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EC cereals market under new influences

Shortage after surplus

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INTRODUCTION

The common organization of the market in cereals, which served as a model for the organization of the other agricultural markets, celebrated its twelfth birthday in August 1974. Granted, this was not a very special occasion; nevertheless, starting from the fact that it does not count as one of the problem children of the common agricultural policy, its development up to now should be outlined here, in view of the manifold, often rapidly changing events which were decisive for this sector. In the second part the market organization instruments used for each situation are discussed in detail.

I. 1962/67: a change of direction

The first part of this account can be very brief. Regulation No 19 on the progressive establishment of the common organization of the market in cereals superseded the national market organizations in the Community of Six by introducing Community arrangements for foreign trade and domestic markets. All national protective measures, and in particular the quantitative restrictions on imports, were abolished. Since there were still disparities in prices between the Member States, intra-Community levies had to be applied, and even the uniform levy vis-à-vis non-member countries was a thing of the future. It was not possible gradually to approximate the target prices of the individual Member States, as had originally been planned, so it was decided to go straight over to a common cereals price with effect from 1 July 1967. Admittedly, very difficult negotiations were required to reach this decision, which was taken on 15 December 1964. The Council of Ministers finally agreed to an average price level as proposed by the Commission. It based its decision on the fact that such a price level would reduce farm proceeds in those Member States whose prices had hitherto been higher – for this reason, equalization payments to Germany, Italy and Luxembourg were necessary – but would increase farm incomes in those Member States where prices had hitherto been lower. The creation of an average price level was designed to avoid an expansion of production and the resulting formation of surpluses which, according to the line of thought followed at the time in the light of the world market situation, could be cleared, if at all, only at great expense and furthermore would have repercussions on commercial policy if in due course the world market price were to be considerably lower than the Community price. It was considered important that the agricultural (price) policy of the Community should leave import possibilities open for non-member countries. The Council of Ministers took a far-reaching decision which did not evoke any noteworthy public reaction at the time but which after some years was to give rise to heated discussion, i.e. the fixing of the cereals prices in units of account (u.a.). This was intended to ensure that price decisions, once taken, would remain unaffected by any currency fluctuations in the individual Member States.

II. 1967/68: no particular surprises

1. Expansion of intra-Community trade

In the 1967/68 marketing year, intra-Community trade increased by some 14% as compared with the previous year. The effect of the disappearance of intra-Community frontiers was most noticeable in the trade in wheat, which showed an increase of 113%. This figure must be seen, however, in the light of the fact that in the 1966/67 marketing year imports of wheat from Member States had fallen by 33%, caused to a large extent by a drop in the French harvest of 3.5 million metric tons. The main consumers of EEC wheat in 1967/68 were Germany and the Netherlands, which together accounted for 74% of total imports. Germany imported 581 460 metric tons, which was more than twice the amount imported in the previous year, and the Netherlands imported 291 031 metric tons, which was more than five times as much as in the previous year. Germany was also the main importer of barley, with 809 943 metric tons, giving an increase of 11% over 1966/67. The percentage increase in Belgium/Luxembourg was even higher (39%), with total imports of 445 121 metric tons. On the other hand, maize imports dropped in all the Member States with the exception of the Benelux countries. The biggest drop of all was in Germany, by 83% (835 590 metric tons). This concerned mainly the maize from the area south of the Loire, which was not cheap for German consumers.

2. Increased intervention

In 1967/68, intervention (State buying to maintain intervention price levels) increased for all cereals except durum wheat. The main reason for this was the exceptionally good harvest in 1967, especially of wheat in Germany. The changes in the system of regional prices in south Germany, together with the lack of export possibilities, probably contributed to the rise in quantities of intervention wheat in that area.

Since intervention measures could no longer be taken at national level, intervention agencies started to buy in supplies (intervention A) in France in 1967/68, and the extent of special intervention measures (intervention B) declined. Furthermore, in France the late decision to grant no carry-over payment for barley and the difficulties arising at the end of the marketing year affected the interventions A and B for this type of cereal. A comparison of production with domestic consumption revealed that, for 1967/68, taking imports into account, there was a surplus of more than 6 million metric tons of wheat, of which 4.8 million metric tons including flour was exported. Most of the rest had to be taken over by the intervention agencies. In the case of barley there was an overall surplus of approximately 3 million metric tons, of which some 1.4 million metric tons were exported. Despite a considerable increase in domestic consumption, the transitional stocks, particularly the intervention stocks, increased in comparison with the previous year.

