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Marketing of livestock and meat

Report¹

Committee on Agriculture and Rural Development

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A. 1. Draft Recommendation presented by the Committee on Agriculture

The Assembly,

Noting with concern the fluctuations of livestock prices in Member States and the consequential unsettling effects upon livestock production;

Believing that these fluctuations have impaired the steps taken in some Member States both to improve and stabilise farm incomes and to encourage stability in livestock production;

Noting with equal concern the widening gap between livestock prices and retail meat prices in some Member States;

Believing that it is essential, especially in the case of livestock and meat, to secure a reasonable degree of stability in agricultural markets;

Concluding therefore that existing marketing systems and means of distribution should be improved and made more efficient,

Recommends to the Committee of Minister that it should invite the Ministerial Committee on Agriculture and Food to arrange that the marketing and distribution of livestock and meat should be the subject of urgent discussions between exporting and importing Member States and that these discussions should be extended to include the main exporting countries outside Europe.

B. 2. Explanatory Memorandum by Mr. ROYLE

1.

During the second part of its Eighth Session in October 1956 the Assembly referred to the Committee on Agriculture a Motion for a Recommendation on livestock and livestock products (Doc. 581). This draft drew attention to the fluctuations in prices of livestock and meat and to the unfortunate effects that they have on production and on the interests of both the producer and the consumer.

Your Committee at first deferred detailed consideration of this question in order to see what developments were taking place in the negotiations for the Common Market and the Free Trade Area. However, in view of the fact that the provisions of the Rome Treaty only apply to six Member States of the Council of Europe and that the negotiations for the Free Trade Area have not yet, so far as the Committee is aware, proceeded to such a stage as to shed any new light on this problem, the Committee decided in October 1957 to undertake a study of the problem without further delay.

In the course of its discussions your Committee found substantial agreement among its members that further measures were necessary for the control of prices of both livestock and meat. There is too often no reasonable relation between the price paid to the producer and the price paid by the consumer. Some fluctuations in prices are, of course, inevitable, particularly on account of seasonal variations in production, but the variations which exist often bear little or no relationship to the seasonal differences in supply. This situation is aggravated in some countries by the number of middlemen who handle supplies after they have left the hands of the producer and before they reach the consumer.

In order to have as complete a factual basis for its conclusions as possible, the Committee requested the Economic Division of the Secretariat to undertake an analysis of production and prices in recent years. The survey is attached to this Report as an Appendix.

L'examen de cette analyse a renforcé l'opinion de la commission, d'après laquelle des mesures prises par les gouvernements et les organisations compétentes sont nécessaires pour améliorer les méthodes actuelles de commercialisation et de distribution.

Consideration of this analysis confirmed the Committee in its view that action on the part of both Governments and competent organisations was required to improve existing methods of marketing and distribution.

It was the Committee's view that the Ministerial Committee on Agriculture and Food was the most appropriate organ to study the problem, in co-operation with the Council of Europe, since it comprises the Ministers of Agriculture of all Member States, together with those of Portugal, Spain and Switzerland. The Committee was, moreover, of opinion that these consultations should not be limited to European countries.

It was these considerations which led your Committee to submit to the Assembly the draft Recommendation set out above, which was approved in Committee unanimously.

2. APPENDIX Enquiry into the fluctuations of livestock prices 1952-1957 - Information Document submitted by the Economic Division

CONTENTS

- I. Production and consumption - 3
- II. General observations on agricultural price movements - 6
- III. Livestock Prices 1952-1957 - 11
- IV. Agricultural price policies - 15
- V. Fluctuations of retail prices - 18
- VI. Concluding remarks - 22

3. Production and consumption

1. Before entering upon a description and tentative analysis of fluctuations of livestock and meat prices, which is the main subject of the present paper, it is useful to present a brief outline of the -evolution of production and consumption.

2. For livestock and meat, as for other agricultural products, the war period and immediate post-war years inevitably resulted in a decline of production and consumption. By 1951, however, most western European countries had regained their pre-war levels of meat production, and this has since increased substantially. The average volume of production of all OEEC countries in 1954-1955 was thus approximately 28 % and 30 % above pre-war for beef cattle and pigs, respectively.

3. As shown in the first three columns of Table I, most western European countries have achieved a high degree of self-sufficiency in meat production, the main — and by the size of its market most important — exception being the United Kingdom. The table illustrates the relation between national production and total domestic consumption and thus gives an idea of the degree to which a country is a net importer of the products under consideration. Three countries, Ireland, Denmark and the Netherlands, stand out as net exporters: for certain products it may be deduced that exportable surpluses are several times larger than the volume of domestic consumption, and it may be added that for all three countries, but particularly Ireland, meat exports constitute an important percentage of total exports.

