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JUN 27 1963

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Basic Provisions of



EUROPEAN ECONOMIC COMMUNITY GRAIN REGULATIONS



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BASIC PROVISIONS OF EUROPEAN ECONOMIC COMMUNITY GRAIN REGULATIONS ¹

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The Common Agricultural Policy (CAP) on grains became effective on July 30, 1962. Many elements are involved: for example, target prices, derived target prices, intervention prices, threshold prices, franco-frontier prices, variable levies, rebates, and restitutions. In combination, these elements protect the prices of EEC-produced grain and grain products.

Target Prices

The hub of the EEC price structure is the target price, to which other prices and levies are related by regulations.

These target prices are designed to be applicable to wholesale levels of trade. It is the aim of the EEC that the domestic grain prices of member countries reach the individual target price levels. For the 1962-63 marketing year, the EEC Council of Ministers decided that the target prices (applicable at the beginning of the crop year) of individual countries were to be set within prescribed limits. Target prices in the "deficit" producing sections of individual countries were to be no greater than the upper limit, and target prices

TABLE 1.--Upper and lower limits for grain target prices at beginning of crop year in EEC member countries, 1962-63

Grain	Upper limit	Lower limit
	<i>U.S. dollars per metric ton</i>	<i>U.S. dollars per metric ton</i>
Wheat.....	118.92	89.42
Barley.....	103.06	71.42
Rye.....	108.17	65.71
Corn.....	(not specified)	62.40
	<i>U.S. dollars per bushel</i>	<i>U.S. dollars per bushel</i>
Wheat.....	3.24	2.43
Barley.....	2.24	1.55
Rye.....	2.75	1.67
Corn.....	(not specified)	1.58

Source: Communauté Economique Européenne, Proposition de Règlement du Conseil, Bruxelles, le 6 Mars 1963.

¹ At present the European Economic Community (EEC) consists of France, West Germany, Italy, Belgium, Luxembourg, and the Netherlands.

in "surplus" producing sections of the member countries, no less than the lower limits. The announced purpose of setting these limits was to avoid any increase in the price differences between member countries. Upper and lower limits were specified for wheat, barley, and rye, and a lower limit, alone, for corn.

It is anticipated that these limits will be gradually brought closer together as the EEC moves toward a common price level. This common price level has not yet been established. The EEC Commission has recommended to the Council limits for the 1963-64 crop year. These recommendations involve a slight narrowing of the limits; they will not be effective, however, unless the Council approves. Presumably, if the proposal is rejected, the 1962-63 limits will be applicable to the 1963-64 crop year.

TABLE 2.--Grain target prices at beginning of year in largest deficit areas of EEC member countries, 1962-63

Country and deficit area	Wheat	Rye	Barley	Corn
	<i>U.S. dol. per M.T.</i>	<i>U.S. dol. per M.T.</i>	<i>U.S. dol. per M.T.</i>	<i>U.S. dol. per M.T.</i>
France				
Marseilles.....	97.18	79.09	78.97	--
Dunkirk.....	--	--	--	87.20
Germany, West				
Duisburg.....	118.88	108.12	103.00	--
Italy				
Naples.....	110.40	--	--	--
Ravenna.....	--	--	66.40	--
Bologna.....	--	--	--	65.60
Belgium				
Malines.....	102.60	81.80	86.80	--
Luxembourg.....	117.00	109.50	86.80	--
Netherlands				
Rotterdam.....	91.99	--	--	--
Deventer.....	--	69.48	79.14	--
	<i>U.S. dol. per bushel</i>	<i>U.S. dol. per bushel</i>	<i>U.S. dol. per bushel</i>	<i>U.S. dol. per bushel</i>
France.....	2.64	2.01	1.72	2.21
Germany, West.....	3.24	2.75	2.24	--
Italy.....	3.00	--	1.45	1.67
Belgium.....	2.79	2.08	1.89	--
Luxembourg.....	3.18	2.78	1.89	--
Netherlands.....	2.50	1.76	1.72	--

Source: Communauté Economique Européenne, Proposition de Règlement du Conseil, Bruxelles, le 6 Mars 1963.

