

Decisions on the common price level for cereals (15 December 1964)

Caption: In the February 1965 edition of Bulletin of the European Economic Community, the Commission of the European Economic Community (EEC) presents the outcome of the Agriculture Conference of 15 December 1964 and its implications for the establishment of a common agricultural market.

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The decisions of 15 December 1964 on the common price level for cereals

Faster progress towards a common market for agriculture

On 15 December 1964 the Council of Ministers took the long-awaited decision on the harmonization of cereal prices in the European Economic Community. For this agreement to be reached by the Council great efforts and concessions were required of all the Member Governments; these were made for the sake of strengthening the Community. The decision has a political and economic significance extending far beyond the purely agricultural sphere, and its effects will have a favourable influence on the further development of the Community. It will also enable the Community to play an effective part in the Kennedy Round negotiations on agricultural produce at Geneva.

As the Council's decision means in practical terms that the common market for important agricultural products will be established sooner than was originally planned, it will now be easier to reach the final common market stage more quickly; this is in line with what the Commission had always thought possible and had sought to achieve through various of its proposals. One important obstacle has been removed, and various objectives have therefore been brought nearer to fulfilment: complete elimination of intra-Community tariffs earlier than originally planned, harmonization of taxes on the transport of goods, further development of the Community's financial system, and a strengthening of the powers of the European Parliament in connection with budgetary control.

On the other hand it must be realized that the achievement of uniform cereal prices does not mean that the common agricultural policy has already been established or developed to the full.

Important decisions have still to be taken in the field of price policy (common prices for milk, beef and veal, sugar-beet and rice) and of market policy (establishment of further common organizations to cover the markets in oils and fats, tobacco, potatoes and sugar-beet, and extension or adjustment of the market organizations already in existence), and there is also the particularly important question of the final arrangements for financing the common agricultural policy. The Commission considers that the most important of these matters can be clarified and settled in the first half of 1965. A timetable for this work is already under discussion between the Community organs concerned.

1. The Commission's proposals for the establishment of a common price level for cereals

The Council regulations of 14 January 1962 established the first common organizations of agricultural markets; with the decisions of 15 December 1964 on the harmonization of cereal prices the common agricultural policy entered its second stage. Between these dates common machinery had been set up to regulate trade and guarantee markets, but it left unchanged the prices ruling in the various Member States and therefore the level of protection at their frontiers; the decisions reached on 15 December went further and gave the common policy its economic content, and this development entails the transfer to the Community of the major part of the political and economic responsibility for agricultural policy. Exactly how did this come about, what is the substance of the decisions, and what consequence will they have?

In November 1963, when the Community was still experiencing its first serious crisis, caused by the rupture of the negotiations for the accession of the United Kingdom, the Commission believed that the best way for it to stimulate the Community to further progress would be by submitting to the Council proposals that would be both politically important and objectively necessary. The common cereals price was a case in point. It had become apparent that national cereal prices could not be aligned progressively on a common price for the Community as the common organization of the market in cereals had laid down; moreover, in view of the tariff reductions proposed by the United States in the Kennedy Round negotiations in GATT, the Community also had to be able to negotiate on agricultural matters. This it could do only if common prices were in force (at least for the most important products) — for it had itself proposed that the overall margin of support should be negotiable.

Finally, it was found that owing to the connection between the price level and the level of protection at

frontiers practically nothing had yet been done to eliminate the existing restrictions on trade in agricultural produce between Member States. In fact the level of protection was in some cases even higher than it had been the year before the Common Market was established, with the result that while in the industrial sector the tariff reductions had already been effected more rapidly than was required by the Treaty, considerably less progress had been made with regard to agricultural markets.

