

European Communities – Joint Information Service

Newsletter on the Common Agricultural Policy

Weekly

No. 6

May 1967

Contents

The market organization for milk and milk products
in the 1967/68 marketing year

Approximation of national target prices

Threshold prices for milk products

Market support measures

Published by the Division for Agricultural Information in collaboration with the Directorate
General for Agriculture of the EEC Commission – 12, Avenue de Broqueville, Brussels 15

Transition to the common milk market

The decisions on the measures relating to the prices of milk and milk products in the 1967/68 milk year mark the last stage on the road to the common organization of the milk markets in the European Economic Community. The Council has decided what measures have to be taken by the Member States with regard to target prices (at producer level), to the abolition of aids and to threshold prices (at market level) in order to ensure that there can be a smooth transition to the common market in milk. On 24 July 1966 the Council reached agreement on the objective to be achieved, which is that from the beginning of the 1968/69 milk year a system for milk and milk products shall apply throughout the Community, based essentially on common prices, free movement of goods and uniform support measures.

Integration of the national markets into a common market for milk began in February 1964, when Regulation No. 13/64/CEE on the progressive establishment of a common organization of the markets in milk and milk products came into force. Since that time more than 200 regulations and decisions have been adopted by the Council and the Commission relating to trade, price policy and other measures affecting the milk market.

Trade arrangements

The arrangements concerning trade in milk have been fully applicable from the outset; the regulations that had been current in the individual Member States were replaced by a levy system in November 1964. Customs duties, charges with equivalent effect, quotas and other quantitative restrictions were abolished for trade both between Member States and with non-member countries. Since then any difference between the threshold prices of importing Member States and the free-at-frontier prices of exporting Member States has been offset by intra-Community levies or refunds. Similar provisions apply to trade with non-member countries. The gradual reduction of levies and refunds on trade between Member States and their eventual abolition requires that the prices of milk products shall be aligned and made uniform. The process should be completed by 1 April 1968.

Target price

The common organization of the market in milk is based on the application of the common target price which has been fixed by the Council at DM 41.20 per 100 kg of milk with a fat content of 3.7% delivered to the dairy. Article 18(1), sub-paragraph 2, of Regulation No. 13/64/CEE defines the common target price as follows: "This common target price shall be the producer price for milk which, at the single-market stage, it is the aim of market policy to guarantee to all Community producers for the total volume of milk produced and marketed in the milk year."

.../...

From this definition the following four important conclusions have to be drawn for the milk market of the Community:

The common target price for milk

- (i) shall in principle be paid by the market;
- (ii) is an average price for the whole Community and for one milk year;
- (iii) is neither a guaranteed price nor a minimum price;
- (iv) applies to all milk irrespective of the use to which it is put (milk to be consumed fresh or for dairy processing).

The actual target price can therefore be higher or lower depending on

- (a) location (distance between the market and the producer or the dairy);
- (b) production programme of the dairy involved;
- (c) the production costs of the dairy and the quality of its products;
- (d) seasonal fluctuations and, to a certain extent, current developments in the production, consumption and prices of milk products.

The instruments of market policy which can be used in the endeavour to achieve the target price are an appropriate protection at the frontier (in the form of levies and refunds) and intervention measures.

From the 1964/65 milk year onwards the Council has each year laid down what each Member State must do in order to bring target prices into line. The producer prices of a reference period (calendar year 1963) were "adjusted" and used as the basis for fixing an upper and a lower limit between which each Member State could fix its target price for milk ex farm with a fat content of 3.7%. The price bracket has been narrowed year by year, and the target prices in the individual Member States have consequently had to be brought more closely into line (see Table 1).

.../...

