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COMMISSION OF THE EUROPEAN COMMUNITIES

COM(75) 151 final

Brussels, 10 April 1975

REPORT FROM THE COMMISSION TO THE COUNCIL

This report deals with the manner in which the provisions of Protocol No 18
annexed to the Act attached to the Treaty concerning the accession
of the new Member States to the European Economic Community
and to the European Atomic Energy Community
were applied during 1974

I. INTRODUCTION

The Commission has been instructed by the Council¹ to submit, before 1 April each year, a report on the manner in which the provisions of Protocol No 18 annexed to the Act attached to the Treaty of Accession have been applied. The first report, which dealt with the year 1973, was submitted to the Council on 1 April 1974². The present report deals with the manner in which the protocol was applied during 1974. It is recalled that this report is more than a simple statement of facts and includes a reasoned assessment of the manner in which the provisions of the Protocol have been applied.

¹ Regulation (EEC) No 226/73 of the Council of 31 January 1973 - OJ L 27 of 1 February 1973.

² Document R/920/74 (Agri 251) (FIN 218)

II. UNITED KINGDOM IMPORT ARRANGEMENTS

A. Situation as regards quantities

Pursuant to Article 1 of Protocol No 18 and on the terms specified therein, the United Kingdom was authorized to import from New Zealand during 1974:

158 902 m.t. of butter (156 392 LT)

60 960 m.t. of cheese (59 997 LT)

On 1 January 1974 United Kingdom stocks of New Zealand butter and cheese amounted to:

28 982 m.t. of butter (28 524 LT)

9 145 m.t. of cheese (9 001 LT)

In 1974 the total quantity of New Zealand butter and cheese imported into the United Kingdom was:

117 358 m.t. of butter (115 505 LT)

17 509 m.t. of cheese (17 232 LT)

(See Annex I)

The total quantity of New Zealand butter and cheese available for sale in the United Kingdom in 1974 was, therefore:

146 340 m.t. of butter (144 929 LT)

26 654 m.t. of cheese (26 233 LT)

Sales of New Zealand produce in the United Kingdom in 1974 amounted to:

109 943 m.t. of butter (108 207 LT)

16 954 m.t. of cheese (16 686 LT)

United Kingdom stocks of New Zealand produce carried forward on 31 December 1974 amounted to:

36 397 m.t. of butter (35 822 LT)

9 700 m.t. of cheese (9 547 LT)

1 long ton (LT) = 1.016047 metric tons

The supply of the United Kingdom market in 1974, as compared with 1973, underwent some considerable changes. Imports of New Zealand products fell by about 13 500 m.t. for butter and 28 000 m.t. for cheese; these figures represent 71% of the total exports of New Zealand butter and 32% of the total exports of New Zealand cheese, as against 83% and 71% respectively in the preceding year.

United Kingdom butter production fell by 44.000 m.t., while cheese production rose by about 35.000 m.t.

United Kingdom consumption rose ~~above~~ the 1973 level by 42 000 m.t. for butter and 4 000 m.t. for cheese, mainly as a result of the higher prices of vegetable fats and the subsidies granted to consumers.

These subsidies amounted to:

for butter (including imported):

from 14.5.73 to 31.3.74 : 10 u.a./100 kg (£16.94/LT)

from 1.4.74 to 6.10.74 : 27 u.a./100 kg (£126.75/LT)

from 7.10.74 to : 36.50 u.a./100 kg (£184.30/LT)

for natural cheeses (including imported):

from 6.5.74 to 10.11.74 : £105/LT (22.37 u.a./100 kg)

from 11.11.74 to : £188/LT (37.10 u.a./100 kg)

These subsidies made possible a considerable increase in United Kingdom imports from the other Member States. For butter this increase amounted to 135 000 m.t. and for cheese to 19 000 m.t. more than in 1973 (see Annex II).

The reduced imports of New Zealand products were the consequence of the continuing drought affecting production in New Zealand and the greater opportunities for exports to the USA, for which New Zealand has been able to obtain a relatively favourable price following the opening of an additional import quota for the 1974 trading year, a large share of which (25 000 m.t.) was allocated to New Zealand for cheese

As in 1973, the market situation has developed satisfactorily. The application of the provisions of the Protocol during 1974 allowed the quantities of New Zealand butter and cheese imported into the United Kingdom to be marketed without prejudicing the marketing of Community products.

