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THE COMMON AGRICULTURAL POLICY OF THE EUROPEAN COMMUNITY

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RUSSELL B. LONG, *Chairman*

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AT THE REQUEST OF
ABRAHAM RIBICOFF, *Chairman*
SUBCOMMITTEE ON INTERNATIONAL TRADE

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THE COMMON AGRICULTURAL POLICY OF THE EUROPEAN COMMUNITY

Summary

When the European Community (EC) was established in 1958, it was apparent that a single system of farm support and protection would be necessary to create the conditions of competition that would permit trade between the Member States (Germany, France, Italy, Belgium, the Netherlands, and Luxembourg) to develop, and duties and restrictions between the Member States to be removed. The system which the EC then devised is known as the Common Agricultural Policy (CAP). In joining the EC in 1973, the United Kingdom, Denmark, and Ireland agreed to implement the CAP beginning in 1973, and to adjust their price levels and customs charges to common levels over 5 years ending in 1978.

The first CAP regulations were established in 1962 and covered grains, poultry, pork, eggs, and fruits and vegetables. Regulations for beef, milk, and rice followed in 1964; fats and oils in 1966 and 1967; sugar in 1967 and 1968; and more recently tobacco, wine, hops, seeds, flax, silk, and fish.

The CAP is perhaps most easily understood in terms of three principles: common pricing, Community preference, and common financing of unlimited support. Common pricing is the regulation of prices, Community-wide but not necessarily at a single level, in order to permit and promote free trade between members. No restraint is placed on production. Community preference is the organization of Community markets so that domestic products will always be cheaper than the corresponding import. The two most common devices employed to this end are minimum import prices and subsidies on domestic products. Common financing is the obligation of the Community to pay whatever is required to meet the costs of unlimited support.

For two-thirds of EC production—grains, rice, sugar, olive oil, and the main animal products—common pricing and Community preference are achieved through the variable levy system. As this system operates for grains, the market for the most important cereals is supported by government purchasing of any amount offered at fixed support, or "intervention" prices. Intervention prices are set at different levels according to the producing area so that products of the main producing areas can compete equally with each other in the most deficit consuming centers—primarily Duisburg, Germany. The price at which grains can be sold at intervention in producing areas is, therefore, equal to the Duisburg price, minus freight from the given producing area. The Duisburg intervention price is set a little below the desired wholesale price for Duisburg—the "target" price. Imports are prevented from selling at less than the target price because imports must meet a minimum import price, or "threshold" price, which is equal to the Duisburg target price minus transport costs from Rotterdam. The Community observes world market price quotations for

grains each day and adjusts these quotations to what they would be if they were made for grains of a standard EC quality delivered to Rotterdam. The lowest such adjusted price for each grain is then subtracted from its threshold price. The difference is a variable levy which is applied to all imports of the grain in question regardless of its actual price. In this way, the EC allows third countries to supply only those qualities and quantities of each grain that cannot be supplied by domestic production. The levy on August 1, 1972 (beginning of the 1972/73 marketing year), was 122 percent of the lowest adjusted price for wheat imports, 84 percent for corn, and comparably high for other products.

Production has risen rapidly under these incentives. For example, production in 1972/73 compared to the 1962/63–1966/67 average is up 20 percent for wheat and 128 percent for corn. Surpluses are removed with export subsidies.

Minimum import prices, somewhat differently constructed, are also used to establish Community preference for the most sensitive fruits and vegetables, wine, and fish. Subsidies are used to establish Community preference for certain other products such as tobacco, oilseeds, and grass seeds.

Because the CAP acts mainly on prices to achieve its objectives, administration of the CAP has been vastly complicated by the introduction of floating exchange rates since 1971. A change in exchange rates means a change in export and import prices, but not in farm support prices; hence, if the latter were not to be undercut, offsetting import charges and export subsidies had to be reintroduced in trade between Member States and superimposed on regular levies and subsidies employed in trade with third countries. The effect of this system is to render the calculation of total import charges and export subsidies extremely difficult and in some cases to raise these charges and subsidies far above the levels that would otherwise prevail.

The EC has also found that the CAP produces burdensome surpluses and fails to maintain farm income in the face of rising costs. On this account, in 1968 the EC Commission made wide-ranging recommendations for the modernization of farming over 10 years. Uncertainty over costs, feasibility, control, and results prevented drafting of specific implementing measures. In April 1972, the EC directed Member States to adopt limited measures including small retirement annuities, subsidized interest on loans for farm improvements, and funds for vocational advice and training. Currently the EC is studying further measures for regional development and aid to hill farming. Ideas for a more basic reform of price and marketing policies have been appearing with greater frequency in the last few years, but have so far won little support.

From the viewpoint of third countries like the United States, the effect of the CAP is to squeeze out imports as domestic production rises, and to disrupt markets in third countries by subsidizing exports. U.S. exports to the EC (Six) subject to variable levies averaged $478 million during the last 3 years (1970–1972)—down 20 percent from 1965–67, the last 3 years before complete freedom of intra-EC trade for most variable levy products. Total U.S. agricultural exports to the EC averaged $1.8 billion during 1970–72, up 22 percent over 1965–67 and 61 percent higher than in 1960–62 (before the CAP was established). Nearly all of this increase in U.S. agricultural exports to the EC can be accounted for by oilseeds (especially soybeans) and oilcake which rose from $176 million in 1960–62 to $788 million in 1970–72. These exports are not subject to a variable levy and enter duty free.

U.S. agricultural exports to the three new EC members in 1970–72 averaged $506 million, of which $179 million corresponds to grains and other products now under the variable levy system. The direct impact of EC enlargement on U.S. agricultural exports can be foreseen fairly clearly in that the adoption of higher prices and protection by the new members is certain to lead to the same problems already experienced with the present members. It is expected, for example, that the enlarged Community will no longer be a net importer of grains within 10 years.

I. Objectives of the CAP

A. The Rome Treaty

The Common Agricultural Policy (CAP) is the unified farm policy applied by the member governments of the European Economic Community. By signature of the Rome Treaty in 1957 establishing the European Economic Community, France, Germany, Italy, the Netherlands, Belgium and Luxembourg agreed to undertake the integration of their economies. In 1968, the governing institutions of the Eurpoean Economic Community were merged with those of the European Coal and Steel Community and the European Atomic Energy Community. Since then, it has been common to refer to the three European Communities as a single organization, which in fact it is: the "European Community" or EC. The United Kingdom, Denmark, and Ireland joined the six original members in an enlarged Community of Nine on January 1, 1973. The discussion that follows concerns the CAP as developed by the Six prior to 1973, the effect of EC enlargement on the CAP, and the effect of the CAP on U.S. exports to the EC.

A basic part of the commitment to economic integration was the gradual establishment of a customs union—the freeing of trade between the members and the establishment of a common customs tariff on imports from third countries. This could not be done for agricultural products without bringing some uniformity and centralization to the national agricultural support programs. Nor could agriculture be omitted from the customs union, since some members—notable France and the Netherlands—expected to benefit from the export of agricultural products, in part as an offset to increased competition from industrial imports.

The importance of agriculture to France and the Netherlands at the time can be seen in the facts that: France has nearly half the agricultural area of the Six and 66 percent of the farms larger than 250 acres; nearly one Frenchman in four was employed in agriculture in 1958; and agricultural products accounted for 18 percent of French exports in 1970. While the Netherlands has limited cropland, animal products are highly important. Agricultural products accounted for 28 percent of Dutch exports in 1970.

A single agricultural policy was therefore considered essential to the success of the economic union. The Rome Treaty specifies that a common agricultural policy shall be established and sets forth certain objectives to be achieved. These objectives are:

"(a) to increase agricultural productivity by developing technical progress and by ensuring the rational development of agriculture and the optimum utilization of the factors of production, particularly labor;

"(b) to ensure thereby a fair standard of living for the agricultural population, particularly by the increasing of the individual earnings of persons engaged in agriculture;

"(c) to stabilize markets;

"(d) to guarantee regular supplies;

"(e) to ensure reasonable prices in supplies to consumers."

It is readily apparent, however, that this statement of objectives is a rather poor guide to the nature of the CAP, which has often been accused of being perverse in its impact upon technical progress and inadequate in its ability to maintain farm income, while it is "reasonable" with regard to consumer prices only in a very relative sense. These points will be taken up further in Section VII.

B. The Three Pillars of the CAP

France's President Pompidou has often described the Common Agricultural Policy in terms of three fundamental principles:

Common pricing, Community preference, and common financing. What are these three pillars of the CAP?

1. Common pricing means that, as a minimum, prices should be so regulated as to permit the elimination of duties and restrictions on trade between the member states, and to promote exports from the main producing areas of the Community to the more deficit areas. In the case of grains in particular, support prices are set lower in the main producing areas than in the more deficit areas in order to achieve this objective. Therefore, common pricing does *not* necessarily mean a single support price. How high prices should go is a matter of political bargaining between the countries with the largest producing interest (and usually the lowest costs) and countries whose farmers need higher prices to stay in business.

In connection with common pricing it may be pointed out that no restraint can be placed on production, since that would discourage the development of intra-EC trade.

2. Community preference is simply the notion that the European Community should constitute a preferred market for the products of member countries. Marketing should be so regulated that imports from third countries will always be a little more expensive or harder to obtain than domestic products. A fixed tariff is generally considered by the EC to be insufficient for this purpose, since an imported product, if it is cheap enough, can pay the tariff and still be cheaper than the domestic product.

Community preference is accomplished by various techniques, of which the two most common are minimum import prices and subsidies. Imports must meet a price higher than the desired domestic level or pay a fee or be restricted. Alternatively the EC pays producers or buyers of EC products a subsidy big enough to assure the sale of domestic products over imported products.

The concept of Community preference is further strengthened by some elements who have a basic philosophy of favoring self-sufficiency. European farm organizations tend to regard the existence of imports as evidence that European policy makers have failed to provide adequate incentives to domestic production.

3. Common financing means that the cost of agricultural support must be paid by all members. Or as the basic financing regulation (No. 25) states "the financial consequences of the CAP are the responsibility of the Community." Put negatively, this means the EC shall not refuse to support farm prices and income on the grounds that it costs too much to do so. In practice there has been no limit on the support, since limitation of support would raise the question of which country's producers would not be fully supported.

II. The Commodity Regulation

A. Grains

1. How the CAP Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

Production of most grains is wide-spread throughout the Community, although over half of the production of the Six is in France. In particular France accounted for 51 percent of wheat production, 58 percent of barley production and 61 percent of corn production in 1972/73. Eighty-seven percent of durum wheat production and most of the consumption is in Italy. Eighty-three percent of rye production is in Germany. The CAP, therefore, provides a price system designed to promote intra-Community sales of French soft wheat, barley and corn, and to a lesser extent German rye and Italian durum. The first grain regulations were adopted in 1962; "common" pricing began in 1967.

(2) PRICING AND PREFERENCE

To accomplish the above marketing objectives, a "target" price is fixed for each of these grains. The target price is the wholesale price level desired in the most deficit (hence highest priced) consuming area—Duisburg, Germany. Grain from the main producing areas should obtain this price after being transported to Duisburg.

Market forces, however, are permitted to operate within a limited range around the target price at Duisburg. A basic "intervention" price for Duisburg is set a little lower than the target price and operates as a market floor. Government intervention agencies stand ready to buy any domestic grain offered to them at the intervention price. A market ceiling is provided by the "threshold" price, which is the minimum price at which imports are permitted to enter. The threshold price is fixed for Rotterdam. When transport costs from Rotterdam to Duisburg are added, the cost of imported grain is at or above the target price. The Duisburg prices for the principal grains as of August 1, 1972, the beginning of the 1972/73 marketing year, were:

[In dollars [1] per metric ton]

	Threshold price	Target price	Intervention price
Wheat:			
Non-Durum	121.17	123.55	113.73
Durum	141.58	143.97	(2)
Rye	112.10	114.49	105.80
Barley	110.74	113.10	103.90
Corn	108.08	110.47	(2)

[1] Converted from units of account at UA1.00=$1.08571. The rate has since changed. Applicable rates are—from May 7, 1972: UA1.00=$1.08571; Feb. 13, 1973, to date: UA1.00=$1.20635.
[2] No intervention price is fixed for Duisburg. See text.

Intervention centers are located throughout the Community. Intervention prices at these points are generally equal to the Duisburg intervention price minus transport costs from the intervention centers. Duisburg is the basic intervention center and most other intervention centers are linked in this way to Duisburg. The Duisburg price, however, also applies in certain other centers so that in fact there is more than one base point for grain.

In the case of corn and durum wheat there is only one intervention price. The Community still imports a large part of its requirements of these two grains so that the market tends to be supported indirectly by the threshold price. The intervention price therefore is set on the basis of the floor price required by producers in the main producing areas—Mont-de-Marsan, France, for corn and Palermo for durum, bearing in mind the transport costs from these points to Duisburg and what the intervention price there would be in theory. A similar procedure has been approved for rye, to take effect on August 1, 1973. On August 1, 1972 the uniform intervention prices for corn and durum were $90.39 and $126.95 per metric ton respectively.

Durum is exceptional also in that consumers are not made to pay the full cost of producer support through higher prices. Instead, durum producers receive an additional payment of $40.03 per ton, which when added to the intervention price raises their total guarantee to $166.98 per ton.

Grain threshold prices do not change from one port to another. They are the same at all points of entry. Thus the market ceiling is constant. Only the floor is lowered according to the distance from Duisburg.

