COMMISSION OF THE EUROPEAN COMMUNITIES

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THE AGRICULTURAL SITUATION
IN THE ENLARGED COMMUNITY

Report 1973

PART I - SYNTHESE

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Preliminary remarks

The present report is attached to the Memorandum on the administration of the common agricultural policy. It corresponds to the annual report referred to in the "Declaration concerning the common fixing of agricultural prices in the Community" contained in the Acts relating to accession to the European Communities.

The report consists of three parts. Part I entitled "Synthesis" gives a general survey of the agricultural situation based on both macro-economic data as well as on studies made in part II of this report.

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

Finally, part III comprises all the tables on which part I and II are based.

The present report includes all the information demanded of the Commission in article 2 of the Council decision of December 4 1962 concerning the coordination of agricultural structural policies. The analysis will not concern itself with national policies pursued in this field; the Commission considers it is more appropriate to analyse those aspects within the framework of the reports which it has to submit annually to the European Parliament and to the Council, as provided for under article 22, paragraph 1 of the Council directive of April 17 1972 concerning farm modernisation, article 15 of the Council directive of April 17 1972 concerning incentives to give up farming and for the appropriation of utilised agricultural land for the purpose of structural improvement and article 16 of the Council directive of April 17 1972 concerning socio-economic advice and professional qualification for persons working in agriculture.

This report also furnishes the information required according to article 1, paragraph 3 of regulation No 79/65/CEE of the Council, modified on October 23 1973, covering the creation of an agricultural bookkeeping information network on farm income and economics in the European Economic Community on the one hand, and the information called for in article 4, paragraph 2 of regulation (CEE) No 1308/70 relating to the common organisation of markets in the flax and hemp sectors, on the other.

The preliminary remarks contained in earlier reports relating to the comparability of available statistical data, are still valid for the present report. On this occasion the Commission emphasises the need to accelerate work on the coordination and harmonisation of national statistics on a Community level, as well as the need to have to hand statistical information as recent as possible. In order to fill up these gaps the Commission is forced, in certain cases, to have recourse to other sources of information or to undertake its own forecasts.

The Commission reserves the right to supply information complementary to the present report when submitting its proposals to the Council concerning the fixing of the common agricultural prices for the 1974/1975 season.

The editing of the present report was completed on October 29 1973.

1. GENERAL ECONOMIC ENVIRONMENT (1)

The rise in the general level of prices remains a serious topic of concern in all countries of the Community. The implicit price increase for the gross domestic product of the enlarged Community has been of the order of 6.2% in 1972 and can be estimated at 7.3% in 1973. Moreover, these averages hide marked differences in inflationary trends among member states. In fact the annual rates of increase in the general level of prices in 1973 could range between about 6.5 to 6.6% (Germany, France) and 9 to 11% (Denmark, Italy, Ireland and Luxembourg).

Economic growth has shown a clear improvement from 1972 to 1973. While the volume of gross domestic product increased by 3.6% in 1972 compared with 1971; the corresponding rate should be of the order of 6% in 1973 compared with 1972.

The combined effect of this real economic growth, on the one hand, and the continuing inflationary tendencies, on the other, has been a growth rate in the gross domestic product of the enlarged Community of 10% in 1972 and of the order of 13.7% in 1973.

Although a certain deceleration in the economic growth rate in real terms is indicated for 1974, it is feared that inflation will lose none of its acuteness.

Parallel to the general economic trend described above, there has been a very appreciable increase in per capita earnings. These showed an increase of 11.1 in 1972 and probably a rate of 12.9% in 1973. Here too, trends in the different member countries vary considerably, the range in 1973 being between 10.5 to 13% (France, Luxembourg, United Kingdom and Germany) and 15 to 17% (Ireland and Italy).

While in 1971 the average wage per wage earner was 4 271 UA in the enlarged Community (4 560 UA in the original Community), this could reach about 5 350 UA in 1973 (5 750 UA in original Community).

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(1) see tables I /1.1 and I /1.2 of part III.

2. RELATIVE IMPORTANCE OF AGRICULTURE IN THE GENERAL ECONOMY (1)

The downward tendency in the relative share of the "agricultural, forestry and fishery" sector continued. In 1972 this represented only 5.3% of the gross domestic product at factor costs for the enlarged Community (5.7% for the original Community).

This trend has run parallel to a decline in the relative importance of agriculture in the total labour force, but the percentage noted in 1972 (9.4%) is 1.8 times more than agriculture's share in the gross domestic product. This difference is minimal in Belgium, Denmark and the Netherlands and is almost absent in the United Kingdom.

For the enlarged Community the annual rate of decrease in the agricultural labour force in 1972 compared with 1972 can be estimated at 5.9% which represents an acceleration compared with the preceding year (3.5%). This rate of decrease has been particularly marked in Denmark (10.2%) and in Italy (8.1%) in Germany (7.1%) and in Belgium (6%), it is put at 4% in France, 2.2% in Ireland, 1.6% in the Netherlands and 0.7% in the United Kingdom.

3. AGRICULTURAL FINAL PRODUCTION AND VALUE ADDED (2)

In the enlarged Community, final production in 1972 was estimated at 55.4 milliard UA. In relation to the number of hectares of utilised agricultural land, this amount represents about 600 UA/ha and in relation to the number of persons employed in agriculture about 5 900 UA per person.

During 1972 the proportions for livestock production and for arable production were of the order of 60.5 % and 37.4 respectively, figures which nevertheless indicate that agricultural production in the enlarged Community is more orientated towards livestock production than in the Community as originally constituted (3).

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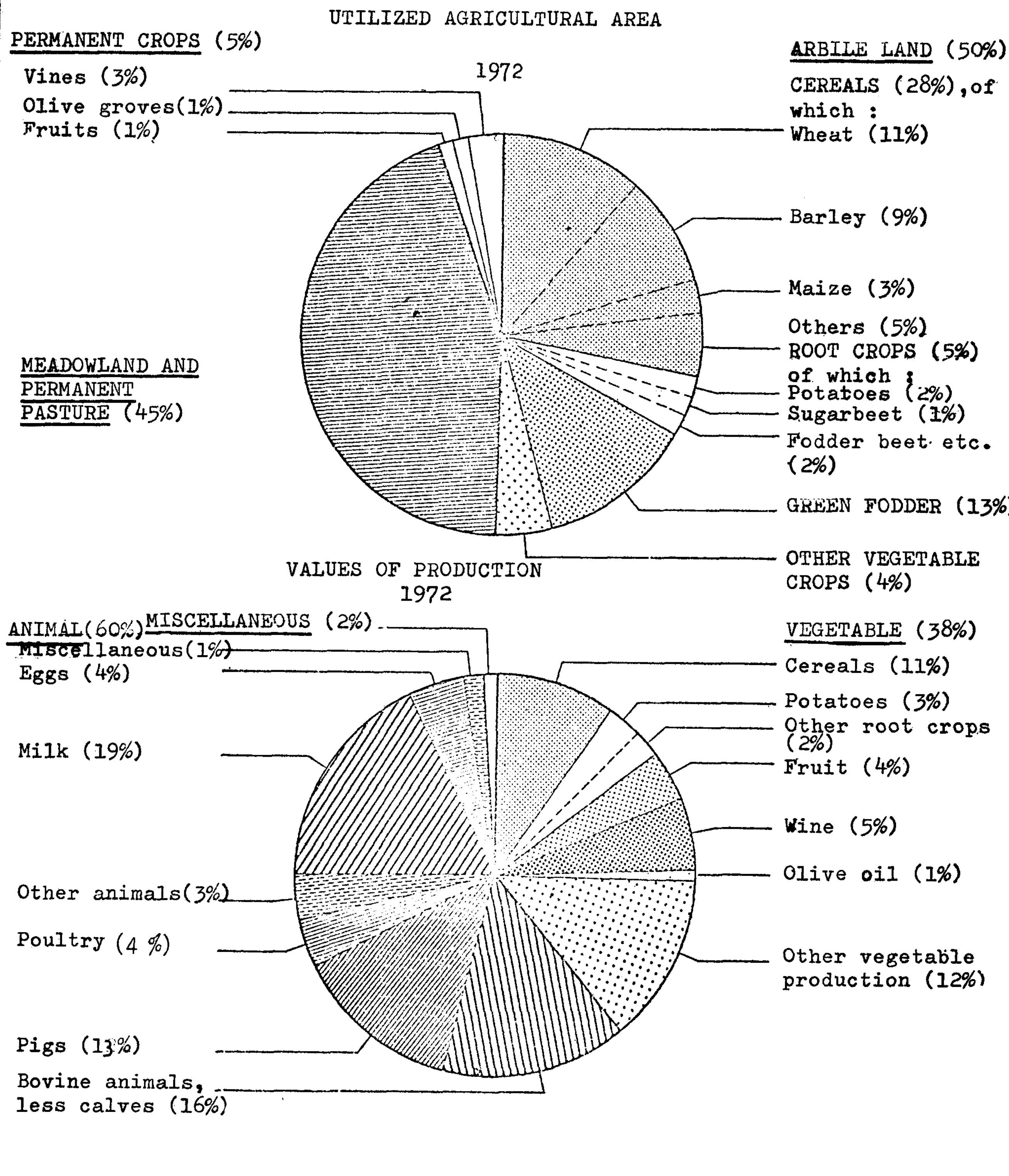
(1) See tables I/2.1 and I/2.2 of part III

