EAST OF SCOTLAND COLLEGE OF AGRICULTURE
ECONOMICS DEPARTMENT

A Guide to Agricultural Support Policies in Britain and the E.E.C.

D. Ray

Report No. 101

July 1971

CORRECTIONS

Page 23

Para. 6 Line 3.
should read.

..... 5%, the guaranteed price falls by around 5% .....

Para. 8 Line 3.
should read:

..... per cwt) then the guaranteed price rises by
1p per score (i.e. .....

Page 25

Para. 2 Line 3.
should read:

..... price is based on an acreage quota. Whereas
in England .....

Para 2. Line 5.
should read:

..... to the factory, Scottish growers .....

Page 47

should read:

'pigs ..... les porcs.'

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Foreword

Since the passing of the Agriculture Act in 1947, Government involvement in agricultural policy has increased to a marked extent and inevitably, the mechanisms of agricultural support have become progressively more complicated.

With the prospect of entry into the Common Market, an understanding of the U.K. and E.E.C. agricultural support systems becomes essential and in this booklet, the operation of the two systems is discussed in a series of questions and answers.

R. F. LORD
Head of Economics Department

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A. The Problems of Agriculture

1. What is the present state of world agriculture?

As far as temperate agriculture is concerned, one of excess production (see glossary). Surplus production of cereals in North America emerged in the 1950s and was partly absorbed by the hungry, 'Third World'. The development of high yielding cereals and new techniques has now increased output in these poorer countries and markets for North American cereals have contracted. In the U.S.A. policies designed to limit acreage have failed to eliminate the surpluses.

There has also been excess production of other commodities such as dairy products, sugar and wool in North America, Europe and Australasia.

2. How does the U.K. fit into this picture?

The U.K. is the largest market in the world for exported temperate foodstuffs. It is also the only major free market unimpeded by import levies or tariffs (see glossary). Many of the U.K. food imports are subject to market-access agreements or quota arrangements but these serve partly to protect exporting countries from 'unfair' competition (see glossary - Dumping). About a third of all U.K. food requirements and about a fifth of U.K. temperate food requirements are imported. However, the output of home agriculture is rising faster than home demand and imports are gradually being replaced by home production. The increasing output is a result of government support policies (see Q.25, 26) and the cost price squeeze (see Q.8).

3. Why is the demand for food in the U.K. rising only slowly?

(a) Because people have a limited capacity for food and spend higher incomes on other goods and services (see Q.8 and glossary).

(b) Because population in the U.K. is increasing slowly (at about 0.7% per annum).

4. What is the role of the U.K. government in agriculture?

Since the 1947 Agriculture Act it has been to stabilise prices (see Q.7, 9) to support farm incomes (see Q.8, 10) and to encourage greater productivity (see Q.12). The methods used have been deficiency payments, direct grants and trade agreements (see Q.25, 26).

5. How is this role likely to change in the 1970s?

The government is changing the manner of the support of agriculture. Direct payments to farmers are to be replaced by higher market prices. The free importation of food will be replaced by levies on imports. This new U.K. system will dovetail more smoothly with the present E.E.C. system than did the old. (see Q.26).

6. Why do governments involve themselves with agriculture?

(a) Because by the very nature of the market for foodstuffs, (see Q.7), prices would vary a great deal unless governments stepped in. Such price variations would mean that farmers were impoverished from time to time and also that the cost of living for the rest of the country varied uncontrollably. Food prices are too important to be left solely to the forces of supply and demand.

(b) Because farm incomes tend to fall behind other incomes. (see Q.8).

7. Why are agricultural prices so unstable when governments do <u>not</u> intervene?

Production is carried out on a large number of small, independent farms. The weather and disease makes farming risky and the output which farmers plan to produce may be quite different from the output they actually achieve. The demand for food is price inelastic (see glossary); more food can only be sold at much lower prices, whilst a short fall in supply causes a more than proportional rise in price. Thus there is the irony that in a free market, farm incomes are higher when there is a bad harvest than when there is a glut. Prices may be made even more

unstable by farmers trying to produce and sell more food when prices are low in an attempt to increase their incomes. This of course only drives prices lower and again total revenue falls.

8. Why do farm incomes tend to fall behind other incomes?

Because, when economic growth takes place, manufacturing and service industry incomes always rise more rapidly than farm incomes. The reason is that the income elasticity of the demand for food is low (see glossary); increases in incomes lead to less than proportionate increases in the demand for food.

Looking at the economy as a whole, a rise in income leads to a less than equal rise in the demand for food and a more than equal rise in the demand for consumer goods and services. Unless the supply of food rises proportionately slowly and the supply of other goods and services proportionately quickly, there will be an excess supply of food and an excess demand for other goods. Food prices will fall (or if there is inflation, stand still) whilst the prices of goods and services with income elastic demand - consumer durables, packaging - and so on - will rise.

The answer, of course, is for the supply of food to increase slowly and in line with demand. This can occur in one of two ways. Either the amount of land, labour and capital employed in agriculture stays constant and productivity (output per resource) increases slowly, or resources leave agriculture and productivity increases rapidly. If the former happens, food prices are stabilised but because output per man increases relatively slowly, so does income per man and the earnings gap remains. Only by resources leaving at a rate that almost balances the rise in productivity will both food prices and agricultural incomes maintain their relative position.

The trouble is that if there is no income gap, there is precious little reason for resources to leave agriculture! Thus the income gap is never quite bridged.

The argument can be applied to imported food as well as to home produced food. In the U.K. around 40% of all foodstuffs consumed and about 20% of temperate foodstuff, are imported. So

long as output per man in the food exporting countries increases food supplies by more than rising incomes and rising population increase the demand for food in the U.K., the price of imported food will fall. Without government support this will reduce the prices farmers receive and therefore their incomes.

In fact, non-agricultural prices constantly out-rise food prices and this leads to the familiar 'cost-price' squeeze. Interest rates, wages, factory raw materials, transport costs and so on are determined in the economy as a whole and will, therefore, increase relative to food prices, reducing farm incomes.

9. What methods can governments take to overcome price fluctuations?

To overcome unstable markets, governments can guarantee farmers certain prices and prevent excessively cheap imports upsetting markets. Where there are no imports the government can control acreage and livestock numbers through direct subsidies or quotas. Such policies may involve the government in buying up surpluses, carrying 'buffer stocks' from one year to another and selling in times of shortage. Finally, by encouraging research into disease, weather forecasting plus other services the government can eliminate at least some of the causes of price fluctuations.

10. What methods have been made to overcome the income problem?

Governments have two alternatives. Either they can prevent excess supplies from coming onto the open market and driving the prices that farmers receive down (as they do in the E.E.C. through import restrictions and official buying up policies). Alternatively they can let market prices fall, but hold up farm incomes through direct subsidies (as they do in the U.K., though as is explained below, the government puts limits on the extent to which market prices are left to fall on their own).

In the long run, neither strategy can solve the income problem without other measures designed to take resources out of agriculture (see Q.12).

11. Should the government encourage increasing output at all?

Obviously if home supplies can displace imports either by imports being made dear (E.E.C.) or by home producers being reimbursed by the government for lower market prices (U.K.) then home production can be encouraged. Once self-sufficiency is achieved, increased supplies must be limited to increases in the demand for food.

12. Should the government encourage increasing productivity?

Yes. Unless output per farm is increased, income per farm cannot rise without a steadily rising exchequor subsidy. However, if the productivity of farms is to be increased but total output is to rise less quickly, there can be only one result; the number of farms must fall (see Q.8). Thus, although the government should encourage greater productivity by aiding investment, fertiliser subsidies and so on, it must also prevent output rising too fast.

These policies designed to let some farmers obtain higher incomes at the expense of other farmers who are squeezed out of agriculture are often called Structural Policies. They include grants for amalgamations and pensions for retiring farmers.

B. The Role of International Trade

13. Why not encourage agricultural production to replace all U.K. food imports?

This would set the clock back to the days when international trade was restricted in the 1930s. The major reason for the economic boom in the world since 1945 has been the growth of world trade; it has expanded in volume at a rate of 10% p.a. Only through trade can nations specialise and achieve lower costs and greater output, thus increasing real incomes.

If the U.K. limits imports then:-

(a) Industries in the U.K. that were based on cheap imports now have higher costs and consumers have to pay more for less output (e.g. consider livestock fattening based on cheap maize imports; limit the imports and you limit the output).

(b) The exporting country is no longer in a position to buy U.K. exports. Although the direct effect may be small, the world effect is to reduce the level of trade and therefore the level of incomes in the importing and exporting countries (i.e. incomes will be lower than they could have been with free trade).

14. Why not go to the other extreme - rely entirely on imports?

Firstly, because of the need to keep the land in good 'heart' and a certain minimum level of production in case of political or military threats to U.K. trade routes. Secondly, because the U.K. relies greatly on trade, it has frequently been forced to sacrifice economic growth and full employment in order to correct the balance of payments. Therefore, some import-saving can be justified, even if at the expense of economic efficiency. Thirdly, the output of farming is more than the food produced; the beauty of the countryside plus the educative and recreational benefits which farming provide should all be weighed in the scales when assessing the contribution of agriculture to the U.K.

15. What will be the optimum balance between home produced food and imports?

In theory this will depend on the relative productivity of factors of production in agriculture and industry in the U.K. compared with countries overseas. In practice, social, political and domestic economic pressures decide the final balance. 50 years ago the U.K. was 40% self-sufficient in food; now it is 60%. The U.K. government has encouraged the production of cereals and beef relative to other commodities since 1968 and the percentage produced at home looks like increasing as a consequence (for cereals from 40%, for beef from about 80%).

16. How can agricultural support policies minimise the damage to trade whilst providing sufficient home protection?

Obviously the deficiency payments system causes less harm to trade than the import levy system. However, both restrict trade. Any new support measures should be fully discussed with the main exporting countries liable to be affected. This will allow them

to prepare for the new measures and give them less desire and less need to take retaliatory measures against U.K. exports.

Secondly, major suppliers can be recognised and given market access agreements. Although importing countries want the cheapest possible imports, they want regular supplies as well. Occasionally countries with surplus production 'dump' supplies abroad at very low prices (see glossary); such imports often do more harm to domestic markets than their cheapness is worth. Thus trade agreements benefit both importer and the consensus of genuine exporting countries.

