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REPORT OF COMMITTEE II ON THE CONSULTATION WITH THE EUROPEAN ECONOMIC COMMUNITY

Introduction

1. Under the Decision of the CONTRACTING PARTIES of 7 December 1961, contracting parties were invited to notify any substantial changes in their agricultural policies and Committee II was authorized to carry out consultations with particular contracting parties. In accordance with this Decision the European Economic Community notified the substantial changes in the agricultural policies of the six member States, which were a consequence of the progressive establishment of the common agricultural policy. The most recent substantial changes concerned the organization of the markets of dairy products, of beef and veal, and of rice.

2. The consultation was held from 25 January to 5 February 1965. The Committee had before it document L/2245, containing the texts of three regulations adopted by the Council of the European Economic Community on 5 February 1964, and providing for the progressive establishment of a common organization of markets in respect of:

Dairy Products - Regulation No. 13/64/CEE

Meat of Bovine Animals - Regulation No. 14/64/CEE

Rice - Regulation No. 16/64/CEE

In addition, the secretariat had prepared a paper - document COM.II/137 - giving a general description of the new system in respect of these three groups of products. This paper had taken into account the great number of regulations which had been adopted in the course of 1964 in implementation of the three basic regulations.

3. In a general introduction - document COM.II/W.10 - the representative of the European Economic Community emphasized the important position of the Community in world trade in agricultural products. The Community was convinced that it had measured up to its responsibilities as the largest importer in the world market. Imports of agricultural products from third countries had risen for several years past and until 1963, despite the fact that the Community was one of the major agricultural producers in the world. The temptation should be avoided of constantly blaming the policy of the importing countries for difficulties

encountered in the market for a given agricultural product. While being mindful of the interests of third countries, the common agricultural policy was simultaneously based on Articles 39 and 110 of the Treaty of Rome. The Community considered that the orderly conduct and rational development of international trade in agricultural products was not incompatible with what was needed in order to raise the standard of living of the agricultural population and to bring about a better economic and social equilibrium within its territory. The Community had endorsed the provisions of the original terms of reference of Committee II and also those in the subsequent Decision of the CONTRACTING PARTIES of 7 December 1961 which set forth, though in rather loose terms, the guidelines for the consultations. The Community would not, however, wish to see more obligations imposed on it than the other contracting parties were prepared to undertake. The common agricultural policy was being drawn up practically in public and it had been the subject of notifications to GATT and of very detailed consultations in Committee II. But that did not seem to satisfy all the contracting parties yet, and some of them seemed to want a procedure of "quasi-permanent consultation" on the common agricultural policy, which was unacceptable to the Community. In general, the Community was greatly interested in the procedure of consultation on agricultural policies, for in the economic world of the 1960's isolation was no longer possible. That was why the Community had proposed to its partners a negotiating plan for the agricultural side of the Kennedy Round, based on the confrontation of production policies and trade policies regarding agricultural products. The EEC believed that its common agricultural policy could progressively be a very positive element in the development of international economic relations. Clearly this implied on the part of the Community's partners not only recognition of the EEC's legitimate interests, but also, where obligations and undertakings were concerned, acceptance of reciprocity requirements.

4. A member of the Committee, commenting on this introductory statement pointed out that certain aspects of it relating to the trade negotiations were not for discussion in the Committee. He welcomed the reference by the representative of the Community to Article 110 of the Rome Treaty which had been inserted in all basic regulations, but in spite of this he felt that the substitution of a system of variable import levies for the various protective measures at the frontier, in particular quantitative restrictions, might well have the same or even a more restrictive effect. He recognized the position of the Community as the most important agricultural importer. The fact that the Community was an important agricultural importer, in his view, followed naturally from the fact that the total area under cultivation in the Community was appreciably smaller in relation to its population than that in certain other countries. This placed the Community in the position of a natural agricultural importer. Referring to the statement

made by the representative of the Community regarding further consultations, he pointed out that, in view of the limited experience so far, it had not been possible to appraise sufficiently the trade effects of the three common agricultural policy regulations; nor had this been possible in respect of the 1962 regulations at the time when the consultations began about these regulations. He then urged that all contracting parties should be willing to consult, in accordance with the plan for agricultural consultations, on the effects of their agricultural policy measures, once sufficient trade data were available, so as to allow an appraisal of these effects on the basis of these data; his country was ready to consult. These views were generally supported by some other members. In reply to the assertion by the Community that third countries must realize, however, that the development of agricultural imports into the Community could be on balance to the overall advantage of exporting countries, even though it might be less satisfactory for any given product or country in particular, some members of the Committee expressed fears that they might find themselves in an unfavourable situation because of the fact that their exports were mainly concentrated on a few of those products.

BEEF

5. Outlining the common policy for the beef and veal sector, the representative of the Community explained first that in the context of achieving the EEC common policy on agricultural products, it was naturally impossible to leave aside that particular sector because of the great importance of bovine meat production in agricultural activity in the EEC, and also the close links between that sector and the no less important one of dairy products. He further recalled that the Community had an overall shortfall in regard to supplies of beef and veal.

6. The representative of the Community observed that the regulations instituting a system which, though seemingly elaborate, was very simple in its mechanisms had been in operation for only about three months. The beef and veal regulation established a new régime in place of the various policies followed hitherto by the member States; it was designed to meet precise objectives - an adequate return on production, stable prices, and a balance between supply and demand for beef and veal within the Community, taking account of imports and exports.

7. The representative of the Community then outlined the main features of the regulation and reviewed the treatment applicable to third countries, the system of intra-Community exchanges, and the provisions applicable to third countries and member States alike. In conclusion, he stated that in the implementation of the beef regulation, account would be taken of the objectives set forth in Articles 39 and 110 of the Rome Treaty.

Guide price

8. Some members of the Committee asked for details as to the relative importance of the two elements determining the guide prices, namely the aim of ensuring an equitable return to Community producers, and the direction to be given to meat production taking into account, among other things, the situation on the dairy market. The representative of the Community stressed the rôle of the concept of the guide price which, while not making the system too rigid, gave producers an idea of probable prices which enabled them to orientate their production. Nevertheless, the close relationship between the meat and dairy sectors required the maintenance of a proper balance to prevent either sector from developing at the expense of the other. A member of the Committee commented that he agreed with the representative of the Community as to the need to maintain a balance between these two sectors. He added that increasing the support price for beef was not the only way to achieve such balance; this could be done also by reducing the support price for dairy products as actually had been the case in his country. The representative of the Community recognized that the policy followed by that country was indeed different from the EEC policy. The Community, for its part, did not have the same experience which would enable it better to assess the relationship between the two sectors and the repercussions which a change occurring in one sector had on the other. The Community policy was still in the making and the Community must still find its way; changes in the future were not to be excluded.

