1. In introducing the common policy on dairy products, the representative of the European Economic Community said that it had been put into effect at the same time as that for beef and veal as the two sectors were complementary. The dairy sector was both of economic and social importance to the Community, representing 20 per cent of the total value of agricultural production, and a regular source of income to the producers. While fresh milk for direct consumption formed an appreciable part - some 20 to 30 per cent - of total milk production in the European Economic Community countries, it was generally only the processed dairy product that entered international trade. Agricultural and trade policies in the dairy sector were basically aimed at supporting producer incomes; they could reach their objective only through mechanisms that would stabilize the internal market for all dairy products at the desired levels. In the past, the member States of the Community had endeavoured to reach that objective through various means of their choice, and in particular, when certain member States had wanted to avoid too large an increase in prices on the internal market that would have been reflected in consumer prices, they had granted direct subsidies on given products, or applied equalization measures according to the various end uses of milk.

2. Describing the mechanisms of the regulations on dairy products, the representative of the Community recalled that they were based on the same broad principles as those for the products already examined by the Committee, namely free movement of goods both within the Community and with third countries; the replacing of all other trade barriers by the sole instrument of levies; the establishment of a coherent internal price system; and the establishment of a community financial responsibility for the organization of markets. As to the mechanism itself, threshold prices would cover the complete range of dairy products without loopholes, and had been established for pilot products each representing a category. The threshold prices would remain valid throughout a period of twelve months, no seasonal price variation was provided for. The threshold prices would serve to unify the national systems, and were based on reference prices which, apart from certain adjustments, represented the prices of the various dairy products obtaining on the member States' markets immediately prior to the entry into force of the common regulations. The levy would bridge
the difference between the threshold price of a product and the price at which it was being offered at the frontier. The free-at-frontier price (the lower element in the calculation of the levy) would be determined according to world market prices in the case of imports from third countries, and on the exporting member country's internal prices adjusted to a free-at-frontier basis, in the case of intra-Community imports. In intra-Community trade, the levies would be reduced by a standard amount ("montant forfaitaire") which would provide an extremely moderate element of preference for intra-Community trade during the transitional period. Lastly, the system of refunds would on the one hand be conducive to an orderly development of trade among member States, and on the other allow them to maintain their traditional export flows to third countries, where it would place them on an identical competitive footing with other suppliers.

3. The representative of the Community then described the internal price system and the way the market would be unified. The intervention system was applied only to butter, although member States were free, under certain conditions, to apply it also to other products during the first two years. The realization of a single market implied bringing together national target prices for milk towards a common target price, and bringing together and unifying the market prices, and thus the threshold prices, so as to enable receipts of producers, averaged out over their total marketed output, to reach the level of the common target price. This would entail, among other things, the progressive reduction of direct aids. The first stage had been reached by the fixing of national target prices for the 1964/65 dairy year within a range determined by the Council of Ministers. The common target price for 1965, and subsequently for the following years, still remained to be fixed by the Council. The Council would also have to decide on the nature and timing of the market-unifying measures to be taken by each member State.

4. In their general comments, representatives of several major dairy exporting countries underlined the importance of the dairy sector to their economies and of the Community market for their exports. They expressed the fear that the new measures might lead to a level of production in the Community that would further narrow their markets there and eventually lead to increased pressure also on the markets of third countries. The future price level in the Community was of decisive importance for future developments; the absence so far of a common target price made them difficult to foresee. Furthermore, the regulations had only recently come into force, and did not cover fresh milk and cream, regulations for which would be established only later.

Products

5. Replying to a question regarding the regulation for fresh milk and cream to be drawn up before July 1965, the representative of the Community said to date no concrete proposal had yet been put before the Council. A lower priority had been given to this matter as little of this product entered international trade.
Reference prices

6. Some members expressed the view that in bringing various dairy products together in a limited number of groups, specific differences in price or quality had, in certain cases, not been sufficiently taken into account. They enquired whether the number of groups was likely to be extended. The representative of the Community said that, in his view, the groups were very homogeneous individually and together covered the range of products without a gap. The tendency was for a reduction in their number rather than for a more detailed classification.

7. A number of delegations put questions regarding the nature and function of the reference price. The representative of the Community explained that the reference price for the various dairy products essentially represented the actual market prices such as they had been shortly before the regulations had entered into force. In order, however, to make them applicable for the first dairy year under the present regulation, these prices had been adjusted in relation to subsequent developments, i.e. changes in national target prices, market prices, and in the level of subsidies. During that year the reference price was serving as a basis for the threshold price and, as far as butter was concerned, the intervention price. The reference price was established once only as a starting point, and the subsequent bringing together of prices would no longer be based on it, but would be a matter of specific decisions. In other words, the reference price disappeared after the second season, and at the single market stage, the threshold price for the various dairy products would reflect the common target price.

Threshold prices

8. The Committee noted that the threshold price was equal to the reference price, increased by the "montant forfaitaire" and in some cases by an additional amount. Some members asked whether threshold prices could rise, and whether, if the target price were raised for, say, social policy reasons, a rise in the threshold price would follow. If it did, observed a member of the Committee, its new level would afford a certain extra protection. In reply, the representative of the Community explained that the threshold prices would be fixed once a year and would, in principle, not be changed in the course of that year, subject to the possibility that by Council decision the "montant forfaitaire" were to be revised. Annually, the threshold prices would have to be revised and determined again in accordance with

- the progressive approximation of national target prices towards the common target price which the Council would have to set each year at the same time as measures to be applied by each member State with a view to achieving such approximation;

- the progressive approximation of threshold prices towards a common level, based on criteria to be established by the Council; the measures to be applied by each member State would, in this case also, be determined annually by the Council, taking into account changes in national target prices, and reduction in aids.
9. Members of the Committee asked whether criteria for the approximation of the threshold prices referred to in Article 20 of the regulation and to be determined by the Council, were already in force. The representative of the Community replied that for the 1964/65 dairy year it was the reference prices that served as the basis for the threshold prices. The alignment of threshold prices would take place along the general principles laid down by the basic regulation, and according to conditions to be established by the Council. These conditions had not, yet been worked out.

