Committee II - Expansion of Trade

DAIRY PRODUCTS

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 source of current income to the producers. While fresh milk for direct consumption formed an appreciable part - some 25 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. Support policies in the dairy sector basically aimed at supporting incomes of producers; they could reach their objective only through mechanisms that would stabilize the internal market for all dairy products at the desired levels. Each member State of the Community had in the past pursued the objective through various means of its choice, including, where it was desired to shield the consumer price from the effects of producer support, direct subsidies for given products or equalization systems between 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 joint financial responsibility for the organization of markets among member States. 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 a moderate element of protection 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 unification of the market implied bringing together national target prices 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 elimination 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 competition 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, and the desire was expressed to examine the situation again at a later date.

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 finer 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 the light of subsequent developments such as 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 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.

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 gradual reduction of any existing direct subsidies, which would result in a corresponding increase in the threshold price

- the progressive approximation towards the prices which had to be fixed annually on the basis of the common target price, in accordance with criteria to be laid down by the Council, and

- the specific measures to be applied by each member State with a view to approximating the market prices; these measures would be decided upon by the Council taking into account any changes upwards or downwards in the target prices.

1See paragraph 47.
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 not identical with 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 an element of transition, 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, in such a way that intra-Community trade would develop gradually and regularly. 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. Furthermore, it had been used on a temporary basis in order to allow an increase in the prices of certain products in accordance with the seasonal variations in the target price for milk in Belgium and Luxemburg. 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.
Free-at-frontier price

13. 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 granted by regular suppliers only, and taking into account only important and significant suppliers. 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 be excluded from the calculation: those that were non-representative in terms of quantity or price, and "non-transactable operations". The structure of the market was also taken into consideration, particularly in the selection of offers.

14. 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.

15. Noting that different frontier prices were established for butter made from sour cream and that made from sweet cream, some delegates considered that there might be a source of possible discrimination against sweet-cream butter producers. They explained that prices of sweet-cream butter 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. As the price ranges for the two types were fairly close, was there real need for two separate prices to be maintained? If it were decided to maintain them both, 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 to 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, however produced. A price difference of 2 to 3 per cent did, however, exist at the frontier 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, whereas a single levy rate would discriminate in favour of sweet-cream butter producers. In establishing frontier prices, salted and unsalted butter were not differentiated between. 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 as a kind of "pilot product" for the butter group.
16. 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. The representative of the Community explained that the ex-factory prices for the different groups were based on prices transmitted to the Commission by member States. They were not based on consignments. To the ex-factory price were added an amount for transport costs up to the frontier of the importing member State, taking into account the location of production; and an amount for frontier clearance costs, of 0.35 units of account per 100 kilogrammes uniform for all member States. These costs were normally comprised in the c.i.f. prices quoted by outside suppliers.

Application of the levies

17. 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 mainly 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 one of the major elements taken into account, particularly so for whole milk powder whose fat content could show considerable variations.

18. The representative of the Community 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 10 units of account per 100 kilogrammes on imports from third countries, or of 7 units of account on intra-Community imports. This third element took into account the technical situation of the cheese-processing industry in the Community; the preference due to it did not amount to much above 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 in the Community that type of butter was used, mainly imported from New Zealand and Australia.

19. 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, necessary for determining the free-at-frontier price, the representative of the Community said that no such scale would be established. However, corrective factors were applied, based on objective criteria such as fat content, maturation period and differences in packaging, as compared to the pilot product.
20. 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 excise taxes and internal 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 the 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. The incidence of these taxes had been determined by the Commission on a lump sum basis. Any changes in the rate of these taxes required a revision of the calculations of the Commission in this respect.

21. In reply to certain questions, the representative of the Community explained that, in order to be able to keep up to its commitments under GATT tariff bindings, it was 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 Luxembourg, when the result had exceeded the maximum laid down in the regulation, the threshold price was cut off at that maximum.

Compound feeding preparations

22. 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 these preparations were a borderline case between cereals and dairy products. The height of the fixed element was made to vary according to the composition of the preparation; milk-based preparations were mainly destined to feed young animals, met 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 higher 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

23. 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. It was designed to take into account possible changes in the market situation and provided the decisional framework. It provided member States with an instrument by which they could influence the 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. In the single market stage similar rules would apply, but it was too early to stipulate the conditions.
24. Some members asked whether, when a reduction in the levy was authorized, this implied an adjustment in the threshold price, and an effect on levies against 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 implied 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. The representative of the Community agreed that it might be difficult in practice to limit the reduction to one product at a time, and that a discriminatory situation might possibly arise in the conditions referred to. He pointed out, however, 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

25. 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.

26. 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 various questions, the representative of the Community pointed out that the regulation did not fix the 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 fixing the actual height 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.
27. Various members of the Committee paid particular attention to the likely effects of the refund policy and expressed the fear that the effects of the refunds would be severe on outside suppliers. 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 this was not a fixed difference, as the subsidized overflow of the Community's products would further depress 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. Countries that were traditional exporters of dairy products on which they largely depended for their livelihood could not compete financially with 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 them in intra-Community trade and should, in the view of these members, do the same in its trade with third countries.