(2) See tables I/3.1 to I/3.5 of part III

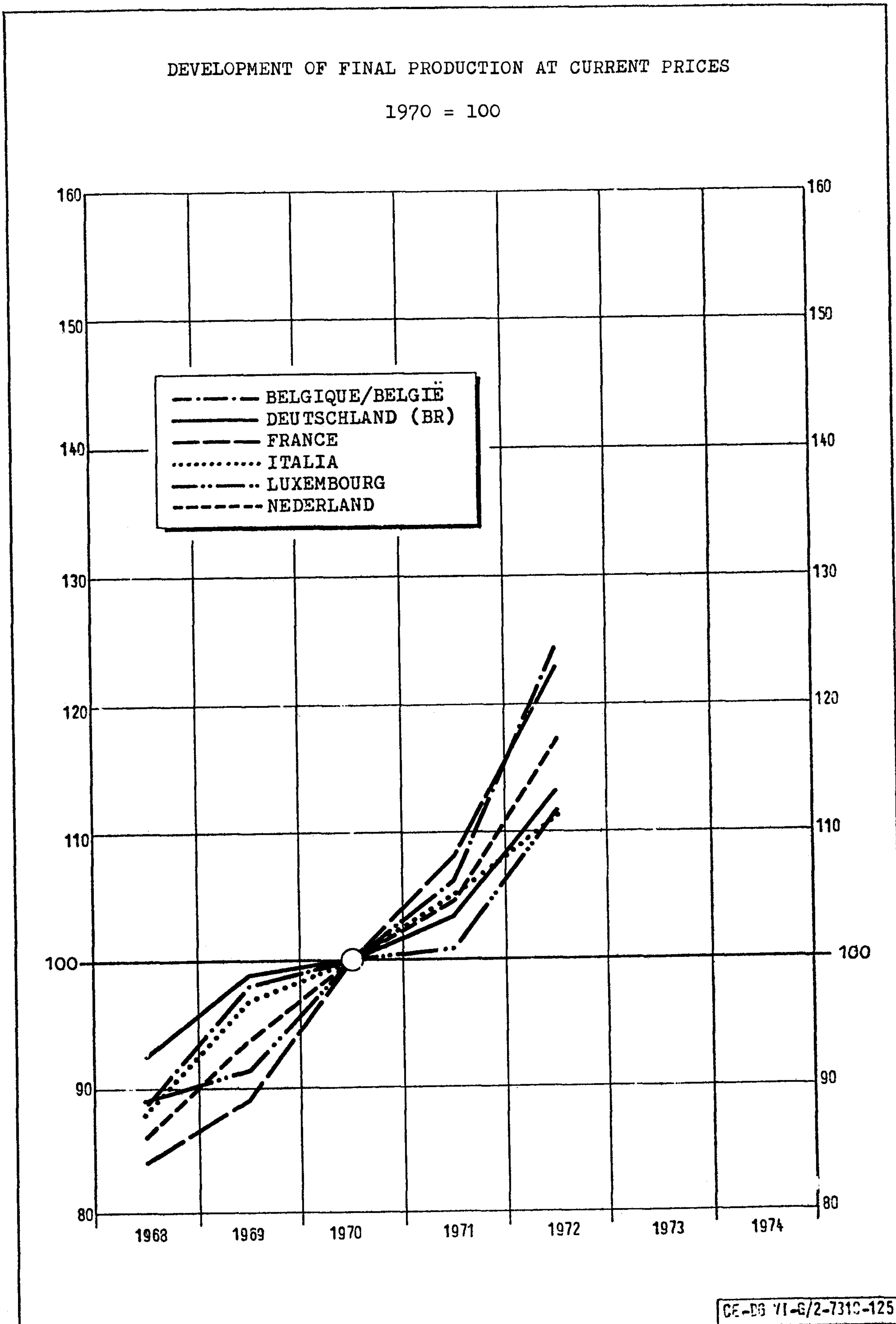
(3) The percentages in the original Community were 58.2 and 40.0 % respectively.

DISTRIBUTION OF THE UTILIZED AGRICULTURAL AREA AND OF FINAL PRODUCTION IN THE ENLARGED COMMUNITY ACCORDING TO CROPS AND PRODUCTS RESPECTIVELY

in %



Graph 1/3.1


DEVELOPMENT OF FINAL PRODUCTION AT CURRENT PRICES
1970 = 100
BELGIQUE/BELGIË
DEUTSCHLAND (BR)
FRANCE
ITALIA
LUXEMBOURG
NEDERLAND
160
150
140
130
120
110
100
90
80
1968
1969
1970
1971
1972
1973
1974
CE-DG VI-G/2-7310-125

Graph 1/3.1

In the original Community (1) final production rose from 40.3 m UA in 1971 to 45.1 m UA in 1972, which represents an increase of 12%.

Agricultural products subject to common price regulations represent 67% of final production of the original Community.

In spite of the growth rate for intermediate consumption (11% in volume and 4.5% in value) and repayments (9% in value) the gross value added at factor costs in the original Community increased by about 11% in 1972.

This favourable development in 1972 seems to be especially due to the development of agricultural prices, for final production in the original Community declined in volume in 1972 by 0.7% compared with 1971. This decrease is in addition the result of contrary movements in arable production which decreased by 40% and in livestock production which increased by 1.4%.

It should be noted too that during the period "1967" - "1971" (2), final production increased in volume at a rate of 2.4% per annum, of which + 2.2% per annum for arable production and 2.4% for livestock production.

The overall development of agriculture in 1972 depicted above conceals considerable differences among member states. In fact, the rates of increase noted in the net value added at factor costs was 17% in Luxembourg and the Netherlands, 16% in

Belgium and France, 10% Germany and 2.3% in Italy. For the original Community the growth rate was 11.5% and in the United Kingdom 6.9% (3).

These differences can be attributed to divergent trends in final production as well as in intermediate consumption (4). At current prices the latter increased very sharply in Belgium)(20.2%) but also quite appreciably in France (12.1%), the United Kingdom (10.3%), Denmark (9.5%), Italy (7.5%), Luxembourg (7.3%) and in the Netherlands (8.3%). The least marked growth in intermediate consumption at current prices was recorded in Germany (4.2%).

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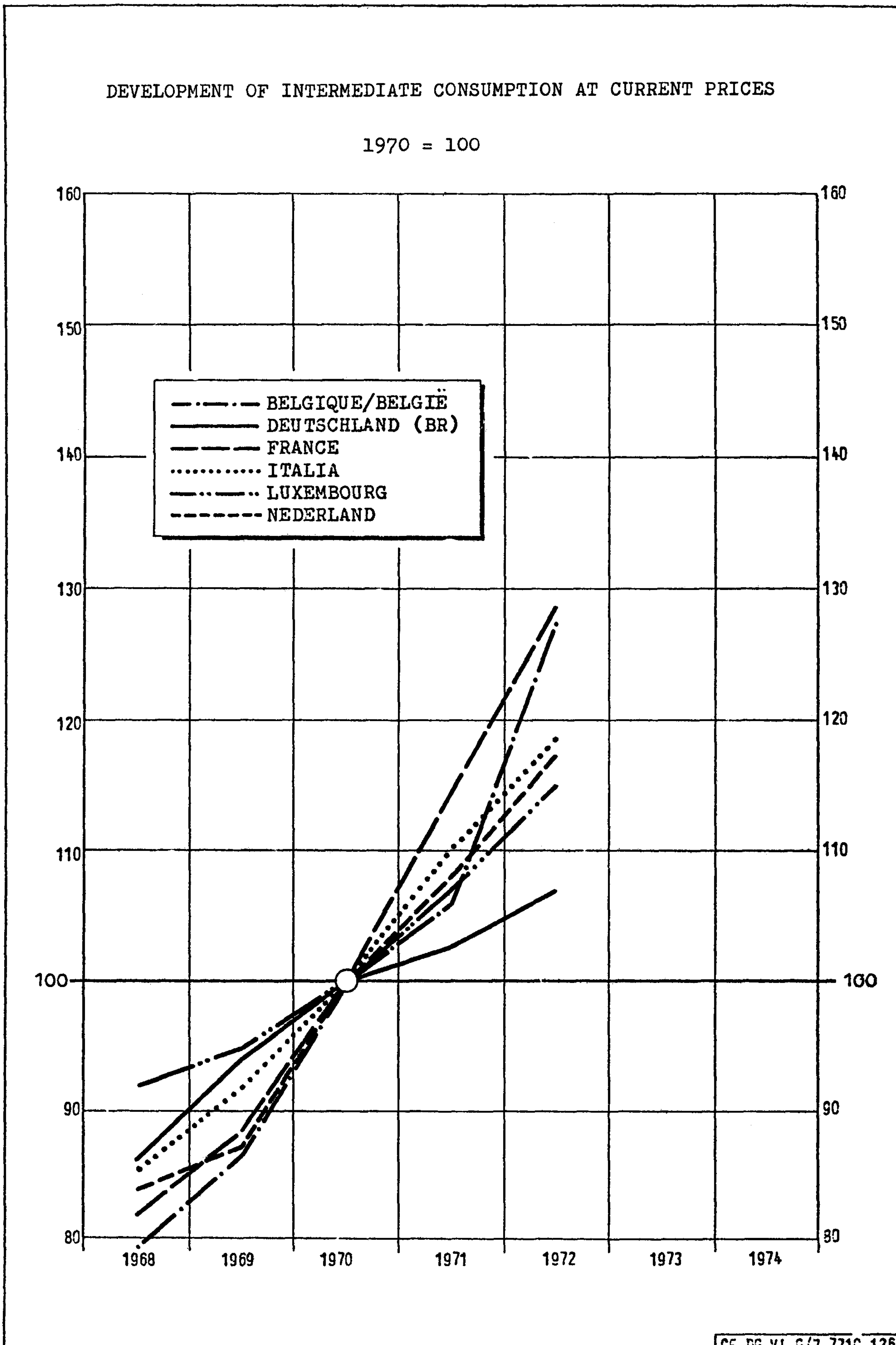
(1) Data for the enlarged Community is missing.

(2) "1967": Ø 1966, 1967, 1968 and "1971": Ø 1970, 1971 and 1972.

(3) No data available for member states not mentioned.

(4) The importance of intermediate consumption in relation to final production varies very much among member states; in 1972 the percentage was 49% in Belgium, 46% in Germany and the Netherlands, 40% in Luxembourg, 32% in France and 26% in Italy.


DEVELOPMENT OF INTERMEDIATE CONSUMPTION AT CURRENT PRICES
1970 = 100
BELGIQUE/BELGIË
DEUTSCHLAND (BR)
FRANCE
ITALIA
LUXEMBOURG
NEDERLAND
160
150
140
130
120
110
100
90
80
1968
1969
1970
1971
1972
1973
1974
CE-DG VI-G/Z-7310-126

Graph 1/3.3

In volume intermediate consumption fell slightly (0.1%) but increased markedly in Belgium (11.6%), in France (7.2%) and Luxembourg (6%) and to a more moderate degree in the Netherlands (4.7%) and in Italy (3.7%). In Denmark there was only a slight increase (1).

The agricultural accounts for a few member states also give indications as to the development of the net value added less rents, metayage (payments in kind) and interest paid by farmer, which would be close to overall return on agricultural labour. In 1972 this sum, expressed in national currency, increased by 18.1% in Belgium and the Netherlands, by 16.5% in Luxembourg, by 15.8% in France, by 11.8% in Germany and by 7.3% in the United Kingdom.