17. What international agreements govern U.K. food imports?

Firstly, there is the General Agreement on Tariffs and Trade (G.A.T.T. - see glossary). Secondly, there is the Commonwealth Preference Agreement (see glossary). Thirdly, there are bi-lateral agreements between the U.K. and Eire, Denmark, Argentina, New Zealand and Australia (see glossary). Fourthly, there are commodity arrangements for the main imported foodstuffs:

a. Cereals: The U.K. has bilateral arrangements with about 20 'co-operating' countries. These countries agree to maintain the prices of their imports above a certain minimum level (e.g. £29.25 for wheat). This is further discussed below. (See Q.27 and glossary - m.i.p.). The arrangements end in 1971.

b. Bacon: The Bacon Market Sharing Understanding is effective until 1972. This guarantees a number of countries their share of the import trade (notably Denmark but also Eire, Poland and several other countries).

c. Butter: A similar arrangement exists for butter, although here each country is awarded a physical quota. New Zealand, Denmark, Eire and Australia are the main suppliers - and each has a bilateral agreement with the U.K.

d. Sugar: Under the Commonwealth Sugar Agreement, the U.K. buys a set quota of about 1.6 million tons of white sugar from Commonwealth producers at a relatively high guaranteed price (the main countries involved are Australia, Fiji, Mauritius,

Guyana and the West Indies). The U.K. imports a further 0.1 million tons at the world market price, partly from non-Commonwealth countries. Home production of sugar beet supplies about 0.9 million tons of white sugar. In the past the world price level has been depressed by chronic sugar surpluses. However, the International Sugar Agreement (see glossary) has resulted in substantial price rises on the world market.

e. Beef: A bilateral agreement gives Argentina market access and the right to notification of any changes. It is very much a 'gentleman's agreement'.

18. What are the overall effects of these agreements?

It has been argued that they make U.K. patterns of trade unnecessarily rigid. Few of the countries concerned buy as much from the U.K. as the U.K. buys from them in visible trade, though it is difficult to calculate how the true balance lies without knowing the balance of invisible trade (shipping, banking and so on). The argument against such an attempt to balance trade bilaterally is that it defeats the whole object of multilateral trade (see Q.13). However, even if the advantage to Britain in industrial exports is limited and of declining value, it still makes sense for a country relying on large imports of food to secure its sources of supply.

From the point of view of overseas suppliers these agreements give them the opportunity to invest and plan production rationally without fear of dumped supplies cutting the ground from under them. This ensures relatively low and stable market prices in the U.K., partly through more efficient production by the overseas suppliers.

Finally, some would argue that any measures which hinder imports and reduce food consumption are bad, since even industrial countries have not reached the stage where gains from a reduction in obesity among some people outweigh losses from an increase in undernourishment among others.

C. Support Systems

19. What is the high market price + import levy system of support?

Internal market prices are held high. If the product is imported, a levy or tariff pushes the import price up to the fixed level and this maintains the market. If the product is not imported there are two possibilities. Firstly, supplies are bought up and sold abroad at a loss (i.e. dumped) or stored in case of a future shortage or given away for social relief work - or destroyed. By taking supplies off the market the price is pushed up. The second alternative is to restrict supply by acreage quotas to just that amount sufficient to keep prices at the high level. The former policies are practised in the E.E.C., the latter in the U.S.A.

20. What are the advantages?

Firstly, it can be operated simply. All the farmer has to do is market his produce and the administration does the rest. Also the returns from each enterprise are obvious to the farmer. Secondly, it reduces the amount of taxation necessary (except where money has to be paid out to dispose of surpluses). Thirdly, dumping can be effectively prevented since the attention of the system, when operated for imported products, focusses on import prices.

21. What is the free market price + deficiency payment system?

Imported food is allowed to enter the market free of duty or levy. Farmers are given a guaranteed price and if the market price falls below this guaranteed level, a deficiency payment is made. The system has been modified in the U.K. to limit the extent to which market prices are allowed to fall (and therefore deficiency payments are allowed to rise).

22. What are the advantages?

Firstly, the cost of support is borne by taxpayers and therefore by the relatively rich (the poor pay little tax). If consumers are made to pay for support, the poor, who spend a large proportion of their income on food, will bear the main

burden of agricultural support.

Secondly, the cost of support is calculated and published; the degree of protection awarded to farmers and their efficiency can then be assessed.

23. What other price support systems are there?

Most developed countries operate schemes for increasing investment and reducing labour employed in agriculture and many are operating schemes for consolidating holdings, improving marketing and so on. However, the countries of the E.E.C.*, E.F.T.A.*, and Eastern Europe as well as Japan and the U.S.A., couple such "structural support" measures with price support measures. Only the U.K. operates a deficiency payments system; all the others maintain market prices by acreage restrictions, support buying, import tariffs or levies.

* See glossary

D. The U.K. System

The U.K. imports all the main temperate foodstuffs in substantial quantities with the exception of potatoes, soft fruit and a few livestock products. Even so, small quantities of these products are also imported, often in a processed form. The table opposite indicates the main pattern of temperate food imports.

24. Which temperate foodstuffs does the U.K. import?

1969/70	Approximate % imported	'000 tons	Estimated Value £m	Main Source of Imports see key (1)
Poultry	-	-	-	-
Pork	-	-	-	-
Eggs	-	-	-	-
Soft fruit	-	-	-	-
Potatoes	7	400	8	Cyprus
Beef & veal	16	240	150	Aust,Arg,Can,U.S.
Feed grains (2)	34	4470	125	U.S.
Cheese	54	160	60	Can, Den, Eire, N.Z.
Wheat (3)	56	5250	150	Aust, Can, U.S.
Mutton/lamb	58	320	100	N.Z.
Bacon	60	370	130	Den, + several others
Fruit/Veg.	60	-	180	Europe, S.A.
Sugar	66	2000	70	Aust, W.I.
Butter	87	420	80	Den, Eire, N.Z.

(1)

Aust	Australia	NZ	New Zealand
Arg	Argentina	SA	South Africa
Can	Canada	WI	West Indies + Mauritius, Fiji
Den	Denmark		

(2) Barley and oats from domestic agriculture; maize and sorghum imported; wheat from both home and abroad.

(3) Soft wheat from domestic agriculture and Europe, hard mainly from Canada and U.S.A.

25. What briefly are the U.K. methods of supporting agriculture?

Firstly, there are guaranteed prices and deficiency payments. These operate for all products except fruit, vegetables, poultry and,by 1974, eggs. On their own these are a good method of income support. However, they do not answer the other two needs - to increase the productivity of agriculture and to stabilise market prices.

In order to increase productivity, there are a wide range of

grants and subsidies for all manner of investment projects. These were simplified into a system of standard grants in December 1970. Other grants are paid on breeding ewes and beef cows and on calves. These assure that support is spread over the breeders and rearers as well as those farmers fattening and selling livestock for meat. There is also a subsidy on fertilizer.

To stabilise market prices there are two types of control measures - those on production and those on imports.

Production controls:- There are acreage quotas on potatoes and sugar beet and deficiency payments are linked to these.

- Standard quantities are imposed on milk and eggs and pigmeat and if production goes above these quantities, the deficiency payment per unit of output is gradually reduced.
- There are floor prices which prevent exchequer expenditure rising and attempt to stabilise prices by manipulating supplements and abatements to the deficiency payments. They are called target indicator prices (cereals and beef) and estimated market prices (sheep).

Thus, the only products without such controls are poultry and fruit and vegetables.

Import controls:- Quotas are imposed on butter and bacon.

- Tariffs are imposed on poultry meat,mutton and lamb and fruit and vegetables.
- Minimum import prices are set for cereals, beef and eggs.

26. How are these methods changing?

Firstly, there has been a shift in importance from deficiency payments to grants. Production and improvement grants are a more specific way of injecting money into agriculture than deficiency payments. In the late 1950s around two thirds of the government subsidy was in the form of deficiency payments; by the late 1960s the proportion was less than half and the 1970/71 forecast shows deficiency payments constituting under 40% of the total subsidy. Some of the grants have been aimed at encouraging

co-operation, farm amalgamation and better accounting practices. However, none of them have been designed to reduce output (see Q58).

Secondly, and more recently, there have been the first moves designed to eliminate deficiency payments altogether. The new support measures will be import controls and higher market prices. Interim Schemes have been introduced for cereals (see Q.27), beef (see Q.28) and mutton and lamb (see Q.29). Full systems are expected to be introduced in 1973-75.

27. What is the U.K. system for Cereal support?

(a) Guaranteed price and deficiency payment

The guaranteed price is the price that the government guarantees farmers will on average receive. The difference between this and the average market price is the deficiency payment. One guaranteed price is set for wheat, barley and oats, expressed on a per ton basis. This is converted into a per acre figure and paid on acreage grown, not tonnage sold. Obviously the deficiency payment can only be worked out at the end of the year. In fact, the system works as follows:-

1971 March - Guaranteed price announced for wheat, barley and oats for 1971/72. These are £32.6 per ton for wheat, £29.0 per ton for barley and £28.8 per ton for oats.

1971 March - Farmer sows barley.

May/June - Sends claim form to D.A.F.S. giving acreage sown.

July/Aug. - D.A.F.S. inspectors check on claims.

Aug/Sept. - Harvests grain. Sends declaration form to D.A.F.S. saying how many acres have been harvested. He then disposes of the grain as he wishes.

December - D.A.F.S. estimates what the average price is likely to be on the market and then according to the acreage the farmer declared, he receives an advance Deficiency Payment per acre. This is usually made to be around 66% of the final total payment.

1972 September - The average market price for the preceeding year can now be calculated from the Corn Returns. These are the records of every purchase of grain by Registered grain merchants.

Thus an average per ton price is calculated.

However, many farmers will not have sold their grain off the farm. Thus the per ton figure is made into a per acre figure by estimating the average yield of this and the previous two years' harvests and taking a weighted average of the three.

Now every farmer is paid this deficiency payment, less the advance payment received in December 1971: in other words it is a balancing payment (if the D.A.F.S. under estimated average market price in December, the advance payment will have been too much and so the September 1972 payment will be that much smaller).

(b) Target indicator prices (t.i.p.)

This is a low price level which marks the limit of the deficiency payment that will be payed. If prices fell dramatically, the average market price might be far lower than the government estimated and the deficiency payment bill much greater (in the extreme case, so much greater that extra taxes might be required to meet the bill!). Hence the t.i.p. For 1971/72 it is £21.775 per ton. This means that the maximum barley deficiency payment possible for 1971/72 is £29 - £21.775 = £6.225 per ton (around £10.0 per acre).

(c) Minimum import prices (m.i.p.)

For each quality of the various grains imported (soft and hard wheats, maize, sorghum and smaller quantities of barley) an m.i.p. is fixed. The government watches the level of prices of grain delivered to the main grain ports (Avonmouth, Liverpool, Glasgow). If grain from some regular source (i.e. not dumped grain; this is dealt with separately) is offered at a price below the m.i.p. level, a levy is imposed on this and all imports of this type of grain. For instance, the m.i.p. level set for summer 1971 for barley is £23.55 per ton. If, say Swedish barley is offered at £22 per ton, then a current levy is imposed of £1.55 per ton on all barley offered, no matter what its price, with the exception explained below.

Such a levy obviously could make importing grain a highly

risky business. Since all grain is bought on forward contract months before it is shipped to the U.K. Someone buying French barley say, at £24 per ton and taking delivery at the same time as the Swedish shipment arrived would be costing the importer £25.55 per ton all told - an unforeseeable extra cost.

To overcome this difficulty the government publishes a list of prospective levies, based on their estimate of what delivered import prices will be in the future. Say they did not foresee the Swedish shipment and estimated two months previously a price of £23.75 per ton. Thus the prospective levy would have been nil and the importer of French barley could have registered his contract, paid the £0.25 per ton registration fee (to discourage speculators registering contracts that they do not eventually import) and bought the grain knowing his exact costs - £24 per ton plus £0.25 per ton plus shipping costs.

