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TARIFFS AND TRADE

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REPORT OF COMMITTEE II ON THE CONSULTATION
WITH THE EUROPEAN ECONOMIC COMMUNITY

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INTRODUCTION

1. In accordance with the Decision taken by the CONTRACTING PARTIES on 7 December 1961, on the implementation of the Conclusions of Ministers (BISD, 10S, page 32), that Committee II be authorized to consider, when so requested, the carrying out of consultations with particular contracting parties on substantial changes in their agricultural policies, and in accordance with the request of the Council made at its meeting from 24 to 31 May 1962, the Committee carried out a consultation with the European Economic Community to examine the changes in the agricultural policy of the member countries of the Community resulting from the progressive establishment of a common agricultural policy in respect of five groups of products. The Committee had before it the final text of Regulations 19-24 inclusive of the EEC, made available by the Community. These provide for the progressive establishment of a common organization of markets in respect of cereals, pig meat, eggs, poultry meat, fruit and vegetables and wine respectively.
2. In addition to these regulations, the Council of Ministers and the Commission of the EEC had taken a number of decisions elaborating the principles laid down in the basic regulations. The member States of the EEC had also taken a number of decisions adapting their national legislation and deciding on those matters which in the basic regulations were reserved to them. In view of the complexity of these various regulations and decisions, a paper had been prepared to give a description of the common agricultural system for cereals, pig meat, eggs, poultry and fruit and vegetables. This paper was before the Committee as documents COM.II/134, dated 24 September 1962 and COM.II/134/Add.1, dated 26 September 1962.
3. In conducting the consultation, the Committee based itself on the Plan for Consultations contained in Annex A of the first report of the Committee (BISD, 8S, page 127) and adopted by the CONTRACTING PARTIES at their fourteenth session. The consultation was completed on 3 November 1962.
4. The representative of the EEC introduced to the Committee the general characteristics and objectives of the common agricultural policy. He stated that the Treaty of Rome required the member States gradually to develop a common agricultural policy. In drawing up this common policy, member States found themselves confronted with the difficult task of aligning six different types of agricultural policy. The five regulations now before the Committee were the first steps in this process. In framing this new system and in the choice of the instruments necessary for its implementation, the member States had continually kept in mind their international obligations and, in particular, their obligations under the GATT. In his view the system as it had been designed was compatible with the General Agreement.

5. In respect of the functioning of the system, the representative of the EEC stated that, particularly as regards the extent of protection, the system was not inflexible since the protection depended on the one hand on internal prices, which in the final stage would be one common price, and on the other hand on world prices. This, however, did not apply to fruit and vegetables for which a different framework had been decided.

6. The representative of the EEC enumerated some basic principles which governed the movement toward a common policy. He referred to the free movement of merchandise; with the abolition of all other barriers to trade the intra-Community levy constituted the sole measure of protection within the Community in respect of cereals, pig meat, eggs and poultry. In respect of fruit and vegetables, a progressive liberalization in stages was provided. He further mentioned the single price system, under which prices, still different in the member countries at the initial stage, would gradually be approximated so that finally one common price would exist. Under this approximation of prices, the intra-Community levies would progressively disappear. In respect of fruit and vegetables, a harmonized price would be achieved by progressive tariff reduction within the Community.

7. The representative of the EEC referred in the third place to intra-Community action and responsibility. This went further than simple co-ordination and regulation, and it implied that general directives were given by the Council in respect of a number of periodic decisions, while the European Commission which was endowed with certain powers of regulation, had to decide on day-to-day matters. The Commission in this work was assisted by management committees. He further mentioned the harmonization of conditions of competition between member States. This was effected by the intra-Community levy, which took into account differences in production costs. Furthermore, national practices contrary to the principles of the Common Market, such as government subsidies and aids, were to be eliminated.

8. He explained that a system of minimum price guarantees to the producer was only applicable to those cereals for which an intervention price was set. No market intervention was provided in respect of eggs, poultry and fruit and vegetables. He further referred to the common régime in respect of external trade which was governed either by customs duties or by variable levies which at the same time replaced other barriers to trade. The import levies, although in the initial stages different in height in the member countries, were calculated according to the same principles. As regards fruit and vegetables, however, the import régimes were gradually being co-ordinated. In respect of trade, he finally referred to the system of refunds on exportations. Such refunds in principle would be equal to the amount of the import levy.

9. The Committee was appreciative of the introduction given by the representative of the Community which gave a general outline of the principles on which the regulations before the Committee were based.

10. Some members of the Committee noted the view expressed by the representative of the Community that the common agricultural policy system, as it had been designed, was compatible with the General Agreement. They understood that it was not the proper task of the Committee to examine this issue, so that they did not think it appropriate to comment on this point. Further they emphasized that their silence in this respect should not be taken to mean that they concurred in this view.

11. Some members of the Committee stated that the common agricultural policy gave rise to a great number of special problems for their countries. These problems would attain even greater force if, in the event of its enlargement, the Community was placed in a predominant position in international trade.

12. Some members of the Committee were aware of the fact that similar systems in respect of other agricultural products, which were equally of great importance to their trade, were still being established and they urged that the points which were brought up in the course of the present examination be taken into consideration in formulating the other regulations. The representative of the Community took note of this observation.

TECHNICAL DISCUSSION

A. Cereals

13. In introducing the common cereal policy, the representative of the Community explained in general terms the price system and the related trade mechanism. The centre of the price system was the indicative price, on which production was to be orientated. The indicative price, therefore, had a decisive influence on the formation of agricultural income and contributed essentially to the internal price formation. Furthermore, the indicative price was the central pivot for all other instruments. He explained that the intervention price and the threshold price were directly related to the indicative price and changed in the same direction as the indicative price. The intervention price was a direct guarantee to the producer and it was the price on which the stock-piling agencies based their interventions. The threshold price was intended to protect the indicative price. It depended on the indicative price and was consequently different in each member State as long as the indicative prices differed. The threshold price constituted the upper limit for determining the levy charged at the frontier. The lower limits for the determination of the import levy were the c.i.f. prices or the franco-frontier prices. The c.i.f. prices reflected world prices, with their excessively unstable character, and differences in the qualities offered on these markets. On the basis of these c.i.f. or franco-frontier prices the most favourable purchasing terms were calculated in order to determine the amount of the levy. The difference between the threshold price and, in the case of third countries, the most favourable c.i.f. price constituted the import levy.

14. The representative of the EEC went on to explain that the trade technique evolving from the price system consisted of a single measure, the import levy. The levy system had been adopted as one of the most adequate means of dismantling the measures previously existing. The levy was variable since it was the link between the stable Community price system and the unstable world market. Under the levy system access for third countries to the Community market was non-discriminatory. He explained further that the refund system was designed to enable member States equally to compete with third countries in world markets. Although in principle it was the converse of the levy, some limitation to this principle was laid down. He went on to say that an element of preference was introduced in intra-Community trade by the application of the montant forfaitaire. This amount was also used as an instrument of adjustment during the transitional period, so as to avoid large-scale upheavals in trade flows within the Community. The amount would be adjusted depending on trade developments.

15. The representative of the EEC concluded by affirming that the system in essence was a liberal one, complying with the objectives set forth in the Preamble of the General Agreement. The techniques in themselves were perfectly neutral and general economic implications were only due to the range of prices.

Indicative price

16. Some members of the Committee noted that for the marketing year beginning July 1962, upper and lower limits of the indicative prices had been established, so as not to increase the difference between the highest and the lowest guaranteed producer price prevailing in the member States in the preceding year. They pointed out that the indicative prices which eventually had been fixed were appreciably higher than the lower limits. The representative of the Community explained that it was not possible to compare directly the guaranteed prices received by producers in the preceding year and the present indicative and intervention prices, since the latter two prices were determined at the wholesale stage. To bring producer prices and wholesale prices to a comparable level, allowance had to be made for transport and marketing costs. The result would show that the intervention price in the area with the greatest short-fall in Germany (the Ruhr area) was identical to the minimum guaranteed producer price 1961/62 in that area. Similarly, the intervention price in the area with the greatest surplus in France (Chartres) was identical to the minimum guaranteed producer price of the preceding year. These examples made it absolutely clear that the prices to be received by producers as compared to the preceding year had not been increased. He explained further that, the basic indicative prices were fixed in each member State for the area with the greatest short-fall, while the lower limit established by the Council referred to the indicative price in the French surplus area.

17. Some members of the Committee expressed the view that the policy of maintaining high producer prices, as compared to those in more efficiently producing exporting countries, in addition to favourable weather conditions, had largely contributed to the recent increase in production in the Community. The

representative of the Community pointed out that the new indicative prices referred to the 1962/63 production year so that no relation to the present record crop existed. The present good harvest furthermore, was not restricted to the countries of the Community but was general in the northern hemisphere. Figures of cultivated area in the six member States together showed a great stability and increases in production were only due to increases in yield, which had developed from 1.8 ton/ha. in 1950 to 2.7 ton/ha. in 1962.

18. In reply to a question as to which standard quality the basic indicative prices and the upper and lower limits of the indicative price applied, the representative of the Community stated that the upper and lower limits of the indicative prices had been determined for the quality standards effectively applied in the member States during the marketing year 1961/62; these were national standards. In the same way for 1962/63, member States individually determined the national standard quality for which the basic indicative price was fixed. Necessary adjustments of the qualities of domestic cereals to this standard quality were made according to national criteria determined by the member States concerned. He went on to explain that a common standard quality had been determined which was uniform for all member States; the national threshold prices were fixed for this common standard. The criteria for the common standard quality had been determined in such a way that the common standard corresponded to the average quality of the cereals produced in the Community. Adjustments to the common standard quality were necessary in case of intra-Community trade for the calculation of the franco-frontier price. Such adjustments were made according to standardized criteria accounting for differences in moisture content, specific weight and percentage of impurities between the national and the common standard quality.

19. In reply to a question why no upper limit to indicative prices had been established for maize, the representative of the Community stated that maize was only produced in appreciable amounts in two member States. It, therefore, did not appear necessary to fix an upper limit of the indicative price. Moreover, at the time of establishing these limits, prices of maize tended to fall. The lower limit had been fixed on the basis of prices actually received by maize producers in Italy during the years 1960/61 and 1961/62, so that in this case also the status quo had been maintained.

20. Some members of the Committee raised the question whether the new price system applied to the total production in the Community without limitation. The representative of the Community explained that the regulation provided the possibility for a member State to maintain a certain quantitative limitation to the application of the price system, if such limitations were applied at the entry into force of the regulation. Under this provision the regulation relating to a "quantum" applied by France was maintained for the marketing year 1962/63, which meant that in respect of the products concerned, the producer could receive for his total production an average price lower than the price established under the new system. This kind of regulation, however, had to be adjusted, so that at the latest, at the end of the transitional period, the common price system would be applied in full. The basic regulation contained no general provisions on quantitative limitations.

21. In reply to a question as to what the situation under the cereals regulation was in respect of North African producers of durum wheat, who until recently received special advantages of access to the French market, the representative of the Community stated that the situation in respect of Algeria was uncertain but imports of durum wheat from Morocco and Tunisia were treated in the same way as imports from third countries.

