



AgEcon SEARCH

RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

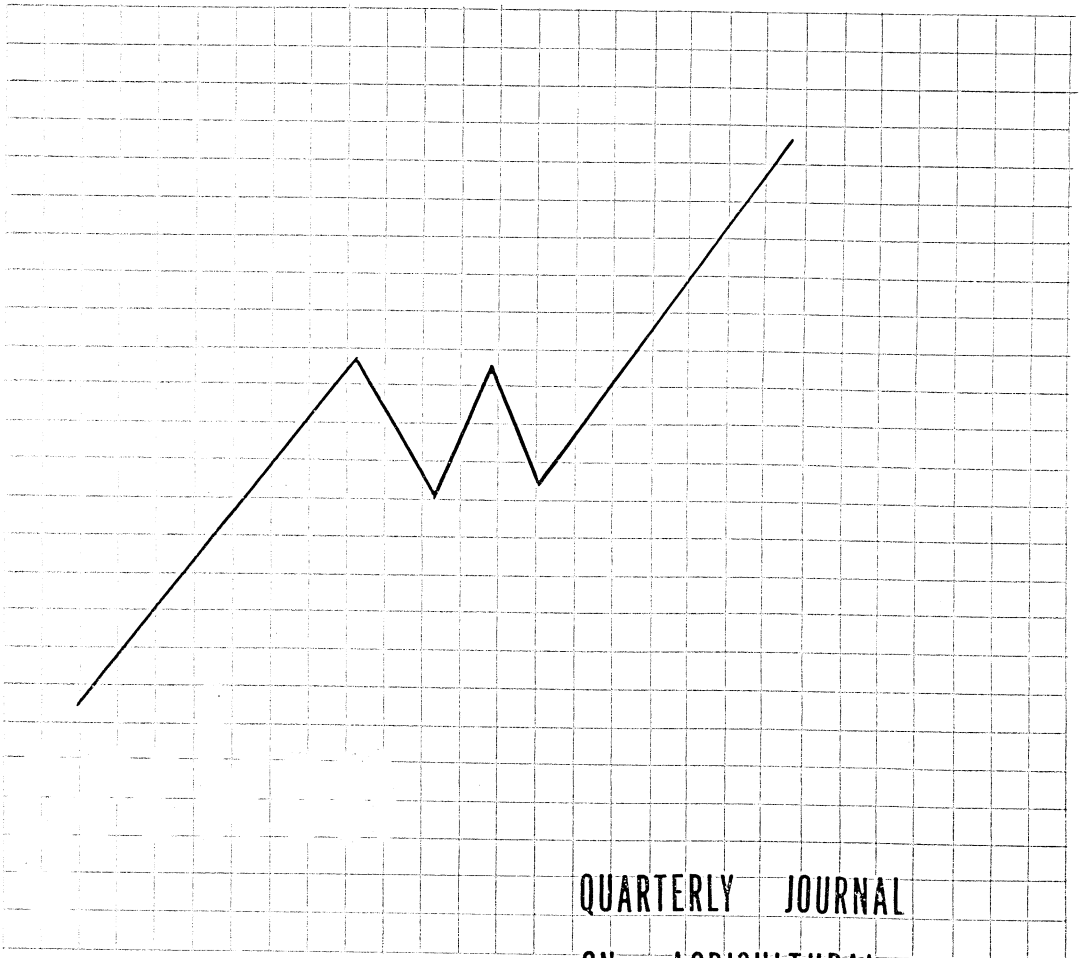
*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

Vol. 1, No. 4
October 1962



PRICE 20c



QUARTERLY JOURNAL
ON AGRICULTURAL
ECONOMICS

Issued by the Department of Agricultural Economics and Marketing, Pretoria

Agrekon

REQUIREMENTS FOR CONTRIBUTIONS

Editorial committee: Dr. C. van der Merwe (chairman), A.J. du Plessis (vice-chairman), Dr. F.R. Tomlinson, Dr. A.P. Scholtz
Editors: O.E. Burger and H.J. van Rensburg
Technical editing: Q. Momberg

Deserving articles in the field of agricultural economics, for publication in this journal, will be welcomed.