B. Situation as regards prices and the fixing of special levies

In accordance with Article 2(2) the special levies applied in 1974 were fixed on the basis of the c i f prices of 76.96 u.a./100 kg for butter and 66.45 u.a./100 kg for cheese and on the basis of the market price of New Zealand products in the United Kingdom at a level such as to allow the quantities imported into the United Kingdom to be effectively marketed without prejudicing the marketing of Community butter and cheese.

In view of the development of market prices in the United Kingdom for Community products, and in particular the retail prices of butter and home-produced Cheddar, the special levies were fixed at the following levels.

	(u.a./100 kg)	
	<u>Butter</u>	<u>Cheese</u>
Until 6.1.74	6.80	29.80
7.1.74 - 31.1.74	6.80	38.32
1.2.74 - 31.3.74	20.-	48.-
1.4.74 - 9.7.74	23.37	55.53
10.7.74 - 14.10.74	27.63	55.53
from 15.10.74	31.96	69.03

As already pointed out in the report dealing with 1973, the increase in the special levy on cheese on 7 January 1974 was due to a rise of £37/LT in the market prices for home-produced Cheddar, followed by an increase of £40/LT in the price of New Zealand Cheddar. In view of the stocks of New Zealand butter and cheese available in the United Kingdom, the special levies were increased on 1 February 1974 in order to take account of the probable rise in prices at the beginning of the 1974/1975 milk year. The special levies were adjusted on 1 April 1974 on the basis of the pricing decisions actually taken for this milk year.

On 10 July 1974 the special levy on butter was adjusted to take account of a rise in the market price of New Zealand butter. On 15 October 1974 the special levies had to be revised to take account of both the Council decision to alter prices (target price and intervention price) during the 1974/75 marketing year and the depreciation of the pound sterling.

On 23 December 1974 a Regulation was adopted by the Commission (published in the Official Journal of 28 December 1974) fixing the special levies applicable to New Zealand butter and cheese imported into the United Kingdom as from 1 January 1975 to take account of the Council Decision to increase, as of that date, the c i f prices to 90.81 u.a./100 kg (£460.12/LT) for butter and 78.41 u.a./100 kg (£397.29/LT) for cheese (Regulation (EEC) No 3145/74, OJ No L 334, page 7).

When these special levies were fixed at:

50.06 u.a./100 kg for butter and

75.38 u.a./100 kg for cheese,

the price increases proposed by the Commission to the Council for the 1975/76 milk year due to begin on 1 February 1975 were also taken into account.

In 1974 market prices in the United Kingdom rose fairly sharply (see Annex III).

The price of home-produced butter in bulk increased from £420/LT (89.47 u.a./100 kg) to £580/LT (114.47 u.a./100 kg) and that of butter in packets from £485.5/LT (103.42 u.a./100 kg) to £660.65/LT (130.39 u.a./100 kg).

The price of New Zealand butter in packets increased from £449.40/LT (95.73 u.a./100 kg) to £613.60/LT (121.10 u.a./100 kg).

The price of Cheddar increased as follows:

home produced: from £500/LT (106.51 u.a.) to £765/LT (150.98 u.a./100 kg).

New Zealand: from £520/LT (110.77 u.a.) to £715/LT (141.11 u.a./100 kg).

As already pointed out, however, the adjustment of the subsidy largely prevented the increase in market prices from being passed on to the consumer.

C. Provisions relating to the special c i f price referred to in the Protocol

On many occasions the New Zealand Government has complained of the difficulties caused by the levels of the special c i f prices applied since the Protocol came into force, as a result of the considerable changes which have occurred in the structure of prices since they were originally fixed.

In accordance with the conclusions set forth in its first annual report⁽¹⁾, the Commission has brought up to date the basic data from which the special c i f prices had been calculated. After examining these data, the Commission was of the opinion that the levels applicable since 1 February 1973 should be altered in the light of the changes in the original situation following the exceptional increase in production costs, mainly as a result of the energy crisis.

The Council, acting on a proposal from the Commission⁽²⁾, raised these prices to the following levels:

90.81 u.a./100 kg for butter (£460.12/LT)⁽³⁾
78.41 u.a./100 kg for cheese (£397.29/LT)⁽³⁾

Since these new prices came into force only on 1 January 1975, it is not yet possible to assess the full effects of this measure in terms of an increase in the quantities likely to be actually shipped to the United Kingdom within the quantitative limits specified in the Protocol.

