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BACKGROUND INFORMATION

EUROPEAN COMMUNITY INFORMATION SERVICE 2100 M Street NW, Washington DC 20037 phone (202) 455-8350
New York Office: 277 Park Avenue, New York, N.Y. 10017 phone (212) 312-3664

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BACKGROUND NOTE/AGRICULTURE/02

THE COMMON AGRICULTURAL MARKET

MARKET ORGANISATIONS AND PRICE SYSTEMS

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THE COMMON AGRICULTURAL MARKET
MARKET ORGANISATION AND PRICE SYSTEMS (1)

The common agricultural market has become known as the spearhead of EEC integration. Its rapid development precipitated decisions which did not, on the whole, extend beyond the agricultural sector. Altogether, about 90% of EEC agricultural production is now covered by 19 common marketing organisations. All have the same purpose: common external protection, combined with liberalisation, by means of the Common External Tariff, which in most cases is replaced or supplemented by price-adjustment levies; removal of all obstacles to intra-Community trade; safeguarding the income of producers, while avoiding distortions of competition (subsidies) and ^{with} proper regard for the interests of consumers..

The first common market organisations, namely those for cereals, pork, eggs and poultry, came into operation on 1st July 1967. The Customs Union - of which the common agricultural market is a part, although it already goes far beyond it - was created on 1st July 1968, with the abolition of all tariffs between the Member States and the introduction of the Common External Tariff.

Legal basis

The provisions governing agriculture are laid down in Articles 38-47 of the EEC Treaty. The basis of the common agricultural policy is Article 39, which states the following objectives:

- (a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilisation of all factors of production, in particular labour;
- (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- (c) to stabilise markets;
- (d) to provide certainty of supplies:

(e) to ensure supplies to consumers at reasonable prices. Apart from Art.39, reference is also made in all market organisation texts to Art.110, i.e. the aim of contributing, in the common interest, to the harmonious development of world trade.

In order to achieve the objectives of Art.39, Art.40 of the EEC Treaty lays down, depending on the product concerned, three forms of organisation:

- common rules as regards competition;
- compulsory co-ordination of the various national marketing organisations;
- a European organisation of the market.

Of these, the last has so far invariably been adopted.

All orders are based on Art.43, which requires a decision by the Council, to be taken unanimously during the first two stages and thereafter by a qualified majority, acting on proposals by the Commission and after reference to the European Parliament.

In practice, however, the Council still takes all its decisions unanimously.

Forms of market organisation for different products

The range of products for which market organisations now exist is wide. They are cereals, pork, eggs, poultry, rice, milk and dairy products, beef, fruit and vegetables including manufactures thereof, wine, oils and fats, sugar, non-food horticultural products, tobacco, flax and hemp, seed, fish, hops and the residual products which rank as agricultural products within the meaning of Annex II to the EEC Treaty. In addition, there are special regulations for silk-worms and cotton-seed.

Basically the EEC market organisations rest on two pillars, namely:

- 1.. a Community system for imports and exports in order to ensure preference for Community products and preserve the EEC price level, higher than world market prices, from disruption through excessively cheap imports;
2. measures in domestic markets relating to price formation and price supports. The form of the market organisation depends on the nature of the product in question. Protection at the frontier beyond the Common External Tariff may or may not be variously

combined with more or less complete protection in the domestic market. The existing market organisations can be classified as follows.

Group I: Cereals, rice, sugar, olive oil, milk, pork, eggs and poultry

A. System at the frontier

A variable levy is imposed on imports from non-member countries. Its amount corresponds to the difference between the offered price and the EEC price level (common threshold or sluicagate price). If, in the case of manufactured animal products, the former is below the latter, supplementary levies can be imposed, except where a supplying country gives the Community an undertaking to base its quotations on the sluicagate price. In the case of manufactures the levy consists of two parts - one related to the effect which the levies charged on the raw materials have on the production cost of the manufactures, and the other designed to protect the manufacturing industry. To make possible exporting on the basis of world-market prices the difference between these quotations and the Community prices can, if necessary, be offset by an export refund, which thus becomes an important instrument for market regulation and affects producer prices - although to varying extents depending on the product. If imports or exports cause the EEC market to be subjected to or threatened with serious disruptions which might jeopardise the objectives of the above-mentioned Article 39 of the EEC Treaty, appropriate measures can be applied in trade with non-member countries until the actual or impending disruption has been eliminated. This protection clause enables the Community to take rapid counter-measures.