In order to see how grain is bought forward and what effect the prospective levy has, an example is shown in Appendix I, using hypothetical figures.

Finally, the m.i.p.s are stepped; they rise by £0.30 per ton per month through the season from September onwards. This provides the price protection necessary to allow on-farm storage and replaces the old Barley Incentive Storage Scheme and the old rising standard prices for wheat.

(d) Threshold Price

Unlike the other three prices, this is one for the future. The term 'minimum import price' is used to focus attention on the minimum aspect. M.i.p.s supposed to be linked to world costs of production and freight charges. They represent what the importing country estimates to be the lowest economic price. Imports offered at a lower price must therefore be uneconomic and subsidised. Hence the rationale for imposing levies to bring them up to the m.i.p. level. However, the U.K. m.i.p.s for grain are to be pushed steadily higher until by 1973 they should be sufficiently high to push market prices up to the level of the guaranteed price. Thus deficiency payments will

be nil and the market will provide all the farmers return. As far as the terminology goes, though, the m.i.p.s will no longer be minimum prices linked to world costs, but high prices linked to U.K. costs. They will have become, to use an E.E.C. term, threshold prices. Although, the government may still call them m.i.p.s - in reality they will be something else!

- What difference will this make to U.K. farmers?

Other things being equal, the new system will be simpler and more convenient for the farmer. However, it relies on continuing imports of grain. The U.K. imports little barley and a contracting amount of soft wheat. Thus the 'threshold' prices for maize and sorghum will have to support barley and oat prices whilst the 'threshold' price for hard wheat may eventually have to support the domestic soft wheat price. Obviously the extent to which this is feasible depends on the extent to which the various grains can substitute for one another. If maize is preferred to barley for some uses then despite a high maize price the barley price may drift down. Thus, if deficiency payments have been abolished, farmers returns will similarly fall.

Fall-back guarantees

The government has said it will introduce fall-back guarantees when the m.i.p.s have risen high enough to push market prices up and eliminate deficiency payments.

If market prices fall below the m.i.p. level, then a deficiency payment will be made to bring earnings up to the m.i.p. level. This would dispel the danger of falling returns mentioned above. It could however, frustrate the attempt to make the farmer reliant on the market for his return.

28. What is the U.K. system for Fat Cattle support?

(a) Guaranteed price, standard price and deficiency payment

The guaranteed price is set and a deficiency payment paid according to the gap between this and the average national market price. Since Scottish market prices are consistently higher

than English prices, the Scots producer will generally get more than the guaranteed price (with sheep, the opposite applies).

If a flat rate guaranteed price were offered throughout the year, there would be no incentive to avoid marketing when market prices are low in the Autumn and the government's deficiency payments would be large, as well as market prices being unstable.

To rectify this the guaranteed price is split into 52 weekly Standard prices. These are highest in the winter and spring, lowest in Autumn and they provide the necessary incentive to market fat cattle at other times of the year. A further complication is introduced to give stability to market supplies. The government sets the Standard prices with the aim of keeping the deficiency payment to between £0.90 and £1.20 per cwt liveweight. Thus they estimate an Autumn market price of, say £11.00 per cwt and so set a Standard price of from £11.90 to £12.20 for those months (the exact figure will be calculated so that all the standard prices, when averaged will equal the guaranteed price).

Now if market prices rise above this level (i.e. move closer to the standard price) a scale of supplementary payments are made, giving the farmer a return above the Standard. This encourages supplies and hopefully checks the rising price (once prices rise £0.225 above the Standard, no more supplement is given, so all the return is from the market; this has been the case in 1971 with a world shortage of beef pushing up prices). Similarly, if the price falls below this £0.90 to £1.20 band and the deficiency payment gap widens, there is a scale of abatements. Farmers returns are less than the Standard price. Thus, if the average market price for the week November 1-7 1971 is £9.77 per cwt, then this is £1.95 below the published Standard price of £11.72 per cwt for that week. The full deficiency payment of £1.95 is abated by £0.20 and the farmer only receives £9.77 from the market plus £1.70 deficiency payment. This is designed to encourage farmers to keep animals off the market when prices are falling.

The deficiency payment is given in two parts as with cereals. The government, in estimating market prices (for setting the Standard prices at the beginning of the year) also estimated beef

supplies and therefore allocated certain Treasury funds for making deficiency payments. Part of the deficiency payment is paid to the farmer immediately after he sells his beasts and has them certificated and the paper work sent to the D.A.F.S. The rest is held until the end of the year.

At the end of the year (i.e. the following Spring), the actual average prices and cattle numbers sold can be calculated. If the government estimated wrongly so that the weighted average market price turns out lower than they bargained for, the'end-of-year' deficiency payment has to be spread over more farmers and is lower (in other words, farmers are not in fact getting the guaranteed price overall, merely all the Ministry funds). On the other hand, if prices have been higher than expected, the end-of-year deficiency payment will be larger and farmers will in fact be doing better than the guaranteed price overall. What happens when the market price is over the Standard price is more difficult to judge. However, no end-of-year payment can be expected if no deficiency existed for the week of sale.

(b) Target indicator price (t.i.p.)

The t.i.p. is set at a constant £2.00 per cwt below the Standard price and so they vary week by week together. It has two functions:

1. As with cereals, it is a floor to the market. If market prices fall more than £2.00 below the Standard price for the week, the total deficiency payment stays at £1.70 per cwt. Thus if prices fall below this t.i.p. level, there is even more reason for farmers to hold fatstock off the market. In the Spring, the end-of-year payment is limited to the (guaranteed price less average t.i.p.) gap if market prices have averaged less than the t.i.p. level.

2. Unlike cereals, the t.i.p. serves as a minimum import price as well. If market prices fall below the t.i.p. level then an import levy is announced on Friday afternoon to apply to all beef imports delivered the following week. This levy will

bridge the gap between average market price and t.i.p. (in the same manner as the levy bridging the gap of lowest import price and m.i.p. for cereals).

This different system is used because most imported beef comes in chilled or frozen. Thus it moves into cold store and pays whatever levy is operating when it is released from store onto the market. The actual levies are worked out by using coefficients to convert from the imported carcasses to the domestic liveweight basis (e.g. the price of frozen carcasses and sides will be multiplied by 1.39 to put them on a liveweight basis).

Eire Most of the trade from Eire consists of store cattle exported for fattening in the U.K. Only about 7% of total beef and veal supplies comes from Eire. The Eirean government pays a subsidy to exporters of beef to the U.K. that is designed to equalise up the price that local fatteners and abbatoirs can afford to pay in line with British prices (and therefore fatten some stock in Eire rather than rely entirely on store exports). When the U.K. deficiency payment is stuck at the t.i.p. the Eirean export subsidy is also levelled off to keep returns to fatteners and the meat industry in the two countries balanced.

(c) Threshold Prices

The t.i.p. will steadily be raised, in the manner of the cereal m.i.p.s. Thus in 3 years time market prices will be held up to guaranteed levels and deficiency payments will have disappeared. Again, the t.i.p. should then be termed a threshold price to keep terminology in line with the E.E.C.

(d) Other support measures

Production grants are particularly important to the production of fat cattle. Firstly, subsidies of £9 per heifer calf and £11.25 per steer calf are paid on 8 month old calves of a beef breed and on any calves reared and slaughtered as fat cattle. (Thus the subsidy may go to the breeder or to the fattener). Secondly, a subsidy is paid on beef breeding cows; for lowland herds the rate is £11 but beef cows kept on the hills are paid

£18.75 subsidy plus a £5 winter keep grant, a grand total of £23.75. Thirdly, a grant of £5 per cow is paid for brucellosis-free beef cows.

These grants mean that the guaranteed price for beef understates the actual money beef producers receive by up to £3 per live cwt.

29. What is the U.K. system for sheep and lamb support?

(a) Market Support

The system is on the same lines as that for beef. However, there is a changed mix of supplements and abatements to the deficiency payment as from 1971. Also, instead of a low t.i.p. that is to be steadily moved up, as for beef, there is a much higher price established called the estimated market price (e.m.p.).

So long as the weekly average market price is above the e.m.p. level, the full deficiency payment is paid. If the average market price falls more than 1.5p per lb e.d.c.w. below the e.m.p. then the deficiency payment is abated.

By the time the market price is 3.0p below the e.m.p., the deficiency payment has been abated by 1.5p per lb e.d.c.w. and no matter how far prices fall, this is the maximum abatement (i.e. the deficiency payment will be the gap between standard and average market, less up to 1.5p if the average market is below the e.m.p.).

This is limited in one respect. Again, like beef, only some of the deficiency payment is paid at once and the end-of-year payment is the balancing item. Should market prices average less than the e.m.p. then the deficiency payment is made according to the guaranteed price minus the e.m.p.

Thus, the support system for sheep is closer to the final beef system, with deficiency payments eliminated through a high e.m.p.

Market prices are maintained at around the e.m.p. level by a tariff. This is a specific tariff rising from £9.3 per ton (i.e. about 3%) in July 1971 to £18.7 per ton (about 6%) in January 1972 to a final total of £28.0 per ton (about 8%) in July 1972.

- How will this affect the U.K. farmer?

The tariff should raise New Zealand prices by up to 1p per lb in 1971 and 1.3p per lb in 1972.

(b) Production Grants

A grant of £0.95 to £1.50 per ewe kept on the hills is paid along with £0.15 winter keep supplement.

30. How is dairying supported?

Milk production requires an efficient system of daily milk collection and distribution and a system that can pay farmers on a regular monthly basis. The U.K. aims to achieve this with Milk Marketing Boards. There are 5 covering the U.K. - England and Wales, Aberdeen and District, Scottish, North of Scotland and Northern Ireland.

(a) Guaranteed price, effective price and average pool price

The government sets a guaranteed price for milk every year. This is based on a standard quantity of milk for the U.K. which is in turn related to liquid milk consumption. Each Board is awarded its own guaranteed price (the 5 prices average out to the U.K. level) and a share of the U.K. standard quantity. So long as milk production in a Board's area does not exceed the standard quantity for the area, the full guaranteed price will apply.

The Boards collect milk from dairy farms and sell as much as possible on the liquid market for about 23p per gallon. The remainder is sold to butter and cheese makers for 8-9p per gallon. Each Board then calculates an average pool price, representing the average return per gallon sold (if most were sold liquid the average pool price would be high, and vice versa if not). If the average pool price is below the guarantee price, the government pays a deficiency payment to the Board in question, through a Milk Fund. Thus the Board will be able to pay farmers the full guaranteed price per gallon, less administrative and distributive costs.

However, milk production has exceeded the standard quantity in every year and in every Board area since the inception of

the Scheme in 1954. As a result the effective price guaranteed to farmers is always less than the actual guaranteed price (by 1p to 4p per gallon normally). For instance, if a Board has a guaranteed price of 20p per gallon and a Standard quantity of 100 mill. gallons, but produces 120 mill. gallons, the effective guaranteed price in the area is only 20 x 100 ÷ 120 = 16.7p per gallon.

