

Newsletter on the Common Agricultural Policy

N° 12

December 1971

THE SITUATION IN THE MEAT SECTOR - BEEF AND VEAL, PORK AND POULTRY

	<u>Pages</u>
I. The importance of meat production to the agricultural economy of the Community	1
II. The influence of the common agricultural policy on the development of trade between Member States	2
III. The beef and veal sector :	
- Modifications in the composition of live-stock herds	3
- Production in face of rising demand	4
- Imports and Exports - World Market situation	5
- Price policy, equilibrium milk - meat	6
IV. The pork sector :	
- Spectacular increase of pig breeding	7
- Structural modifications in the production of pork	7
- The pork cycle and the "mountain of pork" in 1970/1971	8
- The evolution of trade with outside countries	9
- The client is always right	10
V. The poultry sector :	
- A luxury that has become a product of ordinary consumption	10
- The German Federal Republic a big client for Community production	11
- Evolution of prices	12
VI. General conclusions and prospects	13

X/857/71

THE SITUATION OF THE MEAT SECTOR : BEEF AND VEAL, PORK AND POULTRY

I. The importance of meat production to the agricultural economy of the Community.

The analysis of the statistics available shows clearly the importance that the production of meat has achieved during recent years in comparison with total agricultural production.

Expressed in percentages, the production of beef represents about 13% of total agricultural production, production of pork about 12% and of poultry about 4%.

Furthermore, it is very probable that this sector of agricultural exploitation will continue to expand in the future.

Indeed, two elements likely to influence the rise in demand for meat are effective conjointly on the markets of the Community.

The increase of population in the EEC, the demographic effect is the first element which automatically brings about a rise in consumption.

The rise in the standard of living, the increase in consumers' purchasing power influences this element and naturally increases consumption.

The anticipated development of consumption, which necessarily brings about an increase in demand, should normally stimulate and encourage all agricultural exploitation in the meat sector provided that certain conditions are conformed to at production level.

It is especially important that an equitable income should be guaranteed for the producer whatever the kind of meat production he desires to exploit.

The choice of production should, however, be conditioned by structural considerations concerning exploitation and should be in line with certain economic criteria in order that all the elements guaranteeing the profitable operation of the farm should be present.

The Common Market regulations already in force, the structural reforms envisaged and the efforts obtained in the field of agricultural co-operation as far as information is concerned about the management of products are factors which should give adequate assurances to farmers that meat production has become sufficiently attractive and thus enable native production to meet the increased demand.

In view of the different characters of these three forms of production and their specific place in the rural economy it is proposed to consider them separately by investigating and underlining certain special characteristics inherent in each type.

In order to understand better the development of these three types of exploitation in the framework of the regulations of the Common Market it is proposed, furthermore, to lay emphasis on the period from 1963/64 to 1970/71. This method will permit comparison of periods before and after the advent of the Common Market, and assessment and appreciation of the impact of a common agricultural policy on the markets of the different products.

II. The influence of the common agricultural policy on the development of trade between Member States.

In spite of the fact that imports and exports have developed differently in the different sectors under consideration it is, however, interesting to note that certain characteristics are to be found in the evolution of trade in all three products.

It is apparent that the new trading regime exchanges had an immediate favourable influence on the trade between members of the Community.

For beef the trade between Member States increased by nearly 100,000 tons in 1968 in comparison with 1967 with the coming into force of the community system. (229,594 to 327,139 tons).

As far as imports were concerned, the trade for the pork sector within the Community in 1967 was 50,831 tons of live-stock and 129,151 tons of pork while for 1970 the figures were 135,589 tons and 311,604 tons respectively.

Imports of poultry from Member States rose from 157,000 tons in 1967 to 189,000 tons in 1969. This development of inter-community commerce shows clearly the influence of the common market on commercial structures and the advantages obtained by producers especially by reason of the new outlets that a market composed of nearly 200 million consumers can offer.

Considering the development of inter-community trade it should be noted that not only "conventional trade" between zones of production and zones of consumption has taken place but new commercial movements have also been established which we could call here "qualitative trade".

Indeed, in normal conditions of production, certain products and, in particular, certain cuts of beef or pork are more favoured in some markets because of variations in the habits of consumers in different regions of the EEC. This situation has a favourable influence on the fixing of prices and contributes to the stabilization of prices within the Common Market.

A typical example of this so-called "qualitative trade" is shown by the export of French front-quarters to Germany and the export of German hind-quarters to France.

III. The beef and veal sector.

- Modifications in the composition of live-stock herds.

The census of live-stock carried out by the Member States at the end of 1969 showed a total number of 52,400,600 head of cattle, which represents an increase of 0.3% in comparison with the previous year.