B. Organisation of domestic markets

1. Where producer prices are more or less guaranteed:

a) Cereals:⁽¹⁾

Producers, subject to certain quality criteria, are guaranteed payment at the intervention (wholesale) price for their entire output.

(1) Council Order No.120/67/EEC 13.6.1967 concerning the common market organisation for cereals (Official Gazette of the European Communities, No.117 of 19.6.67)

The intervention agencies are required to implement this guarantee throughout the year by means of purchases. - In addition to this so-called Type A intervention, a Type B intervention can be decided upon on a Community basis. This normally takes place at a level slightly above the intervention price and is intended to have the effect of preventing intervention by governments. Another form of market support is the denaturing premium on soft wheat for animal feed with the aid of a premium. The denaturing premium is so fixed that the supply of denatured soft wheat does not interfere with the barley market.

The EEC cereal market has for years been showing surpluses of soft wheat and barley, which impose a burden on the European Agricultural Guidance and Guarantee Fund. First provisional estimates by the Commission for 1973/74 put these at about 9.8 million tons for soft wheat and 1.5 million tons for barley. The main way of disposing of the surpluses, apart from denaturing of soft wheat, is by exporting them. A decisive factor for the future of the cereal market will be whether the prices of fodder cereals and soft wheat can be brought into the right relationship. For the Community is still short of fodder grains. Furthermore, the imposition of more stringent quality requirements in intervention and a simplification of the method for arriving at the intervention prices in order to facilitate sale of the cereals would appear unavoidable.

b) Rice: ⁽¹⁾ The system is very closely modelled on that for cereals. The special technical provisions for rice are mainly due to the multiplicity of products in that sector. The rice market in fact consists of a number of independent markets for the individual processing stages and qualities. Furthermore, the rice market is characterised by the fact that only two member countries are producers - primarily Italy and, to a much smaller extent, France. EEC rice production represents only 0.3% of the world total. The aim is to increase intra-Community trade and reduce exports to non-member countries.

(1) Council Order No. 359/67/EEC of 25.7.1967 concerning the common market organisation for rice (Official Gazette of the European Communities No.174 of 31.7.67).

c) Sugar (1)

Here the price guarantee to the producer only covers a predetermined production quota. If the guaranteed quantity (105% of the amount used for human consumption in the Community) is exceeded, the excess has to be marketed at the producers' own risk.

Manufacturers who exceed their basic quota have to pay a production levy for any excess amount produced. As sugar manufacturers can pass on 60% of this levy to their beet-suppliers and only have to bear 40% themselves, its effect is both to reduce the producers' own margin and to lower the beet price received by growers. In addition to the basic quota, each sugar manufacturer is given a maximum quota derived from this, beyond which he must sell his production on the world market at his own cost. Beets are graded as "fat", "semi-fat" and "lean".

This arrangement was designed by the Council of Ministers to provide measures for restricting production during a transitional period and to pave the way for regional specialisation of production. Under the order the period of validity of these regulations concerning basic quantities for individual countries, their allocation to factories or firms and the price differential is scheduled to end on 1st July 1975. These provisions have not, however, succeeded in preventing an increase in production, and the structural surplus can be estimated at 1 million tons of sugar per year. Possible methods of disposal, apart from exporting, are sale at reduced prices in denatured form for animal feed and for use in the chemical industry. Increments in human consumption (about 100,000 tons per year) are being offset by gains in productivity.

(1) Council Order No.1009 of 18.12.1967 concerning the common market organisation for sugar (Official Gazette of the European Communities No.308 of 18.12.1967).

d) Olive oil (1)

Producers are assured of a fair income from the sale of their products with the aid of a producer guideline price. There is also a market guideline price, so fixed, taking into account the prices of competing products and especially their probable trend during the crop year, as to enable the entire olive oil production to be marketed normally. If the producer guideline price is higher than the market guideline price ruling at the beginning of the crop year, producers are paid a subsidy covering the difference between the two prices. A requirement for this, however, is that the olive oil has been produced in the Community from Community-grown olives. There is also provision for stabilisation measures aimed at keeping the actual market price as close as possible to the market guideline price.