3. Higher exports, lower imports

Total exports of cereals (not counting the processed products) in 1967/68 increased by 24% in comparison with the previous year. This increase was due mainly to the considerable rise in wheat exports (44%) and barley exports (55%). France contributed most to this development; it accounted for 89% of the exports, thereby maintaining its position as the leading exporting country in the Community. Declines in exports from Germany and the Benelux countries were caused by the discontinuance of concessions in the case of re-exportation of imported cereals which had been allowed before the common organization of the market came into effect. The increase in exports from the Netherlands was due to its being geographically favourably situated for exporting Community cereals. Furthermore, the Community once again exported large quantities of wheat in the form of flour.

Despite the bigger harvest and the increase in intra-Community trade, imports were almost at the same level as the previous year, if maize and sorghum are not taken into account. In 1967/68, as in the previous marketing years, Italy was the leading cereals-importing country in the Community, followed by Germany, which continued to import the most wheat.

III. Surplus formation and counter measures

1. Monetary problems cast first shadows

The 1968/69 marketing year was characterized by an especially difficult market situation. The excellent harvest of 1968 yielded a supply for which there was no corresponding demand, particularly on the domestic market. Moreover, monetary problems continued to worsen in the last few months of the marketing year. The high forward discounts for the French franc resulted in French cereals being available on the market in quantities which no longer corresponded to the actual market requirements; this was particularly so in the northern countries of the Community. Since these cereals were on offer at prices below the intervention price, domestic production had to be taken over by the intervention agencies. It became more and more the practice to obtain cereals for the sole purpose of selling them under advantageous conditions to the German, Dutch and Belgian intervention agencies. This development caused the Commission in May 1969 to limit intervention in Germany, Belgium and the Netherlands on cereals harvested in these Member States. In this way it was possible to prevent speculative movement of commodities.

2. Intervention stocks at record levels

The considerable increase in intervention in the 1968/69 marketing year was also influenced by the fact that the derived intervention prices in some German production regions hindered the outflow of cereals to the consumer regions in the Rhine and the Ruhr. This opened up additional sales possibilities for goods from those regions in the north of France which were favourably situated as regards transport. In 1968/69 a total of approximately 5 million metric tons of cereals had to be taken over by the intervention agencies; that was 180% or 3.15 million metric tons more than in the previous marketing year. There was no corresponding outflow of intervention cereals, so that on 31 July 1969 the stocks in hand at the intervention agencies had reached a record level of 6.1 million metric tons. The situation for common wheat was particularly critical: it accounted for 4.4 of those 6.1 million metric tons.

3. Expensive phasing-down of surpluses

The beginning of the 1969/70 marketing year must be seen in the light of the unfavourable development of the previous year. Transitional stocks which were far in excess of the normal stocks exerted pressure on the market and caused serious storage problems in Germany and in certain parts of Italy. This situation was made even more difficult in Germany because of the persistent rumours regarding the impending revaluation of the D-Mark. Since holders of stocks of cereals considered intervention as the only possible way of avoiding financial losses, it seemed likely that there would be an increase in intervention stocks resulting in a serious shortage of storage space available to the German intervention agencies. And, since constant intervention is a principle of the common organization of the market in cereals, effective but expensive measures had to be taken in order to prevent serious difficulties from arising. These included promoting the denaturing of common wheat by raising the denaturing premium, thereby rechannelling it into the fodder sector; different storage arrangements for intervention cereals; special intervention measures for Germany which made it possible to sell the quantities delivered from France under the terms of the old contracts without creating difficulties for domestic production while at the same time stimulating the marketing of Germany cereals from December 1969; encouragement of exports to third countries. Finally, the devaluation of the French franc removed the uncertainty that had hitherto existed. The consequent increase in French market organization prices was not completed, however, until the beginning of the 1971/72 marketing year; in the meantime, compensatory payments in respect of foreign trade were either paid or imposed. Correspondingly, in line with the revaluation of the D-Mark in 1969, the market organization prices expressed in D-Marks were lowered on 1 January 1970, this measure being accompanied by the granting of compensatory payments to German agriculture. At the end of the 1969/70 marketing year, intervention stocks were considerably lower: 775 000 metric tons of common wheat and 209 000 metric tons of barley. Rye still presented problems, however; the German intervention agencies' stocks rose to 810 000 metric tons by 31 July 1970.

