

ANALYSIS OF COMMON MARKET WHEAT CONTROL POLICIES  
WITH REFERENCE TO WEST GERMANY

by

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## CHAPTER I

### INTRODUCTION

European Economic Community Commission Vice-President Sicco Mansholt hailed December 15, 1964, the day on which the six Common Market countries agreed on a single grain price, as "the day of triumph for Europe." He termed it, "a milestone in the history of the Common Agricultural Policy" of the European Economic Community (hereinafter referred to as the EEC). EEC Commission President Walter Hallstein said, "This success cannot be overemphasized."<sup>1</sup>

This agreement marks the first time that a group of nations have combined their national agricultural policies under a single common price system. There have been many opinions voiced in Germany both for and against this decision. Many would definitely not call it a day of triumph for West German agriculture.

For the Federal Republic of West Germany, the application of the EEC common grain price system will bring to an end an era of national control of policies for grains. On July 1, 1967, the present higher protected price of wheat in Germany will drop to a lower common price for all EEC countries. (Italy and Luxembourg will also experience a price decline while France will have an increase in the wheat price. Belgium and the Netherlands will remain about the same.)<sup>2</sup> Since wheat

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<sup>1</sup>"Community Adopts Common Grain Price," European Community, No. 77 (January, 1965), pp. 6-7.

<sup>2</sup>All references to wheat in this report mean soft wheat unless stated otherwise.

production makes up a major portion of the German grain production, this change will be of great significance to most German farmers.

The price of wheat holds a key position in the pricing structure of German agriculture. Therefore any change in its price brings about related changes and problems. This report will try to analyze what the implementation of the common price for wheat as a part of the EEC Common Agricultural Policy will mean to West German agriculture.

The continuing development of the Common Agricultural Policy of the Common Market increasingly affects Germany's agricultural policies. Some ninety per cent of West Germany's domestic farm output is now subject to the supranational jurisdiction of the EEC. Nevertheless, the Common Agricultural Policy currently permits substantial flexibility in national programs. How Germany's agricultural policies are changing with reference to wheat will be discussed in this report.

In order to understand the implications involved in this change of the wheat price, it is necessary to review the background structure of policies and conditions that have brought about the present situation in German wheat production. Next it will be shown how the present and future policies for wheat are being developed and carried out within the EEC structure. Then with an understanding of the aims and objectives of both West Germany and the EEC it is possible to analyze what changes are occurring presently in Germany. The role of interest groups and how they seek to influence the decision making bodies will also be discussed. By seeing why certain problems arise it can be better understood what the effects of the EEC common wheat price to Germany will be.

## CHAPTER II

### IMPORTANCE OF WHEAT

Wheat holds an important position in the structure of both EEC and German agricultural production. Almost one half of the grain produced in the Common Market is wheat. Grain production of the EEC accounts for fourteen per cent of the cash receipts of agriculture.<sup>3</sup> Wheat production in Germany has increased both absolutely and relatively over the past several years and in 1964 it accounted for 31.5 per cent of the total volume of grain production.<sup>4</sup>

In 1967 the price ratio between wheat and feed grains will approximate 115:100. The price of wheat can be said to be a basic cornerstone in the agricultural pricing structure of the EEC. Because of the interrelationship of grain prices with the prices of other agricultural products, grain prices determine the general price level to a great extent. Feed grain prices are decisive in determining the price of all animal products in which grain is the principal cost factor.<sup>5</sup>

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<sup>3</sup>Henry Junckerstorff (ed.), International Manual on the European Economic Community (St. Louis: Saint Louis University Press, 1963), p. 280.

<sup>4</sup>U. S. Department of Agriculture, The 1965 Western Europe Agriculture Situation, Economic Research Service, Foreign No. 114 (Washington: U. S. Government Printing Office, February, 1965), p. 73.

<sup>5</sup>Junckerstorff, p. 357.

One estimate is that the price of grain determines the price formation of about 75 per cent of all sales of agricultural products in the EEC.<sup>6</sup> Thus it is justifiable economically that the discussion on the common agricultural market price level has concentrated on the key position in the price structure, that of grains and wheat in particular.

Wheat production in Germany requires the most complete and complicated system of market management. This is attributable to its position in the agricultural structure.

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<sup>6</sup>Ibid., p. 358.

## CHAPTER III

### REVIEW OF CURRENT GERMAN WHEAT PRODUCTION STRUCTURE

#### Review of Policy Aims to Present Time

Policies concerning wheat production in Germany have gone through some drastic changes in the past century. Roughly 100 years ago, Germany pursued a free trade policy under which agriculture enjoyed growing prosperity. Since that time agriculture in Germany has been losing out to industry and overseas countries. The long term trend of increasing aid has placed the West German wheat producer as one of the most protected individuals in the world economically speaking. A highly protective and subsidized agriculture has developed with a network of price supports, import controls, direct subsidies, and development programs that now surrounds the wheat producer.

The main objective immediately after World War II was to encourage German farmers to produce as much wheat as possible to fill the needs of West Germany. One argument heard was that a large supply of home produced foodstuffs was needed as mandatory insurance against further severe shortages due to war conflicts. In 1950 wheat marketing laws were passed and imports were restricted to promote domestic production at a high price level. As a result, wheat production is presently found on most farms that have suitable ground and climatic conditions.

Brief mention should be made here as to the diversification of German farms. Most farms produce a variety of grains and field crops along with several different livestock enterprises. Although some farms emphasize one enterprise, several others will be followed in a limited extent. In the case of wheat production there are practically no completely specialized wheat producers. This lack of specialization is partly a result of natural climatic conditions and plant diseases and partly due to past tradition.

In recent years the emphasis in wheat policies has shifted from increasing output to increasing incomes of farmers. One of the basic objectives of agricultural policy, as set out in the Agricultural Act of 1955, is that agriculture should share in the progressive development of the economy. Obtaining approximate parity of agricultural incomes with other sectors of the economy has been the chief aim. This Act requires the federal government to submit annually to the Parliament a "Report on the Agricultural Situation" usually called the "Green Report." After evaluation of the "Green Report" the Federal Government submits a "Green Plan" which indicates measures taken or envisaged on a federal level to improve the economic situation of agriculture.<sup>7</sup>

The first "Green Plans" were designed to improve the economic position in the short run. In 1956/57 fertilizer subsidies were introduced to diminish the purchase price of fertilizer by about twenty per cent. These were abolished in 1963 due to EEC regulations and as a

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<sup>7</sup>Organization for European Economic Cooperation, Fifth Report on Agricultural Policies in Europe and North America, A Report Prepared by the Ministerial Committee for Agriculture and Food (July, 1961), p. 157.

result prices rose about ten per cent.<sup>8</sup> Also since 1956 the price of diesel oil used for agricultural purposes has been reduced as part of the "Green Plan." For example in 1960 farmers paid only 56 per cent as much for diesel oil as other consumers did.<sup>9</sup> Freight subsidies for domestic wheat shipments also raised the price for farmers in outlying regions. Since 1957, aid to construction of grain storage and grain drying facilities has been included among "Green Plan" measures.

More recently emphasis has shifted towards the improvement of the structure of the agricultural economy. In 1964, three-fifths of the agricultural budget of \$1,046 million was allocated through the "Green Plan." About half of this allocation was for structural programs.<sup>10</sup> These included land consolidation projects, relocation of farmsteads from villages to the country, better farm roads, drainage systems, and various regional development programs. Many of these projects were financed fifty per cent by the government and fifty per cent by the farmers themselves through low interest loans.

From these examples of the historical process of policy development it can be seen that the price of wheat is but one part of a vast complex program designed to promote income parity and efficiency in production. As far as wheat production is concerned the policies have shown that the economic answer is nearly irrelevant. Wheat policies

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<sup>8</sup>U. S. Department of Agriculture, The 1965 Western Europe Agriculture Situation, p. 34.

<sup>9</sup>Organization for European Economic Cooperation, p. 165.

<sup>10</sup>U. S. Department of Agriculture, The 1965 Western Europe Agriculture Situation, p. 35.

have mainly played a regulative role. The height of the German grain price is not then solely based on fixed economic criteria. The income of a farmer producing wheat has not been solely dictated by the price he received for the wheat when sold.<sup>11</sup>

#### Structural Problems

A complex structural problem has developed in Germany due to the results of World War II and inheritance customs. The severance of the mainly agricultural regions of East and Central Germany as a consequence of World War II meant the loss of many large efficient wheat growing farms.<sup>12</sup> In Southern and Western Germany fragmentation and scattering of farmland through inheritance have helped reduce the average farm size.

As a result the Federal Republic of West Germany found itself in 1963 with over seventy per cent of its 1.5 million farms below ten hectares<sup>13</sup> in size. On the average each farm contains 9.6 separate plots of land.<sup>14</sup> Present efforts to mechanize and improve the efficiency of wheat production have met with serious problems. The large amounts of capital necessary are not economically feasible with the small average

<sup>11</sup>Werner Schwarz, "Die deutsche Agrarpolitik im Übergang zum Gemeinsamen Markt," Flugschriften der Deutschen Landwirtschafts-Gesellschaft, Band 34 (Frankfurt am Main: DLG - Verlag, 1963), p. 24.