4. Table I, in its second part, also gives a survey of meat consumption levels expressed in kilograms per head and per year and in terms of nutritional content.

5. Meat consumption continued to rise in most countries of north western Europe during the last five years for which figures are available. It is seen from column 4 of Table I that per capita consumption of meat still showed considerable variations from one country to another in 1955-1956. Particularly there remained a striking difference between consumption levels in north-western Europe and in southern Europe. This is essentially attributable to differences in purchasing power and in price ratios between various foods but to some extent also to differences in climate and in local production and consumption patterns.

6. The figures relating to nutritional content, columns 5-7 of Table I, further emphasise the variations in consumption levels and the divergence between north-western and southern Europe, reflecting the fact that increasing incomes are correlated with qualitative improvements in diets. Average consumption of animal protein thus ranged from 12, 23 and 23 grammes per day in Turkey, Greece and Italy to 50 and 56 grammes in Denmark and Sweden, the adequate minimum being considered by most experts to lie between 25 and 30 grammes per day. Social differences are reflected in the wide margin between the extremes making up the averages, particularly in southern Europe but also in the high-income countries of northern Europe. It may be added that the steady and substantial gains in food output have contributed to more stable levels of food consumption in western Europe.

TABLE I National Production in per cent of domestic consumption 1 and consumption levels per head

Country	Production in per cent of domestic consumption				Consumption per head 1955-1956		
	Production exprimée en % de la consommation intérieure				Consommation par habitant 1955-1956		
	Beef & Veal 1953-1954 1955-1956	Pig meat 1953-1954 1955-1956	Mutton and lamb 1952	All meat per day	Total protein grams per day	Per cent protein from all animal and eggs products 2	Per cent protein from meat and eggs
	%	%	%	%	%	%	%
Iceland	100	100	...	62.0 3	124 3	70 5	29 5
Norway	104	102	...	36.6	89	57	18

Country	Production in per cent of domestic consumption				Consumption per head 1955-1956			Consumption per head 1955-1956
	Production exprimée en % de la consommation intérieure				Consommation par habitant 1955-1956			
Sweden	93	98	100	50.6	85	66	25	
Denmark	279	303	100	59.3	89	56	25	
U. K	56	61	37	61.6	83	57	30	
Ireland	(516)	(149)	131	53.6 4	101	52 4	(22)	
Netherlands	103	155	300	38.4	81	53	21	
Belg.-Lux	97	102	100	51.3	89	49	26	
France	105	101	92	77.6	101	50	33	
Germany	92	98	105	47.4	78	54	26	
Austria	102	97	100	46.1	84	49	23	
Italy	87	97	100	20.2	75	31	13	
Greece	59	100	97	16.0	84	27	8	
Turkey	100	...	...	15.6	87	14	8	

1. Statistically computed as : National production + imports — exports ± changes in stocks.

2. Including fish.

3. 1950-1951.

4. 1953-1954.

5. 1948-1949.

(Estimate.)

... Not available.

Sources :

1. Agricultural and Food Statistics, O.E.E.C., 1953 and 1956.

2. Yearbook of Food and Agricultural Statistics, F.A.O., 1956.

It should be noted that the products under consideration belong to the group of foodstuffs with the highest income-elasticity of demand x . Nevertheless, this elasticity while high in relation to basic foodstuffs is low by comparison, with many industrial consumption goods, and the essential thing to observe is that it is less than 1.

Despite the relatively high income-elasticity of animal products, particularly in southern Europe, and despite the probability of a continued rise in real income per capita, it is thus clear that the high and still increasing levels of production in most European countries are likely to create, and have in some instances already created, problems of disposal at prevailing prices and in present conditions of international trade.

4. General observations on agricultural price movements

7. In speaking of price instability in general one thinks either of the frequency of changes in the direction of price movements, or of the amplitude of the fluctuations, or of a combination of both. It is clear that frequent and violent changes are harmful to the interests of producers and consumers alike. If, under free market conditions, the variations are very marked and irregular, one is led to suspect that the production in question is

maladjusted to market conditions. Conversely, small price changes which appear subordinate to a regular trend usually indicate the opposite. It would appear that Government action is called for in each country to produce a system of guaranteed markets and prices with annual variants if stability is to be assured.

8. The factors influencing price-formation of agricultural products differ to a considerable extent from those conditioning prices of industrial consumers goods. It is recognised by most authorities that agricultural products, if left entirely to the free play of market forces, are liable to be particularly unstable. Among the many reasons advanced to explain this state of affairs the following appear to be the most valid and most important.

9. Weather conditions no less than plant and animal disease exert considerable influence on the volume of supplies and the time they are marketed. Livestock may thus have to be slaughtered ahead of time because of disease. Uncertainty is further increased by the fact that prices of feeding stuffs are in their turn influenced in a similar way.

