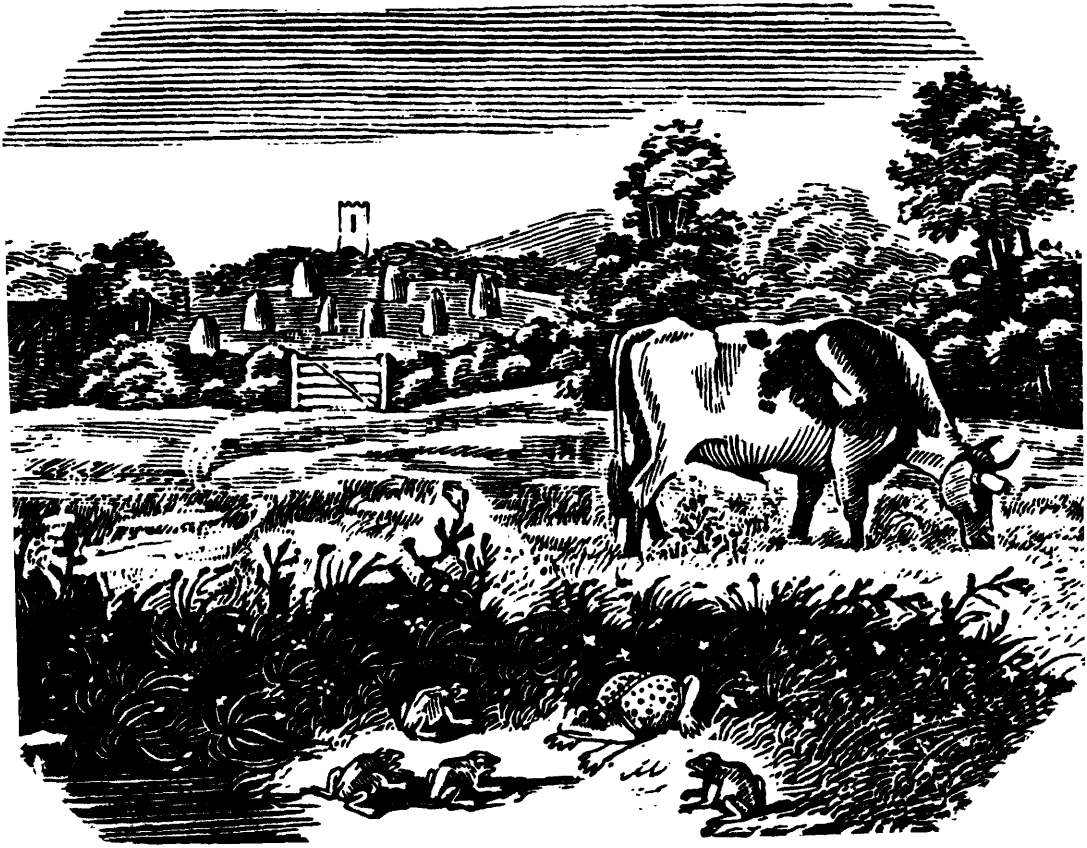
The Common Agricultural Policy



Commission of the European Communities

The Common Agricultural Policy

1 **The need for a farm policy** 2

2 **The policy in practice** 5

3 **A changing agriculture** 9

4 **How the policy works** 13

5 **Organisation of the product markets** 18

6 **The Community and the world** 29

(revised December 1977)

1 The need for a farm policy

The common agricultural policy has been a crucial factor in the first 20 years of the European Community. Without a policy for agriculture, it would have proved impossible to introduce the customs union which provides the economic base for the Community. By introducing a single Community policy in place of nine national policies, the common agricultural policy has reconciled deep conflicts of interest between member States and made it possible for the European Community to deal on an international basis with some of the most sensitive issues in international relations.

Population levels and density of population

	Area sq km	Population mn.	Density per sq km
Germany	248 600	61.8	249
France	547 000	52.7	96
Italy	301 300	55.8	185
Netherlands	41 200	13.7	332
Belgium	30 500	9.8	321
Luxembourg	2 600	0.36	139
United Kingdom	244 000	56.0	230
Ireland	70 300	3.1	44
Denmark	43 100	5.0	117
Nine	**1 528 600**	**258.5**	**169**
USA	9 363 100	213.6	23
USSR	22 402 000	254.4	11
Japan	370 000	111.5	301

Secure supplies

The European Community is one of the world's major food producing areas. Its farmers and growers can produce 90 per cent of the food needed by the Community's 259 million consumers. This high level of production is a valuable insurance in an unpredictable world where there is a danger of recurring food shortages.

Pressure on global food supply only became evident in the early seventies. The soaring world prices of those years had eased by 1976, but the world's population is expected to double over the next generation, while the world's capacity to produce enough food to meet all our needs may be held back by a shortage of energy, the excesses of the climate or even political events in distant parts of the world.

It is this long-term uncertainty in food supplies which persuades almost all governments—and the EEC as a whole—to have agricultural policies designed to ensure a reasonable level of domestic food production.

The Community was especially glad of its food producing capacity between 1973 and 1976, when the balance of supply and demand for foodstuffs on world markets was seriously upset. Food prices in the Community's member States during this period were kept below world prices and the Community was able to add to its normal food aid commitments by providing extra grain to the hardest-hit developing countries.

A stable agriculture

In all member States of the Community, the wellbeing of agriculture affects the wellbeing of rural regions, the life of country towns and villages, and the state of the countryside. When agriculture is depressed, so are the areas dependent upon it, with far-reaching social and hence political effects. This is another reason why governments try to maintain a reasonable level of stability in farming by means of special policies.

These basic aims of maintaining home food supplies and ensuring a fairly prosperous agriculture are achieved by giving producers confidence and some assurance that their prices will not fall so low that they can no longer afford to invest. Without some such assurance, their returns would be quite unpredictable, subject to bumper crops and low prices one year and to crop disaster and high prices the next.

The importance of agriculture in the economy

When the countries which were to form the European Community set out to bring their economies together, they had to include agriculture because it was so important. Even now, 20 years after the signing of the Treaty of Rome, food production and trade are major elements in the European Community's economy.

In some member States, like France and the Netherlands, farming has long been an important contributor to national output and external trade; farm products still make up nearly a fifth of French exports and a quarter of Dutch exports.

As for the Community's new member States, Denmark, Ireland, and the United Kingdom, nearly a third of Danish exports and about half of Ireland's are of agricultural products. The big food importing countries are Germany, Italy and the United Kingdom, for whom foodstuffs represent between 20 and 25 per cent of total imports.

Farming in the general economy

Agriculture as percentage of Gross Domestic Product at current prices 1974

	%		%
Germany	2.8	Luxembourg	3.3
France	5.7	United Kingdom	2.2
Italy	8.2	Ireland	19.0
Netherlands	5.4	Denmark	9.0
Belgium	2.7		

In the early days of the Community a substantial proportion of its population earned its living from the land. In 1960, one in five of the working population was a farmer or farm worker. The figure is now about one in 12, but in certain countries or regions agriculture is still the mainstay of employment. It provides a living for 25 per cent of Ireland's working population; there are a million wine producers in France and Italy; dairy farming employs nearly two million people in France alone, and beef and sheep production is fundamental to the economy of large parts of the United Kingdom.

Individual governments are always conscious of these factors when new policy is under discussion.

Percentage of working population in agriculture (1975)

Germany	7.3	Luxembourg	6.2
France	11.3	United Kingdom	2.7
Italy	15.8	Ireland	24.3
Netherlands	6.6	Denmark	9.8
Belgium	3.6		

Nine policies become a common policy

Before the European Community was established, the importance of agriculture in nine national economies often led to policies that discriminated against imports from other countries, some of which were to become partners in the EEC. The establishment of the common agricultural policy brought together six and then nine national policies into a single system, based on free trade in farm products, common levels of support, joint financing, and a common policy towards non-member countries.

