

## Newsletter on the Common Agricultural Policy

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THE COMMISSION'S REPORT ON THE SITUATION OF AGRICULTURE AND THE AGRICULTURAL MARKETS

I. Agriculture as part of the economy as a whole

1. Incomes in agriculture

The Commission of the European Communities recently submitted to the Council a report on the situation of agriculture and the agricultural markets. The report is largely based on data for 1967/68, although, where possible, full use is also made of the latest figures for 1968/69.

This report provides a basis for discussing the Commission's proposals on the fixing of prices for certain agricultural products in 1970/71. The Commission's last report on the situation of agriculture and the agricultural markets<sup>1</sup> was submitted to the Council on 18 December 1968 together with its price proposals for 1969/70 and its Memorandum on the Reform of Agriculture in the European Economic Community.<sup>2</sup> Since only a little more than six months have passed since the submission of this last report, the Commission's main concern in the present one is to bring the earlier facts and figures up to date.

The economic consequences of the common agricultural policy, discussed in the detailed section on the agricultural markets, are regarded by the Commission as the determining factor for the financing of the common agricultural policy. It does not intend, therefore, to submit the separate "financial consequences" report for which provision is made in Regulation No. 25, adopted in 1962.

Because of the good harvest, the growth of earnings in agriculture showed no sign of faltering during 1967/68. In Germany in particular the report shows that the upward trend of earnings<sup>3</sup> which began in 1966/67 continued; earnings per head stood at DM7 960 in 1967/68, compared to DM6 931 the year before, giving a 14.8% increase. This is the highest level that has been reached for twelve years. The trend of net income<sup>4</sup> on account-keeping farms was equally favourable: in absolute terms this increased from DM133 per ha in 1966/67 to DM209 per ha in 1967/68, in other words by more than 57%.

The outlook is very favourable in Germany in 1968/69. It is expected that the value of production will not merely match the 1967/68 level but will be about 1% higher. Proceeds from sales are likely to increase by 6.2%, while current operating expenditure could be some 3.4% higher.

In France the growth rate of agricultural output in 1967, in terms of volume, was 8% higher than in 1966.

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<sup>1</sup> COM(68)1000, Part D.

<sup>2</sup> COM(68)1000, Part A.

<sup>3</sup> Earnings = revenue from farming operations less interest on active capital invested in the farm.

<sup>4</sup> Net income = revenue from farming operations less operating expenses.

Over the same period, assuming an annual drop of 3% in the number of holdings, gross operating profits<sup>5</sup> per holding improved by 6.4% at constant prices, as against 5.2% in 1966.

Farm accounts in the Netherlands indicate an improvement in farmers' earnings;<sup>6</sup> these rose from Fl. 10 126 per farm in 1965/66 to Fl. 10 882 - an increase of 7.4%. The same source shows that workers' earnings<sup>7</sup> increased from Fl. 10 075 to Fl. 11 000; this represents a 9.1% increase on the previous year.

On the whole, then, the incomes of Dutch farmers have risen.

Since the Italian Government does not produce an annual report on the income situation in agriculture, INEA statistics were used. These show that gross revenue in agriculture per person employed, at current prices, increased by 7.8% in 1967, compared with 6.8% in 1966. In terms of value, gross revenue increased by 5.4%, as against 1% in 1966. In the same period there was only a 2.2% decline in the agricultural population, whereas it had fallen by 6% between 1965 and 1966.

Farm incomes in Belgium in 1967 were on the whole higher than the year before. For farmers,<sup>8</sup> the increase works out at 3.4%. However, because of the 3.6% decline in incomes in 1966, farmers' incomes are still below the record level of 1965.

Operating expenditure rose again (6%) but less than in previous years.

Earnings per worker went up from Bfrs. 129 149 in 1966 to Bfrs. 140 849, an increase of 9%. If, however, with all due caution, the trend of earnings per worker in agriculture is compared with the trend of incomes of wage earners in general, we find that farm incomes now stand at 81.5% of comparable earnings in industry, as against 81.6% in 1966.

There was a distinct improvement in actual earnings in agriculture<sup>9</sup> in Luxembourg in 1967; these were 7% higher than in the previous year and the highest for the last eleven years.

In its report the Commission points out that all these figures are based on data supplied by the Member States and are not strictly comparable.

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<sup>5</sup> Gross operating profit per holding corresponds to the difference between revenue and expenditure in agriculture.

<sup>6</sup> Farmers' earnings = value of production less production costs excluding the farmer's own remuneration. Production costs cover depreciation, interest, and wages and salaries, including a figure for wages to relatives assisting.