10. To this element of unpredictability as regards the volume of supplies is added another one which stems from the fact that agricultural products are supplied to the market from a very large number of producing units usually working and planning independently of one another. Therefore, except in a few countries where the co-operative marketing system has obtained general support from the farmers, agriculture has not been able to organise on its own the different types of marketing arrangements which are found in other economic sectors and which tend to diminish instability of prices.

11. Further, production planning decisions once taken are practically irrevocable and may indirectly, owing, for instance, to necessities of crop rotation, influence future planning decisions far after the crop in question has been harvested. This, of course, applies to livestock breeding, which is always a long haul, no less than to crop fanning. In certain regions soil and climate also severely limit the possibilities of production adjustment to changing market conditions.

12. Finally, and not least important, with the low short-term elasticities of demand even small changes in the volume of supplies tend to result in large price variations. These are furthermore often aggravated by changes in stocks, as when a fall in demand produces, temporarily, an almost total cessation of purchases for stocks as wholesalers run their stocks down, with the result that prices fall further. Owing to the slowness of production responses to price-changes such short-term price movements may produce secondary disturbances in the balance of supply and- demand in later periods.

13. In Western Europe at the present day these market forces are of course considerably attenuated by Government interventions dictated by a variety of economic as well as non-economic considerations. Nevertheless, they remain important conditioning factors. As brought out by the appended graphs of livestock prices, Government intervention has not eliminated considerable price fluctuations, seasonal as well as non-seasonal.

14. In fact, the keying of agricultural prices to the desired objectives of Government policy as often as not ' creates other marketing problems. Particularly, Government price-support often leads to excessive stock-piling. Mostly this occurs in exporting countries, since importing countries normally consume their own production before importing, but if importing countries also maintain high guaranteed prices and thereby stimulate domestic production in excess of requirements, this will inevitably jeopardise outlets for the exporting countries which may be the most economic producers. The marginal character of import requirements in numerous countries contribute to a further aggravation of price instability for agricultural products and notably livestock.

15. As is well known, the perishability of many agricultural products — and this applies to slaughtered animals and meat — raises problems of storage and transportation. Furthermore, the marketing of animals for slaughter is of necessity closely geared to the production rhythm. As a consequence, seasonal price fluctuations tend to be pronounced.

16. Cattle prices are thus liable to decrease at the end of the grazing period i.e., between July and September as a rule, whereas pig prices tend to decline at the time of harvesting the main feeding stuffs: potatoes and other crops.

17. Besides this annual variation, pig numbers tend to fluctuate in rather uniform cycles of about three to four years mainly determined by the variations of the ratio between pig and feeding stuff prices. With favourable pig prices, breeders will increase production, and vice versa. The regularity of the «pig cycle» is essentially due to breeding conditions. It takes between 13 months and one and a half to two years to increase supplies of pigs sufficiently fattened to be slaughtered. When the market is saturated, prices fall; it takes another two years or so to adjust production downwards to levels fetching a reasonable return.

TABLE II Annual averages of cattle prices 1952-1953 through 1956-1957 - Weighted average price (unit value) received by farmers including subsidies per 100 kg. live weight for all types and grades of beef cattle 1 (in U.S. \$)

	1952-1953	1953-1954	1954-1955	1955-1956	1956-1957
Norway	36.40	39.20	41.58	37.38	38.78
Sweden 2	40.30	40.40	38.38	43.27	42.95
Denmark	29.22	30.64	30.70	32.29	34.03
United Kingdom	29.95	32.07	35.83	35.27	37.20
Ireland ⁵		32.28	32.96	31.70	
Netherlands	41.06	40.27	39.48	42.11	46.59
Belgium	44.26	41.30	39.70	41.98	43.64
France 3,4				32.27	37.94
Germany (Federal Republic) ³	36.00	34.76	37.38	40.79	40.48
Austria	42.29	33.42	35.46	35.42	37.50
Italy	41.03	38.44	41.92	43.08	47.12
Greece	46.70	24.46	28.20	34.30	34.90

1. Excluding calves.

2. Re-calculated to live weight. (According to a yield of 55 %)

3. Revised.

4. The following proportions :

- extra - 13 %
- first quality - 23 %
- second quality - 42 %
- third quality - 22 %

5. Moyenne pondérée pour les bovins gras de boucherie, marché de Dublin (bouvillons 6, génisses 3, vaches et taureaux 1).

Source : Prices of agricultural products and fertilizers 1955-1956 and 1956-1957, E.C.E/F.A.O., 1956, 1957.

