The Common Agricultural Policy

July 1974

Glossary of Common Agricultural Policy Terms

The Common Market's framework of official prices is fixed each year by the Council of Ministers on a proposal by the Commission for all the main agricultural products except mutton and lamb, potatoes and wool:

Basic price (prix de base): This applies to pigmeat and to fruit and vegetables. Once average market prices fall below the basic price, action may be taken to support the market by buying in surplus output.

Compensatory amount: This is the amount used to take account of a fundamental difference in prices in intra-Community trade. It will apply at diminishing rates to much trade in farm products between the three new member countries and between old and new members. When a sales transaction is from a high-price to low-price member country, a restitution payment is made; for trade in the other direction, a levy is charged. The country with the higher level of prices administers the system. Similar arrangements are used to take account of currency fluctuations, with 'monetary' compensatory amounts.

Customs duties: These are not connected with the levies. As far as agricultural imports are concerned, they are applied at fixed rates on certain products imported from non-EEC countries—16 per cent on live cattle, 20 per cent on beef and veal, 15 per cent on live sheep and 20 per cent on mutton and lamb. Various rates apply to fruit and vegetables. Duties may be reduced or suspended by the Council of Ministers.

Denaturing (dénaturation): To encourage the use of wheat as animal feed, a denaturing premium can be granted to authorised users which makes wheat competitive with less expensive coarse grains. Sugar can also be denatured so that it must be used for animal feed.

Export refunds (restitution): To enable a Community exporter to sell on world markets, a refund or restitution payment can be made to bridge the gap between high Community price levels and lower world prices.

Guide price (prix d'orientation): This applies to beef and veal and is designed to act both as a target price and as a trigger for import control and support buying. There is a single rate throughout the Community.

Intervention price (prix d'intervention): This is the price at which national intervention agencies are obliged to buy up commodities which are offered to them. It is set at a given level—for cereals about 8 per cent below the target prices. From the basic intervention price derived intervention prices for areas are set throughout the Community to allow for differences in supply and demand. For pigmeat the intervention price is set at 85-92 per cent of the basic price. It includes transport costs and is thus a wholesale rather than an on-farm price.

Levy (prélevement): For cereals, the levies on non-Community imports are fixed each day according to the cheapest offers at Rotterdam. For animal products such as pigmeat, the levies are fixed quarterly and contain two elements, one allowing for the difference in cereal cost between world and Community production costs and another giving extra preference for Common Market producers. Levies may also be imposed to discourage exports when world prices are high.

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The Common Agricultural Policy

(revised July 1974)

1 Aims and means

Population levels and density of population

	Area sq km	Population mn.	Density per sq km
Germany	248 500	61.28	247
France	547 000	51.25	94
Italy	30 200	53.90	179
Netherlands	40 800	13.19	323
Belgium	30 500	9.67	317
Luxembourg	2 600	0.34	132
United Kingdom	244 000	55.67	228
Ireland	70 300	2.98	42
Denmark	43 100	4.96	115
Nine	**1 528 000**	**253.25**	**166**
USA	9 363 400	207.00	22
USSR	22 402	245.01	11
Japan	369 900	104.61	283

The measure of achievement

The common agricultural policy (CAP) has been described as the engine of the Common Market, and despite the problems which have arisen during its introduction and implementation, it has been a forceful instrument of European integration.

But the c.a.p. has more than purely political value. In a world of uncertain food supplies it is providing the Community consumer with security of supply at stable prices. By guarding against violent fluctuations in farm-gate prices, the policy gives to relatively efficient farmers throughout the EEC the confidence to provide the food needed and a market of 250 million consumers in which to sell it.

Like all agricultural policies, the c.a.p. has to reconcile certain conflicts of interest. When support measures are needed, they have to be paid for, imposing costs on tax-payers or consumers; the Community's relations with the rest of the world have to be taken into account in developing the policy; and the short-term interests of consumers and producers do not always coincide. But since its introduction in the late 1960s the policy has been continuously modified and adapted to meet changing situations. This process continues.

Tackling the social and economic problems arising from adaptation of Western European agriculture to modern needs and conditions is also an important task of the policy. Measures now apply to help with such development on a Community scale.

Why a common policy was needed

The number of people involved in agriculture in the Common Market has dropped by about five per cent a year since the late 1950s—in 1958 there were 17½ million people in farming—but even now nine million people in the enlarged Community make their living directly from the land, accounting for 9.4 per cent of total employment in the Community countries. This compares with about 700,000 in the U.K., making up three per cent of the working population.

Percentage of working population in agriculture (1972)

Germany	7.5	Luxembourg	9.8
France	12.6	United Kingdom	3.3
Italy	17.5	Ireland	24.1
Netherlands	6.8	Denmark	9.7
Belgium	4.1		

In 1960 the Community figure was 20 per cent and in the early 1950s, when the Common Market was conceived, it was nearer 25 per cent. So in any design for unifying the economies of Western Europe, agriculture must inevitably have a central role. In both Ireland and Denmark agriculture plays a similarly important role in national life. A quarter of Ireland's active population works in agriculture.

Farming now accounts for just over five per cent of gross national product in the EEC as a whole and seven per cent of Community exports to third countries. It provides one-fifth of France's total exports, 26 per cent of the Netherlands' exports and nearly 10 per cent of Italy's. For Denmark and Ireland about a third of national exports are foodstuffs. It is thus a central factor in Community life and commerce; for Britain it accounts for just three per cent of g.n.p.

Farming in the general economy

Agriculture as percentage of Gross Domestic Product at current prices 1972

	%		%
Germany	3.4	Luxembourg	4.4
France	6.7	United Kingdom	2.8
Italy	9.2	Ireland	18.3
Netherlands	5.7	Denmark	7.7
Belgium	4.3		

A basic aim of the Common Market was to allow free trade between all member countries, establishing a single market in which all goods and resources could move freely. Since foodstuffs, both in their natural form and as processed products, made up a significant proportion of all cross-frontier trade, it was vital that such agricultural goods could be freely traded.

But this was not just a matter of abandoning tariffs. For strategic, social and economic considerations—and the vagaries of climate which make farming so unpredictable—virtually all governments exercise special and often highly complex policies towards agriculture; the governments of the Six were no exception.

Before the formation of the EEC all six governments helped their farmers in different ways, employed different policies towards imports and applied different methods and levels of protection—often against each other. Suddenly to abandon these complex national policies in favour of simple agricultural free trade was neither socially nor politically acceptable, for it would have violently upset the farming sector. It was clear that any development towards a common trading policy for farm products must be accompanied by a common approach to farm policy as a whole.

The importance of agricultural products in international trade was another compelling reason for a common policy. As potentially one of the world's biggest food importers, it was vital to the Community that the stability of agriculture at home should be protected without disrupting world trade. The Community also needed to speak with one voice in international negotiations.

Thus the Community's common agricultural policy was developed, with the aims of allowing free competition between farmers in member countries, eliminating as far as possible unequal treatment in different areas and providing help on a Community scale for the modernization of European agriculture.

As a result, the benefits from economic unification accruing to the industrial sector could be shared by the farming community. The financial burdens of the common arrangements were to be borne by the Community as a whole.

As well as providing for market management by fixing official prices for home production and imports, the common policy was designed to help with the modernization of agriculture in Europe, extending to a Community scale the work which national governments were already doing to increase the average size of farms and take uneconomic holdings out of production. Even now 60 per cent of holdings in the Community are smaller than 25 acres and agricultural income lags behind that in other sectors. Farming must adapt to rapid change; the common policy helps in that direction.

The basic principles on which common farm policy was to be built were set out in the Rome Treaty, signed by the six founding member countries in 1957. These were to increase agricultural productivity, to ensure a fair standard of living for those working on the land, to stabilize markets and to ensure reasonable prices to consumers.

But the Treaty did no more than lay down the framework within which the common policy was to develop and set deadlines for the implementation of this policy during the Community's transition period. The detailed business of formulating the necessary regulations and policies was a matter for prolonged negotiation between the member countries and the institutions of the Community.

