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INFORMATION MEMO

The agricultural problems before the Council of Ministers

RICE - BEEF and VEAL - DAIRY PRODUCTS

The series of ministerial meetings that has just begun - sometimes referred to as the second marathon - is often compared with the meetings held two years ago when the Community moved forward to the second stage of the transitional period. Then, as now, agricultural problems were in the forefront, though not the only matters at issue. Of the others, we need only call to mind the question of the common commercial policy and the preparations for the Kennedy Round of negotiations in GATT.

While there are similarities, there are also differences between today's situation and that obtaining in 1961. The Treaty of Rome was the document which laid down the conditions under which the transition to the second stage had to be made; today, action springs from a Council decision of 30 July laying down the programme of work to be completed in 1963. Some of the agricultural problems in particular that were among the most difficult to resolve in 1961 are now giving less trouble or none at all - the notorious safeguard clause, for instance, and the institutional problem (procedure in the Management Committees).

The agricultural questions to be dealt with by the Council include:

(a) The European Agricultural Guidance and Guarantee Fund established by Regulation No. 25 on the financing of the common agricultural policy, this is to have two sections - a "Guarantee Section" for refunding Member States' expenditure in respect of drawbacks on exports and approved intervention on their home markets, and a "Guidance Section" to assist in financing measures to improve the structure of agriculture and the marketing of agricultural products;

(b) Cereal prices, particularly the Commission's proposal concerning a common cereal price level (see Information Memo P-42) and fixing prices for the marketing year 1964/65;

(c) The abolition of certain national aids that the Commission has declared to be incompatible with the Treaty;

(d) A number of amendments to regulations in force. These relate to some rather technical problems noted in the Commission's report on the first year of operation of the agricultural regulations. One of the most urgent is the abolition of "non-member country" type refunds in intra-Community trade in processed products (pigmeat, eggs and poultry);

(e) Two directives concerning sanitary regulations in intra-Community trade in cattle and swine and in fresh meat. These are obviously needed to back up the market organizations for pigmeat and beef: the main problem is the legal basis of the directives (Article 43 and/or 100 of the Treaty).

Apart from these matters, which are all directly linked with the regulations in force, a number of further agricultural markets have to be organized, particularly those in beef, dairy products and rice.

The Commission made proposals to this effect in May 1962, and these have been discussed in the European Parliament and in the Council, by the Special Committee for Agriculture and by the Ministers themselves. Article 149 of the Treaty lays down that "the Commission shall be free to amend its original proposal at any time before the Council reaches a decision", and the Commission has just submitted new proposals.

The three new market organizations will be fitted into the general framework provided by agricultural policy. With the entry into force of the new regulations, this will cover 86% of the Community's agricultural production and 62% of intra-Community trade in farm products.

The rice regulation is based largely on Regulation No. 19 (the cereals regulation), since rice is in fact a cereal. Here too, then, we find the levy system, the target price and price harmonization, together with the intervention price guaranteed to producers. Some adaptation has proved necessary in view of the special features of the rice sector (only two Member States produce rice, and there are practically no barriers to trade in the other four countries).

The dairy products regulation is also based on the cereals regulation. Again we have a levy system, target prices and intervention on the market (the Government will buy fresh butter of best quality at the intervention price). Unlike the cereals regulation, this one permits, under certain conditions, the retention of national aids during the transitional period.

The arrangements for beef and veal occupy an intermediary position between those for cereals and those for pigmeat. On the one hand there is the guide price and a permissive (rather than compulsory) system of market intervention, and on the other there are customs duties (as for pigmeat) together with a system of levies to be used should the market situation made this necessary.

