

A Common Market for Agriculture



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***A Common
Market
for Agriculture***



european community

information service

brussels-luxembourg



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The year 1962 will occupy an important place in the history of Europe. Britons, Irishmen and Scandinavians will remember it primarily as the year when Britain, Ireland, Denmark, and Norway applied to join the Common Market. It was also the year, however, when the six countries of the European Community began to establish their common agricultural policy. In that year agriculture—the essential wealth of Europe's soil, representing 13 per cent of the Community's total production and employing a quarter of its working population—started out on a revolutionary path whose goal is to span the gap between the income of those who live by the land and that of the rest of the population.

Why is a common agricultural policy necessary in the Common Market ?

What are the aims and implications of this revolution in European agriculture ?

How will the new agricultural policy be applied in practice ?

A common market for agriculture— why?

The special conditions and place of agriculture in the modern economy (dependence on the weather, social importance, etc.) have meant that national Governments have long been called upon to intervene, directly or indirectly, in this sector.

They have felt obliged to adopt tightly controlled protectionist policies, characterized by price regulation, marketing boards, crop limitation, import quotas or import monopolies, enforced mergers (mainly in flour-milling and grains), seasonal bans on imports of certain produce, and bilateral agreements allowing imports only from specified countries.

Under the pressure of events, all the Community countries have at some time resorted to intervention in one or other of its many forms. This is one of the reasons why agriculture in Europe finds itself in difficulties, and why the results of national agricultural policies are not always satisfactory.

European agriculture now faces two main problems:

- In all the Common Market countries, agricultural incomes are low by comparison with those of other sectors of the population, and by comparison with the amount of work put

in. This is true even where there have been efforts to improve productivity.

- Protectionist policies and the sharp rise in output of farm-produce since the war have often jeopardized the balance between supply and demand.

A fundamental reason for this unhappy state of affairs is that agricultural problems are now so great that they cannot be solved on a national level. Like industry, agriculture needs wide frontiers for its development.

There can be no question of isolating the Community's agriculture from the rest of the world, in which it plays an important rôle. The Community is in fact the largest importer of agricultural products in the world, and some regions of the Community depend for their livelihood on their exports of farm-produce.

These, in broad outline, are the reasons why the Community has decided to establish a common agricultural policy as one means of raising the European standard of living. The aim is to replace the six national markets, each protected by trade barriers, by a single, large area of common policy in which goods, men and capital will be able to circulate freely.

The Common Market provides Europe with the opportunity of establishing an agricultural policy to ensure stable markets, reasonable living standards for farmers, and keener prices for consumers.

The income of the agricultural population is lower than that of other sectors of the Community

In all the Community countries, particularly since the war, farmers' incomes in general have been below those of comparable occupations. In addition, there are also significant differences in returns between regions and between various types of cultivation.

The main causes of the lag in farm incomes are:

- **Many farms are too small**

In the Community more than two-thirds of all farms are less than 25 acres in extent. Where specialized cultivation is not possible for natural or economic reasons, the majority of these farms do not yield a satisfactory return. They are smaller than the normal minimum for a profitable family holding. Their position is even worse in areas where farmers and members of their families have no chance of supplementing their income from other occupations.

- **Labour cannot always move freely**

At the beginning of the 19th century, 75 per cent of Europe's population was employed in agriculture. Today, in countries with highly productive farms, 10-15 per cent of the working population can supply the rest of the country with food.

The number of people actively engaged in agriculture in the Community is about 15 million—roughly a fifth of the total working population.

The reduction in the farming population has not been uniform in all areas of Europe. Although modern, highly productive farms are to be found in some areas, in others farms with surplus labour have not been able to take full advantage of modern agricultural techniques.

- **Capital is in short supply**

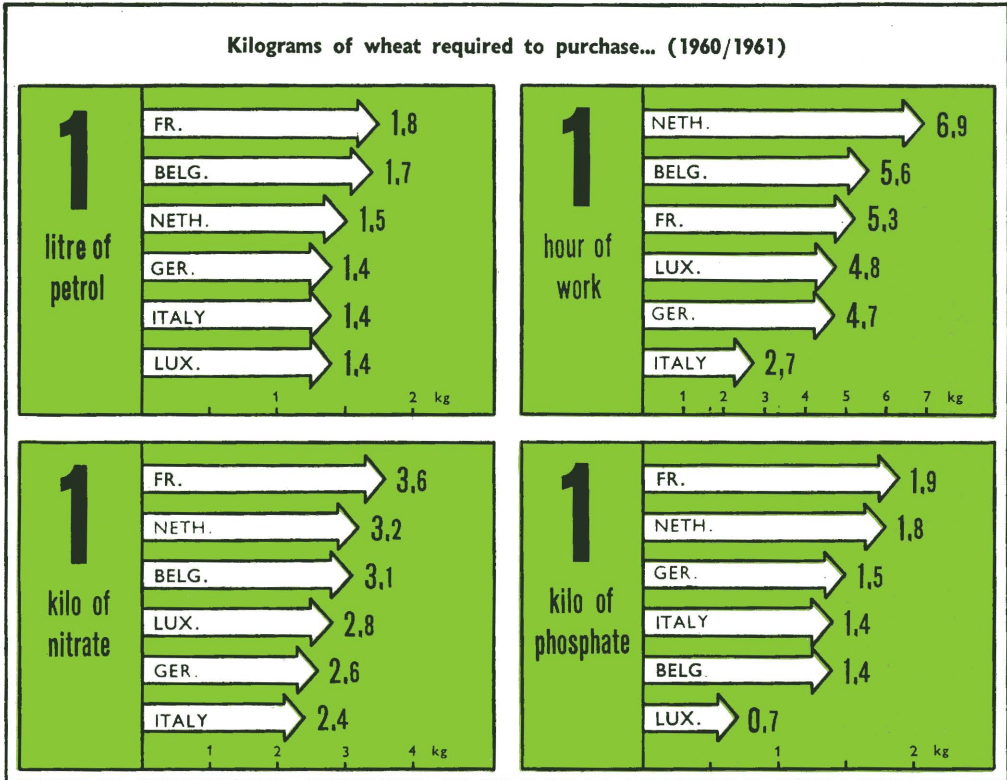
Basic economic unsoundness is a strong deterrent to capital investment in agriculture—much more frequently than in other sectors of the economy. This sets a brake on the improvement of productivity and living standards.

Rational use of capital would in many places require a thoroughgoing reorganization of farming operations—what the European Economic Commission calls "structural reorganization". This in turn would normally call for Government financial support.

- **Prices are unstable**

In the Community, prices of agricultural products vary from one country to another, partly as a result of different national price policies. These variations are shown in the table on page 9.

Agricultural returns are largely dependent on the prices of industrial products and of services. The more agriculture turns to mechanization, the more its returns are influenced by the prices of industrial raw materials, machines and fuel. At the same time, the rate of exchange between farm products and the tools and services needed

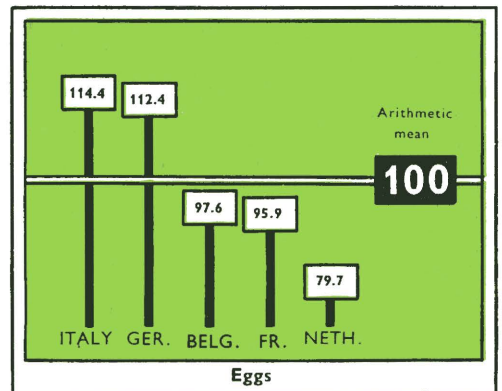
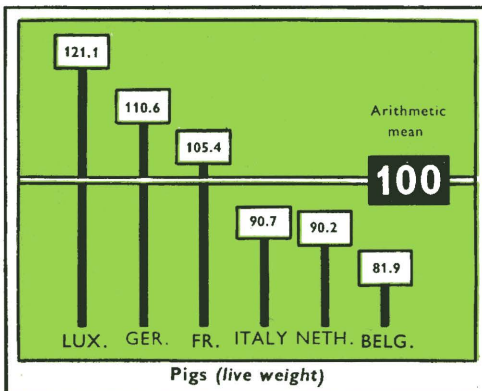
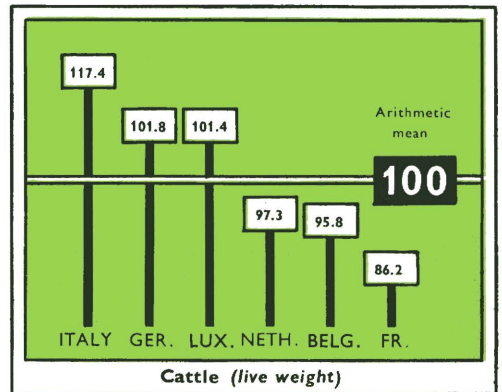
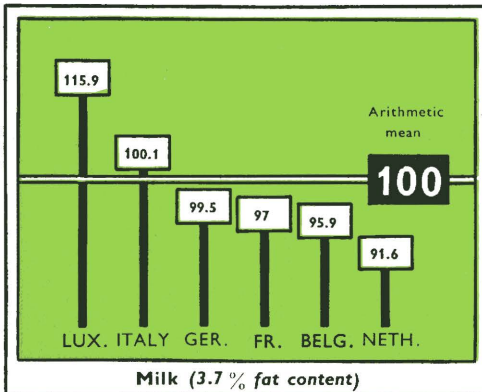
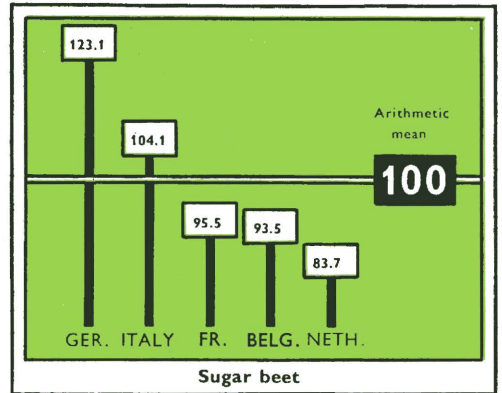
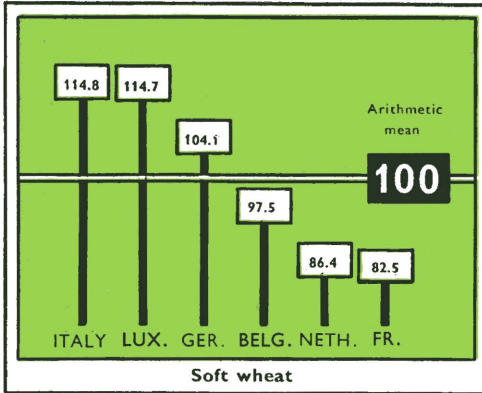


to produce them varies greatly between Community countries. The table above shows the number of kilograms of wheat needed to buy a litre of petrol, an hour of work, and so on, in each country.

