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INFORMATION MEMONovember 1: New phase of the common agricultural policy

From November 1, 1964, the common agricultural policy will cover a further two sectors: milk and milk products, beef and veal. From now on the markets covering 85% of agricultural production in the Community will each have its common organization, cereals, pigmeat, eggs and poultry, fruit and vegetables, and wine having already been covered since August 1962 and rice since last September.

In five of the member countries, cattle-raising and milk production are the most important source of farm income (35 to 42%). Only in Italy do labour-intensive crops take the first place, with cattle representing no more than 19% of production. In 1962 the total output of this sector in the Community was:

	<u>in millions of dollars</u>
Milk and milk products	4 676
Cattle, beef and veal	3 506

The organization laid down for the milk and milk products market is on the same lines as the cereals market. Some differences, however, were necessitated by the more perishable nature of milk products, by the importance in this sector of those products which have undergone one stage of processing and by the extent of the support given to the sector in most member countries.

The system to be applied to milk includes levies on imports and refunds on exports, target prices, market intervention (purchase of first-quality butter at the intervention price and aid for storage) and a safeguard clause. Imports are liberalized but, so that the market situation can be appreciated at any given moment, there are to be import and export licences for some products, including butter.

Owing to the great number and diversity of milk products (there are over 400 types of cheese) products have been divided into groups, each with a pilot product, in order to make it easier to calculate levies. Since 1963 there has been a similar system for pork, and for pork cuts, preparations and preserves.

During the transitional period the Council will decide each year on price alignment measures to be applied by the Member States. The Commission intends to submit proposals in the new year.

During this period, too, national aids will still be permitted under certain conditions. Each year the Council will fix the amount by which aids are to be reduced in order to bring national target prices into line. At the single-market stage the producer's income will in principle be provided solely by his earnings on the market; national aids will be forbidden, but Community aids may be considered if need be.

By July 1, 1965, the Council has also to adopt rules for fresh milk.

The type of organization applied to the beef market lies somewhere between that used for cereals and that used for pigmeat. Imports are liberalized. There are guide prices and an optional system of intervention, as opposed to compulsory intervention in the cereals and milk products markets. There will also be customs duties coupled, should the market situation so require, with levies.

For frozen meat considerable tariff quotas at reduced duty have been granted. These consist of a quota bound under GATT, plus a supplementary quota, both for meat intended for processing. For imports of frozen meat licences are compulsory; for a number of other products (offal, sausages, meat preserves and preparations, and salted, dried or smoked meats) guide prices and levies will be replaced by an optional system of import licences.

During the transitional period, the upper and lower limits of price brackets are first brought together; then, each year, the gaps between national guide prices. It must be pointed out that the divergences between wholesale prices are much smaller than for some other agricultural products, especially cereals and milk. Lastly, there is an optional system of refunds on exports to non-member countries and a safeguard clause.

Before going on to more technical details on the two market organizations and tables showing the reference and guide prices applicable in the individual Member States, the scale of trade in these livestock products should be made clear. The figures for 1962, in millions of dollars, were:

└ prices are progressively closed by Council decision

	<u>Intra-Community trade</u>	<u>Imports from non-member countries</u>	<u>Exports to non-member countries</u>
Milk products	126	113	240
Cattle and beef	88	204	61

It is clear that the Community is a net importer of beef and veal, and a net exporter of milk products. In 1961 the Community's net imports of cattle for slaughter represented 22.6%, net imports of beef and veal 3.3% of world exports of these items; the Community's net exports of milk products amounted to 12.7% of total world exports under this heading.

Milk and milk products

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The following products come under the common organization of the markets in milk and milk products: milk and cream, fresh, not concentrated or sweetened; milk and cream, preserved, concentrated or sweetened; butter; cheese and curd; lactose and lactose syrup; sweetened forage and other feeding-stuffs containing milk or milk products, except where these feeding-stuffs fall within the scope of the cereals regulation.

