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Memorandum on prices and price policy for agricultural products in EEC

As supplementary information to its proposal for "measures to establish a common price level for cereals", the Commission has sent to the Council a memorandum on prices and price policy for agricultural products in EEC. In this memorandum the Commission examines the consequences of the establishment of an average level of farm prices for agriculture, external trade and consumers. The memorandum points out that the establishment of this average level will present maximum advantages for the economy as a whole and a minimum of economic drawbacks. To fix a cereals price corresponding to the present upper limit would offer the greatest short-term economic advantages for the Community's agriculture, but the unfavourable consequences for the economy at large would then be particularly felt in the medium and long term, and this would finally have adverse effects upon agriculture itself. The converse would be the case if the price level were fixed at the lower limit.

An average price level for cereals will certainly mean a loss of income for farmers in Member States where prices have hitherto been high and a higher income for farmers in the countries where prices are raised. It will, however, make it possible to avoid any expansion of production which would be reflected in surpluses, the elimination of which, if possible at all, would require heavy expenditure and would furthermore have consequences in the sphere of commercial policy. It is moreover important that the Community's price policy should leave open possibilities for imports from non-member countries.

Finally, with an average level, the effects on consumer prices in those countries where the prices are raised can be contained within such bounds as to avoid any pernicious tendency for prices and wages to rise. The following are the Commission's estimates of these effects :

Effects on consumer prices
(in % of 1962/63 prices - in % of price indices)

Price	Germany (FR)	France	Netherlands	Italy	Belgium
Bread	-1.5 / 2.0	+1 / 1.5	+ 3.0 / 4.0	-2.5 /3.0	+1.5 / 2.0
Pasta(1)	-1.0 / 1.5	+ 1.0	+ 3.0	-2.0 /2.5	+1.0 / 1.5
Pigmeat	- 5.7	+ 3.0	+ 6.8	+0.1	+ 3.4
Eggs	- 4.6	+ 2.7	+ 7.0	+3.6	+ 3.5
Poultrymeat	- 2.9	+ 1.0	+ 3.8	+2.0	+ 1.6
Total for products affected		+ 2.1	+ 4.6	+1.15	+ 2.5
Index of consumer prices					
General index		+ 0.19	+ 0.36	-0.11	+ 0.05
Index of foodstuffs		+ 0.44	+ 1.20	+0.27	+ 0.14

1) Because of the higher processing costs the change in consumer prices is estimated at 0.5 to 1.0% less than for bread.

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Repercussions on production and external trade

During the post-war years agricultural production in the Member States expanded at an exceptional rate. For net production in the index was 118 in 1961/62 (1960/61 - 119) and livestock products reached 126 (1960/61 - 121)[2].

The increase in plant production must be attributed almost exclusively to the higher yields per hectare which are due in their turn to technical progress in recent years (mechanization, use of fertilizers, improved seeds and seedlings, better plant health). For livestock products also technical progress (wider use of artificial insemination, rationalized feeding, control of diseases) has made a large contribution to the increase of yields (kg of milk per cow; kg of meat or eggs per kg of feeding-stuffs).

Like production, the consumption of foodstuffs in the Community has in general greatly increased. This is due partly to population growth and partly to higher individual consumption.

For most agricultural products the Community has achieved self-sufficiency: in practice the only large import needs now are for feed-grains, durum wheat and basic fats, and to a small extent, for beef and veal and eggs (see Table).

As well as technical progress, prices influence production. Since production cannot be expanded ad infinitum, prices act on it in two ways:

(a) The absolute level (real level) of prices influences the volume of production;

(b) Price structure influences the pattern of production.

As shown by the trend of production and prices hitherto, technical progress especially influences the yield per hectare or animal, and prices the area under cultivation or number of animals.

In studying the repercussions of the approximation of cereals prices we should therefore consider how farmers will react to the new prices as regards their production:

(a) In those countries where cereals prices will rise;

(b) In those countries where cereals prices will fall.

Among the countries where price rises will occur, France is the one whose reaction will count the most. This country has more than 45 % of the Community's useful land and produces more than 40 % of its cereals (for wheat, more than 45 %). It also has areas which could be put under the plough and others where crops can be changes (for instance from pasture to cereals.

According to the calculations made by the Directorate-General for Agriculture [3], the probable repercussions in France, taking into account developments which have occurred in the meantime, will be as follows :

Expansion of production may occur :

(a) Through increased yields;
(b) By bringing more land under the plough.

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2) According to FAO, basis : 1952/53 - 1956/57 average - 100; value at constant prices.

3) Outlook for 1970, Etudes, série agriculture, No. 10, Brussels 1962.

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As regards (a) : By technical progress hectare yields have constantly increased in France over the last 10 to 15 years. But in no area of the country have they yet attained their economic optimum. It is therefore to be expected that they will continue to increase as farming methods improve. As the trend of yields over the last 15 years has shown, this increase in yields will be independent of the trend of prices, since higher yields are already profitable for grain-farming below the present relationship between prices and costs.

As regards (b) : In 1955 the area under cereals in France was 5 million hectares less than in 1913. Of these 5 million hectares, about 1.6 million can be sown to cereals again. This reserve consists espedially of areas at present used for pasture or fodder crops. Only about 1/5 of the 5 million hectares consists of fallow or uncultivated land.

