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THE DEVELOPMENT OF BRITISH AGRICULTURE IN AN ENLARGED EUROPEAN COMMUNITY

BY

T. Josling

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1 Introduction

The accession of the UK, Denmark, and Ireland to the European Communities will bring major changes in the market for agricultural goods in these countries. These changes will be watched not only by the farming sector but also by consumers, and those concerned with economic and commercial policy. The UK in particular will be required to undergo substantial modification in the method of support and in the relative and absolute price levels of farm commodities. Britain is at present a large importer of hard-wheat, butter, cheese, fruit, maize, sugar, bacon, beef, and lamb. The country is self-sufficient in pork, poultry meat and eggs, and occasionally exports barley and meat of a specific quality. The introduction of EEC import regulations will directly influence trade volume and patterns. The reaction of British governments, consumers, and farmers to these changes will influence the development of the CAP and the progress of integration in other fields. The potential trade effects will overshadow the discussion of agricultural trade policy in the forthcoming GATT negotiations, and be a factor in other areas of diplomacy. The Community for its own domestic purposes will have to anticipate the effect on the working of the CAP of the enlarged agricultural market. Attitudes on all these matters are being formed at the present, and each requires some prognostication about the implications of enlargement on the applicant countries. In particular since Britain is both the largest of the new members, and is the country most affected by the changes

in policy required by entry, it is necessary to have some idea as to the future developments in agricultural markets in that country. Will increased cereal production and decreased usage lead the EEC as a whole toward self sufficiency in grains? Will there still be a market for Caribbean sugar or New Zealand dairy products? This paper will attempt to throw light on some of these questions.

There have been a number of published studies in the last few years which have looked at the future development of UK agriculture. The best known of these are those by George Jones at Oxford (1), Michigan State University (2), the Department of Land Economy at Cambridge University (3), and the Agricultural Adjustment Unit at the University of Newcastle upon Tyne (4). In addition there has been a study on future cereal demand by Sturgess and Reeves (5). Several other institutions have commissioned or collated work on projecting aspects of the UK market, in particular the Meat and Livestock Commission, the Home-Grown Cereals Authority and the Economic Development Committee for Agriculture (1). Moreover there has been a considerable amount of work done at Universities on the development of models capable of projection (2). In the light of all this the task of discussing the future of agriculture would seem easy. But the proliferation of studies appears on the surface to heighten the uncertainty. What follows is a subjective interpretation based on a personal assessment of these studies, rather than a formal reconciliation of their findings.

2 Broad Implications of Enlargement

There is general consensus on the broad implications of Community membership on the farm sector, however much discussion might remain on the extent of change. Prices and profitability of much of British farming will rise, but consumers will be faced with a more burdensome support policy. The main qualitative effects are as follows:

2.1 Overall Effects on Producers:

i) An increase in prices which is guaranteed over the transition period, barring a change of government in the UK or of policy in the EEC. This price rise is not out of line with recent experience, but it is assured as part of the transition rather than being left to the annual discussions with the Ministry. Table 1 gives an indication of the present gap between UK and CAP price levels, and also an estimate of the annual price rises needed to close the gap by 1978. The third column shows the recent trends in UK prices. Built into the estimates is a small rise in EEC prices over the period. Barley appears to improve its profitability relative to wheat, an effect which will be reinforced by the removal of the fertiliser subsidy. Farmers selling milk and growing sugarbeet will have to plan on price increases well below their cost changes.

ii) A relative switch in profitability towards cattle and grassland production away from mixed farms and those rearing pigs and poultry. Gross margins for intensive beef, sheep, and some pig enterprises are expected to decrease because of extra feed costs. Brian Davey has calculated on the basis of optimal farm programmes that real incomes of cattle farms could rise significantly over the next few years, whereas those of pig and poultry farms may decline. Table 2 shows the estimated change in income for seven representative farm types. The extent to which grassland becomes more profitable as grain prices increase will obviously effect the predictions of grain production. But on the face of it, many farmers will choose to expand grain acreage

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- 1) Each of these institutions can provide Details of these studies and publications. Numbers in parentheses refer to the list of studies appended.
 - 2) See in particular the work by Colman (6) and others at the University of Manchester.