9. A member of the Committee asked why the weighting coefficients applied in computing the price average used to determine the upper and lower limits of guide prices depended solely on internal factors. In reply to that question, the representative of the Community stated that the guide prices were based on the average market prices prevailing in the member States. In order to take account of the relative importance of the quantities of different qualities of cattle which normally were marketed in the member States weighting coefficients were applied. The average market price had been adjusted so as to take account of exceptional economic circumstances. When determining price limits for large bovine animals for the season beginning on 1 April 1964, the Council had adjusted the weighted average by about 10.5 per cent, taking into account a minimum increase in the producer price for milk which had been recorded in the member States from 1961 to 1963.

10. The question was asked whether the elements used for determining the upper and lower limits for the 1965/66 marketing season would be the same as for the 1964/65 season, and more specifically whether the element aimed at encouraging production was based on the return for an average or a marginal production. The representative of the Community replied that the EEC had as yet taken no decision on the matter; he could state, however, that in determining those limits, the Council took account of the production and consumption situation in the Community as well as of market trends, while endeavouring to promote improved production conditions and a better agricultural structure in the common market countries. One member of the Committee pointed out that in determining the guide price account was not specifically taken of the element of efficiency in production. The representative of the EEC observed that, according to Article 39 of the Rome Treaty, the objective of the common agricultural policy was to increase agricultural productivity by developing technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production.

11. Some members of the Committee emphasized the vital rôle in Community markets of guide price levels which conditioned access for producers in third countries. It was pointed out that while the system could be applied liberally, it was also possible that unduly high guide prices might insulate Community producers and develop production in such a way as to leave third countries in the situation of residual suppliers, which might have serious consequences for world market equilibrium. Members of the Committee also stressed the duration of the meat cycle: the incentive given to Community production through higher guide prices would only yield its results over a number of years; the effect of such prices on levies and thus on imports could be felt immediately. In view of the length of the meat cycle a quite moderate rise in the guide price could orient production in the direction desired by the Community while preserving access for third countries. The representative of the EEC emphasized that the amount of the levies envisaged in the regulation was established in relation not only to prices on the internal market, but also to the level of prices ruling on the world market at a given moment. He emphasized that it was still too soon to study the effects on international trade of the set of regulations; he nevertheless wished to assure the members of the Committee that the Community institutions had taken due account of the interests of international trade when drawing up such regulations, and they would continue to bear in mind the effects which implementing measures could have on the structure of international trade.

12. With respect to the determination of the guide price limits for the marketing season 1965/66, some members of the Committee expressed the fear that the high level of prices recorded on the Community markets in 1964 might lead the Community to set higher limits. Even without changes in market prices, this would be most likely to result in the immediate full application of the levy in some or all member States. In this connexion it was pointed out that a rise by for instance 15 per cent in the minimum guide price might, because of certain provisions in the regulation, result in adding to the import duty now being charged a levy of more than twice the amount of this duty. While recognizing the autonomy of the Community in this respect, they expressed their concern that in this way third countries, which had traditional trade interests with member States, would have to carry the burden of adjustments in internal policy objectives of the EEC. After recalling that the EEC had not yet taken a decision in the matter, the representative of the Community pointed out that an increase in the limits would not necessarily bring about a corresponding rise in the guide prices in the member States, and that the assumption just referred to seemed highly unlikely having regard to the economic situation. He added that certain projections for the meat market indicated that future availabilities might be unfavourable, so that even in the event that guide prices were increased there was no reason to assume that a levy would in fact be applied or that, generally speaking, the Community's policy should give rise to any concern. He added that so far, the prices recorded in the Community markets had been higher than the guide prices. A member of the Committee observed that projections concerning future availabilities might not prove as accurate as expected and that the possibility should not be excluded of a rapid improvement in supplies from certain third countries which would probably cause a decline in world prices.

13. Asked whether the member States of the Community would be able to raise their guide prices in the event that the upper and lower limits for the second marketing season were identical with those for the first, the representative of the Community explained that the limits could not remain unchanged because the difference between them must necessarily be reduced. In determining their guide prices within the limits member States were required to observe certain specific criteria. The Council could make recommendations if such prices seemed unwarranted. One member of the Committee asked whether the guide prices could be adjusted in the course of a marketing season if there was a drop in world prices. Another member asked whether in the course of determining future guide prices account would be taken of world market prices. The representative of the Community explained in answer to both the questions that the Council could not disregard the world market situation, for otherwise surpluses would accumulate.

In reply to another question he explained that the seasonal differentiation permitted in prices, applied in practice to one member State only. It implied that prices must be reduced for a period equal to the period of increase, but that the period of reduction need not necessarily follow immediately. In any case, the above-mentioned authority was provisional and would lapse at the end of the first quarter of 1966.

14. In reply to a question on the possibility of speeding up the process envisaged for achieving the single market, the representative of the Community stated that it was not impossible that common guide prices might be established sooner than had originally been foreseen.

15. Commenting upon the balance between consumer and producer interests, which the Treaty of Rome required to be maintained, members of the Committee enquired as to what methods were being contemplated for achieving that objective. The representative of the Community explained that the EEC endeavoured to determine the consequences of the price policy but that it was difficult, however, to do so with certainty. In reply to other remarks concerning the need for exporting countries to know, with some degree of certainty or predictability, when drawing up their production plans, what obstacles they would encounter, he expressed the view that the Community's policy was sufficiently clear to permit those plans to be made.

Intervention measures

16. A member of the Committee asked for clarifications on some provisions concerning intervention measures. The representative of the Community explained that a member State which intended to take intervention measures, must inform the Commission and the other member States at least one month beforehand, of the measures which it might take; furthermore, intervention measures could be taken only if the average weighted price on the internal market was below or equal to the intervention price during a period of at least seven days.

17. In reply to a question on the co-ordination of national intervention measures - the conditions for which were to be established by 1 August 1965 - the representative of the Community recalled that the criteria regarding the application of national measures had already been established and that, in those circumstances, the Council intended to examine the results of any application of such measures with a view to harmonizing the situations thus created. In reply to another question he said that, with regard to the stage of the single market, the Council was to determine the conditions for applying Community intervention measures to be taken if the need arose.

18. A member of the Committee enquired about arrangements for the purchase and stocking by intervention agencies. The representative of the Community confirmed that measures could be taken separately in respect of live animals and of meat. As regards the actual storage, it would be in special centres with the proper facilities; the question whether cattle should be stocked alive or should be slaughtered and frozen was a matter for decision by the member States.

19. In reply to a question concerning the disposal of frozen beef stocks held by the intervention agencies, the representative of the Community explained that these stocks could not be sold in the market of a member State unless the internal market price for large cattle in the importing member States was at least equal to 98 per cent of the guide price. This restriction, however, was suspended as long as an additional tariff quota for imports of frozen beef was opened up; when 95 per cent of the tariff quota had been taken up the sales restrictions applied again. It was furthermore provided that sales of frozen meat from intervention agencies had to take place at a price at least equal to the world market price; this price was determined by the Commission in accordance with the procedure of the Management Committee, on the basis of actual price quotations on the world market. The representative of the Community further confirmed that the intervention measures did not involve the suspension of the issue of import certificates, neither would sales from an intervention agency have any priority over sales of imported beef.

