British Agriculture in the Common Market

AND

THE OUTLOOK FOR NORTH OF SCOTLAND FARMING TO 1977/78

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OUTLOOK FOR BEEF IN THE COMMON MARKET

by

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In order to illustrate the outlook for beef producers in the North of Scotland this paper is largely concerned with an examination of five systems of production, taken from the infinitely larger number currently operated in this region, and of two case studies, one a small family farm on 100 acres, the other a 300 acre farm employing two men. Before turning to this examination, however, we should give our attention to the kind of market system for beef into which we shall begin phasing next year.

As we all know the system of guaranteed prices and deficiency payments with which we have worked for nearly 20 years must be discontinued by the end of the transition period in 1978. However, although there has been no definite commitment by the Government, there is no reason why the present system should not continue throughout the transition period. Once we are fully in the E.E.C., producers will certainly experience sharper price fluctuations than they have done under the old system.

In the E.E.C. the market price for fat cattle is underpinned by reference to the Guide Price which is usually set for the year beginning in April. Unlike our own guaranteed prices there are no seasonal scales to affect the Guide Price and it is in no way a guaranteed price, but more a price which the E.E.C. considers desirable under normal market conditions. There are two principal means of keeping market prices within striking distance of the Guide Price:

1. Protection from imports by the use of customs duties and variable levies.
2. Intervention buying which may be undertaken by member states (when it is described as discretionary) or by the Community (when it is described as mandatory or compulsory).

Figure 6.1 illustrates the ways in which these two methods operate. In Case 1 when the prevailing market price within the Community as a whole is above 106 per cent of the Guide Price, no levies are made. When the market price falls to a point between

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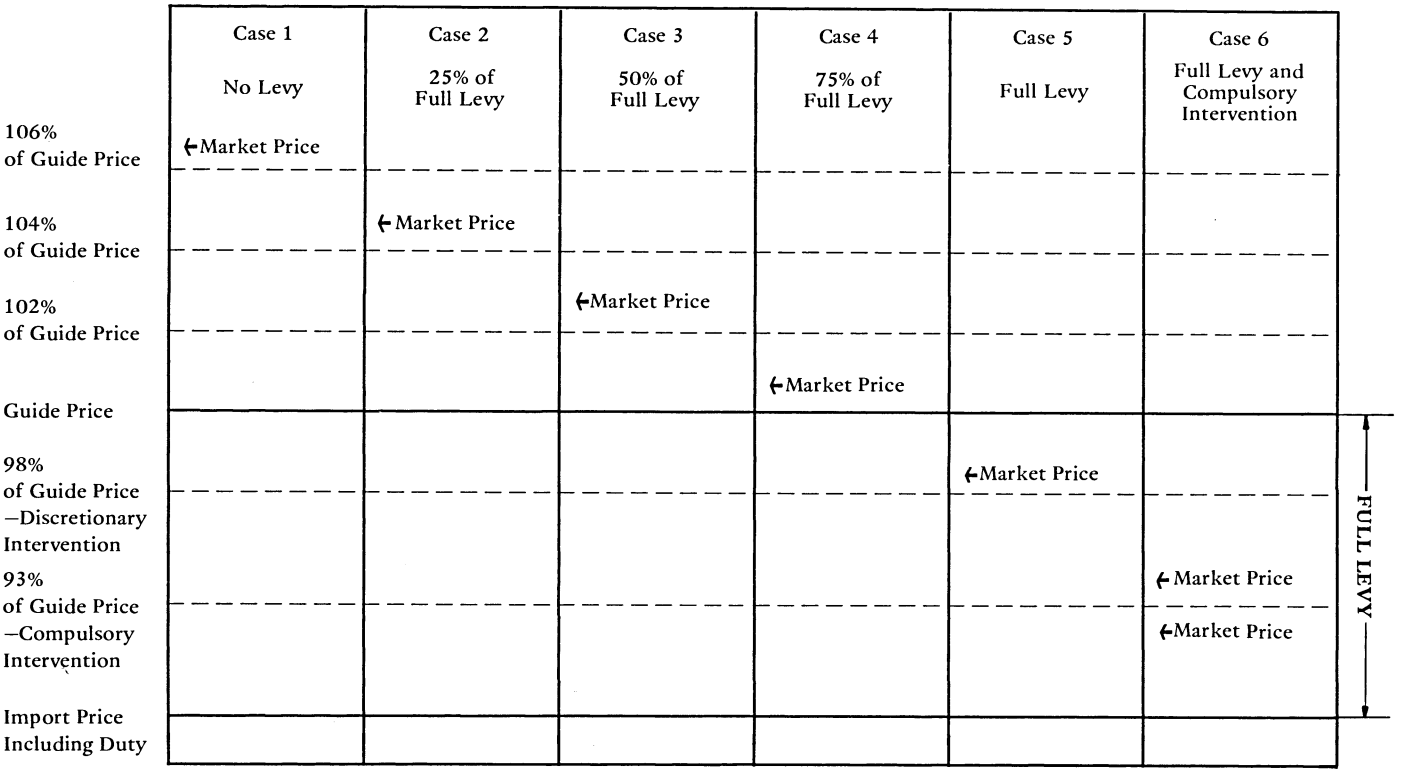
Figure 6.1 OPERATION OF PRICE SUPPORTS FOR BEEF IN EEC