<sup>7</sup> Workers' earnings = value of production less production costs excluding remuneration per worker.

<sup>8</sup> Farmers' incomes: the difference between the value of final production and operating costs (including rents, wages and salaries, taxes and depreciation).

<sup>9</sup> Agricultural income: that part of net product at factor cost used to pay relatives assisting and interest on own capital invested.

It is to be hoped that with the development of the information network on farm accounts, which started functioning in 1968, useful comparable information on incomes and production structures in the Community will shortly be available.

## 2. Steady economic expansion ...

Real gross national product in the Community increased by more than 5% in 1968 - the increase in 1967 had only been 3% - despite production losses in France during the strikes in May and June.

The most vigorous increase was in Germany (6.5%), followed by the Netherlands (6%); Italy fell a little short of expectations with 5%, and the figure for Belgium/Luxembourg was 4.5%. The increase in France was only 3.5%, it having proved impossible to make up completely the economic losses caused by the May disturbances.

This growth pattern was largely due to the vigorous expansion of exports, which went up by almost 8.5% in terms of value in 1968 (7.5% in 1967).

However, the evidence of growth is most clearly seen in connection with domestic demand. Gross fixed asset formation increased by 8.5% (only 1.6% in 1967) because of the growing propensity to invest of enterprises and the public authorities.

Expenditure on consumption also rose sharply. This is particularly true of private consumers' expenditure, which was affected by the rapid growth of disposable incomes of households. Public expenditure - except in France - tended to fall off slightly compared with 1967. Supply within the Community was in line with the vigorous increase in total demand; agricultural production, admittedly, was only slightly above 1967's abnormally high level, but industrial production increased by 7.5% as against 1.7% in 1967.

Intra-Community trade continued to expand in the period under review; this has always been a major factor in economic growth within the Community.

This favourable picture must not blind us to the fact that there are marked differences within the Community with regard to the movement of prices, costs and, in particular, current payments balances and that fear of disequilibrium led to speculative capital movements in anticipation of parity changes. The gap which opened between certain official exchange rates (against the unit of account, in which the Community's farm prices are expressed) and actual exchange rates also influenced intra-Community trade in farm products. The main effect of this was extensive exports of farm products from the member country experiencing some currency depreciation to member countries whose currencies remained firm. Monetary developments in the early months of 1969 show that this question is still very topical.

The economic outlook for the Community as a whole in 1969 is, however, favourable.

3. ... but agriculture fails to keep pace

Despite the bumper harvest, figures for 1967 point to a further slight decline in the contribution made by agriculture, forestry and fisheries to gross domestic product.

The share of net value added by agriculture, forestry and fisheries will in future be less than 10% in the Community as a whole, and it is unlikely to exceed 4% in Germany and Belgium.

If we relate this situation to changes in the agricultural labour force, we see that it was accompanied in 1967 by a reduction of 3.4% in the numbers employed in agriculture in the Community. The figures for the individual Member States were as follows: 4.7% in Germany, 3.4% in France, 2.3% in Italy, 2.4% in the Netherlands and 3.3% in Belgium/Luxembourg.

On the whole, in the year under review, gross domestic product<sup>10</sup> grew to the same extent as in 1966. The only exception was Germany, where there was a definite slowdown in the growth rate - which fell by 1% at current prices and by 0.2% in real terms for the first time since the war; this not only reflects slower growth but also a temporary decline in production in the first half of the year in particular.

4. Economic developments in agriculture

The Commission's report presents figures for developments in the agricultural sector in 1967 under three heads - final production,<sup>11</sup> intermediate consumption<sup>12</sup> and gross output - at 1963 prices.

To summarize the situation, it can be said that there has been a relative improvement in all member countries. Final production at current prices showed a distinct increase on 1966 thanks to the good harvest; it rose by 4.2% in Italy, 6.2% in Germany, 6.6% in France, 9.4% in the Netherlands and 12% in Belgium.

In contrast with 1966, the trend of intermediate consumption in all member countries but France lagged behind that of final production. In France there was a 10.2% increase on 1966, far exceeding the slight rise of 0.2% in Germany and the 6.8% increase recorded in the Netherlands.

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<sup>10</sup> Figures for France are not yet available.

<sup>11</sup> Final production in agriculture comprises sales to other sectors of the economy, consumption by farm households and changes in stocks.

<sup>12</sup> Intermediate consumption represents goods and services placed at the disposal of agriculture by other sectors of the economy; it excludes depreciation, wages and salaries, interest, rent and investment.

