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Report

drawn up on behalf of the Committee on the Environment, Public Health and

Consumer Protection

on the relationship between producer prices, middlemen's profit margins and the  
final selling price to consumers of agricultural products

Rapporteur: Mr Willi MULLER

1.2.7



By letter of 5 April 1977 the President of the European Parliament authorized the Committee on the Environment, Public Health and Consumer Protection to draw up an own-initiative report on the relationship between producer prices, middlemen's profit margins and the final selling price to consumers of agricultural products. The Committee on Agriculture was appointed to draw up an opinion.

On 28 April 1977, the Committee on the Environment appointed Mr Schwabe rapporteur, and a first discussion was held on 19 December 1977. Following the death of Mr Schwabe, the committee appointed Mr Willi Müller rapporteur in his place on 25 January 1978.

The committee considered the draft report at its meeting of 18 October 1978 and adopted it with one vote against.

Present: Mrs Krouwel-Vlam, chairman; Mr Willi Müller, rapporteur; Mr Adams, Mr Andersen, Mr Brégégère, Mr Herbert, Lord Kennet, Mr Lamberts, Mr McDonald, Mr Noè, Mrs Squarcialupi and Mr Verhaegen.

The opinion of the Committee on Agriculture is attached.

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The Committee on the Environment, Public Health and Consumer Protection hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the relationship between producer prices, middlemen's profit margins and the final selling price to consumers of agricultural products

The European Parliament,

- having regard to Article 39 of the EEC Treaty,
- having regard to the European Economic Community's preliminary programme of 14 April 1975 for a consumer protection and information policy<sup>1</sup>,
- having regard to its resolution of 14 September 1977 on Community consumer policy<sup>2</sup>,
- having regard to the report of the Committee on the Environment, Public Health and Consumer Protection and the opinion of the Committee on Agriculture (Doc. 404/78),

1. Regrets that, despite the declaration issued at the London Summit on 11 May 1977 and the numerous and gratifying efforts made by the Commission, the Member States have only partly succeeded in fighting inflation effectively;

2. Notes that in the wake of these inflationary trends consumer food prices have risen just as sharply as producer prices for agricultural products;

3. Observes with concern the increase in gross profit margins in different branches and in some Community countries where the processing industry and food trade are clearly tending to use price increases at producer level as a pretext for increasing the gross profit margins without any regard for real cost;

4. Has learned with dismay of the initial findings of the pilot surveys carried out by the Commission on the gross profit margins made by middlemen in the food trade, to the effect that price differences within the Member States for identical products amount to 40% and more in about one-third of the cases investigated;

5. Presumes that these enormous price differences may be attributed partly to deep-seated differences in the structures of the agricultural markets, inadequate competition and the numerous marketing and processing stages;

<sup>1</sup> OJ No. C 92, 25.4.1975, p.1

<sup>2</sup> OJ No. C 241, 10.10.1977, p.23

6. Is convinced that it would be a great help in improving these structures if public and cooperative undertakings were to be built up in those countries and regions where undertakings of this kind have as yet had no influence on the market;
7. Urges the Commission to ensure that the Council Regulation of 19 June 1978 concerning producer groups and associations thereof<sup>1</sup> is implemented in the near future by the Member States concerned;
8. Realizes the influence exerted by advertising and packaging on cost trends and pricing in the food sector; welcomes therefore the Commission proposal on misleading and unfair advertising and also invites the Commission to initiate measures to counter misuse of packaging;
9. Stresses the need for analytical studies of profit margins in the food sector accompanied by regular and continuous monitoring of the market, in order to detect possible price distortions at the various commercial levels;
10. Proposes that, since it has now tested the methodological basis for such studies in Ireland, the United Kingdom and Germany, the Commission should begin by carrying out these studies on some selected agricultural products that are of particular importance for the private housewife's shopping basket;
11. Suggests further that the Commission should study more closely the effects of the common agricultural prices on final consumer prices and that the results of these studies should be made known to the general public;
12. Presumes that when agricultural price proposals are being drawn up in future, the Commission will be able, on the basis of studies of this kind, to give more realistic estimates of the effects of price increases on final consumer prices for the various countries and products or groups of products;
13. Urges the Commission and Council, pursuant to Article 39 of the EEC Treaty, to work out and implement a common policy which will serve the interests of farmers, consumers, the processing industry and the food trade in equal measure and can be seen as a food policy in the broadest sense;
14. Considers that within the framework of a food policy of this kind forward analyses of production figures and future requirements in agricultural products are needed to provide national and Community decision-making bodies with long-term planning guidelines for production, marketing and consumption;

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<sup>1</sup> OJ No. L 166, 23.6.1978, p. 1

15. Is convinced that in this way the policy of common prices and supporting measures could contribute more effectively to ensuring a balance between supply and demand on the markets;
16. Considers that the imbalances and surpluses on some markets at the present time are caused by the in some cases unlimited marketing guarantees at relatively high price levels;
17. Urges the Commission, in view of the effects that further increases in the common agricultural prices would have both on the agricultural markets and on rising living costs, to pursue vigorously its present foresighted anti-inflationary prices policy;
18. Invites the Commission to study ways and means of cutting back on unlimited marketing guarantees and also to work out and propose effective forms of co-responsibility for farmers in the case of surplus products;
19. Hopes that the Community will have the courage to develop and vigorously implement its structural, regional and social policy, which is still only in its initial stages;
20. Believes that in order to support a policy of this kind the resources of the EAGGF's Guidance Section must be considerably increased;
21. Encourages the Commission to adopt special measures to offer intervention goods to socially disadvantaged groups in the Community and also to make much greater use of them to supply food aid to the poorest developing countries;
22. Supports a return to a genuine common agricultural market and is therefore in favour of a gradual abolition of monetary compensatory amounts, provided this abolition is not used as a pretext for a general increase in price levels;
23. Considers that within the framework of a common food policy consumers must be represented alongside agriculture, industry and trade as equal partners at all levels of the political decision-making process;
24. Feels that, while there is already some consultation of consumers by the Commission, such consultation must be stepped up and calls on the Commission once again to make the opinions of the Consumers' Consultative Committee available to Parliament in the future;

25. Urges once again that the Commission's Environment and Consumer Protection Service be organized in such a way that it can carry out its manifold duties relating to the protection and strengthening of consumers' interests in close cooperation with the Consumers' Consultative Committee and the consumer organizations;

26. Calls on the Council to explain its decisions and the reasons for them to the public at large and at the same time to make it clearer than it has been in the past that in taking their decisions on prices the Agriculture Ministers do not act as representatives of group interests but on behalf of their governments and having carefully weighed the overall economic situation;

27. Invites the Commission to implement Article 40 of the European Community's preliminary programme for a consumer protection and information policy by giving the general public more comprehensive, intelligible and continuous information than it has been doing up to now about the Community's agricultural policy in general and the factors determining prices in particular;

28. Welcomes the fact that in appointing the new members of the Economic and Social Committee on 19 September 1978, the Council has ensured stronger representation of consumers and their interests;

29. Instructs its President to forward this resolution and the committee's report to the Council and Commission.



EXPLANATORY STATEMENTBA. INTRODUCTION

1. There are 265 million Europeans, and thus 265 million consumers, in the nine countries of the Community. What do they expect from Europe? On the initiative of the Commission of the European Communities regular surveys are being carried out as part of the 'Eurobarometer' on issues of particular public interest. It recently emerged from one of these surveys that 7 out of 10 people in the Community expect priority to be given to the battle against price increases.

2. This being the case, Parliament would be well advised - especially in view of the approach of next year's direct elections - to take the opportunity of investigating trends in food prices in the Community, especially as expenditure on food constitutes a significant proportion of the overall cost of living and also because in its common agricultural policy the Community possesses an instrument with which it can control agricultural prices and, ultimately, consumer prices too.

3. It is not the aim of this report to determine who, among producers, processors, wholesale traders and retail traders, is responsible for food price increases. Even if that were possible, far more comprehensive studies would be necessary. All this report can hope to do is to attempt, in a first approach to this highly extensive and complex subject, to highlight the importance of the various components (agriculture, industry and trade) in the make-up of consumer prices and the relationships between them.

BB. RELATIONSHIP BETWEEN PRODUCER PRICES, MIDDLEMEN'S PROFIT MARGINS AND THE FINAL SELLING PRICE TO CONSUMERS OF AGRICULTURAL PRODUCTS

I. Trends in consumer food prices

4. As a consequence of the general price increases, consumer prices have also risen steadily in recent years. Details will be found in Annex I<sup>1</sup>, which gives the consumer price indexes from 1970 to 1976 (including both the general index and the various sub-indexes) for the nine Community countries. The general index shows the wide disparity in price trends between the Member States. The average rate of inflation of about 5.8% in Germany contrasts with inflation rates of 12.2% in Italy, 13.6% in the United Kingdom and as much as 14% in Ireland.

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<sup>1</sup> Doc. 510/77, p.210

5. The sub-index 'foodstuffs and beverages' also varies from country to country. On average the rates of increase over the years 1970 to 1976 are lower for Germany, Belgium and the Netherlands than in the general index, while for all other countries they are higher.

If, on the other hand, we take a look at variations from year to year over the period under observation, 1970 to 1976, we note that the rates of increase for foodstuffs at times of particularly severe inflation (1973-1975) were somewhat lower as a rule in all countries than in the general index.

From all these remarks it may be concluded that food prices did not fuel the general inflationary process, but that they did contribute to the overall rise in prices.

6. Estimates of consumer price trends in 1977 indicate that prices rose more slowly than in previous years. The rates of increase range from 3.2% for Germany, 3.7% for Luxembourg, 4.2% for the Netherlands and 4.8% for Belgium to 12.1% for the United Kingdom, 12.5% for France, 14.7% for Denmark and 16.9% for Italy.

7. Taken as a whole, these figures show that, despite the declaration issued by the Heads of State or Government in London on 11 May 1977 some Member States have a long way to go before they get inflation under control. The Member States should therefore realize their common responsibility and pursue more vigorously the aim stated at this Summit of combating inflation by adopting practical measures and setting realistic targets.

## II. Trends in producer prices of agricultural products

8. The trend in agricultural producer prices for the years 1968 to 1977 is shown in the table in Annex II<sup>1</sup>, according to which producer prices rose at a disproportionate rate in every country in the Community in 1975 and 1976<sup>2</sup>. Even in countries like Germany, Belgium and the Netherlands the rates of increase were over 10% in each case. The rates of increase were far higher in the United Kingdom (24.3% and 30.4%) and Ireland (26.6% and 28.1%), which is largely due to the fact that prices in these countries had to be adjusted to the general European Community price level.

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<sup>1</sup> Doc. 510/77, p.191

<sup>2</sup> In 1976 these rates of increase were affected to some extent by weather conditions (drought in the North, floods in the South).

9. In 1977 it became evident that there was a falling off in the trend of rising producer prices. The index ranged from -4% in Germany and the Netherlands to 12.3% in Italy and 21% in Ireland. This welcome change can be partly accounted for by a falling off in the exceptionally high rates of increase in 1975 and 1976, and it is also possible that the initial effects of the Community's farsighted anti-inflationary agricultural prices policy were making themselves felt to some extent. In the 1977/78 marketing year the average level of common agricultural prices expressed in units of account rose by only 3.9% as against 7.7% in 1976/77 and 9.6% in 1975/76.

10. Annex III contains a general comparison between the producer price index for agricultural products and the consumer price index for food-stuffs for the years 1970 to 1977<sup>1</sup>.

Whatever reservations we may have about a general comparison of this kind, the figures nevertheless show the tremendous pressure exerted by producer prices on consumer prices in the Member States in the years 1975 to 1976. This is true not only for the new Member States, where agricultural price levels had to be adjusted, but also for all the others. Fortunately the trend outlined did not continue in 1977.

11. The influence of producer prices on consumer prices varied from product to product, as is clear from Annex IV which shows price trends over the years 1973 to 1976 for bread, sugar, milk, meat, ware potatoes and eggs<sup>2</sup>.

