Committee II - Expansion of Trade

EUROPEAN ECONOMIC COMMUNITY - COMMON AGRICULTURAL POLICY

1. At its meeting from 24-31 May 1962 the Council agreed that Committee II should be requested to carry out a consultation with the European Economic Community, examining during such consultation the changes in the agricultural policy of the member countries of the Community.

2. The texts of the Regulations on the common agricultural policy have been made available to the Committee in document L/1771/Rev.2. In addition to the Regulations the Council of Ministers and the Commission of the European Economic Community have taken a number of decisions elaborating the general outline. The member States of the European Economic Community have also taken a number of decisions adapting their national legislation and deciding on those matters which in the basic Regulation were reserved to them. In view of the complexity of these various regulations and decisions the present document has been prepared to give a description of the common agricultural policy system for cereals, effective 30 July 1962.

Addendum 1 to this document contains a similar description of the common agricultural policy system for pigmeat, eggs, poultry meat and fruit and vegetables.
INTRODUCTION

1. In accordance with the provisions of the Treaty of Rome, the member States of the EEC are in the process of developing a common agricultural policy which shall be established before the end of the transitional period, i.e., 1 January 1970. The EEC Council of Ministers, at its session of 14 January 1962, decided upon a number of proposals of the Commission providing for the progressive establishment of a common organization of markets in respect of five groups of products, namely cereals, pigmeat, eggs, poultry meat, fruits and vegetables, and wines. Similar decisions in respect of such products as rice, dairy products, beef, vegetable oils, sugar, etc., are to follow. The final text of the regulations governing the first five groups of products was approved on 4 April 1962 and has been submitted to the CONTRACTING PARTIES (document L/1771).

2. These regulations form the basis of the common policy for the products concerned and constitute the beginning of the common agricultural policy of the EEC. They are compulsory in all provisions and directly applicable in every member State. The substance of the regulations, however, and in particular the levy system, is applicable as from 30 July 1962. A considerable number of further regulations and decisions of the Council, the Commission and member States, as the case may be, was necessary for an effective implementation of the basic principles. At the same time, member States individually have taken measures necessary to adapt their national legislation.

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1 The date originally set at 1 July 1962 was changed by Regulation No. 49.
CEREALS

General principles

1. The provisions of Regulation No. 19 on cereals aim at a gradual integration of the markets of the member States towards a market which has the characteristics of an internal market. Formation of such a single market is to be developed by a growing inter-penetration of national markets.

2. Trade in agricultural products within the Community was traditionally subject to a great range of obstacles such as customs duties, charges with equivalent effect, quantitative restrictions, etc. Without harmonizing action these obstacles would have to be removed during the transitional period according to varying procedures and timing. It was, therefore, decided, in principle, to adopt a system of a single measure applied at the frontier which would replace all other measures of protection available to member States. Such a uniform system would make it possible to have an effective and gradual development towards a common market without discrimination within the Community, as it would easily allow for the establishment of a certain preference. Such a system would further be in line with the necessity to maintain trade and economic and political ties with third countries, while at the same time maintaining within the Community a price as stable as possible at a level which was considered to be desirable for the producers of the Community.

3. Consequently a system of variable import levies was introduced which is applied on imports from member States and from third countries. The levy being, in principle, the sole measure of protection is, in order to ensure adequate support, established at a height corresponding to the difference between the prices prevailing in the exporting member State and in the importing member State. As such it will prevent the occurrence of any disruption of the market of a member State resulting from imports from a country where prices are lower. The levy on intra-Community trade is to be gradually reduced concurrently with the progressive achievement of a single market and the approximation of prices of cereals.

4. The levy on imports from third countries is established at a height based on the difference between the prices prevailing on the world market and in the importing member States, but at the same time affording to the member States a certain preference resulting from the application of the Treaty. This preference is achieved by reducing the intra-Community levy by a fixed amount determined so as to permit the gradual development of trade within the Community.

5. The levy system in respect of cereals and derived products, is supported by a system of prices consisting of indicative prices, threshold prices and intervention prices. Indicative prices are the prices necessary to maintain the guarantees for Community producers. They are fixed in each member State by the national government but only for cereals of appreciable economic significance. These national indicative prices shall be progressively
approximated and it was, therefore, considered appropriate, as a beginning not to increase the difference between the highest and the lowest national indicative price within the Community. The intervention price, which is related to the indicative price, is the price which governs action of the intervention agencies of the member States and which affords producers the guarantee that the market price will at all times remain at a level as close as possible to the indicative price. The threshold price constitutes the link between the price system and the levy system.

Products

6. Regulation No. 19 on cereals applies to the products mentioned in Article 1 of the Regulation and to the processed products listed in the Annex to that Regulation. The list of processed products was modified by Regulation No. 117 so as to include glucose and glucose syrup (17.02B).