10. A member of the Committee asked whether, in the annual determination of the standard amount ("montant forfaitaire"), the Community would follow the same policy as in the case of pigmeat, eggs and poultry, where one of the protective elements would, in the course of the transitional period be gradually increased from 2 to 7 per cent, or would the Community try to limit or reduce this amount? In reply the representative of the Community pointed out that the standard amount was basically different from the fixed protective element as applied to the products mentioned; it could be compared with the standard amount applicable under the cereals regulation. It was a transitional element to be deducted from the intra-Community levy, and by definition destined to disappear at the final stage. Its modest incidence of only about 2 to 4 per cent showed that in its determination the interests of foreign suppliers had been taken into account as much as was possible.

11. In reply to questions of another member of the Committee, the representative of the Community continued to explain that the standard amount was determined annually and in accordance with certain criteria, determined by the Council, in such a way that trade between member States developed in a progressive and regular manner. The question whether trade developed in the way anticipated, was for discussion and consideration in accordance with the procedure of the Management Committee.

12. A member of the Committee asked what was the purpose of the additional amount that could be added to the threshold price, and whether this purpose was purely protective. The representative of the Community explained that the additional amount for products other than butter could only be applied on authorization by the Council upon a member State's request. So far, it had only been applied in respect of prices of cheese of the Gouda group in Germany, in order to correct a situation where it could be anticipated that the general rules would not ensure sufficient protection. It was a corrective factor and an element of flexibility through which market developments could be taken into account in the threshold prices. It would be applied in a prudent and moderate fashion. As regards butter, the additional element was of a less exceptional nature on account of the existence of the intervention system. Since the intervention price could be set at a level equal to, or slightly below, the reference price the additional amount served to allow for a spread between the threshold price and the intervention price sufficient for market forces to come into play. Furthermore, by derogation
granted by the Council on a transitional basis, Belgium and Luxemburg were allowed to increase the threshold prices of certain important dairy products in order to take into account seasonal variations in the producer milk prices applied during the 1964/65 marketing year.

A member of the Committee also asked whether threshold prices for butter, other than first quality, would be the same as for first quality butter, or would a scale of quality differentials be applied. The representative of the Community said that the regulation referred only to prime quality butter. It was a pilot product fixed by definition. Prime quality butter was defined in the regulation in a rather broad interpretation and the levies as between member countries, as well as the levies for prime quality butter from third countries, were applicable to other qualities of butter.

Free-at-frontier price

Some members of the Committee put questions regarding the basic data underlying the calculation of the free-at-frontier price, and sought an assurance that the calculation would be based on the prices quoted by regular suppliers only. It was hoped that account would not be taken of supplies offered at abnormally low prices, with the aid of heavy subsidies or of quotations for small amounts resulting from the seasonal surplus of countries which were not traditional exporters. The representative of the Community replied that the free-at-frontier price was calculated from the best offers both at the frontier of the Community and on representative markets in third countries. The inclusion of the latter into the calculations was prompted by the possibilities that offers directed to the Community might be biased so as to influence the height of levies. The representative of the Community affirmed that certain offers would not be taken into consideration that were not representative: offers concerning small amounts, taking into account the magnitude of existing trade patterns; offers which did not correspond to actual purchasing possibilities; offers of products whose characteristics differed substantially from those products which were used in the calculation of levies.

A representative, noting that free-at-frontier prices would be established weekly, considered this a source of uncertainty as it might lead to weekly variations of the levy, and wondered whether a fortnightly periodicity, as was being used for the establishment of frontier prices in intra-Community trade, would not be sufficient. Replying, the representative of the Community pointed out that although free-at-frontier prices were determined weekly, a change in these prices did not automatically imply that the levy would change. It would change only if the variations in the frontier price exceeded the tolerance margin established for the product in question.
16. Noting that different frontier prices were established for butter made from sour cream and that made from sweet cream, some delegates considered that there appeared to be a source of possible discrimination against sweet-cream butter producers, particularly if the present relatively small price differential between the most favourable offers on the international market of both types were again to widen. They explained that prices of sweet-cream butter on the United Kingdom market were more stable than those of sour-cream butter which came from a larger number of suppliers; butter produced in the Community was mainly of the latter type. If it were decided to maintain two distinct free-at-frontier prices the question arose as to whether the frontier price for sweet-cream butter would be based on salted butter (such as was generally offered on the United Kingdom market) or unsalted, which was the type usually imported by the Community and carried a higher price on account of its higher fat content. The delegates felt it would be more equitable if the price at which unsalted sweet-cream butter was offered were taken as the basis for the free-at-frontier price. In reply, the representative of the Community said that production of sweet-cream butter in the Community was of very minor importance, and its price range about the same as that of sour-cream butter. Only one reference price and one threshold price had therefore been established for butter, regardless of how produced. At the frontier, nevertheless, there was sometimes a variable difference between the offering prices which could be 2 to 3 per cent in favour of sour-cream butter. Two free-at-frontier prices therefore existed for imports from third countries but he considered that there was no discrimination and that on the contrary a single levy rate would enable sweet-cream butter producers to benefit from a competitive position which would not be justified having regard to the situation existing in the Community market. In establishing free-at-frontier prices, salted and unsalted butter were not differentiated. Only prime quality butter was taken into consideration; a classification by type of butter in international trade did not exist, so that prime quality butter was considered more or less as a "pilot product" for the butter group.

17. A member of the Committee asked on what basis the ex-factory prices in an exporting member State were calculated. He also asked why, in establishing the free-at-frontier price to be applied in intra-Community trade, the costs entailed in frontier transit were included, when they were not included in the calculation as regards imports from third countries. This appeared to be a further element of Community preference. The representative of the Community explained that the ex-factory prices for the different groups of products were based on price quotations notified to the Commission by member States and not on any special offering prices. To the ex-factory price was added a lump sum amount for transport costs up to the frontier of the importing member State, which could be differentiated, depending upon the member State of destination, as well as a certain amount for frontier crossing costs which was uniform for all member States and which had been set at 0.35 units of account per 100 kilogrammes. Those costs were normally comprised in the free-at-frontier prices established by the Commission.
Application of the levies

18. A member of the Committee noted that the amount of the levy was to be determined for the so-called "pilot product" of each group of dairy products and that normally the levy for the other products, the "assimilated products" would be equal to the levy for the pilot product. In certain cases, however, a different levy would apply and he asked how in that event the levies would be calculated. The representative of the Community replied that this contingency had arisen as regards milk powder and processed cheeses, where the levies could not be based on the pilot product, and an equalization method was employed. The butter-fat content was the major element taken into account for whole milk powder, whose fat content and value could show considerable variations.