The England and Wales Board accounts for over 80% of milk production and sells 66% on the liquid market. This relatively high percentage means that the average pool price is invariably higher than this Board's effective price. The surplus revenue earned above the effective price is paid into the Milk Fund. In contrast, the other Boards sell only about 55% of their milk to the liquid market and invariably have average pool prices lower than their effective prices. These Boards draw the deficiency from the Milk Fund.

The government tries to set guaranteed prices and standard quantities as well as the retail price of milk such that these payments and withdrawals balance out, leaving no overall deficiency payment from the government, nor revenue to the government. In fact, there is always some balancing required. In 1969/70 the government drew out £7 million as a result of England and Wales paying in £17 million surplus revenue and the other Boards drawing out only £10 million. In contrast, the government paid £7 million in 1966/67 when England and Wales paid only £1 million surplus whilst the other Boards drew £8 million to cover their deficiencies.

(b) Subsidies

The average pool prices contain a number of implicit subsidies. Firstly, dairy farmers in areas remote from the main liquid markets and therefore producing milk for butter and cheese are being subsidised by farmers producing milk for liquid consumption. Secondly, although farmers are charged for haulage, these charges do not cover the whole cost of haulage for farms a long way from the market. Thirdly, prices

paid to producers are varied seasonally (up to 3p per gallon higher in the winter) to allow for variations in costs of production, particularly the cost of feedingstuff. However, consumers pay the same price throughout the year. Thus, summer consumers of milk subsidise winter consumers.

(c) Import Controls

No liquid milk is imported. Butter imports are controlled by a butter quota (see Q.17) and in 1971 minimum import prices were introduced for dairy products other than butter and cheese. The m.i.p.s are termed an 'interim' arrangement before a full levy system is established. Such a system will probably replace standard quantities and guaranteed prices.

31. How is pigmeat supported?

There is a guaranteed price and deficiency payment to support incomes and a market sharing understanding for limiting imports. The guaranteed price is linked to output and feed costs.

The guaranteed price is announced linked to a certain production of pig carcases, called the 'middle band'. For 1971/72 this is 13,350,000 - 14,750,000 pig carcases (a range of $\pm$ 2% around the mid-point).

Every 3 months the government makes an estimate of likely 'certifications' over the coming quarter. The 'middle band' is divided into seasonal amounts and if the estimate is above the seasonal 'middle band' allowance, the guaranteed price is reduced on a sliding scale.

For 1971/72 the guaranteed price is £2.93 per score. If estimated certifications exceed the top of the 'middle band' by 5%, the guaranteed price rises by around 5%.

Feed costs are taken into account through a feed formula, again reviewed every 3 months.

If the "cost-of-feed" index rises by .61% (i.e. around 1.33p per cwt) then the guarantee price falls by 1p per score (i.e. around 0.33%).

Imports are limited by the 1963 Bacon Market Sharing Understanding. The U.K. decides what proportion of the U.K. market

will be supplied from abroad and then allocates bacon quotas to Sweden, Denmark, Eire, Holland, Hungary, Yugoslavia and Rumania. Very little pork is imported and when surpluses of pork arise, they are channelled into the bacon market and the quotas subsequently reduced. However, the sliding scale guaranteed price prevents any long term erosion of overseas suppliers' market shares.

In return for their quotas, the 8 countries agree to market their supplies in an orderly and timely fashion.

Finally tariffs of 10% are imposed on imports from all countries except Eire and the Commonwealth.

32. How are poultry and eggs supported?

The U.K. treats broiler production as an industry rather than farming and limits support to a 10% tariff on non-Commonwealth and non-Eire imports.

The system for eggs is gradually being dismantled. An m.i.p. was introduced in 1970 along with a standard quantity. The m.i.p. will replace the guaranteed price over the next few years and eliminate the deficiency payment (already limited to eggs sold to packing stations) by 1974.

An estimated producer price is established and operates in the same way as the e.m.p. for mutton and lamb, limiting the amount of deficiency payments granted.

33. How are other crops besides cereals supported?

Potatoes Consumption has held up in recent years as a result of more processing of potatoes. However, to prevent over-supply of the market, there is an acreage quota imposed by the government, through the Potato Marketing Board. The future market prices are estimated and the estimated deficiency payment is paid by the government to the P.M.B. Producers are also charged an acreage payment and these two sources of funds constitute the Market Support Fund. The P.M.B. uses this Fund to intervene on the market and hold market prices to the guaranteed level.

Sugar Beet As with potatoes, consumption of sugar in the U.K. is virtually static. Through the Commonwealth Sugar Agreement the U.K. buys a certain tonnage of cane sugar from Mauritius, Fiji, Australia and the West Indies at a fixed price(see Q.17d).

The U.K. acreage of beet is controlled and only grown on contract with the British Sugar Corporation. The guaranteed price is based on an acreage quota and so is the deficiency payment. Whereas in England growers must pay the haulage costs to the refinery, Scottish growers are paid a farm gate price. In both countries, growers have to pay for the return of beet pulp.

Fruit & Vegetables Tariffs are imposed when U.K. fruit and vegetables are in season to keep out competition. These tariffs can extend up to 50% in certain months. The main fruits are apples and pears: the main vegetables, peas and carrots. Scottish raspberries have little competition from abroad but exporting is made difficult by overseas trade barriers, low levels of consumption abroad and freight costs.

E. The E.E.C. System

(i) General

34. What is the E.E.C.?

Six European countries united in the desire to create first economic and then political unity in Europe (see glossary). Many people, particularly in the U.K. and U.S.A. never expected the Treaty of Rome which set up the E.E.C. to become more than a pious hope. Instead the Six have made definite progress towards economic unity.

35. Where does agriculture fit into the E.E.C.?

Although all the countries are industrial countries, great difficulties arose in trying to produce a Common Agricultural Policy (C.A.P.) for the E.E.C. There is a feeling among many in Europe that too much time was wasted in negotiating the C.A.P. during the 1960s and that in the 1970s agriculture must take a back seat.

36. Why has agriculture been such a burning issue?

Firstly, because around 20% of the population of Italy and 15% of that of France directly depend on farming for their income. The Six can only progress towards unity by unanimous agreement (albeit after compromises) because national governments still have Sovereignty. Thus, the strength of the whole is that of the weakest link and farming communities with more political power than economic importance have made their wishes felt.

Secondly, because of the small size of farms in Europe, there is the social problem associated with rural poverty. (see Q.53).

Thirdly, because wages are often linked to a cost of living index in Europe, high food prices would tend to produce high wages. This would distort the location of industry in favour of countries with low food prices. Hence costs and the competitiveness of industries would depend in part on the style and level of agricultural support.

37. What are the aims of the Common Agricultural Policy of the E.E.C.?

To free trade between the Six and allow farming to develop where conditions are best.

To maintain farm incomes and eventually close the gap between industrial and agricultural earnings (see above - Q.8).

To increase productivity, avoid surpluses, maintain 'family farming', provide alternative jobs for rural communities and make the E.E.C. self-sufficient in temperate foodstuffs.

38. How has the E.E.C. created a "Common Market" for food?

Firstly, by framing a long term plan that the Six countries agreed on in 1961. Secondly, by fixing common prices for all the main farm commodities produced in the E.E.C. The first set of prices were agreed in 1962 and the process was largely complete by 1968. Trade restrictions between the Six were abolished as these common prices were set up. To prevent overseas suppliers under-cutting the common prices, an import levy system was devised. Variable levies were designed to constantly adjust so that no imports could be sold for less than the common, target prices. Common intervention prices were also fixed and these

served to hold market prices up by the E.E.C. buying up supplies when prices fell to the intervention level.

One difficulty encountered has been exchange rates. The common prices were fixed in terms of E.E.C. units of account (1 U.A. = 1 U.S. dollar = £0.4167). When a country devalues or depreciates its exchange rate, foreign currency becomes more expensive in terms of local currency. Hence, prices expressed in foreign currencies or in U.A. are higher when converted into local currency. Local farmers will receive higher target and intervention prices expressed in their local currency than before. In contrast when a country revalues or appreciates its rate, the common prices will be lower in local currency.

Since the common prices were fixed, France has devalued and West Germany and Holland both re-valued. To prevent agricultural trade and markets being disturbed temporary 'equalisation' taxes were imposed at frontiers for periods of 2 or 3 years. However, such an expedient does not solve the problem, only a common monetary policy can do that.

39. At what level were prices fixed?

At high levels. Because it was the first, negotiated section of the E.E.C. economic unity, compromises were difficult to arrange. In order to get agreement, low cost food producing countries such as France agreed to level prices upwards in order to support farm incomes in high cost countries such as Italy and West Germany.

As a result in 1967/68, the first year of complete Common Pricing, the E.E.C. prices of butter and sugar were 4 times the world market price (and therefore the U.K. market price). The wheat price was 2 times the world price whilst the prices fixed for feed grains, beef, veal, pigmeat and poultry were all more than 50% above world prices.

40. How have these prices changed since?

Commodity	% Self Sufficiency	To nearest £ per ton except milk (p per gall.) 1969/70	1970/71	1971/72
Soft Wheat target)	113	45	45	46
intervention)		42	42	43
Barley target)	79	40	40	42
intervention)		38	38	39
Sugar Beet minimum[1]	104	7	7	7
Milk target)[2]	100	20p	20p	21p
intervention)[2]		19p	19p	20p
Butter intervention	111	735	735	756
Beef guide)	89	288	288	305
intervention)		282	282	299
Veal guide)		387	387	399
intervention)				
Pigmeat basic	100	318	327	(Until Oct. 1971)
Mutton/lamb	84	-	-	-
Poultry	98	-	-	-
Eggs	97	-	-	-
Temperate Fruit	90	-	-	-
Vegetables	103	-	-	-

[1] Only a 'minimum' for beet within the quota (see Q.52)

[2] Intervention prices are actually in the butter, cheese and powder market. In this table the butter price is converted into a per gallon price by (i) taking 5,200 galls. to 1 ton of butter and allowing a 10% mark-up at the dairy.
(ii) adding on 6p per gallon to allow for skimmed milk powder returns (see Q.51).

41. What have these prices led to?

Surpluses of wheat, milk and sugar. The high prices have encouraged big farms to expand output whilst many small farmers, limited by lack of land or capital have remained near the poverty level. As the surpluses have piled up, so the E.E.C. has been forced to export them at a loss; this can be loosely called

dumping though it is not carried out in a way aimed at disturbing local markets. The effect is to take markets away from traditional, butter exporters such as New Zealand and wheat exporters such as Canada. Much of the surplus sugar beet is expensively distilled for industrial alcohol.

Butter stocks in the E.E.C. rose from under 100,000 tons in 1965 to over 300,000 tons in 1970 (compared with a steady 30-50,000 tons in the U.K.). However, the situation has now changed dramatically with butter stocks very low throughout the world. Three factors combined to eliminate the E.E.C. butter mountain. Firstly, dry weather in Europe reduced milk output in 1970. Secondly, vigorous marketing by the E.E.C. disposed of excess butter stocks on overseas markets. Thirdly, the slaughter premium and non-marketing subsidy (see Q.51b) reduced the number of cows producing milk in the E.E.C.