28. The representative of the Community, in replying to these various arguments, pointed out that even inside the Community, opinions on the desirable level of prices differed. While prices that were too high might lead to surpluses, prices in the dairy sector which were too low would only transfer the problem elsewhere such as the beef sector and create surpluses there. The Community, however, did not intend to see heavy surpluses mount up on its territory, and was seeing to it that they would be limited. To judge the effect of the dairy policy, one would have to know the level at which prices would be unified. But already now, where not much more than the mechanism could be seen, there were positive aspects for non-Community exporters: for one, quantitative restrictions had been abolished in the Community, while in the past some member States practically prohibited imports of certain products. 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 without limit. It was well-known that some member States had been concerned about their financial participation in the refund system, and this in itself was already an effective limitation on any exaggerated participation by the Community on world markets.

29. 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 suggested that the most appropriate limitation to the refund system would be if the system would be applied in accordance with Article XVI of the General Agreement. The Community, its representative stated, had offered to treat the problem globally, taking into consideration all the mechanisms concerned: direct aids, refunds, subsidies or quantitative restrictions. The Community had always acted in conformity with Article XVI of the General Agreement. However, he did not believe that export refunds were a form of subsidy as covered by that Article; they were the converse of levies. It yet remained to be proved that the refunds allowed the Community to increase its share in world exports.

30. 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.\(^1\)

31. The Committee agreed that the question of interpretation of Article XVI was a legal issue which lay outside its terms of reference.

32. 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 replied that the Community was intended to respect the provisions of the General Agreement, including those of Article XVI. If all contracting parties notified the amounts of all their subsidies, the Community would do likewise, but not under Article XVI. Such notifications would imply multilateral action and a real form of co-operation.

\(^1\)"The representative of the Community confirmed that the refund system would be applied in conformity with Article XVI of the General Agreement and if special difficulties from the refund system arose in respect of third countries, the normal procedure under this Article or under any other relevant Article of the General Agreement would be followed."
Import certificates

33. Asked by a member of the Committee whether once a certificate is 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, but that certificates already issued would be honoured as far as possible.

34. 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. It was not at present intended to extend the time limit, but the problem was under study for compound feedstuffs. He would, however, fully note the remarks made by the representatives of distant suppliers. As regards the method of issuing the certificates, he confirmed that they were issued automatically to whoever requested them.

35. 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 levels of the deposits varied within an upper and lower limit determined by member States, the maximum representing about 5 per cent. He did not consider that they could be regarded as obstacles to trade.

Trade barriers in intra-Community trade

36. 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 reconciliation of market 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

37. 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.
38. 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 blanket-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. Derogating from this rule the Council had established a special trade régime with State-trading countries. This was the only derogation applied so far. In addition, when drawing up the regulation it was not possible to foresee all special conditions 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.

39. A representative 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 if the so-called estimated amount had been exceeded by more than 20 per cent and if at the same time Community markets were being disturbed. 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 provisional and would be revised in the course of 1965. 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.

40. 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 be invoked only in cases of serious disturbances, and pointed out that any decisions regarding the clause must be notified; subsequently a common procedure would be set in motion for consideration of the 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", he agreed with these members that if intervention agencies were forced to buy up, this was an indication of a disturbance in the market, but not a direct criterion that the disturbance was due to imports.

41. 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 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 common procedure would no longer be necessary in the single market stage since decisions would then be taken jointly. However, it was natural that similar conditions would be taken into consideration when making such a decision.

42. 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 particular destinations. It was explained that no discrimination was intended in the application of safeguard measures as between geographical destinations and that in this context this should be interpreted as end-use destinations, which is a customs terms.

Target price

43. 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 was to 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, on the other hand, the only means of achieving the common target price would be the market policy of the Community. 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; in this respect, however, the Council had not been able to maintain the schedule laid down in the regulation. Annually the Council would determine the measures which were to be applied by each member State; member States would thereby greatly lose their latitude to determine the national target prices freely within the limits.

44. 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 in order not to hamper the establishment of the common market, 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.

45. Some members of the Committee noted that the target price was made up of the market receipts for various dairy products, the price received for fresh milk, and of 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, different in each member State and for each product. In some member States,
for example, direct subsidies were applied, there existed equalization systems
between receipts from fresh milk and processed milk, there existed differences
in policy fostering in one member State the protein content, in other member
States the fat content of milk, etc. 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 bases for the common dairy policy, the
target prices for milk existing in the member States had been chosen on the one
hand, and the average market prices for dairy products over a reference period
on the other, on the assumption that the national market prices gave a fair
reflection of the various effects of national policies. In order to arrive at
a target price for 1964/65 each member State had made the necessary adjustments
to its target price for 1963/64, in order to account for differences in fat
content, developments in market prices, changes in the level of support, etc.
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.

