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INSTRUMENTS OF THE EEC ORGANIZATION OF THE

MARKET IN CEREALS

ADJUSTMENT REQUIRED AS A RESULT OF DEFICIT SITUATION

CONTENTS

	<u>Page</u>
I. <u>REGULATION OF PRICES</u>	1
1. Fixing of prices by the Council	1
2. Objectives of price fixing	2
3. Extraordinary price policy measure	3
4. Decisions on prices since 1967/68	3
5. Guaranteed prices to producers	4
(a) Single intervention price replaces regionalization	4
(b) State intervention purchases	5
(c) Disposal from intervention	6
(d) Preventive intervention	7
6. Carry-over payments	7
7. Denaturing premium	8
8. Production refund for starch	9
II. <u>REGULATION OF TRADE</u>	10
1. Protection at the external frontier	10
(a) By means of import levies	11
(b) By means of export levies	12
2. (a) Exports by means of refund	13
(b) Now also by means of invitations to tender ..	13
3. Licences	14
III. <u>COMPENSATION AT THE FRONTIER</u>	15
1. Monetary compensation	15
(a) The unit of account as a basis	15

	<u>Page</u>
(b) Simplification of the system in 1973	16
(c) Still some fluctuations in independently floating currencies	17
(d) Gradual abolition indispensable	17
2. Accession compensatory amounts	18
(a) Adjustment in five years	18
(b) Link between accession compensation and levies on exports to non-member countries.....	19
IV. <u>THE MANAGEMENT COMMITTEE PROCEDURE</u>	19
V. <u>FINANCIAL EFFECT</u>	20

INSTRUMENTS OF THE EEC ORGANIZATION OF THE MARKET IN
CEREALS ADJUSTMENT NECESSARY BECAUSE OF DEFICIT SITUATION

The instruments of the EEC cereals market organization were originally designed for the main purpose of dealing with a surplus situation, and were individually defined for this purpose. Since 1972/73 the tendency has been towards a deficit situation and these instruments have therefore had to be adjusted in order to be better able to manage available supplies and thus control quantities. The ground for a solution of the problem was already prepared in Regulation No 120/67 of 13 June 1967 on the common organization of the market in cereals. This Regulation is based on two main premises, guaranteed prices to the Community producer and protection at the frontier, again only through price. As a result all measures of quantity control in force in the Member States up to that time, for example quotas and obligatory milling, had to be abolished.

I. REGULATION OF PRICES

1. Fixing of prices by the Council

The common cereals market organization includes not only all basic varieties of cereal, but also, flour, semolina, other processing products and in addition products which compete with cereals, such as tapioca. According to Regulation No 120/67 the Council, in accordance with the procedure laid down in Article 43(2) of the Treaty of Rome (i.e., by a qualified majority), fixes a recommended price for common wheat, durum wheat, barley, maize and rye, a basic intervention price for common wheat and a guaranteed minimum price for durum wheat each year before 1 August for the cereal marketing year beginning the following year i.e., from 1 August to 31 July. These prices are fixed with reference to a standard quality which was laid down for each of the above-mentioned varieties of cereal in Regulation (EEC) No 768/69 of 22 April 1969. The recommended price and the basic intervention price are fixed for Duisburg as the area of the Community with the largest wholesale deficit, the goods being delivered to warehouse but not unloaded, while

the guaranteed minimum price for durum wheat is fixed for the trading centre of the region with the largest surplus on the same level and at the same conditions as the recommended price. In the past the Council has never succeeded in reaching this decision by the prescribed date. The Commission in its memorandum of 31 October 1973 on the reorganization of the common agricultural policy therefore proposed that the final date should be moved to the 1 January preceding the marketing year in question. This change of date would give it the opportunity to include new information in the annual report on the agricultural situation, which forms part of its proposal, and to adhere closely to the declaration on the system for fixing Community farm prices appended to the Act of Accession. However, no decision has yet been taken on this matter.

