

## Newsletter on the Common Agricultural Policy

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Significance and effects of the decisions on  
agricultural policy taken by the EEC Council  
of Ministers on 23 December 1963

The decisions adopted at the end of the marathon session on 23 December 1963 have a threefold effect:

- (a) They complete the common organization of the EEC's agricultural markets;
- (b) They mark the real beginning of a common agricultural policy in the EEC;
- (c) They fix a common policy for the Community regarding the agricultural aspects of certain problems in the EEC's external relations.

Re (a): On 14 January 1962 the Council of Ministers approved the common organizations of the markets for pigmeat, eggs, poultry-meat, cereals, fruit and vegetables. These organizations covered 53% of the Community's agricultural output and 23% of its total agricultural imports.

On 23 December 1963, further market organizations were added. From 1 April 1964 there will be common organizations of the markets for rice, beef and veal, milk and milk products, and from 1 November one for vegetable and animal fats. These additional products form some 32% of the Community's agricultural output and 14% of its total agricultural imports. (The imports covered by the recent decisions amount to \$1 200 million, including no less than some \$920 million for oils and fats (i.e. \$562 million for oilseed and \$352 million for oils and fats proper); \$115 million for milk and milk products; and \$204 million for beef. The Community's total agricultural imports amount to \$9 000 million.)

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The foundations have now been laid for a common policy covering 85% of the Community's agricultural production. In other words the EEC now has a framework for all products, a uniform system for the future conduct of trade both within the EEC and with non-member countries. This framework needs to be filled in with uniform farm prices, and only then will it become a uniform instrument of agricultural policy, be simplified, and rendered capable of influencing production policy. But here again a promising start has been made, giving grounds for hope that Council decisions on common agricultural prices may be forthcoming relatively soon.

Re (b): The decisions now taken by the Council, like those of 14 January 1962, must therefore be regarded as decisions on common forms of organization. In the fields referred to they contribute to the gradual elimination of obstacles to trade, and give a further boost to competition amongst farmers in the six Community countries. They safeguard the present level of prices in the Member States for the products concerned by setting up common market-intervention systems and foreign trade arrangements for them, but they do not really say what the common agricultural policy is to be. The common organizations of the markets still leave open the question of the level of the future common farm prices, and thus also the question of the protection against competition from abroad which the Community proposes to afford its farmers.

Therefore, from the point of view of a common policy, the following decisions stand out amongst those taken by the Council on 23 December 1963:

- 1) The decision to fix the cereal price for 1964/65 before 15 April 1964, and to do so on the basis of the EEC Commission's proposal to the Council concerning the alignment of cereal prices in the EEC at one stroke.
- 2) The decision, under the common policy for milk and milk products, to abolish by 1970 all producer subsidies tied to specific products and to transform into social subsidies any producer subsidies not tied to specific products. This decision affects subsidies in the Federal Republic of Germany amounting to approximately DM 1 200 million, and in the Netherlands to approximately Fl. 300 million.
- 3) The decision to pursue a common fats policy on the basis of the world market price level for the raw materials concerned, while giving direct subsidies to producers in the Community.

This decision of the Council is based on the fact that production in the Community covers only 20% of the six countries' requirements of vegetable fats.

The charge on margarine of DM 0.14 per kg of pure fat, adopted in connection with the foregoing in order to provide the financial means to support production in the EEC and in Africa, is so designed as not to hamper imports from the world market.

Re (c): The following decisions are important:

- 1) The decision to fix a common support level for all farm products in respect of which no common price has been fixed by the beginning of the Kennedy round in GATT, during which improvements to world trade in agricultural as well as industrial products are to be discussed. This support amount is to be founded on a theoretical price for the time being, a procedure necessary in order to have a basis for negotiation in GATT. Independently therefrom, the final common price for the products concerned may be fixed at a later date. If the theoretical price is too low, it will have to be compensated under GATT rules; if it is above the final price, a "credit" accrues in GATT.
- 2) The decision to incorporate, in all existing and future agricultural market organizations, a provision to the effect that, in implementing the agricultural regulations, account must be taken of Articles 39 (on the protection of agriculture in the EEC) and 110 (on the Community's external trade relations) of the EEC Treaty.
- 3) The decision to abolish in the existing regulations on trade in farm produce, and to omit from future regulations, provisions for any refunds exceeding the differences which, for the time being, still obtain between cereal prices in the Member States. This puts the preference which Member States grant one another in trade in agricultural produce on to a perfectly sound basis. The "hidden subsidies" must disappear.