20. A member of the Committee also wished to know whether, if meat from stocks was sold on commercial terms in the world market, the offering price would be affected by the storage costs. The representative of the Community stated that no provision had been adopted in that regard. He recalled that at present no refunds were granted on exports of frozen meat and that no decision had been taken as to the maximum amount of the refund. Taking into account the market supply situation he put forward the idea that the quantities taken up in interventions would be limited. So far no intervention measures had been taken.

21. The representative of the Community declared further, that in the event of exports on concessional terms, member States would observe their international obligations in the matter, including the FAO principles of surplus disposal.

22. A member of the Committee noted that a special régime had been laid down in order to enable the German Government to fulfil its commitments under a bilateral trade agreement with Denmark. He enquired whether this agreement was not contrary to the non-discriminatory character of the agricultural regulations, as the representatives of the Community had always asserted, and

if it would be extended. The representative of the Community explained that there could be no incompatibility with respect to agreements concluded before the common agricultural policy became effective, but that all bilateral agreements concluded between a member State and a third country contained a clause - known as the Community clause - reserving the possibility of modifications or waivers if the agreement proved incompatible with the common agricultural policy. The duration of the German-Danish agreement was limited to the end of 1965 so far as products in the bovine sector were concerned.

Customs duties

23. Some members of the Committee wished to know why the provisions relating to frozen meat differed from those adopted for the rest of the sector. The representative of the Community explained that the common external tariff duty on frozen meat would be applied as from 1 April 1965 for practical reasons, namely because the duties levied by the member States were sufficiently homogeneous and permitted a more rapid application of the common external tariff.

24. With regard to the administration of tariff quotas, the representative of the Community explained that the quotas were opened at the time which the Community institutions considered most appropriate, taking into account the internal market situation, and were then allocated pro rata to previous imports by each member State on a global basis; if part was not taken up, it could be used by the other member States. Concerning the suspension of customs duties and the opening of additional quotas, he pointed out that as a general rule, the periods covered by those measures were of sufficient duration so that distant suppliers need not consider themselves as being at a particular disadvantage. Concerning the suspension of duties which had been announced for the periods February to March 1965 and April to June 1965, a member of the Committee pointed out the problem for distant suppliers in participating without sufficient prior notification. In this instance very distant suppliers would have no opportunity to benefit from the suspension of duties for February and March 1965 since, according to enquiries made by some distant suppliers, it appeared that it generally took upwards of 100 days to fulfil meat contracts with European importers.

25. A member of the Committee was concerned over difficulties connected with the administration and annual renewal of the quota of 20,000 head for certain breeds of heifers and cows. The representative of the Community emphasized that the EEC had always respected its undertakings in the matter and he pointed out that since 1965 this quota was being allocated on a Community basis between the member States within the framework of the regulation on meat of bovine animals. That procedure should serve to assure interested third countries of the proper administrative operation of the quota.

26. The question was raised whether there were any commitments between member States and third countries which could affect the allocation of supplementary quotas. Reference was made to the recent trade agreement concluded between Italy and Yugoslavia. The representative of the EEC observed that there were no commitments between one or more member States and third countries which could influence the use of the quotas.

Levy system

27. Some members of the Committee expressed the view that customs duties were not the principal protective measure at the frontier because the levy system could be superimposed on customs duties. The representative of the Community emphasized that the tariff was the normal device for protection in the sense that fixed customs duties were generally applied irrespective of the market situation and that in a seller's market, such as existed at present for meat, the tariff was the only element of protection.

28. In reply to questions concerning the calculation of the price at importation for meat, the representative of the Community explained that in determining those prices, account had been taken of the quotations on certain European markets having characteristics similar to those of the Community markets. In order to take account of the relative importance for trade with the Community of the markets concerned, a weighting coefficient was applied. If the present trading pattern were to change, the weighting coefficient might have to be revised.

29. A member of the Committee noted that frozen meat was sold on the world market at lower prices than fresh and chilled meat, but that the coefficients selected by the Community for calculating the levies were generally the same for the three categories of meat. The representative of the Community explained that the coefficients were based on the relationship between prices for live animals and for meat. A technical compromise was made because the relationships existing between prices for live animals and prices for meat were not exactly the same in all member States. When explaining why no provisions had been made for separate guide prices for derived products he referred to the complexity of the cattle and beef markets within the Community.

30. Some members of the Committee remarked that the table of coefficients for calculating the levies, although containing some definitions, apparently ignored the hindquarter joint with three ribs as sold by some suppliers and thereby transformed it into cuts to which a coefficient was applied that gave rise to a higher levy than that established for the hind part with four ribs. The representative of the Community stated that this was a new element and that the question would be examined by the competent services of the Community.

31. In reply to a question concerning the method used for calculating customs duties the representative of the Community stated that the calculation was effected on the basis of customs value and that the price at importation as determined by the Commission was used only for the purpose of computing the amount of any levy that might be necessary.

32. A member of the Committee stressed that the regulations seemed relatively liberal, if compared, for example, with the cereals, poultry and pork regulations. This was due to the fact that the price at importation was based on prices in representative third markets and not on the most favourable purchasing possibility. Some members of the Committee pointed out the variety of conditions which had to be considered in applying the regulations and referred in particular to the fact that duties were bound on some beef items, for some other beef items tariff quotas were granted, while on the remainder - representing the major part of EEC imports - there was no binding. They also noted that the possibility of opening additional tariff quotas for frozen meat was temporary and that some other tariff quotas corresponded to exports by a limited number of countries; in their view it would be desirable for those quotas to follow the pattern of normal trade flows. The representative of the Community replied that the difference noted was the result, in particular, of international obligations undertaken by member States and was at the same time proof of liberalism. He pointed out that the extent of the bindings was a matter connected with the trade negotiations.

33. Some members of the Committee expressed the view that the levy system introduced a most unfortunate element of uncertainty into international trade in beef and veal. The possibility of changes in the levy while meat was in the course of shipment to the Community was of particular concern to distant suppliers. There was some evidence to suggest that this was already proving a disincentive to imports from such suppliers. The representative of the EEC pointed out that it should be possible to allay to some extent the fears expressed. The Community's aim was to simplify the import system by substituting a simpler one for the various instruments previously existing. In addition, he observed that protection through customs duties should be regarded as the normal form of charge and that in present circumstances it seemed unlikely that the levy would be applied, having regard to the evolution and trend in prices on the market for bovine meat.