TABLE III Annual averages of pig prices 1952-1953 through 1956-1957 - Weighted average price (unit value) received by farmers including subsidies per 100 kg. live weight for all types and grades of pigs (in U. S. \$)

	1952-1953	1953-1954	1954-1955	1955-1956	1956-1957
Norway	44.38	49.42	49.56	44.10	45.22
Sweden ¹	47.7 0	46.68	50.16	56.83	59.15
Denmark ^{1, 2}	48.48	45.22	45.11	48.87	49.41
United Kingdom	65.38	65.42	57.10	57.74	60.57
Ireland	53.28	49.36	45.95	47.77	47.43
Netherlands	49.48	48.17	46.59	43.95	46.85
Belgium	47.34	46.42	53.20	43.10	41.26
France ^{3, 4}				51.71 4	58.15 1
Germany (Federal Republic) ³		59.05	52.86	54.29	56.43
Austria	57.51	47.46	51.27	50.15	50.42
I taly	46.86	54.85	63.71	59.14	56.07
Greece	54.67	30.56	41.33	41.66	42.56

1. Re-calculated to live weight basis (according to a yield of 75 %).

2. Profits distributed at the end of the year to the shareholders according to their deliveries to the co-operative slaughter houses are included in these prices.

3. Revised.

4. Wholesale price excl. tax ; calculated as average, first class and second class (weight 1/3 and 2/3 respectively); re-calculated to live weight (I.N.S.E.E., Bulletin mensuel de Statistique).

Source: Prices of Agricultural Products and Fertilizers 1955-1956 and 1956-1957, E.C.E./F.A.O., 1956, 1957.

5. Livestock prices 1952-1957

18. The tables above illustrate fluctuations of livestock prices in the last six years for which figures are available..

19. As the result of a detailed analysis of prices country by country an attempt is made in the following paragraphs to summarise the evolution of prices during the period 1952-1957 by categories of products.

20. It will be recalled that in 1951 the OEEC member countries, as a whole, regained the prewar level of cattle and pig production and that the following years up to 1955 witnessed an increase beyond that level of almost 30 %, i.e., about 7 % annually. Another relevant fact is that population growth for these countries has in the postwar period averaged 1 % annually.

21. The overall picture presented by the available documentation is a very mottled one.

22. Thus, strong production increases during previous years resulted in the decline of livestock prices from 1952 to 1953 in numerous countries. For cattle prices this holds true of Austria, Denmark, France, the Federal Republic of Germany and Italy. On the other hand, in Norway, Sweden and the United Kingdom where no similar expansion of production had taken place, beef cattle prices rose; in the last-mentioned country the rise in prices paid to producers for beef cattle was, in fact, more marked than for any other category of food, due to the efforts of the authorities to raise domestic production.

23. During the same period pig prices fell in the large majority of countries dealt with, the rise in supply appearing to have outstripped demand. Only in Germany and the United Kingdom was there a modest price increase. The consequence of the general trend of declining pig prices was that various countries changed the average weight of pigs because fattening became less profitable.

24. From 1953 to 1954 cattle prices in most countries showed no major upward or downward trend. A marked decline was registered only in Sweden — set off by a considerable increase in production — and in Belgium — caused by extensive slaughtering to fight cattle tuberculosis. In France and the Federal Republic of Germany there was a beginning recovery of prices from the 1952-1953 slump.

25. During the same period, pig prices showed divergent tendencies: strong increases in France and Norway, a considerable decline in the United Kingdom and only slight changes in the remaining countries.

26. From 1954 to 1955 important rises of cattle prices took place in Ireland and the United Kingdom, where price developments continued to show strong resemblances ; French and German cattle prices continued their rise, begun already in the preceding year, while the remaining countries showed only slight changes.

27. As for pig prices in the same period two divergent tendencies are in evidence: a fall in France, Germany, the Netherlands and Norway, and a substantial rise in Denmark, Sweden, the United Kingdom and — to a smaller extent — also in Ireland.

28. From 1955 to 1956 average cattle prices rose in most countries, the rise being particularly pronounced in France and the Netherlands. On the other hand, prices declined in Ireland, Norway and, especially, in the United Kingdom.

29. This period showed a recovery of pig prices in France, Germany and the Netherlands at the same time as the rising tendency of 1955 was confirmed in Denmark, Sweden, the United Kingdom and, to a lesser extent, in Ireland.

30. From 1956 to 1957 average cattle prices remained approximately on the 1956 level in five countries, while they rose slightly in the United Kingdom and Ireland. In France the pronounced rise from 1955 continued.

31. As for pig prices in the same period, France was the only country to show a continued rise. In Ireland and Norway there were no major changes while in the other countries pig prices declined more or less steeply during 1957. In Germany this decline was stopped to a certain degree by purchases effectuated by the Einfuhr-und Vorratsstelle.

