

COMMISSION OF THE EUROPEAN COMMUNITIES

COM(74) 2000 final

Brussels, 27 November 1974

PART I

THE AGRICULTURAL SITUATION IN THE COMMUNITY

1974 Report

PART I - SYNTHESIS

COM(74) 2000 final

PART I

Table of contents

The agricultural situation in the Community

1974 Report

Part I - Synthesis

	Page	Tables in Part III
1. Distinguishing features of agriculture in the Community	3	
2. General economic environment	5	I/2.1, I/2.2 and I/7.12
3. Relative importance of agriculture in the general economy	6	I/3.1, I/3.2
4. Final production, intermediate consumption and value added	7	I/4.1 to I/4.4
5. Production	8	I/5.1, I/5.2
6. Productivity	9	I/6.1, I/5.2
7. Prices	10	I/7.1 to I/7.12
8. Consumption and consumers	14	I/8.1 to I/8.3 and I/7.11 to I/7.12
9. Trade and degree of self-sufficiency	18	I/9.1 and II A/1.1 to II A/2.2a
10. Present situation on the main agricultural markets	21	II B/1.1 to II B/23.11
11. Socio-structural situation	25	II C/1.1 to II C/3.3
12. Agricultural incomes	28	II D/1.1 to II D/15
13. Financial aspects	33	II E/1.1 to II E/3.5
14. Monetary aspects	35	I/14.1
15. Short- and medium-term outlook	38	

List of graphs

		<u>Page</u>
I/1.1	Potential for consumption (inhabitants), for production (land), and for the production of agricultural produce in the Community	4bis
I/1.2	Community distribution of the UAA (utilized agricultural area) and of final production by crop and product	4ter
I/3.2	Development of final agricultural production at current prices	6bis
I/3.3	Development of intermediate agricultural consumption at current prices	6bis
I/3.4	Development of net value added in agriculture at factor costs at current prices	8bis
I/5.1	Development of the number of people employed in the agricultural, forestry and fishery sectors	8bis
I/6.1	Development of labour productivity in agriculture	10bis
I/7.1	Comparison between world prices and Community prices	12bis
I/11.1	Farms and their areas in the Community	27
I/12.1	Variation in agricultural incomes and in the remunerations of agricultural workers, per category of worker, compared with the previous year	28bis
I/13.1	Public, national and Community expenditure in support of agriculture in 1973	34bis
I/14.1	Rates (in %) used for the calculation of monetary compensatory amounts in 1974	36bis

1974 Report

on the agricultural situation

Preliminary remarks

This report is presented in conjunction with the price proposals for the 1975/76 marketing year. It constitutes the annual report referred to in the "Declaration on the system for fixing Community farm prices" contained in the Documents concerning the Accession to the European Communities.

The report consists of three parts. Part I entitled "Synthesis" gives a general survey of the agricultural situation based on macro-economic data and on the studies set out in Part II of this report.

Part II, entitled "Analysis", contains detailed studies on trade in agricultural products, on agricultural markets, structures, agricultural incomes and the financial aspects of the common agricultural policy and of national agricultural policies.

Lastly, Part III (ANNEX) comprises all the tables, with figures, on which Parts I and II are based.

This report contains all the information which the Commission is required to submit in accordance with Article 2 of the Council Decision of 4 December 1962 on the coordination of policies on the structure of agriculture. The analysis is not concerned with the national policies pursued in this field; the Commission considers it more appropriate to analyse these aspects in the reports which it has to submit annually to the European Parliament and to the Council, as provided for in Article 22(1) of the Council Directive of 17 April 1972 on the modernization of farms, in Article 15 of the Council Directive of 17 April 1972 concerning measures to encourage the cessation of farming and the reallocation of utilized agricultural area for the purposes of structural improvement, and in Article 16 of the Council Directive of 17 April 1972 concerning the provision of socio-economic guidance for and the acquisition of occupational skills by persons engaged in agriculture.

This report also includes the data from the accountancy data network of the European Economic Community in accordance with the provisions of Article 1(3) of Council Regulation No 79/65/EEC, as amended on 23 October 1973, which set up the data network. It also supplies the information called for in Article 4 of Council Regulation (EEC) No 1308/70 on the common organization of the market in flax and hemp.

The preliminary remarks in earlier reports relating to the comparability of available statistical data are still valid for this report. The Commission takes this opportunity to stress the need for an acceleration of the work on the coordination and harmonization of national statistics at Community level, and the need to have available statistical information which is as up-to-date as possible. In order to fill in the gaps in official statistics, the Commission has, in certain cases, had to have recourse to other sources of information or to make its own estimates.

At its meeting on 2 October 1974, the Council called on the Commission to draw up before 1 March 1975, on the basis of all available data, a comprehensive review of the common agricultural policy, in particular on the basis of the objectives of Article 39 of the EEC Treaty. This review, together with any conclusions which the Commission thinks appropriate, will be the subject of a full discussion in the Council and the European Parliament. This report¹ contains a large proportion of the information available to the Commission for the preparation of this review.

The drafting of this report was completed on 26 November 1974.

¹The data given in this report may usefully be supplemented by that published in previous reports.

1. DISTINGUISHING FEATURES OF AGRICULTURE IN THE COMMUNITY

The agricultural sector in the enlarged Community comprises 5.4 million farms of more than one hectare cultivating 88 million hectares (2.1% of the world UAA). The working population engaged in agriculture numbers some 9.6 million persons; this represents approximately 9% of the working population; agriculture accounts for approximately 5% of the gross domestic product of the Community.

Agriculture in the Community is exercised in a temperate zone of wide diversity of climate, morphology and soil fertility. The Community extends over almost 3 000 kilometres from the hills of Scotland to Mediterranean Sicily.

Apart from this diversity of physical conditions, Community agriculture is affected by very different demographic, structural and economic factors, such that, for example, the average area of farms in Picardy is around 40 ha whereas in Calabria it is under 6 ha. Agriculture in the Community is not homogeneous, but varies from region to region.

In comparison with the agricultural structures of the major world producers (USA, Canada, Australia, New Zealand), those of the Community appear mediocre. For example, the land/man ratio is only 9 ha per man in the Community against 126 ha in the USA. The average farm area is only 17 ha; 43% of farms cover less than 5 ha and occupy only 7% of the UAA; in contrast, 5% of farms, accounting for 39% of the land, are farms of more than 50 ha.

Farms of more than 1 ha in the Community in 1973

Specification	Farms		Land UAA	
	Number ('000)	%	Ha '000 000	%
TOTAL	5 404	100	88.3	100
1-20 ha	4 233	78	26.2	30
of which:				
part-time farms (estimated)	1 700	31	.	.
20 ha and above	1 171	22	62.1	70

For a long time now, agriculture in the Community has been based mainly on animal production. The beef/mutton/dairy sector, which occupies 42 million ha of meadow and pasture land (45% of the UAA), represents in itself one third of total agricultural production. If one adds pig and poultry production, which are based on the processing of cereals, the value of animal production accounts for 60% of the final agricultural production.

The crop sector is based mainly on cereals, cereals occupying 28% of the total UAA, but represents only 10.6% of the value of final agricultural production. This is due to the fact that a large part of the crop production is intended for forage, and thus 75% of the total UAA is in fact given over to animal production.

Although vegetables and fruit are produced in almost every region of the Community, certain specialized products in this sector (for example citrus fruit) and the production of wine and oil are localized, especially in the southern part of the Community. These products as a whole account for 17% of total agricultural production.

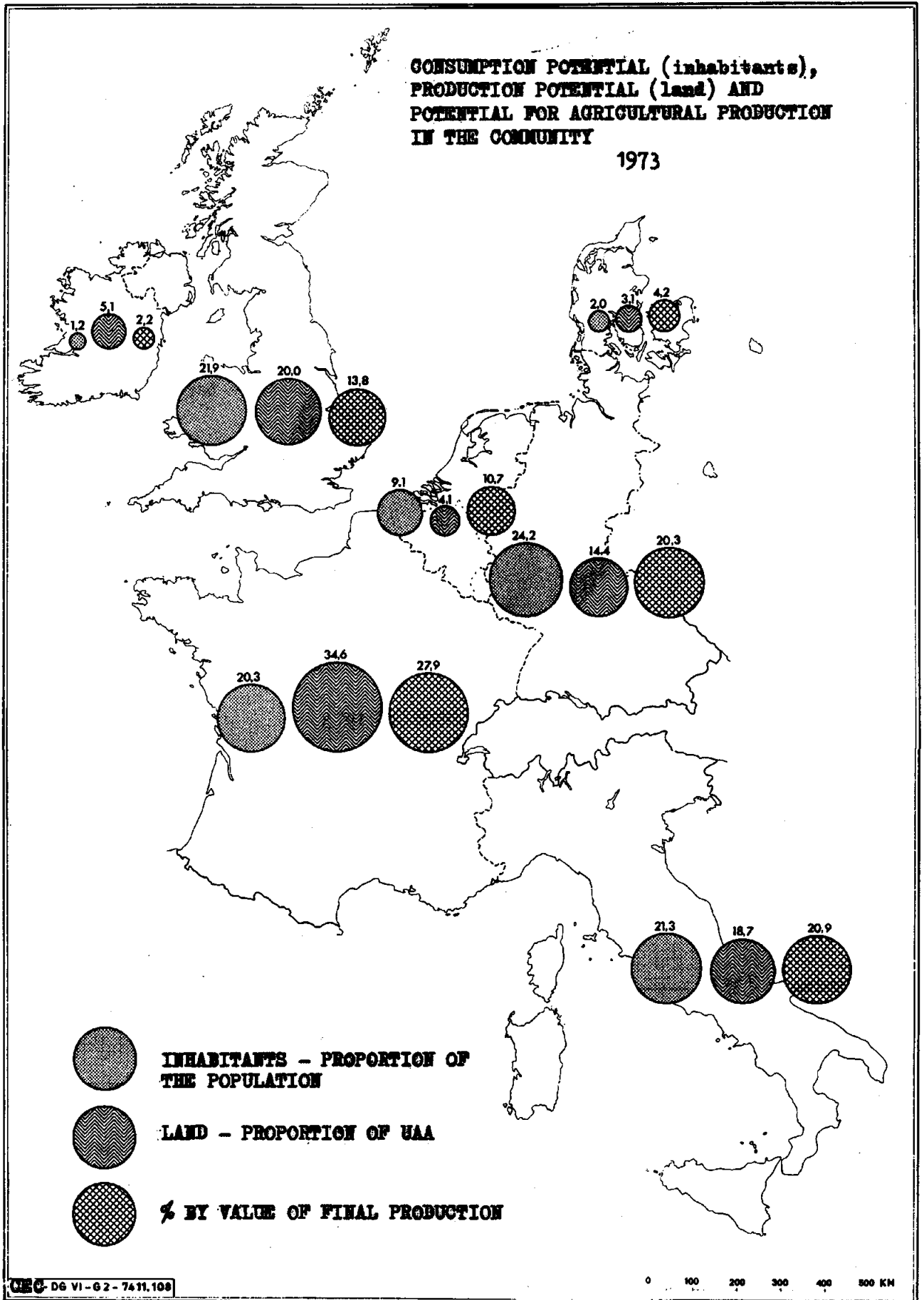
Agricultural production in the Community is not, however, sufficient to supply a consumer market of 255 million people (6.7% of world population). Imports of agricultural and food products amounted in 1973 to more than 19 milliard u.a., final internal agricultural production accounting for a total of 67.6 milliard u.a. The Community is in fact the number one world importer of foodstuffs, and these constitute more than one quarter of its total imports (8% of its exports).

The dependence of the Community on non-member countries is particularly great in respect of its supplies of tropical produce, vegetable oils and fats (soya), durum wheat, maize and certain fruits and vegetables (citrus fruit). The three main suppliers of the Community, each accounting for about 15% of the total, are the countries of the Commonwealth, Latin America and the USA.

On the other hand, the degree of self-sufficiency of the Community is approximately 100% in respect of a number of important products: milk and milk products, pigmeat, eggs and poultry, common wheat, rye and barley. In total, the volume of Community agricultural production is increasing by 1.9% per annum, whereas the number of inhabitants is increasing annually by only 0.8%. As in all the industrialized countries, the proportion of household expenditure accounted for by food is decreasing regularly, the figure for 1972 being 26%.