Table 1: Present relative price levels in UK and EEC and anticipated annual increases in UK farm prices during transition period 1973 - 1978 (percentages)

	(1) Present UK price as proportion of EEC price	(2) Implied price rise per year in UK	(3) Annual UK price rises 1966/7 - 1970/1
Wheat	77	6.5	6.6
Barley	74	8.0	6.3
Cattle	81	4.5	5.7
Pigs	92	4.0	4.5
Milk	96	2.0	2.3
Sugar beet	93	1.2	5.5

Sources: Price projections from Agricultural Adjustment Unit, University of Newcastle upon Tyne; past prices from UK Annual Review White Papers, HMSO, London.

Table 2: Projected changes in farm income for selected farm types, 1969 to 1978, UK (percentages)

Farm Type	Change in money income	Change in real income
Small dairy	+ 62	+ 14
large dairy	+ 77	+ 29
cattle rearing	+ 85	+ 37
sheep rearing	+ 55	+ 7
cereals and arable	+ 58	+ 10
mixed	+ 45	- 3
pigs and poultry	+ 16	- 32

Source: B.H. Davey: Supplies, Incomes and Structural Change in UK Agriculture. Agricultural Adjustment Unit, University of Newcastle upon Tyne 1972.

where not constrained by rotation or disease. There will probably be an intensification of cereal production on land already used for that purpose.

iii) One can also expect more amalgamation and a further reduction in the number of smaller farms. Davey has also calculated the possible distribution of farms by size group. These estimates are given in Table 3. The number of farms requiring less than about four man years of work could drop by 25 percent by 1980.

iv) Farmers will be subject to more price uncertainty than in the past. The deficiency payment system acts as a guarantee in a way not inherent in a levy-intervention-restitution system. There will be more regional differentiation in prices—perhaps even in milk, where at present farmers in remote areas receive the same payment as those on the city doorstep. Small grain farmers in surplus areas could receive prices much lower than these near a major port, feed firm, or distillery.

v) Farmers will have an incentive to cooperate in marketing their produce. The deficiency payment system has given no such incentive, and cooperation is behind many continental countries.

Table 3: Projected changes in farm numbers, by standard labour requirements, UK, 1980 1)

No. of Man Years	thousands of farms	
	1968	1980
1 - 2	62.3	39.2
2 - 4	46.7	33.6
4 - 6	14.1	14.3
over 6	14.4	18.4
Total	137.4	105.4

1) Only full-time farms included, i.e. those with a standard labour input of more than 275 days per year. The standards are applied to the output pattern of each farm and do not represent actual labour use on the farms concerned.

Source: B.H. Davey: Supplies, Incomes and Structural Change in UK Agriculture. Conference Paper No. 6, Agricultural Adjustment Unit, University of Newcastle upon Tyne, 1972.

2.2 Overall Effects on Consumers:

i) An increase in the price levels for consumers arises both from a change in the system of support and also from a rise in the general level of farm gate and wholesale prices. Counter-acting this to some extent is the decreased burden on the consumer as taxpayer. But there is an income distribution effect which cannot be ignored. The burden of the deficiency payments system falls approximately in proportion to the "final income" of households 1). The proportion is approximately one percent. The burden of the support under CAP regulations rises to over 5 per cent for low income households and these with large families.

ii) Consumers will attempt to switch to goods which substitute in their consumption pattern for those which have increased in price. In particular this is expected for beef, where other meats can be purchased, and for butter, where margarine is a ready alternative. Users of farm products, in particular feed merchants are also expected to switch purchases to substitute feeds, as has already happened in the Netherlands. This would keep the price to the farmer of concentrate feeds down below what would otherwise be the case.

2.3 Overall Effects on the Economy:

i) The burden of the Community budget, in particular when the full financial arrangements are in operation will imply a significant net transfer in real income and foreign exchange terms out of the country. This will concentrate pressure by the UK government to reduce the overall price levels in the EEC, whilst at the same time making the government more anxious to see an expansion of domestic production.

1) Final income refers to household income after direct taxes have been subtracted and an allowance made both for indirect taxation and for the consumption of government financed goods and services. For a full analysis of the income distribution effects of agricultural policy in the UK, see T. Josling and D. Hamway "Distribution of Costs and Benefits of Farm Policy" in T. Josling et al., Burdens and Benefit of Farm-Support Policies, Trade Policy Research Centre, London 1972.

ii) There will be some incentive to switch to EEC supplies for imports of food, though the scope is limited. This may hit the export possibilities for UK goods in overseas markets, whilst stimulating trade with other members. The import bill for temperate zone foodstuffs may not increase 1); in fact the greater the disruption of world trade the less is the effect on the UK economy through the depression of the value of sterling.

iii) There will be a tendency to encourage domestic production into those goods where the country will receive payments from FEOGA. The government will have the difficult task of deciding between a reorientation of farming to benefit the country at the expense of the other members and a structure and production pattern which accords with Community objectives.

iv) Any weakness in sterling will be blamed in part on the CAP and the further price rises if the pound is devalued relative to the unit of account will generate further pressure to reduce those prices.

v) There will be a major income redistribution problem facing the government in offsetting the effect of higher food prices on pensioners, those with large families, and the poor. Food price rises will add to inflationary wage demands and make price restraint more difficult.