The modifications which have taken place in the composition of live-stock herds in the period between the two counts are very interesting and show the orientation of production in this sector and can be resumed as follows :

- a decrease in the number of cows (1.1% between 1968 and 1969 and 2.6% between 1969 and 1970),
 - an increase in the number of animals for meat production (7.8% between 1968 and 1969 and 1.1% between 1969 and 1970).
- Production in face of rising demand.

In 1970, throughout the Member States (except Italy), the total number of native mature cattle slaughtered rose by 7.6% in comparison with 1969. On the other hand the number of calves slaughtered during the same period fell by 1.7%.

Statistics available from Italy do not distinguish between the numbers of calves and mature cattle slaughtered but it can be estimated that there was an overall decrease of about 12.2% over the same period.

Expressed as tonnage, meat production for the whole of the Community rose by 4.9% from 4,086,914 tons in 1969 to 4,288,400 tons in 1970.

During the same period consumption increased by 3.9% from 4,715,259 to 4,899,650 tons showing the same trend as had been evident in previous years. In fact the annual increase was 3 % in 1967, 1.7% in 1968 and 2.5% in 1969.

These percentages may seem to be rather low but it must be remembered that the variation of 1 % represents about 45,000 tons, that is to say, 45,000,000 kg. of meat or 180,000 animals of 250 kg. slaughtered weight each.

The deficiency to be made up by imports from outside countries, therefore, amounts to 611,250 tons for 1970. Expressed in percentages, the Community was 87.5% self-supplying in 1970, compared with 88.1% in 1967, 90% in 1968 and 86,7% in 1969.

Analysis of census statistics, production and consumption figures and modifications in the composition of live-stock herds gives rise to the following observations :

- a continuing decrease in the number of cows is likely to diminish potential production and could lead to an increase in the deficiency of beef and veal. This observation and the conclusions to be drawn from it will remain valid as long as beef and veal output remains cramped by current production methods,
- the drop in the number of calves slaughtered might partially offset the deficiencies due to the reduction in the number of cows, which implies a fall in births, on condition that the live calves will serve for the production of meat and not in replacement of cows which have been slaughtered in too great numbers.

Mention should be made here of production methods.

In the Europe of the Six, production techniques have not advanced much in recent years. The bulk of meat production is handled on an artisan basis by agricultural undertakings with relatively small herds.

Only recently have large production centres specializing in the production of young cattle been set up.

If production methods for beef in general have hardly changed, techniques in calf-meat production have advanced considerably and are becoming more and more industrialized, including even battery fattening of calves.

- Imports and Exports - World Market Situation.

Imports into the Community from outside countries clearly depend on requirements and market demand and are brought in to make up the Community's deficiencies in beef and veal.

In 1968, the total imports in this sector amounted to 499,213 tons, rising to 613,000 tons for 1969 and up to 595,036 tons in 1970.

The analysis of imports of different products in this sector shows, in comparison with 1968, a rise in the imports of calves and veal, relative stability in the imports of mature live-stock on the hoof, a decline in fresh and refrigerated meats and a big increase in the imports of frozen meat.

The development in the import of frozen meats seems to be due mainly to a growing demand for lean meats for processing.

Because of the deficiencies in production of the beef and veal sector and the need to make them up with imports, it is clear that the situation on world markets is of great interest to this sector.

It should be noted that from the end of 1969 and the beginning of 1970 the world market situation has been very tight.

Importing countries are experiencing difficulties with their normal supplies from the Latin-American market, in two years the price of frozen meat has nearly doubled.

The presence as buyers on the world market of some countries which are not traditionally importers and who have bought considerable quantities as well as the decrease in production and the increase of internal consumption are the main causes of the abnormally tight situation in the beef and veal market.

The exports of the Community are limited because of the deficiencies of production and follow traditional lines and consist generally of specific products which are in demand because of their quality.

- Price policy, equilibrium milk - meat.

In relation to the orientation prices fixed by the Council, it is noteworthy that the evolution of market prices has been satisfactory. The balanced averages of the Community fixed for the season were higher than the orientation prices for the corresponding product.

However, the prices fixed for meat are very closely linked with prices fixed for the milk and the milk products sector. Taking into account the fact that the production of meat, in spite of the relatively satisfactory market prices, has not developed and is not expanding, it can be asked if the milk sector has not been favoured to the detriment of the meat sector.

Furthermore, the interested parties are studying the possibility of encouraging meat production by other means than by the fixation of prices.

IV. The pork sector.

- Spectacular increase in pig breeding.

Among others, one of the principal characteristics of the pork sector is certainly the increase in the number of pigs bred within the Community. There were 51.0 million pigs in 1970, in comparison with 47.0 million in 1969, that is to say an increase of 8.6%. In 1965, the figure was 38.0 million.

In making a comparison of the number of pigs bred in the different Member States it will be seen that the increase in number and over a fairly long period has not developed in parallel in the six countries of the Community.