34. A member of the Committee noted that in intra-Community trade, the levy would only be imposed if the internal market price fell below the intervention price, and that in that case the amount of the levy generally would be determined on the basis of 95 per cent of the guide price. He expressed the view that since the third country levy was based on the full guide price, the 5 per cent difference constituted a kind of preference, and additional protection for member States. The representative of the Community confirmed that intra-Community trade levies could only be imposed either if prices had fallen below the intervention price and if intervention measures were being taken by the member State concerned, or if prices had fallen below a level of 90 per cent of the guide price for member States which did not take intervention measures. The system established a kind of preference which was natural and necessary during the institution of a single market.

35. In reply to questions concerning the possibility of applying duties and levies at a reduced rate, and more precisely the conditions in which such measures could be adopted, the representative of the Community explained that the provision was designed to give the whole mechanism sufficient flexibility to enable member States which so desired for reasons associated with economic or social policy, to stabilize internal prices when faced with price movements on the internal market, the world market or both. Although at first sight, for the reasons stated, the reduction could apply only to customs duties, it was in fact possible to reduce both duties and levies. In the implementation of such measures, the achievement of equilibrium in intra-Community trade would require that import charges in respect of the member State concerned be adjusted so as to take account of changes occurring in the market of that member State. The representative of the Community also stated that although the regulation mentioned only a reduction of those charges, the Council nevertheless had the necessary authority to grant total suspension if so requested. Asked whether the Council had the power to make that provision effective in the absence of any request by a member State, he explained that under the Rome Treaty the Council could take such decisions, acting on a proposal by the Commission. Lastly, he added that this provision, which was valid for the member States, was applicable only during the transitional period.

36. A member of the Committee referred to the problem as to whether the levy was compatible with the provisions of the General Agreement. The Committee felt that it was not its task to go into the legal question but, nevertheless, recognized that a problem existed which had not been settled by the CONTRACTING PARTIES. Furthermore, the representative of the EEC added that perhaps the text of the Agreement should be adapted or supplemented in the future so as to take better account of the specific characteristics of agriculture.

Refunds

37. In reply to various questions raised in connexion with the system of refunds, the representative of the Community pointed out that the refund system was a feature in most of the EEC's common agricultural policy regulations. He recalled that provisions enabling governments to subsidize their exports appeared in the legislations of many other countries. He explained that the common agricultural policy aimed in particular at stable prices on the Community markets; under present circumstances, these prices were generally higher than world market prices, which moreover were subject to fluctuations. The refund system therefore was a necessity for Community exporters who otherwise would not be able to continue participating in world trade. Under the various regulations, however, member States were no longer free, like most other governments, to grant refunds without any limitation. In the case of the beef regulation, such limitation was to be found in the provision that, in general terms, the refund which member States were allowed to grant, could not be more than the difference between internal market prices, and prices prevailing in third countries.

38. The representative of the Community further pointed out that under other common agricultural policy regulations, the regulation on cereals, for example, the amount of the refund was directly linked to the amount of the import levy. In the beef regulation, such symmetry was not possible, because of the institution of a customs duty and its possible combination with a levy in the import system. The ultimate effect of the refund in both cases, however, was the same, namely the compensation of the difference between internal market prices, and prices prevailing in third countries.

39. A member of the Committee pointed out that according to the provisions, member States were to determine the amount of the refunds once every month in advance. This, in his view, necessarily involved a certain margin of error as regards the actual price situation at the time of exportation, and could enable Community exporters to sell at prices below the price prevailing on a particular third country market. The representative of the Community explained that the determination of the amount of the refund once a month in advance was chosen for administrative purposes. It would enable exporters to determine their sales conditions. He recognized that in this way a margin of error was unavoidable but this could also work in the opposite direction. The maximum amount of the refund was not arbitrarily determined, but was based on two objective figures: the average internal market price and the average price prevailing in third countries recorded in the first two weeks of the preceding month. These were figures determined by the Commission on the basis of actual data. Member States, in determining their refunds, were normally not allowed to go beyond this maximum; they were, however, free to determine the amount at a lower level. The most unstable factor in the determination of the maximum amount of the refund was the world market price; the rules for such determination, however, were publicly known well in advance, and third countries could therefore assess beforehand any possible effect of the refunds on the world market. Some members of the Committee stated that it was not possible for distant suppliers to make this sort of assessment in time, especially in view of the instability of world market prices.

40. Other members of the Committee expressed the view that the beef regulation, mainly through the price policy to be followed, would tend to increase production within the Community. The incentives given to Community production would frustrate the access to the Community market of efficient outside producers. Not only would efficient exporters be displaced from the Community market, but experience under other common agricultural policy regulations had shown that these exporters would meet keener "competition" in the shrunk world market from subsidized Community exports; such competition was also rendered inequitable because economic efficiency was replaced by the strength of financial resources. In practice, Community exporters, through means of the subsidies, reduced their prices not just to a normal level, but to the lowest price prevailing in third country markets. These members expressed particular concern about the provision that if the refund would prove to be insufficient, member States could be authorized to grant a higher refund. In this way, the Community would not only determine the price within its own market, but also on the world market; this would have a price-depressing effect with a consequent demoralizing influence on the market. They enquired whether the Community would be prepared to give assurances that Community exporters would not under-cut normal world market prices.

41. The representative of the EEC did not share the views expressed by some members of the Committee as to the consequences on trade flows and world prices of the internal measures contemplated for beef production. He repeated that the maximum amount of the refund was equal to the difference between internal market prices and world market prices. Normally, Community exporters therefore would not be able to sell below world market prices. Since, however, world market prices could fluctuate, a normal application of the regulation could prevent Community exporters from participating in world trade, and from maintaining their traditional exports. In such a case, following the procedure of the Management Committee, a particular member State could be authorized to grant a higher refund. This procedure in itself, and the conditions under which such authorization would be given, constituted another limitation. It was clear from the wording of the provision that the objective of the refund system was not to conquer the market, but only to maintain export possibilities in order to participate in a normal manner in international trade. The Community, within the framework of its proposal for the Kennedy Round, had proposed that for given products international reference prices should be established which would have to be respected by exporting countries and would constitute an important stabilizing factor for prices and for terms of trade on the world market. Several members of the Committee took note of the views advanced by the representative of the EEC but felt that their consideration could more appropriately be pursued within the context of the Kennedy Round negotiations.

42. A member of the Committee noted that the maximum amounts for the refunds in respect of frozen meat and certain other types of meat, were to be determined in accordance with the procedure of the Management Committee. He enquired whether these amounts had already been determined. The representative of the Community replied that no such decisions had yet been taken.