3 Estimated Market Balance for Major Commodities

3.1 Cereals

It is generally agreed that the UK will continue to import hard wheat from Canada to mix with other wheats to make the type of bread to which the British consumer is accustomed. Similarly, there will be a small market for imported maize in feeding, distilling and food processing industries. But recent studies have pointed to the possibility of a decreasing total consumption of grains, depending on the degree of substitution of non-grain feeds and of grass. More contentious is the future level of grain production in the UK. Table 4 gives a possible market balance for three different levels of cereal output. Since the present level of production is already

Table 4: Market Balance for Cereals in UK, 1968 and Projected figures for 1980, under different production levels

	1968	low	1980 medium	million m.t. high
Production	13.4	16.0	18.0	20.0
Imports 1)	8.4	5.6	5.6	5.6
Consumption	21.7	19.3	19.4	19.7
Export balance	-	2.3	4.2	5.9

1) "non-competitive" imports of hard wheat and of maize for food and feed use.

Source: adapted from Sturgess and Reeves, *op. cit.*.

at 14 million tons, a rise to 16 m.m.t. is possible with no change other than a small yield increment. Some estimates have placed grain production above 20 million tons, but this requires a reduction of grazing land and an intensification of farming which is unlikely. But even a mid-point estimate of 18 million tons suggests a surplus to be exported or stored of 4.2 m.m.t.

1) See Tim Josling "The Agricultural Burden; A Reappraisal" in J. Pinder ed., *The Economics of Europe*, Charles Knight, London 1971.

of British grain. There appears little prospect of the UK becoming a major new outlet for European production. If these changes occur in the UK grain market then pressures will increase for a change either in the grain price or in the system which prices it out of the market for animal feeding stuffs. Some form of further differentiation between producer price (or income) and user cost may become attractive in the next few years 1).

3.2 Meats

Substitution in consumption is also expected among meats. Recent price rises in beef have confirmed the flexibility of consumers to shop around for cheaper meats. But the drop in consumption of beef suggested in Table 5 is only of the order of 1,5 per cent per year. It would be misleading to associate such a development with a radical change in food buying habits. Exporting countries on the other hand may regret the loss of the traditional British market. Pigmeat

Table 5: Market balance for redmeat in UK, 1968 and projected figures for 1980

	thousand m.t.					
	Beef and Veal		Pigmeat		Mutton and Lamb	
	1968	1980	1968	1980	1968	1980
Production	906	1,063	826	1,122	247	264
Consumption	1,130	1,063	1,216	1,470	582	738
Import balance	224	-	390	348	335	474

Source: adapted from J. Ferris et al., op. cit.

imports are also expected to decline somewhat; mutton and lamb, by contrast, may in fact be more in demand. There will be considerable pressure from the British government to resist any introduction of a levy system for lamb which would make it an expensive meat. New Zealand may take heart from the indication that at least one primary product market is expanding. The contraction of pigmeat imports will cause problems for the maintenance of the price levels within the Community; if a significant part of Danish production had to be bought off the market and exported with restitutions then the costs of this part of the policy would escalate from their present low level.

3.3 Dairy Products

For dairy goods the prospect is again of consumer substitution- this time in favour of a product, margarine, which is not based on European farm production. The serious cutback in the size of the import market for butter and cheese will cause trading problems. It may be that here again, as with grains, farmer prices and profits might have to be separated from the cost to the consumer. An auxiliary payment scheme administered through dairies and cooperatives to give a guaranteed minimum price in place of the intervention system would alleviate both domestic and international tensions 2). The projected cutback in butter consumption despite rising incomes and

- 1) The denaturing premium already performs this function for wheat. What is suggested is a similar premium for all grains. See the proposal in F. Mc Fadzean et al., *Towards an Open World Economy*, Macmillan, London 1972.
- 2) This change is one of many constructive proposals put forward by the late Professor Horring, in J. Horring "European Agricultural Policy: A Dutch Viewpoint" in H. Priebe, D. Bergmann, and J. Horring: *Fields of Conflict in European Farm Policy*. - Trade Policy Research Centre, London 1972.