2. Objectives of price fixing

When fixing the prices for cereals the Council of Ministers must take into account the objectives of the common agricultural policy and the contribution which the Community wishes to make to the harmonious development of world trade. The primary aim of the common agricultural policy is to ensure a fair standard of living for the agricultural community and a flow of supplies at reasonable prices to the consumer. In addition the importance of cereal cultivation for community agriculture and the effect of cereals prices on the prices of many agricultural products and consequently on the income of farm workers must be taken into account. The target prices for the most important varieties of cereal - prices are not fixed for oats or millet because of their secondary importance on the EEC market - must take into account the production level, the necessary organization of production, its use and the improvement of agricultural incomes.

3. Extraordinary price policy measures

Departing from the principle of annual price fixing laid down in the basic regulations on the common organization of the various EEC markets, including Regulation No 120/67, for the first time since the establishment of the common organization of markets during the 1974/75 marketing year the Council increased all farm prices by 5% all round from 7 October 1974. The reason for this extraordinary price measure was the abrupt rise in farming costs brought about by the pressure of inflation on farming. In addition farmers had failed to obtain higher market prices to offset increased production costs. In the case of common wheat and fodder cereal agriculture had been able to benefit from the very high world market prices. In the interest of stability on the internal market and the maintenance of adequate supplies the Community does not allow price increases for these products on the world market to affect the EEC price level.

4. Decisions on prices since 1967/68

The common target and intervention prices for common wheat, barley, maize, and durum wheat have been fixed by the Council of Ministers since 1967/68 as follows (in u.a. per t, intervention prices):

	<u>Common wheat</u>	<u>Barley</u>	<u>Maize</u>	<u>Durum wheat</u>
1967/68	106.25 (98.75)	91.25 (85.00)	90.63 (77.00)	125.00 (117.50)
1968/69	106.25 (98.75)	94.44 (87.98)	94.94 (79.31)	125.00 (117.50)
1969/70	106.25 (98.75)	95.44 (88.48)	95.94 (79.31)	125.00 (117.50)
1970/71	106.25 (98.75)	95.44 (88.48)	95.94 (79.31)	125.00 (117.50)
1971/72	109.44 (100.72)	100.21 (92.02)	96.90 (79.31)	127.50 (119.85)
1972/73	113.80 (104.75)	104.25 (95.70)	101.75 (83.25)	132.60 (116.93)
1973/74	114.94 (105.80)	105.29 (96.66)	102.77 (84.08)	133.93 (118.10)
1974/75	121.84 (110.03)	110.55 (96.60)	109.45 (89.55)	182.83 (166.83)
from				
7 October				
1974	127.93 (115.53)	116.03 (101.43)	114.92 (94.03)	191.97 (175.17)

As regards the intervention prices it should be remembered, however, that in the case of common wheat it is always the basic intervention price which is involved and in the case of maize the single intervention price, on the other hand in the case of barley up to 1973/74 inclusive it was the basic intervention price and after that the single intervention price and in the case of durum wheat the basic intervention price up to 1971/72 inclusive and then the single intervention price. The resultant differences are discussed in more detail below. In addition to the target, intervention and threshold prices there are also monthly increases. When fixing the prices for the year the Council must proceed on the basis of the cost of storage and loans in the EEC and also the need to dispose of stocks according to market requirements, i.e., as far as possible, spread over the whole marketing year.

5. Guaranteed prices to producers

(a) Single intervention price replaces regionalization

In order to guarantee to producers that the market price does not fall below a minimum level, derived intervention prices are fixed for the Community, in addition to the basic intervention price. These derived intervention prices are fixed for the same standard quality, at the same stage and under the same conditions as the target price, for all marketing centres in the Community except Duisburg. The derived intervention prices are calculated in such a way that the differences between them correspond to the price disparities to be expected in a normal harvest under natural conditions of price formation on the market, and allow the free movement of cereals within the Community in accordance with market requirements. However, it has become apparent that the method of deriving prices operated up to the present (on a regional basis) does not facilitate an adequate flow of goods from the producing areas to the deficit areas. For this reason the Community has increasingly turned away from the system of the basic intervention price with derived intervention prices, and it is now retained only for common wheat. However, here too, there are plans