43. Other members of the Committee said that the refunds might properly be described as export subsidies. They expressed concern over the fact that the refund system had become an element common to nearly all the regulations of the common agricultural policy. A possible increase in the guide prices, which at present was being considered by the European Commission, would necessarily influence the amount of the refunds. Since these refunds could have an effect on outside markets, third countries were directly concerned with the amounts of the subsidies, and with the extent of the application of the system. They regarded the use of export subsidies as an unhealthy practice, and recalled that this view was shared by the representative of the Community during the consultation held in 1962. They enquired whether the Community again could confirm that it would abide by the provisions of Article XVI of the General Agreement and whether the Community would be prepared to notify the CONTRACTING PARTIES of the extent and the nature of the refunds. In this connexion, they pointed out that member States were required to provide the European Commission each month with information on quantities exported, and the amount of refunds granted, and they enquired whether such information would be published. Some members added that where export subsidies were used they should be limited to commodities for which the circumstances were exceptionally difficult. If there appeared to be a continuous need for export subsidies the incentives to surplus production should be abated if not removed.

44. The representative of the Community expressed the opinion that for nearly all important agricultural products export subsidies were used in international trade by many countries, and that all countries were forced to intervene by one means or another. Any increase in the guide prices would not necessarily mean an increase in the refunds, since the amount of the refund depended on the price trend in the domestic market and in third markets. As regards the scope of the refund system it should be considered that the financial burden which it implied for the Community would act as a brake that should not be underestimated; such financial questions were at present being thoroughly examined by the European Commission and the member States. The representative of the Community confirmed that in the application of the common agricultural policy regulations, the Community would strictly abide by the provisions of the General Agreement. The Community did not, however, consider the refund as being identical with an export subsidy. For the Community, it was a measure sui generis, inherent in the common agricultural policy and designed in particular to contribute towards stabilizing agricultural income. The obligation for contracting parties to notify subsidies under Article XVI should be examined in that perspective. The representative of the Community further stated that the information provided monthly by member States was primarily for internal use by the EEC. The representative of the Community confirmed what had already been stated at the 1962 consultation, namely 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".¹

45. The Committee felt that it was not its task to go into the legal question as to whether the provisions of Article XVI were applicable to the refunds as applied by the Community. Several members of the Committee, however, recalled that Article XVI dealt with "any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports.....". In their view the wording was such that the provisions of Article XVI clearly applied to the Community refunds.

Import certificates

46. In reply to questions, the representative of the Community stated that there was a mandatory provision under which for imports of frozen meat (ex 02.01 AII) from member States and from third countries, an import certificate was required. Such certificates were issued automatically on request subject only to the deposit of a guarantee. The import certificate requirement therefore was not a measure of a restrictive nature; it was only necessary for administrative and statistical purposes.

¹Document L/1910, paragraph 41.

47. A member of the Committee enquired how the safeguard clause, under which safeguard measures could be taken concerning imports, related to the issue of import certificates. Could the issue of import certificates be suspended, and could imports be prohibited for which an import certificate had already been issued? The representative of the Community replied that the regulation did not provide for the possibility of suspending the issue of import certificates before invoking the safeguard clause. The wording of the safeguard clause was quite general, and member States who invoked this clause were entitled to prohibit imports of products, even if an import certificate had already been issued; there was no difference in treatment for products for which no certificate was required. The assurance was given that in applying the 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.

48. Some members of the Committee, representing distant suppliers, drew attention to the fact that in several cases exports from their countries required more than 100 days between the time of conclusion of the contract and the arrival of the shipment in the Community. Sometimes these shipments met with extra delays which were not covered by the emergency clauses in the regulations. The period of validity of the import certificates extended until the end of the second month following the month of issue, which therefore gave rise to a real problem in certain circumstances. The representative of the Community noted that in his opinion the period of validity of import certificates should enable all imports to be made but that nevertheless the problem could be studied by the Community authorities.

Trade barriers

49. The Committee noted that as from the entry into effect of the regulation only the customs duties and levies specifically provided were applied and that all other charges having an equivalent effect had been abolished. Some members of the Committee expressed concern that certain provisions of the regulations might lead to the use of quantitative restrictions. Some members pointed out, that certain member States still maintained charges arising from the health regulations in the country concerned. Furthermore, in some countries imports of certain cuts of meat were still prohibited. They were anxious to know whether these charges and import prohibitions would also be removed. The representative of the Community replied that the member States were still in the process of aligning their health regulations. Until common health regulations had become effective, member States continued to apply their national regulations, including the charges which they used to impose for sanitary control, and including specific sanitary rules for certain types of meat.

50. In reply to a question the representative of the Community stated that a special trade régime had been established with State-trading countries; this régime was based on a so-called "estimated amount", which was in principle the average of the imports effected in the years 1960 and 1961. However, member States had the possibility of fixing the estimated amount at a level higher than that resulting from the average for 1960 and 1961, but in such case the member State or States concerned would have to consult with the other member States and the Commission. If imports of a particular product from a State-trading country exceeded by more than 20 per cent the average of imports in 1960 and 1961, and if the market in one or more member States should suffer, or become liable to suffer, serious disruption, the Commission could decide whether the importing member State had to suspend, or was allowed to maintain, these imports. The system with respect to State-trading countries was the only case where the Council had taken a decision derogating from the general abolition of quantitative import restrictions.

51. A question was raised regarding the provision under which it was stated that the restriction of the grant of import certificates to a specified category of beneficiaries was considered to be a measure having equivalent effect to a quantitative restriction. The representative of the Community explained that this provision was included in all regulations in order to avoid differences in interpretation and to make certain that import certificates would indeed be issued to anyone who made a request and provided the deposit required.

52. Some members of the Committee expressed concern about the wide range and the general wording of the safeguard clause. They enquired whether there was a relation between this clause and Article XIX of the General Agreement. They also enquired whether the clause could apply to a single product only, and whether in that case, it would apply to all countries without discrimination. They further enquired whether the clause applied only to the transitional period. They also expressed concern about the use of the derogation clause as an additional safeguard measure which could be applied both in the transitional and the final period. They were also concerned over the application of Article 12, paragraph 2, of the basic regulation. The representative of the Community confirmed that the safeguard clause would be used in strict compliance with the General Agreement. In principle, the safeguard clause was to meet a situation as provided in Article XIX of the Agreement. That clause was applicable during the transitional period. The wording of the provision was quite general and did not exclude the possibility of invoking the clause in respect of one product only. It would then apply to all third countries. It was however difficult to see how a safeguard measure could be limited to one product only since it could then easily be frustrated by imports of substitutable products. Consequently, the products to which safeguard measures were applicable would be determined case by case. The representative of the Community observed furthermore that

invocation of the clause by a member State would automatically set in motion a Community procedure under which the Commission and the Management Committee would examine the measures taken by that member State with the possibility of modifying them. As regards the general derogation clause in Article 18 of the beef regulation, the representative of the Community emphasized that the provision met the need to be able to invoke a provision under which any necessary adjustments and additions could be made to a set of regulations which could only be elaborated progressively. Lastly, the representative of the Community, with a view to allaying the concern of members of the Committee regarding Article 12, paragraph 2, sub-paragraph 2, stated that the clause was designed to enable special provisions to be taken with respect to imports from State-trading countries.