Whether or not the milk surplus will re-emerge will depend in part on the balance between the decline in dairy cow numbers and the rise in milk yield per cow. In France, yields are rising rapidly, but still average less than 700 gallons per cow p.a. (compared with over 800 in the U.K. and over 900 in the Netherlands and Denmark). If surpluses do re-emerge, the slaughter and non-marketing subsidies will probably be renewed.

42. Why doesn't the E.E.C. reduce prices?

Because of the large number of small farms which would be impoverished. Also, Dr. Mansholt, E.E.C. Commissioner for Agriculture, has estimated that unless prices are cut by at least 20%, such small farmers would merely increase their output to attempt to maintain their income.

43. Why not introduce acreage quotas?

Because this would defeat the whole object of the Common Market for food i.e. of producing food where it is economically most efficient to produce food. Also, a quota system would need a

complicated arrangement and could necessitate the E.E.C. paying farmers to leave some land fallow. However, much investigation is proceeding in Brussels on ways of limiting output. A sugar beet quota tying the producers price has not prevented surplus sugar production (see Q.52).

44. What is the answer?

It is the answer given to Q.8 above. Structural policies must encourage farmers and workers to leave agriculture, land to be left uncultivated and the overall size of farms to increase. Investment in output-creating projects must be matched by the rundown of capital in other productive processes in farming. The Mansholt Plan has suggested the line to take and in Spring 1971 the E.E.C. adopted part of these proposals (see Q.59).

(ii) Price Support Measures

45. How does agricultural output in the E.E.C. differ from that in the U.K.?

Firstly, several crops important to agriculture in the E.E.C. are not grown in the U.K. Chief amongst these are grapes, olives and citrus fruits (these 3 together with temperate fruits constitute 30% of Italian farm output and 15% of E.E.C. farm output). Maize, oilseeds (e.g. sunflower seed) and rice are also produced in the E.E.C.

Secondly, there are differences in the agricultural emphasis in the various countries. The main farm product in every country except Italy is milk (as it is in the U.K.). In West Germany it is more important relative to other products than in the U.K., in France less so. Beef cattle tend to be reared and fattened as a joint enterprise with dairying so that beef cattle are found in the main milk producing areas, with the exception of parts of France where beef is regarded as an independent enterprise. France is the main producer of soft wheat whilst Italy produces most of the hard wheat. Feed grains are not grown extensively in Italy (nor are there livestock enterprises to any great extent) and barley production is relatively low compared to the

U.K., with France growing substantial acreages of maize and oats, and West Germany growing as much oats as barley. West Germany grows half the E.E.C. potatoes, feeds most of them to pigs and produces half the E.E.C. pigmeat. Sheep are not as important as in the U.K. - total E.E.C. sheep numbers are 20% less than U.K. numbers and these are evenly divided between France and Italy. However, in Southern France and Italy,milk for cheese production is the main industry rather than lambs for meat, which is considered the bi-product.

Finally, Belgium, Luxembourg and the Netherlands together account for around 6% of the total agricultural land of the E.E.C. but about 15% of the value of output as a result of their high value horticulture and their concentration on milk and pigs.

46. What is the E.E.C. system for cereals?

Target prices are announced for soft and hard wheat, barley, maize and rye; as in Britain, oats are mainly grown for on-farm consumption as feed grains and only a small proportion passes through the market place. Thus the only support measure for oats in the E.E.C. is a threshold price for imports - see below. The target prices run from August to July and are the prices the E.E.C. wishes to see averaged on the Duisburg market; this is the centre for the Ruhr, the biggest deficit area for cereals in the E.E.C. If there was a completely free market for grain in the E.E.C., Duisburg prices would be highest.

Intervention prices are set at the same time for each grain, around 5-10% below the target prices. E.E.C. agencies stand ready to buy any grain offered to them at the intervention level for that particular grain, providing it is of acceptable quality and in sufficient quantity.

Finally, threshold prices are set at levels between the intervention and target prices. Unless imports are offered at the threshold level, a levy is charged and since the threshold levels are far above world prices, the levies are a permanent feature of the system. The idea is that if imports cannot enter E.E.C. ports at less than the threshold level, they cannot be marketed

at a price less than the target level. Thus, the threshold level is calculated by taking the target price and subtracting the lowest cost of marketing imported grain at Duisburg. At present this is the cost of using Rhine barges from Rotterdam and is in the region of £1.00 per ton. In order to give the E.E.C. grain a slight advantage at Duisburg the threshold price will be, say £0.90 per ton below the target so that grain coming up from Rotterdam sells for £0.10 per ton above the target price. The mechanism for working out the cheapest import price, applying a levy and of offering importers the choice of a current or prospective levy is very similar to the new U.K. system for dealing with cereal imports introduced in 1971 and described in detail in Q.23 above.

As a result of this system, farmers in the E.E.C. selling their grain for transporting and sale in the Ruhr know that they will receive a price equal to the target price, less transport costs from their area and less any storage costs and merchants margin, so long as overseas grain is being imported from outside the E.E.C. and sold on the Duisburg market. This applies in particular to barley and maize. If, on the other hand, surplus production in the E.E.C. has depressed market prices below the target level, squeezing out imports then the farmer knows that he is assured of the Duisburg intervention price, less transport and storage costs and the merchant's margin. This has been the case with soft wheat in recent years.

Obviously there is little point in having surplus grain transported across Europe merely to obtain the intervention price at Duisburg. Similarly there are other deficit areas for different grains. Thus for all other areas of the E.E.C., Derived Intervention prices are set, based on the difference in transport costs to Duisburg. The prices are also constructed so that the normal grain trade patterns of the countries are not disturbed by speculation based on intervention prices differing by more than transport rates.

For certain areas around ports where grain supplies will be part imported and partly obtained from surplus regions within the E.E.C., derived intervention prices will be based on the threshold level in the port and the growing area. Such prices must not be so high that other grain is diverted and the port over-supplied, nor so low that farmers shift their supplies to other markets. Thus an interlocking set of derived intervention prices cover the E.E.C. reaching their lowest in the surplus areas of Central France and their highest in North Germany and around the grain importing ports.

To provide a seasonal incentive, the wheat target and all the intervention prices are seasonally stepped, rising by £1.00 per ton per month. The feed grain target (and therefore threshold) prices rise by £0.30 per ton per month for 8 rather than 6 months.

The parallel to the levies charged on imports is the export subsidies (called restitution payments) which are awarded to exporters to allow them to sell abroad at the world price level. The main recipient of grain restitutions is soft wheat from France. The price of wheat is such that it still pays farmers to produce surplus soft wheat that has somehow to be disposed of instead of feed grains which are still imported from outside the E.E.C. This tendency is compounded by paying a denaturing subsidy on wheat that is sold for animal feed. The wheat has to be mixed with other grain to make it fit only for feed.

Finally, in order to foster the production of hard (durum) wheat a deficiency payment is resorted to, coupled to a guaranteed price of over £60.00 per ton. Italy is the main beneficiary.

47. What is the E.E.C. system for beef and veal?

(a) Guide price and intervention price

One guide price is set for fat cattle and suitably converted for beef whilst another is fixed for calves with a coversion for veal. These two guide prices operate for the whole E.E.C. from August to July. They are not related to any one market such as Duisburg. Similarly there is just one intervention price for the whole E.E.C. for cattle and beef (there is no intervention for

calves or veal). The intervention price lies 7% below the guide price and if the average E.E.C. market price falls to this level for two weeks running (or if it falls steeply in one week, exceptionally) the intervention agencies must enter the market. As well as such compulsory intervention, there is discretionary intervention permitted when the average price in any one member country falls 7% below the guide price whilst the average E.E.C. market price falls 2% below the guide.

The E.E.C. average market price is calculated weekly by taking the national average prices and weighting them according to their cattle populations e.g. France 40%, West Germany 28% and so on.

The actual intervention may be done by government or private bodies so long as they have slaughtering and freezing facilities that are recognised as adequate. The intervention price is paid for delivered cattle and beef on minimum quantities of 12 fat cattle, 2 tons of sides or quarters or 1 ton of fore or hind quarters. These figures all relate to 1968 since when intervention measures have been suspended; prices have been far too high to warrant any intervention in more recent years.

(b) Import duty and import levy

Common external tariffs of 16% on live cattle and calves, 20% on beef and veal and 24-26% on processed meat are applied to all imports from non-member countries with two exceptions. Firstly, live male calves of 2 to 2.5 cwts are exempt from the levy and male calves of under 1.5 cwts pay no levy and only half the duty, so long as they are kept for at least 3 months and fattened to at least 4 cwts. Every week an average import price is worked out for fat cattle by taking a weighted average of market prices in Denmark, England and Wales, Eire and Austria. Similar prices are calculated for calves, based on Danish prices and for frozen and chilled meat, based on Yugoslav and South American prices. To these prices are added certain 'transport mark-ups' (around £0.50 per live cwt). Now if these gross prices are less than the guide price an import levy is charged on all imports, on top of the tariff already imposed.

The levy, is gradually reduced as the E.E.C. average market price rises above the guide price until no levy is charged at all once the market price is 6% higher. It is a reflection of the shortage of beef in the world and the specific demand in E.E.C. countries for best quality beef that E.E.C. market prices have risen well above the guide price level. Other reasons for the excess demand are the greater profitability of milk, cereals and sugar beet for many farmers and the need for farmers on very small acreages to maximise turnover and output per acre.

Finally, the market prices shown below reveal a wide divergence between different member countries. Transport costs would probably account for less than £1.00 per cwt of the difference. The rest results mainly from the variation in the type of meat that constitutes the average and the pressure of demand. In Italy demand is for top quality lean meat whereas in other member countries it is often for meat from cast dairy cows. This, plus the low level of consumption of beef in Italy but high income elasticity for beef may explain why Italian prices (easily the highest in the E.E.C.) are so high.

	Spring 1970	Autumn 1970	1971/72
Highest E.E.C. market price	19.2	19.7	...
Lowest " " "	16.1	15.2	...
Guide Price	14.4	14.4	15.3
Intervention Price	13.4	13.4	14.2
U.K. guaranteed price	11.6	10.5	12.4
U.K. market price	10.3	9.8	...

£ per live cwt

(c) Other measures

As part of the Mansholt Plan that has been accepted, a subsidy of around £2.00 per live cwt is paid on animals aged not more than 18 months and weighing not less than 9 cwts. Animals must be registered before they reach 4 cwts. The aim is to encourage beef production in general and the more rapid finishing of beasts in particular. Up until June 1970, £83.30 per head was paid over and above the market price achieved for dairy cows slaughtered for beef (see Q.51b).

Finally, there is provision for export subsidies but in the present situation they would hardly be granted. In fact some barriers to intra-E.E.C. trade have been reported; a French ban on the export of hindquarters for instance.