The threshold price serves as the upper base point for the calculation of variable levies on imports. Every working day the Commission, which is the executive arm of the EC, collects price quotations for each grain on international markets and adjusts those prices to what they would be if the grain had been of a standard EC quality and had been offered for delivery, c.i.f. Rotterdam. The lowest such adjusted price for each grain is then deducted from the corresponding threshold price. The difference is the variable levy, which is then collected on all imports of that grain regardless of the actual price of the particular shipment. In this way, the EC eliminates both price and quality competition from imports. Imports are effectively limited to those quantities and grades that cannot be supplied by domestic production. Community preference is absolute.

"Seasonal" competition is also eliminated by raising threshold and intervention prices monthly during the year to cover storage costs for domestic grain.

A measure of supervision over the levy system is provided by requiring importers to obtain licenses for each importation and to complete the importation as proposed or forfeit a surety deposit. The license is particularly important in controlling the advance fixing of levies. Normally the importer may choose to gamble on the height of the levy on the day of importation or hedge against a levy increase by having the levy "fixed" at the time he obtains his license, which may be up to 4 months in advance. If he elects to hedge, he will obtain the levy on the day he applies for the license, adjusted to the month of importation in accordance with forward price quotations and any change in the threshold price. However, the EC can and often has reduced or suspended this privilege just when it is most needed—when markets are uncertain because of monetary problems or other difficulties.

While direct price support (intervention) applies only to the grains discussed above, the levy system applies to all grains and grain products. Most levies on the latter are calculated only monthly and are derived from the corresponding grain levies by using conversion coefficients and adding a fixed amount for protection of the milling or processing industry.

An anomaly like that for durum occurs in the case of wheat, corn, and broken rice purchased for the manufacture of starch or for brewing. Brewers and starch manufacturers receive a subsidy for these purchases, which relieves them from paying the full price for their raw materials.[1] There is a parallel reduction in import levies (and export subsidies) on starch and beer.

Not all outside suppliers feel the full effect of the levy system. While few preferences are given on grain levies—small reductions are granted for Turkish rye, Moroccan durum and East African corn—over 20 African countries and certain territories and former colonies in other parts of the world are exempt from that part of the levy on grain products which is intended for protection of millers and processors.

In certain respects, the system of community preference and common pricing has not worked well. The most important example arises from the price unification decision of 1964. When the CAP for grains was first established in 1962, it was not possible to bring the range of national support prices immediately within the limits described above. Agreement to this end was reached only with the greatest difficulty in December 1964 when it was decided that the "unified" price system described above would take effect July 1, 1967. Germany and Luxembourg had to make substantial price reductions to bring their support levels into line. For three years after 1967 they were permitted to make compensation payments to their farmers. Italy did not wish to make the full price increases required for feedgrains. A compromise was reached by allowing Italy to compensate for higher port and handling costs by cutting levies on feedgrains imported by sea in 1967/68 through 1971/72 and extended through 1976/77. The

[1] These subsidies make necessary a further subsidy to manufacturers of potato starch, which is granted on condition that a minimum price is paid for the potatoes.

amount of the reduction in 1972/73 is 7.50 units of account (U/A or just over $9 at current exchange rates. This reduction is to be eliminated beginning in 1973/74, when it will be 6.00 UA per ton; it will decline 1.50 UA per ton each year, to zero by 1977/78.

(3) PRODUCTION AND DISPOSAL

Since production is not controlled and rises rapidly, in response to high price incentives for unlimited quantities, surpluses are generated which must be disposed of. In addition, provision is made for the normal export business of firms who cannot sell high priced domestic grains or grain products on world markets without a subsidy. Export subsidies are fixed weekly, or more often if it serves a useful purpose. Separate subsidies may be fixed for each third country or area of the world for which a market exists, and the amount of the subsidy depends simply upon how much is needed to make the sale.

As with import levies, export subsidies may be fixed in advance, and the privilege of advance fixing may be reduced or suspended in times of wide changes in world market prices. It has also happened that in periods of strong foreign demand as in 1972/73 the EC has cut export subsidies in order to prevent domestic shortages.

Under normal market conditions, intervention agencies will sell the stocks they have acquired whenever the market is strong enough to absorb the additional supply. Sales are by tender. A minimum price is fixed by regulation for domestic sales, but in the case of sales for export, the Commission determines the price on the basis of the offers made and normal export market conditions. There can be, therefore, a further element of subsidy which is not published.

To facilitate sales of wheat for feed the CAP also provides for a denaturing premium. This is a subsidy for dyeing wheat or otherwise rendering it unsuitable for milling into flour. The premium is intended to bring the cost of wheat down to a level where it is competitive with other domestic grains—primarily barley—for feed use.

B. IN THE NINE

In joining the EC the United Kingdom, Denmark and Ireland accepted the basic structure of the CAP, and agreed to begin applying the CAP on February 1, 1973. It was agreed that the new members would adjust their price levels in stages so that "common" EC prices would apply in 1978. The level of "common" intervention prices in each new member remained to be negotiated, however.

The British, for example, whose market prices were around 40 percent below EC prices understandably wanted to fix prices as low as possible to minimize the total adjustment and its effect on food prices. France, however, wanted British prices high enough not to preclude competition from French grain. The resulting compromise fixed the intervention prices for wheat and barley at the principal inland center of Cambridge at a 1978 level slightly below the intervention price at the French port of Rouen. Third countries will have to meet the higher Rotterdam threshold price. In principle, therefore by 1978 there should be a substantial margin of Community preference for French grains over third country grain, but little preference over British grain.

For 1973, U.K. intervention prices were set near existing market levels. The difference between the 1973 intervention price and the common (1978) intervention price for the U.K. must be eliminated by six successive price increases beginning August 1, 1973 and ending January 1, 1978.

The price differential is a key figure: It is used instead of variable levies and export subsidies in trade between the U.K. and the original EC members; it is deducted from EC variable levies and export subsidies in trade with third countries. As it happened, by February 1, 1973, when the price differentials were first to be applied, world grain prices had risen and EC levies and subsidies were reduced to less than the U.K. price differentials. New rules were therefore adopted by which the price differential for foreign trade would be set not to exceed the EC levy.

New Member Intervention Prices and Price Differentials for the Principal Grains, Feb. 1, 1973

[In dollars [1] per metric ton]

	6		United Kingdom, Cambridge	Ireland, Enniscorthy	Denmark, Bandholm
	Duisburg	Rouen			
Wheat (non-durum):					
Common price	120.70	116.94	116.06	119.39	117.48
1973 price	120.70	116.94	67.95	111.25	106.68
Differential:					
Basic			48.11	8.14	10.80
Temporary			32.57	8.14	10.80
Barley:					
Common price	108.52	104.67	103.01	104.97	106.27
1973 price	108.52	104.67	57.05	88.83	96.85
Differential:					
Basic			45.96	16.13	9.42
Temporary			15.20	16.13	9.42
Corn:					
Common price	(2)	(2)	(3)	(3)	(3)
1973 price	(2)	(2)	(3)	(3)	(3)
Differential:					
Basic			40.07	24.97	0
Temporary			28.23	24.97	0

[1] Converted from units of account at UA1.00=$1.08571.
[2] $90.39 based on Mont-de-Marsan, France.
[3] No intervention (no production).

For Denmark and Ireland the same principles apply, except that Denmark set its initial 1973 price levels for wheat and barley nearly as high as the common price levels so that the price differential is very small. For corn and sorghum Denmark has adopted EC prices at the outset; there is no price differential. Ireland also set its initial price levels very high; moderate price differentials apply for all grains.

The United Kingdom has the additional privilege of continuing its deficiency payments (subsidies equal to the difference between a guaranteed price and actual market returns) as long as the guaranteed price is higher than the intervention price. For 1972/73 the guaranteed price was $79.56 per metric ton for wheat compared to an intervention price of $67.95; and $72.16 per ton for barley, compared to an intervention price of $57.05.

2. Impact on the United States

From 1962 to 1972 with high price incentives and protection grain production of the Six rose 36 percent while consumption rose only 24 percent. Net imports dropped from 10 million metric tons to less than 2 million tons. While the Six continue to import grains, they have now become substantial exporters as well, so that the market maintained in the EC is lost elsewhere. In addition, the market for feedgrains is further diminished by the substantial increase in the use of wheat for feed.

EC (6): Supply and distribution of grains

[Million metric tons]

	Change in stocks	Production	Imports	Exports	Consumption: Feed	Consumption: Total
Total grains:						
1962–63	2.6	57.8	15.1	5.4	35.1	64.9
1972–73	–.3	78.7	17.0	15.4	49.2	80.6
Wheat:						
1962–63	1.8	29.5	3.5	3.8	5.1	27.4
1972–73	–.2	35.2	4.0	7.7	9.3	31.7
Other grains:						
1962–63	.8	28.3	11.6	1.6	30.0	37.5
1972–73		43.5	13.0	7.6	39.9	48.9

The following changes in self-sufficiency show further the gains made by France at the expense both of other EC members and of third countries:

Percent self-sufficiency: total grains

	EC	France	Germany	Italy	Netherlands	Belgium/Luxembourg
Average:						
1956 to 1960	85	110	77	87	35	51
1967 to 1968	91	143	78	69	30	52
1968 to 1969	94	144	82	68	30	49
1969 to 1970	91	147	77	70	37	42
1970 to 1971	86	141	70	70	29	36
1971 to 1972	97	(1)	(1)	(1)	(1)	(1)
1972 to 1973	98	(1)	(1)	(1)	(1)	(1)

[1] Not available.

U.S. exports of grain to the Six rose 52 percent from $386 million in CY 1962 to $587 million in 1966, the early years of the CAP before the "unified" price system was set up. From 1966 to 1969 grain exports dropped 52 percent to $283 million, in large part due to the operation of the CAP. For the next few years a combination of factors, including short crops in the EC and high world prices, has maintained the value of U.S. grain exports to the EC although they continued to be below the 1966 peak. U.S. grain exports to the Six in 1972 totalled $489 million.

The extension of the CAP to the United Kingdom, Denmark, and Ireland cannot help but produce the same problems as those that have occurred with the Six. Whereas in 1971/72 net imports of grain by the Nine totalled 13 million tons, it can be expected that this net deficit will rapidly disappear. U.S. grain exports to the three in 1972 amounted to $135 million. Total exports to the Nine were $624 million.

B. Rice

1. How the CAP Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

Only two EC countries produce rice. French production has been declining rather steadily due to greater profitability of other crops and now accounts for less than 10 percent of EC production. Italy is the primary producer. While Italian production has been rising rapidly, Italy does not produce long grain varieties such as those supplied by the United States and the Far East and generally preferred by consumers in northern Europe. The CAP, therefore, has established progressively greater protection and has provided export subsidies to facilitate sales in third markets. The first rice regulations were adopted in 1964; the present regulations date from 1967.

(2) PRICING AND PREFERENCE

A target price is established for brown rice in Duisburg. This is the wholesale price which German rice millers would be expected to pay for Italian rice. On September 1, 1972, the beginning of the 1972/73 marketing year, the brown rice target price was $229.63 per metric ton. This Duisburg target price is protected from import competition by threshold prices for brown rice and milled rice at Rotterdam. Intervention prices for paddy rice are fixed for the production centers of Arles and Vercelli at $141.14 per ton. The difference between the intervention and target price provides a generous margin to cover the cost of husking (converting paddy rice to brown rice) and the cost of transport to Duisburg.

The threshold price on September 1, 1972, for short grain brown rice, similar to the main Italian varieties was $225.39 per ton. A threshold price for "long grain" brown rice was set at $247.11 per ton. The difference between these two prices, however, does not reflect the difference between short grain and long grain varieties on world markets, but rather the "normal" difference between Italian short grain rice and Italian "Ribe", which is a large kernel variety more comparable to a medium grain standard. Thus levies on long grain rice are generally set by price quotations for cheaper medium grain varieties and are higher than would apply if a true long grain standard were used. Threshold prices on milled rice are higher than those on brown rice in order to reflect the higher value of milled rice and to add a margin of protection for EC rice millers. For September 1, 1972, milled rice threshold prices were $293.68 for short grain and $346.02 for long grain.

Licenses must be obtained on all imports or exports. Levies and subsidies may be fixed in advance. In 1972, at Thailand's request, the EC began to discriminate in allowing a 90 day period of validity on licenses for imports from the Far East, compared to 30 days for imports from other parts of the world. On complaint by the United States the 30 day period was extended to 60 days.

More important preferential treatment is granted in the form of reduced levies on imports from the Malagasy Republic,[1] Surinam and Egypt.

(3) PRODUCTION AND DISPOSAL

Export subsidies are fixed weekly or monthly for rice and rice products, respectively, in the same manner as for grains and grain products. Subsidies are also available for the domestic purchase of broken rice for the manufacture of starch or for brewing.

B. IN THE NINE

Under the transitional arrangements for the United Kingdom, Denmark, and Ireland, price differentials are set like those for grains. However, since the new members do not produce rice the differentials are based on market prices in the new members relative to EC threshold prices. The differentials are deducted by new members from the EC levy on imports from third countries; the differentials also serve as the subsidy on exports of Italian rice to the new members.

The differentials were calculated in relation to a representative period when world prices were considerably lower than they were on February 1, 1973, the date the differentials were to be first applied. Consequently, as in the grain sector, the differentials had to be adjusted temporarily so as to be approximately equal to the levy:

New member price differentials, compared to the difference in EC threshold prices and world market prices at Rotterdam, Feb. 1, 1973

[Dollars per metric ton]

	Husked rice		Milled rice	
	Short	Long	Short	Long
EC-6:				
Threshold price	230.28	251.99	299.87	353.18
World price	208.67	199.12	225.39	198.14
Levy	21.61	52.87	74.48	155.04
3 differential:				
Basic	107.50	124.31	138.97	180.23
Temporary	22.80	55.37	74.91	153.09

[1] The eighteen African associates signatory to the Yaounde convention also receive preferential treatment. However, the Malagasy Republic is the only significant rice exporter.