22. A member of the Committee noted that in respect of durum wheat, a special system of aids, decreasing in the first three years, was applied and he enquired whether a system of continuous aids was not to be preferred to a system involving higher domestic prices. The representative of the Community replied that in respect of durum wheat also the existing price situation had been maintained. The regulation, however, was still provisional and a definite regulation in respect of durum wheat, production of which was only important in two member States, was to be laid down before July 1965.

Intervention price

23. A member of the Committee referred to the passive rôle of the intervention agencies, which were obliged to buy any quantity offered to them at the intervention price and he enquired whether the agencies could also operate actively by buying at prices higher than the intervention price. The representative of the Community replied that as a general rule, the intervention agencies bought at the intervention price. The possibility was not excluded, however, that in special circumstances, such as in anticipation of price disturbances in future months, intervention agencies would effect purchases at prices slightly exceeding the intervention price. In reply to a further question on the publishing of details on stocks and on purchase and sale operations of the intervention agencies, the representative of the EEC stated that he saw no difficulty in publishing such information.

24. Some members of the Committee noted that the intervention price was the price (at the wholesale stage) producers would receive in any case and that the member States were free to determine the margin between the basic indicative price and the intervention price at a fixed percentage ranging from 5 to 10 per cent. It was stressed that this margin was of obvious importance to third countries and the question was raised how a single margin was going to be determined. The representative of the Community explained that no decisions in the field of price approximation had been reached, but endeavours would be made gradually to align the prices and to arrive at a single method of determining a common intervention price.

Threshold price

25. Some members of the Committee were interested to know how the threshold prices in the member States were made up. The representative of the Community by way of example, explained the calculation of the German threshold price of wheat valid in August 1962. The basic indicative price applicable in Duisburg amounted at that time to DM.475.50 per ton. Transport costs and handling charges necessary for bringing a thousand kg. of wheat from the fixed point of entry (Emmerich) to Duisburg were determined; at lowest costs, at DM.0.50 and DM.3.00 respectively. The amount of DM.472.00 thus arrived at, had to be adjusted in order to allow for the difference between the national standard quality, for which the indicative price was fixed, and the common standard quality, which was the basis for the threshold price. This quality difference, taking into account differences in moisture content, specific weight and percentage of impurities, was established at DM.8.00. The amount of DM.480.00 thus achieved was increased by DM.4.00, being the montant forfaitaire, so that the threshold price for soft wheat¹ had been fixed at DM.484.00 a ton.

26. In commenting on the way in which threshold prices were established, some members of the Committee observed that the objective of the threshold price was to afford sufficient protection to the national indicative price. A threshold price of DM.480.00 would, in the given example, have afforded sufficient protection against external suppliers. However, since the Community wished to give an intra-Community preference the level of DM.480 would not have been sufficient vis-à-vis exporting member States. The Community was faced with a choice either of over-protecting against external suppliers by adding to the amount of DM.480, or under-protecting vis-à-vis intra-Community suppliers. It was noted that the Community had made the former choice. The representative of the Community replied that there had not been a possibility of making a choice. If the montant forfaitaire had not been incorporated in the threshold price, it was evident that the possibility of achieving the basic indicative price in the importing member States was ruled out in advance.

27. In reply to a question as to how the threshold price of wheat flour was fixed, the representative of the Community explained that this price was made up of various factors. Firstly the value of the soft wheat used for processing was taken. A quantity of 1,400 kg. of wheat, being the agreed average necessary for producing 1,000 kg. of flour, (an extraction rate of about 72 per cent,) was established as a common processing coefficient. The wheat value had to be calculated on the basis of the threshold price for wheat reduced by the montant forfaitaire. This reduction by the montant forfaitaire was necessary in order to place millers using external wheat and millers using wheat produced in the member States in exactly the same competitive position. The wheat value changed in accordance with the monthly adjustments of the threshold price to the sliding scale of the indicative price. Secondly, an amount was taken into

¹The term "soft wheat" in this report is to be interpreted as "wheat, other than durum wheat".

account representing the average total costs of milling. An amount of 18.75 accounting units per 1,000 kg. of cereals to be used for processing was determined as an agreed average of the milling costs in the member States. In the third place an amount intended to ensure the protection of the processing industry was taken into account. This amount, fixed at 18.75 accounting units per ton of flour represented about 10 per cent of, for example, the threshold price of flour applied by Germany. From this amount thus established the value of mill offals was deducted. The quantity of mill offals obtained per ton of flour was established at an agreed amount of 372 kg. The price to be taken into consideration was the lowest average monthly price obtained for mill offals in the preceding year. The amount established after this deduction constituted the threshold price.

28. The representative of the Community went on to explain that the element of protection of 18.75 accounting units was to be reduced within the Community annually by two fifteenths, i.e. 2.50 accounting units, as from July 1962. The means by which this intra-Community reduction of the protection was to be effected was the montant forfaitaire. Consequently, the montant forfaitaire for flour must not be lower than the cumulative amount reached every year in the reduction of the level of protection of the processing industry; that is to say, not lower than 2.50 accounting units for the year 1962/63, 5 accounting units for the year 1963/64, etc. In this way, the montant forfaitaire would ultimately reach a level of at least 18.75 accounting units at 1 July 1969, by which time the amount of the protection of the processing industry vis-à-vis the member States would be zero. At 1 January 1970, i.e. the beginning of the single market stage, the intra-Community levy for flour would disappear altogether, including the montant forfaitaire. The deduction of the increasing montant forfaitaire from the levy in intra-Community trade would not in itself affect the level of the threshold price, and the appropriate levy applicable to third countries, including the margin of protection of 18.75 accounting units, would continue.

29. The representative of the Community explained further that the montant forfaitaire was established annually in such a way as to ensure that trade between member States would develop gradually and regularly. This could necessitate the fixing of the montant forfaitaire at a level higher than the level resulting from the annual reduction by two fifteenths of the elements of protection. In this case, the additional amount would be added to the amount of the threshold price. For the first year of application, the amount of the montant forfaitaire for flour had been fixed at an amount equal to the two-fifteenths annual reduction of the element of protection, i.e. at 2.50 accounting units. Therefore, no additional amount had been added to the threshold price.

30. The representative of the Community elucidated the way the threshold price of flour was determined by the following example:

Threshold price of wheat in Germany reduced by the <u>montant forfaitaire</u> per ton of wheat	DM 480.00
Value of 1,400 kg. of wheat	DM 672.00
Milling margin	DM 77.00
Margin of protection	DM 75.00
	<u>DM 824.00</u>
Deduct: Value of 372 kg. of milling offals	DM 83.50
	<u>DM 740.50</u>
Add: Amount of the <u>montant forfaitaire</u> exceeding the amount resulting from the annual reduction of the element of protection	DM 0.00
	<u>DM 740.50</u>
Threshold price applicable 30 July 1962 per 1,000 kg. of flour	<u><u>DM 740.50</u></u>

31. In connexion with the explanation given, some members of the Committee pointed out that in the calculation of the threshold price for wheat flour, the wheat value element plus the second element equivalent to the milling costs already afforded a full protection to the milling industry in the Community vis-à-vis external millers concerning all their costs. Beyond this, an element of protection was incorporated in the threshold price amounting to 18.75 accounting units or DM.75 per ton. This element alone already afforded a margin of protection higher than an ad valorem tariff of 19 per cent; but the fact that this protection was supplementary to the equalization of wheat prices made the total amount of protection afforded to the milling industry considerably higher, and well over 100 per cent of the milling margin. These members of the Committee further pointed out that the amount representing the milling costs of 13.75 accounting units per 1,000 kg. of wheat or DM.77 per 1,000 kg. of flour represented total milling costs and as such included again a further element of protection. A fourth factor of protection in their view was to be found in the allowance for the value of milling offals. The value of the milling offals, for example, in the illustrative table above was the lowest price realized

for milling offals during the year 1961. By selecting the lowest price for the allowance to be deducted, an additional element of protection was afforded; this protection was further enlarged when, as in the current year, milling offals command a substantially higher price on the market. These members considered that price competition from more efficiently producing millers outside the Community was impossible under this system. The levy on flour was considered to be so high as to be prohibitive; only special imports of flour, which would be used for processing or which would be processed and re-exported, could be maintained.

32. The representative of the Community stated that the milling margin had been determined at an average of the present milling costs within the Community. He agreed, however, that, only to the extent that the milling margin was higher than that of the external processing industry, an element of additional protection was involved. He contested the view that the mechanism of deducting the value of the milling offals as such constituted an additional protection. The situation in the sector of flour, however, prevailing in the Community was a very complex one and milling capacity exceeded considerably the needs, so that certain member States had been forced to take measures reducing this capacity. He added that the member States so far had not imported flour with the exception of one member State which imported some quantities for special purposes; it was therefore conceivable that such imports could most likely be maintained.

C.i.f. price

33. Some members of the Committee expressed great interest in the way the coefficients of equivalence, necessary for the calculation of the c.i.f. price, were determined. They noted that for adjusting Community cereals to the common quality standard three objective criteria were taken into account; these were moisture content, specific weight and percentage of impurities. In respect of cereals from third countries, however, the coefficients of equivalence were expressed by a certain amount. In their view, such a determination contained some arbitrary elements and in particular in respect of countries where the quality of cereals was not strictly defined, the fixed coefficients might well have no absolute value. The representative of the Community explained that the establishment of the coefficients of equivalence in respect of third countries was based firstly on five elements: moisture content, specific weight and percentage of impurities and, moreover, on the percentage and on the quality of proteins. In the second place, the deviations in world market prices through the free inter-play of competition of various qualities entering into international trade had been taken into account over a reference period. The scale of coefficients of equivalence had been set by adjusting these two series of elements to the European standard quality. These were all objective criteria. He went on to explain

that in case of a specific offer of a certain quality at world market price, an upward or downward adjustment was made according to the scale of coefficients in order to determine the c.i.f. price on a basis comparable to the European standard. The most favourable c.i.f. value thus established constituted the basis for the calculation of the import levy. This levy subsequently was applied to the original c.i.f. price of all imports from third countries irrespective of quality or price. He explained further that this scale of coefficients was not a rigid one because developments on the world market were continuously and closely followed, while further, the entry into world trade of new important exporters might necessitate the determination of new coefficients for the quality of their cereals.

34. Some members of the Committee noted that if the scale of quality differentials truly reflected the actual price variations of the different qualities on the world market at a particular point of time, the result would be that c.i.f. prices adjusted in accordance with the quality differentials, would all be at about the same level. In this case, either all price competition would be excluded, or a price reduction by one exporter would automatically result in an increase of the levy in respect of all other exporting countries. In the latter case, exporting countries would have to accept the fact that through this external circumstance, their competitive position had deteriorated, not only vis-à-vis the other exporter but at the same time vis-à-vis Community producers, or they would have to decrease their prices accordingly. Offers of one single exporter (which might even be of relatively minor importance) would thus have a predominant influence on the competitive position of all other exporters. In the situation of a buyer's market, the system, therefore, might in their view, well have a depressing tendency on wheat prices in general. They expressed their concern that the system thus might bring into world trade new elements, hitherto not existing, which had an adverse effect both on prices as well as on access to the market.