The individual national governments are to determine their own national target prices during the transitional period. For 1962-63, target prices within the prescribed limits have been selected for the specified deficit-producing areas.

"Derived" target prices are permitted for other marketing centers in some countries. These prices can be employed only, however, if natural market conditions result in more than a 5 percent difference between the market prices in deficit areas and the market prices in the area of greatest surplus production of the individual countries. Consequently, only West Germany, France, and Italy established "derived" target prices for the 1962-63 marketing year. These were specified for 16 price zones in West Germany, 4 price zones in Italy, and 5 regional markets in France.

Both the national and the "derived" target prices were for a determined national quality which in some instances varies from what has been specified as the EEC-standard quality. For example, in Germany domestically-produced wheat is considered to be \$1.50 per metric ton (\$.041 per bushel) below the EEC-standard quality of the products; barley, \$3.12 per metric ton (\$.079 per bushel) below; and rye, \$1.88 per metric ton (\$.048 per bushel) below.

These target prices were effective at the beginning of the crop year. As the crop year progressed, some of them were adjusted upward to reflect storage

TABLE 3.--Grain "derived" target prices in indicated surplus producing areas of EEC member countries, 1962-63

Country and surplus area	Wheat	Rye	Barley	Corn
	<i>U.S. dol. per M.T.</i>	<i>U.S. dol. per M.T.</i>	<i>U.S. dol. per M.T.</i>	<i>U.S. dol. per M.T.</i>
France				
Chartres.....	90.40	--	72.19	--
Orléans.....	--	72.31	--	--
Châteaudun.....	--	--	--	81.12
Germany, West				
Simbach.....	111.12	100.37	95.25	--
Italy				
Ravenna.....	104.40	--	--	--
	<i>U.S. dol. per bushel</i>	<i>U.S. dol. per bushel</i>	<i>U.S. dol. per bushel</i>	<i>U.S. dol. per bushel</i>
France.....	2.46	1.84	1.57	2.06
Germany, West.....	3.02	2.55	2.07	--
Italy.....	2.84	--	--	--

Source: Communauté Economique Européenne, Proposition de Règlement du Conseil, Bruxelles, le 6 Mars 1963.

and interest costs. EEC regulations permitted step increases, numbering between 5 and 10, to take these costs into account.

For example, the German target price for wheat increased in 10 steps each, of \$1.12 per metric ton (\$.030 per bushel), that for barley, in six steps each of \$1.00 per metric ton (\$.022 per bushel). The Netherlands employed for wheat nine step increases, each of \$0.97 per metric ton (\$.026 per bushel). However, the Netherlands target price for barley was scheduled to remain unchanged throughout the 1962-63 marketing year.

Intervention Prices

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

Government agencies are required to purchase all quantities of grain offered at the intervention prices. Regulations required that intervention prices be 90 to 95 percent of the designated target prices. In cases where "derived" target prices, and therefore "derived" intervention prices were involved, "derived" intervention prices were permitted to be somewhat higher than 95 percent of the related target prices. The intervention prices were adjusted upward during the crop year in a manner similar to the changes in the target prices.

TABLE 4.--Grain intervention prices in largest deficit producing areas of EEC member countries, 1962-63

Country	Wheat, soft	Rye	Barley	Corn
	<i>U.S. dol. per M.T.</i>	<i>U.S. dol. per M.T.</i>	<i>U.S. dol. per M.T.</i>	<i>U.S. dol. per M.T.</i>
France.....	87.46	71.20	71.07	81.97
Germany, West.....	110.62	100.62	95.88	--
Italy.....	102.40	--	--	--
Belgium.....	95.40	76.00 (74.00) ¹	80.60 (78.80) ¹	--
Luxembourg.....	111.00	--	--	--
Netherlands.....	84.25	--	--	--
	<i>U.S. dol. per bushel</i>	<i>U.S. dol. per bushel</i>	<i>U.S. dol. per bushel</i>	<i>U.S. dol. per bushel</i>
France.....	2.38	1.81	1.55	2.08
Germany, West.....	3.01	2.56	2.09	--
Italy.....	2.79	--	--	--
Belgium.....	2.60	1.93 (1.88) ¹	1.75 (1.72) ¹	--
Luxembourg.....	3.02	--	--	--
Netherlands.....	2.29	--	--	--

¹ As modified on September 20, 1962.

