

Newsletter on the Common Agricultural Policy

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Ministers of Agriculture agree in the Council
on a regulation concerning the transition to
a common market in cereals

Transition to common market in cereals now assured

On 17 and 18 April 1967, the Ministers of Agriculture of the Community countries, who in February had adopted a regulation (+) dealing with the sugar market during the transitional period 1 July 1967 - 30 June 1968, reached agreement in principle concerning the change-over to the single market in cereals on 1 July of this year. The arrangements applicable to the change-over will be valid only for a short period - some however will have to be kept in force for some months - until the passage to the single Community market in cereals has been completed.

The real success of this Council decision lies in the fact that the Ministers can now devote all their energies to preparatory work for the single market.

The necessary transitional arrangements have now been completed and the Council has also agreed on an order of priority for the most urgent regulations which will have to be adopted if the common market in agriculture is to become a reality. These regulations are to be adopted, if possible, before 31 May 1967.

What arrangements are envisaged for the transition from the 1966/67 to the 1967/68 marketing year?

The political decision taken by the Council in December 1964 to establish a single price for cereals will become an economic reality on 1 July 1967.

The smooth change-over to the single price system could, however, be jeopardized by economic developments of purely speculative character. On 23 December 1966, therefore, the Commission submitted to the Council the proposed regulation for transitional measures, the basic aim of which is to avoid any disturbance of prices, of the pattern of trade and of supplies to consumers. (++)

In the regulation a distinction is made between basic and processed products.

1. Arrangements for basic products

Because of the prevailing differences in national prices it is possible that during the present marketing year various Member States will be able to import certain types of cereals from non-member countries at prices far below the common threshold price.

(x) See "Newsletter on the Common Agricultural Policy" No. 4/1967

(xx) See also "Newsletter on the Common Agricultural Policy"
No. 2/1967

This applies in particular to durum wheat in the Netherlands and Belgium, maize and sorghum in Belgium and Luxembourg, and feed grains (barley, maize, oats, sorghum and other sorts of millet) in Italy.

This situation might well lead to large stocks being accumulated before the end of the 1966/67 marketing year with a view to placing them on the home market or on the markets of neighbouring Member States- Germany in particular - at prices lower than the common price.

This danger can best be avoided in a manner compatible with the common market by levying a charge which would bring the price of cereals in store up to the level of the single price in force from 1 July 1967.

This charge is to be calculated on the basis of threshold rather than target prices, since the latter cannot be accepted as an exact criterion. If home production of durum wheat, rye, barley, oats, maize or millet of any kind is insufficient, market prices in the countries mentioned at the outset are considerably influenced by the price of imported grain.

The reference date for this arrangement will be 30 June 1967. If the threshold price for the product in question is more than DM 8 lower than the common threshold price in any Member State in the month of June 1967, that Member State will determine the stocks of cereals with dealers and with the processing industry on 30 June 1967 and will impose a charge on them to the extent that they exceed a minimum quantity of 10 tons of the various types of cereals. The amount of the levy will be the difference between the two threshold prices less DM 4, to allow for storage costs incurred during the month of June.

On several occasions there have been expressions of doubt from Germany concerning this arrangement, since the charge would be imposed only if the difference between the old and the new threshold price were in excess of DM 8. It is argued that the new threshold prices in Germany would be undermined by imports from other Member States; there is, however, no justification for these doubts, since it is only barley in Belgium which will derive some sort of advantage from this DM 8 limit; the difference between the threshold prices for this cereal is DM 4.80; if to this figure are added the storage costs needed to bridge the sudden transition from one price system to the other, scarcely any advantage remains to encourage speculation.

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Furthermore, the charge to be imposed on cereals in store will apply to those very countries from which the threat to threshold prices is supposed to come, since the price difference of the types of cereals involved in each case exceeds DM 8.

An exception has, however, been made in the case of Italy, despite the fact that the difference between the old and the new threshold prices for barley, oats, maize, sorghum and millet is far in excess of DM 8.

This special arrangement is justified by the fact that the Council authorized Italy in December 1964 to reduce the levy on maize and barley imported from non-member countries by DM 42.50 per ton during the 1967/68 marketing year. This preferential treatment was later extended to other types of feed grain (oats, sorghum and millet with the exception of durra).

If Italy makes use of the authority which has been given to it - and it is to be expected that it will - the charge need not be levied. The reason for this is that the price of feed grain imported from 1 July 1967 would be such, because of the reduced levy, that there would be no incentive for speculative stockpiling and consequently no threat to price formation on the Italian market at the beginning of the new marketing year.

However, feed grain imported into Italy before 1 July 1967 could subsequently cause disturbances on the markets of neighbouring Member States. The regulation therefore provides that a considerable charge be levied by Italy on exports of these feed grains to other Member States in the months of July and August. The amount of this charge will be so calculated that the price of feed grains exported to other Member States will be brought up to the level of the common threshold price in force from 1 July 1967.

This is, then, the substance of that part of the regulation which deals with the raising of present price levels on 1 July 1967. It must be added that wheat other than durum is excluded from the regulation. This may seem surprising, particularly in the case of France, where the increase in prices will be most marked. On the last day of the present marketing year, however, the French threshold price for wheat other than durum will be higher as a result of the monthly adjustments than the common threshold price which will operate from 1 July 1967. There is therefore no need for a regulation.

