

Newsletter on the Common Agricultural Policy

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European Parliament paves way for common agricultural market:
acceptance of EEC Commission's proposal for one-stage align-
ment of cereal prices in 1964/65 marketing year

At its plenary session of 7 and 8 January 1964 the European Parliament recognized that the Council's session of 23 December 1963 and the decisions taken at it mark an important stage in establishment of the EEC's common agricultural market.

The Parliament paid tribute to the EEC Council of Ministers for having succeeded in completing the common agricultural market by bringing milk, beef and rice within its compass. Representatives of all parties regarded the Brussels decisions as politically important because dangerous obstacles had been avoided and the political will to reach a solution had been demonstrated. The Parliament also stated that the EEC Commission had "made a major contribution to this success by its great skill in devising new proposals. The EEC Commission has increased its prestige and strengthened its position."

Nevertheless the Parliament felt that in fact the most important political decisions had been evaded.

The Parliament considers these to include decisions on the level of cereal prices in the Community and on the powers of the European Parliament. The members of the Parliament had to decide on the EEC Commission's proposals for establishment of a common cereal price level. The members did not shirk their political responsibility, and after a long and thorough debate they approved the proposals. The minutes of the session show that this approval was given because the economic and political need was recognized for alignment of cereal prices amongst the six Community countries before the end of this year. It was further given to help the Council of Ministers to carry out its decision to fix the prices for the 1964/65 marketing year before 15 April 1964 on the basis of the EEC Commission's proposals.

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The debate confirmed that the cereal price is the focal point in a levy system such as that operated in the Community, and that prices determine both volume and type of agricultural production. This means that, if prices were fixed too high, the Community would soon be self-sufficient in cereals and would take on a protectionist character. One of the purposes of the levy system is to guarantee a certain preference for intra-Community agricultural trade whilst not leading to agricultural self-sufficiency in the EEC. The European Parliament did not object to cereal prices being fixed as high as possible, the Commission's proposal of \$106 per ton of wheat not even being regarded as "luxury" for European farmers. An amendment proposed by M. Sabatini (Italy, Christian Democrat) to fix the price at \$112 was typical of this attitude. The motion was rejected by 33 to 29 votes. The great majority of members (53 votes in favour of the Commission's proposal and only 9 against) realized that in a large and dynamic market such as that of the EEC, with considerable reserves of productive capacity, an upper limit must be set for the common cereal price if a margin is to be kept open for about 10 million tons of imports from overseas. Addressing the members of the Parliament, Dr. S.L. Mansholt, a Vice-President of the Commission, said that the price proposed by the Commission was such that it would just allow of a reasonable volume of imports.

The members of the European Parliament were also influenced in their favourable attitude by the fact that, with the Council's decisions of 23 December 1963, 85% of agricultural production in the Community is brought under the common agricultural policy, and that therefore the time has now really come to complete this policy by establishing a common price level. The Council's decisions had removed the last obstacles in the way of a common price level in the Community, and there is no longer any reason for further delay in reaching decisions on prices. On the contrary, they must be taken as soon as possible. A number of objections were put forward during the Parliamentary debate, and some difficulties were pointed out in connection with the one-stage alignment of cereal prices for the 1964/65 marketing year. But this did not change the opinion of the great majority that the Commission's proposal was particularly well suited to overcome these difficulties and that even in the short run its advantages would outweigh any disadvantages.

EEC Council of Ministers to decide on common cereal price

This has probably been the most important plenary debate on agricultural matters in the life of the European Parliament. Special significance attaches to it since the effects of the Commission's proposal on cereal prices will be decisive for completion and orientation of the common agricultural policy. Hence the Council

of Ministers cannot simply set aside the Parliament's views on this matter.

At its session on 23 December 1963 the Council itself realized the significance of the Commission's proposal, but has not yet drawn from it the conclusions which the Parliament has drawn. In contrast to the Parliament, the Council has still not laid down the objectives of the common agricultural policy.