### III. DISTINCTION BETWEEN PRODUCER PRICE AND CONSUMER PRICE

12. In an economy based on the division of labour producer and consumer prices are not identical. Processors and traders expect their share of the final price to the consumer. The latter is thus the producer price plus processors' and traders' margin. This margin, which is made up of costs and profits, is perfectly legitimate. The size of this margin (in comparison with the service rendered) may be challenged, but not its existence. Challenges of this kind have become more frequent and forceful in recent years, as the consumer feels that he is being harshly treated by constantly rising food prices, while on the other hand the farmer, has the impression that, despite rising producer prices and farm incomes, he is not getting his fair share of the consumer price. The remarks that

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<sup>1</sup> Doc. 510/77, p.208

<sup>2</sup> Doc. 510/77, p.212

follow are intended to promote a realistic and objective discussion of this whole problem, to outline the common interest of farmers and consumers, and in addition to encourage investigations into price trends at the various economic levels where these are needed.

IV. PRICES OBTAINED BY AGRICULTURE AS A PROPORTION OF CONSUMER EXPENDITURE ON FOOD AND LEVEL OF GROSS PROFIT MARGINS OF INDUSTRY AND TRADE

13. Scarcely any studies or data are available at Community level concerning the proportion of consumer expenditure on food which represents the sales profits of agriculture or concerning the level and trend of the gross profit margins of industry and trade<sup>1</sup>. No critical study of consumer price trends, however, is really possible without such data.

(a) Commission survey of the development of concentration and competition in the distribution of foodstuffs

14. Since January 1976 the Commission has been assembling data, as part of a survey of the development in concentration and competition in food distribution, on food prices and gross profit margins in the nine Community countries. Although these investigations are still in progress and no definite evidence about gross profit margins will be available for a long time, the Commission has published preliminary observations concerning these price surveys in its Sixth Report on Competition Policy.<sup>2</sup>

15. The first surveys of retail food prices show that identical products are sold at considerably different prices within the Member States. For about a third of the food products considered, the differences were greater than 40%. The surveys also show considerable divergence in the evolution of prices over a short period. Frequently, in the same town or region, the price of an article may increase considerably (e.g. by 50%) at one sales point, while it may be considerably reduced elsewhere (e.g. by 60%)<sup>3</sup>.

16. More details will be found in Annexes V and VI. The price differences noted in a large number of sales points and for similar articles were first broken down into six classes in Annex V. For Denmark this reveals that out of 57 sales points checked there were price differences of 80-100% in 9 cases, of 60-80% in 18 cases and of 10-40% in a further 27 cases.

<sup>1</sup> The Commission Statistics Office has taken the first steps in this direction in Ireland, the United Kingdom and Germany by having the methodological basis for this sort of study tested. These preliminary studies did not, of course, produce usable data

<sup>2</sup> Doc. 70/77, p.176 ff

<sup>3</sup> idem, p.187

17. Annex VI takes the survey one stage further by assembling these price differences into three categories, which are labelled as follows:

- (a) normal case = price differences of 10-40%
- (b) divergent case = price differences over 40%
- (c) uniform case = price differences lower than 10%.

It appears from this table that out of 154 sales points tested in the United Kingdom there were 33 instances of uniform case price differences, 20 of divergent case and 101 of normal case.

18. According to the Commission, the provisional results of the surveys showed that size and location of sales points have a crucial effect on their distribution costs and profitability and may account for price disparities of up to 40% (normal case) between, say, a shop in the town centre and a supermarket on the edge of the town.

19. The Commission believes that 'price disparities', i.e. of 40% or more, may be explained in two ways;

- the sales points offering minimum prices are usually either exposed to much more intense competition than the others, or actively engaged in an aggressive competition strategy;
- these sales points belong to groups or retailers' organizations whose power of negotiation with manufacturers and producers is very great; this enables them to obtain exceptionally favourable conditions and cost prices ('power of demand').

(b) Analytical studies on profit margins carried out in Germany

20. Analytical studies on profit margins based on long-term observation of the market have been made at national level. A noteworthy example in Germany is a series of studies being carried out by the Federal Ministry of Food, Agriculture and Forests (BML) in conjunction with the Institute for Agricultural Market Research in Braunschweig-Völkenrode.

21. The aim of these investigations is to determine the value of the materials and services added to the primary agricultural product until it is ready for consumption by comparing the prices obtained by agriculture for selected products and groups of products and the value of the food-stuffs made from them in terms of retail prices, in other words by establishing the difference between the prices obtained by agriculture on the one hand and consumer expenditure on food on the other. Calculations of this type have been carried out for all important agricultural products since the beginning of the 60s.

22. The following conclusions may be drawn from the data collected between 1965 and 1975 (see Annex VII):

- Agriculture's share in consumer expenditure on the various groups of products varies to a striking degree. It is relatively high in the case of eggs and potatoes for human consumption (85% and 57.6% respectively), but strikingly low for bread grains (14.5%). The reasons are obvious. Eggs and potatoes are usually marketed without being processed and often go straight from producer to consumer. Bread grains on the other hand go through many marketing stages before reaching the consumer.
- Calculations show that in the last decade there has been a steady decline in the relative share of agriculture in consumer expenditure on food and consequently that the margin for processing and trade has expanded. The reduction in agriculture's share is not, however, due to a fall in agricultural producer prices.
- For crops and animal products combined agriculture's share is still 48.9% despite the decline in recent years.

(c) Conclusions

23. In the present circumstances the need for analytical studies at Community level of profit margins is obvious. Serious scientific studies, based on regular and continuous observation of the market, on the problems of profit margins at the production, processing and distribution stages of agricultural products are necessary. These studies should, in addition to providing purely statistical surveys of gross profit margins, make it possible for conclusions to be drawn about the 'cost and profit' components at each stage and thus permit a closer analysis of possible price distortions at the various stages.

24. In connection with the aforementioned pilot surveys of consumer prices the Commission announced that it would be carrying out an investigation into gross profit margins in the retail trade. It hopes to be able to publish its initial findings in the next report on competition policy<sup>1</sup>. For the purposes of the present discussion, however, your rapporteur intends to make some working hypotheses, which may make it easier to understand profit margin trends.

25. If agriculture's share of final consumer food prices is falling, it follows that the share of the processing and distributing sectors must be rising. In fact, it is rising all the faster in that final consumer prices themselves have risen sharply, as we have seen, in recent years.

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<sup>1</sup> Doc. 70/77, p.185

How much of this increased margin goes to swell profits and how much is swallowed up in costs is not known.

26. There is a continually increasing degree of sophistication nowadays in the manner in which agricultural products are being put on the market: for example, when potatoes are no longer bought by the sack and stored in a cellar for the winter, but are bought by the pound, possibly already peeled or even in the form of potato crisps, this inevitably makes the product dearer.

27. One factor in rising costs is the continually increasing expenditure on advertising. To give one example, total expenditure on advertising in Germany was estimated at DM 7,700 m in 1967, but ten years later it amounted to about DM 30,000 m, in other words, it had increased fourfold<sup>1</sup>.

It is no secret either that packaging materials are becoming increasingly larger and more sumptuous and thus more expensive. Disposable containers are taking over in all sectors of the food trade with alarming rapidity, while throwaway shopping bags and cartons are also contributing their share. In its resolution of 14 September 1977<sup>2</sup> the European Parliament expressly condemned excessively large packages and unjustifiably expensive packaging materials as well as the misuse of advertising and requested the Commission to take measures to prevent this<sup>3</sup>.

28. In his reply to the oral question on direct sales of agricultural products, the Commissioner said that high energy costs in the processing, storage and distribution of food have a much greater impact than is generally believed.

29. It should also be pointed out in this connection that the advantageous siting of the sales point has a greater influence on the price than ever before. Transport costs have varying effects on prices depending on the situation of the sales point, i.e. whether it is located on the edge of a town near a motorway or in the town centre. It would be interesting to know whether the most cost-effective means of transport are being used in the Community and whether - and if so where - price distortions arise in this sector.

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<sup>1</sup> Verbraucherpolitische Korrespondenz (Correspondence on Consumer Policy),

<sup>2</sup> Vol. 3/1978, p.9

<sup>3</sup> OJ C 241, 10.10.1977, p.3

<sup>4</sup> On 28.2.78 the Commission forwarded to the Council a proposal on misleading and unfair competition (COM(77) 724 final).

<sup>4</sup> Debates, Report of Proceedings, (Rainbow edition) Friday, 17.2.1978, p.343

30. Concentration and the power of demand in the processing industry and in trade are constantly weakening the producers' market position. The less the suppliers are organized and the less they come to terms with the inexorable trend towards regional marketing and the insistence on bulk, the greater is the pressure on producer prices. It follows clearly from this analysis that producer and marketing cooperatives must be systematically promoted.

31. It is therefore essential to investigate whether and to what extent the price advantages derived from concentration and the power of demand are passed on to the consumer or whether they merely swell the profits of the middlemen. There are indications that the middlemen do not always pass on these price advantages to the consumer. In the Member States of the Community agricultural and food markets are largely oligopolistic, which means that the food trade takes what the market has to offer. This argument is made all the more credible by the fact that price trends on these markets do not always match cost trends. In its 1977 report on the agricultural market<sup>1</sup>, the Commission notes that pig meat prices continue to show an upward trend and reflect only slightly the cyclical and seasonal falls in producer prices.

32. The kind of calculation based on percentage profit margins that is customary in the food trade leads to disproportionate mark-ups and means that increases in producer prices give rise to increased consumer prices that cannot be justified by rising costs alone. There is however a wide difference in the way in which these practices affect the individual Member States. In some of them strong competition acts as a regulator. In others, lack of competition helps to encourage these practices.

33. In this context the Commission claims that price differences of up to 40% between a small shop and a supermarket can be explained on the basis of the advantages conferred by concentration and rationalization (location of sales point, savings on transport costs, power of demand, etc.). If we further suppose that by this time 50-75% of the total volume of goods on the market is handled by a small group of major concerns at all trading levels, then despite mounting prime costs due to the rise in agricultural prices, processing and distribution costs, food prices in the Community in recent years should have remained stable or even fallen as a result of the aforementioned benefits of rationalization.

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<sup>1</sup> COM(77) 490 final - Part I, p.119 - Doc. 479/77



34. In the light of the foregoing it is obviously in the interest of both farmers and consumers to press for direct marketing, that is to say, to bypass trading concerns as far as possible. Market observations, however, show that direct sales are steadily declining. We note from the Commissioner's reply to the oral question tabled by your rapporteur<sup>1</sup> that no statistics are available on the pattern of direct sales and of comparative prices. It would be interesting to know how much higher final consumer prices in the shops are than those charged when products are sold direct, and how much the farmers' profit margins in the case of direct sales differ from those recorded in the case of sales to the food trade.

#### V. CHANGES IN PRODUCER MARKET PRICES AND THEIR EFFECTS ON CONSUMER PRICES

35. Any increase in producer prices entails an increase in the primary product costs to processors and distributors and consequently, in the short or long term, in prices to consumers. The extent of this effect on the market margin and thus on the price of food to consumers is determined by various factors. These include (a) the number of marketing stages, (b) the relative share of the primary agricultural product which has gone up in price in the cost prices of processors and distributors and (c) the relative power wielded by the enterprises concerned on the market. In addition, there is another important and non-quantifiable factor, i.e. the fact that the increase in the producer price is often used by the trade as an excuse for price rises prompted by quite different motives.

#### VI. EFFECTS OF EUROPEAN COMMUNITY MARKET ORGANIZATIONS ON PRODUCER MARKET PRICES AND CONSUMER PRICES

36. On the common European agricultural market supply, demand and market position are, of course, not the only factors influencing prices. In the Community the level of agricultural producer prices is determined chiefly through the market organizations, i.e. the rules laid down by the European Community.

37. These marketing organizations are determined at present by the following instruments: levies and compensatory payments, common agricultural prices, monetary compensatory amounts and support measures.

38. The levy is the main instrument of protection against external trade in the agricultural sector. It is a kind of sliding-scale customs duty on imports which prevents them from being offered on the internal market below a certain price. By now more than 70% of all agricultural products enjoy marketing arrangements of this kind.

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<sup>1</sup> Debates, Report of Proceedings, (Rainbow edition) Friday, 17.2.1978, p.343

From time to time the Commission also levies countervailing duties. These are applied on an ad hoc basis with a view to revitalizing the domestic market. The most recent example dates from the summer of 1977 when the price of Rumanian and Bulgarian tomatoes was temporarily increased by the Commission by 80 pfennigs per kilo in order to enable Dutch and Italian tomato-growers to sell their products at fixed prices.