4. No definitive solution

The 1970/71 marketing year began with normal cereals stocks after the stocks of the previous year had been substantially reduced as a result of export and denaturing of common wheat. The smaller harvest and the lower carry-over stocks decreased the cereals stocks for the 1970/71 marketing year by approximately 6-7 million metric tons compared with the stocks of 1969/70. This had a stabilizing effect on market development. At the same time, with sales more buoyant and operators carrying rather higher stocks, the intervention quantities bought in contracted sharply.
The consumption of cereals in the Community rose to some 77.8 million metric tons in 1970/71. The reason for this was the increase in the consumption of cereals as fodder, caused by the increase in production of pigs for slaughter as well as of eggs and poultrymeat. The market continued to show a preference for maize as a fodder cereal, as is evidenced by a consumption of 16.5 million metric tons. Approximately 8 million metric tons of wheat was used for feed, about half of which was in denatured form. But only from time to time were we able to forget the surplus problem. The cereals harvest of 1971 brought it to mind again. There was a record harvest of some 77 million metric tons, which exceeded the previous record harvest of 1969 by around 9%. The greatest quantitative increase was in the production of common wheat. In the 1971/72 marketing year, barley benefited from a considerable demand from certain non-member countries, and this had an unexpected stabilizing effect on the barley market. Besides maize the surplus common wheat also benefited from this development, so that denaturing reached more or less the same level as in the previous year. The high harvest again resulted in large intervention purchases. In the case of barley, there was an exceptionally great quantity of winter barley, for which the required minimum quality still constituted an excessively high intervention inducement. Furthermore, in the case of this cereal, too, the intervention possibility from the first month of the marketing year resulted in a lack of active effort to keep stocks and make commercial sales.

Almost 100% of the intervention winter barley had to be taken over in the first two months of the marketing year. The previously noted high degree of intervention for rye continued. The main reasons for the persisting difficulties in the case of rye were the unfavourable price ratio to fodder grain, which still exists, and the fixing of different intervention prices in different regions, a practice which is in conflict with the market rules and has since ceased.

IV. Reversal to shortage

1. Effect of USSR purchases

The 1972/73 marketing year saw the beginning of a development of which very little account had been taken when the details of the organization of the market in cereals were worked out. It started with the purchase by the USSR of vast quantities of wheat and fodder cereals. Within about six months this country bought nearly 30 million metric tons from the USA and Canada, Australia, Sweden, the Community and even Rumania. Purchases from the USA, amounted to 18 million metric tons, which corresponds to 40% of cereal exports from that country in a normal year. This import demand from the Soviet Union was accompanied by an equally high demand from other import countries, a bad harvest in Australia, and the lack of anchovy shoals in Peruvian waters. The attempt to make up for the shortfall of Peruvian fishmeal production by soyabean protein increased the price of soya beans and with it the price of wheat and fodder. The effects of this were particularly noticeable in those Member States which depend to a large extent on imports and to which the accession compensatory amount in accordance with the rules of the Accession Treaty cannot be applied where the world market price exceeds that of the Community. This resulted in market prices which were considerably higher than the intervention price, especially in the United Kingdom and Ireland.

2. Regional supply shortages

Although in 1972 the wheat harvest of 41.1 million metric tons in the nine countries which now constitute the Community exceeded the 40.1 million metric tons of the previous year, and although 1973 showed no change as compared with 1972, the beginning of the 1973/74 marketing year brought regional supply difficulties for Italy. As a result unprecedented quantities of French wheat were sent to Italy, where the wheat harvest had fallen below normal. French wheat deliveries in August 1973 were 167 700 metric tons as against only 21 000 metric tons in the corresponding month of the previous year. Furthermore 200 000 metric tons of wheat from the stocks of German, French and Belgian intervention agencies were made available for the purpose of supplying the Italian population with foodstuffs. The Italian intervention agencies sold 107 000 metric tons of common wheat from their own stocks in order to cover the most urgent needs of southern Italy. Finally, a ban was placed on exports of durum wheat from the Community - which incidentally is still in force - and also on exports of flour, groats and meal made from Italian wheat. During this period the insufficient graduation of intervention prices within the Community manifested itself disadvantageously in that it was not possible to channel the cereals automatically to the areas where they were needed.