19. The representative of the Community, recalling the work of the conference at Stresa, pointed out that the composition of processed cheeses was not standardized. He also explained that the levy on processed cheese was computed by the addition of an element equal to 66 per cent of the levy on Gouda cheese, secondly an element equal to 9 per cent of the levy on butter made from sweet cream and thirdly, an amount of ten units of account per 100 kilogrammes on imports from third countries, or of seven units of account on intra-Community imports. The third element took into account the technical situation of the cheese-processing industry in the Community, which was at an early stage of its development; an approximation based on present figures would show a protection of approximately 5 per cent. He further explained that the second element was based on sweet-cream butter, due to the fact that in the processing of cheese, mainly Gouda, in the Community that type of butter was used, imported particularly from New Zealand and Australia.

20. In answer to a question whether a scale of quality differentials was envisaged in order to take account of any differences in composition and quality, the representative of the Community said that with respect both to the price and resulting levy system, no such scale would be established, and that price differences due to subjective factors could not be taken into consideration. However, corrective factors were applied, based on objective criteria such as fat content, maturation period and differences in packaging, as compared with the pilot product.
21. In reply to questions raised by members of the Committee, the representative of the Community explained that imported products in some member States were subject to various internal taxes and excise taxes of a fiscal nature, which applied to domestic products and imported products alike. Since under the dairy regulation the threshold price was in its origin based on domestic market prices, the incidence of these internal taxes was already included in the amount of the threshold price. It was therefore logical that the amount of these taxes should be deducted from the levy to the extent of their incidence on the imported product. This amount had been determined by the Commission on a lump sum basis. Any changes in the rate of these taxes by member States required a revision of the calculations of the Commission in this respect.

22. In reply to certain questions, the representative of the Community explained that, in order that it should be able to keep up to its commitments under GATT tariff bindings, the amount of the levies on importation from third countries applicable to cheeses which met the conditions laid down in the tariff bindings was equal to the bound specific duty or to the amount which would result from the application of bound ad valorem duties. For other imports of those cheeses, the general levy system would be applicable, but it was further provided that the threshold price for Emmenthal cheese should not be more than the minimum import price, laid down in the tariff concession, increased by the amount of the bound duty. In determining the threshold price for Emmenthal cheese the normal method had been used of adding to the reference price the "montant forfaitaire". In cases such as in Belgium, France, Italy and Luxemburg, when the result had exceeded the maximum laid down in the regulation, the threshold price was cut off at that maximum. A similar method was applied in the case of Cheddar. The Committee noted with appreciation that at the present time, the Community had respected their commitments under the General Agreement, in particular Articles II and XXIII with respect to bindings on certain cheeses, including Cheddar.

23. Reference was made to the compatibility or incompatibility of the system of levies with the provisions of the General Agreement. The Committee felt that it was not its task to go into the legal question of the compatibility of the levy system with the provisions of the General Agreement. The representative of the Community added that perhaps the text of the Agreement might have to be adapted or supplemented at a future date, in order to take better account of the specific characteristics of agriculture.
Compound feeding preparations

24. In reply to the question as to how the height of the fixed element of the levy on compound feeding preparations - 2 units of account for those containing more than 50 per cent milk powder, and 0.90 units of account for others - was arrived at, the representative of the Community said that those products came within the field of application of regulations on cereals and dairy products. The height of the fixed element was made to vary according to the composition of the preparation; milk-based preparations mainly destined to feed young animals, were required to meet high quality criteria and were thus subject to higher production costs than cereal-based preparations. It therefore seemed natural that this industry should be given necessary protection. In the case, for example, of a preparation containing 80 per cent of milk, the fixed amount of 2 units of account would represent about 5 per cent ad valorem.

Application of reduced levies

25. A member of the Committee asked why the possibility of reducing levies was foreseen only for the transitional period. He also wished to know which elements would be taken into account by the Commission in its determination of the conditions under which the authorization for such a reduction would be given, and whether these provisions were not foreseen for the final stage. The representative of the Community replied that Article 9 of the regulation covered only the transitional period. That provision had been created in order to take into account the economic realities of the market, to serve as a framework for certain decisions by the member States which would thus have the possibility of influencing prices on their own market, if, for economic or social reasons, they wished to do so. It was drawn up in a way to allow individual member States to take the initiative. It was not excluded that similar rules would apply at the single market stage with respect to imports from third countries, but it was too early to stipulate the conditions.

26. Some members asked whether, when a reduction in the levy was authorized this implied an adjustment in the threshold price, with some corresponding effect on levies on imports from third countries. Also, if the reduction were authorized for one dairy product, would other products not become subject to reductions - it was difficult to conceive of a reduction on one product only. It was also observed that the reduction of a levy on a product of which a particular country was a major supplier, might have discriminatory effects. The representative of the Community stated that an adjustment in the threshold price would not be applied by a reduction in the levy; the authorization to reduce was only a waiver applying to the levy on a given product or products. The measure would be applied vis-à-vis member States and third countries in a non-discriminatory manner. He pointed out that as the regulations had been introduced only recently, the Community had had little time to acquire practical experience in their application, and the provision under discussion had in fact never been applied.
Refunds on exports to third countries

27. Some delegations noted that according to one of the paragraphs of the preamble to the regulation, refunds were intended to safeguard participation of member States in world trade, and enquired whether this participation meant participation at present levels. The representative of the Community said that the provisions under discussion did not differ from other regulations. Member States which traditionally were important exporters to third countries before the Community had been created, would have to continue participating in world trade.