In all the Community countries, however, the prices of farm produce have risen more slowly since the war than the prices of industrial goods. In particular, they have risen more slowly than industrial wages. The purchasing power of farm products has therefore declined.

Agricultural wages are also often caught up in the wage increases of other sectors (particularly by wages in industry, where productivity is rising quickly), and higher productivity in industry is not always passed on to agriculture in the form of lower prices for the industrial goods used on farms.

Agricultural price indices (1960/1961)



Precarious balance between supply and demand

1. Rising production

The agricultural output of the Community has risen appreciably since the war (28 per cent in total and 31 per cent for foodstuffs alone).

Crops: Production has developed differently according to the type of crop. Compared with the pre-war period, wheat production has risen by more than 30 per cent, barley by 15 per cent, and sugar beet by 100 per cent. On the other hand, production has remained stationary in sectors (such as rye) where sales outlets have become difficult to find, and in some cases (oats, dried vegetables, hemp, for example), it has actually declined.

The general rise in production since the war has been accompanied by a slight fall in the area cultivated (just under 2 per cent) and a sharp fall in the agricultural working population (nearly 20 per cent). The increase must therefore be attributed to higher yields resulting from increased mechanization and the rising use of chemical fertilizers. In ten years, the number of tractors in use in Community countries has risen by 700 per cent, while the number of draught animals has fallen by 20 per cent.

Livestock: Output of animal products in the Community has risen by 34 per cent since the war. The number of cattle has increased by 12 per cent, pigs by 20 per cent, and poultry by 12 per cent. On the other hand, the number of horses, sheep and goats has declined.

The yearly milk yield has also increased sharply, as the following table shows:

KILOGRAMS OF MILK PER COW		
	Before the war	1960
GERMANY	2,480	3,368
FRANCE	1,854	2,337
ITALY	1,580	2,600
BELGIUM	3,190	3,811
HOLLAND	3,480	4,275

Considerable variations exist therefore between the relative intensity of agriculture in different Community countries.

In some areas agricultural reserves are still not fully employed, and many farms have not reached the optimum level of production made possible by chemical fertilizers and other modern aids.

2. Rising consumption

The consumption of foodstuffs in the Community has risen by 30 per cent since the war, while overall production has risen by 31 per cent. Consumption has increased because:

- The Community countries now have over 170 million inhabitants, a rise of 21 per cent compared with the pre-war period.
- Consumption per head has risen for animal products, sugar and dairy products.

For example, the average quantity of fats consumed per head has risen from 87 to 106 grammes a day since the war, an increase of 16 per cent (see table on right). Nevertheless, consumption of certain bulk products such as grains, potatoes and dried vegetables has declined.

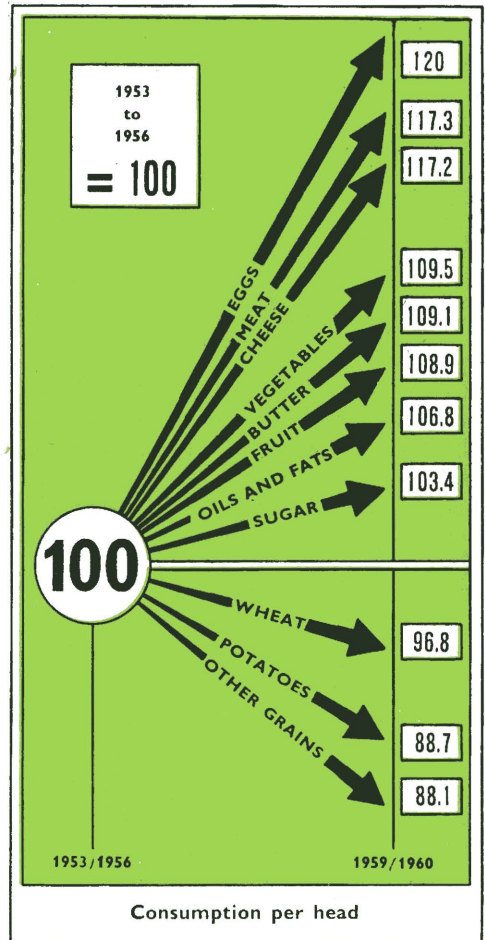
3. Relative self-sufficiency

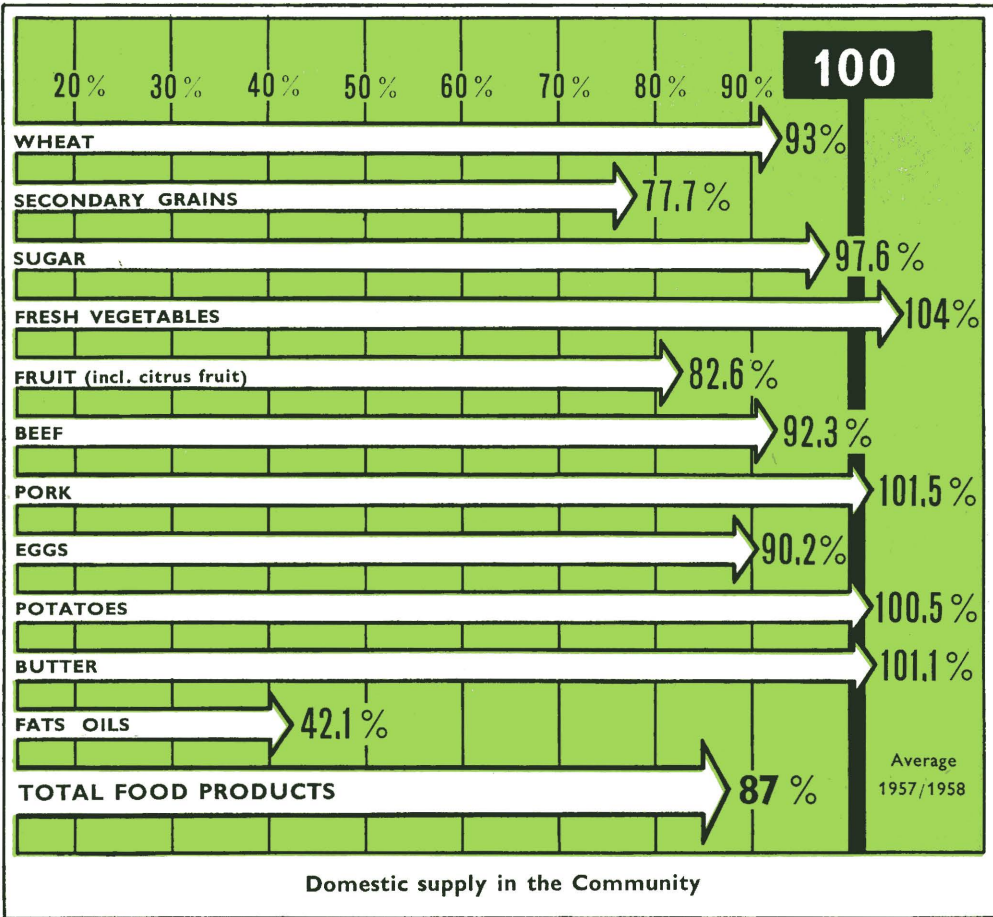
The agricultural output of the Community covers 87 per cent of its needs. The table on page 12 shows the breakdown for main products. Apart from a few categories such as secondary grains, exotic fruits, and cooking fats and oils, Community production is normally sufficient to meet, or in some cases even exceeds, demand.

At the same time, home production of food as a whole in the Common Market countries covers only a very slightly larger proportion of total needs than it did before the war.

For certain products, output of which has risen faster than consumption, the proportion of total demand met from domestic sources is rising swiftly. This is particularly true of grains, beet sugar and pigmeat. Production of wheat, for example, has risen by 4 per cent since 1949, while consumption per head has declined.

For some other products, particularly beef and eggs, consumption has risen much more steeply than production. In the case of eggs, the six countries, who before the war were exporters, are now net importers, although production has risen by 40 per cent.





The Common Market is the world's largest importer of farm produce

European agriculture is closely linked with world markets for agricultural produce, and the Common Market is the world's largest importer. It accounts for a third of total world imports (compared with one-fifth for Great Britain) and 15 per cent of total world exports. Nevertheless, the structure of world markets, and the conditions under which prices in them are established, mean that European farmers still need to be protected against dumping, and often require assistance if they are to export their surpluses.

