

Newsletter on the Common Agricultural Policy

Weekly

No. 12

February 1964

SUMMARY OF CONTENTS

Farm products - prices and returns; cost of equipment and material; social benefits in agriculture in the EEC member countries

Memorandum to the Council of Ministers on prices and price policy for agricultural products in the EEC

1. Basis of the farm price policy proposed by the Commission
2. Farm price policy as pursued by the Member States
3. Criteria for calculating the cost of equipment and material
4. Survey of equipment and material costs in the Member States
5. Consequences for agriculture and consumer expenditure of the EEC Commission's proposal to align cereal prices in a single operation
6. Conclusions

FARM PRODUCTS - PRICES AND RETURNS; COST OF EQUIPMENT AND MATERIAL; SOCIAL BENEFITS IN AGRICULTURE IN THE EEC MEMBER COUNTRIES

At its session of 8 and 9 May 1963 the EEC Council of Ministers agreed to proceed in due course to a general discussion of farm prices in order to reach decisions on the alignment of these prices during the transition period. However, the standardization of farm prices presupposes as full a knowledge as possible of the economic data, particularly current prices and the relations between prices, in the Member States. The Commission's proposals on prices will have far-reaching political consequences when they are implemented. In order to clarify the current price situation, the Commission has produced a report showing what the effects of price alignment would be on agriculture and on the economy as a whole.

To reduce to essentials the discussion on prices, which has already lasted some time, the Commission has therefore thought it advisable to send the Council a memorandum on prices and price policy for agricultural products in the EEC, summarizing the current situation and examining the consequences of unifying farm prices. The memorandum includes data on agricultural price formation, the cost of equipment and material, the "purchasing power" of agricultural products, and action in the social field in the six member countries.

Details are given of:

- (i) the current situation as regards the price of farm products;
- (ii) the movement of prices since 1950 (with comparison between Member States);
- (iii) the price of equipment and material, and other cost factors (trend and comparison);
- (iv) the consequences to agriculture, external trade and consumers of fixing a common level of cereal prices.

Cereals are a key product in agriculture; they are not only sold, but are also bought - by the agricultural processing industry. There are considerable differences in the level of cereal prices in the various Member States. An attempt is made in the memorandum to assess what economic effect aligning them would have on agriculture, trade, the processing industry and the consumer. The memorandum thus has an informative purpose too, supple-

menting the Commission's proposal to fix a common price level for cereals in the Community in a single operation.

Basis of the farm price policy proposed by the Commission

The Commission's proposals on farm price policy have to take account of the fact that the future joint policy in the EEC differs from the policies hitherto pursued in the various Member States and will change them in some measure. Farm price policy in the EEC is to be applied in a newly growing economic area with new dimensions, new consequences and prospects differing from those obtaining in the previous situation. The Commission therefore cannot simply take over the price policy of a given Member State as valid for the whole Community. Rather is it the Commission's task to seek out the right way to proceed, and to justify its choice. The memorandum is intended to provide part of this justification.

The Commission was faced with extraordinary difficulties, not only because of the divergent cereal prices in the Community but also because of the different policy aims linked with them. Each Member State has pursued its own price policy for reasons based on the national interest. In the Netherlands the need to export, in Germany the processing of home production, in France ties with the overseas territories formed the basis of price policy, while Italy and Belgium had different grounds again. Farm prices are thus the result of a trend dating partly from the end of the Second World War.

However different the movement of prices in each Member State may be, one thing all six have in common is the sharp rise of cereal prices between 1949/50 and 1950/52 resulting from the Korean War. This was most marked in Germany, where the producer price of wheat, for instance, rose about 70%; but in France too the increase was almost 50%. The overall price structure arising from the interrelation of the prices of given agricultural products has been of decisive importance for the orientation of agricultural production in the Six up to the present moment. Three groups of price relations are of particular significance:

- (a) the relation of cereal prices to each other;
- (b) the relation of feed-grain prices to the price of livestock and livestock products (especially pigs);
- (c) the relation of beef and veal prices to milk prices.

Accordingly, if prices are to be harmonized within the Community, policy must take into account not only the absolute level of prices but also the interrelation of prices for individual products.