32. An overall view of the whole period 1952-1957 gives the following rough picture. recovering during the second half of the period. In the case of Germany and the Netherlands, the 1957 level was about 10 %, in the case of France 17 % higher than that of 1952; for Belgium and Denmark it was about the same. Price-levels fluctuated more violently from year to year in France than in the other countries, the highest French average (1957) being 45 % above the lowest (1954). A certain resemblance also appears in the graphs for Ireland and the United Kingdom, prices rising from 1952 by 20 % to reach a maximum in 1955 and receding after a sharp fall in 1956 to approximately the 1952 level in 1957. Swedish cattle prices followed a pattern of their own. After a rise from 1952 to 1953, they declined until the end of 1954 when they began to rise again, to end on a level more than 20 % above that of 1952.

33. Cattle prices. A certain resemblance can be discerned in the graphs for Belgium, Denmark, France, the Federal Republic of Germany and the Netherlands, prices falling from 1952 and

34. Pig prices. In the Federal Republic of Germany and the United Kingdom pig prices in 1957 were not markedly different from those of 1952 ; but especially in the United Kingdom, during the intervening years there had, however, been pronounced fluctuations; Ireland and the Netherlands show a slightly declining trend throughout the six-year period; in Denmark it was only the sharp decline in 1957 that made prices wind up at a level lower than that of 1952. Norwegian pig prices — after a weak period in 1956 — in 1957 ended up slightly higher than in 1952; the same holds true of Sweden only that here the 1957 price-level represents a decline as compared to 1956. Finally, France is the only country where pig prices, following numerous sharp fluctuations, were considerably higher in 1957 than in any of the preceding years, including 1952.

General observations

35. Table IV illustrates the changes in the relation between prices of basic crops and prices of livestock products from 1951-1952 to 1954-1955. It will be seen that the indices of most countries, after recording a change in favour of basic crop prices between 1951-1952 and 1952-1953, for the next two crop years showed a marked change in favour of prices of livestock products. It is interesting to note that the highest and hence most favourable indice for 1954-1955 are recorded for the two countries which are the largest exporters of livestock products, namely Denmark and the Netherlands.

36. The general trend to increase livestock production must be evaluated in the light of this general development.

TABLE IV Index of livestock product prices as percentage of index of basic crop prices (1950/51 = 100)

	1951-1952	1952-1953	1953-1954	1954-1955
Norway	96	105	102	105
Sweden	95	85	88	91
Denmark	113	110	121	123
United Kingdom	94	105	102	99
Ireland	107	108	107	
Netherlands	102	100	102	120
Belgium	91	93	93	108
France	94	88	81	91
Germany	80	75	83	87
Austria	84	68	76	76
Greece	98	95	89	90

(In the table a figure above 100 indicates that the 1950/51 relationship has changed in favour of livestock products, and vice versa.)

Sources FAO Monthly Bulletin, IV, 10.

37. It has been seen that it is impossible to discern any one clear uniform trend in the price evolution of the two main categories of livestock. Many important non-seasonal price fluctuations were undoubtedly due mainly to circumstances prevailing in the particular country concerned. Markets were thus affected, for example, by the pig cycle, by increased slaughtering to eradicate cattle tuberculosis, by droughts, etc., although factors such as these have not as a rule been entirely restricted to a given country in their origin or in their development. But the main explanation why the evolution of livestock prices does not present a more uniform trend must be sought elsewhere, and there can be no doubt that the dominant factor in recent years is to be found in Government price and support policies. The varying objectives of these policies and the varying measures by which they have been pursued have, in the past decade, produced national price structures very different from and independent of each other.

6. Agricultural price policies

38. In a rough attempt to describe post-war price policies as they affect — *inter alia* — livestock prices, it may be said that three guiding lines of policy have followed one another in time. True, these guiding lines have not been applied in the same manner in each country nor have they coincided in time in all countries, but, *grosso modo*, they can be summarised in the following manner :

38.1. Efforts to encourage farm output by every possible means in order to overcome the shortage of food supplies and to prevent any excessive rise in retail prices and in the cost of living;

38.2. Adaptation of the production objectives to balance-of-payments difficulties prevailing, emphasis being placed on those commodities which, by reducing imports or expanding exports, contributed directly to the strengthening or restoration of equilibrium in foreign trade. Owing, however, to the rapid increase in foreign reserves subsequently achieved in many countries, this consideration was of relatively short-lived importance in the planning of agricultural policies;

38.3. The framing of policies intended to secure higher incomes for farmers. Domestic prices of at least the most important farm products are protected in different and rather complicated ways against the full effects of international competition.

39. The increase in domestic production resulting from these policies has, indeed, brought the danger that an over-supply of certain products might cause a fall in farm prices even without competition from imported products. Some countries have therefore introduced the practice of facilitating the export of certain agricultural products by paying subsidies which cover the difference between the domestic price and the lower price prevailing in international trade.