Developing a price policy

If trade in agricultural products was to flow freely between member countries, the first priority must be to bring together the various official support prices at a common level. The key sector was cereals, the basic raw material of most livestock production. Trade in livestock products could not be freed of restrictions while such a dominant element of production costs varied between member countries.

In 1962 the Council of Ministers decided upon a programme for aligning national cereal prices at a common level by the end of 1969, fixing upper and lower limits for Community prices and narrowing each year this band of national prices.

This scheme meant an annual reduction in price for German, Italian and Luxembourg producers. It was modified in 1964, when the Council of Ministers accepted a Commission proposal that uniform price levels should be introduced on July 1, 1967, accompanied by abolition of levies between member countries on grains, pigmeat, eggs and poultry. The drop in prices sustained by cereal producers in some countries was to be eased by compensation from Community funds. These amounted to just over $200m. in 1967/8, $140m. in 1968/9 and $70m. in 1969/70.

At the beginning of July 1967 the common price levels for cereals were introduced, allowing grains and livestock products to flow across national frontiers unimpeded by levies or duties.

In March 1966 the then EEC Commission proposed regulations and common price levels for milk and milk products, beef and veal, rice, sugar, oilseeds and olive oil. These were introduced two years later.

Fixing price levels for these farm products was not easy. There was a wide divergence in prices between different member countries, and the Community had to fix common levels taking into account the interests of consumers and producers, maintaining production without encouraging overproduction and considering the implications of policy for international trade.

High costs of cereal production, especially in Germany and Italy, led to the introduction of cereal prices which were near the upper end of the range of national prices, but for most other products official prices were fixed at levels similar to those in the Western European countries which were not members of the Community, although the common prices for milk and beef, for instance, represented an increase for French and Dutch farmers.

Fully 96 per cent of the Community's agricultural production, including all the main commodities except lamb, wool and potatoes, is now subject to the common price mechanism, involving not just official prices but the full machinery for operating the price policy, tailor-made to fit the needs and special characteristics of individual products.

The pricing framework

The official prices of the common agricultural policy are fixed in units of account, linked to gold and—until the currency realignments of later summer 1971—bearing the same value as the United States dollar. This has presented problems to the Community, for prices in each member country are translated into the national currency and when the value of this currency moves up or down, the official farm prices change accordingly. The national currencies of the Community member countries have moved in relation to one another, making it more difficult to organize common pricing.

The short-term effect of this has been to upset the fundamental principle of free trade in farm products between the members, the temporary solution being the introduction of compensatory levies or rebates on intra-Community agricultural trade. These payments level out the inequalities of price when parities change more than a certain amount.

Official prices are fixed annually by the Community's Council of Ministers on a proposal of the Commission and form the basis of the market support mechanism. This maintains market prices to farmers in two main ways: a variable levy system at the Community frontier ensures that imported food from world markets does not undercut internal market prices; and intervention arrangements exist to tackle the situation when overproduction at home threatens to depress prices.

The effect of the variable levies is to bridge the gap between Community prices and world prices, which have tended to be lower because of the Community's high grain prices. For cereals the levy is calculated daily, taking account of any changes in world market trends. Imported supplies are then subject to the levy, bringing their price up to the desired level. With livestock products the lower costs of production in non-member countries are taken account of in levies, while for beef and veal the state of the home market is the main criterion for imposing a levy on imports.

In the past the higher level of official Community prices made it difficult for Community food exporters to sell their products on world markets. For most products therefore export subsidies or restitutions are payable when there is an abundance of home supplies of any commodity. The restitutions bridge the gap.

But world commodity markets have recently been at much higher levels than the official EEC prices and in these circumstances export levies are applied to contain domestic prices.

Intervention arrangements vary from commodity to commodity. For products such as cereals, which can be bought in and stored indefinitely, intervention is mandatory once the wholesale price of the product concerned falls below the official intervention price. The same applied to beef in the 1973–4 season. For pigmeat there is an area of discretionary intervention; for horticultural products intervention is an even more flexible instrument.

The official price structure does not actually fix market prices. These vary from country to country and between regions, according to local supply and demand, quality standards, and so on. The pricing policy is designed to steer market prices towards what the Community decides is desirable in the interests of producer and consumer.

Towards a modern farming economy

It was recognized in the early years of the common agricultural policy that the Community as a whole should be directly involved in modernizing agriculture in the Six, both by increasing the size and efficiency of existing farms and by easing the severe social problems felt by those whose holdings were too small to support them. Community funds were set aside for this purpose, but in practice member governments tended to pursue their own policies on rural reform and improvement of farm efficiency. Some governments did more than others.

In 1968 the document entitled 'Agriculture 1980'—usually known as the Mansholt Plan after the late President of the Commission Sicco Mansholt, who then had responsibility for agriculture—was produced. It forcibly stated the need for stronger Community action which would ease some of the heavy social pressures in rural regions, would improve the efficiency of Community farming and would bring supply and demand closer together for farm products. Average farm size, at less than 30 acres for the Community as a whole was too low to provide an adequate income and increasing only slowly, only about 170,000 of the 5,000,000 holdings in the Six were more than 125 acres in area and two-thirds of the farms were smaller than 25 acres. The report emphasized these structural weaknesses, pointing out that three-quarters of the total farms justified only three-quarters of a man's work.

The picture has changed over the years. With an annual average rate of decline in the farming population of 4–6 per cent, the number of full-time holdings has dropped below 4,000,000 in the nine member countries, but farm structure is still a major problem.

Population working in agriculture ('000)

	1969	1972		1969	1972
Germany	2 395	1 953	Luxembourg	16	14
France	3 011	2 678	United Kingdom	734	741
Italy	3 951	3 298	Ireland	298	267
Netherlands	339	316	Denmark	276	230
Belgium	191	158	**Nine**	**11 211**	**9 655**

The age of the farming population in the Community also presents problems, for half those running farms were (in 1968) 57 or older, and few of them had adequate training. In many areas young people have, for some years, been reluctant to enter farming.

After the publication of 'Agriculture 1980', there was widespread discussion throughout the Community of the proposed reform measures and of the social and economic problems which they were designed to alleviate. Then in the spring of 1970 the European Commission drafted a set of directives and a draft regulation designed to harmonize national legislation in these fields. These proposals were discussed and modified within the Council of Ministers and other Community institutions.

The modernization directives were formally adopted by the Council of Ministers on March 24, 1972 and will be applied in all member states from 1974. They deal with:

Modernization of agricultural holdings.

Help for older farmers to give up farming and offer their land for improving viability of other farms or other specific purposes.

Provision of information services to give advice on alternative jobs for people wishing to leave farming and to offer technical training facilities.

Member states are free to vary between regions the rate of financial incentives for these measures. In some regions they may decide not to apply the measures at all, or only in part.

Modernization aid—Under this directive, member states are committed to introducing a selective development programme for farmers to modernize. This measure is designed particularly for farmers with a relatively low income who could achieve through a six-year development plan a working income comparable with non-farming incomes in the region. Holdings which are currently profitable but which are in danger of slipping behind in the next few years may also benefit.

Farmers wishing to take advantage of the programme must meet certain criteria:

Farming must be their principle occupation.

They must have adequate professional ability.

They must agree to keep accounts from the start of the development plan.

They must work out a development plan and have this approved by the competent authorities in their own country.

Under this directive the developing farmer has prior call on land released under the second directive (see below) and can receive aid in the form of interest rebate for the investment necessary under the development plan, not including expenses incurred in purchase of land, of pigs or of poultry. A capital grant may be given instead of an interest rebate. Where there is insufficient collateral, he can also benefit from an official guarantee on the loan and interest.

Special terms are provided to encourage beef production, as well as incentives for keeping farm accounts, for machinery syndicates and production groups and for certain irrigation and land consolidation schemes.

Other national aid is restricted except on a temporary or regional basis.

For all the approved measures Community aid from the Farm Fund will be given at the rate of 25 per cent, the balance being payable by the member.

In the UK the directive is implemented through the Farm and Horticulture Development Scheme, in Ireland as the Farm Modernization Scheme.

