

## Newsletter on the Common Agricultural Policy

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### The quest for the best solution

On 2 December, when the chairman's bell calls the responsible Ministers of the six member countries of EEC to begin their second agricultural marathon, which is to produce further decisions in the framework of the common agricultural policy and thus complete the common agricultural market, the draft regulations on milk and dairy products, beef and veal and rice will have priority over all the other decisions likely to be taken.

In order to make it easier for the layman to understand what the Council will be discussing at the end of this year and to indicate the chief points on which a solution must be sought, we will here attempt to sketch in advance the main lines of the coming negotiations.

### Proposal for a regulation concerning the institution of a system of levies and the progressive establishment of a common organization of the markets in dairy products

Of all three draft regulations the one on the establishment of a common market organization for dairy products doubtless presents the greatest difficulties. This is because the national dairy markets differ so much in structure that they can hardly be compared with each other. The importance attached to the goods produced also differs greatly between the various Member States. As an extreme example, butter in Italy is not valued particularly highly and the Italian dairy industry is almost exclusively geared to the manufacture of cheese. It is known that more than 300 types of cheese are made in France, while the Netherlands produce only a few, in up-to-date and fully rationalized factories.

A further fundamental difference must be mentioned. In France, Belgium/Luxembourg and Italy, we have a uniform milk market, whereas in the Federal Republic of Germany and the Netherlands the markets are "split", i.e. there are two in each country, one for liquid milk (consumption milk) and one for processing milk (for the production of butter, cheese and other dairy products).

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The EEC Commission's draft regulation tabled in the Council of Ministers provides for levies only on products from milk processing and not on liquid milk and like products, such as sterilized milk, cocoa drinks, yoghurt, skim milk and other liquid milk products. Lack of time seems to preclude any accompanying regulation for liquid milk being made immediately. Moreover, liquid milk has hardly any importance for economic policy since the markets are regional. The Council will nevertheless have no choice but to link milk for processing and liquid milk in the text of the regulation. This will be done by a special article to take into account the existing relationships.

Another close relationship must, however, be mentioned: edible fats are to a certain extent interchangeable in consumption. This is particularly the case with butter and margarine, where the connection is relatively close. Italy, which is a large producer of vegetable oils (olive oil), protects both its olive production and animal fats (butter). On the other hand Belgium, France, Luxembourg and the Netherlands, where the output of vegetable oils (rape, rape seeds) is small, limit protection almost exclusively to animal fats (butter) and make imported vegetable oils available to consumers at very low prices. The Netherlands, as a traditional surplus country, and to some extent Luxembourg, use public funds to keep down butter prices to the domestic consumer.

If this were to be considered a ground for raising the price of margarine sufficiently for butter to be marketed throughout the Community at prices consistent with a milk price which would give producers a fair return, margarine prices in Belgium, Germany, France, Luxembourg and the Netherlands would have to go up very sharply. Such a policy did not seem feasible to the EEC Commission, and from its standpoint it therefore refrained from any coupling of milk policy with policy for fats and oils and proposed that the interests of milk and olive producers in the Community be taken into account by special measures.

The Commission's proposals provide in particular for free import of vegetable oils at the customs rates of the common external tariff, which in the case of oil-seeds means duty free. In this way the margarine price in the Community could be formed at or around the present price. However, care will have to be taken in future that the position of milk producers, which is already difficult, is not made worse by any reduction of the margarine price to the lowest level in the Community.

The EEC Council of Ministers has already discussed this problem on various occasions. There is agreement that olive growers in Southern Italy and dairy farmers must be assured of an adequate income. Divergences of opinion between the Member States on how to attain this objective without burdening the consumption of vegetable oils have already been considerably narrowed in the negotiations, although there is not yet complete agreement.

Essentially the possibilities are as follows:

- (a) No link, as proposed by the Commission;
- (b) A financial link (a tax on vegetable oils which would help to finance the marketing of butter);
- (c) An economic link (fixing of the margarine price at a level enabling all butter to be sold at prices corresponding to ex-farm prices for milk).

In its coming discussions the Council of Ministers must opt for one of these alternatives.

If the two main prior conditions are cleared up in this way the Council will have to deal with the question of the products and groups of products to which market organizations will in future apply.