28. As regards the height of the refund, members of the Committee asked whether an unduly low free-at-frontier price would not lead to abnormally high refunds to Community exporters. Were refunds uniform, or was account taken of different conditions in different markets of destination? Replying to the first point, the representative of the Community pointed out that the regulation did not fix the exact size of refunds but only a ceiling which would be fixed for each product. Member States were free to fix the actual size of the refund below that ceiling, so that the refunds were not necessarily uniform in all member States. In fixing the actual level of the refund the exporting member State took into account the situation of its own market. If prices happened to be on the rise the member State might not be interested in fostering exports still further. In addition to the limitation represented by the fixed ceiling, a member country could apply a further limitation in keeping the actual size of refunds below the ceiling. In reply to the second question the representative of the Community stressed that the actual size of the refund was determined essentially by the difference between internal prices and prices prevailing on the markets of destination in third countries. The element of transport costs which was involved in the calculation of the refund was fixed in the light of the specific features of the dairy products market and that element was the instrument which facilitated adjustments depending upon the area of destination. For practical reasons, the Community had had to content itself with a lump sum differentiation in transport costs according to areas.

29. Various members of the Committee paid particular attention to the likely effects of the refund policy and expressed the fear that the refunds which enabled Community member countries to export would give them an unfair advantage in competition with other suppliers on third markets. This was particularly so in the dairy sector where only a small part of total world production entered world trade, so that even small changes in the production level and small subsidies for exports could result in disproportionate disturbances on the market. It was feared that in addition to a rise in Community production, due to higher prices, resulting in a narrower Community import market, the refunds which enabled Community countries to export would bring them into competition with other suppliers on third markets. In the Community concept the size of the refunds was essentially limited to the difference between the Community price and world prices.
However, these members pointed out that the increase in production due to higher prices, and therefore the increase in exports resulting from the refunds, could have a depressive effect on world prices and thus modify relations previously existing between domestic prices in the Community and world market prices. It was also noted that in certain cases the amount of the refund could be increased by a supplementary amount. Some members observed that by means of this instrument the Community could compete with anyone in the market as the regulation was open to the interpretation that there was no limit to the amount of subsidization. It was pointed out that not all traditional exporters of dairy products were in a position to subsidize exports; smaller countries heavily dependent upon exports in this sector feared the exports made possible by the financial resources of the Community. Some members also observed that if all countries introduced measures to offset transport costs to foreign markets a complete disorganization of world trade would ensue. While it was true that some other countries gave restitutions or subsidies on transport, this was a situation that needed changing. The Community had succeeded in eliminating subsidies on transport in Intra-Community trade, but seemed to continue to use them in trade with third countries.

30. The representative of the Community, in replying to these various arguments, pointed out that even inside the Community, discussion was still going on as to the desirable level of prices. While prices that were too high might lead to surpluses, prices in the dairy sector which were too low would cause disequilibrium in other production sectors, for example the beef sector. The Community had no desire to allow surpluses to accumulate in its territory and was seeing to it that they remained limited: in order to assess the effects of the policy followed with regard to dairy products, one would have to know the level at which the single prices would ultimately be fixed. It could be affirmed now, however, on the basis of the market organization mechanisms, that there were some positive aspects for non-Community exporters: inter alia, quantitative restrictions had been eliminated inside the Community, whereas in the past some member States had used an import régime which, when applied very strictly, could in fact amount to import prohibition. Furthermore, the Community aimed at a policy of high quality, which would enable outside suppliers to increase exports of quality products at favourable prices. The rôle of the Community should be seen jointly as that of exporter and importer. As regards financial competition with other countries, he continued, the Community was not in a position to subsidize exports unrestrictedly. It was well-known that some member States intended to limit to what was strictly necessary their financial participation in the refund system, and this in itself was already an effective limitation on any undue participation by the Community on world markets.
31. With regard to the more general problem of export aids for dairy products, the representative of the EEC pointed out that there were many contracting parties which granted export aids for dairy products, the result of which was to distort prices on world markets. The Community, aware of these difficulties, had proposed to the CONTRACTING PARTIES a confrontation of dairy policies as a whole including export aids. He stressed that the Community could not always assess the dairy policies of third countries whereas all the contracting parties could have a full knowledge of the Community’s regulations. The dairy policy measures for which the Community was now being criticized could be discussed with the measures applied by the contracting parties in the framework of a general arrangement on dairy products which would lay down a "good conduct code" which had become necessary.

32. Various members of the Committee thought that steps should be taken to limit the refunds before the stage was reached when the shortage of Community funds began acting as a limitation. They drew attention to the disruptive effect on the world market of marginal supplies of subsidized butter. They also referred to the relevance of Article XVI of the General Agreement. The representative of the Community confirmed that, in the application of the common agricultural policy regulations, concerning dairy products, the Community would strictly abide by the provisions of the General Agreement. The Community did not consider the refund as identical with an export subsidy. For the Community, it was a measure sui generis, regarded as the converse of a levy, inherent in the common agricultural policy and designed, in particular, to contribute towards stabilizing farm incomes. Furthermore, it had not been demonstrated that the refunds enabled the EEC to secure a more than equitable share of world trade.

33. Certain members of the Committee stated that they could not accept the explanation that, since refunds were the converse of levies they were not subsidies. They felt that refunds or export subsidies were required only because both were a means enabling a country to export when its domestic prices were higher than world market prices. Thus the reason for introducing either measure was the same, and their effects were the same. In this connexion some members of the Committee recalled the statement made by the representative of the Community during the consultations on cereals in 1962. The representative of the Community confirmed that, as far as dairy products were concerned, the refund system would be applied in conformity with Article XVI of the General Agreement and if special difficulties from the refund system arose in respect of third countries, the normal procedure under this Article or under any other relevant Article of the General Agreement would be followed. In confirming this statement, the representative of the Community

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1Document L/1910, paragraph 41:
considered that another statement made by the representative of the Community at that time, was also relevant in regard to the arguments advanced by certain members of the Committee.¹

34. The Committee considered that it was not required to resolve the legal question as to whether the provisions of Article XVI were applicable to the refunds as applied by the Community.