to introduce the system of the single intervention price (though not immediately), with the aim of establishing a market process requiring as little regulation as possible. The introduction of a uniform intervention price means that the same intervention price must be paid in all marketing centres in the Community, the market price finds its own level according to the law of supply and demand and a natural price gradient emerges between the producing areas and the consuming areas. Important when applying the single intervention price is not only the level - in the case of barley the 5% higher intervention price in force during the 1973/74 marketing year in Chalons-sur-Marne in Champagne (surplus area) was chosen for 1974/75 - but above all a considerable difference between intervention price and target price and the number of marketing centres. In France the number of marketing centres in which the common intervention price is applied has been considerably reduced for 1974/75 in order to make French barley competitive within the EEC. It is important that a guaranteed minimum price still exists for durum wheat, the difference between this and the intervention price determining the level of the subsidy for durum wheat (according to Regulation No 1524/74 this stands at 30 u.a. per t for 1974/75).

(b) State intervention purchases

The intervention agencies of the Member States are obliged throughout the cereal marketing year to buy in cereals grown in the Community and offered to them, provided they fulfil certain conditions, particularly as regards quality and quantity. The seller receives the intervention price in force in a particular marketing centre - at present for common wheat there are 275 in Italy, 230 in France, 125 in the German Federal Republic, 21 in the United Kingdom and 13 in Denmark - from which if occasion arises transport costs are deducted. The price increases and reductions applicable where the quality of the cereal bought in by an intervention agency is different from the standard quality are laid down in Regulation No 1493/71. Cereal, the quality of which makes adequate use or storage impossible is not accepted into intervention. Minimum quantities and qualities (generally 80 t, but 40 t for durum wheat) are laid down in Regulation No 1492/71.

The cereals must be of sound and fair marketable quality. Important for purposes of assessing this is the total percentage of constituents which are basic cereals of unimpaired quality, the moisture content, the specific weight, sprouted grains, grain impurities, miscellaneous impurities (Schwarzbesatz) broken grains, shriveled barley grains and in the case of durum wheat the percentage of grains which have lost their vitreous aspect. In bad weather the Commission can relax the common requirements in accordance with Management Committee procedure.

(c) Disposal from intervention

By means of invitation to tender the intervention agencies release the cereals for export to non-member countries or for the internal market. Council Regulation No 132/67/EEC provides that market prices for cereals must be determined before the beginning of the marketing year and be such as will not worsen the market. However should the application of the common organization of the market run into trouble, these price conditions may be modified in the course of the marketing year. Disposal for export takes place on the basis of price conditions to be determined case by case according to market trends and requirements. The terms of the invitation to tender must ensure equality of access and treatment to all persons concerned, irrespective of their place of establishment within the Community.

Commission Regulation (EEC) No 376/70 lays down in detail the procedure and conditions for the disposal of cereals held by intervention agencies. To avoid disturbances cereal disposed of by the intervention agencies to the internal market must be sold at not less than the local market price plus 1.5 u.a. above the intervention price in force in the marketing centre concerned. Transportation subsidies can also be granted exceptionally if there is a big demand for cereals which can only be met by more than one intervention centre. Disposals for export must not prejudice normal exports.

The Commission through the Management Committee procedure therefore fixes a minimum price which, in order to take account of market trends, is not determined until the time limit for tenders has expired. This price is based upon the tenders submitted. A special deposit is required in order to guarantee that the cereals will not be put back on the Community market.

(d) Preventive intervention

Apart from State intervention - known as intervention A - in special cases preventive intervention - known as B - can be applied regionally. Its purpose is to prevent intervention agencies from having to buy in large quantities and thus helps to avoid any threat of a fall in prices. It involves the payment of a premium to the producers for a limited storage period, thus temporarily relieving the market. This measure was invoked frequently recently at the transition from the 1973/74 to the 1974/75 cereal marketing year (in France, Belgium and the Netherlands), and again shortly afterwards for considerable quantities of common wheat and barley. If a Member State wishes to apply intervention B it must submit a request to the Commission which then decides by means of the Management Committee procedure. This form of intervention is based on Council Regulation No 174/67/EEC.