In the period from 1961 to 1970 the number of live-stock rose from 17,218,000 to 20,532,000 head in Germany (+ 19%), from 9,217,000 to 11,215,000 in France (+ 21%), in Italy from 4,470,000 in 1961 to 8,987,000 in 1970 (+ 100%), in the Netherlands from 3,187,000 to 6,340,000 (+ 99%), in Belgium the number of live-stock rose from 1,882,000 to 3,792,000 (+ 100%) and in Luxemburg from 113,000 to 131,000 (+ 16%).

- Structural modifications in the production of pork.

It would seem that the principal cause of the difference in the evolution in the Member States is due to the tendency to concentrate production in well defined regions which offer particularly favourable competitive conditions.

This trend in the concentration of production has been further stimulated by the activities of alimentary industries also installed in geographical regions favourable to their activities and which support and encourage the breeding of pigs by financial arrangements, contracts for breeding and fattening and also by assistance in the domain of information especially in so far as breeding and fattening based on rational and scientific methods are concerned.

- The pork cycle and the "mountain of pork" in 1970-1971.

The development of the production of pork is conditioned by the evolution of prices in this sector. Indeed, one hears talk of a cycle of production or a "pork cycle" which can be summed up as follows :

It begins with the fact that from the date when the producer decides to breed pigs and the date when he can sell the animal a certain time must elapse which is based on the natural evolution of the animal, fecundation, gestation, birth, growth and fattening. Economic factors of rentability fix limits for this period. Indeed, the process of fattening cannot exceed a certain period of time without causing a fall in the value of the product. The producer's profit is the difference between the financial investments made, in particular for feeding and labour and the selling price. "Board and lodging" even without special care and fattening if continued beyond certain limits can only result in the diminution of profits and can even cause a net loss.

Because the selling price on the markets is established not only in function of the cost of production but also depends on supply and demand, it is evident that if the economic time limits are overrun then the rentability of the operation will decrease.

It is evident that most producers decide on pork production when prices show a rising trend.

If the number of milking sows in December 1971 is compared with the number in 1969, it will be seen that there has been an increase of 90% which proves that the decisions to start pig breeding are of quite recent date and have been undertaken by a large number of producers.

Inevitably supplies become abnormally high, prices fall and the difference between production prices and selling prices is also reduced. It can be said that supplies will continue to be offered on the market until stock is exhausted and during this period of falling prices producers will again lose interest in pig breeding.

Indeed, prices began to fall sharply in 1970 and in the Spring of 1971 reached such a low level that the Council of Ministers of the Community decided to take measures to support prices by intervention on the markets for private stocking of meat and by purchases by the intervention organizations of the Member States.

- The evolution of trade with outside countries.

For pork the Community supplies itself with nearly 100% of its requirements so that, taking into account the cyclic evolution of supply, it can be said that the balance imports - exports is relatively well equilibrated for the sector as a whole.

As far as imports are concerned, it should be noted that :

- nearly 50% are in the form of fresh, refrigerated and frozen meat,
- the imports of the canning group have fallen off continually since 1967.

As far as exports are concerned it should be noted that :

- exports of lard take the first place and account for almost half of the total exports,
- the fluctuation in the volume of exports since 1967 have been due essentially to the development of the export of lard.

In this context, it should be noted that the export policy applied by a number of outside countries can considerably influence the lard market and have a result on the conditions for export.

- The client is always right.

Over a number of years it has become more and more evident that the pork market has had to adapt itself to the requirements of the clients. In other words the exigencies of the clientele have had a very strong influence on the evolution of the market and it can be foreseen that this influence will continue to make itself felt in the years to come.

The curing and transformation industries have an increasing tendency to consider pork as an industrial raw material and require the application of criteria as for other raw materials especially in so far as the standardization of the product is concerned.

Modern methods of production cannot accept a product which is not homogeneous, and even in the case of relatively high tonnages, presents different grades of quality.

The choice of the client is attracted by a standardized product even if prices are slightly higher. The advantages of transforming a raw material which is homogeneous and well adapted to the necessities of transformation are more important than the price which may be a little higher than average.

V. The Poultry sector.

- A luxury that has become a product of ordinary consumption.

Before undertaking an analysis of the relative statistics on the development of production and consumption of poultry during recent years, it would be useful to study the development of this sector over a longer period taking into account the salient features.

Indeed it is particularly interesting to note the development of this agricultural product, in a relatively short time, into a real industrialized production.

Apart from a few exceptions, the production of poultry had remained up to the end of Second World War a typically agricultural production in the countries which now form the European Community.

Before that time there were only two meat products, boiler fowl meat - a by-product of egg production - and chicken which was a luxury and relatively dear in comparison with beef, veal and pork.

The production and consumption of other poultry duck, turkey, guinea fowl etc.. can be considered as strictly marginal and limited to certain regions.