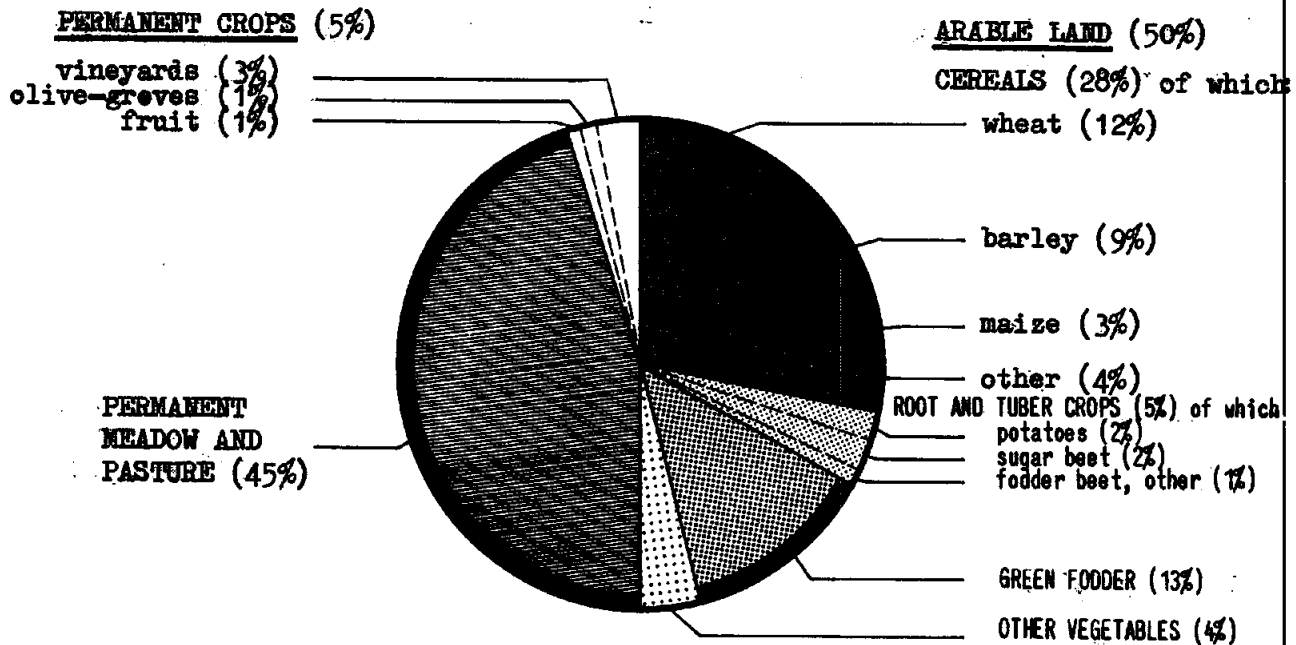
CONSUMPTION POTENTIAL (inhabitants), PRODUCTION POTENTIAL (land) AND POTENTIAL FOR AGRICULTURAL PRODUCTION IN THE COMMUNITY

1973

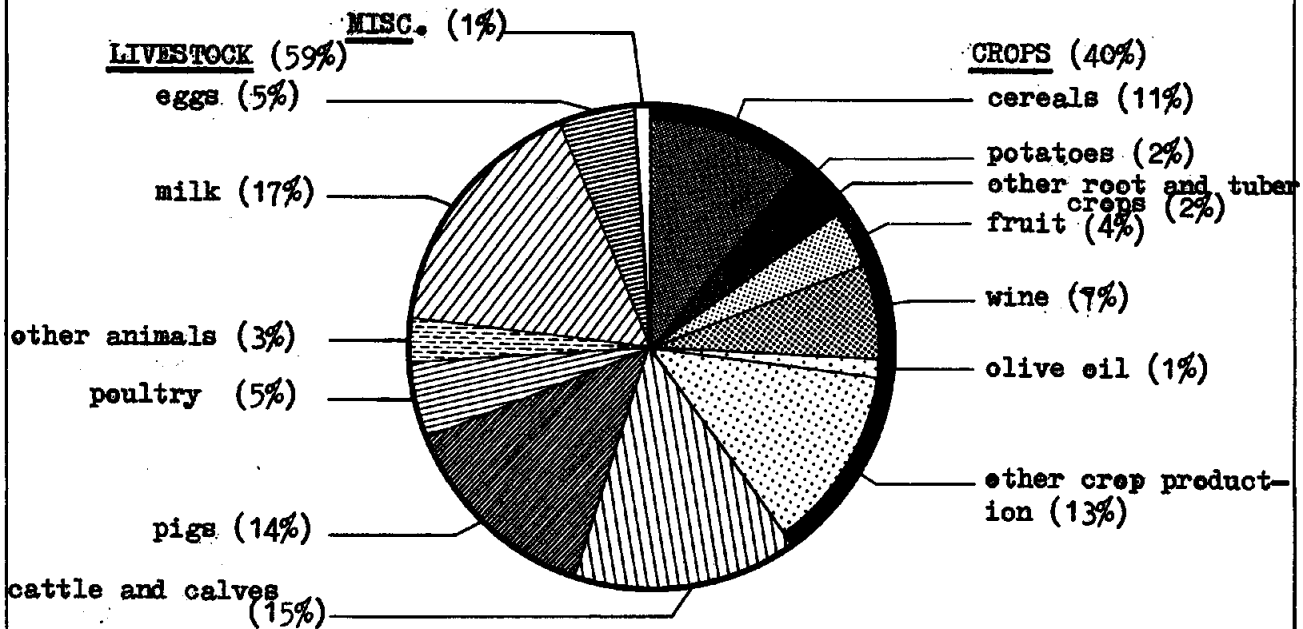


COMMUNITY DISTRIBUTION OF THE UAA AND OF FINAL PRODUCTION
BY CROP AND PRODUCT
IN %

UTILIZED AGRICULTURAL AREA 1973



FINAL PRODUCTION 1973



2. GENERAL ECONOMIC ENVIRONMENT¹

Since the summer of 1974, there has been a marked slowing down in the development of demand and production in the Community. In the majority of the Member States, this has not, up to now, had any real effect on the rhythm of price increases, and this remains the major cause of concern. On the labour market in the Community, unemployment is tending to increase².

The rise in the general level of prices remains a disquieting problem in all the countries of the Community. The implicit price increase for the gross domestic product of the Community was of the order of 7.5% in 1973 and will exceed 10% in 1974. Moreover, these averages hide marked differences in inflationary trends among the Member States. In fact, the annual rates of increase in the general level of prices in 1974 probably range between about 6% (Germany) and 14.8% (Italy).

The upward movement of internal prices is also illustrated by the very high rate of increase of the consumer price index, reaching an annual rate of 15% during the summer months of 1974 against approximately 12% during the second quarter. Examining the development country by country, one sees in general a relative stability in the countries whose currencies have appreciated in value and a higher rate of inflation in the countries whose currencies have depreciated.

DEVELOPMENT OF CONSUMER PRICES (General index) (annual percentage rates of increase)

Member State	1973/1963	1972	1973	1974 ⁽¹⁾
Deutschland	3.5	5.5	6.9	7.3
France	4.7	6.4	7.6	14.7
Italia	4.7	5.7	10.8	23.0
Nederland	5.9	8.0	8.2	10.4
Belgique/België	4.3	5.5	7.0	15.7
Luxembourg	3.7	5.0	6.0	10.5
United Kingdom	5.6	7.0	9.1	17.0
Ireland	6.7	8.7	11.3	17.9
Denmark	6.0	6.6	8.8	16.7

(1) September 1974/September 1973, except Ireland: August 1974/August 1973.

¹ See Tables I/2.1, I/2.2 and I/7.12 in the Annex.

² Commission, The economic situation in the Community, December 1974 (II/550/74) (draft).

There has been a marked decline in economic growth from 1973 to 1974. While the volume of gross domestic product increased by 5.6% in 1973 compared with 1972, the corresponding rate is expected to be less than 3% in 1974 compared with 1973.

The combined effect of this low rate of economic growth and the continuing inflationary tendencies has been a growth rate in the value of the gross domestic product of the Community of the order of 13% in 1974 (13.5% in 1973). We must expect to see in 1975 the continuation of both the deceleration in economic growth in real terms and of inflation which will remain acute.

Parallel to the general economic trend described above, there has been a very appreciable increase in per capita earnings. These showed an increase of 13.5% in 1973 compared with 1972 and the rate of increase in 1974 has been as high as 16.2%. The trends vary considerably between Member States, the range in 1974 being between 12 to 14% (Germany and the Netherlands) and more than 20% (Italy and Denmark).

The average wage per wage-earner in the Community was 4 852 u.a. in 1972, and could reach some 5 592 u.a. for 1973 and 6 500 u.a. in 1974.

3. RELATIVE IMPORTANCE OF AGRICULTURE IN THE GENERAL ECONOMY¹

The downward tendency in the relative share of the agriculture, forestry and fishery sector continued. In 1972, this represented only 5.3% of the gross domestic product of the Community at factor cost (compared with 7.6% in 1963).

This trend has run parallel to a decline in the relative importance of agriculture in the total labour force. In 1973, the percentage recorded was 9.2 (compared with 14.4% in 1963).

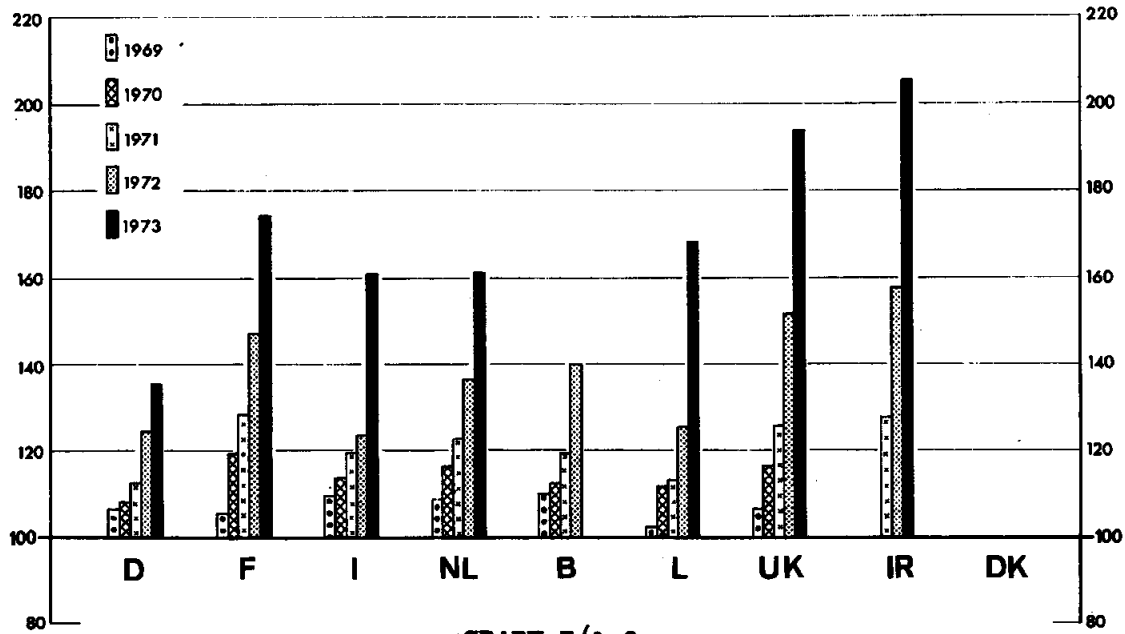
For the Community, the annual rate of decrease in the agricultural labour force in 1973 compared with 1972 can be estimated at 3.3%, which represents a slowing down compared with the previous year (5.2%). This slowing down has been particularly marked in Denmark and Italy.

¹See Tables I/3.1 and I/3.2 in the Annex.

