

Newsletter on the Common Agricultural Policy

No. 3

May 1969

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THE END OF THE COMMON MARKET TRANSITION PERIOD

On 31 December 1969 the transition period of the common market is due to end. Article 8 of the Treaty establishing the EEC stipulates: "Save for the exceptions or derogations provided for in this Treaty, the expiry of the transition period shall constitute the final date for the entry into force of all the rules laid down and for the completion of all measures required for the establishment of the common market".

There are two ways open to the Community of attaining the objectives set out in the Treaty:

1. the establishment of a common market, which implies a common policy, and
2. the gradual approximation of the Member States' economic policies, whereby, in contrast to the common policy approach, the member countries retain full independence and no powers are transferred to the Community.

Article 8 defines for us the situation that must exist on 1 January 1970 for all areas of the Treaty for which there is to be a common market by the end of the transition period. We shall be discussing below what still has to be done before this is brought about.

1. Free movement of goods

The customs union which forms the real foundation of the Community came into effect on 1 July 1968. This is when customs duties between the member countries were eliminated and a common external tariff introduced. After the transition period the member countries will no longer be able to call upon Article 226, which provides for safeguard measures in the event of serious difficulties in any sector of economic activity or difficulties which may seriously impair the economic situation in any region, or on Article 115, which authorizes member countries unilaterally

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to introduce protective measures in the event of economic difficulties resulting from disparities in trade policy measures adopted in conformity with the Treaty. Measures which obstruct the free movement of goods will be prohibited outright after the transition period and will be regarded by the Commission as tantamount to failure on the part of any Member State concerned to meet the obligations incumbent upon it. In the event of any such failure the Commission, pursuant to Article 169, transmits a reasoned opinion to the country concerned, and the matter can be referred to the Court of Justice if the country does not comply with the terms of the opinion.

Government trading monopolies must be adjusted by the end of the transition period in such a way as to exclude discrimination in the terms or conditions of supply or sales. Here too, action can be taken under Article 169.

Turnover tax systems in the member countries must be replaced no later than 1 January 1970 by the Community system of tax on value added. The changeover has still to be made in Belgium and in Italy.

Divergent customs regulations and statutory provisions constitute another impediment to free movement of goods. However, harmonization is not required by Community policy in this field. All the Commission can do is make recommendations. There will still be provisions to be harmonized even after the transition period is over. The same is true of the elimination of technical barriers to trade.

2. Free movement of workers

Freedom of movement for workers must be introduced by the end of the transition period at latest. Satisfactory progress has been made in this field. A regulation still has to be adopted giving workers the right to stay on in a member country after a period of employment. After the transition period freedom of movement will still be hindered by the fact that each member country's degrees and diplomas are still not recognized throughout the Community.

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3. Right of establishment and freedom to supply services

There is a great deal still to be done here, and freedom of establishment and freedom to supply services are unlikely to be fully introduced by the end of the transition period.

4. Free movement of capital

Here again, it will not be possible to finish everything that has to be done by the end of the transition period.

5. Transport

The Treaty makes provision for a common policy for transport also. However, there is no stipulation that the policy has to be effective by the end of the transition period, except in the case of the following:

- (a) Common rules for international transport to or from the territory of a member country or crossing the territory of one or more member countries; this is intended to prevent national transport regulations obstructing freedom of movement for goods and the operation of the common market as it will be after the transition period.
- (b) The conditions in which non-resident carriers may operate transport services within a member country; this is a matter of freedom to supply services.

Only some of the measures required under these two heads have been introduced so far. Here again, it is not certain that enough progress will be made before 1 January 1970.

6. Trade policy

The Treaty provides (in Article 113) that after the expiry of the transition period the Community's trade policy shall be based on uniform principles. As part of the gradual elaboration of this policy, four regulations have been adopted and proposals for definitive arrangements are being drafted. The Council is expected to adopt the latter in good time.

After the transition period the member countries will be obliged to act in conjunction on all matters of particular interest to the

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common market in international organizations concerned with economic matters (such as the International Monetary Fund).

7. Agriculture

We have described what advances have been made in the various spheres covered by the Treaty. All this has a bearing on agriculture too, for these different spheres are closely interrelated and there can be no progress in agriculture without progress elsewhere.

Article 40 of the Treaty requires the Member States gradually to introduce a common agricultural policy in the course of the transition period. As a means of achieving the agricultural policy objectives, the Treaty specifies that agricultural markets be organized on a Community basis. The status of work is examined below. This, however, is not the whole story. In 1960 the Commission, in its proposals for the establishment and implementation of the common agricultural policy, stated that market and price policy should be accompanied by a structural policy and a social policy for the farming industry. The need for this was recently recognized by the Council when it noted that, given the serious problems involved in disposing of surpluses and the financial repercussions this was having, market and price policy alone was no longer capable of guaranteeing producers a reasonable income.

