

13 April 1984
POLICY UNIT

PRIME MINISTER

② AT 1314

THE CAP AND THE COMMUNITY'S OWN RESOURCES

The Government's efforts to limit the growth of CAP expenditure is being misunderstood. In a recent Financial Times article (5 April) Samuel Brittan implied that the concession we are prepared to make on Community own resources would of itself allow CAP expenditure to continue to grow. Lord Bruce-Gardyne expressed doubts this week about the prospects of controlling CAP expenditure.

That is correct

It is important not to give the impression that our objective is to ensure that the CAP expenditure grows no faster than Community expenditure since this suggests that a 40% increase in the Community's VAT rate will go towards agriculture, on top of any growth in the own resources base.

✓ There is understandable confusion in the public mind over the distinction between the own resources base - an accounting concept designed to ensure that all Members make their contributions broadly in line with their aggregate consumption - and the rate at which duties are levied on this base. The Commission's text at the March Council proposed that net expenditure on agriculture should increase at less than the rate of growth in the own resources base, reflecting our own emphatic position on this point. This principle, coupled with the fact that finance Ministers would establish the maximum level of expenditure each year at the beginning of each budgetary procedure, should ensure that no part of the increase in the VAT rate would find its way into agricultural expenditure.

It is clearly a major negotiating objective to make these arrangements as watertight as possible. This point ought to be given more prominence in the media, otherwise the Government exposes itself to the (quite unjustified) criticism that, by agreeing in principle to increase the Community's own resources it has thrown away the one negotiating opportunity to halt run-away CAP expenditure. |

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The limits on expenditure are much less than we wanted and we are still making large surpluses.

MINAAM

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It is hoped that the attached
Brief on Agricultural and Food
Statistics will be of some help
to Members in the run up to the
European Elections.

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1. United Kingdom Farmers

(a) Prices paid to producers

	<u>Average price paid to producers</u> (constant 1960 prices)			
	<u>1960/1*</u>	<u>1970/1*</u>	<u>1980</u>	<u>1983(prov)</u>
Wheat (£ per tonne)	19.18	18.87	18.49	18.34
Fat cattle (p per kg live weight)	14.50	14.35	14.27	14.09
Pigs (p per kg dead weight)	22.42	19.65	16.13	13.61
Milk (p per litre)	3.43**	2.61	2.38	2.20
Eggs (p per dozen)	18.60**	9.68	6.96	5.26

* Figures given for crop or marketing years

** Guaranteed price

(Source: Hansard, 21st February 1984 col 512)

(b) Average Net Farm Income

	<u>Average Net Farm Income (Real Terms)</u> 1977-78 = 100				
	<u>Dairy</u>	<u>Cattle & Sheep</u>	<u>Cereals</u>	<u>Other Cropping</u>	<u>Pigs & Poultry</u>
1972-3	117	130	74	166	117
1979-80	66	49	92	181	94
1983-84 (forecast)	65	64	160	230	25
	<u>at Current Prices</u> 1977-78 = 100				
1972-3	55	61	35	78	55
1979-80	82	61	114	225	116
1983-84 (forecast)	120	118	295	420	45

(Source: Hansard, 30th March 1984 col 322)

(c) Comparison of Agriculture and Industry

	<u>The Nationalised Industries and Agriculture</u>	
	<u>Nationalised industries 1981/2</u> (£billion)	<u>Agriculture 1980/82</u> (£billion)
Turnover	55.0	11.0
Value added	8.0	3.9
Interest Payments	2.4	0.6
Surplus after interest	6.4	3.3
Less subsidies	2.4	0.6
Surplus after subsidies	4.0	2.7
Depreciation (capital consumption)	5.0	1.2
Trading surplus	-1.0	1.5

Sources for table(c) on previous page

- (1) Annual Review, White Paper, 1983
- (2) Net UK Payments, Table 26, Annual Review, 1983 after CAP refund.
- (3) National Income Blue Book, Table 6.1

Facts

- (i) National Coal Board produces coal which is costing consumers about £0.7 billion a year (at 1982/3 prices)

1981/2

	<u>Coal Industry</u>	<u>Agriculture</u>
Government Subsidy	£1.1 billion	£0.6 billion
Employment	250,000	633,000
Profit (loss)	(£466 million) (+interest of £365 billion)	£1.5 billion

- (ii) Other Nationalised Industries - losses in 1981/82

British Steel	£424 million
British Rail	£1,000 million approx

- (iii) "British Agricultural Turnover exceeds that of the National Oil Corporation and the National Coal Board."
- (iv) "Every £1 of UK subsidies (net of CAP refunds) paid to UK farmers is matched by £6.5 of valued added. For every £1 paid to public corporations, the value added is £3.3".