The following provisions are common to all three new market organizations:

(i) The regulation on the financing of the common agricultural policy will apply; during the transitional period, therefore, levies will be charged by the importing Member State and their proceeds allocated to that State;

(ii) Except as otherwise provided, the proposed arrangements will replace any national restrictive measures such as quotas, minimum prices, special charges and customs duties

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(though the latter are to remain effective in the case of beef and veal imports from non-member countries and, during the transitional period, from Member States too);

(iii) Except as otherwise provided, Articles 92-94 of the Treaty (State aids) will apply to the production of and trade in the products of these sectors. However, for dairy products (as for cereals) they will only apply in the case of aids whose effect is to reduce prices below the prices on which the levy was calculated or those with a direct influence on the relation between processed products and the cost of the raw materials from which they are made;

(iv) Management Committees similar to those operating for the other sectors will be set up;

(v) The Member States must so adapt their legislative and administrative provisions that the regulations on beef and dairy products will become operative on 1 April 1964 and the regulation on rice on 1 July 1964.

The Community produces about 750 000 metric tons of rice a year, equivalent to some 600 000 tons of husked rice. Quantities of rice imported and exported are in balance, but net imports of broken rice come to about 100 000 tons a year.

The value of rice produced in the Community, and also of intra-Community trade in this commodity, is less than 0.5% of the value of all agricultural products. The rice regulation is based largely on that adopted for other cereals, but some adaptation proved necessary to take account of the special situation in the sector. This derives in part from the concentration of rice production in two of the Member States coupled with an almost complete absence in the non-producing Member States of any barriers to trade in rice, and from the importance attached by some Member States to the following specific problems:

(a) There are a number of rice-processing plants in the north of the Community which have always been supplied at world market prices; these now risk finding themselves at a disadvantage during the single-market stage because of their distance from production centres;

(b) The arrangements to be made for rice imports from the associated African States, and the overseas territories. These are to be discussed with the associated States, and the Commission proposes that the Council should undertake to settle the matter before the end of March 1964. The amendments embodied in the Commission's new proposal were inspired by the wish to bring the regulation closer into line with measures envisaged or already in force for cereals.

Products covered

The regulation is to apply to rice in all its forms - broken rice, rice flour, rice groats, ground rice and rice starch.

Arrangements for non-producing Member States

A single market for rice and broken rice will be set up on 1 July 1964 in the four non-producing Member States. This makes it possible to fix a single threshold price, to establish a single cif price and to charge a single levy on imports from non-member countries. The States in question will remain entirely free to import rice from the other Member States.

The common threshold price will be fixed by the Council. For the first year it will be equal to the most typical price on world markets plus 5%, but may not be lower than 12.5 units of account per 100 kg.

The levy system

During the transitional period the two producing countries will fix the threshold price each year with respect to a husked short grain rice of a standard of quality which shall be identical for all Member States. The threshold price will be fixed so that the selling price

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of the imported product in the marketing centre of the area of largest deficit is level with the basic target price. The threshold price for broken rice will be equal to the threshold price for rice less a given percentage.

The levy on imports will be equal to the difference between the threshold price and either the price cif (if the product is imported from outside the Community) or the price free at frontier (if it is imported from a producing Member State). In the latter case, the difference will be reduced by a fixed amount (montant forfaitaire) to ensure intra-Community preference. For imports of paddy, the levy on husked rice will be adjusted in accordance with a scale of equivalences. Where the selling price does not correspond to the free quotations on world markets on which the price cif is based, the price cif will be replaced by a price determined in relation to the selling price. The levy system for processed rice and for rice flour, rice groats, ground rice and rice starch will be similar to that for processed products based on cereals, i.e. it will be made up of two components - one variable equal to the levy on the basic products, the other fixed and intended to protect the processing industry.

If the price free at frontier of rice from a producing Member State is higher than the threshold price in an importing Member State, the producing State may grant a refund. To facilitate exports to non-member countries, the Member States may cover the difference between their prices and world market prices by a refund. A refund system will also be set up for broken rice, rice flour, ground rice and rice starch. Lastly, a system of refunds to producers will be set up for broken rice used to make starch or "Quellmehl".