Considerable advance has already been made in the field of market and price policy. Market regulations are now operative for the following commodities:

grain	(Regulation No. 120/67/CEE)
pigmeat	(Regulation No. 121/67/CEE)
eggs	(Regulation No. 122/67/CEE)
poultrymeat	(Regulation No. 123/67/CEE)
rice	(Regulation No. 359/67/CEE)
milk and milk products	(Regulation (EEC) No. 804/68)
beef and veal	(Regulation (EEC) No. 805/68)
fruit and vegetables	(Regulation No. 158/66/CEE)
wine	(provisionally organized by Regulation No. 24(1962))
oils and fats	(Regulation No. 136/66/CEE)
sugar	(Regulation No.1009/67/CEE)
live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	(Regulation (EEC) No. 234/68)

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This has brought over 90% of Community farm produce under common market organizations. There are three different kinds of machinery found in one form or another in most of these regulations.

- A. The fixing of a price considered appropriate by the Community in the light of the aims of the common agricultural policy set out in the Treaty. This price is called the target price in the case of grain, rice, milk (but not milk products), oils and fats, and sugar. There is a basic price for pigmeat and wine and a guide price for beef and veal. No price is set for eggs and poultry (their price is governed by the price of feed grains) nor for vegetables.
- B. Intervention machinery. The methods of intervention vary considerably from one commodity to another because of the differences in the characteristics of the products and their markets. What they have in common is that they are designed to guarantee producers a market price that is not too far below the target or equivalent price. The different arrangements are as follows:
- (a) For grain (see Newsletter No. 7, June 1967) basic intervention prices are set for the Duisburg market and derived intervention prices for other marketing centres. When market prices fall below the intervention prices, the agencies designated by the member countries buy in produce at the intervention price. Compulsory buying-in at predetermined intervention prices is also provided for in the case of paddy (see Newsletter No. 15, November 1967) and of butter and skim milk powder (see Newsletter No. 10, July 1968).
- (b) For pigmeat (see Newsletter No. 7, June 1967) the Community has the option of intervening on the market if the average market price is below the basic price and this situation looks as if it might persist. Community action can take the form of direct buying-in or of support for storage by private persons.

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- (c) For beef and veal (see Newsletter No. 12, December 1968) the Member States may intervene if the market price falls below 98% of the guide price. They must intervene if the market price is less than 93% of the guide price.
 - (d) For fruit and vegetables (see "The gradual establishment of a common market organization for fruit and vegetables") growers' associations can set a reserve price below which they will not market their produce. In the event of a crisis the Member States can compensate the growers' associations for quantities withdrawn from the market. If the crisis is aggravated, the Member States can themselves buy in the produce.
 - (e) The regulation for sugar (see Newsletter No. 4, March 1968) sets limits to price and sales guarantees. The intervention price applies only for a basic quota. Output in excess of the quota can be sold at a (lower) reserve price up to a certain maximum. Beyond this maximum there is no price guarantee at all, and selling on the Community market is prohibited.
 - (f) There are no intervention arrangements for eggs and poultry (see Newsletter No. 7, June 1967). For wine (see Newsletter No. 12, December 1968) a Commission proposal for a market regulation that contains intervention arrangements has been submitted to the Council.
- C. Arrangements for trade with non-member countries. This group of instruments is designed to protect the common market from the disturbance that may result where non-member countries offer agricultural products at very low prices.

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In many cases there is a variable levy on imports to make up for the difference between the offer price and the threshold price, which is fixed in such a way that the price in the Community works out the same as the target price (for grain, rice, milk and milk products, sugar, fruit and vegetables). On exportation a refund can be granted to bridge the gap between prices in the Community and world market prices.

When the levy for pigmeat, eggs and poultry is determined, account is taken of the quantities of feed grain needed and of production and marketing costs in general. On the basis of these factors a sluice-gate price is fixed, which is the price that may be considered normal for offers from non-member countries. The levy is made up of two components: (1) a sum equal to the difference between the Community price and the world market price for the amount of feed grain needed in the Community to produce 1 kg and (2) a sum equal to 7% of the average sluice-gate prices over the four quarters preceding 1 May each year. Whenever offer prices at the frontier fall below the sluice-gate price an extra amount is added to the levy, and this can be differentiated according to the origin of the commodities concerned.

There is also a levy for beef and veal. This is charged (wholly or in part) when the average monthly price in the Community is no higher than 106% of the guide price.