1. Foreign trade in agricultural products

The changes which have taken place in the supply and demand for farm produce

SURPLUSES AND DEFICITS (in '000 metric tons)

Community's net imports: —
Community's net exports: +

Wheat	— 1,091
Rice	— 241
Other grains	— 8,913
Sugar	— 562
Vegetables	+ 618
Fruit and nuts	— 2,196
Beef	— 253
Pigmeat	+ 96
Eggs	— 193
Butter	— 30
Other oils and fats	— 2,103

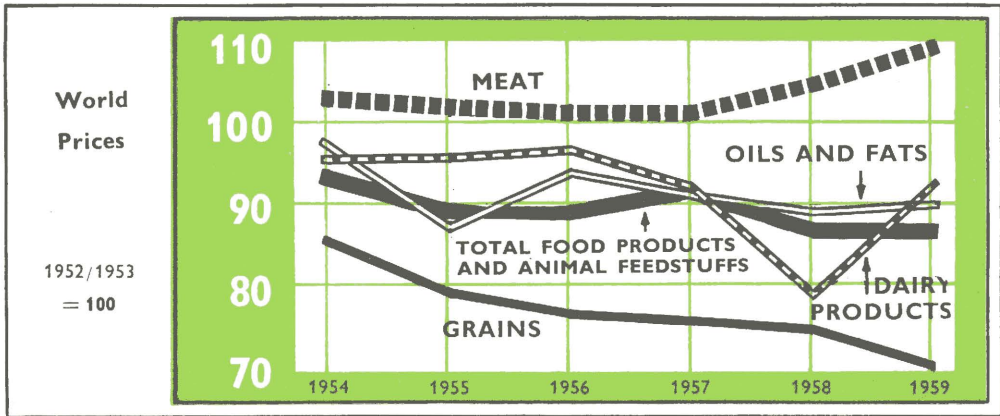
since the war have made the Common Market countries less dependent on the rest of the world. In recent years, however, imports of food have risen. Between 1953 and 1959, the value of imports rose from \$3,700 to \$5,000 million, an increase of nearly 35 per cent. Exports in the same period rose from \$1,300 to \$1,700 million, an increase of 30 per cent.

THE EUROPEAN COMMUNITY'S SHARE IN WORLD TRADE IN FARM PRODUCTS

1957	Im-ports	Ex-ports
GRAINS	27%	7%
FRUIT AND VEGETABLES	30%	22%
OILS AND FATS	44%	3%
DAIRY PRODUCE	24%	19%
SUGAR	12%	21%
MEAT	14%	11%

2. The state of world markets for agricultural produce

In all major world markets for agricultural produce, the balance between supply and demand has been broken and can only be maintained by artificial means. This situation did not become clearly apparent until after the Korean crisis, but it had been latent for some time previously.



In highly developed countries, agricultural output had increased sharply in response to various economic stimuli (high prices for producers, favoured markets within a preferential system, policies of national self-sufficiency, etc.). As soon as normal conditions returned after the Korean boom, however, over-stimulated production found itself ahead of the rise in consumption.

In the developing countries, on the other hand, expanding populations have meant that production has not been able to keep pace with demand.

As a result, there has been a change in the major regional patterns of trade. An important example is the United States, which before the war was an importing country and which has now become the world's largest exporter of farm produce. On the other hand, many developing countries in the Near and Far East have become importers of foodstuffs. Also an apparent over-supply of agricultural products in some areas has resulted in falling world prices at a time when the cost of industrial products is rising.

All countries, whether importers or exporters of farm produce, have protected their farmers against falling returns either by artificially maintaining prices on the home market or by buying up ever increasing quantities of produce at guaranteed

prices. In advanced countries this process has led to the growth of stocks financed at the public expense.

3. World prices

The prices of most agricultural products have been falling continually on world markets since 1952, sometimes heavily. (See table above.) However, the prices of certain products (beef and some vegetable oils for example), for which supply has failed to keep pace with demand, have risen, and prices of wheat and sugar have been more or less stabilized under international agreements.

In some world agricultural markets, prices are not established according to the laws of supply and demand. For example, they are often indirectly influenced or directly controlled by Government action in exporting countries. This is true in the case of beef, wheat and secondary grains; it explains to some extent the differences which exist between world prices and those in the Common Market countries.

Ocean freights also play a large part in determining world prices. The 1956-1957 slump in freight rates, for example, reduced the price of North American grains by 10-15 per cent at North Sea ports.





The common agricultural policy

The main objective of the Community's agricultural policy is to create a common market for farm products and to provide agriculture with a market of 170 million consumers in which trade will take place under conditions similar to those of a national market.

Within the framework of this great market, the common policy will:

- **Guide production** towards a level at which supply and demand are in balance, taking into account the likely pattern of Community exports and imports. To do this, agriculture will be gradually reorganized (structural policy) and steps will be taken to improve supplies (through regional specialization, stock-piling, etc.) and demand (through improvement of quality, etc.).

- **Make farming more profitable** by ensuring that farmers receive a fair return under normal conditions. This will be achieved mainly by action at regional level (amalgamation of holdings, electrification, etc.) and by a marketing policy aimed at giving producers reasonable prices.

- **Stabilize markets** by sheltering them from speculative movements in international prices, without however cutting the Common Market off from the influence of long-term movements in world prices, and without slowing down the adaptation of the Community's agriculture to changes in

demand. This will be achieved by protection at the Community frontier and by Community financing for sales of surpluses.

- **Guarantee the interests of consumers**, processing industries, and dealers by ensuring reasonable prices. This will mean that prices will no longer be determined by the costs of production on marginal farms.

A definition of the Community's agricultural policy

The six countries of the Community have decided to reach these objectives by three main routes:

- The gradual establishment of free circulation for agricultural produce throughout the whole Community.
- Protection at the Community frontiers by a common system of external tariffs and quality standards that will replace all existing national measures.
- Community financing to aid exports of agricultural surpluses.

Community agricultural policy is therefore guided by the basic ideas of Community preference and Community responsibility on the one hand, and the gradual establishment of a common market on the other.

Protection of the Community market and Community preference will be ensured by a common system of variable external levies. This system, the outlines of which have already been decided for the most important categories (grains, pigmeat, eggs and poultry—representing half the Community's agricultural production) will replace all the protective measures which the six countries have taken individually in the past (quotas, seasonal restrictions, minimum prices, etc.).

The rules adopted by the Six, of which a summary starts on page 23, appear complicated at first sight, but the system is logical and coherent, and in all cases less complex than the six separate national systems which it replaces.

When the common market for agriculture has been fully established (by 1970) and a common price level for the Community attained (always allowing for regional variations based on differing natural conditions), the external levies will ensure that these prices are maintained at the desired level throughout the Community.

How the common market for agriculture will be established

The Community countries have decided on a preparatory period of $7\frac{1}{2}$ years (which began on August 1, 1962) in which to abolish the frontiers now separating their agricultural systems. Producers will therefore have time to adapt themselves gradually to the new conditions of the wider market.

During this period the agricultural systems of the six countries will be brought into contact gradually, trade between them will be developed, and prices will be gradually brought into line.

To achieve this without disruption, a levy system will be used for trade in farm produce between the Community countries. Unlike the external levies, however, these intra-Community levies will be gra-

dually lowered (to disappear completely by the end of the preparatory period), and will always be lower than the levies imposed on imports from non-Community countries. This will ensure the preference for Community products which is a fundamental feature of the common agricultural policy.

The levy system is, however, not the only measure designed to avoid disturbances on national agricultural markets. Special safeguard clauses are also provided—allowing frontiers to be closed under certain conditions—to ensure the smooth development of the separate agricultural systems of the Six until they form a single system. It will be thus possible, for example, for individual countries to deal with special situations without “exporting” their difficulties to their European partners.

Rules to promote healthy competition and to prevent dumping will also protect farmers and processing industries.

Finally, common responsibility for financing the agricultural policy has been accepted by the six countries.

How the common policy will benefit producers and consumers

For Community farmers, the effects of the common agricultural policy will be three-fold:

- wider and more stable markets;

- bigger incentives for expansion and modernization;
- less dependence on subsidies from national budgets.

In the same way as the Common Market has benefited European industry in the four years since its inception, so the common agricultural policy will accelerate the process of modernization for European agriculture. It will open up new possibilities for expansion by providing farmers with greater incentives for investment. The food trades and processing industries will benefit similarly from wider markets.