These considerations still make the common agricultural policy an essential element in the Community's life. Unless agricultural policy is developed on a Community basis, barriers to trade are likely to build up in this most sensitive sector, as governments try to defend their own agriculture or sections of it in ways which would adversely affect their partners. This is why the Community has always opposed unilateral action taken by a member State to help one group of producers like wine growers or pig farmers without the agreement of the Community as a whole. There is a danger that such action in one sector would quickly extend to other parts of the economy and undermine the whole basis of the Community.

2 The policy in practice

The basic principles on which the common farm policy was to be built were set out in the Treaty of Rome, signed by the six original member States in 1957. These were:

—to increase agricultural productivity
—to ensure a fair standard of living for those in farming
—to stabilize markets
—to ensure reasonable consumer prices

But the Treaty did no more than lay down guidelines for developing a common policy. The detailed business of providing a single system of price support for agriculture in place of the different national systems was a matter for prolonged negotiations. The main elements of the system were completed by the late '60s, but the policy has been continually changing and developing since then. This process of change continues.

The UK, Denmark and Ireland adopted the common agricultural policy in 1973, with a transition period, lasting until December 31, 1977, in which to adapt to it fully.

The policy operates in two main ways. It protects the Community market against both low and high prices in world markets through threshold prices or export restrictions and it guarantees a minimum price for the basic agricultural products through intervention prices or direct payments to producers. Different mechanisms are used for different products.

Currency chaos and the 'green pound'

When the common agricultural policy was first devised, it was in a world of fixed currencies. It was anticipated that the European Community would enjoy increasing currency stability as the economies of the member States became more closely integrated. In that context, it would be possible to introduce an agricultural policy with support prices which would be effectively the same for each member State, providing a common level of support for all farmers and a stable framework for trade in agricultural products.

Over the last 10 years these hopes have been disappointed, as many currencies have appreciated or fallen in value and some have been allowed to float. For several years it has proved impossible to apply common price levels under the common agricultural policy; farm support prices in each member State are calculated by using special exchange rates, known as 'green' rates, giving each country its own level of support.

These green exchange rates produce price levels for agricultural products different from those which would apply if everyone used fixed parities or market values for calculating prices. For example, the 'green Deutschmark' maintains agricultural prices in Germany higher than is justified by the market value of the Deutschmark, and the 'green pound' holds prices in the United Kingdom substantially lower than they would be if calculated at the market exchange rate. The green pound rate used elsewhere in this booklet (£1 = 1.70463 units of account) would currently need to be devalued by a third to bring it to the market rate, although the gap is narrowing as the pound strengthens.

The system of green rates sets the official support prices for farmers; imports of farm products from one Community country to another or from outside the Nine are put on the same basis by border subsidies and levies called 'monetary compensatory amounts'. Thus agricultural imports into the United Kingdom attract an import subsidy which allows the trader to put them on the British market at a lower price than they actually cost him, or with a reduced import charge if they come from a non-member country. By the same token, the British exporter of a similar product must pay a levy which nullifies any competitive advantage he would normally enjoy as a result of his devalued currency.

Finance for the monetary compensatory amounts is paid from the Community's budget and currently amounts to about £500m a year on imports into the United Kingdom. Ireland has a different green pound exchange rate which gives a higher level of support prices. So her monetary compensatory amounts are correspondingly smaller than for the UK. The Irish farmer consequently finds it easier to export than his British counterpart and receives higher prices for his products.

Proposals are now being considered to provide for automatic changes in green rates, which would then gradually follow the movement in currency values.

Effect on food prices

Between leaving the farm and reaching the shops the cost of foodstuffs is roughly doubled by processing, distribution and marketing costs, so percentage changes in product support prices have a limited effect on retail prices and may be nil if the farmer's market price is already higher than the support price.

Nonetheless, official prices such as intervention and threshold prices do set the framework for retail prices, especially for foods like butter, beef, and sugar.

The establishment of common Community prices in the 1960s meant a price drop for the main commodities in Germany and higher prices in France and the Netherlands, as the support levels of each national system were brought together by means of common prices.

Britain, Denmark and Ireland had a traditionally low level of support prices, so when they joined the Community in 1973, it was agreed that they should adjust their farm prices to the full Community level by the end of 1977. This meant a relatively small increase in retail food prices in the UK, but it coincided with other far more important factors: a rapid increase in world food prices, a high rate of inflation and a fall in the value of sterling which raised import prices for those foods not subject to the 'green pound' system.

Among the most dramatic food price increases in the UK towards the end of the transition period were those for potatoes, coffee, and tea—all commodities not subject to the common agricultural policy. According to the UK Government estimates, the 1976 Community price measures raised the retail food index by only about 2 per cent and the 1977 package by a further 1¼ per cent.

Stocks and shortages

Variations in the weather can produce an abundant harvest one year and a small harvest the next, so food production is particularly prone to cycles of shortage and plenty. One aim of the common agricultural policy is to even out supplies to maintain steady prices.

Product stocks are naturally highest just after harvest or at times of peak production—the early summer for milk, the autumn for cereals and beef. It is then that prices tend to be at their lowest, so more foodstuffs are sold to the official intervention authorities and taken off the market, leading to an accumulation of stocks.

These stocks do not usually amount to a large proportion of total consumption, and where possible they are released on the market when prices improve, so they help to slow down any price increases.

In August 1977 there were no intervention stocks of grains (except for pasta wheat) or of sugar. Beef stocks amounted to about three weeks' consumption and butter stocks four weeks'. Skimmed milk powder presented the biggest problem, with a million tonnes' surplus, equivalent to 10 months' needs; but even this stock proved useful when soya bean prices rose in the spring of 1977.

There is a chronic imbalance between supply and demand for some products, especially milk, wine, and fruit like apples, pears and peaches. In the spring of 1977 the Council agreed on a programme to help bring milk supplies into balance with demand, with a levy on producers, and various measures to boost consumption including bigger subsidies for the use of skim milk powder for animal feed, and butter subsidies, including one of 8½p per lb in the UK paid for entirely from the Community's own funds.

The wine sector is still affected by stocks held over by producers from the exceptionally heavy 1973 and 1974 harvests, and action has been taken to restore a balance between demand and supply.

Recent shortages have been caused by the weather. In 1976 the Community suffered the worst drought in living memory, which badly hit the production of fruit and vegetables, including potatoes, throughout Western Europe. Its consequences were still being felt in 1977, with poor crops of apples and pears. In 1975 there was a European sugar shortage, which was met by special import subsidies paid for by the Community.

Why not sell off the 'lakes' and 'mountains' inside the Nine?

Although stocks taken into intervention usually represent only a small proportion of total supplies, putting them on the market when prices are already at the floor price level would depress prices of all supplies on the market—thus defeating the object of the support price system, which is to maintain a minimum price level and so ensure stable supplies.

Consumer subsidies help to boost consumption without depressing producer prices, but they are expensive. An alternative is the system of export subsidy, which gives commodity traders the opportunity to sell outside the Community even if world market prices are lower than those inside. Export subsidies are an integral part of the common policy for most products; but when the world price is higher than the Community price, the subsidy on exports turns into an export levy, hindering exports and keeping home market prices down.

3 A changing agriculture

The rural revolution

In 1958 about 19,000,000 people in the nine countries which were to form the European Community got their living from agriculture. That figure has now dropped to only 8,500,000, representing 8½ per cent of the working population. Over the last 30 years, in fact, a social revolution has been under way in large parts of Western Europe, as people have moved out of agriculture to work in industry and commerce.

This movement has had disruptive effects in some regions, for instance where the younger people have left the countryside and the population still farming is on average older than the population as a whole.

Population working in agriculture ('000)

	1969	1975		1969	1975
Germany	2 533	1 822	Luxembourg	16	9
France	3 011	2 351	United Kingdom	730	667
Italy	4 023	2 964	Ireland	298	252
Netherland	341	299	Denmark	272	228
Belgium	191	136	**Nine**	**11 415**	**8 608**

In the United Kingdom the movement out of agriculture has been much more gradual, taking place over 200 years or more. Its consequences have therefore been less dramatic than in certain regions of continental Europe, although many parts of Britain and Northern Ireland still suffer from rural depopulation.