The system for oils and fats is completely different. The Community price for oilseeds is lowered by means of a subsidy until it equals the world market price. Levies and refunds are therefore superfluous.

Quality standards are laid down for eggs and for fruit and vegetables. The regulations for the latter also include measures to facilitate the establishment of growers' associations. The purpose of these associations is to promote concentration of supply and the regulation of producer prices. One of their tasks is to ensure that

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the quality standards are complied with. They also make rules with a view to improving quality and adapting supply to market requirements.

The foregoing shows clearly that since 14 January 1962, when the first basic regulations for agriculture were adopted by the Council, much progress has been made. What is there still to be done to ensure that, as required, the common organization of agricultural markets is completed by the end of the transition period?

First, common rules must be introduced for some twenty product groups - most of them of lesser economic importance. Proposals for definitive regulation of the wine market and for market regulations for tobacco and fishery products have already been submitted to the Council by the Commission. It is highly important that these regulations should be brought in on time because the income of farmers in some parts of the Community is made up predominantly of receipts from sales of these products. The existing market organizations also have to be changed or added to on a number of points, partly to remove a number of provisions comprising exceptions to the common market rules.

1. The criteria on which the regional arrangements for the grain market were to be based were laid down in 1964 and 1965. Since then, there have been substantial changes in the pattern of production and in transport conditions, among other things. As a result, the regional system needs to be reviewed, and the number of marketing centres will be considered at the same time.

As a provisional measure the member countries are allowed to take preventive action slightly above the level of the intervention price. This procedure, known as B intervention, used mostly by France, will probably be incorporated in a permanent arrangement.

Italy is being allowed to reduce the amount of import levies for a number of years in order to diminish the impact of the common organization on feed-grain prices and thus to facilitate adjustment of the Italian market. A reduction of 7.5 u.a./ton is permitted

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until the end of 1971/72 and a second reduction of 2.5 u.a./ton until the end of 1969/70.

2. Improvements are needed in the system of market quotations for pig-meat in order to ensure more harmonized price determination.
3. Standards have to be laid down for egg products. The standards for eggs, which came into force on 1 May 1969, have to be applied in all member countries by 1 July at the latest.
4. Community prices have not yet been established for milk and milk products. The following adjustments are needed:
 - (i) Drinking milk does not come under the current regulation and is therefore subject to different rules in the member countries. This affects 20-25% of all milk deliveries in the Community.
 - (ii) Not all Member States apply the common intervention price when intervening on the market: France, Belgium and Luxembourg add 2.75 u.a./100 kg to the common intervention price for butter and skim milk powder, and Germany subtracts 6 u.a./100 kg from the intervention price for butter. As a result of these "corrective amounts" trade between the member countries is still subject to levies at the frontiers.
 - (iii) Support amounting to 1.98 u.a./100 kg is now granted for private stocks of Grana padano and Parmigiano-Reggiano.
 - (iv) The provisions whereby France and Germany are allowed to subsidize exports of a certain quantity of drinking milk to Italy will lapse at the end of the transition period.
 - (v) The same applies to the German regulations for collecting and distributing zones, which oblige farmers to deliver all the milk they produce to a specified creamery and oblige the creamery to accept this milk and sell it in a specified area.

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- (vi) At the moment a quality premium may be paid in Belgium not only for drinking milk but for all liquid milk. This amounts to an increase of about Bfrs. 0.1/kg in the average producer price for milk.
- (vii) Germany is authorized to provide support for the consumption of drinking milk but in practice does not do so.

The maintenance of the quantitative restrictions existing in trade in butter other than the highest quality butter between the member countries is incompatible with the principles of the common market. However, these restrictions do not have to be eliminated by the end of the transition period but only at the time when common harmonization measures relating to the manufacture and marketing of butter take effect.

- 5. Intervention on the beef and veal market is in the hands of the Member States at present. This procedure will have to be replaced by Community-level intervention arrangements.
- 6. The implementation of common measures affecting fruit and vegetables has been shown not to be wholly satisfactory:
 - (a) some measures, though obligatory, are not being fully applied everywhere;
 - (b) other measures are interpreted differently in different member countries;
 - (c) there are also a number of measures applied by the member countries of their own accord.

It is clear that this provides an opening for distortion of competition. Consequently, there is a need for common regulations for imports from non-member countries and common rules for the authorization of refunds. In order to harmonize the intervention arrangements it is proposed that:

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- (a) the provisions of Article 8 of Regulation No. 159/66/CEE be abolished, which would mean that:
 - (i) the buying-in prices set by the Council would apply to all member countries, and
 - (ii) it would be for the Community to decide whether the introduction of intervention measures was warranted by the situation;
- (b) all Member States should be obliged to make financial compensation to growers' associations that withdraw produce from the market and to purchase produce offered to them in the event of a serious crisis.