This abolition of additional refunds is also of considerable importance to the EEC's trade with non-member countries, because it places these in a sound and uniform competitive position in their relations with the EEC - a position which is more comparable with the preference the Member States grant one another under the Treaty.

The marathon conference's main result, therefore, has been the adoption by the Community of decisions maintaining a good balance between the interests of its internal market and those of its external trade relations. In addition, the first effective decision on agricultural finance policy has been taken. Under Regulation No. 25, the Member States' contributions to their common Agricultural Guidance and Guarantee Fund are to be made partly on the basis of the scale laid down in the EEC Treaty and partly on the basis of net imports, calculated on the value of the individual products imported. It is largely due to this decision that henceforward the Member States will

be irrevocably committed to the common agricultural policy, which will increasingly determine their own agricultural policy. Hitherto it has seemed as if the common agricultural policy could be left out of account by the Member States in running their domestic agricultural affairs. But in the foreseeable future no Member Government or parliament will be able to take any decision that is not in line with the provisions of the common policy.

Since the national parliaments have been deprived of much of their say in this sphere, the Council of Ministers has decided to give a ruling at an early date on the European Parliament's right of control over the expenditure of the European Agricultural Guidance and Guarantee Fund.

The individual decisions of the Council of Ministers  
of 23 December 1963

Common organization of the market in rice

The EEC Commission's proposal for a common organization of the market in rice was substantially accepted.

The rice regulation is largely based on the principles and procedures laid down in Regulation No. 19 (on cereals), which has been in force since 1 August 1962.

It should, however, be pointed out that the economic effects of the rice and of the cereals regulation are not quite the same. Whereas cereals are grown equally in all six Member States, only two Community countries are producers of rice and four are exclusively consumers.

Furthermore, the EEC's rice trade is unimportant compared with its trade in other cereals. From 1959 to 1962 world rice exports and Community rice exports developed as follows:

|  | (in '000 tons) |             |             |             |
|--|----------------|-------------|-------------|-------------|
|  | <u>1959</u>    | <u>1960</u> | <u>1961</u> | <u>1962</u> |
| World exports                          | 6 772          | 6 969       | 6 138       | 5 780       |
| EEC exports to<br>non-member countries | 195            | 196         | 238         | 218         |
| EEC's percentage<br>of world exports   | 2.88%          | 2.81%       | 3.88%       | 3.77%       |

The following figures show EEC imports of rice from non-member countries over the same period:

|  | (in '000 tons) |             |             |             |
|--|----------------|-------------|-------------|-------------|
|  | <u>1959</u>    | <u>1960</u> | <u>1961</u> | <u>1962</u> |
|  | 353            | 394         | 279         | 322         |

Compared with 1959, in 1962 imports from developing countries had declined considerably, whereas imports from the USA had mounted and the total volume of imports had hardly changed.

The common organization of the market in rice provides for levies, a system of import licences, a safeguard clause and refunds on exports; all these apply to trade with non-member countries as well as to intra-Community trade. The target price for rice and the intervention price will apply in the producing countries only.

The levy is calculated from the difference between the threshold price in the importing country and the cif price of the product imported. In the four rice-consuming countries of the EEC (that is to say excluding France and Italy, which not only consume but also produce rice), the threshold price has been uniformly fixed by the Council of Ministers at 12.5 units of account (= \$ US) per 100 kg, which is the world market price for husked rice plus 5%. This means that, in trade with non-member countries, the EEC Member States will apply a uniform levy.

The method laid down by the Council to calculate the threshold price for the consumer countries shows the open spirit of this regulation, whose main purpose is to promote stabilization of prices within the Community by applying so simple an arrangement as the levy.