DEVELOPMENT OF FINAL AGRICULTURAL PRODUCTION

AT CURRENT PRICES

1968 = 100

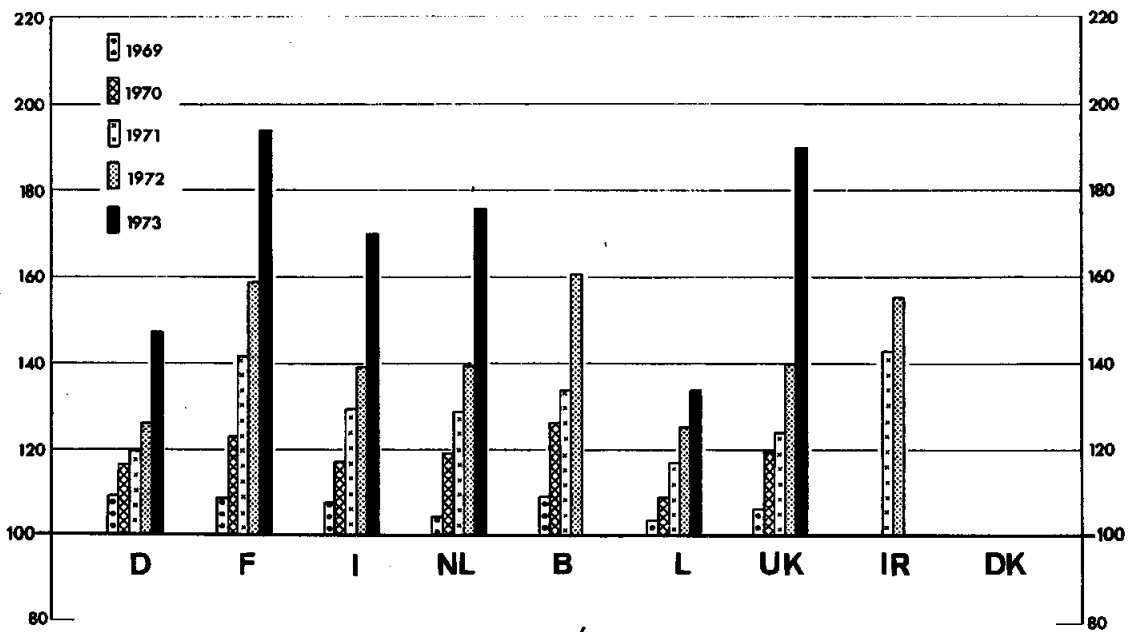


GRAPH I/3.2

DEVELOPMENT OF INTERMEDIATE AGRICULTURAL CONSUMPTION

AT CURRENT PRICES

1968 = 100



GRAPH I/3.3

4. FINAL PRODUCTION, INTERMEDIATE CONSUMPTION AND VALUE ADDED¹

For 1973, the final production of the Community is estimated at 67.6 milliard u.a. This amount can be broken down as follows among the Member States:

France:	28%
Italy:	21%
Germany:	20%
United Kingdom:	14%
Benelux:	11%
Denmark:	4%
Ireland:	2%

It can be seen from an examination of the structure of final production in the various countries that in 1973 the proportion of final production subject to common price arrangements represented 74% of the total final production, the range being between 67% for the United Kingdom and 91% for Denmark.

The products under common market organization but not subject to common price arrangements represented 16% of final production (with a minimum of 5% in Ireland and a maximum of 23% in Belgium), whereas the percentage of products not subject to a common market organization is approximately 10%, ranging between 4% (Denmark) and 15% (Netherlands). The latter figure is accounted for mainly by potatoes and sheepmeat.

Generally speaking, the relative importance in the final production of the products subject to common prices is inversely linked to the relative importance of livestock production: in fact, where the latter is high, the former is also high (Germany, Denmark, Ireland) and vice-versa. The United Kingdom constitutes a case apart. Although the percentage of livestock products is high in this Member State, the percentage of products subject to common price arrangements is relatively low; this is because the regulated products without common prices (eggs and poultry) and the products not subject to a common market organization (sheepmeat) are relatively important there.

As regards the relative share of the various Member States in the total final production for each product, the following data can be given:

¹See Tables I/4.1 to I/4.4 in the Annex.

- for cereals, the figures are France 37%, Italy 20%, United Kingdom 17%, Germany 16%, Denmark 5%, Benelux 4% and Ireland 1%;
- for beef and veal, the figures are France 28%, Germany 23%, United Kingdom 16%, Italy 13%, Benelux 11%, Ireland 5% and Denmark 4%;
- for milk, the figures are France 27%, Germany 25%, United Kingdom 14%, Benelux 13%, Italy 12%, Denmark 6% and Ireland 3%.

The importance of intermediate consumption varies considerably among the Member States, ranging between 56% of final production (United Kingdom) and 25% (Italy). It follows from this that the gross value added expressed in % of final production also differs widely from country to country. The percentage is higher than the Community average, estimated at 60%, in Italy (75%), France (67%), Ireland (64%) and Luxembourg 63%), but is lower in Germany, the Netherlands, Belgium and Denmark (between 51 and 52%).

As regards working income, it can be seen from the data available that this represents between 36 and 37% of final production in Germany and the United Kingdom, between 40 and 45% in Benelux and 57% in France.

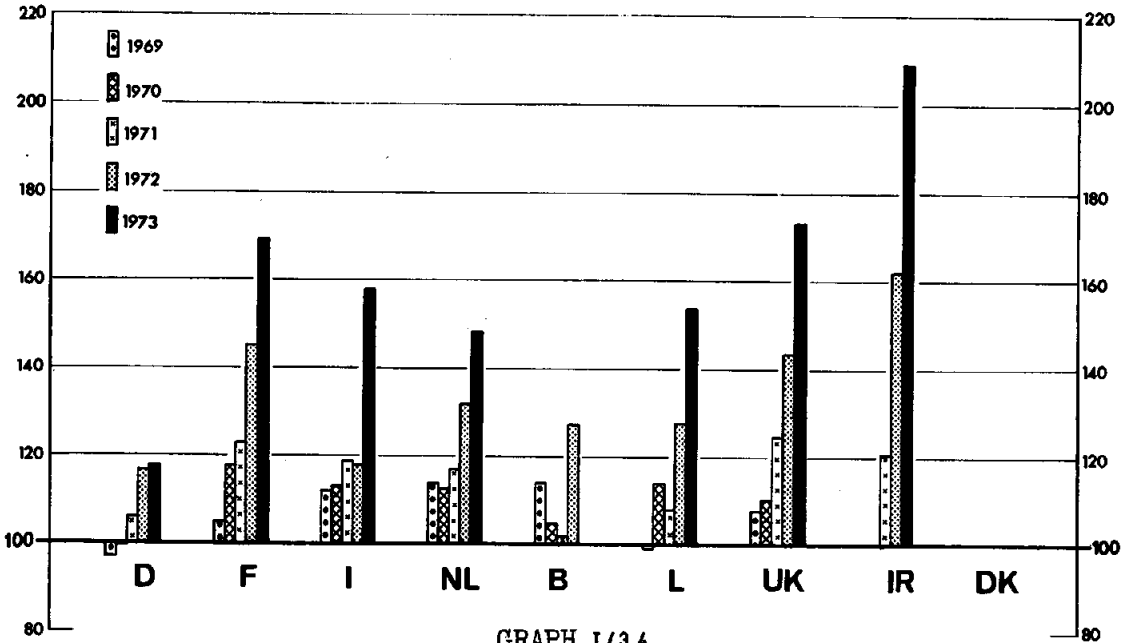
Compared with 1972, the final production at current prices of the Community in 1973 increased by approximately 21% (13% in 1972 compared with 1971), whereas the gross value added was 18% below the level recorded in 1972 (14.6% in 1972 compared with 1971).

For 1974, the forecasts are much less favourable. The reasons for this are the downward tendencies in the prices of agricultural products, or a slowing down in their rate of increase, as is the case in Italy, the United Kingdom and Ireland, and the very sharp increase in the prices of the means of production¹. In fact, the rate of increase in gross value added in agriculture in money terms will probably remain below 10%. Taking into account the increase in the general level of prices, which is of the same order of magnitude, we can therefore expect a real increase of zero in the gross value added in agriculture in 1974.

¹See Chapter 7 of this document.

DEVELOPMENT OF NET VALUE IN AGRICULTURE AND
FACTOR COSTS AT CURRENT PRICES

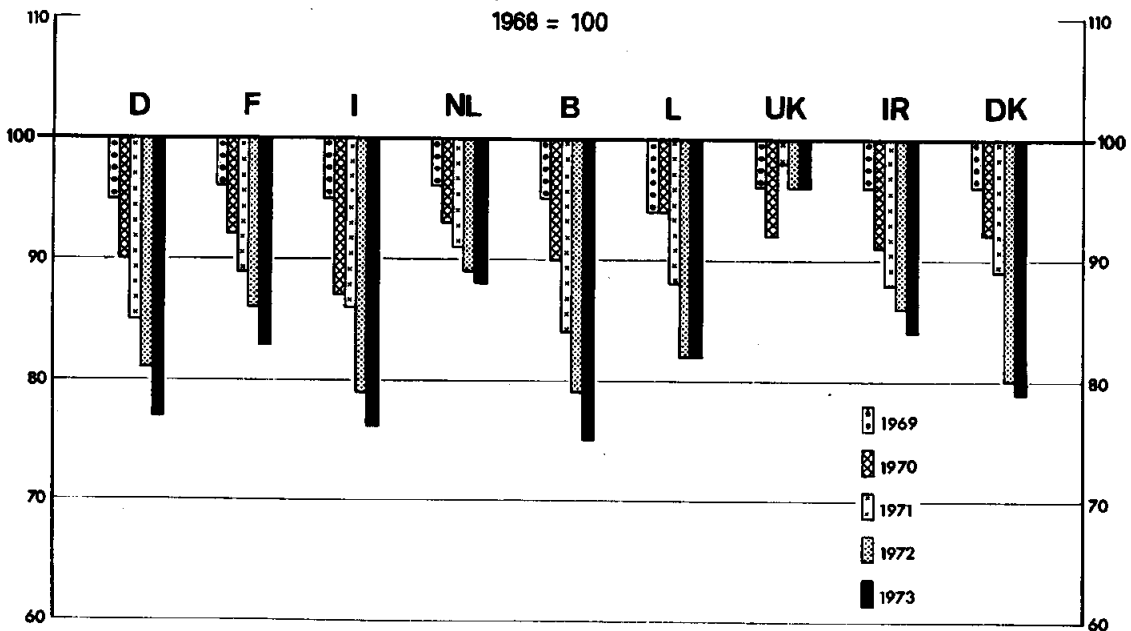
1968 = 100



GRAPH I/3.4

DEVELOPMENT OF THE NUMBER OF PEOPLE EMPLOYED IN
THE AGRICULTURAL, FORESTRY AND FISHERY SECTORS

1968 = 100



GRAPH I/5.1

5. PRODUCTIVITY¹

During the period "1968"- "1972", there was an annual increase in labour productivity of 6.6% in the original Community. This development is due to the combined effect of the average increase in final production (1.9%) and the decrease in the number of persons employed in agriculture (-4.5% per annum). Calculated on the basis of gross value added, labour productivity increased by 5.2% per annum. Among the various Member States, these rates are respectively 5.9% (5.7%) in Germany, 6.1% (4.1%) in France, 6.1% (5.2%) in Italy, 7.9% (6.5%) in the Netherlands, 9.5% (7.8%) in Belgium and 5.4% (3.7%) in Luxembourg². In the United Kingdom labour productivity increased by 3.1% (5.0%)².

Taking all sectors of the economy together, the rate of 6.5% is to be compared with an annual growth rate of the gross domestic product per person employed in the original Community at constant prices and exchange rates for the same period of 4.7% for the original Community and 4.4% for the enlarged Community.

Over the same period, the productivity per hectare of utilized agricultural area in the original Community has shown an annual growth rate of 3.2% (1.4%)².

During the period "1966"- "1972", the average yields per hectare showed quite substantial annual rates of increase. These varied in the Community from 3.6% for durum wheat, 4.9% for grain maize, 3.8% for common wheat, 2.1% for barley and 1.2% for sugar beet. For all cereals the annual growth rate was 3.5%. The milk yield per cow in the original Community increased during this same period by 0.7% per annum. In general these annual rates of increase were appreciably lower in the three new Member States.

¹ See Tables I/6.1 and I/5.2 in the Annex.

² The first figure has been calculated on the basis of final production, the second on the basis of gross value added. No data are available for Ireland and Denmark.

6. PRODUCTION¹

During the period "1968"-²"1972", the final production of the original Community increased in volume by 1.9% per annum. This rate of increase was greatest in the Netherlands (4.9%) and in Belgium (3.6%). In 1973, the increase in the volume of final production in the original Community was considerably above the annual average rate observed above, the figure being 5.6%. This increase was greatest in the crop sector (+ 10%), whereas livestock production only increased by 2.1% in volume during the same year.

During the period "1966"-²"1972", the annual rates of variation in production show marked differences from product to product. Thus, for all cereals the growth rate in the Community was 3.5% (but 7.8% for durum wheat and 11.4% for maize), for rice the figure was 4.6%, for potatoes - 2.8%, for sugar beet - 3.1%, for olives - 2.8% and for peaches - 1.3%.

