Economic Perspective

SCOTLAND AND THE COMMON AGRICULTURAL POLICY: 1984 AND BEYOND

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Scottish farming depends on EEC support. This perspective considers the impact of the 1984 EEC price package on Scotland and speculates about the future of the Common Agricultural Policy.

The 1984 EEC Price Review

The EEC intervention price for barley has been increased by the following percentages in the 1980s: +4.5 in 1980, +6 in 1981, !8.5 in 1982, +3 in 1983. In 1984 it was cut by 1%. The pattern is similar for the other major CAP commodities. After years of regular increases in institutional support prices, there have finally been price cuts of 1% for cereals, beef, sheep, pigs, peas and beans, of 2% for oilseed rape, and of over 3% for bread wheat. The 1984 EEC Price Review was **different.**

Admittedly, it would be unwise to be misled by the fact that many prices were reduced in terms of European Currency Units (ECUs). The price cuts were accompanied by a subtle reorganisation of the system of "green exchange rates" used to convert the common ECU prices into national currencies. The reorganisation allowed substantial green devaluations in countries such as France, thereby giving their farmers a price increase in terms of francs, and allowed the UK to avoid any revaluation of the green pound, so avoiding further price cuts in terms of sterling. In this respect, and in others, the Price Review did not go as far as the proposals made to the Council of Ministers by the European Commission. Nevertheless, the price cuts and associated measures in the 1984 package represent the most serious attempt so far to solve the problems of agricultural surpluses and CAP costs.

The farmers most affected by this development, in Scotland as elsewhere, are those producing **milk.** The EEC produces 20% more milk than it consumes. Support for milk prices, principally through the storage and disposal of "mountains" of butter and skim milk power, is budgeted to take 30% of CAP guarantee spending in 1984. For many years now, the dairy industry has been seen as the villain of the piece and after various ineffectual past measures the Council has finally decided to do something fundamental.

The method chosen to tackle the milk surplus consists of quotas, with production in excess of quota to be penalised by the imposition of a substantial levy. Under the particular system which will operate in the UK, it is impossible to say in advance how large the levy on an individual producer will be - but it will make excess output almost worthless. Dairy farmers have been notified by their Milk Board of the provisional level of their quota for 1984/85, generally their 1983 production less 9%. There will be a large number of "special cases", who will be given a more generous quota, eg farmers who had been expanding their dairy enterprise with the aid of official grants!

Milk quotas will certainly have a very damaging effect on the incomes of dairy farmers in Scotland. Some will be able to improve efficiency and offset the worst impact, but there will be severe problems for those whose land is not well suited to other profitable enterprises (eg in the major dairying areas of South West Scotland). The difficulties are compounded by the confusion and uncertainty in Brussels, Whitehall and the Milk Boards about the details of quota administration. The blame for this situation lies mainly with the Council of Ministers, who persistently failed to make any long-term decisions about the milk surplus until a crisis was reached.

No other sector of Scottih agriculture has had such a harsh Price Review. In the case of **beef,** which makes up over a quarter of total output from Scottish farms, the special scheme of variable premia (deficiency payments) has been retained. However the scheme has been restricted and support prices reduced. The beef market is also likely to be upset in the coming year by extra cow beef, as dairy farmers reduce their herds in response to milk quotas. Some compensation for beef producers will come from the UK Government's decision to double the subsidy paid on suckler cows (ie those kept solely for beef production, not for producing milk for sale). Over 60% of Scottish cows are in this category, compared with only 30% of all UK cows and less than 20% of EEC cows.

Sheep, accounting for over 10% of Scottish farm output, emerged relatively unscathed from a review of the CAP Sheepmeat Regime. The Regime has been criticised in Brussels because of the large subsidies which it pays in the UK. However it takes only 2% of total agricultural support spending and the EEC has no surplus of lamb. One change in the Regime which will affect some Scottish producers is a change in the seasonal scale of guaranteed prices. Returns on lambs sold in July and August will be considerably reduced.