6. Carry-over payments

According to Article 9 of Council Regulation No 120/67/EEC a carry-over payment may be granted in respect of stocks remaining at the end of the marketing year of common wheat, durum wheat, rye and barley harvested in the Community, and of malt. The purpose is to cancel out the price difference between the increased price at the end of the marketing year resulting from the monthly increases and the generally lower price at the beginning of the new marketing year, and in this way to guarantee uninterrupted supplies to the processing industry. Otherwise, since the monthly increases cease at the end of May, cereal would come into intervention at this time which is required by the industry in June, July and also in August. The requirements would then have to be met

through the intervention agencies. The carry-over payment in respect of each variety of cereal - in respect of maize it is limited to stocks in hand in areas of surplus production - does not exceed the difference between the target price valid for the last month of the marketing year and that valid for the first month of the next marketing year. Each year on a proposal from the Commission the Council decides whether the carry-over payment is to be granted in respect of the above-mentioned products and malt, and, if so, to what extent. If the Council decision is positive, then details such as those entitled to payment, minimum quantities etc. are fixed in a Commission regulation. No carry-over payment was paid in respect of stocks at the end of the 1973/74 marketing year. The Commission considered that price trends made it unnecessary since market prices in the Community were considerably above intervention prices. In addition, the target prices for common wheat and rye or maize in 1974/75, from August, were increased by 6 or 6.5% (and still further from 7 October 1974), bringing about a considerable decrease in the price reduction.

7. Denaturing premium

The denaturing premium, which until it was reduced to zero from 10 February 1974 played an important role in the use of common wheat for fodder purposes, is intended to support the market in wheat of breadmaking quality. As a result of the comparatively large difference in price between fodder cereal and common wheat it was not always possible for the latter to find its way automatically into the manger before prices on the cereals market began to rise. According to Commission Regulation (EEC) No 1403/69 - which is based upon Council Regulation No 172/67/EEC and lays down detailed rules - the denaturing premium is composed of two components, which allow in particular for the differences between prices for common wheat and for barley and for the technical costs of denaturing or the special costs of admixture to feedingstuffs in unprocessed form, fixed at a flat rate (CCT Heading 23.07). Denaturing by colouring the grain may only be carried out with Patented Blue V and Acid Brilliant Green BS. In addition, wheat can also be

denatured by means of fish-oil or fish liver oil. Common wheat the natural characteristics of which are such that it cannot in any case be used except as fodder is excluded from the denaturing premium. For this reason minimum quality criteria for denaturing have been precisely defined. In Regulation No 1685/74 the Commission again fixed the denaturing premium for common wheat at zero for the 1974/75 marketing year. The reason given for this step was the continuing risk of large increases in the price of common wheat following a shortage on the world market and a very favourable outlook for exports.

8. Production refund for starch

Since on account of the special situation on the markets in cereal and potato starches and, in particular, the need for the industry to ensure that its prices are competitive with those of synthetic substitute products, Regulations Nos 120/67/EEC (Common organization of the market in cereals) and 359/67/EEC (Common organization of the market in rice) provide for the granting of a production refund, to enable the starch industry to obtain the basic products it required at a lower price than that which would result from the application of the rules of the common organization of the market in the products in question. Such a refund for the production of starch, together with maize groats for brewing beer is used in the case of cereal to offset the difference between the threshold prices valid in any given month for maize or common wheat (the important function of the threshold prices is discussed in more detail below) minus the valid accession compensatory amounts, and a delivery price to industry fixed by Council Regulation (EEC) No 1132/74. For many years this price amounted to 6.80 u.a. per 100 kg. As a result of higher world market prices it was raised to 8.20 u.a. at the same time as the refund for Quellmehl for the 1974/75 marketing year was abolished, and in this way the production refund was phased out. Since with effect from 7 October 1974 the cereal prices together with the threshold prices also fell below the overall EEC farm price increase by 5%, the delivery prices to industry were refixed (increased to 8.745 u.a.), in order to keep the refund at the same level. The Council, on the Commission's proposal,

has reduced the production refund by 50% with effect from 1 April 1975, by means of a further increase in the delivery price to industry for maize and common wheat, bringing it to 10.31 u.a. This was done because the world market prices for these varieties of cereal are very high - this is also the reason for an export levy on starch products - and appear likely to remain so. The retention of the former level of refund thus appeared no longer economically justifiable, and would in addition have led to an excessively high financial burden. In the course of the marketing year this change could admittedly have led to distortions of competition between cereal and potato starch since the production year for potato starch ends earlier and this product therefore continues to receive the increased production refund. The Commission will examine the situation carefully and if necessary introduce transitional measures by means of the management committee procedure. In the Commission's opinion production refunds should in future only be granted optionally and it appeared advisable to fix it at zero for 1975/76.