Prices

The indicative price

7. The indicative price constitutes the basis of the price system and levy system. Indicative prices are determined only for cereals which are of appreciable economic importance in the member State concerned. Indicative prices have been fixed for soft wheat, rye and barley in all member States and maize in Italy and France. The prices of other cereals establish themselves on the basis of a free price relationship towards the basic cereals. During the transitional period indicative prices are set by the national governments for a national standard quality. In order to make the indicative prices comparable with the prices of imported cereals, which is necessary for the calculation of the levy, the prices are fixed at the stage of wholesale trade. The marketing centre of the area with the largest shortfall was considered the most appropriate representative wholesale centre. During the transitional period these centres are determined for each country, while at the stage of the single market one marketing centre of the area with the greatest shortfall within the Community is to be determined.

8. In order to give the producer enough time to plan his production programme for the next year the indicative prices are fixed before the winter sowings. They enter into force in the beginning of the marketing year. A monthly scale of indicative prices for a period of at least five and at the most ten months will be fixed in each member State in order to take due account of storage costs and interest. In this way a gradual and regular supply for the market is ensured throughout the marketing year. These national measures are to be gradually harmonized during the transitional period.

9. The difference between the national indicative prices is to be progressively reduced during the transitional period so that at the end of that period one common indicative price exists. The measures necessary for the marketing year beginning 1 July 1963 are to be fixed before 1 April 1963. Subsequently each
year before 1 July, but in the first instance before 1 September 1963, the measures in respect of prices for the marketing of cereals in the production year starting on 1 October thereafter are to be determined in accordance with certain criteria. The regulation provides that criteria for establishing these price measures are to be fixed by the Council before 1 September 1962. It has, however, not been possible to keep this date. Without prejudice to the objectives of the common agricultural policy as set forth in Article 39 of the Treaty for the purpose of ensuring a fair standard of living for the agricultural population, the said criteria shall take account of the desirability of encouraging specialization in conformity with the economic structures and the internal natural conditions of the Community, in such a way that the future indicative price of the Community will be determined on the basis of agricultural undertakings which are rationally operated and are economically viable in the Community and of equitable price relationships as between the various products.

10. In order to give the producer a more clear idea of the price he may expect to realize, derived indicative prices may be set for marketing centres of regional importance in those countries where, due to the natural conditions of price formation, the difference between market prices in the marketing centre of the area with the greatest shortfall and the marketing centre of the area with the highest production exceeds 5 per cent. Such derived indicative prices which must be based on natural price differentials have been established in Germany for sixteen price zones, in France for five regional markets and in Italy for four price zones.

11. Since it was considered important, in line with the future approximation of prices, not to increase the difference between the highest and the lowest national indicative price, the Council established for the marketing year beginning 1 July 1962 upper and lower limits of the indicative prices. For maize only a lower limit was set for the marketing year beginning 1 October 1962. These limits are the following:

<table>
<thead>
<tr>
<th>National currency/ton</th>
<th>DM</th>
<th>NF</th>
<th>Lit.</th>
<th>Franc</th>
<th>Florins</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wheat</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upper limit</td>
<td>475.69</td>
<td>587.13</td>
<td>74,327</td>
<td>5,946.1</td>
<td>430.50</td>
</tr>
<tr>
<td>Lower limit</td>
<td>357.70</td>
<td>441.50</td>
<td>55,891</td>
<td>4,471.3</td>
<td>323.72</td>
</tr>
<tr>
<td>Barley</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upper limit</td>
<td>412.26</td>
<td>508.84</td>
<td>64,416</td>
<td>5,153.3</td>
<td>373.10</td>
</tr>
<tr>
<td>Lower limit</td>
<td>285.68</td>
<td>352.60</td>
<td>44,637</td>
<td>3,571.0</td>
<td>258.54</td>
</tr>
<tr>
<td>Rye</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Upper limit</td>
<td>432.69</td>
<td>534.05</td>
<td>67,608</td>
<td>5,408.6</td>
<td>391.58</td>
</tr>
<tr>
<td>Lower limit</td>
<td>262.84</td>
<td>324.42</td>
<td>41,070</td>
<td>3,285.6</td>
<td>237.87</td>
</tr>
<tr>
<td>Maize</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower limit</td>
<td>249.60</td>
<td>308.07</td>
<td>39,000</td>
<td>3,120.0</td>
<td>225.89</td>
</tr>
</tbody>
</table>
12. As the lower limit of barley would cause an appreciable increase in price in Italy, thus leading to distortion of the price relationship of barley and maize in that country, the Council under Article 23/2 of the Regulation decided to waive the application of this lower limit in Italy (44,637 lire) until 30 June 1963 (Council Decision 24 July 1962), provided that the indicative price of barley in Italy is set in such a way that the threshold price of barley at least equals the threshold price of maize.