The Budget Crisis

Farmers throughout the EEC are unhappy with the new price package. Nevertheless, it is not sufficiently harsh to avoid exceeding the present limits of EEC revenue. Funds for 1984 are likely to be exhausted by late summer and the Commission is seeking advances from the ten member countries to finance the CAP in particular. No such advances can be made without the agreement of all ten, and it appears that the UK will not agree until there is a settlement of the "British problem". That requires a long-term arrangement to limit the UK's net contribution to Brussels. Once such an arrangement is reached (and it seems very close) the UK may be prepared to agree to raise the future ceiling of EEC spending.

In the absence of agreement by Ministers, the European Commission itself has extensive powers to reduce costs and to keep the EEC solvent. Some such powers have already been employed in delaying payment of certain subsidies and in restricting the extent of intervention. These administrative measures can have larger effects on agricultural markets than do the policy decisions of Ministers themselves. Earlier this year the Commission extended the delay in payment to merchants for grain sold to the intervention authorities and thus effectively reduced the intervention support price by £4 per tonne.

The budgetary problems of the EEC are thus, by default, giving substantial power to the "civil service" in Brussels to alter the CAP. As a strategy for reform, this method could be most inappropriate, undemocratic and haphazard. However, it does have the merit of avoiding the political obstacles and publicity which sometimes prevent difficult decisions in the Council of Ministers.

Longer Term Prospects for the CAP

It is most unlikely that EEC governments will allow the CAP to collapse. It may not be a very good policy, but it is the only policy they have. One possibility for the future is that more agricultural spending will be carried out directly by governments, with less cost falling on the EEC budget. A greater share of EEC money is likely to go on non-agricultural policies. Within agriculture the balance of support is likely to switch away from Scotland towards Mediterranean products following the entry of Spain and Portugal.

The principle of quotas, introduced this year for milk, and already existing for sugar is unlikely to be extended to other commodities. Apart from the administrative problems, the need for quotas elsewhere is not so great. In the case of milk, a major aim of EEC policy has been to protect small producers and so price cuts were not seen to apply.

An agricultural commodity becomes a problem in the EEC if it is seriously in surplus. A surplus can be very costly for the EEC budget and its disposal on world markets can antagonise other traditional suppliers. On both points, the next largest problem after milk is in cereals, and a Commission official recently warned that support prices for grain will soon have to be restricted. Third on the "hit list" is probably beef.

The containment of agricultural output, by whatever means, implies that future improvements in efficiency will result in the release of resources to some other activity. There is little point in milk quotas, for example, if they simply transfer resources to the production of greater surpluses of cereals. Scottish farmers will therefore want to know whether there is any commodity which can can produce which will not soon be subject to prices squeezes or quotas or other restrictions. One answer is vegetable proteins. The EEC is far below self-sufficiency in protein for animal feed and gives enormous support to oilseed rape, peas, beans and now lupins. There have been some warnings about the cost of these commodities to the EEC budget and there is already a "guarantee threshold" which leads to a trimming of rapeseed prices if output grows too quickly. However, this is "not to stop production, but to allow a prudent growth".* In the very long term, the Commission is also looking at the scope for expanding timber production and at various new biological energy sources. In the meantime, the general trend is likely to be towards reduced support for most major commodities, coupled with special aid for those farmers least able to cope. This could mean increased assistance to "less favoured areas" which include much of Scotland.

* Claude Villain, Director General for Agriculture, European Commission, February 1984

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THE COST OF COAL

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The organisation and finances of the National Coal Board as depicted in the recent report of the Monopolies and Mergers Commission* makes devastating reading. The unemotional tone of the report lays bare a tale of mismanagement and incompetence on a scale, which if replicated in the Soviet Union, would perhaps have earned the senior executives responsible severe punishment. The comparison with the Soviet Union is suggested by the fact that the industry has apparently been run since nationalisation in 1947 like an industry in a planned economy, i.e with physical performance rather than financial indicators. There has been a consequent maldistribution of investment and devastation of worker morale. There have, however, been no comparable sanctions on management.

As a consequence of the way in which the industry has been run, it has become a huge drain on the resources of the rest of society. All the following figures refer to 1981/82, the latest year for which data were available for the purposes of the MMC enquiry. In the same year, grant aid receivable from the government amounted to no less than £575 million, while the figures for the two previous years were £254 million and £251 million respectively. In addition, in that year the NCB borrowed £902 million from the