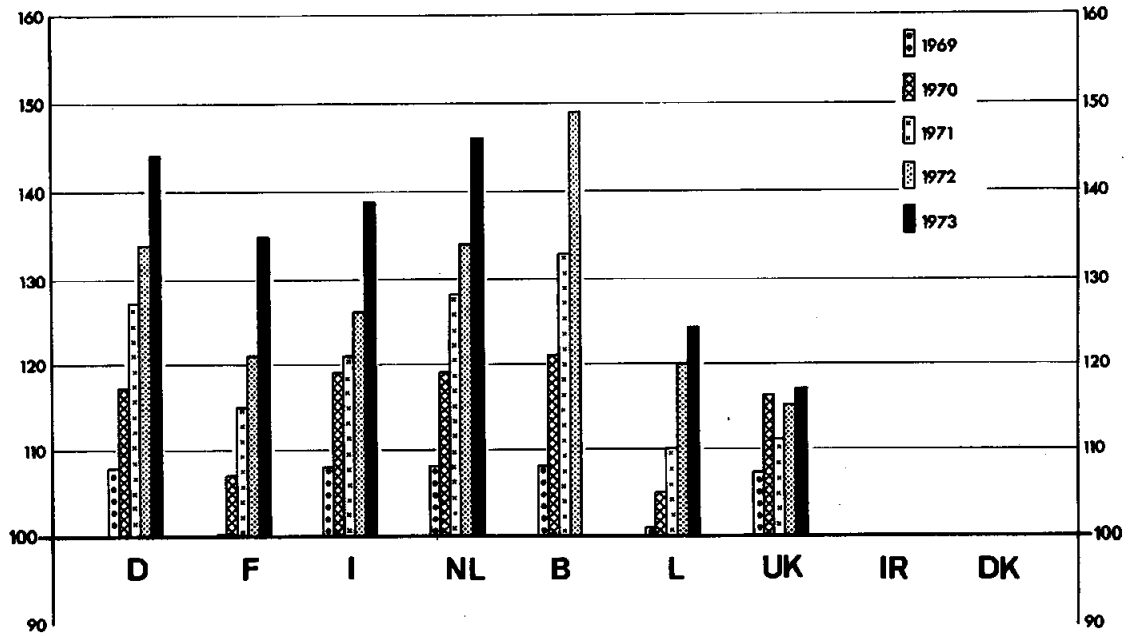
According to provisional estimates, the 1974 cereal harvest (excluding rice) of the Community will be 108 million metric tons (1973: 105.7 million metric tons). This new production record is the result of a slight extension of the area under cultivation and, more especially, of an above average unit yield.

The growth rate in production in 1974 compared with 1973 for other agricultural products is expected to be 1% for milk, 13.3% for beef and veal and 6% for wine; in contrast, pig production has declined slightly (- 0.1%).

¹See Tables I/5.1 and I/5.2 in the Annex.

²The sign " " indicates an average three year period.

DEVELOPMENT OF LABOUR PRODUCTIVITY IN AGRICULTURE
(calculated on the basis of final production at
1970 constant prices per person employed in agriculture)
1968 = 100



CEL DGVI/2-117.104

GRAPH I/6.1

7. PRICES¹

(a) Prices of means of production²

The acceleration of the marked inflationary trends, the energy crisis and the firmness of markets for the supply of certain feedingstuffs and chemical products caused a very sharp rise in the prices of means of agricultural production and in agricultural wages.

The increase in agricultural wages ranged in 1973 from 24.0% in Italy to 10.7% in Germany. The acceleration of the expected increase in non-agricultural wages (16.2%) in 1974 (as against 13.5% in 1973) suggests an even higher increase in agricultural wages in this year.

There were disturbing increases in price of the means of production in the second half of 1973 and the first half of 1974, but since then there seems to have been something of a lull. In the original Community, the annual rate of increase of these prices has trebled - from an annual increase of about 5% in 1970, 1971 and 1972, to an estimated 13% in 1973 and 18% in 1974. For 1973 and 1974 together, the total increase in price of the means of production can be estimated at 33% for the original Community. This average hides considerable differences between Member States with a strong currency and those with a weak currency, as shown in the following table:

Cumulative rate of increase in 1973 and 1974 of prices of means of production

Country	%
Germany	22
France	42
Italy	47
Benelux	23
United Kingdom	61
Ireland	66
Denmark	41

¹See Tables 1/7.1 to 1/7.12 in the Annex.

²See Tables 1/7.1 to 1/7.3 in the Annex.

The increase in price of the means of production are due mainly to the rise in the prices of feedingstuffs, fertilizers, fuels, and, to a lesser extent, to the rise in machinery prices.

(b) Prices of agricultural products¹

The strong upward trend in agricultural producer prices already seen in 1972 continued in 1973, except in Germany. On a calendar year basis, the increase in 1973 was 8% in Germany, 10% in France and Luxembourg, 12% in the Netherlands, 19% in Belgium, 20% in Italy and 29 to 30% in the three new Member States. The latter countries have made a first approximation to Community prices, and their prices are often more markedly affected by price increases on world markets. In the original Community, the increase was approximately 15%, being greater for vegetable products (25%) than for animal products (9%).

In 1974, this trend was reversed; a comparison of July 1973 with July 1974 shows a drop of 4.6% in France, 7.7% in Germany and 11.4% in Belgium. In the United Kingdom and Ireland, however, the upward trend continued, although to a lesser extent than in the previous year.

The tendency of prices of the means of production and agricultural prices to diverge had a very adverse effect on agricultural income in 1974.

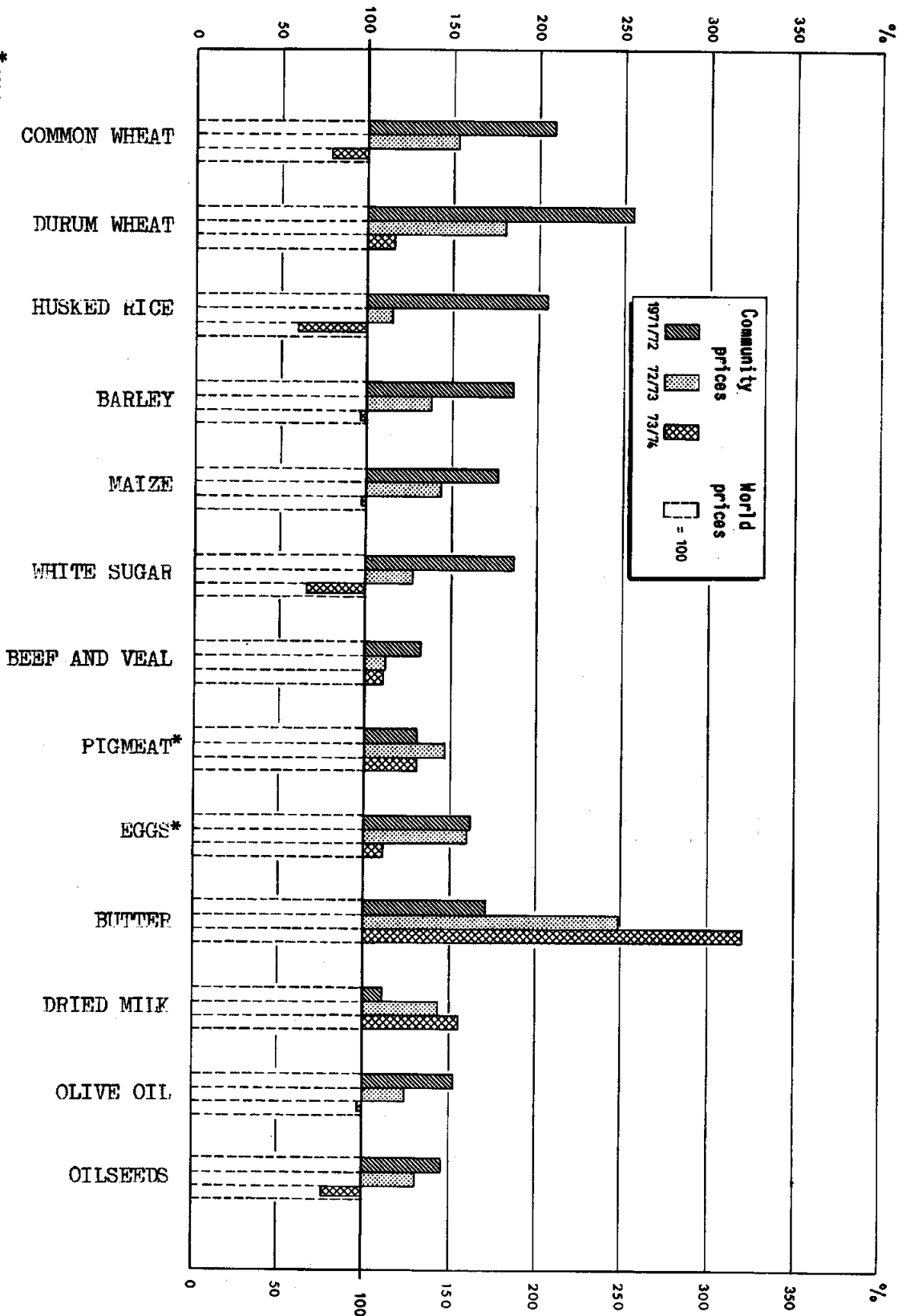
The price movements noted above should be compared with the average rate of increase in common prices in u.a. of 5.1% in 1973/74 and 14.5% in 1974/75².

¹ See Tables I/7.4 to I/7.9 in the Annex.

² Insofar as monetary changes occur (representative rates), the development of common prices expressed in national currency may differ from that expressed in u.a.

COMPARISON BETWEEN WORLD PRICES AND COMMUNITY PRICES
World prices = 100

* 1971 - 1972 - 1973



CEC - 06 VI - 9/2 - 7411.06

GRAPH I/7.1

The prices fixed for the Community determine the degree of support for prices and markets at the wholesale stage. Since the markets develop freely within certain limits, neither market prices nor producer prices are directly linked in their development to the prices fixed in the Community.

The relationship between agricultural prices within the Community and on the world market has changed considerably since 1971/72. Since then, the latter have on the whole greatly increased, so that Community internal prices are at an ever decreasing level in relation to that of world prices for agricultural products.

For the 1973/74 marketing year, the threshold prices for many products are appreciably below world prices, or are approximately the same. Butter and milk powder are an exception to this rule.

Threshold prices as a percentage of world market prices

(Average for 1973/74)

Product	%
Common wheat	79
Durum wheat	116
Husked rice	60
Barley	96
Maize	98
White sugar	60
Beef and veal	111
Pigmeat	131
Eggs	111
Olive oil	98
Oilseeds	77
Butter	320
Milk powder	156

(c) Comparison of the development of consumer prices and agricultural producer prices¹

An analysis of the development of producer and consumer prices for certain agricultural products which have an important place in total agricultural

¹See Tables I/7.10 and I/7.12 in the Annex.

production (e.g., milk, beef and veal, pigmeat, common wheat, sugar beet and eggs) shows that consumer prices for these products, whether as such or processed, generally increased by a far greater amount than the agricultural producer prices over the period 1968-1972/73. The only exceptions to this rule were beef and veal in France, milk in Italy, sugar in the Netherlands and potatoes in France, the Netherlands and Belgium¹.

In 1974 the strong upward trend in consumer prices for foodstuffs and beverages continued, while the general index for agricultural producer prices fell considerably in the Community, with the exception of Italy and the new Member States².

¹ Figures not available for the United Kingdom.

² Figures not available for Denmark.

Consumer habits within the Community differ widely. It is not surprising to learn, therefore, that the average French consumer drinks per year fifty times more wine but three times less milk than his Irish counterpart, or that the Italian housewife uses twice the quantity of vegetable oils and fats, but four times less butter than the Irish housewife.

The changes seen in consumer habits are due not only to the increase in incomes but also to the new supply possibilities resulting from the integration of the agricultural and food markets within the Community. The volume of intra-Community trade in agricultural and food products is six times what it was in 1963; the range of products offered to consumers has been greatly increased and diversified, largely as a result of the new economic dimensions in which the food industry now operates.

Already in 1973, and more so in 1974, Community consumers had protection from the ups and downs of the world market. By introducing export levies for certain vital basic products (cereals, rice, sugar), the Community not only ensured security of supply but also a certain degree of stability in consumer prices. In a period of galloping inflation and temporary hold-ups in energy supplies, these and other measures to help the consumer (subsidies for butter, the subsidizing of the purchase of sugar on the world market) assume particular importance.

The effectiveness of these measures is illustrated by the fact that the internal Community price for many products is appreciably lower than world market prices. In mid-November 1974, for example, the highest world prices for cereals were 30 to 40% higher than the intervention prices, and 70% in the case of olive oil, while the price of white sugar on the world market is almost five times the Community intervention price.

Thus, if Community consumers had had to obtain their supplies of crop products on the world market, they would have paid far more than under the present Community arrangements.

In general, comparing 1974 with 1973, consumer prices for foodstuffs increased to a lesser extent than the general index of consumer prices.

Consumer prices

September 1974 percentage increase over September 1973

Country	General index	Foodstuffs and beverages
Deutschland	7.3	5.2
France	14.7	11.6
Italia	23.0	22.8
Nederland	10.4	5.8
Belgique - België	15.7	11.0
Luxembourg	10.5	10.0
United Kingdom	17.0	16.5
Ireland	17.9 ¹	16.0 ¹
Danemark	16.7	11.4

¹ August 1974 - August 1973

With the exception of Italy, where the prices for foodstuffs have been affected by the successive devaluations of the agricultural lira and also by the fairly considerable dependence of the Italian market upon non-member countries, food prices are more stable in the countries of the original Community and in Denmark than in the United Kingdom and in Ireland. The case of the United Kingdom deserves particular attention, since the British market, which represents almost 22% of the Community's consumption potential, is the most dependent on non-member countries, but it is also the market which has received the most Community help for consumers (a consumer subsidy of 330 million u.a. for butter sold at a price 56% less than the common price, measures in support of beef and veal and pigmeat).