<sup>12</sup>Günther Behrendt, "The Agrarian Problem in the Federal Republic of Germany," The German Economic Review, Vol. 2, No. 2 (1964), p. 111.

<sup>13</sup>One hectare equals 2.47 acres.

<sup>14</sup>U. S. Department of Agriculture, The 1965 Western Europe Agriculture Situation, p. 34.

size of the farms. Effective use of machinery is limited by the scattered plots and the hilly terrain found in some areas.

The many problems now facing German agriculture are really an inheritance from the past. The small size of many German farms has definitely limited their income potential. In a speech Dr. Hallstein termed the two main problems of today's agricultural policies as the deficiency of agricultural income and an equalization of production and market demands for the individual commodities.<sup>15</sup>

In 1962/63 sixty-five per cent of the domestic consumption of wheat in Germany was covered by domestic production. Germany has the largest wheat deficit of any of the EEC countries.<sup>16</sup> Soft wheat needs are in fact almost totally met for the EEC. In 1962/63 there was a small surplus of production. The main need for imports is for durum wheat and high quality milling wheat.

The possibility of over production of wheat is a very real problem. The existence of 1.6 to 2 million hectares of reserve land in France that could be brought into wheat production if the price is high enough bears this out.<sup>17</sup>

<sup>15</sup>Walter Hallstein, "Die Landwirtschaft in der Grossraumwirtschaft," Flugschriften der Deutschen Landwirtschafts - Gesellschaft, Band 34 (Frankfurt am Main: DLG - Verlag, 1963), p. 7.

<sup>16</sup>Bundesministerium für Ernährung, Landwirtschaft und Forsten, Mein Hof Mein Markt, Land- und Hauswirtschaftlicher Auswertungs und Informationsdienst, Nr. 233 (Bonn, 1964), p. 5.

<sup>17</sup>"The Mansholt Plan and What it Means," Common Market, Vol. 4, No. 1 (January, 1964), p. 6.

### Import and Storage Agency and Milling Requirements

The Import and Storage Agencies (Einfuhr und Vorratsstellen) play a large role in the German wheat market. The main task of this state trading agency is to influence prices on the domestic market by controlling imports and by operating a stockpiling scheme.

The following is a description of the activities of the Import and Storage Agencies prior to July 30, 1962 when the first EFC grain regulatory policies went into effect. At that time German domestic wheat production was kept competitive by a system of import levies or price equalization fees.

Importers of wheat into Germany concluded contracts with the Agency whereby the Agency bought the wheat to be imported at the world price and then resold it to the German importer at a fixed internal price level.<sup>18</sup> The difference, known as a skimming charge (Abschöpfung), was pocketed by the government. The skimming charge or price equalization fee was kept at a high enough level to equalize the price of imported wheat with that of domestic wheat. Quotas and licensing of imports were also handled by the Agency.

In Germany before 1962 according to the 1950 grain marketing law, a marketing board (the Import and Storage Agencies) established fixed floor and ceiling prices annually for all locally produced wheat. These maximum and minimum producer prices were fixed in four separate regions

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<sup>18</sup> United Nations, Food and Agriculture Organization, National Grain Policies (Rome, 1959), p. 20.

related to location of milling facilities and transportation costs from surplus to deficit areas.<sup>19</sup>

In each region it was attempted to keep the producer price for wheat fairly even regardless of the local market situation. If farmers were unable to obtain the guaranteed minimum price on the open market, freight subsidies were used to ship wheat to other markets. When this could no longer hold the price in line, the Import and Storage Agency would purchase wheat on the open market at the minimum price. Correspondingly they were obliged to sell from their stocks of wheat whenever the market price rose above the fixed maximum.

Another policy started in 1954, which helped secure a market for domestic wheat production, was concerned with German wheat millers. They were regulated by law as to the minimum proportion of domestic wheat and the maximum proportion of foreign quality wheat that they could utilize in their milling operations. In 1961/62 these percentages were 75 and 23.<sup>20</sup> The millers were thus forced to pay high prices for domestic wheat rather than use cheaper imported quality wheat. The EEC required that this practice be dropped in July, 1962.

In 1959/60 premiums were started for certain wheat varieties of high baking quality. These premiums have varied from five to thirty

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<sup>19</sup>Leo J. Schaben, Impact of Common Market Proposals on Competitive Status of U. S. Bread and Feed Grains in the EEC Area, U. S. Department of Agriculture, Foreign Agricultural Service, M - 123 (Washington: U.S. Government Printing Office, October, 1961), p. 17.

<sup>20</sup>United Nations, Food and Agriculture Organization.

Deutsche Mark (DM) per ton<sup>21</sup> and were paid only if production of the varieties had been contracted for in advance. The share of these varieties in total wheat production has been quite small.<sup>22</sup>

Since the application of the first EEC grain policies in 1962, the functions of the Import and Storage Agency have changed somewhat. The Agency is being integrated into the EEC structure. Import quotas and licensing of imports have been dropped. The old skimming charge has been replaced by the EEC variable import levy.

#### Review of Prices

During the first few years after World War II wheat prices were fixed at relatively low levels in Germany. Before 1950 there was comparatively little difference between the producer price for wheat in all the EEC member countries. Prices in the Netherlands, France and Germany were all between 250 DM and 300 DM per ton. Italy was far above at 440 DM per ton.<sup>23</sup>

These low wheat prices, which were below the world market prices, could not be maintained by Germany. The high cost of subsidies required to purchase wheat imports, an unfavorable balance of payments, the danger of cheap wheat being fed to livestock, and increasing production costs

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<sup>21</sup>All references to Deutsche Mark use the current exchange rate of four Deutsche Mark equal one dollar. All references to tons are to metric tons. One metric ton equals 2,200 pounds.

<sup>22</sup>Karen J. Friedmann, "German Grain Policies and Prices: 1925-1964," Food Research Institute Studies, Vol. V, No. 1 (Stanford University, 1965), p. 48.

<sup>23</sup>Junckerstorff, p. 359.

were reasons for the government to increase the price of wheat in both 1950 and 1951.<sup>24</sup>

From Table 1 it can be seen that wheat prices in Germany have been fairly stable since 1951-52. Up to the present, producer prices have remained unchanged under EEC regulation. With slightly declining world wheat prices since 1950, German producers have enjoyed increasing protection.

TABLE 1.--Average prices of wheat to German producers 1948-64.

Year	:	Deutsche Mark per ton
1948-49		266
1949-50		269
1950-51		351
1951-52		440
1952-53		431
1953-54		427
1954-55		425
1955-56		425
1956-57		425
1957-58		441
1958-59		442
1959-60		442
1960-61		440
1961-62		440
1962-63		442
1963-64		439

Source: Karen J. Friedmann "German Grain Policies and Prices, 1925-64" Food Research Institute Studies, Vol. V, No. 1 (Stanford University, 1965), p. 97.

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United Nations, Food and Agriculture Organization, p. 20.

## CHAPTER IV

### REVIEW OF STRUCTURE IN EEC GRAIN POLICY FORMATION

Since the signing of the Rome Treaty in 1957, there has been developing a supranational organization for the control of wheat policies in Germany and the other EEC countries. Germany is relinquishing her national control to the governing bodies of the EEC whose institutions were set up at the beginning of 1948. The important decisions on German wheat policies, such as the adoption of the Mansholt Plan, are now being made by the EEC Commission and Council of Ministers.

The nine members of the Common Market Commission have the task of formulating proposals for the control of wheat as well as many other agricultural and non-agricultural policies. The Mansholt Plan for the establishment of a common price level for grains, for example, was drafted in November of 1963 by the Commission. After the Commission proposals are approved by the Council, the Commission has the executive duty of carrying them out.

The policy making body of the EEC is the Council of Ministers. It is the only Community institution whose members are national representatives. A member of each of the six national governments sits on the Council. For most majority decisions, votes are weighted with France, Germany, and Italy having each four votes, Belgium and the Netherlands

two each, and Luxembourg one.<sup>25</sup> It was their approval of the Mansholt Plan on December 15, 1964 that will now allow a common price for wheat to be applied in the six member countries no later than July 1, 1967.

The 142 man EEC Parliament is generally consulted by the Council before major decisions are made, but its powers are mainly limited to scrutinizing the Community's budget.

Even though Germany has her own national representative on the Council, she no longer has sole control over her domestic wheat policies. Any actions taken by her must stay within the limits prescribed by the EEC. Presently she does have a veto vote in the EEC Council of Ministers, but after June 30, 1967 a qualified majority will rule.

Management committees have been established by the EEC for grains and several other agricultural products. These consist of national experts from the member countries and are presided over by a member of the Commission who has no vote.<sup>26</sup> Their function is to gather and compile the information and data necessary and to advise the Commission in these areas. Through the grain committee Germany has opportunity to voice her opinion on wheat policies.

In view of the divergent policies and programs adopted by the member countries for the solution of their wheat and grain marketing problems, it was impossible to adopt any one of them for application

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<sup>25</sup>European Community Information Service, The Facts (Brussels: E.G.I., September, 1962), p. 7.