Price system

Each year the producing Member States will fix for husked rice a basic target price, at the wholesale buying stage, for an identical standard of quality, together with derived target prices and a monthly graduated scale for the basic target price over a period of eight consecutive months. An intervention price for paddy will be fixed each year by the producing Member States; it should be not less than 4% and not more than 7% below the adjusted derived price. Member States will be required to buy any paddy offered them at the intervention price throughout the marketing year. They will not be allowed to resell the product on terms that will prevent prices in the producing areas from being formed at or about the level of the target price obtaining in the marketing centres of those areas. By 1 April 1964 the Council must fix a maximum and a minimum for the basic target price. These limits will correspond to the minimum prices guaranteed to producers during the previous year plus 7%. At the end of the transitional period a single threshold price and a single (basic) target price for the whole Community will be fixed by the Council.

Other provisions

The provisions stating how the levy is to be fixed in advance, and those concerning the correction factors, the fixed amount and the safeguard clause will be the same as those in Regulation No. 19 (cereals). The Cereals Management Committee will also be responsible for this sector.

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BEEF AND VEAL

Production of beef and veal accounts for 14% of the total earnings of agriculture in the Six. The value of intra-Community trade in this sector represents almost 7% of the total. The organization of a common market in the beef sector is relatively simple, firstly because the Community is a net importer of this product (243 000 metric tons imported in 1960/61), and secondly because there are no great divergences of price from one member country to another. Under the proposed regulation a common market is therefore to be set up from 1 April 1968.

This sector obviously has close links with the dairy products sector, and the regulation lays down that one of the points to be taken into account in fixing the guide prices of beef and veal is the development of the market in milk and dairy products.

The two directives on sanitary regulations mentioned above are also needed to ensure that the market in this sector functions properly.

The amendments to the original proposal relate chiefly to the way the levy system is applied (there is to be a specific margin within which intervention will be allowed), greater freedom for imports of frozen meat from non-member countries, provisions concerning intervention on the beef and veal market and the extension of the two-year preparatory period.

The goods covered are live cattle (other than for blood-stock breeding), and bovine meat and offal (fresh and other), sausages, other prepared or preserved meats, guts and the like, unrendered fats and tallow, meat extracts and meat juices.

Customs duties will be the main means of protection against competition from non-member countries. In the common customs tariff the duty on live animals is 16% and on meat 20%. The time-table proposed for reducing internal duties and putting the common external tariff into effect is as follows:

Reduction of duties in intra-Community trade		Alignment on the CET
60%	1.4.64	
	31.3.65	As in Art. 23 of the Treaty
50%	1.4.65	50%
40%	1.4.66	
20%	1.4.67	75%
Duties abolished	1.4.68	Tariff in force

For certain products, however, account will have to be taken of the maximum rate of duty bound in GATT.

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Price system

In each Member State, annual guide prices will be determined for calves and for grown animals. For the 1964/65 and 1965/66 marketing years these prices will be fixed by the State concerned within a price bracket determined by the Council. For the first year the upper and lower limits of the bracket will be determined in relation to the weighted average of prices recorded in each State from 1 November 1962 to 31 October 1963 and to the direction in which beef production is to be guided. From the marketing year beginning on 1 April 1966 the Council will fix the guide price on a proposal from the Commission.

The width of the bracket will be reduced and the guide prices aligned by annual stages. By 1 April 1968 there is to be a single guide price for the whole Community.

At regular intervals the Commission will fix import prices for calves and grown animals on the basis of the prices quoted on the most typical markets in non-member countries. If for either group the import price (including customs duty) is lower than the guide price, the difference between the two will be made up by a levy. No levy will be charged, however, if the market price in the importing Member State is more than 5% higher than the guide price; the levy will be charged at half rate if the market price in the importing Member State is 5% or less above the guide price. When a levy is imposed on live cattle, a corresponding levy will also be charged on fresh, chilled or frozen meat and cuts. The levies on these products will be derived from the levies on the live animals by applying a table of equivalence.