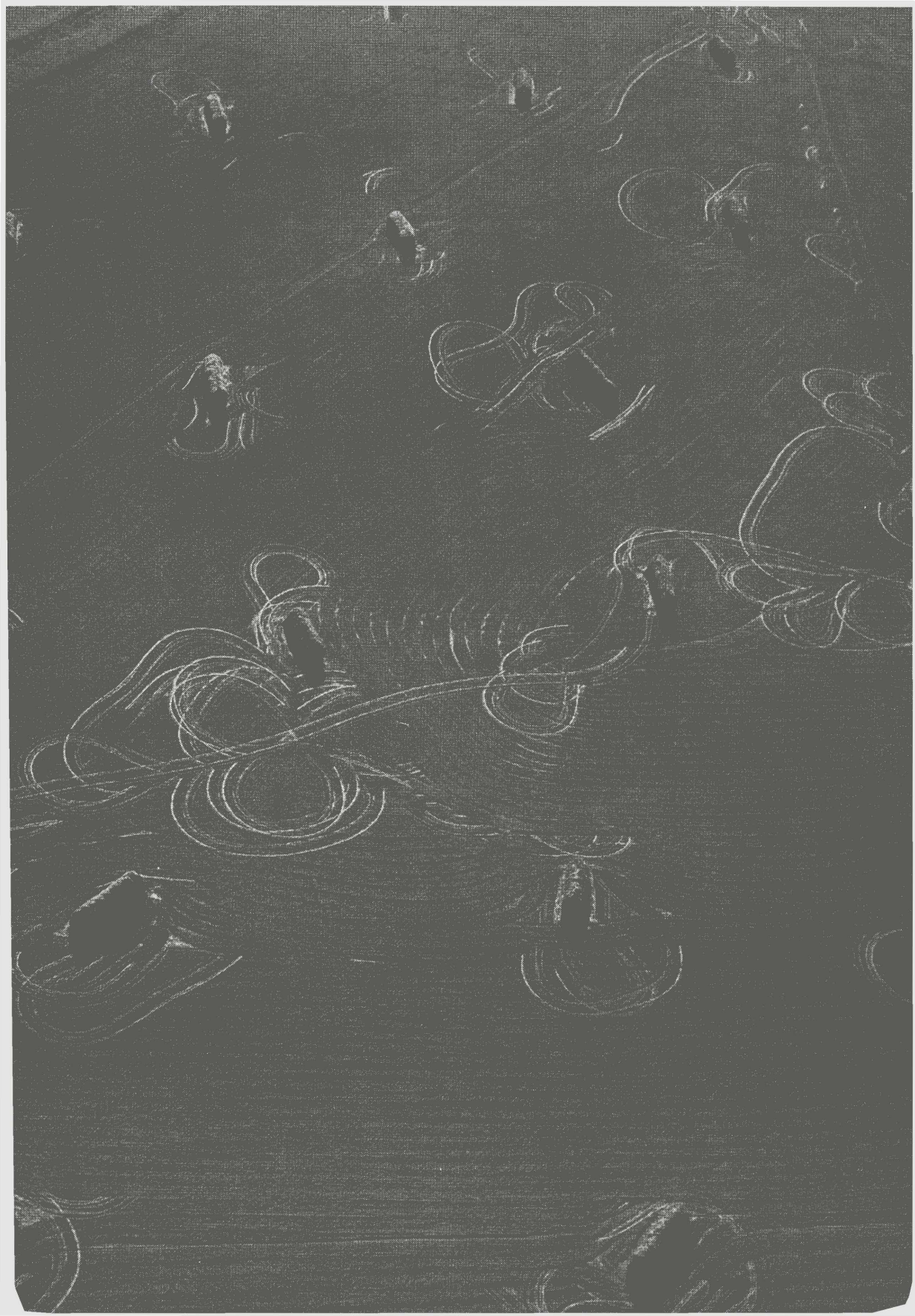
The 170 million consumers of the Community will enjoy a much wider choice when they buy their foodstuffs. Healthy, ordered competition will develop between producers, bringing greater specialization in cultivation and stock raising. Indeed, the common agricultural policy aims at eliminating not competition, but the abnormal conditions that have distorted it.

Consumers will also benefit from the stimulating effects of the common policy on quality and prices, as producers gradually adapt their output to the requirements of other Community markets. In the case of fruit and vegetables, in fact, free circulation in the single market will depend on the produce coming up to agreed quality standards.

Harmonization of prices

During the transition period, prices which now differ from one country to another will gradually be brought to a common level. At the end of the 7½ years, regional prices in the six countries will be determined only by normal economic factors such as transport costs and seasonal availabilities.

This harmonization obviously causes anxiety to some producers, who are afraid that prices will fall, and to some consumers who fear that prices will rise. In reality, the process of change will be so gradual that it need not worry either group. In any case, in most countries price movements for the various farm products are likely to cancel each other out, as has been the rule for industrial products in the Common Market over the last five years. Similarly, as for industrial goods, the Community will remain a large trader—both as importer and as exporter—with the rest of the world, despite the likely increase in internal trade.





The first European agricultural code

On January 14, 1962, Europe acquired, for the first time in its history, a body of common agricultural legislation. At 5 a.m. that morning, the Council of Ministers, after months of work, adopted an agricultural code that is fully binding on all the countries of the Community. Its final decision was the culmination of a democratic "Community" procedure.

In June 1960 the Common Market Commission produced its first proposals for a common agricultural policy, which became known as the Mansholt Plan. After hearing the opinions of the Common Market's Economic and Social Committee and the European Parliament, and after consultation with the agricultural associations and unions, the Commission presented its report to the Council of Ministers in the form of draft regulations. The Council then tailored and supplemented the regulations, but without changing their essential form and effect. Thus it emphasized once again by its action the fundamental role of the Executive Commission in the European Community.

The regulations adopted by the Council of Ministers contain the essence of the common agricultural policy. They affect more than half the Community's agricultural

production and 47 per cent of intra-Community trade. They deal with all those products which in the past have offered the greatest difficulties.

The measures adopted can be divided into two main groups:

1. **The general measures**, dealing with the transition period, the mechanisms for aligning prices, the levy system, safeguard clauses, and the creation and financing of a European Fund for agricultural guarantees.

2. **Detailed regulations** for European markets in grains, pigmeat, eggs and poultry, fruit and vegetables, and wine. The Council also determined the principles on which the market for dairy produce will be organized; they are similar to those adopted for grains. Regulations for rice, beef, dairy produce and sugar are due to be decided by the Council of Ministers during 1963.

Subsequently, these measures will be completed by regulations for the organization of other markets, including oils and fats, fish, raw tobacco, alcohol, flowers and bulbs, potatoes, and forestry.

The Commission will also submit proposals to the Council of Ministers for a common policy of fundamental reorganization of the Community's agriculture. These will be designed to raise agricultural income and productivity. In addition, the Commission envisages a social policy designed to provide all classes of farm workers with social amenities equal to those now enjoyed by industrial workers.

The general measures and the preparatory period

The common market for agriculture, in which farm produce will be able to circulate freely as in a national market, will be set up gradually over a preparatory period of 7½ years, from August 1, 1962 to December 31, 1969. The process could, however, be speeded up and the preparatory period shortened.

1. Harmonization of prices

One of the major obstacles to the creation of a single market is the disparity which exists between prices of agricultural products in the national markets of the Six.

For most products, these prices will be brought generally into line by the new interaction of supply and demand resulting from the gradual opening of frontiers within the Community.

For grains, a special procedure due to come into force in 1963 should bring prices gradually into line and make possible the fixing of common base prices, valid for the whole Community from 1970 onwards. The latter will be determined on the basis of production costs on efficiently operated, viable farms and an equitable relationship between the prices of the various grains.

2. Free circulation of farm produce inside the Common Market

To ensure the gradual development of free circulation within the Common Market, and at the same time to provide adequate guarantees to farmers and consumers and

effective support for the market, a system of variable levies will be adopted during the preparatory period for international trade within the Community frontiers. The levies will be equal to the difference between the price in the exporting country—in more precise terms, the price delivered to the frontier of the importing country—and the “threshold” price (see page 27) in the importing country. For the major farm products, they will replace all national protective measures.

Similarly, export subsidies, calculated in the same way as the import levies, will enable a Community country with a higher price level to export its agricultural produce to other Community countries.

The internal levies and subsidies will be gradually reduced until at the end of the transition period (1970) a common price level has been achieved.

3. The variable levies on imports

To ensure the protection of the Common Market in its dealings with the rest of the world, another system of levies will be established on imports from non-Community countries. These levies will be equal to the difference between the “threshold price” of the importing country and the ruling world price—or, more precisely, the c.i.f. price at the Community frontier calculated on the basis of the lowest prices obtainable on world markets. They will be higher than the intra-Community levies and will be permanent, to ensure preference for

Community produce. A system of Community export aids or “refunds” will also be established.

This group of measures, which came into force at the beginning of the preparatory period, will be maintained until a single market has been achieved.

4. The European Guidance and Guarantee Fund

A European Agricultural Guidance and Guarantee Fund will be established to cover the following expenditure:

- The Community purchase of surplus produce in accordance with a decision of the Council of Ministers.
- Aid (“refunds”) for exporting agricultural surpluses to non-member countries at world prices (the refunds will be calculated on the basis of net exports and of the refund rate of the Community country with the lowest price level).
- Measures to achieve the aims of the common agricultural policy; in particular, structural reorganization of agriculture.

The contributions of the Fund to expenditure under these heads will be roughly one-sixth in 1962/63, one-third in 1963/64 and half in 1964/65. Subsequently, they will increase regularly until, at the end of the preparatory period, the Fund will finance all expenditure under the common policy.

The resources of the Fund will consist until 1965 of financial contributions from the member countries, the actual amounts of which will be decided annually by the Council of Ministers on a proposal by the Common Market Commission. One part of each country's contribution will be calculated according to the scale laid down in the Common Market Treaty for the member countries' general budgetary contributions, and the other part proportionately to the country's net imports from non-Community sources. The second part will gradually rise, as the following table shows:

	1962/63	1963/64	1964/65
Treaty scale for general contributions	100 %	90 %	80 %
Proportionate to net imports	—	10 %	20 %

By the end of 1965, the Council of Ministers will lay down rules to ensure that expenses under the common policy will be met completely by the receipts from the Community's levies on farm products coming from the rest of the world. The Fund will then become part of the Community's budget.

5. The safeguard clauses

If the market of any Community country is threatened with serious dislocation, the Government concerned may suspend imports on condition that it notifies the Common Market Commission and the other

Target price

The base price for grains, determined in the marketing centre of the region of the Community with the least adequate domestic supplies.

During the preparatory period, target prices are fixed for each member country separately, and subsequently, for the Community as a whole. They are fixed before the winter sowing, and come into force at the beginning of the marketing season for that crop. Countries can determine target prices for separate regions when the difference between the selling price in that region and the overall target price exceeds 5 per cent.

Support price

Price at which the Guidance and Guarantee Fund will buy from producers; this price thus constitutes a guaranteed minimum selling price for producers. Support prices are between 5 and 10 per cent lower than the target price.

Threshold price

Price used as a basis for calculating the levy on imported grains. It is fixed at a level that will bring the selling price of imported grains up to the level of the target price in the region of the Community with the least adequate domestic supplies.

Sluiceway price

Minimum import price for pigmeat, eggs and poultry coming from non-Community countries. For pigmeat, sluiceway prices will also be applied to internal Community trade during the preparatory period.