35. Some members of the Committee enquired whether the Community was prepared to notify to the CONTRACTING PARTIES the information being submitted by the member States to the Commission regarding the national subsidies linked with specific dairy products and subsidies paid in respect of milk sold by the producers, and the extent and nature of the refunds granted. The representative of the Community emphasized that the obligation, under Article XVI of the General Agreement, for contracting parties to notify subsidies must, so far as the Community was concerned be considered in the context of earlier statements.

Import certificates

36. Asked by a member of the Committee whether once a certificate was issued, it would remain valid even if subsequently the safeguard clause came into operation, the representative of the Community stated that the clause provided for a suspension in the issue of certificates. In applying those measures, the Community would take account of the effects resulting from the issue of certificates, and those already granted would be honoured to the fullest extent possible.

37. Committee members representing distant suppliers regarded the two-month period of validity of the certificates as far too short, and asked whether special consideration might be given to these suppliers by extending the validity of these certificates. The representative of the Community pointed out that as the two months stipulated were calendar months, the effective time limit might in fact be anything up to three months. The regulation actually stated that "the certificate shall be valid as from its date of issue and until the end of the second month following that in which it was issued". It was not at present intended to extend

¹"The representative of the Community replied that the system of refunds was indispensable in order to maintain for member countries the possibility of continuing to export in view of the constant use of export subsidies by some countries on the world markets. The Community was aware of the possible implications of the export refund system. The Community regarded export subsidies as an unhealthy practice; this was proved by the fact that the Community had agreed to limit the refunds in an autonomous way." (Document L/1910, paragraph 123.)
the time-limit, but the problem was under study for compound feedstuffs. He said that the Commission would note the remarks made by distant suppliers on this aspect and they would be taken into account when the matter was again under consideration.

38. A question was also asked on how the level of deposits would be fixed, and whether deposits would not be an obstacle to trade. The representative of the Community explained that higher deposits were required in the case of dairy products than for cereals on account of the higher value of the former. The amount of the deposits was at present established in two ways: within an upper and lower limit as regards butter, whole milk powder and condensed milk, and at a uniform Community level as regards whey and skimmed milk powder. He did not consider that the deposits could be regarded as obstacles to trade.

Trade barriers in intra-Community trade

39. A member of the Committee, noting that during the transitional period, member States could invoke a safeguard clause under which, subject to certain conditions and procedures, any safeguard measures might be taken in respect of imports, asked whether such measures would automatically apply to imports from third countries. He considered that where measures were called for by disturbances due, say to the institution of market organization measures within the Community, it was unfair that the burden of adjustment should be passed on to third countries. The representative of the Community said that if a disturbance in one of the member markets called for measures, the resulting situation should not be less favourable to member States than to third countries.

Trade barriers vis-à-vis third countries, and safeguard clause

40. Replying to a question, the representative of the Community assured a member of the Committee that the safeguard clause would be applied in a non-discriminatory manner, and that any commitments under GATT would be fully respected.

41. Some members of the Committee noted that according to the regulation quantitative import restrictions were to be abolished, but that the Council could take decisions derogating from this provision. In addition the regulation contained a general clause under which any measure derogating from the regulation could be taken. They expressed concern about the wide discretionary powers built in the regulation, and enquired whether these provisions had already been applied. The representative of the Community explained that the general rule was an immediate abolition of quantitative import restrictions. However, the Council had extended to the regulation on dairy products the special régime applicable to State-trading countries. In addition, when drawing up the regulation it was not possible to foresee all special situations which could affect any of the products covered by the regulation. In order to meet special difficulties which could arise in practice regarding particular products, provisions were necessary enabling the Council to take certain measures even if not foreseen in the regulation. This provided the possibility to improve any minor detail in the system, thereby avoiding the need for the regulation as a whole to be rewritten each time the need for a modification arose. This provision had been applied in a few cases, for example when threshold prices for Parmiggiano cheese were set at a uniform level for all member States.
42. An observer of a State-trading country drew attention to the special trade régime applied to these countries. He noted that according to the provisions, imports from a State-trading country could be stopped by a member State of the Community if imports from a State-trading country reached the estimated amount. He then observed that imports could also be suspended, at the Community level, if such imports from a State-trading country exceeded by more than 20 per cent the average level of imports in 1960 and 1961 and if serious disturbance was caused or threatened to the market of one or more member States of the Community. He noted that such disturbance would not necessarily have to result from imports from his country, and that imports from other third countries or from member States could also, or even more, contribute to such disturbance. He also noted that this régime derogated from the principle of total elimination of import restrictions and that no different treatment was applied to State-trading countries participating in the work of GATT and other State-trading countries. The representative of the Community replied that the present trade régime with State-trading countries was not final. The present provisions were not intended to restrain imports from State-trading countries in a discriminatory manner. A special régime had only been elaborated because of the existence of bilateral trade relations between certain State-trading countries and some member States and because of the special economic structure and conditions of price formation in State-trading countries. The Community, however, considered the present régime to be a positive contribution in the development of trade with these countries. With respect to the suspension of imports by a member State, if imports from a State-trading country had reached the estimated amount, the representative of the Community recalled that the member State concerned was under the obligation to forthwith notify the measure to the other member States and the Commission. The representative of the Community explained that member States had the possibility of setting the estimated amount at a level higher than that resulting from the 1960/1961 average and that in such case, the member State or States concerned must consult with the other member States and the Commission.

43. Certain members of the Committee observed that the words "the necessary measures" in the safeguard clause were very discretionary, and wondered whether it would be possible to know what measures were envisaged for what eventualities. They assumed that such measures would be applied only in very serious situations. They pointed out that these measures might be a reflection of a serious disturbance in the world market, and asked whether under such circumstances the Community would envisage not only stopping import certificates but also stopping refunds. The representative of the Community confirmed that the safeguard clause would always be invoked in conformity with the relevant provisions of the General Agreement and he observed that, at the internal level, any decision concerning that clause implied the setting in motion of a Community procedure for examining the most appropriate measures. As to refunds, there was no obligation to grant
them; they were established by member States and the decision to suspend them was up to individual States. Replying to another question by these members regarding the phrase "serious disturbances because of imports from third countries in particular when intervention agencies are in a position of having to make substantial market purchases", the representative of the Community observed that there was not necessarily any relationship between interventions and application of the safeguard clause. He emphasized that the fact that intervention agencies were forced to buy up was nevertheless an indication of disturbance in the market, without such disturbance necessarily being due to imports.