40. Agricultural policies in recent years then appear to have concentrated on two main issues. The first arises out of a still widespread feeling as to the need for maintaining a high level of agricultural production with some regard to the balance-of-payments situation, for security reasons and in order to maintain farm income on a level not substantially below than that of earnings in other occupations. However, a high level of production has appeared possible only at a fairly high price-level, not because of unfavourable natural conditions but because farming has been handicapped by small and often scattered holdings, by a lack of technical knowledge or equipment and by insufficient marketing organisation. Consequently these policies have necessitated tariff and import restrictions and a system of guaranteed prices to producers, which have placed a heavy burden on Government administration and on the taxpayer, besides encouraging the production of commodities which could, in many cases, more economically be imported.

41. Some Governments have thus found farm subsidies increasingly burdensome, and their inclination to raise the level of farm income has also been tempered by the fear of setting off new wage demands as a consequence of higher food prices.

42. Furthermore, the experience in two countries, Denmark and the Netherlands, shows that unsubsidised production at costs fully competitive with those in any other region is possible in Europe under certain conditions. One condition is a high level of technical efficiency in production ; but not less important are effective organisations, which may be co-operative, for such purposes as the purchase of fertilizers, feeding stuffs and equipment, the pooling of machinery, the provision of credit, and especially for marketing.

43. These considerations lead up to the second main issue. Recent agricultural policies have placed increasing emphasis upon the granting of help to farmers for the reduction of costs by improving farm structure and subsidizing the means of production rather than the prices paid to producers. This has included the encouragement of farmers to exploit existing favourable relationships between prices for feeding stuffs and livestock prices.

44. A few examples may be mentioned of policies aimed in this direction.

45. In the United Kingdom, the guaranteed price-levels, supported by means of a deficiency payments system and by production grants, have provided some increase in farm receipts to compensate for increased costs. Guaranteed prices for pigs have been reduced, while the level of price support has been raised for such feeding stuffs as barley and oats. A small increase in the guaranteed price of milk in the period 1954-1955 only partly compensated for increased costs (except on the more efficient farms) as it was hoped that less efficient producers would switch to beef production. " A primary objective must be to secure a more rapid improvement in economic efficiency by raising quality, catering for consumer choice and reducing costs of production "»²

46. In Ireland, too, measures were taken to encourage farmers to produce more feeding grains as a basis for a larger production and export of livestock and meat.

47. In Germany a new law of September 1955 puts the Government under obligation to report annually on the state of agriculture and to promote measures to raise farm income to the same level as that of persons in comparable income groups in industry. Nearly 1,000 million marks were spent in 1956-1957 on subsidies for fertilizers, payments for consolidation of holdings, reduction of taxes, etc., and no increase in fixed prices has yet been granted, except for milk. It can be foreseen that this legislation will continue to promote structural reform and measures to reduce production costs and improve market organisation.

48. Also in Sweden, where farmers' incomes have been more or less guaranteed, a variety of steps — including extended credit facilities, land-consolidation measures etc. — are taken to improve the competitive position of agriculture. Under a new system of price-fixing which became effective in September 1956, agricultural prices are determined for three years at a time, during which they are allowed to fluctuate around certain medium prices between a lower and an upper limit.

49. In France the Third Modernisation and Equipment Plan (1957-1961) entails an important development in the design of agricultural price and income policy, the general aim being further expansion of production, raising of agricultural income, and protection of family holdings. One of the fundamental objectives of French production policy is the encouragement and development of the production of meat and dairy products at the expense of commodities such as sugar, wheat, potatoes and wine for which profitable outlets have become increasingly difficult.

50. Although this tendency in recent agricultural policies is still in its early beginnings in many countries and has so far not produced tangible results, except in a few cases, the two first annual reports of the Ministerial Committee for Agriculture and Food of O.E.E.C. clearly indicate that these considerations are coming to the forefront.

7. Fluctuations of retail prices

51. Explanatory Note The following analysis of the relation between retail price fluctuations and market price fluctuations is primarily based on two sets of diagrams: the one — relating to market prices — being in most cases taken from Appendix II of document AS/Agr (9) 19 re-calculated to an index basis of 1954 = 100, the other — relating to retail prices — being derived from national statistics and related to the same index basis. The choice of 1954 as index basis permits the comparison of the evolution of the two price sets from this year onwards. The survey covers the following countries: Belgium, Denmark, France, the Federal Republic of Germany, Italy and the United Kingdom. It is limited to a description of the correlation between producer prices (market prices) and retail prices. Needless to say, comparisons from country to country must be made with the utmost caution in view of the inevitable divergences in the underlying data. Retail prices in most cases refer to specific products of unprepared meat; in the choice of the product the most representative specifications have been used as far as possible. In order to permit comparisons with a couple of other specifications, a third (dotted) curve has been inserted to the graphs on pork prices for France and Germany indicating the retail price evolution of a prepared product (cooked ham) and a less representative specification (side meat of pig), respectively. As for Italy the statistics indicate retail prices only for beef in general and for pork in general. In the case of the United Kingdom, the statistics indicate only one overall retail price for all meat; the comparison has consequently been made with the corresponding overall producer prices.

