
3	83	58.50	52	52	47

By comparison, the cif prices worked out by the EEC Commission for the same period in 1963

	Durum wheat	Other wheat	Barley	Maize	Sorghum	Rye
					dollars per ton	
August						
27	76	60.50	50.50	63	53	60.50
September						
3	77	60.50	51	63.50	54	60.50
9	75	60	52	63	54	62
15	75.50	60.50	56	63	53	65
27	80	62	59	63	56	74
October						
3	80	61.50	58	62	56	71
9	85	63.50	58	61.50	56.50	71
15	91	65	58	63.50	57.50	71
27	87	65	62	62	58	72.50
November						
3	86	65	62	61	57.50	74

What do these cif prices convey in respect of the various types of grain? Except for durum there has been a considerable increase of cif prices for all types of grain as compared with the previous year. The rise is particularly marked for coarse grains, maize and barley. The sharp increases affecting these two types of grain have affected oats and sorghum, and as a result of this there have been exceptional price increases in the very limited rye market. Here the reason is to be sought not so much in the Russian purchases as in the relatively low end-of-year stocks in the United States. This situation happens to coincide with the lively demand at present obtaining in the world market.

The consequences for the EEC have been important. For the first time since the entry into effect of the EEC Cereals Regulation the cif prices have - in three cases so far - exceeded the EEC threshold prices laid down for maize and barley in Italy and for rye in the Netherlands. As far back as on 6 March 1963 the EEC Commission had, in its proposal for the approximation of grain prices, invited Italy to raise its prices for barley. In its new price proposals of 4 November the Commission repeats this invitation. It holds the view that the low level of coarse grain prices in Italy can no longer be regarded as realistic. The resulting effective market prices no longer correspond to the desired level. On 10 November the cif price for barley in Ravenna was no less than three dollars per ton above the threshold price, and the price for maize was even five dollars above that level. The conditions for rye in the Netherlands were similar.

Grain freights in the northern and north-western Atlantic will continue to be influenced by the heavy purchases in the East. As the table above shows, world grain prices rose sharply in October and it is likely that they will remain at this level for the coming months. The largest and tightest grain shipping programme so far known, and one which includes all countries of the Sino-Soviet bloc, has led to delays, especially in Canadian ports; once agreement has been reached between the USA and the USSR, further delays are to be expected. As a result of the greatly increased freight rates, there is now a seller's market in ships and prices for old "moth-balled" Liberty ships have risen by over 100%. An old Liberty ship, which so far had cost about DM 600,000, is now hardly to be had for DM 1 million. It is not likely that the shipyards will be able to accept new tonnage for delivery in 1964. What is one to make of these Soviet purchases in general? The Secretariat of the International Wheat Council believes that in the case of the USSR this is a one-time operation, unless this year's crop failure is followed by further bad harvests due to bad weather conditions.

In the United States alone it is expected that stocks, when the 1964 harvest is in, will reach about 63 million tons. Of this 16 million tons will be needed for domestic consumption. Exports, not counting the supplies that are to go to the Soviet Union, are expected to reach 22 million tons. The competent authorities in the United States calculate that the Soviets will be interested in 4 to 5 million tons, and if to this are added the exports to the other countries of the Sino-Soviet bloc countries, the entire US exports would amount to something like 25 or 27 million tons.

This would be equivalent to stocks of between 18 and 22 million tons in the US on 1 July 1964. Since the end of the war a stock of 20 million tons has been the lowest registered in the USA.

Nevertheless, the question whether wheat prices in the world market will rise, can be answered in the negative. The second question, which follows from the first, is whether the main exporters of wheat, Argentina, Australia, Canada and the USA will remain able in the future to meet the demand from the wheat importing countries; the answer to this question is in the affirmative.