39. A further instrument of interest in this connection is that of the 'green rates' and the monetary compensatory amounts. These were introduced some years ago to keep currency fluctuations between Member States from directly affecting producer and consumer price levels. A reduction in MCAs would raise producer prices in countries with weak currencies and lower them - in terms of the given domestic currency - in countries with strong currencies.

40. While adjustment of the 'green rates' and reduction of the MCAs changes producer price levels directly and proportionally, the same is not true of an increase in common agricultural prices expressed in units of account. The impact of the common agricultural prices on producer market prices depends largely on whether the product being supported is a surplus product or not. In the case of surplus products such as butter or cereals the support prices have a very direct impact on the market prices (usually 100%). For other products, notably fruit and vegetables, the intervention prices do not have a direct effect on market prices except in the event of seasonal gluts.

41. Price forecasting is more difficult as regards the effects of common agricultural prices and adjustments to the 'green rates' on the price of food to the consumer. In this connection the Commission stated in its proposal on the fixing of agricultural prices for the farm year 1977/1978<sup>1</sup>:

'Price increases, as listed in the attached table, result in an average increase in agricultural prices in u.a. of the order of 3%. The average effect on the cost of food to the consumer would be of the order of 1.5% and on the cost of living in the Community of the order of 0.3%.'

42. Quite apart from the fact that the Commission's forecast regarding possible market developments is based on various unknown factors, it is worth asking what prompted it to make this statement. It was presumably working on the following assumptions:

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<sup>1</sup> COM(77) 100 final, p.7

- (a) The products in respect of which price-fixing is practised account for 71.5% of total agricultural production, while the agricultural primary product is estimated to account for 70% of the value of food. Any change in prices therefore would affect 50% of all food consumed, which, taking the Community average at the present time, accounts for 21.6% of all household expenditures.
- (b) A proposed increase of 3% in administrative agricultural prices would have the effect of raising food expenditure by 1.5% and overall living costs by 0.3%.

43. Obviously, this method of calculation is purely theoretical and gives only a very rough answer. It does not take into account, for example, trends in production and the supply and demand situation on the market. It cannot hide the fact that food expenditure accounts for 31.4% of overall living costs in Italy, which is far above the European Community average of 21.6% (see Annex VIII<sup>1</sup>).

44. In the light of this reservation - and there may be others - it is not surprising that so many different figures are quoted in the annual agricultural debates on price-fixing and that the public is often - whether intentionally or not - deceived.

45. A complete study has not yet been made of the abovementioned phenomena. As pointed out elsewhere<sup>2</sup>, the Commission is still studying the methodological basis.

#### BC. THE COMMON AGRICULTURAL POLICY IN THE EUROPEAN COMMUNITY

##### I. The common agricultural policy: food policy or sectoral policy

46. The direct effects of the common agricultural policy on producer prices of agricultural products and its indirect effects on prices to the consumer emerge clearly from the above considerations. The committee would therefore be well advised to make certain fundamental remarks from the point of view of consumers concerning the Community's agricultural prices policy.

47. Article 39 of the EEC Treaty stipulates that the objectives of the common agricultural policy are to increase agricultural productivity in order to ensure a fair standard of living for the agricultural community, to stabilize markets, to assure the availability of supplies and, last but not least, to ensure that supplies reach consumers at reasonable prices.

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<sup>1</sup> Doc. 510/77, p.209

<sup>2</sup> See p. 12, footnote 1

48. The Council and the Commission are thus responsible for implementing an agricultural policy which is more than just a sectoral policy. Article 39 requires them to pursue a food policy which is in the interests of the Community as a whole and attains the objectives - all of equal importance - mentioned in the Treaty. A policy which one-sidedly sought to achieve only some of the objectives laid down in Article 39 would be infringing the fundamental principles of the common agricultural policy.

49. It is thus the responsibility of the Community, in ensuring the supply of agricultural products, to exert a steadying influence on consumer prices. While it is limited, in other sectors, to merely observing markets and preventing distortions of competition, it possesses, in the common agricultural policy and the organizations of the market which have been set up instruments and powers of exerting a stabilizing influence on movements in the prices of agricultural products. It can help farmers by supporting producer prices on the internal market and it can also protect the internal market from being ruined by cheap imports.

50. All this is familiar, everyday practice. But the fact that it is also the duty of the Commission and the Council to take measures in the interests of consumers in the event of periods of high prices and shortages on the internal market - encouraging imports of tomatoes and peaches from third countries, for example - is something of which the general public is not aware. Even though the Commission in its 1977 report on the agricultural situation in the Community<sup>1</sup> points out that after the 1976 drought it suspended Common Customs Tariff duties for some vegetables (cabbages, cauliflowers, peas, carrots, etc.) for certain periods, the opposite practice still seems to be the prevailing one.

51. In the past - at any rate this is how it seemed to the general public - the common agricultural policy confined itself to safeguarding farmers' incomes and thus gave the impression of being a purely sectoral policy. It is a policy - and more will be said about this later - made for farmers and by farmers. The European Community's agricultural policy has increased agricultural productivity, ensured that supplies reach consumers and stabilized markets but it has maintained a price level which the consumer is becoming steadily less willing to tolerate and which is burdening the Community with ever-increasing costs.

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<sup>1</sup> Doc. 510/77, p.71

52. It was with these facts in mind that the European Parliament stressed, in paragraph 9 of its resolution of 13 September 1977 on Community consumer policy<sup>1</sup>, that 'the system of agricultural market organizations needs to be examined and shaped more in accordance with consumer interests than hitherto'.

53. As evidence for our proposition - which we are not the first to put forward - that the common agricultural policy was a purely sectoral policy, three phenomena caused by this policy may be adduced:

- (a) the high level of agricultural prices in the European Community compared to the world market;
- (b) the heavy cost burden of this policy and
- (c) the surpluses resulting from this policy.

## II. High level of European Community agricultural prices

54. On the whole the prices of agricultural products in the Community - compared to the international price level - are relatively high. Annexes IX and X show comparisons between world market and Community prices for the period 1968-1976<sup>2</sup>. In the farm year 1975/76 butter was 320% above the world market price, milk powder 260%, olive oil 207%, beef and veal 158%, to quote only a few examples.

55. It is not, of course, being argued that it would be either possible or desirable for the Community to try to aim at these world market prices in the Community or even to secure its supplies on the world market. Supplies on the world market are too small for this (in 1974 only 7.9% of world butter production was placed on the open market, 19.1% of milk powder and 3.8% of beef and veal) and price patterns are too arbitrary and unstable. On the other hand, it seems to your committee to be entirely proper that the Commission should observe certain international markets more closely from the point of view of steady supplies and pricing, in order to study the possibilities of supplying part of the Community's needs in the long term at favourable prices.

56. In this connection it seems necessary to point out that while principles like self-sufficiency and Community preference may be prudent for important products like cereals and beef and veal, it is difficult to

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<sup>1</sup> Doc. 114/77

<sup>2</sup> Doc. 556/76, p.46 and p.199

understand why they must be applied in the very same way to products like tomatoes and peaches. The European consumer cannot understand why market organization mechanisms are used to keep tomatoes from third countries out of the domestic market in order to ensure that the Community producers, who are obliged to grow most of their tomatoes in greenhouses, can sell at prices high enough to cover their costs.

### III. Cost of the European Community's agricultural policy

57. The present cost of the common agricultural policy is over sixty times what it was twelve years ago. From 103 m u.a. in 1965 the cost of the policy rose to 6,100 m u.a. in 1976, by which time it devoured more than 75% of the total budget of the Community. Rates of increase at the present time are of the order of 27.5% for 1977/76 and 18% for 1978/77. EAGGF expenditure for 1976 broke down as follows: 5,800 m u.a. for the Guarantee Section and only 325 m u.a. for the Guidance Section. Out of the 5,800 m u.a. fully 22% was spent on the storage of intervention goods.

Public expenditure by the Member States and the Communities in 1976 to assist agriculture was estimated by the Commission to be about 17,000 m u.a., which represents about 24% of all agricultural final production.

58. These direct, visible subsidies are, however, only part of the overall burden on consumers and taxpayers. To these must be added - and this is only partially done in the Commission report<sup>1</sup> - the indirect subsidies in the form of national tax exemptions and concessions as well as direct subsidies to achieve high market producer prices.

### IV. Imbalances on some agricultural markets

59. At first sight the balance-sheet of Community self-sufficiency in food appears positive. Europe's farmers currently provide us with more than two thirds of our food. The Community has become fully self-sufficient in barley, common wheat, wine, potatoes, beef and veal and pork and 97-98% self-sufficient in rye, oats and butter. The Community will probably attain complete self-sufficiency in cereals, with a production of 125 million tonnes, by the beginning of the eighties and become a net exporter.

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<sup>1</sup> In its 1977 agricultural report (Doc. 510/77, p.480) the Commission gives a figure of about 257m EUA for income tax relief in the Federal Republic of Germany, whereas a document commissioned by the Federal Government puts the total tax concessions enjoyed by German farmers at about DM 2,000 m.

60. Although since the war a third of the Community's farms have been dissolved and the number of fully commercially operated farms has been halved, yields have increased two to three-fold thanks to land consolidation, mechanization, rationalization and specialization, improvements in fertilizing techniques, cultivation and breeding and, last but not least, the organizations of the agricultural markets set up by the European Community. The amount of labour required to produce one hectare of cereals has fallen from 100 to 10 hours. Milk production per cow/year rose from 3,494 litres in 1966 to 3,717 litres in 1976. While the population of the Community grows by only 1% per year, agricultural production has been increasing annually by 1.8% since 1968<sup>1</sup>.

61. This steady increase in production gives rise to considerable surpluses, especially in the case of milk-powder, butter, beef and veal, sugar and wine. On 31 March 1978 the Community's intervention storehouses were bursting with 780,000 tonnes of milk-powder, 160,000 tonnes of butter and 320,000 tonnes of beef and veal, while for the marketing year 1977/78 the Commission anticipates a Community sugar surplus of 3.3 million tonnes.

62. Butter mountains and milk and wine lakes would be more acceptable if these surpluses were not of a chronic and structural nature. Competition for subsidies, which has replaced the principle of economic competition in agriculture, poses a risk of ever-increasing surpluses. These surpluses inevitably swell the Community's agricultural exports. Between 1973 and 1976 the Community's foodstuff exports rose by 25.3%. Thus highly industrialized Europe is competing with developing countries in their natural markets. Not a very desirable contribution to the Community's development policy, to be sure, but an unavoidable side-effect of the Common Agricultural Policy if it is not suitably adjusted.

#### V. CONCLUSIONS

63. The abovementioned shortcomings of the agricultural policy are well known and both consumers and farmers are concerned about them. To call for their elimination is not to challenge the Community's agricultural policy as a whole. What is required is a reform which eliminates the policy's acknowledged defects and shortcomings. Such a reform is as necessary as it is difficult. It requires judgment, determination and a willingness on the part of all concerned to make concessions for the sake of a united Europe. The Commission of the European Communities deserves the utmost support in its efforts to bring about these reforms.

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<sup>1</sup> Doc. 510/77, p.175

64. While it has no intention of offering any patent remedies, the committee would like to outline in the following pages the direction it feels the common agricultural policy should take in the future. Its proposals concern the need for long-term guidelines, a balanced prices policy, cutting back on unlimited marketing guarantees with regard to surplus products, strengthening structural, regional and social policy, the utilization of goods in intervention and finally the abolition of monetary compensatory amounts.

65. In the Commission's view<sup>1</sup> there are two key reasons for the imbalance between supply and demand on certain agricultural markets:

- (a) the to some extent unlimited marketing guarantees, which induce farmers to secure or increase their incomes by stepping up production,
- (b) the relatively high price levels with their negative effects on consumption.

The committee shares this view. At the same time, however, it feels that the Commission has so far failed to make a closer study of the effects of its price and marketing guarantees on the market. In the matter of agricultural products there are no forward analyses of production figures and future requirements, which would provide national and Community decision-making bodies with long-term planning guidelines.

66. The Commission has proposed that the common agricultural prices be increased by an average of 2% for the 1978/79 marketing year. The increases in the previous years were 3.9% for the 1977/78 marketing year, 7.7% for 1976/77 and 9.6% for 1975/76. In its opinion on the agricultural price proposals for 1978/79 your committee welcomed the fact that with its moderate prices policy the Commission had got back on the right track. It also urged the Council to act on this policy.