2. Report of the British Government on the Annual Review and Determination of Guarantees, 1955.

52. General Remarks As may be gathered from the graphs, retail prices to some extent do follow the fluctuations of market prices. The amplitude of retail price fluctuations is, however, generally smaller than that of market prices. The "span" between the price received by the producer and the price paid by the consumer for meat is difficult to assess with any exactitude. Very loosely it may perhaps be estimated to be of the order of 30 to 50 per cent. (i.e. the producer thus receiving 70 to 50 per cent. of the price paid by the consumer). In any case it may be taken for granted that the "span" varies considerably from one country to another, as well as from one locality to another owing to differences relating to taxes and duties, the relative number of trading units, the state of organisation of the market, the state of development of standardising measures, specialisation of production, trade and sales, etc. The difference between production and consumption price covers costs which can be divided into three main components:

- a. Costs related to the value of the commodity: insurance, interest, commission, taxes and profits, etc., i.e. costs charged as percentage on the value of the commodity;
- b. Costs related to volume of trade: transport, slaughter-house fees, veterinary control, storage and feeding costs in connection with transport and storage, packing costs, etc., i.e. costs charged per weight unit;
- c. Other costs, i.e., general or fixed costs such as hire and rents of buildings, wages, coal, electricity, etc.

Obviously, fluctuations in producer prices directly affect only that part of the "span" which is related to the value of the commodity. One would therefore expect percentage fluctuations in retail prices, other things being equal, to be lower than percentage fluctuations of market prices. For instance, on the assumption that costs related to value constitute roughly 40 per cent. of the "span", an increase of 10 per cent. in cattle prices should be followed by an increase of the "span" by 4 per cent. and a total increase of the retail price by between 7.0 and 8.2 per cent., depending on whether the span between producer and retail prices is 30 or 50 per cent. In the following section the graphs will be evaluated in the light of these considerations.

53. Beef cattle and beef meat³ Generally speaking, prices to producers as well as retail prices rose throughout the period. It is worthy of note that retail prices regularly rose when producer prices rose and as a rule remained at the new higher level even when producer prices subsequently fell. In the case of Belgium and Denmark, for instance, a rise of the average market price of about 10 per cent. and 8 per cent., respectively, between 1954 and 1956, was followed by a rise in retail prices of about 10 and 12 per cent., thus indicating an increase in the margin of distributive trade. On the other hand, the corresponding figures in France show a heavy rise from 1954 to 1956 of 29 per cent. for market prices and of only 19 per cent. for retail prices; the latter thus seem to have moved within appropriate limits as compared with market prices. In Germany and Italy the increase of market prices from 1954 to 1956, was of about 13 and 15 per cent., respectively, whereas retail prices rose about 10 and 12 per cent. The cause of the general rise in prices may be sought partly in inflationist tendencies; another reason, however, may be that demand for beef meat in several countries appears to have been particularly heavy during recent years inciting and enabling dealers to retain the higher prices set off by a rise of producer prices, even when the latter subsequently declined.

54. Pigs and pork As compared to the more or less uniform rise in beef prices, the graphs for pork and pigs show a greater divergence of price developments. With respect to Denmark, the graph indicates a rather steady rise from 1954 to 1956 by 12 per cent., for prices to producers and some 15 per cent., for retail prices. Although the consumption of pork and bacon remained almost unchanged, while consumption of beef and veal rose, from 1954 to 1956 by 34 per cent., pork is still in high demand in Denmark. In 1957 when producer prices fell sharply, retail prices declined far less, but a temporary recovery of the former was promptly reflected in a corresponding rise of retail prices. In France, a fall of pig prices from 1954 to 1956 by about 12 per cent. was followed by a fall in retail prices by about 8 per cent.; in 1957 the rapid rise of producer prices had not up to the autumn offset any major rise of retail prices. Pork in France is not demanded to the same extent as beef meat, except perhaps in the form of prepared products, such as ham and "charcuterie". Retail price movements for such a product are illustrated by the dotted curve which shows the evolution for ham (jambon cuit de Paris). This curve has not followed the evolution of market prices but after an initial increase remained stable throughout 1955 and 1956 until in 1957 this stability gave way first to a decline and subsequently to a rapid price increase following the increase of producer prices. Owing to strong consumer preferences the demand in Germany remained relatively unaffected by price fluctuations, which accounts for the fact that retail prices for pork in Germany have shown a strong tendency to rise as compared to producer prices. This is especially true in the case of the so-called cutlet ("Kolelett") for which the graph shows that a decline of about 2 per cent. from 1954 to 1956 in the producer price was followed by a rise in retail price of