This reserve is situated chiefly in central, east, and south-east France: uncultivated land in the north-east and south-east; pasture chiefly in the north-east, the Paris basin, the east centre, fallow land in the centre and south-west.

The main effect of an approximation of cereals prices should be to bring into use the relatively small reserves constituted by fallow and uncultivated land. From this point of view it is not only the nominal rise in cereals prices which affects the issue, but their relation to the prices of other farm products and means of production. In recent years this relation has steadily moved against cereals.

In addition to the factors mentioned, the restriction of areas under pasture and forage in favour of cereal crops is largely determined by the relation between cereals prices and those for beef and milk. These price relationships have also moved against cereals in recent years. The rise in cereals prices provided for in the Commission's proposal does no more than restore the price relationship which still existed a few cears ago and under which cereal farming had no tendency to expand.

On the whole it may be said that with a nominal increase in cereals prices of no more than 12 to 15%, there is no reason to expect any noteworthy expansion of areas under cereals in France.

In the Netherlands and Belgium there is scarcely any reason to expect a stimulation of production. These two countries have practically no reserve areas (in any case reclaimed land in the Netherlands will be used for agriculture and consequently in part for cereals, irrespective of the level of nominal prices); hectare yields are already extremely high (with intensive methods and the use of fertilizers). Moreover the area under cereals in these two countries does not play any great part in total EEC cereals production.

In Italy the pattern of production might change. Within the limits imposed by natural conditions one trend might well be to extend crops of barley and maize to the detriment of what other than durum. However, the change-over to barley and wheat cannot be very extensive, since the areas suitable for these crops are already producing on a large scale.

Whether the change-over is made to maize or barley will be primarily a question of irrigation. Where the humidity of the soil is sufficient or where irrigation is feasible, maize-growing will increase, and in the contrary case it will be barley-growing.

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On the whole the area under cereals should remain roughly unchanged in Italy since no increase in the area given up to fodder crops seems possible because of climatic conditions.

In the opinion requested by the EEC Commission and the Federal German Government on the repercussions of a reduction of cereals prices on German farming [4], the experts consider than the fall of cereals prices in the Federal Republic will not result in less cereals being grown; on the contrary, these crops may first tend to expand. The reason given is that in the event of a narrowing of the margin between farm prices on the one hand and the cost of means of production - but particularly wages - on the other, German agriculture will be more and more obliged to replace manpower by machines. Grain crops lend themselves particularly well to this process for they require fewer workers by comparison with root crops and are therefore easily mechanized. However the upper limit might soon be reached for reasons connected with crop rotation.

The pattern of production in the Community will not however be determined solely by grain price changes but also by the relations which will be established after the approximation of grain prices between the latter and prices for products competing with cereals for farm land and for derived products (for instance fodder crops - cattle-raising and dairy farming). If there are no simultaneous price dhanges for these products it is probable that production will be stimulated in those countries where the change in price relationship has operated in favour of products other than cereals (in the event of a fall in cereals prices). This applies in particular to the Federal German Republic, and for this reason some expansion of fodder crops may be expected in that country at the same time as an expansion of cattle_raising and dairy farming.

On the other hand, where the relation between prices of cereals and those of other agricultural products becomes narrower as a result of rising cereals prices, it may be supposed that the stimulus to the expansion of cereals production will become greater.

For the Community as a whole it may therefore be said that the approximation of cereal prices will have little if any stimulating effect on production. In recent years it has already become clear that the Community's cereals requirements have if anything increased and are at present of the order of 10 million tons, leaving out of account imports in the form of conversion products (pigmeat, eggs, poultry). It would therefore seem that the estimation of the Community's net import requirements (about 10 million tons of cereals in all forms in 1970) in Study No. 10 (Footnote 5) of the Directorate-General for Agriculture, was a little too cautious.

From this probable trend of production in relation with the increase of demand it may be concluded that the approximation of cereal prices will not have any notable effects on the Community's external trade. Net import requirements, in particular following increased consumption, which in its turn is a result of the Community's economic growth, are unlikely to decline.

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4) Effects of a reduction of farm prices under the common agricultural policy of EEC on farm incomes in the Federal Republic of Germany.

5) Outlook for 1970, Etudes, série agriculture, No. 10, Brussels 1962.

Annexe.

Trend of self-sufficiency for certain agricultural and food products. (in %)

Products	1957/58	1958/59	1959/60	1960/61 (a)
Feed-grains (b)	77	78	78	82
All cereals (c)	85	84	85	85
Beef and veal	92	92	93	95
Pigmeat	100	100	100	100
Poultry (slaughtered)	96	94	90	90
Eggs	92	90	90	91
Sugar	96	112	91	93
Butter	103	98	102	101
Cheese	100	98	101	99
Fresh fruit	93	17	95	-
Vegetables	104	105	103	-
Fats and oils (d)	45	41	39	41

(a) It was not possible to calculate the Community's degree of self-sufficiency for fresh fruit and vegetables as no figures were available for France.

(b) Rye + barley + oats +maize + other cereals with the exception of wheat and rice.

(c) Excl. rice.

(d) Excl. butter.

Source : For cereals and meat: Statistical Office of the European Communities; for other products : OECD.