As regards the effect of the monetary situation on New Zealand earnings, the fluctuations of the pound sterling with respect to its representative rate are compensated for, as in the past, by means of the monetary compensatory amounts.

As regards the problems relating to the exchange rate of the New Zealand dollar, the situation described in the preceding report has been altered by the devaluation of the New Zealand currency in September 1974. The views previously expressed on this matter by the Commission require no further comment.

(1) Doc. R/920/74 (Agri 251) (Fin 218).

(2) Doc. COM(74) 1727 final of 23 October 1974.

(3) Regulation (EEC) 3145/74 of the Council of 9 December 1974.

III. DIVERSIFICATION

The United Kingdom is still the largest market for New Zealand exports of butter and, to a lesser degree, of cheese.

Under the policy of diversification which New Zealand is pursuing, the year 1974 was marked not only by a reduction in quantities imported into the United Kingdom but also by a reduction in the United Kingdom share of New Zealand exports, particularly cheese. The statistics available⁽¹⁾ show the following percentages for the year 1973/1974 (2):²

71% (98 290 metric tonnes) for butter (as against 83% in 1972/73)

32% (18 365 metric tonnes) for cheese (as against 71% in 1972/73)

This is the result of the continued policy of diversification and of poor climatic conditions which were the main causes of the reduction⁽³⁾ in the total quantities available for export.

The positive effects of the diversification policy stemmed largely from growing demand on the world market and the import policies of non-member countries. In this connection, mention may once more be made of the consequences for New Zealand of the opening of an additional quota by the United States for the first quarter of 1974.

On other markets, such as Japan, exports of New Zealand butter and cheese are advancing slowly but surely. As regards anhydrous milk fat sales levels of previous years have been maintained, without any new progress, however, because of the competition from vegetable oils and the drop in the production of butter for export.

(1) New Zealand Government Department of Statistics

(2) The annual statistics for New Zealand trade are calculated over the period 1 July/30 June.

(3) 12 000 t for butter and 16 000 t for cheese.

IV. INTERNATIONAL AGREEMENTS

As stated in point V of the preceding report, the Commission is in favour of an international agreement being concluded on milk products, so that the conditions obtaining on the world market may be improved.

At a practical level the Commission, both by its policy of orderly and concerted management and by the close contacts which it maintains with its trading partners and with New Zealand in particular, has demonstrated its interest in, and made an active contribution towards, the gradual achievement of the economic conditions favourable to the eventual implementation of such an international arrangement.

V. CONCLUSIONS

As in 1973, the quantities of New Zealand butter and cheese imported into the United Kingdom during the 1974 calendar year were less than those provided for in the Protocol. This can be explained by the continuation of bad weather conditions in New Zealand and by the advantageous openings for these milk products in other importing countries, particularly the United States. These opportunities for diversification, however, will depend strictly on the import policies of the importing countries in 1975. Moreover, the export policies of other exporting countries and of the Community will play their part in any such developments.

The Commission considers that the levies have been fixed at levels which allow the Protocol to be properly implemented.

In New Zealand there is still great concern over the fixing of prices and over earnings from sales to the United Kingdom. The Commission considers that the relevant data used in the assessment of the economic situation during 1974, and which led to the adjustment on 1st January 1975 of the special price fixed on the entry into force of the Protocol, should be reviewed periodically with a view to bringing them up to date, taking into account in particular the level of and the movements in prices in New Zealand and in the Community, including intervention prices, in production costs in New Zealand and in freight costs. In the light of this review, the Commission will submit, as necessary, appropriate proposals to the Council.

1974 Imports into the United Kingdom from New Zealand

(long tons)