4. PRODUCTION (2)

During the period "1967" - "1971" (3) the annual rates of change in production show marked differences among products. Thus, for all cereals the growth rate was 3.6% (3.2%) (but 9.5% for durum wheat and 12% for maize), rice 4.1%, potatoes - -2.7% (-2.3%), sugar beet 2.9% (2.6%), olives 1.4%, peaches 1.5%, pears 6.3%, apples 1.1%, cows milk 0.9% and eggs 3.9% (4).

According to provisional estimates the 1973 cereal harvest (excluding rice) of the enlarged Community could be put at 105 million tonnes (1972: 103.9 million tonnes). In spite of the reduction in area record production of barley and grain maize have resulted in a total grain harvest (without rice) probably 1% up on the very high grain harvest of 1972.

The growth rate in production in 1973 compared with 1972 for other agricultural products would be between 3 and 4% for milk and 3 to 4% for pigmeat, 5% for beef and veal, 10% for wine and -5% for potatoes.

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(1) No data available for member states not mentioned.

(2) See tables I/4.1 and I/4.2 of part III.

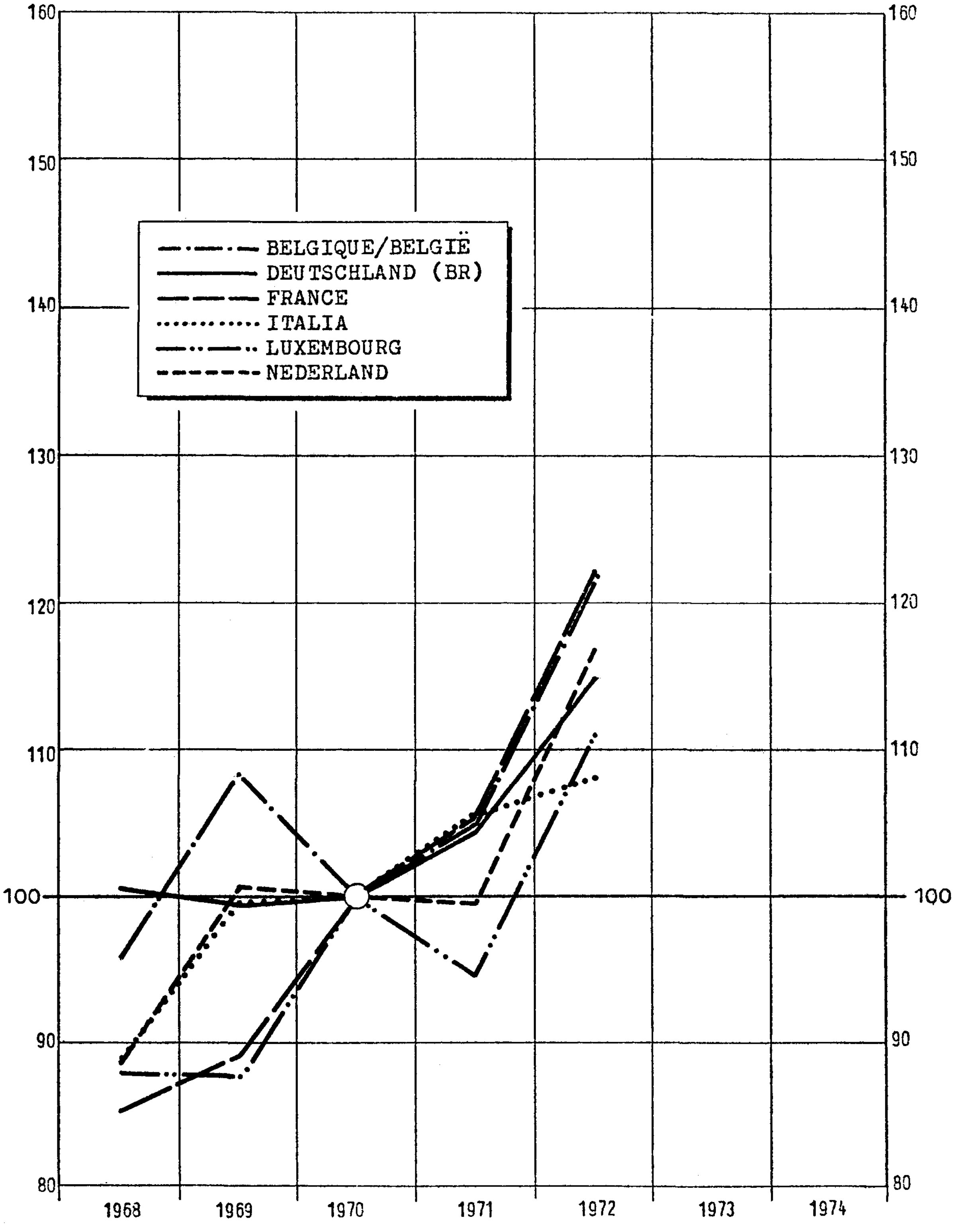
(3) Ø 1966/67/68 - Ø 1970/71/72.

(4) Figures in parentheses relate to the enlarged Community.

(5) In the original Community, respectively 80.9 m tonnes and 79.3 m tonnes, representing a growth rate of 1%.

DEVELOPMENT OF NET VALUE ADDED AT FACTOR COSTS AT CURRENT PRICES

1970 = 100



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Graph 1/3.4

5. PRODUCTIVITY (1)

During the period 1967 - 1971 there was a growth in labour productivity of 7.7% in the original Community. This development is due to the combined effect of the average increase in final production (2.4%) on the one hand and the decrease in the number of persons employed in agriculture (-4.4% per annum) on the other. Calculated on the basis of gross value added labour productivity increased by 6.6% per annum. Among the different member states these rates are respectively 8.4% (8.7%) in Germany, 6.3% (4.8%) in France, 7.4% (8.6%) in Italy, 8.3% (7.2%) in the Netherlands, 10.2% (8.5%) in Belgium and 4.1% (0.4%) in Luxembourg (2).

In relation to all sectors of the economy the rate of 6.6% is to be compared with an annual growth rate of the gross domestic product per person employed in the original Community at constant prices and rates of change for the same period of 5% for the original Community and of 4.5% for the enlarged Community.

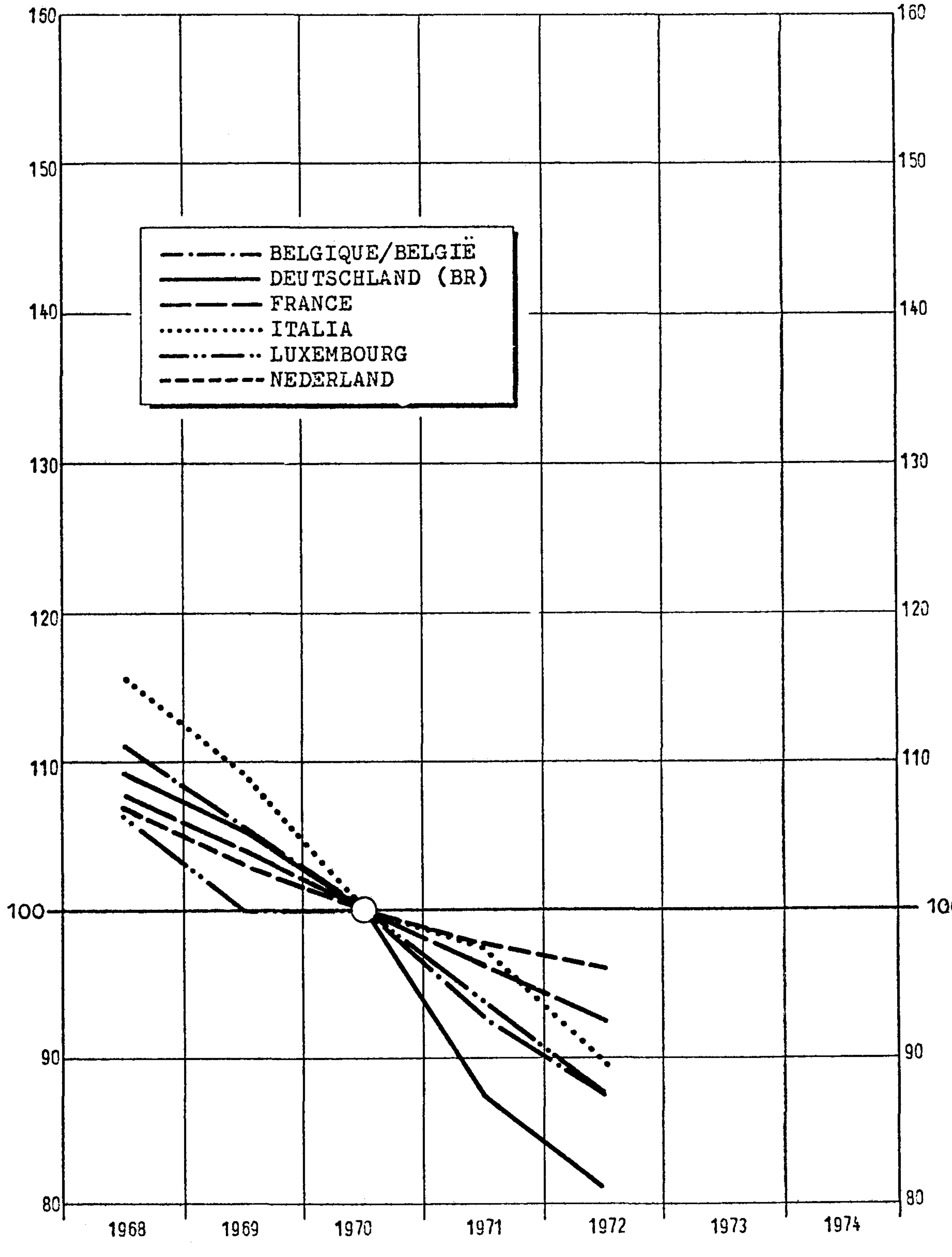
At the same time productivity per hectare of utilised agricultural area in the original Community showed an annual growth rate of 3.2% (2.2%) (2).

During this same period average yields per hectare showed quite substantial annual improvements. These varied in the original Community from 4.1% for durum wheat, 5.1% for grain maize, 1.2% for sugar beet and 0.9% for milk yields per cow. For all cereals the annual growth rate was 3.5%. As a general rule these annual rates were considerably lower in the three new member states.

(1) see Tables I/5.1 of part III
(2) The first figure has been calculated on the basis of final production. The second on the basis of gross value added. Data for the new member states are not available.