These articles should have a maximum length of 10 folio pages (including tables, graphs, etc.), typed in double spacing. All contributions should be submitted in triplicate (preferably in both languages) to the editors, c.o. Department of Agricultural Economics and Marketing, Pretoria, and should be received by the editors at least one month prior to publication date.

The journal is being distributed by and is obtainable from the distributors: "Agrekon", Private Bag 144, Pretoria.

(The price is 20 cents per copy or 80 cents per annum, post free.)

Dates of issue, on a quarterly basis, are the following: January, April, July and October.

"Agrekon" is also published in Afrikaans.

The Agricultural Policy of the European Economic Community

by S.J.P. Smit, Agricultural Advisor (London),
South African Department of Agricultural Economics and Marketing

The agreement on a common agricultural policy which was eventually arrived at, on the 14th February 1962, between the six member states of the European Economic Community, is regarded as one of the most important milestones in the development of the Common Market. This decision was reached after a series of meetings which continued for weeks and were only concluded early in the morning of 14 February. This is indeed a major accomplishment when it is realised that, in one session, decisions were arrived at which covered marketing schemes for a series of agricultural products, in substitution for the wide range of systems previously in operation in each of the six countries. At these meetings the finer details of the various systems of control could naturally not be finalised, and work is still continuing on the many imple-mentary regulations which are required to put the schemes into operation.

To assess an agricultural policy on the basis of the general provisions which are promulgated is no easy task, since such regulations do not indicate how the policy that is envisaged will be applied in practice. The E.E.C. agricultural policy that was decided upon creates the machinery which can be used, either to implement a moderate price policy, or to build a high protective wall around the Common Market. It is true that Dr. Mansholdt has stated that "it will be one of the most important tasks in European agricultural policy to manage prices so that the production of unsaleable surpluses is prevented"1), but he himself does not yet know how high the eventual level of prices will be. That it will be high, is the fear which most agricultural exporting countries harbour at present.

It would appear as if exporters are in general hoping that Great Britain, if she should join the Common Market, would use her influence to enforce a more liberal trade policy. Whether this will indeed be the case, remains to be seen. A study of the internal agricultural policy followed by Great Britain in the past does not, however, leave much cause for optimism - especially not when the low standard of living which still persists in several of the E.E.C. states, in conjunction with the declared objectives of the common agricultural policy which are outlined below, is borne in mind. In view of the Commonwealth interests of the United Kingdom, it must nevertheless be conceded that British accession to the E.E.C. could possibly exert an appreciable influence on the agricultural policy of the E.E.C. However, since the conditions under which Great Britain might accede to the E.E.C. have not as yet been agreed upon, an

1) Address by Dr. Mansholdt, member of the E.E.C. Commission, to the American Farm Bureau Convention, Denver, Colorado, on 13th December 1960.

assessment of the E.E.C. agricultural policy is made even more difficult. No attempt is therefore made in this review to assess the policy on which the E.E.C. decided, but merely to indicate the more important principles which will apply in respect of particular products.

Policy objectives

The objectives of the common agricultural policy are set out in Article 39 of the Rome Treaty, and can briefly be summarised as follows:

- 1.(a) To increase the productivity of agriculture by means of technical development, as well as to ensure that agricultural production is developed on a rational basis and that optimum utilisation of the production factors, especially labour, is achieved.
 - (b) To ensure that a fair standard of living is maintained by the agricultural population, by increasing the income of individuals engaged in agriculture.
 - (c) The stabilisation of prices.
 - (d) To ensure reasonable prices to consumers.
2. In determining the agricultural policy and the special arrangements it might entail, due consideration should be given to the following:

- (a) The particular characteristics of agricultural activities which are connected with the social structure in agriculture, as well as the structural and physical differences existing between the various production areas.
- (b) The advisability of effecting adjustments gradually.
- (c) The fact that the agricultural sector in member countries is closely connected with the economy as a whole.