Owing to the special measures and monetary compensatory amounts, and also to the measures taken by the Community to ensure security of supply and the stability of consumer prices, the increase in these prices in the United Kingdom was less than it would have been if the full impact of world prices had been borne by the consumer goods markets.

9. TRADE AND DEGREE OF SELF-SUFFICIENCY¹

One third of the world's agricultural trade passes through the Community (against 27% of industrial trade). Fruit and vegetables, meat and live animals are the main products imported. The Community undertakes 81.7% of international trade in fruit and vegetables and feedingstuffs. Approximately 40% of the original Community's agricultural products come from the developing countries, approximately 50% from industrialized countries and 10% from state-trading countries.

There were frequent instances of scarcity on the world market in 1972 and these recurred in 1973 and 1974; the result was a sharp rise in prices and a reduction in stocks (sugar, cereals, soya, fish meal and rice). Weather factors alone do not explain this complex situation, and the general inflationary situation has even put a brake on world production by inciting some producers to caution and others to speculation, and by preventing many producers in the developing countries from achieving any sizable increase in productivity.

In 1974 many negotiations were conducted and brought to a successful conclusion, particularly those involving acceptance by the enlarged Community of the obligations of the original Community and the transference to the enlarged Community of the obligations of the new Member States (GATT - Art. XXIV - 6). The system of generalized preferences likewise became applicable by the enlarged Community from 1 January 1974 with considerable advantages for the developing countries. With regard to preferential treatment, the Community began negotiations with all the countries covered by the Yaoundé and Arusha Agreements and with the developing countries of the Commonwealth in Africa and the Caribbean (ACP countries). Agreement has already been reached to set up a system to stabilize the export earnings from certain basic products exported by the ACP countries to the Community. Following the enlargement of the Community, it has also been necessary to review the agreements signed by the original Community with certain Mediterranean countries and to make them part of an

¹See Tables I/9.1 and II A/1.1 to II A/2.2 in the Annex.

overall approach to the Mediterranean countries, which is at present under negotiation. However, the association with Greece has resulted in the introduction on 1 November of a Customs Union, applicable only to the countries of the original Community, for a number of agricultural products. Following the entry into force of the second stage provided for under the Association Agreement with Turkey, some major concessions have been granted to Turkey by the enlarged Community.

With regard to bilateral relations with the countries of Eastern Europe, national agreements will not be renewed on 31 December 1974 and a common policy will then be implemented. The Community is also participating in the general measures adopted in the context of the World Food Conference and the GATT multilateral negotiations. With regard to food aid, the Community undertook in 1973 to supply agricultural products and funds to a total value of 173 million u.a., as against 54 million u.a. in 1972; it actually delivered, among other products, 463 647 metric tons of cereals, 46 136 metric tons of milk powder and 15 000 metric tons of butteroil. The Community has also undertaken to supply 1 287 000 metric tons of wheat (and some rice) to the developing countries in 1974/75. The Commission has also presented a memorandum containing a general outline of the Community food aid policy for the next three years.

With regard to trade, the value of the total imports of agricultural and food products continued to increase and rose in 1973 to 19 milliard u.a. (up 36% on 1972); this increase was largely the result of the rise in world prices. The industrialized and state-trading countries derived the greatest advantage from the 1973 increase, whereas the developing countries had benefitted most from the increase in trade from 1968 to 1972. As in the past, of all these countries, it was the United States which in 1973 benefitted most from the increase in Community imports. Community exports amounted to 6 703 million units of account in 1973 (up 44% on 1972). Although around 60% of the Community's exports went to the industrialized countries, it was the developing countries and state-trading countries which, proportionally, showed the greatest increase in imports from the Community.

In addition, trade between the original Community and the three new Member States greatly increased in 1973 in relation to 1972 (exports from the original Community: + 71%; imports: + 62%).

With regard to the Community's degree of self-sufficiency in 1972/73 or 1973, there were no major changes in the rates of self-supply, except in respect of rice, sugar, and beef and veal, for which the rates were lower than the average for the previous four years.

Classification of the main agricultural products
in the Community according to the rate of
self-sufficiency in 1972/73

Rate exceeding 100%	Rate of around 100%	Rate below 100%
Barley (107%) Butter (103%)	Common wheat (100%) Rye (100%) Oats (96%) Potatoes (101%) Cheese (101%) Eggs (99%) Pigmeat (101%) Poultrymeat (101%)	Durum wheat (76%) Maize (54%) Rice (67%) Sugar (92%) Fresh vegetables (94%) Fresh fruit (76%) Citrus fruit (34%) Wine (89%) Beef and veal (86%) Sheep and mutton (55%) Oilcake (4%)
		1

¹To this list should be added products for which figures are not available, but for which there is a considerable need in the Community, particularly tropical products (fats, oils and exotic fruits).

The rates of self-sufficiency are obviously strongly affected by the state of the markets from one year to the next, but, with the exception of a few products (barley, rice and sugar), the table given above is a fairly accurate reflection of the medium-term supply situation in the Community.

10. PRESENT SITUATION ON THE MAIN AGRICULTURAL MARKETS¹

Since the profound changes on the international agricultural markets in recent years seem to have become the rule rather than the exception, greater importance should be attached to a brief analysis of the recent development of the various markets, particularly the livestock sector and the basic products on which it is dependent, and certain other sectors which have seen major changes.

In the meat sector (beef, pigmeat and poultry), the world market is of some importance for the Community. Although the Community has always had to import fairly large quantities of beef to meet internal demand, its supplies of pigmeat and poultry were such that only limited quantities had to be imported or exported.

World beef production rose slightly in 1973, while the production of pigmeat decreased very slightly. The high prices of pigmeat at the end of 1973 induced additional production in 1974, and a fairly substantial rise in beef production may also be expected for 1974. World beef prices had been rising regularly and fairly steeply for years until the beginning of 1973, but they have fallen considerably since then (by approximately 25%). This drop in prices has in particular had a restraining influence upon the increase in pigmeat prices. There have also been very abundant offerings (from the USA) of chickens and turkeys on the world market, and this has helped to produce a drop, which is still appreciable, in world meat prices.

The meat sector has not always developed in the same way in the Community and on the world market. Beef production, stimulated by a period of relatively higher prices (1972/73), has risen sharply by about 13% since autumn 1973, thus precipitating a drop in producer prices. Since the Community also imported in 1973 a very large quantity of beef which was only partially absorbed by consumption, it found itself with a surplus. The production of pigmeat, in which the Community is more or less self-sufficient, is on the upswing and the prices, particularly as a result of the difficulties on the market in beef and veal, have dropped considerably since December 1973, the month in which they reached their highest level. The consumption of pigmeat has

¹ See Tables II B/1.1 to II B/23.11 in the Annex.

greatly increased in recent years. The stagnation in sales of poultry, however, and the large increase in production in 1974 were the cause of a sharp drop in prices on the internal market. The development of the market in eggs, both on the world market and in the Community, has not been encouraging for producers. The surplus of a few major producers having been disposed of on the world market, the increase of 3 to 4% in Community production in 1974 caused a sharp drop in prices in the EEC.

The situation in the milk products sector was better than in the meat sector. The difficulties affecting protein supplies in 1973 stimulated the market in skimmed milk powder; the drop in the world consumption of butter was checked (in particular as a result of the increase in margarine prices); finally, the expensiveness of meat in 1972/73 greatly stimulated the consumption of cheese. The demand for drinking milk is decreasing slightly in the Community, and although the consumption of butter has increased a little, this is mainly due to the drop in price, the national consumer subsidies and the increase in margarine prices just mentioned. There has been only a very slight rise in the Community production of milk products, the main reason for this being the considerable rise in the cost of feeding-stuffs.

Unlike consumers, producers are hardly likely to be pleased with the present situation in the livestock sector: furthermore, as users of various basic products such as cereals and proteins essential for animal production, they are experiencing supply difficulties. The large-scale purchases of cereals by the Soviet Union in the summer of 1972 resulted in a very rapid reduction in world stocks and at the same time in a sharp rise in prices. The disappointing world cereal harvests of 1973 and 1974 have also helped to keep prices at a high level. The main effect of this state of shortage is a substantial decline in international trade.

As a result of its sizeable production of cereals, the Community, while remaining a net importer, has hitherto had almost no difficulties in obtaining supplies, even at prices which are generally lower than those on the world market. It should be added that the cultivation of maize is assuming ever-increasing importance and the production of fodder wheat is rising fast. This fodder wheat, which gives a high yield per hectare and is richer in proteins than other cereals, although it is lacking in lysin, brings us

to the second sector of basic products, i.e., proteins.

Since 1973, difficulties have arisen on the world market in proteins, which for years had been in constant and abundant supply. These difficulties are caused by an exceptional demand for soya beans from the USSR and China and by the low production of fish meal in Peru and of groundnuts in Africa; in addition, for several years in succession, the production of soya in the United States remained lower than consumption and exports, resulting in almost total re-absorption of stocks. This combination of factors not only led some Member States to take protective measures, but also produced a significant rise in the price of proteins on the world market. Since the last few months of 1973, however, this situation has improved owing to the exceptionally large soya bean harvest in the United States, which was 22% up on 1972. The result was an easing of the market in proteins, and a fairly substantial drop in prices, which did not however return to the pre-shortage levels. Finally, over the same period, Community production of proteins decreased for the first time.

There is also a world shortage of olive oil; since the EEC has a shortfall in this product, and since it is also the largest net importer, the high level of prices on the world market has directly affected Community prices, which have risen sharply since the 1973/74 marketing year.

Sugar is no exception in the crop production sector: in this case also, world production has been lower than consumption for several years, the large stocks have been drawn down, but it has no longer been possible, as it was in the past in similar circumstances, simply to adjust production to demand, for the very low level of world prices over successive years had severely restrained the necessary new investments. Since Community production fell short of consumption, the long-standing Commonwealth sugar agreement made it possible to import such quantities that the EEC as a whole has always had to export large amounts of sugar. In 1973 and 1974, however, it became evident that, alongside the disappointing Community production, the increase in consumption far exceeded the forecasts, and deliveries from the Commonwealth countries were far lower than the commitments. All these factors created a

difficult supply situation in 1973/74 and special import measures had to be taken for 1974/75 in order to guarantee Community supplies. The Community price for sugar, which only a few years ago was four or five times the world price, is now only a third of that price.

The countries which produce large quantities of wine are usually also the major consumers of wine, so that the volume of international trade remains very low; only France and Italy conduct a large amount of external trade. While surpluses and deficits alternated previously in the space of a few years, over the last ten years there has tended to be a surplus, particularly in the Community, the United States and the Mediterranean countries. The unsatisfactory level of prices on the world market has resulted in large-scale vine grubblings in the Mediterranean countries. In the Community, consumption has progressed slowly in the deficit countries, and has remained relatively stable in the producer countries. The increase in wine production in the EEC, combined since 1970 with a drop of 1 to 2% in demand in France and Italy, countries which represent 85% of total Community consumption, and with a slight increase in consumption in the other Member States, has resulted in some major surpluses which have on several occasions necessitated distillation measures.

The prices of apples and pears produced in the 1973/74 marketing year and for peaches from the 1974 harvest have been relatively low and fairly large quantities have had to be withdrawn from the market; for the other products in the fruit and vegetables sector, the situation was on the whole fairly favourable this year.

The total volume of the world production of fish has remained relatively stable for several years, having been deliberately reduced in the case of certain species and increased in the case of others. In this connection, an effort is being made to obtain species which were not previously used for human consumption. In 1973, the general level of prices for fish increased by an average of 20%. In the Community, the volume of the catch increased in 1973, but the production of quality fish decreased; the rise in prices slowed down to a certain extent in 1974.

11. SOCIO-STRUCTURAL SITUATION¹

The utilized agricultural area (93,5 million hectares UAA in 1972) shows a slight but steady tendency to decrease as land is put to non-agricultural use. There have been changes in the structure of land use, taking varying forms and occurring at different paces between Member States. In the Community as a whole the area of arable land has diminished, that of permanent crops slightly increased and grassland and permanent pasture has remained more or less unchanged.

The total number of farms (5.4 million in 1973) is falling steadily. This is a result of the decrease in the number of farms of less than 20 hectares. On the other hand there is a slight increase in the number of farms of 20 hectares and over.

In the original Community almost three quarters of all farms grew cereal crops. There is a slight decrease in the proportion of this kind of farm.

The proportion of farms keeping dairy cows decreased considerably during the period from 1967 to 1970. In 1970 they represented 46% of all farms. The total number of farms keeping pigs shows a similar movement.