Concluding comments

53. 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 admit 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 was completed. For the future the Community would conform itself with the appropriate provisions of the terms of reference of Committee II.

54. Some members of the Committee were concerned at the uncertainty which could be created for exporting countries through the operation of certain elements in the regulation, both in respect to the short-term commercial considerations and the longer-term developmental aspects. Some members of the Committee considered that the level of the guide price was of particular importance to Community producers, but also to third country suppliers, because a high level of the guide price could induce uneconomic production. A member of the Committee recognized that since the import levy would not be in full operation if the internal market price was higher than the guide price, there was some opportunity for a freer play of competition. An increase in the guide price, however, could easily change this situation. He further pointed out that since the levy on imports from other member States would be imposed only if the internal market price had fallen below the intervention price, producers within the Community had an additional preference on outside suppliers. He repeated his concern regarding the refund system, and expressed the hope that the system would be applied in a careful manner so as not to disrupt third country markets. He expressed his

concern on the discretionary power which was built into the safeguard clause, about its discriminatory effect on those third countries which might not be responsible for the circumstances necessitating its application. In the light of experience already gained under another regulation, these countries also had cause to be seriously concerned about the provisions for derogation from the regulation. He expressed the hope that the liberal elements which were included in the beef regulation, were not due to the present market situation only.

55. The representative of the Community, for his part, drew the attention of the Committee to the rapid increase of beef consumption in the Community. The average consumption per head had risen from 14.8 kilograms in 1955/56 to 22.6 kilograms in 1963, corresponding to an increase of 70 per cent, and consumption would increase still further in the future. The consumption of beef in the Community had become a fundamental requirement on the individual level as well as a test of general economic prosperity. In his opinion, it was possible to foresee an evolution on the Community market determined by the combination of three elements; increase of consumption and production; more advantageous prices for Community producers, and necessity for the European Economic Community to have recourse to imports from third countries. Moreover, the representative of the EEC pointed out that the fears expressed by some members of the Committee on the evolution of the trade flows, as well as on the implementation of the regulations, appeared, in his view, not always to take sufficiently into consideration the conditions and prospects for consumption and production of beef on the Community market, as well as on the international level.

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 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 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 1965/66 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, each group was very homogeneous and that all groups together covered the range of products without a hiatus. 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 the 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 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 introduced into the mechanism of determining threshold prices on the basis of prices recorded on the market. 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.

13. 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 levy was determined for 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

14. 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, namely: 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.

15. 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 determination as in the case 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 a formula for equalization 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 in 1951 on the use of appellations of origin and denominations for cheeses, 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 reveal a preference 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 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. 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 that 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 in the future so as 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, as 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 made through 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. They further enquired whether refunds were uniform, or whether account was 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 by 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 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 code of "good conduct" 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.¹ In confirming this statement, the representative of the Community

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 the effective time limit might in fact be anything up to three months as the regulation 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 the time-limit,

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 125.)

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, for example 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 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 Parmigiano 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 contribute to such disturbance. He also noted that this régime derogated from the principle of total elimination of import restrictions and that it constituted a discrimination in favour of other third countries. The special régime in question would expire towards the end of the current year and the Community was elaborating a new co-ordinated attitude towards the countries concerned. The question arose as to whether State-trading countries which were members of GATT would be treated differently from 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 this was a minimum, which must be interpreted in a liberal manner, as 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. However, in the single market stage, attainment of the common target price would be assured 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 in order to approximate their national prices; as a result the mechanism of price approximation would be much more constraining for member States than that which would result from a mere tightening of the upper and lower limits 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 differences 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 value allotted on the one hand to the protein content, and on the other hand to 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 bases 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 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 value would have to be determined for the fat content, and the protein content of milk respectively. 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 required 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, would have 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; the measures decided upon would take 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 good quality butter. In principle, disposal would take place on the internal market at a price corresponding to the wholesale price reduced as a maximum by an amount to take account of the real depreciation of the product due to the normal quality loss resulting from storage. 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 a 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 not more than 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 should 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 should 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 could only be on a limited scale. 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 the forthcoming seasons, of the formation of occasional surpluses which would have to be absorbed.

57. The members of the Committee were 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, but said that the relative value of the new régime for third countries would depend upon what opportunities for trade would in fact follow. 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 a 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 30 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 of the rates of duty on certain cheeses and the conditions for the application of these rates 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-exportations. 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.

65. 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 determination 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.

RICE

1. In introducing the common rice policy, the representative of the Community noted that since the rôle of the Community in international trade in rice was not very large the rice regulation was of less interest to exporters to the Community than was the case for other regulations. He pointed out that the rice regulation took its inspiration from the cereals regulation. However, several considerations, in particular the fact that rice production within the Community was limited to two countries (Italy and France), necessitated divergencies from the cereals regulation. Other considerations, for example, were that, contrary to the case of cereals, the greater part of the rice imported was made up of husked rice and rarely of paddy, and that shipment of rice to the Community was made in bags instead of in bulk; consequently prices were based on husked rice in bags.
2. The representative of the Community went on to explain that while the Community was not a major rice producer, it did produce annually about 750,000 tons of paddy rice and was one of the world's most efficient producers. Italy in particular had relatively important exports to third countries as well as to other EEC countries.
3. The representative of the Community concluded by briefly explaining the system. The fact that only two countries of the Community produced rice necessitated a price system different from that of cereals. Target prices could initially be determined for only the two producing countries. Therefore, it was not possible to have a common threshold price for the six member States during the transitional period. Rather, it was necessary to have a threshold price for each of the producer member States and a common threshold price for non-producer member States. The levy is fixed so as to be equal to the difference between, on the one hand, the threshold price and, on the other hand, the world market price. A refund system made it possible for all member States to export on the basis of prices in the world market.

4. A member of the Committee felt that it would have been preferable if the Community had used deficiency payments rather than a variable levy system. Since the Community was not a major rice producer, a deficiency payments system for rice would not have been too costly, and it could have avoided a number of difficulties which arose for third countries from the levy system. He was concerned about the possible effect the new rice regulation might have on world markets. He also expressed his concern that the levy system for rice might become a mechanism for trade diversion rather than trade development. An observer expressed the fear that the interests of rice-exporting less-developed countries would not sufficiently be taken into account by the Community.

5. A member of the Committee stated that the new rice regulation was not a measure of trade liberalization but rather a measure of trade protection and he also remarked that in major rice importing States of the Community where no rice was produced, prior to the common agricultural policy system; there were no quotas and no or very low import charges on rice. Since the system became operative rice exporters to the Community had been confronted with a levy in some cases even exceeding 70 per cent. In answer to these observations, the representative of the Community pointed out that until 31 August 1964 it was not only in producing countries that import customs duties existed. He pointed out, moreover, that higher charges imposed on rice imports in the non-producing countries were the natural consequence of the gradual establishment of a common market for rice encompassing producing member States as well as non-producing member States.