Preferences granted to Egypt are now also granted by the new members. Surinam and Madagascar will receive preferential treatment by the new members after 1975. At that time certain Commonwealth suppliers now receiving a preference in the U.K. may receive preferences from the Nine.

2. Impact on the United States

While yields have been somewhat inconsistent, total rice acreage has increased every year since 1964 when the CAP was introduced. Acreage increases in Italy have more than offset a decline in France. Production has therefore shown a significant upward trend even though the harvests for 1971/72 and 1972/73 were reduced. Consumption by the Six on the other hand has shown a slight downward trend over the same period. Italy has had to look for new export markets, one of the most important of which has been the United Kingdom. The United Kingdom buys substantial quantities of short grain milled rice, and Italy has increased its share of the British market from less than one percent in 1970 to 24 percent in 1971 and 15 percent in 1972.

British imports of rice, 1970-72

[Thousands tons]

	Total	United States	Italy	Other
1970	123.8	61.1	0.7	62.0
1971	145.2	54.7	35.2	55.3
1972	126.8	47.1	19.2	60.5

The following table shows the development of Italian and French rice production under the CAP (husked basis):

[Thousand metric tons]

	Average	
	France	Italy
1956-60	86	546
1967-68	97	596
1968-69	67	518
1969-70	76	689
1970-71	73	655
1971-72	61	714
1972-73	41	601

The United States managed to increase rice exports to the EC for several years after the introduction of the CAP. "Common" pricing did not begin until September 1967 and until then, Germany and the Benelux countries were permitted to reduce levies substantially on imports from third countries. Sales to France were boosted as France discontinued discriminatory import licensing. Supplies from some Far

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Eastern sources dropped. Since 1969, U.S. exports to the Six have declined, due in part to the height of variable levies and in part to more competitive pricing by other third country suppliers. U.S. exports to the Six were $31 million in 1969 and $17 million in 1972.

The most important effect of EC enlargement appears likely to be the further inroads of Italian rice into the important British market. U.S. exports to the U.K., Denmark, and Ireland in 1972 totaled $12 million, of which the U.K. accounted for all but $347,000.

C. Poultry, Eggs, and Pork

1. How the CAPS Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

All EC countries produce poultry, eggs and pork. The CAP establishes a very high level of absolute protection which has favored the expansion of intra-EC exports, especially Dutch and Belgian exports, at the expense of third countries. Dutch exports, in particular, to third countries have been expanded. Regulations for these products began in 1962; present regulations date from 1967.

(2) PRICING AND PREFERENCE

Intervention on domestic markets is limited to pork. Pork prices follow a cyclical pattern, and the intervention price level (which is the same throughout the EC) generally becomes effective only at the low end of the cycle. Export subsidies and protection against imports, however, help to support internal market prices indirectly for pork, poultry, and eggs.

The level of protection against imports is determined in two parts. The first is a basic variable levy which corresponds to the levy on the quantity of grains assumed necessary to produce the poultry, eggs, or pork, plus an additional margin of protection. The basic levy thus compensates producers for using higher cost domestic grain as well as providing additional protection. In fact, efficient producers are overcompensated for high grain costs, since the EC assumes a greater quantity of grain than is required by efficient producers.

Since the basic levy is a function of grain prices, it does not by itself provide absolute preference for domestic pork, poultry, and eggs. Therefore, the EC has established a second element of protection: a minimum import price or "gate price." The gate price, which applies to all third country products, is not related to the domestic price level, but rather represents the EC's calculation of the "fair" cost of third country products delivered to the Community. Products offered to the Community at less than the gate price become subject to an offsetting supplementary levy.

This supplementary levy applies to imports only from those countries whose products do not meet the gate price. If a country can control its export prices and promise not to undercut the gate price, the EC will exempt that country from any supplementary levy on the products concerned. Apart from this preferential levy exemption for countries who meet the gate price, there is a small preferential levy reduction for poultry imports from Turkey.

Gate prices and basic levies are published every three months. Supplementary levies are reviewed more often and changed as needed.

(3) PRODUCTION AND DISPOSAL POLICIES

Because of the absence of domestic market intervention, export subsidies are particularly important in regulating the supply of products available to the domestic market. Export subsidies are calculated every three months and may be fixed in advance.

B. IN THE NINE

On imports from third countries new EC members collect the regular EC levy minus a price differential corresponding to the difference in grain costs between old and new members. The price differential is to be phased out by 1978 on the same schedule as for grains. The full EC gate price and supplementary levy, however, apply from February 1, 1973.

In negotiating the differentials to be applied in the trade of the new members, the U.K. was successful in obtaining a revision of the conversion factors used in calculating the differentials. The U.K. contended that less grain is required than implied in the formulas used in calculating EC levies on imports from third countries. Therefore, the differentials (but not the levies) are calculated with lower coefficients and are about 10 percent smaller than they would otherwise be. This means less is deducted from EC levies by the U.K.—i.e. British protection is higher. Also the subsidy on Dutch and Danish exports to the U.K. is smaller than it would otherwise be.

2. Impact on the United States

Production of pork, poultry and eggs has grown rapidly in all EC countries since the introduction of the CAP in 1962. Consumption has also grown rapidly with rising incomes. The following table shows the effect of the expansion of Dutch and Belgian production on trade within the EC and with third countries:

Percent of self-sufficiency in pork, poultry and eggs

	EC	Netherlands	Belgium/Luxembourg	France	Germany	Italy
Pork: Average:						
1956 to 1960	100	146	106	101	94	94
1967 to 1968	100	168	130	91	95	89
1968 to 1969	99	178	135	82	95	90
1969 to 1970	100	188	150	83	95	85
1970 to 1971	101	200	174	86	92	82
Poultry: Average:						
1956 to 1960	93	386	102	101	51	94
1967 to 1968	98	328	139	102	49	99
1968 to 1969	98	343	130	102	48	99
1969 to 1970	100	381	132	103	51	99
1970 to 1971	101	394	132	103	51	99
Eggs: Average:						
1956 to 1960	90	222	108	96	58	84
1967 to 1968	97	129	122	100	87	94
1968 to 1969	98	139	136	99	86	94
1969 to 1970	100	144	157	98	86	96
1970 to 1971	101	148	181	99	85	97

U.S. poultry exports to the Six reached $50 million in 1962, when the CAP was adopted, and declined steadily thereafter to less than $10 million in 1972. Of the $50 million in 1962 U.S. poultry exports to the Six, Germany accounted for $41 million, including $32 million of chicken and $8 million of turkey. In 1972 of the $10 million in U.S. poultry exports to the EC, Germany took $6 million, nearly all turkey. France, Italy and the Netherlands bought $1.5 million of baby chicks.

U.S. poultry exports to the Three totalled $2 million in 1972. This represents a substantial increase over 1971, when (until October) British imports from the United States were prohibited by a Newcastle disease control program. The relaxation of these controls, while accompanied by the establishment of rather high minimum import prices, would have permitted some market development. Accession to the EC will give the benefits of British market growth to the increasing exports of the Netherlands and to Denmark, which is also a major exporter.

U.S. exports of eggs to the EC are primarily for hatching, but have not grown significantly. Exports to the Six totalled $1.8 million in 1972; exports to the Three were another $1.0 million.

U.S. exports of pork have seldom been very large, but U.S. exports of lard to the Six were as much as $9.9 million in 1956 and were still $1.8 million in 1962. In 1972, U.S. exports of lard to the Six totalled $0.3 million. U.S. exports of lard to the Three mainly the U.K.—rose from $22.4 million in 1956 to $53.8 million in 1964, then dropped to $7.7 million in 1968. In 1969, the United States established an export subsidy for lard sales to the U.K. to regain our market from subsidized EC exports. By 1970 our exports recovered to $30.6 million. Beginning in 1971 the EC raised its export subsidy to record levels. U.S. exports to the Three dropped to $12.6 million by 1972. In 1973, the United States dropped its subsidy program altogether as the U.K. moved to the EC gate price and levy system.

The extension of the CAP on pork, poultry and eggs to the United Kingdom, Ireland and Denmark should largely eliminate outside suppliers from those markets. Although the United Kingdom market was opened to U.S. poultry in 1971 by the lifting of the Newcastle disease vaccine ban, it seems clear that Danish and Dutch exporters should gain the lion's share of this market. The same is true of pork and lard. High levies will apply against third country products only, while the Dutch and the Danes will benefit from export subsidies (price differentials) during the transition period. The gate price keeps outside suppliers from competing through lower prices.

D. Beef and Veal

1. How the CAPS Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

All of the Six produce beef and veal, but only the French and Dutch produce enough to have appreciable quantities for export. On the whole the Six have a deficit in beef, and the deficit has tended to increase. The explanation for this situation lies in several factors: high incomes which have brought a strong demand for beef, use of dual purpose animals so that the supply of beef is partly a function of policies aimed to regulate milk supplies, a price structure that severely inhibits modern grain feeding and which favors the slaughter of calves for veal. The first beef regulations were adopted in 1964; the present regulations date from 1968.

(2) PRICING AND PREFERENCE

Since none of the Six have been in a strong export position, the regulations for the beef sector have aimed primarily at providing support and protection during periods of low prices.

An "orientation" price is normally set annually for the year beginning April 1, for cattle and for calves. For 1972/73, in order to avoid a rise in consumer prices, orientation prices were set to increase in two steps—in April and September. These orientation prices were:

	Cents per pound [1]	
	April	September
Live cattle	36.9	38.4
Live calves	46.4	47.5

[1] Converted from units of account at \$1.08571 = UA1.00.

Member states are *authorized* to undertake market intervention (purchase of cattle, and purchase or storage of fresh or chilled beef) in certain localities whenever cattle prices on EC markets average less than 98 percent of the orientation price and are below 93 percent of the orientation price in the localities concerned. Intervention is *required* in all Member States whenever average cattle prices for the EC drop to less than 93 percent of the orientation price. Prices to be paid for intervention purchases of beef are derived from the intervention level for cattle by means of appropriate coefficients. There is no intervention for calves or veal.

Imports are subject to import duties of 16 percent ad valorem on live animals and 20 percent ad valorem on fresh, chilled, or frozen meat. In addition, if import prices are low relative to the orientation price, there may be variable levies. Prior to EC enlargement, import prices were calculated in two ways. A basic import price was calculated from a weighted average of certain cattle and calf prices in the United Kingdom, Denmark, Ireland and Austria. If, however, beef prices from another part of the world—say Argentina—were significantly out of line with this basic import price, a special import price could be calculated for imports from that country.

The EC system then provided that if both the (basic or special) import price and the average of Community market prices were below the orientation price, a variable levy would apply to all imports offsetting the difference between the import price and the orientation price. If, however, the average of Community market prices should rise above the orientation price, any applicable levy would be phased out as follows:

Average of EC prices as percent of orientation price	*Percent of applicable levy to be collected*
100–102	75
102–104	50
104–106	25
Over 106	0

The levy and intervention mechanism has not always worked well since markets are still basically nationally oriented and it is possible for one or more EC members to experience relatively low prices while the average of member state prices is high enough to preclude intervention—and vice versa (the average may be low enough to reduce or eliminate levies).

Special provisions apply for waiving levies and reducing import duties on importation of young cattle and calves for fattening, and for suspending part or all of the levies on frozen beef imported for processing. The quantity of frozen processing beef that may be imported under these provisions is strictly controlled by the issuance of import licenses against quarterly estimates of requirements.

The Community grants "indirect" preferential treatment to imports from a number of countries. Lower levies are imposed on imports of baby beef. The applicable tariff classification, however, may be used only for imports from Yugoslavia. Levies, normally calculated weekly, may be fixed 30 days in advance for imports from "distant suppliers" who have signed agreements to that end—i.e., Argentina and Uruguay.

(3) PRODUCTION AND DISPOSAL

Because of the inability of beef production to keep pace with consumption, the EC is seeking ways to give further encouragement to beef production. Cattle and calf orientation prices have been raised relatively more than grain prices, but without a reduction in grain prices it is unlikely farmers will employ grain feeding. More important, it has been necessary to raise milk prices along with cattle prices and to dispose of surplus milk with the aid of subsidies for use of skim milk powder in calf feeding. As a partial consequence of these factors there has been little incentive to shift from dual purpose animals to beef breeds, while they has been considerable incentive to raise calves on milk and slaughter them for veal instead of raising them to adult animals for beef.

In April 1973 the EC Council approved proposals by the Commission for special subsidies to convert dairy herds to beef herds.

Export subsidies are also available if needed for exports to third countries.

B. In the Nine

Since three of the four countries previously used in calculating the basic import price are now members of the EC, the levy system had to be changed. Levies are now calculated as the difference between the orientation price and a weighted average of import prices for meat (converted to live weight basis) and live animals. However, if the price of imports from certain countries is abnormally low a special import price (and hence a higher levy) will be calculated for imports from those countries.

In the new members, EC levies are diminished by the difference between the EC orientation price applicable in the Six and that applicable in the new member concerned. In intra-EC trade the price differentials apply in lieu of levies. In practice, world prices have been well above orientation prices since the beginning of 1973 so that the levy system has been inoperative.

Import duties may also be suspended if EC market prices warrant it, and duties have been suspended through much of 1972 and 1973.

Orientation prices for 1972/73 for the new members are as follows:

	Cents per pound		
	United Kingdom	Ireland	Denmark
Cattle	29.8	29.8	38.4
Calves	36.9	36.9	47.5

The British in addition continue temporarily to operate their system of guaranteed prices even though the guaranteed price for fat cattle is below the U.K. orientation price. For 1972/73 the U.K. guaranteed price for fat cattle is 27.7 cents per pound [1] compared to the orientation price of 29.8 cents per pound.[1]

Special trading arrangements between Ireland and the U.K. continue in force.