35. The representative of the Community pointed out that in the determination of the c.i.f. price, the Commission had to take into account all offers made on the world market, which were known through the member States or by its own resources, and furthermore important international price quotations. The representative of the Community did not agree with the view that the levy system as such would have an adverse effect on prices as well as on access to the market. He explained that in determining the c.i.f. price the Commission had to take account of all offers made on the world market and not only of offers made to the Community. On the basis of these data the most favourable purchase possibility would be determined, on which the import levy was to be based. From the importer's point of view there would be no difference if offers to the Community were made at a higher price than on the world market, nor would there be a difference from the exporter's point of view if they reduced their price, in both cases the lowest price would be taken as a basis of the levy. The levy system therefore, like the tariff system, maintained free competition on the world market, where

prices could rise or fall. The levy operated upwards or downwards on the world market, depending on whether the latter was a buyer's market or a seller's market. Furthermore, it should, in his view, be borne in mind that the import levy had a character comparable to a specific duty, so that the incidence on higher priced cereals would be less than under an ad valorem tariff; this would give a lesser tendency to lowering world prices.

36. Some members of the Committee further pointed out that in view of the free fluctuations in price relationships between the various qualities on the world market, it was most likely that the scale of quality differentials did not truly reflect the actual price differences between various qualities. This would in their view mean that the system unintentionally tended to discriminate in favour of or against different exporters to the extent that one exporter might still have a certain margin for meeting increased price competition without attracting a higher levy, whilst another exporter had not. Furthermore, to the extent that an exporter, who still had some margin to manipulate his price, was obliged to lower his price, for example, in order to meet increased price competition from Community suppliers, such external factors might have a distorting effect on the pattern of price relations on the world market. The representative of the Community repeated that the scale of coefficients of equivalence was not necessarily a rigid one. It was provided that the Commission could apply different coefficients if price relations between the various qualities offered no longer corresponded to the situation existing at the time of determining the scale. If this exceptional situation was prolonged for more than three weeks, the scale of coefficients of equivalence had to be revised.

37. Some members of the Committee furthermore, pointed out the fact that third countries' exporters would never be able to compete, apart from quality differences, at a price below the indicative price increased by the montant forfaitaire, so that it would be impossible for them to meet increased price competition on the part of the Community producers, who could vary their prices, according to the domestic supply position, between the indicative and the intervention price.

Montant forfaitaire

38. In reply to various questions raised in connexion with the establishment of the montant forfaitaire, the representative of the Community stated that these amounts were fixed in such a way as to ensure a gradual and regular development of trade between member States, and on the other hand so as not to provoke a sudden and considerable diversion of trade currents. If, in the course of the marketing year development of intra-Community trade was not considered to be gradual and regular, the montant forfaitaire could be revised. In this case and in the event of the determination of the amount leading to a sudden distortion of trade currents, the montant forfaitaire could be set at a differentiated level, while respecting the principle of

non-discrimination. He stated further that the montant forfaitaire in the case of cereals constituted an element for the calculation of the threshold price. Changes in the montant forfaitaire and its ultimate disappearance at the beginning of the final stage, would be reflected in the height of the threshold price. Some members of the Committee recalled that according to the explanation given in paragraph 26 the montant forfaitaire constituted an element of over protection. They pointed out that if the growth of intra-Community trade was not considered to be satisfactory, a revaluation of the montant forfaitaire would necessarily lead to an increase of the amount of over protection.

Processed products

39. In reply to a question as to how the variable levy in respect of manioc meal was established, the representative of the Community explained that in respect of the levy for manioc meal (for use as animal feed), account had been taken of its feed value as compared with barley. If this principle had been strictly applied, the levy would have been set at a level of 70 per cent of the levy of barley. In view of particular difficulties exporting countries might have encountered, however, this percentage had been reduced to 40 per cent.

Refunds

40. In reply to various questions in connexion with the system of refunds, the representative of the Community stated that the amount of these refunds was determined by each member State, subject to the limitation that as a general rule the refund in respect of third countries in the case of cereals, should not be higher than the amount of the levy applicable at the date of exportation; in the case of flour the refund related to the quantity of basic products necessary for the processing. To this general rule there was a number of exceptions. He referred, as an example, to the possibility that the refund might be granted in the form of an authorization to import free from import levies, in the case of cereals, a quantity of the same product equal to the exported quantity; or, in the case of flour to import free from import levies a quantity of basic products corresponding to the quantity of cereals used for processing. He referred further to the exceptional situation, applicable in the case of flour only, that a higher refund than the maximum amount could be granted, in which case however the procedure of the Management Committee had to be followed. He mentioned as a further exception to the general rule, applicable only in respect of cereals, the possibility for member States to fix the amount of the refund by submitting exportations to a tender system.

41. Some members of the Committee noted that the refund system did not differ from any other system of export subsidization and enquired whether the Community would abide by the rules of the General Agreement in this respect. The representative of the Community confirmed that the refund system would be applied in conformity with Article XVI of the General Agreement and if special difficulties from the refund system arose in respect of third countries, the normal procedure under this Article or under any other relevant Article of the General Agreement would be followed.

42. Some members of the Committee referring to the possibility of granting a refund in the form of authorization to import cereals free from import levies, enquired whether this would be limited to the same kind of cereal and to the same quality. The representative of the Community replied that the authorization was limited to the same product; consequently, the same kind of cereal had to be imported but not necessarily the same variety or quality.

43. Some members of the Committee referred to the possibility of fixing the amount of the refund by means of a tender system and pointed out that in this respect the amount refunded was not limited to the amount of the levy, so that this system could result in an export price lower than the world market price. The representative of the Community contested the view that the tender system did not constitute a limitation to the amount of the refund. Under the regulation, member States had a discretionary power to reject certain offers and to cancel the tender if the actual offers did not correspond to the most favourable sales possibility on the world market; although in the case of a tender system the refund could be higher than the amount of the import levy, a tender system constituted in itself a limitation on the amount of the refund and an assurance that exports would not take place at prices below the world market price. He explained further that the levy was calculated on the basis of the c.i.f. price while the price of the exported product, after reduction of the refund, was only a f.o.b. price; this placed Community exporters always in a certain disadvantageous position which by means of the tender system would partly be overcome. He stressed that the exceptions to the general rule that the refund would not be more than the amount of the levy were to be interpreted very strictly and constituted sufficient limitation so as not to lead to abuse of the system.

44. Some members of the Committee recalled that the levy towards third countries included the montant forfaitaire. If the refund were equal to the amount of the import levy, this in their view indicated a subsidization higher by the amount of the montant forfaitaire than would strictly be needed to meet competition, and further to the extent that the internal price level was below the indicative price a refund equivalent to the amount of the levy applied to third countries would afford an additional element of subsidy. The representative of the Community replied that this was necessary in order to equalize the competitive position of one member State vis-à-vis the other member States. He further stated that, in his view, the fact that the amount of the refund was relatively independent of internal market fluctuations could constitute an additional limitation of the refund.

Trade barriers

45. In reply to questions with respect to the application of the safeguard clause, the representative of the Community stated that whenever safeguard measures were applied to a member State or any third country they would be applied simultaneously to all third countries without discrimination. In principle, member States were free in the transitional period to take any safeguard measures considered necessary concerning the importation of the products in question; in the final stage only the suspension of the issue of import certificates would be applied as a safeguard measure.

46. A member of the Committee noted that, in the final stage, the issue of import certificates could be suspended and that this would result in a complete import prohibition. In his view, this could in certain circumstances tend to lead to some discrimination to the extent that there were seasonal differences in supply between exporting countries. He enquired whether import restrictions instead of an import embargo were envisaged. The representative of the Community stated that the Community had not envisaged any other measure than suspension of import certificates. In general the issue of import certificates was meant to be an administrative measure for the statistical control of imports and for the receipt of the levy, so that a suspension of the issue of certificates would only take place in circumstances as provided in Article XIX of the General Agreement.

47. In commenting on the mechanism of the import licensing system and the requirement of paying a deposit, some members of the Committee observed that these two measures, apart from the import levy and the premiums for future delivery, undoubtedly had a hindering effect on trade, since it required importers to have considerably more capital available than before. The requirement that the source of imports was to be indicated three months before actual importation, would serve as an additional obstacle. The representative of the Community stated that for the purposes of forward buying of cereals, it was by definition necessary for the importer to know the source of the cereals at the moment of applying for issue of the certificate. The practice of requiring the source to be indicated and a deposit to be paid could not, therefore, be considered as a trade barrier.

48. The Committee noted that in the final stage the issue of import certificates for third countries might be suspended, apart from possible waivers for certain particular destinations. It was explained that no discrimination was intended in the application of safeguard measures as between geographical destinations and that in this context this should be interpreted as end-use destinations, which is a customs term.

B. Pig Meat, Eggs and Poultry

49. The Committee noted that the system laid down in respect of pig meat had a great resemblance to that of eggs as well as poultry and decided to examine the technical aspects of the three regulations first, in order to facilitate a general discussion covering all three groups of products.

50. In introducing the regulations, the representative of the Community stated that in respect of pig meat production in the Community was roughly one seventh of total agricultural production. Pig meat production was presently at the level of 3.5 million tons, while in 1951/52 it amounted to 2.5 million tons. A similar increase could be noted in consumption from 2.4 million tons in 1951/52 to 3.3 million tons in 1960/61. As compared with production and consumption, trade was of relatively minor importance; exports rose from 120,000 tons in 1951/52 to 289,000 tons in 1960/61, imports, however, increased considerably from 22,000 tons to 146,000 tons for the same period.

51. The representative of the Community went on to say that the general objective of the marketing organization for pig meat - and this was equally relevant in respect of eggs and poultry - was the establishment of a single market assuring adequate remuneration for producers and an attenuation of price fluctuations. It had been considered that these objectives could be met by a system in the main based on measures of commercial policy. The three systems, therefore, were characterized by the absence of a régime of guaranteed producer prices. Consequently there were no specific decisions to be made on the approximation of prices; this would be achieved through a progressive opening of the frontiers within the Community.

52. The representative of the Community explained further that the absence of a price guarantee made clear the different character of the import levy in respect of these three products, as compared with the levy on cereals. The levy on pig meat as well as that on eggs and poultry did not aim at equalization of the price of the imported product to the internal price but at a harmonization of the conditions under which production took place. Apart from the difference in prices of feedgrains, which was the main element, other disparities in the conditions of production had to be taken into account. In order to remedy these disparities, a reasonable degree of protection had been included in the levy. In normal circumstances, this levy would be the only charge on imports.

53. He added, however, that an additional levy would be imposed in order to prevent imports offered below a certain price, the sluice price, from disrupting the market. In the field of exports, in order to meet the disadvantage facing producers in the Community a refund, which was the converse of the import levy, was granted. The representative of the Community emphasized that the system aimed essentially at a harmonization of competitive conditions, thus leaving competition to play its rôle in specialization in production and development of trade.

54. In outlining the situation in the egg market in the Community, he stated further that production had increased from 1.3 million tons in 1951/52 to 1.8 million tons in 1960/61 and accounted for 6 per cent of total agricultural production in the Community. Consumption had increased even more rapidly and this fact was reflected in the growth of net imports from 130,000 tons in 1951/52 to 200,000 tons in 1960/61.

55. In describing finally the situation in the poultry market, the representative of the Community stated that production of poultry, which had accounted in 1958/59 for 3.6 per cent of total agricultural production in the Community, had developed rapidly from 415,000 tons in 1951/52 to 790,000 tons in 1960/61, but that consumption had increased even more, namely, from 410,000 tons in 1951/52 to 875,000 tons in 1960/61. The Community as a whole thus showed a net import figure in 1951/52 of 5,000 tons which was converted into a net imports figure of 90,000 tons in 1960/61.