Community Governments not later than the date on which the measures come into force. (This procedure applies to all products for which the Council of Ministers has laid down marketing regulations.)

The Commission must then decide within four days whether to endorse the measures, or whether to modify or reject them. If the Government concerned does not agree with the Commission's decision, it can appeal to the Council of Ministers, who take their decision by a qualified majority. Appeal to the Council does not, however, suspend application of the Commission's ruling.

Two exceptions to this rule are permitted:

- **For grains**, an appeal suspends the Commission's decision for ten days.

- **For "Extra" quality fruit and vegetables**, no safeguard measures may be taken without the prior authorization of the Commission. The level of protection resulting from any such measures must also not be greater than that in force on July 1, 1962.

All safeguard clauses apply equally to trade with non-Community countries, providing Community preference is not jeopardized.

6. European agricultural institutions

The most important **policy decisions** (the harmonization of grains prices for

example) will be taken by the Common Market's Council of Ministers on proposals submitted by the Commission. The Council will take its decisions unanimously until the end of the second stage (December 31, 1965), and thereafter by qualified majority.

Five **Administrative Committees** are being set up—for grains, pigmeat, eggs and poultry, fruit and vegetables, and wine. They will comprise representatives of the six countries and be presided over by a non-voting representative of the Commission.

The Commission will submit proposals to the relevant Committee in certain cases for an opinion. The Committee will reach its decision by qualified majority, and the Commission will then put the measures into force immediately. If the Committee disagrees with the Commission, the latter may delay the application of the measures for a maximum period of one month. The Council of Ministers, deciding by qualified majority, may then alter the decision within a similar period.

This procedure applies, for example, to the fixing of the margin of Community preference, of the internal sluicgate prices for pigmeat, and the levies for eggs and poultry.

In certain cases, however, the Common Market Commission can take decisions, which become effective immediately, without consulting the Administrative Committees, and without the possibility of revision by the Council. Examples are the authorization of safeguard measures for "Extra" quality fruit and vegetables.





The market organization for the main product groups

European agricultural markets are being organized according to two main principles:

- For most products, including grains, pigmeat, eggs and poultry, the replacement of all national protective measures by the levies at the Community frontiers.

- For other products, including fruit, vegetables and wine, quality controls based on internationally accepted standards.

The present situation

Wheat production overtaking demand

The Community grows a large proportion of its own wheat. In 1959-60, production rose by 25.8 million tons and consumption by 27.6 million tons. Home supplies account for 93.5 per cent of demand (see table below).

Imports of high-quality and hard wheat will be required indefinitely for technical reasons and to maintain certain traditional patterns of trade with non-Community countries. The Community has export surpluses available in soft wheat and feed grains, however. The yield of wheat per acre is likely to go on increasing in the

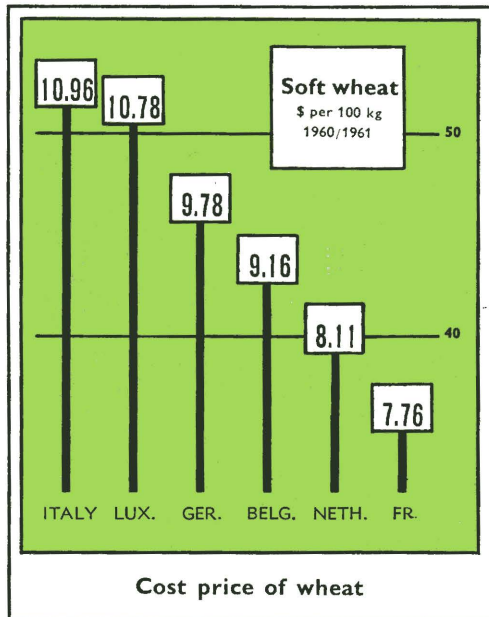
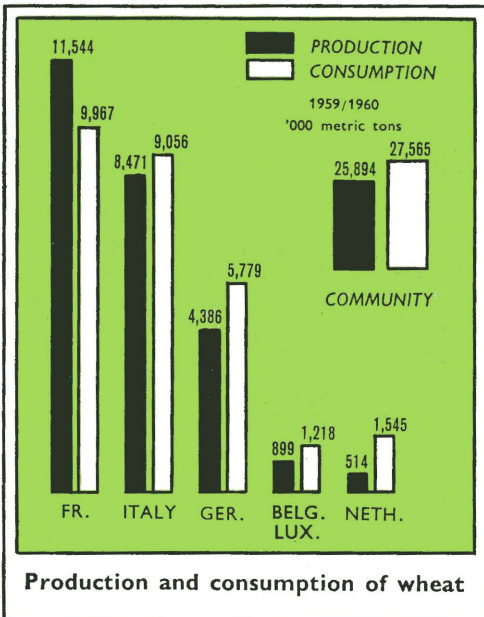
future, while consumption per head will at best remain stationary.

In all the Community countries the price of wheat is higher than the current world price, as the table below shows.

The problem for wheat in the Community is thus one of balancing supply and demand, taking into account export opportunities and the needs of the underdeveloped countries.

Secondary grains— demand well ahead of production

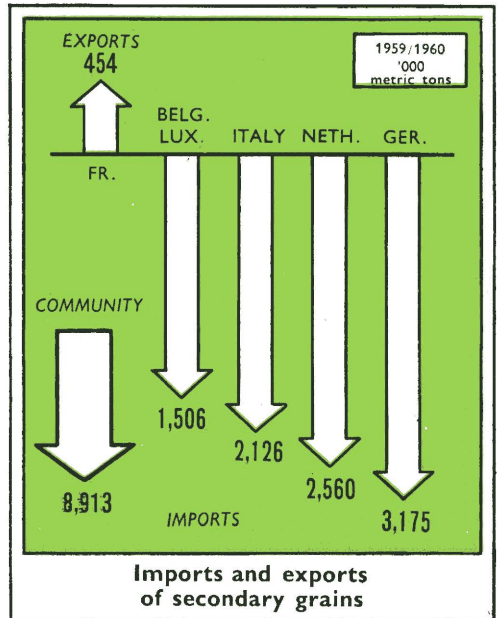
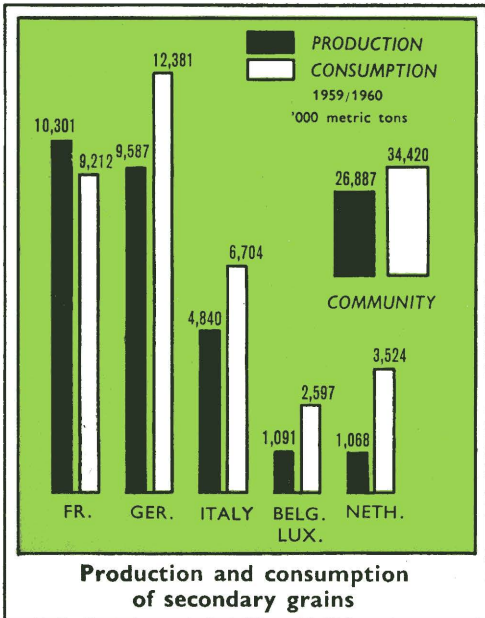
In 1959-60 production of secondary grains in the Community reached 26.9 million tons, and consumption 34.4 million tons. Domestic supply therefore covered only 78.2 per cent (see table below).



Secondary grain crops are used mainly to feed the livestock of the farmers who grow them. Only a third of total output reaches the market, and as a result, prices on home markets are determined largely by the quantities and prices of imports.

In spite of a 44 per cent rise since 1950, Community output has not been able to keep pace with the rapid increase in demand produced by rising consumption of meat, eggs and poultry. The Community therefore imports 9 million tons of secondary grains a year.

Exports of animal products derived from these grains are traditional, and sometimes vital, for several agricultural regions and for the food-processing industries of the Community (see table below).



Organization of the grain market

Prices

To give Community farmers the benefit of guaranteed prices, each country decides base target prices (see page 27) for wheat and barley according to Community regulations. (This is also done for maize and rye in countries where these crops are grown in significant quantities.)

When the difference between the market price in the area of greatest deficiency and the area with the greatest surplus exceeds 5 per cent, subsidiary target prices, calculated on the base target price, are determined in accordance with natural economic factors (transport costs, etc.).

To ensure that farmers are able to sell their crops at prices as close as possible to the target price, support prices are laid down at which the Community will buy grains on the market in order to restore a reasonable price level.

During the preparatory period, and for farmers in distant areas, regional support prices are fixed at a slightly higher level than that which would result if only purely economic factors (transport costs, etc.) were taken into account.

Finally, threshold prices, on which the levies are calculated (see page 27), are fixed at a level which, taking into account the amount sold, will ensure that the target price is maintained.