EXAMPLES OF THE OPERATION OF THE E.E.C. VARIABLE LEVY SYSTEM FOR BEEF AND VEAL



106 per cent and 104 per cent of the Guide Price 25 per cent of the full levy is exacted. Similarly when the market price falls to between 104 per cent and 102 per cent the amount of the levy imposed rises to 50 per cent. It rises to 75 per cent when the market price is between 102 per cent and 100 per cent of the Guide Price, the full levy being imposed whenever the market price falls below the Guide Price. The amount of the levy is determined weekly by calculating the average import price of fat cattle which is derived from representative markets in countries outside the Community (at present Austria, Denmark, England and Wales and the Irish Republic, though should the last three become members, as they have applied to do, there will obviously have to be some re-arrangement). The actual levy consists of the difference between the Guide Price and the import price quotation plus the customs duty which is at present 16 per cent of the value of live cattle.

Intervention buying can be undertaken by national agencies *or* private firms which are supported financially by the Guidance and Guarantee Fund of the Community. Discretionary buying by member states may be undertaken when the Community's market price for cattle has fallen below 98 per cent of the Guide Price and when the prices of certain qualities and types of cattle in a member state or region of a member state are below 93 per cent of the Guide Price. Mandatory intervention by the Community comes into play when the market price for the entire Community falls below 93 per cent of the Guide Price.

Before turning to the five systems of production which were mentioned in the opening paragraph, let us consider how we might translate the prices of the Community into meaningful terms for our own region and type of cattle. During the marketing year 1971/72 the Community's Guide Price for fat cattle was equivalent to £15.24 per live cwt., but between the present six members of the Community there are quite wide differences in prices and in quality. Italy, for example, has for some time had market prices for fat cattle some £2-3 per live cwt. higher than those ruling in the Netherlands. An even more important distinction to bear in mind is that the market prices quoted for the Community apply to all fat cattle, including cull cows and bulls, whereas U.K. market prices refer only to steers and heifers that qualify for deficiency payment under the fatstock guarantee scheme. Taking all these factors into account it seems that the market price for clean fat cattle in this region in 1971/72, had the U.K. been a full

Table 6.1
GROSS MARGINS from BEEF in the NORTH OF SCOTLAND

Actual 1971/72 with Estimated 1971/72 and projected 1977/78
Under E.E.C. Prices and Costs

BARLEY BEEF

	1971/72		1977/78	
			At E.E.C. Prices and Costs	
	At U.K. Prices and Costs	At E.E.C. Prices and Costs	1971/72 Standards of Farming	1977/78 Standards of Farming
	£ per head	£ per head	£ per head	£ per head
OUTPUT				
Fat Steer	99.0	134.0	145.0	145.0
Calf Subsidy	11.2	—	—	—
	110.2	134.0	145.0	145.0
Less: cost of calf and mortality	32.2	35.5	41.0	40.0
TOTAL OUTPUT	78.0	98.5	104.0	105.0
VARIABLE COSTS				
Barley	36.0	52.5	63.0	59.8
Bought feed	13.5	14.5	17.0	16.2
Vet., drugs etc.	7.5	8.5	9.0	9.0
TOTAL VARIABLE COSTS	57.0	75.5	89.0	85.0
GROSS MARGIN	21.0	23.0	15.0	20.0

