

Newsletter on the Common Agricultural Policy

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European Agricultural Guidance and Guarantee Fund (Guarantee Section)

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Purpose, machinery and scope of the European Agricultural Guidance
and Guarantee Fund

Origin of the Fund

The EAGGF was brought into being by Regulation No. 25, supplemented by the implementing provisions of Regulation No. 17/64. The Fund provides the financial basis of the common agricultural policy and, with its machinery and the funds allocated to it, is cut out to play a considerable rôle in European integration. Its legal basis is Article 40(4) of the Treaty establishing the European Economic Community, which says that "In order to enable the common organization referred to in paragraph 2 to achieve its objectives, one or more agricultural guidance and guarantee funds may be established". Regulation No. 25 - on the financing of the common agricultural policy - was adopted by the Council on 14 January 1962 and published in the official gazette of the European Communities on 4 April 1962 (p.991). At first the regulation covered the market organization for cereals and cereal products, which was set up at the same time, and the related livestock products - pigmeat, eggs and poultry.

The Fund's income derives from payments made by the Member States. Its expenditure is in the form of reimbursements to the Member States of sums paid out as refunds on exports to the world market and of market support costs (storage and denaturing) connected with farm surpluses. The Fund's job, then, is to guarantee producer prices for farmers in the Community countries under a system of common financial responsibility. It also has to encourage and guide the reorganization of the pattern of farming in the Community countries.(+)

The basic machinery of common financing set up under Regulation No. 25 is not limited to the transition period but also covers the final stage of the Common Market. The financing arrangements are phased so that by the final stage the costs arising from the common agricultural policy will be financed by a complete, hundred-percent common system. Precise rules, however, were established only for the first three years from July 1962 to June 1965. The Council also preferred to set up a single fund for all agricultural expenditure. Consequently, Regulation No. 17/64, the enactment of which was simultaneous with the extension of the Fund's scope to milk and milk products, beef and veal, and rice, provides for the division of the EAGGF into two sections:

1. A Guarantee Section for market operations;
2. A Guidance Section for expenditure on structural improvement, which was to have its own rules and to which a third of the money for market operations was to be allocated.

.../...

(+) We shall speak of the work of the Guidance Section in a special issue of the "Newsletter on the Common Agricultural Policy".

Running-in period: the first three years from 1962/63 to 1964/65

The procedures of the EAGGF have put into practice two important principles of the common agricultural policy:

1. The principle of the gradual development of an integrated market for farm products: by granting each other reciprocal preferential treatment the member countries gradually build up a market with the characteristics of an internal market;
2. The need for Community "financial responsibility", which will be complete once the agricultural policy acquires a Community character in the final stage.

By then the argument for a "fair allocation of burdens" will have lost its point; this argument is frequently advanced because the allocation of receipts and payments between the member countries is looked upon as unequal from our present viewpoint.

Expenditure - Guarantee Section

The Guarantee Section's expenditure can be broken down into:

1. Expenditure on refunds for exports to non-member countries, a kind of export subsidy which is paid when the Community price is higher than the world price;
2. Expenditure on intervention in the internal market - for example, withdrawal of surplus produce in order to preserve the balance of the market; and measures such as storage of surpluses and denaturing.

Various conditions must be fulfilled before such expenditure can be considered for financing by the Fund. Refunds cover only net exports, that is the actual excess of exports over imports.

Income

The EAGGF forms an item of the Community's budget, but its receipts and expenditure are accounted for separately from the rest of the budget.

The Community's income for the common agricultural policy is provided through two different channels:

- (a) Direct contributions paid by the Member States according to a scale established for each member country;
- (b) Contributions by the Member States calculated according to their net imports from non-member countries.

For the first year, 1962/63, only the scale of contributions contained in Article 200 of the EEC Treaty was applied; in the next two years the share paid by each member country was increased in relation to net imports:

	<u>1962/63</u>	<u>1963/64</u>	<u>1964/65</u>
According to the scale laid down in Article 200	100%	90%	80%
In relation to net imports ..	-	10%	20%

During the first three years, from 1962/63 to 1964/65, the scale of financial contributions by the Member States applied under Article 200 was:

Belgium	7.9%
Germany	28%
France	28%
Italy	28%
Luxembourg	0.2%
Netherlands	7.9%

In order to prevent one member country's contribution from being considerably above the average, a ceiling of 31% was established for the Federal Republic of Germany.