Table 1: Approximation of target prices for milk in the Member States during the transitional period

	Calendar year 1963	DM per 100 kg				
		Milk year				
		1964/ 1965	1965/ 1966	1966/ 1967	1967/ 1968	1968/ 1969
Upper limit	-	41.60	41.20	41.20		
Italy	42	41.60	41.18	41.18	41.18	} 39 ⁽¹⁾
Luxembourg	38.16	39.60	39.60	39.60	39.60	
Belgium	32	37.78	39.42	39.42	39.42	
Germany	36.10	37.70	38	38	38.50	
Netherlands	31.22	34.25	35.36	37.02	38.67	
France	32.06	31.88	34.03	36.26	37.17	
Lower limit	-	31.80	33	34.50	(2)	

(1) The common target price of DM 41.20 per 100 kg laid down by the Council is for milk delivered to the dairy and includes DM 2.20 per 100 kg to cover the cost of collection.

(2) For the 1967/68 milk year no price bracket has been fixed by the Council.

Aids

All Member States except Italy are spending considerable public funds in order directly or indirectly to subsidize the producer price for milk. Generally speaking, these measures can be divided into four groups:

- (i) Direct aid to producers of milk and milk products;
- (ii) Refunds on exports;
- (iii) Market intervention;
- (iv) Other measures such as the granting of aid for the improvement of the dairy network, for bringing transport costs down, for testing milk yields, for promotion, advertising, etc.

Since Regulation No. 13/64/CEE came into force refunds on exports are completely and market intervention largely covered by common arrangements. The other measures fall under the provisions of Articles 92 to 94 of the EEC Treaty and are at present being studied by the

.../...

competent services of the Community in connection with a common policy on aids to agriculture. Price policy therefore is concerned only with the direct aids to producers of milk and milk products within the meaning of Article 19 of Regulation No. 13/64/CEE. Such aids are granted in Belgium and Luxembourg for certain milk products, in Germany for milk delivered to dairies and in the Netherlands for milk processed in dairies.

When in December 1963 the Council reached agreement on the principles of the common organization of the market for milk and milk products it was decided that these aids should be abolished. In July 1964 it was agreed that no Member State should increase the aids it was already giving. In addition, these existing aids were divided into two components, one of which has to be reduced by one seventh every year till the transitional period ends in 1970, and on the other of which the Council, acting on a Commission proposal, will decide in due course.

In July 1966 the Council reached agreement on the principles of the common milk policy, and a resolution was adopted which once again declared the granting of such aids to be incompatible with the application of common prices. At the same time the period for eliminating such aids was shortened. In Germany and the Netherlands there are in addition, as part of their national market organizations for liquid milk, legal provisions which have the effect of offsetting the difference in the price levels of liquid milk and milk sold to dairies for processing. In so far as these arrangements work directly to the benefit of certain milk products, they fall under the provisions dealing with direct aids to production (for instance subsidies for cheese production in Germany) even during the transitional period. Such national arrangements have, incidentally, also been declared by the Council to be incompatible with the common milk policy.

Threshold prices

In July 1964 the Council fixed comparable reference prices for the various milk products in the light of the situation as it was in the individual Member States during 1963 and with due allowance for certain factors (changes in target prices and aids). In order to arrive at the threshold prices which serve as a basis for the levy system, these reference prices were increased by a flat-rate amount representing the protection given to the milk processing industry. The levies on intra-Community trade are reduced by this amount in order to grant preferential treatment to such trade.

During the transitional period the threshold prices are fixed each year by the Member States under the rules laid down by the Council before the beginning of the milk year. Article 20 of Regulation No. 13/64/CEE provided that the threshold prices were to be progressively approximated to the target prices, which had to be fixed each year. These target prices were to be fixed on the basis of the common target price for milk

.../...

and of uniform costs and yields; they were also to allow for a supplementary amount intended to protect the milk processing industry and for the relationship which the Community should aim at in the valorization of the milk used in the various milk products.

This procedure has however not been used in view of the proposal to fix final threshold prices for the Community; this proposal has meanwhile been put into execution. Consequently the decisions taken on measures relating to the threshold prices for the individual milk years have as a matter of principle been limited to adjusting the prices of the various milk products in the light of changes in target prices and any reduction of aids; only in exceptional cases have prices been approximated in addition. Although the common threshold prices have meanwhile been fixed, the Council has kept to the established procedure in taking its decisions for the 1967/68 milk year.