Non-agricultural influences should not be overestimated

In discussions about the great differences in prices between the country with the highest cereal prices (Germany) and that with the lowest (France) extraneous factors such as the two devaluations of the French franc are often said to be responsible. This view will not bear close examination. The memorandum concludes that the differences between French and German cereal prices can only be partly ascribed to devaluation in France and are really a consequence of the different price policies pursued in these two countries. This applies in particular to barley: the price of French barley (and wheat too) would be below the German price even if there had been no devaluation.

To sum up, in some Member States farm price policy consists chiefly in an incomes policy for their agriculture. On the other hand, in those countries which either have a surplus from their own production (such as France), or are trying to improve incomes and employment on the land by exporting products processed from imported raw materials (such as the Netherlands), there have only been limited opportunities for implementing a price policy without reference to the costs involved in exporting farm products.

Countries that need to import foodstuffs, in particular, have been able to pursue a price policy which maintains a high level of farm prices by cutting down on supplies (e.g. by means of import quotas or levies). This has been the case especially with Germany and Luxembourg, and to some extent with Italy.

Furthermore, the generally powerful economic growth in most member countries during the fifties proved favourable to a policy of high farm prices. For the consequent increase of mass incomes admittedly resulted in a steadily decreasing proportion of consumers' total expenditure going on food, but at the same time demand per head went up.

Agricultural policy in the Member States is often supplemented by measures of social policy. To attain social objectives, however, some countries have also used economic means, including price policy. In the

member countries that have an extensive and direct social policy for their agriculture (e.g. France), it is true that assistance by economic means such as price policy cannot be avoided; but at least it can be restricted.

Price indexes are of only limited use for analysing the situation in agriculture

Some idea of how price/cost relationships in agriculture have developed can be obtained from the Member States' indexes of equipment and material, wages and producer prices. However, since they take only prices and not quantities into account - whether they refer to farm products sold or to equipment and material or labour bought - a comparison of these three indexes permits of no conclusion on the economic situation of agriculture, which, for instance, covers any adverse development in the relation between prices and costs by changing the relation between expenditure and revenue. Moreover, the actual composition of the index remains unchanged over the years and thus does not reflect technical developments sufficiently (e.g. by including the price of newly developed machines).

On the other hand, comparison of the expenditure indexes (equipment and material, wages) and the revenue indexes (producer prices) gives some indication of how the relative economic position of agriculture is developing.

A comparison of the trend of prices for equipment and material with that of producer prices for farm products shows that, particularly in France but also in Germany, the former have gone up less than the latter. In the other countries, while the situation has varied from year to year, the trend of these two types of price has been much the same, though in Belgium the producer-price index has been between six and twelve points lower than the index for equipment and material every year since 1955.

The conclusions drawn by farmers in the member countries are demonstrated by the replacement of human labour, which became (relatively speaking) more and more expensive, by machines. This often led agriculture deeper into debt. And some restrictions on production also had to be accepted (rationalization).

The price of equipment and material and other cost factors

Prices of equipment and material - the "purchasing power" of agricultural products

Among the equipment and material needed in agriculture, the following items are particularly important:

- (a) concentrated feedingstuffs;
- (b) fertilizers;
- (c) fuel;
- (d) machinery.

A far more meaningful criterion than the nominal level of prices for equipment and material (according to the index) is the "purchasing power" of farm products. This is measured in units of farm products that the farmer must sell in order to obtain a given unit of equipment or material. The purchasing power of various products is examined below.

Purchasing power of wheat for fertilizers

For 100 kg of nitrogenous fertilizers, French farmers have to pay the most wheat, German and Italian farmers the least - almost 100 kg or 40% less (on the average for 1960/61 and 1961/62). After France, the Netherlands has to pay most wheat for nitrogenous fertilizers, closely followed by Belgium and, further behind, by Luxembourg.

As regards the purchasing power of wheat for phosphatic fertilizers, Dutch farmers are the worst off, followed by the French. Then come the Italians, Germans and Belgians - all more or less at the same level but some way ahead of the Dutch and French. The situation in Luxembourg is particularly favourable, owing to the special circumstances of Luxembourg agriculture.

