RESEARCH PAPER 99/77
13 AUGUST 1999

British Farming and Reform of the Common Agriculture Policy

This paper describes the current crisis in British farming marked by sharp falls in income in most sectors, and discusses the March 1999 reform of the Common Agricultural Policy.

Christopher Barclay

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ISSN 1368-8456

Summary of main points

- Farm income in the UK has fallen sharply in several sectors over the past two years.

- The attempt by the EU to reform the Common Agricultural policy resulted in an unsatisfactory compromise in March 1999.

- The sectors affected by the CAP reform, cereals, beef and dairy farming, are unlikely to see their problems solved by it.

- The sectors unaffected by the reform, pigs, poultry and sheep, also have serious problems.

- Although the UK favoured more radical reform of the CAP, other EU countries, particularly France, oppose it.

- Statistics throughout this paper were supplied by Patsy Richards (Social & General Statistics Section) to whom requests for further information should be directed.

CONTENTS

I An overview of the state of British Farming

A. The decline in farming incomes

So widespread is the idea that farmers are wealthy that the extent and severity of the recent decline in farming income may come as a surprise. Not only have incomes in particular sectors fallen sharply, but several sectors have been affected at much the same time. The high level of sterling has been a common factor, but individual sectors have been hit by such diverse factors as stricter British animal welfare requirements (pigs), the collapse of the Russian economy (sheep, via sales of sheepskin coats, side-effects of BSE regulation (pigs and poultry). Although the beef export ban is now being removed, that will bring little relief to farm incomes for some time.

The relative strength of sterling has been a major factor underlying the fall in farm prices and therefore income from farming over the last year or two.[1] Before the ending of the green rates on 1 January 1999, between November 1996 and May 1998 the green pound - used to convert CAP direct payments and support prices from ECU into sterling - was revalued five times and raised by almost 20%. Upward revaluations led to cuts in agricultural support prices applied in the UK under the CAP.

The value of agricultural output (including subsidies directly related to output) in 1998 was £1.68 billion lower than in 1997, a fall of 9%. Because prices fell nearly all major commodities showed a fall in their value of production;

- Cereal output fell by 14% or £420 million.
- Lower market prices and lower subsidies meant beef output fell by £326 million or 14%.
- Sheep and lambs fell by £57 million or 14% despite sheep subsidy increases of £134 million. This was caused by the collapse of Russian markets and the wet summer; hill farmers suffered a virtually complete loss of their market.
- Milk output value was down 14% (by £431m) because of lower prices received by farmers.
- Pig prices were 28% lower because of oversupply, so although pig production increased by 1% output value fell by 27%.

Only horticultural products and potatoes (potatoes were recovering from very low levels in 1997) increased in value.

Provisional figures suggest that Total Income from Farming (TIFF)[2] was £2.2 billion in 1998, a fall of 32% in real terms from 1997. This is the second large fall in a row and

1 MAFF News Release 35/98, *Farm Incomes in 1997*, 30 January 1998

2 The EU and UK national accounts preferred measure of the income to those with an entrepreneurial interest in agriculture (farmers, partners, directors, spouses and family workers)

brought the fall in TIFF over the last two years to 58% in real terms, although levels in 1995-96 were historically high.[3]

The statistic 'Farming income' has been discontinued[4], but it would have shown a fall of 46% from 1997 to 1998.

Net farm income for all types of farm fell in 1998/99 with the exception of general cropping farms[5]. These did well, partly because they grow potatoes, prices of which recovered. Lowland cattle and sheep farms, pigs & poultry and mixed farms were all expected to have negative incomes in 1998/99;

Net farm income in the UK by type of farm

Units: Indices (1989/90-1991/92=100)

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99 (prov.)
At current prices									
Dairy	88	97	127	139	117	143	116	74	45
Cattle and sheep (LFA)	86	108	142	165	122	174	173	89	55
Cattle and sheep (lowland)	70	123	177	211	162	172	141	12	-35
Cereals	107	112	159	153	206	326	290	99	65
General cropping	99	86	94	118	209	244	126	56	90
Pigs and poultry	107	68	80	25	51	108	98	33	-25
Mixed	103	97	136	128	153	224	170	26	-25
In real terms (a)									
United Kingdom									
Dairy	87	91	116	124	102	121	95	59	35
Cattle and sheep (LFA)	85	101	129	147	106	147	143	71	45
Cattle and sheep (lowland)	69	115	161	189	141	145	116	9	-25
Cereals	106	105	144	136	180	275	239	79	50
General cropping	97	81	85	106	182	206	104	44	70
Pigs and poultry	106	64	73	22	44	91	80	27	-20
Mixed	102	91	124	114	133	189	140	21	-20

(a): Deflated by the RPI.

Source: MAFF web site, Agriculture in the UK 1998, MAFF March 1999

This table uses MAFF's usual index based measure of net farm income for different farm types in real terms. The index in each case is based on 1989/91-1991/92 equals 100. So for example, in 1998 cereal farm incomes fell below their 1989/91-1991/92 levels and in

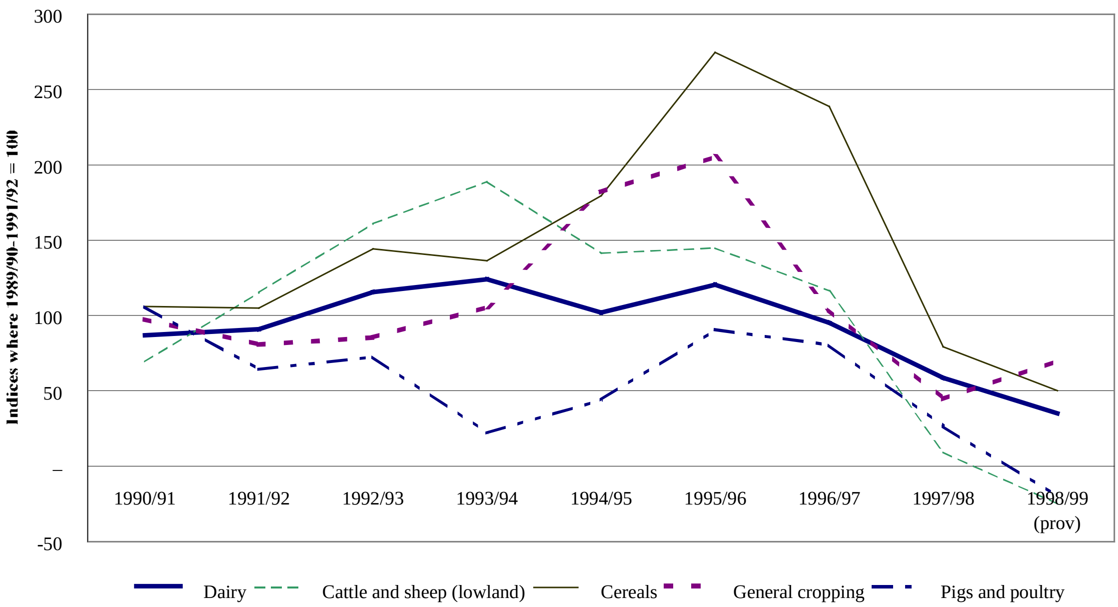
3 MAFF, *Agriculture in the UK 1998*, March 1999

4 Because it relied on the unrealistic assumption that all return on capital accrued to farmers and spouses, and that all but one of the partners/directors is paid a flat rate with any variation going to the principal farmer

5 MAFF, *Farm Incomes in the UK 1997/98*, March 1999

real terms are half the level in those years. Only general cropping farms remain anywhere near their 1989/91-1991/92 levels in real terms;

UK Net Farm Income in real terms



A report in May 1999 from the National Farmers Union suggests that the decline continues unabated, noting that over the twelve months to May 1999 lamb prices have fallen 35%; pigmeat prices by 43% and eggs by 36%.[6]

The problem from the farmers' point of view is that the Common Agricultural Policy (CAP) is not likely to help them either in its original form or in its reformed version. However, the cost of the CAP to both consumers and taxpayers in the UK is so high that the British Government is unlikely to support much more spending at a national level to alleviate the problems.

B. Farmgate and retail prices

A particular feature of the current position is that the fall in the prices paid to farmer has not been reflected by the prices that consumers pay in the shops. The disparity between producer prices and retail prices is common to many sectors. Of course retail prices are not necessarily directly or solely dependent on farm gate prices. Producer prices and retail prices from 1995 to 1998 are shown in the tables below. Both are in index form; producer prices are from MAFF's latest update of the agricultural price index (API),[7] and the retail prices are the food components of the RPI.[8] Both are rebased so that 1995=100.

6 NFU, *Report of the Second Rural Summit: a 'barometer of the rural economy'*, May 1999, p 1
7 Source: MAFF statistical datasets on line, at http://www.maff.gov.uk/esg/datasets/datasets.htm
8 Source: ONS database April 1999

Producer prices have in most cases fallen since 1995;

Index of Producer Prices of Agricultural Products (UK)
(API) 1995=100

	1995	1996	1997	1998	*change 95-98*
Cereals	100.0	101.6	81.4	70.5	*-29%*
Root crops	100.0	59.3	39.7	60.7	*-39%*
Fresh fruit	100.0	112.2	102.6	102.9	*3%*
Fresh vegetables	100.0	99.2	87.1	96.7	*-3%*
Seeds	100.0	85.6	64.3	62.5	*-37%*
Flowers and plants	100.0	106.9	107.1	101.7	*2%*
Other crop products	100.0	105.7	95.3	94.5	*-6%*
Crop products	100.0	92.4	76.6	78.6	*-21%*
Animals (for slaughter and export)	100.0	102.5	90.7	75.2	*-25%*
Milk	100.0	100.4	88.6	77.6	*-22%*
Eggs	100.0	119.6	102.6	94.4	*-6%*
Animals & animal products	100.0	102.4	90.3	77.0	*-23%*
Total of all products	100.0	98.5	85.1	77.7	*-22%*

Average annual figures for calendar year

Source: MAFF, 16 April 1999 at website www.maff.gov.uk

While retail prices have remained steady;

Retail food prices (UK)
RPI Component 1995=100

	1995	1996	1997	1998	*change 95-98*
Bread	100	101.8	100.4	99.3	*-1%*
Cereals	100	100.9	100.9	101	*1%*
Biscuits & cakes	100	103.7	104.9	106	*6%*
Beef	100	101	98.8	96.9	*-3%*
Home-killed lamb	100	114.2	113.1	105	*5%*
Pork	100	120.7	117.6	104.4	*4%*
Bacon	100	113.3	117.6	109.2	*9%*
Poultry	100	105.7	106	104.7	*5%*
Butter	100	108.5	109	110.7	*11%*
Cheese	100	105.8	108.7	104.7	*5%*
Eggs	100	111.3	110	109	*9%*
Fresh milk	100	101.9	101.6	101.7	*2%*
Unprocessed potatoes	100	78.9	54.9	73.1	*-27%*
Fresh vegetables	100	98.3	91.2	94.9	*-5%*
Fresh fruit	100	102.5	105	106.7	*7%*

Source: ONS Database (series DOAA, DOAB, DOAC, DOAD, DOAF, DOAG, DOAH, DOAI, DOAM, DOAO, DOAP, DOAQ, DOAY, DOBA, DOBC)

It is difficult to match exactly commodity to product, but in general, while retail food prices for bread, milk, pork, lamb, cereals and even beef have changed relatively slightly and in most cases risen from 1995 to 1998, producer prices for certain commodities are showing significant falls. Producer milk prices have fallen by about a fifth, animals for slaughter or export by around a quarter, cereals are down by 29% and root crops by 39%.