13. Within these limits the member States established the basic indicative price for a determined national standard quality valid in the marketing centre of the area with the greatest shortfall during the marketing year July 1962-63 as follows:

<table>
<thead>
<tr>
<th>National currency/ton</th>
<th>Deficit centre</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Wheat</td>
</tr>
<tr>
<td>France</td>
<td>479.80</td>
</tr>
<tr>
<td>Germany</td>
<td>475.50</td>
</tr>
<tr>
<td>Italy</td>
<td>69,000.-</td>
</tr>
<tr>
<td>Belgium</td>
<td>5,130.-</td>
</tr>
<tr>
<td>Luxemburg</td>
<td>5,850.-</td>
</tr>
<tr>
<td>Netherlands</td>
<td>333.00</td>
</tr>
</tbody>
</table>

These prices will be increased according to the monthly scale of indicative prices established by each member State.

14. The Regulation allows member States which limit price guarantees to domestic producers, to a certain maximum quantity, to adapt such a system gradually so that full application of the Regulation in this respect is realized by the end of the transitional period at the latest. Under this provision, France maintains the limitation of the guarantee to the maximum quantity of soft wheat of 7.2 million tons for the year 1962/63.

15. In order to provide producers with a guarantee that they can sell their produce at a price as near as possible to the indicative price, member States establish intervention prices for the products for which indicative prices are fixed. These intervention prices are to be equal to the indicative prices less a fixed percentage to be determined by each member State ranging between not less than 5 per cent and not more than 10 per cent. Where derived indicative prices have been established the derived intervention prices may be set at a...
level higher than that which would have had to be fixed taking account of the derived indicative prices. This increase in intervention prices must not, in the centre with the lowest derived indicative price, exceed 50 per cent of the difference between the indicative price and the intervention price. In the intermediary centres the difference between the indicative and the intervention prices shall rise proportionately as the level of derived indicative prices approaches that applicable in the centre of the area with the largest shortfall.

16. Throughout the marketing year, producers have in this way the certainty that they can sell their products to the intervention agencies at the intervention price. The intervention agencies are obliged to buy at this price any quantity offered. These agencies may further intervene on the market whenever this is considered appropriate. The intervention agencies store the products purchased and are entitled to sell these products on the domestic or international market when developments on the market make it desirable. Sales on the domestic market by the agencies, however, cannot take place at prices below the indicative price, applicable in the marketing centre of the place of sale. If sales at this price are not possible and market conditions are not expected to change, the agencies may have to export at world market prices or, in the case of wheat and rye, to sell the product on the domestic market at lower prices after these products have been made unfit for human consumption. The intervention agencies can likewise grant holders of wheat and rye a denaturation premium provided the products are made unfit for human consumption. This denaturation premium will not be set at such a level as to distort the prices of barley and maize.

17. The intervention prices for the marketing year beginning 1 July 1962 have been established as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>National currency/ton</th>
<th>Wheat</th>
<th>Rye</th>
<th>Barley</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deficit area</td>
<td>442.50</td>
<td>402.50</td>
<td>383.50</td>
<td></td>
</tr>
<tr>
<td>Surplus area</td>
<td>426.50</td>
<td>386.50</td>
<td>367.50</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deficit area</td>
<td>431.30</td>
<td>351.50</td>
<td>350.90</td>
<td></td>
</tr>
<tr>
<td>Surplus area</td>
<td>419.50</td>
<td>321.30</td>
<td>335.00</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td></td>
<td>64,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deficit area</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus area</td>
<td>62,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>4,770</td>
<td>3,800</td>
<td>4,030</td>
<td></td>
</tr>
<tr>
<td>Luxembourg</td>
<td>5,550</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>305</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>
These intervention prices are increased in accordance with the monthly sliding scale of the indicative prices.

Threshold price

18. For the determination of the levy that compensates the difference between the price in the exporting country and the price in the importing country, two elements are necessary: on the one hand, an element based on the price in the exporting country (the franco-frontier price in the case of imports from a member State or the c.i.f. price in the case of imports from third countries); on the other hand, an element (the threshold price) based on the price in the importing country. According to the Regulation, the intra-Community levy is equal to the difference between the franco-frontier price and the threshold price, this amount being reduced by a fixed amount (montant forfaitaire, see paragraph 25) in order to offer member States a certain preference. The levy towards third countries is equal for each product to the difference between the c.i.f. price, established on the basis of the most favourable purchase possibility, and the threshold price. The threshold price is fixed annually for a certain standard quality which is identical for all member States. The threshold price must be fixed at such a level that imports, after account has been taken of the preferential reduction for imports from other member States, will not prejudice the price to be received by the domestic producer.