<sup>26</sup>Alan Campbell and Dennis Thompson, Common Market Law (London: Stevens and Sons, 1962), p. 445.

to the Community as a whole. Therefore the existing national marketing or regulatory agencies (such as Germany's Import and Storage Agencies) will be co-ordinated and integrated into a Common Market system to be operated by the European Grain Office under the control of the Commission. Presently the Import and Storage Agencies in Germany are administering the EEC directives at the local intervention and importation points.

## CHAPTER V

### EEC OBJECTIVES OF WHEAT CONTROL POLICIES

The Rome Treaty contains the basic aims of agricultural policies that have served as goals in the recent wheat policy decisions. These guidelines are increased productivity, attainment of a fair or adequate standard of living for farmers, and guaranteed supplies to consumer at reasonable prices.<sup>27</sup>

More specifically the EEC objectives with respect to wheat have been the establishment of a single domestic market for all the member countries. Guidance for the production of wheat in the light of internal and external requirements is another.<sup>28</sup> Stabilization of market prices is also an objective along with protection of domestic wheat production against outside sources of supply.

The director of the agricultural markets sector of the EEC Commission stated in a speech, "It can not be strongly enough said that the Community wants to follow an agricultural policy that will permit importers of foodstuffs from third countries their fair share of the market."<sup>29</sup> Sicco Mansholt was never in favor of setting the grain price

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<sup>27</sup>Michael Shanks and John Lambert, The Common Market Today - And Tomorrow (New York: Frederick A. Praeger, 1962), p. 87.

<sup>28</sup>Leo J. Schaben, p. 21.

<sup>29</sup>B. Heringa, "Die Getreidemarktregelung in der Europäischen Wirtschaftsgemeinschaft," Speech given at a meeting of the Verein der Getreidehändler der Hamburger Börse e.V., March 16, 1962, p. 6.

so high that EEC grain production would become self-sufficient and cause an end to imports.<sup>30</sup> The EEC professes to have no desire to isolate the agriculture of the six from the rest of the world and will allow the importation of some wheat to continue.

Overproduction of soft wheat is a problem that the EEC desires to avoid. The presence of 1.6 to 2.0 million hectares of reserve farmland in France, that can be brought into soft wheat production if the price is high enough, has exerted a downward pressure on the Common Market wheat price. On the other hand increased production of quality hard wheats is welcomed.<sup>31</sup>

The attainment of a common price level for grains was seen by the EEC as a necessary element to permit them to carry on meaningful trade negotiations at the General Agreement on Tariffs and Trade (GATT) meetings in Geneva. It is essential that the EEC offer to foreign countries common trade policies based on established wheat policies rather than desired ones.

In trying to achieve these objectives the EEC has encountered many obstacles. It is extremely difficult to formulate a common wheat price for six countries which possess widely varying characteristics due to their recent development. Efficiency of production varies from some of the small fragmented farms of Germany and Italy to the more

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<sup>30</sup>"Sicco Mansholt Speaks on the Common Market," Foreign Agriculture, Vol. I, No. 16 (April 22, 1963), p. 4.

<sup>31</sup>Exekutivsekretariat der Kommission der Europäischen Wirtschaftsgemeinschaft, Sonderbeilage zum Bulletin der Europäischen Wirtschaftsgemeinschaft (Nr. 12, 1963), p. 4.

efficient, larger farms found in France and the Netherlands. Technical progress has been much greater in some areas than others. One of the causes of these wide variations is the diversity of natural conditions (soil, water supply, altitude, and temperature).

Of substantial importance in the price harmonization effort is the need to equalize the transportation costs for wheat among the Community members. In a speech by Belgian Agricultural Minister Borenbond this is brought out. "Market organization is more than just setting a price. It includes the development of normal competitive conditions between EEC countries."<sup>32</sup> Unequal freight rates are a distortion to normal competitive conditions. Also to be included are differing tax structures and variances in state subsidization payments to wheat production.

Quality standards for wheat had to be agreed upon. Application of EEC wheat standards in Germany in 1963/64 brought about a slight decrease in the price of wheat which was strongly opposed by Germany. Agreement on units of measurement for quantity and value has also caused some minor disagreements among EEC countries.

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<sup>32</sup>Europa Land - und Ernährungswirtschaft Nachrichten aus  
EWG - OECD - EFTA, No. 109 (Frankfurt am Main: Vereinigte  
Wirtschaftsdienste GMBH, May 29, 1964), p. 2.

## CHAPTER VI

### VIEWS OF INFLUENCING GROUPS

#### West German Government

The West German government has found itself in a very precarious position in the past several years with regards to the Mansholt Plan and the lowering of grain prices in Germany. They were pressured from all sides by groups desiring certain objectives. With national elections coming up in 1965, opinions were definitely affected by political aims.

The strategy finally employed by Chancellor Erhard was to delay acceptance of the Mansholt Plan as long as possible and continually push for more concessions. When Germany finally accepted the common grain policy in December of 1964, it closed a long and unsettled chapter in the development of wheat policies in Germany.

During the past several years the basic criticisms of the Mansholt Plan by the German government and Minister of Agriculture Schwarz have been on the following points. The indecision as to the future financing of the common agricultural policy gave Germany fears that because she was a major importing country she would have to contribute a major share through the variable import levy. Most members of the government reasoned that the EEC compensatory payments to German

farmers for loss of income due to the lower grain prices were not adequate.<sup>33</sup>

The German government worked for a harmonization of the freight rates in the EEC for grain. The differences in labor costs and other factors ought to be brought in line. Also tax and trade policies should be agreed upon. The government pushed for and obtained a revision clause in the common grain price agreement.

In March, 1964 when Chancellor Erhard declined to accept the Mansholt plan, he stated, "The present German grain price is not too high when one considers the production and cost relationships. The government will always be conscious of their responsibility and duty towards the German farmers."<sup>34</sup> At about this same time the German government stated a list of objections to the Mansholt Plan which included most of the above criticisms.

The problem of the German farmers being squeezed between rising costs and constant grain prices during the past fourteen years has been a sore point for farmers and the government alike. However, many knew and saw that a change in the German wheat and grain prices was inevitable. For example, Professor Doctor Heinrich Niehaus of Bonn stated, "There comes a time when the Germans must make concessions."<sup>35</sup>

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<sup>33</sup>Die Welt (Hamburg), March 24, 1964, p. 1.

<sup>34</sup>Ibid., March 19, 1964, p. 1.

<sup>35</sup>Heinrich Niehaus, "Agrarpolitik zwischen Wunschbild und Wirklichkeit," Agri Forum, Heft 5, May 1964, p. 5.

The German government realized that the grain price question was the key price that was holding back the whole common agricultural policy of the EEC. Also they saw that without common EEC grain policies the Common Market was severely handicapped in the present Kennedy Round of the GATT tariff negotiations. These and other pressures helped bring the German government to accept the EEC common grain policy in December of 1964.

#### Farm Interest Groups in West Germany

Probably the most highly organized sector of the German economy is agriculture. Most farmers are members of associations which are united in a central coalition. This agricultural block or "green front" as it is called in Germany, is often engaged in politics and has a strong voice in government.

Over thirty members of the Christian Democratic party in the late 1950's in the German Parliament were officials of agricultural interest groups.<sup>36</sup> The other smaller political parties also have many agricultural representatives. Also the presidents of many state agricultural associations are members of the state governments.

The agricultural interest groups in Germany hold the opinion that the Minister of Agriculture should have their confidence and defend their interests as a kind of pressure group within the administration. This brings strong criticism from other groups who believe civil servants

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<sup>36</sup> Henry W. Ehrmann (ed.), Interest Groups on Four Continents (University of Pittsburgh Press, 1958), p. 110.

should be neutral.<sup>37</sup> Minister of Agriculture Schwarz has definitely been against any wheat and grain price declines and income losses due to the EEC.

The success of the political skills of these farm interest groups in Germany is evidenced by the present structure of their agriculture. The wheat producer is surrounded with an extremely high degree of protection in comparison with other sectors of the German economy. As a chief example of the success of these groups, the German government is committed by law to take no measures that would reduce farm incomes.

The main voice of the German farm groups is the Central Committee for German Agriculture (Zentral-ausschuss der Deutschen Landwirtschaft). It was formed in 1949 by the German Farmers' Union (Deutscher Bauernverband), the Federation of Rural Co-operatives (Deutscher Raiffeisenverband), the German Agricultural Society (Verband der Deutschen Landwirtschaftsgesellschaft), and the Federation of Chambers of Agriculture (Verband der Deutschen Landwirtschaftskammern).<sup>38</sup>

The members of the Central Committee represent the four strongest farm interest groups in Germany. The function of the Central Committee is to find a uniform approach to fundamental matters in which these associations have a common interest. The diversity of the organizations that belong to the Central Committee reflect the many kinds of farm

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<sup>37</sup>Ibid., p. 112.

<sup>38</sup>Federal Ministry of Food, Agriculture, and Forestry, Bonn, Agricultural Organizations of the German Federal Republic, Agriculture and Home Economics Evaluation and Information Service (Neuwied/Rhein: Raiffeisendruckeri GMBH, 1958), p. 29.

enterprises. This diversity coupled with a close co-operation between the various organizations guarantees a strong representation for agriculture.

