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COMMON MARKET FARM REPORT

BELGIUM, FRANCE, FEDERAL REPUBLIC OF GERMANY, ITALY, LUXEMBOURG, THE NETHERLANDS

COMMON MARKET FARM FUND TAKES FINAL FORM

The heart of the European Economic Community's common agricultural policy is an organization called the European Agricultural Guidance and Guarantee Fund (EAGGF) or simply the Common Agricultural Fund.

The regulation which established the EAGGF was adopted by the EEC Council of Ministers on January 14, 1962. At its inception the Fund only applied to those products for which a common policy had already been established -- cereals and cereal products, pigmeat, eggs and poultry. By July 1 of this year it will cover over 90 per cent of the agricultural products of the Community. The few products remaining outside will include wool, tobacco, fiberplants, and potatoes.

GUARANTEE SECTION

The Fund's operations fall under two headings. One is the Guarantee Section. This is a classical price support system (similar to the U.S. program) which maintains an "equitable" price level through market management and storage of market surpluses. The costs of these support operations are increasingly to be borne by the EAGGF. This system will allow producers' farm prices to be held relatively stable to avoid disruptions of the market.

The Fund pays out its expenditures in the form of reimbursements to member states for their past refunds on exports to the world market, in cases where the EEC price was higher than the world price, and for their past costs in connection with storing and denaturing to manage surpluses. The retroactive nature of the Fund is shown by the fact that the EEC Commission has just allocated the reimbursements for the 1963/64 season.

GUIDANCE SECTION

The second heading is the Guidance Section. This provides for expenditure on structural improvement and is to encourage and guide the reorganization of farming patterns in the Community countries. Guidance operations receive about a fourth of EAGGF allocations. This section manages long-term support while the Guarantee Section is concerned with short-term market management.

REVENUES

The Fund's income derives in part from payments made in agreed portions by the member states. During the first three years of operations these agreed proportions, making up 90 per cent of the Fund's income, ran as follows: Germany, France and Italy 28 per cent; Belgium and the Netherlands 7.9 per cent; and Luxembourg 0.2 per cent. In order to prevent one member's contribution from being considerably above the average, a ceiling of 31 per cent was established for the Federal Republic of Germany.

In this initial period the scale of contributions was also based on net agricultural imports. This portion made up ten per cent of the contribution for the first three years and 20 per cent for 1965/66.

Overall, for the 1963/64 period, each country had the following share in contributions: Italy 28 per cent, Germany 27.9 per cent, France 25.7 per cent, the Netherlands 9.4 per cent, Belgium 8 per cent and Luxembourg 0.21 per cent. Italy's total contributions have been fixed by the Council up to July 1967. They have been reduced from the original 28 per cent to 18 per cent for 1965/66 and to 22 per cent for 1966/67. Her contributions have no import component.

EXPENDITURES

Member countries' expenditures arising from the common agricultural policy will be increasingly reimbursed by the EAGGF until the final stage, beginning with reimbursements for the period starting from July 1 of this year, when all costs will be commonly covered. At that time, the common organization of the agricultural market will be virtually complete.

During the first year the Fund contributed one-sixth of market support and export refund costs. For the reimbursements now being made for costs incurred in 1963/64, it gives one-third coverage. For 1964/65 it will reimburse half of these expenses. For 1965/66 there will be 60 per cent coverage; for 1966/67, 70 per cent, and, for reimbursements for the period beginning

Table 1. EAGGF Guarantee Expenditures

(per cent)	1962/63	1963/64	1964/65*	1965/66*
Export Refunds	77.5	86.3	80.5	81.5
Market Support	22.5	13.7	19.5	18.5

*(to be paid)

Belgian women at work at the Communal Technical School of Malines.

from July 1 of this year, there will be 100 per cent coverage.

The greater part of expenditure is on export refunds. About four-fifths of payments have been so destined.

These proportions reflect the good cereal crops during these years. From 1962 to 1964 over 90 per cent of export refunds were made on cereals. In 1964/65, however, milk and milk products will be awarded 18 per cent of refunds; cereals, 72 per cent.

Table 2. **Per Cent of Total Guarantee Expenditures**

	1962/63	1963/64	1964/65*	1965/66*
Cereals	97.3	96.7	71.65	50.1
Milk & milk products	--	--	17.70	29.2
Pigmeat	0.2	--	4.3	6.0
Poultry	0.6	1.4	0.71	0.88
Eggs	1.9	1.9	0.65	0.48
Rice	--	--	0.44	0.02
Olive oil	--	--	4.55	--
Sugar	--	--	--	1.67
Butter	--	--	--	11.7

*(to be paid)

Guarantee operations have accounted for the major portion of the Fund. From Table 3 one sees that guidance has not accounted for more than a fourth of outlays since 1962/63. Payments from the guidance section are aid payments made in response to approved project applications.

Table 3. **EAGGF Expenditures**

$ million	Guidance	Guarantee
1962/63	28.7	9.1
1963/64	50.7	17.1
1964/65 (to be paid)	175.1	58.6
1965/66 (to be paid)	240.1	80.0

Workers of an Italian producers' consortium harvest peaches.