3. Community nevertheless conscious of responsibility towards non-member countries

The Community is also aware of its responsibility towards its traditional customer countries and particularly of its obligations to the developing countries. Community food aid in the form of cereals now comes to an annual total of 1.287 million metric tons, whereas the Community of Six used to provide 1.035 million metric tons. Maintenance of the first figure at that level requires a 25% increase in expenditure. In order to make a larger quantity of common wheat available for export and thereby supplement the supply on the world market, the Commission decided to drastically reduce the inducement to convert common wheat into fodder by granting denaturing premiums with effect from 1 November 1973; since 10 February 1974 no premiums of this kind have been granted. Theoretically speaking, however, a premium can still be granted if the necessary conditions are present, which in the short term is unlikely to be the case. The fact of the matter is that, except for a brief period, the world market price has been clearly above the Community price ever since the autumn of 1973, a situation in direct contrast with that prevailing when the common organization of the market in cereals came into effect. In line with this development, the attitude of the USA has also changed. The accusation that the Community was pursuing an aggressive export policy which interfered with sales by traditional cereals-exporting countries, with the object of providing artificial protection for uncompetitive Community agriculture, has receded into the background. At the time the Community was able to defend itself by pointing to the increase in US exports, especially soya, to Europe and also by pointing out that a comparison of support payments in USA agriculture with those in Community agriculture showed an advantage for the USA. At present the Community is urgently needed as a source of supply on the world market in order to enable a policy of equalization in international context to be applied.

(a) Rise in exports

Investigation of the Community export trade in cereals shows a clear upward trend. Admittedly, at the time this report was written a complete survey was available only for the 1972/73 marketing year, in which year the shortage on the world market had not yet manifested itself so clearly. In the case of wheat exports from the Community we are mainly concerned with common wheat, whereas the imports consist to a large extent of durum wheat for the manufacture of groats, meal and paste products as well as quality wheat, i.e. types with a high baking value for mixing with Community wheat. It must be stated however that in recent years the cultivation of wheat with high baking qualities has been greatly increased in the Community, particularly in France. This is reflected in the decline in Community imports, which is dealt with in greater detail below. Besides common wheat, barley plays an important part in exports. According to the Statistical Office of the European Communities, the wheat exports including by-products of the original Community of Six were 14.17 million metric tons in 1972/73 as compared with 10.28 million metric tons in 1971/72, the greater part of which (8.81 million metric tons and 6.30 million metric tons, respectively) came from France. This, therefore, constituted an increase of 37.8%. A comparison between the average for "1971/72" determined over a number of years and the average for "1967/68" shows a yearly increase of 6.1% in the rate of growth. If the United Kingdom, Denmark and Ireland are counted as Member States for this period - the Community market organization came into effect in these countries on 1 February 1973 - exports decline to 12.04 million metric tons. In addition to this, the United Kingdom exported 167 000 metric tons. In the year under review the Community of Six exported 7.60 million metric tons of wheat and 4.34 million metric tons of barley, as opposed to 4.82 million metric tons of wheat and 4.27 million metric tons of barley in 1971/72; this constitutes an increase of 57.9% for wheat and 1.6% for barley. A comparison between "1971/72" and "1967/68" shows an increase of 1.5% for wheat and 21.3% for barley on the basis of the Community of Nine. On the same basis, exports to non-member countries declined by 7.52 million metric tons for wheat and by 4.08 million metric tons for barley. In addition, the United Kingdom exported 62 000 metric tons of common wheat and 88 000 metric tons of barley.

From July 1973 up to and including June 1974, the Community of Nine exported a total of 5.33 million metric tons of wheat including flour expressed as cereal value, the deliveries to Britain being in addition to the intra-Community trade.