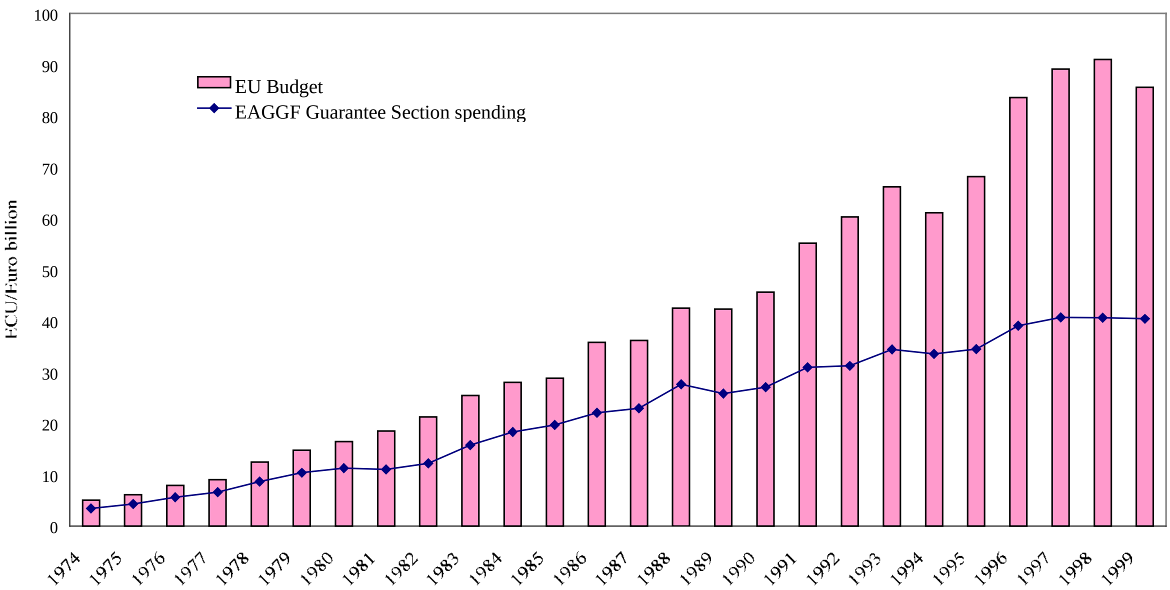
II The 1999 Reform of the Common Agricultural Policy

A. The objective of the European Commission

The European Commission had two main aims in presenting proposals in 1998 for reform of the CAP. First, it needed a financial framework that would allow the European Union to admit entrants, mainly from Eastern Europe. Second, it needed a framework that would allow it to participate in the next round of world trade talks, the Millennium Round, starting in November 1999 and due to finish in 2002.

In the adopted EU budget for 1999, CAP spending amounts to some 40.4 billion Euro, 47% of the total budget. The graph shows CAP spending and the total Community budget in cash terms since 1974. CAP spending came below half the total Community budget for the first time only in 1996. This graph shows clearly the declining proportion of EU spending accounted for by agriculture, but also that this decline is the result of greater overall spending, not a decline in total agricultural spending. The figures behind the graph are in the Appendix, table 1.

EC budget and CAP spending, 1974-1999



Any projections of spending to 2006 are obviously dependent on *Agenda 2000*, the programme for reforming the EU's finances to prepare it for admitting new entrants. According to one scenario modelled by the Commission, the EAGGF total budget, after rising from around 35 billion ECU in 1995 to 41 billion in 2000, will fall to some 39 billion Euros by 2005.[9] This assumes market prices will not fall fully to the level of the

9 DG VI web site, at http:\www.europa.eu.int/comm/dg06/publi/caprep/impact/fullrep/ch2-5-3-2.htm Scenario outcomes under Agenda 2000

planned reduced intervention prices, so farmers will not need to be compensated for the full amount.

Reform of the CAP is an important part of *Agenda 2000*, because it would be extremely expensive to extend the existing CAP to the new entrant countries. In addition, the huge boost to agriculture would distort their economies and result in a shift of resources out of other types of economic activity. The position of the Commission has been clear for some years. It wants to move agricultural assistance away from price support towards income support. This idea was already the basis of the 1992 reform of the CAP, but that reform was incomplete. Support prices remained well above world prices, except for an untypical surge in world grain prices in 1994 and 1995. Farmers were over-compensated for the changes, so that farm incomes in the mid-1990s rose sharply, particularly for arable farmers.

The Commission sees the shift from price support to income support as the answer to the main problems facing the CAP. First, the cost of enlargement can be kept within reasonable limits because the Commission argues that the income support is paid as compensation for price cuts. The new entrants will have had no price cuts and therefore need no income support.[10] Second, a policy based upon income support can be made compatible with the demands of the World Trade Organisation, and can therefore allow EU exports to increase to match the expected growth in world markets. Third, a policy based on low prices and income support does not impose any cost upon the consumer, although there is a cost to the taxpayer.

Similarly, the Commission has always argued that the CAP would not be an obstacle to enlargement. The Commission solution - to pay income support to existing EU countries but not to new entrants - is itself open to two main objections. First, income support has not simply been paid as compensation for price cuts. After the 1992 reform, world grain prices were unusually high but EU farmers still received their income support, even though their prices had not fallen. The second problem is that, under the Agenda 2000 plans, a situation would be reached where, for example, a French farmer growing 30 hectares of wheat would receive income support but a Polish farmer growing 30 hectares of wheat would not. That might make sense if the support came from national policies, in which case the French government could choose its level of support, subject only to the need to avoid distorting competition. It does seem paradoxical, however, that a European policy should achieve that end. The Commission's answer to such objections is that enlargement does present problems of income distribution which the EU may choose to solve in a different way - for example via the structural — but that that is not primarily an agricultural problem.

10 Speech by Agriculture Commissioner Franz Fischler to a conference of European conservative Parties in Helsinki, *Agra Europe*, 30 August 1996

The plan to reduce the support prices to roughly the level of world prices and to compensate farmers by increased direct payments faced problems. Since farmers are normally overcompensated for changes, reform increases agricultural spending. In order to reach agreement, the European Commission made various concessions to the original proposals, thereby increasing the cost. In order to prevent an overall cost increase, the increased cost of concessions has been balanced by deferring reform of the dairy sector and modifying the reform proposals for cereals. Plans to reduce payments to large farmers (modulation) and plans to reduce spending year by year (degressivity) have been dropped.

The same plan fitted very neatly with the needs of the world trade negotiations. Given that the EU did not want to end agricultural subsidies, it had to find a means of subsidy that would not fall fowl of WTO rules and have to be progressively reduced. Because the talks are concerned with trade, rather than with domestic policy as such, the rules do not prevent the payment of subsidies to producers, provided that they do not change the volume of output. In order to reach a settlement of the Uruguay Round in the 1980s, it was necessary for the CAP support payments to be accepted on these terms, with a blind eye turned to the fact that they do tend to increase output. Support prices above the world price level, on the other hand, are plainly contrary to the world trade rules because they result in the accumulation of food surpluses that are disposed of by means of export subsidies.

In other words, the transfer of agricultural support from support prices to direct payments offers the only feasible way of preserving agricultural support without compromising broader policy objectives.

B. The Settlement reached in March 1999

The following points are among the main points in the settlement. Full details are provided in the MAFF information document about it.[11]

a. Arable Crops

- Cereals intervention prices reduced by 15% in two equal stages between 2000 and 2002.
- Cereals direct aid increased from 54 euros/tonne to 63 euros/tonne.
- Oilseeds and linseed aids gradually reduced over three years to bring them into line with cereals aid by 2002.
- The “default” rate of set-aside at 10% from 2000 to 2006.

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[11] MAFF, *CAP Reform Agreement*, April 1999, Deposited Paper 99/879, pp 1-5

b. Beef

- Intervention price reduced by 20% over three years, starting on 1 July 2000.
- Safety-net intervention price from 2002 onwards set at 1560 Euro/tonne (25% below current level).
- Direct headage payments increased to compensate for price decreases.
- New 80 euros/head slaughter premium introduced.
- Extensification premia increased, with greater Member State flexibility over rates of aid and criteria.
- A discretionary package, worth 63.8m Euro a year to the UK of "national envelopes" allowing the Member State to choose how to supplement the existing schemes.

c. Dairy

- A 15% reduction in dairy support prices, phased in over three years, starting on 1 July 2005.
- Quota regime extended to the year 2006.
- Provision for national envelope to top up basic payments.
- Compensation for the price cuts in the form of a dairy cow premium, phased in from 2005.
- A 1.5% increase in milk quotas for all member states from 2003, but immediate increases from 2000 for Italy, Greece, Spain, Republic of Ireland and Northern Ireland.
- A commitment to review the quota regime in 2003 "with the aim of allowing the present quota arrangements to run out after 2006".

d. Horizontal measures

- Member States are required from 1 January 2000 to take appropriate environmental measures (which may include general mandatory environmental requirements, support for agri-environmental measures, or specific environmental requirements constituting a condition for direct payments).

e. Rural Development

- Member States required to draw up seven-year Rural Development Plans beginning on 1 January 2000. The agri-environmental schemes are compulsory; Member States are required to introduce them in relation to "their specific needs".

C. British policy objectives during the negotiations

A statement from Lord Donoughue contained the five key points for the UK during negotiations on the proposals:

> 1 A European agriculture that is sustainable, competitive, dynamic and can match third country producers on world and domestic markets.