Products covered by the regulations

56. The Committee noted that while the other regulations were fully applicable as from 3 July 1962, the levy system in respect of pig meat became operative only in respect of live pigs and carcasses and half carcasses of pigs. The regulation on pig meat would be fully effective as from 3 December 1962. In reply to a question whether canned and processed products were included under the regulations, the representative of the Community confirmed that this was the case, with the exception, however, of egg whites in all forms. The latter products, therefore, were subject to the common external tariff.

Products covered by tariff bindings

57. Some members of the Committee referred to the fact that in respect of some pig meat and poultry products the common external tariff had been bound under the GATT. They enquired how these bindings would affect the external levies and any possible sluice price levy. The representative of the Community replied that the provisions of the regulations were applicable to all products mentioned in Article 1 of the regulations and that the external levy, and if necessary the sluice price levy, would be applicable to the products concerned, but that the total incidence would not exceed the bound rates subject to the possibility for the Community to have recourse to the provisions of the General Agreement. In the event that the levy should account for an incidence lower than the bound tariff, only the levy would normally be applied. As regards the treatment of canned and processed products, containing two or more items falling under these regulations, the tariff classification would determine whether or not such products fell within the scope of the common agricultural policy. In the case of processed products containing pig meat and poultry meat, subject to the tariff classification, the poultry meat content would be under the bound tariff while the pig meat content would fall within the relevant levy system.

The levy system

58. The Committee showed considerable interest in the method by which the various elements in the intra-Community levy and the levy applicable to imports from third countries, had been calculated. The representative of the Community explained that the principles in determining the intra-Community levy and the external levy in the case of each group of products were the same and that the methods only differed in details.

59. He demonstrated the method of calculating the intra-Community levy¹ and explained that this levy was made up of two elements:

(i) an element corresponding to the incidence of feeding costs of the price differences of feedgrains; and

(ii) an element providing a certain protection.

¹ For a more detailed explanation of the methods of determining the levies, reference may be made to document COM.II/134/Add.1.

He explained that as regards eggs and poultry, the second element was equal to the incidence of the customs duty in force in respect of other member States during 1962 on the average of the franco-frontier prices, for eggs and poultry respectively, recorded during 1961. In respect of pig meat, the second element was a fixed element. The amount of this fixed element was to be established in such a way that the addition of the second element to the first element was not to result in an amount exceeding the difference between the average market prices of pig meat in the exporting and those in the importing member States. This made clear that a member country which had lower average pig meat prices than another member State would not determine a levy in respect of that other member State, unless the latter country had lower coarse grain prices. In that case the second element would amount to zero, but the grain price differences would be reflected in the first element and the levy would be determined at the amount of that first element.

60. The representative of the Community further pointed out that in respect of the three groups of products, the second element was calculated only once and would be reduced as from 1 July 1963 by two fifteenths annually. Changes, therefore, in the average market prices for pig meat would not be reflected in the levy. Changes in the first element would result from the approximation of feedgrain prices. Consequently the intra-Community levy had to be revised once a year.

61. The representative of the Community further demonstrated the method of determining the levy applicable to third countries.¹ Here again the method in respect of pig meat differed somewhat from the calculation in respect of the other two products. As regards eggs and poultry, the external levy was made up of three elements:

(i) an element corresponding to the incidence on feeding costs of price differences in feedgrains in the importing member State and those prevailing on the world market;

(ii) an element of protection equal to the element of protection included in the intra-Community levy; and

(iii) a third element being a percentage of the sluice price.

As regards pig meat, the calculation of the external levy was made up of:

(i) the intra-Community levy applied to the Netherlands;

(ii) the incidence of feedgrain price differences in respect of the Netherlands;

(iii) a third element, based for the first year on average import prices.

¹For a more detailed explanation of the methods of determining the levies reference may be made to document COM.II/134/Add.1

62. He explained further that because of fluctuations in coarse grain prices on the world market and relatively stable price differences within the Community, the external levy had to be revised more frequently than the intra-Community levy, namely, every three months. In this connexion, members of the Committee stressed the importance for traders to know the amount of the levy as soon as possible; particularly as in respect of distant countries an early determination was desirable. This observation was equally relevant in the case of the sluice price. The representative of the Community, while admitting the importance of an early announcement, stated that the quarterly revisions were not likely to result in substantial changes in the external levies, or in the sluice price.

63. Some members of the Committee were interested in the way the element constituting the incidence of feedgrain price differences was calculated. It was noted that in the calculation of the levies in respect of eggs, different processing coefficients had been used in the member States. In this respect the regulation on eggs was different from the system applied for pig meat and for poultry, where for each product a single coefficient had been used.

64. Some members of the Committee noted further that the calculation of the incidence was based on c.i.f. prices and enquired what prices had been taken into consideration. The representative of the Community replied that for each type of coarse grains Community exchange quotations of c.i.f. prices over a six-months period for the one or two most important varieties of those types entering into international trade had been taken into account.

65. Some members of the Committee enquired why in this calculation the c.i.f. prices were increased by costs of unloading and how these costs had been determined. The representative of the Community replied that in order to establish the price difference as accurately as possible, the imported grains had to be compared with domestic cereals at the same marketing stage. If costs of unloading had not been taken into account the price difference would have been too high. He replied further that the calculation had been based on actual data submitted by member States.

66. Some members of the Committee expressed considerable concern about the height and the incidence of the third element of the external levy. This element would gradually rise from 2 to 7 per cent and would be based on the sluice price. They noted that the feedgrain costs which constituted the main part of production costs in respect of all three groups of products, were completely equalized. The third element was fixed on the basis of total production costs, but related in fact to a minor part of those costs; consequently, the incidence of this element was considerably higher than the given percentage and this element constituted a substantial additional protection.

67. The representative of the Community replied that apart from equalizing costs of feedgrains, there were still differences between the processing industry in the Community and that in third countries, due to differences in

economic structure. These differences were also to be compensated, this was achieved by adding an element of protection. He further explained that the third element would rise gradually from 2 to 7 per cent, but that at the same time the second element of the external levy in respect of eggs and poultry would be reduced by two fifteenths; similarly, in respect of pig meat, the first element being the intra-Community levy applied to the Netherlands, would be reduced annually.

Application of reduced levies

68. A member of the Committee welcomed the fact that in respect of all three groups of products, provision had been made for a possible authorization of a member State to reduce the amount of the levies. This could be the case for example, to help the member State in securing a regular supply or in the maintenance of a reasonable price level for consumers. He pointed out that this provision was not available in the case of cereals, but to a large extent the price of pig meat, eggs and poultry depended on the price of coarse grains.

69. The representative of the Community emphasized that in the case of cereals, the function of the levy was to equalize grain prices, so as to establish a link between a stable and an unstable market. He recalled that the levies in respect of processed products had a different character. He explained further that the provision for applying reduced levies, which related only to the transitional period, had been introduced since, unlike the case of cereals, the levies were fixed for a three-months period. Without such provision there could, in certain conditions, be situations where prices reached a level higher than considered reasonable for the consumer.

Sluice prices

70. Some members of the Committee noted that for various products and varieties in each of the three groups of products, uniform sluice prices had been established, having regard to prices of feedgrains on the world market and to a fixed processing coefficient which was the same for all exporting third countries. They expressed considerable interest in the methods by which the various elements in the sluice price had been determined. The representative of the Community explained that on the basis of a processing coefficient fixed so as to be representative of exporting third countries, and developments in feedgrain prices on the world market, the feedgrain costs per unit of production, representative for efficiently producing third countries, had been established. To this amount various costs had been added. In its calculations the Community had collected as much information as possible on production costs of efficient producers in efficiently producing third countries. The amount thus established was not the cost price in a particular country; it was a fictitious price but it constituted an average based on various representative factors. He stated further that if imports were

offered below the sluice price, the normal import levy would not suffice to avoid real prejudice to the profitability of the processing industry of the Community. In that case, therefore, the danger of market disruption would exist.

71. In reply to a question as to what the basis had been for fixing the cereal prices on which the calculation of the sluice price was made, the representative of the Community stated that the cereal prices used in this calculation were c.i.f. prices. Some members of the Committee observed that calculated in this way the sluice price included an element which was not applicable to efficient producers in cereal-producing countries. The sluice price contained two freight elements: first for coarse grains and secondly for the processed products. This same observation could be made in respect of the costs of unloading which were included in the sluice price and which would not constitute an element of the cost price of producers in cereal-producing countries.

72. Some members of the Committee pointed out that, to the extent that the processing coefficient was higher than that of efficient producers in third countries, the sluice price had been set at too high a level. This was particularly evident in respect of eggs where the processing coefficient was based on a fixed average composition of the feed unit. Producers in third countries would adjust their feed composition to the price relationship of coarse grains prevailing in their country and, if the price of one cereal was relatively low, the feed unit would consist predominantly of that cereal. The representative of the Community repeated that the determination of the sluice price was necessarily based on averages and that several representative factors had been taken into account; the sluice price, however, was not the cost price in a particular country. The special advantage of one country in one respect could well be compensated by other factors so that the ultimate cost price in that country would again be near to the average.

73. Some members of the Committee pointed out that when calculating the sluice price for eggs, it had been assumed that grains formed 80 per cent of the feed ration. They noted that this, together with other relevant factors, had led to the calculation of a processing coefficient, representative for third countries of 3.8454 kgs. of coarse grains necessary for the production of 1 kg. of eggs. It appeared that the processing coefficients of eggs for member States necessary for the calculation of the levies had, on the whole, been determined at a much lower level; they ranged from 3.22 in the case of the Netherlands to 4.09 in the case of Italy. The representative of the Community confirmed that different processing coefficients had been used. He explained that the calculation of the sluice price was based on data prevailing in efficiently producing third countries. On this basis the proportion of grains used in the feed unit of 80 per cent had been taken into account. A lower proportion of feedgrains would necessarily have been reflected in the amount of non-cereal feeding costs, without substantially changing the final result. In the case of the member States, the fact that, in respect of eggs, a lower

proportion of feedgrains had been taken into account, reflected the real situation. This necessarily led to lower quantities of feedgrains necessary for the production of 1 kg. of eggs. The processing coefficients for eggs were still different in each member State, but would gradually be aligned in a three-year period. In this respect there was a difference between the egg regulation and those for pig meat and poultry, since for the latter products a common processing coefficient had already been established.

74. Some members of the Committee noted that apparently a wide divergence existed, even inside the Community, on the proportion of grains used in the feed unit. The determination of the sluice price was based on mathematical calculations. Such calculations would only be exact if they were based on exact data. In this case it seemed possible to use different hypotheses on which to base the calculation. It seemed reasonable, therefore, to expect that the sluice price would be open to discussion. The representative of the Community replied that the sluice price would be revised every three months in accordance with the variations in feedgrain prices. If the various elements, other than the price of cereals, were no longer representative, and he stressed that it was a requirement that they should be, the Community would have to draw the necessary conclusions. The sluice price, however, was not a negotiable factor.