DEVELOPMENT OF THE NUMBER OF PERSONS EMPLOYED IN AGRICULTURE, FORESTRY AND FISHING

1970 = 100



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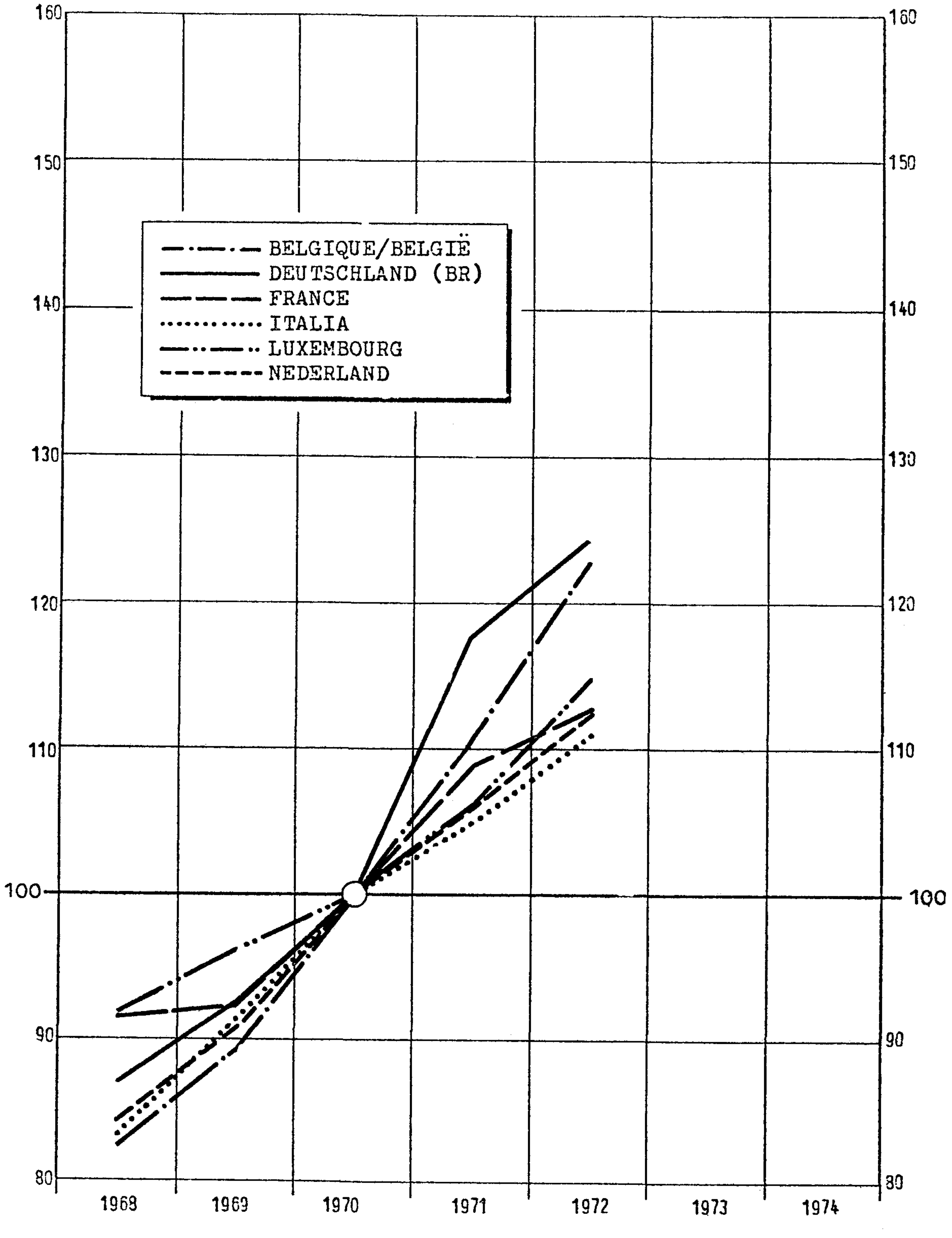
Graph I/5.1

DEVELOPMENT OF LABOUR PRODUCTIVITY IN AGRICULTURE

(Calculated on the basis of final production at current prices in "1963" per person occupied in agriculture)

1970 = 100



Graph 1/5.2

6. DEMAND FOR FOODSTUFFS (1)

In 1971 the proportion of consumer expenditure devoted to food products represented 22.5 to 32.8% (2) of private household consumer expenditure. This proportion was highest in Italy (32.8%) and in the United Kingdom (30%) and lowest in Belgium (22.5%) and France (25%). This proportion is falling annually.

Overall and per capita consumption of agricultural production have not followed the same trend in recent years. In the original Community there has been an increase for certain products and a decrease for others.

Among the products for which overall consumption has decreased are whole milk (0.6% per annum), potatoes (1% per annum), cereals (excluding rice) (0.4% per annum) of which wheat (0.2%) per annum). Per capita consumption has also declined for these products: 1.4% per annum for milk, 1.9% per annum for cereals (excluding rice) of which wheat 1% per annum.

Although overall consumption of butter has increased slightly (0.4% per annum) per capita consumption has, however, decreased (0.4% per annum).

An increase, both in overall and per capita consumption, has been noted in recent years and in the original Community for some products including fruit (respectively 3.6% and 2.8% per annum), vegetables (1.7 and 0.8% per annum), sugar (2.6% and 1.6% per annum), fats excluding butter (3.1 and 2.1% (3) per annum), all categories of meat (3 and 3.1% per annum), eggs (2.4% and 1.5% per annum) and cheese (4.7 and 3.8% per annum).

In 1970/71, per capita consumption in the enlarged Community was as follows (4)

butter: 6.1 kg (4.9 kg); cheese: 9.6 kg (11.8 kg (5)); sugar: 37 kg (36.9 kg); all categories of meat: not available (68.2 kg); fruit: 63.8 kg (74.4 kg).

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(1) See tables I /6.1 and I /6.2 of part III

(2) 20 to 40% for the consumption of food products, beverages and tobacco.

(3) During the period 1961/62 - 1969/70 only

(4) Figures in parentheses indicate consumption in the original Community.

(5) In 1969/70.

vegetables: 93.6 kg (1) (108.9 kg); whole milk: 91.4 kg (74.5 kg); potatoes: 87.2 kg (31.8 kg).

As can be seen, per capita consumption of butter and milk in the enlarged Community far exceeds that recorded in the original Community. On the other hand, the position is the opposite for cheese and fruit and vegetables.

7. PRICES (2)

a) Prices of factors of production (3)

The development of prices for the factors and means of production was largely influenced by the increase in the general level of prices and the very sharp upsurge in earnings. This trend was intensified by the crisis on certain world feedingstuffs markets.

Regarding prices for means of production the Commission regrets to say once more that a general index on this subject calculated on the basis of Community criteria is still not available. It has come to the conclusion that the national data concerning prices for means of production are much too heterogeneous for it to use in its synthesis. For this reason the Commission has proceeded to calculate a price index for factors of production founded on SOEC data on agricultural accounts. This index takes into account the development of the implicit prices for intermediate consumption, prices for capital goods (4) and the development of wages for employed agricultural labour, on the one hand, and the importance in each member state for the amount of intermediate consumption, repayments and wages paid, on the other. In the absence of data the Commission has been unable to make any calculations covering all the member states; it has had to limit these to the old member states.

In 1972 agricultural wages underwent a sharp rise ranging in the countries, for which data are available, from 19.1% in Ireland, 18.1% in Italy, 11.6% in the Netherlands to 7.8% in Germany.

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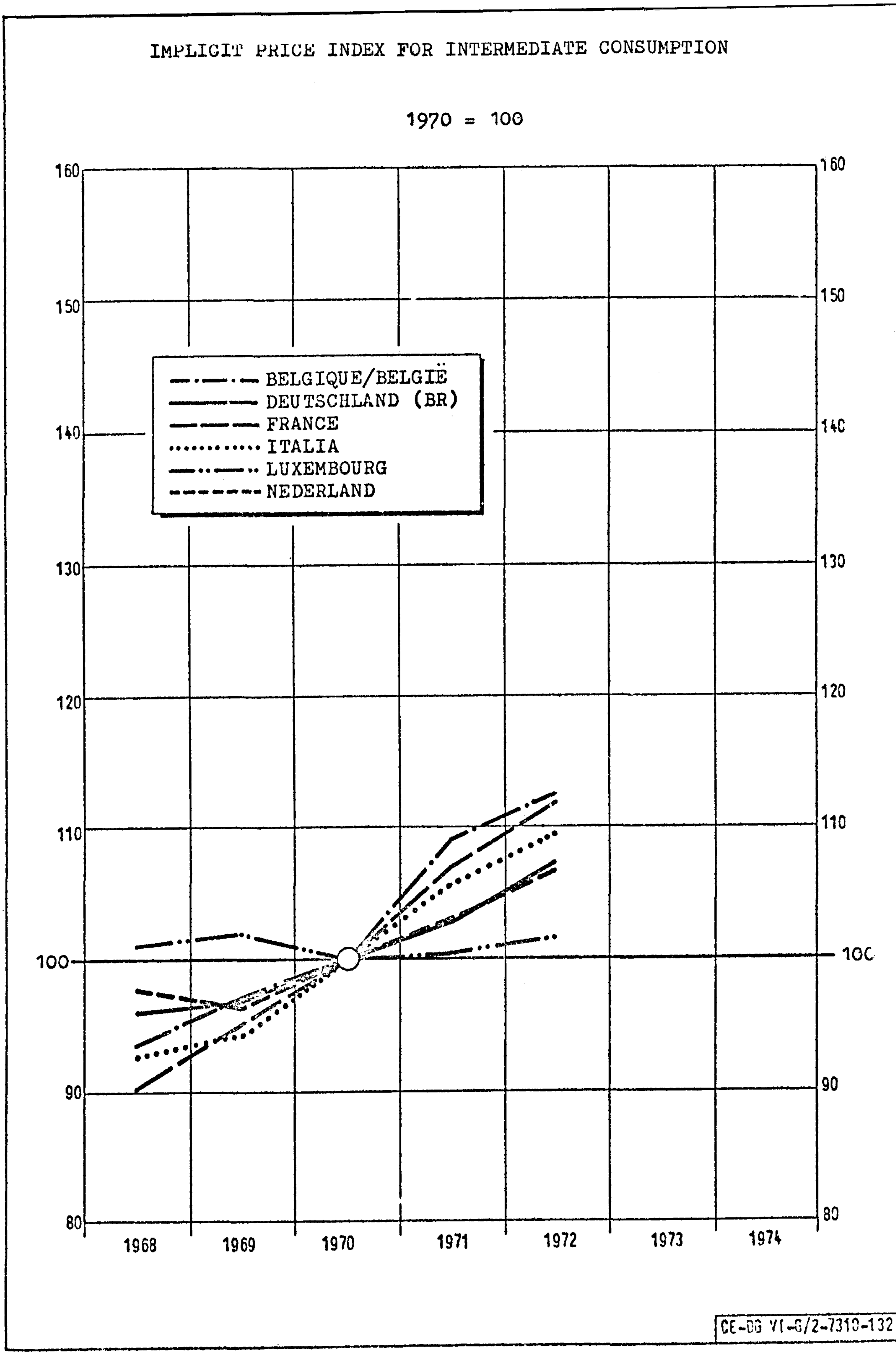
(1) in 1971/72

(2) See tables I /7.1 to I /7.10 of part III

(3) See tables I /7.1 to I 7.4

(4) For lack of complete data on building prices, the Commission has been obliged to take only the price of machinery into account.