These consist of the possibility of direct intervention and the formation of ^abuffer stock by the intervention agencies.

2. Where producer prices are only partly guaranteed, if at all:

a) Milk and dairy products (2)

The Community guideline price for milk is not guaranteed to the producer. It is instead the price aimed at for the total amount of milk sold by the producers during the milk marketing year, having regard to the marketing opportunities both within the Community market and outside. Governments obligations to intervene at the intervention price are confined to butter, skimmed-milk powder and certain kinds of cheese. In these cases, and also for cream, the order also provides the possibility of the granting of subsidies for private stockholding, provided that the products fulfil certain conditions. If skimmed milk and skimmed milk powder are used for animal feed, a subsidy is paid. All stocks of butter and skimmed milk powder were cleared in 1971, following a decline in the surpluses in 1970. Indeed, world market supplies of skimmed milk powder fell so sharply that export levies had to be imposed in order to prevent excessive exports from seriously denuding the Community market.

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- (1) Council Order No.136/66/EEC of 22.9.1966 concerning the establishment of a common market organisation for fats (Official Gazette of the European Communities No.172 of 30.9.1966).
(2) Council Order No.804/68 of 27.6.68 concerning the common market organisation for milk and dairy products (Official Gazette of the European Communities No.L148/ of 28.6.68)

For the export of dairy products in general the Commission, in view of the world market trend, drastically lowered the export levies and in many cases reduced them to zero. It has since become apparent, however, that the surprising trend in the second half of 1971 was not a lasting one but only a passing phase due to a few favourable circumstances.

By mid-June this year, butter stocks in the Community had already risen again to 209,000 tons, of which 145,000 tons were accounted for by public stocks and 64,000 tons by private stocks. This was about 100,000 tons more than at the corresponding date last year. For 1972 it is estimated that there will be the following increases compared with 1971: milk supplies to dairies 2-3%, butter production about 5%, skimmed milk powder production as much as 10%.

Over against this expected increase in butter production there has been an appreciable decline in consumption. In view of this situation some relief measures have already been reintroduced, namely the sale of butter at reduced prices to biscuit manufacturers/ ^{and} the armed forces and for exports of fat blends. Deliveries of milk products under food relief programmes are proceeding according to plan. It should also be recorded that the common market organisation for the milk sector has been supplemented by the Community regulations for drinking milk issued by the Council in June 1971 after discussion by the European Parliament.

b) Pork (1)

In order to prevent or mitigate a substantial price decline, the following intervention measures can be adopted: subsidies for private stockholding and purchases by the intervention agencies. The intervention agencies buy half carcasses, and their purchases can also include fresh or chilled bellies and bacon. The criterion for the adoption of the intervention measures is the base price. If the arithmetic mean of the prices for slaughtered pigs on the representative markets of the Community is at a level lower than the base price and if it is expected to remain below that

(1) Order No.121/67/EEC of 13.6.67 concerning the common market organisation for pork (Official Gazette of the European Communities No.117 v. 19.6.1967)

price, intervention measures can be adopted. The purchasing price for carcasses of standard quality must be not more than 92% and not less than 85% of the basic price. This market system is functioning smoothly. So far all official purchases have been resold without difficulty.

c) Eggs and poultry (1)

These market systems contain no guarantee for the producer. However, Art.2 of both orders establishes the possibility of adopting Community measures for promoting initiatives by the trades and industries concerned for the purpose of facilitating adaptation of supply to market requirements (except for action with a view to artificially restricting supplies). The measures in question are ones designed to promote better organisation of production, processing and marketing and improve product quality, to facilitate detection of the market trend and to make possible short-term or long-term projections based on knowledge of the means of production employed. In the Commission's view, a useful means to better market intelligence in this field is the new order concerning production of and trade in domestic poultry hatching eggs and chicks. Egg prices, in particular, have in the past undergone sharp price declines which have already prompted measures of self-help by producers.