Products

6. In reply to a question concerning the treatment applicable to so-called "wild rice", the representative of the Community stated that when classified under heading 10.06 of the Brussels Tariff Nomenclature that "type of rice" was subject to the levy system, in which case the Commission fixed the co-efficient of equivalence for that "type of rice" in relation to the quality standard.

Threshold price

7. A member of the Committee noted that the determination of the threshold price for non-producer member States had been based on world market prices of a round-grain type of rice over a certain base period. He pointed out that during the short period selected, prices of the type of rice concerned had been the highest on record and if a more representative period had been chosen the threshold price would have been set at a lower level. The representative of the Community replied that it was necessary to select a base period which was recent and relatively brief, namely the period October 1963-February 1964, since the purpose of the exercise was to determine a representative price for the period beginning on 1 July 1964. The average price of the type of rice selected, California Pearl Brown, over that period was 13.27 units of account to which an adjustment had been made in relation to the quality standard (i.e. 0.25 units of account) plus an increase by 5 per cent so that the threshold price thus fixed served to establish internal stability in the Community.

8. Some members of the Committee noted an appreciable difference between the threshold prices in the producer member States and the common threshold price in the non-producer member States. They also recalled that in the process of aligning the prices, eventually the common threshold price would be directly linked to the common target price for husked rice applicable for the whole Community, which would be influenced by the desired level of the producer price. They expressed concern that this would mean an appreciable increase in the threshold price for the non-producer countries, and possibly even in that for Italy which produced some 85 per cent of the Community rice. Such higher prices would induce an increase in production which in turn would create considerable difficulties for third-country suppliers. The representative of the Community replied that one could not say with assurance what the Council would decide when aligning prices, but that its recent decisions in regard to cereals might be taken as an indication that the Community had a careful price policy.

C.i.f. price

9. In reply to a question regarding the calculation of the c.i.f. price, the representative of the Community said that the base period used for determining the scale of co-efficients of equivalence used to take account of quality differences was the period from 1 January 1962 to 30 April 1964. A member of the Committee observed that in this case a base period had been selected that was longer and less recent than the period used for determining the common threshold price, to which he had referred earlier. He pointed out that the result of selecting different base periods was that on the one hand the threshold price was based on non-representative, recent, period of high prices for round-grain rice; the quality premium for long grain rice on the other hand had been set high by using an earlier longer base period. He felt that in this way the system discriminated against long-grain rice. He expressed himself in favour of using a longer base period in order to eliminate the influence of short-term price fluctuations but he stressed that this principle should have been observed also in determining the price for round rice. The representative of the Community explained that for the purpose of determining the quality differentials between the various types of rice, a sufficiently long base period was needed so that there would be no risk of the results of the exercise being affected by elements of too accidental and transitory nature. Referring to another remark by a member of the Committee who had said that too great a difference was made, as a result of the co-efficients of equivalence, between standard rice and certain types of long rice, the representative of the Community observed that the difference resulting from differences in quality between California Pearl Brown rice and Blue Bonnet rice seemed to him to be justified. The levy system, however, did not discriminate between rice of different qualities.

10. In reply to another question concerning the c.i.f. price, the representative of the Community said that the rice regulation provided that in cases where the free quotations on the world market used in establishing the c.i.f. price were not the determining factor in the offer price, the c.i.f. price could be replaced, solely for the imports in question, by a price determined in relation with the offer price if the price thus determined was lower than that established in the usual way. This provision was intended precisely to take account of the interests of traditional supplying third countries. It avoided that in case of offers at exceptionally low prices, all supplying countries would have to pay a high levy. All traditional suppliers would thus pay the normal levy based on normal world market prices and only the exporter selling at an abnormally low price would pay a higher levy.

Montant forfaitaire

11. A member of the Committee observed that in the industrial field intra-Community preference was being afforded by gradually reducing the customs duties. In the agricultural sector a similar advantage was bestowed upon producing member States by allowing them to sell their products in another member State at higher than world market prices and with a lower levy than third countries or without a levy. In addition a second preference within the transitional period was created by adding to the threshold price a standard amount. This had adverse effects on third country suppliers and constituted an amount of additional protection. The representative of the Community said that the montant forfaitaire, which was fixed in such a way as to permit the gradual and regular development of trade between member States, would disappear at the end of the transitional period. The level of the montant forfaitaire was fixed for each year and took into account trends in intra-Community trade during the preceding season.

Import and export certificates

12. A member of the Committee expressed satisfaction that under the rice regulation the validity of import certificates was prolonged in the case of imports from distant suppliers; this was not the case in other regulations. He asked whether the Community would be prepared to reconsider the other regulations in this regard and bring them into conformity with the rice regulation. The representative of the Community pointed out that the transport time was much longer for rice than for example, for other cereals, and he added that the remarks made would be taken into consideration when the question was examined again in connexion with other regulations.

13. In reply to a question concerning import certificates, the representative of the Community said that they were issued on simple request and prolonged by whatever period the member State considered necessary because of the circumstances invoked as force majeure. In reply to a member of the Committee who wished to know whether a certificate, once issued, remained valid even if the safeguard

clause was subsequently invoked, the representative of the Community stated that the clause provided for suspension of the issue of import certificates and that in applying the 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.

14. A member of the Committee noted that the period of validity of import certificates for rice was shorter than for export certificates. The representative of the Community explained that in order for the Community to be able to export milled rice an extended period of validity of export certificates was provided for, as was the case for derived cereal products. Commenting on this reply, a member of the Committee said that it was understandable that the Community wanted to export milled rice. Other countries however also preferred to export rice in milled form, the difference in the period of validity of import and export certificates thus being a disadvantage in the exportation of milled rice to the Community.

15. In reply to a question the representative of the Community confirmed that import certificates were endorsable in some member States. This question had not yet been finally settled, but the Community seemed to be tending towards non-transferability of certificates.

Refunds on production

16. In reply to a question as to the extent of support to the starch industry, the representative of the Community said that a system of production refunds had been introduced for broken rice used by the starch industry and by the industry producing "Quellmehl", whether such broken rice was imported or from rice produced in the Community.

Refunds

17. Several members of the Committee commented on the refund system. They noted that as a general rule the maximum amount of the refund was limited to the amount of the import levy but there were exceptions to the general rule, namely the prior determination of the refund amount in cases of future delivery, the refund in the form of authorization to import free from levies provided an identical quantity was exported of the same product or group of products, the tender system, and the possibility of increasing the refund by an additional amount where, on the one hand, the tender procedure proved inapplicable and, on the other, the amount of the refund was insufficient to permit exports to third countries on the basis of world market prices. They observed that thus the amount of the levy was not an effective limitation to the refund. They expressed concern that the regulation would provide Community exporters an opportunity effectively to compete on third countries' markets at low prices. They enquired whether the Community was prepared in the application of the refund system to abide by the provisions of Article XVI of the General Agreement.