There remains, however, an opportunity of doing so before 15 April 1964, because the Council has decided to give a ruling on the 1964/65 cereal prices before that date, based on the Commission's proposal.

Is there really any point in waiting longer?

As regards the Mansholt Plan, public opinion has not so far taken sufficient account of the fact that it does not merely concern the fixing of a certain cereal price but is a genuine Plan, comprising several interdependent and overlapping parts which form one whole. These are:

1. The proposal for a Council regulation amending Council Regulation No. 19 with a view to unification of cereal prices in the Community.
2. Proposal for a Council regulation fixing cereal prices for the 1964/65 marketing year and designating marketing centres.
3. Proposal for a Council regulation on compensatory measures and elaboration of Community plans to improve the standard of living of the agricultural population.
4. Proposal for a Council regulation supplementing the provisions laid down in Article 5(1) of Regulation No. 25 on the financing of the common agricultural policy.
5. The mandate empowering the EEC Commission to negotiate in GATT with non-member countries regarding expansion of world trade in agricultural products.

(The original proposals for regulations referred to under 1-4 above are attached to this newsletter to facilitate the study of technical details.)

The Commission's proposals must be considered as one whole, of which the Community plans and the proposed broader financing arrangements are part and parcel. So far the common agricultural policy has consisted in the use of tools created in common whilst each member country continued to pursue its own price policy. The establishment of a common price level now creates the conditions for a genuine domestic market.

In Regulation No. 25 on the financing of the common agricultural policy the Community clearly accepts common responsibility for the agricultural market. The Community now extends this common responsibility to the process of adaptation, which must be successful if a domestic market for farm produce is to be established. At present there is some uncertainty in the Member States because it is assumed that a common policy will entail fundamental changes of whose effect no one is quite sure. The result is stagnation, temporizing, irresoluteness and inactivity, largely at the expense of farmers in the Member States. Individual farmers cannot do any long-term planning on management, investment or costing, and cannot come to grips with the new situation, unless they are clear about prices.

It would be the greatest mistake if for fear of making a decision, which is inevitable anyway, the Council were to wait until 1966, when one would be forced on it by a qualified majority vote.

The Mansholt Plan is intended to clarify the situation in good time - first with regard to prices - and then to help in immediately tackling the problems which will result from the unavoidable price shift.

The Community plans once again make it clear that there can be no effective common agricultural policy without a policy on the structure of agriculture. In a common agricultural market structural measures are essential to round off marketing and commercial policy.

The Community plans comprise the following:

- (a) Measures to improve farm incomes in areas where structural conditions are poor;
- (b) Special programmes for certain categories of farms whose economic and social situation is particularly unsatisfactory;
- (c) Improvements to the systems of social policy in agriculture;
- (d) Aids independent of production.

Direct payments to compensate for any serious injury suffered are proposed for farmers in Member States where cereal prices must be reduced.

The Mansholt Plan is thus designed to bring European agriculture out of its present inertia and to clear the way in all Community countries for an agricultural policy in line with the establishment of one common market.

During the debate on the common agricultural policy it was often argued, both in writing and orally, that the common policy need not be introduced before the end of the transitional period laid down in the EEC Treaty, that is to say in 1970. This view is based on a

fundamental error. Article 40 of the EEC Treaty says quite clearly: "Member States shall gradually develop the common agricultural policy during the transitional period and shall establish it not later than at the end of that period." In other words, the object of the transitional period is to provide the time during which the common agricultural policy can be gradually established so as to be in existence at the end of the period.

This is all the more to the point since the common agricultural policy is not only not ahead of practically any other sector, but in fact lags behind in the establishment of a common domestic market. Only recently the EEC market organizations were reproached for being unduly technocratic. Those who hold this opinion have the more reason to accept the common cereal price as quickly as possible. If a uniform cereal price is in fact introduced, the Community will have an agricultural system which can hardly fail to be clearer and simpler than anything that has existed before. All levies amongst the Member States will disappear except for a small residue which will also be automatically whittled away. The Mansholt Plan will thus be a major help in working out a common agricultural trade policy and in facilitating imports from non-member countries.