Help for giving up farming—This directive provides for an annual payment to farmers aged between 55 and 65 who give up farming. The payment, which may be up to 900 units of account annually for a married man or 600 u.a. for a single person, may be paid as a lump sum and can be varied according to the age or the income of the beneficiary. A contribution from the Farm Fund is payable for applicants between 60 and 65, including both farmers and employees on farms. In those member states which have an agricultural population comprising more than 15 per cent of the working population, applicants between 55 and 65 are eligible. A national premium related to the size of the holding may also be paid.

The land released when an applicant opts for the retirement premium must be rented out for at least 12 years or sold to another farmer who is developing his holding or withdrawn from agricultural use, whether for forestry, for relaxation or leisure, or for public utilities. The land may also be made over for at least 12 years to special agencies set up by member states for the purposes set out above.

The Farm Fund would normally reimburse 25 per cent of the state's contribution to the scheme (known in the UK as the Farm Amalgamation Scheme). This will rise to 65 per cent in those areas where the percentage of the working population employed in farming is above the Community average and where the gross domestic product per person is below the Community average, this applying to Ireland and most of Italy.

Provision of information services and training facilities—This directive allows for the creation and development of information services with the job of giving the agricultural population general information on possibilities for improving its social and economic situation, of helping individuals to adapt themselves to new situations and of giving information and advice.

Education and vocational training of advisers for tackling related social and economic problems is foreseen in the directive and member states are to set up a programme encouraging farmers and their employees to gain new or more advanced professional qualifications in agriculture.

The Social Fund of the Community is to take over some responsibility for financing these measures. Member states are to introduce a regime of special aids guaranteeing an income to people while they undergo training.

Farming in difficult areas—A scheme has been agreed by the Council to provide special subsidies for farmers in hill and mountain regions and other difficult areas, compensating for the natural disadvantages under which they work and giving preferential terms under the farm modernization scheme.

Forestry—Proposals are being considered by the Council for Community policy to encourage afforestation.

Producer grouping—As well as the three directives outlined above, the Council of Ministers is committed to introducing measures designed to help the development of producer organizations (groupements de producteurs) and marketing.

2 How the policy works

The Institutions

There are four main institutions of the Community: the Council of Ministers; the European Commission; the Parliament; and the Court of Justice.

The Council of Ministers (meeting in Brussels and Luxembourg): Each member government has a seat on the Council, and is free to send which member of government it chooses to meetings of the Council. The Rome Treaty allows for majority voting on the Council on most issues, but in practice unanimity has been the rule; it is now accepted that no decision could be taken by a majority vote which one member government regarded as contrary to its own vital interests.

The need for a unanimous vote on all major issues can delay decision-making, but is usually resolved by the 'package-deal' decision, in which each country's interests are balanced against the interests of its partners.

The European Commission (Brussels): This has a twofold role. One is to draw up proposals for Community policy, a political role which the Commission fulfils in its capacity as guardian of the Treaties setting up the European Community. Its second function is to act as executive and secretariat, the civil service of the Community.

The Commission has 13 members, appointed for four years, each specializing in particular spheres of work. Although they are drawn from member countries, they are all committed to acting independently of national governments and of the Council, taking joint responsibility for all their decisions. Only the European Parliament has the power to force their resignation.

The Commission does have freedom to act independently on some areas of policy which have been specifically delegated to it by the Treaties or by the Council—particularly on agricultural policy and the implementation of competition policy.

The European Parliament (meeting in Strasbourg and Luxembourg): This has 198 seats, the members being appointed from the parliaments of the Community member states. It has the power to table questions to the Commission and the Council and it debates many issues, giving its formal opinion to the Commission. Its main formal sanction is the power to dismiss the Commission by a two-thirds majority vote. It was agreed at the 1969 Hague Conference that from 1975 the Parliament would acquire further powers for budgetary control within the Community.

The Court of Justice (Luxembourg): Legal disputes raised in connection with Community legislation are resolved in the Court: it comprises nine judges, each of whom is appointed for six-year terms with the agreement of national governments. Community institutions, national governments, companies and individuals can all have recourse to the Court on matters of Community law if they fail to secure satisfaction at the national level.

The dialogue of decision-making

The two-way dialogue between the Council of Ministers and the European Commission is at the core of the Community's decision-making process. Neither institution has unlimited power to take important decisions; it is the job of the Commission to formulate policy and draw up proposals for future action, but only the Council of Ministers, on which all member states are represented, can give those proposals the force of law.

In practice important proposals usually evolve from prolonged discussion in which the Council, the Commission and other Community institutions are involved. If the Council of Ministers finds a Commission proposal unacceptable, the Commission will work on it further to produce an acceptable formula.

The business of consultation begins long before an idea or a policy can be presented by the Commission as a draft proposal. National governments and civil service departments are in regular contact with opposite numbers in the Commission as the details of policy are formulated, while pressure groups within the Community aim to maintain close contact, making their views known as policy develops.

On agricultural matters the Directorate-General for Agriculture within the Commission invites people of its own choosing, who are usually experts from national governments and the organizations concerned, to form working groups which will advise on preparation of draft proposals for submission to the Commission member in charge.

This draft proposal becomes the basis for public discussion. The Commission will seek the views of the farmers' and co-operatives' committees of the Community (COPA and COGECA), which themselves have advisory committees for this work and are striving continually to strengthen this consultation procedure.

The draft also goes before the Economic and Social Committee, a Community institution comprising 143 members who are drawn from trade unions, employers and professional organizations, and 'general interest' representatives. It may also go to the Agricultural Committee of the European Parliament. On major matters the Parliament will present a detailed report to the Council before the final decision is taken.

At any stage in this process of consultation, the draft proposal may be amended in the light of the comment and criticism received. The Special Committee on Agriculture will give technical advice on proposed legislation and the Committee of Permanent Representatives, which is made up of the ambassadors of the member countries based in Brussels, provides the penultimate stage in decision-making before the Council of Ministers approves or rejects the Commission proposal.

Only issues of 'fundamental' importance, such as extension of policy to new areas or fixing of annual prices, have to go through the whole process to Council decision. Many regulations are necessary for the smooth day-to-day functioning of the common agricultural policy, and in these areas the Rome Treaty delegates considerable legislative power to the Commission. This power has subsequently been extended further by the Council.

Management Committees play an important role. These committees, of which there is one for each main group of products, serve the Commission by advising and approving Commission regulations. Every year about 1,000 Commission regulations and decisions are adopted after discussion by the relevant Management Committee.

Each Committee consists of representatives of member countries, usually ministry officials or staff of national marketing organizations, and although each national team is appointed by its national government, the whole Committee is chaired by a Commission official. Voting is weighted according to country, the total being 58, and the weighted majority 41.

When the Commission decides that action is required—for instance, to change or temporarily lift the import levy on pigmeat—it will submit a draft decision to the Management Committee dealing with pigs. The Committee will discuss the decision and if there is dissension among members a vote will be taken. If the vote goes in favour of the decision, then the matter is closed, but if the weighted majority is against, the draft decision is implemented, but the Council of Ministers has the opportunity within one month of rejecting or modifying it.

Most of the Management Committee work is in the field of fixing levies and other details connected with the agricultural policy. In practice the Commission aims to make its decisions acceptable to the committees and the system serves the Community well.

Two other committees which play a key role in the formation of policy are the Fund Committee, whose opinions on finance are binding on the Commission, and the Permanent Committee on Agricultural Structures.

Community policies, as decided by the national representatives meeting in the Council or by the Commission, may be expressed in a number of different ways:

The *regulation* is applicable in all member states. It is binding in every respect and has direct force of law in member countries from the moment of implementation.

The *directive* states an objective which is binding on member states, but leaves the means of implementation to governments, usually calling for changes in national legislation within a certain time.

The *decision* may be addressed to a government, to an organization or to an individual and is binding in every respect on those named.

Recommendations and *opinions* are not binding, but usually express the Commission's views on policy.

