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Report on the first year of operation of the Regulations for  
the common organization of agricultural markets

The Commission has submitted to the Council a report on the first year of operation of the agricultural regulations, covering the period 30 July 1962 to 30 June 1963. However, the statistics used include the month of July for the 1962/63 marketing year, a month during which the regulations were not yet in force. The report also mentions several developments which have taken place during the last four months.

The regulations have not caused any disturbance to the markets of the Member States. For products subject to levy, the substitution of this system for all other forms of protection, particularly quotas, has done no damage. In the cereals sector the price stabilization mechanisms proved effective although crops reached a record level in the Community. The safeguard clause was applied only once (for dessert grapes).

The short time during which the regulations have been in force precludes any definite conclusions being drawn as regard trade with non-member countries. Globally no fall in imports from these countries has been noted and allegations that the Community practises an autarkic policy are unfounded.

Some decline of intra-Community cereals trade, by percentage and by volume, in favour of trade with non-member countries is noted. The volume of intra-Community trade in livestock products has been maintained, and this is reflected in the percentage of total imports by a modest advance and a fall in trade with non-member countries corresponding to the increase in Community production. These developments may in certain cases raise the question of the level of protection as regards both intra-Community trade and trade with non-member countries. However, in studying the trend of trade, account must also be taken of certain factors which have nothing to do with the effect of the regulations.

The report notes that the Management Committees have made an active contribution to working out implementing measures and that they are functioning satisfactorily. The contribution made by the five Consultative Committees is also emphasized. Without wishing to draw any definite conclusions, the Commission thinks that the results obtained so far do not suggest a need for any important change in the machinery set in motion. Nevertheless a more flexible procedure seems desirable for the introduction or amendment of measures pursuant to the regulations. Since July 30, 1962, the Community operation of the regulations has involved the taking of many decisions. ....

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In addition some provisions have been adapted and additions have been made to others: amongst these are:

- a) Fixing in advance of the levy on cereals;
- b) Modification of the system applicable to several processed products based on cereals;
- c) Application of the levy system to cuts of pork and preserved pork;
- d) Quality control of fruit and vegetables imported from non-member countries.

The Commission emphasizes the importance of an adequate information network for agricultural markets and points out that in many cases the information which the Member States are expected to supply arrives late or is incomplete.

In each of the chapters concerning the various sectors the report discusses the trend of the market, the levy system and the liberalisation of trade, the system of export refunds, or, in the case of fruit and vegetables, the standardisation of products.

#### Cereals

Because of the large crop of wheat other than durum in France the Community was for the first time a net exporter of wheat - 350 000 tons - whereas average net imports in the last three years had been 2.9 million tons. It may be estimated that the production of wheat other than durum of European quality exceeded the Community's requirements by about 2.5 to 3 million tons. The Community's net imports of coarse grains in 1962/63 were 10.1 million tons as against 7.8 million during the three previous marketing years despite a more abundant coarse grain harvest than the average of the last three years. Consumption of cereals went up strongly during the 1962/63 marketing year and reached 66.5 million tons as against 63.9 million in the previous year; this was due to the increase in requirements for animal fodder.

#### EEC imports of all cereals (in '000 tons)

Average	1959/60 to		1961/62		1962/63	
	1961/62					
From:	quantity	%	quantity	%	quantity	%
EEC	1,601	10	1,945	11	1,176	8
Non-member countries	14,027	90	15,883	89	14,331	92
Total	15,628		17,828		15,507	

The report analyses these figures by countries and type of cereals. Although the percentage of wheat imports from non-member

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countries has increased from 89% to 92%, these imports have concerned almost exclusively **hard** wheat and durum wheat. Imports of wheat flour into the member countries are unimportant, the Community being a net exporter of flour, exporting a large volume to non-member countries. It is also on the whole a net exporter of starch, malt and prepared fodder. It is a large net importer of bran and re-milled cereals.