48. What is the E.E.C. system for mutton and lamb?

There is no common regulation for either mutton and lamb or wool but there is a common external tariff of 15% on live sheep and 20% on meat. Otherwise member countries are free to impose what restrictions they like on non-members and grant any producer subsidies they wish on mutton and lamb. Wool is treated as an industrial raw material and is not only unsubsidised but also imported duty free.

France is the only member country to have a substantial production of lambs. Imports are restricted (frozen and chilled imports banned) a minimum import price is operated and a subsidy of £3.75 per ewe paid on all animals kept for flock expansion.

Because of the high price of beef there are some signs of a growing demand for lamb in the E.E.C. - a complete contrast to the present U.K. market. With the more profitable beef production and the decline of ewe milk cheese production excess demand has appeared in France, and market prices have risen very high.

49. What is the E.E.C. system for pigmeat?

As for nearly all regulated products there are measures for market support and measures for import restriction. There has been a tendency for the pig cycles in each member country to synchronise and instead of offsetting each other to exacerbate the fluctuations.

A base price is set for November to September which it is hoped will produce self-sufficiency rather than surplus. Intervention in the normal manner is discretionary when the average E.E.C. price falls 8% below the base level and compulsory 15% below.

Imports are made to enter the market above a minimum import price often called the sluice gate price. Any imports offered for a price below this pay a levy in the normal fashion (see Q.23 for a full explanation of the working of m.i.p.s). The m.i.p. is

meant to represent a fair price for imports given the world costs of producing pigs. Since the only important difference in cost for world compared to E.E.C. producers is the cost of feed, the m.i.p. is computed by subtracting from the base price the difference in feed grain costs. A ration consisting of 40% barley, 20% maize, 10% oats, 20% rye and 10% sorghum is costed at E.E.C. prices and at c.i.f. Rotterdam prices and the difference is multiplied by a feed conversion factor of 4.2*. The base price less this cost differential gives the m.i.p. On its own the m.i.p. would mean that imported pigmeat could sell at the same price as E.E.C. produce, except for distribution costs. Therefore to give home production an advantage a levy of 7% of the m.i.p. is imposed on all imports. As one might expect, imports are few and far between.

	£ per livescore	
	Spring 1970	Autumn 1970
U.K. Guarantee Price (after feed formula (adjustment by govt.)	3.3	3.7
Italian Market Price	3.3	3.0
W. German Market Price	2.8	2.7
French " "	2.6	2.3
Belgian " "	2.6	2.3
Dutch " "	2.5	2.2
Danish " "	2.0	2.0
U.K. " "	1.9	1.9

* These figures relate to 1967 and may well have been changed.

50. What are the E.E.C. systems for poultrymeat and eggs?

In all respects bar one they are the same as that for pigmeat. In a like manner base prices are fixed, aimed at self-sufficiency, a feed formula is used to determine a suitable level for a (m.i.p.) sluice gate price and imports are levied if they arrive at lower prices. A minor variation here is that the concept of co-operating countries is used and countries that guarantee not to send supplies for less than the m.i.p. are exempt from the general levy. Also in common with pigmeat, a 7% extra levy is charged on all imports to give home producers an advantage.

However, unlike pigmeat there is no intervention machinery. This is for two reasons. Firstly, in case intervention inhibited the formation of large factory-farms and secondly because so much of the variable costs are feedstuffs, intervention levels would have to be changed in tune with cereal prices and this would be difficult. Nevertheless, the E.E.C. can instruct its intervention agencies at 24 hours notice, if really necessary, to enter the market.

51. What is the E.E.C. system for dairying?

(a) Target price and intervention prices

The target price is the return at the dairy that farmers should be able to achieve on average if supply is in line with demand. Since it is a price at the dairy, farmers with higher than average haulage costs (as in France and Italy) can never hope to obtain the same return as other dairy farmers.

The target price is 21.3p per gallon and is the aim for milk with 3.7% butterfat. Since 80% of milk production is processed rather than sold liquid, butterfat content is more important in determining the price farmers are offered for their milk than is the case in the U.K.

The intervention prices are all in terms of milk products and offered for minimum tonnages - butter and skimmed milk powder (the bi-product of butter-making) have intervention prices in all the member countries except Italy where cheese is the main dairy product. The Intervention prices are £756 per ton for butter and £200 per ton for skimmed milk powder. Assuming that 5,200 galls. of milk will produce 1 ton of butter and 2.2 tons of powder, the return to the manufacturer works out at £1196, that is 23p per gallon when put on a milk equivalent basis. Subtracting the 3p per gallon that the E.E.C. estimates as reasonable to cover costs of manufacture and the profit margin gives an effective intervention price for the farmer of about 20p per gallon at the dairy for 1971/72.

Actual prices paid to the farmer vary around and above the intervention level according to a number of factors: quality,

costs, profit margins and other more local factors. For instance, since liquid milk obtains a premium of 1p per gallon over that used for manufacture, the type of market served by the dairy will affect producer prices.

(b) Subsidies

These have been of three kinds. Firstly, subsidies are paid on skimmed milk used for stockfeeding, to make its cost competitive with other protein sources. Secondly, exports to non-E.E.C. countries are paid a subsidy equivalent to the margin between world and E.E.C. prices, computed fortnightly.

Thirdly, a slaughter premium of £83.30 per cow was paid between October 1969 and June 1970 to farmers with 2-10 cows who agreed to eliminate their herds. For farmers with more than 10 cows, a non-marketing subsidy was paid (again £83.30 per cow) on cows from which no milk or milk products were marketed. This was discontinued in May 1971 when the milk surplus had 'dried up' (see Q.41). To qualify for the full subsidy a farmer's cows had to yield at least 440 gallons per annum.

(c) Import levies and threshold prices

With first a surplus and now a sufficiency of dairy products in the E.E.C., imports have been of minor importance. Threshold prices based on the milk target price are calculated for certain 'pilot' products and other dairy products have threshold prices related to these. Import levies bring import prices up to the threshold level.

52. How are other crops besides cereals supported?

Potatoes: there is no common regulation for potatoes in the E.E.C. and nearly half the potatoes grown are fed to stock, mainly pigs. A common external tariff varies between 15% and 21% according to the type of potatoes and time of year. Otherwise, member countries are free to support potatoes how they wish, although the Netherlands is the only country that has a system on the scale of that in the U.K. (Such support, however, cannot take the form of deficiency payments).

Sugar Beet: surplus production has necessitated a quota system that is called 'temporary' and designed to run until 1974/75. Each member country has a quota which it divides amongst its sugar refiners, who in turn share it amongst beet producers, in the case of France, the quota is shared between home beet producers and overseas cane producers in the ex-French Territories. The market price is supported by an intervention price for white sugar. This is translated into a minimum price for sugar beet after the refiner has met haulage and production costs.

However, the farmer does not necessarily obtain the minimum price for all his beet. If his output is more than 5% above his quota, then the minimum price for these extra beets is reduced by 60% of a levy called the production charge. The other 40% is met by the refiner and the proceeds of the levy are used to defray disposal expenses of the surplus beet.

Fruit and vegetables: Minimum import prices (reference prices) operate for all the main products together with tariffs of 10-20% for vegetables and 7-25% for fruit.

(iii) Structural Measures

53. What is the difference between the structure of agriculture in the E.E.C. and that in the U.K.?

(a) Farms in the E.E.C. are very small compared with U.K. farms. The E.E.C. average size is 30 acres crops and grass, ranging from averages of 20 acres in Italy to 50 acres in France. (The U.K. average is about 80 acres). Only a relatively small number are more than 25 acres in size. Few dairy farms as such exist and average herd size is less than 15 in all the Six and less than 10 in all but the Netherlands.

(b) Labour productivity is lower and the ratio of farm workers to farmers is 2:1 rather than around 1:1 overall as in the U.K.

(c) Mechanisation is at a lower level in Italy and about the same in France as in the U.K. In the other countries it is at a higher level, especially in West Germany.

54. What do these differences mean for the E.E.C.?

(i) It is more difficult to invest and mechanise economically on such small farms and there is, therefore, a greater expenditure of government funds on modernisation subsidies.

(ii) The large number of small farmers rely on milk and wheat for the greater proportion of their incomes. Thus there is greater rigidity in the types of enterprises and less scope for change - from dairy to beef and from wheat to feed grains. There is also less scope for the E.E.C. to reduce prices.

55. What measures are being taken to improve the structure?

Firstly, all the member countries are spending large sums on structural reform out of national budgets; the six governments spent around £1,000 m in 1969 on such measures. Holdings are consolidated, labour is retrained, mechanisation and modernisation grants are awarded. However, some of these policies contradict the overall need to reduce the number of farms and reduce the production of milk, cereals and sugar. Also some of the grants for new buildings have been economic only in terms of present day farm prices; small cowsheds, tractors and so on. The Treaty of Rome forbids any production subsidies by a member country on any products covered by Common Regulations.

Secondly, the E.E.C. as a whole takes measures through F.E.O.G.A.

56. What is F.E.O.G.A.?

The European Agricultural Guidance and Guarantee Fund. The Guarantee section provides money for intervention buying and export restitution payments. As more Common Regulations have come into force and surpluses of wheat, sugar and butter (and to a lesser extent fruits) have emerged, the expenditure from the Guarantee section has risen from around £200 m in 1966/67 to £800 m in 1968/69. The estimate for 1971/62 is in the region of £1,00 million.

The Guidance section spends much less and the total expenditure has a ceiling of £100 million per year. Expenditure is on land consolidation, drainage and investment schemes and so on.

57. Where do the funds come from?

Firstly, from all the import levies collected on agricultural imports from non-E.E.C. countries. Secondly, from a proportion of the Common External Tariffs collected - half in 1971 rising to all in 1975. (with a small proportion returned to cover collecting costs). Thirdly, from 1971 to 1975 each country pays over a budgetary contribution, linked to its Gross National Product. In 1975, this latter will be replaced by 1% of an E.E.C.-wide value added tax.

In general, West Germany pays in more than it receives and France, with few imports paying levies but with a great deal of milk, sugar and wheat receives most in terms of F.E.O.G.A. payments. An irony of the system is that the country with the poorest farmers, Italy, is also a net contributor rather than recipient from F.E.O.G.A. This is because the weight of payment is towards price support and relatively little is given for structural measures (see Q.59).

58. What is the Mansholt Plan?

In 1968 the E.E.C. Commission prepared a strategy aimed at solving the problems of surplus production and low incomes. The original plan aimed to reduce the number of people in agriculture by half before 1980 (i.e. to double the rate at which farmers and workers have been leaving farming). Modernisation grants would be given, but only to viable farms of a specific size. There were to be pensions, payments for farmers leaving whilst still young and payments for the 'retirement' or afforestation of land. Finally, prices were to be reduced.

The plan was rejected by the governments and by most of the farming communities. A revised plan was produced in 1969 and after a great deal of negotiation certain measures were accepted in March 1971.