Working the policy

Much of the Commission's work is involved with the detailed functioning of agricultural policy, especially fixing levies and export rebates. Each day Commission officials have to calculate the rate of levy for cereals on the basis of world c.i.f. prices as reported to Brussels, and communicate these to the national organizations which act as agents for the Community. The same arrangements apply for beef, where levies have to be calculated weekly.

Support buying and payment of export restitutions are carried out by government departments or by national bodies which have traditionally been involved in market management. They may in turn use private companies for work such as storing grain which has been bought in, and they have wide discretion in the practical arrangement of the policy.

Meeting the cost

The transition period for the Community's system of financing the agricultural policy ended in December 1970. By then all the expenses of the Community price-support arrangements were being met from the European Agricultural Guidance and Guarantee Fund (FEOGA, to give its French designation): the Fund was

The European Agricultural Guidance and Guarantee Fund (FEOGA)
Expenditure in million units of account (1973)

	Export refunds	Price support	Total
Cereals	469	484	953
Rice	10	1	11
Milk products	328	1 130	1 458
Fats and oils	2	360	363
Sugar	52	76	127
Beef	3	13	16
Pigmeat	91	—	91
Eggs and poultry	4	18	22
Fruit and vegetables	26	9	34
Wines	0	11	12
Tobacco	1	118	118
Fish	1	1	1
Flax and hemp	—	5	5
Seeds	—	14	14
Hops	—	5	5
Accession c.a.s	—	264	264
Monetary c.a.s	—	140	140
Total guarantee payments	**1 009**	**2 651**	**3 660**
Total guidance payments			**325**

also covering some of the cost of improving farm efficiency and infrastructure.

From the beginning of 1971, the Community embarked on a programme agreed on December 23, 1969, at a marathon meeting in Brussels, for giving the Community its independent revenue, or 'ressources propres'. Instead of funds being contributed to the Community by national exchequers, the proceeds of levies on food imports and customs duties will accrue directly to the Community budget.

The programme is in two main phases and is designed to give the Community 'ressources propres' for all its policies, replacing the old regime under which separate arrangements were made to finance each sector of policy.

In the interim phase, which ends on December 31, 1974, member governments will provide the Community of Six with its funds in three main ways. Each country's contribution is based upon its gross national product:

By payment to Community funds of all levies collected on food imports, plus the taxes raised on surplus sugar production. Under the old system these levies were collected by member governments and later credited to the Farm Fund; under the definitive arrangements they accrue directly to the Community, with member countries acting only as agents for collection.

By increasing proportion of customs duties, calculated in such a way that the scale of food levies payable by each country is taken into account, but reaching 100 per cent in 1975. The total national contribution of levies and duties should not exceed the key given below during the interim phase.

The balance of Community needs is provided by member countries according to a special contribution key.

Ten per cent of the levies and duties are refunded to member governments to cover collection costs. As a precaution against any sudden shift in the level of contribution by any one country, percentage limits of change are set.

In the second phase—definitive programme—beginning in 1975, all levies and duties automatically accrue as before to Community funds, but the direct contribution is fixed as a proportion of value added tax which is collected in each country, though not more than the equivalent of a one per cent value added tax is payable. These arrangements will become fully automatic by the end of 1977, thus instituting a 'federal budget financed by federal revenues'.

The United Kingdom, Ireland and Denmark will gradually adopt, according to an agreed scale, the Community's revenue system over the period 1973–77 inclusive, with a special provision limiting their contributions for another two years.

Under the transitional arrangements in force up to 1970, the European Agricultural Fund was more a clearing house than a fund in the strict sense. Member governments paid for eligible expenditure themselves and then submitted the bill to the Community's financial administrators for reimbursement.

With the definitive arrangements the market support agencies in member countries submit to the Commission their estimates of future expenditure. The necessary money is then advanced to them for use when required, instead of being paid on a retrospective basis through member governments.

As its title suggests, the European Agricultural Guidance and Guarantee Fund falls into two sections, of which the guarantee section is by far the larger, accounting for 70-80 per cent of the Community's total budget.

The original aim was to set the guidance section budget at one-third of the guarantee level, but the extent to which market support costs increased led the Council of Ministers to set a ceiling of $285m. annually on guidance. This money is advanced to member states to help pay for such measures as reallocation of land, improvement of country roads, better market intelligence and installation of marketing and processing facilities, as well as to finance the structural reform directives detailed on pp 8-9. It is up to the Commission and the Committee on Agricultural Structures to examine individual applications and make payment accordingly. The annual budget for this sector has now been raised to 325m. units of account.

The principle of Community financing for market support is a corollary to free trade in agricultural products. It means that if production in one member country expands rapidly, this does not push down prices unduly in other member countries. The Community takes joint responsibility and seeks to maintain prices at target levels.

The main burden on the guarantee section of the Community budget is for price support in the milk products and cereals sectors, although the higher world market prices are, the lower these costs become. A high level of world prices also changes the level of national net contributions—early in 1974 the UK net contribution was very low.

The Farm Fund also pays for the compensatory amounts (c.a.s.) applying on intra-Community trade.

Simplifying the policy and limiting its costs are the main aims of a Commission memorandum submitted to the Council of Ministers in the autumn of 1973. This puts forward measures designed to save about 1000m.u.a. annually by 1978. Some of these proposed measures have already been introduced, especially in the milk products and cereals sectors.

3 Organization of the product markets

Self-sufficiency figures in the Community of Six[1] and Nine[2]

	1968/69[1]	1971/2[1]	1971/2[2]
Cereals			
Total	94	98	91
Soft wheat	120	115	
		—	99
Hard wheat	60	87	—
Barley	107	110	102
Oats	96	100	100
Maize	55	68	58
Sugar	103	122	100
Meat			
Total	93	90	n.a.
Beef	89	86	90
Pork	99	100	101
Poultry	98	100	102
Milk products			
Whole milk	100	100	100
Butter	113	117	98
Cheese	102	103	101
Skim powder	148	141	133

(n.a. = not available)

Cereals

Market management arrangements for cereals and the price levels decided annually for grains in the Community are fundamental to the working of the common agricultural policy and the economics of farming in the Community, as cereals constitute a big proportion of total farm production and are the chief expense incurred by most livestock farmers.

Under the Community system a target price is set for each type of cereal. This price is fixed at the level which it is hoped producers will achieve on the open market in that area of the Community where grain is in shortest supply—Duisburg in the Ruhr Valley.

Like all the official cereal prices in the Community, the target price is not an on-farm price, but a price when delivered to store or merchant.

All other prices are linked to the target price. The first line of defence is the threshold price, which applies at all ports round the perimeter of the Community.

Threshold prices are calculated so that when grain landed at Rotterdam has been transported to the Duisburg deficit area, it will sell at about the target price or a little more. The threshold price is the same at all ports, but is stepped seasonally, reflecting the trend of storage costs for the home crop over the year.

Each day variable levies are calculated in Brussels, making up the difference between the lowest c.i.f. offers on world markets and the threshold price. These levies are payable on each consignment shipped into the Community from non-member countries, so producers need fear no undercutting by imports.

Import control is effective in controlling home market prices only so long as imports are coming in and there is no internal surplus. Intervention, or buying in, becomes necessary when home production exceeds demand.

The basic intervention price for each cereal runs parallel to the target price, pitched at about eight per cent below it, and moving up in seasonal steps during the cereal year. Like the target price, it is related to trade at Duisburg. From this basic price are calculated the derived intervention prices, set lower than the basic price to allow for transport to areas which need to buy in their cereals.

Official cereal prices[1] 1974/5

		Units of account per metric tonne	£p per ton[2]
Durum wheat	target price	182.83	85.83
Soft wheat	target price	121.84	57.20
	basic intervention price	110.03	51.65
Barley	target price	110.55	51.90
	basic intervention price	96.60	45.35
Rye	target price	119.04	55.88
Maize	target price	89.55	42.04

(1) Prices are for August 1974 (2) Calculated at the rate of 2.1644 u/a:£

Derived intervention prices are agreed for main buying-in centres in member countries after discussion between governments, intervention agencies, the Management Committee for cereals and the Commission. There are 11 main centres in Germany, in France, in Italy and in the UK, eight in Denmark, five in Ireland, two in Belgium and one in the Netherlands. These main centres may have further sub-centres, all of them committed to paying the fixed price for grain delivered to them provided it meets certain quality and quantity standards. Obviously grain will only be offered at intervention if those holding it are unable to get a better price on the open market. For the new member countries, intervention prices will be pitched at a lower level, gradually increasing during transition.