ASSUMPTIONS

1. Friesan bull calves bought at 7-10 days of age
2. Mortality of 7½%, reduced to 5% at 1977/78 standards of farming
3. Barley consumption 30 cwts per head
4. Purchased concentrates 6 cwts per head
5. Slaughtered at 850 lbs liveweight (475 lbs deadw ght)
6. Overall daily liveweight gain 2.2 lbs
7. Feed conversion ratio 5.2:1, improving by 5% at 1977/78 standards of farming

	1971/72		1977/78
PRICES	At U.K. Prices	At E.E.C. Prices	At E.E.C. Prices
Fat steer £ per live cwt	13.0	17.7	19.0
Rearing calf £ per head	30.0	33.0	38.0
Barley £ per ton	24.0	35.0	42.0
Bought feed £ per ton	45.0	48.5	56.5

member of the Community, would have been £17.15 per live cwt., as against our projections of £18.50 per live cwt. for 1977/78.

High though these prices may look by current standards, they will be reduced by the disappearing cow and calf subsidies, increased feedstuff prices and, to a lesser extent, higher fertiliser prices. How then will these changes affect some of the production systems selected for review in this paper?

Intensive cereal beef or barley beef, as it is more popularly known, will obviously feel the impact of higher barley prices to a greater extent than any other system. Table 6.1 shows that at present prices and costs a gross margin of £21 a head is perfectly feasible. Projecting forward to 1977/78 E.E.C. prices, but with farming practices remaining unchanged at 1971/72 standards, would result in a gross margin of only £15 a head, a fall of 28 per cent. The final column in Table 6.1 incorporates two improvements in the efficiency with which such a system should be conducted by 1977/78, saving £1 by reducing calf mortality from 7½ per cent to 5 per cent and a further £4 by improving the food conversion ratio by 5 per cent. The combined effect of these two improvements would result in a gross margin per head of £20, still 5 per cent lower than that produced in column 1.

Forage based systems will fare better. Table 6.2 shows that under current prices and costs a gross margin of £38 an acre can be expected for the production system known as 18 month beef. Applying the projected increases in prices and costs for 1977/78 within the E.E.C. a very slightly higher gross margin per acre can be obtained even with no change from current standards of production. With, however, certain improvements in productivity the gross margin per acre shows an increase of 33 per cent over current levels, as indicated in column 4 — these improvements being a saving of about 2 cwts. of barley per head by improving silage quality, a reduction of 1/10th of an acre grazing per head and lower fertiliser costs.

The profitability of summer fattening and winter fattening systems depend, of course, very much on the prices of store cattle. Broadly speaking, store prices move in line with fat prices, but with periodic relative variations according to outlook for cattle fattening. Recently, as we know, the prices of stores have risen sharply relatively to those of fat animals. In line with Professor Allen's projection for fat cattle prices to reach a peak in

Table 6.2
GROSS MARGINS from BEEF in the NORTH OF SCOTLAND

Actual 1971/72 with Estimated 1971/72 and Projected 1977/78 Under E.E.C. Prices and Costs

SEMI-INTENSIVE 18 MONTH BEEF

	1971/72		1977/78	
			At E.E.C. Prices and Costs	
	At U.K. Prices and Costs	At E.E.C. Prices and Costs	1971/72 Standards of Farming	1977/78 Standards of Farming
	£ per head	£ per head	£ per head	£ per head
OUTPUT				
Fat steer	115.0	155.0	165.0	165.0
Calf subsidy	11.2	–	–	–
	126.2	155.0	165.0	165.0
Less: cost of calf and mortality	32.2	35.5	41.0	41.0
	94.0	119.5	124.0	124.0
VARIABLE COSTS				
Barley	16.8	24.5	29.5	25.7
Bought Feed	12.0	13.0	15.0	15.0
Silage	5.6	7.0	11.4	8.8
Grazing	5.6	7.0	11.4	8.6
Vet., drugs etc.	8.0	9.0	9.7	9.7
TOTAL VARIABLE COSTS	48.0	60.5	77.0	67.8
GROSS MARGIN	46.0	59.0	47.0	56.2
GROSS MARGIN PER FORAGE ACRE	38.3	49.2	39.2	51.0