The principles on which the regulations are based

In order to attain the objectives enumerated above, the E.E.C. countries have decided to apply various common regulations in respect of individual products. The broad principles, on which the various regulations are based, can be summarised as follows:

1. To balance supply and demand within the "Community", taking into account the export trade; by influencing supply by means of a greater measure of regional specialisation, storing of goods and structural reforms - and by influencing demand by, for example, improvement in quality, etc.

2. To ensure a reasonable income to producers by means of structural and regional improvements, the consolidation of farms, the supply of electricity, improved methods of transport and farming, agricultural extension services and vocational training.
3. To stabilise agricultural markets by preventing speculative price fluctuations, but also to allow long-term changes in supply and demand to play a part.
4. To ensure fair supplies to consumers by enabling the manufacturing industries and the trade to utilise export opportunities at reasonable prices, and by preventing the formation of prices on the basis of those of marginal products.

These principles are then contained in a series of regulations in terms of which the marketing of agricultural products will be regulated, and which will replace the existing marketing systems. During the transition period the trade restrictions existing between member countries will be gradually eliminated, to disappear altogether by 1970 at the latest. Regulations have already been decided upon for grain, pigmeat, eggs, poultry, vegetables and fruit and wine, as well as regulations dealing with the financing of the policy. The Commission of the E.E.C. has also submitted its proposals in respect of dairy products and beef to the Council for approval. Finally, a series of enabling regulations, which deal mainly with details, have been compiled. Only the main aspects of the principal regulations are briefly discussed below.

Regulation for grain

For wheat and barley, as well as for maize and rye, of which there is a substantial production, target prices are fixed annually. These prices are wholesale selling prices and must not be regarded as absolute guaranteed prices to producers. However, should the target prices not be realised, member states are allowed to enter the market and purchase supplies at a price between 5 and 10 per cent below the target prices, in order to stabilise the market for the producer.

Furthermore, the producer is protected against foreign competition by means of levies on imported grain. These levies are equal to the difference between the threshold price and the c.i.f. price. The threshold price is fixed at a level which would not endanger realisation of the target price, and in practice the two are equal to each other at a certain point. However, the prices which are published will differ, because the target price is the price which applies in the area of greatest deficiency within the member state, while the threshold price applies at the ports of entry. The difference between the two is, therefore, equal to the transfer costs between the port of entry and the area of greatest deficiency.

Both target prices and threshold prices are fixed for a year in advance. In practice the levy could, therefore, fluctuate from day to day. The levy, which is equal to the difference between the threshold price and the average c.i.f. price, is announced daily after taking into account the average level of the c.i.f. prices (i.e. the prices which are established on the exchanges at the ports of entry).

During the transition period (that is to 31st December 1969) each member state will fix its own target and threshold prices, but these must be within a defined minimum and maximum. The prices of the member states must, however, move closer to one another so that, after 1970, the prices of the "Six" would be uniform. There will then be only one area of greatest deficiency, which will serve as a basis for calculation of the threshold prices that will apply at the different ports of entry.

During the transition period levies will also be collected on the trade between member states. These levies will be calculated on the same basis as that in respect of imports from third countries, but will be reduced by a certain amount (the so-called "montant forfaitaire") in order to create a preference for member states.

Levies will also be collected on grain products. By and large these levies will be calculated on the same basis as in the case of grains but an additional consideration, namely protection of the domestic processing industry, will apply in this case.

The levies in respect of grain will be taken into account when determining the levies in respect of eggs, poultry and pigmeat.

Regulations in respect of eggs, poultry and pigmeat

For these products no target prices are fixed and no provision is made for government purchases. Here producers are protected only against competition from outside the E.E.C., by means of a system of levies and minimum import prices. When imports are effected at prices below the minimum prices, an additional levy, which is equal to the difference between the c.i.f. price and the minimum price, is collected. As regards the trade between member states, minimum import prices only apply in the case of pigmeat, but then provision is also made for preferences in respect of imports from member states. This minimum price will also disappear when the levy between member states disappears.

