

Broad lines of a common policy on oils and fats

(Communication from the Commission to the Council submitted on 30 July 1963)

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EXECUTIVE SECRETARIAT OF THE COMMISSION
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Explanatory memorandum

1. In certain Member States oil-seeds and oils are of great importance to farmers, to trade, to the processing industries and consequently to the economy as a whole, while for consumers fats are a staple article of diet. The Community's agricultural policy would therefore lack balance if joint action were not taken in this field also.

2. The aims of this common policy must be:

i) To maintain the output of oil-seeds and olive oil in the Community at the requisite level and to ensure an adequate return to producers;

ii) To make available to consumers good quality fats at reasonable prices.

In pursuing these aims due regard must be paid to the interests of the processing industry, to the interests of the associated African States and Madagascar and of Greece and, with a view to the harmonious development of world trade, to the extensive trade with non-member countries.

3. As regards the system by which these objectives may be attained the following points are relevant:

a) If, in the framework of a regulated Community market, the prices of oils were to be raised sufficiently to make oil-seed production satisfactorily profitable, the average prices of margarine and edible oils would have to go up sharply;

b) Since two million tons of oil-seeds and oils and fats derived from these are imported while Community production is only about 150 000 tons, a system of subsidies to internal production of oil-seeds would seem appropriate. Production could thus be maintained without any heavy burden on consumers.

4. As regards olive oil the situation is different. Consumers prefer high quality olive oil and this is reflected in higher prices. It is therefore possible that consumers will themselves pay the price it is desired to obtain for the producers.

The Community's production of olive oil can vary between 200 000 and 400 000 tons from one year to another. In order to

prevent a rise in consumer prices in years when production is low or a fall in producer prices when harvests are abundant, supplies must be equalized from year to year. This can be done by government intervention and stocking.

Should the approximation of vegetable oil prices within the Community under the common policy make it impossible to market all olive oil stocks at prices above the intervention price, the surpluses would have to be disposed of cheaply but in such a way as not to interfere with normal sales.

Since olive oil prices in international trade may vary between DM 2 and 3 per kg. over a relatively short period, the intervention price must be protected by levies combined with a threshold price.

5. Olive production in Southern Italy raises special problems since the economic activity of whole regions depends on the growing and pressing of olives. The main objectives here must be:

i) To offset rising production costs by rationalizing the production, processing and marketing of olives and olive oil;

ii) To increase outlets for olives and olive oil in the Community by improving quality;

iii) To support the Italian Government's efforts to promote the general economic development of these regions.

To this end the Italian Government will need to draw up a programme in co-operation with the Community. In view of the Community responsibility for development in this field, Community bodies which have funds available for schemes of this kind should be called on to contribute.

6. Under the new Association Convention the Community has agreed to take account of the interests of the associated African States and Madagascar in its common agricultural policy. The measures taken should accordingly ensure for the associated States a privileged position in Community markets in relation to non-member countries and aid in the event of a downturn on world markets.

The common tariff deals differently with oils and oil-seeds. There is a common external tariff for oils, and the elimination of customs duties between the Member States following the system which these States apply between themselves would also apply to the associated African States and Madagascar.

The common external tariff is nil for oil-seeds, so that no tariff preference can be granted. Special measures to ensure for these States a certain privileged position could be envisaged if circumstances so required.

Having regard to the production aids supplied by the Community to enable them to adapt themselves, the associated African States and Madagascar are expected to sell at world prices. However, these prices are subject to wide fluctuations which are particularly dangerous for the countries whose economies largely depend on the sale of these products.

Oil-seeds and oil-seed products are the staple export of the associated African States and Madagascar and the pronounced downward trend in world price for edible oils is likely to threaten the economic development of some of them.

For this reason exporters of oil-seeds and derived products in these countries could perhaps be guaranteed a "world market minimum price" on the basis of the quantities imported into the Community. If the world price fell below this minimum the Community would grant help, on a scale to be decided, to mitigate the consequences of such a fall.

The measures in favour of oil-seed production in the associated African States and Madagascar should not, however, influence conditions of competition between African and European oil mills nor favour the import of seeds as against seed oils.