For the purchase of 100 kg of potassic fertilizers, Italian farmers have to sell the most wheat - twice as much as German farmers. French and Dutch farmers have to sell some 10 kg less than the Italians, while

the Belgians are considerably better off, though not as well off as the Luxemburgers (only 5 kg more than the Germans). On the average, in 1960/61 and 1961/62 farmers in the Member States had to sell the following quantities of wheat for 100 kg (pure nutrient value) of each type of fertilizer (i.e. 300 kg in all):

Luxembourg	433 kg
Germany	472 kg
Italy	509 kg
Belgium	541 kg
Netherlands	632 kg
France	665 kg.

Since fertilizer subsidies in Germany were abolished, in 1963, the position of German farmers as regards the purchasing power of wheat has correspondingly deteriorated. If it is assumed that fertilizer prices will rise a little less than 10% after the abolition of subsidies, German farmers will have to sell 511 kg of wheat to buy 100 kg of each of the three types of fertilizer. This brings them to about the same level as the Italian farmers.

If we take the purchase price of fertilizer in money terms instead of using this "purchasing power of wheat", the member countries come out in rather a different order. The price of 100 kg (pure nutrient value) of each type of fertilizer (i.e. 300 kg in all) in the six countries is as follows:

Luxembourg	DM 171.76
Germany	DM 196.00
Belgium	DM 198.08
France	DM 213.47
Netherlands	DM 214.37
Italy	DM 218.48

This shows Luxembourg farmers to be in the best position - as a result of the low cost of their phosphatic fertilizer - and Italian farmers in the worst. The price difference between the two countries is DM 46.72, or an average of DM 15.57 per 100 kg.

As can be seen from the table, fertilizer prices in the Member States (apart from Luxembourg) are relatively uniform.

In the case of nitrogenous fertilizers, Luxembourg is also in the best position. French prices are the highest. The price difference between the two countries is DM 9.20 per 100 kg, i.e. 9% of the price. Prices in the Netherlands, Germany and Italy are at about the same level.

Apart from Luxembourg, where agriculture receives a quota of 26 000 metric tons of phosphatic fertilizers at preferential prices because of the mining concessions, and Belgium, where prices are relatively low, phosphatic fertilizers cost about the same in the various Community countries. Dutch farmers have to pay the highest price.

The price of potassic fertilizers, on the other hand, varies a great deal. German farmers can buy most cheaply, at DM 29. Italian farmers have to pay almost twice as much (DM 53.12). Prices are much the same in France and the Netherlands (about DM 40), in Luxembourg a little lower (DM 37.52), and still lower in Belgium.

Purchasing power of wheat for diesel fuel

On the average, in 1960/61 and 1961/62 French farmers had to pay 51 kg of wheat and German farmers 54 kg of wheat for 100 litres of diesel fuel. Fuel cost the Belgian farmer about the same. Conditions were more favourable in the Netherlands, where 100 litres of diesel fuel cost 47 kg of wheat, and the Italian farmer could buy fuel for the least amount of wheat (about 60% of the quantity required in France or Germany).

The price of diesel fuel in money terms varies considerably - mainly because of the different taxes imposed and reductions granted in the various Member States. The German price (DM 21.25 per 100 litres) is the highest, closely followed by the Belgian (DM 20) and Luxembourg (DM 19.60). The price is lowest in Italy at DM 12.68, some 60% of the German price. The Dutch price is DM 15.85 and the French DM 17.41.

Machinery prices

Agriculture in all the Community countries is being thoroughly mechanized at a more or less rapid rate. The cost of mechanization - whether for initial outlay or maintenance - is growing in significance from year to year. At the heart of this process is the tractor, and the trend of tractor prices may be regarded as typical of mechanization costs. Tractor prices represent not only a price but a real cost factor for farmers.

Prices for all categories of tractor are lowest in Italy, followed by Germany in the case of lower-powered vehicles (up to 24 h.p.) and the Netherlands for higher-powered tractors (24 to 60 h.p.). In almost all cases French farmers have to pay most for their tractors. Only in the heaviest category (34 to 60 h.p.) do German farmers pay more than their French counterparts.