	Butter				Cheese			
	Arrivals cleared through customs	Arrivals not cleared through customs	Total Arrivals	Sales	Arrivals cleared through customs	Arrivals not cleared through customs	Total arrivals	Sales
1/1 - 12/1				3.797				973
13/1 - 26/1	7.340		7.340	5.049	975		975	1.133
27/1 - 9/2	8.118		8.118	5.267	1.164		1.164	1.100
10/2 - 23/2	4.002	5.179	9.180	4.082		226	226	933
24/2 - 9/3	9	4.377	4.358(+)	3.669				776
10/3 - 23/3		12.025	12.025	3.530		59	59	580
24/3 - 6/4	6.471		6.469(+)	3.264				490
7/4 - 20/4	5.659		5.659	3.944				422
21/4 - 4/5	1.722		1.712(+)	3.954				548
5/5 - 18/5	978		978	4.283	59		59	561
19/5 - 1/6	131		131	3.843	221		221	461
2/6 - 15/6				4.304	438		438	542
15/6 - 29/6	506		506	3.924	161		161	595
30/6 - 13/7				4.179	293		293	552
14/7 - 27/7	980		980	4.019	835		835	562
23/7 - 10/8	1.004		1.004	4.189	2.820		2.820	348
11/8 - 24/8	1.746		1.746	4.433	188		188	496
25/8 - 7/9	692		692	4.383	317		317	394
8/9 - 21/9	4.661		4.661	4.928	1.094		1.094	831
22/9 - 5/10	1.148		1.148	4.053	17		17	1.303
6/10 - 19/10				4.810				1.031
20/10 - 2/11	5.545	33	5.578	3.788	102	1.626	1.728	846
3/11 - 16/11	3.478	2.705	6.183	4.344		1.253	1.253	447
17/11 - 30/11	1.500	659	2.159	4.047	9	559	568	473
1/12 - 14/12	4.535	12.930	17.465	4.007		601	601	213
15/12 - 28/12	12.069		12.069	2.894	3.100		3.100	43
29/12 - 31/12	5.344		5.344	1.213	1.115		1.115	23
TOTAL			115.535	108.207			17.232	16.686

* Stocks brought out of bond (+) Revised downwards to compensate for previous short landings.

ANNEX II

Development of production, consumption and trade
in butter and cheese in the United Kingdom

1.000 metric tons	1971	1972	1973	1974 (a)
Milk production	13,134	13,999	14,241	13,811
Milk deliveries	12,600	13,445	13,705	13,290
Deliveries as % of production	95.9	96	96.2	96.2
Butter (b)				
Production	66	96	97	53
Total imports	393	358	339	440
of which:				
EEC	148	139	187	327
New Zealand	147	118	132	117
Total exports	5	4	17	4
Domestic disappearance (c)	457	404	427	469
Cheese				
Production	163	184	183	218
Total imports	168	151	137	125
of which:				
EEC	66	66	83	102
New Zealand	71	64	47	18
Total exports	3	4	6	12
Domestic disappearance (c)	315	303	326	334

(a) Provisional data

(b) Including butter equivalent of butteroil

(c) Estimated after taking account of stock changes

Source: M.A.F.F. Statistics

MOVEMENTS OF BUTTER AND CHEDDAR CHEESE PRICES IN 1974

London and National Provision at Exchange)

£/long ton

1974	<u>Butter in Packets</u> <u>Salted</u>		<u>Cheddar Rindless</u> <u>Select White 40 lbs</u>	
	United Kingdom	New Zealand	United Kingdom	New Zealand
January 3	485	448	500	481
10	"	"	537	520
17	"	"	"	"
24	"	"	"	-
31	"	"	"	520
February 7	"	468	"	"
14	"	"	"	"
21	-	"	"	-
28	-	"	"	520
March 7	485	508	"	541
14	"	"	"	540
21	"	"	"	-
28	"	"	"	541
April 4	562	530	-	600
11	"	"	537	"
18	"	"	"	"
25	"	"	"	"
May 2	"	"	"	"
9	"	"	642	"
16	"	"	"	"
23	"	"	"	-
30	"	"	"	-
June 6	"	"	"	-
13	"	"	"	-
20	"	"	"	-
27	"	554	"	-
July 4	"	"	"	-
11	"	"	"	-
18	"	"	"	-
25	"	"	"	-
August 1	"	"	"	-
8	"	"	"	600
15	"	"	"	-
22	"	"	"	600
29	"	"	"	"
September 5	"	"	"	"
12	"	"	682	-
19	"	"	"	646
26	"	"	"	"
October 3	"	"	"	"
10	655	614	"	646-659
17	645-656	"	"	646
24	"	"	"	"
31	"	"	"	715
November 7	"	"	"	"
14	656-684	"	765	-
21	"	"	"	-
28	"	"	"	-
December 5	"	"	"	-
12	"	"	"	-
19	"	"	"	-
26	"	"	"	-