Group II: Oilseeds, tobacco, wine, fruit and vegetables, fruit and vegetable manufactures, fish, beef and veal

A. System at the frontier

External protection is provided on the basis of the Common External Tariff, which can in certain cases be supplemented by equalisation levies based on reference prices; this applies to wine, fruit and vegetables and fish. However, by agreeing to adhere to the reference price,

(1) Council Order No.122/67/EEC of 13.6.67 concerning the common market organisation for eggs. Council Order No.123/67/EEC of 13.6.67 concerning the common market organisation for poultry (All orders: Official Gazette of the European Communities No.117 of 19.6.67).

non-member countries can avoid being placed at a disadvantage by the automatic application of the levy. In the case of beef the tariff can be supplemented by a price-equalisation levy, aimed at keeping markets in balance if Community prices fall below a certain level. However under Council Order No.1109/72 of 30.5.1972 concerning the general rules applicable in the event of a substantial rise in the beef prices - which is in force from 1st June to 31st December 1972 - both the customs duties of the Common External Tariff and the import levies may be wholly or partly suspended in order to counter the danger of excessively high prices and possible supply difficulties if market prices exceed a given ceiling. Frozen meat for processing is subject to special import regulations. Fruit and vegetable manufactures containing sugar are also subject to a levy which offsets the difference between the world market price of sugar and that in the Community.

All the products in this group not only qualify for an export refund but are provided with the protection clause. A definitive common import procedure for fruit and vegetable manufactures has still to be introduced. Protective measures have been adopted for the tomato market on a temporary basis.

B. Organisation of domestic markets

1. Where producer prices are wholly guaranteed.

a) Oilseeds (1)

The Community's fat requirements are large, but its output is only small. Tariffs on oilseeds in the GATT having been abolished, EEC producers are guaranteed an adequate income by means of a subsidy which bridges the difference between the world market price and the EEC guideline price. In addition there is an intervention obligation.

One difficulty is ^{that} rapeseed is dearer to transport than rapeseed oil (100 kg of rapeseed = 41 kg of oil). Furthermore, rapeseed is grown only in France and North Germany.

(1) Council Order No.136/66/EEC of 22.9.1966 concerning the establishment of a common market organisation for fats (Official Gazette of the European Communities No.172 of 30.9.1966).

The Italian oil-mills, on the other hand, have a great interest in the crushing of rapeseed, so that since the implementation of the market organisation the problem of compensation for transport costs has arisen, because direct subsidies are incompatible with the Common Market principle. For this reason the supplementary subsidy granted for Community rapeseed crushed in Italy is extended annually. A final solution of this problem, which will be complicated by the enlargement of the Community, is still being sought.

2. Where producer prices are only partly guaranteed, if at all

a) Tobacco (1)

The main problems here are to improve quality and bring production into line with demand. Above all, existing varieties must be replaced by more competitive and sought-after varieties. An essential component of the price and support system is the annual fixing of a target price related to a standard quality for each variety of tobacco grown in the Community. In order to ensure the target price and facilitate sales, the initial purchasers of tobacco leaf receive a premium which is passed on to the growers. This is fixed annually by the Council taking into account the market potential and the influence of the price trend for imported tobacco. The intervention price is set at 90% of the corresponding target price. If the quality differs from the standard quality, the price is raised or lowered accordingly. For the first time for a marketing organisation, the regulations include measures for market control in order to enable action to be taken in good time to prevent the accumulation of surpluses. Following the introduction of this market organisation, the previous special measures, notably the monopoly regulations relating to the planting, initial processing and marketing of raw tobacco, have been abolished.

b) Wine (2)

The Community's market policy for wine is designed not only to balance total supply and demand but also to promote production of

(1) Council Order No.727/70 of 21.4.1970 concerning the establishment of a common market organisation for raw tobacco (Office Gazette of the European Communities L94 of 28.4.1970).

(2) Council Order No.816/70 of 28.4.1970 laying down supplementary regulations for the common market organisation for wine (Official Gazette of the European Communities C99 of 5.5.1970).

high-quality wines and restrict the making of inferior wines. There is a uniform pricing system. For each type of table wine a reference price is laid down each year, and on the basis of this a threshold price for the adoption of intervention measures is fixed. The system of intervention comprises, in addition to the granting of a subsidy for private stockholding of table wine, measures for the distillation of table wine. The supplementary regulations also concern certain wine-making processes for which limits are fixed, including, in particular, concentration. Measures to control the trend of planting are also contemplated. During the introduction of the common marketing organisation there was found to have been a marked increase in intra-Community trade. Italy, in particular, had substantially increased its exports to the other member countries. This led to a conflict of attitudes between France and Italy. France wishes to be able to exclude supplies on the basis of a protective clause. Italy rejects this proposal and also adopts a very reserved attitude with regard to any control on production.