The report analyses the price trend of each cereal in the production areas of the Member States and the various intervention measures applied by these States. The Commission considers that the normal functioning of the market organization presupposes harmonization of the procedures by which the Member States intervene, since these are not without repercussions for the Community, particularly as regards the financial aspect. The Commission examines how far the measures for regional prices applied by certain Member States are compatible with the provisions of the cereals regulation. Certain measures taken, in particular by the Italian and French Governments, do not appear consistent with the criteria of natural price formation.

For fixing cif and free-at-frontier prices the Commission has available very full and very detailed information. As regards the free-at-frontier prices certain difficulties in the selection of the markets appeared at the beginning of the marketing year. Sometimes divergences emerged between the opinion of the Commission and of the Member States involved, particularly on the price correction coefficients, export trade margins and transport costs. Nevertheless, as the marketing year advanced the lessons learned in practice made it possible to overcome some of these difficulties. The Commission has not been able to verify systematically the levies fixed by the Member States. However, at the request of the Commission, Belgium has abolished a supplementary charge on imports of certain cereals.

The fixing of the levies on imports of the processed products mentioned in Council Regulation No. 55 has caused administrative difficulties in some Member States because of the number and diversity of the products and the complexity of the calculations as well as certain clerical errors which were immediately put right. At its October 1963 session the Council adopted arrangements for simplifying the calculation of the levies applicable to these products.

The report lists the bodies which fix the levies in the different member countries and those which collect them, and gives details on the use to which they are put and on the financing of interventions and refunds.

Quantitative restrictions and measures with equivalent effect in respect of both imports and exports seem to have been completely abolished save for the system for imports from **state-trading** countries

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and two derogations provided for (in favour of Luxembourg in accordance with the Protocol to the Rome Treaty and in favour of Italy until 1 July 1963 by Council decision). Import and export certificates are issued on demand without restriction.

As regards sureties, disparities between the measures taken by Member States have sometimes led to unequal conditions of competition between operators and to certain difficulties due to the fact that in some Member States the amount of the surety was insufficient to ensure the carrying out of the operation in all cases. Measures making it possible to apply this surety in a more satisfactory manner have been adopted by the Commission since October 1963.

The Member States practise more or less widely the forms of export refund provided for in Council or Commission regulations. In this field the information received from the Member States is still imprecise and is sometimes supplied with considerable delay, particularly for processed products.

Practice in the first year that the refund system has been in operation has revealed among other things a difficulty in respect of processed products based on cereals. It has become evident that the present system of limiting, in intra-Community trade, the refund to the amount of the variable component of the levy sometimes put a brake on trade between Member States, especially those which have no common frontier and are at some distance from each other. At its last session the Council adopted arrangements to eliminate these difficulties. The Commission also feels that the question of aid to starch production should be looked into again.

Finally, subsidies to internal consumption are granted for certain products, particularly in Belgium, the Netherlands, and the Federal Republic. Some of these subsidies have been abolished for the 1963/64 marketing year. In Germany they have been abolished except for products made from hard wheat.

#### Pigmeat, eggs and poultry

For pigmeat the degree of self-sufficiency has continued roughly around 100% (the statistics refer to the whole sector of live pigs, pig carcasses and fresh cuts of pork).

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A roughly parallel price trend in all the Member States would seem to be the result of the liberalization of trade in live pigs and pig carcasses. On this point, however, it will not be possible to draw final conclusions before the regulation is applied to cuts of pork, sausages and preserves and until the period of application has covered a whole pig cycle. In view of the high level of prices there has been no particular difficulty in respecting the sluice-gate prices, particularly after a sluice-gate price was established for slaughtered sows.

Trade in pigmeat products is about 5% of Community production. Imports from Member States increased slightly in 1962/1963 both in volume and as percentage of total imports in relation to the average of the three preceding years. This increase was solely due to imports by Italy.

Imports from non-member countries have fallen between the two years as they have done in relation to the average of the three preceding years. In particular, imports into the Federal Republic have declined by half in relation to that average, whilst Italy's imports on the contrary have doubled.