Source: Communauté Economique Européene, Marchés Agricoles, Prix.

TABLE 5.--Grain "derived" intervention prices in largest surplus producing areas of EEC member countries, 1962-63

Country	Wheat, soft	Rye	Barley	Corn
	<i>U.S. dol. per M.T.</i>	<i>U.S. dol. per M.T.</i>	<i>U.S. dol. per M.T.</i>	<i>U.S. dol. per M.T.</i>
France.....	84.97	65.08	67.85	76.26
Germany, West.....	106.62	96.62	91.88	--
Italy.....	99.20	--	--	--
	<i>U.S. dol. per bushel</i>	<i>U.S. dol. per bushel</i>	<i>U.S. dol. per bushel</i>	<i>U.S. dol. per bushel</i>
France.....	2.31	1.65	1.48	1.94
Germany, West.....	2.90	2.45	2.00	--
Italy.....	2.70	--	--	--

Source: Communauté Économique Européene, Marchés Agricoles, Prix.

There are fundamental differences between EEC intervention prices and U.S. support prices. U.S. farm support prices are aimed at an average price return to farmers. In contrast, EEC intervention prices are directed at prices at which grains are sold by firms which purchase the grain from farmers. Also, usually the term "intervention price" refers to the one effective at the beginning of the crop year. But the term "U.S. support price" usually refers to a price effective toward the end of the crop year. U.S. producers availing themselves of commodity price-support loans must stand the storage costs up to specified dates (for wheat in Kansas, March 31, and for corn in Iowa, July 31.)

EEC regulations provide that products accumulated by the intervention agencies may be sold in domestic markets at target price levels, 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.

Threshold Prices

Threshold prices also form a vital part of the EEC grain price structure. These prices have been established for grains for which target prices have been specified, such as wheat, and also, for other related products to which target prices have not been applied. An example of the latter is wheat flour.

For any product for which a target price is specified, the threshold price is the applicable target price: (1) less marketing costs (transportation, handling, etc.) from port of entry to the deficit center for which the target

price is established; (2) plus the "lump sum" (montant forfaitaire), and (3) plus or minus adjustment from national-quality standard to the Community-quality standard.

The threshold prices are used to calculate the levies on imports, and give protection to the internal target and intervention prices. The addition of the lump sum has the effect of adding to this protection. The incorporation of quality adjustments produces threshold prices in terms of EEC-quality standards, even though the target and intervention prices for 1962-63 were based on national-quality standards. Consequently, the threshold prices for the different countries are in terms of the same quality of product.

The calculation of the August 1962 wheat threshold price for Germany was:

	<u>U.S. dollars per metric ton</u>	<u>U.S. dollars per bushel</u>
Target price Duisburg (Aug. 1962)	118.88	3.236
Less:		
Marketing costs from port (Emmerich) to deficit area (Duisburg)	.88	.024
Plus:		
Quality adjustment to EEC standard	2.00	.054
Plus:		
Lump sum	1.00	.027
German threshold price	<u>121.00</u>	<u>3.293</u>

Source: International Wheat Council, Review of the World Wheat Situation, Report on Consumption, 1961/62.

Threshold prices are specified, also for products to which no target prices apply. Oats and wheat flour are examples. All member countries have threshold prices for these two products, even though none of them have target prices. Only France and Italy have corn target prices, but all member countries have corn threshold prices.

TABLE 6.--Threshold prices at beginning of crop year, EEC member countries, 1962-63