Although insufficiently representative for the whole of Community agriculture, the data of the "EEC Farm Accountancy Data Network" shows that in 1972 almost half the total number of farms in the "Data Network" achieved an earned income per MWU amounting to at least 90% of the comparable income. In addition these available data show a direct connection between the level of income and the size of the farm, except in the case of certain intensive types of production on relatively limited areas (horticulture, concentrated livestock farming). The type of farming practised is also an important factor affecting the economic success of the farm.

¹ See Tables II C/1.1 to II C/3.3 in the Annex.

During the period 1963/73 the beef cattle count steadily increased. However, the increase was less pronounced during the last five years. During this period the headage of dairy cows increased at a slightly slower rate. Taking into account the decrease in the number of farms keeping beef cattle and dairy cows this increase in the total headage must indicate an increase, although fairly limited, in individual headages. Since 1963 the total pig count has shown a sharp increase while the number of farms keeping pigs has decreased, also fairly sharply.

In the Community the land market is characterized by a tendency towards owner-farming, to the particular detriment of share-cropping and other forms. The proportion of rented farms decreased slightly during the period from 1963/73. On the other hand, the rising trend of land prices and in some countries the increase in the rent paid by tenants, is more pronounced. In several cases the rise in land prices are probably the result of speculation, particularly in heavily populated regions.

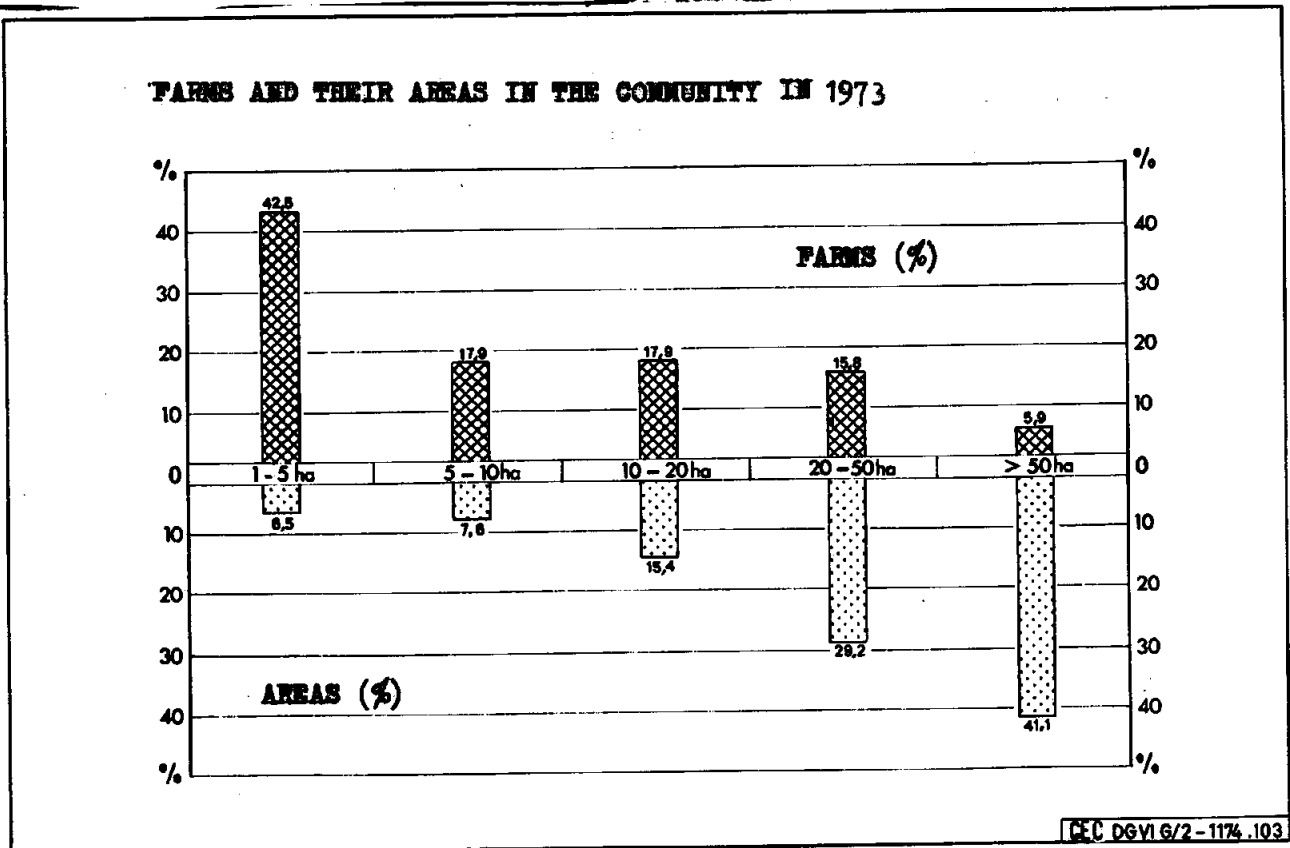
Resulting from the general inflation on the capital market there has been a considerable increase in the interest rates for medium and long-term loans. Since the amount of capital invested in agriculture per work unit is on the increase and an increasing proportion of such investments are financed by loans, the situation poses major problems for the modernization of farms.

Until 1972 more and more farmers were leaving the land each year. Since then the rate of departure has slowed down probably as a result of the favourable economic results in the agricultural sector in 1972 and 1973 and the general increase in unemployment outside agriculture. A second characteristic of the agricultural working population is that it is growing older by comparison with the total working population. The proportion of workers aged 50 or over is greater in agriculture than in the working population as a whole while the proportion of workers aged between 14 and 35 is considerably less.

A feature of forest land (31.7 million hectares of forest in 1972) is the marked fragmentation of private forests, which account for 60% of the total forest area in the Community: another is the very great variation in the average area of State forests from one Member State to another. Although there has been a slight but steady increase in the area under forest since 1963, timber production has decreased by 10% between 1960/62 and 1969/71. However, this decrease in production does not signify a fall in productivity, but reflects rather a reduction of forestry activity.

The steady decrease in North Sea fishing during recent years continued in 1973. However, it was possible for some Member States to compensate for this loss by increased fishing in the Barents Sea, the Kattegat and the Skagerrak.

The total number of fishing crews, as also the Community fishing fleet itself, increased in 1973 compared with 1972. But the increase in the total number of crews is due primarily to an extension of part-time working among inshore fishing crews.



GRAPH I/11.1

12. AGRICULTURAL INCOMES¹

The sample of ten thousand farms of the EEC Farm Accountancy Data Network (a sample which does not represent the whole agricultural sector) also indicates a considerable increase in net farm income per ALU in "1972" (31%).

However the development of agricultural income was different according to production sector. Working income in "1972" made a considerable jump forward for beef cattle farmers (41.1%), for wine-growers (35.8%) and for farmers combining beef cattle and arable crop production (34.9%). On the other hand mixed farming showed only a small increase (10%), while the rate of increase on other kinds of farm was between 20 and 30%. These divergent trends, due mainly to different income base levels should not be allowed to obscure the income disparities existing between different types of farming. Taking farms of equal size (30 hectares for example) the difference in working income between farms devoted to beef production (5 589 u.a./ALU in 1972) and mixed farming (8 756 u.a./ALU in 1972) increased considerably from "1971" to "1972", moving from 2 209 u.a./ALU to 3 167 u.a./ALU.

From region to region agricultural incomes remain unduly divergent, the range being widest in France where it is between 1 and 5.

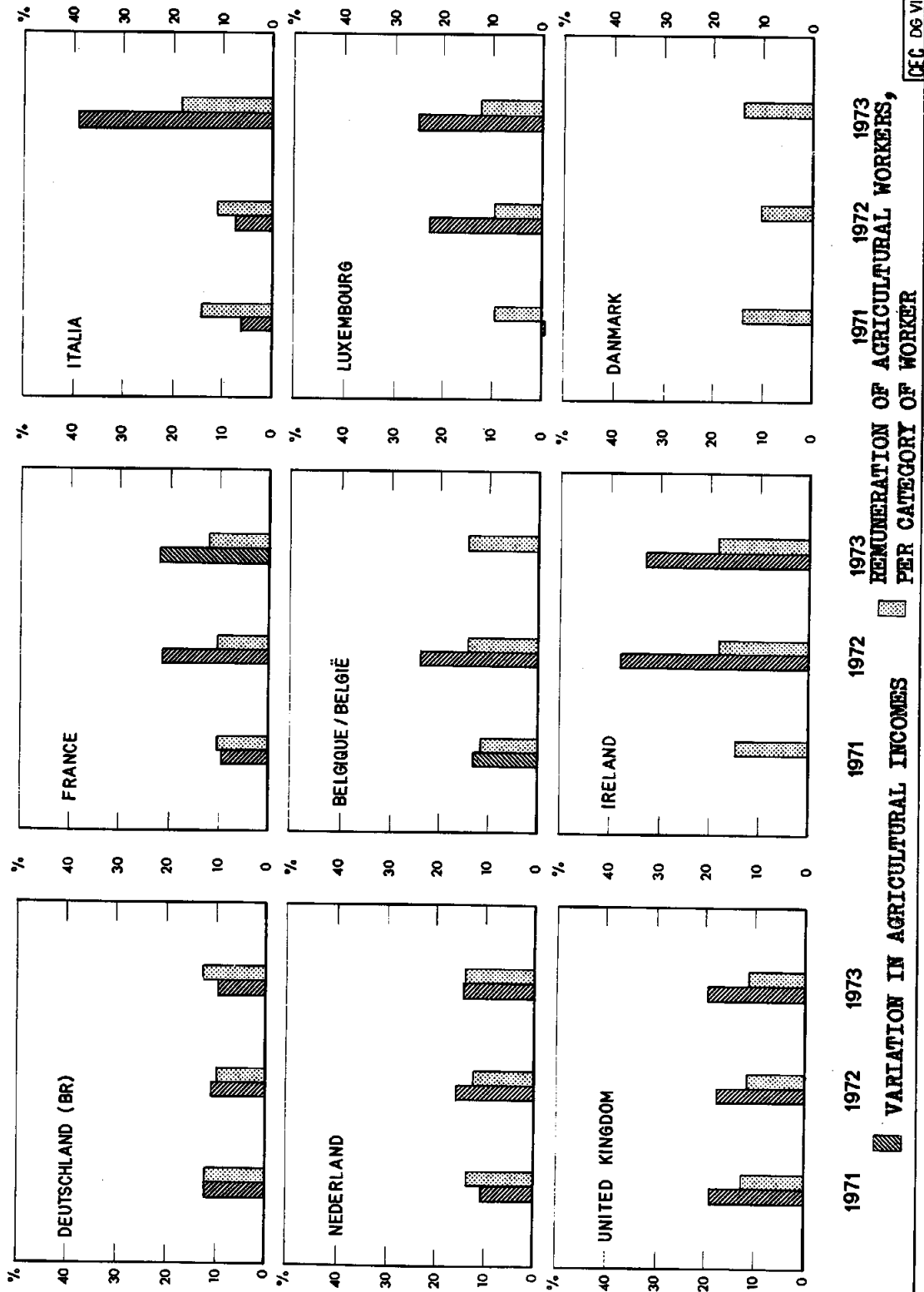
Although during past years this divergence had tended to narrow somewhat to the advantage of the least favoured regions, it seems that the gaps between these incomes expressed in real terms and in money terms have widened.

On the basis of a preliminary analysis of available data for "1973" from returning holdings it appears that in that year agricultural incomes as a whole were equal to and in certain cases even superior to those of the previous year. However "1973" was characterized by disruption in the relative levels of income between various kinds of farm and various regions.

Generally speaking farms devoted to arable crop production, with the exception of those concentrating on growing potatoes, succeeded in maintaining, or even improving their position. On the other hand farms devoted to livestock farming suffered

¹See Tables II/D/1.1 to II/D/15

VARIATION IN AGRICULTURAL INCOMES AND IN THE REMUNERATION OF AGRICULTURAL WORKERS, PER CATEGORY OF WORKER, COMPARED WITH THE PREVIOUS YEAR



CEC DG VI 6/2 - 1174.105

considerable falls in the income arising from the standstill, or even fall in prices of livestock products combined with the initial increases in the price of animal feedingstuffs. These reductions in income were also indirectly affected by the very favourable results of the previous year. The progressive improvement of agricultural structures also helped to mitigate downward trends and strengthen upward ones.

The macro-economic analysis of agriculture by broad categories shows a generally favourable development in agricultural incomes in 1973. In fact, the net value added per agricultural labour unit (ALU) of the original Community increased in 1973 compared with 1972 by 24.4% in money terms or 14.9% in real terms, i.e. in terms of purchasing power. The extent of this improvement, however, was very different according to Member State.

To judge from the first information available for the current year, it appears that the agricultural income situation has deteriorated sharply in 1974. The first estimate of the gross value added of the Community in 1974 shows that in real terms it is the same as in 1973 and that farmers in general have thus been unable to improve their purchasing power during the year.

