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COMMON MARKET FARM REPORT

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

A Common Market for Milk and for Beef and Veal

A single price system for milk and milk products and for beef and veal came into effect on July 29. These livestock products account for one-third of the Community's total farm output, and stockbreeding is the main source of farm income in all member countries but Italy.

The common milk policy and beef and veal policy revolve around three elements: the price system, intervention measures, and trade arrangements (including import levies and export refunds). With the new common market organizations, the products that can be traded freely throughout the Community now account for over 85 per cent of agricultural output.

Much of what is contained in the new regulations is based on regulations that had previously been in force for three and a half years. However, the introduction of common prices dictated substantial changes in trade arrangements as well as the measures governing prices.

First Market Measures in 1964

The first Community-wide measures for these products were made in November 1964. The main lines of policy, common prices in particular, were established in July 1966 (see Farm Report No. 27) and were scheduled to come into effect on April 1, 1968. However, because of the crisis in the milk market of ever-increasing surpluses, this date was postponed for four months; and the situation will still have to be re-examined in the fall by the European Communities Commission and Council of Ministers when prices are set for the 1969/1970 marketing year.

Major Changes from Regulations in Force

The major simplification in the milk and beef provisions that were in force up to July 29 is the elimination of levies and customs duties in intra-Community trade. The new changes also provide that the levy on imports from non-member countries is to be uniform through the Community and fixed each week by the Commission. Special arrangements have been made for butter and skim milk powder until April 1969. Payments will be made at the frontier even in intra-Community trade; the same system will apply for refunds, which are to be fixed every two weeks by the Commission. (The Community is entitled, though not obliged, to fix a refund.)

The agreement on cattle for the food processing industry concluded with Denmark during the Kennedy Round will come into force at the same time as the common prices.

The new regulations do contain two special clauses: a safeguard clause (with implementation initiated by the Commission) to prevent producer prices collapsing as a result of cheap imports from non-member countries; and, a clause spelling out measures to be adopted by the Council of Ministers when, conversely, the Community's market is disturbed because import prices are too high.

MILK AND MILK PRODUCTS

Following is a summary of other major changes made by the new regulations governing the milk market in the provisions previously in force:

- Intervention arrangements will be administered at Community level. Provision is made for support buying, not only in the case of butter but also for skim milk powder (partly to encourage its use in animal feed and casein) and certain Italian cheeses of the Parmesan type (Grana-Padano and Parmigiano-

Reggiano, so that in Italy, where cheese rather than butter is the most common processed product, producers will be given guarantees similar to those given to butter producers in the other countries). There is also provision for intervention measures, particularly storage subsidies, for durable cheeses.

● The definition of the target price has been altered. It is now the price for milk that is to be guaranteed in respect of all sales by producers during the milk year whether sold on internal or external markets. To simplify the price-fixing procedure, all milk products have been placed in groups and for each group a "pilot" product has been chosen for which a threshold price is set -- the price at which imports are allowed to enter the Community.

● Aid arrangements, generally, will be uniform throughout the Community. Specific aid will be granted to skim milk and skim milk powder produced in the Community and used for feed, and for skim milk made into casein. Aids determined by the price or quality of the product will be prohibited, as will measures allowing for the equalization of the prices of milk products (in Germany and the Netherlands, for instance). Finally, the general clauses on state aids in the Common Market Treaty (guarding against distortion of competition) will apply to production of and trade in milk products.

The member states, however, will be able to grant aids for milk sold to schools. Germany may grant degressive aids for consumption of butter and for certain durable cheeses until the end of 1970; Luxembourg is authorized to grant aid to its dairymen until April 1974. (For decisions on the financing of the milk market, see Farm Report No. 36.)

What Remains To Be Done

The free movement of goods is a gradual process, and even after July 29, the milk market will still not have all the features of a domestic market.

● Liquid milk is still subject to national import arrangements, and the status quo will generally be maintained by the member states. The common external tariff will be applied to imports from non-member countries until the end of 1970. Community arrangements for supplementary measures (quality and sanitary standards) will be adopted by April 1, 1969, and applied not later than January 1, 1970.

● Trading licenses remain to be removed. For one year at most, import and export licenses will be valid only in the member country where they were issued, although application for these licenses may be by anyone regardless of his place of business in the Community.

● The Council of Ministers is to adopt supplementary measures to make easier the marketing of butyric fat surpluses.

● A Community inspection seal for butter is to be adopted before the end of the year.

● Transition measures may still be applied until July 28, 1969, for instance the quality premium in Belgium.