IMPLICIT PRICE INDEX FOR INTERMEDIATE CONSUMPTION
1970 = 100
BELGIQUE/BELGIË
DEUTSCHLAND (BR)
FRANCE
ITALIA
LUXEMBOURG
NEDERLAND
160
150
140
130
120
110
100
90
80
1968
1969
1970
1971
1972
1973
1974
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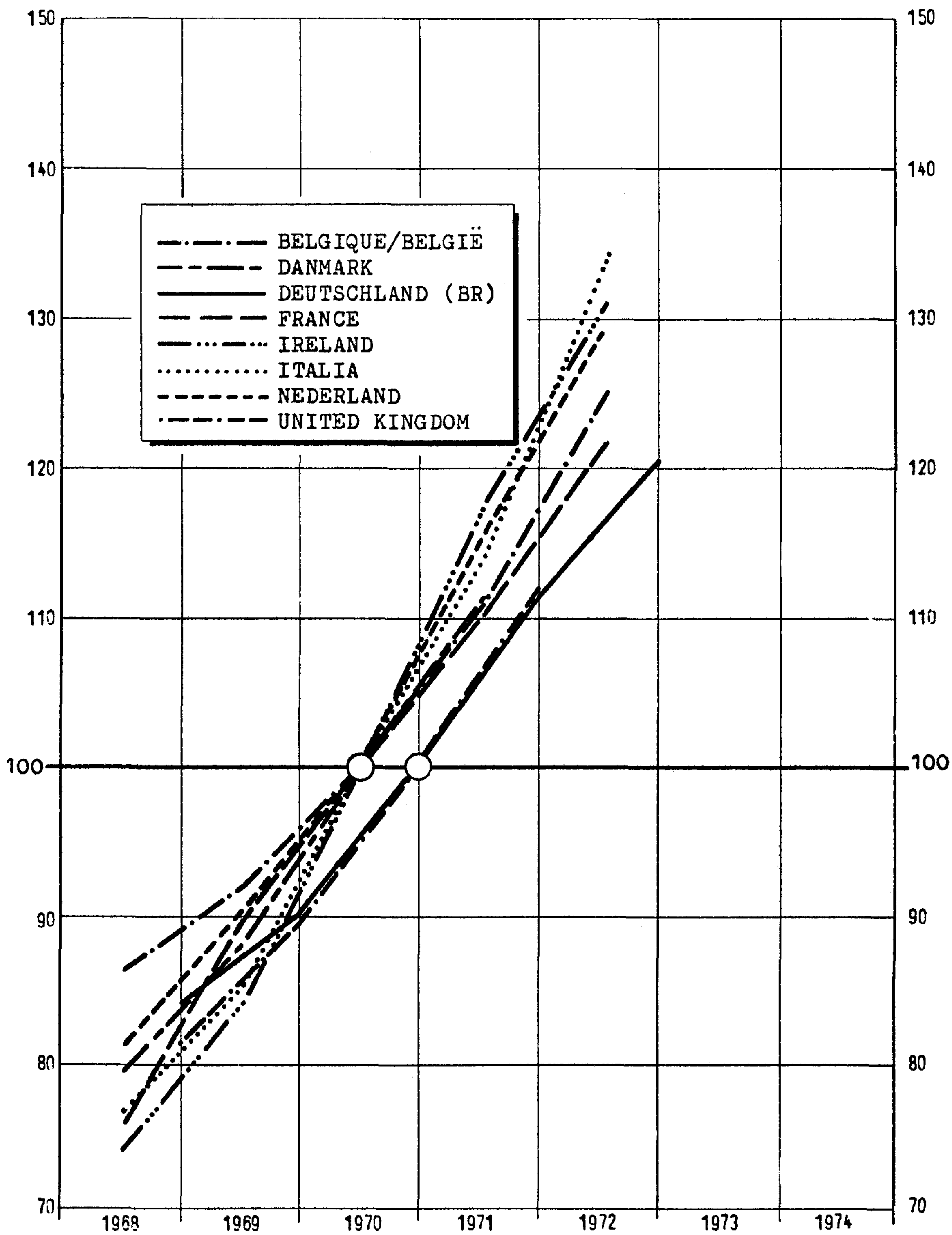
Graph 1/7.1

DEVELOPMENT OF ANNUAL INDICES FOR AGRICULTURAL WAGES
1970/71 or 1970 = 100



Graph 1/7.2

Mainly under the influence of the general upward movement in wages in general prices for agricultural machines also showed a considerable rise. This rise was 12.2% in Italy, 11.6 to 11.8% in the Netherlands and in Belgium, 11% in Ireland, 10.4% in France and 8.6% in Germany (1).

Prices for intermediate consumption also increased in 1972, this increase amounting to 4.5% in France, 4.3% in Germany, 3.8% in Italy, 3.1% in Belgium, 2.8% in the Netherlands and 1.2% in Luxembourg. For the original Community the increase can be estimated at 4.1% (1).

The combined result of this development was that the rise in factor prices can be estimated at 8.2% in Italy, 5.7% in France, 5% in the Netherlands, 4.8% in Germany and 3.5% in Belgium (1).

In the new member states national indices for means of production showed an increase in the same year of 4.4% in Ireland and 7.3% in Denmark (1).

On the basis of analysis of national indices for prices for means of production it can be concluded that increases for these prices are tending to grow, especially as a result of the very sharp upward movement in world market prices for animal feedingstuffs.

In fact a comparison of the price index for the means of production in the 2nd quarter of 1973 with that of the 2nd quarter of 1972 shows a rise of 12% in Germany, 8.8% in in France and 10.8% in Belgium. During the same period prices for animal feedingstuffs soared by 30.6% in Germany, 24.2% in France and 14.5% in Belgium.

Regarding the price of agricultural land, owing to the lack of statistical data it is not possible to come to any general conclusions on trends in 1972. It seems, however, that these prices rose very sharply in the three new member states.

It is possible that forecasts as to the consequences of the application of the common agricultural policy which indicated an improvement in farm income were one of the reasons for these increases in price.

(1) figures not available for member states not mentioned.

Formalities for the grant of credits (duration, repayment, guarantees etc.) vary appreciably from one member state to the other. For this reason it is impossible to cover them briefly in this report. Variations in interest rates are not peculiar to agriculture but are closely linked to the general conditions covering the grant of credit in member states, except when the state intervenes especially in favour of agriculture by granting among other measures interest rebates. This intervention is very common in most of the member states and can bring the interest rates payable by the farmer to very modest levels (1 to 3%).

b) Producer prices for agricultural products (1)

The very marked growth rates in production costs have been accompanied by a very much sharper rise in prices for agricultural products expressed in national currency of 12.2% in the Community of "Six". In the original Community the rise was most marked in France (12.8%), Germany (11.5%) and Italy 11.1%. In the other old member states the rate ranged between 9% and 9.3%. In the same year, which preceded the enlargement of the Community, agricultural prices increased very sharply in Ireland (19.1%) and in Denmark (11.8%) (2).

This advance affected both arable products (+ 12.6%) and livestock products (12%).

This upward trend continued in 1973, with price indices for agricultural products in the 2nd quarter of 1973 18.5% above those in the 2nd quarter of 1972 (2) in Belgium, 14.6% up in Germany and 11.1% up in Italy. In the 1st quarter of 1973 prices were 23.5% above prices in the 1st quarter of 1972 in the United Kingdom and 33% higher in Denmark.

Since the adaptation of prices applicable in the new member states to the common agricultural prices is spread over the whole transition period, the particularly marked upward trend noted in these countries is for the most part attributable to the peculiar development of agricultural markets in 1972 and 1973, especially world markets.

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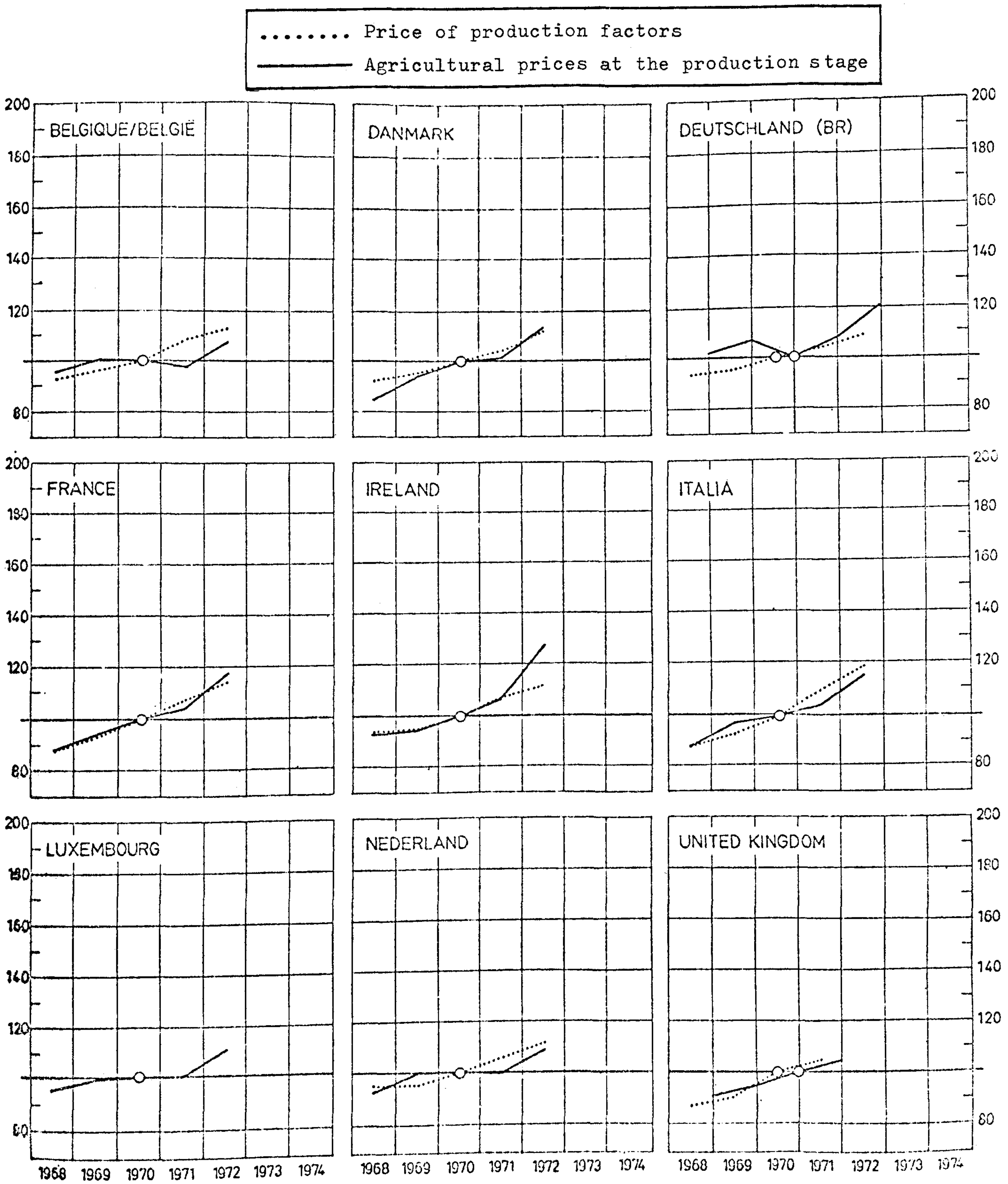
(1) See tables I /7.6 to I /7.8 of part III