46. 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 valorization
of 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 could, however, describe 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 of studying the yields of different pilot products
and their production costs. The next step would be to harmonize production costs,
bearing in mind above all, the technical aspects. Account would be taken of the
most efficient industries, thus providing a certain orientation. Thirdly, the
form of valorization would have to be determined, mainly as regards the relative
utilization of fats, as against proteins. Once that stage was reached the market
would be fully mastered and there was no longer any need for arbitrary elements.
Priority had been given to these problems but it was necessary to advance
gradually.

National subsidies

47. The Committee noted that in some member States national subsidies were applied
which had to be progressively eliminated. 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 member States were entitled to grant, if necessary, if in the process of aligning the target prices a member State had to reduce the target price below the level of 1963. He recalled that in the final period, the compensation payments would have no incidence on the market. The situation was different however in respect of the existing direct subsidies; these were being made 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 accordingly.

48. 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 important 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 a variation in the target price could have an effect on the variation of the threshold price, on account of the reduction in aid mentioned earlier but also through the application of criteria used to achieve the harmonization of threshold prices among member States, and through any possible movements of national target prices - up or down - towards the common target price.

49. 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 determination of the amount of the reduction in the direct subsidies should be such that the aids would be strictly limited to the difference between the market price of the products concerned, calculated in terms of milk, and the target price.

**Intervention measures**

50. 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 normal sales of 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 would apply. In view of the quality of the butter he could give the assurance that no disturbance of third country markets would have to be expected.
51. 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 a kind of 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. 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

52. The representative of the Community 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, production of fats of both vegetable and animal origin were protected,
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 relationships which existed. 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.

53. 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 the present level of the 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 would be accompanied
by a decrease in 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. While these
developments, although presented with caution, did not seem unfavourable as com­
pared to previous assessments, there 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 in supply and
demand, were in his view, relatively favourable factors, both for the dairy situa­
tion in the Community and for imports from third countries.

54. Members of the Committee were 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.

55. Some members made general comments regarding certain aspects of the dairy
regulation. They recognized that the Community would not always find it possible
in aiming at important objectives to take full consideration of all details. On
the other hand they felt that there was a tendency in the European Economic
Community to generalize the problems. In seeking a solution for the important
questions methods were designed and criteria were applied which not always cor­
responded to particular problems. 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 pro­
ducts generally. Most members felt that the crucial 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 pro­
duction. Any built-up surplus would have to be exported and the effect of such
exports could easily 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.

56. Some members of the Committee felt that the absolute nature of the protection
given to Community producers completely insulated them from the international
market and prevented any form of price competition. In addition, butter pro­
ducers 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 effect of intervention stocks on third countries.
57. Some members also felt that the introduction of the variable levy introduced an important 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 be questioned whether this was an equitable procedure in respect of high quality and specialty products which were often more expensive than similar products in the Community. In this connexion a member stated that exports of whole milk powder from his country to the Community accounted for 30 per cent of the quantity of imports of this product in the Community, but more than 50 per cent in value.

58. Various members expressed concern about the system of refunds. Normally, refunds in other countries were only granted in limited cases such as re-exportations. The refund system of the Community, however, in its concept was much wider since it was automatically applicable to all exports. In the view of these members export subsidies should be limited to products for which there was a real problem. It was also pointed out that, like the levy, the maximum amount of the refund would be determined on the basis of the lowest offer on the world market; once determined, the refund would be granted irrespective of the fact that the price on the importing market could be higher. In particular for small importing countries near the Community this created a new problem because a small perturbation would have a heavy incidence. These members appreciated the statement made by the representative of the Community in respect of refunds in 1962 during the consultation on the common cereals policy and repeated the view expressed at that time by some members of the Committee that the refund system did not differ from any other form of export subsidization.

59. 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.

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1"The representative of the Community confirmed that the refund system would be applied in conformity with Article XVI of the General Agreement and if special difficulties from the refund system arose, in respect of third countries, the normal procedure under this Article or under any other relevant Article of the General Agreement would be followed." (Document L/1910, paragraph 4§.)
60. The Committee felt that for a final judgment of the effects of the common dairy policy on international trade essential elements of the new policy were still missing; furthermore, the time of application of the new system was too short to fully appreciate the incidence of the new regulation. The Committee noted that the European Economic Community was prepared to enter into consultations on major developments of its policy, to the extent that this was necessary and to the extent that other members felt the mutual need for multilateral consultation in order to have a better appreciation of the effects of the various agricultural policies.

61. The representative of the Community emphasized the difficulties which the Community met in the elaboration of a common dairy policy. These difficulties were caused by the complex situation of the existence of six markets, which had a completely different structure. The great disparity in prices and price policies would be eliminated, and the market price would eventually ensure producers' incomes. The difficulties were increased by the fact that it was the considered policy of the Community in establishing its common dairy policy to take account of the interests of third countries. He continued to say that in his view the import levy was not an element disruptive for world trade; it was less arbitrary than import restrictions. He recalled some of the positive elements in the present dairy regulation such as the abolition of import restrictions, the policy of quality improvement, and the expected increase in consumption. He assured that in determining prices the Community would follow a wise policy. He declared that the Community was prepared on the basis of reciprocity to undertake commitments regarding its price policy and in this way to restrain its autonomy.