Eggs

Production is increasing faster than consumption in the Community. However the trend differs greatly according to country. Compared with the previous marketing year, 1962/1963 shows the following percentage changes:

	<u>Production</u>	<u>Consumption</u>
Germany (FR)	+ 9%	- 6%
France	+ 1%	+ 1%
Italy	+ 9%	+10%
Netherlands	-11%	- 7%

It is clear from these figures that the consequence of the rapid increase in production in the Federal Republic is a decline in imports (- 32% in 1962/1963 in relation to 1961/1962) and that this decline directly affects the level of production in the Netherlands. This country is the Community's chief exporter, selling more than 50% of its production abroad, over 80% of these exports being taken by the Federal Republic.

Egg prices have tended upwards in most Member States. Offer prices for eggs from non-member countries have remained above the sluice-gate price or have been equal to it for several months (and for a short period sometimes below it). The prices charged by the Netherlands and Belgium for exports to Italy are sometimes below the sluice-gate price applicable to non-member countries because of the refunds granted by these two countries.

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Imports by Member States from other Member States have fallen 16% compared with the average of the 1959 to 1962 marketing years. Despite this reduction the percentage of intra-Community trade in total trade has improved, rising from 54% to 65%. This is because imports from non-member countries have fallen more sharply. Exports to non-member countries expanded during the 1962/1963 marketing year. This development is almost entirely attributable to the trend of Netherlands' exports.

Poultry

The increase in consumption is general (29% in relation to 1959/1960). The increase in production in the Community (28% in relation to 1959/1960) has roughly followed the growth of consumption. The degree of self-sufficiency has remained about 90%. In relation to 1961/1962 the following increases may be noted:

	<u>Production</u>	<u>Consumption</u>
Germany (FR)	+ 9%	+ 2.3%
B.L.E.U.	+ 4%	+ 1.3%
France	+ 4%	+ 4%
Italy	+ 2.5%	+ 3%
Netherlands	+13%	+28%

In general the price trend has been more stable than for eggs. Offer prices of hens and chickens from non-member countries have at all times remained below the sluice-gate prices. In November 1962 the Commission introduced surcharges on the levies. The offer prices of the exporting Member States have tended to align themselves on the prices charged by non-member States.

Intra-Community trade increased only slightly in relation to the level of the preceding marketing year in tonnage, but advanced appreciably as a percentage of total imports. The trend of the Federal Republic's imports from other Member States is shown by the following table:

	(in tons)			
	1959/60	1960/61	1961/62	1962/63
Quantity	41 733	52 413	70 471	73 604
Percentage of total imports	34%	35%	30%	44%

Imports from non-member countries fell markedly as compared with 1961-62 but the comparison between the figures from one year to the next has little significance, particularly because of the imports made in anticipation of the 1962/63 marketing year just before the

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regulation came into force. Nevertheless, in relation to the 1959/60 marketing year imports from non-member countries were up 10.6%, and in relation to 1960/61 fell by only 7.8%.

The overall trend in trade in pigmeat, eggs and poultry.

The table below indicates the evolution of trade in animal produce taken as a whole.

E.E.C. imports of live and slaughtered pigs, of eggs and egg products and of live and slaughtered poultry (1.000 units of account)

Origin	Average (1) 1960/61 and 1961/62	%	1961/62	%	1962/63	%
E.E.C.	211.365	47	198.429	44	204.925	54
Non-member countries	<u>239.909</u>	53	<u>247.209</u>	56	<u>174.585</u>	46
Total	451.275		445.638		379.510	

(1) Figures for 1959-60 are not available.

This trend of trade in pigmeat, eggs and poultry reflects the trend which is becoming apparent for each product: decline in Member States' imports, maintenance of intra-Community trade more or less at its previous level, falling imports from non-member countries. This trend of trade is influenced chiefly by higher production in the Community, especially in the chief importing country, the Federal Republic. This brings up the question of the level of protection.

The first year of operation has shown that any fears which may have been entertained as to the effectiveness of the system in protecting Community production were unfounded. In fact this production has continued to develop normally and the safeguard clause has not been applied.