The German Farmers' Union is a voluntary union of fifteen state associations. Over a million farms, more than half of all agricultural holdings, belong to the state associations. They have no political or religious connections.

It has been one of the main tasks of the Farmers' Union to influence the preparation and implementation of the "Green Plans" actively through proposals and suggestions. They emphasize it is of vital importance in contemplating a decline in the grain prices, not to forget the Agricultural Law of 1955 and for what it stands.<sup>39</sup> The Farmers' Union was an instigator of the fair share of income or parity of income aim for agriculture as expressed in the 1955 law. They have also argued strongly against a decrease in the wheat and grain prices because one of the aims of the EEC Treaty is to develop farm incomes.

The following excerpt from a speech by one of the presidents of the Farmers' Union, Edmund Rehwinkel, gives the position of the organization. "As representatives of the German Farmers' Union, we have tried to defend the German price levels, which we definitely know are too low in order to provide a normal standard of living in our own economy."<sup>40</sup>

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<sup>39</sup>Ibid., p. 15.

<sup>40</sup>Edmund Rehwinkel, "Die Agrarpolitischen Probleme in der Gegenwart," Speeches given at four Landvolkkundgebungen, July, 1962, p. 24.

The Farmers' Union is strongly against the lowering of agricultural prices in Germany and especially those of grains. Reasons given are that any excess production of wheat in the EEC would never be a problem like that of the United States since the EEC has almost as many people and only one-sixth as much farm land. Also, losses from grain production can not be made up by increasing livestock production. German agriculture simply can not stand for any lowering of product prices because they are pressured enough by increasing wages and farm costs.<sup>h1</sup>

In Germany considerable importance is attached to the co-operative system. It gives the small farmers more marketing strength. The central organ of the co-operatives is the Federation of German Rural Co-operatives which embraces most credit, community, farm, and central co-operatives.<sup>h2</sup> The importance of the rural co-operatives is shown by a membership of 3.7 million in 22,740 co-operatives at the end of 1957.

The co-operatives seek to exert as much force in Bonn as possible. A former Minister of Agriculture was recently President of the Central Co-operative Federation.

The German Agricultural Society was founded for different purposes than the other groups. It is their principle not to engage in politics, but to devote itself to the technical development of agriculture. Its only tasks are those which are not or only incompletely

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<sup>h1</sup>Ibid., p. 20.

<sup>h2</sup>Junckerstorff, p. 322.

handled by existing associations.<sup>43</sup>

They are a very progressive group that led the way in introducing seed certifications and variety experiments. They rely on political neutrality and strive to keep their members well informed on the grain price question by bringing in noted speakers to present all sides.

The Federation of Chambers of Agriculture is an autonomous organization of agriculture under public law. Their main tasks consist in promoting all branches of agricultural production and in aiding legislation, administration, and jurisdiction with expert advice.<sup>44</sup>

They maintain a farm management section and provide a large number of statistics to the federal government. Improvement of quality and standardization of farm products has been one of their aims. Their voice in Bonn has not been nearly so strong as the Farmers' Union.

All these groups hold annual gatherings of some type which give farmers and farm leaders opportunities to express their opinions on wheat policies. Newspapers and copies of speeches are printed and widely distributed by these groups in order to present their views.

Through pressures on the Bonn government and talks with Germany's leaders, these groups have tried to present the plight of the cost price squeeze of German wheat producers. They have suggested that the EEC use the full transition period until 1970 to equalize the grain prices.

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<sup>43</sup> Federal Ministry of Food, Agriculture, and Forestry, Bonn, Agricultural Organizations . . ., p. 27.

<sup>44</sup> Ibid., p. 24.

They were in hopes that inflationary pressures in other EEC countries would force the wheat and other grain prices up to the German levels. They reason that with the present unjust relationships between prices and costs, German agriculture will be severely hurt by the lowered grain prices.

Farmers as a whole in Germany support and take an active interest in their organizations. They have voiced their opinions and exerted pressures in many ways in opposition to the coming drop in wheat and other grain prices in 1967.

An example of the farmers' resistance was given one day in Göttingen, Germany in 1962. Three professors, who had published a report on the results of a grain price reduction, were meeting at the university. Several thousand farmers in the area turned out to protest, many of them driving into town on their tractors. The report had predicted a drop of about one million farm workers in Germany in the next fifteen years.

One other very powerful interest group in Germany is the Catholic Church. About one-half of the people of Germany are Catholic and many government officials are Catholic. The church can call on the Catholic citizens, especially in rural areas, to get out and vote and support certain measures. The church can apply pressure at various points in the government.

## Non-farm Interest Groups in West Germany

Within Germany many non-farm interest groups feel that in some way the decision on the common grain price will affect them. Most wanted to see the common price levels established as soon as possible and not too high. They feared that any move towards an isolated, protected agricultural market would lead to severe repercussions on trade and exports in other sectors of the German economy.

For example, some of the labor unions were in favor of the Mansholt Plan as an entrance point to the general unification of all agricultural prices. They feared that a higher price would lead to large surpluses of grains.<sup>45</sup> A group of grain importers and co-operatives in Nordrhein-Westfalen held that the equalization of the grain prices was indispensable as far as the grain trade was concerned.

The manager of a German industry and trade group reasoned that the Federal Republic of West Germany should accept lower grain prices so that she could work towards strengthening the trade ties between the United States and Western Europe in the Kennedy Round. Professor Doctor Ing. Carl Föhl in Berlin presented another view from the business viewpoint. The common grain price cannot be held at the present level in Germany as this would lead to strong expansion of wheat production in other EEC lands. On the other hand the price drop should not be sudden as this would mean a hard blow to German agriculture. "The farmers should see that the high grain prices are a two-sided sword

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<sup>45</sup> Europa Land- und Ernährungswirtschaft Nachrichten . . ., No. 121, June 15, 1964, p. 2.

and that their situation can become worse rather than better. A gentle change to lower prices that would develop a healthy, sound agricultural structure is desirable."<sup>46</sup>

Not all non-farm groups wanted to accept the Mansholt Plan's lower grain prices. Some felt that the EEC should be more understanding of Germany's problems and increase the compensation payments to German farmers. The Central Association of German Grain, Feed and Fertilizer Dealers hoped for an acceptable solution that would keep German grain production capable and strong.

#### Governments of Other EEC Members

During the past year, Germany was not the only member that voiced some objections to the Mansholt Plan. Italy was most unhappy with the price relationship among grains. Their agricultural minister, Ferrai-Aggradi felt that the set price for soft wheat was too low and that the difference between it and hard wheat was not enough. Also he reasoned that the feed grain prices were too high and that the transition period should not be shortened.<sup>47</sup>

The French position as voiced by General De Gaulle and Minister of Agriculture Pisani showed they had objections to the regionalization of their grain prices as the Mansholt Plan called for. Although a quick rise in the French grain prices would meet the demands of some French

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<sup>46</sup> Ibid., No. 119, June 11, 1964, p. 7.

<sup>47</sup> Agra Europe (Bad Godesberg: Agra - Europe, Presse- und Informationsdienst GMBH, May 25, 1964), p. 13.

farm organizations, it would conflict with the anti-inflationary policies in France.<sup>48</sup>

Holland felt she had no choice but to raise her soft wheat price for 1964/65 to the Mansholt Plan level. Increasing costs and anticipation of the Mansholt Plan were the main reasons.

Boerenbond, the agricultural minister of Belgium, favored the unification of grain prices at a level that would not lead to an expansion of production. He thought the desired harmonization of the competitive factors in the various EEC countries had already begun.<sup>49</sup>

#### EEC Interest Groups

After the Rome Treaty establishing the Common Market came into force, there arose many groups to promote the various sectors of agriculture. A cluster of pressure groups now surrounds the Common Market Commission in Brussels. According to a list published by the EEC Commission, there were 81 professional associations of the agricultural and food industries in the EEC in December of 1960.<sup>50</sup> The extent of these lobbies is indicated in a 500 page guide-book published by the EEC Commission.

Just how effective these groups are, is of some doubt. They have not scored many large political gains. Brussels pressure groups must reconcile contrary national interests to arrive at a common position

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<sup>48</sup>Die Welt, June 20, 1964, p. 4.

<sup>49</sup>Europa Land- und Ernährungswirtschaft Nachrichten . . . , No. 109, May 29, 1964, p. 1.

<sup>50</sup>Junckerstorff, p. 384.

on any major question. Thus formal decisions are likely to be diluted by compromise. Sometimes their statements are no more than weak protests against actual decisions.

The most widely known of these interest groups is the Comité des Organisations professionnelles agricoles (COPA). This European organization, which represents virtually every farming activity in the Community, channels the views of farmers' organizations in the member countries and promotes and represents their interests within the framework of the EEC. They have played an important part in the development of the Common Agricultural Policy as they were always consulted but their views were often not in accordance with those of the Commission.