Country	Wheat	Durum wheat	Barley	Corn	Oats	Rye	Wheat flour	Sorghum
France.....	U.S. dol. per M.T. 95.54	U.S. dol. per M.T. 113.41	U.S. dol. per M.T. 76.93	U.S. dol. per M.T. 86.57	U.S. dol. per M.T. 68.83	U.S. dol. per M.T. 77.46	U.S. dol. per M.T. 155.74	U.S. dol. per M.T. 86.57
Germany.....	121.00	127.00	106.75	108.00	97.12	110.12	185.12	101.25
Italy.....	109.60	142.59	62.59	60.99	63.39	98.59	175.17	69.79
Belgium ¹	98.20	108.00	83.60 (81.60)	81.60 (77.60)	73.00	77.60 (75.60)	156.90	81.60 (77.60)
Luxembourg ¹	116.20	122.20	83.60 (81.60)	81.60 (77.60)	73.00	109.00	177.80	81.60 (77.60)
Netherlands.....	91.99	96.69	77.35	70.44	73.90	67.68	146.96	68.37
France.....	U.S. dol. per bushel 2.60	U.S. dol. per bushel 3.09	U.S. dol. per bushel 1.67	U.S. dol. per bushel 2.20	U.S. dol. per bushel 1.00	U.S. dol. per bushel 1.97	U.S. dol. per cwt. 7.06	U.S. dol. per cwt. 3.93
Germany.....	3.29	3.46	2.32	2.74	1.41	2.80	8.40	4.59
Italy.....	2.98	3.88	1.36	1.55	.92	2.50	7.95	3.17
Belgium ¹	2.67	2.94	1.82 (1.78)	2.07 (1.97)	1.06	1.97 (1.92)	7.12	3.70 (3.52)
Luxembourg ¹	3.16	3.33	1.82 (1.78)	2.07 (1.97)	1.06	2.77	8.06	3.70 (3.52)
Netherlands.....	2.50	2.63	1.68	1.79	1.07	1.72	6.67	3.10

¹ Prices as modified on September 20, 1962, are indicated in parentheses.

Source: International Wheat Council, Review of the World Wheat Situation, Report on Consumption, 1961/62.

The determinations of the flour threshold prices reflect many elements, as shown by the following calculation of the flour threshold prices in Germany and in the Netherlands for 1962-63:

	<u>Germany</u>	<u>Netherlands</u>	<u>Germany</u>	<u>Netherlands</u>
	<i>U.S. dollars</i>	<i>U.S. dollars</i>	<i>U.S. dollars</i>	<i>U.S. dollars</i>
	<i>per metric</i>	<i>per metric</i>	<i>per Cwt.</i>	<i>per Cwt.</i>
	<i>ton</i>	<i>ton</i>		
Threshold price of wheat less wheat lump sum \$1.00 per metric ton	120.00	90.99	5.44	4.13
Equivalent value of 1.4 metric ton	168.00	127.37	7.63	5.79
<u>Plus:</u>				
Milling margin	19.25	19.25	.87	.87
Protection allowance	<u>16.25</u>	<u>16.25</u>	<u>.74</u>	<u>.74</u>
<u>Less:</u>				
Millfeed credit	<u>20.88</u>	<u>18.50</u>	<u>.95</u>	<u>.84</u>
<u>Plus:</u>				
Flour lump sum	<u>2.50</u>	<u>2.50</u>	<u>.11</u>	<u>.11</u>
Threshold price flour July 30, 1962	185.12	146.96	8.40	6.67

Source: General Agreement on Tariffs and Trade Committee II L/1910, 13 November 1962 and Official FAS sources.

The wheat threshold price less the lump sum is basic to the calculation. The use of the factor 1.4 metric tons of wheat per 1.0 metric ton of flour reflects an extraction rate of .7143. The milling margin of \$19.25 per metric ton is supposedly an average of milling costs in the EEC. The millfeed credit is based on 372 kilograms of millfeed per metric ton of flour and the lowest monthly millfeed price in the previous calendar year. The protection allowance is designed to protect the millers within the EEC countries. In combination with the flour lump sum, it will eventually offer safeguards to EEC millers relative to third country millers, while permitting competition between millers within the EEC. The total allowance was specified to be \$18.75 per metric ton. Each year, starting in 1962-63 the allowance is to be reduced by two-fifteenths of the \$18.75. In turn, the flour lump sum is to be at least equal to the cumulative reduction in the protection allowance.

Consequently, by July 1969 the protection allowance will be zero, and the flour lump sum will be at least \$18.75 per metric ton. At present, therefore, millers in each member country have substantial protection from competition of other millers in member countries, as well as in third countries. By July 1969, this will apply only to competition from the millers in third countries. Regulations permit larger lump sums if intra-community trade does not develop in a manner satisfactory to the EEC.