Weighted average prices for farm tractors in the Member States (1960)

(national currencies)

<u>Horsepower</u>	<u>Germany</u>	<u>Belgium</u>	<u>France</u>	<u>Italy</u>	<u>Luxembourg</u>	<u>Netherlands</u>
12-17	6 726	97 571	10 079	984 876	85 217	6 460
17-24	8 747	110 884	11 736	911 734	112 973	8 052
24-34	10 374	118 971	13 677	1 200 294	117 450	8 321
34-60	13 742	147 718	15 512	1 558 518	145 628	10 796

(Converted into DM)

12-17	6 726	8 192	8 577	6 618	7 158	7 140
17-24	8 747	9 310	9 987	6 126	9 446	8 899
24-34	10 374	9 989	11 639	8 065	9 866	9 197
34-60	13 742	12 403	13 201	10 674	12 233	11 932

Purchasing power of milk for groundnut cakes

Since groundnut cakes are used as a concentrated feedingstuff chiefly in the cattle industry, the purchasing power of milk is taken as unit of calculation. On the average, in 1960/61 and 1961/62 100 kg of groundnut cakes cost farmers most milk in the Netherlands, followed by Belgium, Italy, Luxembourg, Germany and France. However, the differences in purchasing power are not as great as in the case of fertilizers and diesel fuel. The greatest divergence is about 28% (118 kg in France against 154 kg in the Netherlands).

Credit charges in agriculture

The highest credit charges in agriculture are to be found in Germany, irrespective of whether interest rates are reduced by government subsidies or not. Then comes Italy, followed by France and the Benelux countries. Luxembourg farmers are in the best position, on the whole.

Social security

An important factor in the situation as regards incomes and social security in agriculture is the costs and benefits allocated under the respective social security systems in the Member States.

Social benefits are much the same in all the Member States, it is true. They consist mainly of insurance against old age, accidents, sickness and invalidity, together with family allowances, unemployment pay and widows' and orphans' pensions. But the extent to which agriculture is integrated in each social security system varies.

A comparison of social benefits for agriculture in the various Member States shows how far ahead French agriculture is in this respect. Not only are total benefits in France much the highest, but the contribution required from French agriculture itself is relatively small (32% against 69% in Germany). Only in Belgium (72%) and the Netherlands (87%) is the contribution higher than in Germany. The absolute level of contributions varies from \$17 per employed person in Italy to \$110 in the Netherlands. On the other hand, the net benefits received by farmers - excluding their own contributions - through income transfers vary as follows: French agriculture receives \$128 per head per annum (1960), followed by Italy with \$73, Luxembourg with \$34, Germany with \$29, Belgium with \$28 and the Netherlands with \$17.

Overall situation in the six countries

The Commission's memorandum shows that productive equipment costs farmers in the six member countries more or less the same, though the price varies considerably from one item to another. Generally speaking, agriculture in Luxembourg is in the best position as regards the price, and the purchasing power of wheat, for particularly important items. German farmers can buy fertilizers, particularly potassic, on relatively favourable terms, and they have some advantage when buying tractors in the lower power categories. Italian farmers are much better off when purchasing diesel fuel.

The position of Dutch farmers with respect to the price of productive equipment, which is also very favourable on the whole, is counterbalanced by the high price of feed for their dairy cattle (groundnut cakes) and extremely low social benefits.

Although French farmers have to pay high prices on average, they have the advantage of extremely generous state social benefits, and French agriculture might even be said to have a slight overall advantage on this account. At any rate, differences in this sphere are still considerable.

The EEC Commission consequently included social matters in its Community plans for improving living conditions in agriculture. These plans are, of course, directly linked with the Commission's proposal for alignment of cereal prices in one operation.

There are differences in production costs from region to region in the Member States, and these can best be seen from a comparison between the various countries. The memorandum, however, gives no reason for generalizing certain conclusions to show that any given member country comes off particularly badly. In spite of great differences in individual sectors, overall divergences in production costs remain within quite tolerable limits.

Consequences in France of the alignment of cereal prices

The only important effects that harmonization of cereal prices is expected to have on French farm incomes is the increase in return on sales resulting from higher cereal prices. Hardly any feed grains are imported into France, so that the growth of incomes will be simply a function of the increase in producer prices. Income in French agriculture will be FF 701.1 million, or £142 million, up on 1962/63. This is about 2.3% (1.3% for the cereals sector alone) of the value added by French agriculture - about FF 35 000 million - and 0.23% (cereals 0.13%) of the national product of FF 350 000 million (Revue nationale).