2. Impact on the United States

The following data illustrate that production of beef and veal in the Six has grown apace with consumption, so that net imports have increased:

Percent self-sufficiency: beef and veal

	EC	Germany	France	Italy	Netherlands	Belgium/Luxembourg
Average:						
1956 to 1960	92	87	102	75	106	96
1967 to 1968	89	88	112	58	107	87
1968 to 1969	89	84	107	68	104	93
1969 to 1970	89	89	107	62	117	90
1970 to 1971	89	89	109	58	124	94

[1] Converted from data in pounds sterling and units of account at £1.00 = UA 2.1644 = $2.3480.

Net imports of beef and veal

[In thousand metric tons]

	EC	Germany	France	Italy	Netherlands	Belgium/ Luxembourg
Average:						
1956 to 1960	267	134	−17	154	−12	8
1967 to 1968	534	154	−125	493	−22	34
1968 to 1969	473	225	−145	399	−24	18
1969 to 1970	533	160	−118	500	−48	27
1970 to 1971	553	171	−141	576	−68	15

U.S. exports to the EC in this sector are largely outside the levy system described above. Only fixed duties—zero for inedible tallow and hides—apply to imports of variety meats, tallow and hides. U.S. exports to the Six and the Three in selected years are shown below:

U.S. exports of bovine products

[In millions of dollars]

	1960	1965	1970	1971	1972
Items subject to both duties and levies:					
Beef and veal:					
6	(1)	1.5	0.4	0.9	1.1
3	.1	.5	.3	.7	.4
Items subject to duties only:					
Variety meats (offals): [2]					
6	14.2	34.4	42.5	50.9	58.4
3	7.8	14.0	14.7	14.7	16.8
Items duty free:					
Tallow:					
6	37.6	37.1	33.4	33.3	28.3
3	2.3	7.3	6.1	5.2	3.6
Hides, skins: [3]					
6	24.0	31.6	17.8	33.7	54.4
3	2.5	5.2	3.8	15.1	21.2

[1] Less than $50,000.
[2] Includes pork, and other variety meats as well as beef variety meats.
[3] Primarily cattle hides until 1971 and 1972 when furskins and sheepskins became more important.

On the other hand, the restrictiveness of the CAP for fresh, chilled and frozen meat when world supplies are more abundant has in the past contributed to a diversion of world exports to the United States.

Enlargement of the EC brings two major beef exporters (Ireland and Denmark) and one of the world's largest remaining unrestricted markets (the United Kingdom) within the protective framework of the CAP. For the Three there is already a net export surplus. It may be expected that the price and other incentives under the CAP will give a strong impetus to production in all these countries, thus tending to reduce gradually the net deficit of the Nine.

The United States should continue to have a good market for its traditional exports, although British duties on variety meats will rise from zero to 21 and 14 percent by 1978. On the other hand, the British duty on inedible tallow will be reduced from 10 percent to zero.

E. Dairy Products

1. How the CAP Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

Milk is the main source of daily cash income of many thousands of very small farms in the EC. According to EC agricultural census data for 1966/67, covering 6.4 million farms, 1.2 million or nearly one farm in five obtained 68 percent or more of its income from the production of bovine animals. The percentage ranges from 11 percent and 16 percent in Italy and Germany to over 30 percent in France, Belgium and the Netherlands. Of these 1.2 million farms, 38 percent were less than 12 acres in size; 59 percent were less than 25 acres. Bovine animal production is also the leading enterprise of another 1.4 million farms, 33 percent of which were under 12 acres and 57 percent of which were under 25 acres.

Most cattle in the EC serve the dual purpose of milk and meat production. The smaller farmers necessarily have to rely more on milk production, which provides a daily cash return. The CAP, therefore, aims to meet the income needs of these small farmers as well as provide a protected market for those EC members that export—mainly the Netherlands and France. The first regulations were adopted in 1964; present regulations date from 1968.

(2) PRICING AND PREFERENCE

The pricing system for dairy products is extremely complex. The system is intended, through "intervention" purchases of butter, nonfat dry milk and certain cheese, through import protection by variable levies on all products and through export subsidies, to achieve an average target price for whole milk (3.7 percent butterfat) delivered to the dairy. Whole milk itself, however, is not directly supported. The target price for whole milk, intervention prices for butter, nonfat dry milk and cheese, and the threshold prices (minimum import prices) for various dairy products are shown below as of April 1972 (the beginning of the 1972/73 marketing year):

	Cents per pound[1]
Target price: Whole milk	5.8
Intervention prices:	
Butter	88.6
Nonfat dry milk	26.6
Grana padano cheese	83.0
Parmesan cheese	90.1
Threshold prices:	
~~Whey powder~~	10.6
Nonfat dry milk	33.0
Dry whole milk	57.5
Evaporated milk	24.4
Condensed milk (with sugar)	32.6
Butter	99.1
Swiss cheese	83.7
Blue cheese	72.5
Parmesan cheese	112.0
Cheddar cheese	76.9
Gouda cheese	68.9
Lactose	21.2

[1] Prices are converted from units of account at $1.08571 = UA 1.00

Prior to 1971 the intervention prices cited were not all applied uniformly throughout the EC, because one or more EC members insisted on prices a little higher or lower than the agreed "common" level. This problem reappeared in 1971 when floating exchange rates were introduced. For 1973/74, Germany and the Benelux countries will have a "common" nonfat dry milk price about 1¢/lb lower than the level for other member states in order to offset partly the disruption of common pricing by monetary problems (See Part III).

Also in setting intervention prices for 1973/74, the EC Council made a major shift in emphasis, away from butter toward nonfat dry milk. Instead of raising both butter and nonfat dry milk prices as in past years, the Council reduced the common butter intervention price 2 percent in relation to April 1972 and increased the common intervention price for nonfat dry milk 22 percent. This shift was made because surpluses were rising faster for butter than for other products.

Variable import levies are calculated for all products monthly, and are revised more frequently for particular products if necessary. In the case of so-called "pilot" products, for which threshold prices are fixed (above), the levies equal the difference between the threshold price and lowest corresponding c.i.f. price. For other dairy products levies are derived by making adjustments in the levies for the nearest corresponding pilot product. For fresh milk, which became subject to the CAP only in 1972, the levy is derived from the levies on butter and nonfat dry milk.

In order to mitigate the effect of the levy system on imports of Swiss cheeses from certain countries, the EC has agreed to charge a fixed duty, instead of a levy, on these cheeses when special conditions (especially minimum prices) are met and the imports are from certain countries (mainly European).

(3) PRODUCTION AND DISPOSAL POLICIES

Surpluses—especially of butter—have been a major problem for the Community. The Community has found it especially difficult to avoid price increases for dairy products because of the importance of milk in the income of millions of EC farmers.

Instead the EC has paid premiums for the slaughter of very small herds and for not delivering milk to the dairy (it must be used on the farm or destroyed). It has also paid subsidies for exports of butter and other dairy products, and has made butter available at low prices out of intervention stocks for processing, export, feed use, for the armed forces and general consumption (if several months old). Intervention stocks have been donated to charitable institutions and to foreign countries as food aid.

In considering prices for 1973/74 the Commission reported that butter stocks in the Six increased by 157,000 tons in 1972, and that milk production in the Nine was currently exceeding consumption by 7 to 8 million tons. For 1973/74 the Council approved a small reduction in the butter intervention price—offset by a much larger increase in the price of nonfat dry milk—and for the first time approved a general consumer subsidy for fresh butter of about 5.5 cents per pound.

Another important subsidy is paid to dairies to reduce the price of nonfat dry milk used in calf feed. In 1968/69, the first year of "common" prices for milk, the subsidy was 20 percent of the intervention price for nonfat dry milk. In 1972/73 the subsidy was 33 percent of the nonfat dry milk price, and in 1973/74 is 39 percent. Thus the net cost of nonfat dry milk for feed in 1973/74 is 21 percent above the 1968/69 level compared to a 60 percent increase in cost (intervention price) for other uses. This subsidy has helped the EC avoid such large surpluses of nonfat dry milk, but has encouraged the production of milk fed veal to the detriment of beef.

B. IN THE NINE

As with other price supported products, price differentials operate in trade between the Three and the Six and as adjustments in levies and subsidies applicable between the Three and third countries. The price differentials are based on theoretical threshold price differences, however, rather than intervention prices:

Price differential Feb. 1, 1973

[Cents per pound [1]]

	United Kingdom	Ireland	Denmark
Whey powder	0	0	0
Nonfat dry milk	0	0	0
Dry whole milk	17.17	4.82	2.73
Evaporated milk	4.95	1.39	.08
Condensed milk (with sugar)	[2] 5.94	[2] 1.67	[2] .09
Butter	54.14	15.21	8.60
Swiss cheese	18.82	5.29	2.99
Blue cheese	18.82	5.29	2.99
Parmesan cheese	14.13	3.97	2.25
Cheddar cheese	18.82	5.29	2.99
Gouda cheese	18.82	5.29	2.99
Lactose	0	0	0

[1] Converted from units of account to \$1.08571 = UA1.00.
[2] Plus a differential for sugar content.

Intervention prices compared to the "common" level were set as follows for February 1, 1973:

	Cents per pound			
	6	United Kingdom	Ireland	Denmark
Butter	91.60	37.46	76.39	83.00
Nonfat dry milk	26.60	26.60	26.60	26.60
Cheese		(1)	(1)	(1)

[1] No intervention in 3.

Perhaps the two most important consequences of the application of the CAP to the Three are the relatively greater encouragement to production of butter and other manufactured dairy products compared to direct consumption of fluid milk, and the substantial price increases that must be made by the Three, in particular the U.K. These two factors can only aggravate the Community's dairy surplus problems.

2. Impact on the United States

The CAP has affected the United States primarily because the surpluses generated have been exported with a disruptive effect on world markets, including the American market. The following data on changes in the percentage of self-sufficiency for the most important dairy products suggests that the production and disposal policies earlier described were having some success, particularly in increasing consumption. Production had slowed somewhat in 1970 and 1971 but began to rise again in 1972. Butter stocks, which had been reduced from over 300,000 tons at the end of 1969 to 106,000 tons at the end of 1971 were back up to 400,000 tons at the end of 1972.

Percent of self-sufficiency in nonfat dry milk, butter and cheese

	EC	France	Nether-lands	Bel-gium/Luxem-bourg	Ger-many	Italy
Nonfat dry milk:						
Average:						
1956–60	97	131	76	100	93	100
1967–68	161	234	57	153	165	46
1968–69	149	226	38	164	160	61
1969–70	121	143	42	166	145	69
1970–71	132	145	47	176	182	65
Butter:						
Average:						
1956–60	101	106	180	96	94	81
1967–68	117	131	323	100	105	70
1968–69	113	119	350	109	104	63
1969–70	107	106	367	102	98	64
1970–71	105	107	345	95	96	65
Cheese:						
Average:						
1956–60	100	104	210	35	77	98
1967–68	104	109	259	54	83	94
1968–69	102	109	226	48	85	91
1969–70	102	111	218	49	86	88
1970–71	102	112	230	51	84	86

EC dairy policies have contributed to increased imports into the United States, both directly in EC exports to the United States and indirectly by diverting to the United States products kept out of the EC by the levy system. U.S. imports of dairy products from the EC rose from $37.6 million in 1967 to $49.0 million in 1972, notwithstanding the tightening of U.S. import quotas during that period as necessary to protect domestic programs.

U.S. exports of dairy products to the Six in 1972 totalled $2 million.

The extension of the CAP on dairy products to the United Kingdom, Ireland and Denmark will, as mentioned above, aggravate the surplus problems of the Six by encouraging greater production of manufactured dairy products. The pattern of world trade will be further distorted as traditional suppliers to the U.K. market are displaced by internal EC production.

The most important of the traditional suppliers to the U.K. is New Zealand, which has a temporary guarantee. The U.K. is authorized to import butter and cheese from New Zealand at special prices in the following quantities for 1973–1977:

[In metric tons]

	Butter	Cheese
1973	165,811	68,580
1974	158,902	60,960
1975	151,994	45,720
1976	145,085	30,480
1977	138,176	15,240

After 1977 some further provision may be made for butter, but not for cheese.

F. Sugar

1. How the CAP Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

Sugar beets are grown in all EC countries. In addition, the CAP makes provision for the cane sugar production of the French Overseas Departments.[1] France and Belgium are the principal exporting members.

The number of sugar millers and refiners, however, is quite limited. Sugar marketing is dominated by three firms in Germany, two firms in the Netherlands, one in Belgium, one group of firms in Italy, and one group in France. There are less than two dozen major refining companies in the Six. The CAP therefore also includes a system of production quotas designed to preserve their interests. A levy system for sugar was introduced in 1967; the present system took effect in 1968.

(2) PRICING AND PREFERENCE

In the case of sugar, both target and intervention prices are pegged to the main production areas of northern France. Threshold prices, however, are fixed for the most distant point, Palermo, Sicily, at a level that will assure a preference for French sugar there. Higher intervention prices are permitted in Italy, by way of exception.

Intervention prices are fixed for refined sugar, raw cane sugar from the French Overseas Departments, and raw beet sugar. Refiners must meet a minimum beet price in their contracts with beet growers.

Sugar prices 1972 73 (beginning July 1)

(In dollars [1] per metric ton)

Refined sugar:	
Threshold price	293.68
Target price	266.54
Intervention price	253.40
Italy	269.69
French Overseas Departments	249.82
Raw beet sugar intervention	215.51
Italy	230.50

[1] Converted from units of account at UA 1.00=$1.08571.

[1] Guadeloupe, Martinique, Reunion, French Guiana.