59. What is being implemented?

(a) £500 m. is to be paid in the form of pensions to farmers aged 55-65 (i.e. half of <u>all</u> E.E.C. farmers). The pension will be paid so long as the man gives up farming and his farm

is either used for non-agricultural purposes or 'modernised'. The pension amounts to £375 p.a. of which F.E.O.G.A. pays two thirds in Italy and a quarter elsewhere.

(b) Member countries have been urged to offer retraining grants to men aged less than 55 who are prepared to stop farming.

(c) Loans at a maximum of 3% interest will be given for approved Development Plans that show a good potential income growth.

(d) Similar loans will also be extended to farmers setting up approved production and marketing groups.

The measures are to run for 4 years and in 1975 the scheme will be re-appraised.

The F.E.O.G.A. contribution has a ceiling of £100 m. per annum. This compares with the original plan's need for closer to £500 m. p.a. from the Guidance Section. However, there are also over £100 m. of funds which the Guidance Section can draw on as 'reserves'. Also the Council made it clear that the ceiling is not inviolate; it can be breached.

Finally, the national measures commented on in Q.55 above are to be harmonised where they affect investment and eliminated where they effect production costs. The aim is to accomplish this by July 1973.

60. Are these measures likely to be sufficient?

On the one hand, farmers are reluctant to leave agriculture for money alone, and when it is only a small pension or cash sum offered, there is even less incentive. On the other hand, it is estimated by Mansholt that 80% of these elderly farmers have no heirs and any pension would be welcome.

Dr. Mansholt himself argues that unless there is a 'golden handshake' offered to the 45-55 year old age group a direct income subsidy will become essential for poorer farmers. So far the movement off the land has been of farm-workers; it will be more difficult to maintain the contraction in the agricultural population when it is farmers themselves who are being squeezed out.

F. Appendices

APPENDIX I

The journey of one ton of wheat from a United States farmer to a Scottish consumer

(All figures fictitious)

June

(1) An American farmer contacts a merchant and agrees to sell his wheat for £27 per ton. The merchant is both dealer and exporter.

July

(2) The farmer delivers his wheat to the exporter and is paid £27. The exporter borrows the money from a bank in the U.S.A.

(3)(a) The American exporter makes a contract with a firm of U.K. importers to deliver the wheat to Glasgow for £30 in September.

(b) The importer registers the contract for £0.25p with the U.K. government and accepts the obligation to pay the prospective levy (say £1) in September on arrival of the wheat.

The importer makes a contract to supply wheat to a flour mill in Falkirk in September for £32.

(4) The importer makes out a cheque for £30, dated September. However before paying the American exporter, he takes the cheque (called a bill of exchange) to 2 firms of merchant bankers. They assess his financial position and, for a charge of, say £0.25, underwrite the bill. In doing this they ensure that whoever holds the bill in September will be paid £30, even if the importer defaults.

The importer hands over the bill to the exporter.

(5) The American exporter can now sell this bill. If the underwriters are firms of repute, the bill will be termed 'prime paper' or 'first class paper', and one of the London Discount Houses will offer to 'discount' it. Say they pay £29 cash to

the exporter. By holding the bill until September and obtaining £30 the Discount House makes a profit (the exact price they pay will depend on the rate of interest - here they would be charging a rate of 3.3% per 2 months, 12% per annum).

August

(6) The American exporter can now:-

- pay the shipper and the cargo insurer (say £1)
- pay back the U.S. bank(£27 plus interest of, say, £0.50).

This leaves him with a profit from his £29 of £0.50 per ton.

September

(7) The wheat arrives at Glasgow and the importer sells it for £32 to the Falkirk flour mill.

The importer can now:-

- pay £30 to the Discount House for the bill of exchange
- pay £1 levy to the government.

This leaves him with a profit of £1, less the £0.25 fee to the underwriter, less the £0.25 Registration of contract fee; a net profit of £0.50 per ton.

October

(8) The flour mill produces and distributes flour to biscuit makers, bakeries, etc. Foodstuffs are prepared, packaged and distributed.

November

(9) The products are bought and consumed - 5 months after the farmer was paid.

APPENDIX II

Prices - different terms used in the U.K. and the E.E.C.

U.K.

Estimated market price - price on which the fat sheep deficiency payment is based.

Estimated producer price - price on which the egg deficiency payment is based.

Minimum import price - minimum prices for imports of beef, cereals, eggs and milk powder.

Guaranteed price - price that the government guarantees to pay on average to all producers (for standard quantities where applicable).

Standard price - weekly guaranteed prices for fat cattle and fat sheep.

E.E.C.

Base price (prix de bas) - Target prices for pigs, poultry and eggs.(c.f.).

Guide price (prix d'orientation) - Target price for cattle and calves (c.f.).

Intervention price (prix d'intervention) - minimum level to which the market price is allowed to fall for all the main products.

Minimum Price (prix minimum des betteraves) - Minimum price for beets grown within national quotas.

Reference price (prix de reference) - Target price for fruit and vegetables (c.f.). (n.b. also the name for the French m.i.p. on lamb imports).

Sluice gate price (prix d'ecluse) - Minimum import prices for pigs, poultry and eggs.

Target price (prix indicatif) - The price that the E.E.C. wants farmers to achieve on average for cereals and milk. The other names used for meat prices and for fruit and vegetables (see above) have the same meaning.

APPENDIX III

Translation of the French for some commodities

Hard wheat	le blé dur
Soft wheat	le blé tendre
Barley	l'orge
Rye	le seigle
Maize	le maïs
Oats	les avoines
Sugar	le sucre
Sugar Beet	la betterave sucrière
Milk	le lait
Butter	le beurre
Skimmed milk powder	la poudre de lait écremé
Cheese	la fromage
Beef	la viande bovine
Cattle	les bovins
Calves	les veaux
Pork	le porcine
Pigs	le porc
Eggs	les oeufs
Poultry	la volaille

The French term for 'liveweight' is 'poids vif',
'deadweight' is 'abbatu'
and 'subsidies' are 'aides directes'

G. Glossary

(1)

Price elasticity of demand: the percentage increase in quantity demanded divided by the percentage increase in price. An inelastic demand for a commodity is one where a 1% increase in price leads to a less than 1% decrease in quantity demanded, whilst a price elastic commodity is one where a 1% increase in price leads to a more than 1% decrease in quantity. This means that where demand is inelastic to price, total revenue falls as price falls and total revenue rises as price rises. Most foodstuffs are price inelastic.

Income elasticity of demand: the percentage increase in quantity demanded divided by the percentage increase in income. An income inelastic commodity is one where a 1% increase in incomes leads to a less than 1% increase in quantity demanded. Three points must be made:-

(a) Some products may have a negative income elasticity and as income rises, the quantity demanded falls. Thus canned peas have an income elasticity of -0.4 (i.e. a 1% rise in income leads to a 0.4% fall in demand), whereas frozen peas have an income elasticity of around +1.3. In general, most agricultural products have income elasticities which are negative or less than one.

(b) As the level of income gets higher, so the income elasticity will change. Overall, the income elasticity of food has fallen from around 0.5 to around 0.25 over the last 30 years.

(c) All these income elasticities relate to demand at the retail level. Perhaps half of this will be demand for retail services (packaging, processing etc.) and only half for the raw food itself.

(2)

Commonwealth Preference: Inaugurated in 1931 as a counter to the world slump and trade restrictions. The U.K. grants tariff preference over a wide range of goods - particularly raw and semi-processed materials - and other Commonwealth Countries (especially the Dominions) grant a measure of tariff preference to U.K. manufactured goods.

Customs Duty: Any tax on imports that the exchequor takes. Thus if an agricultural levy is paid into a special fund it is not a customs duty. See tariff.

Dumping: The term can be applied to any country disposing of surpluses abroad at lower prices than the product sells for on the home market. Since this is a common practise where foreign exchange earnings are put at a premium (e.g. East Europe and some Developing Countries) the term is usually restricted to sudden and occasional exports at very low prices. Where governments buy up surplus agricultural output, dumping is an obvious way of disposing of the supplies. However, most countries now have regulations to prevent dumping (see Dumping - U.K.). To attempt to dump is against the rules of the G.A.T.T. To regular exporting countries, dumping on their overseas markets is a form of unfair competition.

Dumping - U.K.: The Customs Duties (Dumping and Subsidies) Act 1957 set up a procedure. Firstly, the onus is on the U.K. industry affected to complain. Secondly, the government checks that dumping has occurred; thirdly, that it has injured or threatens to injure some U.K. industry; fourthly, that it is in the interest of the U.K. to stop the dumping. Only then could the government impose a duty under the 1957 Act. A further Act in 1968 cured the obvious slowness of this procedure by allowing provisional action to be taken, with a view to rapidly countering the dumping of perishables. It is difficult for a subsidised industry such as agriculture to demonstrate that injury has occurred and initiate anti-dumping procedure.

E.E.C.: European Economic Community. Along with the European Coal and Steel Community and the European Atomic Energy Commission it forms the "European Communities" (the three have been merged since 1967). The controlling body is the Council of Ministers, composed of Government Ministers from Italy, France, West Germany, Belgium, Luxembourg and the Netherlands. Greece, Turkey and the French African Community are associated. The Council is advised by and issues order to the E.E.C. Commission, an international 'civil service' located at Brussels. The Commissioners themselves are chosen on the basis of their ability - the Commissioner for Agriculture is Dr. Mansholt, ex-minister of Agriculture for the Netherlands. The Commissioners pledge themselves to work for the E.E.C. rather than the member governments that propose them; France, Italy and West Germany propose 2 each and the Benelux countries one each making 9 in all. Each appointment needs unanimous approval. Finally, there is a European Parliament with influence but no power.

E.F.T.A.: European Free Trade Area. Set up in 1956 to dismantle barriers to trade in industrial goods between members (Austria, U.K., Denmark, Norway, Sweden, Portugal and Switzerland). No common external tariff exists. Obviously one danger is that exports of non-E.F.T.A. countries bound for, say, the U.K. will be sent to say, Denmark first, thus entering the U.K. free of duty. To counter this, E.F.T.A. has a careful system of certificating goods on country of origin.

E.F.T.A. does not cover agricultural goods - these are governed by bilateral agreements (see - U.K./Denmark).

Excess production or surplus: In a free market, prices would always adjust downwards to clear any excess supply. In the present world markets for temperate foodstuffs, some farmers are cushioned from falling prices by government subsidies or support buying agencies. Thus there is insufficient tendency for the quantity supplied to contract and the market to be cleared. As a result production in some countries is greater than can be economically justified at present world prices.

The G.A.T.T.: The General Agreement on Tariffs and Trade. Signed in 1947 and now the only major trading nation not a signatory is the U.S.S.R. The G.A.T.T. is a set of rules designed to make trade orderly and to gradually reduce trade barriers. The main points are:-

(a) Any advantages given to one country must be given to all other signatories of the G.A.T.T. Obviously, this is a hope for the future rather than an actual achievement. Countries were allowed to keep arrangements existing in 1947 - the U.K. have kept Commonwealth Preference, the U.S.A. certain agricultural import quotas and the European countries kept their high agricultural tariffs. Such exceptions are called 'waivers'.