However, the regulation does not cover the fresh milk market. Before July 1, 1965, the Council, acting in accordance with the procedure laid down in Article 43 of the Treaty, must adopt a regulation covering the fresh milk market, and this regulation must come into force by December 1, 1965 at the latest. At present, therefore, fresh milk and fresh cream are subject only to the provisions concerning price controls and aids.

The milk year runs from April 1 to March 31.

The instruments of the common organization of markets

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The common organization of markets comprises a levy system for intra-Community trade and for trade between Member States and non-member countries, and also arrangements covering prices and intervention.

I. The levy

The levy system applies to all the products covered by this regulation except milk and cream, fresh, not concentrated or sweetened, which will be the object of a special regulation.

The amounts of the levies will be fixed each week by the Member States. The levies will be collected by the importing Member State and will accrue to that State. During the transitional period, the Commission may authorize a Member State, under certain conditions and at its request, to reduce the levies on one or more milk products for reasons connected with current developments in the economy.

The threshold prices, which are the basis of the levy, will be fixed by Member States. For the 1964/65 milk year, these threshold prices will be equal to the reference prices plus standard amounts and, where applicable, an additional amount not exceeding 2% of the reference price. For first quality butter the additional amount can be fixed at a figure of up to 0.05 units of account per kilogramme.

The levy on products other than manufactured feeding-stuffs

1. Imports from non-member countries

Import quotas and customs duties will not be used. The only charges on imports are the levies which, as in the common organization of the market in cereals, consist of the difference between the most favourable purchasing price on the world market - free at frontier - and the domestic market price less marketing costs (threshold price).

On imports from non-member countries of Emmental, Gruyere, Sbrinz, Cheddar and Glaris herb cheese, where the conditions fixed in the GATT tariff concessions are complied with, the amount of the levies will be equal to the specific duty bound under GATT or the amount which would result from applying the ad valorem duties bound under GATT.

(a) Free-at-frontier prices

The free-at-frontier prices used in calculating the levy are determined on the basis of the most favourable purchasing possibilities in international trade. Free-at-frontier prices are determined separately for sour cream butter and for fresh cream butter, on the basis of the prices of first quality butter. The Commission determines the free-at-frontier prices according to criteria fixed in conjunction with the Management Committee according to the procedure laid down in the regulation.

(b) Reference price

The reference price for each product and for each Member State is calculated on the basis of the arithmetic mean of the ex factory prices recorded in each Member State during 1963 plus an amount calculated on a flat-rate basis representing transport costs up to the wholesale stage, and may undergo certain further adjustments (to allow for recent developments and for the reduction in aids). Reference prices have been fixed by the Council, acting unanimously on a proposal of the Commission.

(c) The standard amount

The standard amount has been so fixed that trade between the Member States develops progressively and smoothly.

2. Imports from Member States

On imports from Member States the amount of the levy equals the difference between the threshold price of the importing Member State and the free-at-frontier price less a standard amount. The free-at-frontier price is in this case determined on the basis of the prices at which the producers in the exporting Member State sell the products concerned ex factory, increased by an amount calculated on a flat-rate basis representing transport costs up to the frontier of the importing country and the frontier crossing costs, and reduced by an amount corresponding to the incidence of the internal charges refunded on exportation.

3. Groups of products

Acting on a proposal of the Commission, unanimously during the second stage and by qualified majority vote thereafter, the Council may adopt provisions by which certain products are grouped for the purpose of calculating the amount of the levies. For each group a "pilot" product is selected, for which the amount of the levy is calculated in accordance with the conditions described above. For the other products in the group - the "assimilated" products - the amount of the levy is equal to that on the pilot product or else is derived from it. In the latter event, rules for calculating the levy applicable to each of these products are laid down in conjunction with the Management Committee according to the procedure provided for in the regulation. Free-at-frontier prices, threshold prices and reference prices are not fixed for assimilated products. The groups of products established by the Council are listed in the Annex.