If the growth of income for cereals is measured against the area under cereals, it works out at about FF 47 per hectare with 9.1 million hectares under cereals. A big farm with 50 hectares under cereals could expect about FF 2 350 in additional income. This points up the problem for the Community as a whole - whether the volume of production in France will not grow too much as a result of higher cereal prices. The question for France itself is whether the economy is in a position to digest certain increases in consumer prices without reducing its ability to compete.

<u>Increase in return on sales</u>		<u>Change in consumer prices</u>	
(million FF)	(million DM)	(% of 1962/63 prices)	
253.9	205.7	Wheat other than durum	+ 1 to 1.5 Bread
117.9	95.5	Barley	+ 1 to 1.5 Macaroni, Spaghetti etc.
4.0	3.2	Rye	
32.1	26.0	Oats	
17.7	14.4	Maize	
<hr/>			
425.6	344.8	Cereals	
211.8	171.6	Figs	+ 3 Pigmeat
48.1	39.0	Eggs	+ 2.7 Eggs
15.6	12.6	Poultry	+ 1.0 Poultrymeat
<hr/>			
275.5	223.2	Livestock products	+ 2.1 Total
701.1	568.0	Cereals plus livestock products	

(= \$ 142 million)

Change in consumer-price index

Total + 0.19%
Foodstuffs + 0.44%

Consequences in the Netherlands

The return on sales in Dutch agriculture will increase in step with the general, and to some extent sharp, rise in cereal prices in the Netherlands. At the same time, however, Dutch farmers will have to pay more for feed grains because of increased feedingstuff prices abroad, so that the increase in income will be reduced.

Increase in return on sales of wheat, rye, barley, pigs, eggs and poultry	(million Fl.) 212.1	(million u.a. = \$ million) 58.59
Reduction in return on sales	1.2	0.33
Increase in costs of imported feed grains (oats)	183.3	50.63
	<hr/>	<hr/>
Net increase in income	27.6	7.63

<u>Change in consumer prices</u>	(% of 1962/63 prices)
Bread	+ 3.0 to 4.0
Macaroni, spaghetti, etc.	+ 3.0
Pigmeat	+ 6.8
Eggs	+ 7.0
Poultrymeat	+ 3.8
	<hr/>
Total	+ 4.6

Change in consumer-price index

Total	+ 0.36
Foodstuffs	+ 1.20

Consequences in Italy

The effects of harmonizing cereal prices on the income of Italian farmers will be:

- (a) a reduction in return on sales of wheat;
- (b) an increase in return on sales of feed grains and livestock products;
- (c) an increase in expenditure on feed grains imported from outside the Community.

	('000 million Lit)	(million)u.a.)
Increase in return on sales of barley, maize, pigs, eggs and poultry	38.2	61.1
Reduction in return on sales of wheat	50.6	80.9
Increase in costs of imported feed grains	28.0	44.8
	<hr/>	<hr/>
Net reduction in income	40.4	64.4

<u>Change in consumer prices</u>	(% of 1962/63 prices)
Bread	- 2.5 to 3.0
Macaroni, spaghetti, etc.	- 2.0 to 2.5
Pigmeat	+ 0.1
Eggs	+ 3.6
Poultrymeat	+ 2.0
	<hr/>
	- 1.15

Change in consumer-price-index

Total	- 0.11
-------	--------

Consequences in Belgium

Since the harmonization of cereal prices will bring about a general increase in these prices in Belgium, farm incomes can be expected to rise, as is shown by the following estimates.