> 2 Reform must safeguard the environment whilst continuing measures to promote the rural economy and rural development.
> 3 Reform must pave the way for early and successful enlargement of EU. Must also be sufficiently robust and thorough to enable the EU to adopt forward looking and sustainable position in forthcoming World Trade Organisation talks.
> 4 Reform must be affordable – not just in the narrow budgetary sense. It must bring real benefits to consumers and in the medium term lead to significant reduction in the taxpayers' burden.
> 5 It is essential that reform is fair, genuinely simplifies a highly complex policy and introduces a real degree of subsidiarity. [12]

D. The Result

The CAP settlement fell short of the hopes of the supporters of radical change. The House of Lords Select Committee on the European Communities summed up clearly:

> 23. The Commission's proposals in Agenda 2000 would not have been sufficient to equip European agriculture for the challenges of the next decade, in particular the needs to improve productivity; to facilitate enlargement of the Union; to develop a policy consistent with international trading agreements; better to protect the environment; and to promote rural development. The Berlin European Council agreement is substantially worse than the Commission's proposals, and is a bad outcome for the Community: its agricultural industry, its taxpayers and its consumers. Lord Donoughue and others such as the German deputy foreign minister have said that the deal will not be able to withstand the pressures acting against it and will have to be reformed before 2006[20]. We hope that they will be proved right.[13]

In the dairy sector, for example, the British Government had pressed for the abolition of milk quotas with price reductions to keep down the quantity produced. The settlement extended the quota regime until 2006, merely stating that the mid-term review in 2003 is to include the prospects for ending quotas after 2006. The various compromises reduced the price reductions in cereals from 20% to 15% making it unlikely that the CAP support prices will really be close to world prices. Similarly the beef intervention price was to be reduced by 30% but that figure became 20%. Such compromises increase the likelihood that intervention stocks will continue, as will the export subsidies used to dispose of them. If the system is applied to the new entrants into the EU, such as Poland, then costs of the CAP will increase since they could obviously not be excluded from the support price system. Proposals to reduce the total of subsidies year on year were put forward in slightly different ways by the UK, France and the European Commission, but they did not form part of the final settlement. Such measures might have helped the World Trade talks due to start in November 1999.

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[12] MAFF News Release 132/98, *Lord Donoughue sets out UK Agenda for CAP reform*, 31 March 1998

[13] Select Committee on the European Communities, *A Reformed CAP? The outcome of Agenda 2000,* 18 May 1999, HL 61 1998-99

The House of Commons Agriculture Select Committee was even more critical.

> 6. The Minister put a brave face on the outcome of the negotiations, readily accepting that there were disappointments such as the speed and extent of reform but also pointing to successes such as budget stabilisation and "the fact that each and every regime we have has made a start on refonn".[16] In contrast, all the written evidence we received, whether from environmentalists, the food industry or farmers, found the agreement sadly wanting. For example, English Nature described it as "very disappointing for the environment", while the Food and Drink Federation was "extremely frustrated and concerned by the conclusions of the weakened package of reforms adopted in Berlin"j171 The Tenant Farmers Association concluded that "the agreed package stems more from matters of financial and political expediency rather than a desire to place agriculture in Europe on a firm long term platform".[18] We ourselves are deeply dismayed that even the modest hopes of the Commission could not be brought into fruition. This does not augur well for future discussions on CAP reform which are made all the more inevitable by the failure of certain member states to address the realities of the pressures for liberalisation. This is a bad deal. Our only source of comfort is that the Minister evidently shares our recognition of the path the EU must take and we will continue to support him in his efforts to persuade his fellow Ministers in the Agriculture Council.[14]

Agra Europe was unenthusiastic.

> Voices from a range of different quarters have been warning this week that the reform deal reached by EU heads of government in Berlin last week was little more than a tinkering with the existing CAP, and will require more decisive reforms in the near future. Detractors have suggested that the agricultural aspect of the Berlin Agenda 2000 compromise will be indefensible in the “Millennium Round" of free-trade talks that begin within the World Trade Organisation at the end of this year. Germany's own deputy foreign minister, Gũnther Verheugen, admitted on Tuesday that the deal reached under his country's own presidency would "have to undergo review again in a few years.”[15]

A further article argued that the deal “does not even provide a valid starting point for the negotiation”.

> There is no intention to reduce the size or the influence of direct production linked subsidies to farmers - rather the intention is to increase them.

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[14] Agriculture Committee, *Outcome of the CAP Reform Negotiations, 22* June *1999,* HC 442 1998-99, vi

[15] “Weak reform opens CAP to further changes”, *Agra Europe,* 1 April 1999

The level of price adjustment - effectively nil in the case of dairy products and too little in the case of cereals and beef - will not remove the need for export subsidisation.

The failure to reduce domestic prices will mean that EU tariffs cannot be reduced sufficiently to give any new concessions on tariff reduction which other WTO members will be seeking.[16]

[16] "CAP reform further weakens WTO position", *Agra Europe*, 1 April 1999

III Sectors affected by the Common Agricultural Policy Reform

A. Cereal Farming

Cereal farming tends to dominate discussions of reform of the CAP. The best known feature of the 1992 reform, in particular, was the introduction of set aside, by which farmers who participate in the arable support system have to leave a proportion of their land unused each year. In the elaborate negotiations leading to that agreement, there were considerable fears, particularly among the French, that even with reduced support prices, the EU would find its surpluses of grain growing uncontrollably unless the set-aside rate was increased to an absurdly high level. The French therefore opposed the proposed reforms, and gained a rather unclear reassurance before accepting the agreement. Their main concern was that the EU would commit itself to restricting its subsidised exports in order to reach a settlement in the Uruguay Round of the GATT talks. They argued that such an agreement would be incompatible with the CAP because slow world growth in demand for cereals would result in increasing EU stocks that could not then be disposed of on world markets. In order to avoid that scenario, the French argued that the EU would have to keep down grain output by resorting to an absurdly high rate of set aside. They therefore argued that the EU should not commit itself to the reduction in volumes of subsidised exports.

In the event, the high world price of cereals meant that the French fears never happened. Poor harvests worldwide pushed world prices up, so that unsubsidised exports from Europe were taking place for the first time for many years in 1995, until they were taxed to keep EU prices form going too high. However, world grain prices fell considerably after high harvests in 1996, and continued to fall since then, leaving the EU support prices way above world price levels.

The amount of land currently set aside in the UK is some 314,000 hectares, some 2% of all agricultural land[17]. The forecast set aside payments under the CAP in the UK for 1998/99 amount to some £90.7 million. This is quite a drop from set aside payments of £215 million in 1994/95. The amount paid by the EU as arable area aid on set-aside land in the 1997 Budget year was 1,903.6 mecu or £1,384 million.[18]

The EU Court of Auditors was sceptical as to whether even the original Agenda 2000 proposals would allow European wheat to be exported without subsidy, while arguing that a similar conclusion would be even more unlikely for other grains.

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17 MAFF, *Agriculture in the UK 1998*, 1999

18 European Commission, *Twenty-seventh Financial Report concerning the European Agricultural Guidance and Guarantee Fund EAGGF Guarantee Section - 1997 financial year*

> 38 On the basis of more pessimistic assumptions than those used by the Commission, there is a risk that the intervention price would still be too high to enable even wheat to be exported without refunds. If this happens, it would put the whole reform at risk. Indeed, if export subsidies had to be paid, the quantities exported would then be limited and any remaining surpluses would have to be sold into intervention. Thereafter, set aside would have to be reintroduced to limit production. The budget would have to bear the cost of a hybrid system which combines direct income support via area aid with price support via intervention and export refunds. Direct income support would be increased in the Commission's proposals in order to partly offset the reduction of the intervention price; other expenditure would increase if markets were weaker than assumed by the Commission and intervention stocks would increase again. The Commission should re-examine its estimates of future expenditure, taking into account these other possible outcomes.[19]

The fact that the final reduction in wheat prices was only 15% of course makes it far more likely that the Agenda 2000 reform will not eliminate surpluses or allow unsubsidised exports from Europe.

Current intervention stocks, and stocks since 1973, are shown in the Appendix table 2.

B. Beef

a. The Export Ban

The British beef sector has been dominated by the EU export ban since its imposition in March 1996. For the twelve months immediately before the beef export ban was introduced on 27 March 1996, UK beef exports to Europe totalled 237,293 tonnes, or over £564 million. This includes carcass beef meat and all other bovine products fit for human consumption.[20]

Live exports for the two years preceding the ban are shown below:[21]

Exports of live beef meat animals

Thousands of animals

	1994	1995
EC Countries		
France	238	227
Netherlands	161	138
Belgium/Luxembourg	79	55
Irish Republic	1	1
Non EC countries	0	0
Total	479	421

19 EU Court of Auditors, *Common Agricultural Policy*, Opinion *10/98*, OJ *C 401, 22 December 1998*
20 HC Deb *25* June *1996 c 100W*
21 HC Deb *19* July *1996 c 700W*

By far the majority of our exports were to European countries. Exports of carcasses were worth some £60 million in 1995. Meat and meat offal exports amounted to some £600 million in 1995 and prepared and preserved beef exports were worth some £12 million.[22]

The ban, and the fall in consumption on the UK market, was estimated to have reduced the value of UK cattle sales by approximately £800 million in 1996 (Government measures largely offset this).[23]

In November 1998 the EU Council of Agriculture Ministers voted to allow the ban to be lifted, subject to various conditions. On 14 July 1999, it was announced that exports could resume on 1 August 1999, subject to the conditions of the Date Based Export Scheme.[24] These were described in November 1998.

> 6. Under the terms of the proposal, deboned beef and beef products may be exported subject to the following criteria:
>
> - the animal and its dam can clearly be identified;
> - the animal is over 6 months but under 30 months old;
> - there is official evidence that its dam was alive six months after the animal was born;
> - the animal's dam is not a confirmed BSE case or a suspect BSE case
>
> The eligibility of animals will be subject to official checks before slaughter. Abattoirs slaughtering bovines for export may not slaughter bovines which are not eligible. Other premises handling meat destined for export may not handle at the same time beef which is not eligible for export.[25]

The strictness of these conditions means that many cattle will not be eligible for beef exports. As time goes on, however, the systems for traceability will become routine and the conditions less onerous. The 30-month slaughter rule remains in place in the UK, although it is to be reconsidered by the Spongiform Encephalopathy Advisory Committee (SEAC) in September 1999.