(Source: Michael Murphy, Dir of Studies in Land Economy, Cambridge University - Lecture to Farmers' Club 1983)

- (d) The UK Farming Sector 1964-82 in real terms (constant 1982/3 prices £million)

	<u>1964</u>	<u>1973</u>	<u>1982</u>
Gross output	10,236	12,651	11,145
Gross input	5,526	6,586	5,725
Gross product	4,710	6,062	5,420
Depreciation	517	966	1,281
Net product	6,043	5,096	4,139
Net farm income	2,713	2,938	1,849

Public support UK/EEC

Total I - Crops	840	682	956
Total II - Livestock/Others	675	521	250
Total III - Special Areas	4	139	127
Total IV - Total Support	1,519	1,342	1,333

Receipts from CAP - 263 714

Consumer Expenditure 28,092 29,010 25,564

(Source: Michael Murphy, Director of Studies in Land Economy, Cambridge University Lecture to Farmers' Club 1983)

(e) Receipts from European Agricultural Guidance and Guarantee Fund

	(£ million)
1973	63
1974	112
1979	384
1980	564
1981	668
1982	756
1983	1,080

(Source: Hansard, 28th March 1984 col 229)

(f) Percentage composition of general government expenditure (1970-1982)

	1970	1974	1978	1980	1981	1982
Defence etc	15.1	13.6	15.0	14.9	14.5	15.0
Roads etc	6.9	7.4	4.5	3.9	4.4	4.5
Industry etc	10.5	6.6	6.5	7.2	6.7	6.2
<u>Agriculture</u>	<u>2.1</u>	<u>3.1</u>	<u>1.6</u>	<u>1.8</u>	<u>1.5</u>	<u>1.6</u>
Housing etc	12.2	17.3	12.6	12.8	10.1	9.7
Law and Order	3.3	3.5	3.8	4.1	4.4	4.5
Education	14.6	13.9	14.5	13.7	14.0	12.8
NHS etc	12.0	13.0	14.3	15.0	15.6	15.1
Social Security)						
Benefits)	21.1	19.5	25.1	24.5	26.9	28.5
Other	2.2	2.1	2.1	2.1	1.9	2.1
<u>Total</u>	100.0	100.0	100.0	100.0	100.0	100.0

(Source: Michael Murphy, Director of Studies in Land Economy
Cambridge University - Lecture to Farmers' Club - 1983)

(g)

	<u>Increase in average Common support prices including Green rate changes</u>	<u>Average inflation in EEC</u>
1973	7.0	8.3
1974	21.0	12.5
1975	11.0	14.8
1976	8.4	10.5
1977	8.5	9.7
1978	8.1	8.5
1979	5.9	9.4
1980	9.4	10.8
1981	10.6	9.1
1982	12.0	9.1
1983	7.0	6.3

(Source: Hansard, 30th March 1984 col 320)

(h) Estimated average yields of crops and livestock products

	<u>1972/3</u>	<u>1983(forecast)</u>
Wheat (tonnes/hectare)	4.24	6.31
Barley " "	4.04	4.63
Potatoes " "	27.70	29.55
Sugar " "	33.10 (1972-4)	39.00
Milk (litre/cow)	4037.00	4965.00
Eggs (no/bird)	237.50	252.50

(Source: Annual Review of Agriculture 1977 & 1984)

2. Surpluses

(a) Days supply of food in EEC Intervention Stores

	<u>Number of Days supply</u>
Wheat	45
Barley	6
Beef	20
Butter	188
Skimmed Milk Powder	219

(Source: Hansard, 30th March 1984 col 320)

(b) Cost of EEC Public Intervention Storage

	<u>Cost expenditure on public storage intervention</u> (£ millions)				
	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Cereals	39.4	57.7	122.1	190.3	212.0
Olive Oil	20.5	14.7	12.4	28.4	31.4
Oil Seeds	-	0.2	5.4	-3.0	-0.2
Milk Products	747.6	491.9	246.3	119.5	133.0
Beef	250.3	245.3	281.8	211.7	182.3
<u>Total</u>	1057.8	809.8	668.0	546.9	558.5

(Source: Hansard: 21st December 1983 col 234)