The EEC producing countries, Italy and France, produce rice by the most modern techniques. This means that their prices are reasonable. The threshold prices yet to be fixed by these two countries will therefore be economically justifiable.

When it is borne in mind that as soon as the levy comes into force all other protective measures will be abolished, the Community's rice protection may be said on the whole to be adequate. It is likely that, for several reasons, rice will always be available on the world market at prices below those obtaining in the EEC. In most cases the reason will be dumping. In others, the reason will be that producer incomes in the exporting country are below subsistence level and certainly below producer incomes in the rice-growing Member States.

Accordingly, all future levies must be fixed in the light of prices in the EEC.

Threshold prices in France and Italy and in the four rice-consuming (but not producing) countries are to be aligned so that there will be a uniform price by the end of the transitional period. During the discussions in the Council it was feared that this alignment of prices could act as a spur to Italian production. However, conditions in Italy are such that a slight increase of prices within the EEC could not have such a consequence: producer prices are too high, climatic conditions too difficult, and suitable soil too rare.

It is probable that prices in the EEC consumer countries will rise slightly, but not before a uniform rice market has been established (i.e. not in the first year during which the regulation is applied). This increase will only be small and will therefore have hardly any adverse effects on EEC consumption, which at present averages only about 2.5 kg of rice per head per year.

Following these remarks about the level of target prices in the Community, reference must now be made to the flat rate which is to constitute the preference granted by the Member States to one another. For cereals the Community has already given proof that it proposes to apply the preference system in such a way as to promote the normal development of trade. The results attained so far indicate beyond all doubt that this preference is virtually of symbolic value only. It is pointed out here that the levy on long-grain rice (mainly from non-member countries) will be no higher than that on round rice. This should allay any fears which exporting non-member countries may have in that respect.

The wording of the rice regulation reflects a desire for normal trade with non-member countries; for instance, in the session which ended on 23 December 1963, the Council issued rules for import licences which take account of the situation in the furthest distant exporting non-member countries, especially in some of the developing ones. Moreover, processing traffic will continue because rice from non-member countries can be imported free of levy provided it is re-exported from the Community.

An increase in intra-Community trade could only come about through a rise of Italian exports to the other Member States. But in that case Italy would have to give up a corresponding volume of exports to non-member countries, because establishment of the common rice market will not increase the total amount of Italian rice available for export. Since Italian rice is exported purely on a commercial basis and not as aid, exporting non-member countries would find the outlets in the world market which Italy could no longer supply.

In this context it is interesting to note that intra-Community imports of rice have declined from 47 961 tons in 1959 to 34 148 tons in 1962, and it would not be surprising if Italy were to regain her old position in the EEC markets.

It is characteristic that world production of unhusked rice rose from an average of 127 360 000 tons in 1957/59 to 153 945 000 tons in 1962/63. US production mounted from 2 073 000 tons in 1957/59 to 2 916 000 tons in 1962/63.

During the same period, EEC production fell from 797 000 tons to 782 000 tons. Moreover, certain kinds of rice are not grown in the Community, so that these will still have to be imported.

For all these reasons, the rice regulation cannot be expected to have any major effect on world trade.

Its repercussions will be insignificant when compared with the constant increase in import requirements, especially in East Asia.

### Beef

The Council accepted the EEC Commission's proposal in its latest form.

Until the very last some points of the common organization of the market in beef remained open; eventually they were included in the "package" on which the final round of negotiations turned. The Council has adopted policy solutions which still need to be precisely formulated and incorporated in the text of the beef regulation. The EEC Ministers of Agriculture must also still decide on implementation regulations concerning the exact level of the guide prices and levies and of the coefficients for pieces of beef (calculated on whole carcasses of slaughtered cattle) for calculation of the levies on such pieces.

The policy solutions include the following:

(a) The Member States are to be empowered to intervene in their markets when a certain price level is reached. Each Member State is to fix this level in a margin between 93 and 96% of the guide price (= 100%).

(b) Levies within the Community

1. If a Member State intervenes in its market, the levy must be equal to the difference between the supply prices and 95% of the guide price. If, however, a Member State intervenes at a level of 96% of the guide price, the levy must not exceed the difference between the supply price and 96% of the guide price.