Grain production which cannot be sold on the Community market is usually exported. When Community prices are higher than world prices, an export subsidy or restitution is necessary to bridge the price gap. The level of refund is determined by Commission officials on the basis of various facts such as world prices, the amount of the surplus at home and probable future trends. Restitutions are also payable for derived products, such as malt and starch. When world prices are higher than those in the EEC, levies are imposed on these exports.

Producers of durum wheat, the hard grain which is used for making pasta, qualify for a special deficiency payment to encourage them to grow more of a product which is heavily imported from non-member countries.

Because rice and maize have to be imported into the Community in considerable quantities, there is no need for a Community mechanism for intervention, and the threshold price system with variable levies provides the main form of market support—although producing countries in the Community are free to support their growers under certain conditions. Until the 1972-3 season Italy enjoyed special concessions to import maize at lower rates of levy than the rest of the Community.

Certain modifications are now under way designed to simplify and cut the costs of the cereals system. These involve abandoning the complicated regional pricing arrangements for barley and probably wheat and phasing out the system of denaturing.

Cereal production[1] ('000 tons, 1973)

	Total	Wheat	Barley	Oats etc.	Grain maize
Germany	20 969	7 078	6 535	3 020	530
France	41 654	16 564	10 491	2 226	10 658
Italy	14 873	6 183	448	425	5 033
Netherlands	1 343	716	380	133	10
Belgium	1 924	893	687	232	25
Luxembourg	150	37	61	41	—
United Kingdom	15 540	5 000	9 300	1 100	5
Ireland	1 365	215	975	175	—
Denmark	6 509	486	5 320	485	—
Nine	**104 327**	**37 173**	**34 198**	**7 837**	**16 261**
USA(2)	204 604	40 550	9 405	13 231	120 423
USSR(2)	167 534	90 550	35 617	14 090	10 961

(1) excluding rice (2) average 1969-71

Sugar

Largely because of the importance of sugar production to developing nations and the attractions of sugarbeet to arable farmers in Europe, the Community imposes more discipline on the sugar sector than on any other commodities. The system combines quotas, support buying, and penalties for overproduction. Until the end of the 1974-5 season the arrangements are transitional and will be renegotiated by the Community before then. Arrangements for the importation of sugar from developing countries should also be finalised by the end of 1974.

Each country in the Community has been allotted a 'basic quantity' of white sugar, based on marketing figures for 1961/2–1965/6. It is up to individual countries to divide these quantities between the sugar factories or companies in its territory and up to individual factories to see that they get the sugarbeet supplies which they need to meet the quota.

The total of basic quantities for the Nine is 7,910,000 tons of white sugar. Basic target and intervention prices are fixed for the area of greatest surplus—northern France—and the derived prices increase towards the deficit areas.

The Farm Fund guarantees the full intervention price for all sugar produced up to 105 per cent of anticipated consumption; between 105 and 135 per cent

White sugar production and consumption ('000 tons)

	Production 1973/4	Consumption 1972/3
Germany	2 199	2 057
France	3 400	1 872
Italy	1 150	1 580
Netherlands	800	600
Belgium	725	350
United Kingdom	1 200	2 594
Ireland	183	145
Denmark	380	248
Nine	**10 037**	**9 560**

the sugar factory must pay a levy back to Community funds. Any production over 135 per cent will not be bought at the intervention price, although during 1974 export restrictions were imposed on all but 20 per cent of this sugar to keep down prices.

Sugarbeet growers also operate under a three-tier pricing system. Each factory's white sugar quota is translated into the required quantity of sugarbeet and up to the basic quota the producer gets a guaranteed price on his contract, currently about £8.84 per ton ex-farm. Between basic and maximum quota the guarantee comes down to nearer £5.20 per ton. Beet produced over and above the quota receives no guaranteed price. For the UK, basic and maximum quotas are the same, at 990,000 tons of refined sugar.

Official sugar and sugarbeet prices 1974/5

	u/a per metric tonne	£ per ton[1]
Minimum price for beet	18.84	8.84
Price for beet between basic and maximum quotas	11.08	5.20
Target price for white sugar	265.50	124.63
Intervention price for white sugar	252.20	118.39

(1) At 2.1644 u/a: £

Threshold prices are fixed for white sugar, raw sugar and molasses, with variable levies payable by importers on the same basis as for cereals. Export levies operate when world prices are above the Community levels.

French overseas territories of Guadeloupe, Martinique and Réunion are included in the common sugar market, with access for a basic quantity of 465,000 tons of sugar.

Milk and milk products

The common price policy for milk came into operation in April 1968, at the same time as the final regulations for the closely linked beef and veal markets were introduced. A common target price was established for milk, this being the price which it was thought producers should receive for their milk delivered to dairy, subject to market outlets being available inside and outside the Community.

Only about a quarter of the milk produced on Community farms goes for liquid consumption, so the emphasis in price management is on milk products. The policy is to maintain the target price by providing intervention for butter and skim milk, and for cheese in Italy, where little butter is made.

Official milk prices 1974/5

	u/a per metric tonne	
Target price for milk[1]	134.10	29p per gal[2]
Intervention price for butter	1 760.00	£826.21 per ton[2]
Intervention price for skimmed milk powder	790.00	£370.85 per ton[2]
Subsidy on skimmed milk powder for animal feed	335.00	£157.26 per ton[2]
Subsidy on skimmed milk for animal feed	31.10	6.75p per gal[2]

(1) Delivered to dairy (2) At 2.1644 u/a:£

At the beginning of April 1972 a regulation for trade in liquid milk came into force, but without official Community pricing arrangements. All quantitative restrictions on trade between member states were removed and quality standards were due to be brought into line by then. Differing health regulations between member countries may still prove some hindrance to intra-EEC trade.

Milk and milk products ('000 tons, 1973)

	Milk	Butter	Cheese
Germany	21 482	497	549
France	29 491	540	879
Italy	9 732	75	515
Netherlands	8 988	163	320
Belgium	3 774	93	40
Luxembourg	231	8	1
United Kingdom	14 005	96	184
Ireland	3 899	79	46
Denmark	4 778	136	131
Nine	**96 380**	**1 687**	**2 665**

Community producer prices are protected more from low import prices by threshold prices, which are set out for 12 'pilot' products. The importer pays a levy to cover the difference between the world c.i.f. price and the threshold price. Threshold prices for other products are calculated from the pilot products.

Because production within the Community in the late 1960s was running at well over self-sufficiency and stocks of butter and skim-milk powder were accumulating, various special subsidies have been introduced to encourage the disposal of surpluses. Export restitutions are provided in the normal way to allow sales on world markets, and grants have also been available to encourage use of skim for animal feed and to provide general subsidies on butter.

The Farm Fund provides the finance for these measures and also foots the bill for the skim-milk powder exported to developing countries under Food Aid.

Beef and veal

In recent years the Community's beef and veal market has been subject to strong cyclical tendencies, with an acute shortage and high prices during 1972/3 and an abundance of supplies and low prices developing in 1974. During 1974, intervention became an important element in a market organisation which until then had depended largely on control of import prices. Although between five and 10 per cent of the Community's requirements have to be imported, imposition of import levies was not enough to stop a drop in prices.

The free Community market in beef and veal came into operation from the beginning of April 1968, after a four-year transition period. The guide price is central to the arrangements, acting as a target price which it is hoped producers will achieve, and also serving as a trigger mechanism for import control and intervention at home.

The intervention arrangements provide an alternative outlet at a guaranteed price (93 per cent of guide price) when market prices become unattractive to producers. Greater flexibility was introduced to the system in 1974, because of the reluctance of some governments to undertake support buying and a shortage of storage space. Imports were restricted during the year and a new system of direct, seasonal payments for beef cattle was introduced to encourage more orderly marketing.