75. A member of the Committee noted that, as regards liquid eggs, the sluice price had been fixed by adding a conversion factor to the sluice price for fresh eggs. The sluice price for liquid eggs was, therefore, higher than for fresh eggs. He added that liquid eggs constituted a surplus outlet for eggs which could not be marketed at a certain stage. Consequently, liquid eggs could not compete with fresh eggs and obtained, for normal commercial reasons, lower prices. The effect of this provision would be to limit the demand for liquid eggs. The representative of the Community replied that the sluice price for liquid eggs had been fixed on the basis of the quantity of shell eggs necessary for 1 kg. of liquid eggs and on the basis of normal prices. It would not be possible to take into account what amounted to a disposal price.

76. The representative of the Community, in reply to another question stated that the calculation of the sluice price for dried eggs had also been based on the sluice price for shell eggs and that other factors corresponding to processing costs had been added. In this connexion some members of the Committee pointed out that the production of shell eggs included certain costs which were not included in the production costs of dried eggs. A member of the Committee pointed out that the sluice price for backs and necks of poultry had been set at a level of about 125 per cent of the sluice price for poultry, and while the sluice price for offals had been fixed somewhat lower, in both cases the resultant sluice prices were such an apparent distortion of the normal market price relationship that they should be corrected. The representative of the Community recognized, to a certain extent, this problem which was at present under study.

77. The Committee examined a number of features inherent in the sluice price mechanism. Exporting members of the Committee¹ expected particular difficulties in respect of products which were lower in quality than the product for which the sluice price had been set. They noted, for example, that one sluice price had been fixed for shell eggs. This might entail difficulties for countries supplying small eggs, or refrigerated eggs, which would normally be sold at a discount. The situation could well arise that these products of lower quality would be offered at a price below the sluice price and thus attract an additional levy, which would then also be imposed on fresh eggs which were still offered at a price equal to or above the sluice price. They recalled that in respect of pigs different sluice prices had been set for live pigs and live sows, and enquired whether or not, in respect of eggs, different sluice prices could be fixed.

78. The representative of the Community confirmed that the sluice price set for fresh eggs applied equally to refrigerated eggs. This did not mean that the sluice price mechanism would automatically be set in motion if imports of lower qualities were offered at a price below the sluice price. The sluice price procedure would become effective if imports of a certain determined quality were offered below the sluice price. In respect of pig meat, these qualities had explicitly been defined. In respect of poultry and eggs, the quality to be considered had to be the normal quality. It was up to the discretion of member States to decide on what was the normal quality. If the price of lower qualities of refrigerated eggs was still in a normal commercial relation to the price of shell eggs, the price of shell eggs would remain at its level and there would be no disturbance of the market. He went on to say that in respect of meat of pigs and sows, a clear distinction could be made. No clear difference existed between fresh and refrigerated shell eggs.

79. Some members of the Committee enquired how the sluice price mechanism was to become effective; how it would be established that imports were offered below the sluice price; and, how this would affect imports from other countries, which continued to import above the sluice price. The representative of the Community explained that the offering price took into account the price on the customs documents and the export prices effective in a particular third country. Furthermore, account was taken of market prices and export prices effective in third countries, market prices prevailing in the member States for the imported products, and prices prevailing on representative markets in third countries. It was clear that in the determination of the offering price member States again had some discretionary power. If, on the basis of these considerations the member State found that imports were offered at a price below the sluice price, an additional levy would be imposed equal to the difference between the sluice price and the offering price. Such levy would apply in principle to all imports of the same products irrespective of country of origin, quality, or price. He went on to explain that to this general rule there were two exceptions. If imports offered at a price lower than the sluice price originated only from

¹ Wherever the expression "exporting members of the Committee" is used in this report it is meant to refer to exporting non-EEC members.

certain specific countries, member States were at liberty to charge the additional levy only in respect of these countries. The second exception was that the additional amount would not be imposed on products imported from a country which was willing and able to guarantee that no imports from its territory would take place at prices lower than the sluice price.

30. Some members of the Committee pointed out that such guarantees to maintain an export price equal to or above the sluice price could only be given by countries which had a strongly organized or centralized government export trade and not in the normal situation when trade was conducted by private exporters. The representative of the Community did not consider it necessary to have a strongly organized or centralized export trade in order to arrive at such guarantee arrangements; he could imagine that measures could be taken by the exporting country, for example an export levy, which could be considered a sufficient guarantee. In reply to a question as to how a country could benefit from this exception the representative of the Community stated that these matters were subject to a decision yet to be taken in consultation with the Management Committees.

31. The Committee was interested to know to what extent single offers or offers in marginal quantities could set the sluice price procedure in motion. The representative of the Community explained that the additional levy was modified in accordance with the changes in the offering price and it was eliminated when the offering price reached or passed the sluice price level. It was, therefore, not possible, taking also into account the criteria necessary for the determination of the offering price, that imports in marginal quantities would cause the additional levy to be imposed. He went on to state that, if a member State established the additional levy, this had to be notified to the European Commission and to the other member States. Within two weeks measures to be taken in common would have to be established in consultation with the Management Committees. A decision could then be taken whether the additional levy established by a member State had to be maintained, modified or abolished.

32. Some members of the Committee expressed the view that the sluice price mechanism afforded additional protection to producers in the Community at times when domestic prices were below the sluice price. In this situation more efficient producers who were still in a position to sell at a price above their cost price could not, in the nature of the system, gain access to the market by reducing prices below the sluice price, since this would incur an additional levy. The representative of the Community stated in reply that it would always be possible for prices to fall in the Community, even below the sluice price. The regulation provided for a sluice price system only in order to ensure that such a fall would not be due to external factors; the domestic market could in this way recover from a price level which, in the view of the Community, was an abnormal level. He agreed that there could well be efficient producers who could still sell at a profit at or below the sluice price level. These producers, however, could not be considered representative of the market. The sluice price had been determined on the basis of normal world market prices which covered the cost price of certain representative countries.

83. Some members of the Committee referred to the concept of "less than the normal value" of Article VI of the General Agreement and the concept of "abnormal prices" in the regulations. They enquired whether, in principle the sluice price system acted as an anti-dumping device. In reply the representative of the Community explained that this was not the case. If it were, Article VI could have been invoked and no special provision would have been required. The sluice price system was not intended to be only a defence against dumping or subsidization but also a safeguard against falls in price below a level considered as abnormally low by the Community. This could be a result of over production or of other factors.

34. Some members of the Committee expressed the view that the provisions of Articles VI and XIX of the General Agreement could well have covered the situation which the sluice price system was intended to meet. They expressed concern about the automatic application of the sluice price system which would also apply to countries producing at a lower price, because of a lower processing coefficient, than the one used in the calculation of the sluice price. The representative of the Community replied that the sluice price measures would be applied in accordance with international obligations.

Refunds

85. In reply to various questions in respect of the application of the refund system as regards third countries, the representative of the Community stated that the amount of these refunds was determined by each member State, in accordance with the provisions of the regulations. The regulations provided that in principle the refund should amount to the incidence on feeding costs of the difference between feedgrain prices in the exporting member States and on the world market. Since this amount was not considered sufficient to maintain a competitive position on the world market, the amount of the refund could be increased. The total amount of the refund was limited in two ways. The refund could not be more than the difference between the price prevailing for the exported product in the exporting member State and those on the world market. In the second place, the total amount of the refund was not to exceed the amount of the levies effectively applied vis-à-vis third countries. This double limitation made clear that, although the amount of the refund could include the additional sluice price levy, if the sluice price operated, this could not lead to sales below the world market price.

36. Some members of the Committee observed that the possible inclusion of the sluice price levy indicated that the Community was prepared to export at prices which the Community considered to be abnormal. They were, nevertheless, appreciative of the assurance that the subsidies would not lead to sales below the world market price.

87. In reply to a question whether the refunds were determined for each export operation, the representative of the Community stated that member States fixed the amounts of refunds for each export operation within certain administrative limits.

88. Some members of the Committee noted that the refund constituted a fixed amount enabling Community exporters to sell at the world market price. They stated that in certain distant markets, by careful sales policy, the market price had so far been maintained at a somewhat higher level. They expressed concern that under the refund system as it was now applied, Community exporters might well disturb these markets. The representative of the Community replied that each member State was responsible for its own refund policy and that the refund would not be abused.

Trade barriers

89. Some members of the Committee noted that in the case of all three groups of products, the Council may decide to maintain or reintroduce quantitative restrictions and that under this provision the system of quantitative restrictions was temporarily maintained vis-à-vis State-trading countries. They enquired how this related to the levy system. The representative of the Community explained that the former régimes of quantitative restrictions had been replaced by the multilaterally applied levy system. This did not mean that member States had renounced the power to take measures in the field of their competence. The possibility of reintroducing certain measures if necessary had therefore been maintained. This, however, was an exception to the general rule and would, therefore, be applied in a limited way. The only application of this exception had been the maintenance of quantitative restrictions vis-à-vis State-trading countries. The main reason for this maintenance was the fact that trade relations of the six member States with the State-trading countries had always been on a strictly bilateral basis. The maintenance of quotas in respect of these countries did not change the fact that the multilateral levy system was equally applied vis-à-vis these countries. A final decision on trade relations with the State-trading countries had not yet been taken and the present arrangement had to be reviewed at the end of the year.

90. Some members of the Committee noted that in respect of all three groups of products, the safeguard clause provided for arrangements to obviate excessive or avoidable damage to exporters and they enquired whether such arrangements would be limited to exporters within the Community. The representative of the Community replied that the provision of a minimum three days' notice before closure of the frontier was still the subject of a future fuller interpretation, but that arrangements would be taken so as to avoid excessive or avoidable damage being sustained both by exporters in the Community and in third countries. He stated that whether the damage was to be considered excessive or not would depend on the judgement of member States.

91. A member of the Committee noted that the safeguard measure in respect of all three groups of products was apparently designed to prevent market disruption resulting from the gradual establishment of the common

organization of the markets. He noted three discriminatory aspects in this provision. As such he mentioned the provision that the protection between member States should not be increased; secondly the fact that although resulting from imports from other member States, the measures taken were to be applied "at the latest simultaneously" to third countries; and thirdly, the fact that a measure taken in respect of certain products and excluding other products could have a discriminatory effect against a country principally interested in the product concerned. He enquired whether it was necessary to provide for safeguard measures in addition to the sluice price system.

92. The representative of the Community replied that safeguard measures had been considered necessary notwithstanding the sluice price system. A similar safeguard clause was provided in the cereals regulation. He refuted the contention that the measure had certain discriminatory aspects. On the contrary, the safeguard clause would be used in strict compliance with the General Agreement. In principle the safeguard clause was to meet a situation as provided in Article XIX of the General Agreement, but a wider description was desirable so as to include the possibility if necessary of taking special measures against non-contracting parties.

C. Fruit and Vegetables

93. In introducing the common policy for the fruit and vegetables sector, the representative of the Community stated that the provisions covered the whole sector except potatoes. The regulation did not create a rigid market organization and the fundamental objective was to place the market on a sound basis by means of the improvement in qualities which would be achieved at the single market stage. He explained that the principle of the quality standards was applicable to member States and third countries, but detailed decisions had not yet been taken with respect to the latter. Referring to intra-Community trade, he pointed out that a time schedule had been fixed providing for the elimination of quantitative restrictions and other similar devices, including minimum prices. A safeguard system provided, however, for the possibility of taking special measures. These safeguard measures would also apply to third countries.