Indeed the committee feels that only a moderate prices policy drawn up on a long-term basis can maintain or restore equilibrium on the agricultural markets.

67. A prices policy of this kind can produce the desired success only if it is accompanied by some restriction on marketing guarantees for surplus products and/or some tangible co-responsibility on the part of farmers. The Commission should consider therefore whether it might not be prudent and feasible to introduce some restriction on marketing in the milk sector,

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<sup>1</sup> Doc. COM(77) 525 final, p.6



for example, or to suspend intervention temporarily, since the measures tried so far (co-responsibility levy and non-marketing premiums) have failed to produce the desired results.

The Council should also tighten up its quota arrangements in the sugar sector, if it turns out that the low quotas proposed for the 1978/79 marketing year are still too high.

68. The Community's structural policy is still only in its teething stages, as is shown by a glance at EAGGF expenditure. Of the 6,100 m u.a. spent in 1976, 5,800 m u.a. went to support the agricultural markets, while only 325 m u.a. went on structural measures<sup>1</sup>. There is a danger that this ratio will get even worse in the future with price support measures swallowing up even larger sums of money because of growing surpluses and higher prices.

69. The European Parliament has continually stressed the link between structural policy and a sensible regional and social policy. Furthermore, in its opinion the Committee on Agriculture rightly pointed to the need to bring industry into the rural areas.

Without an industrial policy it will be impossible to create alternative jobs in rural areas, which would enable small farmers to give up their unprofitable holdings. There is, after all, food for thought in the fact that practically the only favourable reaction to the Community's non-marketing programme for the milk sector came from Germany and Denmark, where even in rural areas alternative jobs are available in light industries.

70. Farmers and consumers in the Community cannot understand why goods being held in intervention should be sold dirt cheap on the world markets. Even if this were the most financially rewarding alternative from the economic point of view, the Community should, for political reasons, dispose of its surplus products to socially disadvantaged groups in the Member States and in the form of food aid to the poorest developing countries.

71. MCAs must be abolished, if the common agricultural market is not to be regarded as a mere abstract theory, but as a genuine political goal. Because of the effects such an abolition will have on prices, production and consumption, it must be brought about gradually, as the Commission proposes. At the same time it must not be used as a pretext for increasing common agricultural prices expressed in units of account. In any case, as we have already explained, abolition of MCAs in countries with weaker currencies will mean higher producer prices and thus ultimately higher consumer prices also.

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<sup>1</sup> The discrepancy between these figures is not made any more tolerable by the fact that up to now the Member States have been largely responsible for structural policy and the Community funds mentioned have generally been used for subsidies in the form of interest rebates.

BD. CONSUMER INFORMATION AND REPRESENTATION

72. Europe must become a perceptible reality in the everyday lives of citizens. This was stressed at the Conference of Heads of State or Government of the nine member countries in Paris in October 1972. With the adoption of the preliminary programme of the European Economic Community for a consumer protection and information policy<sup>1</sup> a first positive step was taken along the prescribed path. The institutional framework for a consumer information and representation policy has been set up. It now has to be brought to life. This applies particularly to the common agricultural policy, which still strikes ordinary people as an utterly bewildering maze of price regulations.

73. The Commission, taking its stand on the basis of the abovementioned preliminary programme, has repeatedly stated that it attaches great importance to consumer information and representation. The Commissioner responsible has also assured this committee that in addition to its previous purely defensive function of protection it is determined to assume the positive and dynamic role of promoting consumer interests. Your committee supports this new consumer policy on the part of the Commission, but regrets to have to state that there are still enormous lacunae where consumer information and representation or consultation are concerned.

74. In the elaboration and final adoption of the annual agricultural price proposals by Commission and Council there is very little effective consultation or representation of consumers. The price proposals are drawn up in the Commission's Directorate-General for Agriculture, which has a large and highly qualified staff of about 600 officials. The Environment and Consumer Protection Service, which for some little time now has been consulted on the proposals drawn up by the Directorate-General for Agriculture, has only 10 officials altogether to deal with the extensive area covered by consumer protection policy. For this reason it is impossible for it to have any effective voice or play any active part in working out the agricultural price proposals.

75. Since 1973 there has been a Consumers' Consultative Committee at the Commission. This committee is consulted regularly by the Commission on price proposals. Its recommendations are, however, dealt with in confidence and notified to Parliament only occasionally and in response to individual requests.

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<sup>1</sup> OJ No. C 92, 25.4.1975

76. Finally, in the Council of Ministers itself, nine national Ministers of Agriculture decide behind closed doors what price increases European farmers need and what burdens are to be imposed on European consumers.

77. According to Article 193 of the EEC Treaty the Economic and Social Committee consists of representatives of the various categories of economic and social activity, in particular representatives of producers, farmers, carriers, workers, dealers, craftsmen, professional occupations and representatives of the general public. Although the text of the Treaty does not explicitly mention consumers, there can be no doubt that the term 'the general public' refers in particular to consumers.

78. European consumer organizations have often pointed out that they were inadequately represented on this committee. Of its 144 members only 7 were consumer representatives until the recent renewal of the committee's membership for the period from 19 September 1978 to 18 September 1982<sup>1</sup>, when this unsatisfactory ratio was fortunately improved. The total number of consumer representatives rose to 12 and all Community countries except Ireland and Luxembourg now have consumer representatives on the committee.

79. Consumer consultation, however marginal, is provided for in the Commission's various advisory agricultural committees. These committees are, however, controlled by farmers who fill half the seats and also appoint the chairman. The other half of the seats go to representatives of industry, trade, workers and consumers. If consumer interests are not adequately represented on these specialist committees, it is not only because consumer representatives are so few in number but also because they do not have the same expert knowledge of the various agricultural markets as their counterparts from agriculture. This opens up a much wider field for a policy of active promotion of consumer interests.

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<sup>1</sup> Council Decision of 19.9.1978, OJ No. L 273 of 29.9.1978, p.27.

TABLE I/7.11  
Consumer price index

(1970 = 100)

	Deutschland	France	Italia	Nederland	Belgique/ België	Luxembourg	United Kingdom	Ireland	Danmark
1	2	3	4	5	6	7	8	9	10
<b>1. General index</b>									
1974	127.1	136.3	146.3	138.0	132.6	127.9	148.5	134.2	142.2
1975	134.7	152.2	171.1	151.7	149.5	141.7	184.4	186.4	195.8
% TAV 1975/1970	6.1	8.8	11.3	8.7	8.4	7.2	13.0	13.3	9.3
% TAV 1974/1973	7.0	13.7	19.1	9.8	12.7	9.5	16.0	17.0	15.3
% TAV 1975/1974	6.0	11.7	17.0	9.9	12.7	10.8	24.2	20.9	9.6
<b>2. Manufactured products (including tobacco)</b>									
1974	127.7	132.9	151.3	136.2	120.2	124.7	:	156.1	141.6
1975	135.2	148.2	173.0	150.0	142.7	138.0	:	189.5	152.6
% TAV 1975/1970	6.2	8.2	11.6	8.4	7.4	6.7	:	13.6	8.8
% TAV 1974/1973	8.7	16.0	23.6	10.7	14.0	10.1	:	23.0	19.2
% TAV 1975/1974	5.9	11.5	14.3	10.1	11.3	10.7	:	21.4	7.8
<b>3. Services</b>									
1974	132.2	138.1	142.2	133.7	144.6	136.2	:	148.3	145.0
1975	140.9	156.3	170.9	173.3	166.2	153.3	:	182.6	163.4
% TAV 1975/1970	7.1	9.3	11.3	11.6	10.7	8.9	:	12.8	10.3
% TAV 1974/1973	7.5	13.2	14.2	9.1	14.3	9.8	:	14.1	14.8
% TAV 1975/1974	6.6	13.2	20.2	12.8	14.9	12.6	:	23.0	12.7
<b>4. Foodstuffs and beverages</b>									
1974	123.4	140.1	149.2	128.5	128.2	127.9	155.6	139.4	142.8
1975	130.0	155.7	176.8	138.4	142.7	141.4	194.7	192.7	157.1
% TAV 1975/1970	5.4	9.3	12.1	6.7	7.4	7.2	14.3	14.0	2.5
% TAV 1974/1973	5.0	12.3	18.8	6.0	9.3	9.0	16.6	14.3	12.1
% TAV 1975/1974	5.3	11.1	18.5	7.7	11.3	10.6	25.1	20.9	10.0
<b>5. Bread and confectionery</b>									
1974	132.6	140.4	152.6	139.7	138.0	134.4	:	161.4	155.6
1975	140.6	160.5	177.0	158.7	159.5	157.5	:	197.6	176.0
% TAV 1975/1970	7.1	9.9	12.2	9.7	9.8	9.5	:	14.6	12.0
% TAV 1974/1973	9.1	14.9	25.7	13.3	13.6	11.4	:	30.2	17.6
% TAV 1975/1974	6.0	14.3	16.0	13.6	15.6	17.2	:	22.4	13.1
<b>6. Meat</b>									
1974	123.2	141.4	148.9	127.2	129.2	128.6	181.6	169.8	145.3
1975	126.7	154.2	184.4	134.0	139.3	137.0	211.2	183.9	157.8
% TAV 1975/1970	4.8	9.0	13.0	6.0	6.9	6.5	16.1	13.0	9.6
% TAV 1974/1973	1.2	7.8	11.8	9.8	5.6	7.1	12.5	0.2	6.8
% TAV 1975/1974	2.8	9.1	23.8	5.3	7.8	6.5	7.9	8.3	8.6
<b>7. Milk, butter, cheese</b>									
1974	122.7	138.6	143.9	130.3	121.4	124.6	128.9	150.0	144.7
1975	132.5	157.2	168.5	144.4	138.5	142.2	169.2	180.7	172.0
% TAV 1975/1970	5.8	9.5	11.0	7.6	6.7	7.3	11.1	12.6	11.5
% TAV 1974/1973	5.3	11.4	15.8	6.7	3.1	6.2	2.6	17.5	1.3
% TAV 1975/1974	8.0	13.4	17.1	10.8	14.1	14.1	31.3	20.5	18.9
<b>8. Fruit and vegetables</b>									
1974	134.2	144.5	153.8	124.4	112.0	119.2	179.9	167.1	139.0
1975	152.0	172.7	180.6	142.4	131.6	138.8	247.2	225.3	162.2
% TAV 1975/1970	8.7	11.7	12.6	7.3	5.6	6.8	19.8	17.6	10.2
% TAV 1974/1973	2.4	13.8	19.6	10.1	3.9	2.8	19.9	3.8	7.6
% TAV 1975/1974	13.3	19.5	18.0	14.5	17.5	16.4	37.4	34.8	16.7

Source: Eurostat.