Sugar prices 1972/73 (beginning July 1)—Continued

Raw cane sugar intervention (French overseas departments)	217.25
Minimum beet price:	
Within quota	19.20
Italy	21.31
Over quota	11.29
Italy	13.41

Sugar levies are calculated daily in a manner similar to that for grains. The Six have not extended preferential treatment to any third countries. This policy, however, may be reassessed in the light of the accession of the United Kingdom which has had special arrangements with its Commonwealth suppliers.

(3) PRODUCTION AND DISPOSAL POLICIES

As indicated above, a system of production quotas allocated to each sugar factory or manufacturer was established in 1968. Initially, the total of the quotas was well in excess of levels indicated by previous production history.

[In thousand metric tons]

	Sum of basic quotas	Production	Human consumption	Balance
Average:				
1962-63 – 1966-67		5,897	5,521	376
1967-68		6,600	5,820	780
1968-69	6,480	6,816	5,931	885
1969-70	6,480	7,434	6,065	1,369
1970-71	6,480	7,052	6,493	559
1971-72	6,480	8,095	6,280	1,815

NOTE.—Data include French overseas departments.

As the quota system is presently operated in most EC countries, the refiner becomes liable to a tax or assessment on any production in excess of his base quota. In principle the amount of the tax should equal the cost per ton of export subsidies and other measures employed to dispose of sugar surpluses. (Surpluses are presently defined as quantities in excess of estimated human consumption or base quotas, whichever figure is larger. Small quantities are also used for feed and industrial use). In fact, the EC Council has placed a ceiling on the tax rate well below the actual disposal cost. Moreover, 60 percent of the tax may be passed on to the beet grower. The refiner may also cut the minimum price to beet growers some 40 percent for beets used to produce sugar in excess of his base quota. If a refiner produces more than 135 percent of his base quota, the excess must be exported without benefit of subsidy. Losses on this account, however, may again be at least partly passed on to beet growers since the minimum beet price is also eliminated.

Premiums are available for denaturing sugar for use as animal feed.

Chemical manufacturers who use sugar as a raw material receive a subsidy to offset the higher costs imposed by the Community support system.

Export subsidies are paid on sugar and molasses and on the sugar content of products containing sugar.

Subsidy rates, available on request, are published regularly. However subsidy rates may also be and often are established by tender and are not published. Subsidized sales may be authorized even when the published subsidy rate is zero. (This has been of particular importance in the case of molasses.)

B. In the Nine

Sugar prices fixed for the new Member States for 1972 73 are as follows:

	Dollars[1] per metric ton		
	United Kingdom	Ireland	Denmark
Intervention prices:			
Refined sugar	205.85	228.65	258.40
Raw beet sugar	160.58	194.34	230.50
Minimum beet price:			
Within quota	15.51	17.32	19.20
Over quota	11.29	11.29	11.29

[1] Converted from units of account at $1.08571 equals 1 A 1.00.

U.K. import commitments to Commonwealth Sugar Agreement countries are to continue unchanged to February 25, 1975, except that the price paid for raw cane sugar, c.i.f. U.K. ports under the agreement is to be:

	Dollars per metric ton
Feb. 1, 1973 to June 30, 1973	161.55
July 1, 1973 to June 30, 1974	171.33
July 1, 1974 to Feb. 28, 1975	181.10

In order to provide some comparability of aid during this period, any EC refiner may receive a subsidy to buy raw cane sugar from the French Overseas Departments as follows:

	Dollars per metric ton
Feb. 1, 1973 to June 30, 1973	10.10
July 1, 1973 to June 30, 1974	7.38
July 1, 1974 to Feb. 28, 1975	4.67

New arrangements for less developed Commonwealth countries are to be negotiated by 1975.

Price differentials used in trade between the Three and the Six and as adjustments in EC levies and subsidies on trade by the Three with third countries are—for sugar or sugar products:

	Dollars per metric ton	
	Refined	Raw
United Kingdom	4.76	5.49
Ireland	2.48	2.12
Denmark	0	0

Basic quotas for the Nine are set at:

	Metric tons
Germany	1,750,000
France	2,400,000
Italy	1,230,000
Netherlands	550,000
Belgium, Luxembourg	550,000
United Kingdom	900,000
Ireland	150,000
Denmark	290,000
Total	7,820,000

2. Impact on the United States

While the United States does not export sugar, the United States has been affected by EC sugar regulations in several ways. The emergence of the EC of Six as an important sugar exporter has added to the pressures on other import markets in years when world sugar supplies are abundant. The depressing effect of EC exports on free world market prices has been reflected also in the levies imposed by the EC on the sugar syrup added to canned fruit. EC regulations have led to the sale of subsidized molasses and other products to the United States, and have established import licenses for sugar beet pulp, which the United States has exported to the EC for feed.

The accession of the United Kingdom, Denmark and Ireland is important to the United States especially in terms of the restructuring of world trade as some of the Commonwealth suppliers are displaced by other EC members in the British market.

G. Olive Oil

1. How the CAP Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

Olive oil is produced and consumed almost exclusively in Italy. Because of its high price it is not strictly competitive with other oils. The CAP therefore is intended mainly to preserve the market in Italy. The support system for olive oil was introduced in 1966.

(2) PRICING AND PREFERENCE

A market target price is fixed at a level intended to make olive oil available to consumers at "reasonable" (though higher than world market) prices. This market target price is achieved with the aid of market intervention and variable import levies. Since the market target price is considered an inadequate income guarantee, the CAP further provides for a direct payment to bring the total return up to a producer target price. For 1972/73 these prices are:

	Dollars[1] per metric ton
Producer target price	1,354
Market target price	864
Intervention price	786

[1] Converted from units of account at $1.08571 = UA 1.00.

Preferential reductions in the levy are granted to several Mediterranean countries that are important suppliers of olive oil. In the case of Greece this is done by establishing a separate levy based on Greek prices. For other countries a token reduction in the regular levy is granted, plus a somewhat larger reduction if the exporting country raises its price by an equivalent amount.

(3) PRODUCTION AND DISPOSAL

Subsidies are provided to canners of fish and other products to allow them to use olive oil at world market prices.

Export subsidies are also available as necessary.

B. IN THE NINE

Enlargement of the Community required no transitional measures for olive oil. The full levy system was adopted by the new members on February 1, 1973.

The new members have delayed, for the time being, adoption of preferences for Mediterranean countries pending renegotiation of some of the agreements involved.

2. Impact on the United States

While the direct impact of the CAP for olive oil on the United States is marginal, EC efforts to support the olive oil market are sometimes raised as grounds for taxing or otherwise restricting imports of other vegetable oils and oil bearing materials.

H. Oilseeds and Oilseed Products

1. How the CAP Works

A. IN THE SIX

(1) WHO ARE THE PRODUCERS?

Oilseed production in 1972/73 is reported at 1.1 million tons. Net oilseed imports, however, have been on the order of 6 to 7 million tons.

In 1972/73 rapeseed accounted for 91 percent of EC production of oilseeds; most of the remainder is sunflowerseed. Seventy percent of the rapeseed production is in France, and another 24 percent in Germany. Virtually all of the imports enter the EC duty free under GATT concessions. In short, the CAP for oilseeds did not and cannot provide the kind of protection afforded to other products, such as grains. EC oilseed regulations took effect in 1967.

(2) PRICING AND PREFERENCE

Community preference is established by paying a subsidy to EC oilseed crushers for the purchase of domestic rapeseed and sunflowerseed. EC market prices for domestic rapeseed and sunflowerseed have been maintained at levels well above world market prices by government purchasing at intervention prices and by the payment of the subsidy mentioned above, which bridges the gap between the higher domestic price and the world market price at which imported oilseeds are available. The gap is measured by the target price in Genoa minus the c.i.f. price of imports at Rotterdam and is therefore exaggerated for the main producing areas where domestic prices are lower than at Genoa.

The pricing structure is illustrated below:

	Dollars [1] per metric ton	
	Rapeseed	Sunflowerseed
1. Target price (Genoa)...	226.37	228.54
2. Intervention price (Genoa).....	219.86	222.03
3. Intervention price (Bourges)	202.81	203.68
4. World price (Rotterdam) July 1972..	121.21	152.70
5. Subsidy (1–4)....	105.16	75.84

[1] Converted from units of account at $1.08571 equals UA 1.00

In Italy there is a further small payment to crushers to offset alleged higher costs there.

Community preference has been effective in terms of encouraging EC production of oilseeds, as may be seen from the following data:

EC production of oilseeds

	Area (1,000 hectares)	Yield (100 kg/ha)	Production (1,000 tons)
1967 to 1968...	306	20	626
1968 to 1969...	356	20	697
1969 to 1970...	409	18	737
1970 to 1971...	478	18	806
1971 to 1972...	496	21	918
1972 to 1973...	517	22	1,025

Since imports of oilseeds and oilcake are admitted duty free, tariff preferences are not possible. The EC has under consideration, however, a scheme whereby certain preferred suppliers—notably associated African countries—would be "guaranteed" a specified price for a given quantity of their oilseed (peanut) exports to the EC. If world prices should fall below the agreed price, the EC would indirectly make up the difference with respect to its imports by financial aid in some form.

(3) PRODUCTION AND DISPOSAL POLICIES

Export subsidies are available as needed.

B. In the Nine

Oilseed production in the Three is minimal, but support is available; in particular the subsidies to crushers are available for the purchase of rapeseed and sunflowerseed on the continent.

2. Impact on the United States

The United States is the major supplier to the EC of soybeans, which comprise about two-thirds of EC oilseed imports. U.S. exports of soybeans and soybean cake to the EC have grown fourfold from $204 million in 1962 to $818 million in 1972 and accounted for most of the increase in U.S. agricultural exports to the EC over that period. This unusual growth reflects the strong EC demand for inexpensive feeds and the free access to the EC market afforded by the EC's GATT commitments.

On the other hand, some Community interests have remained concerned that free access of inexpensive oilseeds and oilseed products would somehow undermine other parts of the CAP, especially undercut the market for high cost EC feedgrains. The EC has therefore considered a number of ways to curtail oilseed imports, notwithstanding GATT commitments:

1. Imposition of a tax on both domestic and imported products. The tax rate might differ, for example, as between soybean products and rapeseed products.

2. Negotiation of an international commodity agreement whereby all importing countries would apply variable levies to enforce a negotiated world price level.

3. Application of countervailing duties on imported products found to be, or presumed to be, subsidized directly or indirectly. (Such duties have in fact been imposed on rapeseed oil from East Europe and castor oil from Brazil when the price of the oil was deemed to be abnormally low in relation to the price of the oilseed.)

Another proposal advanced by the French in 1973 when world market prices rose to unusually high levels was to provide subsidies for soybeans similar to those now granted to EC crushers of rapeseed and sunflowerseed. Soybeans are now grown only experimentally in Europe, but could be grown commercially if subsidized sufficiently. Some French estimates are that up to 300,000 tons could be produced within three years.

I. Cottonseed

1. How the CAP Works

EC production of cotton—all in Italy—is so small that cotton was not defined as an agricultural product in the Treaty of Rome. In order to provide some assistance, therefore, it was necessary to provide aid to cottonseed rather than cotton. The aid consists of a direct payment of about $35 an acre.[1] The aid was initiated in 1971.

2. Impact on the United States

About 9,000 acres were devoted to Italian cotton production in 1972/73. Total cotton production was estimated at 900 metric tons.

The United States exports little cottonseed, but cottonseed oil exports are important: $7 million to the Six and another $7 million to the Three in 1972.

[1] 80 units of account per hectare for 1972/73 at UA 1.00=$1.08571.

The United States exported $70 million of cotton to the Nine in 1972. The EC is considering a scheme for cotton, like that mentioned for peanuts, whereby preferred (African) suppliers would be guaranteed a specific price on a certain quantity of exports to the EC.

J. Flax and Hemp

1. How the CAP Works

Flax and hemp are minor crops grown for fiber, although support obviously also benefits flaxseed and hempseed oil. Flax production in 1972 is estimated at 66,400 metric tons, 80 percent of which is in France. Smaller amounts are grown elsewhere in the Community, primarily in Belgium and the Netherlands. Belgium is the leading processor. EC hemp production in 1972 totalled 5,400 tons, nearly all in France.

Support has been provided since 1970 in the form of direct payments equivalent, in 1972/73, to $59 per acre of flax and $51 per acre of hemp. These subsidies were increased 11 percent for 1973/74.

2. Impact on the United States

The CAP for flax and hemp has had little impact on U.S. exports so far, particularly in view of the small quantities produced.

U.S. exports to the Six of flaxseed and linseed oil totalled $25.9 million and $2.5 million, respectively, in 1972. Another $2.0 million of linseed oil was exported to the Three in 1972. The level of these exports, however, has depended more on the quantities available for export than on EC policies.

K. Tobacco

1. How the CAP Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

Tobacco is grown in Italy, France, Germany, and Belgium. In 1972 production totalled 142,000 metric tons, 59 percent in Italy and 33 percent in France. In these latter countries, production, trade and manufacture of tobacco has been in the hands of government monopolies. As a condition to the establishment of a CAP for tobacco in 1970, these governments agreed to relinquish their legal control over leaf tobacco production and wholesale trade by 1976. The CAP for tobacco was adopted mainly to meet Italian interest in Community support for this product.

(2) PRICING AND PREFERENCE

Over 60 percent of EC tobacco consumption is imported, subject to fixed import duties bound in GATT. Community preference is therefore established by subsidies rather than by variable levy import protection. The EC fixes a "standard" or "norm" price, which is a producer target price, for each of 20 types or groups of tobacco types. An intervention price is fixed for each of these types at 90 percent of the standard price. Intervention prices, when first established in 1970, were some 15 percent above the prices received in 1969 by growers. Intervention prices, however, are considerably above the prices of comparable imported tobacco.