COPA's largest failures have resulted in the Commission's most far reaching policy decisions. For example COPA severely criticized the Commission's grain policy (Mansholt Plan) without noticeable effect.<sup>51</sup>

The European Parliament of the EEC, although it had no official interest in setting the common grain prices, did take a stand in favor of adopting the Mansholt Plan. They reasoned that the Council is not only establishing a grain price, but it is establishing a part of an overall plan for the European economy.<sup>52</sup>

At the present stage of the Community's development, pressure on national governments remains probably the most effective means for

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<sup>51</sup>Paul Lewis, "European Associations Exert Pressure in Brussels," European Community, No. 75 (October, 1964), p. 10.

<sup>52</sup>Presse- und Informationsdienst der europäischen Gemeinschaften, Mitteilungen zur Gemeinsamen Agrarpolitik, No. 9, January, 1964 (Brussels: Abteilung Agrarinformation in Zusammenarbeit mit der Generaldirektion Landwirtschaft der EWG Kommission), p. 3.

farmers to exert influence on major issues. The influence of the European pressure groups is likely to be greatly enhanced as the process of economic integration smooths out national rivalries making it easier for each sector of economic activity to adopt a genuine Community viewpoint.<sup>53</sup>

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<sup>53</sup>Paul Lewis, pp. 10-11.

## CHAPTER VII

### PRESENT EEC ORGANIZATION OF WHEAT MARKET CONTROLS

#### Target Price

Wheat policies adopted by the EEC have the force of law in the member countries according to the Rome Treaty. On July 30, 1962 the EEC grain policies became effective. Basically until July 1, 1967 Germany retains some control over her wheat policies subject to certain EEC limitations set up in 1962.

The key to the whole system of the EEC common wheat pricing structure is the target price. It serves as the basis for fixing the guaranteed producer price or intervention price and the import or threshold price. The target price is an orientation price at the wholesale purchasing stage for the area with the largest deficit demand for wheat.

A target price is determined in the transition period for each member country. For Germany this is the Duisburg area. In principle one price is guaranteed for wheat at Duisburg and the remaining markets build their prices accordingly.<sup>54</sup> Target prices are also set for rye,

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<sup>54</sup>H. Schmidt, "Marktwirtschaftliche Aspekte der Verkaufsfrüchte" (unpublished report from the Ifo - Institut für Wirtschaftsforschung, Munich, n.d.), p. 3.

barley and corn.

Adjusted target prices in the important regional marketing centers are determined in light of local conditions in order to cover freight costs to move wheat from surplus areas to deficit areas. These adjusted target prices are employed only if natural market conditions within a country result in more than a five per cent difference between the market prices in deficit and surplus areas.<sup>55</sup> In Germany there are sixteen regional price areas applicable to 202 intervention points.<sup>56</sup> In addition, ten monthly increases in the target price are provided in order to cover the handling and storage costs for wheat.

These basic target prices for each country are reviewed each year taking into account agricultural incomes, prices for the means of production, wages, consumer prices and the market situation for wheat.<sup>57</sup> Target prices (effective on July 1 of the coming year) are to be set by August 1 of each prior year in order to be known before the autumn sowing of wheat.

Intervention and threshold prices are derived from target prices in order to maintain internal market prices at the target price level. Thus the market price or producer price for wheat is most likely to

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<sup>55</sup>L. P. Schertz, Basic Provisions of European Economic Community Grain Regulations, U. S. Department of Agriculture, Foreign Agricultural Service, M - 117 (Washington: U. S. Government Printing Office, June, 1963), p. 3.

<sup>56</sup>"Sicco Mansholt Speaks on the Common Market," p. 7.

<sup>57</sup>European Economic Community Commission, Common Grain Price, November, 1963, p. 4.

fluctuate around the target price within a range according to the supply and demand for wheat.<sup>58</sup>

For the 1962/63 marketing year, the EEC Council decided that the target prices of member countries were to be set within prescribed limits. The German wheat price in the largest deficit area was taken as the ceiling price and the French price in the largest surplus area as the floor price.<sup>59</sup> During the transitional period or until July 1, 1967 the individual national governments are to determine their own national target prices. These limits were set in order to avoid any increase in the price differential between member countries.

In 1963/64, these limits were shortened by increasing the minimum price. Also the use of the EEC quality standards in place of German standards for grain meant a slight indirect lowering of the wheat price in Germany. Starting no later than July 1, 1967 there will be but one target price for the entire Common Market and adjusted target prices will be keyed from it.

#### Intervention Price

Tied to the target prices are intervention prices. In effect they are support prices at the wholesale level closest to the producers. For this reason they have a significant influence on farm returns.

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<sup>58</sup>Junckerstorff, p. 344.

<sup>59</sup>Michael Shanks, p. 90.

In order to guarantee that the market price received by producers will be as close as possible to the target price and one which at the same time will provide for variations in the local market prices, the Import and Storage Agencies make intervention purchases. These are made throughout the year whenever the market price for wheat drops below the intervention price. In this manner the market is stabilized.<sup>60</sup> The intervention prices are equal to the target prices reduced by a fixed percentage determined by the EEC between a minimum of five per cent and a maximum of ten per cent.

The marketing agencies are required to purchase all quantities of wheat offered at the intervention prices. Stocks thus accumulated by the intervention agencies may be later sold in the domestic markets at the target price level and in export markets at world price levels. Accumulated supplies of wheat and rye may be denaturized and sold in domestic markets. Denaturization of privately held stocks of wheat and rye may also be encouraged by government payments.<sup>61</sup> Denaturization is the treatment of these grains so that they are unfit for human consumption. They must be then sold at a lower price as feed grains.<sup>62</sup>

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<sup>60</sup>Leo J. Schaben, p. 24.

<sup>61</sup>L. P. Schertz, p. 5.

<sup>62</sup>European Economic Community Commission, "Financing of the Common Agricultural Policy: the Agricultural Fund," An information memo, Brussels, February, 1964, p. 2.

### Threshold Price

Threshold prices are a vital part of the EEC wheat pricing structure. The threshold price or import price is the equivalent to the target price less freight costs between the point of entry into the country and the marketing area. These prices are used to calculate the levies on imports which give protection to the internal target and intervention prices.<sup>63</sup> Until July 1, 1967 these are set by the member countries within EEC limits.

The threshold prices in the local inland markets will be chiefly determined according to market location. The actual upper price limit for domestic wheat is the threshold price of imported wheat. The Import and Storage Agencies are required to place on the market any stocks of wheat it has when the local market price for wheat reaches the threshold price.

The EEC variable import levy system, which on July 30, 1962, replaced the old duties and quantitative measures of protection in Germany, is intended to ensure that farmers do not have to face competition of wheat from third countries at less than the target price. During the transitional period for the case of imports from other member countries, the levies will cover the difference between the wheat price in the exporting area and the national threshold price in the importing country. There is a fixed sum subtracted from the levy

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<sup>63</sup> L. P. Schertz, p. 12.

to ensure EEC exporting countries a margin of preference over exporters of wheat from third countries.<sup>64</sup> In Germany, this was four Deutsche Mark per ton in 1962/63.

Levies on imports from non-member countries will be equal to the difference between the lowest c.i.f. price on the world market and the threshold price in the importing member country. These levies so assessed by the individual member countries are deposited in the Common Market Guidance and Guarantee Fund which is broken down into a Wheat Market Stabilization Fund and a Feed Grain Market Stabilization Fund.<sup>65</sup>

In order that the proposed system of variable import levies may operate effectively and in accordance with changing world market prices, import and export licenses are issued by EEC member countries for all imports and exports of grain and grain products.<sup>66</sup> These have so far been issued without restrictions. Import quotas are also authorized by the EEC. An escape clause leaves it open to member countries to suspend import quotas if their farmers are threatened by a flood of imported wheat.

Franco-frontier prices are free-on-border prices. They apply to wheat available for export by member countries and are parallel to the c.i.f. prices of third countries. During the transitional period they

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<sup>64</sup>Michael Schanks, p. 90.

<sup>65</sup>Leo J. Schaben, p. 29.

<sup>66</sup>Ibid., p. 27.

are used in figuring the levies on wheat for intra-community trade.<sup>67</sup>

#### Export Subsidies

EEC member countries are permitted to subsidize exports of wheat to third countries (non-member countries). During the transitional period subsidies on exports to other member countries will also be permitted. They will be calculated in relation to the threshold price. These export rebates by the EEC enable member governments and later the Community authorities, to help farmers to dispose of their surpluses of wheat on the world market.<sup>68</sup>

Financing of these subsidies from the Guidance and Guarantee Fund of the EEC is discussed in the next section of this report. Subsidies for export to third countries may be in the form of a cash subsidy or an authorization to import quantities of other grains free from import levies. In addition to direct export subsidies, member countries are authorized to pay a freight export subsidy of up to 32 DM per ton which is important to the flour exports of Germany.<sup>69</sup>

#### Guidance and Guarantee Fund

In 1962 the EEC provided for the establishment of a European Agricultural Guidance and Guarantee Fund to finance the Community's

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<sup>67</sup>L. P. Schertz, p. 12.

<sup>68</sup>Michael Schanks, p. 91.

<sup>69</sup>Karen J. Friedmann, p. 66.

