

Weekly

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MILK: BASIS OF THE FARMER'S INCOME IN THE EEC

The common organization of the market for milk and
milk products in operation on 1 November

A number of important decisions were taken by the Council of the European Economic Community on 23 December 1963. One of these was to institute a common organization of the market for milk and milk products in the Community. The main provisions governing this new market come into force on 1 November 1964. The individual measures now in force will be replaced by joint machinery for regulating trade among the Member States, trade with non-member countries and the arrangements on the internal markets of the six Community countries. The main element in the new market organization - as in all those already operative - is the introduction of a system of levies applicable to trade between member countries and to trade with countries outside the Community. In addition, the possibility of government intervention in the workings of the home market is to be limited; such intervention will be largely restricted to the butter markets.

These common trading arrangements will not develop into a common policy for milk and milk products until later - when the market organizations in the individual Member States are gradually aligned on a common target price for milk (to be aimed at by all member countries) and a common price level is established for all milk products produced in the Member States and made binding.

Price the central factor

Here, too, the principle underlying all the other EEC market organizations - that prices are the central factor in policy - has been retained. With milk products in particular it is rare that the market price, and consequently the price the consumer must pay for the product, whether butter or cheese, reflects the price of the milk contained in the product. In most cases market prices are distorted by all kinds of national measures of support and price equalization, chiefly and even more by subsidies of the most varied kinds. There is in fact a state of utter confusion. In all six member countries these subsidies have been rising year by year.

Clearly these measures, some of which are very complex and all of which are at the expense of producer or consumer, cannot be taken over into the common organization. For Community purposes, in which the six individual markets are to be combined in a single market, the first requirement was to clear the milk market up, to get back to essentials and reduce things to the simplest possible formulas. Some of the Member Governments are already thankful that the EEC has taken over this difficult task.

If we say that in the milk and milk products market of the EEC prices alone can be the central factor, we mean that all price-distorting measures, i.e. subsidies, must be done away with. The crucial question for the future common policy is this: whether the

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policy for milk can be carried to success in the time allowed will depend on how ready Member Governments are to abolish subsidies and convert them into normal price components.

The policy for prices

This, of course, is easier said than done. The sole concern of farmers in their capacity as milk producers in the Community is that they should continue to receive the same price guarantees as before for the milk they supply to the dairies. In the last resort they do not care whether the farm-gate price is made up solely of what the various milk products fetch on the market or consists in part of subsidies. But this is not immaterial to the operation of a Community milk policy, because subsidies cannot go on for ever if there is to be equality of competition among the Member States. On average, receipts from the sale of milk make up about 25% of the total receipts for all agriculture produce sold in the EEC. And another 10-15% comes from the sale of cattle, so that the cattle industry as a whole forms the biggest single element in agricultural revenue in all EEC countries. Consequently, the step now being taken by the EEC is particularly important to farmers.

The common target price and how it is to be reached

The main price objective of the market organization for milk is therefore the ex-farm target price for milk with a fat content of 3.7% (Articles 17 and 18 of the regulation). This is the price which it is the aim of market policy to achieve for all milk producers (first in the individual Member States, later in the Community as a whole) for all the milk they sell in the milk year, which runs from 1 April to 31 March. The price is to be attained through the operation of the common market policy at latest by the end of the transitional period (1970). So that the transition shall not be too abrupt, the yield from sales on the market may initially be supplemented by direct producer subsidies and specific measures within the fresh milk markets in order to attain the target prices set in each country. It should be mentioned here that fresh milk is at first to be excluded from the market organization. Not until fresh milk is also covered can we think of really putting price policy into effect. However, the proceeds from sales of fresh milk are already included in calculations of the target price.

To provide an overall picture of milk price policy in the EEC, we must point out that certain divergences from agricultural price policy in the other EEC regulations have been taken into account in the milk regulation in order to reduce and overcome the particular difficulties involved in aligning the price systems for milk. In contrast to the cereals market organization, for instance, a price objective has been fixed from the outset. In the first half year of the milk market organization there is still a price bracket with an upper and a lower limit; before the new milk year begins on 1 April 1965 member countries will know the common target price towards which they are to move.

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Why has this procedure been adopted? In the milk market organization we have two price levels - the producer price level and the dairy price level: this means a total of twelve different price levels or systems currently operating in the six Member States, and these must eventually be given a common denominator.

The salient point as regards prices in the milk market organization is this: whereas under the procedures now obtaining in the Member States the price of milk reflects the interests of the producer, in the common organization the position must be reversed by the end of the transitional period so that the producer is guided by prices, i.e. whatever price the market will offer for his product (Article 19 of the regulation). The various price levels must therefore be brought into a reasonable relationship. The alignment of market prices is intended eventually to lead to a single producer price for milk in the Community; otherwise, there is no way of untying the present tangle on the milk market.