A. Increase in return on sales

	(million Bfrs.)	(million DM)		(million Bfrs.)	(million DM)
Wheat	239.3	19.1	Pigs	513.7	41.1
Barley	71.4	5.7	Eggs	198.4	15.9
Rye	31.9	2.5	Poultry	48.0	3.8
Oats	59.4	4.7	Livestock products	760.1	60.8
Cereals	402.0	32.0			
Cereals plus livestock products				1 162.1	92.8

B. Increase in costs of imported feed grains

	(million Bfrs.)	(million DM)
Barley	213.9	17.1
Maize	198.6	15.9
	412.5	33.0

C. Net increase in income (A - B)

	(million Bfrs.)	(million u.a.)
(A)	1 162.1	23.2
(B)	412.5	8.2
	749.6	15.0

Change in consumer prices

(% of 1962/63 prices)

Bread	+ 1.5 to 2.0
Macaroni, spaghetti, etc.	+ 1.0 to 1.5
Pigmeat	+ 3.4
Eggs	+ 3.5
Poultrymeat	+ 1.6
Total	+ 2.5

Change in consumer-price index

Total	+ 0.05
Foodstuffs	+ 0.14

Consequences in Germany

To assess the change in German farm incomes, the reduction in return on sales of cereals and livestock products must be set against savings on the purchase of feedingstuffs. The balance gives the net loss of income as a result of cereal price harmonization.

A. Reduction in return on sales

Change in consumer prices

	(million DM)	(million u.a.)	(% of 1962/63 prices)
Wheat	135.8		Bread - 1.5 to 2.0
Rye	62.6		Macaroni, spaghetti, etc. - 1.0 to 1.5
Brewers' barley	49.6		
Fodder barley	1.6		
	<hr/>		
Cereals	249.2	62.3	
Pigs	336.3		Pigmeat - 5.7
Eggs	58.9		Eggs - 4.6
Poultry	9.0		Poultrymeat - 2.9
	<hr/>		
Livestock products	404.2	101.1	
Cereals plus livestock products	653.4	163.4	

B. Savings on purchases

Imported feed grains	82.9	
Tapocia flour	<u>11.9</u>	
Total	94.8	23.7
Net loss of income (A - B)	558.6	139.7

Consequences in Luxembourg

Farmers in Luxembourg will have to pay more for feed grains and will earn less from sales of wheat and rye. The overall reduction in farm incomes is estimated as follows:

Reduction in return on sales of:	(million Lfrs.)	(million DM)
Wheat	28.1	2.2
Rye	5.0	0.4
Cereals	<hr/> 33.1	<hr/> 2.6

Conclusions

If we are to have a common level of farm prices in the EEC, decisions must be taken that are based on current prices and price structure (inter-relation of prices) and take into account possible consequences for the economy as a whole and for agriculture in particular.

An examination of the effects alignment of cereal prices would have on the price of other farm products, farm incomes, the scale and orientation of production, external trade and consumer prices leads to the conclusion that common cereal prices should be fixed between the highest and lowest prices now obtaining in the Community countries. Such an intermediate price level combines the greatest possible general economic advantages with the least economic disadvantages for agriculture in the six countries. Actually, a common price corresponding to the current higher level would product the best short-term economic benefits for Community agriculture; but its adverse effects on the economy as a whole would be extremely serious in the medium and long term, and this in the last analysis would also be to the detriment of agriculture. The converse would be the case if cereal prices were fixed at the lower level of current prices in the Member States.

A common price level between the two extremes will admittedly entail a loss of income for farmers in those Member States where prices are already high, and will increase incomes in member countries where cereal prices are to go up. But it will also prevent an expansion of production that would inevitably produce surpluses which could only be disposed of at great expense (if at all), and would also have repercussions on commercial policy.

It is important, however, that the Community's farm price policy should leave outlets for non-member countries' exports to the EEC.

Lastly, an intermediate price level will keep within bounds the effects on consumer prices in the Member States in which cereal prices are to go up, thus obviating the risk of a price-wage spiral.

On the basis of these considerations the EEC Commission has proposed that the basic target price for wheat in the regions of greatest deficit be fixed at DM 425 per metric ton. The price of other cereals would be fixed in relation to this basic price, according to their volume of production and the supply situation.

If the Commission's proposal is accepted, cereal prices will be harmonized in a single step during the 1964/65 marketing year. Among the many consequences such a decision would have for Member States' economies as a whole and agriculture in particular, the most important economically are the effects

- (a) on the price of other farm products,
- (b) on farm incomes,
- (c) on the volume and orientation of production,
- (d) on external trade, and
- (e) on consumer prices.

All these have been estimated and examined in the Commission's 180-page memorandum.