Common Agricultural Policy. The fund is a part of the Community budget and the appropriations are approved by the Council with the annual estimates. It is set up to operate in the nature of a compensation or clearing fund.

The guarantee section of the fund is concerned with reimbursements for member countries' expenditures on export refunds in trade with non-member countries and expenses incurred in intervening in the domestic market. During the transitional period, refunds for intra-member wheat trade are also covered. For the grains sector the losses resulting from denaturing cereal grains and then selling them below the target prices will also be covered. Expenditures incurred in stockpiling grains or carrying stocks from one marketing year to the next are included.<sup>70</sup>

The guidance section is concerned with expenditures for common action to increase the productivity of agriculture by promoting technical progress, rational development of output and optimum use of the factors of production, in particular manpower. These include long term structural changes made necessary by the development of the Common Market. It is planned that expenditures in this section shall be only one-third as large as expenditures in the guarantee section.

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<sup>70</sup>European Economic Community Commission, "Financing of the Common Agricultural Policy ..," p. 2.

Technical advice on the implementation of the guidance section will be provided to the Commission by a permanent committee on agricultural structures. The fund may subsidize up to 25 per cent of the project costs. Groups that will ultimately benefit from the improvement must contribute at least 30 per cent of the project cost while the member countries on whose territory the project is located must also participate.<sup>71</sup>

During the transition period use of both sections of the Guidance and Guarantee Fund has been limited. The guarantee section contributed only one-sixth of the expenses of the member countries for export refunds and action on the market for the first year of operation (1962/63). In each of the following two years this share increased by one-sixth. By the end of 1969, it is planned that all such expenditures will be entirely financed by the fund.

Compensatory payments for German, Italian and Luxembourg farmers, who will suffer losses of farm income due to the introduction of the common grain prices, will be financed from a special guidance fund. Contributions to this fund are made by all member countries on the basis of the scale for general budgetary contributions.<sup>72</sup>

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<sup>71</sup>Reed E. Friend, "How the EEC's Agricultural Guidance and Guarantee Fund Works," Foreign Agriculture, Vol. II, No. 46 (November 16, 1964), p. 4.

<sup>72</sup>"How is the Common Farm Policy Financed," Common Market Farm Report, No. 16, December 31, 1964, p. 4.

Receipts for the entire Guidance and Guarantees Fund during the first three years of operation (1962/63 to 1964/65) are made up of financial contributions from the member countries. One part of these contributions is computed according to the general budget scale of the EEC Treaty (France, Germany, and Italy 28 per cent each, Belgium and the Netherlands 7.9 per cent each and Luxembourg 0.2 per cent). The second part is proportional to the value of each member country's net imports from non-member countries. The EEC Council also fixed a ceiling for the per cent contribution from each member country during the first three years. For Germany this was set at 31 per cent.

Possible elimination of the budgetary contributions could place the burden of the future expense of the fund on the importing countries--Germany, Italy and the Netherlands. They would have to pay more than would be required by the general budget scale because they have relatively the highest net imports from non-member countries.<sup>73</sup>

Two major policy questions remain undecided regarding financial regulations of the Common Agricultural Policy. The first concerns the share of expenditures on subsidies and interventions that the fund must bear between the 1964/65 marketing season and the end of the transition period in 1970. The second concerns the sources of the fund's financing during the same period and beyond 1970. Both are very important to Germany. A host of unanswered questions complicates the matter. Some

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<sup>73</sup> European Economic Community Commission, "Financing of the Common Agricultural Policy ..," p. 5.

of these are costs of compensatory payments to German farmers and costs of export subsidies and interventions on the domestic markets. Also receipts from the variable import levies can vary considerably.

## CHAPTER VIII

### ANALYSIS OF THE CHANGING WHEAT PRODUCTION SITUATION IN GERMANY

#### Imported Wheat Situation

In order to produce good bread and wheat products, which meet European consumer demand, a certain quantity of high protein wheat with good baking qualities has to be mixed with the common soft wheat produced in Germany. Most of this quality wheat must be imported in Germany. The entire EEC area imports an estimated 2.5 million tons of quality wheat in a normal harvest year. It will probably remain at this level for several years.<sup>74</sup> Germany imports about 800,000 to 900,000 tons of quality wheat per year.<sup>75</sup>

Since 1962 the import price of wheat in Germany has been based on the target price at the wholesale level rather than the producer price level as previously used. This resulted in higher import fees and an increase in the price of imported quality wheat to the millers.

Under the EEC marketing system it was intended that imported wheat should bear the full cost of freight from the North Sea ports of

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<sup>74</sup>Junckerstorff, p. 371.

<sup>75</sup>Werner Schwarz, "Betriebs- und marktwirtschaftliche Probleme der Landwirtschaft," Flugschriften der Deutschen Landwirtschafts - Gesellschaft, Band 33 (Frankfurt am Main: DLG - Verlag, 1962), p. 10.

Germany to the areas where it is used. Thus the import price would increase in a general north to south direction.<sup>76</sup> The end result is that the higher price of imported wheat would replace the previous compulsory mixing requirements of millers. Millers would be forced due to economic reasons to use the maximum amount possible of the cheaper domestic wheat.

In effect what happened was a prospect of increasing flour prices. To avoid this price increase for flour, the German government used a provision of the EEC grain regulation which permitted a subsidy for the benefit of consumers. In 1963 and 1964 subsidies ranging from 24 to 26.80 DM per ton for imported wheat were granted to grain millers. This tended to neutralize some of the increase in the price of imported wheat.<sup>77</sup> In Germany during 1962/63 the first year for higher priced imported quality wheat prices, there was still a large demand for quality wheat.

#### Domestic Wheat Situation

The EEC regulations, which went into effect in 1962, have not changed the domestic wheat production situation in Germany. Due to the uncertainty of future price relationships, farmers have avoided most production changes. Now that it has been decided to lower the target price for wheat starting on July 1, 1967 there are several production changes that may occur at that time.

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<sup>76</sup>H. Schmidt, p. 12.

<sup>77</sup>Karen J. Friedmann, pp. 73-74.

One important possibility exists to change the supply side of wheat in Germany. This would be to increase the production of quality wheat needed for milling purposes. As mentioned before, Germany needs around 800,000 to 900,000 tons per year. A sizeable portion of this probably can be produced in Germany although production of high quality milling wheat is limited by the land and climatic conditions.

There is a strong price incentive for quality wheat in most of Germany since the threshold price for imported wheat is above the target price for soft wheat. When the price of soft wheat drops in 1967, the price advantage for quality wheat production will become even more important. Although the threshold price will also drop in 1967, the fact that it is higher than the target price means that by switching to quality wheat production, some farmers may avoid part of the target price decline.

Since 1959 quality premiums have been paid by the government for domestic wheat rich in gluten and of good bread making quality.<sup>78</sup> The basis of the program is the payment of subsidies for the planting of quality wheat varieties. These subsidies are used to help cover expenses for items like certified seed, fertilizer, and quality tests (including sedimentation test). In 1963 the program involved 250,000 acres or seven per cent of the wheat production area.<sup>79</sup>

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<sup>78</sup>Organization for European Economic Cooperation, p. 163.

<sup>79</sup>"Germans Plant Quality Wheat," Foreign Agriculture, Vol. II, No. 13 (March 30, 1964), p. 8.

It is the view of the German Minister of Agriculture Schwarz that a large part of Germany's demand for quality wheat can be covered with domestic production. Since 1961 the Ministry of Agriculture has promoted the development of the new varieties of high baking quality wheat.

Production of quality wheat by only one or two farmers in an area has no purpose. Good, uniform seed must be provided to a number of farmers in several close lying districts with favorable growing conditions. Only a large group of farmers in one area can ask for and receive premiums for the production of quality wheat.<sup>80</sup>

Supply contracts have been recommended for this type of wheat production. It has been proposed that at least 100 tons (3,667 bushels) of quality wheat should be offered from a single area. Funds from the "Green Plan" can be used for the establishment and development of associations of growers for the production and delivery of quality wheat.

Production of quality wheat is receiving interest from several groups. Fertilizer companies point out the price advantages of quality wheat along with increased fertilizer application. Farm organizations like the German Agricultural Society have stressed the development of new wheat varieties with increased baking quality.

How far production of high baking quality wheat can be expanded is difficult to say. Thus far most production has been limited. If

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<sup>80</sup> Werner Schwarz, "Betriebs- und marktwirtschaftliche Probleme ..," p. 10-11.

problems of adaptability are overcome this could have a serious impact on future wheat imports by Germany.

Another possibility that may occur in the future is the substitution of feed grain production for wheat production. In recent years there has been a shortage of feed grains. The increasing emphasis being placed on livestock enterprises in certain areas of Germany will no doubt bring about an enlarged market for feed grains.

The rules and regulations for implementing the first phase of the Common Agricultural Policy, which became effective on July 30, 1962, included wheat. The EEC target and intervention prices now used in Germany are similar to the maximum-minimum prices for wheat provided by the 1950 grain marketing laws. The difference between them is that the EEC prices are wholesale while the previous ones were producer prices. Actually this change has had little effect on German domestic wheat prices as given in table I.