The Fund's growing participation in expenditure arising from the common agricultural policy

The transition to a comprehensive common financing system has been phased by the Council; this applies both to the number of products covered by the Fund and to the size of the Fund's share of expenditure. To take the first three years, the Fund contributed one sixth in 1962/63, two sixths in 1963/64 and three sixths in 1964/65:

- (a) To market support designed to maintain a minimum price level;
- (b) To refunds on net exports.

All remaining expenditure is still covered by the member countries themselves.

Expenditure in the first three years

Figures for these years show that the greater part of expenditure was on export refunds:

77.5% in 1962/63
86.3% in 1963/64
80.5% in 1964/65

Market support accounted for:

22.5% in 1962/63
13.7% in 1963/64
19.5% in 1964/65

The large share of refunds in the Fund's total expenditure reflects the relatively good crops of cereals in this period, particularly in France, and the fact that initially only a few products were subsidized by the Fund. Expenditure by the Guarantee Section on the various products, expressed as a percentage of its total expenditure, is broken down as follows:

	<u>1962/63</u>	<u>1963/64</u>	<u>1964/65</u>
Cereals	97.3	92.1	71.65
Pigmeat	0.2	4.8	4.3
Eggs	1.9	1.7	0.65
Poultry	0.6	1.4	0.71
Milk and milk products			17.70
Rice			0.44
Olive oil			4.55

A glance at the above figures shows that the extension of the Fund's scope to milk and milk products in 1964 made the percentage for cereals fall. For olive oil there is a standard amount which has been placed at the disposal of Italy as an advance on the future oils and fats arrangements.

Total expenditure for 1962/63 to 1964/65 in absolute figures

From 1962/63 to 1964/65 inclusive the Guarantee Section accounted for 259.4 million u.a. (the Guidance Section accounted for another 85.96 million u.a., or one third of the Guarantee Section's expenditure).

The breakdown for the individual years is as follows:

	<u>Guarantee</u>	<u>Guidance</u>
	(million u.a.)	
1962/63	28.7	9.06
1963/64	49.9	17.1
1964/65	175.7	58.6

Estimates for 1965/66 (1967 budget)

In 1965/66 the Fund was already paying out six tenths of the Member States' expenditure arising from implementation of the common organizations of agricultural markets.

Refunds on exports to non-member countries
(in u.a.)

Cereals	104 024 000
Milk and milk products	70 027 000
Pigmeat	14 434 000
Eggs	1 150 000
Poultry	2 105 000
Rice	<u>47 000</u>
Total	191 787 000
Sugar (Instalment for Belgium)	4 000 000

Domestic market support

Cereals	16 331 873
Butter	<u>28 000 000</u>
Total	44 331 873

Expenditure: Guidance Section

Measures implemented	<u>80 040 000</u>
Grand total for EAGGF	<u><u>320 159 000</u></u>

EAGGF from 1965 to 1970

Regulation No. 25 covered the period from July 1962 to June 1965. It was late in taking effect, so that contributions that accumulated in 1962/63 could not be included in the Community's budget until 1965.

Much effort, partly at political level, was needed to make the transition to 1965. The Council was not able to take the necessary decision until 11 May 1966.

The new arrangements cover the following main points:

1. Division of agricultural financing into two periods - from 1965 to 1967 and from 1967 to 1970;
2. Linking of the financing and entry into force of further agricultural market organizations, and of common prices and the implementation of a common policy on aids to agriculture;
3. Completion of the common agricultural market in 1968 and earlier establishment of the customs union for industrial products;
4. Balanced development of the Community in spheres other than agricultural policy;
5. Mandate to the EEC Commission to continue the Kennedy Round negotiations in respect of both farm and industrial products.

The Council decided to make a change in the financing rules applied hitherto under Regulation No. 25 for the period from 1 July 1967 to the end of 1969.

The Fund's income from July 1965 to June 1967

The reason for the division of financing arrangements until 1970 into two separate periods is that for the period up to 1967 Italy's contribution had already been established in advance by the Council. It had been reduced from the original 28% to 18% for 1965/66 and to 22% for 1966/67.