The rate of decline in the agricultural population was highest in the years up to 1970, but it averaged 4 per cent annually between 1964 and 1974 in the original Six. It was highest in Belgium (6 per cent a year) and Luxembourg (9 per cent). Since then, the rate of decline has slowed down, especially as employment prospects in other sectors of the economy have receded. Average farm size in the EEC as a whole is now about 42 acres, varying from an average 17.3 acres in Italy to 153 acres in the United Kingdom. Germany, Belgium and the Netherlands are below the average at 32-35 acres and Denmark, Ireland and France above at 54-57 acres.

While there are big discrepancies between regions in the member States, only about one in five of the farms in the Community covers more than 50 acres. In the United Kingdom, 55 per cent of holdings are larger than 50 acres, but in France only 34 per cent are larger, in Germany 20 per cent and in Italy 7 per cent. Amalgamations are increasing average farm size, but at a rate determined by human factors such as the death, retirement, or movement of owner-occupiers. Between 1970 and 1974 the number of farms in the original six-nation Community was falling by 3.5 per cent annually.

Future trends in the EEC's farm population are determined by such factors as alternative employment in other parts of the economy, the general prosperity of farming and the average age of the farming population. In 1975 it was reckoned that more than 25 per cent of those working in agriculture were over 55 years old. In the economy as a whole, only 14 per cent of working people were more than 55. This predominance of older people in agriculture was most marked in Ireland (36 per cent in agriculture, 19 per cent general), Germany (27.4 and 13.1), and Italy (24.5 and 12).

This age structure of those in farming implies that there will be a continued fall in the number of people employed in the industry; only 22 per cent of the active agricultural population is between 13 and 34 years old, compared with 41 per cent in other sectors of the economy.

Streamlining and modernizing agriculture

Although the bulk of the Community's agricultural expenditure is devoted to price guarantees and subsidies, various programmes have been introduced at a Community level to help member States to streamline and modernize farming, or to give special help to some sectors. These include directives on farm modernization, farm amalgamations and agricultural information and training; the special measures for difficult farming areas; and the measure for providing capital grants for the processing and marketing of farm products. For the most part these are 'joint schemes', under which the Community makes a financial commitment to measures undertaken in each member State in accordance with various criteria agreed at the Community level:

Modernization aid—Under this directive, member states have introduced a selective development programme for farmers to modernize. This measure is designed particularly for farms with relatively low income per man employed which can achieve through a six-year development plan a working income comparable with non-farming incomes in the region. Holdings which are currently profitable but which are in danger of slipping behind in the next few years may also benefit.

Farmers wishing to take advantage of the programme must meet certain criteria:

Farming must be their principle occupation.

They must have adequate professional ability.

They must agree to keep accounts from the start of the development plan.

They must work out a development plan and have this approved by the competent authorities in their own country.

Under this directive the developing farmer has prior call on land released under the second directive (see below) and can receive aid in the form of an interest rebate for the investment necessary under the development plan, not including expenses incurred in purchase of land, of pigs or of poultry. A capital grant may be given instead of an interest rebate. Where there is insufficient collateral, he can also benefit from an official guarantee on the loan and interest.

Special terms are provided to encourage beef production, as well as incentives for keeping farm accounts, for machinery syndicates and production groups and for certain irrigation and land consolidation schemes.

Other national aid is restricted except on a temporary or regional basis.

For all the approved measures Community aid from the Farm Fund will be given at the rate of 25 per cent, the balance being payable by the member State.

In the UK the directive is implemented through the Farm and Horticulture Development Scheme, in Ireland as the Farm Modernization Scheme.

Help for giving up farming—This directive provides for an annual payment to farmers aged between 55 and 65 who give up farming. The payment, which may be up to 900 units of account annually for a married man or 600 u.a. for a single person, may be paid as a lump sum and can be varied according to the age or the income of the beneficiary. A contribution from the Farm Fund is payable for applicants between 60 and 65, including both farmers and employees on farms. In those member States which have an agricultural population comprising more than 15 per cent of the working population, applicants between 55 and 65 are eligible. A national premium related to the size of the holding may also be paid.

The land released when an applicant opts for the retirement premium must be rented out for at least 12 years or sold to another farmer who is developing his holding or withdrawn from agricultural use, whether for forestry, for relaxation or leisure, or for public utilities. The land may also be made over for at least 12 years to special agencies set up by member States for the purposes set out above.

The Farm Fund would normally reimburse 25 per cent of the state's contribution to the scheme (known in the UK as the Farm Amalgamation Scheme). This will rise to 65 per cent in those areas where the percentage of the working population employed in farming is above the Community average and where the gross domestic product per person is below the Community average, this applying to Ireland and most of Italy.

Provision of information services and training facilities—This directive allows for the creation and development of information services with the job of giving the agricultural population general information on possibilities for improving its social and economic situation, of helping individuals to adapt themselves to new situations and of giving information and advice.

Education and vocational training of advisers for tackling related social and economic problems is foreseen in the directive and member States are to set up a programme encouraging farmers and their employees to gain new or more advanced professional qualifications in agriculture.

The Social Fund of the Community is to take over some responsibility for financing these measures. Member States are to introduce a regime of special aids guaranteeing an income to people while they undergo training.

Farming in difficult areas—This measure provides direct help to less favoured agricultural regions which are affected by climate or terrain and which are therefore liable to depopulation and a decline in local agriculture.

The scheme covers regions in most member States and offers direct payments calculated on the scale of the farm (headage payments on cattle and sheep, for instance) and preferential terms for capital grant or interest rebate.

About 10 per cent of Community farm output is subject to these direct payments, which cover about a quarter of the Community's total farming area. The old hill farming areas of the United Kingdom are included. The Community's budget pays 25 per cent of the cost.

Processing and marketing—Direct capital grants payable under a 1964 regulation for investment in food processing and marketing are now being phased out and replaced by a joint scheme under which each member State draws up programmes of investment for particular sectors. Projects fitting into these programmes may then qualify for 25 per cent aid from the Community's budget, subject to various criteria.

Forestry—Proposals are being considered by the Council for Community policy to encourage afforestation.

Producer grouping—As well as the three directives outlined above, the Council of Ministers is committed to introducing measures designed to help the development of producer organizations (groupements de producteurs) and to modernize processing and marketing facilities.

4 How the policy works

The Institutions

There are four main institutions of the Community: the Council of Ministers; the European Commission; the Parliament; and the Court of Justice.

The Council of Ministers (meeting in Brussels and Luxembourg): Each member government has a seat on the Council, and is free to send which member of government it chooses to meetings of the Council. The Rome Treaty allows for majority voting on the Council on most issues, but in practice unanimity has been the rule; it is now accepted that no decision could be taken by a majority vote which one member government regarded as contrary to its own vital interests.

The need for a unanimous vote on all major issues can delay decision-making, but is usually resolved by the 'package-deal' decision, in which each country's interests are balanced against the interests of its partners.

The European Commission (Brussels): This has a twofold role. One is to draw up proposals for Community policy, a political role which the Commission fulfils in its capacity as guardian of the Treaties setting up the European Community. Its second function is to act as executive and secretariat.

The Commission has 13 members, appointed for four years, each specializing in particular spheres of work. Although they are drawn from member countries, they are all committed to acting independently of national governments and of the Council, taking joint responsibility for all their decisions. Only the European Parliament has the power to force their resignation.

The Commission does have freedom to act independently on some areas of policy which have been specifically delegated to it by the Treaties or by the Council—particularly on agricultural policy and the implementation of competition policy.

