2. Key features of UK agriculture

Introduction

2.1 This chapter provides a brief overview of UK agriculture, and establishes the general context in which BSE emerged. It highlights the improvements in agricultural production over the last 50 years and the place of the beef and dairy sector in the economy, including exports. It describes the long-established relationship between farmers and the Government, acknowledging the significant role of the Government’s advisory and veterinary services in improving agricultural productivity. The long tradition of financial support from both the Government and the Common Agricultural Policy (CAP), particularly in relation to beef and dairy production, is discussed.

Government’s influence on the agricultural economy

2.2 Since the Second World War successive Administrations have sought to increase domestic food production in order to reduce reliance on imported food, and to foster rural economies. This policy was developed by providing guaranteed returns to farmers under the Agriculture Acts of 1947 and 1957. At the same time the Government extended the provision of advisory services to farmers, funded research and development, and provided grants to encourage investment in more effective and efficient production systems. Statutory bodies promoted the marketing and distribution of certain agricultural products.

2.3 These measures helped bring about significant increases in crop yields and livestock production from the late 1940s. In the livestock sector, productivity gains resulted from genetic improvement of existing breeds, the introduction of new breeds from other countries, improved nutrition and reductions in disease and parasitism.

2.4 After the UK joined the European Economic Community (EEC) in 1973, there were further increases in the UK’s agriculture output, not only in response to various CAP support regimes but also because of the development of exports to other Member States. Reforms to the CAP since the early 1980s, such as the introduction of milk quotas in 1984, sought to curb the production of some surplus agricultural commodities.

2.5 Between 1986 and 1995 the UK was nearly 60 per cent self-sufficient in food and feedstuffs. By contrast it was only 50 per cent self-sufficient in the 1960s, before joining the EEC. Between 1986 and 1995 the agricultural workforce declined as a result of changes in farming practice, greater mechanisation and the shift towards highly productive larger holdings. In 1986, 11 per cent of holdings
accounted for 55 per cent of output, while the smallest holdings, making up 44 per cent of farms, produced only 3 per cent of output.³

2.6 In the mid-1980s, farming in the UK was relatively prosperous. It had available to it government-funded advisory, veterinary and marketing services which had long assisted farmers to increase output, and to improve animal health and welfare. It had a long tradition of financial support from both the UK government and the EU,⁴ in the form of market support schemes and compensation payments. It was developing valuable export markets and was noted for its high level of efficiency and productivity.

2.7 Between 1986 and 1995, as well as coping with the impact of the BSE epidemic, farmers had to come to terms with significant changes to their traditional relationship with government. In 1987 the Government largely withdrew the provision of free advisory services to farmers, cut back near-market research and in 1993 abolished the Milk Marketing Boards. During this period farmers were also faced with significant reforms of the EU’s CAP. In particular, the CAP reforms of 1992 sought to reduce over-production of the main agricultural commodities (eg, cereals, oil seeds, beef and milk) by cutting support prices and reducing access to intervention.

Contribution of beef and dairy production to UK agriculture

2.8 Beef and dairy farming have long been closely integrated, with surplus calves and aged or unproductive cows from dairy herds providing nearly two-thirds of UK beef production in the mid-1980s (see Figures 4.1 and 4.2). Dairy cows are often crossed with beef bulls to produce crossbred cows for the beef suckler herd (further details about breeding practices are given in Chapter 5).

2.9 In 1986 the UK cattle population was 12.5 million spread across 122,900, or just under half, of farm holdings.⁵

2.10 In the same year the output of milk, fattened cattle and calves (at 1990 prices) was worth £5,134 million, contributing 60 per cent of the total value of livestock products in the UK and 37.5 per cent of the UK’s total agricultural output.⁶ In 1995 output of these products had declined to £4,681 million (at 1990 prices), contributing 53 per cent of the total value of livestock products and 33 per cent of the value of total agricultural output.⁷

2.11 In 1986, the UK produced 94 per cent of the total beef and veal supplied to the domestic market. By 1995, domestic production of beef and veal had dropped (from 1,046 to 996 thousand tonnes), yet domestic production met 113 per cent of the