Forecasts of agricultural incomes "1974" (1974/75) are very problematical since considerable doubts still surround price movements, particularly the movement of the prices of production factors. However those forecasts which can be attempted all show a sharp fall in agricultural incomes, particularly because the adverse effect on income of increases in input prices will apply this time to the whole twelve months of the farm year and not to only one or two quarters as in the previous year. The farms most affected are bound to be those with the highest production per hectare, including the smallest farms which are forced to farm intensively because of their size.

Besides horticultural undertakings which represent a special case and which must be differentiated according to whether or not they depend on energy, the farms most affected will be primarily those devoted to pigmeat and poultrymeat production. Farms combining mixed crop farming and beef production will also suffer a very considerable fall in income. Only those farms devoted to mixed farming and to a lesser degree grassland farms will be less seriously affected.

Some details are available concerning the situation in the Member States.

Germany

Forecasts for 1973/74 (1 July to 30 June) as indicated for Germany in the Agricultural Report (Agrarbericht) published at the beginning of 1974, give some hope of an increase in farm incomes of between 6 and 10% compared with 1972/73. However, new and more recent estimates have shown that the results actually achieved are far less favourable than those originally forecast, due to the fact that during this year the prices of agricultural products have developed unfavourably in comparison with the prices of the means of production which have increased in comparison with the 1972/73 marketing year. According to a provisional survey based on 5 200 returning holdings the Ministry of Agriculture forecasts an increase in the value added per manpower unit of the order of 4% for the 1973/74 marketing year ending on 30 June 1974.

France

A preliminary summary analysis of the findings of the French Farm Accountancy Data Network for 1973 (calendar year) shows that farm incomes have fallen in comparison with 1972 particularly on mixed crop/livestock farms and farms devoted to beef production. On the whole mixed farms have suffered a slight decrease in income, while wine growers have had a considerable increase. The main causes of these variations lie firstly in the recession in beef cattle prices and the considerable increase in costs, particularly of animal feedingstuffs and chemical fertilizers, and secondly in the record wine harvest.

Forecasts for 1974 in France (calendar year) suggest an increase in production of about 7%. Since the price of inputs will have risen by an average of 27% (forecast) compared with 1973 a fall of between 5 and 7% in the gross income of farms is expected in comparison with 1973.

Italy

According to an INEA report the overall results in Italy for 1973 (calendar year) are not likely to be very satisfactory. The very considerable increase in the prices of the means of production in 1974, which is put at 30.9%, leads to pessimistic forecasts concerning the results for 1974.

Netherlands

In the Netherlands, according to provisional data for 1973/74 (1 May to 30 April), farmers' working income was maintained on the whole for farms devoted to mixed farming, and for mixed farms with some specialization in pigmeat and poultrymeat. However there was a fall in working income of about 20% compared with 1972/73 in the case of grassland farms and in mixed farms specializing in beef production.

Forecasts for 1974/75 show that farmers' working incomes on mixed farms and grassland farms are likely to decrease by about 12% compared with 1973/74. An even greater fall is forecast for mixed farms.

Belgium

A breakdown of data from a uniform sample of about 350 returning holdings shows a fall in working income per ALU of almost 8% for 1973/74 (1 May to 30 April) compared with 1972/73. This reduction is mainly due to fall in the profitability of beef production.

Forecasts for the 1974/75 marketing year, indicate that agricultural incomes will be considerably affected by the fall in the price of products and the increase in the price of the means of production.

Luxembourg

According to the latest forecasts concerning agriculture in Luxembourg, the agricultural income per holding, which in 1973 experienced a remarkable increase of 19.2% in money terms is likely to increase in 1974 by 4.1% over the previous year.

United Kingdom

Forecasts for 1973/74 (1 April to 31 March) in the United Kingdom, confirmed by examination of the first returns, show a general increase in incomes over 1972/73. The development is likely to vary greatly according to the type of farming practised. Cereal farms are likely to practically double their income in 1973/74. In contrast the income of dairy farms is likely to fall. Satisfactory results are expected for other kinds of farms although the rate of increase will be less than in 1972/73.

In 1974/75 agricultural incomes are expected to vary greatly according to the type of farm, with an increase in income for cereal farms, no change for dairy farms and a fall in income for farms concentrating on beef production and on farms growing root and tuber crops on a certain scale.

Ireland

1973/74 returns for Ireland (1 April to 31 March) show a general increase in agricultural income which can be put at about 30% compared with the previous year. Forecasts for 1974 (calendar year) indicate, however, a fall in agricultural incomes compared with the preceding year.

Denmark

After the excellent results of 1973 for most kinds of farm, a general reduction in agricultural income of about 15% is forecast for 1974. This reduction which will affect most types of farm will be largely the result of the increase in the prices of the means of production, while the prices of agricultural products have remained practically unchanged, even decreasing slightly.

13. FINANCIAL ASPECTS¹

Total public, national and community expenditure in 1973 and in 1974 in the Community in support of the agricultural sector is put at about 11.5 milliard u.a., corresponding to about 4.6% of total State expenditure of the 9 Member States and representing about 17% of the value of the end-product of agriculture.

In 1974 about 70% of total expenditure on agriculture still came from national sources. Grants from Member States for structural measures amounted to 3.2 milliard u.a. and for social measures 3.3 milliard.

In 1974 the EAGGF provided about 32% of total expenditure on agriculture, compared with 35% in 1973.

Development of EAGGF expenditure (in millions of u.a.)

Year	Guarantee Section		Guidance Section
	EEC-6	EEC-9	
1970	2 602.9		201.5
1971	1 571.3		242.4
1972	2 339.2		167.2
1973		3 814.6	182.8
1974 (estimates)		3 402.0	285.4
1975 (budget)		3 980.4	325.0

Gross expenditure from the Guarantee Section of the EAGGF amounted in 1973 to about 3.8 milliard u.a. Expenditure in 1974 is estimated at 3.4 milliard u.a. and for 1975 at almost 4 milliard. In 1973 this expenditure represents about 0.4% of the gross domestic product, 2.6% of expenditure on food and 5.6% of the final agricultural production of the Community.

In 1973 three sectors shared about 76% of expenditure: the milk products sector (about 1.5 milliard u.a.) with 39%, the cereals sector with 26% and the oils and fats sector with about 10%. The accession compensatory amounts (264 million u.a.) and the monetary compensatory amounts (140 million u.a.) make up 10.6% of total expenditure.

¹ See tables II-E/1.1 to II-E/3.3 in the Annex.

The division of expenditure according to its economic character shows the particular importance in 1973 of price subsidies (50%) and of export refunds (40%).

Although the high level of prices on the world market brought about a decrease in refunds in 1974, intervention expenditure increased considerably in the beef and veal sector (239 million u.a. in 1974 against 13 million in 1973) as a result of the special situation in this sector.

One of the principal reasons for this variation in expenditure is the change in the economic situation in the world market and the Community internal market. The development of production, particularly of well-subsidized products is another major reason.

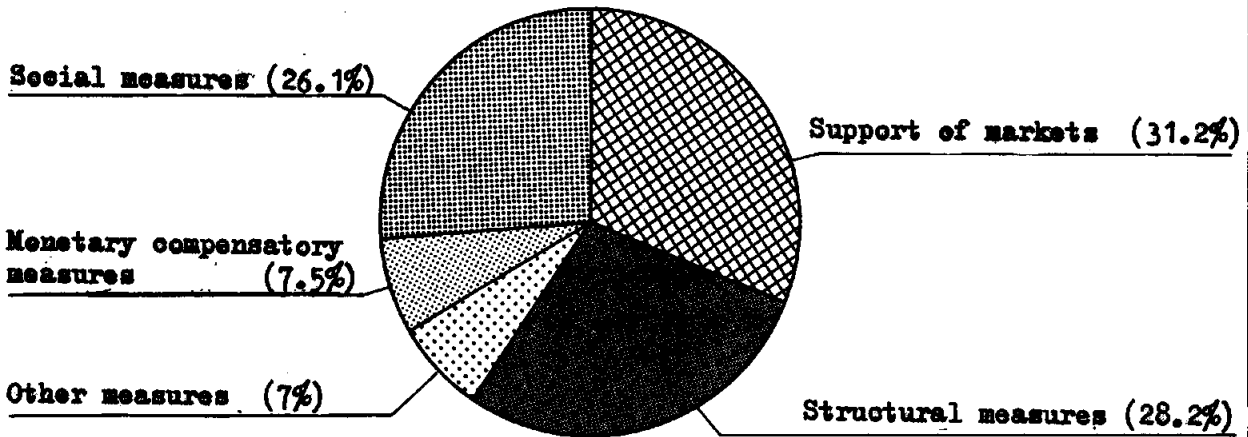
Loans from the Guidance Section of the EAGGF in 1973 and 1974 amounted to 325 million u.a., of which 170 million u.a. went to finance projects for the improvement of agricultural structures. Between 1964 and 1973 more than 4 000 projects received aid from the Fund in a total amount of 1.03 milliard u.a.

For the first time in 1974 the Fund participated in the financing of common action relating to socio-structural policy decided by the Council.

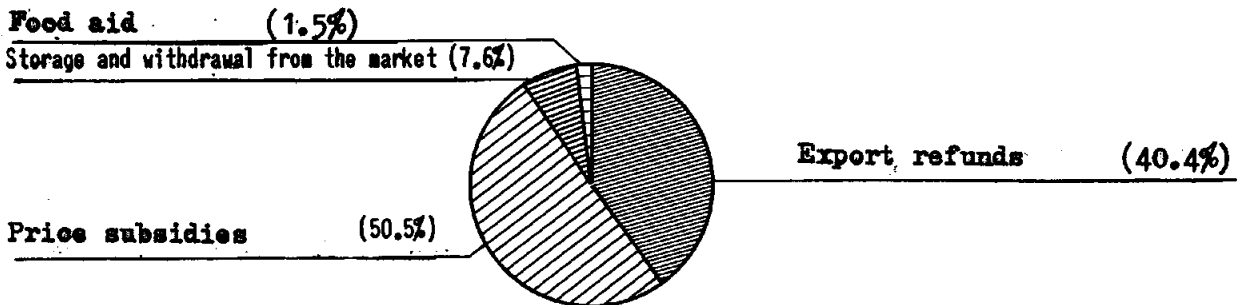
While the common agricultural policy generates expenditure it is equally a source of budgetary revenue. In 1973 agricultural levies and contributions amounted to 556 million u.a. against 800 million u.a. in the preceeding year; they are estimated at about 370 million u.a. for 1974 and at 564 million u.a. for 1975. The decrease in levies is primarily due to the high level of cereals prices and an increase in the degree of self-sufficiency in respect of certain products.

**PUBLIC, NATIONAL AND COMMUNITY EXPENDITURE
IN SUPPORT OF AGRICULTURE IN 1973**

**I. TOTAL
(11.5 milliards u.s.)**



**II. EAGGF GUARANTEE SECTION
(3.8 milliards u.s.)**



CEC-DG VI-G/2-7411.101

14. MONETARY ASPECTS¹

1974 has been another year of monetary instability which was inevitably reflected in the administration of the common agricultural policy.

Indeed, in practice the system of common prices which is the basis of the common agricultural policy is gravely affected, since the agricultural prices expressed in units of account are converted into national currencies at rates of exchange, employed for the purposes of the agricultural policy, which do not correspond to economic reality. Thus are created six zones with different price levels; for, since the beginning of January 1974, the French franc has left the "snake" and given rise to a sixth zone. However, since the prices expressed in units of account are the same for the whole Community, the range of prices remains the same in the Community.

The monetary compensatory amounts which offset price differences in trade and which were temporary in origin, have thus become part of the mechanism of the common agricultural policy, in spite of the attempts made to reduce their incidence.

However, developments in 1973/74 have shown the limitations of this mechanism, since economic factors themselves argue in favour of the reestablishment of a single market.

There are certain signs which suggest that the general stabilization of the economy which results from a revaluation and at the same time is a reflection of it, is accompanied in a country which has revalued by a smaller increase in production costs than in the other countries. The development during 1974 of the prices of the means of production in Germany and in the Netherlands in comparison with other countries illustrates the point (see chapter 7, above).

The interplay of these mechanisms tends therefore to reestablish agricultural incomes despite the fall in prices. This phenomenon does not mean that temporary aid is not needed in order to prevent a short-term drop in income - it appears that the stabilizing effect takes time to operate - but it tends to obviate the need to continue such aid.

¹See Table I/14.1.

The economic situation in those countries whose currencies are floating downwards has similarly shown that the development of production costs made it difficult to maintain agricultural prices at their former level in these countries. In this respect available data are also revealing concerning the development of the prices of the means of production for France, Italy, the United Kingdom and Ireland in 1974; this development should be correspondingly reflected in 1974 incomes.