Taken together, these two trends threw light on the development of gross output. Because of expanding final production and the slower growth of intermediate consumption, gross output went up 5.4% in Italy (1% in 1966) and 16% in Belgium (where it had dropped by 2.3% in 1966). In Germany and the Netherlands, where the increase in intermediate consumption lagged behind that of final production, gross output increased by 10.3% and 11.6% respectively, compared to a 12.3% increase and a 2.6% decline in 1966. Lastly, gross output in France increased by 5.1%, having fallen by 2.6% in 1966, although intermediate consumption expanded more rapidly than final production.

### 5. Labour productivity in agriculture

The continued, widespread decline in numbers employed in agriculture, combined with the growth of final production and gross output, reflects a further improvement in productivity. In contrast to the previous year, there was a particularly sharp increase in productivity in the Netherlands and in Belgium.

Labour productivity in agriculture was 72% up on 1960 in Italy, 56% in France, 55% in Germany, 52% in the Netherlands and 63% in Belgium.<sup>13</sup>

On the whole productivity increased more rapidly in 1967 than in 1966. This is associated with a slightly more modest decline in the numbers employed in agriculture, which fell by 3.4% in 1967 compared with 4.6% in the previous year.

### 6. Producer prices, the price of production inputs, wages and salaries

#### (a) Producer prices

As in previous years, the index of producer prices in agriculture was compiled on the basis of different reference periods in the individual Member States.<sup>14</sup> Because of this no comparison can be made between absolute figures; all that can be done is to highlight the relative variations in the individual indices at 1963 or 1963/64 prices.

An examination of the general index of agricultural products shows that it is either declining steadily or, as in France, remaining stationary. The same is true of crop production and livestock production viewed separately. The situation with regard to crop production in France is still favourable, but the trend in the other five countries is downwards, even if the picture with regard to livestock production is a little healthier in Germany, the Netherlands and Belgium.

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<sup>13</sup> The new Belgian series for numbers employed in agriculture begins with 1961.

<sup>14</sup> Reference periods: Germany 1961/62 - 1962/63, France 1955, Italy 1952/53, Netherlands 1946/50 - 1952/53, Belgium 1962/1963/1964.

(b) The price of production inputs

The price indices for production inputs are based on prices paid by farmers for fertilizers and feedingstuffs, pesticides and plant protection products, electricity, machinery, buildings, seeds and seedlings, breeding and productive stock and general farm expenditure. These are weighted indices, and each member country uses a different reference period.

In 1967 the increase in all member countries' indices with the exception of the German index was normal, apart perhaps from the Dutch one, which only rose one point as against four in 1966. The German index showed no change, either in 1967 or in the first six months of 1968; the French index moved from 104 points to 105; no figures are available for Italy as yet; the Dutch index moved from 114 to 115, and the Belgian from 110 to 113. The reference period for Germany is 1962/63, for France 1960, for Italy 1952/53, for the Netherlands 1949/50 to 1952/53 and for Belgium 1962/1963/1964.

(c) Wages and salaries

The bases for calculating the indices of wages and salaries paid in agriculture vary from one member country to the next, as is the case with the other indices. In Germany the increase in the wage index was abnormally low (2 points) but in the other member countries indices rose by anything from 8 to 10 points. Taking 1963 as base year, wages and salaries have risen between 31 and 50 points.

7. Slight improvement in the situation of Community agriculture

Bearing in mind the trends indicated by the indices for producer prices, production input prices and wages, and leaving absolute values out of the reckoning, we can reach some conclusions about the relation of inputs to output in respect of farm products.

Let us begin with Germany. In the first place, prices for farm products declined, the cost of production inputs remained stationary and wages and salaries rose. Secondly, gross output increased by 10.3% and intermediate consumption expanded by a mere 0.2%, but numbers employed in agriculture fell by 4.7%. It can be deduced from this that the situation of German agriculture is more stable than it was in 1966.

In France the general index of producer prices in agriculture rose slightly, the indices for inputs and wages and salaries increased to much the same extent as in previous years. Since the agricultural labour force declined by 3.4%, it can be assumed that, although intermediate consumption rose more rapidly than final production, there was some improvement in the situation of French agriculture.

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Figures for the Netherlands and Belgium suggest that there is a certain equilibrium between the various factors which probably led to an improvement in the situation of the farming community.

Generally speaking, the growing burden on farmers' income represented by wages and salaries, which, as we have seen, rose by 2 points in Germany and by 8 to 10 points in the other member countries, was offset by a higher migration rate, now running at 3.4% for the Community as a whole.