Both France and Germany have delayed the acceptance of British beef. France will apparently take until the end of August to carry out the necessary administrative processes. The German objection is more fundamental with the German health minister, Andrea Fischer saying that the country's embargo would continue because of concerns, particularly among the country's regional health ministers, that EU regulations were not stringent enough.[26]

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22 HC Deb 18 July 1996 c 636W

23 HC Deb 18 February 1997 c 512W

24 MAFF News Release *248/99, British beef exports resume on 1 August*, 14 July 1999

25 MAFF News Release *45/98, Ban on British beef is lifted, 23* November *1998*

26 "Germany refuses to lift beef ban", *Times*, 4 August 1999

b. Agenda 2000 and beef

The beef sector is one where the weakening of the proposed reform puts in question its objectives. The beef intervention price was to have been reduced by 30% over the years 2000-2003, but it ended up being cut by 20% over those years. The EU Court of Auditors argued that even the original proposals were unlikely to allow the elimination of surpluses in the beef sector.

> 47 The Community market for beef and veal is characterised by a production cycle of approximately 6 years and by overproduction which has now existed for more than 15 years due to a permanent fall in demand. It is not very likely that a price reduction will reverse the constant decline of consumption, with the exception of the short-term recovery after the BSE crisis. In addition, there is no automatic relationship between intervention and market prices. The Commission proposal to maintain ceilings for suckler cow premiums is probably not sufficient to bring about a long-term balance between supply and demand. According to the Court's estimation, surpluses, whose disposal would result in increased budgetary expenditure, could build up to 0.9 million tonnes in 2005.[27]

Reasons for the long-term decline in beef consumption include the change in social habits whereby family meals, where a joint of beef might conveniently have been consumed, are less common and more pre-prepared convenience foods are consumed. The latter tend to be based on chicken rather than beef, particularly because beef in a packet tends to discolour.

The trade dispute between the EU and the USA over the use of hormones in beef further complicates the picture. The USA adds hormones to much of its beef and the European Commission has banned the import of such beef. The USA complained to the World Trade Organisation, which ruled in February 1998 that the EU had to treat each hormone separately and had to produce scientific justification for its ban.[28] The dispute forms part of a broader picture in which the USA is pressing ahead with the application of science to agriculture while the European Union, and much of European public opinion, wants to hold back.

If the USA wins the dispute, in the sense of forcing the European Union to admit the import of US hormone-treated beef, then European beef producers will face greater competition. The rules might be changed to allow them to use the same hormones, but it would be difficult for them to know whether or not to risk alienating European consumers.

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[27] EU Court of Auditors, *Common Agricultural* Policy, Opinion 10/98, OJ C 401, 22 December 1998

[28] Parliamentary Office of Science and Technology, *Hormones in Beef*, Post Note 127, May 1999

C. Dairy Farming

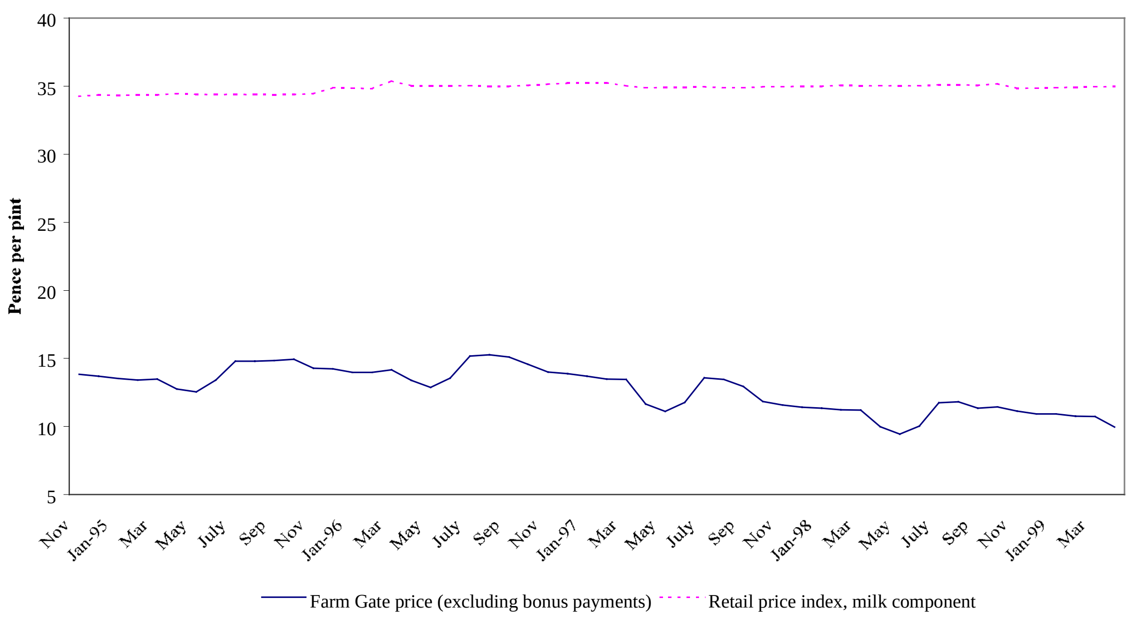
a. Milk Prices and Milk Marque

Dairy farmers have been suffering over the past two years or so because of very low prices. This largely reflects the high level of sterling, which means a decline in the sterling value of the ECU-denominated CAP support prices.

The average farm gate milk price (excluding retrospective bonus payments made by purchasers) in 1998 was 19.3 pence per litre. This compares with 22.0 pence in 1997 and 24.9 pence in 1996. The latest available figure for May 1999 shows the price at 16.3 pence compared with 16.6 pence in May 1998. The chart below shows the trend in the average monthly farm gate milk price since November 1994.

The fairest measure of retail price is the milk component of the retail price index,[29] which takes into account the cheaper prices in supermarkets as well as the higher price of doorstep pints. Rebasing the index so that the cost of a pint of milk in April 1999 = 35p,[30] it is clear that, as the graph shows, while the farm gate price has fallen by 30% since the inception of Milk Marque, the retail index price has changed little. Farm gate price is now under 10p a pint[31] while the retail price of a pint of milk has remained well over 30p.

Farm Gate and retail prices for milk



29 ONS Database series DOAQ Index series where January 1987=100

30 ONS Consumer Price Indices MM23 April 1999

31 MAFF Statistics UK Milk Prices

Yet the major inquiry into the milk sector – the investigation into the co-operative Milk Marque by the Monopolies and Mergers Commission - was not designed to tackle the problem of low profitability for dairy farmers. After the ending of the statutory Milk Marketing Boards and their replacement by voluntary co-operatives, there was considerable concern that prices would increase because of the large share of the market held by the co-operatives. In England and Wales, Milk Marque, which started to operate in November 1994, had between 60% and 70% of dairy farmers. By January 1998, Milk Marque had a market share of around 50% in Great Britain.[32] The initial effect was to drive up milk prices. Milk Marque had offered generous prices in order to retain the loyalty of their producers. Other suppliers matched Milk Marque's terms in order to lure dairy farmers away. The milk quota system prevented competitors from setting up in business to increase supply and drive down prices.

The dairy trade, with the six large companies, Unigate, Express Dairies, Dairy Crest, Avonmore Waterford and MD Foods, complained and has continued to do so. The Office of Fair Trading decided to allow the new system to begin operating and then referred the supply of raw cows' milk to the Monopolies and Mergers Commission on 30 January 1998.

The report by the Commission, published in July 1999, was critical of Milk Marque and recommended that it be split up.

> 1.9 Milk Marque has been able to price discriminate and raise the average price of milk above levels that would otherwise have been reached by engaging in the following practices. It has required tolerance of its supply-led contracts to a degree greater than was necessary if its objective was to balance overall supply, and widened the price differential between its different contract types more than was justified. It has forced its smaller processor customers to pay a higher average price for their milk than its largest customers to an unjustified extent. By imposing restrictions on the use of milk bought in its lowest-priced contracts in the summer 1998 selling process, it has obliged some processors to purchase milk at higher prices than they would otherwise have had to pay. It has entered into individually negotiated contracts with certain large processors on terms that were neither disclosed nor made available to the generality of customers. Finally, it has been able to exploit the particular aversion of some of its customers to the risk of obtaining inadequate supplies of milk or supplies obtained on adverse terms. It has been able to facilitate its price discrimination strategies by inhibiting the secondary trade in milk between processors.[33]

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32 Office of Fair Trading Press Release 4/98, *Supply of Milk referred to MMC, 27* January 1998

33 Monopolies and Mergers Commission, Milk: a report on the supply in Great Britain of raw cows' milk, July 1999, Cm 4286

The Commission made the following recommendation:

> 1. 15 We therefore recommend that Milk Marque should be divided into a number of independent, quota-holding bodies having an approximately equal share of Milk Marque's supply of milk at the time the division tales place. We envisage that the division would be based on an allocation of Milk Marque's depots to the new bodies but would not necessarily involve a simple regional split. The precise configuration of the new structure should be a matter for the Secretary of State. We would expect the new bodies to have separate corporate identities, with independent directors and no common directorships. Early consideration should be given to repaying Milk Marque's cash to its farmer members, once the financing requirements of the successor bodies, which is likely to be modest, have been satisfied.[34]

The Secretary of State for Trade and Industry (Stephen Byers) rejected this recommendation.