In 1964 the Commission plans to send the Council a certain number of proposals whose effect would be to modify certain basic elements in the determination of levies. These proposals may aim at indispensable simplifications (unified composition of feed) or allow for improved methods of production and conversion rates (changes of laying rate, percentage of young layers).

As to the application of the sluice-gate price, the report points to the inadequacy of the information supplied by the Member States. For one thing some of them do not apply any surcharge when the offer prices are found to be below the sluice-gate prices and, for another, they omit to inform the Commission and the other Member States of any developments they have noted. But for some months now better co-operation on this matter has been in evidence in the Management Committees. The surcharges made on a Community basis are correctly applied.

The Commission considers that if a sluice-gate price were fixed too high the consequence would be an increase in intra-Community preference not provided for in the regulation, and that this could not fail to affect the level of production. The Commission has therefore proposed to the Council that the feed conversion rate on the basis of which the sluice-gate price for poultry is calculated be reduced.

On several occasions the Member States have exercised their right to ask for the reduction of levies and the Commission has generally acceded to these requests. The Commission intends to submit proposals to the Council to obviate the difficulties of interpretation which have occurred in this matter.

Comparison of the administrative regulations in force in the Member States shows that there exist, at least on the formal plane, divergent interpretations of the concept of trade liberalization.

In Germany, France and Italy no control certificate for external trade (licence, import certificate) is demanded. Although it is true that in Belgium and the Netherlands licences are granted automatically, the formalities involved are without doubt a hindrance to trade. There seems to be no valid argument against discarding the present procedure and coming into line with the French and Italian system. In Luxembourg an easing of the present rigid arrangements seems both desirable and feasible.

The amount of refunds in trade with non-member countries has never exceeded the amount of the levies actually applied vis-à-vis these countries.

For the calculation of intra-Community refunds there exist, in addition to the measures provided for by the regulation, three gentlemen's agreements. The report lists the types of refunds granted by the Member States and emphasizes that the general recourse to so-called "non-member country" refunds is not satisfactory. One criticism is that the Governments are inclined to grant the maximum authorized refunds in all circumstances without regard to price and market trends. Experience unfortunately shows that no Member State has any intention of cutting down its possibilities of making refunds without being certain that its competitors will do likewise. This creates a situation in which the difficulties can only be settled by a gentlemen's agreement and recourse to a quasi-political decision by the Council. The Commission considers that the state of the market for the products in question justifies, provided some exceptions are granted, the abolition of "non-member country" type refund in intra-Community trade so that it will be possible to refund only component (a) of the levy. It will be presenting to the Council in the near future a proposal for solving this problem. The essential counterpart of such a proposal is the correct application of the sluice-gate price.

#### Fruit and Vegetables

Production of fruit and vegetables as a whole has made remarkable and very rapid progress in recent years. However, production has not followed the same ascending curve for all varieties.

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In the absence of certain statistical data it is difficult to establish a balance-sheet of resources and requirements. Thus, even if the arithmetical balance-sheet shows a certain equilibrium for some products, it is undeniable that the disposal of the output of some fruits and vegetables, such as apples, pears, peaches and tomatoes, encounters fairly serious seasonal difficulties.

The short reference period and the great variability of production from year to year makes any comparison between the available figures difficult. Allowing for the influence of fluctuations in Community fruit harvests, the development of imports must be considered as normal. The comparisons below apply only to certain particularly representative fruits and vegetables. For the kinds of fruit considered, the percentages represented by intra-Community trade have been relatively stable:

39% in 1959/1960 and 1961/1962  
36% in 1960/1961 and 1962/1963

The imports of vegetables taken into consideration have steadily increased during the last three years :

804 509 tons in 1960/61  
861 423 tons in 1961/62  
872 647 tons in 1962/63

The percentages representing intra-Community trade have remained relatively stable. Imports of these kinds of fruit and vegetables from third countries in volume (expressed in '000 tons) and in percentage of total imports have been as follows:

		1959/60	1960/61	1961/62	1962/63
Fruit	Quantity	1 797	1 656	2 141	2 015
	%	61%	64%	61%	64%
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Vegetables	Quantity	403	321	382	380
	%	43%	40%	45%	44%

These percentages show that neither the approximation of national tariffs to the common external tariff nor the provisions of the Regulation No. 23 has impeded the (growth) of these imports.