The common threshold prices have been fixed by the Council on the basis of the common target price, of a given relationship between the value of milk fat and that of skimmed milk, and of uniform costs and yields. The intention is that at the single-market stage these common threshold prices will provide milk producers in the Community with sufficient guarantees against imports from non-member countries.

During the transitional period, however, the threshold prices fixed by the Member States apply to intra-Community trade also. Any additional modification of the threshold prices in the individual Member States would affect competition between these States, unless it reflected a change in the target prices or a reduction in aids; this could not be in the interest of the Community. It is therefore only in special cases that the Council has decided on any additional approximation of prices.

Table 2 shows the common threshold prices for the 1968/69 milk year and the national threshold prices for the 1967/68 milk year. In addition, figures showing average yields on milk for dairy processing are shown for comparison.

Intervention measures

Up to now butter is the only product for which, in accordance with Article 21 of Regulation No. 13/64/CEE, there are detailed joint arrangements for intervention.

.../...

Table 2: Common threshold prices for milk products for the 1968/69 milk year, national threshold prices for 1967/68 and prices for dairy processing milk for 1967/68

DM per 100 kg

Group No.	Product	Common threshold price 1968/69	National threshold prices 1967/68					
			Belgium	Germany	France	Italy	Luxembourg	Netherlands
1	Powdered whey	86	86	86	86	93	86	79.01
2	Powdered whole milk	413	364.90	355.33	392.28	396.80	364.80	343.31
3	Powdered skimmed milk	216	147.88	176.95	201.74	214.40	147.88	165.80
4	Condensed milk, unsweetened	184	187.92	179.68	199.58	240	179.68	186.85
5	Condensed milk, sweetened	247	278.68	280.19	263.54	330	278.68	247
6	Blue-veined cheese	529	446.97	492.27	504.67	504.67	446.97	505
7	Parmesan	816	702.92	702.92	702.92	702.92	702.92	702.92
8	Emmental (hard cheese)	597	440	440	440	440	440	440
9	Gouda (medium-hard cheese)	494	455.68	405	461.55	479	455.68	392.13
10	Butterkäse	479	452	447	462.39	462.39	452	452
11	Camembert (soft cheese)	494	482	482	482	482	482	482
12	Double-cream cheese (fresh cheese) (1)	-	-	-	-	-	-	-
13	Lactose	172	172	172	172	172	172	172
14	Butter	765	829.04	740	745.38	700	765	694.26
CHE	Cheddar	537	305.04	305.04	305.04	305.04	305.04	305.04
TI	Tilsit	494	455.68	405	461.55	479	455.68	392.13
	Powdered skimmed milk for animal feed (2)	-	-	154.95	-	137	-	140
	Prices for dairy processing milk <i>ex farm</i> (3.7% fat content)	-	38.22	35.70	37.17	41.18	33.10	36.11

- (1) Since the beginning of the 1965/66 milk year threshold prices have no longer been fixed for Group No. 12; the levy arrangements correspond to those for Group No. 11.
- (2) During the transitional period, the Member States may fix for powdered skimmed milk for animal feed a threshold price lower than that for Group No. 3. In the 1967/68 milk year, however, this threshold price must be at least DM 137 per 100 kg.

.../...

The intervention agencies of the Member States buy at a certain intervention price all first quality home-produced fresh butter offered to them. In the 1966/67 milk year these prices were as follows:

Belgium	DM 780	per 100 kg
Germany	DM 680	" 100 kg
France	DM 680.57	" 100 kg
Italy	DM 631.68	" 100 kg
Luxembourg	DM 715.20	" 100 kg
Netherlands	DM 571.82	" 100 kg

An intervention price of DM 705 per 100 kg has been fixed for the single-market stage. For the 1967/68 milk year the Council has laid down that the Member States shall so fix their intervention prices that the difference between the threshold price and the intervention price does not exceed DM 60 per 100 kg and that the difference between it and the common intervention price is not greater than it was in 1966/67.