TABLE I/7.6

## Indices of producer prices; general index, crops and livestock (excluding VAT)

(1970 = 100)

Year	Deutschland			France			Italia			Nederland			Belgique/België		
	Total index	Crop products	Livestock products	Total index	Crop products	Livestock products	Total index	Crop products	Livestock products	Total index	Crop products	Livestock products	Total index	Crop products	Livestock products
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
<b>A — Annual indices (including fruit and vegetables)</b>															
1968	102.1	100.5	102.7	89.3	89.7	89.1	:	:	:	97.8	93.1	100.2	:	:	:
1972	114.4	116.4	113.7	118.4	113.9	121.9	115.8	114.4	118.2	111.4	108.4	112.9	111.7	114.6	110.2
1973	121.6	117.5	123.1	132.6	130.8	134.0	144.6	132.0	132.5	123.8	119.7	125.8	126.9	124.5	128.2
1974	117.6	115.1	118.6	137.9	143.2	133.6	170.8	184.3	148.8	116.5	116.6	116.5	125.5	138.1	119.1
1975	133.2	140.7	130.6	149.5	150.6	148.6	192.0	197.3	183.5	131.1	136.1	128.6	142.2	155.7	133.3
1976 (estimated)	148.4	172.0	140.0	168.0	178.0	160.0	223.1	225.0	220.0	150.0	170.0	140.0	157.4	183.0	145.0
<b>Annual rate of change</b>															
1975/1968	+ 3.9	+ 4.9	+ 3.5	+ 7.6	+ 7.7	+ 7.6	:	:	:	+ 4.3	+ 5.6	+ 3.6	:	:	:
1975/1972	+ 6.3	+ 0.9	+ 8.3	+ 12.0	+ 14.8	+ 9.9	+ 24.9	+ 32.9	+ 12.1	+ 11.1	+ 10.4	+ 11.4	+ 13.6	+ 8.6	+ 16.3
1974/1973	- 3.3	- 2.1	- 3.7	+ 4.0	+ 9.5	- 0.3	+ 18.1	+ 21.3	+ 12.3	- 5.0	- 2.6	- 7.4	- 1.1	+ 10.9	- 7.1
1975/1974	+ 13.3	+ 22.2	+ 10.1	+ 8.4	+ 5.2	+ 11.2	+ 12.4	+ 7.1	+ 23.3	+ 12.5	+ 16.7	+ 10.4	+ 13.3	+ 12.7	+ 13.6
1976/1975	+ 11.4	+ 22.2	+ 7.2	+ 12.4	+ 18.2	+ 7.7	+ 16.2	+ 14.0	+ 19.9	+ 14.4	+ 24.9	+ 8.9	+ 10.7	+ 18.8	+ 7.2
<b>B — Quarterly indices (not including fruit and vegetables)</b>															
1st quarter 1975	112.7	110.6	113.3	141.4	136.1	144.7	181.1	190.7	171.5	122.9	124.5	122.5	123.6	119.4	124.9
2nd quarter 1975	116.5	111.6	118.0	145.3	143.4	146.4	180.5	181.4	179.5	123.7	125.0	125.9	135.6	147.6	131.7
3rd quarter 1975	130.7	125.5	132.2	144.9	141.2	147.2	184.4	185.2	183.6	127.0	120.5	129.0	133.8	135.9	133.1
4th quarter 1975	140.4	138.4	141.0	153.8	147.8	157.5	197.8	196.5	199.2	142.0	154.7	138.1	142.7	144.7	142.0
1st quarter 1976	149.6	168.4	143.9	160.5	158.5	161.7	216.9	219.3	214.3	150.4	178.2	141.6	156.0	173.3	151.6
2nd quarter 1976	146.9	176.4	138.0	169.0	186.0	158.5	227.0	233.0	221.0	145.9	174.9	136.9	156.8	265.7	144.2
3rd quarter 1976															
4th quarter 1976															
<b>AGR. REP. 1976</b>															
Year	Luxembourg			United Kingdom			Ireland			Denmark					
	Total index	Crop products	Livestock products	Total index	Crop products	Livestock products	Total index	Crop products	Livestock products	Total index	Crop products	Livestock products			
17	18	19	20	21	22	23	24	25	26	27	28				
<b>A — Annual indices (including fruit and vegetables)</b>															
1968	96.9	94.6	97.7	92.4	90.9	93.1	92.5	96.8	91.6	85.8	88.8	84.9			
1972	115.0	117.6	114.0	114.4	111.2	115.9	126.3	110.6	129.4	112.9	116.7	111.8			
1973	123.8	125.9	125.8	147.0	144.8	148.0	162.6	152.0	164.7	145.8	138.6	148.0			
1974	126.6	135.2	123.4	165.7	175.6	161.2	163.5	173.5	161.5	147.8	150.0	147.1			
1975	142.1	168.3	132.5	205.0	222.8	196.8	206.8	215.7	205.0	161.1	161.2	161.1			
1976 (estimated)	159.8	214.0	140.0	266.2	350.0	228.0	253.4	270.0	250.0	178.8	185.0	177.0			
<b>Annual rate of change</b>															
1975/1968	+ 5.6	+ 8.6	+ 4.5	+ 12.1	+ 13.7	+ 11.3	+ 12.2	+ 12.1	+ 12.2	+ 9.4	+ 8.9	+ 9.6			
1975/1972	+ 9.4	+ 7.1	+ 10.4	+ 28.5	+ 30.2	+ 27.7	+ 28.7	+ 37.4	+ 27.3	+ 29.1	+ 18.8	+ 32.4			
1974/1973	+ 0.6	+ 7.4	- 1.9	+ 12.7	+ 21.3	+ 8.9	+ 0.6	+ 14.1	- 2.0	+ 1.4	+ 8.2	- 0.6			
1975/1974	+ 12.2	+ 24.5	+ 7.4	+ 23.7	+ 26.9	+ 22.1	+ 26.5	+ 24.3	+ 26.9	+ 9.0	+ 7.5	+ 9.5			
1976/1975	+ 12.5	+ 27.0	+ 5.7	+ 29.9	+ 57.1	+ 15.9	+ 22.5	+ 25.2	+ 22.0	+ 11.0	+ 14.6	+ 9.9			
<b>B — Quarterly indices (not including fruit and vegetables)</b>															
1st quarter 1975	127.0	129.2	126.4	185.7	170.6	190.5	195.5	177.8	198.3	154.0	152.4	154.4			
2nd quarter 1975	131.6	129.2	132.4	192.2	194.7	191.4	200.7	187.0	202.9	157.8	155.7	168.4			
3rd quarter 1975	133.6	137.7	132.4	200.8	218.6	192.7	203.9	225.2	200.6	160.7	160.4	168.8			
4th quarter 1975	142.6	151.7	139.8	226.8	267.5	213.7	227.7	231.1	227.2	170.7	168.1	171.4			
1st quarter 1976	145.9	151.7	144.1	257.4	359.6	224.5	246.7	254.8	245.4	178.7	178.4	178.9			
2nd quarter 1976	144.5	151.7	142.3	266.4	387.6	227.4	258.8	273.2	256.6	181.9	190.7	179.7			
3rd quarter 1976															
4th quarter 1976															
<b>AGR. REP. 1976</b>															

Source: Eurostat.

TABLE I/7.9

Annual rate of change (% TAV) of (a) prices for foodstuffs and beverages  
and of (b) producer prices of agricultural products

Member State	% TAV			% TAV for each month of 1977 compared with the corresponding month of 1976											
	1976/ 1970	1975/ 1974	1976/ 1975	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Deutschland	(a)	5.4	5.4	5.4	4.8	4.4	4.0	4.0	4.0	4.5					
	(b)	6.9	13.3	11.9	0.1	- 2.6	- 5.0	- 6.0	- 2.6	- 2.4					
France	(a)	9.5	11.2	10.7	11.2	11.4	11.6	12.6	13.8						
	(b)	9.6	9.0	14.2	13.2	12.7	9.6	6.0	8.3	8.4					
Italia	(a)	13.0	18.5	17.5	23.3	22.5	21.4	19.2	18.8						
	(b)	14.9	12.4	19.6	22.7	19.5	13.0	9.9	11.5	13.7					
Nederland	(a)	7.2	7.7	9.6	8.8	8.2	7.1	6.2	7.5	8.5					
	(b)	6.8	12.7	12.8	- 0.8	- 3.3	- 7.6	- 7.0	- 4.6	- 1.6					
Belgique/België	(a)	8.2	11.4	12.5	9.8	10.0	7.7	4.7	5.5	7.7					
	(b)	8.1	13.2	12.1	- 0.6	- 3.0	- 6.1	- 8.5	- 5.2	5.4					
Luxembourg	(a)	8.8	10.5	17.6	9.1	8.7	8.5	6.8	6.8	7.6					
	(b)	7.8	12.2	10.4	11.1	9.9	8.3	7.1	9.2	11.5					
United Kingdom	(a)	15.1	25.1	19.4	21.6	20.1	20.4	20.1	19.6	21.3					
	(b)	17.9	24.3	30.4	17.5	11.1	6.1	1.2	- 1.3	12.4					
Ireland	(a)	14.5	20.9	16.8	:	17.5	:	:	15.1	:					
	(b)	17.7	26.7	28.1	26.0	24.6	23.5	24.4	24.6	24.0					
Danmark	(a)	9.7	10.0	11.1	16.9	15.8	11.6	12.0	12.9	15.7					
	(b)	10.4	9.0	12.8	4.2	3.0	2.8	2.8	3.8	6.4					

Source: Eurostat.

TABLE I/7.12

Comparison between the movement (% TAV) of consumer prices (1973 and 1976), producer prices (1973 and 1976) and common agricultural prices (1973/74 and 1976/77) in the EC

Product	Deutschland			France			Italia			Nederland			I elgique/België		
	Con- sumer pri- ces <sup>1</sup> 2	Pro- ducer pri- ces <sup>1</sup>	Com- mon agri- cultural pri- ces <sup>2</sup> 3	Con- sumer pri- ces <sup>1</sup> 2	Pro- ducer pri- ces <sup>1</sup>	Com- mon agri- cultural pri- ces <sup>2</sup> 3	Con- sumer pri- ces <sup>1</sup> 2	Pro- ducer pri- ces <sup>1</sup>	Com- mon agri- cultural pri- ces <sup>2</sup> 3	Con- sumer pri- ces <sup>1</sup> 2	Pro- ducer pri- ces <sup>1</sup>	Com- mon agri- cultural pri- ces <sup>2</sup> 3	Con- sumer pri- ces <sup>1</sup> 2	Pro- ducer pri- ces <sup>1</sup>	Com- mon agri- cultural pri- ces <sup>2</sup> 3
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. Bread Common wheat	7.2	7.8	7.9	13.7	11.4	10.3	16.6	19.4	24.4	12.5	5.5	7.5	14.2	8.4	9.3
2. Sugar Sugarbeet	8.1	9.3	9.4	15.1	11.2	11.7	23.2	31.8	25.8	9.3	5.0	9.0	14.2	10.4	10.7
3. Whole milk Milk	6.6	8.1	7.7	11.8	9.5	10.0	24.4	23.2	23.8	9.0	7.1	7.2	8.2	8.9	9.0
4. Beef and veal Beef (excluding veal)	4.2	3.6	9.4	8.6	5.0	11.8	18.6	18.9	25.9	4.2	4.4	9.0	9.9	4.6	10.8
5. Pigmeat Pigmeat	4.4	1.9	8.2	7.7	3.9	10.5	17.8	19.1	25.4	4.5	0.5	9.6	7.7	1.8	9.5
6. Ware potatoes Ware potatoes	26.3	40.6	—	32.5	44.6	—	39.0	48.9	—	36.5	42.0	—	29.0	48.9	—
7. Eggs Eggs	1.4	0.5	7.5	7.9	7.3	9.8	15.5	13.1	24.6	2.3	—0.6	8.9	6.6	0.2	8.8

Product	Luxembourg			United Kingdom			Ireland			Danmark			EUR 9		
	Con- sumer pri- ces <sup>1</sup> 2	Pro- ducer pri- ces <sup>1</sup>	Com- mon agri- cultural pri- ces <sup>2</sup> 3	Con- sumer pri- ces <sup>1</sup> 2	Pro- ducer pri- ces <sup>1</sup>	Com- mon agri- cultural pri- ces <sup>2</sup> 3	Con- sumer pri- ces <sup>1</sup> 2	Pro- ducer pri- ces <sup>1</sup>	Com- mon agri- cultural pri- ces <sup>2</sup> 3	Con- sumer pri- ces <sup>1</sup> 2	Pro- ducer pri- ces <sup>1</sup>	Com- mon agri- cultural pri- ces <sup>2</sup> 3	Con- sumer pri- ces <sup>1</sup> 2	Pro- ducer pri- ces <sup>1</sup>	Com- mon agri- cultural pri- ces <sup>2</sup> 3
1	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
1. Bread Common wheat	:	9.1	9.3	19.1	14.0	17.7	11.8	12.0	19.1	11.5	9.4	9.8	:	13.9	9.8
2. Sugar Sugarbeet	:	:	10.7	34.5	24.7	28.8	:	33.9	26.3	16.4	10.7	11.2	:	16.6	11.2
3. Whole milk Milk	:	6.4	9.0	16.5	23.1	17.4	12.7	19.8	18.7	10.0	9.5	9.5	:	13.4	9.5
4. Beef and veal Beef (excluding veal)	:	2.2	10.8	15.3	13.7	24.6	12.2	15.9	26.0	8.6	6.0	11.3	:	9.5	11.5
5. Pigmeat Pigmeat	:	3.9	9.5	15.6	16.8	18.0	16.6	18.1	22.5	14.1	5.3	11.5	:	6.5	10.0
6. Ware potatoes Ware potatoes	:	56.0	—	72.0	101.0	—	38.4	45.2	—	23.6	27.3	—	:	57.1	—
7. Eggs Eggs	:	—2.4	8.8	9.3	7.7	17.2	12.2	15.8	21.7	5.2	3.8	9.3	:	5.9	9.3

<sup>1</sup> 1976 compared with 1973

<sup>2</sup> 1976/77 compared with 1973/74.