> An imposed restructuring of Milk Marque would be a drastic step which would affect a large proportion of the farmers of England and Wales. 1 am also conscious that this remedy would take a considerable time to put fully into effect: perhaps as long as two years. This would itself introduce worrying uncertainties for the industry. There is a strong possibility that by the end of the period the market may have changed considerably. 1 believe a wider debate about the future of Milk Marque is appropriate, informed by the analysis provided by the MMC report.[35]

Milk prices have been determined in a complex way, based on assurances given to the Office of Fair Trading on the conduct of the milk auction, as part of the deal whereby Milk Marque was not investigated by the Monopolies and Mergers Commission. Milk Marque invited bids from the dairy industry every six months. If it failed to receive bids for 90% of its milk at the stated prices, then it had to lower its prices and start again, under rules laid down by the Office of Fair Trading. In 1998**,** Milk Marque tried, and failed, to increase milk prices. After the investigation was announced, Milk Marque dropped the assurances on the conduct of the milk auction. The decline in prices continued into 1999, with Milk Marque failing to gain the support of the diary trade for price increases. The April 1999 price announcement was of a further reduction in milk price, to the dismay of dairy farmers. The *Farmers' Weekly* was forthright:

> News that Milk Marque is to drop its price by 0.85p/litre in May has shocked producers across the country ... For the average producer, this latest price cut means another £5,000 off the bottom line. Three years ago, farmers were getting 25p/litre for their milk. Now, they will be lucky to get 17p once deductions are taken into account, include the seasonality effect, and many will struggle to

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[34] ibid

[35] DT1 Press Notice *P/99/587, Secretary of State announces shake up but not break up, 6 July 1999*

> achieve 15p/litre from next month. The collapse of the Asian and Russian markets, coupled with the strong pound, have all combined to push commodity prices to the floor. Unfortunately, as MM's membership falls, a higher proportion of its milk is destined for these low value markets. Yet all dairy farmers are affected, since MM prices are used as a benchmark for the whole industry ... MM has failed to secure decent prices for farmers. It, and other supply groups, must invest urgently in processing capacity to secure better returns.[36]

The current position is unclear. New arrangements have to be agreed governing the sale of milk, as well as to prevent what the Monopolies and Mergers Commission considered to be abuse of market power. In addition, as suggested by the above article, the prohibition on Milk Marque moving more extensively into processing could be important. There are some signs of farmers leaving the co-operative since the report on the grounds that they had accepted the low prices offered by Milk Marque in the hope of receiving a better price after the report.[37] Milk Marque's share of the market has already fallen from 49% to 39% since the Monopolies and Mergers Commission investigation began in January 1998.[38]

b. Agenda 2000 and the Dairy sector

British Government policy for some time has been for milk quotas to be abolished after a reasonable period, combined with price reductions to the level of world prices. That view is partly supported by British farmers because the quota system restricts British output to well below British demand, thereby making imports of dairy produce inevitable.

When milk quotas were originally adopted in the EC in 1984, the initial allocation was on the basis of what the member countries had produced in 1981. The following passage from the proposal for a Regulation (in EC Draft 6059/84) explains the distribution:

> Whereas the sum of the reference quantities must not exceed a guaranteed total quantity laid down for the Community as a whole; whereas, in the light of the level of internal consumption and current export possibilities, this guaranteed total quantity should be fixed at 97.2 million tonnes of milk or milk equivalent, corresponding to the guarantee threshold laid down by the Council in 1983; whereas this quantity should be distributed among the Member States on the basis of deliveries on their territory during the 1981 calendar year, in order to ensure proper management and control of the system;
>
> Whereas, in order to allow for transition to the new system, the guaranteed total quantity should be increased to 98.2 million tonnes for the first year of application of the additional levy;

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36 "Another milk price cut confirms need for new tactics in dairy supply" [leader article], *Farmers Weekly, 9* April 1999

37 "Mixed views on Marque future", *Farmers Weekly, 16 July 1999, p 3*

38 Maggie Urry, "Row over milk pricing comes to the boil", *Financial Times, 19 July 1999*

For several years, there has been much complaint that the UK got locked into a system where it needed to import a considerable amount of dairy products, but cannot become self-sufficient due to the operation of the quota system. That was not how the Government saw it at the time in 1984. The then Minister (Mr Jopling) described how he saw it in a debate:

> The hon. Member will see from page 185 of "Dairy Facts and Figures,1983" published by the Milk Marketing Board, that in 1982 the United Kingdom was self-sufficient to the extent of 13 1 % in solids not fat, and 9 1 % in butter fat. If we add to that the extra production in 1983 of about 3%, and take into the account the fact that successive Governments, including the last Labour Government, have taken the political view that part of our butter market should be reserved for New Zealand, we end up with the rough estimate - 1 accept that is an estimate ~ that in 1983 we were about 103% self-sufficient, including New Zealand, for butter fat and about 13 1 % self-sufficient in solids not fat.[39]

When the Agenda 2000 negotiations started in 1998, the British Government gained some supporters (Italy, Denmark and Sweden to form the so-called London Club) for the policy of abolishing milk quotas in the year 2006.[40] The policy was to be combined with a phased 4% increase in quotas and a 30% cut in the intervention price in the meantime. In the event, the idea of a commitment to abolish quotas by 2006 was replaced by a commitment to review the quota regime in 2003 "with the aim of allowing the present quota arrangements to run out after 2006".[41] The price cuts were reduced and delayed in order to save money, with only a 15% cut in dairy support prices, phased in over three years, and balanced by compensation, beginning in the year 2005/2006.

c. The future

As with other sectors, the problem is to see how the sectors reformed by the Agenda 2000 package will fit in with a regime of greater international competition. *Agra Europe* reported on the basis of figures for international comparisons of costs of dairy farming:

> Latest figures compiled by a team of international economists on an admittedly small sample of farms in the main dairying areas of the world suggest that even the best European Union diary farms would have difficulty competing against the low-cost, grass-based systems of Oceania or even the largest and most efficient dairy units of the western United States. More immediately and importantly, however, these figures suggest that EU producers could not compete with the best central European producers on the basis of current labour and land costs. In addition, the greater potential international competitiveness of the most efficient EU producers, such as those in the United Kingdom, could be eroded by currency appreciation.[42]

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[39] HC Deb 3 July 1984 c 160

[40] "EU pressed to abolish milk quotas: CAP reform UK, Italy, Sweden in plan", *Financial Times*, 18 September 1998

[41] MAFF, CAP *Reform Agreement,* April 1999, Deposited Paper 99/879, pp 1-5

[42] "Labour and land costs handicap EU dairy farms", *Agra Europe,* 7 August 1998 A/1

IV Sectors unaffected by the Common Agricultural Policy reform

A. Pigs

There is a large British pig industry, supplying the competitive market for pork and bacon, but it has faced a serious crisis for at least a year. The pig industry is virtually outside the CAP, since there is no price support scheme for it, merely some occasional private storage aid to keep excess supplies off the market for a short time.

The Agriculture Select Committee summed up the reasons for the crisis that broke in 1998.

> 15. It is incontrovertible that the UK market is currently over-supplied with pigmeat. Total domestic supplies in 1998 were, however, only four per cent ahead of 1997, when the farm-gate price was, on average, 34 per cent higher. Clearly, factors other than simple domestic supply and demand are operating. In fact, the increase in UK pigmeat production between 1997 and 1998 coincided with similar increases in each of the major EU pigmeat producing countries (Germany, Denmark, France and the Netherlands), the rest of the EU and the United States. This increase in production proved to be a serious commercial misjudgement because, coincidentally, a number of factors combined to curtail export opportunities both for the UK and its competitors, and to increase the volume of pigmeat imports into the UK. Recession in Japan reduced market demand there; Korea moved from being a net importer of pigmeat to a net exporter; other south-east Asian countries and Russia were unable to afford their previous levels of pigmeat imports; and, increasingly, US pigmeat came into intense competition with EU exports in third country markets. At the same time, the Netherlands market made a strong and faster than anticipated recovery from a severe outbreak of Classical Swine Fever. Furthermore, in the UK, the boost to domestic pigmeat sales from the BSE crisis subsided, and sterling gained in strength relative to other currencies. In Northern Ireland, pigmeat supplies were severely disrupted in late 1998 following a disastrous fire at the Lovell and Christmas factory in Belfast.
>
> 16. No one factor in isolation can be said to have brought the crisis to a head in summer 1998. The collapse of the Russian rouble and the subsequent inability of that country to continue its previous level of pigmeat imports was, however, a very significant blow. In 1997 EU pigmeat sales to Russia totalled roughly 350,000 tonnes, 30 per cent of total EU pigmeat exports and the Union's largest single market outlet. European pigmeat prices had been declining in parallel with those in the UK since summer 1997, and the loss of this major market was as devastating for the EU as a whole as it was for the UK.[43]

[43] Agriculture Committee, *The UK Pig Industry*, 1 February 1999, HC 87 1998-99, paragraph 66

Other problems for the British pig industry include welfare legislation, the high level of sterling and the ban on meat and bonemeal pig feed. Pigs in the UK are reared intensively. That does not necessarily mean being reared indoors, because it is possible to have an intensive free-range system, and these are becoming increasingly popular. However, it has been common to keep pigs in close confinement, in crates where they could not turn round, in some cases tied with tethers. This method is considered cruel in the UK and the Conservative Government imposed a ban, coming into force on all premises in 1999. Many pig farmers have borrowed heavily in order to adapt their premises to the new rules.

Many farmers resent the fact that imports within the European Union are uncontrolled, so that imported pigmeat might be sold more cheaply because farmers outside the UK will not have incurred the cost of the higher welfare standards. If that happens, British farmers would lose sales and the British public would buy meat from animals often kept to lower standards of animal welfare than was the practice in the UK, even before the imposition of the stricter regulations. The public may be totally unaware that this is happening.

The following reply to a PQ shows that imports cannot be restricted on welfare grounds.

> **Mr. Morley**: My legal advice is quite clear. Neither the Treaty of Rome nor the rules of the World Trade Organisation allow the UK to ban the import or sale of pigmeat that has not been produced to our own welfare standards.[44]

The use of pig tethers has been banned since 1 January 1999, when paragraph 1 (1) of Schedule 2 of the *Welfare of Livestock Regulations 1994* came fully into force:

> No person shall tether or cause to be tethered any pig except while it is undergoing any examination, test, treatment or operation carried out for any veterinary purpose.

The Regulations create offences under section 2 of the *Agriculture (Miscellaneous Provisions) Act 1968* for which the penalty on summary conviction is imprisonment for a term not exceeding three months or a fine not exceeding level 4 on the standard scale (currently £2,500) or both.

The use of pig stalls and tethers is not illegal in other EU countries and the import of pork or bacon from pigs kept in this way is not illegal either. There was an EC Directive in 1991 laying down minimum standards for the protection of pigs.[45] However, it imposes fewer conditions on the way in which pigs are kept and comes into force more slowly

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[44] HC Deb 13 April 1999 c 217W

[45] Council Directive of 19 November 1991 laying down minimum standards for the protection of pigs, 91/630/EEC

than the British rules. Article 3(1) lays down modest requirements for the unobstructed floor area available to each weaner or rearing pig reared in a group. Under Article 3(2):

> "the construction or conversion of installations in which sows and gilts are tethered shall be prohibited after 31 December 1995. However, the use of installations built prior to 1 January 1996 which do not meet the requirements of point 1 may be authorised by the competent authority .. for a period which shall in no circumstances extend beyond 31 December 2005."