Levies

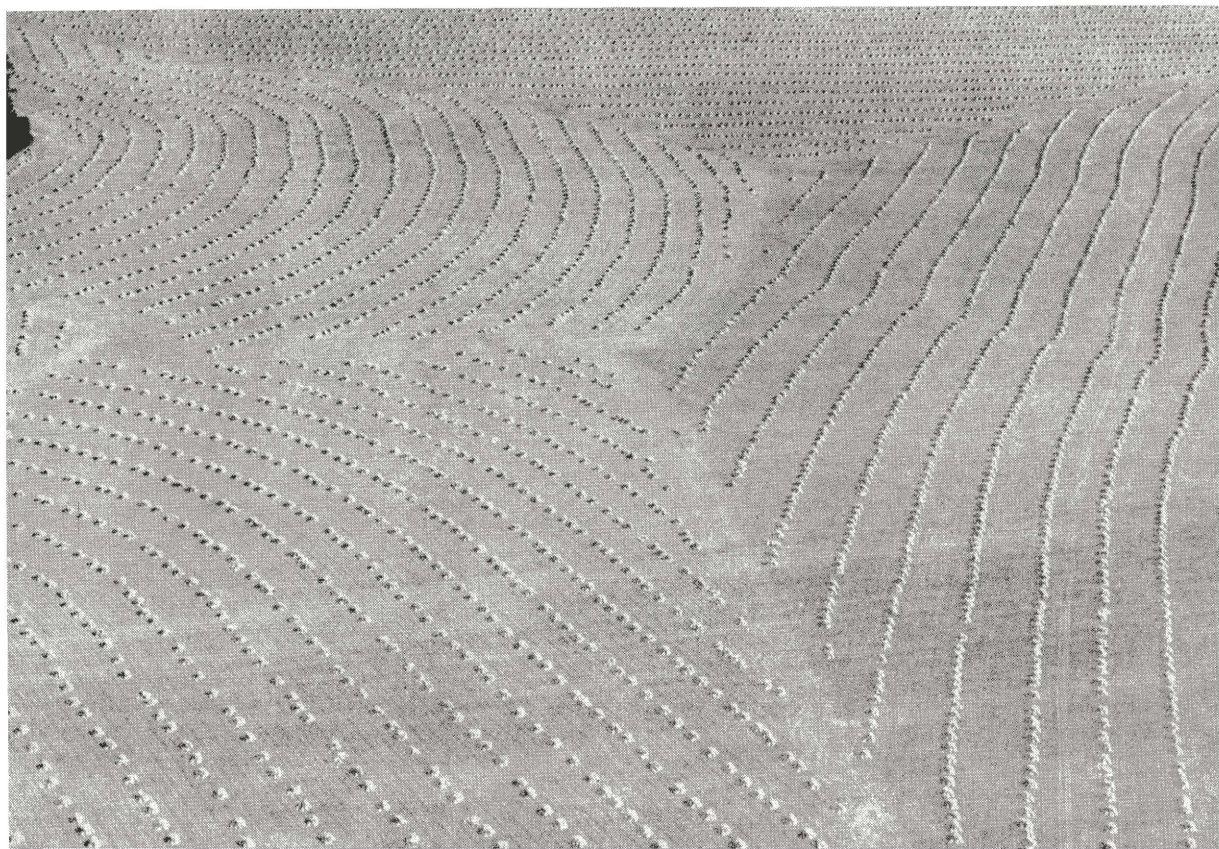
The levies on imports of soft wheat and secondary grains from outside the Community will be equal to the difference between the lowest c.i.f. import price and the threshold price of the importing country. For trade between Community countries during the preparatory period, levies will be applied, but at lower levels.

The levies on hard wheat will be fixed by a similar procedure, but the threshold price must be at least 5 per cent higher than that for soft wheat.

For some processed items (malt, gluten, animal feed), the levies take into account the differences between the prices of the various raw materials, and include an element of protection for home processing industries. This latter element will be gradually reduced in the internal levies.

Exports to non-member countries are based on world market prices. The difference between the world market price and the price in the exporting country is made up to the farmer by export refunds which will gradually become a charge on the Agricultural Guidance and Guarantee Fund. For internal Community trade, the refunds are based on the difference between the price in the exporting country and that in the importing country.

Licences are required for all imports into, and exports from, the Community countries. They are valid for three months, and are issued subject to payment of a deposit, which falls forfeit if the transaction is not completed within the time limit.



The present situation

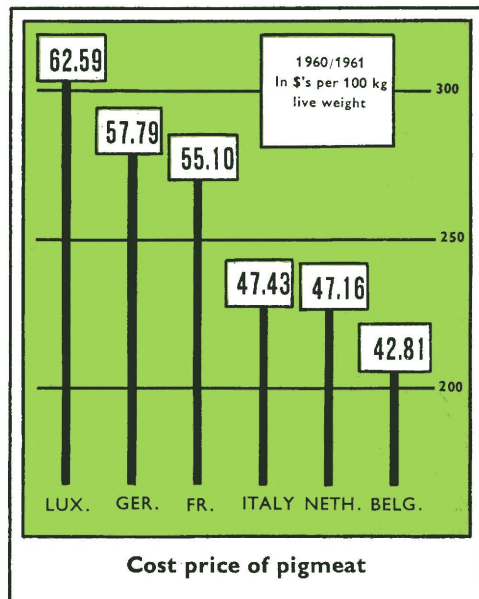
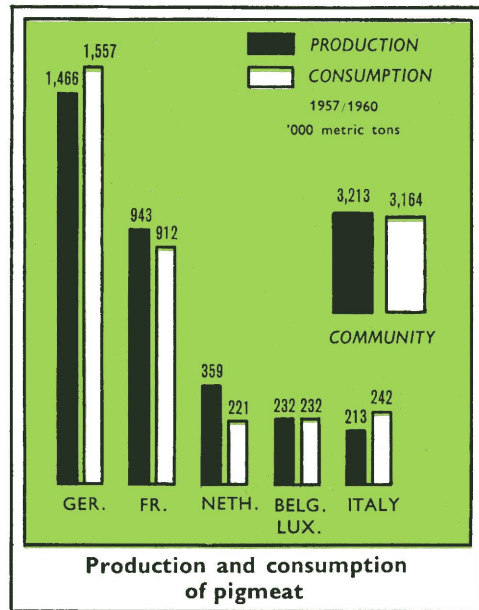
Output and consumption both rising

Production of pigmeat in the Community is increasing in response to rising consumption. Current Community production is sufficient to satisfy internal demand and to provide a small surplus for export. France, Belgium and Luxembourg are largely self-sufficient, while Germany and Italy import about 5 per cent of their needs. Holland exports about 140,000 tons of pigmeat a year, and France also normally has a small surplus for export.

The relationship between the price of feed grains and the price of pigmeat is close in Germany and Benelux (where grains account for between 70 and 80 per cent of feeding costs) and less marked in France and Italy where other feeding stuffs are widely used in addition to feed grains.

Protection of pig breeders by the Governments in all the Community countries—resulting from the importance of pig farming—has limited trade between the Six and brought appreciable price differences as between one country and another (see table opposite).

The growing preference for meat shown by consumers is certain to lead to increased demand.



Organization of the market for pigmeat

Prices

There are no target prices or support prices for pigmeat. However, until the end of the preparatory period, each country can request authorization to intervene in its home market to support pigmeat prices—an important safeguard for producers.

To avoid dislocation of the market through imports at abnormally low prices from non-Community countries, a "sluiceway" price is fixed by the Council of Ministers. This is, in effect, a minimum import price: as soon as imports are offered below it, the amount of the levy is accordingly increased (see page 27).

Intra-Community sluiceway prices are also fixed for each Community country, allowing a margin of Community preference over external sluiceway prices. These will disappear, with the internal Community levies, by the end of the preparatory period.

Levies

The levy system for pigmeat is slightly different from that laid down for grains because pigmeat production in the Community countries has been protected not only by customs duties, but also by quotas, minimum prices, and other restrictions on trade. In addition, pigmeat is a "processed" product, with feeding stuffs as its raw materials.

The internal Community levy consists of two parts:

- a sum representing the incidence on feeding costs in the importing country of the difference between the prices of feed

grains in the importing country and those in the exporting country; this will gradually disappear during the transition period as grain prices are harmonized;

- a fixed sum intended, during the initial stages, to offset cost differences arising from causes other than variations in feed grain prices. It will be calculated so that the two sums together do not exceed the difference between the higher and lower average prices noted during a given reference period. Like the first part, it will disappear by the end of the transition period.

For imports from non-Community countries, the levies comprise:

- a sum equal to the levy fixed for imports from the Community country with the lowest average price over a reference period;

- a sum representing the incidence on feeding costs, in the Community country with the lowest carcass prices, of the difference between feed grain prices in this country and those ruling on the world market;

- a third sum which, starting at 2 per cent, will by the end of the preparatory period reach 7 per cent of the average minimum import price in the previous year; this is the element which will provide Community preference.

The refunds on exports of pigmeat can take two forms. The member countries either refund an amount equal to the incidence of the difference in the cost of feeding stuffs, calculated as for the pigmeat levies, or, for exports to another Community country, they can refund a sum equal to the levy on imports from non-member countries. If the exporting country uses the latter method, the importing country has the right to impose the levy at the rate applicable to its imports from non-member countries.

The present situation

Consumption of poultry in the Community is rising steadily, though at rates varying widely from country to country.

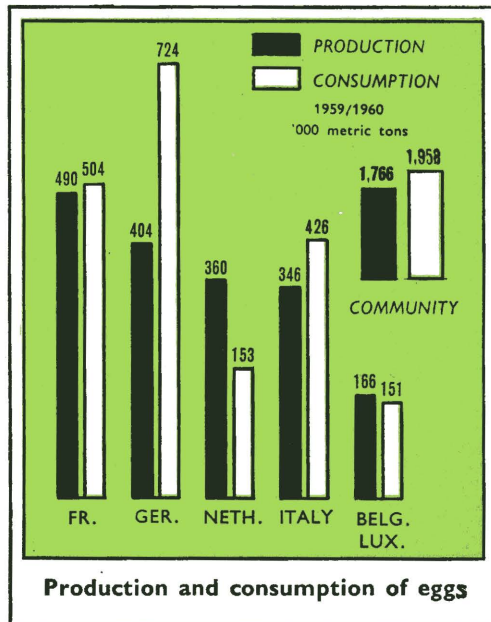
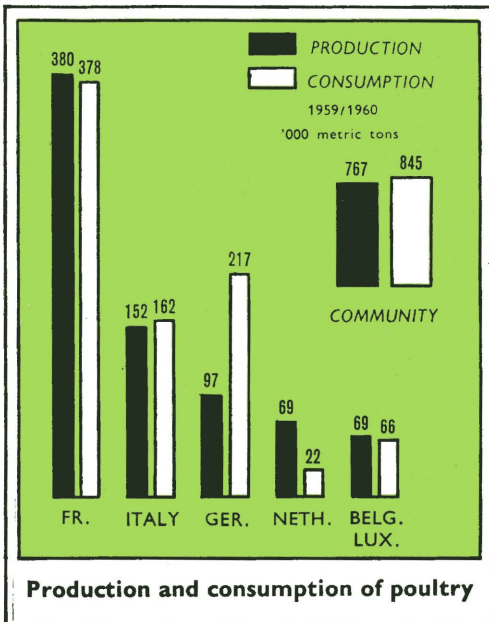
Supplies also show wide variations: German dependence on imports is matched by the export potential of Holland. France, Belgium and Luxembourg are already self-sufficient, and their production is tending to exceed domestic needs (see table below).