94. He explained further that, as regards trade with third countries, import duties would, in the final stage, provide for normal protection. In the course of the transitional period the import régimes of the member States would gradually be co-ordinated but in this respect no further decisions had been taken. In order to avoid market disturbances from imports from third countries, the regulation provided for the possibility of suspending imports or of imposing a supplementary charge if imports took place below certain reference price. In concluding the representative of the Community stated that these reference prices had been set at very low levels.

Common quality standards

95. Some members of the Committee pointed out that the quality standards were to a great extent based on European conditions. Certain varieties, however, produced in exporting third countries, although of good quality, had characteristics slightly different from the established standards. They therefore, expressed concern that in the application of the common standards, considerable damage could be sustained by such exports. Similar concern was expressed with respect to certain packaging practices, which were normal in overseas trade, but were not permitted under the quality standards.

96. The representative of the Community replied that the common standard qualities would apply both to intra-Community trade and trade from third countries, but the regulation provided for the possibility of establishing, in respect of third countries, equivalent quality standards. No decisions in respect of such equivalent standards have yet been made, so that for the present time the import regulations of each member State remained applicable to third countries. In establishing equivalent standards for products imported from third countries, the European Commission would take due account of the variety and growth characteristics of products normally entering into international trade and of various trading and packaging practices. The Community was prepared to enter into consultations with interested third countries with regard to the equivalent quality standards, so as to arrive at mutually satisfactory arrangements.

97. Some members of the Committee considered that, in some respects, the quality standards adopted by the Community were not defined in a sufficiently precise manner and that this could lead to difficulties in their interpretation. The representative of the Community said that he shared the view that there could be improvements in defining the quality standards. These would be reviewed on the basis of experience.

Import régime for intra-Community trade

98. The Committee noted that intra-Community trade would be developed by a progressive reduction of the intra-Community customs duties and by the gradual elimination of quantitative restrictions and other equivalent measures. In this connexion some members of the Committee pointed out that products falling under the category "Extra" had been liberalized as from 29 July 1962, so that a unification of import régimes had been achieved in this respect; they enquired whether this import régime now also applied to products from third countries falling under the same standard quality. The representative of the Community explained that the liberalization scheme did not apply to imports from third countries, and that imports from third countries were at this stage still governed by the import régime applied in each member State. He repeated that these import régimes vis-à-vis third countries were ultimately to be co-ordinated and unified, but this depended on a specific decision to be taken by the Council.

99. In reply to a question raised in respect of the safeguard provisions, the representative of the Community explained that if, as a consequence of the liberalization measures in respect of intra-Community trade, a serious disruption of the market of a member State was threatened, Article 10 of the Regulation provided the possibility for the member State concerned to take the necessary safeguard measures. It was intended that such safeguard measures would, in principle, be a re-introduction of minimum import prices. It was further provided that the safeguard measures would, in principle, not extend to products falling under the category "Extra".

100. Some members of the Committee noted that although the safeguard measures would become necessary because of liberalization of intra-Community imports, the same measures would be applied beforehand to imports from third countries. Exporting third countries would, therefore, be prejudiced because of intra-Community developments. The representative of the Community replied that the safeguard provision of Article 10 of the Regulation related to intra-Community trade and was intended to meet an emergency situation. The safeguard measures would be applied in conformity with the provisions of the General Agreement.

101. Some members of the Committee noted the provision that the level of protection resulting from the safeguard measures was not to be higher than the level of protection existing at the entry into force of the regulation; they enquired whether this provision would also apply to imports from third countries. The representative of the Community repeated that the relevant safeguard measures referred to a situation within the Community.

102. Some members of the Committee noted that the member States applying safeguard measures under Article 10 of the Regulation were to take measures so as to prevent goods en route from being affected. They noted further that these member States should be prepared to enter into negotiations in order to make provisional arrangements so as to avoid excessive or avoidable damage being sustained by exporters. They enquired whether these provisions were also related to third country exporters. The representative of the Community replied that the member States, in taking measures so as to prevent goods en route from being affected, would take due account of the interests of third country exporters. Also, in making provisional arrangements, the interests of third country exporters would be taken into consideration. The negotiations provided for in the regulation referred to negotiations between member States and did not relate to third countries, but the member States would always be prepared to consult in accordance with the relevant provisions of the General Agreement.

Import régimes in respect of third countries

103. Some members of the Committee noted that the import régimes applied by the member States in respect of third countries were to be co-ordinated and harmonized in accordance with the development of the common organization of markets. They drew attention to a recent decision of the EEC Council in

respect of the common commercial policy, aiming at progressive liberalization to the highest possible extent and enquired to what extent this policy would be reflected in the import régimes in respect of fruit and vegetables. The representative of the Community replied that the general principle of a progressive liberalization to the highest possible extent was equally applicable to the import régimes for fruit and vegetables and would be taken into account by the Council when making a decision on the co-ordination of these régimes.

104. The Committee noted that if imports from third countries took place at prices below a certain reference price, it could be decided to suspend these importations or, alternatively, to impose a supplementary charge. They enquired how the level of the reference prices was determined. The representative of the Community explained that the reference prices were calculated on the basis of the arithmetic average of the lowest national average production prices, recorded during the three preceding years on representative markets in important production areas where lowest prices were recorded. He stated further that the amount of the supplementary charge, uniform for all member States, was to be equal to the difference between the reference price and the entry price of the product concerned, not including customs duties.

105. Some members of the Committee pointed out that the Community on the whole was an import market for a number of products in this sector and would normally be protected by a tariff. The average market prices on which the calculations of the reference prices were based reflected, therefore, the protection amounting to the height of the duty. The fixing of the supplementary charge on the basis of the entry price of the product concerned, prior to the imposition of the import duty seemed, therefore, in their view to lead to a certain extent to double protection. The representative of the Community replied that the reference prices were calculated at such a low level, excluding all factors which would increase the averages, that imports offered at a price below the reference prices, even increased by the customs duties, would inevitably lead to market disturbance. The situation could best be compared with a situation as envisaged in Article XIX of the General Agreement.

106. Some members of the Committee expressed the view that the system of reference prices could easily lead to an automatic application, irrespective of whether or not there was market disturbance; in the case of Article XIX of the General Agreement a threat of serious injury had to exist. The representative of the Community replied that so far as the application of Article XIX of the General Agreement was concerned, the finding as to whether or not a threat of serious injury existed had to be made by the contracting party concerned. He stressed that there was no possibility of automatic application of the reference price system. While the regulation stated clearly that levies could be imposed or that imports could be suspended, a further special procedure for this decision was provided. Every situation would be considered carefully and on its own merits taking into account international obligations.

107. Some members of the Committee felt that the reference prices as had been determined could, in certain cases, not be considered very low. The point was further mentioned that, in respect of products of which only a marginal production within the Community existed, market prices would normally be on the high side unrelated to the actual production costs; consequently, reference prices for these products would not truly reflect the price situation. It was further felt that particular difficulties could arise in respect of products which were lower in quality than the products for which the reference price was determined. The representative of the Community replied that the regulation in respect of fruit and vegetables still required considerable elaboration and that, in particular, the difficulties in respect of different qualities were still being considered. In respect of products of which only a marginal production existed, no reference price as yet been determined. In such determination due account would be taken of the real price situation.

108. Some members of the Committee drew attention to the fact that, as regards a number of products, tariff concessions had been consolidated under the General Agreement and enquired whether also in this case a supplementary charge would be imposed. The representative of the Community replied that the rules of the General Agreement provided for the possibility of imposing, in exceptional circumstances, a supplementary charge even in respect of bound items.

D. Wine

109. The representative of the Community gave a general explanation of the common policy in respect of viticulture. He stated that the production of wine constituted an important element in agricultural income in some member States and that surpluses of a permanent nature gave rise to serious difficulties. The common organization therefore aimed at adjusting supply to requirements, such adjustment being based in particular on a policy of encouraging quality. In order to take the measures required for this adjustment it was necessary to know the production capacity and to determine each year the quantity of wine available. For a knowledge of the market it was essential to obtain certain statistical data. To this end, member States were to establish before 30 June 1963 a viticultural land register, including information on the total area under vines, area under vines according to type of production and methods of exploitation. In the second place, a system of harvest and stock reports was introduced by which the amount of production during the year was to be reported, as well as stocks of wine available from the current year's or previous year's harvests, including stocks of imported wine from third countries. In the third place, the Commission was to draw up an annual forecast in order to determine the resources and to estimate the needs of the Community, including prospective imports from and exports to third countries. The various regulations necessary for a further implementation of these principles were still to be laid down. The representative of the Community concluded by stating that, in order to encourage quality, a common regulation for quality wines produced in specified regions was to be laid down before the end of the year.

110. Certain members of the Committee expressed interest in the common regulation for wines, but in view of the limited time available the Committee decided not to conduct an examination of the regulation at the present meeting but to do so at a time when further regulations forming part of the common agricultural policy were before the Committee.

GENERAL POLICY DISCUSSION

A. Discussion on Cereals

Extent of protection

111. The Committee noted that the new cereals régime had replaced, with some exceptions of a transitional nature, all previously existing tariff and non-tariff devices operative in the member States to afford producers protection of their agricultural income. While noting the view that the levy system was designed so as to maintain at least the same level of protection which prevailed previously in the member States, some members of the Committee were of the opinion that the régime contained certain elements which might well make it even more restrictive. These characteristics deserved, in their view, particular weight since potential new members of the Community, which operated hitherto under far less restrictive import systems, might well take part in the new régime. In illustrating the protective effects, several members provided figures which indicated a marked increase in the incidence in ad valorem terms of the present import levy as compared to the tariffs previously existing. For example, in the case of France the threshold price in August was roughly 66 per cent above the c.i.f. price for wheat of comparable quality, and 39 per cent above for barley. In the case of Germany, the threshold price was about 106 per cent above the c.i.f. price for wheat and 90 per cent for barley. Exporting members of the Committee felt that the system constituted a complete insulation of the producers in the Community from effects of price competition from more efficient producing external suppliers. External suppliers would obtain no benefit in the market of the Community from further increases in efficiency. As these members of the Committee saw it, the common agricultural policy for cereals gave domestic suppliers over-protection against external suppliers during the transitional period by the amount of the montant forfaitaire. It provided support arrangements extending to every ton of cereals the producer cared to grow. It provided the assurance that an intervention agency was obliged to pay a predetermined price for every ton produced which was not sold at a better price on the commercial market. It gave internal producers freedom from price competition from external suppliers. It gave producers a reserve safeguard that if all else failed to protect them, if for example purchases by the intervention authority should reach levels so as to become embarrassing, then quantitative restrictions could be applied to imports. Further, with regard to surplus production, it gave them export subsidies which could only be regarded as most generous. And, finally, the flour-milling industry within the Community was protected to the extent of more than 100 per cent with respect to its milling costs. Thus these members suggested that as a system of protection, disregarding for the moment the level of prices, it was about as watertight a system as could have been devised.