ASSUMPTIONS

1. Hereford x Friesian bull calves bought in autumn at 7-10 days of age
2. Mortality of 5%
3. Barley consumption 14 cwts per head, reduced to 12.2 at 1977/78 standards of farming
4. Purchased concentrates 4 cwts per head
5. Silage 6 tons per head, S.E. of 10 improving to 11 at 1977/78 standards of farming
6. Grazing 0.6 acres per head, reduced to 0.5 acres at 1977/78 standards of farming
7. Slaughtered at 8½ cwt liveweight
8. Overall daily liveweight gain 1.75 lbs

	1971/72		1977/78
PRICES	At U.K. Prices	At E.E.C. Prices	At E.E.C. Prices
Fat steer £ per live cwt	13.5	18.1	19.4
Rearing calf £ per head	30.6	33.8	39.0
Barley £ per ton	24.0	35.0	42.0
Bought feed £ per ton	60.0	65.0	75.0
Fertiliser £ per ton 18:12:10	28.0	35.0	59.0 44.0*
,, , ,, 34: 0: 0	25.0	34.0	63.0 47.0*

*Given improved fertiliser practices (see chapter 3)

Table 6.3

GROSS MARGINS from BEEF in the NORTH OF SCOTLAND

Actual 1971/72 with Estimated 1971/72 and Projected 1977/78
Under E.E.C. Prices and Costs

SUMMER FATTENING

	1971/72		1977/78	
			At E.E.C. Prices and Costs	
	At U.K. Prices and Costs	At E.E.C. Prices and Costs	1971/72 Standards of Farming	1977/78 Standards of Farming
	£ per head	£ per head	£ per head	£ per head
OUTPUT				
Fat steer	121.6	165.0	178.5	178.5
Less: Cost of store	101.6	141.0	142.5	142.5
TOTAL OUTPUT	20.0	24.0	36.0	36.0
VARIABLE COSTS				
Share of grazing costs	5.0	5.8	9.5	7.4
Vet., drugs etc.	4.0	4.7	5.5	5.5
TOTAL VARIABLE COSTS	9.0	10.5	15.0	12.9
GROSS MARGIN	11.0	13.5	21.0	23.1
GROSS MARGIN PER FORAGE ACRE	22.0	27.0	42.0	46.2

ASSUMPTIONS

1. Black polled steers of 7½ cwt, bought in April/May
2. Grazed at 2 per acre throughout season
3. Slaughtered at 9½ cwt in September
4. Overall daily liveweight gain 1.7 lbs

	1971/72		1977/78
	At U.K. Prices	At E.E.C. Prices	At E.E.C. Prices
PRICES			
Fat steer £ per live cwt	12.8	17.4	18.7
Store ,, ,, ,,	13.5	18.8	19.0
Fertiliser £ per ton			
18:12:10	28.0	35.0	59.0 44.0*
34: 0: 0	25.0	34.0	63.0 47.0*

*Given improved fertiliser practices (see chapter 3)

Table 6.4

GROSS MARGINS from BEEF in the NORTH OF SCOTLAND

Actual 1971/72 with Estimated 1971/72 and Projected 1977/78
Under E.E.C. Prices and Costs

WINTER FATTENING

	1971/72		1977/78	
			At E.E.C. Prices and Costs	
	At U.K. Prices and Costs	At E.E.C. Prices and Costs	1971/72 Standards of Farming	1977/78 Standards of Farming
	£ per head	£ per head	£ per head	£ per head
OUTPUT				
Fat steer	108.0	145.0	155.0	155.0
Less: Cost of suckled calf	70.0	95.0	97.0	97.0
TOTAL OUTPUT	38.0	50.0	58.0	58.0
VARIABLE COSTS				
Barley	10.0	15.7	18.8	17.0
Silage	2.3	2.9	4.7	3.7
Roots	1.2	1.4	2.3	1.8
Vet., drugs etc.	7.0	8.0	9.2	9.2
TOTAL VARIABLE COSTS	20.5	28.0	35.0	31.7
GROSS MARGIN	17.5	22.0	23.0	26.3