FUTURE ARRANGEMENTS—IN TWO STAGES

For the future, agricultural contributions will be phased in two periods, from July 1965 to June 1967 and from July 1967 to December 1969. For the first period the Council has agreed only on the following scale of fixed contributions:

Table 4. **EAGGF Fixed Contributions Schedule**

per cent	1965/66	1966/67
Belgium	7.95	7.95
Germany	31.67	30.83
France	32.58	29.26
Italy	18.00	22.00
Luxembourg	0.22	0.22
Netherlands	9.58	9.74

The beginning of the final period coincides with the beginning of the free agricultural market, due to go into effect July 1. From this time the Fund's expenditure on export subsidies will be calculated on the basis of gross instead of net exports and according to the average rate of subsidies in the Community instead of the lowest subsidy rate in the Community.

Fixed sums will be paid as compensation to those states who suffer by having a poor bargain in existing market organizations but a stake in upcoming arrangements. The Fund will pay Italy an advance of $45 million from the Guidance section for 1965/66 under the EEC's 1967 budget for improvements to the production and marketing of olives, olive oil, fruits and vegetables, for which market organizations have only been completed. These funds will be used until December 31, 1969, at which time a statement of account on all guidance expenditures since November 1, 1965, will be made to the Commission. Belgium will receive a similar advance from the Guarantee Section for sugar market operations.

FUTURE REVENUES

In the final period, beginning July 1 of this year and ending December 31, 1969, contributions to the Guarantee Section will consist of two components:

- A variable component, amounting to 90 per cent of the yield accruing to member states from levies on farm products imported from non-member countries;

- A fixed scale, according to which the rest of the money needed to cover the total expenditure is contributed. This scale requires from Germany 31.2 per cent, France 32 per cent, Italy 20.3 per cent, the Netherlands 8.2 per cent, Belgium 8.1 per cent, and Luxembourg 0.2 per cent of the remaining needs of the Fund.

It is expected that the two components will each provice about half the Fund's income. Overall it is expected that Germany will pay approximately 32 per cent of EAGGF expenses; France, 24 per cent; and Italy, 23 per cent. On the other side, France will receive some 40 per cent of the sums distributed. She presently receives 90 per cent of the guarantee allocations.

The fixed scale alone will serve as the determinant of contributions to the Guidance Section.

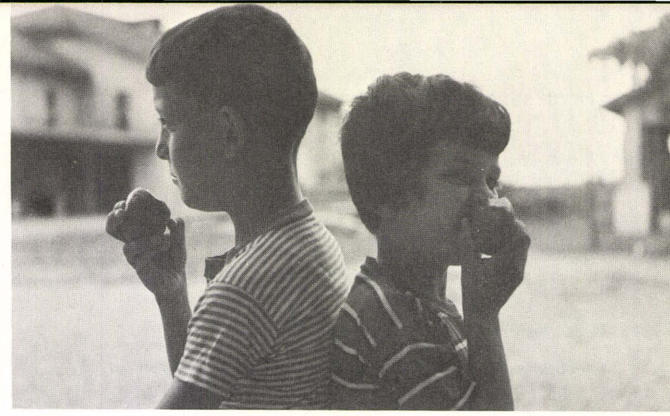
The present system dictates that each member state must pay to the Fund 90 per cent of its revenues from levies; this amount varies with receipts each year. From 1970 receipts will be paid in full to the Fund. At that time the common organization of the Fund will be completed.

FUTURE EXPENDITURES

On the expenditure side the Community will begin complete reimbursement for support and export subsidy expenditures made from July 1 of this year. Reimbursements for expenditures in 1964/65 will be 60 per cent covered, and 1966/67 will have 70 per cent coverage. Gross exports will be the basis for payment of subsidies from July 1, as gross imports will be the basis for contributions.

PROSPECTS

In the future it is expected that the Fund will account for the major part of the EEC budget. In 1970, for example, it is projected that $1.15 billion of a



Apples are among the products covered by the new pricing regulations.

budget of $1.98 billion will be for expenditure on the EAGGF.

The Fund has definitely become a permanent feature of the Community. The decisive issue for the future is whether it will cease to be a retroactive reimbursing agency and begin to act as an automatic clearing house for current operations.

Council Adopts Basic and Purchase Prices for Fruits and Vegetables

On December 22, the EEC Council of Ministers adopted the prices to be used in regulating the Community's fruit and vegetable market.

The prices adopted went into effect from the first of this year and applied to cauliflower, oranges, tangerines, lemons, apples and pears. The regulation set both "reference prices" and "intervention prices." References prices are calculated as the arithmetic mean of prices prevailing markets located in surplus areas and reflecting the lowest prices during the three previous seasons. They serve both as representative prices and as reference points for setting intervention prices.