For these reasons the Commission submitted its proposal for the establishment at one stroke of a common price level for cereals. This proposal contained a number of points which went beyond the question of cereal prices and were intended to increase the Community's responsibility for agricultural policy. The proposals submitted by the Commission in November 1963 were as follows:

1. Common price level for cereals to take effect from the 1964/65 marketing year.

2. Common target prices for cereals:

Durum wheat	125.00 u.a. per metric ton (DM 500)
Wheat other than durum	106.25 u.a. per metric ton (DM 425)
Barley	92.50 u.a. per metric ton (DM 370)
Maize	93.75 u.a. per metric ton (DM 375)
Rye	93.75 u.a. per metric ton (DM 375)

3. Measures to compensate farmers in Germany, Italy and Luxembourg during the transitional period (until 1969) for loss of income resulting from the reduction of their cereal prices. Such compensation would amount to:

Germany (FR)	DM 560 million p.a.
Italy	DM 260 million p.a.
Luxembourg	DM 3.6 million p.a.

Compensation was to be financed by the Community. During the transitional period (1967/68 till 1969/70) both the proposed direct payments to farmers and the Community's contribution to the cost of compensatory measures were to be progressively reduced to 66 % of the original amounts.

4. Full financing, subject to the provisions of Regulation No. 25 (Financial Regulation), export refunds and measures of intervention for cereals, pigmeat, eggs and poultry to be borne entirely by the European Agricultural Guidance and Guarantee Fund in so far as they are eligible for Community financing under this regulation.

5. Amendment of Regulation No. 19 in order to adapt it to the situation resulting from the alignment of cereal prices (e.g. abolition of intra-Community levies and refunds, common rules governing intervention, common quality standards, etc.).

The Commission's proposals were supplemented by a memorandum on prices and price policy for agricultural products which dealt with the effects of harmonization of prices on the production of cereals, with foreign trade, the prices of other agricultural products, consumer prices and even more important, with farm incomes affected by price reductions.

In November/December 1963 the Council did not feel able to decide on the Commission's proposal but postponed its decision until April 1964, chiefly because it wanted first to complete the common organization of the markets for milk and milk products, rice, and beef and veal.

In the first discussions at the beginning of 1964 questions were put to the Commission, chiefly by the Germans but also by the Italians, concerning points of urgent importance to these countries. Although the Commission had in April 1964 given a written reply to the most important questions raised by the German member of the Council, it became evident that a prompt decision of the Council enabling the common

cereals price to come into effect in 1964/65 could no longer be expected. In May 1964, therefore, the Commission sent the Council a communication combining in four proposals the politically important elements of the Commission's proposals of November 1963 and adding to them in certain respects:

1. The Commission now proposed that the common cereal prices should take effect from the 1966/67 marketing year, i.e. from 1 July 1966.
2. The Council should begin by taking formal action on only the politically important points. Decisions on the more technical questions should be taken between the act establishing the level of common cereal prices and their application.
3. As it was recognized that there would now be a fairly long period between the establishment of the common prices and their application, it was proposed, in accordance with a suggestion from the German member of the Council, that a revision clause should be included (relating to the adjustment of prices in the light of developments intervening during this period).
4. The Commission's proposals included another new element: a proposal on procedures for ironing out differences in income support measures for agriculture in the Member States.
5. As the common prices were not now to come into force until 1966/67 the Commission proposed — in accordance with Regulation No. 19 — that new upper and lower limits should be set for target prices for the 1964/65 marketing year.

These proposals were explicitly presented by the Commission as an indivisible whole. The Council discussed them and on 2 June 1964 decided as a start merely to fix the upper and lower limits of cereal prices for 1964/65 and to postpone its decision on the actual unification of cereal prices until 15 December 1964. This decision of the Council was unanimous, and against the advice of the Commission which at this session refused, despite an appeal from the Council, to abandon the unity of its proposal — an event that had never before occurred in the history of the Community.