(2) Figures not available for member state (s) not mentioned.

INDICES OF THE PRICES OF THE PRODUCTION FACTORS AND INDICES OF AGRICULTURAL PRICES AT THE PRODUCTION STAGE

1970/71 OR 1970 = 100



Graph 1/7.3

The trends noted above should be compared with the average rate of increase in common prices of 5.5% in 1972/73 compared with 1971/72 and of 4.5% in 1973/74 compared with 1972/73.

c) Comparison of the development of prices for the factors of production and producer prices for agricultural products (1)

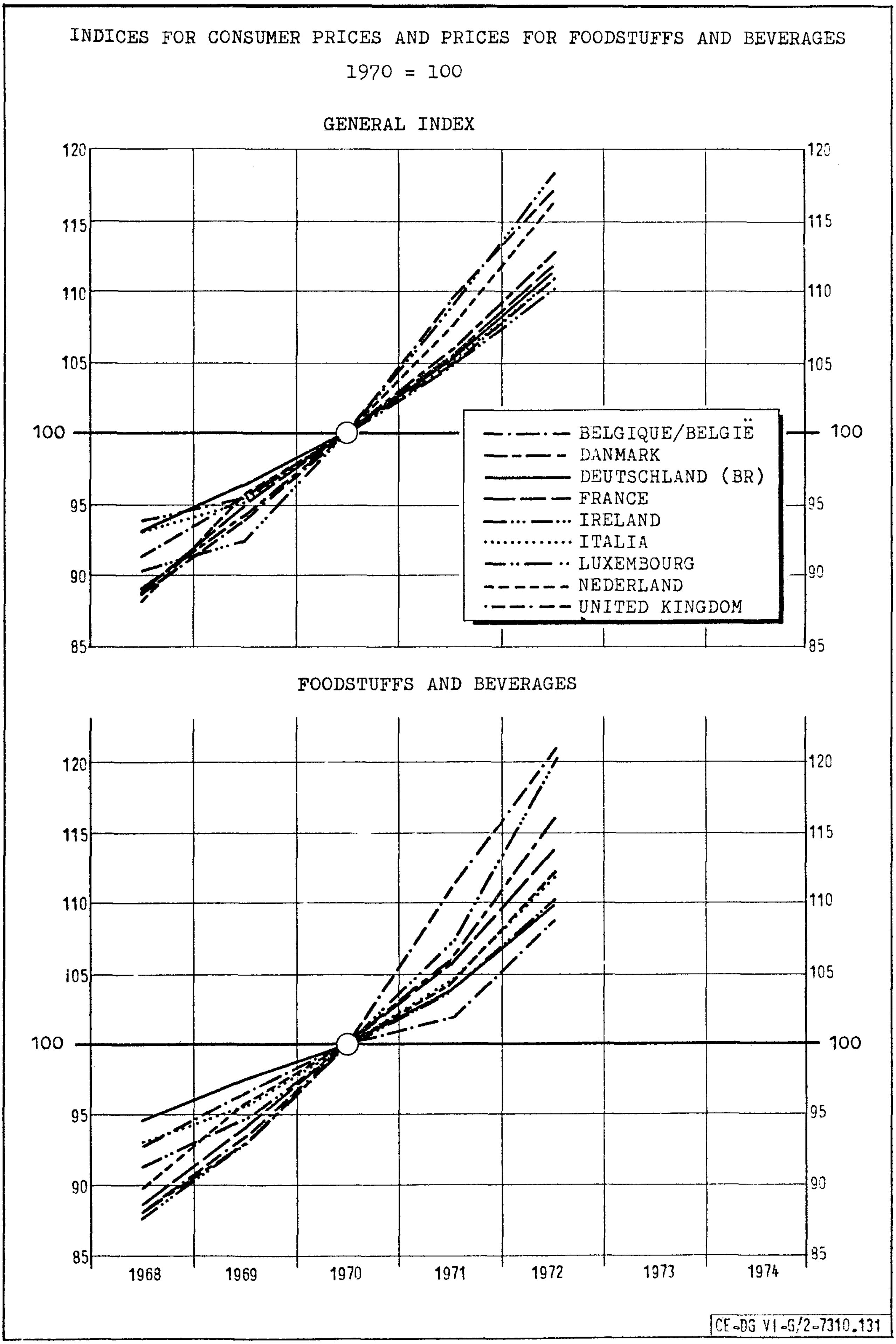
An analysis of the prices for factors of production and producer prices for agricultural products during the period 1968 - 1972 reveals the following:

In two member states, Italy and Belgium, prices for the factors of production (respectively 34.6% and 21.2%) increased more sharply than those for agricultural products (respectively 31.1% and 12.1%). On the other hand in Germany, France and to a certain extent in the Netherlands an inverse trend was noted, the percentages being respectively 16.6% and 18.9% in Germany, 30.4% and 32.8% in France, 17.1% and 17.9% in the Netherlands (2).

As a result, during the period 1968 - 1972 the terms of trade (3) improved slightly in France and Germany (+ 1%) and in the Netherlands (0.5%) and deteriorated only slightly in Italy (2.7%) but quite significantly in Belgium (7.5%) (2).

An improvement in the terms of trade has been observed in 1973, a comparison between the 2nd quarter of 1973 and the 2nd quarter of 1972 gives this improvement at 1% in Germany, 8% in France and 10% in Belgium (2).

(1) See table I/7.9 of part III
(2) Figures not available for the member states not mentioned
(3) Relationship between agricultural producer prices and prices for the factors of production.


INDICES FOR CONSUMER PRICES AND PRICES FOR FOODSTUFFS AND BEVERAGES
1970 = 100
GENERAL INDEX
BELGIQUE/BELGIË
DANMARK
DEUTSCHLAND (BR)
FRANCE
IRELAND
ITALIA
LUXEMBOURG
NEDERLAND
UNITED KINGDOM
FOODSTUFFS AND BEVERAGES
85
90
95
100
105
110
115
120
1968
1969
1970
1971
1972
1973
1974
CE-DG VI-G/2-7310.131

Graph 1/7.4

d) Comparison of the development of consumer prices and agricultural producer prices (1)

A comparison of the overall development of the index for producer prices for agricultural products in general with that for consumer prices for foodstuffs and beverages shows, during the period 1968-1972, a sharper increase for the former in Germany (respectively 18.9% and 16.3%), in France (32.8% and 28.2%), in Italy (31% and 20.1%) and in Denmark (34% and 31.8%). On the other hand, an inverse development was apparent in the Netherlands (17.9% and 24.8%) in Belgium (12.1% and 17.4%) and in Luxembourg (16.6% and 20%). In Ireland the two indices moved in the same way (37.1%) (2).

This development is mostly due to the rapid rise in agricultural prices in 1972, compared with 1971 a year during which even in the Benelux countries, as in the other member states, the general index for agricultural prices showed a sharper incline than the general price for agricultural foods. This trend continued during the first six months of 1973.

However, a more detailed analysis of the development of producer and consumer prices for certain agricultural products representing an important part in total agricultural production indicates that no clear cut judgement can be made. In fact, in the case of milk, beef and veal, pigmeat, soft wheat, sugar beet and eggs, consumer prices for these products either in the natural state or processed, often showed, as a general rule, over the period 1968 - 1972 a far sharper rise than that for agricultural producer prices.

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(1) See tables 1/7.10 and 1/7.11 of part III
(2) Index for agricultural prices in 1972 not available for the United Kingdom.

8. TRADE AND DEGREE OF SELF-SUFFICIENCY (1)

During the period 1963 to 1972 imports of agricultural products subject to regulations of the common agricultural policy by the original Community increased notably with developed countries (62%) as well as with the developing countries (12%). Compared with the preceding year the growth rate in 1972 was moderate for imports from the developed countries (1.3%) while appreciable (6.5%) for those from developing countries. For exports of these products over the period 1963/72 the increase was respectively 94% and 121% while in 1972 the growth was respectively 8% and 6%.

The enlargement of the Community has raised the Community share of world imports of agricultural and food products from 20 to 33%.

The situation of world markets which have been marked by price rises for nearly all agricultural prices and the realisation of the instability of world markets and their role in the supply of certain countries and of certain products, is an important element in the context of the development of trade in the agricultural sector.

The treaty of accession and the global concepts drawn up according to the line defined at the Paris summit in 1972 give general directions covering the enlarged responsibility of the Community in international trade and defining the framework for the development of trade, particularly in the agricultural sector of the enlarged Community.

The enlargement of the Community has brought certain changes in the degree of self-sufficiency for certain agricultural products.

The analysis made for the year 1971/72 reveals that for certain products for which the original Community was a net exporter, the enlarged Community has become a net importer.