At the present stage of the discussions these are:

<u>Product</u>	<u>Customs heading</u>
Milk and cream, fresh, not concentrated or sweetened	04.01
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Milk and cream, preserved, concentrated or sweetened	04.02
Butter	04.03
Cheese and curds	04.04
Lactose and lactose syrup	17.02 A
Forage, sweetened or sugared and other prepared fodder, other preparations of a kind used in animal feeding (supplements, "condiments", etc.)	ex 23.07
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This, however, in no way finally settles the problem of the scope of the future milk market organization. Various wishes expressed by individual Member States for the inclusion of further products in the regulations must still be discussed and settled. Here, casein plays an important part; some Member States consider that it must be included in the regulation.

Discussion of this point in the Council will probably extend to how casein can be covered although it is not included as an agricultural product in the EEC Treaty.

Various fodders consisting of cereals with added milk products already fall under EEC Regulation No. 19 on cereals (Council Regulation No. ...). Arrangements still have to be made for mixed fodder based on milk without any cereal ingredient. Various products containing milk are not included among those which are considered agricultural products within the meaning of the EEC Treaty, and a Council decision of 4 April 1962 provides that Article 235 of the Treaty shall apply to them. In future Council debates the question of which regulation could best cover this or that product may well arise.

If we now turn to the technical details of the market organization for milk it should first be emphasized that in the preliminary discussions the Council already agreed in principle on one important concept, i.e. the concept of the target price for milk ex-farm. The Council adopted a definition according to which the target price should be a price which the market policy endeavours to guarantee to all producers for all the milk they bring to market annually. This means that the farm-gate target price of milk shall be made up of the proceeds of all products manufactured from the milk and sold on the market. In this connection it must be mentioned that proceeds from the liquid milk sector are naturally included when calculating the target price.

On numerous other technical points the experts have already seen eye to eye or narrowed their differences of opinion in the preliminary discussions. But as this happened outside the Council of Ministers, we will not go into details here. The Council is free to bring up all these points for further review.

To understand the market organization for milk it is, however, necessary at least to examine a few of the essential elements.

The draft regulation is divided into three sections:

- (a) The levy system
- (b) Target prices (producer prices)
- (c) Intervention to stabilize prices and keep the market in balance.

The first provision is that the levies for long-keeping dairy products, butter, cheese and curds, lactose and lactose syrup shall correspond to the difference between the free-at-frontier price of the exporting Member State and the threshold price of the importing Member State. In the case of imports from Member States the levy is reduced by a standard amount in the way that is familiar to us from the cereals regulation, for instance. This standard amount includes the Member States' preference vis-à-vis non-member countries.

The Management Committee, which is to be set up for the dairy industry as for other branches, can rule that the levy calculated for a given product shall at the same time be valid for other products mentioned on the list. Here we again have the system applied in

the market organization for cuts of pork, of reference products behind which are ranged the derived products. Organized in this way the market is easier to survey. We need only remember that there are 300 different sorts of cheese in France; it is unnecessary to fix a levy for each one of them. Nor does any free-at-frontier price or threshold price then need to be fixed for these derived products.

Imports from non-member countries of Emmenthaler, Gruyère (Swiss), Sbrintz and Cheddar cheese will occupy a special position under the probable levy arrangements. As customs tariffs for these types of cheese are bound in GATT (General Agreement on Tariffs and Trade), probably the Community will have to apply to them a somewhat different procedure, which will certainly be thoroughly discussed in the Council of Ministers.

As in the case of the levy regulations already known, it is intended that levies shall be abolished as between Member States from the beginning of the final phase of the Common Market (1970). In the transition period, as soon as the producer target prices for milk and the threshold prices for any milk product have been brought into harmony with each other in trade between two Member States - in other words as soon as the threshold prices for the product and the producer target prices correspond and have thus become uniform - the levy on this product need no longer be charged as between these States.

This will happen sooner in the case of one product and later in the case of another according to the existing differences.

Prices for imports from non-member countries will be calculated free-at-frontier of the importing EEC country on the basis of the most favourable offers in international trade.

For preserved milk and cream, butter, cheese and curds, lactose and lactose syrup it is planned to calculate reference prices on the basis of the arithmetical average of the prices at which manufacturers in the individual member countries have bought ex-wholesaler during the dairy-farming year 1962/63. For all products except butter the reference prices plus the standard amount give the threshold price.

As already mentioned the levy on imports from Member States will be reduced by the standard amount still to be fixed.

The standard amounts shall be so fixed as to promote the progressive and regular development of trade between the Member States until the establishment of the single market, having regard to supplies on the markets of Member States of dairy products either home-produced or imported from other Member States. Where the producers in the exporting Member State receive direct payments from public funds to compensate for the difference between prices obtained on the market and the target price for milk ex-farm, that part of the levies corresponding to such payments may be refunded to the exporting Member State.