⁴ The European Union (EU) came into existence on 1 November 1993 as a result of the Maastricht Treaty. It incorporated but did not replace the European Community. Throughout the volumes of this Report, the term EU is generally used for consistency’s sake (even if sometimes chronologically incorrect), except where specific reference is made to the functions conferred by the European Community Treaty or to its legal effect
⁶ For the purposes of comparing how the output of the various agricultural products changed between 1986 and 1995, we have used data from MAFF’s Annual Review of Agriculture 1996, London, The Stationery Office, 1997, which uses 1990 prices as the baseline for the comparison between years
⁷ Note that these figures represent estimates of the value of outputs (ie, value of sales of final product), and do not include costs of inputs
supply to the domestic market. This indicates a drop in domestic consumption leading to a surplus to be exported (see paragraph 2.13 below on exports of beef to the EU).

2.12 Between 1986 and 1995 the UK produced sufficient liquid milk to supply the needs of the domestic market and over two-thirds of the domestic market’s demand for butter and cheese.

The European Union and CAP

2.13 One objective of the EU was to foster trade in agricultural produce between Member States. The removal of barriers to trade and the progressive harmonisation of legislation encouraged trade to develop. By the time BSE emerged, the UK had built up a significant trade in beef and dairy products with the EU. In 1986, 68 per cent of total beef exports of 211,000 tonnes (dead carcass weight [dcw]) was to the EU. By 1995, beef exports had increased to 325,000 tonnes dcw – worth £500 million – of which 77 per cent was to the EU.

2.14 EU membership also, through the CAP, influenced farmers’ decisions on what to produce and the type and numbers of livestock to keep. The CAP supported EU agriculture in two ways: through commodity support measures and through measures to improve agricultural structures, including improvements in efficiency and environmental management. The aim of assistance to agriculture under the CAP, prior to the 1992 reforms, was to safeguard the level of producers’ returns by supporting market prices at predetermined levels.

2.15 A number of devices were used. When prices of the main commodities, principally cereals, beef, butter and skimmed milk powder, fell below levels predetermined by the EU, the intervention authorities (the Intervention Board in the UK) bought the goods and stored them for later resale. Beef was frozen before storage in the Board’s intervention stores, and stored carcasses could be held for a considerable time before disposal. Intervention stocks were exported or disposed of within the EU, if this could be done without disrupting internal markets. Exports to non-EU countries, either from the market or from intervention stocks, attracted export refunds to meet the gap between EU and world prices. Imports from outside the EU were subject to levies to ensure that they did not undercut the EU’s support price.

2.16 By removing the discipline of market forces, the CAP support regime tended to encourage surplus production and the cost of support was heavy for the taxpayer. A series of initiatives was taken to try to redress this imbalance, a cause espoused by the UK Government as a main plank of its European policy. In 1989 and again in 1992 the CAP was reformed in an effort to control agricultural surpluses and thereby reduce the cost of support to the taxpayer. The strategy behind

8 MAFF, Annual Review of Agriculture 1988; MAFF, Agriculture in the UK 1996
9 MAFF, Agriculture in the UK 1996
10 Data for 1986 is the average of 1985 to 1987 from MAFF, Agriculture in the UK 1996
11 MAFF, Agriculture in the UK 1996
the reforms was to shift support from end prices towards direct income support (see paragraphs 2.19–2.21 for discussion of how the beef regime was changed). 14

CAP regimes for beef and dairy farming

Assistance to beef production

2.17 Besides the general support mechanisms of intervention, export refunds and import tariffs, the EU provided two schemes to help maintain the incomes of beef producers:

i. the Suckler Cow Premium Scheme (SCP), under Council Regulation (EEC) 805/68, which paid subsidies on suckler cows forming part of a breeding herd for rearing calves for beef production. Payment was made per cow using EU funds. Claims were limited by individual producer quotas and stocking density limits; and

ii. the Beef Special Premium Scheme, introduced in most Member States in 1987, and fully funded by the EU. It was payable on male cattle only, and could be claimed twice for each animal, after 8 months of age and again after 21 months; this scheme replaced the Beef Variable Premium Scheme, which ended in 1989/90.