7. It is difficult to estimate the cost of applying the policy here proposed in the final stage of the Common Market, but the total needed will probably not exceed DM 200 to 250 million. According to a calculation by the Federation of Community Oil Industries, about DM 30 million was spent in 1959 to support colza production. If we suppose that on the average 320 000 tons of olive oil are marketed annually, even a reduction of DM 0.50 per kg. applied to this total would require only DM 160 million (with the producer price around Lit. 470, about DM 3, per kg.).

If fluctuations in the world price of groundnuts and groundnut oils had required intervention costing DM 25 to 50 per ton of nuts, the total amount of aid on the basis of 1961 imports would have been about DM 15 to 30 million.

These funds could be found by a levy on the 2.5 million tons of vegetable and marine mammal oils consumed in the Community. An average DM 0.10 per kg. added to the consumer price of table oil or margarine would yield about DM 250 million.

8. With duty-free oil-seed imports into the Community countries — the common external tariff applicable to them is bound at zero — margarine prices should in the long run tend towards the lowest current prices in the Community. Despite the above-mentioned contribution, it would therefore be possible in most Member States to reduce consumer prices of edible fats produced from vegetable sources.

Average retail prices for margarine in the Member States in 1962

Belgium . . .	DM 2.00 — 3.00	per kg.
Germany . . .	DM 2.50	per kg.
France . . .	DM 2.50	per kg.
Italy . . .	DM 4.60	per kg.
Luxembourg . . .	DM 2.00 — 3.00	per kg.
Netherlands . . .	DM 1.60	per kg.

The Council of the European Economic Community,

Whereas Community production of vegetable and marine mammal oils covers only about 20 % of requirements;

Whereas a common policy based on the market prices which would be needed to maintain internal production of oils would result in a considerable increase in consumer prices of these oils in most Member States;

Whereas it is more advantageous for these reasons to maintain production of oil-seeds in the Community by direct aids to production;

Whereas for olive oil a system of intervention on the internal market and of levies at the frontier is best calculated to offer producers the necessary guarantees as regards their employment and standard of living;

Whereas in certain regions of Southern Italy olive-growing poses special problems which need to be dealt with under a general plan to improve production and

marketing, in the financing of which the Community's competent financial institutions should co-operate;

Whereas, under the Convention with the associated African States and Madagascar, the Community has undertaken to pay due regard to the interests of these States when framing its common agricultural policy; and whereas this undertaking can be fulfilled by granting these countries a privileged position in relation to non-member countries;

Whereas oil-seeds and oil-seed products are the most important export of the associated African States and Madagascar as a whole;

Whereas there is a pronounced downward trend in world prices of edible oils, affecting the economic development of the associated States which derive almost all their external income from groundnut exports;

Whereas the necessary funds can be obtained through a levy on the edible vegetable or marine mammal oils produced in or imported by the Community;

Whereas trade liberalization and the reduction by certain Member States of present taxes on oils and fats could have a favourable effect on their prices,

Agrees that the following principles should be adopted as the basis for a common organization of the market in oils and fats:

i) Free import of oil-seeds and oils and fats of vegetable or marine origin and application to these products (except olive oil) of the duties under the common external tariff;

ii) Maintenance of the necessary oil-seed production at home by direct financial assistance to producers;

iii) Fixing of a threshold price for olive oil and levies on imports;

iv) Fixing of an intervention price for olive oil and purchase of oil offered at that price;

v) Co-operation between the Italian Government and the Commission in working out a programme to improve production and marketing of olives and olive oil and economic conditions in olive producing areas, with a financial contribution by the Community;

vi) Abolition of national customs duties on seed oils imported into the Community from the associated African States and Madagascar in accordance with the system which the Member States apply among themselves; where necessary, special action to ensure a certain measure of preference in the case of oil-seeds from the associated African States and Madagascar;

vii) Financial aid to oil-seed and oil imports by the Community from the associated African States and Madagascar to mitigate the consequences of any fall in world prices below an average reference price to be determined;

viii) A levy on edible fats of vegetable or marine origin imported by or produced in the Community, the proceeds thereof to accrue to the Community;

ix) Financing by the European Guidance and Guarantee Fund of the interventions and aids provided for,

And *invites* the Commission to submit proposals for the gradual introduction of a common organization based on the principles.