Therefore, in order to assure the purchase of domestic tobaccos, a premium is paid to EC buyers of domestic leaf. The buyer's premium ranges from 60 to 80 percent of the intervention price for most types. Hence it not only assures that domestic tobacco is competitive in price with imported tobacco, but it makes domestic tobacco far cheaper to the EC buyer than it used to be before the CAP entered into force.

The import duty is divided into two classifications. The rate is 15 percent subject to a maximum of 70 units of account per 100 kg. (38¢/lb.)[1] on tobacco valued at more than 280 u.a. per 100 kg. ($1.53/lb.). This classification was originally intended to cover only cigar wrapper leaf, but now includes increasing amounts of highly processed cigarette leaf. The rate for the remaining classification is 23 percent subject to a maximum of 33 u.a./100 kg. (18¢/lb.)[1] and a minimum of 28 u.a./100 kg. (15¢/lb.)[1] The majority of U.S. tobacco enters at the maximum rate of 33 U.A./100 kg.

Twenty-one percent (in 1971) of EC tobacco imports by volume, however, are subject to no duties or restrictions because they originate in countries with which the EC has preferential trading arrangements. The principal preferential suppliers are Greece, Turkey and the EC's African associates.

(3) PRODUCTION AND DISPOSAL POLICIES

The abandonment of monopoly controls over production in France and Italy and the replacement of the monopolies' administratively guaranteed market by high premiums to buyers led the EC to adopt provisions to prevent an excessive increase in support costs. The tobacco CAP provides that if quantities purchased by intervention agencies exceed a specified percentage of production, the EC Council may decide, for the varieties in question, such measures as a cut in the intervention price or a limit on intervention purchases, and in an extreme case a cut in the buyer's premium.

Provision is also made for export subsidies. Export subsidies announced for the first time in 1973, for two types.

Another factor affecting the consumption of tobacco is the excise tax policy applicable to cigarettes and other manufactured tobacco products. In Germany, which bought 58 percent of U.S. tobacco exports to the Six in 1972, the excise tax has been based on the quantity of cigarettes produced, whereas in other EC countries the tax has been based on value—a procedure which discourages the use of high priced raw materials such as the United States supplies. The EC is now trying to standardize the tax system and has agreed so far that excise taxes must be at least 25 percent on a value basis.

B. In the Nine

Since none of the new EC members produces tobacco, EC regulations were adopted in full on February 1, 1973. Transitional arrangements exist only in respect of the tariff. In the U.K., however, the principal charges applied to tobacco imports are fiscal charges rather than customs duties *per se*. The Accession Treaty requires no adjustment in these charges until 1976 or later—until agreement is reached on standardization of excise tax systems. The U.K. fiscal charge must then be converted to an internal tax. No agreement has been attempted, however, even within the Six, on standardization of tax rates.

[1] Converted at UA 1.00=$1.20635.

Preferences extended by the U.K. to less developed Commonwealth suppliers also remain unchanged for the moment. The EC is now preparing, however, for negotiations with the less developed countries previously associated either with the Six or with the U.K. with a view to combining these preferential systems. Preferences by the Three for Mediterranean suppliers are also to be negotiated.

2. Impact on the United States

The United States has been concerned that EC tobacco policies will lead to an expansion of EC production and will induce manufacturers to shift to cheaper types of tobacco and to shift to tobacco from preferred suppliers. The expansion of EC production is already evident.

Production, which had been declining, is now rising again:

	Area (1,000 hectares)	Yield (100 kg/ha)	Production (1,000 tons)
Average:			
1956-60	88.4	17.5	155.1
1967-68	77.6	18.6	144.6
1968-69	76.3	17.7	135.1
1969-70	70.1	19.0	133.3
1970-71	66.0	20.5	135.5
1971-72	67.5	19.8	133.9
1972-73	71.7	19.8	141.8

U.S. exports of tobacco to the Six have shown significant growth—to $168.5 million in 1972, compared to $149.0 million in 1967, and $105.5 million in 1962. However, the increase since 1967 is 13 percent compared to a 44 percent increase in U.S. tobacco exports to the rest of the world.

U.S. exports of tobacco to the Three totalled $169.2 million in 1972, of which $132.6 million went to the U.K. In considering the impact of EC tobacco policies on U.S. exports to the enlarged Community, several factors stand out: (1) the market in the Three, which is as large as the market in the Six, will pay buyers premiums for the use of lower cost tobaccos; (2) the number of preferential suppliers will be increased within a few years by the combining of U.K. and EC preferential systems; and (3) an excise tax system based to some extent on value will be applied to the new members as well as the Six.

L. Fruits and Vegetables

1. How the CAP Works

A. In the Six

(1) WHO ARE THE PRODUCERS?

Obviously all EC members have an interest in the fruit and vegetable sector. The specific products in which they have an interest, however, vary from country to country. The relationship of production to consumption in each member state is indicated below for the sector as a whole and for some particular products:

Production as percent of consumption 1970–71

	EC	Italy	France	Germany	Netherlands	Belgium/ Luxembourg
All vegetables	99	111	95	47	88	117
Fruit, excluding citrus	88	120	101	54	82	67
Apples	99	113	141	61	96	82
Pears	102	125	103	52	113	94
Peaches	102	135	108	9	0	8
Citrus fruit	52	125	1	0	0	0

(2) PRICING AND PREFERENCE

Fruits and vegetables have clearly not been given the priority for protection that has been allotted to grains and livestock products. This situation is owing to the fewer number of farmers involved, the diversity of specialized interests and other factors. However, while the first regulations governing fruits and vegetables were adopted in 1962, major new provisions have been added every few years after that in order to strengthen the support and protection afforded.

Import duties apply to all products, and for many the rates are bound in GATT.

Since 1962 the most important products have been further protected from import competition by "reference prices," which in effect serve as minimum import prices. When, after certain adjustments, the price of an imported product from a particular country is found to be selling below the reference price, the EC imposes an offsetting "compensatory tax" on that product when imported from the country in question. Compensatory taxes have been applied relatively infrequently and never yet against American products because the latter have been relatively high priced. Since this system was first implemented, however, it has been made more automatic in its application; reference prices have been extended to more products and have been raised to higher levels. These changes combined with two devaluations of the dollar greatly increase the likelihood that American products will be affected in the future.

An interesting feature of this system since 1972 is that compensatory taxes may be assessed on the basis of prices for domestic products rather than imports if the latter are sold on wholesale markets other than those on which price quotations are normally collected.

In 1967 the EC introduced a support system which functions in the first instance through producer organizations. Member States were to give aid for the establishment of producer groups that would be able to hold their members produce off the market at price levels not to exceed ceilings set by the Member States. In addition, for the most important products (approximately the same products for which which reference prices are fixed), the EC Council fixes "base prices" and "purchase prices" each year—the former an average of recent market prices, the latter a considerably lower figure at which under certain conditions Member States would begin to buy up produce withheld from the market by the producer groups. In effect, the system seeks to provide more even marketing of fruits and vegetables with government intervention, if necessary, at distress prices. This system, too, has been strengthened by easing the conditions for government intervention, by increasing the number of products covered by base prices and purchase prices, and by increasing these prices.

Processed fruits and vegetables have yet to be brought completely within the Common Agricultural Policy. The common external tariff applies in all cases, and is often fairly high (20 percent or more ad valorem).

In addition, for products packed with added sugar or syrup, there is a variable levy on the calculated added sugar content. This levy is now changed every three months and is relatively low during periods when world sugar prices are high, as at present. On the other hand, the method used in calculating the quantity of added sugar does not permit the importer to know in advance what the total levy will be. Hence the system tends to be far more restrictive than it appears.

Agreement was reached only in June 1973 on a Communitywide system of protection to replace national quantitative restrictions that have been applied to a greater or lesser extent by each Member State to processed fruits and vegetables. The common system will establish minimum import prices which will be used to trigger compensatory taxes for the most sensitive products including citrus juice, canned peaches, and tomatoes and tomato products. The EC Council has also adopted and implemented "escape clauses" under which, if the EC has difficulty marketing a product, imports may be restricted by licenses. Licensing has been applied to restrict imports of apples when domestic production was in surplus and to restrict imports of tomato concentrates which were said to cause difficulty for the marketing of domestic tomatoes.

Preferential tariffs apply to many fruits and vegetables. Duty reductions vary depending on the product and the country of origin. In the case of citrus fruit, most of the Community's imports enter from Mediterranean countries at preferential rates ranging from 20 to 60 percent of the most-favored-nation rates. In June 1973 the EC Council voted to reduce the preferential rate further for Spain and Israel to 40 percent of the MFN rate. The reductions have been granted on the condition that during the main season of Community marketing (when reference prices apply), the prices are maintained by the exporting countries at specified levels somewhat above applicable reference prices. This provision was to be simplified in mid-1973 by an increase in reference prices in proportion to the increase in the margin of preference. The effect of this arrangement is to guarantee a high unit profit to the preferred supplier during seasons when reference prices apply and to assure a price preference on the EC market in other seasons. In either case the arrangement affords a commercial advantage to the preferred suppliers.

(3) PRODUCTION AND DISPOSAL POLICIES

EC fruit and vegetable marketing is intended to function insofar as possible through producer groups. Aid to their formation and operation is a basic part of the CAP. At present, producer groups account for only about 30 percent of EC production of fruits and vegetables.

When surpluses are withdrawn from the market, they may be donated to charity or provided to institutional feeding. They may also be made available to the processing industry at low cost. As a result, EC processed fruits and vegetables are occasionally offered on world markets at very low prices. In the case of Italian oranges, for which marketing methods are said to be inadequate, the EC has authorized the payment of special subsidies, not only for processing but also for marketing fresh oranges within the EC.

Since 1970, export subsidies have been made available for fresh fruits and vegetables. Export subsidies have been available for certain processed products since 1966 on a national basis at the request of a Member State government. Since 1970 processed products have been eligible for export subsidies on a Community-wide basis.

B. IN THE NINE

In adopting the CAP for fruits and vegetables, the Three will eliminate import duties between themselves and the Six and will adopt the common external tariff in five annual steps, generally beginning January 1, 1974.

All other elements of the CAP went into force in the Three with no transition on February 1, 1973.

Quantitative restrictions maintained by the Three on fresh fruits and vegetables had to be eliminated on that date. The Treaty of Accession provided that when these restrictions were removed, if producer prices in the new member were higher than the base prices in the EC, the new members could replace the quantitative restrictions with a surcharge on imports equal in principle to the price difference. The surcharge is to be phased out in equal stages by 1978. It is presently applied on fresh apples and pears at very high initial levels, further adjusted in a discriminatory manner with regard to the customs duty. For example, for the August-December season when most U.S. trade enters, 1973 U.K. charges on fresh pears are:

[In percent]

	Ad valorem equivalent	
	On United States pears	On Italian pears
Custom duty	2.5	2.5
Surcharge	23.0	23.0
Adjustment	10.5	−2.5
Total	36.0	23.0

2. Impact on the United States

U.S. exports of fruits and vegetables fluctuate to some extent with available supplies. In general exports have increased:

Average U.S. exports to the EC

[In millions of dollars]

	1961-63	1964-66	1967-69	1970-72
Fresh fruits	19.8	22.4	22.0	21.2
Citrus	18.5	19.8	20.7	20.3
Dried fruits	8.1	9.2	8.2	11.0
Fruit juices	0.4	4.3	8.5	11.7
Canned fruit	25.8	30.8	18.7	22.2
Other fruit	1.3	1.5	1.1	1.0
Vegetables	25.1	24.4	16.2	23.4
Nuts	2.4	3.3	5.5	27.0
Total	88.9	95.9	80.2	117.5

The five main problems raised for United States exports by EC policies on fruits and vegetables are:

(1) Reference prices apply to fresh fruits, including among others oranges, lemons, apples, pears, grapes. U.S. prices have been above reference prices so far, but reference prices are rising and U.S. prices have dropped with dollar devaluation so that the possibility that U.S. products will be affected is greatly increased.

(2) Recently enacted minimum import prices on certain processed fruits and vegetables may lead to taxes or restrictions on U.S. products. Implementing regulations have not yet been adopted.

(3) Export subsidies have resulted in unusual offers of EC apples at low prices in Latin America and Scandinavia. Subsidies on processed tomato products have increased competition for U.S. products in Canada, our principal export market. Concern has been expressed by U.S. exporters at the high level of EC export subsidies on almonds.

(4) Preferential import duties on oranges have contributed to a 50-percent drop in U.S. sales to the EC of Six from 1969 to 1972. U.S. sales to the rest of the world increased over this period.

(5) Levies on the sugar added to canned fruit have made it impossible for traders to determine in advance the amount of import charges to be imposed on canned fruit sales to the EC.

M. Hops

Eighty five percent of Community production is in Germany. Imports are subject to fixed duties. In December 1972 the EC authorized the first payment, for the 1971 crop, at 250 u.a. per hectare ($110 per acre). If surpluses arises, the regulations provide that the EC could limit this aid to a specified area. Quality standards and certification are also required for both domestic and imported products.

Hops production in 1972 was estimated at 34,000 tons for the Six, of which 30,300 tons was grown in Germany. Another 10,200 tons was produced in the U.K. in 1972. U.S. exports of hops to the Six amounted to $4.6 million in 1972, and $2.2 million to the Three. The United States also imports hops from the EC: $9.2 million in 1972, of which $8.6 million came from Germany.

N. Seeds, Bulbs, Plants, Flowers

Protection for domestic seed producers is provided primarily through the registration and quality certification of desired varieties. In principle, no seeds can be marketed in the EC without prior growth trials and acceptance on EC varietal lists. Import duties are zero or low.

Imports of seed corn may be subject to a compensatory tax if priced below a reference price. Third countries that guarantee to respect this price may be exempted from the tax.

For certain grass seeds and flaxseed the EC provides a direct payment to producers. The payment is large: from 6 to 82 percent of U.S. prices as of July 1972 when the first subsidies took effect.