The possibility of meeting the intervention requirements by granting subsidies for the private storage of butter is used mainly in France.

Pursuant to Article 22 of Regulation No. 13/64/CEE, the Member States are also entitled, during the transitional period, to take, in respect of products other than first quality home-produced fresh butter, measures to counter a substantial fall in prices or to prevent a lack of balance, either in prices or in the production of milk products. However, if a Member State intends to take such measures it has to inform the Commission beforehand as to their nature, the Commission for its part will address any relevant remarks to the Member State concerned.

On this basis the following intervention measures are being applied by Member States.

- (i) In Belgium, purchases of lower quality butter are made at certain periods. In addition, the Government purchases limited quantities of certain types of cheese (Gouda), and subsidies are granted for private storage.
- (ii) In Germany, the prices for skimmed milk and powdered skimmed milk for animal feed have been lowered since August 1966.
- (iii) In France, aids are granted for the private storage of certain types of cheese, skimmed milk powder for animal feed is subsidized and there is a scheme for maintaining government and private stocks of skimmed milk powder.
- (iv) In the Netherlands, the Government maintains stocks of certain types of cheese and of skimmed milk powder. Purchases are effected at the intervention prices (delivered prices), and they mean that the milk fetches at least a minimum price.

.../...

When the Community organs decided on the instruments by which the common target price would be established, they took as their basis the principle that the consumers of milk and milk products should pay the price which the farmer is to receive for his milk. For milk processed into butter it was possible to keep to this principle only in so far as its application would not damage consumption. The value of the milk fat in 100 kg of milk with 3.7% fat content is therefore limited to DM 28.20, and this means that the value of the skimmed milk will be DM 13 per 100 kg, a figure which has to be taken into account when the prices for the other milk products are established, so that in the aggregate the farmer receives the common target price.

Unfortunately it is not possible to apply this principle wherever milk is used. For this reason agreement has been reached on a common intervention system which goes beyond intervention for first-quality fresh butter.

For skimmed milk and skimmed milk powder used as animal feed there is to be an offset payment which will cover the difference between the target price of skimmed milk (DM 13) and the value of skimmed milk as feed (DM 7.50). This brings prices down by DM 5.50 per 100 kg of skimmed milk and by DM 60 per 100 kg of skimmed milk powder.

In Italy, producers of Parmigiano-Reggiono and Grana-Padano cheeses will benefit from measures which will give Italian farmers the same guarantees with regard to the price they receive for milk as is offered to farmers in other Member States by the arrangements for butter and skimmed milk.

In the years when such steps are necessary, action will be taken in connection with certain types of cheese, particularly in the form of measures to assist private storage, in order to reduce pressure on the market in times of seasonal production surpluses.

For Emmental and Cheddar, aid is to be provided which will offset the difference between the common threshold price and the prices resulting from undertakings given in GATT.

For skimmed milk used to make casein the intervention measures are intended to offset the difference between the target price and the net value of the skimmed milk processed into casein.

Lastly, it is intended that before 31 January 1968 the Council, acting on a Commission proposal, shall decide what additional forms of intervention are necessary to ensure that the target price is reached.

In addition, permission has been granted to Germany with regard to medium-hard cheese and butter and to the Netherlands with regard to butter to grant degressive consumer subsidies from national funds up to 1 January 1970. Luxembourg is allowed to pay DM 1.50 per 100 kg of milk as aid to farmers in the milk years 1968/69 to 1971/72; for

.../...

1972/73 this aid is fixed at DM 1.20 per 100 kg of milk, and in 1973/74 it must be brought down to DM 0.80 per 100 kg.

The Commission and the Council take the view that taken together these measures should be sufficient to ensure that the common target price as defined will in fact be established.

Financial effects

Under the common financing system, the European Guidance and Guarantee Fund bears the financial consequences of the proposed common measures. During the transitional period, this means that the Fund will have to cover certain refunds on exports to non-member countries and the cost of the intervention measures for first quality home-produced fresh butter.