The British Retail Consortium, which represents major British supermarkets, has agreed to avoid two activities that would be legal. First, it will not import pork or bacon from abroad, then labelling it as British. Second, all pigmeat in their outlets will be from animals reared to high welfare standards with no stall or tethers, and will not have been fed on bonemeal. Those standards already apply to British producers.[46]

The troubles of the British pig industry show no sign of ending. In late May 1999, 100 pig farmers went to the London office of Unigate, the country's largest supplier of pigmeat products, to protest at the low prices and cheap foreign competition. A farmer said that 20% of the British pig industry had already been lost and 50% could be lost in another month.[47] However, just over a week later, the company's Chief Executive said that he still believed that Unigate was overpaying for pork and that this could not continue.[48] In other words, there will be further pressure to reduce British prices.

Supermarkets have been complaining that so many British suppliers have failed that they can no longer satisfy their demand without imports and they are buying pork from abroad.[49]

The Agriculture Select Committee had a sombre conclusion but did not suggest more Government money.

> 66. We have been impressed by the resolve and determination shown by the UK pig industry in the face of a profound market downturn. The outlook remains bleak, and there is no doubt that by the time domestic and international markets have recovered later this year, many producers will have been forced out of business. There is no escaping the fact that the fundamental problem is that there are too many pigs and not enough demand. In the short term at least, there will be a need for consolidation and recovery. As supply and demand comes back into balance we believe that the future of the industry lies in greater differentiation in product marketing, increased added value, greater integration between different elements of the pigmeat sector, and improved co-ordination of industry activities

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46 MAFF News Release 430/98, Consumers win as Brown and retailers agree on labelling, 3 November 1998

47 "We're fighting for survival warn protesting pig farmers", *Press Association, 25* May *1999*

48 "Pigs might fly and you may be right", *Birmingham Post, 8* June *1999*

49 "UK pig farmers suffer as stores buy abroad", *The Daily Express, 24* May *1999*

> through the long-term strategy we have advocated. These principles must henceforth underpin the development of the UK pig industry. In the current unique crisis, our view is that there is a need for Government to do more to ensure the maintenance of a viable UK industry. There are also a number of longterm steps that could be taken as well as lessons to be learnt from the past. However, nothing should be done which draws the UK pig industry more deeply into the CAP, a sentiment with which we are sure the majority of pig farmers would agree. Ultimately the industry's long-term survival and prosperity must be a matter for itself. Politicians should simply resolve to meddle less, and ensure a fair competitive situation for the UK industry.[50]

B. Poultry

Similar issues apply in poultry as in the pig sector. Again the industry is mainly intensive and uses little land. It has also lost the right to use meat and bone meal feeding stuffs because of BSE, but faces foreign competition from producers who do not face that ban. The British Government has not introduced stricter animal welfare rules than in the rest of the EU, however. Poultry farmers do complain, however, about cheap imports from outside the EU, alleging that these chickens have sometimes been fed on substances banned in the EU.

A recent reply explained the checks that are undertaken on imports of poultry from outside the EU.

> **Mr. Rooker** [holding answer 8 February 19991: Live poultry may be imported into the EU only from approved third countries from flocks which are subject to regular disease monitoring. Member States are notified about all such imports and documentary, identity and physical checks are carried out at the point of entry. Similarly, poultry meat may only be imported from third countries, and from establishments in those third countries, which are approved by the European Commission. On arrival at a Border Inspection Post in the Community the documents and identity of every consignment of poultry meat must be checked. At least 50 per cent of consignments must also be subject to physical checks to ensure that they are fit for their intended purpose.[51]

The import certificate would have to say that the chicken had not been fed on any substances banned in the EU. In addition, the physical checks should pick it up. Obviously only a minute proportion of the actual chickens would be tested, but the importer would not know which chickens might be tested. If any banned substances were detected, then the consignment would be re-exported or destroyed.

The following reply showed that at least the consumer knows if he/she is buying poultry from outside the EU.

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50 Agriculture Committee, *The UK Pig Industry, 1* February *1999, HC 87 1998-99,* paragraph 66

51 HC Deb 11 February 1999 c 417W

> **Mr. Rooker**: Rules on the labelling of food products are harmonised by EC legislation. Generally, the place (but not necessarily the country) of origin of any food must be given if omitting it could mislead the purchaser about the true place of origin of that food. The place of origin may be taken as the place in which the food last underwent a substantial change.
>
> More specifically, the Beef Labelling Scheme requires that any beef labelled with country of origin information must derive from animals born, reared and slaughtered in that country. National origin labelling of beef is expected to become compulsory from the year 2000. The labels on pre-packaged poultrymeat must give an indication of its country of origin when it is imported from outside the Community and we are currently taking steps to require this information on labels, tickets or notices near where unpackaged poultry is offered for sale.
>
> Separately, in November last year, members of the British Retail Consortium gave a voluntary undertaking not to sell imported fresh meat, processed or packaged in the UK, under a British label. This is a welcome commitment, for UK producers and consumers alike.[52]

In addition, the EU does impose tariffs on imports of chickens from outside of the EU.

C. Sheep

The sheep industry forms part of the CAP but there were no plans to reform it in Agenda 2000. The effect of Agenda 2000 will be to lower the prices of beef, thereby making lamb relatively more expensive.

The industry faces considerable problems because of a fall in prices of both meat and wool, resulting from the high level of sterling. The Director of the British Wool Marketing Board recently announced that 1999 wool prices will be about 40% down on 1998, partly because the exchange rate made New Zealand wool very competitive and partly because Australia still held 2 million bales in storage, some of it dating back to 1990. The wool of some highland sheep is now virtually worthless.[53] A civil servant has suggested that the industry has become too dependent upon exports, which account for about 40% of British production, leaving it exposed to the effects of exchange rate fluctuations and foreign consumers' preference for buying local meat.[54]

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52 HC Deb 9 March 1999 c 189W

53 D Buglass, "Farming; fleece prices may be among worst ever", *The Scotsman*, 9 June 1999

54 V Robertson, "Lamb producers warned against relying on exports", *The Scotsman, 5* May 1999

V Sectors that might be affected by other parts of Agenda 2000

A. Hill Farming

It has been accepted for many years that hill farmers need special support to compensate for their harsh climate and difficult conditions. That has been provided since 1975 by the Hill Livestock Compensatory Allowances scheme, under which farmers in Less Favoured Areas, mainly hill farmers, have been paid supplements on Sheep Annual Premium and Suckler Cow Premium. This scheme, which has operated under the terms of an EC Regulation, is being replaced by one in which the level of aid of not dependent upon the number of livestock. MAFF is currently consulting on the scheme to replace Hill Livestock Compensatory Allowances. The Consultation Document states that there is bound to be some redistribution of support. Those with high livestock densities will lose and those with low density will gain in a move to area-based payments. MAFF does not consider that very large changes in individual levels of subsidy could be justified, and some scheme could be introduced to reduce the impact of the changes. However, maintaining the current position, for example by basing payments on those in a reference year, is not an option.

Hill farmers in general fear the replacement of their grants by a system based upon maintaining the environment. They sometimes complain that they are farmers, not parkkeepers, They also fear, of course, that the environmental obligations might impose extra costs and thus leave them worse off than at present. The consultation document sums up the changes from the HLCA arrangements introduced by the new EU Rural Development Regulation.

- LFA compensatory allowances must be paid on an area basis rather than according to headage, so that payments per hectare will replace payments per animal;

- The support will have a more explicit environmental objective, since payments will be conditional on the use of sustainable farming practices.

The document notes that a simple move from basing payments on the numbers of animals to the area would involve considerable redistribution. The policy will not necessarily aim to prevent such redistribution, but the Regulation does allow some differentiation in the level of payments to take account of relevant factors, so the level of redistribution might be reduced.[55]

[55] MAFF, *Supporting the hill Farmer: a consultation document, April 1999,* p 3

B. The Rural Development Regulation

This Regulation seeks to simplify the framework for supporting rural development by combining nine former regulations in one to provide a wide range of schemes which are available in principle throughout Member States. These measures are divided into two groups, the "accompanying measures", so called because most of them were adopted to "accompany" the 1992 MacSharry CAP reforms, and the other or "non-accompanying" measures which have been brought together from various structural fund regulations.

The following are accompanying measures:

- Agri-environment (Environmentally Sensitive Areas, countryside stewardship, organic aid, etc);
- Early retirement;
- Less Favoured Areas compensatory allowances (currently Hill Livestock Compensatory Allowances in the UK);
- Afforestation of agricultural land.

The following are non-accompanying measures:

- Investment in agricultural holdings;
- Aid for young farmers;
- Training;
- Marketing and processing grants;
- Other forestry;
- General rural development.

Consultation is currently under way as to how to implement these possibilities. Separate consultation is taking place in England, Scotland and Wales, but the English proposal contains the option of having separate rural development plans for each English region, rather than for England as a whole.[56] There is a wide range of options for expenditure, but the consultation document notes that very little European money may be available, perhaps only £7 million a year, which would have to be matched by national funds.

In other words, the Rural Development Regulation offers only limited possibilities unless the British government is prepared to fund the schemes to a much greater extent. The idea of replacing the CAP by a policy for the countryside as well as agriculture has simply not been adopted.