U.S. exports of field and garden seeds in 1972 totalled $15.4 million to the Six and $3.3 million to the Three.

The Netherlands, Italy and France are major exporters of cut flowers. The Dutch are the largest producers and exporters of flower blubs. Quality standards apply, as well as minimum export prices for flower bulbs.

Flower bulbs are an important EC export to the United States. U.S. imports in 1972 of flower bulbs totalled $17.9 million from the Six and minor amounts from the U.K.

O. Wine

France and Italy are the major producers, accounting for 48 percent and 45 percent, respectively, of the production of the Six in 1970/71. Important production areas, however, are also found in Germany and Luxembourg. France in particular is a major importer as well as exporter of wine. Imports are mainly less expensive wines imported in large containers. Exports are more largely bottled quality wines.

Wine production has always been highly protected in the EC, and it was therefore difficult to divise a common policy that would facilitate intra-Community trade. Regulations requiring the collection of statistics date from 1962. Production and marketing regulations were initiated in 1970.

To facilitate removal of intra-EC trade barriers the Community was divided into five regions. Different production standards apply in each region. Government intervention, primarily in the form of aid to storage, may be granted in any region when average producer prices for any of six types of wine fall below a specified level.

Protection against imports from third countries is provided by a host of measures, including certification as to production methods, reference prices and compensatory taxes, and the common external tariff. In practice, the compensatory taxes have an effect comparable to variable levies. Certain countries, however, are exempt for particular types of wine for which these countries have agreed to respect the reference price. In addition, imports from a number of countries receive a preferential duty rate.

The new members of the EC do not produce wine.

Wine is a major export of the EC to the United States. U.S. imports of wine from the EC totalled $148 million in 1972, up from $44 million in 1962. EC restrictions (including national restrictions before 1970) have largely excluded U.S. wines from the EC market.

P. Silk

On behalf of Italian silk production, the EC instituted a subsidy in 1972: $32.57 per box of silkworm eggs.

Q. Fish

Fishing and fish marketing fall under the purview of the Common Agricultural Policy.

One basic area of regulation concerns equal access of Member States to each other's fishing grounds except for certain areas reserved for coastal fishing. The EC Council may also regulate fishing seasons and the type of equipment used. Provision is made for financial assistance to fleet modernization, research and development, etc.

The second basic area of regulation concerns marketing and market support. Aid may be provided to producer groups that undertake market support or stabilization by withholding fish from the market.

Government market support is limited to the principal varieties of fresh, chilled and frozen fish. Government support is based on the establishment each year of an orientation price (which may have seasonal variations) at the wholesale level, or for tuna an average producer price. Government support may then take various forms—reimbursement of producer groups for withdrawal of certain fresh fish from the market, purchase of sardines and anchovies, aid to private storage of certain frozen varieties, and deficiency payments for tuna.

Protection against imports is provided by the common external tariff and for certain varieties by reference prices. Imports whose prices are calculated to be below their reference price may be suspended, limited, or subject to a compensatory tax. In a few instances, the EC has authorized Member States to retain national quantitative restrictions.

Export subsidies are available.

U.S. exports of fresh and processed fish in 1972 totalled $23 million to the Six and $28 million to the Three. The most important varieties were salmon and shrimp.

R. Other Agricultural Products

1. Subject to the CAP

In 1968 the EC Council agreed that most of the remaining products defined in the Rome Treaty as agricultural require no particular support or protection beyond that afforded by the common external tariff. Accordingly, a regulation was drawn up which provided that henceforth these products would be subject to common policy (no national restrictions or supports could apply) and only the common external tariff would apply. The EC now proposes to amend this policy by providing export subsidies for breeding animals. Some other commodities subject to this regulation but not eligible for export subsidies are: dry peas, beans and lentils, dates, tropical nuts, cocoa, coffee, tea, spices, inedible tallow, meatmeal, and feeds and feeding materials not containing grains or milk.

2. Not Yet Subject to the CAP

A few agricultural products still remain subject to national regulation. Generally they are considered sensitive enough by one or two member states that the EC could not provide for free trade with tariff protection only. Yet the EC members as a whole have so far been unwilling to provide for Community-wide support or protection. However, market regulations are being planned for several of these products.

The most important agricultural products not yet covered by the CAP are sheep, mutton and lamb, horsemeat, potatoes, dehydrated alfalfa, chicory, honey, bananas, and alcohol. Of these products, the EC Council has agreed to establish a regulation for alcohol by August 1, 1973.

S. Non-agricultural Products

The EC has also provided that a wide range of processed foods and industrial products, such as starches and chemicals, are also subject to variable import levies and export subsidies corresponding to the levies and subsidies that would apply to the agricultural ingredients. That is, to offset the higher cost of EC supported grains, milk, sugar, and eggs, EC manufacturers of many products (e.g, candy and chocolate, biscuits, noodles, cake mixes, cereal or milk based baby food, breakfast food, other processed foods, starches and glazings) are protected not only by a fixed tariff but also by a variable levy on the grain, milk or sugar contained in these products. The manufacturer may also obtain an export subsidy on the grain, milk, sugar or eggs contained in the manufactured product.

III. Exchange Rate Changes and the CAP

Just as the elimination of trade barriers between the Member States requires agreement on the price support levels to be applied in each Member State, so the maintenance of these price relationships requires stable exchange rates. Otherwise, intra-Community customs charges must be reintroduced.

For example, in 1969 France devalued the franc 12.5 percent. A product supported at an intervention price of 100 francs in France could upon devaluation be shipped to an intervention agency in another Member State and sold for the equivalent of 112.5 francs. Or it could be exported with a subsidy to a third country and reimported into another Member State with a levy and still be sold more profitably than in France. Similarly a Frenchman would have had to pay 112.5 francs for an imported product that should cost only 100 francs. Therefore rather than change French support prices abruptly, for products subject to intervention prices France applied offsetting export taxes and import subsidies for two years both in trade with other Member States and in trade with third countries. Support levels were raised in stages over this period to restore the relationships required by common pricing.

In 1969, Germany revalued the mark upward by 8.5 percent. A product supported in Germany at an intervention price of 100 marks could be imported from other Member States and third countries who could sell it to Germany after revaluation for the equivalent of 91.50 marks (levy paid, in the case of third countries). Germany, however, in contrast with France, agreed to reduce support prices almost immediately to the "common" level. Germany was authorized to compensate farmers for the lower prices by means of special payments for structural and social assistance for four years.

In May 1971 Germany and the Netherlands found it necessary to allow their currencies to float (upward in value). This time, since international monetary uncertainties seemed likely to continue for a while, it was not considered possible to adjust support prices. Consequently Germany and the Netherlands instituted a system of import surcharges and supplementary export subsidies on products affected by the price support system.

Common prices, as well as import levies, export subsidies and other payments are denominated in "units of account," then officially equal to the United States dollar. Hence the amount of monetary surcharge or subsidy needed to offset the floating of the mark or the Dutch guilder in relation to the unit of account was calculated weekly from the percentage change in these currencies in relation to the dollar.

In the Smithsonian Agreement of December 1971 new exchange rates were fixed for the dollar; however it was not until May 1972 that the parity between the dollar and the unit of account was changed to $1.0857 = UA 1.00. As a consequence, variable levies, calculated in units of account, were automatically increased on products priced in dollars and the monetary surcharge cut. For example, a shipment valued at $100 before devaluation might pay a levy of $80 and a surcharge in Germany of $13.57. After devaluation the same shipment would pay a levy of $88.57 and a surcharge of $5.

Since with floating exchange rates no two Member State currencies necessarily float up or down by the same percentage, different surcharges and subsidies may be necessary between each Member State and each other Member State and third countries for the same product. At one point, in February 1973 following the second dollar devaluation, the EC Commission was calculating 56 different surcharges for each product. This system broke down because the Commission found itself unable to publish the changes on a timely basis. Two revisions were made by June 1973 to reduce the number of calculations necessary and to transfer the responsibility for calculation to the Member States as far as possible.

Nevertheless the system is highly vulnerable to further monetary pressures and the Member States are largely unwilling or unable to consider price adjustments to restore common pricing. A small movement in this direction was made at the end of April 1973, when Germany agreed to forego part of the 1973/74 price increases agreed for the milk sector and Italy agreed to raise prices by 1 percent.

On June 29, 1973, Germany announced a 5.5 percent revaluation of the mark, so that yet another adjustment in the system was necessary in order to leave German price levels unaffected.

A permanent solution may await, as Germany insists, an EC agreement on monetary union, in which there is either a single currency or all currencies are interchangeable at fixed rates. Monetary union, however, implies that no EC member can devalue or revalue to fight a depression or to curb inflation or for any other reason. So far, no EC country has been willing to renounce this right.

In the meantime, the surcharge system and changes in the dollar—unit of account relationship imply an automatic increase in variable levies to offset any benefits the United States might expect to gain from devaluation. For example, on March 1, 1973, a German importer of U.S. corn would have paid a levy per ton of DM 139.81, adjusted for monetary changes to DM 143.94. At 1970 exchange rates, the German importer would have paid a lower levy, with no adjustments, of DM 89.63. Monetary adjustments correspond to a 61-percent increase in levies in this case.

IV. Consumer Protection

Consumer protection legislation remains on a national basis, although the Community is making an effort to standardize national laws in a wide variety of areas.

In the field of animal health the Community has so far adopted directives to standardize national laws governing intra-Community trade and trade with third countries in cattle, pigs and meat from these animals, and poultry and poultry meat. The directives concern health standards for trade in live animals, slaughter and meat cutting, and inspection of animals and meat.

In the field of plant health there is little Community legislation to date except for a directive specifying residue levels in the use of diphenyl as a preservative on citrus fruit. The Commission has been working for many years, however, to reach agreement on the use of pesticides and other agricultural chemicals.

In the field of food health the Community has agreed on recognized lists of food colors, preservatives and antioxidants. Directives are under study concerning emulsifiers, stabilizers, and many other chemical additives. In addition, there are a great many proposals to set Community standards for the manufacture and packaging of specific products such as chocolate and confectionery, fruit juices, soups, jams and jellies, butter, margarine, bread, noodles and macaroni, honey, and beer.

The Community has also adopted directives regulating or restricting the use of additives in animal feeds.

V. Reform of the CAP

In designing the CAP the Member States had in mind the primary need to eliminate trade barriers inside the Community. Consequently, the CAP aims above all to regulate prices. However, it became apparent within a few years that a price policy alone could not at the same time promote efficiency and maintain the income of very small farms, or increase prices of farm products at a pace with rising costs without adding to inflation and surpluses.

In December 1968, the Commission published a memorandum to the Council recommending large and expensive programs to reform the structure of farming in the EC. The memorandum—known as the "Mansholt Plan" after Sicco Mansholt, EC Commission Vice President and from 1958 to 1972 Commissioner with responsibility for agriculture—called for the expenditure of some $2.5 billion per year over 10 years in programs to withdraw from production about 5 million hectares (equivalent to one-third of the farm land in Germany), reduce the number of farmers by half, and restructure the remaining farms into larger and more efficient units. After an initial period of debate the objectives of the memorandum were generally accepted, but the recommendations were not adopted because the Member States were not in agreement over the cost, how the authority and benefits should be distributed, whether the specific proposals would meet the objectives and, finally, whether the improvement in productivity contemplated would in fact permit a reduction in surpluses and support costs.

In May 1971, the EC Council agreed on guidelines for a more limited structural policy. Specific directives to implement those guidelines were finally adopted in April 1972.

The first of these directives concerns selective aid to full-time farmers who present a plan for the modernization of their farm over a period of six years and who can demonstrate that they have the professional ability, including the keeping of adequate accounts, to achieve it. In fact relatively few farmers meet the standards of eligibility.

Another directive calls for grants to farmers between 55 and 65 years of age who agree to stop farming. The grant is limited to $724 per year[1] for single farmers and $1,086 per year[1] for married farmers to age 65 only. In theory, farmers over 65 years are to be covered by national insurance programs. In addition Member States are authorized to pay a grant for the farm land released.

Member States have the option further to limit the aid provided under these first two directives to certain regions most in need.

A third directive provides funds for vocational advisers and technical training, including aid in the keeping of accounts. In principle some further assistance in retraining should be available from the European Social Fund.

Still to be worked out are proposed programs for regional development aimed at subsidizing the development of industry in low income areas, and aid to hill farming.

In the meantime, other studies have appeared in Europe, which parallel or even go beyond the recommendations in the Mansholt Plan.

In August 1969, the French Government published the report of the Vedel Commission, which had been appointed in 1967 to study the problems facing French agriculture. The Commission's recommendations not accepted by the French government were that by 1985 the number of French farms should be reduced by 75 percent and the French agricultural area cut by more than one-third. Grants should be given to modernize the farm structure and for social assistance including pensions and retraining. Moreover, prices should be reduced, in particular for grains and sugar.

In May 1972, the EC Commission released a report on the competitive ability of the European Community. The report was prepared in 1971 at the request of the EC Commission by a group of experts headed by Pierre Uri of the Atlantic Institite. The "Uri Report's" recommendations - not accepted by the European Commission - were to reduce prices of products in surplus and compensate farmers by direct income subsidies graduated by size of farm. The cost of such a policy was estimated at less than $3 billion per year.

The EC Commission has itself suggested certain revisions in EC price policies, particularly in connection with 1970-71 price proposals e.g. maintaining the level of protection against third countries but making modest cuts (1 to 2 percent) in intervention prices for grains, allowing intervention only in the last four months of the marketing year, replacing the present intervention price structure for grains, by a single price based on export ports. These ideas were aimed mainly at shifting the burden of surplus disposal to the export market.

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[1] Converted from units of account at $1.2065 = UA 1.00.