II. REGULATION OF TRADE

1. Protection at the external frontier

The regulation of trade with non-member countries is based upon the common threshold price which protects the common EEC price level against the normally low world market price. According to Article 5 of Regulation No 120/67/EEC the threshold price for the main varieties of cereal is to be fixed in such a way that the selling price for the imported product on the Duisburg market (main deficit area) is the same as the target price. This is achieved by deducting from the target price the lowest transport costs between Rotterdam - the threshold price calculated for Rotterdam is valid for all frontier posts in the EEC - and Duisburg, the handling costs in Rotterdam and a trading margin. The Council fixes the threshold prices for oats and the various varieties of sorghum in such a way that the main varieties of

cereals which are in competition with them can achieve the target price on the Duisburg market.

(a) By means of import levies

The main means of protecting the EEC price levels from the generally lower world market price are levies. In practice they represent a sliding scale customs tariff and cover the difference between the threshold prices and world market prices, expressed in cif prices based on Rotterdam, so that foreign goods cannot undercut EEC goods. Whenever the variations in prices produce a discrepancy of more than 0.60 u.a. per t the Commission refixes the levy for all cereals including flour and semolina. The levy for the remaining products processed from cereals is fixed every month, the incidence of the prime costs of processed products on the levies being controlled by means of the variable component of the levy and the protection of the processing industry being ensured by means of the fixed component of the levy. This system is based on Regulations Nos 1052/68 and 1579/74. During a certain transitional period the principle of the uniform import levy for the Community does not apply to Italy. The reduction of the levy agreed when fixing the common cereal prices for Italy in respect of fodder cereals imported by sea - the original justification for this was that the Italian harbour installations had still to be modernized - still amounted to 4.5 u.a. in the 1974/75 marketing year and decreases by 1.5 u.a. annually. As regards the technical details of the fixing of levies it should be noted that the Commission fixes the cif prices according to Regulation No 156/67 on the basis of the most favourable purchasing opportunities on the world market, provided these refer to representative quantities and average quality. According to Regulations Nos 158/67 and 159/67 coefficients of equivalence are used for any differences in quality between the EEC standard and goods from non-member countries. This can mean, for example, that the wheat chosen as a basis for calculating levies is not the cheapest, but although dearer is more favourable in price taking quality into account.

(b) By means of export levies

As a result of the increase in world market prices the Community found itself forced to create a means of preventing disturbances on the Community market and guaranteeing adequate cereal supplies. Council Regulation (EEC) No 1968/73 which was based on Article 19 of Regulation No 120/67/EEC and is known as the Shortage Regulation, introduced among other things the export levy. Although this instrument has subsequently been applied, the additional provision included in it for the total or partial suspension of the issue of export licences has so far not been invoked.

Export levies have gradually developed into a regular institution, after world market prices overtook Community prices for the first time in August 1973 and as a result import levies ceased to operate. The threshold for export levies was recently changed when the Council amended Article 19 of Regulation No 120/67/EEC and Regulation No 1968/73. Whereas previously export levies operated as soon as the cif price exceeded the EEC threshold price by a minimum of 2%, they may now do so when the quotations or prices on the world market approach the threshold price or exceed it, thus endangering the stability of the market to guarantee supplies. The scope for the application of protective measures is thus widened a little, which is to be welcomed. Otherwise the Community could find itself forced to impose a ban on exports in the framework of the protective clauses, which would cause problems of trade policy. For purposes of calculating export levies, Regulation No 2182/73 lays down the same basic criteria as for the fixing of export refunds, which permit exports at lower world market prices. If the normal export levy for basic cereals is fixed at a prohibitive level, the invitation to tender for the export levy offers an opportunity of making exports subject to a limitation of both quantities and recipient countries. After examining the imperatives before it the Commission fixes by means of the Management Committee procedure a minimum export levy which is less than the prohibitive levy. In this way it is

possible to follow a policy of guided exports.