112. In his reply the representative of the Community pointed out that it was not possible at the present stage to comment finally on the scope of protection, taking into account that an essential element of appraisal was lacking, namely an adequate indication of the future level of prices. He emphasized that the present régime replaced the various systems previously applied by the member States. In order to make a valid comparison between the present incidence and the previous incidence, it would be necessary to take into account the protective effect of various non-tariff measures in operation in the national system, an effect which could not be expressed in terms of figures. In any case, the protection had not been increased because the prices to producers had not been raised. He considered that the ad valorem incidence of levies based on the present world prices was hardly a significant element of appraisal in view of the very low level of prices on which the computations were based. He pointed out that a representative of an exporting country had, in fact, agreed that current wheat prices were hardly satisfactory. The representative of the Community further stated that the systems that had been abolished included a series of protective measures and the interplay of these had a protective effect to which the new régime would not lead except in the most unfavourable circumstances. The levy system was designed to be liberal and the representative of the Community considered that in application it would not subsequently prove to be more restrictive on the whole than the preceding systems. He stated that while protecting the producers from certain influences of the world market the levy system contained no element which did not already exist. As for determining what the consequences of isolation would be in relation to the low level of world prices, that would depend to a great extent on future price developments in the Community.

Prices

113. The Committee noted that the Community had intended not to increase the differences existing between the highest and the lowest producer prices prevailing in the member States. Some members of the Committee, noting that production had increased from 39 million tons of cereals in 1951 to 50 million tons in 1961, however, felt that the level of price guarantees existing in previous years, apart from technical improvements, had already substantially contributed to the important growth of cereal production in the Community. They recognized that social considerations were particularly significant in establishing government support in agriculture but they, nevertheless, estimated that non-price measures such as an adequate structural policy, might equally well preserve the level of income, while permitting a more efficient allocation of resources. The fact that Community producers, in the view of these members of the Committee, were protected in an absolute way, against effects from price competition from outside countries, made the question as to the level of future internal prices in the Community an absolute determinant of the trends in production and consumption within the Community and, consequently, for the development of trade. Thus non-member countries were completely at the mercy of Community price decisions which determined the amount of grains which they could supply to the Community. It was also pointed out that a high price level would tend to lead to increased investment in agriculture and this, in turn, would also have an effect on increasing production. While emphasizing the cardinal importance

the Committee attached to the development of the price level within the Community, the Committee was aware of the fact that the criteria which would guide the future price policy had not yet been determined. Some members of the Committee urged that in fixing these criteria the Community should take fully into account the important consequences of a high price level not only on domestic production and consumption but also on trade with third countries. They recalled the objectives laid down in Article 110 of the Rome Treaty and they felt that only a harmonization of prices towards the lowest possible level within the terms of the cereals regulation would lead to the harmonious development of world trade and a lowering of the restrictions as described in that Article.

114. The representative of the Community pointed out that the regulation under consideration dealt exclusively with the marketing of cereals which was only one aspect of the Common agricultural Policy, and that measures concerning the improvement of the agricultural structure were still to be laid down. These measures could also be of a nature which would have an incidence on production. As regards revenue safeguards the Community had been led to choose a mechanism which seemed to be the most appropriate one to achieve this objective. As regards prices, he stressed that the Community fully recognized the responsibility it had in this field, not only in respect of the Community producers and consumers but also as regards external suppliers, this being the reason for the initiatives of the Community in the field of world-wide agreements on cereals. Representatives of the Community had, on frequent occasions, expressed the view that the prices which would be applied in the Community were to be set at a reasonable level, taking into account the economic and social prerequisites of the Community. The representative of the Community further declared that the levy system would discourage speculation and would, in this way, contribute to a greater stability of world prices and the establishment of prices at a normal level.

Production

115. Exporting members of the Committee pointed out that the extent of protection and the level of prices would have considerable effects on production within the Community, which had been growing almost continuously over the past years. Some members considered that the influence of such protection would be greater than in the past as the combined effect of the Common Policy of the whole Community was greater than the sum of previous individual national measures. Insofar as producers had an assurance that they would be able to dispose of their produce at a predictable price level above their costs, there would be an inevitable tendency to increase uneconomic production. They expressed their specific concern at the absence of measures for any regulation or quantitative limitation of production. They noted in this respect that while at present in the most important cereals exporting member State there did exist a limitation on the volume of production entitled to price guarantee, under the new system this limitation had to be gradually eliminated. They felt that this continuous growth in production would inevitably lead to a very high degree of self-sufficiency in grains in total and to a surplus of soft wheat. In fact, several statistical evaluations had been made showing that the Community would meet progressively a larger share of its requirements.

116. The representative of the Community stated that in his view the growth in production had no connexion whatsoever with the measures taken in the field of prices but was related only to an increase in productivity. He further expressed the view that the mere guarantee to dispose of the products would not be a stimulus to production; in any case this guarantee was already granted under the national systems. Here again the predominant factor was the price. He stressed that the Community did not aim at self-sufficiency and expressed the conviction that the Community would be able to exert a moderating influence on production trends, inter alia through its price policy. He further stated that nothing in the regulations which had been examined authorized the belief, that prices would always be fixed so as to go beyond production costs of all the Community producers.

Consumption

117. Some members of the Committee noted that the increased incidence of the import levy on products of which the Community was still a net importer, would have a substantially adverse effect on consumer prices in such a way that the system might run counter to the provisions of Article 39 of the Rome Treaty which aimed at ensuring reasonable prices to consumers. While recognizing that price elasticity of demand for wheat in higher-developed countries was small, they drew attention to the relationship between coarse grain prices and prices for livestock products. A price increase in coarse grains would necessarily be reflected in a decrease in demand for livestock products.

118. The representative of the Community stressed that its agriculture drew an important part of its resources from livestock products which was higher than it obtained from the production of cereals. Consequently, there was no interest in carrying out a price policy for coarse grains which would lead to discouraging consumption of processed products. Here the interests of consumers and producers in the Community and those of third countries, in having reasonable prices for coarse grains, converged.

Imports

119. Exporting members of the Committee stressed that the marked tendency towards increased production and the unqualified priority given to the producer in the Community market with the resulting insulation of the market from price competition could reduce the exporting third countries to the position of residual suppliers. They noted further that the system of the intra-Community preference was so designed as to allow for a gradual and regular development of intra-Community trade. They appreciated the intention that a sudden and considerable diversion of traditional trade currents was to be avoided. They expressed the fear that such a development, which was designed as an expansion of intra-Community trade, had been realized by regulations which would act to the detriment of imports from traditionally supplying countries. Some members of the Committee further pointed out that the safeguard provisions in the cereals regulation undoubtedly had some elements which discriminated against third countries.

120. The representative of the Community replied that under the systems of protection previously existing and still existing in other countries, the priority given to domestic producers had always placed exporting countries in the position of residual suppliers. He emphasized that in establishing the intra-Community preference the interests of third countries were, to the greatest possible extent, taken into account. He was convinced that the expansion of intra-Community trade had no relation whatsoever to reduced trade of third countries. In respect of the safeguard measures he pointed out that these would be applied in accordance with the provisions of Article XIX of the General Agreement and would, therefore, not discriminate.

121. Some members of the Committee expressed their concern that the regulation applied not only to cereals produced in the Community but also to products which were indirectly competing. Many of these products were produced by less-developed countries which, in many instances, were greatly dependent on the access of their products to the European Market. The representative of the Community emphasized that the Community was fully conscious of the problems of the less-developed countries. He referred to the example of manioc meal where, particularly because of these problems, a different levy had been set from those according to the normal rule. Some members of the Committee expressed the view that even the present levy might result in a reduction in demand for manioc meal and hoped that the position regarding this product be kept constantly under review by the Community.

Exports

122. Exporting members of the Committee expressed particular concern as regards the system of refunds. They emphasized that the refund system was none other than a system of export subsidization. They stressed that it was generally recognized that the granting of such export subsidies might have harmful effects for other exporting countries and disturb their normal commercial interests. They expressed their concern that such practices under the new system were being institutionalized. Some members of the Committee in considering the refund system in the whole context of the new régime, noted that for the reasons considered in the foregoing paragraphs, production could easily be induced to rise above the level which could be absorbed by the Community. In this event producers were assured of the possibility of disposing of their surpluses on the world market by means of export subsidies covering the full difference between the internal price and the world market price. When the tender system was employed the export subsidy would involve sales below the world market price. There was no doubt in their view that this system might lead to a disturbance of prices in the world market. Special difficulties were feared in the case of flour where producers under the new system benefited from a particularly generous protection which might lead to increased pressure on exports by means of subsidies and to displacement of commercial exports of traditional suppliers in certain markets. In this connexion a member of the Committee recalled that his country had made arrangements with some individual members of the Community in respect of flour exported with the help of subsidies to certain markets and he expressed the hope that such arrangements under the Community subsidization scheme would be respected.

123. The representative of the Community replied that the system of refunds was indispensable in order to maintain for member countries the possibility of continuing to export in view of the constant use of export subsidies by some countries on the world markets. The Community was aware of the possible implications of the export refund system. The Community regarded export subsidies as an unhealthy practice; this was proved by the fact that the Community had agreed to limit the refunds in an autonomous way. Referring to the arrangements that had earlier been made by some individual member States in connexion with exports of flour to certain markets, the representative of the Community said that the Community would be prepared to enter into consultations with interested contracting parties with a view to reaching agreements to moderate and contain subsidies on flour exports.

B. Discussion on Pig Meat, Eggs and Poultry

Extent of protection

124. Exporting members of the Committee expressed the view that the new systems designed for pig meat, eggs and poultry would, in the same way as in the case of cereals, effectively insulate producers in the Community market from outside price competition. The system would afford producers an absolute priority over third country exporters in the Community market, thus placing these exporters in a position merely of residual suppliers. They expressed the view that after having replaced the protective system applied by the member States, the new régime showed distinct characteristics, which might well make it more restrictive than the previously existing systems taken as a whole. In this connexion, they pointed in particular to the elements of the external levies, which, after compensating for the disparities in feedgrain prices, provided an additional element of protection. If this additional element of protection was calculated in terms of cost, other than that of feedgrains, the ad valorem incidence was much greater than when expressed in terms of processed products. They observed that an element of preference was afforded to Community producers in the same way as in respect of cereals, not by improving the terms of access to Community producers but by increasing barriers to outside producers through the addition to the external levy of a supplementary amount. They considered that the degree of arbitrary determination of various elements, such as the processing coefficients, could afford a certain additional protection. They felt that for example in respect of dried eggs, the conversion factor used for determining the amount of the levy and of the sluice price, did not sufficiently reflect real price relationship to shell eggs and thus contained an element of over protection. They felt that the method of determining the sluice price contained various elements of additional protection; in this connexion they pointed in particular to the fact explained in more detail in paragraph 72 that by making a calculation on the basis of a standard feed composition at average world prices the result was inflated, as compared with real costs of efficient third country producers. They expressed the view that the addition of these elements of over protection to the equalization of feedgrain price differences led to a certain amount of excessive protection, which would hamper the development of

European agriculture in the direction of the high degree of efficiency already prevailing in some member States and would by a policy of high prices contribute to further increases in production.

125. The representative of the Community in reply to some of the points raised in this connexion, reaffirmed the fact that the elements of preference within the Community, which were included in the new régime, were in principle legitimate, so that only a difference of view might remain as to their degree. He expressed the view that the importance of the preference presently established was not so high that Community producers were sheltered against external competition. He stated that the systems which had now been adopted, even before further improvements in the course of their application, were at least equal to and in no case worse than the systems applied in the member States before the establishment of the common agricultural policy; he reassured the Committee that a certain number of points would no doubt be carefully watched by the European Commission and by the member States in their application. He emphasized that future developments of production were directly related to the general price level. In the field of prices, the Community had to take account of certain given situations depending on products and countries, but the whole application of the regulations, and this was relevant to all regulations, would depend on the concept of the general price level in the Community. When this price level had been set, the extent of protection would gradually be modified in that direction.