For coarse grain the situation is somewhat different. It has already been said that price increases in this sector are not exclusively caused by additional demand from the Sino-Soviet bloc. It is worth mentioning in this context that in the case of coarse grain the cif price increases have been three to four times as great as in the case of wheat other than durum. This is because the increase is caused not only by an increase of the freight rate, as in the case of wheat, but also by higher free on board (fob) prices.

According to the United States Department of Agriculture in Washington, the following contracts have recently been concluded for the supply of grain to the Soviet Union:

Canada	6.6 million tons
Australia	1.75 million tons
Federal Republic of Germany	430 000 tons
France	120 000 tons
Rumania	400 000 tons
Italy	60 000 tons
USA	4 million tons
~~Total~~	~~23-24 million tons (incl.~~ (+supplies from Sweden, Argentina, etc.)

Despite the unexpected and concentrated Russian purchases there will in 1963/64 be, apart from the residual United States stocks referred to and after deduction of the compulsory stock piles, surpluses amounting to 5.5 million tons in Canada and 1.75 million tons in Australia.

It may be concluded for the EEC that the immediate effects on the Community will on the whole be limited to a drop in the yield from levies. This drop is however likely to be very considerable, because the Community's main import requirements are for coarse grain. Since the cif price increases for coarse grain have been particularly marked - they come to about 20% - Germany, the Community's main importing country, is mainly affected. However, the drop in the levy yield will also affect those Member States which, like Belgium, make direct use of the levy to finance agricultural measures.

The new price proposals worked out by the EEC Commission fit extraordinarily well into the resulting situation on the world markets. Even the Americans will have to admit this after a close study of the situation.

EEC COMMISSION DECISIONS AND REGULATIONS

The Commission adopts the resolutions of the European Parliament on an Information Service on Farm Accounts

At its last plenary meeting the European Parliament suggested three additions to the EEC Commission's proposal for a Council Regulation to set up an Information Service on Farm Accounts. The Commission has now adopted a large part of these proposals and submitted them to the Council. The additions concern the criteria for selection of the farmers who are to be asked to make their accounts available. They also relate to co-operation between the EEC Commission and the "Community Committee" to be set up by representatives of the Member States, and to the payment from the Community budget of the costs involved. The Service is to provide objective data concerning farm incomes and economic conditions on farms in the Community countries.

A working party of the Committee on Agriculture has been set up to study the Commission's proposal.

List of aids submitted to the Council

The list of aids to agricultural production and trade in the six EEC Member States which the Commission had to prepare in accordance with the Council's decision of 29 June 1962 has been completed and submitted to the Council.

Implementation of the common agricultural policy from July 1962 to July 1963

The Commission has submitted to the Council the report it had been asked to make on the first year's operation of the regulations under the common agricultural policy and on the lessons to be drawn therefrom. The report consists of two parts, one dealing with the lessons to be learnt and the other giving ample statistical tables on production, prices, exports, imports, stocks and in some cases also the consumption of cereals, pigmeat, eggs, poultry, fruit and vegetables and wine in Community countries.

Looked at as a whole, the report paints a picture of steady progress and reduces exaggerated anxieties in either direction to their proper proportions. For each product it gives a detailed analysis of the effects produced by threshold prices, sluice-gate prices and levies, of the influence of restitutions on trade flows and in general of the Member States' handling of trade in farm products.

On the basis of this report the Council can now draw its conclusions on how the agricultural regulations are working and the effects they are having.

Report of the EEC Commission to the Council on the experience gained with goods processed from agricultural products

At its meeting of 4 April 1962 the Council, acting under Article 235 of the EEC Treaty, issued a decision permitting countervailing charges to be levied at the frontiers between the Member States on certain goods processed from agricultural products. In conformity with Article 4 of this decision the Commission has now submitted to the Council a report on the experience gained.

The report suggests to the Council that the present system of countervailing charges be modified, as it had led to certain difficulties, largely caused by the fact that after processing the goods are not considered to be agricultural products within the meaning of the EEC Treaty and are therefore not treated as such.