19. From the foregoing it follows that for cereals for which an indicative price is set, the threshold price is established at the basic indicative price:

   (1) reduced by transport costs, marketing costs and handling charges, calculated at lowest costs, from the centre for which the basic indicative price is determined to the point of entry at the frontier;

   (2) increased by the amount determined as preferential sum (montant forfaitaire);

   (3) increased or reduced by a quality differential necessary for an accurate comparison of the common standard quality, for which the threshold price is established and the national standard quality for which the indicative price is fixed.

20. Until the unification of prices is completed the threshold price is established for each member State. There is, however, only one threshold price for each product which is valid at all national frontiers. The threshold price varies in accordance with the monthly sliding scale of indicative prices established by each member State.
21. Threshold prices are not only determined for the basic cereals for which indicative prices are established but for all products falling under Article 1(a, b and c) of the Regulation. For the products for which no indicative price is established, the threshold price is determined in harmony with the threshold price of the basic cereals. Taking account of the specific aspects of the flour market, the threshold price of flour is determined according to certain criteria which allow for the necessity of protection of the processing industry. In this way, the threshold price of wheat flour is determined by adding:

(a) the value of the soft wheat used for processing, calculated on the basis of a common processing coefficient and of the threshold price reduced by the "montant forfaitaire"

(b) a determined amount representing the milling margin;

(c) a determined amount representing the necessary margin of protection; and

(d) the part of the "montant forfaitaire" which exceeds the amount resulting from the annual reduction of the level of protection, and by deducting from this amount the value of the sharps obtained per ton of flour. The threshold price of hard wheat is determined at a level at least 5 per cent higher than the threshold price of soft wheat. Some of the threshold prices, determined by the member States and valid for the marketing year July 1962-63, subject to adjustment in accordance with the monthly sliding scale of indicative prices, are as follows:

<table>
<thead>
<tr>
<th>National currency/ton</th>
<th>Wheat</th>
<th>Rye</th>
<th>Barley</th>
<th>Maize</th>
<th>Oats</th>
<th>Hard wheat</th>
<th>Wheat flour</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>471.70</td>
<td>382.40</td>
<td>379.80</td>
<td>442.20</td>
<td>339.80</td>
<td>559.90</td>
<td>768.80</td>
</tr>
<tr>
<td>Germany</td>
<td>484.00</td>
<td>440.50</td>
<td>427.00</td>
<td>432.00</td>
<td>388.50</td>
<td>508.00</td>
<td>740.50</td>
</tr>
<tr>
<td>Italy</td>
<td>68,500</td>
<td>61,620</td>
<td>39,120</td>
<td>38,120</td>
<td>39,620</td>
<td>89,120</td>
<td>109,480</td>
</tr>
<tr>
<td>Belgium</td>
<td>4,910.-</td>
<td>3,880.-</td>
<td>4,180.-</td>
<td>4,080.-</td>
<td>3,650.-</td>
<td>5,400.-</td>
<td>7,954.-</td>
</tr>
<tr>
<td>Luxemburg</td>
<td>5,810.-</td>
<td>5,450.-</td>
<td>4,180.-</td>
<td>4,080.-</td>
<td>3,650.-</td>
<td>5,910.-</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>333.-</td>
<td>245.-</td>
<td>280.-</td>
<td>255.-</td>
<td>267.50</td>
<td>350.-</td>
<td>532.-</td>
</tr>
</tbody>
</table>
Franco-frontier price and c.i.f. price

22. Determination of a franco-frontier price is necessary as a basic element for the fixing of the intra-Community levy, while the c.i.f. price constitutes the basic element for the levy towards third countries. Both prices are calculated by the Commission for each product in accordance with certain criteria.

Franco-frontier price

23. The franco-frontier price for cereals and flour is determined on the basis of the prices prevailing on the most representative markets of the exporting member State for exports to the importing member State. The price to be considered is the price of the variety which is relatively the cheapest for the importing member State, taking account of transport and marketing costs and handling charges up to the frontier. In order to account for quality differentials, this price is adjusted, according to national criteria, to the national standard quality for which the basic indicative price is set and it is adjusted subsequently to the standard quality for which the threshold price is set, in accordance with certain standardized criteria. The difference between the franco-frontier price thus determined and the threshold price, reduced by the "montant forfaitaire", constitutes the levy to be applied on imports of all varieties of the cereal concerned from the particular exporting member State. As the franco-frontier price will differ in each exporting member State as a consequence of variations in the contributing factors, the intra-Community levy will be different, vis-à-vis each exporting member State. The franco-frontier price is determined once a week unless an earlier determination is considered necessary.