Finally, when the Commission was preparing price proposals for 1972/73 and 1973/74, Altiero Spinelli, one of the Italian Commissioners suggested that support prices be raised only for livestock products and that direct payments of about $8 per acre be granted to farmers for about the first 50 acres planted to grains.

Certain other limited proposals put forward by the Commission in recent years have been adopted—especially in the milk sector: premiums for the slaughter of dairy cattle or non-delivery of milk to the dairy, premiums for converting dairy heards to beef herds, an increase in the support price for nonfat dry milk relative to that for butter.

VI. Financing

The cost of agricultural support is met through the European Agricultural Guidance and Guarantee Fund, established in 1962. The expenditures of the Fund account for the lion's share—76 percent in 1973—of the total Community budget. The Fund was budgeted to spend an estimated $3.7 billion[1] in 1973 out of total budgeted Community expenditures of $4.9 billion.[1]

The most essential feature of the Fund is that there is no limit on expenditures. The annual budget figure is no more than a guess as to what may be required in the light of estimates of Community surpluses and trends in world prices. When, for example, the EC seizes the opportunity to sell large stocks of butter on world markets, there is a corresponding unanticipated drain on Community resources. On the other hand, if there is an unexpected rise in world prices, there is a corresponding unexpected drop both in receipts from variable import levies and in expenses for export subsidies.

Variable levies accounted for only 16 percent of estimated total Community revenues for 1973. The breakdown of estimated Community revenues for 1973 was as follows:

Community revenues:	*Million of dollars*[1]
From the Six:	
Levies on agricultural imports	829
Taxes on over-quota sugar	179
Custom duties	1,573
From the Three	501
Coal and steel levies	22
Employee contribution	21
Direct contributions of member states	1,987
Miscellaneous	11
Total	5,121

[1] Converted from units of account at $1.20635 = UA 1.00.

From July 1962 through 1970, expenditures by Community institutions were covered by contributions from the Member States according to different formulas. The Fund was financed separately, in part by levy receipts. A transition began in 1971 with the development of an independent revenue system for the Community, under which the Fund is no longer financed separately. Community revenues consist of

[1] At $1.20635 = UA 1.00.

The Guidance Section has also been used for special expenditures such as livestock censuses, disease control, aid to the formation of producer groups, and "compensation" to one or another Member State for delays in extending the CAP to a product of interest to that country.

The level of expenditures of the Guidance Section, in contrast with with the Guarantee Section, has been limited. The present ceiling is 285 million units of accounts ($344 million [1]). However, from 1969 to 1972 the EC held part of these funds in reserve with a view to using them to finance Community programs for structural reform. The latter were not drawn up until April 1972 (see Part V). At the end of 1972, the reserve totalled 438 million units of account ($528 million [1]).

EC Member States also continue to spend large sums on a national basis on behalf of agriculture, although they are prohibited from engaging in price support and other commodity oriented programs that have a direct impact on competition. Spending by national governments is on the order of $5 billion annually, and covers capital investments such as irrigation, roads, electrification, and water supply, and covers other areas such as pensions and insurance, information and extension services, research, inspection, statistical and economic services, forest management, etc.

VII. Evaluation

Any common agricultural policy must meet at least two objectives: it must make possible the elimination of barriers to trade in agricultural products between the Member States and it must be able to assure farmers of an adequate income. The Rome Treaty adds several other objectives for the CAP: to ensure the rational development of agriculture and optimum use of resources (especially labor), to stabilize markets, to guarantee regular supplies, and to assure reasonable prices to consumers. The Rome Treaty does not consider the relationship between these objectives and the objective of harmonious development of world trade referred to in the section of the Treaty on commercial policy.

Each of the foregoing CAP objectives raises certain problems, however, either for the EC itself or for third countries, or both. These problems are discussed below.

Elimination of duties and restrictions on trade between the Member States is by definition essential to the economic integration of these countries. The issue is the extent to which competition must be regulated in this process. On the one hand, it is economically disruptive for one Member State to provide relatively more assistance to its farmers than another Member State. On the other hand, it is difficult to cut support without reducing income. Thus the objective tends to become the establishment of a common level of assistance at the highest level previously existing in any one Member State.

Under the Common Agricultural Policy, regulation of the price level was adopted as almost the *only* form of assistance. Hence agricultural support prices tended to be fixed at the highest levels previously prevailing. (Direct payments are used only for products for which EC output is relatively small: oilseeds, durum, etc.) One important consequence is that the average level of protection against agricultural imports also tends to be higher than that previously

[1] $1.2063 = UA 1.00.

all levies received by the Member States (less a small percentage to cover the cost of administration) and a share of the customs duties received by the Member States, which will rise to 100 percent in 1975. Until 1975, if levies and customs duties received by the Community are not sufficient to meet expenditures, the Community will assess additional funds from Member States according to a highly complex burden-sharing formula. The formula takes account, among other things, of the size of the country and the extent to which customs receipts reflect imports from transshipment to other Member States. Beginning in 1975 this assessment, if required, will be met by allocating to the Community up to 1 percent of the value-added tax collected in the Member States.

Expenditures for agriculture are handled by the Fund under two sections: the Guarantee Section and the Guidance Section

The Guarantee Section pays for export subsidies and price support operations such as market intervention, denaturing premiums, buyers premiums for tobacco, aid to oilseed crushers, processing, storage and disposal operations, etc. Expenses under the Guarantee Section in 1971 are reported as follows:

[In millions of dollars][1]

	Export subsidies	Other	Total
Grains	310	204	514
Rice	53	1	54
Dairy products	323	292	615
Oilseeds, olive oil	2	121	123
Sugar	69	51	120
Beef, veal	19	2	21
Pork	53	3	56
Poultry, eggs	13		13
Fruit, vegetables	8	51	59
Wine	(2)	31	31
Tobacco		80	80
Fish	(2)	(2)	(2)
Flax, hemp		1	1
Processed foods	20		20
Total	870	836	1,706

[1] Converted from units of account at $1.08571 = UA 1.00.
[2] Less than $500,000.

The Guidance Section pays for assistance to improvements to the structure of production, storage and marketing. Such assistance has been given in the form of grants to projects drawn up by the Member States and financed in part by the beneficiary, in part by the national government, and 25 percent (exceptionally 45 percent) by the Guidance Section of the Fund. In future years priority will be given in the Guidance Section to financing the structural reform measures described in Part V above.

Finally, according to the Rome Treaty, the CAP should provide for reasonable prices to consumers. In the past the EC has tended to define reasonableness in relation to income. For example, from 1960 to 1970 the proportion of private domestic consumption in the EC spent on food, beverages and tobacco—notwithstanding high and rising farm support prices—declined from 41 percent in 1960 to 34 percent in 1970.

At the same time, however, EC consumers have had to pay prices for farm products far above those in other countries. The excess cost has in the past been variously estimated at up to $8 billion per year. (The figure would, of course, be lower in 1973 in view of the unusual world market conditions.) In 1973 inflation became a major factor in many countries and appears to have led the EC to take more account than usual of consumer interests when support prices were fixed for 1973/74. On the other hand, except for minor crops, the EC has not seriously considered the use of direct payments as an alternative to high prices. Reasons often advanced by the EC are the administrative difficulty of establishing direct payments for a large number of small farmers, and the political difficulty of shifting the cost from an indirect burden on consumers to a direct budgetary expenditure.

Finally the CAP may be assessed in terms of the principles of common pricing, Community preference, and common financing. Common pricing, in fact, has broken down under the impact of international monetary conditions that have forced changes in exchange rates and hence the intra-EC price relationships. How common pricing is implemented in the future in relation to assistance to farmers outside of direct price support will largely determine whether EC farm income objectives will be met. Community preference has to do mainly with the form and margin of protection against imports from third countries. At present the forms of protection and the level are often tied closely to the internal price system in spite of the problems this procedure raises both for the EC and for third countries. U.S. spokesmen have consistently maintained that to meet the basic objectives of the CAP and the EC does not need some of the forms of protection nor as high a level of protection as it has chosen. Common financing has been viewed by the EC mainly in terms of funding joint expenses, whatever they may turn out to be. The benefits consequently tend to be distributed largely to those countries which are the largest producers, rather than, say, to the countries whose farmers are poorest or most numerous. Much of the debate over reform of the CAP in fact reflects this situation, and any substantial change in the CAP involves a thorough assessment not only of the costs, but of the distribution of benefits.

As far as U.S. exports are concerned, the impact of the CAP can be seen in part from the following data:

existing. Thus the fixing of common prices for the agricultural products tends to overcompensate for unequal prior support levels and tends to make the cost structure more rigid. The latter result is particularly important in relation to the objective of maintaining and raising farm income. As an economy grows, and income in general rises, more of the increase is usually spent on nonagricultural products. The demand for resources to produce nonagricultural products helps push up the prices of farm inputs as well, and farm costs usually rise faster than farm prices.

If farm income is not to decline, the cost-price squeeze must be offset by higher productivity. However, unless resources (land, farmers) are then removed from agriculture, farm output will rise with higher productivity and will tend to depress prices. If, in addition, prices are maintained or increased by government regulation, production will rapidly outpace consumption, surpluses will appear, and support costs will mount. These criticisms in fact underlie the recommendations in the Mansholt Plan and other studies mentioned in Part V. The EC, however, has been rather slow to respond to these recommendations, particularly those calling for lower prices and lower protection.

High prices for farm products also tend to raise prices for farm land and capital so that cost reduction is prevented. Trying to maintain farm income by raising prices tends therefore to be selfdefeating and to lead to demands for further price increases, in particular from small farms who cannot easily find financing for capital improvements and who must otherwise dig into existing capital in order to live. Similarly, farmers are discouraged from livestock production because of the relatively greater investment required.

A further objective of the CAP stipulated in the Rome Treaty is the rational development of agriculture and optimum use of labor and other resources. The EC has considered this objective, for example, in trying to raise prices relatively more for livestock products than for grains, since demand for the former appears the stronger. Little thought has been given to reducing grain prices and other costs for the benefit of livestock producers and other consumers. However, as described above, if per capita income in the agricultural sector is to be maintained, productivity must be raised in a manner that permits resources to flow out of agriculture and that permits the structure of the remaining agricultural production to change markedly.

This problem cannot be resolved by minor price adjustments, nor even by action solely within the agricultural sector. Jobs must be available outside agriculture for farmers to move to. To a large extent these jobs must be available in the areas where the farmers now live, in part in order to provide a supplement to farm income rather than requiring farmers to abandon entirely their homes and livelihood. The EC is well aware of this aspect of the problem, but has only begun to consider ways to deal with it on a common "Community" basis.

Two other objectives specified in the Rome Treaty are market stability and the guarantee of regular supplies. Both of these objectives raise questions of interpretation. In the extreme, market stability can mean total insulation of the market from the effects of changes in supply and demand, while a guarantee of regular supplies could be interpreted as a policy of self-sufficiency. To the extent that the CAP is developed to this extreme the interests of third countries are clearly excluded.

Commercial U.S. Agricultural Exports

[Dollar amounts in millions]

	1962	1972	Increase (percent)
To the six	$1,125	$2,108	87
To others	2,430	6,230	156

If food aid exports are added, the picture is obscured somewhat, especially for wheat. Nevertheless, the following table also shows that for most categories of exports U.S. trade increased faster with the rest of the world than with the EC. The major exception is oilseeds and oilcake, for which the EC market expanded more rapidly in large part because of the high cost of grains under the variable levy system.

[Dollar amounts in millions]

	Total U.S. agricultural exports					
	To the 6			To others		
	1962	1972	Increase (percent)	1962	1972	Increase (percent)
Wheat and flour	$64.3	$94.8	47	$1,069.6	$1,360.8	27
Feedgrains	317.6	394.1	24	470.5	1,128.0	140
Rice	14.2	16.9	19	138.5	371.2	168
Poultry	50.3	10.6	-79	25.5	37.6	47
Oilseeds, oilcake	220.1	915.5	316	410.8	1,176.6	186
Tobacco	105.5	168.5	60	267.9	503.5	88
Fruits, vegetables	94.4	133.9	42	354.7	644.5	82
Cotton	106.0	61.0	-42	412.9	441.8	5
Other	178.3	313.2	76	721.3	1,631.1	126
Total	1,150.7	2,108.5	83	3,880.7	7,295.1	88

The effect of variable levies can be judged from the following comparison:

[Dollar amounts in millions]

	U.S. Agricultural exports to the EC-6		
	1962	1972	Increase (percent)
Variable levy items	$480	$539	12
Nonlevy items	671	1,570	134
Total	1,151	2,109	83

From the viewpoint of third countries like the United States, the effect of the CAP is to squeeze out imports as domestic production rises, and to disrupt markets in third countries by subsidizing exports. U.S. exports to the EC (Six) subject to variable levies averaged $478 million during the last 3 years (1970–72)—down 20 percent from 1965–67, the last 3 years before complete freedom of intra-EC trade for most variable levy products. Total U.S. agricultural exports to the EC averaged $1.8 billion during 1970–72, up 22 percent over 1965–67 and 61 percent higher than in 1960–62 (before the CAP was established). Nearly all of this increase in U.S. agricultural exports to the EC can be accounted for by oilseeds (especially soybeans) and oilcake which rose from $176 million in 1960–62 to $788 million in 1970–72. These products are not subject to a variable levy and enter the EC duty free.

U.S. agricultural exports to the three new EC members in 1970–72 averaged $566 million, of which $179 million corresponds to grains and other products now under the variable levy system. The direct impact of EC enlargement on U.S. agricultural exports can be foreseen fairly clearly in that the adoption of higher prices and protection by the new members is certain to lead to the same problems already experienced with the present members. It is expected, for example, that the enlarged Community will no longer be a net importer of grains within 10 years.

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