Live cattle which are imported into the Community have to bear a customs duty of 16 per cent and beef imports bear a duty of between 20 and 26 per cent depending on type. These duties are part of the common external tariff, although they can be temporarily suspended or reduced, as they were during 1972–3. The levy arrangements, on the other hand, are flexible.

Levies on beef and beef cattle are fixed every week, comprising the difference between the price at which the consignments are imported (including duties) and the guide price, but the proportion of levy payable by the importer depends on the state of the home market. This is assessed on representative market prices, usually known as reference prices, which are calculated in each member country and then brought together as a Community reference price, weighted for the size of the cattle population in each country. Thus depressed markets in one country do not have a disproportionate effect on the Community reference price.

If the reference price is 106 per cent of the guide price then no levy is payable by the importer; if between 104 and 106 per cent, the importer pays a quarter of the levy; between 102 and 104 per cent half the levy becomes payable; between 100 and 102 three-quarters, and once the reference price falls below the guide price, the full levy must be paid.

Official beef and calf prices 1974/5

	u/a per metric tonne	
Guide price for adult cattle	965.00	£22.65 per live cwt[1]
Guide price for calves	1 130.00	£26.52 per live cwt[1]

(1) At 2.1644 u/a:£

Meat production ('000 tons, 1970)

	Beef/Veal 1972/3	Mutton/Lamb 1972	Pigmeat 1972	Poultry 1972
Germany	1 140	14	2 732	261
France	1 435	121	1 541	819
Italy	645	24	660	651
Netherlands	290	11	790	310
Belgium	231	—	542	113
Luxembourg	9	—	9	—
United Kingdom	906	226	929	636
Ireland	295	45	152	40
Denmark	195	1	763	80
Nine	**5 146**	**441**	**8 118**	**2 910**
USA[1]	10 256	251	5 873	4 658
USSR[1]	4 675	800	3 075	1 100
Japan[1]	216	1	508	375

(1) 1970

Pigmeat

The volatile nature of the pig market, brought about because of the ease with which producers can expand or contract their output, tends to complicate any system of market management for pigs. The common market arrangements are designed to put a floor in the home market by occasional intervention, but to make the intervention price unattractive to producers. Imports are controlled by a system of supplementary and variable levies.

There is no target price for pigs, but a basic price which acts as the trigger for market support at home. When market prices (expressed as a reference price) fall below the basic price, then intervention may be undertaken. The actual price for intervention is pitched between 85 and 92 per cent of basic price. Deciding the level of intervention and the products to be bought in is a matter of discretion for the Commission, but only after extensive consultation with the Management Committee for pigs.

Each quarter the Commission, in conjunction with the Management Committee, decides a sluicegate price for imports of pigs and pigmeat. This is virtually a cost price of imports. If imports enter the Community below the sluicegate price, they are subject to a supplementary levy to bring them up to sluicegate level. Imports are always subject to a variable levy made up in two parts:

The difference between world market and Community costs for cereals for pig feeding.

Seven per cent of the sluicegate price, thus giving Community producers a margin of preference.

Restitution payments are fixed by the Commission and are payable to exporters, although restrictions in GATT limit the extent of these subsidies. However, they are especially important to processed meat manufacturers in the Community.

The Community is seeking more effective ways of stabilizing pig production, including greater influence for producer organizations in voluntarily controlling output and better market intelligence services.

Official pigmeat price 1974/5

	u/a per metric tonne	
Basic price	930.00	£3.90 per score[1]

(1) At 2.1644 u/a:£

Eggs and poultrymeat

Harmonization of cereal prices between the Six made it possible to introduce common arrangements for eggs and poultrymeat in the Community from the beginning of July 1967. But while imports are subject to price control, similar to that existing for pigmeat, there are no measures for maintaining internal prices.

Imports of eggs or poultry have to come into the Community at sluicegate prices, or above; if they enter below they are subject to supplementary levies which can vary according to country of origin. As with pigmeat, the sluicegate price is reckoned to reflect the true cost of production in world markets.

Above the sluicegate prices, which are fixed quarterly, variable levies are imposed, consisting of 7 per cent of the sluicegate price to give Community preference and an element allowing for the higher cost of feedingstuffs in the Community. In fixing the levies, the Commission has regular consultation with the Management Committee concerned.

For stable prices the Community is relying on producer organizations to introduce and operate their own disciplines. Measures can also be taken to improve production, processing and marketing facilities, to introduce quality control and to improve market intelligence. Restitution payments can be made to help exporters sell on world markets.

Egg production ('000 tons 1972)

Germany	928	United Kingdom	857
France	690	Ireland	43
Italy	616	Denmark	70
Netherlands	253	**Nine**	**3 687**
Belgium/Lux	230		

All eggs sold in shops in the Community are now subject to strict grading standards regulating size and internal quality. These standards apply to imported as well as home-produced supplies.

Oils and oilseeds

Apart from olive oil, for which Italian and French producers meet 70-80 per cent of the Community's needs, less than 10 per cent of the Community requirements of vegetable oils can be produced in the Nine. Nevertheless, it is important that a common organization should exist to deal with this sector because of the close commercial relationships between animal fats, butter and its derivatives, and edible oils.

Rape, turnip rape, sunflower seeds and now soyabeans are the main oilseeds covered by regulations. Seasonally phased guide and intervention prices are fixed for these products, with derived intervention prices for different parts of the Community. Producers may also qualify for deficiency payments which are designed to bridge the gap between the Community price and the world market price.

Imports of oils are subject in some cases to customs duties but to no other control, these duties being bound in GATT; oilseeds, which are also bound in GATT, come in duty-free. Thus there is virtually free competition between home production and imports—hence the need for the deficiency payment. Refunds are also available to bridge the price gap for would-be exporters.

Olive oil imports are subject to variable levies, comprising the difference between a threshold price and the c.i.f. price. Because internal supplies are subject to fierce competition from imported oils, deficiency payments are regularly made to producers to bring their return up to a producer guide price. An intervention office in each producer country buys in at the official intervention price with the aim of maintaining the market guide price set by the Community.

Fruit and vegetables

More responsibility is given to producer organizations in the operation of the fruit and vegetable markets than in other sectors, largely because of the difficulties of operating a rigid system of support for commodities which are invariably seasonal, usually difficult to store and where marketing problems are often local or regional rather than national.

Imports can be controlled by imposition of a countervailing duty when the price of imports falls below the reference price for two successive days. This reference price is virtually a minimum import price based on cost of production and marketing. It can be seasonally stepped and is additional to customs duties, which vary between 10 and 21 per cent for vegetables and between 7 and 25 per cent for fruit.

For home market management basic prices for cauliflowers, tomatoes, table grapes, peaches, apples and pears are fixed annually by the Council of Ministers. Member states may fix buying-in prices at between 40 and 70 per cent of the basic price. When market prices are below this buying-in price for three successive days, a state of serious crisis is declared and member states must intervene to stabilize the market.

Producer organizations are entitled to fix a reserve, or fall-back price for each commodity, at which price they may intervene with some help from Community funds. In practice this means that they will not market produce at below this level.

Strict grading standards apply for fruit and vegetables and all intervention is paid for at grade II prices, so encouraging producers to place their better quality output through the market.

To increase the effectiveness of producer organizations, the Community provides for disciplines on their members as well as grant aid to help with their setting up.

Hops

The market regulation for hops is one of the most recent to be agreed by the Council of Ministers. No levies or refunds are planned as imports are bound in

GATT at nine per cent customs tariff, but quotas on imports which have been applied by France and Belgium will have to be lifted.

Special grants are made available for setting up effective producer organizations which will have the leading role in regulating production to the needs of the market and subsidies to producers will be payable if the Council of Ministers so decides after receiving an annual report and proposal from the Commission.

Subsidies are also available to encourage producers to switch to better varieties. Half the cost of such aid will be borne by the Farm Fund.