Price alignment for the individual products is therefore the second essential task for the common milk policy, since these prices indirectly determine the level of producer prices.

However, as the cost situation in milk processing still varies considerably from country to country because of the entirely divergent structures of the various milk industries (reflected in different production, sales and profit conditions), even uniformity of market prices will not itself produce a uniform level of producer prices. Only when uniform cost and profit rates, based on the Community average, have been laid down and, together with the target price already fixed, provide a basis of calculation for the individual products in the milk industries of the various member countries, will a common price level finally be possible. The harmonization of threshold prices for the individual products, which are to be fixed annually before 15 February on the basis of the common target price for milk, will serve as a guide for the actual unification of market prices.

Article 20 of the regulation lays down the procedure for harmonizing threshold prices, and thus market prices, among the member countries. This is intended to ensure that progress is made towards the objective of a uniform price for the whole Community.

In order to achieve this, subsidies totalling over £ 2 017 million in 1963, of which over £ 995 million was paid out in a single member country, must be withdrawn. Subsidies to the milk industry form the bulk of all subsidies granted to agriculture in the Community.

The Council has agreed that with effect from 1 July 1964 member countries may neither introduce new subsidies nor increase existing ones. But it has not yet reached agreement, despite the urgency of the matter, on going ahead rapidly with the elimination of subsidies. For the first year of application of the milk market regulation, the Council considered that

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member countries need eliminate only one seventh of the subsidies paid for milk products in order that the lower limit of the target price for milk can be attained. The result of this in one Member State is that no reduction need be made at all, but for most of them there will have to be a considerable reduction in existing subsidies. For the subsidies then left the Council must take a decision on a proposal by the Commission so that these too can be eliminated before the end of the transitional period. For the 1964/65 milk year the Member States have fixed their individual target prices within the limits laid down by the Council.

1964/65 target prices for milk with 3.7% fat content
in the member countries

(price per litre in national currencies)

	<u>Belgium</u>	<u>Germany</u>	<u>France</u>	<u>Italy</u>	<u>Luxembourg</u>	<u>Netherlands</u>
<u>Upper</u>	<u>Bfrs.</u>					
<u>limit</u>	<u>5.250</u>	<u>DM 0.42</u>	<u>FF 0.5184</u>	<u>Lit. 65.53</u>	<u>Lfrs. 5.250</u>	<u>Fl. 0.3801</u>
	DM					
0.42				Lit. 65		
0.40					Lfrs. 4.950	
0.38	Bfrs.	DM 0.3770				
	4.6135					
0.36						
0.34						
0.32			FF 0.3975			Fl. 0.31
<u>Lower</u>						
<u>limit</u>						
0.318	Bfrs.	DM 0.318	FF 0.3925	Lit. 49.69	Lfrs. 3.975	Fl. 0.2878
	3.975					

Common target price to be fixed by 15 January 1965

Before 15 January every year - and for the first time by 15 January 1965 - the Council is to fix a common target price for milk on a proposal by the Commission. The Council must reach its decision unanimously in the first year, but only a qualified majority is necessary from 1966. The main purpose of the common target price is to provide a basis for unification of the target prices in each Member State. Every year from 1965 on, the Council must also decide what measures each Member State must take during the subsequent milk year in order to bring target prices closer together; this decision will

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be taken at the same time and under the same procedure as that on the common target price. At the end of the transitional period the common target price fixed by the Council will apply throughout the Community.

Major price decision with due regard to the guide price for cattle

This autumn the Council will have to take important decisions not only on milk prices but also on the common guide price for cattle. It is no accident that these two decisions are linked. A major factor in each case is the current supply situation in these products, the balance between supply and demand with due regard to trade with non-member countries, and the future trend as far as it can be ascertained. There is a close economic tie between the number of dairy cows, the number of calves produced and the possibilities of increasing the output of meat.

The EEC as a whole has a net surplus of about 1.7 million metric tons milk equivalent, whereas there is a growing demand for imports of beef and veal.

France, for instance, views with concern the developments over the last couple of years in which good grazing land has been broken up and put under cereals to an increasing extent because labour is in short supply in the cattle industry. The additional sowings of cereals are swelling the wheat surplus in the Community. We may well wonder, if this can already happen in France with its low cereal prices, how much more pasture would be brought under the plough if cereal prices in France should be raised.