It is proposed to make all imports of preserved milk and cream, butter, cheese and curds, lactose and lactose syrup and fodder subject to a licence issued by the Member State.

As in all the other regulations already in force (cereals, pigmeat, eggs and poultry) the right of a Member State which imposes levies in trade with another Member State to make refunds on exports to that Member State has been borne in mind. However, for exports both to Member and non-member States the levy system in the organization of the milk market is based on a somewhat different system from that which is familiar from the previous regulations.

The safeguard clause also was not forgotten. If, following the measures for the gradual establishment of a common market organization for dairy products, the market in one or more Member States is threatened with serious disturbances as a result of imports, the Member State or States in question can during the transition period take the necessary protective measures with respect to imports of these products.

Butter will occupy a central place in the future regulation. This is the only product for which an obligatory intervention price is planned in addition to the reference price and the threshold price. While for the other dairy products the reference price plus the standard amount will equal the threshold price, a further supplementary amount is to be added to the threshold price for butter and the intervention price fixed at a level below the reference price. As the discussions stand at present the intention is to fix an intervention price only for first quality butter, but this does not exclude the possibility of stocking butter of less high quality at prices below the intervention price. However, this does not mean that in the negotiations at the end of the year some Member States may not ask in one way or another for more thoroughgoing market intervention in respect of other products.

During the first year of operation of the common market organization for milk, Member States must, of course, be allowed some latitude as regards their target price. For that year a price bracket is therefore proposed, within which the Member States can fix their target price ex-farm as they think fit.

A uniform target price for milk is the essential prerequisite for unifying the EEC milk market as a whole. The EEC Commission therefore considers that the Council should fix a common target price for milk ex-farm, unanimously during that part of the second stage of the EEC Treaty still to run, and thereafter by qualified majority.

From the second dairy-farming year onwards the common target prices will in each case serve as a basis for standardizing the target prices for milk ex-farm and the threshold prices for dairy products in the individual States in the following year.

The differences between the target prices of milk ex-farm laid down by the Member States are to be gradually reduced during the transition period so as to attain a uniform target price by the end of that period.

In the case of butter the intervention prices for the fresh product in the individual States must be so approximated that they too are standardized at the latest by the end of the transition period at such a level that the average prices for all milk sold correspond to the common target price for milk ex-farm.

The threshold prices of the other products mentioned except butter are aligned and also standardized at a level to be calculated on the basis of the common target price for milk.

In connection with the approximation of target, threshold and intervention prices it is of vital importance to abolish aids. If the levy arrangements are to function, the EEC Treaty provisions under which aids can be reviewed and action taken against those which are incompatible with the Common Market must be extended to all aids which distort these arrangements. Since the Member States have spent considerable sums from public funds on the milk sector in past years - about 400 million units of account (dollars) in 1961 - it is also essential that certain aids should continue for the time being in order to ensure that a balance between supply and demand in dairy products is gradually attained on the basis of the target price for milk ex-farm.

Summing up, it can therefore be said that the coming organization of the milk market in EEC will be a very flexible and mobile instrument which must be capable, first, of adapting itself to the present considerable differences in the market structures of the Member States, and, subsequently, of unifying these structures and transforming them into a uniform market for dairy products.

The market prices obtained in the past provide the basis for drawing up the definitive regulation and particularly for calculating the reference prices.

The Community's internal frontiers are to be protected by threshold prices. If these are not reached imports decline or cease completely, and if they are exceeded imports from one member country to another nevertheless take place. Butter occupies a central steering position, since the level at which the intervention price of this product is fixed will be a yardstick in determining output of the remaining products.

The ultimate aim of this regulation is, in the course of the transition period, to adjust and align threshold prices for milk products and intervention prices for butter on the uniform target price for milk. This will occur in the process of alignment of the target price for milk itself and in relation with the alignment of the threshold and intervention prices for milk products. In this way it

is hoped in the final stage to reach prices which shall be as realistic as possible for those products whose market prices correspond to the common target price for milk.

In the final phase prices would then be uniform for dairy farmers and in markets for dairy products throughout the Community, some approximation of the still extremely varied market and consumer structures would take place, and common financial responsibility would exist.

By the final phase intra-Community levies and refunds would also completely disappear.

When the final stage is reached the internal Community price will be maintained through the level of the threshold prices at the external frontiers and an import system based on levies vis-à-vis non-member countries.

As was the case with some other market organizations, a very difficult task awaits the Council of Ministers in the impending final round of the negotiations on the market organization for milk: this is to fix the timing for the approximation of prices.

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