ASSUMPTIONS

1. Suckled steer calf bought in September/October at 5 cwts
2. Barley consumption 9 cwts, reduced to 8.2 at 1977/78 standards of farming
3. Silage consumption 2½ tons at S.E. 10, rising to 11 at 1977/78 standards of farming
4. Swedes consumption 2½ tons
5. Slaughtered in April/May at 8 cwt liveweight
6. Overall daily liveweight gain 1.7 lbs

	1971/72		1977/78
	At U.K. Prices	At E.E.C. Prices	At E.E.C. Prices
PRICES			
Fat steer £ per live cwt	13.5	18.1	19.4
Suckled calf £ per live cwt	14.0	19.0	19.4
Barley £ per ton	24.0	35.0	42.0
Fertiliser £ per ton			
18:12:10	28.0	35.0	59.0 44.0*
34: 0: 0	25.0	34.0	63.0 47.0*

*Given improved fertiliser practices (see chapter 3)

Table 6.5

GROSS MARGINS from BEEF in the NORTH OF SCOTLAND

Actual 1971/72 with Estimated 1971/72 and Projected 1977/78 Under E.E.C. Prices and Costs

LOW GROUND SUCKLER HERD

	1971/72		1977/78	
			At E.E.C. Prices and Costs	
	At U.K. Prices and Costs	At E.E.C. Prices and Costs	1971/72 Standards of Farming	1977/78 Standards of Farming
	£ per head	£ per head	£ per head	£ per head
OUTPUT				
Calf sales	66.0	90.0	92.0	92.0
Cow and calf subsidies	21.0	—	—	—
	87.0	90.0	92.0	92.0
Less: herd depreciation and mortality	9.5	12.0	13.0	13.0
TOTAL OUTPUT	77.5	78.0	79.0	79.0
VARIABLE COSTS				
Barley	6.0	8.8	10.5	7.1
Bought feed	3.6	4.3	5.3	5.3
Silage	4.6	5.8	9.5	7.4
Grazing	9.3	11.6	19.0	12.9
Vet., drugs etc.	7.0	7.5	8.0	8.0
TOTAL VARIABLE COSTS	30.5	38.0	52.3	40.7
GROSS MARGIN	47.0	40.0	26.7	38.3
GROSS MARGIN PER FORAGE ACRE	31.4	26.8	17.5	30.6

ASSUMPTIONS

1. Calving from December to March
2. Housed from November to April
3. Calving percentage of 95%
4. Calf mortality of 5%
5. Calves sold in September/October at 5 cwt
6. Cow replacement cost £140 and cull cows £90 in 1971/72
7. Bull replacement cost £1.50 per cow
8. Calf replacement cost £1.50 per cow
9. Barley consumption 5 cwts per cow, reduced to 3.4 at 1977/78 standards of farming
10. Bought feed consumption 1½ cwts per cow
11. Silage consumption 5 tons per cow, S.E. 10 rising to 11 at 1977/78 standards of farming
12. Grazing 1 acre per cow and calf, reduced to 0.75 acres at 1977/78 standards of farming

		1971/72		1977/78
		At U.K. Prices	At E.E.C. Prices	At E.E.C. Prices
PRICES				
Suckled calf	£ per live cwt	14.0	19.0	19.4
Barley	£ per ton	24.0	35.0	42.0
Bought feed	£ per ton	45.0	57.0	70.0
Fertiliser	£ per ton			
	18:12:10	28.0	35.0	59.0 44.0*
	34: 0: 0	25.0	34.0	63.0 47.0*

*Given improved fertiliser practices (see chapter 3)

Table 6.6

GROSS MARGINS from BEEF in the NORTH OF SCOTLAND

Actual 1971/72 with Estimated 1971/72 and Projected 1977/78
Under E.E.C. Prices and Costs