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[56] MAFF, *Rural Development Regulation: consultation on implementation in England*, April 1999

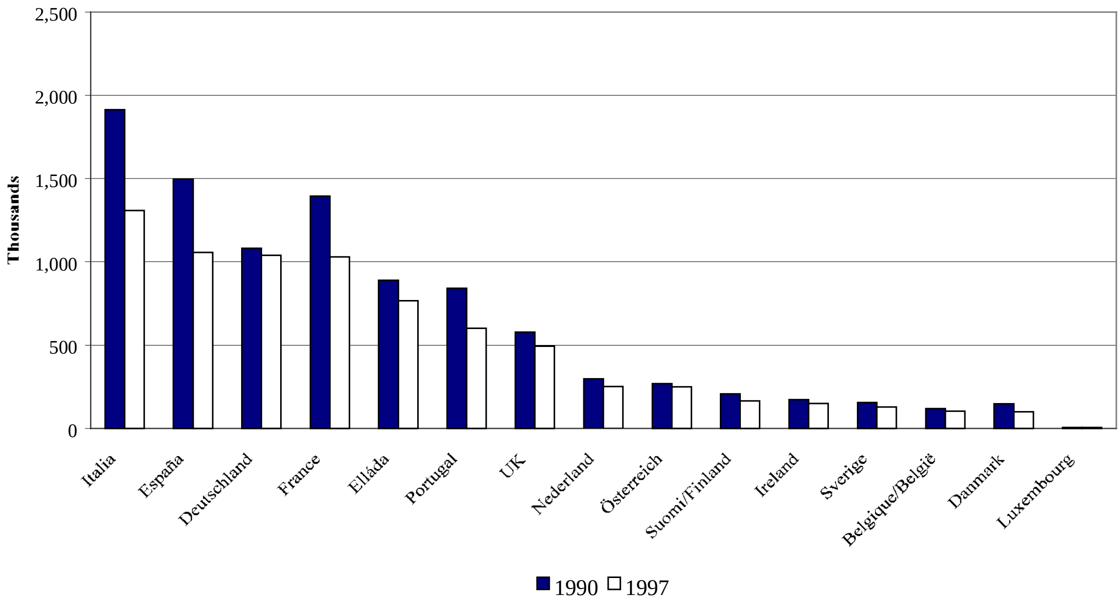
VI Why reform of the Common Agricultural Policy is resisted so strongly

A. Agricultural Employment

In the UK, employment in agriculture was around 615,000 in June 1998; the percentage of the workforce employed in UK agriculture is about 2%. The labour questions in the agricultural census have been altered however, which may have led to the inclusion of more workers, so MAFF advise caution when using or interpreting the 1998 figures.[57]

Across the EU, agricultural employment fell between 1990 and 1997, as the graph shows.

Persons employed in agriculture, 1990 and 1997



France, Germany and Spain each have around one million people employed in agriculture, while Italy has around 300,000 more. The concern to preserve agriculture goes beyond simply the numbers involved, and probably partly relates to fears that whole villages and country towns might lose their viability.

Another issue to consider is whether the desire to preserve the CAP reflects self-interest of the Continental countries. The next table shows the percentage which the UK and other Member States contributed to the EU funding in 1997, and the amount received back as a percentage of total spending, and of total CAP spending.

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57 Agricultural Census June 1998, Provisional labour results, MAFF Statistics, 26 February 1999

Member States' shares in EU financing and in spending under the CAP and structural funds, 1997

Percentage shares in EU total, cash

	B	DK	D	GR	E	F	IRL	I	L	NL	A	P	FIN	S	UK
							Financing								
Total	**3.9**	**2**	**28.2**	**1.6**	**7.1**	**17.5**	**0.9**	**11.5**	**0.2**	**6.4**	**2.8**	**1.4**	**1.4**	**3.1**	**11.9**
							Spending								
Total (1)	**2.5**	**2.2**	**14.2**	**7.8**	**15.8**	**17.1**	**4.7**	**11.8**	**0.2**	**3.5**	**1.9**	**5.3**	**1.5**	**1.7**	**9.9**
CAP	*2.4*	*3*	*14.2*	*6.7*	*11.3*	*22.5*	*5*	*12.5*	*0.1*	*4.3*	*2.1*	*1.6*	*1.4*	*1.8*	*10.8*
Structural Operations	*1.4*	*0.7*	*14*	*10.2*	*24.5*	*9.4*	*4.7*	*11.1*	*0.1*	*1.6*	*1.4*	*11.3*	*1.5*	*0.9*	*7.4*

(1) Total operational expenditure (net of administrative expenditure).

Source: Financing the European Union, European Commission October 1998 Annex 5 Table 1

The table shows the UK as a net contributor to the EU, accounting for 11.9% of EU financing and only 9.9% of EU spending. Ireland is clearly a strong beneficiary, contributing 0.9% of financing but receiving 4.7% of spending. France (17.5% of financing and 17.1% of spending) and Italy (11.5% of financing and 11.8% of spending) are roughly in balance, although France's share of CAP spending (22.4%) is notably higher. Germany (the letter D in the table) is the main net contributor, accounting for 28.2% of financing and only 14.2% of spending. Yet Germany continues to support the CAP. Its policy is clearly not based upon simple national benefit. Nor is Germany's support entirely compatible with Germany's strong support for enlargement of the EU to admit Eastern European countries.

B. Traditional French concerns

It is widely believed in the UK that French support for agriculture is based on a desire to maintain peasant agriculture, but that is only partially true. The French do have some peasant farmers and they have been very concerned to limit the movement of people from country villages into the cities to find work. Yet their main concern has not been to preserve peasant farmers but to encourage their highly efficient export sector. The French aims up to the 1970s have been described as follows:

> The "French vision" of Europe deliberately aimed at modernisation. Having a relatively large agricultural area (in 1987, 28.0 million hectares, a quarter of the EC's cultivable land) and large holdings in relation to her partners (30.7ha on average compared with 16.5 ha for the Twelve), France's first expectation was that a European agricultural policy would benefit her diverse agriculture based on a great variety of soils and climates. In this European context, French cereal production, already modernised by the late 1950s, would become the main supplier of animal feed. Modernisation of livestock production and Mediterranean crops would also be accelerated, so that these sectors could

> become competitive with those of neighbouring countries to the north and south. A European agricultural policy could then aid industrial producers to face international competition (especially that of German industry) by easing tax burdens on them.[58]

The French developed a structural export surplus by the 1970s, partly based on items that do not need subsidy like high quality wines, cheeses, cognac and champagne. However, exports of cereals outside the EC were heavily dependent on subsidy. France had made common cause with Germany to demand high support prices in the late sixties, partly because of pressure from small producers. That policy made French agriculture less internationally competitive through increasing costs, and also stimulated production elsewhere in the EC, thereby reducing outlets for French exports. Despite its successes, France did not succeed in becoming an exporter of primary produce able to compete with the USA and has become heavily reliant on EC support. Since the overall policy shift in 1983 by President Mitterrand, when he abandoned his expansionist economic policy, there has been considerable debate as to the direction of agricultural policy.

There is a “liberal school” in France, reasonably close to British opinion, who want to trade at world prices so as to export grain and recapture EC markets for animal feed from imports. Since the early 1960s, they have talked of France’s vocation to be an exporter. This view is supported by some officials, by industrialists in the agri-food industry and some large-scale arable farmers.

A second group favours supply control, with policies like the imposition of milk quotas, so as to preserve the fundamental principles of the CAP. This group has most supporters in France, but is the most isolated in the EU. It is supported by medium-sized modernised farmers and those in the food industry who feel threatened by international competition. A third group, the “ruralist school” supported by small farmers and by the former EC President Jacques Delors, wants to boost rural employment, and to pay subsidy in inverse proportion to income. It criticises the budgetary cost of exports and considers the likely effect on productivity growth unimportant in the current saturated European market.

In the negotiations before the 1992 reforms, the French Government tried to compromise between the liberal and supply control schools. However, the attempt to reduce prices failed after the monetary disruption of 1992 resulted in higher prices, as a result of German pressure. France delayed acceptance of the deal with the USA that eventually formed the basis of the settlement of the Uruguay Round, largely through opposition to set-aside and the restrictions on subsidised exports. This opposition was based on concern that the rules would prevent French farmers from expanding their output to satisfy world markets.

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[58] H.Delorme, “French agricultural policy objectives,” in R.Kjeldahl and M.Tracy, *Renationalisation of the Common Agricultural policy?* 1994, pp 40-58 (The quotation is on p 40)

A speech by French agriculture minister Louis Le Pensec in March 1998, apparently with the approval of both Prime Minister Jospin and President Chirac announced a major shift in policy objectives.[59] He dropped the idea of France's vocation to be an exporter, and opposed the price reductions suggested by the European Commission. He argued that the reforms of 1992 had failed, and exports of grain to third countries, which the price cuts should have encouraged, had declined. Further price cuts threatened incomes in the countryside. He argued for less emphasis on productivity, with 15%-20% of spending reserved for protection of the environment, maintenance of rural employment, preserving the countryside and redirecting rural activity towards production with high added value.

In other words, France appears to have moved away from the liberal school view of lower prices and more world trade in favour of maintaining high prices in order to protect the countryside and traditional small farmers. In a sense, that shift reflects the choice imposed by the World Trade Organisation's restrictions on subsidised exports. Either the EU must go a long way to reduce prices and decouple subsidies from the level of production in order to export freely, or the idea of being a major exporter of grain has to be abandoned. France appears to have rejected the first option. If exporting is no longer the objective, then agricultural policy can be aimed more towards protecting the traditional countryside. More emphasis could be placed on the quality of farm produce rather than just the quantity. This programme might have broader appeal in Europe than the traditional French concentration on exports. Countries like Germany, Austria, Spain and Italy do not particularly have ambitions as grain exporters, but might sympathise more with the conservationist side of French policy.[60]

In the event, the intervention of President Chirac was apparently crucial in persuading the EU Head of Government to re-open discussion on the CAP settlement reached by the agriculture ministers. That intervention, in the Berlin Summit, resulted in reducing the effect of the original deal, Dairy reform was delayed until 2005.2006; the arable price support was reduced to 15% and a default set-aside rate was introduced for all seven years of the reform package.[61]

C. Traditional German concerns

German agricultural policy has been the dominant influence upon the formation of the CAP from the beginning. Ever since tariffs on both agriculture and industry were introduced in the 1870s and coincided with German's great leap to becoming a leading

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59 P Lemaitre, "Analyse: un tournant dans la vision Française de la politique agricole commune, *Le Monde,* 8 April 1998

60 P Lemaitre, "La France se rallie à une politique agricole commune plus favorable à la qualité qu'à la productivité, *Le Monde*, 2 April 1998

61 "Berlin Summit tears CAP reform deal apart", *Agra Europe*, 26 March 1999, EP/1

industrial nation, Germany has remained committed to agricultural protection.[62] This commitment has persuaded Germany to override the two powerful reasons against preservation of the CAP. First, Germany is a major exporter of industrial goods and therefore relies heavily upon the opportunities offered by a free trading system. Second, as the main paymaster to the EU, Germany has a direct financial incentive in any reform that reduces the cost of the policy. A commentator described the political context of the German approach:

> The view that farmers deserve special treatment is largely unchallenged in Germany and is reinforced by a general consensus on agricultural policy among the major parties. Farm votes have largely held the delicate balance of Germany's postwar coalition governments. Consequently, the parties' approach to the rural sector is almost exclusively determined by the need to secure the marginal farm vote. German farmers have capitalised on their electoral significance: its powerful lobby, the Deutscher Bauernverband (DBV) has exerted considerable political clout and subsequently influenced decisively Germany's approach to the CAP.[63]

During the negotiations before the 1992 CAP reform, there was a widespread British expectation that Germany would force France to drop its objections to a deal on agricultural trade needed in order to secure a successful completion of the Uruguay Round of trade talks. To some extent that did eventually happen, with Germany shifting its policy in late 1991 this took a long time to come and France was not compelled to accept a deal that caused any serious problems. We simply do not know what would have happened if a period of low world demand had meant that set-aside needed to be increased, against French wishes.