<sup>3</sup> Calculated from the prices in the national currency.

Source: Eurostat; and for the common agricultural prices, the EC Commission, Directorate-General for Agriculture.

TABLE 13<sup>a</sup>

Survey of prices based on a small sample of food products and sales points — January 1976  
Price differences between sales points

Class	sR <sub>p</sub>	Germany		Denmark		France		Italy		United Kingdom	
		Number of cases		Number of cases		Number of cases		Number of cases		Number of cases	
		Per class	Cumulative	Per class	Cumulative	Per class	Cumulative	Per class	Cumulative	Per class	Cumulative
1	V V V	5	5	1	1	1	1	1	1	0	0
2	V V V	4	9	9	10	0	1	2	3	1	1
3	V V V	17	26	18	28	14	15	16	19	19	20
4	V V V	24	50	27	55	19	34	24	43	101	121
5	V	0	50	2	57	1	35	0	43	23	144
6	V	1	51	0	57	0	35	1	44	10	154



TABLE 14

The three degrees of price difference: normal case, divergent case and uniform case

Country	Total cases	Normal case $\epsilon R_p$ between 10% and 40%		Divergent case $\epsilon R_p >$ 40%		Uniform case $\epsilon R_p <$ 10%	
		Number of cases	% of total	Number of cases	% of total	Number of cases	% of total
Germany	51	24	47.1	26	51.0	1	2.0
Denmark	57	27	47.4	28	49.1	2	3.5
France	35	19	54.3	15	42.9	1	2.9
Italy	44	24	54.6	19	43.2	1	2.3
United Kingdom	154	101	65.6	20	13.0	33	21.4
Community	341	195	57.2	108	31.7	38	11.1

ANNEX VII

Prices obtained by agriculture  
as a percentage of consumer expenditure on food of domestic origin  
in the Federal Republic of Germany

Farm year	Crops								Animal products				Crops and animal products combined	
	Bread grains and bread grain products	Potatoes for human consumption	Sugar beet and sugar	Bread grains, potatoes and sugar beet combined	Vegetables	Fruit	Vegetables and fruit combined	All crops	Animals for slaughter, meat and meat products	Milk and milk products	Eggs	All animal products	excluding fruit and vegetables	including fruit and vegetables
1965/66	17.9	71.4	38.2	29.5	32.4	52.0	42.2	32.3	53.4	62.6	86.9	58.2	51.5	51.0
1966/67	17.4	66.1	39.1	28.9	30.4	50.9	40.6	31.9	51.8	62.9	85.8	57.1	50.9	50.2
1967/68	15.1	62.0	40.7	26.8	29.1	43.6	36.8	29.6	50.1	66.5	86.9	57.2	50.7	49.7
1968/69	15.3	58.1	38.4	26.8	33.7	43.7	36.0	29.1	54.6	70.3	85.3	61.1	54.3	53.0
1969/70	14.6	66.0	41.6	28.5	31.1	34.8	33.2	29.9	53.3	68.2	85.5	59.3	53.1	51.6
1970/71	12.7	62.0	35.4	23.8	27.4	37.9	32.8	26.2	48.3	65.3	85.1	55.1	48.6	47.5
1970/71	15.8	62.6	35.0	26.6	27.6	37.9	32.8	28.3	47.2	56.8	84.4	51.9	47.0	46.0
1971/72	15.0	58.2	33.9	24.3	30.0	40.0	35.2	27.2	49.6	57.9	87.6	54.2	48.4	47.5
1972/73	14.0	56.3	33.6	24.3	29.8	55.2	40.8	27.9	51.6	57.3	85.2	55.3	49.0	48.6
1973/74	14.0	60.6	33.1	24.7	31.7	44.1	38.3	28.4	49.2	55.8	85.2	53.2	47.8	47.2
1974/75	13.4	51.4	35.0	21.9	29.2	48.7	38.1	25.2	48.3	58.2	84.9	53.0	46.3	45.9
1975/76	14.5	57.6	38.0	25.8	35.8	41.3	39.0	28.4	51.4	62.1	85.0	56.1	49.5	48.9

TABLE I/7.10

Expenditure on consumption of foodstuffs and beverages (a) and tobacco (b)  
as a % of expenditure<sup>3</sup> on final consumption by households in 1974 (at current prices)

Member State	1974 — %	
	(a)	(b)
Deutschland	20.4	1.5
France	24.7	1.2
Italia	35.0	2.3
Nederland	23.9	2.5
Belgique/België	23.4	1.9
Luxembourg	24.2 *	1.6 *
United Kingdom	26.7	4.3
Ireland	38.7 *	5.4 *
Danmark	20.8 <sup>1</sup>	9.1 <sup>2</sup>
EUR 9	25.1	2.3

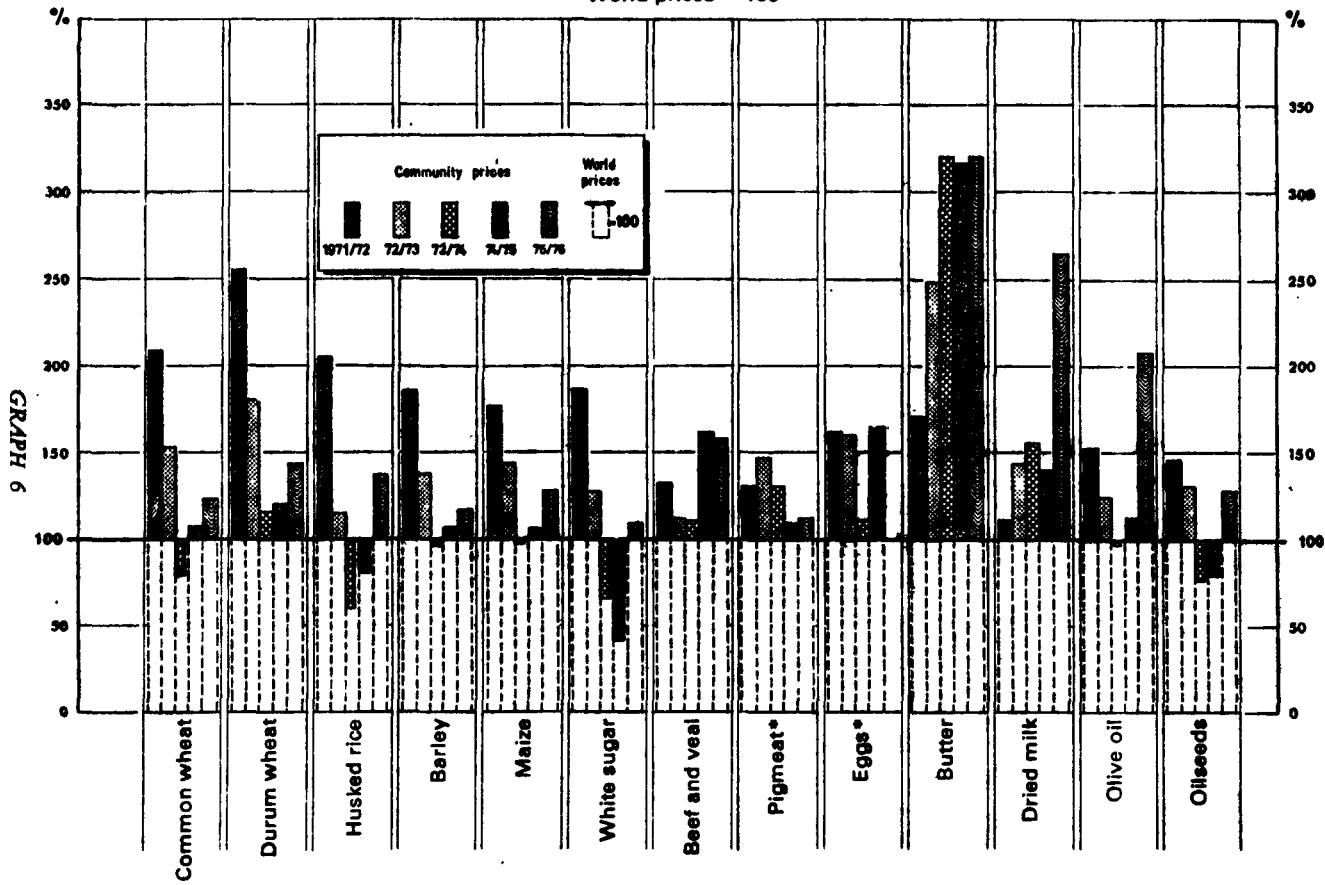
<sup>1</sup> Foodstuffs.

<sup>2</sup> Beverages and tobacco.

<sup>3</sup> Within the economic territory.

Source: Eurostat, National accounts.

Comparison between world prices and Community prices  
World prices = 100



\* 1971 - 1972 - 1973 - 1974 - 1975.

TABLE 1/7.8

Prices of certain agricultural products in the EC and on the world market

Products	Marketing year	EC 'Entry price' UCA/100 kg	World market price UCA/100 kg	in % <sup>1</sup>
1	2	3	4	5
Common wheat	1968/69	10.95	5.61	195
	1972/73	11.74	7.67	153
	1973/74	11.86	14.94	79
	1974/75	12.99	12.11	107
	1975/76	14.40	11.61	124
Durum wheat	1968/69	16.38	7.67	214
	1972/73	17.38	9.61	181
	1973/74	26.46	22.73	116
	1974/75	24.29	20.16	120
	1975/76	23.77	16.38	145
Husked rice	1968/69	19.04	13.79	138
	1972/73	21.31	18.58	115
	1973/74	21.47	35.49	60
	1974/75	23.82	29.52	81
	1975/76	26.89	19.65	137
Barley	1968/69	9.54	4.85	197
	1972/73	10.57	7.70	137
	1973/74	10.68	11.12	96
	1974/75	11.82	11.08	107
	1975/76	13.16	11.26	117
Maize	1968/69	9.59	5.39	178
	1972/73	10.32	7.24	143
	1973/74	10.43	10.68	98
	1974/75	11.52	10.90	106
	1975/76	13.10	10.25	128
White sugar	1968/69	22.35	6.29	355
	1972/73	24.55	19.30	127
	1973/74	24.80	37.52	66
	1974/75	27.53	66.60	41
	1975/76	32.05	29.47	109
Beef and veal (live bovine animals)	1968/69	68.00	40.24	169
	1972/73	76.63	68.26	112
	1973/74	85.23	77.51	110
	1974/75	95.51	58.79	162
	1975/76	110.35	69.81	158
Pigmeat	1968	73.95	55.01	134
	1972	77.46	52.69	147
	1973	85.82	65.59	131
	1974	95.64	88.07	109
	1975	105.28	93.57	113
Eggs	1968	63.19	46.00	137
	1972	65.25	41.00	159
	1973	63.27	57.00	111
	1974	73.82	45.00	164
	1975	83.81	:	:
Butter	1968/69	190.93	37.90	504
	1972/73	201.15	80.82	249
	1973/74	192.33	60.08	320
	1974/75	195.69	61.84	316
	1975/76	218.53	68.23	320
Skimmed-milk powder (Spray)	1968/69	50.98	13.95	365
	1972/73	67.00	46.25	145
	1973/74	77.59	49.72	156
	1974/75	94.28	67.70	139
	1975/76	101.90	38.25	266
Olive oil	1968/69	115.25	66.79	173
	1972/73	124.70	99.76	125
	1973/74	137.17	142.52	96
	1974/75	144.03	127.88	113
	1975/76	185.00	89.57 <sup>2</sup>	207
Oilseeds	1968/69	20.97	10.34	203
	1972/73	21.72	16.58	131
	1973/74	21.96	28.60	77
	1974/75	24.19	30.37	80
	1975/76	27.22	21.42	127

<sup>1</sup> EC 'entry price' as % of world market price.<sup>2</sup> 8 months.

Source: EC Commission, Directorate-General for Agriculture.