(b) Drop in imports

The Community of Six imported a total of 16.73 million metric tons of cereals in 1972/73 as against 14.35 million metric tons in the previous year, giving an increase of 16.6%; but the percentage was -30% in 1971/72 as against 1970/71 and -1.7% in "1971/72" as against "1967/68". Calculated in terms of the Community of Nine - counting imports from the United Kingdom and Denmark into the Community of Six as Community deliveries - the import total goes down to 16.39 million metric tons. In addition to this, the United Kingdom imported 5.9 million metric tons of cereals in 1972/73, giving a total of over 22 million metric tons. Maize accounted for the major part (+ 23%) of the imports by the Community of Six in 1972/73, with 9.86 million metric tons as opposed to 8.02 million metric tons in 1971/72. A comparison between 1971/72 and 1970/71 shows a decline, however, of 18.4% and between "1971/72" and "1967/68" a decline of 3.3%. The high maize imports can be attributed to the increased output of animal products (pigmeat, eggs and poultry). Furthermore, where the world market price was below Community level, maize was the most favourably priced fodder cereal, particularly at the expense of barley. In addition to the maize imports by the Community of Six in 1972/73, there were United Kingdom imports to the amount of 2.7 million metric tons. Italy was the leading importer of maize from non-member countries, with 4.7 million metric tons. The total wheat quantities of 3.53 million metric tons constituted an important item of the cereals import balance for the Community of Six in 1972/73. There was an increase of 10% compared with 1971/72; a decrease, however, of 31% for 1971/72 compared with 1970/71, and a decrease of 1.8% for "1971/72" compared with "1967/68". Furthermore, in 1972/73 the United Kingdom imported 2.8 million metric tons of wheat, thus heading the list, followed by Germany with 1.0 million metric tons, Italy with 0.97 million metric tons, and the Netherlands with 0.88 million metric tons. It must also be mentioned that, in the year under review, the Community of Six imported 2.3 million metric tons of barley as opposed to 2.4 million metric tons the year before, a decrease of 3.3%. In terms of the Community of Nine the quantity declines to 2.05 million metric tons. The United Kingdom, one of the important barley-producing countries, imported only 389 000 metric tons from non-member countries, whereas Italy with 1.15 million metric tons tops the list, followed by Germany with 1.06 million metric tons. In the period from July 1973 to June 1974 the Community of Nine imported a total of some 5 million metric tons of wheat including flour expressed as cereal value.

4. Rise in intra-Community trade; frontier compensation problematic

Intra-Community cereals trade continued to show an upward trend, corresponding to the given Community preference, up to and including the 1973/74 marketing year; official figures are available, however, only for the 1972/73 marketing year. Business circles complain of the uncertainty which, because of frontier compensation, exists in the case of downwards-floating currencies and makes dealings in futures extremely risky. Consequently, repeated demands were made for advance fixing of frontier compensatory amounts. Matters were not helped by the fact that France, one of the most important cereals producers in the Community, decided to float the franc in isolation. Owing to events in the monetary field, the common agricultural market has now split into seven different sections viz. the United Kingdom, Ireland, the Benelux countries, France, Italy, Germany and Denmark, the last-named country being the only one which does not make use of frontier compensation. Although frontier compensation is the only means of implementing market organization in the light of the varying currencies it is difficult to maintain, despite the simplification undertaken on 4 June whereby each country applies the frontier compensation which corresponds to its currency deviation and the joint floaters' amounts do not change during the entire marketing year. Since economic conditions differ greatly among the individual Member States - take the rate of inflation alone as an example - it is hard to calculate compensatory amounts which are correct in every respect. The Commission advocates that, in the interest of the common agricultural market, the frontier compensatory amounts shall be abolished by 31 December 1977.

In 1972/73 the Community of Six transacted intra-Community trade in cereals, including by-products, to the amount of 11 million metric tons, which equalled the level of the previous year. In 1970/71, an increase in the growth rate of 35.1% was recorded with reference to the previous year; "1971/72" compared with "1967/68" showed an increase of 18.3%. France was the leading supplier of cereals in the Community with a total of 8.26 million metric tons, i.e., 75% of total supplies. France showed an increase of 52.4% in 1971/72 over 1970/71. The most important Community consumers of French cereals are Belgium-Luxembourg, Germany, the Netherlands and the United Kingdom which imported close on 3 million metric tons in 1972/73.

Italian cereal imports from the Community, on the other hand, remained at a very low level. This must be seen in the light of the special arrangement allowed for Italy in respect of imports from non-member countries; this arrangement is gradually coming to an end. The most important items in intra-Community cereals trade are wheat (1972/73: 4.7 million metric tons), maize (3.9 million metric tons) and barley (2 million metric tons).