## II. Trade in agricultural products

Agricultural products which are not subject to any common market regulation now account for no more than 10% of the value of total Community output of farm products.

### 1. The trend of imports of "regulated" products

In the first six months of 1968, the share of imports from within the Community in total Community imports increased from 65% in the first half of 1967 to approximately 89% (in terms of value). This increase can be attributed to

1. a general increase in the proportion of intra-Community imports in all Member States and
2. an absolute decline of almost 14% in imports from non-member countries (1 324 200 million units of account, compared with 1 544 100 million units of account in 1967).

The combination of these two trends is particularly noticeable in France, where the share of imports from other Community countries in total imports doubled. Both trends are also in evidence in the Netherlands and in Belgium and, to a lesser extent, in Germany and Italy.

#### (a) The trend in absolute terms

An examination of the trend of imports of regulated products in 1967 and 1968 shows that

1. intra-Community imports rose by 171.2 million u.a. (17%) and
2. imports from non-member countries fell by 219.9 million u.a. (14%).

The increase in intra-Community imports varies considerably in the different member countries.

#### (b) The trend in relative terms

If we consider the trend of imports in relative terms, we find the accelerated increase in intra-Community trade confirmed.



As we have seen, the first-half figures for 1967 and 1968 show that total intra-Community imports increased by 17%, while imports from non-member countries fell by 14%. For the individual countries, the picture is as follows:

<u>Imports from</u>		
Germany	other Community countries	+ 3 %
	non-Community countries	- 7.2%
France	other Community countries	+30 %
	non-Community countries	-25 %
Italy	other Community countries	+31 %
	non-Community countries	-23 %
Netherlands	other Community countries	+56 %
	non-Community countries	- 2.8%
Belgium	other Community countries	+32 %
	non-Community countries	-25 %

To assess these percentages correctly, however, the value of imports from within the Community and from non-member countries must be apportioned between the various countries.

In 1967, Germany accounted for 48.9% of the total value of intra-Community imports and 26.5% of the total value of imports from non-Community countries. The corresponding percentages for the other member countries are as follows:

France	12.7%	and	18.9%
Italy	19.1%	and	30.6%
Netherlands	8.1%	and	14.5%
Belgium	11.2%	and	9.5%

A breakdown of imports by origin shows that in the first six months of 1968 the only ones to expand were those from the United States (because of increased buying of rice, grain and grain preparations). Imports from state-trading countries remained at their 1966 level, while imports from other sources - EFTA countries and the developing countries - fell below their 1963 level.

## 2. EEC agricultural exports on the increase

Exports to the United States and to the developing countries have been increasing steadily since 1963. Exports to state-trading countries picked up again in the first six months of 1968, largely because of increased deliveries of grain and grain preparations.

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### 3. Self-sufficiency in agricultural products

In 1965 the overall degree of self-sufficiency was estimated at 89.2%; this should be more than 90% by 1970. As for individual products, the degree of self-sufficiency in common wheat has reached a record level of 112% (1967/68). The bumper harvest meant that output increased 18% whereas consumption was only 11% higher than in 1966/67. The biggest increase in output was in Belgium (50%), the corresponding figure for Germany, France and the Netherlands being 25%. Only a 2% increase was recorded in Italy.

For durum wheat there was a 55% increase in output in 1967/68; the increase in France was 74% (221 000 tons as against 127 000 tons in 1966/67); 54% in Italy (2 573 000 tons as against 1 675 000 tons in 1966/67). All in all, the degree of self-sufficiency for durum wheat rose from 58% in 1966/67 to 77% in 1967/68.

It must be pointed out that despite surplus production of wheat in general and notwithstanding durum imports, the Community is obliged to import quality wheat (Canada wheats) to meet a demand from consumers. This means that in actual fact the degree of self-sufficiency in common wheat is considerably higher than 112%.

Production of feed grain was also exceptionally high (+17%), which meant that self-sufficiency increased from 72% in 1966 to 79% in 1967. This was due to a general increase in output in all Member States.

The degree of self-sufficiency in maize remained the same in 1966 and 1967 - only 47% - despite a 10% increase in Italian production (which was largely offset by a decline in France). To judge from provisional figures for 1968, however, self-sufficiency can be expected to improve thanks to a simultaneous increase in French and Italian production.

The Commission's previous report estimated that a peak in the beef and veal production cycle would be reached during 1968; production was expected to be relatively steady in 1969. Despite increased slaughterings of grown animals in 1968, the cattle population continued to rise. This is clearly due to a drop in the number of calves being slaughtered and to a higher calving rate. A further increase in production in 1969 is therefore quite within the realms of possibility.