The change-over to a common price for cereals will not always mean higher prices; in some cases it will lead to a reduction, and the regulation then permits the continued payment, at the beginning of the new marketing year, of a compensatory amount as envisaged in Regulation No. 19, provided that such payments were already being made by the country concerned. Payment will be limited to cereals in the hands of dealers or manufacturers on

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30 June 1967, and it will be paid only on home-grown cereals and not on cereals imported from non-member countries during the 1966/67 marketing year at a price higher than the common threshold price. This will discourage speculative imports made as a basis for claiming compensation.

This compensation will be calculated on the basis of intervention prices whereas the charge mentioned at the outset will be based on threshold prices.

Since regional prices for cereals in the Community will now be based on places other than those used for the calculation of the regional prices valid on 30 June 1967, the difference between the old and new intervention prices will vary considerably even within a single Member State. Because of this the amount of the compensatory payment is limited to the difference between the intervention price hitherto in force and the new derived price valid for the marketing centre closest to the stored cereal. In this way, home-grown cereals will be available at the common price throughout the Community from 1 July of this year. This arrangement affects France more than the other countries. In German economic circles it is being interpreted as giving France an advantage over Germany since better continuity in the transition to the new marketing year is assured in France than in Germany, where all supplies of grain from the previous harvest must be taken up by the Import and Storage Agency and disposed of by that agency during the new marketing year at a price which is not yet known. From the economic point of view the intervention methods already being used in Germany to deal with the sudden transition from one year's prices to another will have an effect similar to the system to be used in France; the corn trade and the processing industry will obtain cereals from 1 July 1967 at the new price level. There is no denying, however, that the French arrangement offers advantages to the trade since stocks can be retained.

2. Arrangements for processed products

In the course of the 1966/67 marketing year, various Member States have been able, because of their lower cereal prices, to manufacture processed products at more favourable prices than other Member States where cereal prices were higher. This, together with the levy (based on the common cereals price) that is proposed in the new basic cereals regulation, has led to the inclusion in the regulation of special protection for processed products for a certain length of time. If this protection were not given, and if frontiers were simultaneously opened to cereals and processed cereal products, it would mean that processed cereal products from Member and non-member States would flow into those member countries where prices had previously been highest. Manufacturers and dealers could avoid the resulting loss only by marketing their entire stocks before the end of June 1967; this, in turn, would cause a serious disturbance of the market in processed products towards the end of the 1966/67 and at the beginning of the 1967/68 marketing year.

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Since it would be virtually impossible to inspect and make an inventory of all stocks of processed products, disturbances of this kind could be avoided only if the frontiers were not opened to cereals and processed cereal products at the same time, that is to say, if the removal of the levy on processed products were postponed until after 1 July 1967. Such a measure would prevent sudden free and unimpeded access to the countries with the highest price levels.

(a) Arrangements for flour, groats and meal

A three-month transitional period has been fixed for flour, groats and meal (1 July to 30 September). From 1 July to 31 August the levy applicable to imports from non-member countries on 30 June 1967 will be applied in full in Member States where the national threshold price for June 1967 is higher than the common threshold price in force from 1 July 1967; in the month of September half this levy will be charged.

In intra-Community trade, on the other hand, the levy effective on 30 June 1967, less 6.25 u.a., will be applied; it will be charged in full during the first two months and will be reduced by 50% in the third month. The 6.25 u.a. reduction covers elimination of the element included in the threshold price to protect the processing industry, which has till now been applied in intra-Community trade. During the discussions one Member State asked that this 6.25 u.a. be retained, but a request of this kind is not compatible with the common market. This amount is part of a customs duty serving to protect the processing industry, and from 1 July 1967, the imposition of customs duties and charges with equivalent effect will be prohibited in intra-Community trade.

It should be mentioned in this connection that the arrangement outlined above is separate from the programme for putting the milling industry on a sound footing. Although this transitional regulation will obviate the distortions of competition which are threatened by the introduction of common prices, the excess of milling capacity will, at the request of some Member States, be reduced as part of a reform programme. This is, however, a structural problem rather than a transitional one.

(b) Arrangements for other processed products

The transitional period for processed products other than flour will last only one month. The Council considered that this period was long enough - as was the three-month period for flour - to allow products processed from cereals bought at higher prices to be marketed without any serious loss.

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As to the details, provision has been made for the retention in intra-Community trade for a further month of the variable component of the levy based on the difference between cereal prices.

In the case of imports from non-member countries, the levy applicable in June may be retained if in the country concerned the threshold price for the month of June 1967 is higher than the common threshold price.

For the periods indicated above, import permits must be retained in intra-Community trade in these products so that the arrangements for flour and the other processed products can be effectively implemented.

It should also be mentioned that a special regulation - No. 119/66/CEE - has already been adopted in respect of malting barley. This provides for the charging of a levy and the granting of a refund calculated on the basis of the variable component in force in June 1967. As this regulation was published in the official gazette on 11 August 1966 those in the trade should be familiar with it already.

In conclusion it can be said that this regulation concerning the transition to a common market in cereals is an appropriate one to smooth the process of change-over to the common price for cereals. The possibility of speculators taking advantage of price differences has been eliminated by the proposed charge. Manufacturers have been adequately protected against competition from other member countries, although this protection cannot continue for ever in a common market.

By the end of the transitional period, prices for cereals and products processed from cereals will have settled down at the level of the common price. At its meeting on 21 February 1967 the Council took into account the legitimate interest of poultry and pig farmers when it agreed on transitional periods of one month, six weeks and three months respectively for eggs, poultry and pigs.