When in the autumn the Council returned to the question of cereal prices, it became increasingly clear that the request put forward by the Italians that Regulation No. 25 (Financial Regulation) should be revised with a view to establishing a better balance between Member States' rights and obligations would be one of the main points of discussion. On the German side the reservations that had already been expressed were maintained. On 1 October 1964 the Commission therefore sent the German Federal Government — at the same time informing the Council that it had done so — a document giving a comprehensive answer to all its questions; at that time these corresponded closely with the Federal Government's reservations on the harmonization of cereal prices.

In the end the problems discussed in the Council concerning the harmonization of cereal prices centred on the following points, which the Commission had summarized and explained in a further document to the Council on 14 October 1964:

- (1) The date when the common prices should be applied;
- (2) The level of the common target price for wheat other than durum;
- (3) The level of the common target price for barley;
- (4) The level of the common target price for maize;
- (5) The inclusion of a revision clause;
- (6) The regionalization of cereal prices (differentiation of intervention prices within the Community);
- (7) Compensatory measures for loss of income resulting from Community plans;
- (8) Financing of export refunds and measures of intervention by the Fund.

The level of the price of durum wheat and the harmonization of income support measures were treated as special problems apart from the above.

In the course of further Council discussions, particularly on 30 November and 1 December, other problems

were raised by certain delegations which sought to link them with their agreement to the common cereal prices.

After intensive negotiations in the Council it was clearly the wish of all the members of the Council to reach a political agreement before the end of 1964. The Commission therefore presented a compromise proposal at the session of 12-13 December, but this came to nothing because it failed to secure the approval of one delegation.

After the resumption of negotiations on 14 December the Commission's second attempt, with a proposal differing somewhat from the earlier compromise proposal, met with success. In the early hours of 15 December all the members of the Council gave their approval.

II. The agreement of 15 December

The contents of the Commission's compromise proposal, which was accepted by the Council primarily for political reasons and which is accompanied by a number of resolutions, are as follows.

- (1) The common price will come into effect from the 1967/68 marketing year, i.e. from 1 July 1967.
- (2) The common price will be fixed in units of accounts (u.a.).
- (3) The basic target prices will be:

u. a. per m. ton

Wheat other than durum	106.25
Barley	91.25
Maize	90.63
Rye	93.75

Durum wheat
basic target price 125.00

Durum wheat
guaranteed price to the producer at wholesale level 145.00

The equivalents of these prices in the national currencies of Member States are given below

Tableau 238

- (4) Regional differentiation of cereal prices.

The basic target prices fixed for the various types of cereals are valid for Duisburg (the most important marketing centre in the area of greatest deficit in the North-West of the Community). From them are derived the threshold prices (which are the basis of calculation for the levies on imports of cereals from non-member countries) and the intervention prices within the Community. The Council's decision on regionalization, which is expressed in the form of a resolution, includes:

- (i) The following basic intervention prices valid for Duisburg for all types of cereals (except maize):

Durum wheat	DM 470 per metric ton
Wheat other than durum	DM 395 per metric ton
Barley	DM 340 per metric ton
Rye	DM 350 per metric ton

- (ii) The derived intervention price of DM 308 per metric ton for maize, to be applied throughout the

Community. The marketing centres for which this intervention price is valid have yet to be determined;

(iii) The 38 main marketing centres in the Community, and the derived intervention prices valid in these at the beginning of the marketing year (see table 1);

(iv) Reference to the criteria still to be decided for designating further marketing centres, and to the principles generally applicable for fixing derived intervention prices. The other marketing centres and the intervention prices valid in these will be determined by the Commission with the co-operation of the Management Committee for cereals.

The price system on which the common organization of the market for cereals has hitherto depended, will be retained when the common market for cereals comes into being. The only exceptions to this are for maize and durum. Whereas for durum (see above) a fundamentally different system was adopted, involving a price bracket, for maize a single intervention price was fixed for the whole Community. It was possible to do this because by far the greater part of the Community's maize comes from non-member countries, so that the price on the internal market is largely determined by the threshold price.