5. 1973/74 still considerable intervention - less wheat converted for use as fodder

Intervention in respect of common wheat in the six original Member States still concerned the substantial amount of 1.27 million metric tons in the 1973/74 marketing year. Germany accounted for approximately 75% (760 000 metric tons) of this, but Belgium's share was also noteworthy, with 237 000 metric tons. These figures may be due to the absence of carry-over payments for stocks in hand at the end of the marketing year. For the first time since the common organization of the market came into existence, the Commission did not deem such payment necessary, because of the high world market prices. The Council agreed with this attitude. Monetary events may also have had an effect. Since, within the framework of frontier compensation, the effect of the devaluation of the French franc was not taken into account in the case of French cereal deliveries to fellow Member States, French cereals were underpriced on the German and Benelux markets. The under-pricing of the French cereals was partly responsible for cereals on the German and Benelux markets being bought in by intervention agencies or for French cereals themselves being bought in. Although wheat intervention increased by 193.5% in comparison with 1972/73, there was a decrease of 9.7% in comparison with "1968/69" (1968 = average 1967, 1968 and 1969; 1969 = average 1968, 1969 and 1970). In Germany the intervention agencies bought in 139 000 metric tons of rye, which was 58.3% less than in the previous year, and 342 000 metric tons of barley, likewise practically only in Germany, which was 30.5% more than in the previous year. According to the cereals market organization, the guarantee given to the producer in the form of intervention possibilities is only an emergency measure. However, in the present situation of short supplies the intervention stocks have often proved very useful in enabling food aid obligations to be met.

In 1973/74 in the Community of Nine, only 4.43 million metric tons of wheat were consumed by animals as against 7.78 million metric tons in the previous year. As has already been mentioned, on 10 February 1974 the Commission ceased to encourage the conversion of cereals for fodder in view of the crisis situation in some developing countries.

6. Differential market price development

The development of market prices for common wheat in the individual Member States differed greatly during the 1973/74 marketing year. In Italy and the United Kingdom market prices were far above the threshold price; in France, Germany and the Benelux countries they were mostly below it. The price differentials fixed in the individual months of the marketing year fluctuated strongly, and at the beginning of 1974 were at maximum variance to the extent of 30 u.a. per metric ton between the United Kingdom on the one hand and Germany and Belgium on the other, and to the extent of 55 u.a. per metric ton between Italy on the one hand and Germany and Belgium on the other. But such a comparison of prices in units of account between Member States with a weak currency and Member States with a strong currency only presents a distorted picture of reality, since in accordance with Article 4(1) of Regulation EEC No 974/71 of the Council the currency compensatory amount was not applied in Italy, France, the United Kingdom and Ireland. For a considerable part of the 1973/74 marketing year no import levies were charged for common wheat from non-member countries. Consequently, prices in Member States dependent on imports, such as the United Kingdom and Italy, were influenced by the situation prevailing on the world market, where prices were above the threshold price. Furthermore, the non-application of currency compensatory amounts in these countries (import subsidy) caused a further price rise. Prices in Germany, on the other hand, were below the threshold price. This can be attributed to the more favourable supply situation for common wheat in that country and also to the deliveries of French common wheat, which were especially cheap because the French currency compensatory amount (export levy) was not applied. In France prices were at a relatively high level, but were nevertheless below the threshold price for the greater part of the marketing year, despite an increase in deliveries, particularly to Italy (+ 395%) and to Germany (+ 21%). In the case of Germany, these deliveries were facilitated by the fact that the currency compensatory amount was not applied, whereas in the case of Italy, where no currency compensatory amount was applied either (import subsidy), the effects of the monetary situation were not so far-reaching.

Italy bought large quantities from France in order to avoid having to pay the very high world market price. It must be mentioned, however, that the market prices of cereals in Italy, in contrast to the situation in the other Member States, were always closer to the target price than to the intervention price. Since this is the case not only with fodder grain (dependent to a large extent on imports) but also with wheat, the form of marketing could also play a role here.

V. Balance altered through enlargement

1. United Kingdom leading import country

The entry of the United Kingdom meant that a major importer of cereals was added to the Community in 1973. This had an effect on the Community's state of supply in relation to demand. The net import requirements of the Community of Six, which had dropped to below 10 million metric tons, could, under normal conditions, reach approximately 12 million metric tons for the Community of Nine: maize, quality wheat for mixing purposes, and durum wheat for the manufacture of paste products. The British import requirement of wheat was in the neighbourhood of 3.5 million metric tons, of which approximately 1 million metric tons in this marketing year was covered by France and the rest by non-member countries. In addition to this there was an import requirement of some 3 million metric tons of maize, one-sixth of which was supplied by France.