For offals, salted, dried or smoked meats, sausages, and other prepared or preserved meats, there will be neither guide price nor levy but a system of import licences issue of which may be suspended where Community prices are subjected to much pressure. Imports of frozen meat will also be subject to licensing. In addition to the 22 000-ton quota bound under the GATT, as much frozen meat for industrial processing can be imported at a 20% rate of duty as the domestic market situation permits.

Any Member State that has to intervene on its home market must inform the Commission in advance. As long as prices for live cattle (inclusive of customs duty) vary no more than 7% above or below the guide price, intervention must not be such that certain products are withdrawn from the market. The Council must co-ordinate measures of intervention and, within three years of the regulation coming into operation, it must decide how any Community intervention can be made effective during the single-market stage. Up to 1 April 1968 a Member State that takes action to intervene on the market may apply, during the period of intervention, a levy on trade with other Member States. This levy may not exceed the difference between the intervention price and the import price including customs duty.

Refunds may be granted on exports to non-member countries, so that outlets on the world market can be retained. The regulation makes no special provisions on exports to other member countries because of the broad similarity of market prices. However, frozen meat coming from meat in respect of which there has been market intervention may not be exported to another Community country at prices below those on the world market.

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MILK AND DAIRY PRODUCTS

The production of milk accounts for about 20% of the total value of the Community's agricultural production. One third of farm incomes in the Community is drawn from dairy products and beef and veal, against only 12% from cereals. Dairy products account for some 7.5% of the value of intra-Community trade in farm products. In 1962 the Member States spent more than DM 1 500 million in aids (Italy is the only country that has not spent public funds to support dairy farming).

The importance of this sector is thus in proportion to the difficulty of the problems raised by policy on dairy products both at national level and from the standpoint of European integration.

The producer price reckoned on market prices varied between DM 0.29 and 0.31 per kg in 1962, except in the Netherlands, where the price was DM 0.24. But account must also be taken of official subsidies intended to affect the price of milk: the gap between producer prices ex farm is thus even wider, as they varied from DM 0.285 in the Netherlands to DM 0.37 in Luxembourg.

These figures point to two difficult problems: price harmonization and the abolition or alignment of State aids. Last July the Council decided that once the single-market stage has been reached the target price of milk shall be the price which should be guaranteed to all producers for the total amount of milk they market each year. But this definition leaves a number of questions open: Can the target price be reached by means of aids or subsidies? Or can subsidies be granted to producers in excess of the income that the target price should ensure that they receive? Should all State aids be abolished when the common agricultural policy comes into force? If not, how rapidly should they be eliminated?

Another question still unanswered is that of the division between the market for dairy milk and the market for milk for manufacture. In the Federal Republic of Germany and the Netherlands milk for manufacture is subsidized through an equalization system which draws its funds from charges on dairy milk.

A second series of problems relates to the various ways of linking policy on vegetable fats with that on dairy products. The two sectors clearly have close connections, since either type of fat can be substituted for the other. The competitive position of the relatively expensive animal fats and olive oil (as against the cheaper oils and fats from oil seed) has greatly deteriorated over the years, and the Community must bear this in mind. The Community imports almost 80% of its requirements for vegetable fats, and imports of oil seeds and oleaginous fruits are duty free.

The different possible ways of linking the two sectors would have different financial consequences. It seems that the Council must make a choice among the various possibilities when it decides its policy on milk.

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The bases of the common policy for oils and fats may be defined by a Council decision (as the bases of dairy policy were defined in January 1962 when the first agricultural regulations were adopted). It must also be remembered that policy on vegetable fats also concerns several associated countries.