British expectations that Germany would press for CAP reform have regularly been disappointed. A further reason to expect Germany to favour change came with the collapse of the communist regimes. It would clearly be financially impossible for countries like Poland to enter the traditional CAP, as well as encouraging them to shift their resources away from industry towards agriculture. Germany has a much greater interest in enlargement than most other EU countries, for obvious geographical reasons. Yet the result was a move towards change rather than radical reform. The Agenda 2000 proposals are based on the idea of reducing prices but compensating farmers so that neither the cost of the policy nor its benefit to the agricultural sector would decline.

The Christian Democrat government of Germany, replaced by the Social Democrat-Green coalition in September 1998, came out strongly against the Agenda 2000 proposals. Jochen Borchert, the German agriculture minister, even refused to accept the general need

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62 G Hendriks, "German Agricultural Policy Objectives" in R Kjeldahl and M Tracy, *Renationalisation of the Common Agricultural Policy?* pp 59-74

63 G Hendriks, "German Agricultural Policy Objectives" in R Kjeldahl and M Tracy, *Renationalisation of the Common Agricultural Policy?* p 61

for price reductions, on which the whole reform philosophy is based.[64] He said that the Agenda 2000 proposals were not at all acceptable as a basis for negotiating either enlargement of the EU or the forthcoming World Trade talks. He criticised the Commission for wanting to burden Europe's taxpayers as well as her farmers, and claimed that German farmers were threatened with a 20% income loss.[65] Chancellor Kohl supported this view, and declared the Agenda 2000 proposals to be very much contrary to German needs.[66]

The Social Democrat Government was expected to make more concessions in order to obtain reform of the CAP.[67] Since the final negotiations took place during the German Presidency, there were less clear demands from Germany, with more emphasis on trying to reach agreement behind the scenes. However, it is difficult to avoid the conclusion that once again Germany was willing to follow French policy when it came to the point. German official reaction was mixed. The Deputy Foreign minister, Günther Verheugen admitted that "the agricultural part of what we resolved at the Summit in Berlin will not hold until 2006".[68] However, the Agriculture Minister Karl-Heinz Funke was positiveand called the reform successful in a speech to the European Parliament in four distinct respects.

> With a maximum total expenditure of 297 billion Euro for the period 2000 to 2006 the real agricultural spending remains limited to the current level, in which respect the objective of the agricultural reform was reached;
>
> With the reform of the CAP and direct assistance the Community is also ready in the agricultural sector for extension to the East;
>
> The stronger market and environmental orientation of the CAP will allow the Community in the coming round of WTO talks to adopt an offensive trade strategy. Thus, according to Funke, the EU could defend its high quality, consumer protection and safety standards;
>
> Finally, the reform brought about the possibility of broadening the support for rural development. This could be further developed to form a second pillar of the CAP.[69]

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64 "Reform der EU-Agrarpolitik in weiter Ferne…" *Frankfurter Allgemeine Zeitung,* 27 May 1998
65 "Kritik an Reformplänen der EU-Kommission" *Frankfurter Allgemeine Zeitung* 1 April 1998
66 "Kohl: Die Bauern brauchen unsere Hilfe…" *Frankfurter Allgemeine Zeitung* 19 June 1998
67 "German agriculture minister hopeful on farm reform", *The Irish Times*, 30 October 1998
68 "Weak reform opens CAP to further changes", *Agra Europe*, 1 April 1999 EP/1
69 Bundesministerium für Ernährung usw Pressedienst, *Funke: Agenda 2000 ergolfreich,* 10 May 1999

D. William Waldegrave's summary

While he was Minister of Agriculture, Mr Waldegrave made a speech at the Oxford Farming Conference in which he described how he saw the Continental satisfaction with the CAP, in contrast to the British dissatisfaction:[70]

> Let me try to make the gap between British perceptions and the majority view in Europe clear by reproducing for you the sort of argument I sometimes get from my colleagues abroad. Your British agriculture, one of them might say, contributes about 1.4% of GDP. Actually, it is really, net, a lot less than that because the value of farming output is inflated by the support system. But say it is roughly that much. That is half the increase in total British GDP in the last twelve months. And using such a small proportion of your nation's factors of production, look what you get. First, the raw materials for 60% of all the food you eat, and some foreign colleagues will admit, that is some of the highest quality food to be found anywhere in the world; second, a home supply base for some formidable export industries in food and drink; third, the incalculable value of the upkeep of your British countryside (voted every year by us foreigners as the principal reason for visiting Britain); and fourth, some contribution to the maintenance of rural communities which, though of less importance perhaps to you in Britain than to some of us (since you do not have a declining rural population) must surely be worth something to you. So, asks my foreign friend, what is your problem? And can you not see that we are quite happy to support our equivalent industries, out of our growing industrial and commercial wealth and do not want continually to be lectured by you on how we do not understand our own affairs? To put it another way, you will not persuade the Germans or the others that it is wicked to support Bavarian farmers, or whoever, because it costs money; they know that, believe they can afford it, and are quite happy to go on doing it. And they cannot see why we have convinced ourselves that we are so poor that we cannot tolerate the support of our smaller sector at a lesser cost than many of them.

70 MAFF News Release, 6 January 1995, p 9

Appendix

Appendix Table 1

EAGGF Guarantee Section: expenditure, 1974-1999
ECU/Euro billion

	cash prices	% of total EU budget
1974	3.5	68%
1975	4.3	71%
1976	5.6	71%
1977	6.6	73%
1978	8.7	69%
1979	10.4	70%
1980	11.3	69%
1981	11.1	60%
1982	12.3	58%
1983	15.8	62%
1984	18.3	65%
1985	19.7	68%
1986	22.1	62%
1987	23.0	63%
1988	27.6	65%
1989	25.8	61%
1990	27.1	59%
1991	31.0	56%
1992	31.2	52%
1993	34.4	52%
1994	33.6	55%
1995	34.5	51%
1996	39.1	47%
1997 outturn	40.7	46%
1998 adopted	40.6	45%
1999 adopted	40.4	47%
Total, 1974-99	578.7	55%

Sources: European Commission "The Community Budget: The Facts in Figures" (1996)
European Community Finances Command Paper, various years

Appendix Table 2

Intervention Stocks for Selected Agricultural Produce UK and EC, 1973 - 1999

Thousand tonnes

		Total Cereals		Barley		Rye	Wheat		Durum	Maize	Beef		Butter		SMP		Olive oil
		EU	UK	EU	UK	EU	EU	UK	EU	EU	EU	UK	EU	UK	EU	UK	EU
1973	Dec	--	--	--	--	--	--	--	--	--	22	--	117	--	166	--	--
1974	Dec	--	--	--	--	--	--	--	--	--	253	--	53	--	365	--	--
1975	Dec	--	--	523	--	264	1,799	--	1,799	--	252	--	71	--	1,112	--	--
1976	Dec	--	--	210	--	161	1,377	--	1,377	--	262	--	176	--	1,135	--	--
1977	Dec	--	--	64	--	422	981	--	981	--	323	--	117	--	965	--	--
1978	Dec	--	--	177	--	597	1,053	--	1,053	--	208	--	231	--	674	--	99
1979	Dec	--	--	69	--	549	1,821	--	1,821	--	275	--	271	--	227	--	63
1980	Oct	--	--	--	309	--	--	13	--	--	--	20	--	27	--	2	--
1980	Dec	--	--	1,086	--	513	4,914	--	4,914	--	302	--	128	--	230	--	67
1981	Jan	--	--	--	490	--	--	87	--	--	--	26	--	21	--	3	--
1981	Dec	--	--	740	--	321	2,978	--	2,978	--	181	10	9	--	286	--	132
1982	Dec	--	--	1,625	1,032	293	6,300	--	6,300	--	203	--	100	--	567	--	166
1983	Jan	--	--	--	1,250	--	--	478	--	--	--	--	--	--	--	--	--
1983	Apr	--	--	--	675	--	--	--	--	--	--	--	--	--	--	--	--
1983	Nov	--	--	1,362	--	311	6,576	--	6,576	--	387	--	685	--	1,028	--	118
1984	Nov	--	--	1,636	--	441	6,463	--	6,463	--	614	--	972	--	787	--	162
1985	Dec	--	--	4,651	--	1,108	11,902	--	11,902	--	803	--	1,018	--	514	--	75
1986	Jan	15,623	5,674	4,261	2,017	--	9,292	3,657	--	--	624	77	1,058	205	561	38	48
1987	Jan	10,924	3,012	2,173	783	--	6,515	2,229	--	--	459	45	1,288	243	774	21	260
1988	Jan	8,165	1,388	2,953	672	--	2,902	716	--	--	671	52	778	155	306	0	299
1989	Jan	8,377	1,162	2,826	707	--	3,361	455	--	--	390	25	89	19	7	0	346
1990	Jan	8,121	617	2,631	528	1,246	2,402	89	927	915	106	11	30	7	5	0	84
1992	Jan	16,612	594	4,174	585	3,585	5,410	9	3,443	0	678	142	256	21	386	6	15
1993	Jan	20,881	457	5,608	446	2,364	7,568	11	4,280	1,061	855	160	174	11	37	0	71
1994	Jan	21,459	1,556	6,688	1,263	2,157	8,087	293	1,703	2,675	298	73	161	9	38	2	184
1995	Jan	9,246	581	3,733	581	2,106	2,792	0	452	163	45	16	55	5	71	7	10
1997	Jan	1,016	0	209	0	468	336	0	0	0	426	47	39	4	123	27	12
1998	Jan	4,613	79	2,111	79	2,072	274	--	1	155	--	--	8	2	130	46	--
1998	Apr	7,037	670	3,896	670	2,595	371	0	0	170	520	100	6	2	137	58	8
1999	Feb	13,758	822	7,375	814	3,325	2,327	3	0	711	429	81	3	1	201	77	113
1999	May	15,514	902	7,878	848	3,565	3,638	43	0	399	322	63	7	1	230	73	60

-- *not available or no stocks held*

No intervention in the UK for durum wheat, maize, sorghum and rice.

Intervention for cheese now abolished

Sources: MAFF EU Unit

HC Running Dep 21 NS, latest July 1999