The introduction of scientific methods in all the fields of production in this sector after the Second World War caused a profound upheaval. The production of poultry meats was rapidly industrialized and very soon the prices of the principal products had reached levels which permitted them to compete efficiently with other meats.

From being a luxury product chicken has become in the course of a few years a product of common consumption.

Almost simultaneously with the industrialization of production and probably because of it, distribution circuits and the commercialization system also underwent important changes. A large part of production now passes into the distribution circuits of the multiple stores and super-markets and already important quantities are commercialized in the form of "cuts" thus facilitating choice of consumers who do not wish to buy a whole chicken.

Furthermore, congelation is used on a large scale in this sector. This procedure permits the storing of supplies to meet exceptional demand such as at Christmas and the New Year.

As far as the development of production and consumption are concerned and during the period 1967/1970, a net progress has been registered showing an increase of 29% in production. Production rose from 1,560,000 tons in 1967 to 2,014,000 tons (provisional) in 1970, in Germany a rise of 26 %, France showed a rise of 20 %, Italy 41%, the Netherlands 44% and Benclux 10%.

For the whole of the Community consumption per head rose from 8.3 kg. in 1966/67 to 10.4 kg. in 1969/70 an increase of 23%. In 1960 the consumption per head was only about 2 kg.

- The German Federal Republic a big client for Community production.

One particularly interesting aspect of the poultry sector is the deficit which exists on the German Market.

German imports from the other Member States which were 154,000 tons in 1967, rose to 201,000 tons in 1970. Among the Member States exporting to Germany, the Netherlands was by far the largest supplier.

On the basis of statistics available one can almost qualify inter-Community trade in this sector as one way traffic of which about 75% is represented by exports of the Netherlands to the German Federal Republic.

As far as imports and exports to and from outside countries are concerned, it should be noted that they are very small in comparison with the total production of the EEC. In 1969 imports represented 2.2% of the total production of the EEC and in 1970, 2.11%. During the same two years exports represented 1.3 and 2.8% of the total production of the EEC.

Imports consisted almost entirely of ducks and geese from Eastern countries and of turkeys and poultry products for which there are still deficiencies in the production of the Community.

- Evolution of prices.

In contrast to other less industrialized agricultural enterprises the cost price in this sector can be established with exactitude.

Cost price can be calculated in function of financial investments necessary for the "manufacture" of one product or another in this sector. With the exception of long term investment for buildings and technical installations and taking into account the low cost of the "raw material" (that is to say hatching eggs), the principal expenditure is on food-stuffs which amounts to about 66% of the cost price.

The cost of production is closely related, therefore, to the cost of cereals for feeding.

In spite of the high level of industrialization of poultry products, which gives this sector a slightly marginal character in comparison with other agricultural undertakings, it should be noted that :

- the egg and poultry sector represents about 12% of the total net agricultural revenue (roughly half for eggs and half for poultry),
- the production of poultry plays an important part in the food supplies of the Community,
- that production is a potential market for the cereal sector for the supply of food-stuffs.

VI. General conclusions and prospects.

The general conclusions which can be formed after the examination of the evolution of these three sectors can be summed up as follows :

At Community level :

The spectacular development of inter-Community trade which has been brought about by the institution of common markets for different sectors shows clearly the favourable influence of a common agricultural policy. Indeed, the development of trade which coincides with the development of production in the sector concerned shows that the opening up of new markets is not limited to commercial exploitation only but acts as a stimulant for production.

Agricultural economic policy :

The introduction of industrial methods of production in all the sectors and the definite trend towards further development of industrialization in the future seems to have become a definite factor in development.

The introduction into production of new breeding and fattening methods will lead to a greater standardization and will facilitate the commercialization of the products on a very large scale. The installation of certain productions in regions which are particularly favourable, from the point of view of competition, could become an economic necessity.

a EVOLUTION OF PRODUCTION AND CONSUMPTION OF MEAT

- 1) in tons, live weight, gross indigenous production
 2) in tons, dead weight of national production (offal included)
 and also the exports of animals on the hoof.

Period	Beaf and Veal			Pork			Poultry		
	Production ¹	Consumption per head	Auto- supply rate	Production ²	Consumption per head	Auto supply rate	Production	Consumption per head	Auto- supply rate
	tons	kg./head	%	tons	kg./head	%	tons	kg./head	%
1967	3.983.742	24,4	88,1	5.352.000	29,0	97,7	1.560.000	8,6	97,9
1968	4.141.191	24,9	90,0	5.830.000	30,9	101,3	1.734.000	9,5	98,5
1969	4.086.914	25,5	96,7	5.689.000	30,2	100,2	1.862.000	10,3	98,9
1970	4.288.400	26,0	87,5	5.960.000	31,1	100,9	2.014.000	10,6	100,5

Source : E.C. Commission, General Management of Agriculture.