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(1) See tables I/8.1 and II A/1.1 to II A/3.3 of part III.

This is particularly the case for rice (with a degree of self-sufficiency of 92%) and for butter (98%). While the original Community was a net exporter for sugar, the enlarged Community has a degree of self-sufficiency of 100%.

While for cereals overall the original Community was approaching self-sufficiency, import requirements have increased, giving a degree of self-sufficiency for these products of 91% in the enlarged Community.

For beef and veal Community supplies have clearly improved, whereas the original Community recorded a degree of self-sufficiency of 86% in 1971/72, this percentage amounted to 90% for the enlarged Community.

In the case of pigmeat, poultrymeat and eggs the enlarged Community is practically self-sufficient for condensed milk and milk powder the enlarged Community has remained predominantly a net exporter.

In the Community of Six the tendency for the degree of self-sufficiency to increase continued.

This tendency did not prevent the imports of the Six to rise by 39 % between 1968 and 1972 for the agricultural products coming under market organizations, and by 32 % for the others.

9. PRINCIPAL AGRICULTURAL MARKETS

Cereals

The cereal sector accounts for 10.7 % of the final production of agriculture in the enlarged Community and occupies 28% of the utilised agricultural area. The 1973 harvest is estimated at 104 million tonnes, thus exceeding that in 1972 by 1%. The Community still remains a net importer of cereals by about 12 million tonnes.

The world market in 1973 was marked by a very steep rise in prices for certain cereals, bringing several of them above the level of Community internal prices. This resulted in difficulties in the supply of certain cereals on the markets of several member states and the Community was led to take special measures concerning the export of these cereals.

The imbalance existing in the cereal sector of the original Community persists in the enlarged Community, involving heavy expenditure for the Guarantee section of FEOGA (denaturing of soft wheat, a part of the refunds for soft wheat and barley) estimated at 963 million UA for 1973 and 615 million UA for 1974 (1).

Sugar

Sugar prices have practically trebled on the world market between 1968 and 1972, bringing the level of world prices in 1973 slightly below the Community price.

Production of about 10 million tonnes of sugar is predicted in the enlarged Community in 1973, the basic quota amounts to 7.82 million tonnes. This tonnage slightly exceeds the level of internal consumption. Because of UK import obligations vis-a-vis the Commonwealth countries, the Community will have to export between 1.8 and 2 million tonnes.

According to estimates expenditure by the Guarantee section of FEOGA in this sector will not exceed receipt from storage dues and producers' contributions.

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(1) These figures do not take into account the recent reduction in the denaturing premium.

Wine

Prices for wine and particularly for quality wines are at a very high level in the Community and on the world market, the Community being by far the largest producer in the world.

Wine production which makes up a little more than 5% in value of the final production of agriculture, (2.3 of the area) should reach 140 million hectolitres in 1973. Supply and demand should thus be in balance in the current season.

Fruit and vegetables

The fruit and vegetable sector, which represents 11% of the value of final production of the original Community and occupies 3.9% of the utilised agricultural area, was favourable in 1973. Market withdrawals were more than in 1972 and a certain stability in market gardening and fruit production is expected.

Milk

Milk production in the enlarged Community should reach 94 million tonnes in 1973, 3.7% more than in 1972. Consequently, the milk sector, which represents 19% of the value of final production, would be in excess by about 8% of production (7 to 8 million tonnes) of which an important part could be marketed only with the help of special measures (butter and powder).

Commercial exports of butter in 1973 can be estimated at about 300 000 tonnes, of which 200 000 tonnes under an exceptional sale to the USSR, and those of skimmed milk powder similarly around 300 000 tonnes.

The persistent unbalance which characterises the dairy sector and which gives rise to forecasts of butter stocks of 300 000 tonnes and skimmed milk powder stocks of 150 000 tonnes at December 31, 1973, will result in an appreciable increase in expenditure by the Guarantee section of FEOGA, this is estimated at 1.5 milliard UA in 1973 and almost 1.6 milliard UA in 1974.

Beef and veal

The beef and veal sector, which represents 16% of the value of final production of agriculture of the enlarged Community, was still characterised up to September 1973 by a state of shortage and high prices on the world market. This necessitated measures to facilitate imports from third countries, up to September 1973 and within the Community, measures aimed at reorientating the excess milk production to the beef and veal production which is in deficit. Production underwent a definite decline in 1972/73, which will probably be followed by an appreciable recovery in 1973/74 so that supplies will be more balanced in the coming year than in the past year.

Pigmeat

The pigmeat sector which represents 13% of the value of final production of agriculture of the enlarged Community, provides 37% of the meat produced. In 1973 production should be only 2 to 3% more than in 1972, giving a rate of self-sufficiency slightly less than 100%. However, the cycle of pigmeat production is now in the ascendant, which would point to a definite recovery in production in months to come; production could be 5% more than in 1973. This recovery motivated by the present very high level of market prices should entail a fall in market prices for slaughtered pigs.

10. SOCIO-STRUCTURAL SITUATION

The utilised agricultural area of the enlarged Community is about 94 m ha, of which 50% tilled land and 44% leys and pastures. Between 1969 and 1972 this area decreased by 3.3% while that of woods and forests increased by 1.4% to reach about 31 m ha. 63% of the area is farmed directly by the owner.

Between 1967 and 1970 the number of farms decreased by 3.9% to 5.7 million with an average size of 17 ha. Between the highest average size, that of the United Kingdom with 57 ha. and the lowest of Italy with 7.5 ha. the margin is of the order of 1 to 7.

Farms of 50 ha. and more which represent 5% of the total occupy 39% of the utilised agricultural area; the area of these farms increased by 10% between 1967 and 1970.

The decline in the active agricultural population which totalled 9.8 million persons in 1972, has accelerated since 1969. The rate of migration was 5.9% in 1972 against 3.5% in 1971. This trend is due to an acceleration in the exodus of farmers and members of farm families assisting on the farm.

The problem of the ageing of agricultural population could become more acute in future because of marked increase in the part occupied in the age pyramid by persons aged from 65 to 54 years.

The structural modernisation must often face particularly difficult problems, if, as in the so-called priority agricultural regions, a considerable surplus in the active agricultural population is accompanied by a less developed general economy.

These regions occupy about 35% of the AUA (utilised agricultural area) of the Community but they are distributed very unevenly among the member states. A reduction has been noted here in the number of farms of 1 to 30 ha and for some time and in Italy in particular, also in the number of farms of 20 to 50 ha.

Social security regimes are of especial importance in agriculture, both from the point of view of the decisions to be taken by those in agriculture on their professional future. National bodies generally participate in the financing of social security systems but their participation varies perceptibly from country to country. Compared with the net value added at factor costs of this sector, financial transfers in favour of agriculture made by way of these social measures are equivalent to 25.3% in Luxembourg, 15.3% in France, 8% in Italy, 7.5% in Germany, 5.2% in Belgium and 0.8% in the Netherlands.

11. AGRICULTURAL INCOMES (1)

The macro-economic analysis of agriculture in the aggregate shows for 1972 a generally favourable development in agricultural incomes compared with 1971.

In fact, in nominal terms global agricultural income per year work unit (Y.W.U.) of the original Community increased in 1972 by a percentage of the order of 17% or, in real terms, i.e. in terms of buying power, by a percentage of the order of 11%.

This development is the combined result of a number of factors such as the considerable rise in producer prices for agricultural products (+ 12.2%), the decrease in agricultural labour (- 6.3%) (which consequently favoured structural improvement), the increase in the volume of intermediate consumption (4.5%), the decline in the volume of final production (0.7%) and the increase in the price of factors of production (5.1%).

The extent of this improvement in agricultural income, however, was very different according to member states. In real terms, the increase in agriculture income per Y.W.U or worker was considerable in Ireland (26%) (3) but very moderate in Italy (5%) and moderate in Denmark (7%), that in the other member states ranging between 10 and 15%. Any appreciation of these percentages must, of course, take into account the fact that the absolute levels in question differ according to member states.

Micro-economic data confirm the trends noted above. Results of the Community's bookkeeping information network show that for the six old members of the Community the "1971" season (1971/1972) enabled the farms covered to regain the income level which had been compromised by the insufficient income of the preceding year. While in "1970" the average income on labour income in the 6000 farms submitting accounts of a constant sample (2)amounted to some 2 000 UA/ALU, in "1971" the same farms achieved an income level higher than 2 500 UA/ALU. The development of agricultural income, however, varied more according to the type of farm and region.

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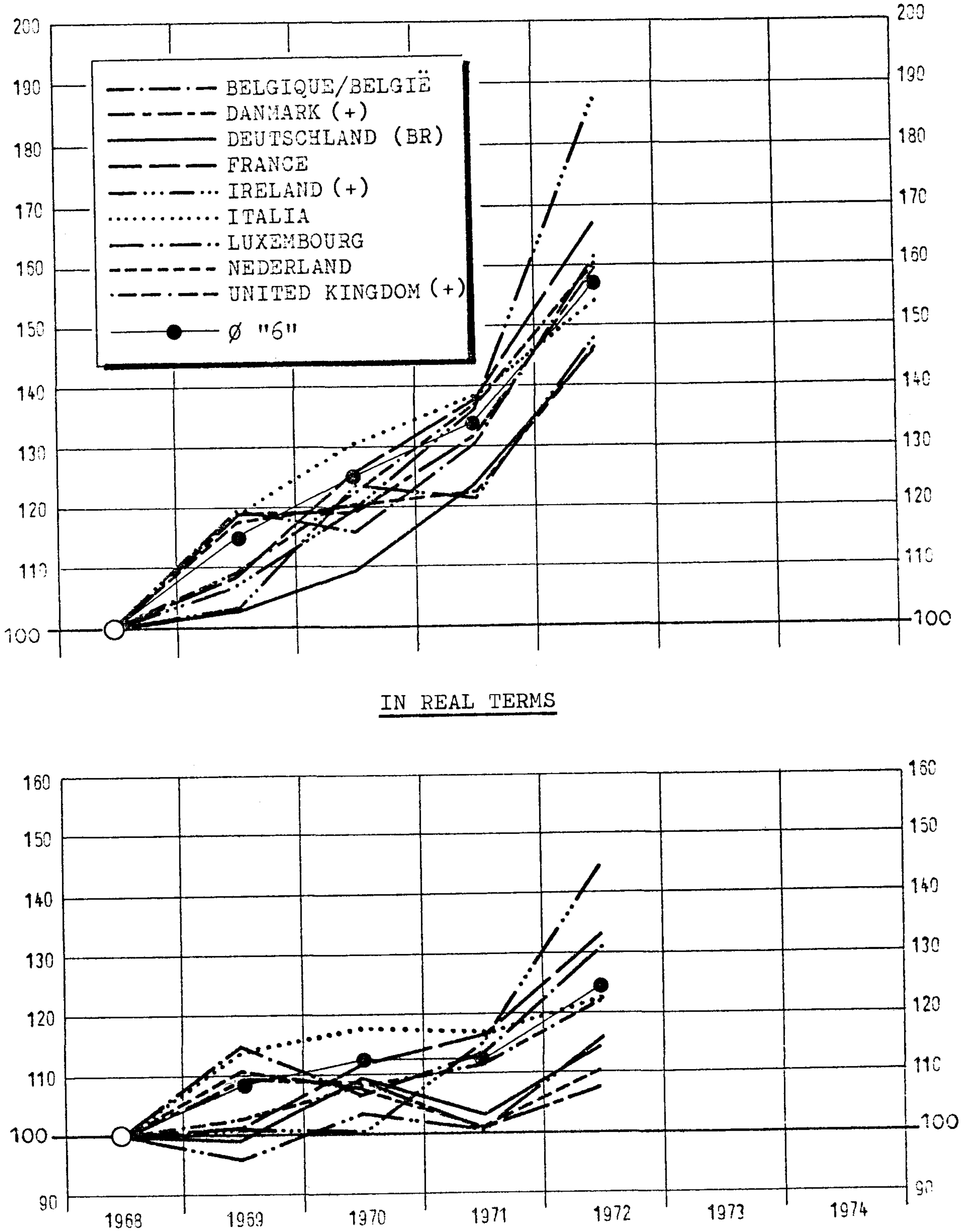
(1) See tables II/D.1 to II/D 3.10 of part III