4. Quality standards for butter imports

During the transitional period, each Member State may, until the Member States' national food laws relating to butter are harmonized, forbid imports of butter which does not fulfil certain requirements as to content and does not comply with the provisions in force in respect of home-produced first quality butter in the importing Member State on the date of the entry into force of the regulation.

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III. Import licences

All imports of milk and cream, preserved, concentrated or sweetened, and of butter, excluding whole milk powder in hermetically sealed packages containing not more than 1 kilogramme net weight of powder, are subject to licencing.

The implementing provisions in this field will be prepared in accordance with the procedure laid down for the Management Committee.

IV. Refunds

In order to allow exports to non-member countries to be made at world market prices, the difference between these prices and the prices of the exporting Member State may be covered by a refund. In intra-Community trade the Member States may refund on exports an amount corresponding to the difference between the free-at-frontier price in the importing Member State and its threshold price, plus the standard amount plus an amount corresponding to the incidence of the taxes and other charges imposed on imports.

V. National target prices

The national target price is the price which it is desired to guarantee to the milk producers of the country concerned for all the milk they sell each year. During the transitional period each Member State fixes before February 15 the target price which will apply during the following milk year to milk with a fat content of 3.7%. For the 1964/65 milk year the Council fixed the upper limit for these target prices at DM 0.4200 and the lower limit at DM 0.3180. In working towards the national target prices, Member States can rely solely on receipts from the sale of milk products, but they will also retain the right to grant subsidies if they wish.

VI. Common target price

A common target price for milk ex farm will be fixed by the Council each year from 1965/66 onwards. During the transitional period the Council will decide each year what steps Member States must take towards alignment of prices. National target prices are to be brought closer together on the basis of common target prices. In the final, single market stage, national target prices will give way to a common target price. The approximation of threshold prices will be carried out on the basis of the common target prices; for each product uniform costs and yields will be taken as the basis for this calculation. The Commission is planning to submit proposals on price policy to the Council of Ministers and the European Parliament at the beginning of 1965.

Those Member States that grant aids to production must increase their market prices during the transitional period in such a way that in the final, single market stage they will be at the same level as the common target price. The target price for milk will then be the price which it is the aim of market policy to guarantee to all Community producers for the total quantity of milk marketed each year.

VII. Aids

During the transitional period direct aids may be granted at national level, that is, aids tied to certain milk products and aids paid out in respect of milk sold by producers. Member States inform the Commission of the details of the subsidies they grant. National aids will be reduced annually by one seventh if they lead to the market price of the product concerned remaining below the lower limit of the target price for milk fixed by the Council for 1964/65. Aids paid out of public equalization funds for milk for processing (supported in fact by the fresh milk market) may be maintained until a regulation for fresh milk comes into operation (at latest December 1, 1965); the new regulation will decide what should then become of these aids. If, however, payments are linked with specific milk products, they must be reduced as indicated above.

The Council, acting on a proposal of the Commission, will determine the amount by which aids shall be reduced as national target prices are brought closer together and threshold prices raised. The general principle behind the common agricultural policy is that the farmer's income should be derived solely from sales.

If, as national target prices are brought closer together, the target price in any Member State should fall below the price paid to producers during 1963 for all milk sold, the Member State concerned may make up the difference; payments can be related to the quantity of milk sold, but must become independent of the output of milk not later than at the end of the transitional period. The aid system must be progressively adapted in such a way that the transition to the system of the final, single market stage can be made smoothly. With this end in view, the Commission has advised the Member States concerned, in particular the Federal Republic of Germany and Luxembourg, to begin adjusting these aids during the 1966/67 milk year.

Except as otherwise laid down in the milk regulation, Articles 92 to 94 of the Treaty (aids granted by States) will apply to production of and trade in milk products.