For these two years the Council has agreed on the following scale of fixed contributions only:

	<u>1965/66</u>	<u>1966/67</u>
Belgium	7.95%	7.95%
Germany	31.67%	30.83%
France	32.58%	29.26%
Italy	18.00%	22.00%
Luxembourg	0.22%	0.22%
Netherlands	9.58%	9.74%

As regards the Fund's income, this is the whole picture up to 1967.

The Fund's expenditure from July 1965 to June 1967

When common financing begins depends on the situation of the common market organization for the individual farm product. The beginning of the truly free EEC agricultural market is planned for 1 July 1967, when most of the major common organizations will be implemented.

Progress in common financing

Payments made by the Member States out of their own budgets for export subsidies and market support costs under the common agricultural policy are not yet reimbursed in full by the Fund. During each of its first three years reimbursements were increased by a sixth. In 1964/65, for instance, out of every 1 000 new francs paid out by France from its own budget to subsidize exports of cereals only a half (i.e. three sixths of 1 000 FF) is refunded by the EAGGF and the other half remains to be covered by the French budget.

In future the yearly increases will be smaller as a result of the Council's deliberations of 11 May 1966, when it was decided that increases would go up by tenths only, so that, for example,

for 1965/66 six tenths
and for 1966/67 seven tenths

of expenditure on export subsidies and market support will be refunded by the EAGGF.

Should the two-year period in question see the implementation of two new market organizations providing for export subsidies and market support measures (for example, the market organization for olive oil from 1 November 1966 and the supplementary arrangements for fruit and vegetables from 1 January 1967), the same refund rates will be applied as under the market organizations already operating. For olive oil and for fruit and vegetables, for example, seven tenths of expenditure covered by common financing will be refunded by the EAGGF in 1966/67.

This transitional arrangement does not alter the fact that, from 1 July 1967, the Fund's expenditure on export subsidies will be calculated on the basis of gross instead of net exports and according to the average rate of subsidies in the Community instead of that of the Member State with the lowest subsidy rate.

Fixed compensation

As a temporary measure, financing of the common agricultural policy also includes fixed compensation. This takes the form of lump sums paid out of common funds to those Member States that have had a poor bargain in other market organizations but have a particular interest in the new market arrangements in question. The money will be paid by the Community for a period before the market organization begins to operate. These Community payments represent a kind of compensation for the delayed entry into force of the market organization.

Olive oil, fruit and vegetables

The Council decided that an advance of 45 million u.a. will be paid to Italy from the Guidance Section for 1965/66, under the EEC budget for 1967, for improvements to the pattern of production and marketing of olives, olive oil, and fruit and vegetables. These funds can be used

for olives and olive oil from 1 November 1965, and for fruit and vegetables from 1 January 1966, until 31 December 1969. By the end of the transition period at the latest (31 December 1969), Italy will render to the Commission a statement of account with supporting documents on expenditure of this kind incurred since 1 November 1965. This fixed compensation will not disqualify Italy from the other forms of aid granted by the Guidance Section of the Fund for structural projects.

Sugar

For expenditure incurred in the marketing of sugar in 1965/66, Belgium receives a refund of up to 4 million u.a. As these are marketing costs the money is provided from the Guarantee Section. For the 1966/67 marketing year, Belgium will receive the same sum or more, the implementation of the common sugar market being planned for 1 July 1967 or 1 July 1968.

The Fund's income from July 1967 to December 1969

For this period a distinction must be made between the scale of contributions for the Guarantee Section and that for the Guidance Section. The scale of contributions to the Guarantee Section is made up of two components:

1. A variable component, which amounts to 90% of the yield accruing to the Member States from levies on farm products imported from non-member countries;
2. A fixed scale, according to which the rest of the money needed to cover the total expenditure is contributed:

Belgium	8.1%	Italy	20.3%
Germany	31.2%	Luxembourg	0.2%
France	32%	Netherlands	8.2%

It is expected that of the income needed by the Fund half will consist of the variable component and half will be provided according to the fixed scale. (Contributions to the Guidance Section will be calculated according to the fixed scale only, there being no variable component.)

Under the procedure used hitherto, the Member States' contributions for 1963/64 amounted to 10% of net imports into the individual Member States from non-member countries, and 20% in 1964/65. The variable part of the contribution, which in future will amount to 90% of the yield from levies, will also be based on trade in agricultural products with non-member countries. The difference is that under the old system net imports, though they themselves varied from year to year, accounted for the same percentage of total contributions to the Fund (10 or 20%).