The European Parliament (meeting in Strasbourg and Luxembourg): This has 198 seats, the members being appointed from the parliaments of the Community member States. It has the power to table questions to the Commission and the Council and it debates many issues, giving its formal opinion to the Commission. Its main formal sanction is the power to dismiss the Commission by a two-thirds majority vote. The Parliament has certain budgetary powers and member States are now introducing legislation to allow the direct election of European Parliament members.

The Court of Justice (Luxembourg): Legal disputes raised in connection with Community legislation are resolved in the Court: it comprises nine judges, each of whom is appointed for six-year terms with the agreement of national governments. Community institutions, national governments, companies and individuals can all have recourse to the Court on matters of Community law.

The dialogue of decision-making

The two-way dialogue between the Council of Ministers and the European Commission is at the core of the Community's decision-making process. Neither institution has unlimited power to take important decisions; it is the job of the Commission to formulate policy and draw up proposals for future action, but only the Council of Ministers, on which all member States are represented, can give those proposals the force of law.

In practice important proposals usually evolve from prolonged discussion in which the Council, the Commission and other Community institutions are involved. If the Council of Ministers finds a Commission proposal unacceptable, the Commission will work on it further to produce an acceptable formula.

The business of consultation begins long before an idea or a policy can be presented by the Commission as a draft proposal. National governments and civil service departments are in regular contact with opposite numbers in the Commission as the details of policy are formulated, while pressure groups within the Community aim to maintain close contact, making views known as policy develops.

On agricultural matters the Directorate-General for Agriculture within the Commission invites people of its own choosing, who are usually experts from national governments and the organizations concerned, to form working groups which will advise on preparation of draft proposals for submission to the Commission member in charge.

This draft proposal becomes the basis for public discussion. The Commission will seek the views of the farmers' and co-operatives' committees of the Community (COPA and COGECA), which themselves have advisory committees for this work and are striving continually to strengthen this consultation procedure.

The draft also goes before the Economic and Social Committee, a Community institution comprising 143 members who are drawn from trade unions, employers and professional organizations, and 'general interest' representatives. It may also go to the Agricultural Committee of the European Parliament. On major matters the Parliament will present a detailed report to the Council before the final decision is taken.

At any stage in this process of consultation, the draft proposal may be amended in the light of the comment and criticism received. The Special Committee on Agriculture will give technical advice on proposed legislation and the Committee of Permanent Representatives, which is made up of the ambassadors of the member countries based in Brussels, provides the penultimate stage in decision-making before the Council of Ministers approves or rejects the Commission proposal.

Only issues of 'fundamental' importance, such as extension of policy to new areas or fixing of annual prices, have to go through the whole process to Council decision. Many regulations are necessary for the smooth day-to-day functioning of the common agricultural policy, and in these areas the Rome Treaty delegates considerable legislative power to the Commission. This power has subsequently been extended further by the Council.

Management Committees play an important role. These committees, of which there is one for each main group of products, serve the Commission by advising and approving Commission regulations. Every year about 1,000 Commission regulations and decisions are adopted after discussion by the relevant Management Committee.

Each Committee consists of representatives of member countries, usually ministry officials or staff of national marketing organizations, and although each national team is appointed by its national government, the whole Committee is chaired by a Commission official. Voting is weighted according to country, the total being 58, and the weighted majority 41.

When the Commission decides that action is required—for instance, to change or temporarily lift the import levy on pigmeat—it will submit a draft decision to the Management Committee dealing with pigs. The Committee will discuss the decision and if there is dissension among members a vote will be taken. If the vote goes in favour of the decision, then the matter is closed, but if the weighted majority is against, the draft decision is implemented, but the Council of Ministers has the opportunity within one month of rejecting or modifying it.

Most of the Management Committee work is in the field of fixing levies and other details connected with the agricultural policy. In practice the Commission aims to make its decisions acceptable to the committees and the system serves the Community well.

Two other committees which play a key role in the formation of policy are the Fund Committee, whose opinions on finance are binding on the Commission, and the Permanent Committee on Agricultural Structures.

Community policies, as decided by the national representatives meeting in the Council or by the Commission, may be expressed in a number of different ways:

The *regulation* is applicable in all member States. It is binding in every respect and has direct force of law in member countries from the moment of implementation.

The *directive* states an objection which is binding on member States, but leaves the means of implementation to governments, usually calling for changes in national legislation within a certain time.

The *decision* may be addressed to a government, to an organisation or to an individual and is binding in every respect on those named.

Recommendations and *opinions* are not binding, but usually express the Commission's views on policy.

Working the policy

Much of the Commission's work is involved with the detailed functioning of agricultural policy, especially fixing levies and export rebates. Each day Commission officials have to calculate the rate of levy for cereals on the basis of world c.i.f. prices as reported to Brussels, and communicate these to the national organizations which act as agents for the Community. The same arrangements apply for beef, where levies have to be calculated weekly.

Support buying and payment of export restitutions are carried out by government departments or by national bodies which have traditionally been involved in market management. They may in turn use private companies for work such as storing grain which has been bought in, and they have wide discretion in the practical arrangement of the policy.

Meeting the cost

The transition period for the Community's system of financing the agricultural policy ended in December 1970. By then all the expenses of the Community price-

The European Agricultural Guidance and Guarantee Fund (FEOGA)

Expenditure in million units of account (1976 forecast)

	Export refunds	Price Support	Total
Cereals	392	300	692
Rice	29	1	30
Milk products	752	1 178	1 930
Fats and oils	8	433	441
Sugar	95	175	270
Beef	149	602	750
Pigmeat	42	8	50
Eggs and poultry	20	—	20
Fruit and vegetables	45	128	173
Wines	4	147	151
Tobacco	6	202	208
Fish	5	3	8
Flax and hemp	—	17	17
Seeds	—	22	22
Hops	—	15	15
Accession c.a.s.	—	392	392
Monetary c.a.s.	—	611	611
Total guarantee payments	**1 586**	**4 249**	**5 835**
Total guidance payments			**325**

support arrangements were being met from the European Agricultural Guidance and Guarantee Fund (FEOGA, to give its French designation): the Fund was also covering some of the cost of improving farm efficiency and infrastructure.

From the beginning of 1971, the Community embarked on a programme agreed on December 23, 1969, at a marathon meeting in Brussels, for giving the Community its independent revenue, or 'ressources propres'. Instead of funds being contributed to the Community by national exchequers, the proceeds of levies on food imports and customs duties will accrue directly to the Community budget.

The programme is in two main phases and is designed to give the Community 'ressources propres' for all its policies, replacing the old regime under which separate arrangements were made to finance each sector of policy.

Ten per cent of the levies and duties are refunded to member governments to cover collection costs. As a precaution against any sudden shift in the level of contribution by any one country, percentage limits of change are set.
These arrangements will become fully automatic by the end of 1977, thus instituting a 'federal budget financed by federal revenues'.

The United Kingom, Ireland and Denmark will gradually adopt, according to an agreed scale, the Community's revenue system over the period 1973-77 inclusive, with a special provision limiting their contributions for another two years.

Under the transitional arrangements in force up to 1970, the European Agricultural Fund was more a clearing house than a fund in the strict sense. Member governments paid for eligible expenditure themselves and then submitted the bill to the Community's financial administrators for reimbursement.

With the definitive arrangements the market support agencies in member countries submit to the Commission their estimates of future expenditure. The necessary money is then advanced to them for use when required, instead of being paid on a retrospective basis through member governments.

As its title suggests, the European Agricultural Guidance and Guarantee Fund falls into two sections, of which the guarantee section is by far the larger, accounting for 65 per cent of the Community's total budget—not altogether surprising since agricultural support is one sector where virtually all expenditure is met by Community rather than by national budgets.

The principle of Community financing for market support is corollary to free trade in agricultural products. It means that if production in one member country expands rapidly, this does not push down prices unduly in other member countries. Community policies are decided in common and financed in common.