C i.f. price

24. The c.i.f. price for cereals and flour is determined for one frontier crossing point, selected by each member State. (Belgium: Antwerp; Germany: Emmerich; France: Dunkirk for maize and sorghum, Marseille for other cereals; Italy: Naples for soft wheat, Genoa for hard wheat, Ravenna for the other cereals; Luxemburg: Steapenich for wheat and rye, Antwerp for other cereals; Netherlands: Rotterdam.) It is calculated for each product on the basis of the most favourable purchase possibility. For this calculation the Commission takes into account all offers made on the world market which are known through the member States or by its own resources, as well as important international price quotations. It will not consider offers of cereals which are not of a fair average quality or offers of small quantities which are not representative of the market. The price to be considered is the price of the variety which is relatively cheapest on the world market; in order to account for quality differentials, this price is adjusted to the standard quality for which the threshold price is set. These adjustments take place according to certain fixed coefficients of equivalence. The difference between the c.i.f. price thus determined and the threshold price constitutes the levy to be applied on imports of all varieties of the cereals concerned from third countries.
Montant forfaitaire

25. The levy system gives exporting member States immediate advantage to the extent that in intra-Community trade the export price realized will be the domestic price instead of the world market price. This advantage, however, is not sufficient to ensure trade between member States to develop, so that a certain preferential régime was considered necessary. To this end, the levy applied on imports from member States, in respect of cereals and flour, is reduced by a fixed preferential amount (montant forfaitaire). This amount, which in principle is uniform for all member States, is fixed by the Commission at such a level as to ensure a gradual and regular development of trade between member States and, on the other hand, so as not to provoke a considerable diversion of trade currents. In determining the "montant forfaitaire" in respect of flour, the Commission has also to take account of the fact that the level of protection granted to the processing industry is to be reduced each year by two-fifteenths as from 1 July 1963. It is, therefore, provided that, as regards flour, the fixed amount shall not be lower than the accumulative amount reached every year of the reduction of the level of protection of the corresponding processing industry. In respect of hard wheat, it is provided that the intra-Community levy on imports of hard wheat from member States which do not produce hard wheat themselves, will not be reduced by the fixed amount. If, in the course of the marketing year, intra-Community trade does not develop in the manner envisaged, the "montant forfaitaire" shall be revised. In this instance, the threshold price shall be revised accordingly.

26. For the marketing year 1962-63, the "montant forfaitaire" has been fixed at 1 acc. unit per ton for cereals and 2.5 acc. units per ton for flour. The "montant forfaitaire" for flour for the marketing year 1962-63 equals the amount resulting from the reduction of two fifteenths of the element of protection included in the threshold price.

Processed products

27. The levy system for products processed from cereals or directly competing with such products is different from the system for cereals and flour. No threshold prices or import prices are determined. The levy both on intra-Community trade and towards third countries is made up of two factors: a variable factor and a fixed factor.

28. The variable factor for products processed on the basis of cereals (not including hard wheat) corresponds to the incidence on the cost price of the levies imposed on the basic products. This incidence is calculated on the basis of the levy applicable to the quantity of basic product necessary for the production of the processed product. For the calculation account is, therefore, taken in the first instance of the quantity of basic product necessary for the processing of 100 kilograms of processed products. This quantity (the processing coefficient) is uniform for all member States. In the second instance, account is taken of the amount of the levy applicable to the
basic product on the date of importation of the processed product. For this calculation the amount of the levy is not reduced by the "montant forfaitaire" so as to avoid a diversion of trade which could result from the different heights of the levies between member States and third countries. The amount of the variable factor varies in accordance with the levies applicable to the basic products. As a consequence of different levies being applied in respect of each exporting member State and of third countries, the amount of the variable factor on processed products varies accordingly. The result is that in principle, the height of the variable element is set in such a way as to even out the differences in prices of the basic products irrespective of their origin and to bring them in principle all to the level corresponding to the threshold price of the basic products in the importing member State.

29. For products not processed on the basis of the cereals mentioned, the variable factor is fixed in such a way as to take account of market conditions for the processed products which resemble them most closely, and with which they are directly competing. Thus for example, the variable factor calculated for flour of sago and of manioc is to be equal to the variable factor for corn starch. If, however, flour of sago and manioc are made unfit for human consumption the variable factor calculated for these products amounts to 40 per cent of the levy applicable on barley.

30. A fixed factor is added to the levy to allow for the necessity of assuring a certain amount of protection to the processing industry. These amounts have been fixed by the Council in absolute value for each product on the basis of the most representative prices. These amounts are uniform for all member States. No fixed factor is added in respect of products for which sufficient protection is found in the protection afforded to the basic product. In the case of trade between member States the fixed factor is to be reduced each year by two fifteenths.