(b) Countries are encouraged to agree with each other to 'bind' tariffs. Once, "bound under G.A.T.T." tariffs can only be increased after other G.A.T.T. members have been consulted (U.K. tariffs on fruit and vegetables are bound).

(c) All quantitative restrictions are forbidden, unless the country has a 'waiver' (see above), or there are balance of payments difficulties or if the country restricts home production as much as it restricts imports. 'Quantitative restrictions' usually mean import quotas and limitations on import licences made available to particular countries or groups of countries.

(d) Countries should notify fellow members of the G.A.T.T. before applying production subsidies and consult them if trade is expected to be noticeably affected.

(e) All members are allowed to take anti-dumping measures (see dumping).

(f) Members of the G.A.T.T. are pledged to work towards lower tariff and non-tariff trade barriers, through international conferences (see Kennedy Round) and agreements between groups of importers and exporters (see I.G.A.).

Thus the G.A.T.T. was designed to avoid the pitfalls of the 1930s - international victimisation, beggar-my-neighbour policies, lack of consultation, retaliation and so on. In this it has been successful. The G.A.T.T. does not preclude voluntarily negotiated arrangements between importers and exporters and it was on these grounds that the U.K. avoided breaking the G.A.T.T. rules with butter and bacon quotas.

International Grains Agreement: It was negotiated in 1967 as part of the Kennedy Round. It was designed to protect importers and exporters from dumping by each exporting country agreeing to minimum and maximum offer prices for wheat and each importing country guaranteeing their suppliers certain shares of the market.

However, as surplus wheat appeared in the E.E.C. and as markets for wheat in Asia and the U.S.S.R. contracted so prices fell below the minimums and the market sharing guarantees became inoperative.

The U.K. minimum import price scheme (see m.i.p.) predated the I.G.A. but was moulded so that it fitted into the I.G.A.

International Sugar Agreement: Signed in 1968 by the major sugar importing and exporting countries except for the E.E.C. and the U.S.S.R. It was a result of very low world prices for sugar in 1966-68 (under £20 per ton). Exporting countries agreed to quotas based on world prices. As a result world prices have risen to over £40 per ton.

The price guaranteed to Commonwealth sugar producers by the U.K. under the Commonwealth Sugar Agreement has remained at £43.50 - £47 per ton for some time.

Kennedy Round: This is the main accomplishment of the G.A.T.T. and the first major tariff cutting agreement reached since the war. It was negotiated 1962-64 and is being implemented 1967-72. It arose because the U.S.A. was worried in 1961 that it would lose markets if the U.K. application to join the E.E.C. was successful. The Round reduced tariffs on manufactured goods from around 20% to nearer 10%. However, except for the I.G.A.

(see above) there was no agreement on agricultural products. Agricultural tariffs, levies, support policies and non-tariff barriers (e.g. pseudo-'health' regulations) are now high relative to industrial goods.

Levy: Variable tax on agricultural imports. Levies are tied to some fixed, dock-side price and are imposed on imports arriving for sale at prices below this level.

For:- It offers the best protection against price fluctuations.

- It also can provide income support (see threshold price).

Against:- It makes exporters' markets uncertain and this will affect their investment plans, costs of production and the timeliness of their supplies.

- It is difficult to negotiate unless linked to a low dock-side price (see minimum import price).

Minimum Import Price: A price fixed according to the estimated world level of costs of production. No imports are allowed in below this price and cheap supplies have to pay a levy (see levy).

For:- It is easily negotiated with major suppliers.

- It controls price fluctuations in the interests of both importing and exporting countries.

Against:- It sacrifices potential levy income that a higher price would obtain (see threshold price).

- It does not subsidise domestic farm incomes unless coupled with other measures such as deficiency payments. This leads to a complicated system.

Quota: A physical limit on the tonnage of imports for which a country issues import licences. Quotas may be specified per country, or there may be an overall general quota. The rules of G.A.T.T. forbid quotas unless home production is restricted as much as are imports (see G.A.T.T.). However, if the importing country can obtain the agreement of its main suppliers to accept quotas (as in the case of the U.K. butter quota), then such an agreement will not be contested and therefore the G.A.T.T. not invoked.

For:- They suit diverse products where it is difficult to put all products on a common basis.

- They suit situations where exporting countries have State Boards controlling supplies(e.g. butter and bacon).

Against:- They offend against the spirit of G.A.T.T. and push up import prices and therefore revenue accruing to overseas suppliers at the expense of home consumers (given the price inelasticity of demand).

Tariff: Fixed tax on any imports. An ad valorem tariff is a percentage of the price of the imported good whilst a specific tariff is a fixed amount charged. (the ad valorem tariff on television sets imported into the U.K. is 15% and for cars it is 11%; the specific tariff on imports of honey from non-Commonwealth countries is 25p per cwt.)

For:- easier to negotiate than a threshold price.

- it encourages overseas suppliers to reduce their prices.

Against:- They do not give secure income or price support.

- They may be reduced for reasons other than those relating to the product itself (for instance, as part of overall tariff cuts).

Terms of Trade: This describes the overall relationship of import prices to export prices for a country. Despite the increasing importance of imported manufactured goods, the U.K. is still basically an importer of raw materials and an exporter of processed materials. Over the past 10-20 years the prices of manufactured goods have out-risen those of primary goods (there are many reasons; the rise of synthetics, the recycling of raw materials, surpluses in food production, world prosperity and the relative income elasticities of demand). Thus the terms of trade have, 'moved in favour' of countries such as Britain.

Threshold Price: A dockside price, linked to the domestic level of costs of production. A threshold price aims to bring low cost world supplies up to the internal level of costs by imposing a levy on imports (see levy).

For:- The government receives the maximum levy revenue.

- Both price and income support are obtained.

Against:- They offend against the spirit of G.A.T.T.

- They are an open invitation to suppliers to form a price ring.
- They are difficult to negotiate and risk relatiatory action.

U.K./Argentina Agreement: A 'gentleman's agreement'. The U.K. agrees to consult Argentina before taking measures to limit beef imports. Argentina agrees to try to prevent untimely meat shipments upsetting British markets.

U.K./Danish Agreement:

(a) Under the bacon market sharing understanding (1963-72) Denmark agrees to a specified share of U.K. market.

(b) Denmark agrees to accept butter quota.

(c) The U.K. agrees to consult with Denmark before doing anything that will diminish the share (i.e. not the amount) of Danish dairy produce and bacon on the U.K. market.

U.K./Eire Agreement:

(a) Unrestricted access for Irish store livestock into the U.K. are granted to Eire.

(b) Margins of preference or free entry for other Irish agricultural exports to U.K. have been awarded until at least 1971. Special arrangements to avoid the import levy on beef.

(c) The U.K. retains power to restrict Irish imports but only after consultation.

(d) Eire accepts the butter quota, bacon quota, m.i.p. for cereals (see m.i.p.) and tariff for mutton and lamb.

U.K./N.Zealand
U.K./Australia (Until 1972):

(a) The U.K. grants unrestricted entry to Australian/New Zealand meat.

(b) The U.K. agrees to safeguard the New Zealand share of the imported mutton/lamb market and consult, should other countries threaten her U.K. market.

(c) The U.K. agrees to consult annually concerning agricultural trade.

(d) Australia and New Zealand agree to butter quota; Australia agrees to accept minimum import prices for cereals and beef. New Zealand accept the mutton and lamb tariff.

H. Sources for information on the E.E.C.

More than a score of books and reports have appeared on the subject of agriculture in Europe, mainly from the standpoint of economists. Some of the more recent are:-

1. The Atlantic Papers 4. 1970. A Future for European Agriculture.
   Report by the Atlantic Institute.
2. New Zealand and an Enlarged E.E.C. 1970.
   Report by N.Z. Monetary and Economic Council.
3. Economic Union and Enlargement: the E.E.C. Commission's Revised opinion for the application for membership of the U.K. 1969.
   Report published by European Communities Press and Information (see 11).
4. British Entry to the E.E.C. - implications for Britain and North American agriculture. J. S. Marsh. 1971.
   Report published by British - North America Committee.
5. Agricultural Policy and the Common Market. J. S. Marsh and C. Ritson. 1971.
   Report published by P.E.P. - Chatham House.
6. Agriculture and Britain's trade dilemma. T. Josling. 1970.
   Report published by Trade Policy Research Centre.
7. The E.E.C. Agricultural Reform Plan and its relevance to British Agriculture. T. Kempinski. 1971.
   Report published by Dept. of Agric. Econ., Manchester University.
8. Agricultural Marketing and the E.E.C. M. Butterwick. N-Rolfe.1971
   Book published by Hutchinson.
9. More general information on agriculture in the E.E.C. is to be found in a number of pamphlets and booklets. Barclays Bank publish two excellent, illustrated booklets plus factsheets on each of the E.E.C. countries.
10. Practical guides to E.E.C. measures for particular commodities are found in N.F.U.S. publications and in their journal 'Farming Leader'. Other articles appear throughout the farming

press. An assessment of British and E.E.C. milk policies appeared in the S.M.M.B. Bulletin Vol. 18. No. 5, May 1970.

11. The European Communities Press and Information office, 23 Chesham Street, London S.W.1. disseminate many English translations of official and unofficial publications concerning the E.E.C. These include a number of explanatory booklets on agriculture in the E.E.C. and the monthly, semi-official magazine, 'European Communities'.

12. The U.K. government offers information through two white papers (Cmnd 3274 - The Common Agricultural Policy of the E.E.C., 1967 and Cmnd 4289 - Britain and the European Communities, 1970), factsheets available free from the G.P.O. and through the information officers of the Central Office of Information. More detailed information concerning agriculture in the E.E.C. can be found in the annual Commodity Reports of the Commonwealth Secretariat.

All the following publications, with the exception of (20) can be consulted at the Centre for European Government Studies Library, Old College, Edinburgh (application in the first instance should be made to the librarian). This is an official depository for publications from and on the E.E.C. (hence nothing can be borrowed).

13. Bulletin Des Communautés Européenes. Monthly.
Official publication of the E.E.C. Commission.

14. Journal Official. Daily.
Official journal of the E.E.C. Commission. Published in two series:
(a) L series reporting all E.E.C. regulations.
(b) C " " " Commission proposals.

15. Newsletter of the Common Agricultural Policy. Monthly.
Official publication of the Commission agriculture department.

16. 30 Jours D'Europe. Monthly.
Semi-official magazine in French, similar to (17).

17. European Communities. Monthly.
See above (11).

18. European Intelligence. Monthly.
Unofficial journal concerned with commerce and business in the E.E.C.

19. Europe. Daily.
Unofficial general newsheet on newsworthy items concerning the E.E.C.

20. Agra-Europe. Weekly.
Unofficial weekly newsheet. Available on subscription from Agra-Europe (London) Ltd.

Statistics are available for E.E.C. prices and some market quantities from (21). Both series are taken by the Statistical Reference Room, Edinburgh University Library.

21. C.E.E. Informations. Monthly in 2 volumes.
(a) Produits animaux
(b) Produits vegetaux.