Prices and imports

126. The Committee agreed that the future price level was of paramount importance. If sluice prices were set at a relatively low level, in line with the costs of efficient producers, the system of import levies could, in the view of some members of the Committee, operate in a liberal way. They expressed the hope that a policy of low Community prices for coarse grains, and consequently low levies, would reduce levies and consumer prices for livestock products and thus contribute to a growing demand.

127. Some members of the Committee emphasized that an important element on which exporters had to base their marketing policy was the knowledge of conditions of access. The system now introduced in respect of pig meat, eggs and poultry, as well as the system for cereals, precluded exporters in distant countries from evaluating with sufficient precision at the time of shipment the conditions under which their products eventually would be imported. The import levy could change during the time of shipment and exporters could be confronted with a changed sluice price under which they would attract a supplementary levy. In this respect, these members stressed particularly the importance of a timely announcement of changes in the amount of the levies and sluice prices.

128. Some members of the Committee repeated their great apprehension as to the concept of sluice prices and to certain characteristics of this sluice price system. The sluice price concept was not satisfactory in their view. In fixing the level of sluice prices, commercial considerations of the market had not sufficiently been taken into account. This led to the concept of penalizing efficient producers who could normally export at commercial prices below the sluice price level. Some members of the Committee recalled the fact that in determining the sluice prices, in their view, quality differences had not sufficiently been considered. This would have certain special detrimental effects on importations of lower quality products. Consequently this could lead to a significant diminution of trading opportunities of certain countries.

129. Some members of the Committee further stated that the sluice price contained a number of arbitrary judgments, which in some cases most likely had resulted in a level not corresponding to reality. The resulting high sluice prices could lead to increase in production within the Community, and further to limit opportunities for exporting third countries, thereby contributing to decreases in world prices. Thus even the more efficient producers would be exposed to a situation where they would attract a sluice price levy. The fact that unlike an anti-dumping device the sluice price levy was also applied to exporters selling at prices above the sluice price was in particular a point of apprehension.

130. Exporting members of the Committee questioned whether under conditions of a relatively high sluice price and of import levies which included various additional elements of protection, they might hope to maintain equality and opportunity to compete for consumer choice and actual marketing growth.

131. A member of the Committee pointed out that the sluice price contained certain fixed elements, while certain elements of arbitrary judgment might be subject to revision. He suggested that because of these arbitrary elements the sluice price might be subject to negotiation.

132. The representative of the Community recalled in replying to these comments that the sluice price was designed for abnormally low prices. He stressed that the sluice price would operate infrequently and only when world prices fell below the sluice price. He emphasized that under the system of a levy, consisting of only a grain price equalizing element and one or two additional elements of protection, the Community necessarily had to provide for means in order to react against disorderly exports which incidentally or systematically took place in the present situation of the world market. While recognizing that the concept of abnormally low prices contained a certain subjective element, he said that the sluice price had been calculated, with the maximum of fairness, on the basis of a favourable situation prevailing in third countries. He further stated that the question of imports of lower quality products was recognized by the Community. The system had to be further developed in the light of experience and there was no doubt that specific cases brought forward directly or in multilateral consultation would be duly considered. He reassured the Committee

that the various measures necessary for the application of the regulations would be decided so as not to be incompatible with the international obligations of the member States and of the Community. The representative of the Community did not agree to the concern expressed that the common agricultural policy would have a depressing tendency on world prices. He pointed out that the Community, in particular a possible enlarged Community, would be an important market for many agricultural products.

133. With respect to the suggestion that certain elements on which the sluice price had been calculated might be subject to negotiation, the representative of the Community stated that since the sluice prices were based on the situation prevailing at a certain moment in one or more third countries, there did not seem to be elements which could be made the subject of negotiation.

Exports

134. Exporting members of the Committee expressed the view that by means of the refunds system, Community producers would find no difficulties in disposing of their surpluses. They recalled that incorporated in the levies there were certain elements of additional protection; these elements would be fully reflected in the amount of the refund. In their view Community producers who were already assured of the internal market, received by the refund system an additional assurance of the world market. They repeated their concern that a full refund to the prevailing world price level could distort the situation existing in certain markets with a somewhat higher price level. The representative of the Community repeated that the amount of the refund was subject to certain limits. He gave the assurance that the system would not lead to abuse.

C. Discussion on Fruit and Vegetables

135. The Committee noted that the import régime applicable to third countries was still in the hands of member States and that a complete common policy had not yet been developed. An analysis of the implications of the common policy for third countries must, therefore, await the formulation of the common policy.

D. Concluding Comments

136. The Committee was grateful to the representatives of the Community for the opportunity to gain a comprehensive understanding of the systems of the common agricultural policy as had been laid down in respect of the five groups of products examined, but it considered that it was not possible at this juncture to make a final and complete analysis of their effects. It was recognized that

the regulations had only been operative for a short period so that no statistical data were available to support the Committee in this part of its examination. The Committee was aware of the fact that the system as regards the five groups of products so far had been only partly developed. Many elements of the present regulations were capable of a certain variety of interpretation and further regulations in respect of many highly important matters were still to be laid down. The Committee was aware of the fact that a common agricultural policy in respect of other products and groups of products was still to be established. It realized that the uncertainty as to a possible enlargement of the European Economic Community greatly contributed to the impossibility of passing a judgment at this stage and that such an enlargement would fundamentally change the whole impact of the common agricultural policy on international trade. The Committee welcomed the assurance of the representative of the Community that regulations on other products would, as they came into force, be placed before the Committee for examination in accordance with the Decision taken by the CONTRACTING PARTIES on 7 December 1961, and that in the same manner there would be submitted to the Committee for examination any significant changes in the regulations already examined, as would alter the basis on which the Committee considered those regulations.

137. Exporting members of the Committee felt that a closed market system in which a high level of price support exists, could not fail to generate increased levels of production which in turn were protected by the levy system allied to safeguard measures including a possible embargo on imports. Combined with the element of Community preference to promote a higher level of intra-Community trade, such a situation could only result in eventual displacement of imports from third countries, who could further be penalized by fiercer competition in price in non-European Economic Community markets to the extent that the European Economic Community exported its surpluses with the aid of the refund system. Efficient producers in third countries could not possibly protect themselves against these effects by lowering their own costs. This adverse impact on world trade assumed even greater importance if and as the Six became an enlarged Community. The very size of such a Community as an economic unit, could enable it to dictate the terms of trade in agricultural products to the outside world. The effects on third country producers could be alleviated by the adoption of a low price policy.

138. A member of the Committee referred to Article 39 of the Treaty of Rome and to paragraph 4 of Article 6 in the Cereals Regulations, which set out as one of the main objectives and criteria of the Community, structural reform in agriculture with a view to specialization, the economic allocation of resources, including labour and efficient production. He laid emphasis on the provisions or measures which the Community would formulate to implement these objectives and criteria, as it was within their scope that the possibility lay of arriving at an internal level of prices so as to permit of fair competition as between efficient producers and producers of the Community for consumer choice and natural market growth.

139. The representative of the Community in addressing himself directly to the question of prices recognized the fact that the level of certain prices prevailing in agriculture in the member States could, if considered on its own, be considered high as compared to outside price levels. Such a comparison would become more difficult if account was taken of the state of advancement of agriculture, the structure of European agriculture and in particular the relatively high active agricultural population in the Community. He stated that reference had been made to a policy of reasonable prices; this did not mean a policy at the level of the highest prices at present prevailing in the Community. A policy of reasonable prices would, in his view, correspond to some intermediate level; uncertainty remained as regards the question of knowing whether this level would be nearer to the lowest than to the highest price level. He went on to say that the problem of agricultural incomes and in particular the social aspects for the producers could not be solved by the market policy alone. In this connexion, he pointed out that the new systems to the greatest extent possible had endeavoured to avoid the great number of market interventions previously applied in the member States. In this respect the regulations could be considered as liberal. The representative of the Community said that in his view neither the organization of the regulations nor the preference, being in fact legitimate, which they sanctioned, warranted any assertion that the system led in the long term to an eviction of third country exporters. The Community had yet to formulate its policy for the agricultural structure and this task was of particular urgency. It thus would be reflected on the level of internal prices but this would take time. A consequence of this policy was that the Community had to cover the problem of agricultural income by other financial measures leading to greater efficiency and a better specialization.

140. The Committee considered that the predominant element in the development of the common agricultural policy and in its impact on international trade, was the general price policy to be laid down by the European Economic Community and it noted the statement by the representative of the Community that it was in the interest of the Community to operate a reasonable price policy.

141. The representative of the Community assured the Committee that safeguard measures would be applied as an exceptional measure and in conformity with undertakings under the GATT. The comments made by exporting members of the Committee would be taken into account and had already suggested a close supervision of the operation of the regulations. In any event, the regulations could be reviewed by the Community from time to time in the light of experience and, if necessary, modified. The Community also stood ready to consult with third countries jointly or separately regarding any difficulties arising from the implementation of the regulations.

142. The representative of the Community stated that the integration of a certain number of countries representing a considerable percentage of agricultural trade set forth more clearly the necessity of remedying the anarchy or depression which was to be found in the world market. He considered that the regulations were not involved in the present situation of that market; that situation existed before the regulations and, therefore, they could not be held responsible for the persistence or aggravation of it.

143. The Committee noted the statement made by the representative of the United Kingdom that, arising from the Brussels negotiations, the intention, if the United Kingdom joined the European Economic Community, would be to seek, in the context of an enlarged Community, world-wide agreements for the principal agricultural products covering, among other things, price and production policy.

144. As regards world-wide commodity agreements, some members pointed out that various commodities might not necessarily lend themselves to such agreements. Furthermore, while they did not consider that modifications in the common agricultural policy would solve all outstanding problems of world trade in agricultural commodities, they wished to point out that to the extent that the present problems were aggravated by the common agricultural policy, the common agricultural policy ought to be reviewed with a view to removing such aggravation.

145. The representative of the Community stated that the Community was prepared on the basis of reciprocity to enter into consultation or into negotiation as regards the general price policy. In negotiations on a world-wide basis of a number of agreements in respect of agricultural products a discussion on the level of prices at which transactions were to be operated, could be a principal item, but that such agreements would go further so as to lead directly to include a negotiation of the policy of prices practised and on a policy of orientating production.

146. Exporting members of the Committee urged that one of the main items for negotiation in such agreements was to provide for a basis of acceptable conditions of access to markets. Some members drew attention to the fact that the possibility of new tariff negotiations was to be examined in the GATT and stated that it was a prerequisite for the success of such tariff negotiations that practically all contracting parties should participate. If agricultural exporters were to participate in this process of negotiation on the basis of reciprocity, then they must have some assurance that they could negotiate meaningful access to all markets for their products. In this regard the exporting members appreciated the remarks of the representative of the Community on this point.

147. The Committee was appreciative of the recognition expressed by the Community of the responsibilities placed on it by its predominant position in world trade in agricultural products. The Committee expressed the hope that the views brought forward during this examination would, to the greatest possible extent, be taken into account in the implementation and further development of the common agricultural policy.