Also, refunds on exports from one Member State to another are reduced to a minimum. They were a main factor in complicating the system. The processing industries will derive great benefit from the end of distortions of competition due to differences in raw material costs in the various Member States, and from the alignment of costs.

The question whether there is still any reason for delay naturally involves, first and foremost, the problem of the effects on agriculture. The answer is that it would hardly pay to maintain cereal prices in the present high-price countries of the Community. In the first place, as is well known, any mere maintenance of cereal prices is in fact tantamount to a price reduction; secondly, it means depriving oneself of all freedom of action in the formation of farm prices; and thirdly, such a state is conducive to continued misinvestment in agriculture.

Even if maintenance of prices in the high-price countries were to lead to cereal prices in the low-price countries rising to the level obtaining in the high-price countries, this would only mean that the starting position had been reached. But meanwhile no one would have benefited from the compensatory payments stipulated in the Commission's proposals, whilst at the same time there would be great uncertainty in each Member State as to whether its price level would in fact be attained in the others. Finally, stagnation in the six individual agricultural policies as well as in the common policy would last for at least another two years.

The Commission's proposal provides for an annual review of the cereal price in the Community. It is to be expected that, once the Commission's proposal is accepted, the annual fixing of the price by

the Council of Ministers in the light of current experience will provide a better basis for discussion than the practice of constantly saying 'no'.

As regards the effects of the price changes, the EEC Commission has given the most careful consideration to them, so as to be able to stand up for its proposals. The Commission has calculated that German farmers will suffer a total loss of income of \$140 million per year, whilst in Italy the figure would be \$65 million and in Luxembourg \$1 million. These amounts include the effects of alignment of cereal prices on the prices of livestock products such as pigmeat, poultry and eggs.

Finally, the Commission is of the opinion that compensation for loss of income should not be charged to the individual Member States. It feels that as soon as there is a common cereal price in the Community the responsibility for the effects thereof must be borne by the Community as a whole. If the Council of Ministers endorses the Commission's opinion that, because of the earlier Council decisions to establish a common market for agricultural produce, a common level of agricultural prices has become essential, it must logically agree to common responsibility for the resulting financial repercussions. This is one of the most significant advantages of the Mansholt Plan. It should be remembered that the common cereal price is to be accompanied by equally common guarantee, market, and price policies, so that intervention in the internal markets and refunds on exports to non-member countries become a matter of common financial responsibility. These amounts are to benefit all Member States.

In addition, if any Member State should feel that these measures are not sufficient, it is free to make further amounts available in order to provide full compensation for the farmers concerned.

Uniform cereal price confirms the EEC's intention to
keep the common agricultural policy open to the world

If, before 15 April, the Council of Ministers accepts the Commission's proposals and decides on a common cereal price, the Community will be considerably strengthened internally. The EEC could then enter with confidence into the Kennedy round of negotiations in GATT. In the light of this situation the EEC Commission sees no alternative to the proposals it has submitted to the Council.

Only when there is a common cereal price will the EEC be able to pursue a common commercial policy on agricultural products towards non-member countries. In calculating the level of the proposed price the Commission has taken into account all essential factors. These include farm incomes in the Community, maintenance of the balance between production and demand in the Community's markets, and the need to keep a margin for cereal imports from non-member countries.

The Commission was guided by the wish to avoid any undue increase in the area of land under cereals in the Community. Even so, there will be increased productivity per hectare, which will have to be absorbed by greater consumption. This consideration led to the proposal that the price of wheat should be DM 400 per ton in the surplus-producing region of Chartres (France), and DM 425 per ton in the regions of greatest deficit, i.e. Duisburg, Antwerp and Rotterdam. The Commission used a price ratio of 100 for barley to 115 for wheat. This ratio is based on the actual market value of these two types of grain, and means that in France and Italy coarse grain prices will rise more steeply than the wheat price. The Commission's reason for this method of calculation was that there is already a surplus production of wheat in the Community whilst there are still large import margins for coarse grain. The Commission is aiming at a definite reduction in the output of wheat other than durum and at stimulating the production of coarse grain (maize and barley).