Prix d'intervention dérivés pour le blé tendre, le blé dur, le seigle et l'orge 1967/1968

(5) The following special arrangements were made for various types of cereal

Barley and maize

In order to mitigate the difficulties that would be experienced by Italy if its prices were increased to the common level (Italy's prices for barley and maize are at present the lowest in the Community), and also in order to take into account the special position of the Italian ports (where, owing to the long time that vessels are obliged to spend in port as a result of the inadequate unloading capacity, discharging costs are higher than in the other ports of the Community), the Italian Government is authorized:

(i) To decrease the levy by DM 30 per metric ton for barley and maize imported by sea. This arrangement holds good until the end of the 1971/72 marketing year and applies to cereals from the Community as well as from non-member countries.

(ii) To decrease the levies on imports of barley and maize by a further amount as follows

DM 12.50 per metric ton in the 1967/68 marketing year

DM 10 per metric ton in the 1968/69 marketing year

DM 10 per metric ton in the 1969/70 marketing year

This decrease applies whether the goods are imported by sea or by land. When they are imported from Member States, a subsidy of an equal amount is to be paid.

On exports of barley and maize from Italy to the other Member States, the Italian authorities are to make a charge equal to the above amounts, in order to avoid diversion of traffic.

The Council invited the Commission to examine whether similar provisions ought to be introduced for processed products based on barley or maize, and for pigmeat, eggs and poultry.

When the derived intervention prices for barley in Italy are fixed, the effect of these provisions must be taken into account. As there is to be only one derived intervention price for maize throughout the Community, this consideration does not apply to maize.

Rye

For rye of a quality particularly fit for human consumption, an amount of DM 10 per metric ton may be paid

in addition to the intervention price when such rye is purchased by intervention agencies. This system will probably be applied mainly in Germany and Luxembourg, where large quantities of rye — used only as feed-grain in the other Member States — are used to make bread; the intention is to ensure that producers of this rye will receive an extra DM 10 per ton.

This provision is to be re-examined by the Council each year in the light of a report by the Commission, and it can be amended where necessary on a proposal of the Commission, in particular when too much rye is being offered to the intervention agencies.

Brewer's barley

At the request of Germany, the intervention prices for barley can also be raised when it is of sufficiently high quality to be used in brewing. The effect is the same as with rye: growers can get a higher price for brewer's barley than for barley for use as fodder.

If this system results in large-scale intervention, the Commission — which is to be kept constantly informed by the Member States — is to inform the Council, which will then decide on the action to be taken.

The special arrangements for brewer's barley and for rye will therefore remain in force only so long as they do not lead to large-scale intervention.

Durum wheat

In view of the special conditions governing production of durum wheat in the Community — which is concentrated in Southern Italy and the Italian islands and cannot be replaced by other crops owing to the low yields obtained there — and of the social problem to which they give rise, the Council decided to adopt a special system for durum (which had already been treated as an exception in Regulation No. 19). This system consists in coupling a basic target price with a (higher) guaranteed minimum producer price for durum at the wholesale stage. The basic target price has been fixed at DM 500 per metric ton and the guaranteed minimum price at DM 580 per metric ton. The difference between the guaranteed minimum price and the intervention price that growers can get on the market will be made up by the Community by payments from the European Agricultural Guidance and Guarantee Fund (EAGGF). This is likely to cost about 40 million units of account per year.

(6) Compensation

The Community's share of the payments made to farmers of the Member States where prices were previously higher, to compensate them for loss of income, is as follows

Tableau 240

Compensatory payments are to be made by a special section of the EAGGF. They will be financed according to the scale for contributions laid down in Article 200 (1) of the Treaty of Rome (i.e. Germany, France and Italy will each pay 28 % of the total cost of DM 1 655 million, Belgium and the Netherlands will pay 7.9 %, and Luxembourg 0.2 %).

The net financial result for individual Member States, given in DM million, is:

Tableau 241

(7) Community financing.