(c) EEC Dairy intervention stocks 16th February 1984

	<u>Butter</u>		<u>SMP</u>
	<u>Public</u>	<u>Private</u>	<u>Public</u>
Belgium	23126	2427	10537
Denmark	13435	967	29530
West Germany	253157	29116	562008
Greece	-	-	-
France	166645	11492	24378
Ireland	54087	2581	118618
Italy	1410	30	-
Luxembourg	628	336	825
Netherlands	150763	40093	56334
UK	114664	4857	164897
EEC	777915	91899	967127

(Source: Green Europe, February 1984)

3. Comparison of Agriculture between EEC Member States

Percentage share of Agriculture, Forestry and Fisheries (1982) in National Economies

	<u>GER</u>	<u>FRA</u>	<u>ITA</u>	<u>NET</u>	<u>BEL</u>	<u>LUX</u>	<u>UK</u>	<u>IRE</u>	<u>DEN</u>	<u>GRE</u>
(a) <u>Gross added value at factor cost and current prices</u>	2.2	4.3	6.3	4.4	2.2	3.4	2.3	11.1	5.5	17.4
(b) <u>Employment</u>	5.4	8.2	12.1	4.9	2.9	4.7	2.7	17.1	8.4	30.7 ('81)
(c) <u>Exports by value*</u>	6.1	17.6	7.9	24.2		11.9	7.6	32.0	37.6	31.3
(d) <u>Imports by value*</u>	14.9	12.7	17.8	17.2		13.9	15.6	14.7	14.8	15.6

Note: * Percentage by country show agricultural products as a percentage of total trade in all products

(e) <u>Volume of final production (1975=100)</u>	120.0	120.1	109.8	135.6	113.1	106.6	122.5	110.8	127.7	114.0
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(f) Producer Prices for agricultural Products in 1983 (1975=100)

<u>Crop product</u>	122.0	201.0	302.0	129.0	157.0	166.0	184.0	209.0	181.5	409.0
<u>livestock products</u>	114.5	189.0	275.0	126.0	144.0	156.0	204.0	253.0	180.5	415.0
<u>Total of above</u>	116.5	194.0	290.0	127.0	148.0	158.0	197.5	247.0	180.5	411.0

Purchase price of inputs in 1983 (1975=100)

(g) <u>Price of intermediate consumption</u>	140	214	287	149	163	164	234.5	261	196	378
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(h) Degree of Self Sufficiency in certain agricultural products % 1980/81

					<u>Bel & Lux</u>				
Total cereals (ex rice)	89	173	73	27	51	94	82	106	101
of which wheat	105	205	82	58	71	90	45	127	135
Butter '81	128	122	67	313	103	57	299	219	70
Cheese '81	95	115	80	229	41	71	555	443	92
SM Powder	238	121	0	68	275	258	1270	120	0
Beef & Veal 81	109	113	61	150	110	84	537	376	48
Pigmeat '81	87	83	74	237	154	67	128	377	84
Poultry Meat	63	137	99	282	88	99	95	230	101
Sheep and Goatmeat	40	79	65	283	22	65	148	0	92
Margarine	100	84	87	123	131	96	100	112	-

(SM powder = Skimmed Milk powder)

	<u>GER</u>	<u>FRA</u>	<u>ITA</u>	<u>NET</u>	<u>BEL</u>	<u>LUX</u>	<u>UK</u>	<u>IRE</u>	<u>DEN</u>	<u>GRE</u>
(j) <u>Utilized Agricultural Area/1000 HA (1982)</u>	12137	31728	17836	2013	1433	127	18814	5711 (1979)	2888	9234 (1981)

	<u>Size of Agricultural Holdings - 1980</u>									
(k) % of farms under 10 ha	51	35.1	85.6	44.2	48.2	30.3	24.3	31.6	28.7	91.5
% of farms over 50 ha	3.9	13.3	1.7	3.0	4.2	16.8	32.6	8.6	10.1	0.2
largest no. of farms (ha)	1-5	20-50	1-5	10-20	1-5	20-50	50+	10-70	20-50	1-5

(Source: Agricultural Situation Report 1983)

Key: GER - Germany
 FRA - France
 ITA - Italy
 NET - Netherlands
 BEL - Belgium
 LUX - Luxembourg
 UK - United Kingdom
 IRE - Ireland
 DEN - Denmark
 GRE - Greece

4. FOOD

(a) Time taken to earn Food

Below are listed the times taken by an average industrial working man to earn the price of staple food items today and in 1972.