44. A member of the Committee, noting that the safeguard clause provided for a grace period of "not less than three days" for transport of goods en route after the closure of the frontier, pointed out that this did not take into account the problem of distant suppliers, who should not be made to suffer more than member States. The representative of the Community pointed out that on the one hand this was a minimum, on the other, it was softened by the provision stipulating immediate entry into negotiations with the exporting countries concerned to obviate excessive or avoidable losses to exporters. Asked whether such provisions would also be valid after the transitional period, he replied that this provision was included amongst the conditions and procedures which would apply when a member State invoked this clause. A special procedure would no longer be necessary in the single market stage. However, it was natural that similar conditions would be taken into consideration when making such a decision.

45. Some members of the Committee noted that in the final stage the issue of import certificates for third countries could be suspended, apart from possible waivers for certain specified destinations. It was explained that no discrimination was intended in the application of safeguard measures as between geographical destinations and that in this context the word "destination" should be interpreted as meaning "end use" in accordance with customs terminology.

**Target price**

46. In reply to requests for certain explanations, the representative of the Community explained that the target price, in its concept, differed from the guide price applied in the beef sector. In principle, both prices had the same objective, namely to ensure producers an equitable remuneration, but the link between producers' remuneration and the target price was far stricter and the mechanism set up to achieve this price was more rigid than in the case of the guide price. He further explained that during the transitional period the national target price was the price which it was intended to ensure for producers as a whole for the total quantity of milk sold during the dairy farming year.
This objective could be attained by various means, differing in the member States, such as market receipts, supplementary aids and receipts from any equalization system of the fresh milk market. In the single market stage that objective would have to be attained through market receipts alone. In the course of the transitional period, the national target prices would be gradually aligned. Initially, a fork had been determined made up of an upper and a lower limit for the national target prices. In due course a common target price would be determined which would, in the transitional period, serve only for the standardization of national target prices and threshold prices. The Council would determine the measures which were to be applied by each member State; as a result member States would have less freedom in determining the level of national target prices.

47. In reply to another question, the representative of the Community continued to explain that as a result of the measures to be applied by each member State with a view to bringing the target prices closer together, the target price in a particular member State could fall below the level corresponding to the price paid to producers in 1963. In that case the member State concerned, for social and economic reasons, might wish to protect producers against such a fall in income. Such a member State was then entitled to pay compensation to producers in some form or another. These payments could, in principle, continue after the end of the transitional period but it was provided that they would then have to be made in a form independent from milk production. Such payments would in that case have no incidence on the dairy market, but would be transformed into social aids, in particular for structural improvements in certain regions.

48. Some members of the Committee noted that the target price was determined on the basis of market receipts for various dairy products, the price received for fresh milk, and direct subsidies. They enquired whether details could be provided of the relationship between the various factors which eventually resulted in the target price in the member States. They also enquired about the relationships between the national target price on the one hand, and reference prices or threshold prices, on the other. Why had not the Community determined the threshold price directly on the basis of the target price, as in the case of cereals where the difference between the target price and the threshold price in principle was transport costs? The representative of the Community explained that the target price was determined for milk of a given fat content, while market prices, reference prices and threshold prices related to individual dairy products. As a result of difference in policy and market developments in each member State, the relationships between market receipts and the national target price, depended on a multitude of factors, which varied depending on the member State and the product concerned. In some member States,
for example, direct subsidies were applied, there existed equalization systems between receipts from fresh milk and processed milk, there were, in addition, substantial differences between member States with respect to the relative valorization on the one hand of the protein content, and on the other hand the fat content of milk. Although in each member State there was some kind of relationship between the target price and the market prices for individual dairy products, the matter was too complex to be treated as, for example, in the case of cereals, where only a few homogeneous products were involved. It was for this reason that as basis for the common dairy policy, the Community had chosen the average farm prices for milk received by producers, on the one hand, and the average market prices for dairy products over a reference period, on the other, on the assumption that national market prices gave a fair reflection of the various effects of national policies. In order to arrive at a definition of the upper and lower limits for establishing national target prices for 1964/65, each member State had made the necessary adjustments to the producer price received in 1963 so as to take account of differences in fat content and of changes in the producer price, in relation to the reference period, due to developments in market prices or to modifications in price targets. On the other hand, the market prices had been adjusted so as to bring them up to date and resulted eventually in the reference prices; the threshold prices were directly linked to the reference prices. The future approximation of prices would be based on the national target prices and the threshold prices.

49. Some members of the Committee pointed out that at the single market stage the threshold prices for the various dairy products would reflect the target price for milk. They enquired how such a relationship was to be determined. The representative of the Community stated that eventually the common threshold prices would be based on uniform costs and yields in the Community, on an amount to protect the industry, and on the relationship in respect of the value allotted to the milk used for the various dairy products. The establishment of these common factors would be extremely complex; it would have to be done in the course of the transitional period in accordance with criteria which still had to be laid down. He mentioned, however, the various stages that had to be worked through in order to attain a common policy. The first stage, where work was under way, consisted in studying the yields of different dairy products and their production costs. In the next stage, the aim would be to harmonize production costs, bearing in mind above all the technical aspects, and consequently account would be taken of efficient industries, thus providing a certain orientation. Thirdly, the relative valorization would have to be determined as regards the fat content, as against the protein content of milk. Once that stage was reached the market would be mastered to some extent and there would no longer be any need for arbitrary elements. Priority must therefore be given to the solution of those problems and if the Community was showing some delay in that respect, it was because still greater priority had been given to bringing the trade régime into effect.
National subsidies

50. The Committee noted that in some member States national subsidies were applied which had to be progressively eliminated. Some members of the Committee were of the opinion that this would result in price increases to consumers and have an adverse effect on consumption. A member enquired why in consequence of this elimination, the threshold prices had to be increased. The representative of the Community pointed out that these existing subsidies were quite distinct from the compensation payments which member States were permitted to grant, in case of need, if the approximation of target prices obliged a member State to reduce its national target price below the level of average milk prices received in 1963. He recalled that, in the final period, any such compensation payments would have to take a form independent of dairy production and would have no incidence on the market. The situation was different however in respect of the existing direct aids; these were being given in order to lower consumer prices. Since in the single market stage the consumer would have to pay the full market price, artificially lowered market prices of the products concerned would have to adjust themselves and would increase in line with the gradual reduction of the subsidies. The threshold prices which, through the reference prices were based on the artificially low prices, had to be adjusted in consequence, but the representative of the Community emphasized that reduction of aids was not the only factor affecting threshold prices.