A depletion of dairy herds would not be a tragedy in itself, for the French dairy cow still produces less than 3 000 kg of milk per year on average. The expected increase in output to over 3 000 kg per cow per year would produce enough milk, but what gives real cause for concern is the fact that the number of calves for slaughter is rapidly falling, since dairy cows obviously provide the basis of the meat supply in producing calves.

Too severe a depletion of dairy herds would lead to a reduction in the supplies of beef and veal. This is why it is so important that the Council should link the decisions on prices in the two fields. The trends we have indicated clearly show that in the EEC a dynamic production policy is needed that will encourage beef production without leading to an undue growth of dairy herds.

Before the war the price ratio of beef to milk in all Community countries was between 5.3:1 and 6.1:1. This favoured milk production. At the beginning of the 50's the ratio in Germany and Benelux had gone up to more than 7:1. Beef production in those countries consequently rose more sharply than milk production. While the breeding of calves for fatstock was extended significantly, dairy-cow breeding remained practically unchanged. In France and Italy, too, the price ratio from 1950 to 1954 altered in favour of beef, but not to the same

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extent as in the other EEC countries. The ratio did not go beyond 6 or 6.3:1, and dairy herds consequently grew more rapidly than beef herds.

Since 1956 in Germany and 1957 in the Netherlands milk production has been more heavily subsidized, so that the price ratios shifted again in favour of milk. Between 1955 and 1958 the beef to milk ratio in Germany was 7:1 and in the Netherlands 6.4:1. There was therefore a further slight expansion of dairy herds in these two countries. This would probably not have happened without subsidization; the farmers would have increased meat output instead.

Rules governing foreign trade and dealings on home markets

What products are covered by the common organization of the milk market in its present form? The main items concerned are the following:

<u>Product</u>	<u>Tariff heading</u>
Milk and cream, fresh, not concentrated or sweetened	04.01
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Milk and cream, preserved, concentrated or sweetened	04.02
Butter	04.03
Cheese and curd	04.04
Lactose and lactose syrup	17.02A
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Article 29 of the regulation specifies that fresh milk should be included in the market organization under some special arrangement by 1 December 1965 at latest.

In a resolution adopted at the same session, the Council also indicated what lines it would follow in relating the market organization for milk to the future regulation on oils and fats, particularly in connection with olive oil (see also Newsletter No. 4, December 1963).

A number of products containing milk are not included as agricultural products within the meaning of the EEC Treaty. They are food preparations and are regarded as industrial products. Casein, chocolate and fruit flavoured milks, and yoghurt are among these products for which the Commission can make proposals to the Council under Article 235 of the Treaty.

Various feed compounds contain a proportion of milk. To ensure that they are all covered, they have been divided into those containing more than 50% milk, which come under the milk regulation, and those containing less than 50% milk, which come under the cereals regulation.

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As with the market organizations already in force, the milk regulation can be divided into three sections - dealing with prices, levies and intervention. For each of these three heads the regulation sets forth the basic principles, the provisions for transition from national arrangements to Community rules, and the establishment, as final step, of a common market in milk products.

The levy system

This, too, corresponds to the principles of the agricultural regulations that have been in force for over two years. In trade between member countries, the levy on imports is calculated by taking the threshold price of the importing Member State and deducting the free-at-frontier price of the product shipped from the exporting Member State plus a standard amount. These provisions are contained in Article 2 of the milk regulation.

In principle, the regulation provides for the calculation and imposition of levies for all products. But in this field the number of products is immense. To simplify matters and to facilitate the administration of the regulation, the Council decided to group certain related products for the purpose of calculating the levies. Thirteen such groups have now been established. A pilot product is fixed for each group, and the levy is calculated for that product. The amount of the levy for the other products in the group (known as "assimilated products") corresponds to that of the levy for the pilot product. This procedure has been ignored in only a very few cases, where it became apparent that the levies on certain products would have been, for one reason or another, too high; in these cases the levy was calculated for each item individually.

The most important cases in which the general rule had to be abandoned were baby foods, processed cheese and also whole milk powder, where the various degrees of fat content had to be taken into account. For calculating the derived levies the principle generally adopted was to link the amount of the levies to the customs tariffs currently valid for the member countries. The purpose of the derived levies is thus to provide higher protection for the national processing industries. For some of the products in Groups 7, 11 and 12, intra-Community levies are not imposed because prices in the various countries are already very close to one another. Some products, too, are regarded as typical of a given member country. They are not manufactured in other member countries and are therefore subject to no levy; there is no levy, for instance, on French exports of Roquefort cheese to other member countries.

Reference prices were taken as a basis for the first fixing of threshold prices for the various products. The reference period chosen was 1963. The reference prices were adjusted to allow for changes made in the target prices for milk during 1963 and the elimination of subsidies required under the regulation.