There is a very close connection between the impending negotiations in GATT and the cereal price proposals of the Commission.

The Commission explained to the Council of Ministers that these negotiations must not be limited to industrial products, but that agriculture must be included. In order to have a basis for negotiating, it will be necessary to define the degree of protection which agriculture is to enjoy in the Community. This protection is expressed in the cereal price.

Those who would solve the problems of expanding world trade in agricultural products by promises of quantities and quotas in the Kennedy round are wide of the mark. Such a course would undermine the laboriously laid foundations of the common agricultural policy.

The effects of the Mansholt Plan on the consumer

In assessing the Mansholt Plan, its effects on the consumer cannot be left out of account. In the Federal Republic of Germany the cereal price will be reduced by 11 to 15%. In this way it will be possible at long last to give consumers in this high-price country some quid pro quo for previous increases in consumer prices of food.

Consumers in most Community countries must often have wondered of late why the EEC has not brought them any benefit as regards food prices. The levy system is generally blamed for the fact that this has so far happened only rarely. Under the Commission's proposals the levies, sluice-gate prices and other instruments were attuned to the domestic farm prices of a preceding reference period. In other words, the farm prices were to be retained at their previous level. If prices for farm produce, and therefore the consumer prices for foodstuffs, nevertheless show a rising trend, this is due to influences other than the Commission's proposals for common organizations of the agricultural markets. In the recent instructive debate in the European Parliament the chairman of one of the three major groups represented there pointed out that it was the Commission's responsibility to enlighten the public on these matters, especially where available information was patently incorrect.

In Italy the price of wheat will decline by about 11%, whereas that of coarse grain will rise by about 18%. In Luxembourg the wheat price will have to be reduced by 16%.

On the other hand all cereal prices will be increased in France and the Netherlands; in France wheat will go up by 8%, barley by 16% and maize by 1%, whilst in the Netherlands the wheat price will rise by 6% and the barley price by 15%. Belgium will be least affected by the price changes; there will be slight increases, of 2% for wheat and 7% for barley.

These price modifications within the EEC will directly affect farm incomes but will have only a small and indirect influence on consumer prices. Naturally, the various governments must ensure that middlemen do not make any unfair profits.

Where the cereal price in a Member State is increased by 10%, this does not mean that the price of the end product will also go up by 10%. Since costs of processing, packing and transport, and trade profits, make up a considerable part of the final price for foodstuffs, a 10% increase in the price of the raw material should result in no more than a 3 or 4% increase in the consumer price. Hence there should be no more than a 3% increase in France for end products based on grain, i.e. bread, rusks, pigmeat, eggs and poultry. In the Netherlands the increase would be a little greater, namely about 5%, whilst in Italy it would be a very modest 1 or 2%.

But these increases will be even much less when expressed as percentages of total consumer expenditure on foodstuffs. In the Netherlands, where the price increases would have to be greatest, they would amount to no more than 1.2%. If the increase in cereal price is related to the total consumer expenditure of a family of four, it would amount to 0.4% in the Netherlands.

Therefore there is no reason for consumers to over-estimate the effects of the proposed increase in cereal prices in some Member States.

The EEC Commission's cereal price proposal represents a milestone on the road of the Community's further economic integration. It carefully sets off advantages gained against disadvantages suffered by the various Member States. There is no longer any reason to continue a policy of marking time. The Commission's proposal offers a chance of making progress in European unification, and it should not be missed.

Grade I fruit and vegetables liberalized in
the EEC since 1 January 1964

On 1 January 1964 the barriers to trade in Grade I fruit and vegetables between the six EEC Member States were removed. Trade in "Extra" grade fruit and vegetables was liberalized as far back as 30 June 1962.

Liberalization of Grade I produce means that henceforward a large part of intra-Community trade in fruit and vegetables will be free.

Grade II produce is to be liberalized by not later than 31 December 1965. From that date onwards the market for the most important types of fruit and vegetables in the EEC will be entirely free.