Table 6: Market Balance for Dairy Products in UK, 1968 and Projections for 1980

	thousand m. t.					
	Liquid Milk		Butter		Cheese	
	1968	1980	1968	1980	1968	1980
Production	8025	8520	54	66	110	277
Consumption	8025	8695	494	433	276	320
Import balance	-	175	440	376	166	43

Source: adapted from J. Ferris et al, op.cit.

population can have only harmful effects on the operation of the CAP. The projections of production, consumption and trade are given in Table 6; the magnitude of the changes are supported not only by several studies but also by recent evidence when the UK price for butter and cheese rose sharply.

3.4 Other Commodities

Other goods of major interest to British farming are poultry products and sugar. Table 7 gives projections for these commodities. For poultry meat and for eggs a small exportable surplus is anticipated for 1980. But since these products are not afforded the same degree of price support,

Table 7: Market Balance for Other Commodities, UK, 1968 and Projections for 1980

	thousand m. t.					
	Poultrymeat		Eggs		Sugar	
	1968	1980	1968	1980	1968	1980
Production	490	722	900	1,028	910	917
Consumption	509	688	855	1,008	2,937	3,407
Export balance	-	34	45	20	-	-
Import balance	19	-	-	-	2,027	2,490

Source: adapted from J. Ferris et al., op. cit. and A. McFarquhar et al., op.cit.

it is likely that the balance will be absorbed by price changes and that trade will be negligible. Projecting change in the sugar market is hazardous. There is likely to be some increase in consumption. But the extent to which production increases depends on the allocation of quotas to farmers. Under the present British system, individual farms are restricted in the acreage of sugar beet that they can plant. A relaxation of this to conform with the CAP scheme for an overall market quota on which the full price is paid would allow considerable expansion of production even if a quota were fixed for the UK. But the Community has committed itself to catering for the needs of the developing countries which are dependent on sugar exports. Many people will look upon arrangements in the sugar market as an indication of the attitude of Europe to the third world. The renegotiation of the Commonwealth Sugar Agreement will provide an opportunity to the EEC to share in the obligation to sugar cane producers embodied in the CSA.

4 Concluding Remarks

There is no significant income gap in British agriculture. Income levels are widely dispersed,

but no more so than in the economy at large; average incomes compare favourably with other sectors. There is little evidence that the labour market does not function adequately in providing alternative employment. There is no peasant class, though traditional patterns of hill farming require large subsidies to maintain their viability. Capital is not hard to come by, though farmers will pressure the government to introduce cheap credit facilities to keep in line with continental practice. Farmers in the UK respond quite quickly to price incentives. All this presents special problems for those running the CAP. British agriculture has the capital and the knowledge to expand to meet the opportunities created by the CAP. This will occur irrespective of the desirability of such expansion from the point of view of market balance within Europe. Similarly consumers will be aware of and will react to the changed relative and absolute price levels. This again will cause fundamental problems for the CAP. The challenge for Europe is to react to these changes and to make the farm policy sufficiently flexible that it can assimilate the new members without causing tensions that would interfere with the development of the Community and its relations with the outside world.

Recent Studies of UK Agriculture

- 1 USDA, United Kingdom: Projected Level of Demand, Supply and Imports of Agricultural Products, 1970, 1975 and 1980. Washington 1969.
- 2 J. FERRIS et al.: The Impact on US Agricultural Trade of the Accession of the UK, Ireland, Denmark and Norway to the European Community. Institute of International Agriculture, Michigan State University, East Lansing, 1971.
- 3 A. MC FARQUHAR, S. MITTER, and G. ANEURYN EVANS: A Computable Model for Projecting UK Food and Agriculture. In: A. MC FARQUHAR (ed), Europe's Future Food and Agriculture, North-Holland 1971.
- 4 B. DAVEY: Trade and the Changing Structure of Farm Production', in: T. JOSLING et al., Burdens and Benefits of Farm-Support Policies, Trade Policy Research Centre, London 1972.
- 5 I. STURGESS and R. REEVES: The Potential Market for British Cereals. Agricultural Adjustment Unit, University of Newcastle upon tyne, 1972.
- 6 D. COLMAN: The United Kingdom Cereal Market. Manchester Univerity Press, Manchester 1972.