CASE STUDY: BEEF/BARLEY FAMILY FARM — 100 ACRES

	1971/72		1977/78	
			At E.E.C. Prices and Costs	
	At U.K. Prices and Costs	At E.E.C. Prices and Costs	1971/72 Standards of Farming	1977/78 Standards of Farming
	£	£	£	£
GROSS MARGINS				
Cattle	2,300	2,950	2,350	2,810
Barley	1,456	1,772	2,000	2,500
TOTAL GROSS MARGIN	3,756	4,722	4,350	5,310
FIXED COSTS (excluding rent)				
Labour (contract)	250	250	400	500
Power	650	650	870	720
Overheads	575	575	940	900
TOTAL FIXED COSTS (excluding rent)	1,475	1,475	2,210	2,120
SURPLUS TO COVER RENT AND NET FARM INCOME	2,281	3,247	2,140	3,190
RENT	400	400		
NET FARM INCOME	1,881	2,847		

ASSUMPTIONS

1. Farm of 100 acres arable, all labour supplied by occupier and wife
2. 18 month beef unit selling 50 head a year
3. 40 acres barley grown

1974 and to decline slightly from that peak to 1977/78, store cattle prices can be expected to ease by 1977/78 within the E.E.C. from their currently firm position. The extent of this change is best expressed by reference to the ratio between store and fat prices. In 1971 the average price of all store cattle over 450 lbs. was £12.50 per live hundredweight. The returns for fat cattle amounted to the same figure, giving a store/fat price ratio of 1.00 for 1971. By 1978 the ratio is expected to fall by 5 per cent to 0.95.

Summer fattening systems, such as that illustrated by Table 6.3, will benefit from the comparatively large rise in beef prices as compared with the costs of grazing, gross margins increasing by around 100 per cent by 1977/78 under E.E.C. prices and costs.

Winter fattening systems will also show substantial increases in gross margin, up by more than 30 per cent using current methods of production and by 50 per cent with improved methods. The greater the reliance on forages rather than cereals the better the expected results.

Suckler cows on lowground, though basically forage fed, will suffer considerably from the expected loss of cow and calf subsidies. The combined effects of this loss and of rising calf prices holds the value of output at virtually the same level in 1977/78 as at present, i.e. at around £78-£79. Rising feed and grazing costs bring the gross margin per cow down to 57 per cent of the current level if it is assumed that there are no improvements in productivity. However, with an improvement of 10 per cent in the energy content of silage, allowing a reduction of 1.6 cwts. of barley per cow, and with the grazing allocation per cow and calf reduced from 1 acre to ¾ of an acre by increasing the inputs of nitrogen to 200 units per acre, the gross margin per acre for 1977/78 at E.E.C. prices and costs is only 3 per cent below current levels.

In order to examine the ways in which some of these production systems will affect complete farm businesses two case studies are now examined, one a family farm of 100 acres with an 18 month beef unit selling 50 head a year from 60 acres and growing 40 acres of barley. A certain amount of contract work and casual labour is required at harvest time and for silage making, but no regular labour is employed. Table 6.6 shows that U.K. prices and costs produce a total gross margin of £3,800, while the fixed costs (excluding rent) are just under £1,500, leaving a surplus of

Table 6.7

GROSS MARGINS from BEEF in the NORTH OF SCOTLAND

Actual 1971/72 with Estimated 1971/72 and Projected 1977/78
Under E.E.C. Prices and Costs

CASE STUDY: BEEF/BARLEY FARM — 300 ACRES

	1971/72		1977/78	
			At E.E.C. Prices and Costs	
	At U.K. Prices and Costs	At E.E.C. Prices and Costs	1971/72 Standards of Farming	1977/78 Standards of Farming
	£	£	£	£
GROSS MARGINS				
Suckler cows	3,760	3,200	2,140	3,050
Winter Fattening	1,330	1,670	1,750	2,000
Summer Fattening	1,100	1,350	2,100	2,310
Barley	3,640	4,430	5,000	6,940
TOTAL GROSS MARGIN	9,830	10,650	10,990	14,300
FIXED COSTS (excluding rent)				
Labour	2,600	2,600	4,240	4,240
Power	2,100	2,100	2,820	2,820
Overheads	1,500	1,500	2,450	2,450
TOTAL FIXED COSTS (excluding rent)	6,200	6,200	9,510	9,510
SURPLUS TO COVER RENT AND NET FARM INCOME	3,630	4,450	1,480	4,790
RENT	1,500	1,500		
NET FARM INCOME	2,130	2,950		