Increased consumption, however, closely associated with higher incomes, is keeping the degree of self-sufficiency at 89%. A decision by the member countries to slaughter additional cows as part of the plan to reform the milk market should have some influence on the degree of self-sufficiency.

The Community was fully self-sufficient in pigmeat in 1967/68. This is because some countries are producing more than they need - the Netherlands produces 97.6% more and Belgium 34% more than their requirements - while output in others - namely Germany (95%),

France (88.7%) and Italy (84.2%) - is still below requirements. The degree of self-sufficiency is expected to fall temporarily in 1968/69 because of the downward movement of the pig cycle.

Self-sufficiency in poultrymeat stood at 98%, showing no change on 1966/67.

An examination of the supply situation for oils and fats shows that there is still an imbalance between vegetable and animal fats. Self-sufficiency in oils and fats in general dropped from 40% in 1965/66 to 36% in 1966/67. The explanation for this is that self-sufficiency in vegetable oils and fats remained unchanged, slaughter fats declined slightly and the trend for marine oils and fats continued to fall.

It is also worth noting that, within vegetable fats, there is a tendency for oils produced from oilseeds (rape) to gain ground at the expense of olive oil.

Milk products figures produced by the Statistical Office of the European Communities show that self-sufficiency in the various milk products continues to rise: consumption per head is remaining stationary, less milk is being used to feed animals, and production continues to expand. The Community was 104% self-sufficient in full milk in 1966, and the 1967 percentages for other products were butter 107, cheese 101, milk powder 134 and condensed milk 153.

In 1967/68 the degree of self-sufficiency for sugar was 105%, or 99% if the overseas departments are left out of account. Preliminary figures for 1968/69 point to an increase of approximately 3.3% in production.

To sum up, then, it can be said that self-sufficiency in livestock products (meat, milk, poultrymeat) increased or at least remained at the same level as in the previous year. The good harvest of 1967 increased surpluses of common wheat in particular and also affected self-sufficiency in feed grain. However, there are still considerable imbalances between the various types of grain.

Despite the measures adopted to deal with "quantities produced within the Community", self-sufficiency in sugar increased considerably and exceeded the 100% mark for the first time.

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### RECOGNITION OF EQUIVALENCE OF SEED FROM NON-MEMBER COUNTRIES

The Council directives of 14 June 1966 on the marketing of beet seed, forage crop seeds and seed grain, as amended by the Council directives of 18 February 1969, provide that from 1 July 1969 at the latest seed of these types may not be marketed unless it has been officially certified as basic seed of varietal identity and purity, or is certified seed. In respect of some species of forage crop it is also permissible to market "commercial" seed, which has only to show species' identity and purity. Certification and examination are carried out according to Community rules.

This does not, however, preclude seeds from non-member countries from being marketed in the Community. One possibility is for basic seed certified in a Member State to be reproduced in a non-member country and for the seeds harvested therefrom to be imported into the Member State and certified there in accordance with Community rules.

The adoption of such a procedure depends, however, on whether it can be assumed that the crop inspections carried out in the non-member country involved generally fulfil the conditions laid down in Annex I to each of the individual directives. It is for the Council, on a proposal from the Commission, to establish for each variety and each non-member country whether this is the case.

The directives also provide for the following:

On a proposal from the Commission, the Council may establish that seed harvested in a non-member country and offering the same guarantees as regards characteristics and examination procedure to ensure its identity, its marking and its control, is in this respect equivalent to the basic seed, the certified seed or the commercial seed harvested within the Community and conforms to the provisions of the directive.

Until such time as the Council has taken a decision, the Member States may in either case take the decision themselves for their respective territories. This right will expire on 1 July 1970.

The Commission is endeavouring to submit its proposals to the Council as soon as possible. To this end it has already studied the seed examination systems of a number of non-member countries and has also sent experts there with a view to getting an idea of the way the systems are implemented.

Basing itself on these studies, the Commission has now placed before the Council two proposals for a first series of decisions in respect of crop inspection in non-member countries and recognition of the equivalence of seed from non-member countries.

The checks are to be continued through the growing and control of samples, on Community test fields established in line with the respective directives for purposes of comparison, of seed from the non-member countries concerned. If it turns out in the process that the decisions taken are not or are no longer in line with expectations, they will be withdrawn or their validity will not be extended.

Should this happen, it would have to be examined whether and how transitional measures can be adopted in respect of current reproduction in the countries involved.