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The lessons of this initial period of application bear out the forecasts on the possibility of abolishing restrictive measures on imports step by step by taking as a basis the quality standard of the products in question. The only case in which the safeguard clause was applied during the first year's operation of the common agricultural policy was when the Commission authorized Belgium to suspend imports of "extra" quality dessert grapes for three weeks.

The report describes the various import formalities in the Member States and this description brings out certain differences on this point. The implementation of the common policy has had the effect of generalizing standardization for products traded within the Community and imported from third countries and of improving the efficiency of the control services. Up to a point this has enabled the volume of supply and of demand to be brought closer together because of the decline in the quantities offered.

The number of cases where permission to import has been withheld have been very few and refusal of admission has affected only about 2% of intra-Community trade in fruit and vegetables. In general all the Member States have correctly applied the regulation and the minimum price system in this sector.

Certain economic difficulties resulting from gluts of a home product in the market of a Member State at a given time have appeared in certain Member States. This has sometimes resulted in price falls for certain products, despite which it has been impossible to dispose of all the goods offered. This state of affairs is typical of the fruit and vegetables market.

In the context of future measures to complete the market organization for fruit and vegetables, the Commission hopes to work out solutions to some of these economic difficulties, which could well occur again in the future.

Lastly, the Commission considers that the arrangements concerning the respect of reference prices for imports from non-member countries need to be adjusted.

#### Wine

The Community is almost 100% self-sufficient. Italy is more than self-sufficient, and Luxembourg must also be considered on average as a net exporter. For France self-sufficiency is below 100 if home production alone is considered, but when account is taken of supplies from North Africa, particularly Algeria, the figure is above 100. In the Federal Republic the percentage of self-sufficiency has fallen to a little more than 40% during the

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last two years after having increased to over 80% during the first three years.

It does not seem that the price trend has been appreciably influenced by the arrangements made at Community level to organize the market and widen quotas. However, certain very low priced French exports outside the quotas have led to complaints from German growers and also from Italian exporters. The Commission has requested the French Government to take action to remedy this situation.

As this sector is not yet liberalized the report lists the quotas established under the heads of Article 33 (customs union) or Article 43 (common agricultural policy) or of the Association Agreement with Greece. As regards the administration of the quotas the limited use made by French and Italian wine-merchants of the import facilities open to them in 1962 has prompted the Commission to inquire of the producing member countries why this was so.

It seems that this situation was largely due to the tardy opening of the quotas, to the procedures for issuing licences and to the existence of certain regulations which tend to obstruct trade. Strictly commercial considerations also played a part. As regards the purely administrative difficulties, the Commission has asked the Member States to remove the obstacles in question. Since then no complaint has been brought to the Commission's notice.

The Community's share in Member States' total imports has risen from 13.75% in 1961 to 16.33% in 1962 and to 29.77% during the first six months of 1963.

In the case of Germany, it is noted that both total imports of table wines and the proportion which came from non-member countries were higher in 1962 than in 1961. It therefore seems that the first approximation to the common external tariff on 1 January 1963 did not necessarily prove an obstacle to the import of wine from outside the Community. In fact, only for certain types of special purpose wines, such as distilling wines, was there any marked reduction of imports.

Wine imports from their partners by Italy and France have remained at very low levels, although French imports of German sparkling wines have been increasing rapidly since the beginning of 1963.

The report enumerates the first implementing measures for the wine market organization and mentions the delays in the establishment of a register of vineyards and in the adoption of a regulation on quality wines. It also states that a special regulation is required for liqueur wines and for quality sparkling wines of designated origin. Although the system of declarations of harvests

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and stocks yielded only partial results in 1963, it is already providing interesting pointers to the size of the harvest and stocks for the marketing year 1963/64. Furthermore, the Commission's staff are now working out the first forecasts of the position. There is no doubt that the presentation of these forecasts and the system for declaring harvests and stocks will have to be improved in the future.