3. The United Kingdom will be dealt with separately at the end of this section because it was only possible to produce a graph showing the evolution for all meat and bacon combined and thus not comparable with other charts.

about 5 per cent; for 1957 the picture is very similar. On the other hand, the dotted line for side meat, a specification which is not submitted to the same pressure of demand as cutlets, shows a development much more closely linked to producer prices. Thus, in 1955 when average market prices declined by 10 per cent., the average retail price for side meat also fell by nearly 10 per cent. As for Italy, the remarkable feature is that during the period under review retail prices did not at all follow producer prices. While the latter fell by more than 20 per cent, from 1954 to 1956-1957, retail prices remained fairly stable on a level slightly above the starting point. At least part of the explanation may be that only a limited group of consumers eat pork meat and they do so without much regard to prices. The low price elasticity of demand would thus account for the ability of traders to retain high retail prices once these have been established.

55. The United Kingdom It was only possible to present a graph on retail prices for the group of " all meat and bacon ". Consequently, also the graph on market prices has been computed to reflect a weighted average price of cattle and pigs. Average market prices for 1956 ranged about 7.5 per cent, above those for the second half of 1954, while retail prices rose to a level of about 12 per cent, above that of the same period in 1954. Owing to the importance of imports, the curve on prices to producers is directly representative only for about 59 per cent, of total consumption and the curves B and C therefore added to show the price fluctuations of some representative imported meat products. These curves show that (a) prices of imported bacon from 1954 to 1956 increased less than the U.K. pig prices, and (6) that the fall in price of imported beef meat was more pronounced than the fall in domestic prices of beef cattle. These facts taken into consideration, it may be presumed that the tendency of a widening " span " between retail prices and producer prices is even more pronounced than indicated above. To sum up — as far as conclusions can be drawn from a limited inquiry covering a rather short period — it would appear, first, that retail price movements in general show less pronounced short-term fluctuations than producer prices, a result that confirms the established impression of the greater inertia of the former prices. Secondly, it would appear that there is a tendency for a widening " span " between prices paid by the customer, a tendency that is particularly prominent for pigs and pork in Germany and Italy.

8. Concluding remarks

56. Livestock production and agricultural production in general have expanded very rapidly since the war for a combination of reasons: sustained demand, price and income support policies and improved techniques. This expansion is likely to continue as a result of past and present efforts. There is thus a need for measures to ensure a parallel increase in consumption, it being generally estimated that consumption of quality foods such as meat, dairy products, fruit and vegetables would increase materially in most west European countries if real income per capita were higher or retail prices lower. To the extent that, through greater efficiency, the costs of production and distribution, the burden of subsidies and other price and income supports and, hence, the final consumer price could be reduced, the way would be paved for a further expansion of production at adequate levels of remuneration for the farming community.

57. It has been seen that livestock prices have, on the whole, developed more favourably than prices for basic crops. But, apart from this, the evolution of livestock prices in the period reviewed does not appear to have followed a clear uniform trend. Variations in the direction and amplitude of price fluctuations have been considerable from country to country, although it may be said that livestock prices have been relatively speaking, the least unstable in the three most important exporting countries, Denmark, Ireland, the Netherlands, where subsidies are of small or no importance.

58. It must be emphasised that the description and analysis of livestock price fluctuations given in the preceding pages is a very tentative one. Production and marketing conditions in the agricultural sector are probably more heavily regulated by the State and/or by producers' and wholesalers' organisations than in any other sector. Any serious enquiry into the causes of price-developments is therefore a time-consuming and difficult task. In the short time available it has not been possible to pursue the enquiry to the point where solid conclusions could confidently be drawn. The present paper is thus no more than a first attempt to present the facts and define the problem.

59. It therefore only leads up to, but does not answer, the basic questions: are price fluctuations of livestock products, generally speaking, abnormally violent? Do price and production levels correspond as closely to basic economic conditions as is possible, full account being taken of prevailing social and security objectives? What are the effects on price developments of present policies of intervention in international livestock trade, and by what means could conditions be improved in this field. It is sufficient to formulate these questions to realise that they involve complex studies of price developments in other sectors as well as delicate assessments of general economic and social policies.

60. While it is thus not possible at the present time to give any exact evaluation of the price structure of live-stock products, on general grounds it appears permissible to say that more efficient production and marketing of these products and of the feeding stuffs on which they depend is the key to real progress. Efforts in this direction as recommended by the Ministerial Committee on Agriculture and Food of O.E.E.C., undoubtedly constitute an imperative necessity if the advantages of wider markets and greater specialisation enshrined in the idea of a Common Market or a Free Trade Area are to be realised.