51. Members of the Committee considered that a rise in the threshold price resulting from a reduction of direct subsidies in the Community would, by transferring the aid element to the levy, place the burden of adjustment on outside suppliers. Noting further that the target price for milk would be a key to the whole system, and that variations in it would have an automatic effect on threshold prices, the level of which was of paramount importance to outside suppliers, members of the Committee observed that an increase in Community prices could lead to difficulties for outsiders. They also noted the great importance of the relationship between prices in the milk sector and the beef and veal sector. The representative of the Community confirmed that, at the single market stage, there would be a close link between the common target price and the threshold price. During the transitional period, the threshold prices for the various products would be harmonized on the basis of criteria to be determined by the Council, and of measures decided upon taking into account the reduction of national aids and the alignment of national target prices. It did not, therefore, seem justified to him to assert a priori, even if only on the level of the mechanism, that in all cases there would be an increase in threshold prices corresponding to the reduction in national aids.
52. A member of the Committee noted that the total effect of the various subsidies still existing should not be such that the target price would be exceeded. He enquired how this would operate in practice. The representative of the Community replied that the progressive reduction of direct aids would have to be such that the aids still maintained would not exceed the difference between the market price of the products concerned, calculated in terms of milk, and the target price.

**Intervention measures**

53. A member of the Committee noted that disposal of butter from stocks of an intervention agency had to be effected in such a way as not to disturb sales of other butter. He expressed concern, however, that such disposal might disturb markets in third countries. The representative of the Community pointed out that butter in storage would quickly deteriorate in quality and would no longer be able to compete with quality butter. In principle, disposal would take place on the internal market at a price corresponding to the wholesale price reduced by an amount to make up for the deterioration in quality. Exportation was, however, not excluded, in which case the normal refund for prime-quality butter would apply and this would act as a disincentive to exports of stored butter. In view of the quality of the butter he could give the assurance that no disturbance of third country markets was to be expected.

54. A member of the Committee observed that the intervention price system and the obligation of the intervention agencies to buy any quantity of butter offered to them was likely to frustrate any disincentive to production. The intervention price, in his view, was akin to the guaranteed price. He enquired whether the intervention agencies were entitled also to make purchases at prices higher than the intervention price. The representative of the Community pointed out that the intervention price was set at a level below the reference price by a certain amount; intervention purchases were only allowed at the intervention price and provided the internal market price was only slightly higher than the intervention price. He further explained that the intervention system had to be applied in such a way that at the end of the dairy farming year butter stocks had to be as small as possible and compatible with the market situation.

**General comments**

55. The representative of the Community on the request of members of the Committee gave some information on the principles of the European Economic Community policy in respect of the relationship between animal and vegetable fats. The principal problem in this connexion was the possibility of substitution between butter and margarine. He explained the differences in the policy of member
States regarding vegetable and animal fats. In Italy, the tendency was to afford protection to production of fats and oils, in particular, olive oil. Other member States, mainly or exclusively, protected the dairy sector, and admitted imports of vegetable fats at world market prices. The question of establishing a link between the dairy sector and the new policy to be drawn up for vegetable fats had been amply discussed. It was considered that such a link would lead to excessive price increases of vegetable fats and margarine in most member States. Eventually, it was decided that the policy for vegetable fats would be kept separate from the dairy policy, while taking into account certain existing relationships. Consequently, the interests of dairy producers and olive growers would be taken into account by distinct measures. On the other hand, if the competitive position of butter vis-à-vis margarine would be deteriorating, measures would be taken to meet this situation.

56. The representative of the Community gave a description of recent developments in the dairy sector in the Community. He pointed out that the number of cattle had been increasing between 1950 and 1960 but since that time there seemed to be some stabilization at a level of around 22 million head. In his view this was due partly to government measures which promoted the number of slaughterings, but also to a decrease in the number of farms. Another important element was the development of the average milk yield per cow. He pointed out in this respect that in some member States the present level of farming technique was so high that further increases in yields tended to be limited. The data showed that from 1957 to 1963 the average yield per cow increased by 1.3 per cent in Belgium, 3.3 per cent in Luxemburg and 5.5 per cent in the Netherlands. In Germany yields increased appreciably from 1950 to 1959, but since 1960 an important reduction in the rate of increase could be noted; the increase was now some 1.5 per cent annually. Important increases in yields were still possible in France and Italy, but precisely in these countries there was an important movement from the land and there was a tendency to a more extensive form of farm exploitation which might in future result in a decrease in the growth rate of yields. He stated furthermore, that if the relationship between the prices of milk and beef were set in such a way that beef production could be favoured, a number of milk producers would shift to cattle raising. He stressed that recent trends had confirmed the considerations which he had presented the previous year in the Pilot Group on Dairy Products. It could be added that consumption tended to increase at a higher rate than anticipated early in 1964. This was due to the growth in population, improvements in standard of living and in income, and to the fact that a greater variety of dairy products was offered to consumers. In particular, the rise in income tended to shift consumer taste to more highly processed goods and products of better quality. These developments, and the fact that measures were being applied to improve the equilibrium between supply and demand, were in his view relatively favourable factors, both for the dairy situation in the Community and for imports from third countries. Those predications should, however, be considered with some caution, for the general trend already noted could not exclude the possibility, if weather conditions were exceptionally favourable in coming seasons, of the formation of occasional surpluses which would have to be absorbed.
57. The Committee was very appreciative of the explanations and the information given by the representative of the Community. They were impressed by the complexity of the regulation and by the magnitude of the problem with which the Community had been faced.