31. In case actual offers from third countries do not correspond to the sum of the price of the basic products and processing costs, an additional amount may be added to the levy. This extra amount is fixed by the Commission in accordance with the procedure of Article 26 of the Regulation.

Application of the levies

32. The levies are fixed by each member State and communicated to the other member States and to the Commission. The levies change in accordance with changes in the factors of which they are composed. Thus, the levies on cereals and flour change in accordance with the variations in the threshold price on the one hand and the franco-frontier price or the c.i.f. price on the other. In order to avoid a very complicated procedure in determining levies a certain margin has been established within which no modification of the levy will take place. Thus, in the case of cereals and flour, member States will not modify the levy to be received per ton unless changes in the
composing factors necessitate a change of the levy which is equal to or greater than a certain amount to be set by each member State at a height within 0.45 and 0.75 accounting units.

33. The intra-Community levy will apply only in respect of cereals produced in the exporting member State itself, so as to prevent a diversion of trade due to a different height of levies between member States or due to the reduction of the intra-Community levy by the "montant forfaitaire". The levy applied to third countries is to be imposed in respect of cereals not produced in the exporting member State. In order to benefit from the intra-Community levy a certificate of origin has to be submitted.

Import and export certificates

34. A system of import and export certificates has been established in order to allow for an adequate control on the quantities of imports and exports and in particular on the payments of the levies. Import or export certificates are issued on request. They are valid for three months after the month of issue for cereals, and in the case of flour and processed products four months after the month of issue. These certificates authorize and oblige the importer or exporter to import or export within the time of validity of the certificate the quantities indicated, subject to a margin of difference of 5 per cent. Import certificates are only issued after the deposit of a guarantee which, subject to certain emergency exceptions, is forfeited if importation does not take place within the fixed period.

Premiums

35. The levy to be imposed is the levy applicable on the date of importation. A strict application of this principle, however, would hinder normal practice in cereals trade, as it would make it impossible for importers to conclude long-term contracts, due to the uncertainty as to the height of the levy on the date of importation. Therefore the importer is given the opportunity of having the levy fixed in advance for imports to be effected within the period of validity of the import certificate. However, in order to restrict abusive speculations and in order to avoid cereal importations under the levy system disrupting the equilibrium of the market, the possibility of fixing the amount of the levy is made subject to payment of a premium. The possibility of fixing the levy in advance is restricted to imports of cereals from third countries. The premium is added to the amount of the levy applicable on the date of requesting the import certificate, adjusted in accordance with the monthly sliding scale to the threshold price valid on the day of importation.

36. The amount of the premium determined by the Commission is uniform for all member States. A scale of premiums is determined for each product including the amount of the premium for the current month and the three months thereafter. When the c.i.f. price on the date of establishing the premium is higher
than the c.i.f. price for future delivery, the premium is fixed at the difference between the two prices, with a minimum of 0.25 accounting units per ton. The same minimum applies when the prices are equal. No premium is set when the c.i.f. price is lower than the c.i.f. price for future delivery.

37. If serious difficulties from future importations threaten to affect the market in one or more member States the premium may be set at a temporarily higher level, subject to certain limitations. In this case, the premium cannot be increased for imports to be effected during the current month. The amount of the increase cannot be more than 0.50 accounting units for the first month, 0.75 accounting units for the second month, and 1.25 accounting units for the third month, after the month in which the certificate had been issued. If imports do not take place in the month indicated on the import certificate, subject to certain emergency exceptions, the levy will be adjusted to the threshold price applicable on the date of the actual importation. The premium then to be paid will be the highest of the scale of premiums applicable on the date of requesting the import certificate.

Refunds on exports to third countries

38. In order to enable exports to be made to third countries on the basis of prevailing world prices, the difference between these prices and the prices in the exporting member State may be covered by a refund. The height of these refunds will be set by each member State, subject to certain limitations.

39. In the case of cereals the refund in respect of third countries will in principle not be higher for each product than the amount of the levy applicable towards third countries at the date of exportation. The amount of the refund in respect of third countries, however, may on request be fixed in advance in the case of exports for future delivery, so as to take account of the practice of futures markets in international trade. In this case the refund as fixed on the date of the request will be adjusted in accordance with the monthly sliding scale to the threshold price valid in the month of exportation. The amount of the refund fixed in advance in this way may, however, differ considerably from the actual price situation on the world market. The real situation is then better reflected in the price quotations on the futures market. It is therefore provided that, if the c.i.f. price for future delivery is more than one accounting unit per ton higher or lower than the c.i.f. price valid on the date of the request, the amount of the fixed refund shall, at the highest, be equal to the difference between the threshold price applicable in the month of exportation and the c.i.f. price for future delivery valid on the date of the request.