Poultry farming is closely linked to the market for secondary grains, which make up 60-80 per cent of the feeding stuffs used and

represent the main element in production costs. Profitability is thus dependent on the degree of coordination between the policies followed for poultry farming and for feed grains.

In most Community countries the home market has not been subject to control, but lack of organization in distribution has tended to hinder the expansion of consumption. As a result, the current level of consumption in the Community is relatively low, but the growing taste of the public for chicken is bound to prolong the upward trend of demand.

Poultry farming is therefore likely to turn increasingly towards fattening of chickens for sale as meat.



For eggs, consumption has risen so fast in recent years that domestic supplies are still inadequate, despite a remarkable increase in output.

The supply situation varies widely between the Community countries. Germany and Italy import substantial quantities, Holland is a large-scale exporter, and France is almost self-sufficient. Belgium and Luxembourg also have small export surpluses (see table on page 38).

Before the war, poultry and eggs played only a small part in farm income, but their increasing importance in some of the member countries is likely to be extended to the Community as a whole, in view of the rapid rise in consumption and the possibilities of raising production to meet it. Striking results have already achieved in improving production efficiency in this sector of the Community's agriculture.

Organization of the market for eggs and poultry

Prices

For eggs and poultry, which in terms of farming economics are "processed" food-stuffs produced from grain, the organization of the market will be similar to that envisaged for pigmeat. There will be no target or support prices. But to protect the Community against imports from non-

Community countries at abnormally low prices, a uniform "sluicgate" price is established for the whole Community. It is based on the price of feed grains in world markets and on the costs of raising poultry in the Community. Imports offered below this price are subject to a levy.

Levies

The levy on imports comprises one part corresponding to the incidence on feeding costs in the importing country of the difference between the price of feed grain in that country and those ruling in world markets; and a second sum—based on the customs duties in force on August 1, 1962, for the products concerned. In internal Community trade the first part will gradually disappear during the preparatory period as grain prices are harmonized, and the second will also be eliminated by the end of the preparatory period.

The levy applied to trade with non-member countries comprises in addition a third amount, to provide further protection for Community producers; this amount is a proportion, starting at 2 per cent and rising by the end of the preparatory period to 7 per cent, of the average minimum import price in the preceding year.

Sluicgate prices for eggs and poultry are applied only to imports from non-member countries.

Refunds on exports, whether to other Community countries or not, are fixed in the same way as those for pigmeat.

The present situation

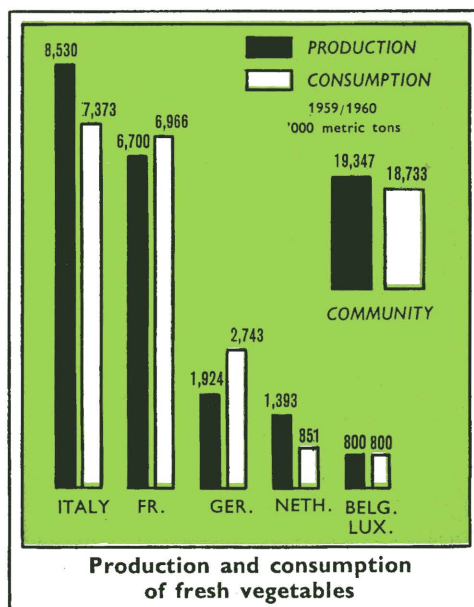
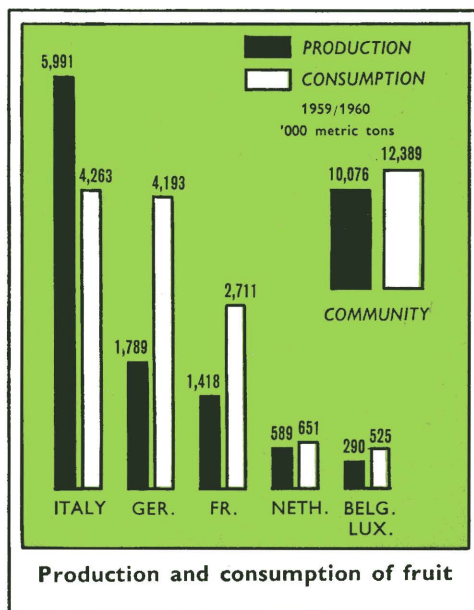
Some difficulties in selling

Although the Community's balance sheet shows an overall equilibrium between supply and demand, the markets for some fresh fruits (particularly apples, pear and peaches) experience considerable seasonal difficulties. The same is true of those vegetables subject to occasional gluts (particularly cauliflowers, tomatoes and salad greens).

The degree of self-sufficiency varies considerably from one Community country to another. The basis of trade lies in the regional distribution of cultivation and different harvest times throughout the Community.

In some cases there is an appreciable difference between the cost of production and the retail price owing to heavy transport and refrigeration costs. In addition, the prices in producer markets may vary widely from one region to another. Part of the difference may be caused by the widely varying technical regulations governing the operation of these markets, which would benefit from their coordination.

Long-term equilibrium between supply and demand can be attained through greater regional specialization and, in some cases, by curtailing output of products which do not find ready markets. Short-term equilibrium could be achieved by reducing the amounts available on the market at any given moment and thus limiting day-to-day and seasonal price fluctuations.



Organization of the market for fruit and vegetables

For fruit and vegetables, the gradual alignment of prices and freeing of internal Community trade will be achieved by quality control, not by price control or by levies. Protection against produce from non-member countries will be provided solely by customs duties.

For the most important products the quality standards applicable to imports and exports came into force on August 1, 1962.

They will also gradually be applied during the preparatory period to trade within the Community's producing countries: the standards for cauliflowers, tomatoes, apples, pears, peaches, plums, apricots, onions, and lettuce must be in force by July 1, 1965; and those for spinach, chicory, peas, kidney beans, French beans, carrots, artichokes, sweet oranges, tangerines, clementines, lemons, grapes, cherries and strawberries by January 1, 1968.

The Council of Ministers will determine the principles on which the market for fruit and vegetables is to be organized before January 1, 1964.

The quality standards adopted are based on those worked out by the European Productivity Agency of OEEC and by the United Nations Economic Commission for Europe. Responsibility for observing them and for grading the produce rests with the producing and exporting country. Each consignment must be accompanied by a certificate showing the quality grading at the time of checking.

The importing country may check the accuracy of the grading at the frontier. As the Community's grading and checking methods get under way, checks by the importing country should become less necessary, and at the end of the transition period it may be possible to drop them.

Customs duties in trade between the Six are being gradually abolished. Quantitative restrictions and minimum price systems within the Community are also being abolished according to the following timetable:

- 1. For Extra quality products, on July 30, 1962.*
- 2. For Grade I products, by January 1, 1964.*
- 3. For Grade II products, by January 1, 1966.*

Until the quality controls come into force, each country may apply a minimum price system laid down in the regulations for fruit and vegetables. To avoid disturbance of the market, these minimum prices may not exceed the country's support price by more than 5 per cent for products not subject to market organization. For all other products, the minimum price may go up to 92 per cent of the average wholesale price during the previous three years.

In cases where Community markets are threatened by imports at abnormally low prices from non-Community countries, these imports may be suspended, or the price may be raised by a compensatory Community levy which will be uniform for imports into any part of the Community.

The present situation

The Common Market produces 60 per cent of the world's wine (134 million hectolitres out of 225 million ¹) and 97 per cent of this comes from France and Italy.

For several years running large surpluses have depressed the market and this state of affairs is likely to continue. Improvements in methods of cultivation and in treatment of diseases have contributed to the higher yield.

Consumption varies considerably from country to country:

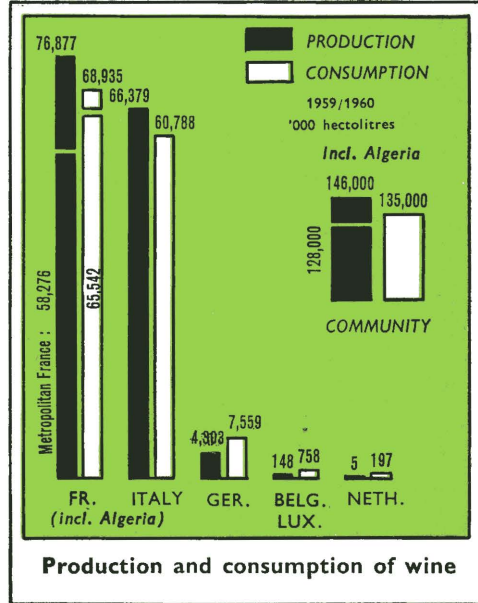
Annual consumption per head (in litres)

FRANCE	130
ITALY	115
LUXEMBOURG	34
GERMANY	11.3
BELGIUM	6.9
HOLLAND	1.7

Although consumption is not likely to rise much further in France, it could well expand considerably in Italy as a result of the rising population and standards of living, and in Germany and Benelux.