ASSUMPTIONS

1. Suckler cows number 80, using 120 acres. The weaned calves are taken through to fat at 15-18 months
2. In addition 100 stores are bought in spring for fattening off the grass
3. The farmer grows 100 acres barley, 10 acres roots and cuts 60 acres silage, leaving 130 acres for grazing

nearly £2,300 to cover rent and net farm income. The rent on such a farm might well be £400 a year at present, which would leave the occupier with a net farm income of nearly £1,900 to re-imburse him for his and his wife's manual and managerial efforts, and pay the interest on capital. The third column of Table 6.6 shows that the fixed costs are projected to rise more than the total gross margin over the six years, the former increasing by 50 per cent and the latter by only 16 per cent. The effect of these movements is to reduce the surplus by about 6 per cent from £2281 to £2140. If the standards of production in 1977/78 are raised to include improvements dealt with earlier, the total gross margin improves by nearly £1,000, from £4,350 to £5,310. In addition fixed costs would be reduced to a limited extent by putting more reliance on contract work or a co-operative machinery group, so enabling power and overheads to be trimmed. In all, the surplus becomes about £3,200 in 1977/78, or 40 per cent above the present level.

The importance of capital invested in livestock must not be overlooked, especially when the value of that livestock is increasing rapidly. By way of illustration, the capital invested in the 18 month beef system on this family farm can be expected to rise from £5,000 to around £6,800 by 1977/78 at E.E.C. prices and costs. Interest at 8 per cent would create an annual charge of around £550 as compared with £400 at present.

The other case study deals with a 300 acre farm employing two men. The farmer grows 100 acres of barley, keeps 80 suckler cows on 120 acres and feeds the weaned calves to go fat at 15-18 months in the spring. He also buys in 100 stores for fattening off the grass. This farm, therefore, has three of the activities examined earlier, suckler cows, winter fattening and summer fattening.

At current prices and costs the total gross margin is just over £9,800 and the fixed costs (excluding rent) £6,200, leaving a surplus of £3,630 to cover rent and net farm income. With a rent of £5 an acre, this yields the farmer a net farm income of just over £2,100.

Using 1977/78 E.E.C. prices and costs and current methods of production the increase of over £3,300 in fixed costs swamps the modest increase in total gross margin shown in column 3 of Table 6.7, and leaves a surplus of under £1,500 or about 40 per cent of the current surplus. Allowing for improvements in methods

of production, the total gross margin shows a 46 per cent increase over the current figure, or £14,300 and £9,830 respectively. The net effect of 1977/78 conditions with improved productivity is a rise in the surplus to just under £4,800, which shows an increase of 32 per cent over the actual for 1971/72.

The capital invested in cattle on this farm is high, amounting to £22,000 at present and expected to rise to £30,000 by 1977/78 at E.E.C. prices and costs. The corresponding interest charges at 8 per cent would be £1,760 and £2,400 a year, large items in relation to their associated surpluses of £3,630 and £4,790.

Summarising the effects of 1977/78 E.E.C. prices and assuming that farming practices remain at present levels of efficiency, the two systems with reduced gross margins are barley beef (down 28 per cent) and suckler cows (down 43 per cent). The activities which show improvements are 18 month beef (up 2 per cent), winter fattening (up 31 per cent) and summer fattening (up 90 per cent). Allowing for modifications and improvements in production methods the first two systems still show losses as compared with the present, but of a lower order, barley beef (down 5 per cent) and suckler cows (down 18 per cent per head or 3 per cent per forage acre). The other three systems show stronger improvements, namely 18 month beef up 22 per cent per head or 33 per cent per acre, winter fattening up 50 per cent and summer fattening up 110 per cent.

Two conclusions stand out from the comparisons that have been made. The first, that forage based systems of feeding will pay better than cereal based systems once we are full members of the E.E.C., will surprise no-one, but re-inforces and quantifies quite widely held opinions. The second, less obvious perhaps, is that few farmers can expect higher prices for beef to insulate them from change; rising costs will compel the adoption of more efficient techniques and the selection of production systems more fully adapted to the price and cost conditions which will be prevailing in the E.E.C.