Theoretically, the only change in the threshold prices is to be periodic increases during the year to account for storage. However, a small lowering of the German threshold prices was made because of elimination of a 1½ percent turnover tax. In Belgium, as indicated in the tables, slight decreases were made in some threshold prices that had been specified earlier. In Germany, action was also taken to lower levies on durum wheat so that, in effect, the threshold price was \$100.00 per metric ton (\$2.72 per bushel). Both Germany and the Netherlands instituted the payment of consumer rebates to processors of wheat.

C.i.f. prices, Franco-Frontier Prices, and Variable Levies

Determination of the c.i.f. prices in EEC ports is required to determine the levies to be applied to imports from third countries. The difference between the "standardized c.i.f. price" and the applicable threshold price constitutes the levy assessed on imports from third countries.

To determine the standardized c.i.f. price, actual cereal and flour c.i.f. prices are used. These prices are considered for designated ports which are:

Belgium	Antwerp
Germany	Emmerich
France	
Corn and sorghum	Dunkirk
Other cereals	Marseilles
Italy	
Wheat, other than durum	Naples
Durum wheat	Genoa
Other cereals	Ravenna
Luxembourg	
Wheat and rye	Sterpenich
Other cereals	Antwerp
Netherlands	Rotterdam

Source: The European Economic Community, Regulation 68.

Offers of small quantities, and offers of commodities other than fair average quality, are to be disregarded if they are not representative of the market. For each principal variety of cereals, the lowest determined c.i.f. price is selected. These selected prices are then adjusted by equivalence coefficients specified by regulations. These coefficients are to reflect the differences in qualities between the EEC standard grains and the respective imported grains.

For example, U.S. No. II Hard Red Winter wheat with 14 percent protein content is considered to be higher in quality than the EEC standard wheat. Therefore, an equivalence coefficient of \$12.00 (\$0.33 per bushel) is subtracted from its c.i.f. price quotation. Some of the wheat equivalence coefficients applicable in 1962-63 were:

	<i>U.S. dollars per metric ton</i>	<i>U.S. dollars per bushel</i>
United States		
Soft Red Winter I & II	3.75	.10
Hard Red Winter I & II	9.00	.24
Dark Northern Spring I & II	12.00	.33
Hard Red Winter I & II (14 percent protein)	12.00	.33
Canada		
Manitoba II.	12.00	.33
Argentina		
Down River	9.00	.24
Australia		
FAQ	5.75	.16
Semi-hard II.	9.00	.24
Russia		
Type 431	9.00	.24

Source: The European Economic Community, Regulation 70.

Some of the flour equivalence coefficients were:

	<i>U.S. dollars per metric ton</i>	<i>U.S. dollars per cwt.</i>
United States		
Soft Red Winter flour	0	0
Hard Red Winter flour	7.50	.34
Dark Northern Spring flour	10.00	.45
Canada		
Manitoba flour	12.50	.57
Russia	7.50	.34

Source: The European Economic Community, Regulation 88.

Other adjustments are also made in the actual c.i.f. prices for flour. Such factors as ash content and humidity are also taken into account.

All of the above-cited equivalence coefficients are considered to be of a higher quality than the EEC standard quality products. Therefore, these equivalence coefficients are subtracted from the specific assembled c.i.f. price information.

The lowest of the resulting adjusted c.i.f. prices for each commodity for each country are then selected as standardized c.i.f. prices. The differences between these standardized c.i.f. prices and the applicable threshold prices determine the levies applied to third-country imports. For example, on December 15, 1962, \$1.55 per bushel was calculated as the standardized c.i.f. price for wheat imports from third countries into the Netherlands. The applicable wheat threshold price was \$2.64. The resulting difference, \$1.09, was determined as the gross levy to be applied to all wheat imports into the Netherlands for the following day. A consumer rebate of \$0.39 per bushel is being paid to millers in the Netherlands. This rebate has the effect of offsetting a portion of the levy.