In France, viticultural policy is aimed at improving quality and adapting resources to requirements. With the exception of wines of specified origin and those of super-

¹ 1 hectolitre = 220 Imperial gallons = 264 US gallons.



rior quality, for which the market is more or less free, the market for table wines is tightly controlled. In Italy, vine planting and wine marketing are completely free; viticultural policy is based on the principle of making wine as cheap as possible through production in areas giving the largest yield at the lowest cost.

For these reasons, wine production in France and Italy has developed in very different ways (see diagram p. 43).

Organization of the market for wine

To stabilize markets and prices, supply must be more closely adapted to trends in demand. This requires a policy of quality control.

With this in view, the Community countries have agreed to provide registers of all vineyards by June 30, 1963, thus enabling an overall picture of wine production to be obtained. The registers will include: the total area of vine cultivation; a breakdown by type of wine produced; methods of cultivation; breakdown of vineyards by size; breakdown of existing vines by age; and planting programs.

From 1962 onwards, producers and wholesalers have had to declare their stocks and the quantities produced or acquired in the current year.

At the beginning of each year, the Commission will draw up a forecast describing the resources and needs of the Community, including probable imports from and exports to non-member countries.

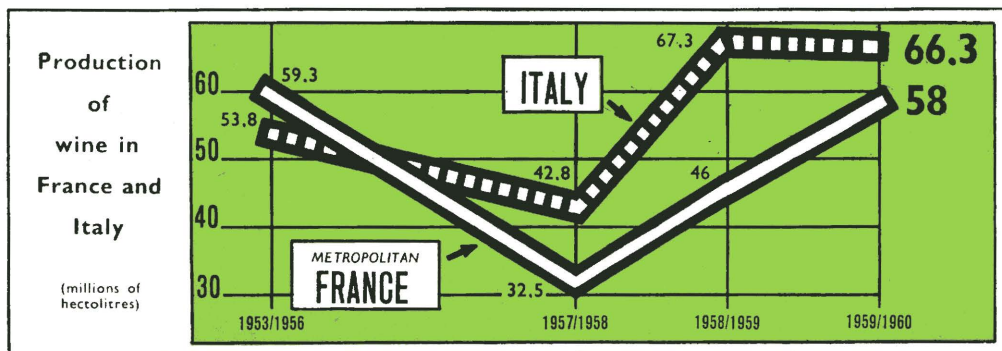
During 1963, the Council of Ministers will issue Community regulations on wines of specified origin. These regulations will take into account established methods and conditions, providing they do not hinder the improvement of quality or the development of the common market. They will

be based on the following factors: the area under vine, planting programs, methods of cultivation and wine production, minimum natural alcohol content and yield per hectare.

In order to develop trade in wine, France and Italy, with effect from January 1, 1962, each opened an annual quota of wine of specified origin for wine from the other Community countries (150,000 hectolitres for 1962).

The quota for imports into Germany—which produces inadequate quantities for its own requirements—is not limited to quality wines. The latter must, however, constitute at least one quarter of the total quota for table wines, which amounted to 800,000 hectolitres for 1962 (including a maximum of 210,000 hectolitres of white wines). An additional quota of 400,000 hectolitres was opened for wine to be used in the preparation of quality wines. The quotas were further increased in 1963.

The Council of Ministers, acting on proposals from the Commission, has the option each year of deciding whether to increase these quotas.





The United States and the Common Market

Historically, Western Europe has always been an important market for agricultural commodities and this has been particularly true since the devastation of World War II. The United States—as the world's greatest single producer of food and fiber products—has been an important supplier of European agricultural imports and, since 1956, the US has enjoyed a farm market in the Community countries valued at approximately one billion dollars a year.

One-third of this total has been accounted for by sales of US grains, which are in heavy surplus in America. Another third involves sales to Common Market countries of cotton and tobacco—items not included in the common agricultural policy and thus not currently affected by that policy. A fifth of American exports of food commodities to the Common Market is accounted for by fats and oils and the balance by meat products—including poultry—fruits and vegetables.

Development of a common agricultural policy has, however, brought changes in traditional trading patterns with non-member countries. In the first place, even before the common policy was adopted, farm productivity in Common Market countries was expanding rapidly through the greater use of science and technology. In the case of broiler (poultry) production, Community producers acquired the necessary technical knowledge from the US after American exporters successfully introduced broilers to European consumers. Secondly, in the case of wheat exports, a steady deterioration of the US market in Europe began long before the common agricultural policy was drafted.

The decline is due, in large part, to competition from Canada, which has stressed the export of Europe's chief wheat need—high quality Durum types.

One of the principle objectives of the common agricultural policy is to improve European agricultural efficiency and to achieve a price stability beneficial to the producer and fair to the consumer, without creating surpluses such as those which have caused difficulty in the American economy. A result of this policy will be a reduction in the number of workers in agriculture and a consequent increase in the manpower available for industrial production. During the period—through 1970—of the structural reorganization of Community agriculture, the common agricultural policy provides devices not only to encourage needed adjustments but also to prevent some of the extreme and often harmful fluctuations occurring in world commodity markets.

The United States is concerned with the Common Market's application of variable levies on grains, and minimum import prices for pigmeat, eggs and poultry. At the same time, it is noticeable that the pressures caused by some US price support and export subsidy policies—coupled with the vast surplus holdings of the United States—have made it increasingly difficult for European producers to compete. In addition—since 1954—US Public Law 480, which allows for the non-commercial distribution of surplus products abroad, has seriously impaired many of Western Europe's export markets for grains and dairy products.

In the light of these difficulties, the Community believes it may be wise to subject basic food and feed commodities to international agreements on production, pricing and trading.

Finally, it should be clear to non-member countries that the Community has no intention of becoming agriculturally self-sufficient, and that it will continue to import much of its food and fiber even after the structural reorganization of its farming is accomplished—and that, as the Community's economy improves, so do the diets and standards of living of the 170-million people living within the Community. The outlook is therefore likely to be good for producers of quality foods, competitively priced and aggressively merchandized by an exporter as large and agriculturally efficient as the United States.

The Community has repeatedly underlined its awareness of its responsibilities to other countries in applying its common agricultural policies. This means in particular that it will keep under review any aspects of the policy which might require modification in the light of their effect on other countries.

And tomorrow . . .

by Siccó MANSHOLT

*Vice-President
of the Common Market Commission*

The aims of the common agricultural policy must be to create a stable market, to guarantee a fair income for farmers and reasonable prices for the consumer. It is encouraging that the Council of Ministers of the Six has found sufficient political strength to make a start on this common policy only five years after the establishment of the Community. It is even more encouraging that the Common Market Commission has been given such an important part in carrying out this policy.

In the summer of 1962 the Commission set up an efficient organization capable of making daily decisions on such matters as the advisability of applying the safeguard clause or the levy system, to mention only two examples. But the existence of this organization by no means implies that the regulations can be carried out without difficulties.

Many difficult problems have already been solved, however, during the short preparatory period. One thing is certain: it will not be possible to go back on what has been done. We have consciously burnt our national boats in order to sail ahead in the new European ship. The will to reach the goal of a single policy is strong, and the Commission has been preparing the necessary measures in close cooperation with the Community Governments and the bodies who will carry them out.

The entry of new countries into the Community can only be realized—as far as agriculture is concerned—on the basis of the common agricultural policy which we have just worked out. Some adaptations are evidently possible, but without altering the

essential principles we have agreed on. At the same time, in preparing the remaining proposals we must be ready to take into account the possible entry of new members into the Community.

There is no contradiction between the development of a common agricultural policy and the possible entry of new countries into the Community; on the contrary, these two developments are complementary. It is clear that the European Community

has become more and more a political and economic reality. But if the Community is to carry out its new tasks properly in the future, the agreed Community principles will have to be strengthened continuously. A reinforcement of Community decisions and of actions by the Council of Ministers and the Common Market Commission will be more than ever necessary, on condition that democratic control over the Community remains assured.

THE IMPORTANCE OF AGRICULTURE IN WESTERN EUROPE
(1959-60 figures)

	Community		"Seven" ¹		"Eight" ²		"Ten" ³	
	Pro- duction '000 t	% of needs covered by home pro- duction	Pro- duction '000 t	% of needs covered by home pro- duction	Pro- duction '000 t	% of needs covered by home pro- duction	Pro- duction '000 t	% of needs covered by home pro- duction
Grains	53,114	85.1	62,543	77.4	66,677	77.3	68,412	76.9
<i>wheat</i>	25,894	94.1	28,726	81.8	29,091	81.7	29,477	80.4
<i>feed grains</i>	27,220	78.1	33,817	74.0	37,586	74.3	38,935	74.4
Rice	591	84.4	591	75.4	591	74.9	591	74.2
Sugar	4,192	89.9	4,979	67.2	5,191	67.9	5,324	67.3
Vegetables	19,387	103.7	22,041	99.6	22,391	99.7	25,012	99.6
Fruit	10,745	83.0	11,582	74.3	11,845	74.6	11,992	74.1
<i>citrus</i>	1,220	39.6	1,220	33.9	1,220	33.5	1,220	33.1
Meat	8,330	94.4	10,405	84.3	11,421	90.1	11,966	92.1
Eggs	1,784	90.3	2,581	93.5	2,730	97.2	2,804	97.3
Cheese	1,307	100.1	1,403	91.5	1,518	96.6	1,562	97.3
Butter	833	101.2	859	69.2	1,000	78.0	1,062	79.4
Oils and Fats	1,388	41.1	1,597	34.2	1,683	34.9	—	—

¹ "Seven" = Community + Great Britain

² "Eight" = Community + Great Britain + Denmark

³ "Ten" = Community + Great Britain + Denmark + Norway + Eire



FURTHER INFORMATION:

**European Community Information Service,
Farragut Building, Farragut Square,
Washington 5, D.C.**

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M Aerocarto N. V.*