2. (a) Exports by means of refund

Where world market prices are less than EEC prices, exports are made possible by the granting of a refund (Council Regulation No 139/67/EEC laying down general rules for granting export refunds on cereals and criteria for fixing the amount of such refunds). The method takes into account the difference between the cereal prices ruling on the various representative export markets of the Community and the most favourable quotations recorded on the various markets of importing non-member countries, together with marketing costs and the most favourable transport charges from the Community market referred to ports or other points of export in the Community serving these markets, and in addition costs incurred in placing the goods on the world market. The decisive factors are in general the existing situation and likely trend of cereal prices and availabilities on the Community market, the prices for cereals and cereal products on the world market, the aims of the common organization of the market in cereals, which are to ensure equilibrium and the natural development of prices and trade on this market, the need to avoid disturbances on the Community market and the economic aspect of the proposed exports. The demand by the trade that the export refund should be fixed at the same level as the import levy runs counter to the argument that for imports the threshold price level is decisive. However the Community bases its own production, which is also exported, not on the guide-price/threshold-price level but on the intervention price. The refund at any given time applies to the whole Community, but can be differentiated according to the country of destination.

(b) Now also by means of invitations to tender

The Council recently made an addition to Regulation No 139/67/EEC providing that in future, where applicable, the export refund for basic cereals can only be fixed by means of invitation to tender. The Council agreed with

the Commission that it is important, particularly in times of uncertainty or fluctuating world market prices, to guarantee a more ordered management of exports, whereas previously exports with refund were arranged without any limitations on quantity.

3. Licences

Import and export licences which are distributed on application by the competent national agencies are valid for the whole Community (Regulations No 1373/70 and No 2637/70). However, the issue of the licence is dependent upon the lodging of a security, which is intended to guarantee the fulfilment of the condition that the import or export should be carried out within the period of validity of the licence. In view of international trade practice, however, a margin of 5% above or below the stated quantity is permitted. While the obligations arising from the licence are not transferable, the rights can be transferred by the titular holder of the licence within the period of validity. The period of validity varies. Where uncertainty exists the Commission can adjust the period of validity. At the present, for imports of cereals, flour and semolina the period is 60 days, for the export of cereals 90 days and for the export of flour and semolina four months following the month of issue. The longest period of validity for an export licence is that for malt which is 11 months following the month of issue. In certain cases a special period of validity is fixed for an export licence for cereals and flour, where the licence refers to large quantities exported to a distant destination. An example of this is the recently granted extended period of validity for flour. Since the cereal trade is largely conducted on a forward basis the levy or refund can be fixed in advance for the period of validity of the licence. However, the "premium" is added to the previously-fixed levy wherever the cif price on the day of advanced fixing exceeds the forward price. A corresponding upward and downward adjustment is applied in the case of the advance fixing of the export refund in the form of a corrective amount on condition that the difference between the day's price and the forward quotation exceeds 1 u.a.