58. Some members made general comments regarding certain aspects of the dairy regulation. They recognized that the Community did not always find it possible in aiming at important objectives to take full consideration of all details. They were also duly appreciative of the elimination of quantitative restrictions. The European Economic Community had, however, tended to generalize the problems and that had, in some individual cases, had unfavourable effects for certain exporters of specialized dairy products. It would therefore be desirable for the Community to find solution to those problems after the period of institution of the regulations. In that connexion, a member of the Committee cited the example of whole milk powder for which the levy was calculated on the basis of ordinary powder despite the fact that in 1963 the Community's imports from third countries had consisted to the extent of about 50 per cent in volume and 50 per cent in value of a special type of milk powder, the price of which was about 250 per cent higher than that of the product taken into consideration in determining the levy. In spite of assurances given by the Community most members were concerned about any adverse effects the common dairy policy might have on third countries' exports and on international trade in dairy products generally. Most members felt that the critical point in the new regulation was the level of the future common target price. If this price was set at a relatively high level it would tend to restrain consumption and stimulate production. Any built-up surplus would have to be exported and the effect of such exports could disturb third country markets. Some members of the Committee expressed the view that an improvement in the dairy situation would primarily have to be sought in a reduction in the number of cattle. Since this would be very difficult for small farms they expressed the hope that the price policy of the Community would mainly be geared towards a structural improvement of the farms.

59. Some members of the Committee felt that the nature and extent of the protection given to Community producers completely insulated them from the international market and prevented any form of price competition. In addition, butter producers had the full guarantee to sell their produce at least at the intervention price. In this connexion, members of the Committee noted the assurances given by the Community that the provisions of the regulation and the mechanism would be executed in such a way as not to build up surpluses and to minimize any possible adverse effect of intervention stocks on third countries.

60. A member of the Committee considered that the bindings on certain cheeses were an integral part of the regulation and stated that it was important that the existing arrangements should not be altered so as to adversely affect third countries. As regards the existing bindings the representative of the Community observed that the Community would act in conformity with the provisions of the General Agreement.
61. Some members also felt that the introduction of the variable levy introduced an unfortunate element of uncertainty into international trade; this was particularly felt by distant suppliers. Even if there was room for importation, the fact that the amount of the levy was not predictable constituted an important disincentive to trade. Concern was also expressed about the fact that the levy was based on the lowest offer. Although in the determination of the free-at-frontier price, only representative quantities would be taken into consideration, prices in international markets were frequently distorted by low-priced offers from small and marginal exporters. Such offers would then be the basis for fixing the levy instead of the more carefully determined prices of traditional exporters. It was also pointed out that the levy intended to raise the price of lower-priced imported goods up to the internal price level in the Community. It could therefore be questioned whether it was justified to apply on imports of products with a price higher than the internal price level of the Community, the same levy as on low-priced products. In the opinion of the representative of the Community, the import levy was less arbitrary than import restrictions and was not an element disruptive of world trade. As regards high quality products imported from third countries, he emphasized that the incidence of the levies declined as the value of the imported product rose.

62. Various members expressed concern about the system of refunds. Other countries would normally understand by the term "refunds" payments granted in limited cases such as re-exports. The refund system of the Community, however, in its concept was much wider since it was automatically applicable to all exports. It was also pointed out that the maximum amount of the refund would be determined on the basis of prices ruling in international trade; once determined, the refund would remain unchanged even if the price on the importing market was higher. There was thus a risk of disturbance to markets which still remained open, in particular the smaller ones which were especially sensitive.

63. Members of the Committee appreciated the assurance given by the representative of the Community that the safeguard clause would be applied in conformity with Article XIX of the General Agreement.

64. Several members of the Committee expressed the view that, as the regulation had entered into operation only recently, they had not yet had sufficient experience with the new rules and the way in which they were applied. They stressed the importance of arriving at an assessment of the effects on international trade in the light of practical experience. They also gave advance notice that they would wish therefore to review this regulation at a later date. They considered the current consultation uncompleted as they did not feel that this consultation had permitted an examination of the effects of the regulation on international trade. The representative of the Community could agree that it was difficult for third countries to appreciate, from their point of view, all the implications of a set of regulations which had only recently entered into operation. For his part, he noted that the present consultation had been completed. For the future the Community would conform itself with the appropriate provisions of the terms of reference of Committee II.
The representative of the Community, in a closing statement, emphasized the difficulties which the Community had met in the elaboration of a common dairy policy. Those difficulties were related primarily to the fact that the structure of the national dairy market was very different from one member State to another. Those were further aggravated as a consequence of the disparity between prices paid to producers in the six countries and the use of subsidies in certain member States. The Community regulations were aimed at developing a policy of true prices. Indeed the Council, as regards the organization of the dairy market had accepted the principle agreed to in respect of those products that come already under existing regulations to the effect that market prices must be the basic component of the policy followed. The EEC intended to achieve normal price formation by eliminating gradually those subsidies that would distort market prices. It was obvious that the fixing of a common target price for milk, just as the harmonization of the prices of the various products, were difficult tasks. Third countries which were impatient or concerned over the policy followed with respect to dairy products should take into account the magnitude of the tasks undertaken by the EEC. The basic difficulty of the EEC was due to the fact that its intention was on the one hand to set up a wide internal market for the products of its agriculture characterized by certain Community preferences and, on the other hand, to contribute to the development of international trade in agricultural products. It would no doubt be easier for the Community to complete the establishment of its common market before examining the demands of its outside partners, but the intention of the EEC was to seek attainment of those two objectives simultaneously. The diversity of support measures applied in the major dairy-producing countries showed that many other contracting parties had to face the same problems. The representative of the European Economic Community stressed that the common agricultural policy in respect of dairy products was favourable to third countries, in particular for the following reasons: elimination of quantitative restrictions within the member States which constituted a major contribution towards liberalization of trade, emphasis placed on high-quality policy favouring exporting third countries, increase of consumption in the EEC resulting both from the elasticity of cheese consumption and from the diversification of products offered to consumers, full control of conditions in the Community market facilitating the attainment of a proper balance between supply and demand in a particularly sensitive production sector.