An important item in the negotiations on Community financing was the disproportion between contributions paid to the Fund and aid received from it in the years 1962/63 and 1963/64. The main reason for this was that in those years Community financing was still incomplete and was limited to certain agricultural

products only.

The Council agreed that from 1 July 1967 the expenditure of Member States eligible under Article 3 of Regulation No. 25 for financing by the Fund (refunds for exports to non-member countries and market intervention for cereals, pigmeat, eggs and poultry) should, where this is provided for in the relevant market organizations, be borne completely by the Fund, that is, by the Community. The Council invited the Commission to submit proposals on the conditions for implementing Article 2 of Regulation No. 25 as soon as common prices come into effect for the various agricultural products.

The Council decided, in a spirit of solidarity among the Member States, to extend the financial responsibility of the Community to other products (fruit and vegetables, durum wheat and tobacco).

It was agreed that Italy's financial contribution to the Fund for 1965/66 should be limited to 18 %, and for 1966/67 to 22 %, and that Belgium should not be put at any disadvantage by the adoption of these new ceilings for Italy. Under the previous scale the ceiling for Italy was 28 %.

In addition the Council decided that Community aid for the improvement of this agricultural structure of Italy and Luxembourg should be increased,

(8) Common organization of the market in fruit and vegetables.

In accordance with the wishes of the Italian delegation the Council passed a resolution, to the effect that, in order to ensure a balanced development in all sectors of agriculture throughout the Community, the arrangements made for the fruit and vegetables sector with respect to imports from non-member countries must be as effective as those provided within the framework of the other common organizations of agricultural markets. The intention here is to subject imports of fruit and vegetables from non-member countries to countervailing charges based on the reference prices which will be fixed for the various types of fruit and vegetables, whenever the Community reference price is undercut.

The Council therefore invited the Commission, in the light of experience gained, to submit proposals for adjusting the provisions along these lines; the changes concern in particular reference prices and the countervailing charges on imports from non-member countries based on these prices. The Council will take its decision in this matter by 28 February 1965.

(9) Revision clause.

The Council adopted the following text of a revision clause that would make it possible, on one occasion only, to alter the price that has now been fixed before it comes into effect:

“On the basis of a Commission report, which is also to deal with costs and prices, the Council shall before 1 July 1966 re-examine the basic target prices with a view to adjusting them where necessary, on a proposal by the Commission, to any intervening developments.”

This wording ensures that the cereal price will not be treated as an index (i.e. that it will not be automatically adjusted to movements of prices and costs), but does allow it to be adjusted if the situation changes.

(10) Common market for pigmeat, eggs and poultry.

The Council decided that at the moment when the common market for agriculture is established, i.e. from 1 July 1967, intra-Community trade in pigmeat, eggs and poultry should be freed from the protective measures provided in the common organizations of markets. So from 1 July 1967 factor (b) (the fixed element) of the levy will be abolished (the variable element has been eliminated by the establishment of common cereal prices), together with the intra-Community sluice-gate price for pigmeat. In addition the Commission is to submit proposals to the Council on Community intervention measures for the pig market, and these will come into force by not later than 1 July 1967. At the same time the Council asked the

Commission to express its opinion on the advisability of Community intervention measures for the market in eggs and poultry. The remaining elements (c) and (d) of the intra-Community levy for pigmeat, eggs and poultry, and the increased fixed element for intra-Community trade in processed products based on cereals (flour, rolled oats, pearl barley, etc.) will also be abolished from 1 July 1967 if the Commission's proposal is adopted (Initiative 1964). The Council will have to consider proposals together with those for processed products.

(11) Transport rates for agricultural produce.