(2) Sample not representative of the whole of agriculture.

(3) This exceptional growth rate is due principally to the rapid development of beef production in this country.

DEVELOPMENT OF THE NET VALUE ADDED AT FACTOR COSTS PER AGRICULTURAL LABOUR UNIT (ALU)

IN NOMINAL TERMS



(+) per person active in agriculture

CE-DG VI-G/2-7210.134

Graph 1/11.1

Income on labour made a considerable bound forward in pig farms (+ 2 700 UA/ALU) and in farms orientated to general agriculture (+ 1 300 UA/ALU). Farms in the latter category with an average area of 50 ha obtained an income on labour of more than 5 000 UA/ALU). On the other hand, certain small-sized farms with permanent crops (in particular,olive oil producers) saw their level of earned income stagnate or decline and reach very low levels.

Farms orientated principally towards beef and veal production with an average area of some 20 hectares achieved an income of about 2 500 UA/ALU in "1971" - those orientated towards milk benefited that year from an increase in income of 600 UA/ALU for farms of 5 to 10 ha to 2 000 UA/ALU for farms of more than 50 ha. In the case of farms orientated towards beef and veal production the increase of 600 UA/ALU was reached only by farms of more than 50 hectares. Farms with production orientated towards both crops and cattle (polyculture-livestock), farms,whose average size is slightly higher than those of the cattle farms obtained incomes varying between 2 000 and 2 500 UA/ALU.

The information available for the year "1972" (marketing year 1972/73) again show considerable increases in agricultural incomes, including those in the milk and beef and veal sectors.

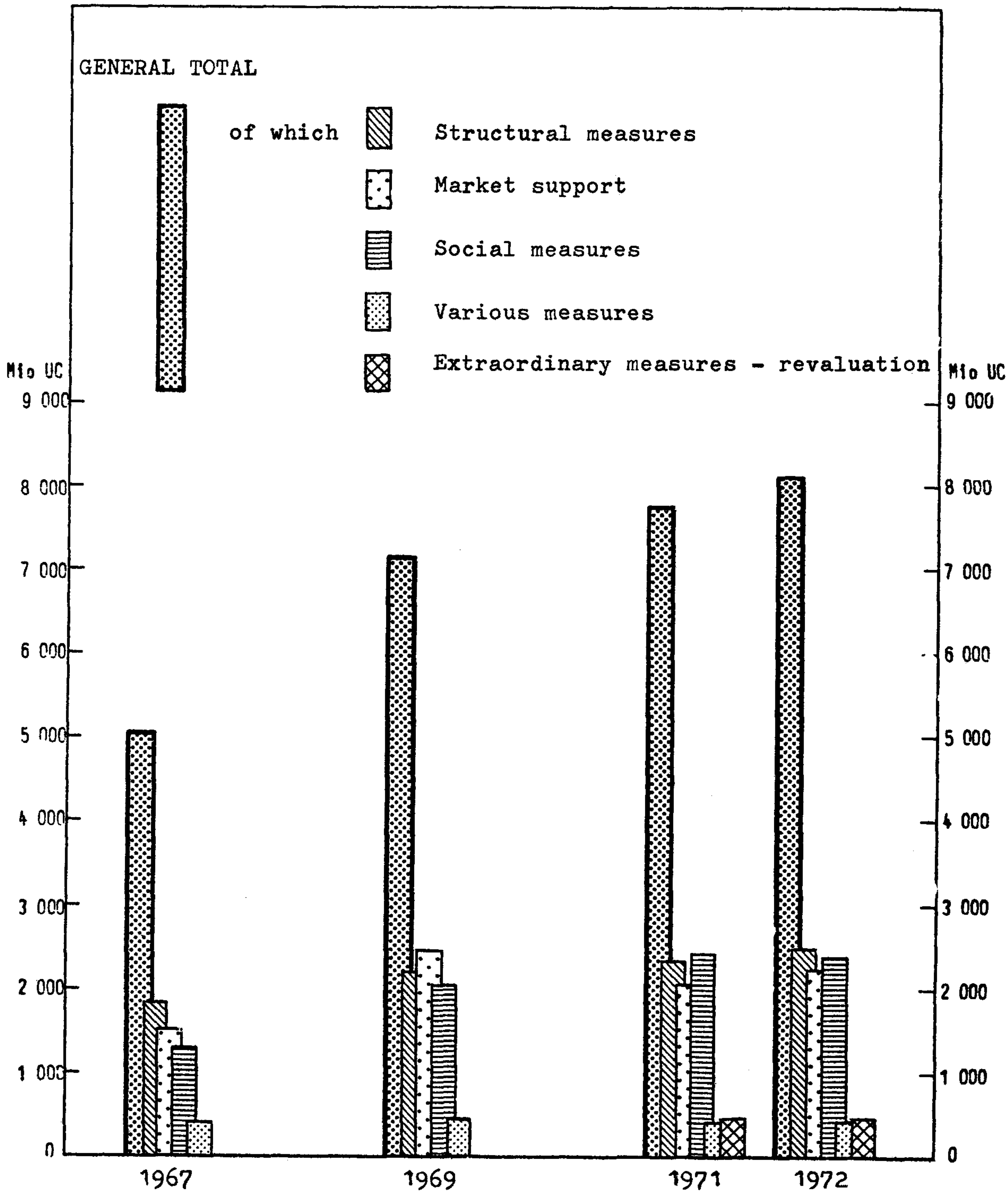
12. <u>FINANCIAL ASPECTS</u>

For 1972 public expenditure in favour of the agricultural sector is put at 8.1 milliard UA against 7.5 milliard in 1971. Sums allocated to structural reached 2.5 milliard and those for social measures 2.4 milliard UA.

Gross expenditure from the Guarantee section of FEOGA amounted in 1972 to abou 2.33 milliard UA. Those in 1973 are estimated at 3.8 milliard UA and those for 1974 at 3.5 milliard UA. This expenditure represents about 0.4% of the gross national product, and 6.2 % of the final production of agriculture of the enlarged Community.

PUBLIC EXPENDITURE FOR THE IMPLEMENTATION OF NATIONAL AND COMMUNITY AGRICULTURAL POLICIES IN THE COMMUNITY OF SIX

in m UA (current prices)



CE-DG VI-G/2-7310.135

Graph 1/12.1

Three sectors share about 80% of expenditure: the dairy sector (25 to 30% according to year), that of cereals (20 to 40%) and that of fats (10 to 14%).

Credits by the Guidance section of FEOGA were raised in 1973 to 325 million UA of which 170 million went to finance projects for the improvement of the structure of agriculture. From 1964 to 1971 more than 3 milliard UA of investments benefited from a contribution from the Fund.

The Common agricultural policy, while it generates expenditure, is equally a source of budgetary receipts; in 1972 the collection of agricultural levies and contributions reached 800 million UA; this amount is estimated at 550 million UA in 1973 and at 490 million UA in 1974.

The fall in levies observed is due above all to the rise in the world prices of cereals which began during the first half of 1973, but also to monetary events and, in certain sectors, to the enlargement of the Community.

13. Short term outlook

On the basis of the analysis made in the present report the Commission has tried to estimate the global development of production, prices, employment and agricultural income by labour unit in 1973. In the absence of sufficient data, its estimates have had, to its deepest regret, to be limited to the original Community; the trends noted very probably reflect those of the enlarged Community.

The tendencies already noted regarding the production of different products in 1973 (2) would indicate an increase in the volume of agricultural production of about 3.5%. Taking into account the marked upward tendency recorded for the majority of prices on agricultural markets, which can be put between 6 and 11% on average, the increase in final production of agriculture in 1973 in relation to 1972 can be estimated of the order of 9 to 15%. On the other hand, costs of production showed similarly sharp inclines. In fact, the increase in the prices of means of production which has already been noted during the first six months of the current year would indicate a rise in these prices for the whole year of 10%. To this must be added the increasing tendency of intermediate consumption, which, in view of past developments and for the original Community, could be of the order of 5% per annum.

Regarding the development of agricultural employment it is believed that the fall in the number of those active in agriculture could slow down in 1973 due to the marked rise in agricultural incomes which began in 1972. While the rate of decrease was 6.3 % in 1972 it seems probably that that in 1973 will come closer to the rate for the year 1971, namely 3 %.

Taking into account the fact that the rise in prices for means of agricultural production relates to only some 40% of final production, the combined result of the trends given above should be an average increase in agricultural income per ALU in 1973 of the same size as that noted in 1972.

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(1) See table 1/13.1 of part III.

(2) For example, cereals and rice + 2.2 (SOEC estimate, sugar beet + 2 (SOEC), milk + 6.2% (Commission's estimate)

(3) For example, according to table II.D/3.9 of part III; cereals excluding rice + 10.4%, milk + 7.6%, calves + 26%, other cattle + 19%.