The minimum import prices, or the so-called sluice-gate prices, are equal to the cost of production of eggs (and also pigmeat and poultry), should use be made of feed grains at prices ruling on the world market (in practice the c.i.f. prices which have, over a past period, prevailed in respect of feed grains). The costs of production which are calculated also take into account, for example in the case of eggs, the cost of chickens, housing, antibiotics and credits in respect of slaughtered fowls.

The levies imposed on imports differ from product to product and consist of more than one element. The first element which applies to all products is an amount equal to the difference between the cost of feed grain (required to produce for example, one dozen eggs) on the world market and the cost within the member state. In the case of eggs and poultry the second element is equal to the import duties which previously applied in respect of these products. In respect of pigmeat the second element is a variable one; and when it is added to the first element, the total amount must not exceed the difference in the market prices of pigmeat in the exporting and the importing country during a certain period in the past.

This second element will be reduced to zero in the course of the next $7\frac{1}{2}$ years.

In the case of imports from third countries, a third element is added to the two mentioned above. During the first year in which the levy is imposed, this element is equal to 2 per cent of the average import price; it will be gradually increased so as to reach 7 per cent by 1970.

After 1970 there will thus be no levy in respect of trade within the Community, while the levy on imports from third countries will be equal to the feed grain element mentioned above, plus 7 per cent of the average import price.

Dairy products

As mentioned before, the regulation pertaining to dairy products has not yet been approved by the Council of the E.E.C.; only the broad principles of the present proposal of the Commission are given here. It is expected that the regulation will come into force on 1 November 1962.

In the case of dairy products (excluding fresh milk and cream), the producer is protected by means of a threshold price; a levy, equal to the difference between the threshold price and the c.i.f. price, is imposed. The levy between member states will be gradually reduced and will eventually disappear.

The levy system is further supported by a target price for fresh milk, and provision is made for the purchase of butter by the State in order to support the market. Should the State have to purchase more butter than is required to meet seasonal shortages, the State will endeavour to dispose of the butter in such a manner that butter prices will not be forced down. Should this not be possible, butter prices would be reduced in an effort to balance supply and demand.

Beef and veal

The regulation pertaining to beef and veal has also still to be approved by the Council of the E.E.C.; a brief description of the proposed system is given below. It is expected that this regulation will come into force at the same time as the one for dairy products, namely on 1st November 1962.

In the case of beef and veal the producer is protected from competition from outside by ordinary import duties, although a sluice-gate price will also be determined. Import duties are relatively high - 20 per cent in the case of beef and even higher in the case of processed meat, for example canned meat. The import duties between member states will gradually be reduced and will disappear by 1966.

The sluice-gate price in respect of meat will be related to a so-called orientation price ("un prix d'orientation"). This price is derived from the average price which has prevailed in the member state during the past two years. The prices in the different member states will subsequently be brought gradually nearer to one another until they are uniform by 1966.

Imports from third countries at prices lower than the sluice-gate prices will, as in the case of eggs, not be allowed; should prices be lower, they will be increased, by means of a levy, to make up the difference. The sluice-gate price will not apply to trade between member states, but should a member be compelled to purchase supplies in order to support prices, it will be allowed to impose a levy on imports equal to the difference between the import price (inclusive of import duty) and the price at which stocks are purchased.

In the case of frozen meat, processed products and offal, sluice-gate prices will not be determined, but imports of these products will be controlled by means of permits.

Vegetables and fruit

There will be no levies on fruit and vegetables, but import duties will be applicable to all imports from third countries and under certain circumstances a minimum import price will also apply. During the transition period import duties, between member countries, will gradually be eliminated.

As in the case of the other products mentioned above, the liberation of trade between member countries is one of the basic objectives. In the case of fruit and vegetables, complying with certain quality standards, it is stipulated that quantitative restrictions on trade between member states must be lifted according to a prescribed timetable. These standards have, in most cases, already been determined and provision has been made for a special grade, a first grade and a second grade. Quantitative import restrictions are to be lifted as follows:

For Special Grade on 1st July 1962;
for Grade I on 1st January 1964; and
for Grade II on 1st January 1966.