The main burden on the guarantee section of the Community budget is for price support in the milk products and cereal sectors although the higher world market prices are, the lower these costs become and the more the EEC budget must rely on income other than import levies on foodstuffs.

The Farm Fund also pays for the compensatory amounts (c.a.s.) applying on intra-Community trade.

The guidance section of the budget—which was originally planned to reach one-third of the guarantee level—amounts to 325m. u.a. each year. This money is spent to implement the directives on agricultural structure (pp. 10-12) and other schemes which have been agreed at a Community level for improving the efficiency of Community farming and fishing. The grants for major capital projects in food marketing and processing are funded by this section. The Commission, together with the Standing Committee on Agricultural Structures, is responsible for implementing these schemes.

5 Organization of the product markets

Self-sufficiency figures in the Community of Six(1) and Nine(2)

	1968/69(1)	1973/74(2)	1974/75(2)
Cereals			
Total	94	91	95
Soft wheat	120	103	112
Hard wheat	60		
Barley	107	103	107
Oats	96	96	99
Maize	55	59	55
Sugar	103	91	87
Meat			
Total	93	98	96
Beef	89	99	100
Pork	99	100	99
Poultry	98	103	101
Milk Products			
Whole milk	100	100	100
Butter	113	93	100
Cheese	102	107	104
Skim powder	148	150	147

Cereals

Market management arrangements for cereals and the price levels decided annually for grains in the Community are fundamental to the working of the common agricultural policy and the economics of farming in the Community, as cereals constitute a big proportion of total farm production and are the chief expense incurred by most livestock farmers.

Under the Community system a target price is set for each type of cereal. This price is fixed at the level which it is hoped producers will achieve on the open market in that area of the Community where grain is in shortest supply—Duisburg in the Ruhr Valley.

Like all the official cereal prices in the Community, the target price is not an on-farm price, but a price when delivered to store or merchant.

All other prices are linked to the target price. The first line of defence is the threshold price, which applies at all ports round the perimeter of the Community. Threshold prices are calculated so that when grain landed at Rotterdam has been transported to the Duisburg deficit area, it will sell at about the target price or a little more. The threshold price is the same at all ports, but is stepped up seasonally, reflecting the trend of storage costs for the home crop over the year.

Each day variable levies are calculated in Brussels, making up the difference between the lowest c.i.f. offers on world markets and the threshold price. These levies are payable on each consignment shipped into the Community from non-member countries, so producers need fear no undercutting by imports.

Import control is effective in controlling home market prices only so long as imports are coming in and there is no internal surplus. Intervention, or buying in, becomes necessary when home production exceeds demand.

The intervention price for each cereal runs parallel to the target price, pitched at 12-20 per cent below it, moving up in seasonal steps during the cereal year. The old system of derived regional support prices has been replaced by a single intervention price for barley, maize and wheat, so all feed grains are supported at the same level and special measures apply to keep up returns for high quality wheat.

Official cereal prices[1] 1977/78

		Unit of account per tonne	£p per tonne[2]
Durum wheat	target price	224.27	131.57
Soft wheat	target price	158.08	92.74
	basic intervention price	120.06	70.43
Barley	target price	144.97	85.04
	basic intervention price	120.06	70.43
Rye	target price	155.12	91.00
Maize	target price	144.97	85.04

(1) Prices for August 1977 (2) Calculated at the rate of 1.70463 u/a:£

For the trader who decides to sell grain to intervention, there are 11 main centres in Germany, in France, in Italy and in the UK, eight in Denmark, five in Ireland, two in Belgium and one in the Netherlands. These main centres have further sub-centres, all of them committed to paying the fixed price for grain delivered to them provided it meets certain quality and quantity standards. Obviously grain will only be offered at intervention if those holding it are unable to get a better price on the open market.

Grain production which cannot be sold on the Community market is usually exported. When Community prices are higher than world prices, an export subsidy or restitution is necessary to bridge the price gap. The level of refund is determined by Commission officials on the basis of various facts such as world prices, the amount of the surplus at home and future trends. Restitutions are also payable for derived products, such as malt and starch. When world prices are higher than those in the EEC, levies are imposed on cereal exports.

Producers of durum wheat, the hard grain which is used for making pasta, qualify for a special deficiency payment to encourage them to grow more of a product which is heavily imported from non-member countries.

Cereal production ('000 tonnes 1976)

	Total(1)	Wheat	Barley	Oats etc.	Grain maize
Germany	18 992	6 623	6 409	3 310	380
France	31 658	15 300	8 100	1 886	5 300
Italy	16 139	5 990	762	976	5 082
Netherlands	1 136	707	263	102	5
Belgium	1 913	988	686	165	18
Luxembourg	80	18	36	23	0
United Kingdom	13 870	5 070	7 877	900	2
Ireland	1 312	216	973	123	0
Denmark	5 888	578	4 767	307	0
Nine	**90 917**	**35 489**	**29 873**	**7 792**	**10 786**
USA(2)	218 994	45 780	8 341	9 544	134 488
USSR(2)	185 629	93 230	48 688	15 638	11 717

(1) excluding rice (2) average 1972-74

Sugar

Largely because of the importance of sugar production to developing nations and the attractions of sugarbeet to arable farmers in Europe, the Community imposes more discipline on the sugar sector than on any other commodities. The system combines quotas, support buying, and penalties for overproduction.

The Community's sugar needs are met partly by imports from developing countries whose economies depend to a large extent on the production of cane sugar, but mainly from domestic beet production and cane sugar from the French overseas territories.

Under the Lomé Convention, the Community is committed to importing about 1.3 million tonnes of cane sugar each year from developing countries such as Fiji, Mauritius, the Caribbean sugar producers and India. This arrangement runs for an indefinite period and guarantees these overseas producers a price linked to the Community's internal support prices.

Within the Community, a target price is fixed each year for sugar production in the main surplus areas. The market is then supported by a system of intervention price on a limited quantity of sugar amounting to 9,136,000 tonnes. towards the Community's deficit regions. EEC producers enjoy the full intervention price on a limited quantity of sugar amounting to 9,136,000 tonnes. This basic quantity is then divided among the member States which allocates quotas for the sugar companies in their territory. The basic quantity for the UK is 1,040,000 tonnes.

Each year the Council determines a maximum quantity over and above the basic quantity. For 1977/78 this maximum quantity is 35 per cent more than the basic quantity. But whereas the basic quotas qualify for the full intervention price, any sugar which is produced between basic and maximum quotas is

White sugar production and consumption ('000 tonnes)

	Production 1975/76	Consumption 1974/75
Germany	2 330	2 226
France	3 309	2 037
Italy	1 339	1 552
Netherlands	841	588
Belgium	659	358
United Kingdom	641	2 598
Ireland	187	145
Denmark	389	240
Nine	**9 695**	**9 744**

subject for 1977/78 to a 30 per cent production levy which reduces the effective level of support. Sugar produced outside these quotas—so-called 'C' sugar—does not qualify for support. The Community may forbid its sale on the domestic market or may restrict its export—it depends on the state of the market at home and abroad.

The production disciplines which apply to the companies are reflected in the prices assured to farmers for their sugar beet. Beet which is to be used for 'A' quota sugar is guaranteed a higher price than that for 'B' quota. There is no fixed minimum price for beet produced outside the quotas.

Official sugar and sugar beet prices 1977/78

	u/a per metric tonne	£ per tonne[1]
Minimum price for beet	25.43	14.92
Price for beet between basic and maximum quotas	17.80	11.20
Target price for white sugar	345.60	202.70
Intervention price for white sugar	328.30	192.60

(1) At 1.70463 u/a: £

Free market imports of white sugar, raw sugar and molasses from outside the Community are subject to threshold prices with variable levies payable in the same way as for cereals. Export levies and other restrictions may be applied when world prices are above Community levels. Export refunds may be paid when world prices are low. In order to meet the severe shortage of sugar in 1974 and 1975 resulting from rising world demand and a poor EEC crop, the Community agreed a special import scheme under which 500,000 tonnes of sugar was bought on the world market and made available to EEC consumers at heavily subsidized prices.