OPINION OF THE COMMITTEE ON AGRICULTURE

Draftsman: Mr H.-J. HOFFMANN

On 31 March 1977 the Committee on Agriculture appointed Mr HOFFMANN draftsman.

It considered the draft opinion at its meetings of 18-19 May and 25-26 May 1978 and adopted it by 10 votes to nil with 8 abstentions at its meeting of 19-20 September 1978.

Present: Mr Liogier, vice-chairman and acting chairman; Mr Ligios, vice-chairman; Mr Hoffmann, draftsman; Mr Brégégère, Mr Caillavet, Mr Cifarelli, Mrs Dunwoody, Mr Durand, Mr Fröh, Mr Halvgaard, Mr Joxe, Mr Klinker, Mr L'Estrange, Mr W. Müller, Mr Pisoni, Mr Scott-Hopkins, Mr Tolman and Mr Vitale.

The Committee of Agriculture welcomes the own-initiative report and considers it a major contribution to the agricultural price debate. The various points made in the report call for the following remarks:

1. By comparison with world market prices, farm prices in the European Community have reached an extraordinarily high level. Thus in 1976/77 the prices (EUA 100 kg) of agricultural products on the Community and world markets respectively were:

common wheat - 15.70 and 7.68

white sugar - 34.87 and 19.85

beef and veal - 118.74 and 61.83

pigmeat - 109.41 and 87.64

butter - 241.74 and 60.32

skimmed milk powder - 106.35 and 18.63

(Source: Eurostat - Agricultural Statistics Yearbook 1977)

This high price level must be seen in the context of the generally high level of incomes in the Community in world market terms. Moreover, the disparity in agricultural prices between the Community and the world market has tended to aggravate surpluses in the former as these can be disposed of outside the Community only at great expense.

The advantages of the common agricultural policy in general and of the price policy in particular lie in secure food supplies, the guarantee of reasonable and relatively stable food price levels, in the both qualitatively and quantitatively outstanding range of agricultural, including processed, products available and, finally, in a relatively well-implemented transfer of jobs out of the agricultural sector into the manufacturing and services industries - albeit only in the more industrialized regions.

2. Disadvantages have arisen over an extended period of time in the following areas, with varying causes that merit closer consideration;

- the level of consumer prices is very high in the EEC, especially when a comparison is made between low wage and pension incomes and food prices;
- the common agricultural market consistently produces large surpluses in important ranges of agricultural products;
- the cost of transporting, storing, selling, distributing, denaturing or destroying these surplus products is very high and is unevenly shared;
- there are gross regional disparities in incomes, job security and job quality in agriculture;

- the proportion of exports to imports of agricultural and manufactured products between the European Community and countries with a low level of industrial development raises problems that have serious repercussions on the development prospects of these third countries, but also on the southern regions of the Community and on consumer price trends throughout the Community.

3. The causes of these long-term trends are many and various. Single-factor explanations based on the income situation of the farmer or on the Community's farm price policy are mostly inadequate. In any attempt to pinpoint the factors that have curtailed the Community's room for manoeuvre in agricultural policy, account must be taken of the general economic development of the Community, the incapacity of the European governments to create economic and monetary union and, above all, the various factors operating on decision-making at national level.

This lies beyond the scope of the present opinion, which will accordingly be restricted to working hypotheses.

4. The following extract from the Commission's 1977 report on the agricultural situation in the Community (pp. 184-185) illustrates the relationship between producer prices and wages and prices of intermediate consumption.



TABLE 1/7.3

## Indices of agricultural wages, input prices and agricultural producer prices

(Base 1970 = 100)

Year	Deutschland			France			Italia			Nederland			Belgique/België		
	Farm wages	Price of intermediate consumption <sup>a</sup>	Agricultural producer prices <sup>b</sup>	Farm wages	Price of intermediate consumption	Agricultural producer prices	Farm wages	Price of intermediate consumption	Agricultural producer prices	Farm wages	Price of intermediate consumption	Agricultural producer prices	Farm wages	Price of intermediate consumption	Agricultural producer prices
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
<b>A — Annual indices</b>	r			r			r			r			r		
1968	84.1	98.9	102.1	76.0	:	89.3	76.7	:	:	81.3	98.1	97.8	66.3	:	:
1973	133.1	122.6	121.6	141.7	:	132.6	166.4	123.3	144.6	158.4	122.2	123.8	143.4	116.7	127.4
1974	152.4	130.7	117.6	174.3	:	139.1	202.9	166.0	170.8	182.8	130.0	116.5	170.3	128.3	125.4
1975	164.3	137.6	135.2	212.6	:	151.6	264.6	185.0	192.0	229.7	130.1	131.3	206.3	134.2	142.2
1976	181.2	148.1	149.0	246.6	:	173.1	331.0	223.7	229.7	252.6	142.9	148.1	237.2	152.3	159.4
1977*	195.5	151.0	143.0	:	:	179.0	:	258.0	258.0	:	152.0	142.0	:	160.0	180.0
Annual rate of change %															
1976/1968	10.1	5.2	4.8	15.9	:	8.6	20.1	:	:	15.2	4.8	5.3	15.3	:	:
1974/1973	14.5	6.6	- 3.3	23.0	:	4.9	21.9	34.4	18.1	15.4	6.4	- 5.9	25.9	9.8	- 1.4
1975/1974	7.8	5.3	13.3	22.0	:	9.0	30.4	11.4	12.4	25.7	0.1	12.7	21.0	4.6	13.2
1976/1975	10.3	7.6	11.9	16.0	:	14.2	23.1	21.0	19.6	10.0	9.8	12.8	15.0	13.3	13.1
1977/1976*	7.9	2.0	- 4.0	:	:	3.4	:	15.3	12.3	:	6.4	- 4.1	:	3.1	0.4
<b>B — Quarterly indices</b>															
1st quarter 1976	:	144.9	148.9	:	:	160.5	:	200.2	216.9	:	135.1	151.3	:	145.6	157.7
2nd quarter 1976	:	148.2	146.4	:	:	169.1	:	219.8	224.0	:	140.7	150.1	:	147.8	156.3
3rd quarter 1976	:	149.1	146.2	:	:	168.7	:	229.1	226.7	:	147.1	145.6	:	156.1	147.0
4th quarter 1976	:	148.8	146.3	:	:	177.3	:	245.6	243.4	:	148.2	146.0	:	158.8	151.6
1st quarter 1977	:	151.7	145.1	:	:	179.3	:	255.5	236.6	:	:	145.3	:	160.8	152.3
2nd quarter 1977	:	154.5	140.3	:	:	181.9	:	259.0	250.1	:	:	143.4	:	162.4	151.0
3rd quarter 1977	:	149.8		:	:		:			:			:		
4th quarter 1977	:			:	:		:			:			:		

	Luxembourg			United Kingdom			Ireland			Denmark			EUR 9		
	Farm wages	Price of intermediate consumption	Agricultural producer prices	Farm wages	Price of intermediate consumption	Agricultural producer prices	Farm wages	Price of intermediate consumption	Agricultural producer prices	Farm wages	Price of intermediate consumption	Agricultural producer prices	Farm wages	Price of intermediate consumption	Agricultural producer prices
	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31
<b>A — Annual indices</b>	r			r			r			r			r		
1968	:	:	96.9	89.4	90.2	92.4	73.8	92.0	92.5	:	:	85.8	:	x	94.3
1973	:	120.3	125.8	149.5	150.6	147.1	152.2	141.7	162.6	:	140.3	145.8	:	x	133.3
1974	:	137.6	126.6	187.3	193.8	165.7	187.4	198.7	163.3	:	167.9	147.6	:	x	144.3
1975	:	130.9	142.0	233.0	216.0	203.9	225.4	233.9	207.1	:	178.2	160.9	:	x	160.0
1976	:	166.4	156.8	275.7	259.8	268.3		274.1	265.3	:	191.4	181.3	:	x	193.3
1977*	:	165.0	154.0		302.0	276.0		333.0	321.0	:	208.0	193.0	:	x	200.0
Annual rate of change %															
1976/1968	:		6.2	:	14.1	12.6		14.6	14.1	:	:	9.8	:	9.3	9.4
1974/1973	:	14.4	0.6	25.3	28.7	12.6	23.1	40.2	0.6	:	19.7	1.3	:	20.4	6.6
1975/1974	:	9.7	12.2	24.4	11.5	24.3	20.3	17.7	26.7	:	6.1	9.0	:	9.0	13.7
1976/1975	:	10.3	10.4	18.3	20.3	30.4		17.2	28.1	:	7.4	12.8	:	15.0	18.1
1977/1976*		- 0.8	- 1.8		16.2	2.8		21.5	21.0	:	8.7	6.3	:	13.2	3.3
<b>B — Quarterly indices</b>															
1st quarter 1976	:	158.2	146.2	:	233.3	260.2	:	259.3	246.7	:	185.0	178.9	:	:	184.3
2nd quarter 1976	:	161.3	144.7	:	250.4	265.6	:	269.6	260.3	:	192.2	182.1	:	:	188.6
3rd quarter 1976	:	166.0	145.7	:	268.5	258.1	:	277.0	264.4	:	190.2	177.8	:	:	187.5
4th quarter 1976	:	166.6	157.1	:	285.8	288.9	:	290.1	292.0	:	194.6	185.3	:	:	198.2
1st quarter 1977	:	164.2	160.4	:	297.9	290.0	:	320.7	307.5	:	201.5	184.9	:	:	201.4
2nd quarter 1977	:	165.7	158.2	:	306.6	273.3	:	334.9	323.6	:	211.2	190.0	:	:	197.8
3rd quarter 1977	:			:			:			:			:		
4th quarter 1977	:			:			:			:			:		

<sup>a</sup> Index of the price of goods and services of current agricultural consumption.<sup>b</sup> Annual index includes fruit and vegetables, quarterly index excludes fruit and vegetables.

Source: Eurostat.

The faster rise in wages is offset by the growth in labour productivity, which, between 1970 and 1974, rose 45% in Germany, 61% in France and 52% in Belgium. (Source: The agricultural situation in the Community - 1977, p.47)

5. Consumer prices have also risen continuously in the food sector over recent years. This has been a contributory factor in the overall inflationary trend. Conversely general inflation has also been one of the factors influencing the agricultural sector.

No detailed analysis of inflationary trends and factors can be made here. The complexity of the problems may be illustrated by the following observations. The rate of increase in the price of foodstuffs and beverages was generally slower than the rise in the general index during the years (1973-75) of generally severe inflation. After the meteorological disasters of 1976 (drought in the north, floods in the south) the food price index rose more sharply than the general index.

6. In one case it is clear - although quantification is difficult - that responsibility for higher costs lies with producers themselves, and this is in the occasionally serious over-mechanisation of medium and smaller farms. The cooperative use of equipment and community organization structures could make a sensible contribution here.

By contrast, others - mostly the smallest farms - are working on a minimal technical level, resulting in low productivity with labour accounting for a high percentage share of costs, making the products uncompetitive.

This problem cannot be overcome with the system of guaranteed prices because, on the one hand, these only just keep labour-intensive producers in existence, while, on the other, they give capital-intensive producers increasing accumulation-factor and investment advantages.

7. It is hardly to be expected that the structural problem of the sharp differences between labour-intensive and capital-intensive producers can be changed by a global farm price policy. A few figures will show the need for change:

Table 2 Percentage of total labour force engaged in agriculture  
(Eurostat 1976)

GB	2.8%
Belgium	3.6%
NL	6.4%
Lux	6.6%
FRD	7.2%
Denmark	9.3%
F	11.3%
Italy	16.2%
Ireland	22.9%

(EC - average 8.7%)

The countries with serious and steadily worsening problems are France, Italy and Ireland. The connection with general unemployment and the low incomes of small farmers in these countries (varying according to the circumstances of particularly hard-hit regions) emphasizes two needs:

- (a) the common agricultural policy must be supplemented by direct income transfers to the mountainous and less-favoured regions;
- (b) little success can be expected from an agricultural policy not rooted in an overall concept of regional, structural and industrial policy.

8. For the above-mentioned reasons, and because of widely differing conditions of production caused by climate, geography, soil quality and previous exploitation of natural resources, there are marked differences in actual agricultural incomes.