2. Tendency, however, to raise own production

There seems to be every reason to believe that the United Kingdom, whose agricultural structure is good, will become less dependent on imports in the future. At present, cereals constitute only about 30% of British agricultural production. Since the prices in this field have developed favourably in the past two years, many farmers succeeded in making up for the lower prices for animal products; it must not be forgotten, however, that production costs for cereals have increased very sharply. Producers now show a tendency to use more green and dry fodder and to sell as much cereals as possible. Before the adoption of the Community market organizations in the United Kingdom some 50% of the wheat harvest was converted to fodder because the difference in price between wheat and barley was only slight.

The area under wheat, which in 1974 was approximately 1.25 million hectares, has grown by more than 120 000 hectares since 1972. Most striking, however, is the increase in yield per hectare. In 1972 it was 42.4 quintals; but in 1974 it is estimated at 48 quintals, with peaks of over 100 quintals. More productive wheat types are responsible for this. The development seems to be continuing, as is also the case in the other Member States. It is also possible that, if cereal prices continue to be profitable, not only will the trend towards reduction of forage crop growing continue but there will also be a reduction in permanent grassland corresponding to the Dutch example with its relatively high percentage of far more than 50% of cereals in mixed fodder. A similar price situation will probably see a reversion to less expensive substitutes such as soya, tapioca, waste products of the starch industry, carob, peas, etc., which would be important for cereal consumption in the United Kingdom and therefore also for imports.

3. Special marketing features

One of the special characteristics of cereal marketing in the United Kingdom is that about 90% of the total harvest is stored on the farms. Almost all cereal-growing holdings are equipped with a silo and are also obliged to have a drying plant because the moisture content in the crop is often more than 18% or 20%. The State encourages the creation and improvement of storage installations. These installations are of widely varying types, ranging from impermeable grain silos which contain barley with a moisture content of 18% that is sealed off from air and is intended for farm animals to sophisticated installations equipped with delivery pits, conveyers, weighing machines, continuous dryers, etc. The cereals are stored on the farm and sold regularly from September to June. Thus the producer takes over part of the tasks which, in the other member countries, are generally taken care of by the wholesale trade. The trader concentrates on transport of the cereals to the storehouse of the mill or of the feedingstuffs factory, but he himself is often the manufacturer or distributor of feedingstuffs and sells seed, manure, herbicides and pesticides while at the same time advising on these matters. At present there is a very strong concentration of activities within the sector. This has been achieved to a very high degree in the feedingstuffs and milling industries.

4. Intensification of malting barley and malt exports?

It must be mentioned here that the climatic conditions in the United Kingdom are favourable to the production of malting barley. There is therefore every likelihood that it will consolidate its position as an exporter of malting barley and malt in the future. At the moment it is exporting to fellow EEC Member States but also to distant non-member countries such as Nigeria and Japan. Total British barley production, which accounts for more than half of the cereals output, will probably increase in the coming years more slowly than wheat production, although there could be an increase in the barley surplus in the long term.

5. Denmark largely self-sufficient

Denmark entered the Community as a country which is self-supporting to a large extent in respect of cereals. Maize is the only cereal for which there is a clear import requirement, i.e. for the current marketing year 225 000 metric tons, of which 150 000 metric tons are likely to come from non-member countries and 75 000 metric tons from fellow Member States. With Belgium and the Netherlands, Denmark is after all one of the most important Community countries as regards output of animal products. Despite the fact that the area under cultivation was slightly reduced, the Danish cereals harvest showed a small increase thanks to the excellent weather conditions which prevailed this year. Denmark, with Germany and France, counts as one of the EEC countries where rye is an important product.

6. Quality of prime importance for malting barley

Examination of the statistics reveals that in 1974 in Denmark barley alone accounted for 1.5 million hectares of the estimated 1.8 million hectares under cereals. This is all the more noteworthy in view of the fact that this figure refers to summer barley only, since the cultivation of winter barley is forbidden in Denmark because of the prevalence of mildew. That is why in Denmark there is no question of moving from summer barley to winter barley in order to reduce production costs, as is already done in France, Germany and Belgium. In Denmark vital importance is attached to quality in the case of barley. This is evidenced by the fact that each year it covers more than two-thirds of its seed requirements with certified seed.