VIII. The intervention price

Common rules regarding intervention are laid down for butter. The Member States fix an intervention price for first quality fresh butter. During the milk year the intervention agencies are obliged to purchase all first quality home-produced fresh butter offered them. For the first milk year, the intervention price will be based on the reference price, but it may be reduced by not more than 0.075 units of account per kilogramme. Butter purchased by the intervention agency must be disposed of in such a way as not to disturb the sale of other categories of fresh butter. The Member States may also grant aid for private storage of butter and frozen cream.

During the transitional period a Member State may, in order to prevent a lack of balance on its market, intervene on the market in respect of products other than first quality butter. A procedure for Community consultation is laid down for such cases. Intervention measures must be co-ordinated during the transitional period. Within two years the Council shall determine to which other products, and in what manner, the Community's intervention measures are to be applied.

IX. Safeguard clause

For the transitional period a safeguard clause is provided covering both intra-Community trade and trade with non-member countries, to be available when markets in one or more of the Member States should suffer or be threatened with serious disturbances. This clause corresponds to a normal safeguard clause already in force for other products subject to a common organization of markets. However, for butter and milk products the "major" suspension clause has been adopted which is also found in the cereals regulation; for these products there will therefore be suspension of the Commission's decision for 10 days when a complaint is brought before the Council.

On expiry of the transitional period the issue of import licences for products from non-member countries may be suspended if there is serious disturbance of the market (particularly if intervention agencies are obliged to make substantial purchases on the domestic market). This provision therefore constitutes a safeguard clause as against non-member countries.

Compound feeding-stuffs
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The regulation on milk and milk products also establishes a new system applicable to compound feeding-stuffs. This replaces the system hitherto in force, which formed part of the organization of the market in cereals. The products concerned are preparations containing grain, milk powder (and in some cases also sugar and molasses).

The levies on animal feeding-stuffs are made up of three components:

- (i) a variable component corresponding to the incidence on production costs of the levies payable on the materials used (milk and/or grain);
- (ii) a fixed component, which shall be the same for all Member States, this amounts to:
 - (a) 2.00 units of account for compounds containing more than 50% of milk or milk products;
 - (b) 0.90 units of account for all other compounds.
 As regards trade between the Member States, this component shall equal nine fifteenths of the amount applied as against non-member countries, from July 1, 1965, it will be reduced each year by two fifteenths;
- (iii) an additional component which may be added if one of the products concerned contains other products, in particular sugar or molasses.

The beef and veal market

The instruments provided for the common organization of the market in beef and veal are customs duties and certain additional measures of price support applicable both in intra-Community trade and in trade between Member States and non-member countries.

In normal circumstances a customs duty that would be slowly reduced would be sufficient both to ensure adequate support for the markets of the Member States during the transitional period and to make possible the progressive establishment of the common market as the free movement of goods develops within the Community. The possibility of increasing this duty by a levy must be provided for in order to ensure the balance of the market at times of excessive supply.

I. Customs duties

Customs duties are the main instrument for regulating competition from non-member countries. Under the common customs tariff the duty on live animals is 16% and on meat 20%. The time-table for the reduction of duties on imports from non-member countries is as follows:

by March 31, 1965	as laid down in Article 23(1a, 1b) of the Treaty
from April 1, 1965	50% of common customs tariff
from April 1, 1966	65% " " " "
from April 1, 1968	85% " " " "
from July 1, 1970	full rate of common customs tariff.

The reduction of duties on imports from Member States will be effected as follows:

- from November 1, 1964 55% of the basic duty as defined in Article 14(1) of the Treaty
- on April 1, 1965, 1966, 1967, 1968 and 1969 reduction of the basic duty by 10% each year
- on April 1, 1970 complete abolition of duties.

At its request the Commission may authorize a Member State to charge a lower duty.