The utilization of common grain prices on July 1, 1967 will mean the full establishment of a common wheat policy three years ahead of the schedule provided in the Rome Treaty. In Germany the utilization of the common grain prices will cause a 10.6 per cent drop in the target price for wheat from 475.60 DM per ton to 425.00 DM per ton.<sup>81</sup>

Under the previous system the high and low price limits for wheat were established and kept uniform for four large areas in Germany. Regional price differences were leveled out by the use of freight subsidies. The result was a fairly stable producer price. The EEC system

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<sup>81</sup>"Community Adopts Common Grain Price," p. 6.

is designed to allow for a modest response of the wheat price to economic forces. A greater regional price differentiation is now allowed by the sixteen regional target price areas. In a local area the domestic producer price for wheat can now vary between the upper limit of the threshold price of imported wheat and the intervention price. The local supply and demand situation will determine the actual price level. The monthly increases in the target price are much the same as those before 1962.

The greater regional price differentiation of the EEC marketing system means that the intervention price for wheat in distant surplus areas can be below the previous average producer price of that area. There is a provision in the EEC policies whereby the difference between the target and intervention prices of the farthest markets from the deficit area of Duisburg may be reduced to one-half that of Duisburg. Thus, for example, while in Duisburg the intervention price is seven per cent under the target price, it has been reduced during the transitional period to 3.5 per cent at the surplus area of Passau. All other markets can reduce this difference by an amount corresponding to their distance from Duisburg.<sup>82</sup> The range of price movements of distant surplus areas is thereby considerably reduced from that of the deficit areas.

Another result will be that through timely sales of wheat, local farmers will have the opportunity to influence the local market prices in some areas. After the massive sales following harvest there will be the possibility of higher prices later in the year due to weak sales of

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<sup>82</sup>H. Schmidt, p. 4.

wheat. Thus after accounting for storage costs it may be possible for producers to receive a price higher than the intervention price by holding their wheat for later sale.

The problem of an unfavorable producer price for wheat has also been helped by changing the railroad freight rates for wheat. In 1963 Germany reduced her freight rates by 25 per cent. At the same time a general freight subsidy of 25 per cent for collective grain shipments was started. These exceptions to the EEC aim of removing freight subsidies were allowed during the transition period in order to ease the adjustments. These aids apply to both domestic and imported wheat. In this manner Germany was able to reduce the railroad freight rate for wheat to about 44 per cent that of other means of transportation.<sup>83</sup>

All of the above measures help to reduce the regional price differences for wheat. The EEC pricing system was designed to introduce a greater and more realistic regional price differentiation for wheat. Thus Germany has been trying to go back to the old method of fairly uniform wheat prices. What future changes will bring is uncertain.

Certain differences have appeared in the manner in which intervention purchases are being carried out in Germany under the EEC regulations which came into effect in 1962. Previously intervention purchases of wheat were carried out by the Import and Storage Agencies only when farmers were unable to obtain the minimum price. Now the Import and Storage Agencies are required under EEC regulations to purchase all wheat that is offered for sale at the intervention price and may also

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<sup>83</sup> Ibid., pp. 4-5.

make voluntary purchases above the intervention price. It is a stronger regulated process but the final result of market stabilization has not changed.

At the import points in Germany there have been changes not only in the method of controlling imports but also in policy aims. Previously imports were strictly regulated by quotas, licenses, and other restrictions. The Import and Storage Agencies could then determine the price and quantity of certain qualities of wheat that would be allowed into specific areas. They had the power in their hands to carry out desired wheat policies. Since 1962 the EEC marketing system has relied mainly on the variable import levy. The desired aim now is to place imported wheat on a competitive basis with domestic production.<sup>84</sup>

The role of the German Import and Storage Agencies as a state trader has been eliminated. Gone also are customs duties, quantitative import restrictions, and milling quotas. Grain quotas in bilateral agreements between Germany and exporting countries have lost their meaning. Germany still has the right to denature wheat for feed use but up to the present she has not made use of this EEC provision.<sup>85</sup>

#### Compensatory Measures

In view of the probable effects of a price decrease for grains in Germany, it was clear that for the sake of balanced development in all economic sectors in the community, there had to be action taken to

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<sup>84</sup>Ibid., pp. 1-2.

<sup>85</sup>Karen J. Friedmann, p. 72.

compensate farmers whose incomes would decrease. The Commission decided on special compensatory payments to German, Italian, and Luxembourg farmers during the transition period to offset these losses of income. This calculation took into account the fact that changes in prices for coarse grain bring about resultant changes in income from pigs, eggs, and poultry.<sup>86</sup>

The losses in income to German agriculture as a whole that will result from the lower grain prices are difficult to predict with scientific exactness. These compensatory payments will be made over the three seasons 1967 to 1970 and will be phased out by the end of the period. At that time they will be replaced by measures of assistance in the form of "Community Plans" for the benefit of all farmers in all member countries.

The Community will now pay Germany \$280 million, Italy \$130 million, and Luxembourg \$2 1/2 million in compensatory payments. All six member countries will contribute to a special guidance fund for these compensatory payments.<sup>87</sup> This amount is far short of what the German government had requested. The original version of the Mansholt Plan had called for a compensatory payment of \$140 million to Germany for the year 1964/65 and a decreasing amount each year thereafter until 1970.

These compensatory measures can take the following forms: Direct payments to farms whose incomes are reduced by the reduction of grain

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<sup>86</sup>European Economic Community Commission, Common Grain Price, p. 7.

<sup>87</sup>"After the 1964 Marathon," Common Market, Vol. 5, No. 2 (February, 1965), p. 33.

prices, contributions to improved social benefits available to farmers, aids granted to improve productivity and to rationalize farms, and aids granted to producers of durum wheat.<sup>88</sup>

From the European Guidance and Guarantee Fund, German Wheat producers are receiving and will receive more benefits and aids planned for the agriculture of the Common Market as a whole. The first implementing regulations for the Fund became effective on July 1, 1964. Under the guidance section, 150 requests for 30 million had been sent to the Commission by July but only between eight and nine million dollars were made available for these first requests. Germany requested assistance for water schemes and marketing.<sup>89</sup>

From July 1962 to July 1964 the expenditures of the guarantee section for export subsidies and market support totaled \$77 million. According to the EEC rules only a small part of the national farm policy expenditures could as yet be recouped from the Fund. Germany ended up contributing \$18 million more than she received while France received the bulk of the benefits.<sup>90</sup>

Last December the Council also decided that from the entry into force of the common cereal prices, market intervention and export refunds for cereals will be entirely financed by the Community. All other expenditures of the Fund will be financed entirely by the end of 1969.

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<sup>88</sup>European Economic Community Commission, Common Grain Price, p. 7.

<sup>89</sup>Reed E. Friend, p. 4.

<sup>90</sup>"The Finance Regulation - Another Round of Push and Pull," Common Market, Vol. 5, No. 1 (January, 1965), p. 3.

It is estimated that from 1967 onwards the Guidance and Guarantee Fund will have to provide one billion dollars each year for the support of agricultural prices, export promotion, and structural improvement.<sup>91</sup>

As mentioned earlier the German government is committed by law to take no measures that would reduce farm incomes. Application of EEC regulations has brought to an end some forms of aid used by the German government for wheat producers. Also a great loss of income will result from the common grain price. The German government is obligated to counteract these losses with other protective measures. Thus Germany is exchanging one form of protection for another.<sup>92</sup>

The following pledge of the German government is found in a 1965 article by the Ministry of Agriculture. "The federal government will endeavor to compensate the income losses which will result from the lowering of the German grain price level."<sup>93</sup>

The main present day root problem of German agriculture may be considered one of structural deficiencies (small farm units and scattered holdings). It is to be expected then that most of the \$610 million of 1964 "Green Plan" funds went to improve the structure of agriculture, working and living conditions, and cheapened credit. In 1964 a total of 290,000 hectares was encompassed as part of a continuing land redistribution and consolidation program, 1600 farmsteads were relocated

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<sup>91</sup>"After the 1964 Marathon," p. 33.

<sup>92</sup>"West Germany sees Uncertain Farm Future," Foreign Agriculture, Vol. I, No. 27 (July 8, 1963), p. 6.

<sup>93</sup>Bundesministerium für Ernährung, Landwirtschaft, und Forsten, Fünf Jahre Agrarpolitik (Bonn; L. Leopold, 1965), p. 21

from the cramped villages to the country, and 13,000 kilometers of hard surfaced roads were built in rural areas.<sup>94</sup> In the long run all these measures will improve the income earning capacity of German farmers and help them to offset the losses suffered from the EEC common grain prices.

In the future there may be more tax reductions for farmers such as the removal of the sales tax at the producer level in 1956 which saved farmers millions of dollars. Increased retirement benefits and other social payments are also likely to come up for future consideration. Increased aids and subsidies, such as the saving in diesel fuel costs, quality wheat bonuses, and other measures, offer another possibility.

"The transition which is now in full swing within individual farms as well as in the general agricultural and marketing structures must keep in view the dynamic situation of the Common Market and be carried out in unison with the decisions of all the members of the EEC."<sup>95</sup> To accomplish this, it is the goal of the German government to provide governmental assistance where it is needed to alleviate the accompanying hardships to farmers during this transition.