Products not complying with these requirements may not be imported.

Should prices on imports from third countries fall below the level of the so-called "reference price", an amount equal to the difference between the import and the reference price will be added to the import duty. The reference price will be determined in advance, and will be related to prices which obtained on certain markets during a past period. As soon as the market price during any particular week drops to a level lower than the reference price, and the decline is a continuation of a trend which had existed for quite a while, the difference between the market price of that week and the reference price will be added to the normal import duty during the following week. This system will be applied for so long as market prices remain lower than the reference price.

Wine

On wine there will also be no levies (but normal import duties are applicable), and trade between member countries will be liberalised with consideration to quality.

Instructions for the further liberation of this trade will be issued before the 1st of January 1963, but in the meantime members of the Six have entered into agreements for the buying and selling of specific quotas wine, which must comply with certain standards of quality.

A specific regulation for the rationalisation of the wine industry has been made, which provides for the registration of vineyards; wine producers are required to declare production and to submit estimates of expected production. The E.C.M. will also endeavour to promote the production of high-quality wine, and the regulation creates the necessary instruments for the implementation of this objective. The registration of vineyards, etc. could also be used for the regulation of production, imports and exports.

Refunds on export

The purpose of refunds on exports is to enable an E.C.M. country, with a high price structure, to compete on the world market. The refunds are sometimes referred to as negative levies and are mainly calculated in the same way as the levies.

In the case of grain, the basis on which the refunds will be calculated must still be determined. In the case of eggs, pigmeat and poultry the directions have already been determined and, as in the case of levies, these have been based on the difference in grain prices between the relative exporting and importing countries (or the world market).

Repayments are financed by the member countries themselves, but in the course of the transition period the financial burden will gradually be transferred to the "European Agricultural Guidance and Guarantee Fund".

Financial regulation

European Agricultural Guidance and Guarantee Fund is established with the object of undertaking the following activities:

1. To finance repayments on exports to third countries (calculated on the basis of quantities exported by each member state; the rate at which the repayment is made is equal to that of the member state making the lowest refund).
2. Subject to a decision of the Council, to finance purchases made to support the inland markets.
3. To finance schemes aimed at the rationalisation of agriculture.

The Council will decide annually on the total amount available for the above. The division of the burden amongst member states is in relation to the budgetary provisions in the Agreement and the net imports of member states from third countries. Contributions in respect of the latter will not constitute a large part of the Fund - in any event not for the first few years. It is envisaged that the levies, collected on

imports, will eventually be paid into the General Fund of the Community.

Administration

The powers and duties of the Council and the Commission are defined in detail in the regulations. The regulations also provide for the establishment of management committees, which will generally act in an advisory capacity. The implementation of all regulations rests with the individual member states, although the Council will keep a watchful eye.

---oo0oo---

The Family Farm

According to an announcement in July 1962 by O.L. Freeman (Secretary of Agriculture, U.S.A.), an independent study will be made annually to ensure that his Department's "policies and programs work most effectively for the preservation and improvement of the family-farm pattern in American agriculture. In the Agriculture Act of 1961 it was declared to be the policy of Congress to recognise the importance of the family farm as an efficient unit of production and as an economic base for town and cities in rural areas. The basic foundation of our agricultural economy is and must always remain the efficient, well-managed owner-operated family farm".

Crop Insurance

"The crop insurance job is for builders with a pioneer spirit. Once you grasp this fact with all its limitations and complications, the problems and adverse attitudes you encounter will be more challenging than discouraging. The insurance approach to the problems of crop disaster is not yet generally accepted. But the need exists and our way is best (the self-help way). Other insurance was not generally accepted in a short period of time; we have no reason to expect our situation to be different. Those who have the vision of crop insurance best are farmers, who have clearly grasped the dangerous gap it fills in their farming operations and who would not be without it. Each one of us in this undertaking has an opportunity to make a far greater contribution to the present and the future than is afforded most people in this life. The work of pioneers and builders lives after them".

- Federal Crop Insurance Manual (June 1960).