Three possible solutions have been suggested. Under the Commission's proposals, there will be no financial link between the measures taken in the two sectors. The policy proposed for the vegetable oil sector includes the levying of a contribution with which to finance measures within that sector. The suggested levy is DM 0.14 per kg. The proposal of the French delegation would add to any measures taken in the vegetable fat sector a contribution to the financing of any butter surpluses. This would increase the charge on vegetable fats to an estimated DM 0.30 per kg. The French also propose that the relationship between butter and margarine prices be maintained; at the moment the ratio is 3 : 1 in five of the member countries and 3 : 2 in Italy. A third solution, put forward by the Italian delegation, would involve establishing a link between the policies for the two sectors by fixing the prices of table oil and margarine at such a level that olive oil and butter could be sold at prices consonant with the prices received by producers of olives and of milk. We cannot say at what level the prices for table oils and margarine would then have to be fixed, but the working hypothesis is that they would have to be raised by DM 1 per kg in 1964. (The average retail price of margarine was DM 1.60 per kg in the Netherlands and DM 4.60 per kg in Italy, and this indicates the scale of the problem.)

Amendments

The most important changes from the original proposal are: structural surpluses will be limited to 4 million tons of milk; provision is made for market intervention for products other than butter; some national aids are to be abolished during the transitional period though there will be the possibility of compensation; the full amount of the levies will accrue to the importing countries, so that exporting countries will not be able to ask importing countries to refund the direct subsidies they have granted to milk producers.

Products

The following products come under the common organization of the markets in milk and dairy products: milk and cream, fresh, preserved, concentrated or sweetened; butter, cheese and curds; lactose and lactose syrup; and forage containing certain other products, of which a list is given.

However, the regulation will not yet cover the dairy milk market. Only the provisions on the price system, aids and intervention will therefore apply to fresh milk and cream. For these products the Council will adopt a further regulation before 1 July 1965.

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Arrangements for imports and exports

The levies on imports are to be equal to the difference between the threshold price in the importing Member State and the price free at frontier. In the case of imports from Member States, the levy will be reduced by a fixed amount in order to promote trade within the Community. The intra-Community levies will be eliminated gradually during the transitional period in step with the alignment of prices for dairy products.

In view of the great variety of milk products, some of them - cheese, for instance - are to be grouped (the same kind of simplification being provided for cuts of pork too). For the "pilot" products in these groups the levies will be calculated as indicated above, for the other products in each group there will be derived levies. The amount of the levies will be fixed by the Member States, at whose request the Commission may cut them during the transitional period. There are special arrangements for certain cheeses and for feedingstuffs containing milk. The levy on these feedingstuffs is to be made up of two components - one variable, corresponding to the levies on the basic products, the other fixed and intended to protect the processing industry. For Emmenthal, Gruyère, Sbrinz, Cheddar and Glaris cheeses, the customs duties fixed in the common customs tariff and bound in GATT will be charged instead of the levies as long as the exporting countries respect the corresponding minimum selling prices, as was laid down when the duties were bound.

Prices free at frontier will be determined by the Commission in accordance with certain requirements. Threshold prices will be fixed annually by the Member States. For the 1964/65 marketing year, these threshold prices will be based on the reference prices reflecting average market prices. The fixed amounts (montants forfaitaires) will be added to the reference prices. However, the threshold price of butter may be increased by a sum corresponding to the gap between the intervention price and the reference price. This gap may not exceed 0.075 units of account per kg. Member States will gradually narrow the gap between the threshold price and the intervention price. For the other products the Council may at the request of a Member State authorize it to raise its threshold price by 2% at most. The reference prices are calculated for each Member State on the arithmetical mean of the prices at which producers sold ex factory to the wholesale trade during 1963. The reference prices may be corrected to take account of changes in the target price of milk and the reduction of aid (see under "price system"). Where it is not possible to establish the reference price for any product, the price will be calculated on similar products, or the price at which it was imported during 1963 may be taken as the basis. The reference prices will be fixed by the Council, which shall decide by unanimous vote on a proposal of the Commission.

All imports and exports will be subject to licence. After the end of the transitional period, the issue of licences for imports from

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non-member countries may be suspended in the event of serious disturbances on the market (particularly if the intervention authorities are obliged to buy in considerable amounts on the home market). This is in fact a safeguard clause.