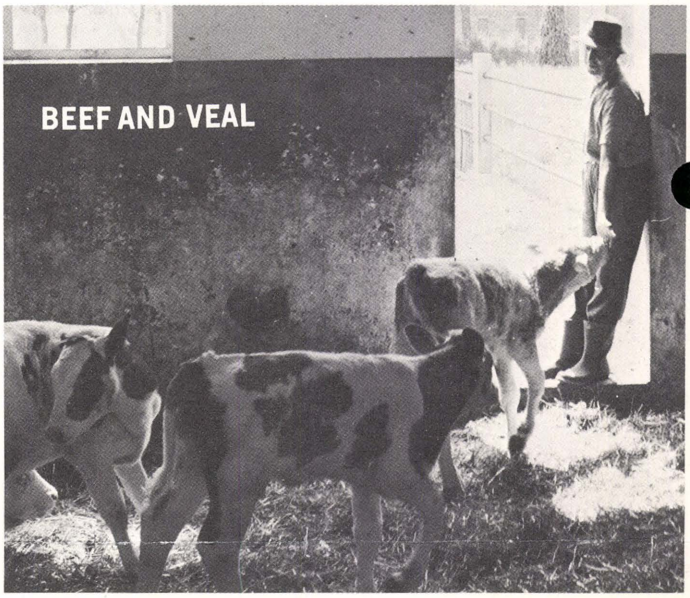
Intervention Prices To Remain Divergent

Although a common intervention price for butter ($173.50 per 100 kg.) has been fixed by the Council, the gross buying in prices paid by intervention agencies in the member countries will nevertheless differ because of divergent tax systems and rates and the correcting amounts.

The Community's Butter Prices
(in dollars per kg)

	Ger.	Belg.	France	Italy	Lux.	Neth.
Intervention price for butter	173.50	173.50	173.50	173.50	173.50	173.50
Correcting amount	-6.00	+2.75	+2.75	-	+2.75	-
Net buying-in price	167.50	176.25	176.25	173.50	176.25	173.50
Turnover tax	+9.21	+0.12	+10.99	+4.05	-	-
Gross buying-in price of intervention agencies	176.71	176.37	187.24	177.55	176.25	173.50

In intra-Community trade, as in trade with non-member countries, the treatment of correcting amounts and turnover taxes will vary from country to country. Sometimes the amounts will be refunded when products are exported (in the case of Germany and France, the turnover tax; in France, Belgium and Luxembourg, the correcting amount); sometimes they will be levied on exports (the correcting amount in Germany). For imports, all amounts (turnover tax and correcting amount) will be levied, except in Germany, where the latter will be refunded.



The most important changes from existing regulations for beef and veal are as follows:

● Intervention measures in force up to now were optional and administered by the member countries, France and Germany being the only ones to take steps of this kind on their own markets. Discretionary intervention measures now may be adopted for grown cattle and beef wherever the price of grown animals on representative Community markets falls below 98 per cent of the guide price -- the average price which is considered desirable for farmers to receive for all their output in a normal year. If the price of grown cattle falls below 93 per cent of the guide price, intervention is compulsory throughout the Community. Intervention may be in the form of aid to private stocks or buying-in by the intervention agencies.

● Protection against imports from non-member countries will still be provided by a combination of customs duties (the CET from July 29) and levies. The rate of the levy has been changed, now being:

- 75 per cent of the difference between the guide price and the import price, but no more than 102 per cent of the guide price

- 50 per cent of the difference between guide and import prices if the price is between 102 and 104 per cent of the guide price

- 25 per cent of the difference between guide and import prices if the price is between 104 and 106 per cent of the guide price

- Nil if the price is above 106 per cent of the guide price.

● The levy on frozen meat will be distinct from those on live animals and be applied on a permanent basis. For the major forms of frozen meat, the levy will equal the difference between: (1) the guide price of frozen meat calculated by applying a coefficient (representing the relation between the price of fresh meat of a quality comparable with frozen meat put up in the same way) to the average price of live cattle, and (2) the world market price plus customs duties and a standard amount to cover import costs.

In the case of frozen meat for processing, there will be special import arrangements totally or partially suspending the levy.

What Remains To Be Done?

● Both agricultural and industrial taxes still have to be harmonized, and customs and health regulations brought into line. Harmonization in the veterinary field, in particular, must be completed if the market in beef and veal is to have all the features of a domestic market.

● Import licenses will remain valid until August 1, 1969, but only in the member countries where they were issued.

● Transitional measures may be adopted for one year to ease the changeover to the new arrangements. This fall, for instance, Germany will once again be allowed to import 16,000 head of cattle from Denmark.

Beef and Veal

(dollars per 100 kg live weight)

	Grown Animals	Calves
Guide price	68	91.50
Below 98%	-	-
Intervention price (93%)	-	-

Trade in 1967

(in millions of dollars)

	Milk	Beef and Veal
Intra-Community	357.0	273.6
Community imports	134.2	509.3
Community exports	379.1	25.1

The Community's Major Suppliers in 1966

(in thousands of metric tons)

	Beef and Veal*	Cheese
Argentina	124.4	41.9
Denmark	53.8	
Yugoslavia	40.8	
Switzerland		29.6
Uruguay	21.6	
Sweden	15.5	
Brazil	14.0	
Australia	12.4	
Rumania	11.8	
Hungary	11.8	
Poland	10.9	
Austria		10.5

* Fresh, chilled or frozen, other than offals.