2. Where a Member State does not intervene in its market it may introduce a levy on imports from Member States which will raise its prices to no more than 90% of the guide price.

3. Levies in trade with non-member countries

The Commission's levy arrangements for imports from non-member countries were approved. Special provisions were made for the import of Danish cattle into the Federal Republic. Sixteen thousand head of cattle will be imported annually up to and including 1965, at the time when the cattle are brought in from pasture, provided they do not reach the German market at a price lower than the guide price laid down in the regulation.

Imports of frozen meat from non-member countries

By qualified majority, the Council decided the volume and customs duty rate of a second quota for frozen meat from non-member countries, to be opened in addition to the 22 000 tons already bound by the EEC in the GATT.

Milk and milk products

What has been said about the beef regulation applies mutatis mutandis to this regulation as well.

The policy solutions in respect of milk and milk products include the following:

Milk subsidies

The Commission's proposal to abolish subsidies was accepted. But the Member States were empowered to grant direct aids to producers in those cases where market prices would not guarantee producers the income which should result from the target price for milk.

This system must, however, be gradually brought into line so as to ensure smooth transition to the final phase. To this end the Commission will recommend the Member States concerned, especially the Federal Republic of Germany and Luxembourg, to begin transforming these aids in 1966/67.

This will be done in step with the gradual increase of the market price to the common target price for milk, which will be fixed for the first time in 1966 and is to be reached by the end of the transitional period.

Community fats policy

On 23 December 1965 the Council of Ministers adopted a basic decision on the common fats policy, covering the following points:

1. Free import of oil seed and oils at the duty rates laid down in the common external tariff;
2. Direct subsidies to support domestic production in the Community;
3. A charge on vegetable fats consumed in the Community, in order to provide the means for supporting domestic production.

The Community's production of oil seed and olive oil covers only 20% of its requirements of vegetable fats. If olive oil is left out of account, oil seed production covers only about 7% of the Community's requirements.



The rates of the common external tariff which will be applied under the common policy are 0% for oil seed and 8-10% for the oils and fats produced therefrom. These rates have already been bound by the Community in the GATT negotiations.

To maintain the Community's insignificant production of rape seed and linseed, which must moreover compete with world market prices, direct subsidies will be granted to producers in the Community. The Federal Republic of Germany, France and Italy are already granting such subsidies to their producers.

The support amounts required for this purpose are estimated at some DM 60 million per year. A further DM 20 million or so will be needed to guarantee producers in associated African countries an income roughly similar to that which they received as a result of the special French import system which is now being abolished.

For olive oil - which is mostly produced and consumed in Italy, and constitutes the sole basis of economic activity in certain regions - an intervention price is to be fixed, and secured by levies. So far the Community has been producing some 200 000 to 300 000 tons of olive oil and importing 130 000 tons, of which 80% has been going to Italy. Since the common fats policy will compel Italy to abandon the policy of high-priced vegetable fats (margarine), neither the present high consumer price for olive oil nor the present producer price can be maintained. Here again, therefore, an intervention policy will be needed to safeguard the present incomes of Italian olive-oil producers.

The amount required to carry out this policy is estimated at DM 270 million, which is to be provided by a charge on fats used for human consumption in the Community. As some 2.5 million tons of pure fats are consumed, that means a charge of DM 0.14 per kg; for margarine this comes to DM 0.11 per kg. Since in France, Germany and Belgium the margarine price is about DM 2.50 per kg, the charge amounts to no more than 5%. In the Netherlands it would be about 8%, because there the price of margarine is approximately DM 1.60 per kg.

In Italy the price of margarine has so far been artificially kept high at DM 4.60 per kg, and the common fats policy will cause a major drop in that price to about the level of the other Member States, where imports have already been freed.

Possible price increases in some Member States would be accompanied by major drops in others.

So far as trade with non-member countries is concerned this means that the common fats policy will not favour domestic fats (butter) at the expense of consumption of imported vegetable fats, 80% of which are supplied by non-member countries. From this it follows that the common fats policy will not stand in the way of maintenance or expansion of imports as consumption of vegetable fats increases.