9. Only limited conclusions can be drawn from national agricultural income statistics because of variations in taxation by comparison with other income groups.

For example, in the Federal Republic of Germany there are wide variations in the assessment of incomes by the tax authorities:

- income from non-self-employed work, 81%
- income from self-employed work, 34.7%
- income from agricultural work, 15.7%

At low income levels, the state social security transfer payments (which vary widely from country to country) play a more important role than the annual producer price increases.

Comparisons with national transfer payments and farm subsidies are extremely complicated. See points 319 ff. of the 1977 report on the agricultural situation in the Community.

10. Overall, it is the national factors which are predominant in the development of agricultural incomes in the EC.

(a) Rates of increase in agricultural GNP (adjusted for inflation), 1970-1976

- in GB annual average, 4.4%
- in France, 2.5%
- in Ireland, 2.2%

In the other EC States: between 3 and 4%

(b) Development of real incomes in agriculture  
Average 1970-1976

- Ireland : - 0.6%
- GB : +10.7%

Relatively high rates of growth were recorded in Italy, Belgium and the Federal Republic of Germany, relatively low rates in France, Luxembourg, Denmark and the Netherlands.

(c) Effect of a 5% increase in producer prices or in productivity on agricultural incomes:

- |        |         |
|--------|---------|
| GB     | : + 11% |
| FRG    | : + 10% |
| France | : + 8%  |
| Italy  | : + 7%  |

with a poor showing being made by those farms where the share of equipment and material costs in the end product is small and the income level low.

(d) The reverse effect would be achieved by a hypothetical increase in production costs. Given the same rate of increase, farms with high agricultural production equipment costs would be harder hit.

Taking national averages, an increase in production costs in Britain and Belgium would mean an unfavourable effect on agricultural incomes. The effect in the Federal Republic of Germany, in the Netherlands and in Denmark would be proportionate. The effect in France, Italy and Ireland would be less than proportionate.

11. If we now compare the relation between farm incomes and industrial wages, it becomes clear that increase in farm prices have completely different political effects in Britain than in southern France or southern Italy. While in Britain there has been a shift in income ratios to the detriment of wages in industry, agricultural incomes in the Mediterranean regions are considerably below industrial wages.

12. Actual producer prices are influenced by many factors, such as quality of the product, marketing organization, supply and demand factors, length of the wholesale and processing stages, distance from profitable markets, export/import conditions and monetary fluctuations ... Some of these factors will now be considered.

13. Working hypothesis on the effect of highly concentrated demand for agricultural products

(a) Normally, demand monopolies or oligopolies depress actual prices. The more differentiated and unorganized the supply side is, the lower the price level.

(b) In principle, this also holds for some agricultural markets. The effects can, however, vary:

- prices advantageous to the buyer could lead to favourable consumer end-prices. It is a matter for investigation whether these price advantages are customarily passed on to the consumer;
- favourable cost prices are not passed on to the consumer by processors and dealers and therefore do not lower the high level of consumer prices;
- depressed producer prices are not adequate for guaranteeing an appropriate standard of living for farmers. This gives rise to the demand for the introduction of a European minimum price guarantee or for a corresponding increase in the intervention prices already established.

14. There must be a corresponding strengthening of the marketing organization of small farmers. Communal forms of organization offer the primary means of achieving this.

15. There is so little transparency in the processing, wholesaling and distribution of agricultural products that their effect on end prices are very difficult to assess. The pilot studies that the Commission have begun on consumer food prices and gross profit margins are therefore most welcome. It should continue more intensively with this type of work. Initial results have already shown notable disadvantages to the consumer:

In almost a third of the products investigated, price differences of more than 40% have been recorded in qualitatively and quantitatively comparable goods. Such differences work against the consumer and cannot be justified.

16. According to the pilot studies, an intensified process of concentration is taking place in the food product distributive sector. The same applies to certain areas of processing. The following concerns play a dominating role on the markets of the European Community:

- Unilever; turnover 1975	15,000 m dollars;	321,000 employees
- Nestlé; turnover 1975	7,000 m dollars;	136,000 "
- Imperial Group; turnover 1975	3,300 m dollars;	96,000 "
- Associated British Foods; turnover 1975	2,600 m dollars;	78,000 "
- BSN - Gervais Danone; turnover 1975	2,300 m dollars;	63,000 "
- Ranks Hovis Mc Dougall; turnover 1975	1,900 m dollars;	61,000 "

The Commission should take a particularly close look at these concerns and to specialist purchasers and processors of agricultural products.

17. The food distribution sector is in the throes of rapid change. Market shares in the Federal Republic of Germany, for example, are changing as follows:

Table 3Percentage market shares

Year	Big concerns:	Small and medium concerns
1962	26	74
1975	38	62
1985 (estimated)	47	53

There is a rapid rise in the number of supermarkets:

Table 4

Country	1971	1972	1973	1974
Belgium	455	606	657	686
Denmark	280	323	385	441
France	1,444	1,672	1,934	2,125
FRG	2,009	2,396	2,755	3,510
GB	4,400	4,800	5,140	5,840
It	532	609	676	(-)
NL	520	622	717	902

18. There are often considerable differences in price in the different Member States. With comparable quality and quantity, the following prices may be given as examples:

Table 5(Prices converted into DM, 1975)

Product	FRG	F	It	NL	GB
Butter	8.36	9.42	(-)	8.03	3.60
Margarine	4.84	4.53	(-)	(-)	2.86
Beef	13.91	9.36	16.73	(-)	7.35
Bread	2.59	2.07	1.67	1.56	1.08

19. The difference in price levels in the various countries of the Community has a number of causes. One is the continuing failure to achieve monetary union. The system of national currencies brings considerable friction in competition and the free exchange of goods. The effects of this system are often wrongly attributed to the common agricultural policy.

20. At the same time, with the existing complicated European currency system, the blame in some cases lies with the agricultural policy, e.g. the continuing use of the monetary compensatory amounts (MCAs).

However sensible MCAs may be to counteract sudden currency fluctuations - they provide a buffer against a shock to the agricultural export-import structure - they have a correspondingly distortive effect when they are made permanent.

This has become largely the case. Permanent MCAs distort the conditions of international competition, in so far as monetary fluctuations reflect real changes in purchasing power and not international monetary adjustments or speculation. (Speculative monetary fluctuations are not dealt with here.)

To the extent that changes in currency parities have a real economic basis, it is impossible to see why they should not be reflected on agricultural markets, since they are, among other things, the result of varying cost movements. If, on the other hand, MCAs are maintained over a long period, this has the following effect:

- (a) in countries with a relatively strong currency, producers and exporters of agricultural products receive a permanent subsidy. Consumers in these countries are at a disadvantage, since cheap competitive products from Member States with weak currencies are taxed;
- (b) permanent MCAs have the converse effect in countries with weak currencies: advantageous prices to consumers for imported agricultural goods and a deterioration of the competitive position of domestic farmers vis-à-vis their foreign competitors;
- (c) countries with strong currencies experience an improvement in their foreign trade balance, weak-currency countries the reverse;
- (d) optimal spread of funds over all sectors of the economy is prejudiced.

21. The longer MCAs continue, the stronger is the multiplied effect of the factors described.

Thus in the long term, agricultural production in the strong-currency countries becomes more capital-intensive. Hence there is a shift in the structure of agricultural production to the disadvantage of those agricultural regions which are already less developed; thus, particularly, in Ireland and certain Mediterranean regions.

22. Prices of some agricultural products are significantly influenced by agricultural imports into the Community from third countries. Products from third countries are brought up to a higher price level by means of a



special customs duty, the price adjustment levy. As this partly involves the same agricultural products as are produced in southern Europe, the problem affects three areas:

- (a) the standard of living - often enough already the bare minimum for southern European producers - is affected. They are interested in the highest possible levies;
- (b) consumer prices are influenced. It is in the interests of the consumer that levies should be as low as possible, since only in this way can the consumer enjoy the benefit of low world market prices;
- (c) the height of the price adjustment levies is a decisive factor in the development chances of the economies of states that are less well-developed industrially. They have the greatest interest in establishing themselves on Community markets with their low prices.

23. A decisive factor in this last problem is the credibility of the European Community in its attachment to fair relations with the Third and Fourth World. At the same time, it gives rise to the question of what relationship should be sought between price levels in industry and agriculture, within the Community and in external relations. To take the example of trade by the Federal Republic of Germany with countries outside the Community in food and semi-luxuries, the following statistics show certain trends:

In 1972 the FRG imported 33.3%, in 1976 (adjusted for inflation) only 18.7%. In the same period the corresponding figures for exports were 2.4% and 2.5%. Studies by the German Institute for Economic Research (DIW) have established the effects on the domestic labour market. A rise in imports of 1 thousand million DM (1972 prices) means an effect on employment of - 112 (index number). Rise in exports of 1 thousand million DM: 321; simultaneous rise of 1 thousand million DM each in exports and imports: + 209.

A high agricultural price level in industrialized countries means an over-proportionate industrialization of agricultural production. A low agricultural price level in industrially less developed states reduces their chance of achieving a comparably productive level of agriculture. Due allowance must be made for the effect of differences in the use made of consumer incomes.

24. In conclusion, the Committee on Agriculture takes the following position on the motion for a resolution by the Committee on the Environment, Public Health and Consumer Protection:

The Committee on Agriculture

- (1) points out that in the 'conclusions' to its price proposals (COM(77) 525 final, page 22, paragraph 22) the Commission states that the average effect of a 3% increase in the guarantee prices for agricultural products on the cost of food to the consumer would be of the order of 0.5% and on the cost of the living in the Community of the order of 0.1%
- (2) infers, therefore, that the average effect of a 1% increase in the price of agricultural products on the cost of food to the consumer would therefore be of the order of 0.1667% and on the cost of living of the order of 0.0333%
- (3) points out also that only 70% of the ex-farm prices of agricultural products are subject to EEC regulations and that the difference between the prices offered to producers, which are laid down by the EEC, and the consumer prices is the responsibility of the national governments
- (4) notes that studies have shown that the producer receives on average only 33% of the final consumer price and 67% is absorbed by other economic sectors
- (5) draws attention to the Commission's answer of 2 May 1978 to a parliamentary question on agricultural incomes
- (6) points out that on average only about 25 to 30% of the household budget is spent on food
- (7) notes a rising trend in consumer prices
- (8) sees the causes thereof not only in the agricultural production sector but, according to region, stage of production, technical standard etc., in equipment and material costs and in the processing and distribution of agricultural products
- (9) considers that thorough enquiry should be made into these stages on the lines of the pilot study made by the Commission
- (10) advocates the publication of the results
- (11) welcomes the promotion of Community and cooperative production, processing and marketing organizations in certain agricultural products
- (12) stresses the urgency of market investigations and the need for

- clearer information on the practices of intervention centres
- (13) is, however, sceptical as to whether the effect of future farm price proposals on consumer prices can be stated with sufficient accuracy
  - (14) takes the view that forward-looking demand surveys for agricultural products will be an essential planning aid for producers
  - (15) considers a cautious price policy for agricultural products and a tighter consumer price policy to be in general appropriate
  - (16) considers the co-responsibility levy to have been applied in an ineffectual manner with the result that the desired effect has scarcely been achieved
  - (17) calls on the Commission, therefore to develop further alternative methods of co-responsibility and to investigate their practicability
  - (18) welcomes the evident readiness to place stronger emphasis than in the past on structural policy
  - (19) notes, however, that there is still a lack of adequate coordination between agricultural and regional policy
  - (20) advocates the phasing-out of monetary compensatory amounts, with appropriate allowance for the varying price and cost trends in the Member States
  - (21) views with concern the increasing concentration of demand for agricultural products at the distribution stage, while producers remain largely disunited
  - (22) supports the view that coordination between the agricultural policy and the consumer policy has not yet progressed beyond the stage of infancy
  - (23) considers, therefore, that consumers should play an appropriate role in decision-making and accordingly welcomes the steps taken by the Commission to involve consumers in the discussions on agricultural policy
  - (24) sees in wider participation by consumers and in public and published discussion and information an opportunity for making the problems of agriculture more tractable
  - (25) is convinced that a clearly expressed readiness for negotiations leading to as broadly based an exchange of goods as possible and optimal supplies for the people of the Community represent an important factor in relations between the EEC and the applicant countries as well as between the EEC and the countries of the Third World.