The latter prices serve to determine when intervention to support market prices should take place and how much compensation should be granted for it by the Common Agricultural Fund. The intervention price is to be fixed at 40-45 per cent of the reference price for cauliflower; 50-55 per cent, for apples and pears; and 60-70 per cent, for citrus. Member countries may, until the end of 1969, set intervention prices as they please, provided they do not exceed 70 per cent of the reference price. This will guarantee, in effect, that fruit and vegetable prices can fluctuate downward by at least 30 per cent before market intervention begins. Actual intervention by member states is generally optional.

Table 5 indicates the schedule to be applied to the market.

A proposition concerning unified policy toward imports of fruits and vegetables was also forwarded by the Commission, but the Council did not reach a decision on it. The proposal contained both liberalizing measures and a safeguard clause.

The system envisioned by the Commission would forbid all internal taxes and quantitative restrictions having the effect of a tariff. Only arrangements provided by the basic regulation or those stemming from special Council waivers could be excepted from liberalization.

The arrangement would have gone into effect the first of the year and would have covered cauliflower, tomatoes, oranges, tangerines, lemons, table grapes, apples, pears, and peaches. Other fruits and vegetables would be regulated from July 1, 1968, except for potatoes.

The Commission would administer the price safeguards, and the Council would agree on the procedure for the Commission to follow, should a member state submit a complaint. The Commission would have two working days to reach its decision, which would then take immediate effect. Within three working days after this, any member state could

Table 5. EEC Fruits and Vegetable Pricing Schedule

($/100 Kg for premium quality)

Product	Period	Reference Price	Intervention Price
Cauliflower (leaf)	January	9.3	3.7
	February	7.9	3.1
	March	11.0	4.4
	April	10.1	4.0
Oranges			
Red (sanguinello)	January	13.7	9.5
	February	15.0	10.5
	March	17.5	11.5
Common	April	10.8	6.5
Tangerines	January	14.2	9.5
	February	15.3	10.0
Lemons	January to the end of May	10.2	7.0
Apples			
Golden Delicious (70 mm or more)	January	15.1	8.0
	February	16.4	9.0
	March	18.2	10.0
	April	22.3	11.2
	May	25.6	11.5
For Imperatore grade (Italy only) these prices are to be affected by a 1.75 coefficient.			
Pears			
Passe Crassane (70 mm or more); Conference (60 mm or more)	January to the end of March	17.7	9.2

tender its dissatisfaction with the decision to the Council, and the Council might modify or annul the Commission's decision by qualified majority.

At the December 22 meeting the Council also authorized France to diminish its fixed levy on milks destined for baby foods.

First Common Policies for Agriculture Products Now in Effect

The Common Agricultural Policy is becoming a reality. Since November 10 there has been a common price for olive oil throughout the Community.

The EEC Council of Ministers decided on an indicative market price of $80 per 100 kg. This price will afford Italian consumers price reductions.

A producers' target price of $115 per 100 kg. was set at the same time, ensuring growers higher returns than formerly. The differential will be covered by subsidies and other support measures estimated to cost $140 million per year. The Common Agricultural Fund will cover 70 per cent of the expenditures made in 1966/67 and all expenditures beginning from July 1, 1967.

The ruling set an intervention price of $73 per 100 kg; when olive oil prices fall below this level price support operations are indicated. For imports a threshold price of $79.80 per 100 kg was established below which imported olive oil is subject to an equalizing levy.

Since January 1 a common internal policy for fruits and vegetables has been in effect. The story on page 3 presents the details of this policy.

Quality Standards for Fruit and Vegetable Trade Set

With the EEC Council of Ministers' decision of December 14 the quality standards to be applied on trade of various fresh fruits and vegetables within the Community have been completed.

Previous regulations had set quality norms for the three highest quality grades; the regulation just effected defined the third, minimum quality level. The complete regulations apply to cauliflower, tomatoes, apples, pears, peaches, citrus, and table grapes. Member states will be empowered to restrict imports from third countries when the price or quality standards of these imports do not conform to the Community regulations.

The regulations outline standards for the different groups by appearance, sizing, allowable variation, packaging, presentation and marking. These regulations are eventually to apply to domestic marketing as well as intra-Community trade.

Packers working with the two highest grades, Extra and I, must surround contents with clean protective material. All packages must be uniform and include only produce of the same variety, quality and size. That part of the fruit or vegetable which is visible to the eye must correspond to the average composition of the container. Packages must be clearly marked on the outside as to the packer, contents, national origin, quality class and size.

Agricultural Fund Slated for Budget Increase

The major part of the Community's 1967 budget is to be paid into the Common Agricultural Fund.

The budget will make an overall increase of 283 million dollars to 650 million dollars; this increase is almost entirely attributable to the Agricultural Fund.

Earmarked for next year's Guarantee operations--price support on Community markets--are 537 million dollars. This is more than ten times the funds made available for Guarantee operations in 1963/64, for which reimbursements have just been allocated.

Farm Offers for Kennedy Round Virtually Complete

The EEC Commission's negotiating mandate for agricultural products in the GATT tariff negotiations is nearly complete.

Offers are prepared in all sectors, with the exception of fats and oils and a final offer for fish. Altogether the Six's farm proposals now cover imports valued at more than $3.5 billion. The negotiations are scheduled to resume this month.

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