For imports of frozen meat from other Member States and from outside the Community, import licences are compulsory. Member States whose duty on frozen meat is below the duty in the common customs tariff shall apply from November 1, 1964, a duty of 17.5% and from April 1, 1965, the rate shown in the common customs tariff. In addition to the tariff quota of 22 000 tons bound under GATT, a supplementary quota has been fixed by the Council for imports of frozen meat for the processing industry: the supplementary quota for 1964 is 33 000 tons, and the rate of duty 12%.

During the period for which a supplementary quota is provided, the duties and levies will be suspended in intra-Community trade.

II. Measure of price support

1. Guide price

For each Member State guide prices will be determined annually for calves and cattle. For the 1964/65 and 1965/66 marketing years these prices will be fixed by the Member States within upper and lower limits fixed by the Council (1). From the marketing year beginning on April 1, 1966, the Council will determine the guide price on a proposal from the Commission. For the first two years Belgium may be authorized to adjust its guide prices, as it did in the first year, in order to take seasonal milk price differences into account.

The upper and lower limits of the guide price bracket and consequently the guide prices, will be progressively aligned each year. A single Community guide price must be achieved at latest by December 31, 1969.

2. Import price

Each week the Commission fixes an import price which is determined on the basis of market prices registered in the most representative markets of non-member countries for live calves and cattle.

(1) For guide prices see Annex III.

3. Levy

(a) On imports from non-member countries

In addition to the import duty a levy is imposed on the products mentioned in Regulation No. 14/64, Annexes I and II. The levy is, however, only imposed when the price for live cattle or calves on the market of a Member State falls below that Member State's guide price. Only half the levy shall be imposed if the price recorded on the market of the importing Member State is 5% or less above the guide price.

(b) On imports from Member States

A levy may only be imposed on imports from Member States when a Member State intervenes on its market or when the market price falls to more than 10% below the guide price.

Where a Member State intervenes on its own market, the amount of the levy corresponds to the difference between the market price fixed for the exporting member country plus duty and 95% of the guide price in the importing Member State. When, however, a Member State fixes its intervention price at 96% of the guide price, the levy imposed may not exceed the difference between the market price and 96% of the guide price.

When the levy is imposed on live cattle and calves, a levy will also be charged on fresh, chilled or frozen meat and cuts. The levies for these products will be derived from the levies for live cattle by means of a coefficient.

I. Intervention measures

Member States may on certain conditions intervene on their markets with a view to mitigating a fall in prices. These intervention measures may only be taken if the price of the product is at or below the intervention price, which will have been fixed by the Member State at a point somewhere between 93 and 96% of the guide price. Any Member State intending to take such measures must inform the Commission beforehand.

The Council shall, within three years of the entry into force of this regulation, decide the procedure by which the Community can intervene on the market in the single market stage.

IV. Refunds

With regard to exports to non-member countries, a Member State may refund an amount related to the shifts in prices in the exporting Member State and on the world market.

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Meat which has been frozen after intervention on the market by a Member State may not be the subject of intra-Community trade at prices below those of the world market for comparable qualities. The Council is to adopt implementing regulations covering, in particular, intra-Community refunds on frozen meat. For one year after the entry into force of the regulation, an exporting Member State may grant a refund corresponding to the difference between the charges arising from sanitary measures imposed by the importing Member State and those imposed by the exporting Member State.

V. Incompatibilities

National restrictive measures such as quotas, minimum prices and charges other than those provided for in this regulation are incompatible with the common organization of the market in beef and veal.

In addition, except as otherwise provided in this regulation, Articles 92-94 of the Treaty (aids granted by States) are applicable to the production of beef and veal and trade therein. Some exceptions have, however, been provided for in the case of Luxembourg.

VI. Safeguard clause

The safeguard clause in the regulation is the normal safeguard clause applicable to the other sectors in which there is already a common organization of the market.

VII. Management Committee

As in the case of the other market organizations, certain questions regarding the implementation and application of the common organization of the market in beef and veal will be settled by the Management Committee in accordance with Article 20 of Regulation No. 14/64.

N.B. : The annex will be distributed later.