c) Fruit and vegetables (1)

For the sake of clarity, the basic regulations concerning this market organisation have been consolidated in a single directive. An important part is played by the application of common standards (grades). The object of these is to exclude goods of unsatisfactory quality from the market and encourage growers to produce to meet consumers' requirements. Furthermore, the standards are intended to facilitate trade relationships on the basis of fair competition, thus helping to make production more profitable. The intervention system imposes the following obligation on member States:

1. To grant financial compensation to producers' organisations which withhold supplies from the market; 2. In the event of a serious crisis, to stockpile surpluses.

The member States may, however, be freed from this obligation if the public authorities' intervention encounters serious difficulties.

(1) Council Order No.1035/72 of 18.5.1972 concerning a common market organisation for fruit and vegetables (Official Gazette of the European Communities No.L118 of 20.5.1972).

In order to minimise the destruction of products withheld from the market, the list of permitted end-uses has been extended. In the light of the experience gained so far, the EEC Commission has proposed several amendments to the legal provisions governing the fruit and vegetable market.

These apply to the intervention system, the reference prices, imports from non-member countries and the grubbing-up of certain fruit trees.

d) Fruit and vegetable manufactures:

There are no price guarantees

d) Fish (1)

Besides marketing standards, there is provision for a common price system for market stabilisation, including measures to promote producer organisations. The latter are free to fix floor prices below which deliveries from members will not be sold. Community floor prices are then fixed, and part of the producers' intervention costs are financed by the Community.

f) Beef (2)

Only just under 90% of the demand for beef in the Community can be met from its own production, so that about 600,000 tons per year have to be imported. The intervention system provides the possibility of subsidies for private stockholding and of purchases by the intervention agencies. Under the Council Order, intervention measures can be adopted if the market price falls below 98% of the reference price in the Community and below 93% of the reference price in at least one area of the Community. They must be taken, however, if the market price in the Community falls below 93% of the reference price. The Commission has submitted proposals to the Council for the introduction of a system of bonuses to encourage production of beef and the non-marketing of milk and dairy products, as well as for preferential imports of steers and calves for fattening.

(1) Council Order No.2142/70 of 20.10.1970 concerning the common market organisation for fishery products (Official Gazette of the European Communities No.L236 of 27.10.1970).

(2) Council Order No.805/68 of 27.6.1968 concerning the common market organisation for beef (Official Gazette of the European Communities No. L148 of 28.6.1968)

III. Other market organisations and special arrangements based on the CET (Common External Tariff)

1. Flowers

Under Council Order No.234/68 of 27.2.1968 concerning the establishment of a common market organisation for living plants and goods pertaining to the flower trade (Official Gazette of the European Communities No.L55 of 2.3.1968), quality standards have been laid down to prevent the sale of poor-quality products and to make the market easier to assess. Minimum prices for the export of flower bulbs to non-member countries are fixed annually. Council decisions concerning the system as regards non-member countries and the protection clause are pending.

2. Textile fibres

A special feature of Council Order No.1308/70 of 29.6.1970 concerning a common market organisation for flax and hemp (Official Gazette of the European Communities L 146 of 4.7.1970) is the introduction of a global acreage subsidy. In the event of market disturbances, suitable measures can be taken in trade with non-member countries. Subsidies for the holding of private stocks are also possible in this event.

3. Seed

Council Order No.2358/71 of 25.10.1971 concerning the establishment of a common market organisation for seed (Official Gazette of the European Communities L 246 of 5.11.1971) provides the possibility of the granting of production subsidies for a number of sensitive varieties (certain grasses and fodder plants). By way of exception, price equalisation levy can if necessary be imposed at the frontier for hybrid maize on the basis of a reference price. But all-round protective measures may be imposed in the event of serious market disruption.

4. Hops

Council Order No.1696/71 of 26.7.1971 concerning the common hop market organisation (Official Gazette of the European Communities L 175 of 4.8.1971) provides the basis for measures for the framing of a quality policy and for the protection of producers against a possible fall in their standard of living.