The Council adopted another resolution on transport costs for agricultural products, which are a particularly important factor of competition within the Community. In this resolution it invited the Commission to submit to it, before 1 July 1966, a report on transport rates for each agricultural product, the distribution among the various means of transport of the quantities transported, and the difference in transport costs for each category of these products. At the same time the Commission was instructed to submit to the Council, before 1 July 1966, proposals in this matter which would fit into the common transport policy.

This decision of the Council, taken at the request of Germany, must be considered together with regional differentiation of cereal prices: in the market for cereals within the Community transport costs are the most important factor contributing to differences in prices.

III. Significance and repercussions of these acts

The above details clearly show that the action taken by the Council on 15 December 1964 is not only of far-reaching political significance, but is also an example of co-operation springing from a spirit of solidarity which is much more than the mere surrender of apparently impregnable positions. There were no victors and no vanquished. The common denominator was found in the further progress of the Economic Community. It is obvious that a decision of such importance as that on the establishment of common cereal prices cannot fail to affect the Community as an economic and social unit and economic life within it.

This is especially true of future developments in the common agricultural policy, which must undoubtedly have been stimulated by the decision to bring the common market for cereals into being earlier than had originally been planned. Of course there are still important and economically significant problems to be decided — as, for example, the continuation of Community financing until common prices are in effect for all agricultural products, as mentioned above, and the extension of the common organization of markets to other sectors, e.g. sugar-beet, oils and fats, tobacco, potatoes, etc; it is, however, likely that these problems will now be taken up more energetically by the Community organs concerned, so that all sectors of agriculture shall develop harmoniously. The tariff negotiations in GATT, which of course include agricultural produce, should also benefit considerably. The approximation of veterinary, health and food legislation must now be speeded up in order to remove the barriers to trade that still exist in these fields of legislation (and which are often all too effective!).

The Council's decisions are also expected to have both direct and indirect effects on other sectors of the European Economic Community included in the EEC Treaty or connected with it, particularly the Community's commercial policy, the Member States' monetary policies, the common transport policy, and fiscal policy.

With regard to the Community's commercial policy, it is directly apparent from the Council's decision (price level midway between the highest and the lowest) that the Community, as an important unit in world trade, is conscious of its duty to co-operate in facilitating trade; also it is now able to act much more effectively as a unit in the negotiations in Geneva.

The monetary policy of Member States is also affected by the Council's decision to fix cereal prices in units of account (which are at parity with the US dollar but not bound to it, being expressed in terms of gold); there can be no doubt that the recent agreement marks an important step forward which will bind the six economies still more closely together, since it is now more difficult (if not virtually impossible) for Member

States to alter their exchange rates unilaterally. Member States' monetary policies must of necessity be more closely harmonized. Two consequences follow from this: firstly, pressure exerted in this way for harmonization of monetary policy leads to closer co-operation between the Member States at Community level with regard to short-term and general economic policy; secondly, if any country should nevertheless decide to alter its exchange rate unilaterally for reasons of overriding national interest, many sectors of the economy of that country (for example, agriculture) would either be the only ones affected by the results of the change (in the case of revaluation) or else would be excluded from them (in the case of devaluation). This would be bound to influence economic relations within the Community and with non-member countries, so that Community measures would have to be adopted immediately to restore the threatened equilibrium. In any case, therefore, the Community must share the responsibility for economic and monetary policy.

The decision also provides a direct stimulus to achieve a common policy for transport, in which, of all the sectors affected by the Treaty of Rome, the least progress has so far been made.

The fiscal policy of Member States will have to reflect the requirements of the common market, the establishment of which raises the question of "tax frontiers", as these are an important obstacle to competition and to the free movement of goods. The Commission's proposals for the abolition of tax frontiers and the stimulus to harmonization of taxation given by the German Federal Government's "Plan for Europe" are therefore particularly important and urgent.

This list is by no means exhaustive; further positive results are to be expected, for example, in regional policy and medium-term economic policy, fields where there will now be a number of facts and figures on which to base longer-term decisions, with the result that it will be easier to work out a wide range of policy measures.