Representative average levies applicable in January (monthly average) were as follows:

Country	Wheat	Rye	Barley	Oats	Corn
	<i>U.S. dol. per M.T.</i>	<i>U.S. dol. per M.T.</i>	<i>U.S. dol. per M.T.</i>	<i>U.S. dol. per M.T.</i>	<i>U.S. dol. per M.T.</i>
France	42.43	13.96	20.09	10.90	29.90
Germany, West	66.70	46.92	48.42	35.85	51.05
Italy	56.38	28.94	0	0	.35
Belgium	44.60	12.40	24.80	13.20	22.20
Netherlands	40.91	1.41	17.79	11.46	12.18

	<i>U.S. dol per bushel</i>	<i>U.S. dol per bushel</i>	<i>U.S. dol. per bushel</i>	<i>U.S. dol. per bushel</i>	<i>U.S. dol. per bushel</i>
	France	1.15	.35	.44	.16
Germany, West	1.82	1.19	1.05	.52	1.30
Italy	1.53	.73	0	0	.01
Belgium	1.21	.31	.54	.19	.56
Netherlands	1.11	.04	.39	.17	.31

Source: Communauté Economique Européene, *Marchés Agricoles, Prix.*

The levy system as implemented by the EEC could have important effects upon the competitive relations between different qualities of products. As a result of the levy, cost of higher priced products are increased by the levy a smaller percent of their c.i.f. prices than are the costs of lower priced products. For example on December 14 No. 2 Soft Red Winter had a c.i.f. Rotterdam price of \$63.70 per metric ton (\$1.73 per bushel) and No. 2 Northern Manitoba was priced at \$75.25 per metric ton (\$2.05 per bushel). Thus Manitoba was \$11.55 per metric ton (\$.32 per bushel) above No. 2 Soft Red Winter and 118 percent of No. 2 Soft Red Winter. The c.i.f. prices, plus the levy, maintained the same absolute difference but made No. 2 Northern Manitoba only 111 percent of No. 2 Soft Red Winter.

Franco-frontier prices are free-on-border prices. They apply to the grain available for export by member countries and are parallel to the c. i. f. prices of third countries. Determination is made of the franco-frontier price for each exporting country for the different grain adjusted for quality. The resulting price is used to calculate the levy applicable to the particular cereal from the exporting member state. The applicable levy is the difference between the determined franco-frontier price and the importing country's threshold price reduced by the lump sum. The intra-community levies vary according to the member countries involved. Usually the franco-frontier levy is calculated once a week.

The use of the lump sum gives the grain imports of member countries preference over third-country grain. Provisions permit adjustments in this lump sum to promote intra-community trade.

The effect of an increase in the lump sum would not affect the levy on intra-community trade, but the threshold prices would be increased and, therefore, third-country levies would be increased. In this way, intra-community trade would be stimulated.

Import and export licenses are required. These are to be issued without discrimination. The system does, however, make possible the monitoring of imports and exports, and the collection of levies. Also, regulations provide that licensing may be suspended by member countries if serious disruption of internal markets is threatened. In the transitional period, member countries may take any safeguard measures deemed necessary to prevent disruption of internal markets. Subsequently, only the suspension of licensing is to be permitted.

In summary, imports into the EEC are regulated by: (a) establishing threshold prices, which are, broadly speaking, "minimum" import prices for each country based on producer-price objectives at the wholesale level for that country; (b) maintaining the threshold price levels by fixing levies equal to differences between threshold prices and lowest adjusted prices for imports from outside the individual country, (c) giving a preference to intra-community supplies through the use of a lump sum and (d) monitoring the system through the licensing of imports.

Export Subsidies

Member countries are permitted to subsidize exports to both third countries and to other member countries. Regulations prescribe the limitations on the amount of subsidies permitted.

Subsidies for export to third countries may be in the form of a cash subsidy or an authorization to import quantities free from import levies. In general, the cash subsidies are to be limited so that they are not larger than the levies applicable to the imports from third countries on the date of exportation. An alternative procedure permitted by the EEC is authorization to import, free from levies, quantities equal to those exported. Member states are also permitted to use tender systems whereby exporting firms offer to

export particular quantities for specified subsidies. Such a procedure, when used, makes possible larger subsidies than would be consistent with other regulations.

For intra-community trade, member countries may subsidize exports when the threshold price in the importing member country is less than the franco-frontier price in the exporting member country. This subsidy is limited to the subsidies permitted for exports to third countries.

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