In order that goods can be exported to non-member countries on the basis of the prices quoted in international trade, the difference between these prices and those in the exporting Member State may be made up by a refund. Refunds on exports to Member States are to correspond by and large to refunds on exports outside the Community, and the importing Member State will then apply the "non-member country" type levy less the fixed amount. Luxembourg, however (and the other Member States for quantities corresponding to traditional trade flows), will be authorized to refund a sum corresponding to the difference between the price free at frontier and the threshold price of the importing Member State, plus the fixed amount. A similar refund can also be made on cheese coming under the system of customs duties.

<u>The domestic market</u>[1]

During the transitional period each Member State will fix annually a target price ex farm for milk containing 3.7% fat, valid for the marketing year. This will first be done by 15 February 1964 for the year beginning 1 April 1964. For that year and the next the Council will establish the upper and lower limits of the national target prices for milk on the basis of the average milk price ex farm generally paid to producers in each Member State during 1963 for all the milk marketed. When fixing this price bracket the Council will have to have in mind both the direction in which it wishes to guide milk production and the need to align prices. The Member States will have to take account not only of the way production and consumption are developing, but also of the need to ensure a fair income for farmers. The aim should be that their farmers can obtain the target price entirely from the sales made, but States will still be entitled to grant aids or to separate the market for dairy milk from the market for milk for manufacture.

For 1966/67 and subsequent marketing years a common target price for milk ex farm will be established every year by the Council. During the transitional period the Council will decide each year what measures must be taken by the Member States to bring prices into line. The national target prices will be brought closer to each other on the basis of the common target prices, till in the single-market stage the national target price is the same as the common target price. Threshold prices will also be brought closer together on the same basis, assuming that for each product costs and yields will be uniform.

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(1) See also the introduction to dairy products above.

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The Council will also have to decide the criteria for fixing the amount intended to protect the processing industry and the valorization ratio of the milk used in the various processed products.

During the transitional period direct aids may be granted at national level, i.e. aids for specific milk products and aids in respect of the milk sold by farmers. The Member States will inform the Commission of the details of their national aids. Under the Commission's proposal, national aids would be reduced by one sixth each year if they bring the market prices for the products in question below the prices corresponding to the lower limit of the bracket laid down by the Council for the target price of milk for the 1964/65 marketing year. Assistance from public equalization funds for milk for manufacturing (supported in effect by the dairy-milk market) will be authorized until a regulation for dairy milk comes into operation (1 June 1965); the new regulation will decide what then happens to this assistance. If, however, payments are linked with specific products, they must be reduced as indicated above. This must not cause producers' total receipts for all milk sold to fall. If need be, Member States may therefore compensate the effect of these reductions on employment and living standards in agriculture. By the end of the transitional period, the form of compensation must not be tied to the amount of milk produced.

Community aids are obviously not prohibited. Provision is, for instance, made for intervention in the butter market. The Member States will fix an intervention price for fresh butter of best quality. Throughout the dairy year the intervention authorities will have to buy in any best-quality home-produced fresh butter offered them. When first fixed, the intervention price will be equal to the reference price, though this figure may be reduced by a maximum of 0.075 units of account. Butter from stock must be sold in such a way that sales of fresh butter are not dislocated. The Member States may also grant aids in respect of private stocks of butter and cream.

If net exports to non-member countries of milk products in respect of which refunds have been granted, together with market surpluses, exceed 4 million tons of milk, or 160 000 tons of butter, in a given dairy year, the Commission must propose what measures should be taken under the common policy.

During the transitional period a Member State may also intervene for products other than best-quality butter in order to prevent any imbalance on its market. A procedure for Community consultation is laid down for such cases. The intervention measures must be co-ordinated during the transitional period, and within two years the Council will determine what other products will be subject to Community intervention measures, and how the measures shall be applied.

The aim of the common policy, then, is that at the single-market stage the common target price should be guaranteed to all Community farmers for all the milk they market.