Together with experts from the Member States the Commission has considered how the existing situation could be improved. It believes any measure to be appropriate and desirable which will harmonize the export price systems for agricultural products used for processing, provided it can remove the causes of the most serious distortions by adjusting these systems to the regulations adopted as part of the common agricultural policy.

It is consistent with the logic behind the measures provided for in the Treaty that the prices of these farm products should be brought into line by the end of the transitional period, and the Commission doubts whether to maintain significant disparities in the case of processed products until that time would be in the interest of any Member State.

EEC butter grading - no more than 16% water content

The EEC has proposed to the Council that in the EEC first grade fresh butter should contain no more than 16% of water, should be made in dairies from pasteurized cream, should be not more than three weeks old and should correspond to the packing regulations applicable in the various Member States.

Advisory Committee on Social Problems of Independent Farmers to be established shortly

On 7 November Vice-President Mansholt, in a discussion with representatives of both sides of the industry, reached agreement on the establishment of an Advisory Committee on Social Problems of Independent Farmers. In its decision of 17 May 1963 the Commission had already set up a joint Advisory Committee on Social Problems of paid agricultural workers, the terms of reference of which were laid down as follows in its Article 2(1): "The Committee may be consulted by the Commission on all social problems of concern to agricultural employers and workers as the two sides of the industry." A second Advisory, but not joint, Committee is proposed for the social problems of independent farmers (it is to be composed of seventeen farmers, five agricultural workers and one representative of the agricultural families associations). The two sides of the industry have now agreed that the terms of reference of this Committee shall cover all social problems of independent farmers and members of their families working on the farm, "all these problems being considered on their own merits as well as in the light of their effects on rural life as a whole".

It was decided to amend Article 2(1) of the decision of 17 May 1963 so as to ensure that the social problems of agricultural workers shall also be treated from the same angles.

There is, therefore, no longer any reason why these two Advisory Committees should not take up their functions as quickly as possible, now that the Commission has decided to set up the second Committee and to amend the decision concerning the existing Joint Committee.

.../...

SPOTLIGHT ON AGRICULTURE IN THE EEC

Clarification of the term "policy on structure in agriculture"

Encouraging progress

On 4 and 5 November 1963 representatives of the Member States were invited by the Commission to attend the third session of the Standing Committee on Structure. This Standing Committee was established by the Council decision of 4 December 1962 concerning the co-ordination of agricultural structure policies. One of the main functions of this Committee is "to deal with the Member States' policies on structure and with the measures and programmes by which they propose to improve the structure of agriculture"; in doing so, the Committee must keep in mind the close link between structural policy in agriculture and both regional economic development and policy on agricultural markets. These terms of reference make it clear that agricultural structure policy in the EEC is not regarded as a set of individual and separate technical measures but as a firm part of the common agricultural policy and of the Community's overall economic policy.

At its first meetings the Committee heard statements, prepared from this angle, of how Member States viewed structural policy in agriculture, and at the last meeting it dealt, at the Commission's request, with the scope of the term "structure in agriculture". This examination seemed important not only for co-ordination of policies on structure, but also for the financing of the common agricultural policy. The representatives of the Member States declared their agreement with the breakdown proposed by the Commission. This distinguishes between internal structure (i.e. that of individual farms) and external structure (i.e. covering several farms); both heads are subdivided to cover production and marketing. The "structure of agriculture" also covers those agricultural services which relate to internal as well as to external structure.

At this meeting there was a discussion of the catalogue of the individual elements which make up the three sectors proposed by the Commission and the proposal was accepted in its entirety.

Next the Committee, using a Commission document as basis of discussion, went into the problems of "authorities and institutions to implement those technical measures for the improvement of agricultural structure which relate to the factor of production "land".

With regard to the notification of Member States' drafts of laws, regulations and longer term plans for improvements to the structure of agriculture, to which reference is made in Article 5 of the decision of 4 December 1962, the Commission stressed the need of having just this type of information discussed in the Committee in order to ensure the co-ordination of policies.