For the single-market stage it is scheduled to apply the principle that all refunds on exports to non-member countries and the cost of the common intervention measures agreed upon should be financed in this way. The Community will have to spend an estimated DM 900 million for refunds on exports or for measures with equivalent effect if the forecasts on the production and the figures for consumption of milk and milk products which were before the Council when the common target price was decided upon prove to have been right. The seasonal balancing of butter is likely to cost some DM 100 million. Apart from these types of expenditure, which influence the price level on the milk market only indirectly, a further DM 1 250 million will probably be needed to subsidize skimmed milk used for animal feed and to offset the insufficient protection for Emmental, Cheddar and casein which results from undertakings in GATT.

Negotiations in GATT

On the basis of the mandate the Commission received from the Council on 10 May 1966, negotiations have been conducted for some time with the non-member countries concerned with a view to changing the terms of the binding for Emmental and Cheddar - the intention being to improve the situation both for the non-member countries and for the Community. As these negotiations have not yet been brought to a conclusion it is not possible at the moment to give a report on the details.

The same applies for negotiations, which are being conducted as part of the Kennedy Round, concerning a world-wide agreement on milk products; the Commission received the necessary mandate for these negotiations from the Council on 27 July 1966.

.../...

Organization of the market in liquid milk

In Article 29 of Regulation No. 13/64/CEE it was provided that a common arrangement should be brought into force for the market in liquid milk by 1 December 1965. It became evident, however, that the special conditions on this market and the differences between regions made it inadvisable to introduce such a common arrangement rapidly. This would in particular have been a difficult proposition as long as the basic principles of the common milk policy had not been laid down by the Council; these have now been settled by the decisions taken on 24 July 1966.

By these decisions the Council has already laid down the principles that

- (i) Member States should fix the retail price of liquid milk of standard quality in such a manner that the milk used as liquid yields proceeds which are at most DM 2 per 100 kg higher than the price of milk processed into milk products.
- (ii) Arrangements by individual Member States which have the effect of offsetting the price of milk for processing against that of liquid milk are incompatible with the application of a common price.

A number of principles have thus been laid down for the economic aspects of the market in liquid milk. Additional decisions will probably become necessary, particularly with regard to arrangements for trade with non-member countries in the products of customs tariff number 04.01 and to the organization of the market in liquid milk wherever it conflicts with the common market in milk.

Harmonization of legal provisions

When Regulation No. 13/64/CEE was adopted it had already been clear that the regulations concerning food that are applicable in the Member States might in certain cases hamper the introduction of the common market in milk. For this reason Article 2(6) of the said regulation contained a special arrangement for trade in butter: until the national food laws relating to butter are harmonized, the Member States may forbid imports of butter which contains less than 82% of fat or more than 16% of water and which does not comply with the provisions in force in respect of home-produced first quality butter in the importing Member State on the date of the entry into force of the Regulation.

Such an obstacle to trade would considerably hamper the common market in milk from April 1968 onwards. As a consequence, the Commission is at the moment examining the national provisions for butter and working out proposals for their harmonization so that butter may move freely within the Community and in trade with non-member countries. The Council ought to take the requisite decisions before April 1968. Probably the legal provisions applied to other milk products by the individual Member States will also be harmonized at a later date.

.../...

Plans for the work ahead

In the next few months the Commission and the Council will however concentrate on clothing the decisions on the general principles taken in July 1966 in the requisite legal form. This calls for the drafting of a new basic regulation which from April 1968 will replace Regulation No. 13/64/CEE and will reflect the requirements of the final stage. It is fairly certain that a number of arrangements which have proved their value in the transitional period, such as the groups established for trade in milk products, will be incorporated in the final arrangement. In addition, the Council and the Commission will have to adopt a large number of implementing provisions and decisions and, where necessary, also transitional provisions. The various committees and other bodies concerned will have to discuss technical details with which it was not possible to deal when the basic decisions were taken. A concerted effort is therefore required from all concerned if the last obstacle is to be overcome in time and the transitional period to end by 1 April 1968.