2.18 In addition, since 1976 the UK had provided the Hill Livestock Compensatory Allowance (HLCA) scheme as a support measure for farmers in less favoured upland areas (ie, where land quality was poor), to ensure the continuation of farming, maintenance of the population, and conservation of the countryside in these areas. The allowance was paid on cows that primarily produced calves for beef production, subject to stocking density limits. The EU funded 25 per cent of this scheme. 15

2.19 Major changes to the CAP beef regime came into effect in April 1989, including a new ceiling for sales of beef into intervention, extension of the Beef Special Premium, and an increase in the rate of the Suckler Cow Premium. 16 The changes reflected the view that ‘the intervention system is designed to offer support to the market when it is needed, but not to create intervention as a market in its own right to which operators have unlimited access’. 17

2.20 The further round of CAP reforms in 1992 introduced changes to the beef regime – in particular a cut in support prices by 15 per cent over three years, new restrictions on access to intervention, and further increases in the Beef Special Premium and Suckler Cow Premium. Both premiums continued to be increased gradually up to 1996, to compensate producers for reductions in intervention support. However, eligibility specifications and controls, in the form of quotas at producer level or obligations to ‘set-aside’ land (ie, to take it out of production), were placed on producers receiving payments under these various arable and livestock schemes, so as to limit overall government expenditure on them.

14 MAFF, Economic Evaluation of the Beef Special Premium Scheme and Suckler Cow Premium Scheme, 1997
15 M44 tab 4 p. 26
16 MAFF, Agriculture in the UK 1989; M15B tab 2 p. 14
17 YB90/5.30/2.6
2.21 The Ministry of Agriculture, Fisheries and Food (MAFF) commissioned an evaluation of the Beef Special Premium Scheme and the Suckler Cow Premium Scheme in 1995. The evaluation concluded that while the schemes had indeed supported and increased the incomes of beef producers, overall the production control measures contained within them had not been successful.\(^{18}\)

**Controls on milk production**

2.22 Milk was one of the products covered by CAP support arrangements. In 1984 the EU introduced milk quotas with the aim of curbing milk production, which in the previous ten years had increased by about 2 per cent per year. The quota base for each Member State for the first year was deliveries to dairies plus direct sales in calendar year 1981 plus 1 per cent. So long as this limit was observed on the total output in each Member State, each country could choose an actual base year between 1981 and 1983, or an average of these years, if preferred.

2.23 Farmers reacted to the quota system by lowering the level of yield per cow through reductions in the amount of concentrates fed, as shown in Table 2.1, and/or cow numbers. Reductions in cow numbers were achieved through cuts within individual herds, but also through producers leaving the industry. MAFF financed a UK outgoers scheme, which by 1985 had already paid 1,600 producers to leave the industry. Furthermore, since quotas acquired financial and trade value, smaller producers who might already have been struggling could sell their quota to larger producers and leave the industry. As at 1985, about 400 producers had left the industry without using the support available under the outgoers scheme.\(^{19}\)

**Table 2.1: Concentrate input (kg per cow)**

<table>
<thead>
<tr>
<th>Year</th>
<th>kg per cow</th>
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<tbody>
<tr>
<td>1983</td>
<td>1,735</td>
</tr>
<tr>
<td>1984</td>
<td>1,820</td>
</tr>
<tr>
<td>1985</td>
<td>1,375</td>
</tr>
<tr>
<td>1986</td>
<td>1,500</td>
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*Source: Milkminder data*

2.24 The milk quotas were initially scheduled to run for five years to redress the imbalance between output and consumption. In 1988 they were extended for a further three years, and in 1992 for another year. From 1 April 1993, the quota system was extended for a further seven years.\(^{20}\)

\(^{18}\) MAFF, Economic Evaluation of the Beef Special Premium Scheme and Suckler Cow Premium Scheme, 1997