The Community's Self-Sufficiency

(in per cent)	1964/65	1965/66
Beef and veal (deadweight excl. fat)		84
Liquid milk		100
Condensed milk	152	
Cheese	98	
Butter	102	

The Community's Major Customers in 1966

(in thousands of metric tons)

	Butter	Cheese	Concentrated Milk	Solid Skim Milk	Fresh Milk and Cream
United Kingdom	25.1	23.0			
Chile	9.6			11.4*	
Switzerland		11.9		9.9	15.7
United States		19.4			7.0
Spain				15.0	9.6
Algeria			21.1		44.8
Mexico				19.0	
Cuba				15.1	
Japan				18.4	
Greece			33.9		
Nigeria			19.6		
Peru			10.4		
Thailand			40.6		
Hong Kong			20.2		
Philippines			16.0		
Burma			13.5		
Malaysia			11.3		

* plus 7.1 solid whole milk

Financing

Provisional Amounts Used for Calculation

(in thousands of dollars for 1967/68)

	Refunds		Intervention	Levies
	Milk	Beef and Veal	Milk	Milk
Belgium	12,365	40	1,149	511
Germany	7,767	186	19,763	5,424
France	29,277	1,747	3,393	877
Italy	-	-	-	3,148
Luxembourg	155	-	-	16
Netherlands	52,302	65	1,032	163
Community	101,866	2,038	25,338	10,141

For 1968/69 much bigger amounts are provided for total costs of $800 million, including $250 million for marketing butter surpluses ($170 million of this for countries holding stocks), and over $220 million for the new aid to skim milk used for feed. Provision is made for an Agricultural Fund contribution of $630 million, $87.5 million for a contribution for vegetable fats, and $85 million for levies.

Crisis in the Dairy Market

The Community milk market has been facing a serious problem of overproduction and a surplus of butter stocks.

Dairy cow population has changed very little between 1960 and 1966; but during the same period, milk production and deliveries to dairies rose considerably. The number of cows in the Community increased from 21.3 million in 1960 to 22.1 million in 1967; milk production rose from 63 million tons to 72.5 million tons in the same period. Even more pronounced was the increase in deliveries to dairies, which jumped from 41.2 million tons to 53.5 million tons.

The increase in milk production was mainly due to better yields -- the Community average per cow rose from 2,950 kg. per year to 3,295 kg. per year. Progress in animal breeding techniques and the growing use of concentrated feeds have been mainly responsible.

While production increases were notable, deliveries to dairies were more remarkable. The last ten years has seen a reduction in farm consumption, less milk processed on the farm, and above all, a considerable drop in the amount of whole milk fed to calves. (There has been a growing use of skim milk powder and vegetable fats in the manufacture of compound animal feeds.)

The Community, virtually self-sufficient by the end of 1964, became a net exporter of both fat and non-fat milk products from 1965 onwards.

The Butter Problem

Difficulties in the milk sector arise particularly in connection with butter. Because of its special characteristics, support measures have been introduced for this product: it can be easily stored and it is one way of using milk fats. After 1965, butter stocks carried forward each year grew steadily as consumption remained stationary and production increased. That consumption did not drop drastically, increasing stocks further, was largely due to the fact that butter was sold at reduced prices.

To meet this growing problem, the member states began to concentrate all their efforts on exporting butter as well as improving the disposal of supplies on the home market. This, however, did not prevent the considerable increase in stocks, which reached nearly 150,000 tons by April 1, 1968, compared to the 57,100 tons brought forward from the 1963/64 marketing year.

Skim Milk

While there was also a sharp increase in the production of skim milk powder, this has not caused any serious disturbance in the market because of the replacement of whole milk by other feeds for calves containing skim milk and an increase in exports to non-member countries.

Outlook

The Community faces a bleak outlook in the face of this worsening situation. Production of milk and butter is likely to increase without commensurate outlets opening up to reduce the glut. Any future price increases would mean even lower consumption and commensurately higher export refunds to market the surplus abroad. However, even competition abroad is growing, particularly from Eastern Europe, which has been charging exceptionally low prices in order to break into the market.

The butter market is slightly different but also faces sharp competition from other competing fats, particularly margarine. Paradoxically, the price of storing surplus butter after a few years equals the value of the product itself, adding to the cost of disposing of the surplus.

The Commission, on the whole, has sought to discourage production by keeping prices as low as possible and by not increasing aids. It has urged structural changes, rather than pricing measures, to shift production out of the milk sector.

european community

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