Total hop cultivation in the Community covers about 27,500 hectares, two-thirds of it being in Germany.

Potatoes, mutton and lamb and wool

Although 96 per cent of Community farm production is covered by the regulations of the common agricultural policy, there are important sectors as yet not included—potatoes, mutton and lamb and wool. As agricultural products outside the farm policy, national governments may apply their own policies for managing the market.

Potato production ('000 tons 1972)

Germany	15 038	Luxembourg	61
France	7 950	United Kingdom	6 544
Italy	3 002	Ireland	1 250
Netherlands	5 581	Denmark	703
Belgium	1 337	**Nine**	**41 466**

For mutton and lamb the rate of duty on imports is 20 per cent; on live sheep 15 per cent.

Wool is treated as an industrial product in the EEC and there is no Community support, although member states in some cases support marketing organizations. There is no duty on wool imports into the EEC.

The Commission is now preparing new regulations to bring potatoes and mutton and lamb into the common agricultural policy.

Tobacco

Tobacco was incorporated into the Common Agricultural Policy in February 1970. The organization provides for intervention arrangements and a common system of marketing, with the French and Italian governments agreeing to adjust their state tobacco monopolies by 1975. Tobacco excise taxes will be harmonized throughout the Nine, this to be completed by 1980.

Wine

Wine proved one of the most difficult products for which to evolve a common policy. It was a subject for discussion, proposal and counter-proposal for some seven years, but agreement was eventually reached in April 1970 as part of the package of measures which marked the introduction of the definitive phase of Community financing.

The final arrangements abolished all quotas on imports, introducing a customs duty and a variable levy system to bring imported wines up to the price level of their Community equivalent. They also provided for supervision of plantings, an intervention mechanism and common terms for trade with third countries.

It was decided that the strength of ordinary table wines must be between 8.5 and 15 degrees of alcohol (different criteria for high quality wines and aperitifs) and that wine growers in Luxembourg and Germany should be free to increase alcohol content of their wines by up to 3.1 per cent through addition of sugar to compensate for lack of sunshine.

At present the Community produces nearly half the world's wine, but still has to import up to 25m. gallons a year. Increasing home production may soon make such imports unnecessary and the Community is committed to see that supply does not succeed demand and that a serious surplus problem does not arise.

Fisheries

Five principles govern the regulation on fisheries, which was completed in October 1970 and came into force in February 1971. These principles are:

Free access to Community waters and Community ports for fishermen from member countries.

A free market for fish throughout the Community.

Reference price arrangements to control imports.

Market organization and intervention to be the responsibility of producer organizations.

Help for modernization from the Farm Fund.

Under the original arrangements, access will become free to all Community fishermen by 1975. Up to that time a three-mile limit may be imposed nationally in areas where the local population depends upon fishing for its livelihood. Special transitional arrangements for some French coastline were also introduced in the enlargement negotiations.

The Treaty of Accession allows member countries to restrict until 1982 fishing in areas up to six miles off their coasts to vessels from nearby ports traditionally fishing these waters. In extensive coastal areas of the new member countries and France this restriction applies also from six to twelve miles.

The Community is also to take measures to safeguard existing resources in its waters; various restrictions on catching certain species, fishing certain grounds, on seasonality and on techniques and vessels may all be used.

The price arrangements vary according to type of fish, with a guide price for fresh fish based on representative market prices for three years. This price will determine the intervention level at which producer organizations will be empowered to withdraw fish from the market at 60-90 per cent of guide price. Withdrawal will receive substantial help from Community funds.

4 The Community and the world

Agricultural and food imports to the EEC

	All food and agricultural products		Products subject to EEC regulation	
	1971	1972	1971	1972
$US				
Belgium/Luxembour	949	958	406	447
France	2 774	3 179	974	1 372
Germany	4 607	4 790	1 801	2 288
Italy	2 944	3 223	1 459	1 738
Netherlands	1 753	1 845	830	972
Six	**13 027**	**13 994**	**5 470**	**6 818**

Trade of the Six in c.a.p. products 1963–72 million u.a.

	Imports			Exports		
Source/Destination	1963	1969	1972	1963	1969	1972
Total Outside EEC	4 557	5 198	6 818	1 539	1 993	3 062
Industrialized countries	2 321	2 715	3 754	859	1 197	1 667
of which EFTA	591	571	783	630	771	1 085
USA	965	1 254	1 653	119	201	278
Developing countries	1 870	1 879	2 321	488	667	1 027
State-trading countries	349	592	740	175	117	351

The world's biggest food importer

The European Community is the world's biggest importer of agricultural products—and also one of the world's biggest food exporters. In 1972 the Six bought nearly 8,000m. u.a. worth of foodstuffs from third countries, making up 7 per cent of their total imports, Exports under the same tariff headings came to 3,063m. u.a., or just under three per cent of all exports. In the years between 1958 and 1970, agricultural imports increased by 86 per cent in value and exports virtually doubled.

These figures show just how considerable the effect of European unification in general and the common agricultural policy in particular have been upon world trade in farm products, despite the conflict of interest that has sometimes developed between the Community and the United States, in particular over the way in which respective farm-support systems have worked.

But if trade with non-member countries has developed rapidly since the formation of the Community, trade between EEC members has increased even more. In 1958 member states were importing $909m. worth of food, drink and tobacco from each other. By 1970 this had increased to $5,446m.

International trade agreements

The Community's dominant role in all international trade, including trade in agricultural products, makes it essential for the Community to have a strong policy and consistent voice in international trade negotiations. This is vital if the Community is to fulfil the duty imposed upon it by the Rome Treaty to contribute to the harmonious development of world trade.

The job of representing the Community in world trading issues usually devolves upon the Commission, which takes its brief from the Council of Ministers.

One of the earliest signs of the negotiating strength of the Community was in the Dillon and Kennedy rounds of the General Agreement on Tariffs and Trade (GATT). In the Dillon Round the Community agreed to make cuts in tariff levels on agricultural imports in addition to those which followed the setting up of the Common Market, and undertook to negotiate with the main supplying countries if their exports should be affected by the introduction of the variable levy system.

Thus agreements were signed with the United States for maize, sorghum, soft wheat, rice and poultry, and with Canada for durum and soft wheat.

The Kennedy Round of GATT, which lasted from 1964 until 1967, led to a phased reduction of industrial tariffs, but an attempt by the Community to regulate agricultural trade was not successful except for a world agreement on grains (the Wheat Trade Convention) and on food aid (Food Aid Convention).

The Food Aid Convention committed signatory countries to deliver a total of 4,500,000 tons of grain to developing countries, the Community providing 23 per cent of this at its own expense.

After the end of the Kennedy Round the climate of world trade in agricultural products did not improve. Surpluses, particularly of wheat and milk products, grew worse as the 1960s progressed. World exports of wheat from North America almost doubled to 51.5m. tons between 1965/6 and 1969/70, while Australian exports rose from 600,000 to eight million tons. Community exports declined slightly, but increasing quantities were being produced at home, affecting international trade in grains by reducing the size of the market for exporting countries. In 1969 the pricing conditions of the Wheat Trade Convention collapsed, to be abandoned when the Convention was renegotiated in 1971.

A crisis situation also developed in world trade in dairy products because of rising production throughout the world, including the Six. By 1969 the Community's farmers were producing about 5 per cent more milk than could be used at home. For some time the Community has been anxious for international agreement on dairy products and this moved a step nearer in 1970 with the GATT arrangement on Skimmed Milk Powder. This determined a minimum export price for skim powder.

Work towards a wider international accord on milk products still has high priority in the Community, although in 1970 and 1971 the surplus situation eased and shortages of some products appeared, at least temporarily.

As a step to relaxing international trade, the Community and the United States agreed in June 1971 to some easing of the trading terms for farm products, followed on February 4, 1972, by an agreement on short-term adjustments. Both the Community and the United States accepted the principle of reciprocity and mutual advantage as the basis for solving pending problems.

A new series of GATT negotiations is now scheduled, the Commission taking the responsibility of putting the Community case. These talks began in Tokyo in the autumn of 1973, with participating countries agreeing to dismantle obstacles to trade and to improve the structure of world economic relations. One aim is to reduce non-tariff barriers, another to reach international accord on agricultural trade.