40. The refund may also be granted in the form of an authorization to import, free from import levies, a quantity of cereals equal to the exported quantity subject to certain provisions. Exports must take place before importation, and imports are to be effected during the same marketing year and, at the latest, in the second month following the month of exportation.
41. Member States may, if they consider it appropriate, determine the amount of the refund according to a system different from the above procedure in respect of the products produced in the exporting member State. In this case, the refund may be determined by means of a tender system. Under this system only the most favourable offers are to be accepted. If the actual offers do not correspond to the most favourable sales possibility on the world market the tender may be cancelled. Member States must take appropriate measures to ensure that exports of cereals under the tender system towards third countries will actually take place.

42. In the case of flour of wheat, spelt and meslin and of groats and meal of wheat the refund in respect of third countries will in principle not be higher for each product than the amount of the refund for cereals applicable on the date of exportation for a certain quantity of basic products necessary for the processing. The quantities of basic cereals necessary for 1,000 kilograms of processed products (the processing coefficient) have been fixed uniformly for the Community.

43. In order to take account of the practice of futures markets in international trade the amount of the refund in respect to third countries may be fixed in advance for the period of validity of the export certificate. In this case the refund is adjusted in relation to the threshold price of the basic product applicable in the month of exportation.

44. As in the case of cereals, and subject to the same provisions, the refund may also be granted in the form of authorization to import free from import levies a quantity of basic products corresponding to the quantity used for processing of the exported products. The calculation of the corresponding quantity is based on a processing coefficient uniform for all member States.

Refunds in intra-Community trade

45. In respect of intra-Community trade in cereals and wheat flour, member States are entitled to refund an amount, which is equal to the refund granted in respect of exports to third countries, when the price in the exporting member State is higher than the price in the importing member State. Such refunds were considered justified because member States would be entitled to export towards third countries at the world market price level by means of a refund, thus resulting in a loss, while at the same time importing member States would benefit from low world market prices, so that exporting member States should logically have the opportunity to compete on the markets of other member States under conditions comparable to those of third countries. The importing member State, in these cases, imposes a levy which is equal to the levy towards third countries but is reduced by the "montant forfaitaire", subject to the general rule that the intra-Community preference is granted only in respect of products originating in the exporting member State.
46. A provision in respect of fixing the refund in advance does not apply to intra-Community trade in cereals and wheat flour. Therefore the only method of fixing the amount of the refund in intra-Community trade is the general rule according to which the refund shall not be higher than the amount corresponding to the levy applicable towards third countries on the date of exportation.

47. The system of refunds as described above is in principle not possible if the price in the exporting member State is lower than the price in the importing member State. Nevertheless in these cases the franco-frontier price of the exporting member State, because of transport and marketing costs and handling charges up to the frontier, may be higher than the threshold price of the importing member State. Therefore member States are authorized to grant a refund also in these cases but only in two instances:

(a) for quantities corresponding to traditional trade currents within the Community;

(b) if in the exporting member State the derived indicative price in the centre of the area with the largest surplus is set at the lower limit fixed by the Council.

In these instances a refund may be granted equal to the difference between the franco-frontier price of the exporting member State and the threshold price of the importing member State. Since in these instances no levy is imposed the Community preference is assured by the provision that, in this case, the refund is to be increased by the "montant forfaitaire".

48. An equal refund may be granted in the case that Luxemburg would have to export surpluses of its production towards a member State with a lower price level.

Refunds in respect of processed products

49. In the case of the processed products listed in the Annex to Regulation No. 19 the levy is composed of a price equalizing element, the variable factor, and an element of protection, the fixed factor (paragraph 29). Since in respect of exports to third countries the system of refunds aims in principle only at a compensation of the difference in price of the basic products in the exporting member State and on the world market, the element of protection is not taken into account in calculating the refund. The maximum amount of the refund on exports of processed products towards third countries therefore, is as a general rule equal to the amount of the variable factor of the import levy. If the refund on basic cereals is set at a level lower than the maximum permissible amount, the maximum amount of the refund on processed products is equal to the refund which could be granted on the date of exportation to exports of the basic products. Nevertheless, in the event that this refund
proves to be insufficient for exports to third countries to take place at world price levels, the Commission may determine a different maximum limit in accordance with the procedure of Article 26 of the Regulation.

50. In intra-Community trade the refund aims at an alignment of the price of the basic products in the exporting member State with those prevailing on the market of the importing member State, so that the processing industry in both member States works under comparable conditions of supply. A refund can therefore be granted in the event that prices of the basic products in the exporting member States are higher than those in the importing member States. Consequently the element of protection is not taken into account and the refund in intra-Community trade is limited to the amount of the variable factor of the levy on processed products.