In the opinion of Danish producers, the premiums paid up to now for the varietally pure malting barleys offer no incentive for accepting smaller yields or extra costs for sorting and separating the individual varieties. Accordingly, further developments could depend on the breeding of new varieties with top yields and good malting properties. In the present marketing year it should be possible to export about 150 000 metric tons of Danish barley to non-member countries and about 275 000 tons to other Community Member States.

VI. Organization of cereals market stabilizes prices

1. Security of supply

The US Department of Agriculture estimates the world cereals harvest for 1974/75 at 916 million metric tons as against a record harvest of 970.2 million metric tons the previous year. Owing to this smaller harvest, the world market price level is at present considerably above that of the Community. It is not possible to say how long this situation will last. In the USA, a series of measures are being taken in order to boost home production. Since the shortage concerns fodder grain in particular, the Commission must be prepared to accept the fact that maize imports, which in 1973/74 were approximately 13 million metric tons, cannot amount to more than 8.8 metric tons in the present marketing year, particularly since the USA wishes, by way of voluntary control measures, to arrive at a fair distribution of the scarce supplies among those concerned. The resulting gap, which can be filled only by home-grown cereals, wheat in particular, requires, besides a sparing use of cereals in the fodder sector, a careful export policy on the part of the Community focused on those countries with the greatest supply shortages. The Community buyer has to reckon with the high world market level only for imported goods, whereas for Community production the much lower Community level prevails. This security of supply as a result of market organization has also been acknowledged by the Community's Economic and Social Committee in its "Balance sheet of the common agricultural policy", since it goes hand in hand with price stabilization.

2. Record Community harvest brings relief

The fact that the Community cereals harvest reached new record heights in 1974 was fortunate in view of the swing to scarcity on the market. The latest estimated figures issued by the Statistical Office of the European Communities show that the total cereals harvest is 108 million metric tons as compared with 91 million metric tons in 1967. The increase can be attributed almost exclusively to a rise in the yield per hectare of all types of cereal in all Member States.

The average yield of wheat per hectare, for instance, is estimated at 39.8 quintals for 1974 against 33.2 quintals in 1967. Improved cultivation techniques, and ever-increasing use of more productive cereal varieties, should result in a further rise in yields per hectare in the coming years. Regional top yields show that the limits have not yet been reached; in these top yields, however, quantitative improvement did not always keep pace with qualitative requirements.

3. Community cereals balance 1974/75

When this report was being written, the Commission worked out the Community cereals balance for the 1974/75 marketing year, which gave the following results for the most important types of cereals:

	Common wheat	Barley	Maize	Durum wheat
Area under cultivation (millions of ha)	9.5	8.8	3.0	1.8
Yield (quintals per ha)	43.3	39.3	48.0	20.3
Production (millions of metric tons)	41.0	34.4	14.4	3.6
Consumption on the farm	7.5	15.4	4.5	0.6
Transitional stocks	5.7	1.4	2.9	0.3
Market sales	33.5	19.0	9.9	3.0
Available quantities	39.2	20.4	12.8	3.3
Domestic consumption	31.7	19.0	20.1	3.5
Of which: for fodder purposes	9.0	11.2	15.3	--
Carry-over at end of marketing year	4.3	1.3	2.5	0.6
Domestic requirements	36.0	20.3	22.6	4.1
Surplus (+) Deficit (-)	+ 3.2	+ 0.1	- 9.8	- 0.7
Imports	+ 3.8	+ 1.5	+ 8.8	+ 1.2
Exports	+ 7.0	+ 1.6	- 1.0	+ 0.5
Balance	- 7.0	- 1.0	- 0.7	- 0.2
	-.-	+ 0.6	- 1.7	+ 0.3

Admittedly, it must be said that a difference of opinion exists in some Member States, as is evidenced by the fact that they still insist on a maize import of 10.9 million metric tons. There is also a difference of opinion in regard to the use of cereals for fodder purposes.

	Millions of metric tons	
	Member States	Commission
Common wheat	6.7	9.0
Barley	10.7	11.2
Maize	16.8	15.3
Total	34.2	35.5