III. COMPENSATION AT THE FRONTIER

1. Monetary compensation

(a) The unit of account as a basis

The unit of account, which was created as a reference figure in relation to national currencies by means of Council Regulation No 129/62 on the value of the unit of account and the exchange rates to be applied for the purposes of the common agricultural policy, today remains the basis of the management of the common organization of markets. It represents a fixed point of departure since it is not affected by variations in exchange rates. The farm prices, which are fixed uniformly for the whole Community in units of account, and as a result the prices of cereals, also the other amounts such as levies, refunds, premiums, are likewise fixed in units of account) are converted in the individual Member States at the official rate. Changes in parity have more or less automatic results: in the case of a devaluation the market organization prices expressed in local currency rise, while in the case of a revaluation they fall. This system operated when the German mark was revalued in 1969, together with the granting of compensatory payments, and again - although spread out over two years by means of frontier-compensation - when the French franc was devalued in 1969, and finally when the Dutch guilder was revalued in the autumn of 1973. In the case of all other changes in currencies - which were not official revaluations and devaluations - prices were not adjusted. This made it necessary to create a general frontier compensation system, which has been applied with various modifications up to the present time, and for which Regulation No 974/71 is still valid. It is significant that three countries, i.e., Italy, the United Kingdom and Ireland, have used a separate devaluation of the agricultural currencies (parity in relation to the u.a.), to increase their farm prices in national currency and at the same time reduce the frontier compensation. The total percentage rise in Italy between 1 November 1973 and 28 October 1974 was 33.28%. At present the agricultural parity of the individual countries is as follows: 1 u.a. equals £0.498679; Irish £0.513215; Lit 833; Dkr 7.57831; Bfrs 50; Fl 3.44353; FF 5.55419; DM 3.66.

(b) Simplification of the system in 1973

In June 1973 frontier compensation was considerably simplified. As a result the compensatory amounts for the countries floating together, at present Benelux, the German Federal Republic and Denmark (which however does not practice frontier compensation) do not change during the marketing year, provided no changes are made to parities. In addition the rate taken into account when the amounts are being determined is not the US dollar rate but the pivot rate of the individual currencies in relation to the unit of account. An important innovation is that each country is now responsible for applying its own compensation at the frontier, and the amounts no longer have to be balanced against each other. For the countries floating together the frontier compensation makes up the difference between the pivot rate of the four currencies in relation to the unit of account, and the parity. This produces a frontier compensation of 2.7% for the Benelux countries and 12.03% for the German Federal Republic on the basis of the intervention price. These rates are applied in dealings with all other Member States and also with non-member countries. However, in the latter case an adjustment must be effected, since the foreign exchange advantage gained from revaluation extends only to the cif price of the goods and not to the higher Community price including levy. For this reason levies and refunds are reduced by the application of coefficients, which amount to 0.973 for the Benelux countries and 0.8797 for the German Federal Republic. They reflect the rates of float of 12.03% and 2.73%. In addition they are taken into account for purposes of adjusting the accession compensatory amounts in trade between the Benelux countries and the German Federal Republic on the one hand and the three new Member States on the other. In those countries which are floating in isolation the coefficients are refixed each time the monetary compensatory amounts are changed. In order to take into account the relationship between the dollar and the unit of account it is necessary to make a further adjustment to levies (import and export) and refunds. This is calculated by first determining the average day's rate of the currencies floating together against the dollar and then comparing it with the pivot rate in each case. For the week beginning 23 December this

"currency factor" amounted to 0.759309. Levies and refunds are therefore also determined by reference to the trend of the dollar against the currencies floating together.

(c) Still some fluctuations in independently floating currencies

For the Member States whose currencies are floating in isolation, i.e., France, Italy, United Kingdom and Ireland, the EEC Commission fixes the frontier compensatory amounts each week. If between Wednesday and Tuesday inclusive the rate varies by at least one point a new frontier compensatory amount comes into force on the Monday of the following week. In the week beginning 23 December the percentage fall in the rate of those countries floating in isolation was as follows: Irish £10.5%, United Kingdom £13.8%, FF 7.2%, Lit 4.1%. However, the controversial Article 4 (a) of Regulation No 974/71 was suspended by the Council of Ministers with effect from 21 October 1974, while at the same time they granted a transitional arrangement for reasons of economy. According to Article 4 (a), monetary compensatory amounts at the frontier in Member States with weak currencies may not exceed the non-member country levy. Since in consequence France levied no compensatory amount on deliveries of cereals to the German Federal Republic and Belgium - there was no non-member country levy - the price level in these two countries was undermined. The suspension of Article 4 (a) is logical since the system of the unit of account with the agricultural parity requires a consistent application of the frontier compensation in the present currency situation. In future, therefore, in United Kingdom, Ireland, Italy and France, levies on exports and subsidies on imports will become effective in the framework of frontier compensation.