Milk and milk products

The common price policy for milk came into operation in April 1968, at the same time as the final regulations for the closely linked beef and veal markets were introduced. A common target price was established for milk, this being the price which it was thought producers should receive for their milk delivered to dairy, subject to market outlets being available inside and outside the Community.

Only about a quarter of the milk produced on Community farms goes for liquid consumption, so the emphasis in price management is on milk products. The policy is to maintain the target price by providing intervention for butter and skim milk, and for cheese in Italy, where little butter is made.

Official milk prices 1977/78[1]

	u/a per tonne	
Target price for milk	173.50	10.326p per litre[2]
Intervention price for butter	2 309.50	£1 334.87 per tonne[2]
Intervention price for skimmed milk powder	940.90	£543.83 per tonne[2]
Subsidy on skimmed milk powder for animal feed	390.00	£225.42 per tonne[2]
Subsidy on skimmed milk for animal feed	55.00	3.285p per litre[2]

(1) As from 16th September 1977 (2) At 1.73013 u/a:£

Community producer prices are protected more from low import prices by threshold prices, which are set out for 12 'pilot' products. The importer pays a levy to cover the difference between the world c.i.f. price and the threshold price. Threshold prices for other products are calculated from the pilot products.

Milk and milk products ('000 tonnes, 1975)

	Milk	Butter	Cheese
Germany	21 926	520	619
France	30 910	559	943
Italy	9 760	62	500
Netherlands	10 221	204	377
Belgium	3 763	93	40
Luxembourg	259	8	2
United Kingdom	16 240	48	234
Ireland	4 561	86	60
Denmark	5 100	139	152
Nine	102 740	1 719	2 927

The Community's dairy farmers are currently producing more milk than can be used for domestic consumption, so the Council of Ministers agreed in 1977 on an action programme for the dairy sector designed to boost demand and reduce output. The measures include a levy on production known as the co-responsibility levy, assistance to encourage producers to leave dairying, consumer subsidies on butter, special aid to users of skimmed milk powder and subsidies for school milk.

Each year the Community provides 200,000 tonnes of skimmed milk powder to developing countries under the World Food Programme.

The heavy reliance of New Zealand on the British market for milk products led to agreement that the Community should import certain quantities at a special fixed price. The import quota on butter will be 110,000 tonnes by 1980. No long-term agreement has been reached on cheese imports.

Beef and veal

In recent years the Community's beef and veal market has been subject to strong cyclical tendencies, with an acute shortage and high prices during 1972/73 and an abundance of supplies and low prices developing in 1974. During 1974, intervention became an important element in a market organization which until then had depended largely on control of import prices.

The free Community market in beef and veal came into operation from the beginning of April 1968, after a four-year transition period. The guide price is central to the arrangements, acting as a target price which it is hoped producers will achieve, and also serving as a trigger mechanism for import control and intervention at home.

The intervention arrangements provide an alternative outlet at a guaranteed price (90 per cent of guide price) when market prices become unattractive to producers. Greater flexibility was introduced to the system in 1974, because of the reluctance of some governments to undertake support buying and a shortage of storage space. A new system of direct, seasonal payments for beef cattle was introduced to encourage more orderly marketing. Such a scheme will operate at least until the spring of 1978 and the European Commission has now proposed that direct payments should become an integral part of the beef support system in conjunction with intervention.

Live cattle which are imported into the Community have to bear a customs duty of 16 per cent and beef imports bear a duty of between 20 and 26 per cent depending on type. These duties are part of the common external tariff, although they can be temporarily suspended or reduced, as they were during 1972–3. The levy arrangements, on the other hand, are flexible.

Levies on beef and beef cattle are fixed every week, comprising the difference between the price at which the consignments are imported (including duties) and the guide price, but the proportion of levy payable by the importer depends on the state of the home market. This is assessed on representative market prices, usually known as reference prices, which are calculated in each member country and then brought together as a Community reference price, weighted for the size of the cattle population in each country. Thus depressed markets in one country do not have a disproportionate effect on the Community reference price.

Official beef and calf prices 1977/78

	u/a per tonne	
Guide price for adult cattle	1 229.00	£72.10 per 100kg[1]

(1) At 1.70463 u/a:£

If the reference price is 106 per cent of the guide price then no levy is payable by the importer; if between 104 and 106 per cent, the importer pays a quarter of the levy; between 102 and 104 per cent half the levy becomes payable; between

Meat Production (1975)

	Beef + Veal	Pigmeat	Poultry-meat	Mutton/Lamb
Germany	1 365	2 748	290	20
France	1 868	1 534	824	131
Italy	745	732	902	32
Netherlands	413	988	300	18
Belgium	282	629	114	4
Luxembourg	10	9		0
United Kingdom	1 131	814	612	263
Ireland	564	102	35	46
Denmark	242	740	90	1
Nine	**6 620**	**8 296**	**3 167**	**515**

100 and 102 three-quarters. Once the reference price falls below the guide price, the full levy must be paid, rising to 105 per cent of levy when reference price is between 96 and 98 per cent of guide price, 110 per cent when reference price is between 90 and 96 per cent and 114 per cent when the reference price is less than 90 per cent of guide price.

Pigmeat

The volatile nature of the pig market, brought about because of the ease with which producers can expand or contract their output, tends to complicate any system of market management for pigs. The common market arrangements are designed to put a floor in the home market by occasional intervention, but to make the intervention price unattractive to producers. Imports are controlled by a system of supplementary and variable levies.

There is no target price for pigs, but a basic price which acts as the trigger for market support at home. When market prices (expressed as a reference price) fall below the basic price, then intervention may be undertaken. The actual price for intervention is pitched between 85 and 92 per cent of basic price. Deciding the level of intervention and the products to be bought in is a matter of discretion for the Commission, but only after extensive consultation with the Management Committee for pigs.

Each quarter the Commission, in conjunction with the Management Committee, decides a sluicegate price for imports of pigs and pigmeat. This is virtually a cost price of imports. If imports enter the Community below the sluicegate price, they are subject to a supplementary levy to bring them up to sluicegate level. Imports are always subject to a variable levy made up in two parts:

The difference between world market and Community costs for cereals for pig feeding.

Seven per cent of the sluicegate price, thus giving Community producers a margin of preference.

Restitution payments are fixed by the Commission and are payable to exporters, although restrictions in GATT limit the extent of these subsidies. However, they are especially important to processed meat manufacturers in the Community.

Official pigmeat price 1977/78

	u/a per tonne(1)	
Basic price	1 202	£70.51 per 100 kg

(1) At 1.70463 u/a:£

Eggs and poultrymeat

Harmonization of cereal prices between the Six made it possible to introduce common arrangements for eggs and poultrymeat in the Community from the beginning of July 1967. But while imports are subject to price control, similar to that existing for pigmeat, there are no measures for maintaining internal prices.

Imports of eggs or poultry have to come into the Community at sluicegate prices, or above; if they enter below they are subject to supplementary levies which can vary according to country of origin. As with pigmeat, the sluicegate price is reckoned to reflect the true cost of production in world markets.

Above the sluicegate prices, which are fixed quarterly, variable levies are imposed, consisting of 7 per cent of the sluicegate price to give Community preference and an element allowing for the higher cost of feedingstuffs in the Community. In fixing the levies, the Commission has regular consultation with the Management Committee concerned. Restitution payments can be made to allow exporters to sell on world markets.

Egg production ('000 tone 1975)

Germany	893	United Kingdom	825
France	768	Ireland	41
Italy	619	Denmark	75
Netherlands	313	**Nine**	**3 755**
Belgium/Lux	221		

All eggs sold in shops in the Community are now subject to strict grading standards regulating size and internal quality. These standards apply to imported as well as home-produced supplies.

