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COMMON MARKET FARM REPORT

BELGIUM, FRANCE, GERMAN FEDERAL REPUBLIC, ITALY, LUXEMBOURG, THE NETHERLANDS

MARATHON DECISION-MAKING

Speeding up the development of a Common Agricultural Policy has forced the Common Market Council of Ministers into a marathon session of decision making in recent weeks.

This acceleration is necessary to meet the Community's own agreed-upon deadlines for setting farm policies by the end of 1963 on a select list of commodities. It is also important as the Community prepares for next year's opening round of negotiations under the General Agreement on Tariffs and Trade. The GATT discussions begin in early May in Geneva with some 50 nations participating.

A comprehensive blueprint for agriculture is now vital to surmount the "crisis of confidence" that has occurred in the Community's political maneuvering during much of 1963. At stake is the issue of whether the Community is to be further integrated or whether more delay, and possibly stagnation, is to be accepted.

Current negotiations are aimed at strengthening the Community internally, applying the Common Agricultural Policy to world trade relationships, and assuring farmers in the Community that policy and price decisions made will enable them to plan their own operations.

As many European leaders have pointed out, there must be an end to the present uncertainties about objectives and general trends with regard to the Common Agricultural Policy.

Most significant in the negotiations, perhaps, is the substitution of emphasis on improved per farm productivity in place of the earlier stress on increasing over-all production in the Community.

To raise farm income within the Community - as the United States has recently recognized - gross farm receipts will have to be distributed among a smaller number of efficient farmers. No longer will it be possible for each member state to run its own agricultural affairs as it pleases.

The "new look" in Community agriculture must be in terms of Community food and fiber interests as a whole.

The immediate goal is to achieve regulations by the end of this year for the common organization of markets in dairy products, beef and rice so that such regulations may become operative in the first quarter of 1964.

These are some of the reasons why so much depends on the success of the present negotiations within the Community.

This issue inaugurates a new service to American farm writers, editors, radio and television broadcasters and to leaders in agriculture --- providing background information with respect to the rapidly emerging Common Agricultural Policy now being evolved in the European Community.

THE DAIRY DEBATE

In the current negotiations to establish regulations for organizing a common market for rice, beef and dairy products, the dairy decision is the hardest to resolve.

This is because the national dairy markets differ so much in structure that they are hard to compare. The importance attached to the goods produced also differs greatly among the various member states of the Community.

For instance, butter in Italy is not valued highly so the Italian dairy producers gear their operations almost exclusively to cheese making. At the same time, some 300 types of cheese are made in France while the Dutch produce only a few varieties but of foremost quality.

Belgium, France, Italy and Luxembourg have a uniform milk market but in Germany and the Netherlands, the markets are split --- one for fluid or so-called "consumption milk" and the other for processing purposes.

The draft regulation being considered provides for levies only on processing milk and not on fluid supplies and such allied products as sterilized milk, cocoa drinks, yoghurt, skim and other liquid items.

Economic considerations are more difficult to determine with respect to fluid milk since fluid markets are largely regional but the Council of Ministers must link milk for processing with fluid milk in the text of the regulation.

Another area of difficulty is found in the fact that edible fats are, to a certain extent, interchangeable in consumption. This is particularly true in the case of butter and margarine. Italy is a large producer of vegetable oils (mostly olive oil) and presently protects its olive output and very limited butter production. On the other hand, Belgium, France, Luxembourg and the Netherlands offer no protection to their small production of rape and rape-seed vegetable oils and limit protection to producers of butter. These countries make imported vegetable oils available to consumers at low prices and --- in the case of the Netherlands and to some extent Luxembourg --- actually subsidize butter to keep prices modest to domestic consumers.

If butter was marketed within the Community at a price consistent with milk and profitable to producers, margarine prices in Belgium, France, Germany, Luxembourg and the Netherlands would rise sharply.

Consequently, the EEC Commission* (see footnote) has refrained from tying milk policy with a policy for fats and oils. The Commission has recommended, instead, that the interests of dairymen and olive growers be treated by special measures.

The Commission does propose the free import of vegetable oils at the customs rates of the common external tariff which, in the case of oil-seeds means duty-free importation. In this manner, the current margarine price may be maintained but steps will have to be taken to prevent any lowering of margarine prices that would further cut into the butter market.

The free import of vegetable oils will be of benefit to U.S. exporters who have built a large and profitable market in the Community. American soybean producers, in particular, will continue to enjoy an expanding outlet for their increased output.