(d) Gradual abolition indispensable

The EEC Commission is of the opinion that compensation at the frontier should be eliminated step by step, since economic factors press for the reestablishment of a single market. The system of common prices which is basic to the common agricultural policy is in practice seriously threatened because the farm prices expressed in u.a. are converted at the rates (agricultural parity) used in the framework of the common agricultural policy, which do not correspond to economic

reality. This leads to seven different price zones each with its own prices, since in January 1973 the French franc left the "snake" and Ireland devalued its agricultural pound to a different level than the United Kingdom agricultural pound. But the developments in 1973/1974 have also made it quite clear that there are limits to the monetary compensatory amount.

2. Accession compensatory amounts

(a) Adjustment after five years

The three new Member States, which since 1 February 1973 have been applying the common organization of markets, must bring their price levels into line with the levels of the original six members by 31 December 1977. On the basis of the provisions of the EEC instrument on the organization of markets, but at the same time, however, on the basis of a lower price level, the United Kingdom, Ireland and Denmark apply accession compensatory amounts, which will be eliminated in six stages. It is true that as early as 1 February 1973 Denmark adopted the common price level for rye, maize and sorghum, so that no compensatory amounts are necessary in this case. Moreover, these are only fixed as absolute amounts for common wheat and barley, while prices for other kinds of cereals are fixed by means of coefficients. For common wheat (barley) the accession compensatory amounts for 1974/1975 are as follows (in u.a. per t): Denmark 7.35 (6.28), Ireland 5.51 (10.74), United Kingdom 32.58 (30.57). The compensatory amounts are applied in trade with the six "old" Member States and with non-member countries. If, for example, there is an EEC levy of 40 u.a. for common wheat, it will be reduced by 32.58 u.a. for the United Kingdom. In order to ensure fair competition on the United Kingdom market, in this case the EEC exporter of common wheat to the United Kingdom would receive a subsidy of 32.58 u.a. Products for processing are also subject to the accession compensation arrangements. The amounts reflect the necessary protection of the processing industry and the financial effect of raw materials.

(b) Link between accession compensation and levies on exports to non-member countries

Article 55 of the Act of Accession states that the accession compensatory amounts may not exceed levies on the imports from non-member countries. Otherwise Community funds would subsidize an unjustifiably low price level in the United Kingdom. Thus it was necessary to create a link between the compensatory amount and the levy, the above-mentioned amounts being regarded as maximum amounts. In order to avoid changing compensatory amounts too often, adjustment is made only when the change in the levy exceeds 4 u.a. When the levy is fixed at zero, no compensatory amount is of course applied. Where the three new Member States export cereals to non-member countries the EEC refund is reduced by the appropriate compensatory amount. In trade between the three new Member States, the compensatory amounts arise from the difference in the amounts of each country in relation to the original Community. Under the provisions of Regulation No 3280/73 the accession compensatory amounts can be fixed in advance provided a security is lodged.

IV. THE MANAGEMENT COMMITTEE PROCEDURE

The Management Committee, which has often been mentioned in this report, was created pursuant to Article 25 of Regulation No 120/67/EEC. It consists of representatives of the Member States and is presided over by a representative of the Commission. The votes of Member States are weighted in accordance with Article 148(2) of the Treaty. An opinion on a draft submitted by the Commission is adopted by a majority of 41 votes. If the measures then adopted by the Commission are not in accordance with the opinion of the Committee, they have to be communicated at once by the Commission to the Council. The Council may take a different decision within one month. Under this system the Commission is in no way bound provided there are not 41 votes in favour of accepting or rejecting the draft. The Management Committee meets every Thursday. It has proved its value in the difficult task of managing the common market in cereals.

V. FINANCIAL EFFECTS

The costs of the common organization of the market in cereals are refunded in full by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund. The trend of expenditure demonstrates clearly the changes on the cereal market. In the EEC budget for 1975 the entry for cereals amounts to 606.5 million u.a. In 1974 the figure was 455 million u.a. Up to 31 October 1974 the actual expenditure amounted to 322 million u.a., and 73 million u.a. were estimated for the remaining two months, making a total of 395 million u.a. and thus a saving compared with the entry of 455 million u.a. In 1973 expenditure amounted to 953 million and in 1972 to 985 million u.a.