Oils and oilseeds

Apart from olive oil, for which Italian and French producers meet 70-80 per cent of the Community's needs, less than 10 per cent of the Community requirements of vegetable oils can be produced in the Nine. Nevertheless, it is important that a common organization should exist to deal with this sector because of the close commercial relationships between animal fats, butter and its derivatives, and edible oils.

Rape, turnip rape, sunflower seeds and now soyabeans are the main oilseeds covered by regulations. Seasonally phased guide and intervention prices are fixed for these products, with derived intervention prices for different parts of the Community. Producers may also qualify for deficiency payments which are designed to bridge the gap between the Community price and the world market price.

Imports of oils are subject in some cases to customs duties but to no other control, these duties being bound in GATT; oilseeds, which are also bound in GATT, come in duty-free. Thus there is virtually free competition between home production and imports—hence the need for the deficiency payment. Refunds are also available to bridge the price gap for would-be exporters.

Olive oil imports are subject to variable levies, comprising the difference between a threshold price and the c.i.f. price. Because internal supplies are subject to fierce competition from imported oils, deficiency payments are regularly made to producers to bring their return up to a producer guide price. An intervention office in each producer country buys in at the official intervention price with the aim of maintaining the market guide price set by the Community.

Fruit and vegetables

More responsibility is given to producer organizations in the operation of the fruit and vegetable markets than in other sectors, largely because of the difficulties of operating a rigid system of support for commodities which are invariably seasonal, usually difficult to store and where marketing problems are often local or regional rather than national.

Imports can be controlled by imposition of a countervailing duty when the price of imports falls below the reference price for two successive days. This reference price is virtually a minimum import price based on cost of production and marketing. It can be seasonally stepped and is additional to customs duties, which vary between 10 and 21 per cent for vegetables and between 7 and 25 per cent for fruit.

For home market management basic prices for cauliflowers, tomatoes, table grapes, peaches, apples and pears are fixed annually by the Council of Ministers. Member States may fix buying-in prices at between 40 and 70 per cent of the basic price. When market prices are below this buying-in price for three successive days, a state of serious crisis is declared and member States must intervene to stabilize the market.

Producer organizations are entitled to fix a reserve, or fall-back price for each commodity, at which price they may intervene with some help from Community funds. In practice this means that they will not market produce at below this level.

Strict grading standards apply for fruit and vegetables and all intervention is paid for at grade II prices, so encouraging producers to place their better quality output through the market.

To increase the effectiveness of producer organizations, the Community provides for disciplines on their members as well as grant aid to help with their setting up.

Hops

The market regulation for hops is one of the most recent to be agreed by the Council of Ministers. No levies or refunds are planned as imports are bound in GATT at nine per cent customs tariff, but quotas on imports which have been applied by France and Belgium will have to be lifted.

Special grants are made available for setting up effective producer organizations which will have the leading role in regulating production to the needs of the market, and subsidies to producers will be payable if the Council of Ministers so decides after receiving an annual report and proposal from the Commission.

Subsidies are also available to encourage producers to switch to better varieties. Half the cost of such aid will be borne by the Farm Fund.

Total hop cultivation in the Community covers about 27,500 hectares, two-thirds of it being in Germany.

Potatoes, mutton and lamb and wool

Although 96 per cent of Community farm production is covered by the regulations of the common agricultural policy, there are important sectors as yet not included—potatoes, mutton and lamb and wool. As agricultural products outside the farm policy, national governments may apply their own policies for managing the market.

Potato production ('000 tonnes 1975)

Germany	10 853	Luxembourg	28
France	7 210	United Kingdom	4 516
Italy	2 943	Ireland	978
Netherlands	5 003	Denmark	675
Belgium	1 272	**Nine**	**33 478**

For mutton and lamb the rate of duty on imports is 20 per cent; on live sheep 15 per cent.

Wool is treated as an industrial product in the EEC and there is no Community support, although member States in some cases support marketing organizations. There is no duty on wool imports into the EEC.

The Council is now considering new regulations to bring potatoes and mutton and lamb into the common agricultural policy.

Tobacco

Tobacco was incorporated into the Common Agricultural Policy in February 1970. The organization provides for intervention arrangements and a common system of marketing, with the French and Italian governments agreeing to adjust their state tobacco monopolies. Tobacco excise taxes will be harmonized throughout the Nine, this to be completed by 1980.

Wine

Wine proved one of the most difficult products for which to evolve a common policy. It was a subject for discussion, proposal and counter-proposal for some seven years, but agreement was eventually reached in April 1970 as part of the package of measures which marked the introduction of the definitive phase of Community financing.

The final arrangements abolished all quotas on imports, introducing a customs duty and a variable levy system to bring imported wines up to the price level of their Community equivalent. They also provided for supervision of plantings, an intervention mechanism and common terms for trade with third countries.

It was decided that the strength of ordinary table wines must be between 8.5 and 15 degrees of alcohol (different criteria for high quality wines and aperitifs) and that wine growers in Luxembourg and Germany should be free to increase alcohol content of their wines by up to 3.1 per cent through addition of sugar to compensate for lack of sunshine.

Measures for improving quality and taking some vineyards out of production were agreed when the so-called 'wine war' between France and Italy was resolved in the spring of 1976. France had imposed a 10 per cent levy on Italian wine imports which was later removed.

Fisheries

The main elements of the EEC market organization for fish are:

A free market for fish throughout the Community.

Reference price arrangements to control imports.

Market organization and intervention to be the responsibility of producer organizations.

Help for modernization from the Farm Fund.

The price arrangements vary according to type of fish, with a guide price for fresh fish based on representative market prices for three years. This price determines the intervention level at which producer organisations are empowered to withdraw fish from the market at 60-90 per cent of guide price. The cost of withdrawal is met largely from EEC funds.

The Treaty of Accession allows member countries to restrict until 1982 fishing in areas up to six miles off their coasts to vessels from nearby ports traditionally fishing these waters. In extensive coastal areas of the new member countries and France this restriction applies also from six to twelve miles.

Moves to extend international fisheries limits to 200 miles have obliged the Community to look again at the fisheries policy. The Commission has proposed that there should be general 12-mile limits reserved for local fishermen, plus Community catch quotas for the remainder of the waters of the Nine.

6 The Community and the world

The Community and world trade[1]

	1968	1973	1975
World exports ($'000m)			
all products	201	468	720
—of which agricultural	45	99	126
EEC imports and exports			
imports—all products	46	104	155
—of which agricultural	15	30	32
exports—all products	44	100	143
—of which agricultural	4	9	12

(1) excluding trade between EEC countries

The world's biggest food importer

The European Community is the world's biggest importer of agricultural products—and also one of the world's biggest food exporters. In 1973 the Nine bought $30 000m worth of foodstuffs from third countries, making up 29 per cent of their total imports. Exports under the same tariff headings came to $9 400m or nine per cent of all exports. In the years between 1958 and 1970, agricultural imports increased by 86 per cent in value and exports virtually doubled.

These figures show just how considerable the effect of European unification in general and the common agricultural policy in particular have been upon world trade in farm products, despite the conflict of interest that has sometimes developed between the Community and the United States, in particular over the way in which respective farm-support systems have worked.

But if trade with non-member countries has developed rapidly since the formation of the Community, trade between EEC members has increased even more. In 1958 member states were importing $909m. worth of food, drink and tobacco from each other. By 1970 this had increased to $5,446m.

International trade agreements

The Community's dominant role in all international trade, including trade in agricultural products, makes it essential for the Community to have a strong policy and consistent voice in international trade negotiations. This is vital if the Community is to fulfil the duty imposed upon it by the Rome Treaty to contribute to the harmonious development of world trade.

The job of representing the Community in world trading issues usually devolves upon the Commission, which takes its brief from the Council of Ministers.

One of the earliest signs of the negotiating strength of the Community was in the Dillon and Kennedy rounds of the General Agreement on Tariffs and Trade (GATT). In the Dillon Round the Community agreed to make cuts in tariff levels on agricultural imports in addition to those which followed the setting up of the Common Market, and undertook to negotiate with the main supplying countries if their exports should be affected by the introduction of the variable levy system.