*The EEC Commission (also known as the Common Market Commission) consists of nine members - one of which represents farm interests - whose task is to supervise the gradual establishment of a full Common Market, in which trade restrictions of all kinds will be abolished and all goods, services, labor, and capital will circulate freely.

To assure olive growers in southern Italy and dairy farmers throughout the Community an adequate income there are two alternatives to the Commission's proposal that there be no link between the two. One is a suggested tax on vegetable oils which would help finance the marketing of butter. The other is the fixing of margarine prices at a level enabling all butter to be sold at prices corresponding to the off-farm prices for milk.

Assuming that a dairy policy is worked out, market organizations will have to be set up to deal with a variety of products including fresh milk and cream; preserved, concentrated or sweetened milk and cream; butter; cheese and curds; lactose and lactose syrup; forage (sweetened or sugared) and other prepared fodder used in animal feed supplements. There is also a proposal that casein be included though it is not contained in the Community Treaty list of agricultural products.

Some of the feed supplements based on grains with added milk products already fall under the grain regulations but provision will have to be made for mixed fodder based on milk without grain ingredients.

In connection with the market organization for milk, the Council of Ministers agreed to a formula for establishing a target price to be paid the producer for milk off the farm. The farm-gate target price would be calculated from the proceeds of all products manufactured from milk and sold in the market together with the receipts realized from the sale of fluid milk.

SINO-SOVIET GRAIN BUYING AND FREIGHT RATES

The increasing purchases of grain by the Sino-Soviet bloc countries from such free world suppliers as Australia, Canada and the United States have done much to balance out surplus supplies with demand.

However, the sudden entry of the Soviet Union into the wheat buying market has so severely strained international shipping facilities and threatens to continue to do so that international freight rates are skyrocketing.

This has created difficulties for the European Community which bases its levies on grain imports from non-member countries on cost, insurance and freight (cif) prices. Rising world market prices mean lower levies on imports from the world market into the Community since the only purpose of the levies is to level out differences between the lower world prices and the higher prices charged within the Community.

Until Soviet Russia moved into the wheat market as a major buyer, cif prices were steady, showing only minor fluctuations. Since the big initial purchase this past summer from Canada, Russia's wheat needs have so tied up available shipping space that cif prices have spiraled.

This is evidenced by comparing freight rates in terms of dollars per ton*from North American grain ports as of October 1, 1962, and October 1, 1963.

Tonnage reference here is in metric tons which are equivalent to 2,200 pounds as compared with U.S. ton of 2,000 pounds.

Ports of -	October '62	October '63
St. Lawrence	$ 4.55	$ 8.75
Great Lakes	9.80	13.65
U.S. Gulf	5.25	10.15
North Pacific	6.30	9.45

Except for durum wheat there has been a considerable increase in cif prices for all types of grain in 1963 as compared with the previous year. The rise is particularly marked for coarse grains, corn and barley and the sharp rises affecting these types have also affected oats and sorghum and the limited rye market.

For the first time since the Community's grain regulation (Number 19)(see footnote)* went into effect, cif prices have exceeded the Community's threshold price (see Glossary) for corn and barley in Italy and for rye in the Netherlands. In March, the EEC Commission asked Italy to raise its barley prices and now this urging is being repeated because the low level of coarse grain prices in Italy is no longer viewed as realistic.

Grain freight operations will continue to be influenced by heavy purchases from Red China and the Soviet Union, plus Communist bloc countries in Eastern Europe. As a result, shipping has been so tied up from Canadian ports that delays are occurring in normal trade deliveries. The Community expects a projected wheat sale by the United States to Russia will add to the problem.

The immediate effects on the Community are a drop in the yield from levies...a drop that may be substantial because of Community dependence on imports of coarse grains which have lately experienced a 20 percent increase in cif prices. Germany is most severely hit by the higher cif prices because it is a major importer. But other members of the Community, such as Belgium, will be hurt because of their reliance on import levies to finance agricultural programs.

As world market prices on grains rise, the levies to be paid by grain importers within the Community decline correspondingly.

*For purposes of better organizing the grain market, base target prices were established earlier this year in each of the member states, on wheat and feed grains and a levy system was applied to imports of grains to enable Community farmers to achieve a uniform pricing structure during the transitional period which ends December 31, 1969.

COMMUNIST CHINA'S ROLE AS A GRAIN BUYER

The failure of the 1959-60 coarse grain crops in Communist China launched the Peking government into the world market as a major purchaser of grain. In the fiscal year of 1962-63, Chinese imports of grain exceeded the five million ton mark —— half a million more tons than Britain imported in the same period.