18. The representative of the Community replied that the refund, in principle, intended to compensate for the difference between internal prices and prices on the world market. The representative of the Community confirmed that, in the application of the common agricultural policy regulations, concerning rice, the Community would strictly abide by the provisions of the General Agreement. The Community did not consider the refund as being 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. In certain conditions the maximum amount of the refund would not suffice to bridge the gap between internal prices and fluctuating world prices, so that special provisions were necessary to enable Community exporters to export. Moreover, world prices were greatly affected by subsidization measures of other countries.

19. Various delegates expressed their disagreement with the Community concept of refunds. The system allowed high cost producers in the Community to compete with efficient low-cost producers in financially weaker countries. In their view the refund system did not differ from any other system of export subsidization.

20. 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.

21. The representative of the Community, in reply to a question, confirmed that non-producer member States were entitled to grant a refund on rice milled from rice originating from a producer member State. The provisions, however, under which in certain conditions the refund could be increased by an additional amount, related only to products from rice harvested in the exporting member State; consequently, these provisions were only applicable in the case of producer member States. He also confirmed that refunds could be granted on exports of rice starch, even though a production refund had already been paid on the broken rice used for its processing.

Refunds in intra-Community trade

22. A member of the Committee noted that it was specifically provided that if a refund was being granted to exports of milled rice or of husked rice, a refund must equally be granted to the basic products (husked rice and/or paddy), but that this provision did not apply to exports towards third countries. Thus, milled rice was in a favoured position in regard to exports to third countries. The representative of the Community confirmed that as regards milled rice, the obligation to grant a refund on the basic products did not

apply in trade with third countries as it did in intra-Community trade. He pointed out, however, that while the obligation in one case was designed to place Community industries in a competitive position with regard to the raw materials, that obligation was not necessary in the context of world markets which concentrated mainly on milled rice.

Trade barriers

23. An observer of a State-trading country, noted that the trade régime applied to imports from State-trading countries was different from that applied to other contracting parties. He regretted that such a régime had been introduced. 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. If imports of a particular product exceeded the average of imports in 1960 and 1961 by more than 20 per cent and if the market of one or more member State should suffer, or become liable to suffer, serious disruption, the Commission could decide whether the importing member State had to suspend or maintain imports. He pointed out that the special trade régime applied to State-trading countries and not to monopolies operating in non-State-trading countries.

24. A representative enquired whether in the application of the safeguard clause the Community would abide by Article XIX of the General Agreement, and whether in that case the safeguard measures taken would be notified to the CONTRACTING PARTIES, in order to afford contracting parties having a substantial interest an opportunity to consult. 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. This clause would be applied in conformity with Article XIX of the General Agreement.

General comments

25. An observer expressed concern about the preferential treatment granted to associated States and overseas countries and territories, which could have adverse effects on traditional exports from his country. The representative of the Community replied that this preference was based on the Treaty of Rome, the Convention of Association and a special Council decision in respect of overseas countries and territories. In addition, a special régime had been established for imports from Madagascar into France and from Surinam into the non-producer member States; this was of a transitory nature and the eventual preference would not, in his view, have adverse effects on imports of other countries.

26. Reference was made to the problem as to whether the levy was compatible with the provisions of the General Agreement. The Committee felt that it was not its task to go into the legal question but, nevertheless, recognized that a problem existed which had not been settled by the CONTRACTING PARTIES. Furthermore, the representative of the EEC added that perhaps the text of the Agreement should be adapted or supplemented in the future so as to take better account of the specific characteristics of agriculture.

27. An observer stated that rice production was of considerable economic and social importance to his country since a large number of families were dependent upon the rice economy for their incomes and since, because of the nature of the land under rice cultivation, rice could not be replaced by other crops. The Community was his country's principal market in Europe. Thus, the rice regulation could greatly affect his country's rice exports if the unified threshold price was determined at or near the high producer country level. Increased levels of support would possibly result in increased rice production in the Community on land that could be put to other uses. Thus, surpluses might result which would have to be disposed of through the use of export refunds. He expressed the hope that the Community would apply the regulation so as not to damage third countries' conditions of access or traditional export patterns.

28. 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.

29. Some members of the Committee expressed the hope that the Community would not develop its agricultural policy in such a way as to insulate the Community from other countries. They expressed concern about various aspects of the mechanisms of the agricultural regulations which promoted agricultural production in the Community at high costs. This would inevitably have adverse effects on third country markets and on international trade in the products concerned. They expressed the hope that the Community in fixing a common target price for rice, would make a contribution towards reducing the differences with world prices. They recognized that the regulations referred to the objectives of both the common agricultural policy and the common commercial policy. In their view to raise the income of the farm population was not incompatible with a natural growth of international trade, and they expressed the hope that the common agricultural policy in its future application would permit reciprocal trade to develop.

30. A member of the Committee pointed out that in his view the levy system could in practice not be considered a neutral instrument. It put third countries in the position of residual suppliers and protected high cost Community producers effectively against price competition from outside producers which were efficient in costs. The refund system likewise offered Community producers an opportunity to compete effectively on third country markets with such efficient producers.

31. The representative of the Community, in a closing statement, observed that the fears expressed by some members of the Committee regarding the evolution of production and of trade flows seemed to him sometimes to take insufficient account of the situation and prospects of the Community market. He emphasized that if exports from producer member States to non-producer member States were to increase - which would merely serve to restore the traditional trade flows existing, for example, between Italy and the Federal Republic of Germany - exports from the Community to third country markets would fall correspondingly. Furthermore, the Community would always provide a market for imports of quality rice, in particular of long grain varieties. He observed that the concern of third countries could be further allayed because there was reason to hope that in future production would be stable and the acreage under rice was decreasing. As regards the levy system, the representative of the EEC pointed out that the price policy of the Community aimed at stable internal prices and did not in his view constitute an incentive to develop production, but that the other determinant factor of the levy, the world price, could not be influenced by the Community. The levy was variable, to the extent that world market prices varied, so as to prevent fluctuations in world market prices from affecting the Community market. The levy could not be said to isolate the Community from the world market, for it was precisely designed to establish a flexible and constant relationship between

the internal market and the world market. If prices within the Community and on the world market moved closer together, the levy would decrease. Emphasizing, furthermore, that the rice regulation was based on a permanent compromise between producing and non-producing member States, a compromise which guaranteed that in drawing up the regulations on rice, the interests of third countries had always been taken into consideration, the representative of the EEC observed that the new regulations would be applied in conformity with Articles 39 and 110 of the Rome Treaty so as to take account of the interests of Community producers and of producers in third countries, in particular producers in developing countries.