There have been sharp criticisms of the monetary compensatory amounts during 1974; it has been frequently stressed that they cause distortion of competition. From the outset the Commission considered that this might be the case. It is a fact that the higher the monetary compensatory amount becomes the greater are the problems arising from its arbitrary nature. Though the incidence of such distortion cannot be expressed in figures, the high rates of the monetary compensatory amounts at the end of 1973 and the beginning of 1974 in the beef and veal sector, together with the arbitrary method of calculation of these amounts on the basis of intervention prices and with the aid of coefficients which at the time were too high for certain cuts of meat, partly explains the pressure on the beef and veal market in the countries with depreciating currencies.

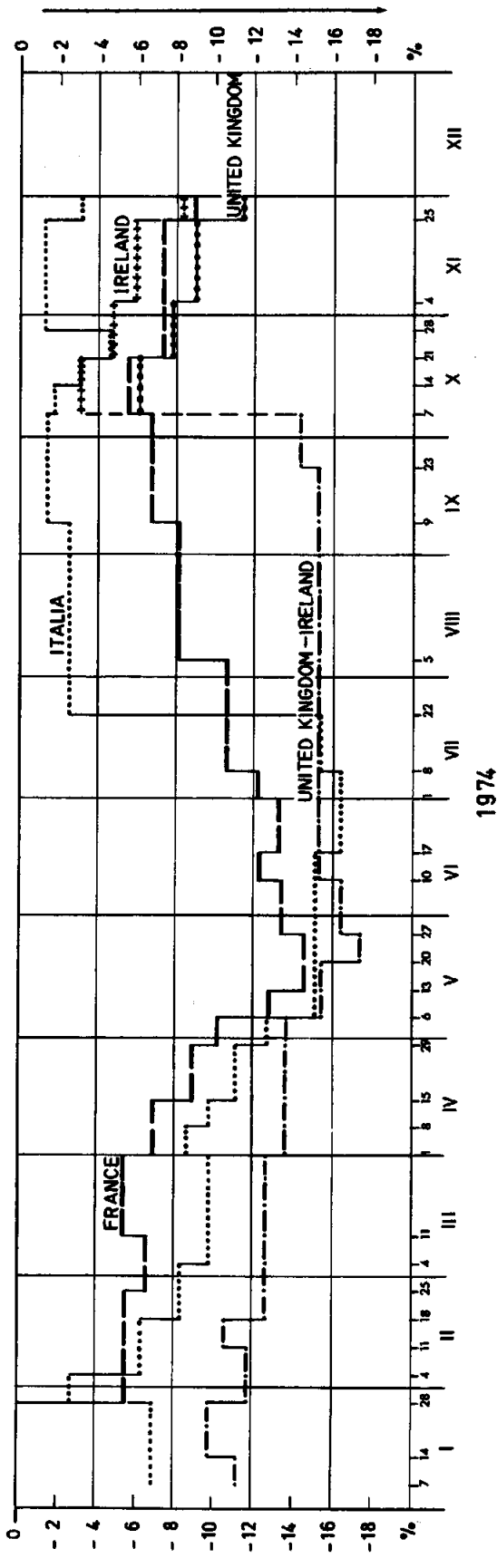
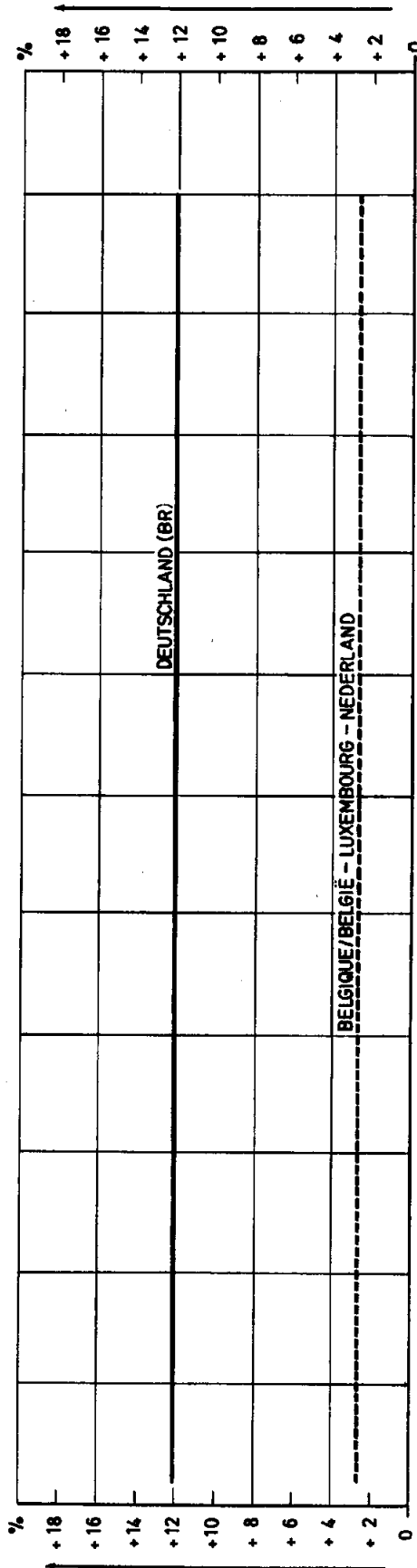
Other criticisms concern the lack of advance fixing which because of the resultant uncertainties tends to increase the cost of intra-Community trade and trade with non-member countries. The Commission has sought an answer to this problem, which is a real one, in measures of equity and by the suspension of Article 4a, one of the main causes of uncertainty. It is still considering the introduction of advance fixing.

However, it should not be concluded from the developments described above that the mechanism of monetary compensatory amounts itself is unsuitable and can be completely abandoned.

Indeed, aside from the efforts which might be made to restore the unity of the market, there remains a technical obstacle to the abolition of the compensatory amounts, mainly that in the case of a currency which floats in isolation the guaranteed producer price cannot vary with every short-term fluctuation of the currency. Thus where the price of products for which the market is closely integrated is at intervention level, differences in the level at which intervention effectively takes place can bring about abnormal movements. This is shown by the trade in cereals during the spring of 1974. Indeed, as a result of application of Article 4a of Regulation 974/71 the monetary compensatory amount had been abolished in trade between France and the other

RATES (%) USED FOR THE CALCULATION OF MONETARY COMPENSATORY AMOUNTS

1974



CEC-06 VI-G/2-74.11.107

GRAPH I/14.1

Member States. Because of this, cereals in France tended to move towards neighbouring Member States where these imports, combining with the market situation existing in these Member States, effectively brought the market to intervention level, and made intervention buying or preventive measures (storage) necessary in order to support the market.

Finally, some increase in prices occurred in France, partly accountable to other factors affecting the cereals market, but if the Community market had been in a surplus situation abnormal movements of a much more serious character could have been the result.

This situation together with other problems resulting from uncertainty on the Community market brought about by the existence of Article 4(a) have led the Council to provide for its suspension.

In this situation and in view of monetary developments the following measures have been taken concerning the restoration of a single market:

- (i) following the 5% revaluation of the Dutch Guilder, a corresponding lowering of prices on 15 September 1973. This reduction was accompanied by temporary aid measures (2% to the selling price) to which the EAGGF contributed for a maximum period of 7 months. The Commission recently submitted to the Council a proposal prolonging this aid for a short period.
- (ii) At the end of 1973 the Commission proposed to the Council that aid granted to German agriculture following the revaluation of the Deutschmark on 24 October 1969 and the fall in prices of 1 January 1970 should be prolonged for another year up to the end of 1974. The Council extended this authorization into 1974 without fixing a final date, but with provision for a review at the end of 1974.
- (iii) Successive devaluations of the Italian green lira totalling 33.28% during the period from 1 November 1973 to 28 October 1974 brought with them a corresponding increase in prices and a related reduction in the monetary compensatory amounts.
- (iv) Devaluation of the United Kingdom green pound by 7.93% and the Irish green pound by 11.08% brought about a corresponding increase in prices and a related decrease in the monetary compensatory amounts.

15. SHORT AND MEDIUM-TERM OUTLOOK

In view of the rapid developments on the various agricultural markets, the Commission is of the opinion that it must now intensify its work on short and medium-term forecasts, i.e., covering periods of between 18 and 24 months. The Commission attaches great importance to the continuation and improvement of these forecasts as aids to the Community administration of agricultural markets and to the closer definition of the common agricultural policy. To this end the Commission intends to bring up to date the forecasts listed below within six months and to put out new forecasts by way of supplement to the present annual report.

To sum up, the evaluations which follow show that at present no major changes can be expected in the present situation during the next 12 to 18 months. In general the high prices of crop products and the low prices of livestock products will persist both on the world and Community markets. Milk products will probably lie somewhere between the two extremes. Beef and pigmeat prices will not reach the levels of 1973. World prices for butter and skimmed milk powder will remain relatively low and export difficulties for Community cheeses might possibly bring about an increase in the stocks of milk products in the Community. World cereal and sugar markets will remain tight, and for sugar special measures will be necessary to safeguard Community supplies. Not many internal or external changes are expected as regards olive oil and other oilseeds. In the wine sector a protracted surplus situation is to be expected.

In the meat sector, at world level, the fall in production of pigmeat and poultry meat will be set against a new increase in the production of beef and veal. A fall in consumption due to the general economic situation will certainly not favour exports of beef and veal. In the Community the production of beef and veal will increase, and, taking into account the present headage, prices will not increase appreciably, even if Community consumption goes on increasing. Increased production of pigmeat in the original Community will largely offset the fall in production in the new

Member States, with the result that, taking into account the situation in the beef and veal sector, the additional supplies of pigmeat will make for relatively low prices for this product. On the other hand, in the poultrymeat sector the fall in production over 1974 will be such that prices should be able to settle at a reasonable level. In the eggs sector, also, an increase in prices is to be expected taking into account the present cyclical pattern of production and the effect of the increase in feed prices.

In the milk products sector the increase in world production of butter and skimmed milk powder will largely meet the increased demand; in addition increases in internal prices and general inflation will certainly limit any increase in consumption. Several importing countries have planned to introduce measures for limiting cheese imports in order to encourage local production. This will affect Community production and sales of butter and skimmed milk powder. It can be expected that during the next few years Community production will outstrip internal consumption and exports, and thus lead to an increase in internal stocks. The increase in the price of feed concentrates will have the effect of slowing down the increase in production. Any subsidies in this sector will continue to have a very considerable influence on the future balance of the Community.

As regards the cereals sector the tight situation on the world market will probably not disappear in the near future. Indeed, although it is impossible to make exact forecasts concerning the level of the 1975/76 harvest, present stocks are now at such a low level that even an abundant harvest could not bring them fully back to their normal level; besides this a good harvest would be necessary to meet the growing demand. In the protein sector, world supplies will depend to a great extent on the production of soya in the United States. Although soya production in Brazil and fish meal production in Peru are both now increasing, any significant easing of the situation on the world market and therefore on the Community market is not to be expected in the immediate future. Community production of oilseeds shows a slight decrease in 1974/75 in comparison with the figure recorded in 1973/74. Apart from other traditional products (dehydrated forage, etc.) the increase in production and use of fodder wheat combined with synthetic amino acids could have considerable importance for Community supplies of primary produce during the next few years.

The Community olive oil harvest in 1974/75 will be more or less normal, the quality being above that of the previous year. World production will remain rather low, particularly in those countries which traditionally export to the EEC. The forecasts for world sugar production in 1974/75 suggest only a slight increase in production; therefore - taking into account the steady increase in consumption - it cannot be ruled out that the present very low stocks will decrease yet further. Thus it is most unlikely that a very good harvest in 1975/76 would replemish stocks sufficiently to change the situation on the world market appreciably. In order to meet its requirements in 1974/75 the Community will have to resort to additional imports from the world market. However, for the following years the Community will no longer depend upon imports to cover its internal supplies to the same extent.

The world market outlook for the wine sector is one of increased production, due to higher yields, particularly in areas with a very low yield at present, and to increased areas under vine in the USA and the USSR. In the Community the surplus situation will probably continue, in view of the certainty of higher yields and the stagnation or even falling off of demand.

Future fish supplies will depend to a certain extent on any decisions which are taken at the International Conference on the Law of the Sea; at all events it will be necessary to take into account the introduction of a quota system for fishing certain species which are of interest to the EEC, in order to guard against the danger of exhausting fish stocks. The diminishing supplies of these disappearing species which remain in steady demand will make for slight price increases in the near future.

Finally, in the fruit and vegetable sectors no important changes are expected in the short term. However, as regards apples and pears, the 1974/75 production will be considerably below that of previous years and thus adequate prices can be expected. In the medium term it is possible that increased energy costs will cause a reduction in heated glass house crops, which are particularly important for vegetables in certain Member States.