Thus agreements were signed with the United States for maize, sorghum, soft wheat, rice and poultry, and with Canada for durum and soft wheat.

The Kennedy Round of GATT, which lasted from 1964 until 1967, led to a phased reduction of industrial tariffs, but an attempt by the Community to regulate agricultural trade was not successful except for a world agreement on grains (the Wheat Trade Convention) and on food aid (Food Aid Convention).

The Food Aid Convention committed signatory countries to deliver a total of 4,500,000 tons of grain to developing countries, the Community providing 23 per cent of this at its own expense.

After the end of the Kennedy Round the climate of world trade in agricultural products did not improve. Surpluses, particularly of wheat and milk products, grew worse as the 1960s progressed. World exports of wheat from North America almost doubled to 51.5m. tons between 1965/6 and 1969/70, while Australian exports rose from 600,000 to eight million tons. Community exports declined slightly, but increasing quantities were being produced at home, affecting international trade in grains by reducing the size of the market for exporting countries. In 1969 the pricing conditions of the Wheat Trade Convention collapsed, to be abandoned when the Convention was renegotiated in 1971.

A crisis situation also developed in world trade in dairy products because of rising production throughout the world, including the Six. By 1969 the Community's farmers were producing about 5 per cent more milk than could be used at home. For some time the Community has been anxious for international agreement on dairy products and this moved a step nearer in 1970 with the GATT arrangement on Skimmed Milk Powder. This determined a minimum export price for skim powder.

Work towards a wider international accord on milk products still has high priority in the Community.

As a step to relaxing international trade, the Community and the United States agreed in June 1971 to some easing of the trading terms for farm products, followed on February 4, 1972, by an agreement on short-term adjustments. Both the Community and the United States accepted the principle of reciprocity and mutual advantage as the basis for solving pending problems.

A new series of GATT negotiations is now under way, the Commission taking the responsibility of putting the Community case. These talks began in Tokyo in the autumn of 1973, with participating countries agreeing to dismantle obstacles to trade and to improve the structure of world economic relations. One aim is to reduce non-tariff barriers, another to reach international accord on farm trade.

An agreement which included EEC tariff cuts on American citrus fruits and tobacco imports was concluded in May 1974 under GATT auspices. This technical agreement was to compensate for loss of trade suffered by some third countries as a result of Community enlargement.

Meanwhile the business of harmonizing the trading policies of the member countries continues, as in the adoption of a consistent approach to trade with Eastern Europe.

Help for developing nations

Measures to improve the position of the world's poorer nations are central to the policy of the European Community. The sudden rise in energy, food and fertilizer costs during 1973 and 1974 made the situation of many developing countries particularly difficult and the Community stepped up food aid and contributed to an international fund to help meet higher costs.

The Lomé Convention with 52 developing countries in Africa, the Caribbean and the Pacific provides duty-free access to the Community for nearly all the agricultural exports and total industrial exports of these countries, as well as introducing income stabilization on certain raw materials so that a producing country's income should not fall even if there is a slump in world commodity prices. Many other countries have special trade links with the Community, including those in the Mediterranean, in the Indian sub-continent and in South America.

The Community is now anxious to join the International Sugar Agreement, which sets a framework for sugar prices in the free world market. The new Agreement is due to begin on January 1, 1978.

Food consumption—vegetable products 1974/75 kg/head

Countries	Total grain	Rice	Potatoes	Sugar	Vegetables	Wine
Germany	66	2	92	36	66	23
France	72	4	94	38	113	103
Italy	125	6	37	28	155	103
Netherlands	64	4	83	43	90	10
Belgium, Luxembourg	79	3	107	35	101	55
United Kingdom	73	2	99	46	74	6
Ireland	84	1	127	47	74	2
Denmark	65	2	65	48	48	11
Nine	**82**	**3**	**82**	**38**	**99**	**51**

Food consumption—animal products 1975 kg/head

Countries	Meat	Eggs	Fats & Oils	Butter	Liquid milk
Germany	90	17	19	6	66
France	99	13	19	8	67
Italy	65	11	21	2	72
Netherlands	72	11	31	2	94
Belgium, Luxembourg	90	11	26	9	74
United Kingdom	73	14	15	7	142
Ireland	101	13	10	10	207
Denmark	70	11	25	7	120
Nine	**82**	**14**	**19**	**6**	**89**

Glossary of Common Agricultural Policy Terms

The Common Market's framework of official prices is fixed each year by the Council of Ministers on a proposal by the Commission for all the main agricultural products except mutton and lamb, potatoes and wool:

Basic price (prix de base): This applies to pigmeat and to fruit and vegetables. Once average market prices fall below the basic price, action may be taken to support the market by buying in surplus output.

Compensatory amount: This is the amount used to take account of a fundamental difference in prices in intra-Community trade. 'Transitional compensatory amounts' have been applied at diminishing rates on trade between the three new member countries and between old and new members. When a sales transaction is from a high-price to low-price member country a restitution payment is made; for trade in the other direction, a levy is charged. These measures are phased out on January 1, 1978. Similar arrangements are used to take account of currency fluctuations, with 'monetary' compensatory amounts.

Customs duties: These are not connected with the levies. As far as agricultural imports are concerned, they are applied at fixed rates on certain products imported from non-EEC countries—16 per cent on live cattle, 20 per cent on beef and veal, 15 per cent on live sheep and 20 per cent on mutton and lamb. Various rates apply to fruit and vegetables. Duties may be reduced or suspended by the Council of Ministers.

Denaturing (dénaturation): Addition of a dye or other ingredient to a commodity such as milk powder to prevent double payment where a subsidy has been paid. The denaturing premium which was available for wheat has now been abandoned.

Export refunds (restitution): To enable a Community exporter to sell on world markets, a refund or restitution payment can be made to bridge the gap between high Community price levels and lower world prices.

Guide price (prix d'orientation): This applies to beef and veal and is designed to act both as a target price and as a trigger for import control and support buying. There is a single rate throughout the Community.

Intervention price (prix d'intervention): This is the price at which national intervention agencies are obliged to buy up commodities which are offered to them. Intervention prices are fixed 12-20 per cent below target prices for wheat, barley, maize and rye. Intervention prices for each type of grain no longer vary regionally. For beef the intervention price is fixed 10 per cent below guide price and for pigmeat at 85-92 per cent of basic price.

Levy (prélèvement): For cereals, the levies on non-Community imports are fixed each day according to the cheapest offers at Rotterdam. For animal products such as pigmeat, the levies are fixed quarterly and contain two elements, one allowing for the difference in cereal cost between world and Community production costs and another giving extra preference for Common Market producers. Levies may also be imposed to discourage exports when world prices are high.

Reference price (prix de référence): Similar to the sluicegate price, but applying to fruit and vegetable imports. Also used to describe weighted Community average prices for livestock.

Sluicegate price (prix d'écluse): This is fixed for pigmeat, eggs and poultry and is reckoned to represent cost of production in non-member countries. A levy is payable on imports above this price and a supplementary levy on imports coming in below the sluicegate price.

Target price (prix indicatif): Community policy is geared to keep import prices as close as possible to the target price. For cereals this price is seasonally stepped to allow for storage costs throughout the year.

Threshold price (prix de seuil): This is the minimum import price at which non-Community supplies of cereals, milk products and sugar can be delivered at Community ports. Once transport costs from the port are added, imports should be marketed at or above target price. Commodities shipped into the EEC below the threshold price are subject to levies to bring their cost up to the threshold level.

Unit of account: The monetary unit used in pricing in the Community budget. 35 units of account (u.a.) are worth 1 oz of fine gold. For calculating agricultural prices, the UK rate of exchange (the 'green £') is currently fixed at 1.70463 u.a.: £. The Irish rate is 1.35190 u.a.: £.

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