Every effort should be made to ensure that produce withdrawn from the market does not have to be destroyed. In 1967 the Commission put forward the following proposals for disposing of such produce:

- (a) free distribution to charitable organizations and persons recognized by law as entitled to government assistance, particularly where insufficient funds are available to ensure that they keep above subsistence level;
- (b) conversion into alcohol of a strength not exceeding 80% obtained by direct distillation;
- (c) consumption as feed, either fresh or after industrial processing;
- (d) consumption as other than food.

This has been shown to be inadequate. The Commission has now proposed:

- (a) that processing of fresh produce be authorized with a view to free distribution of the processed products to specific social groups;
- (b) that expenditure on processing and distribution of fresh or processed products be financed by the EAGGF;
- (c) that consumption of produce on the farm be encouraged if it is expected that larger quantities are withdrawn from the market than can be disposed of by other means.

The provision that, if there is a poor harvest in fruit and vegetables, the Member States may be authorized temporarily to depart from the common quality standards on their home markets will lapse at the end of the transition period unless the Council decides to extend it.

7. The regulations for sugar, which comprises the quota system described above, will last until 1 July 1975. After 1 January 1970 intervention arrangements will no longer apply to raw beet sugar.
8. The member countries' import arrangements for live trees and plants, etc. need to be harmonized.

Whether the market organizations will be able to continue operating depends on the establishment of a new agreement on the financing of the common agricultural policy. The financial regulation (No. 25, dating from 1962) describes the procedure at the definitive stage as follows:

"Revenue from levies charged on imports from non-member countries shall be the property of the Community and shall be appropriated to Community expenditure."

Under the sugar market regulation, this is to be done before the end of the transition period. Regulation No. 25 also lays down that at the end of the transition period the financial consequences of the common agricultural policy will be borne by the Community. This means that the European Agricultural Guidance and Guarantee Fund should finance expenditure on export subsidies, buying-in and structural measures. This will require the adoption of a new regulation because all the provisions now in force will lapse with the end of the transition period.

The "one-third regulation" which restricts expenditure by the EAGGF Guidance Section to one third of that of the Guarantee Section up to a maximum of 285 million u.a. per annum will no longer apply from 1 January 1970.

The possibility of the EAGGF providing additional funds for the cost of an investment - i.e. over 25% and up to 45% - will disappear. New rules must be laid down for these last two matters.

The Commission, which is responsible for the day-to-day running of the common agricultural policy, works in close conjunction with the management committees. These committees, one for each commodity for which a common market organization has been introduced, are made up of representatives of the Member States, with a Commission representative acting as chairman. Proposals for measures that have to be adopted by the Commission are submitted for an opinion to the appropriate management committee. If the committee approves the measure or makes no comment, then the Commission can put the measure into effect straight away. This can also be done if the committee disapproves, but in that event the text of the measure must be submitted to the Council, and the Council has a month within which to adopt a different decision if it does not approve either.

At the end of the transition period the Council has to decide on a proposal by the Commission whether the current provisions concerning the activities of the management committees should be maintained or changed.

In addition to the management committee there is an advisory committee for each commodity, on which are represented agricultural producers, agricultural co-operatives, the farming and food-manufacturing industries, distributors of farm produce and food, workers in the agricultural and food-manufacturing industries, and consumers. The provisions affecting these committees too are valid during the transition period only.

The harmonization of legal provisions is of great practical importance to the attainment of freedom of movement for agricultural produce. For disparities may constitute substantial barriers to international trade within the Community even though it is as a general rule unrestricted.

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In the section of this Newsletter on free movement of goods we already pointed out that such harmonization need not necessarily be complete by the end of the transition period (and this would in fact be impossible).

Conclusions

If these arrangements can be made in time, the common market in agricultural products will be complete on 1 January 1970. It is satisfying to realize that this can be done, even if only after difficult and protracted negotiations in many cases, but it is not enough. For the creation of a European agricultural market is not an end in itself. Seen in this light, 1 January 1970 will be a day not for looking back on past achievements but rather for beginning to plan a dynamic agricultural policy which, building on the results already obtained, will seek to solve the problems facing the Community's agriculture in the future. The Council has already stated that it wishes to examine this complex of problems and in particular to look for structural solutions taking into account their economic, social and regional aspects. The Council will study the position on the basis of the annual report on the situation in agriculture and on agricultural markets in the Community and the Memorandum on the Reform of Agriculture in the European Economic Community.

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