One of the constant problems in the development of the Common Market has been the sharing of costs and benefits. Naturally no country likes to incur losses that result in benefits to another. Since Germany will suffer the most severe losses of income due to the application of the common wheat and grain prices, she has sought to recoup adequate compensation from the EEC.

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<sup>94</sup>Ibid., pp. 12-16.

<sup>95</sup>Ibid., p. 5.

The skimming charges from the variable import levies on wheat now go into the Guidance and Guarantee Fund and not into the German treasury. France has received the majority of the export subsidies for wheat. The \$18 million negative balance incurred by Germany in 1962 to 1964 was not too pleasing. Also the compensatory payments, which Germany will receive in 1967 to 1970, are seen by many Germans as inadequate to replace the expected income losses resulting from the common grain prices.

#### Structural Changes

One of the basic aims of the founding of the Common Market is to promote the production of a good or commodity in the most favorable location. This was again brought into the objectives of the Common Agricultural Policy by encouraging efficient and rational production in agriculture. What does this mean for German wheat production? For the high priced, sometimes inefficient wheat production in Germany, it means that in some places it should be dropped for other more rational agricultural enterprises and additional wheat should be imported from the more efficient wheat producers in the Common Market or in non-member countries.

This is a hard decision for anyone to accept and the German farmers are no exception. The prospects are that changes will be slow in coming. According to a U. S. Department of Agriculture report, some production adjustment will undoubtedly occur, especially in the long run, due to the decrease in grain prices on July 1, 1967. Some farmers are likely to switch from wheat to other farm enterprises. However some farmers

are likely to leave farming and find other employment.<sup>96</sup>

According to the views of the EEC Commission, "German grain production, at least during the first years the single grain price is applied, is not expected to vary from past years."<sup>97</sup> An American estimate is that a price decline of 10 to 25 per cent in Germany would bring a response of stabilization of wheat output.<sup>98</sup>

Currently in some areas in Germany less emphasis is being placed on wheat production. An example is the case of farms in areas that are some distance from the centers of grain consumption or areas that are partially isolated such as those found along the border with East Germany. Use of the EEC pricing system with its greater regional price differentiation has meant slightly lower producer prices for wheat in these areas. It is now advantageous for some of them to rearrange their production programs and produce animal products with their relatively cheap wheat or to substitute feed grain production in place of wheat. Increased animal production and feed grain production in areas with suitable grassland conditions are being advocated by advisory groups.

In certain areas of southern Germany increased feed grain production is not the best answer. In Bavaria in recent years not all the

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<sup>96</sup>U. S. Department of Agriculture, The 1965 Western Europe . . ., p. 35.

<sup>97</sup>"EEC Commission Expects Grain Import Needs to Remain Stable," Common Market Farm Report, No. 16, December 31, 1964, p. 3.

<sup>98</sup>John O. Coppock, North Atlantic Policy the Agricultural Gap (New York: Connecticut Printers, Inc., 1963), p. 201.

production of fat cattle could be marketed locally and some had to be sold in the Rhein River and Ruhr areas.<sup>99</sup> Limited opportunities exist in some areas for increased production of vegetable crops, poultry and other products which can take up some of the losses created by lower wheat prices. The many changes to wheat production and the entire farming structure in Germany that are now taking place and will result from the future decline in the wheat price pose many complex problems. These can only be worked out over a long period so the final results will not be known for years.

In early 1961 the German Minister of Agriculture Schwarz and Vice-President of the EEC Commission, Mansholt appointed a research committee to prepare a scientific opinion on the effects on the income position of German farmers as a result of the sinking of the grain prices in the Mansholt Plan. The committee was composed of eight professors primarily from German universities.

The committee reasoned that the equalization of the grain prices should be the first step in the harmonization of all agricultural prices in the EEC. They worked with a 14 per cent graduated drop in the price of wheat until 1970 and thought this would cause a decline in the average general price level of all agricultural products in Germany.

Their results were that it would be 1970 before total farm income would regain the levels of 1958/59. Also the number of people employed in Agriculture would drop from 2.6 million in 1958/59 to

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<sup>99</sup>H. Schmidt, p. 20.

between 1.75 and 1.85 million in 1970 and to between 1.55 and 1.75 million in 1975.<sup>100</sup>

This predicted drop in workers employed in agriculture is but a continuation of the present trend. Reports such as this present facts that draw strong comments from farmers. These are the results that many people knew would happen.

In the establishment of a customs union such as the EEC, there is one basic fundamental underlying the process. This is the transfer of the traditional national means of influencing intra-group trade and external trade to the supranational governing bodies. Hans von der Groeben summed it up in a speech when he stated, "The six closed national economies are giving way to six national economies open to each other and subject in their mutual relations to a new, common and superimposed economic system to which the national economic systems must to this extent adapt themselves."<sup>101</sup>

German wheat production must now adapt itself to the EEC trade policies and price levels. Although Germany objected loudly and longly to the decrease in the wheat price, they have now accepted it and must proceed towards integration of their agriculture into the EEC. Now the previous protective efforts of the German government are being shifted

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<sup>100</sup>"Wirkungen einer Senkung der Agrarpreise," Gemeinsames Gutachten von Mitgliedern des Wissenschaftlichen Beirats beim BML und von wirtschaftswissenschaftlichen Beratern der Kommission der EWG, Brussels, June, 1962, p. 49.

<sup>101</sup>Hans von der Groeben, "The Development of EEC and its Effects on the Economic System in the Member States," Address given to the Conference Europeenne des Entreprises Publiques, Berlin, September 14, 1964, p. 14.

towards assistance to farmers in this process of integration into the EEC economy. The EEC is now taking over from Germany the responsibility for guaranteeing a reasonable level of income for efficient wheat producers.

On German insistence in April 1964, the grain price agreement agreed upon by the EEC in December 1964, contains a revision clause. It states that before July 1, 1966 the Ministerial Council will investigate whether changed economic conditions (notably inflationary price rises, increasing costs, and other intervening developments) necessitate a change in the agreed cereals price which will come into effect on July 1, 1967.<sup>102</sup>

This reflects the German demand to tie the grain price to the cost of living index or general price index, which was not acceptable to the Council. It is hoped by the Germans that changing conditions will warrant an increase in the price of wheat. This chance of revision makes it difficult for the EEC to offer a firm basis for negotiations in the Kennedy Round.

The past few years have created some grave problems for the long range planning of farmers in the agricultural sector in Germany. Not knowing definitely when and how much the wheat price and returns from other commodities would change, was a handicap in making investment decisions. It has been hard for the individual farmer to know which enterprises to emphasize. Now that the price levels for grains have

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<sup>102</sup>"Success in Agriculture: A New Stimulus," Common Market, Vol. 5, No. 2 (February, 1965), p. 31.

been set, they can proceed in their planning with some degree of certainty.

The acceptance of the Mansholt Plan did give the Common Market a reasonable basis for its foreign policy in the GATT negotiations. In spite of the revision clause, the EEC now has something more than a proposal to work with.

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ANALYSIS OF COMMON MARKET WHEAT CONTROL POLICIES  
WITH REFERENCE TO WEST GERMANY

by

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AN ABSTRACT OF A MASTER'S REPORT

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The EEC's agreement on common prices for grains marks the first time that a group of nations have combined their national agricultural policies under a common price system. The price of wheat holds a key position in the pricing structure of West German agriculture. Wheat production in Germany requires the most complete and complicated system of market management. A highly protective and subsidized agriculture now surrounds the German wheat producer.

The application of the EEC common grain prices on July 1, 1967 will mean a lower wheat price for Germany and will bring about related changes and problems. This report analyzes what these changes may be in reference to the structure and aims of both Germany and the Common Market and the views of various interest groups.

West Germany is relinquishing her national control of wheat policies to the supranational organization of the Common Market. Acceptance of the Mansholt Plan by Germany in December of 1964 was preceded by German objections to financing of the Common Agricultural Policy, adequacy of the EEC compensatory payments, and differences among EEC member countries on freight and labor costs and tax and trade policies.

Probably the most highly organized sector of the German economy is agriculture. The agricultural block or "Green Front" is often engaged in politics and has a strong voice in government. All the farm groups have tried to present the plight of the cost price squeeze of German wheat producers.

Most non-farm interest groups in Germany wanted to see the common price levels established as soon as possible and not too high. The influence of European pressure groups is not very strong presently but

it is likely to be enhanced as the process of economic integration proceeds.

The EEC regulations, which went into effect in 1962, have not changed the domestic wheat production situation in Germany. The price decrease for wheat in 1967 may cause an increasing interest in production of quality milling wheat. Another possible change is the substitution of feed grain production for wheat production. Increased animal production is also being advocated for certain areas.

The main present day root problem of German agriculture may be considered one of structural deficiencies. As part of the German government's pledge to compensate the income losses of farmers, which will result from the lowering of the grain price level, the government hopes at the same time to alleviate the structural problems of small farms with scattered holdings. In the long run the German government hopes to improve the income earning capacity of the German farmers and help to alleviate the hardships which farmers will encounter during the remainder of the EEC transition period.