51. As in the case of cereals and flour the exporter of processed products may request fixation of the refund in advance. Contrary to the provisions in respect of cereals and flour such fixation of the refund may take place not only in international trade but also in trade with other member States. In case of fixation of the refund in advance, the amount of the refund will be adjusted to the threshold price of the basic products valid in the month of importation.

52. For certain processed products (flour, groats, malt and starches) the refund may, in trade with third countries, also be granted by means of an authorization to import free from import levies, within a period of time of 120 days, a quantity of basic products corresponding to the standardized quantity used for processing of the exported products.

Trade barriers in intra-Community trade

53. The levy system is designed to replace all other barriers on imports. Consequently from the entry into effect of the system no customs duties or similar other charges are imposed in respect of imports from the other member States while quantitative restrictions and measures having equivalent effect have been abolished. It is provided, however, that quantitative restrictions under the Protocol concerning the Grand Duchy of Luxemburg shall be maintained, at least during the transitional period. Considering the special difficulties of Italy in converting its State-trading régime, in respect of cereals, to a free enterprise system, the provisions regarding the use of import certificates and the abolishment of quantitative restrictions and measures with an equivalent effect were waived by a decision of the Council taken under Article 23, paragraph 2, of the Regulation, in respect of Italy up to 1 July 1963, subject to certain conditions.

54. In intra-Community trade furthermore the minimum price systems of Article 44 of the Treaty, and Article 45 on the possibility of concluding long-term contracts, have become inapplicable. Apart from the possibility
of granting a refund, exports to other member States of products on which no appropriate levy had been paid or had been partially or totally reimbursed are not allowed. The same applies to exports of processed products in the processing of which products are used on which no appropriate levy had been paid or on which the levy had been partially or totally reimbursed. The provisions of Articles 92, 93 and 94 of the Treaty on "aid granted by States" are made applicable to subsidies which would have the effect of bringing directly or indirectly the price of cereals and flour below the price on which the calculation of the levy is based, or to subsidies which would effect the relation between the price of processed products and of the basic products used for their manufacture. Nevertheless, as a transitory measure, a subsidy may be granted under certain conditions on the production of hard wheat. A consumer subsidy may be afforded, as a transitory measure, if, at the entry into force of the Regulation the consumers did not pay for imported cereals the same price as for domestic cereals.

55. During the transitional period, it is possible for member States to invoke a safeguard clause under which, subject to the conditions and to the procedure described in paragraph 58, any safeguard measures may be taken in respect of imports of the products concerned.

Trade barriers towards third countries

56. From the entry into force of the levy system, no customs duties or similar other charges are imposed in respect of imports from third countries. Likewise quantitative restrictions and measures having equivalent effect have been abolished, subject to the provision that quantitative restrictions under the Protocol concerning the Grand Duchy of Luxembourg shall be maintained, at least during the transitional period. However, the Council on a proposal of the Commission, acting by unanimous vote during the second stage and by a qualified majority vote thereafter, may decide to maintain or reintroduce quantitative restrictions. Under this provision it was decided in respect of State-trading countries temporarily to maintain the system of quantitative restrictions, so as to take account of the fact that trade with these countries so far generally takes place on a strictly bilateral basis.

57. During the transitional period it is possible for member States to invoke the safeguard clause, under which, subject to the conditions and to the procedure described in paragraph 58, any safeguard measure may be taken in respect of imports of the products concerned. Furthermore, the safeguard clause provides for the possibility, after the end of the transitional period, to suspend the issue of import certificates when serious disruption of the market would be caused or threatened by imports from third countries, in particular when the intervention agencies would have to make substantial purchases on the market.
58. If imports effected under the new régime cause or threaten during the transitional period serious disruption of the market of one or more member States, these States are free to take any safeguard measures necessary in respect of the imports of the product concerned. These measures are taken in such a way as to prevent excessive or avoidable damage being sustained by exporters. The measures are to be modified to the other member States and to the Commission. The Commission, heedful not to increase protection between member States, shall consider within four days, after consultation with member States, in the Management Committee, whether the measures taken are to be maintained, modified or abolished. This decision is immediately enforceable but an appeal is possible to the Council. In case of such an appeal, the decision of the Commission is suspended for ten days, after which it will be enforceable unless the Council, in the meantime, has taken a decision. The Council shall meet forthwith and it may, heedful not to increase protection between member States, amend or annul by a qualified majority vote, the decision of the Commission. Any safeguard measure affecting trade between member States shall be applied at the latest simultaneously to relations with third countries, while respecting the principle of the Community preference.