An agreement which included EEC tariff cuts on American citrus fruits and tobacco imports was concluded in May 1974 under GATT auspices. This technical agreement was to compensate for loss of trade suffered by some third countries as a result of Community enlargement.

Meanwhile the business of harmonizing the trading policies of the member countries continues; an immediate priority is adoption of a consistent approach to trade with Eastern Europe.

Help for developing nations

Measures to improve the position of the world's poorer nations are central to the policy of the European Community. The sudden rise in energy, food and fertiliser costs during 1973 and 1974 has made the situation of many developing countries particularly difficult and the Commission has made emergency proposals for stepping up food aid and instituting an international fund to give assistance. Ethiopia and the other drought-stricken countries bordering the Sahara are to receive substantial aid during 1974 amounting to 85m. u.a. from the Community, to be used for food aid and transport. This is in addition to national aid provided by member countries and to the 190m. u.a. under the EEC's general food aid budget.

Talks are expected to continue throughout 1974 for the establishment of special trade and development arrangements with most independent African and Caribbean countries. These arrangements will take over from the Yaoundé Convention, which provides tariff-free access and development aid for 18 former French and Belgian colonies in Africa. Among proposals under discussion is a price stabilisation scheme to guarantee returns to those developing countries producing commodities like bananas, sugar, groundnuts, coffee and cocoa.

As well as the Yaoundé arrangements, association agreements already operate with Uganda, Kenya and Tanzania and with a number of developing Mediterranean countries, covering tropical and semi-tropical agricultural products, while various non-preferential agreements exist with Latin American countries. The generalized preference scheme provides all countries of the developing world with easier access for their manufactures to Community markets.

5 The enlarged Community

On February 1, 1973, Britain, Denmark and Ireland introduced the common agricultural policy, subject to transitional arrangements until the end of 1977 and special terms for New Zealand dairy products and Commonwealth sugar imports. The principle of Community preference, making it more worthwhile to import foodstuffs from within the Community than from outside, was accepted from the beginning, with free trade in farm products subject to so-called 'transitional compensatory amounts' to take account of basic price differences. These t.c.a.s. are fixed on the basis of the different prices or feed cost levels in the Six and in the new member countries and diminish in six steps over the transition period.

T.c.a.s. may take the form of levy (when exporting to the Six from a low-priced market like Britain) or refund (when selling in the opposite direction). Similar levies and refunds (monetary compensatory amounts) may be used to compensate for changes in currency movements. For example, the floating down of the £ has not affected the price of many products bought from other Community countries by British importers because export refunds have been applied.

British horticulture is protected by tariffs and these are being reduced in five annual steps, of 20 per cent each.

New Zealand dairy products presented one of the major problems of the enlargement negotiations, in 1971 as in 1962. A solution was found providing for a run-down of New Zealand's guaranteed access to the UK market for butter supplies to not less than 80 per cent of the present level (170,000 tons) by the end of 1977. Assured access for the present cheese quota (of 71,000 tons) would be reduced to 20 per cent by the end of the transition period.

The Community negotiators agreed that all possible progress should be made towards a world agreement on dairy products and that the enlarged Community would 'endeavour to pursue a trade policy which would avoid frustrating the objectives' set out in the negotiations. These arrangements are subject to review during 1975.

The market for exports from Commonwealth sugar producers should be renegotiated when the Commonwealth Sugar Agreement expires in 1974 and the British Government has assured the developing countries in CSA that their export markets would not be cut back. These negotiaions should fit in neatly with the rethinking of the Community's own system for the sugar market, due for completion by mid-1975. The Commission has proposed that 1.4m. tons of sugar should be imported annually from developing countries.

The financial arrangements for the United Kingdom's contribution to the Community budget were agreed on the basis of a 19.32 per cent contribution by the end of 1977, with two further years of limited increases before the automatic arrangements came into full operation. Contributions build up in five stages, the first, payable in 1973, being 8.69 per cent of the total Community budget.

Food consumption—vegetable products

Consumption of selected vegetable products 1970/71 kg per head per year

	Total grain	Rice	Potatoes	Sugar	Vegetables	Wine
Germany	66.0	1.9	101.8	34.3	63.8	17.5
France	76.2	3.1	96.0	35.9	130.0	107.4
Italy	129.0	4.3	40.6	27.1	168.5	109.0
Netherlands	63.4	3.3	84.6	45.6	80.6	5.7
Belgium Luxembourg	78.4	1.7	115.0	38.7	85.1	13.1 40.9
United Kingdom	71.5	1.3	101.6	44.7	62.6	n.a.
Ireland	90.5	1.2	123.1	50.7	62.4	n.a.
Denmark	70.1	1.6	83.9	48.5	53.1	n.a.
Nine	**83.5**	**2.6**	**86.8**	**36.6**	**100.9**	n.a.
USA	61.0	3.4	45.9	42.7	92.2	n.a.
USSR	156.2		138.0	38.7	67.9	n.a.
Japan	33.4	95.1	57.1	26.4	115.6	n.a.

Food consumption—animal products

Consumption of selected animal products 1970/71 kg per head per year

	Meat	Eggs[1]	Fats & oils	Butter	Liquid milk
Germany	87.2	16.3	19.6	7.0	77.4
France	96.0	12.6	17.7	7.3	71.3
Italy	57.3	10.9	22.2	1.6	66.6
Netherlands	65.7	11.8	31.2	2.2	107.0
Belgium Luxembourg	82.7	12.8	24.3	8.5	78.0
United Kingdom	72.3	15.0	15.9	8.5	139.7
Ireland	83.6	13.3	8.2	10.2	212.6
Denmark	62.5	11.0	21.1	7.5	112.5
Nine	**77.4**	**13.6**	**19.7**	**6.1**	**91.4**
USA	113.0	18.3	22.3	1.9	122.0
USSR	—	—	—	—	—
Japan	19.5	14.8	9.5	0	25.4

(1) in shell

The net UK contribution in 1973 was reckoned to be less than £80m. In 1974 the basic contribution is 10.82 per cent, in 1975 13.04, in 1976 15.36 per cent and in 1977 it will be 17.77 per cent, subject to minor adjustment.

Ireland's 1978 contribution to the budget is set at 0.61 per cent and the Danish share at 2.46 per cent.

As far as representation in the Community institutions is concerned, the United Kingdom is on the same basis as Germany, Italy and France. Thus in the Council of Ministers the major countries have 10 votes each, Belgium and the Netherlands have five votes each, Denmark and Ireland each have three votes and Luxembourg two votes. A qualified majority decision would require 41 votes out of 58.

On the Commission the four major countries have each appointed two members and each of the smaller countries one, making a Commission of 13. The European Parliament expanded to 198 members, with 36 from the United Kingdom and each of the other major nations, 14 each from Belgium and the Netherlands, 10 each from Denmark and Ireland and six from Luxembourg.

Reference price (prix de réference): Similar to the sluicegate price, but applying to fruit and vegetable imports. Also used to describe weighted Community average prices for livestock.

Sluicegate price (prix d'écluse): This is fixed for pigmeats, eggs and poultry and is reckoned to represent cost of production in non-member countries. A levy is payable on imports above this price and a supplementary levy on imports coming in below the sluicegate price.

Target price (prix indicatif): Community policy is geared to keep market prices as close as possible to the target price. For cereals this price is seasonally stepped to allow for storage costs throughout the year and it is at its highest in areas which are most in deficit in grain.

Threshold price (prix de seuil): This is the minimum import price at which non-Community supplies of cereals, milk products and sugar can be delivered at Community ports. Once transport costs from the port are added, imports should be marketed at or above target price. Commodities shipped into the EEC below the threshold price are subject to levies to bring their cost up to the threshold level.

Unit of account: The monetary unit used in pricing in the Community budget. 35 units of account (u/a) are worth 1 oz of fine gold. In February 1973 a reference rate for the £ was fixed, at 2.1644 u/a.

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