	1972	1983
Pint of milk	4.2 minutes	3.9 minutes
Dozen eggs (size 4)	15.3 minutes	12.0 minutes
Loaf of white bread	8.4 minutes	6.9 minutes
Pound of beef (sirloin)	46.6 minutes	50.0 minutes
Pound of pork (leg)	26.6 minutes	18.4 minutes
Pound of lamb (leg)	34.8 minutes	32.3 minutes
Pound of back bacon	31.9 minutes	26.3 minutes
Pound of chicken (frozen)	14.3 minutes	10.0 minutes
Pound of butter	27.7 minutes	18.1 minutes
Pound of cheddar cheese	26.3 minutes	21.3 minutes
Pound of white potatoes	1.7 minutes	1.4 minutes
Pound of sugar	8.2 minutes	8.5 minutes
Pound of tomatoes	18.2 minutes	11.5 minutes

(Source: NFU Economic Division 1984)

(b) Food prices versus RPI

(i) Increase in Food Prices and RPI

(May 1979 to Jan 1984)

Food Prices	42.7%
RPI	58.7%

(Source: Employment Gazette)

(ii) Increases in Certain Foods

(May 1979 to Feb 1984)

<u>Under CAP</u>	<u>%</u>
Sugar	54
Butter	22
Beef	47
Bread	46
Eggs	55

Outside CAP

Potatoes	94
Tea	55
Coffee	31
Bananas	66

(Source: Hansard, 5th April 1984 col
and 29th March 1984 col 269)

(c) Consumer Expenditure on Food

As a percentage of all consumer expenditure

1963	23.3%
1973	18.4%
1983	14.7%

(Source: Hansard, 27th March col 138)

(d) Self Sufficiency

(i) In indigenous foods

1973	62.4%
1983 (forecast)	76.0%

(ii) In all foods

1972-4 (average)	49.2%
1983 (forecast)	60.0%

(Source: Annual Review of Agriculture 1984
Hansard, 27th March 1984 col 137)

(iii) Selected Products - Self Sufficiency

UK Production as % of total new supply

	<u>1972/3</u>	<u>1979</u>	<u>1983(forecast)</u>
Wheat	52	75	101
Barley	96	106	126
Oats	101	90	96
Potatoes	93	92	87
Sugar	34	47	54
Beef & Veal	78	86	98
Mutton & Lamb	44	60	71
Pork	95	98	104
Bacon & Ham	44	41	45
Poultry meat	99	99	98
Butter	22	47	66
Cheese	56	65	70
Skimmed Milk)	144	164	139
Powder)			
Milk Powder)	64	218	800
full cream)			
Wool	21	35	43

(Source: Annual Review of Agriculture 1977 & 1984)

(e) Imports and Exports of Food (£ million)

	<u>1972/3</u>	<u>1979</u>	<u>1982</u>
<u>Imports</u> of food, feed and alcoholic beverages	2401	6816	7583
<u>Exports</u> of food, feed and alcoholic beverages	636	2697	3640
<u>Balance</u> of trade in food, feed and alcoholic beverages	-1765	-4119	-3943
% of imports to exports	26.5%	39.6%	48.0%

(f) Changes in relative prices - July 1963 to July 1983

Food	+3.2%
Alcoholic Drinks	-4.7%
Tobacco	+0.9%
Housing	+23.2%
Fuel and Light	+33.8%
Durable Household Goods	-36.7%
Clothing and Footwear	-45.1%
Transport and Vehicles	+2.8%
Misc Goods	-0.6%
Services	+12.4%
Meals out	+29.2%

(Source: Department of Employment by the Department of Land Economy at Cambridge University 1983)

(g) Trade in Certain Agricultural Products - 1980

	<u>World Trade</u> (tonnes)	<u>% of World</u> <u>Exported by</u> <u>EEC</u>	<u>UK Total</u> <u>Import</u> (tonnes)	<u>of which</u> <u>from EEC</u> (tonnes)
Wheat	89,267,000	13.4	2,261,000	497,000
Sugar	27,328,000	13.8	1,171,000	169,000
Butter	852,000	57.4	208,000	101,000
Cheese	717,000	44.4	116,000	102,000
Beef & Veal	2,371,000	17.6	289,000	253,000
Pigmeat	586,000	20.1	342,000	326,000
Poultry Meat	1,208,000	29.2	28,000	26,000
Eggs	401,000	19.6	42,000	41,000

(Source: Agricultural Situation Report 1983 and Annual Review of Agriculture)