According to the present ~~system~~ each Member State must pay to the Fund 90% of its revenue from levies; this share contributed by each Member State varies as receipts from levies differ from year to year.

The changeover from contributions based on net imports to fixing them at 90% of receipts from levies is logical, because on the expenditure side the Fund's payments have also switched from net to gross exports as the basis for calculation.

Finally, the system of contributions for the period up to the end of 1969 is intended to lead progressively into the arrangements for the final stage of establishment of the common market (from 1970), when revenue from levies on imports from non-member countries will be paid in full to the Community. For this reason too, it follows that during the last part of the transition period a growing percentage of such levies should go to the Fund.

When the fixed scale was being established finally by the Council, one consideration was that for various reasons one member country did not wish its contributions to exceed a ceiling of 31%. The Council compromised on 31.2% as the contribution of the Federal Republic of Germany. This compromise was tied up with various stipulations; for example, expenditure under the Guidance Section was to be limited, and of this we shall speak again in the next issue of the Newsletter.

France compromised in so far as its fixed contribution (32%) is for the first time higher than Germany's.

The Fund's expenditure from July 1967 to December 1969

From 1 July 1967 the Member States' expenditure on subsidies for exports to non-member countries and on market support (including denaturing) will be taken over entirely by the Community. This means that in future such expenditure will be refunded completely by the EAGGF instead of in part only. From 1967/68 onwards, therefore, all of the expenditure in question will be refunded to the Member States, as opposed to only seven tenths in 1966/67. For expenditure to be taken over entirely by the Fund it has to be incurred in the framework of joint market organizations already operating, for which the Community has expressly assumed common financial responsibility.

Limitation regarding fruit and vegetables

For fruit and vegetables a joint market organization has been operating since 1 August 1962. No financial responsibility, however, has been assumed for this market as has for the others organized under the regulations adopted on 14 January 1962. Consequently, no payments

have been made so far for fruit and vegetables by the Guarantee Section. The position will be changed when the supplementary provisions for fruit and vegetables take effect on 1 January 1967. According to these provisions the financing of the common agricultural policy will also apply to the fruit and vegetables market.

This means that the Member States' expenditure on subsidies for exports of specified kinds of fruit and vegetables to non-member countries will be taken over completely by the Community.

Market support, that is the removal of surpluses from the fruit and vegetables market, continues to be optional. The member countries are not obliged to take market support measures, and a ceiling has been set for expenditure on such measures. In this respect financial responsibility for fruit and vegetables is still limited.

Gross exports to be basis for reimbursement of export subsidies

The changeover from net to gross exports as the basis of calculation means that from 1 July 1967 all Member States will be reimbursed from the Fund for export subsidies on agricultural products granted according to Community rules.

From the date that visible trade is free within the Community, that is from 1 July 1967 for most products, refunds in respect of exports to non-member countries will be compulsory and paid in a uniform manner.

Future prospects

Too many uncertainties lie ahead in the coming years to allow a reliable forecast of the Fund's probable future scope. What can be said is that the EEC's 1970 budget will total some 1 980 million u.a. and expenditure on the EAGGF will account for some 1 150 million u.a.

The Fund is designed to enable the joint market organizations to attain their objectives and to encourage improvement in agricultural structures and adaptation to future conditions in the Common Market.

Hitherto the Fund has only assessed the expenditure of the Member States retrospectively and has acted as a kind of clearing house dealing with the complicated procedures which have arisen mainly out of political compromises. The results of the first few years have shown how it would be risky to prolong a situation in which agriculture is only partly integrated.

The decisive question is whether in future the Fund will continue to be a mere item in the budget or become a true fund with its own job to do, and whether its passive role will become an active one.

The machinery of the Fund already foreshadows the shaping of a price policy, a trade policy and a monetary policy.

The Fund has thus become a permanent element of the European system. One of the aims of the Treaty is to establish a common economic policy, and from this angle the Fund is becoming an important instrument in the hands of the Community to determine long-term developments in agriculture and to carry out obligations arising therefrom. Ultimately, it is an expression of political will.

The impression is widespread among people in the six Member States that the Fund has meant additional expenditure on agriculture for the member countries; actually, the Fund only collects together the money which until now has been provided from national budgets for the same aims. A saving can therefore be made.

Number 11 of the Newsletter will deal with a few more characteristics of the Guarantee Section and will describe the work of the Guidance Section.