The Chinese made their initial purchases from Australia, then Canada and later France. West Germany has also sold wheat flour to the Chinese.

It now appears that China will continue as a wheat importer for some time to come because of its failure to stimulate farm production and a rapidly rising population that has grown from 500 million persons in 1937 to nearly 800 million today.

Interestingly enough, the Chinese do not appear to be experiencing major difficulties in paying for wheat imports. They are the world's largest producers of silver and silver is in steadily rising demand, particularly for space research.

NEW DEVELOPMENTS

Unifying a common egg market:

EEC Council Regulation #21 contains a proviso for calculating the quantity of feed grain required in the production of eggs. It maintains that, for the time being, the production of eggs shall be made on the basis of the varying laying performances of hens in the member states. Every eight months adjustments are to be made until the feed-grain ratio per pound of eggs is the same in all member states as called for from the beginning of the third year of application of the levy system. (See Glossary)

Reflected in this quantity ratio are the differences in progress made by the various member states of the Community in technical and breeding efficiency.

The less advanced states must use the three year transitional period to bring down their feed-grain and egg ratio to the level of the more efficient producing countries in the Community.

For the period of November 1, 1963, through June 30, 1964, feed grain quantities needed to produce one kilogram (2.2 pounds) of shell eggs from hens for consumption or to produce one kilogram of breeding eggs of domestic poultry, are as follows:

Belgium	3.38	kg per 1 kg of eggs
Germany	3.52	" " " " " "
France	3.57	" " " " " "
Italy	3.62	" " " " " "
Luxembourg	3.55	" " " " " "
Netherlands	3.22	" " " " " "

These figures compare with -

August 1 - December 31, 1962

Belgium	3.38	kg per 1 kg of eggs
Germany	3.70	" " " " " "
France	3.89	" " " " " "
Italy	4.09	" " " " " "
Luxembourg	3.82	" " " " " "
Netherlands	3.22	" " " " " "

May 1 - October 31, 1963

Belgium	3.38	kg per 1 kg of eggs
Germany	3.62	" " " " " "
France	3.72	" " " " " "
Italy	3.85	" " " " " "
Luxembourg	3.69	" " " " " "
Netherlands	3.22	" " " " " "

Pork import levy reduction extended:

Pigs are in such short supply in the Community that the Council agreed in mid-November to extend until December 31, 1963, the regulation on the reduction of levies on pigs and pork products imported from non-member countries. Only Germany has not taken steps necessary to effect this extended reduction in levies. Since December 1, a reduction of 75 percent in levies on imports has been in effect in Belgium, France, Italy, Luxembourg and the Netherlands.

Because of supply limitations, pork prices in the Community during the year ending November, 1963, increased 55 percent in Belgium, 51 percent in France, 24 percent in the Netherlands, 15 percent in Italy and 12 percent in Germany.

Duty suspension for sugar approved:

The duty on beet and cane sugar imports has been suspended until March 31, 1964, at the request of the Italian government because of Italy's inadequate beet sugar crop in 1963 and the threat of inflationary prices unless outside supplies were made available.

A similar Italian request for suspension of duties on molasses failed to win such approval because Germany objected to the reduced prices on imports of yeast made with molasses that compete with German-made yeast.

Butter grading:

It has been proposed that first grade fresh butter in the Community should contain no more than 16 percent of water, should be made in dairies from pasteurized cream, should be not more than three weeks old, and should correspond to the packing regulations applicable in the various member states.

Social problems in agriculture:

The Community has now appointed two advisory committees - one to examine the social problems of hired farm labor and the other to study the social problems of independent farm operators and their families.

The survey will be similar to the continuing analysis the United States government is making of rural area development needs.

GLOSSARY

TARGET PRICE: The base price for grains, determined in the marketing center of the region of the Community with the least adequate domestic supplies. During the transition period through December 31, 1969, target prices are fixed for each member country separately and, subsequently, for the Community as a whole. They are fixed before the winter sowing and come into force at the beginning of the marketing season for the crop.

THRESHOLD PRICE: Used for calculating levies, a threshold price is fixed at a level that will bring the selling price of imports up to the target level in the Community region with least adequate domestic supplies.

VARIABLE LEVIES: Charges applied to certan agricultural imports but varying or variable to meet differences between domestic prices in the importing EEC country and import prices. It is sometimes described as an equalization fee.

european community

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