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DEVELOPMENT PROSPECTS FOR BEEF AND VEAL, TAKING INTO ACCOUNT THE ENLARGEMENT OF THE COMMUNITY AND INCENTIVE MEASURES AT COMMUNITY LEVEL

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DEVELOPMENT PROSPECTS FOR BEEF AND VEAL, TAKING INTO ACCOUNT THE ENLARGEMENT OF THE COMMUNITY AND INCENTIVE MEASURES AT COMMUNITY LEVEL[*]

The Community of the Six did not manage to make good its beef and veal shortage.

The development achieved by the six countries of the Community as originally constituted over the past decade resulted in a continuing and growing shortage of beef and veal: consumption has increased by an average of 3% per year and production by only 2.4%.

Beef and veal are therefore among the limited number of agricultural products (maize, vegetable fats) of which there has been a permanent shortage in the six original member countries of the EEC. Thus, although the Community was 82 to 90% self-sufficient from 1966 to 1972, the shortage varied, according to the year, between 450 000 and 865 000 metric tons[1]. It should be stressed that beef and veal production is closely linked with that of milk. Of the 22 million cows in the Community of the Six in 1970/71, 19 million were intended primarily for milk production (only France and Italy have beef breeds). That situation led to the existence of large surpluses of milk products. The Commission and the Council are therefore concerned to increase beef and veal production without encouraging a parallel increase in milk production.

However, this policy comes up against a major obstacle: the small size of holdings (with an average of some 12 ha). It has in fact been shown that, in most cases, stock farmers with less than 30 ha go in almost exclusively for milk production, meat being only a by-product of milk, or at best a supplementary product.

For this reason, beef and veal production in the Community, in contrast with the USA, has not yet become, on a large scale, a process of industrial development.

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[*] Text based on a talk given at Cambrai on 29 June 1973 by Mr Broders of the Directorate-General for Agriculture of the Commission of the European Communities.

[1] With a minimum shortage in 1968 and a record shortage in 1972.

Further, contrary to what happened in the United Kingdom, stock farmers in the Community as originally constituted did not seek to make the most of the production potential represented by the new-born calf (in the United Kingdom consumption of veal is very limited and cows that are not indispensible for the renewal of the milking herd are systematically crossed with a bull of a beef breed). Thus, 35% of the cattle slaughtered in the Community of Six in 1971 were calves, compared to only 10% in the United Kingdom. Since 1971, however, the situation has started to improve.

In 1972 and the first half of 1973, the Community has been experiencing an unprecedented shortage. Wholesale prices have increased by 20% in one year; the rise in retail prices has been even greater.

How will this situation develop? What new factors are likely to affect the enlargement of the Community? These are the questions we must now try to answer.

<u>The enlargement of the Community: a five-year transitional period</u>

As far as the Common Agricultural Policy is concerned, the accession of the three new members of the enlarged Community (Denmark, Ireland and the United Kingdom) has been effective since 1 February 1973. However, in order to ensure progressive approximation of price situations which were sometimes far apart at the outset as between the Three and the Six, a transitional period was agreed on which is to come to an end on 31 December 1974.

For beef and veal, the chief measures adopted for the transitional period are as follows:

1. Guide prices for calves and adult bovine animals are fixed by the Council for each new Member State with reference to conditions during the period preceding accession. These prices are applicable as from 1 February 1973. Denmark, however, has been authorized to start applying the Community guide price on that date.

2. For Ireland and the United Kingdom, these prices will be aligned on the common price level in six stages (differences reduced successively by $^1/6$, $^1/5$, $^1/4$, $^1/3$ and $^1/2$). The first stage started on 14 May 1973. The common prices will be applied in those countries on 1 January 1978.

3. Denmark has already been applying the Common Customs Tariff as from 1 February 1973. Customs duties between Ireland or the United Kingdom and the seven other Member States are being progressively abolished in five stages (successive 20% reductions), the first reduction having been made at the beginning of the 1973 marketing year, i.e. on 14 May 1973.

4. To make up for the differences in guide prices still existing between Ireland or the United Kingdom and the seven other Member States:

   (i) in trade between Ireland or the United Kingdom and the seven other Member States, compensatory amounts were introduced (their level falling gradually as prices are aligned).

   (ii) in trade between Ireland or the United Kingdom and non-member countries, the levies and refunds fixed by the Commission in accordance with the situation on the Community market vis-à-vis the world price are reduced or increased, as appropriate, by the abovementioned compensatory amounts.

Thus, from 1 January 1978, the Common Customs Tariff will be applied uniformly at the frontiers of the enlarged Community (live bovine animals: 16%; beef and veal: 20%) and goods will circulate freely within the latter without paying any customs duty.

The enlarged Community, thanks to Ireland, might be able to cover a very large part of its requirements of beef and veal, but will nevertheless, continue to have a considerable deficit.

Of all the studies made on the consequences of accession for Community production and consumption, we shall refer to that of the FAO, which seems to us to have best taken into account the way in which the situation has been developing. That study made it possible to draw up the table shown on page 5.

From that table it will be seen that:

(i) in fifteen years, from "1965" to 1980, the shortage in the Community as originally constituted is likely to become twice as great, whereas the three new Member States should progress from a state of shortage to one of surplus. For the Nine together, however, the 1980 deficit would be of some 850 000 metric tons, i.e. 30% greater than that of fifteen years earlier.

By that date, therefore, with a self-sufficiency rate of 85%, the Community would still be just as dependent on outside sources for its supplies as it is now. The very considerable increase in production to be expected in the United Kingdom and especially in Ireland will probably not be sufficient to offset the increase in demand which will continue to be just as strong as in the past in the countries of the original EEC, whereas those six countries will not be able to raise sufficiently the annual rate of increase of their production.

It should be noted, however, that, for the new Member States, accession will have very different consequences from one country to another; in Denmark, the progressive raising of market prices to Community level will not succeed in counteracting the trend towards decreased production which had already started in 1968 owing to the shortage of labour for cattle rearing; on the other hand, in the United Kingdom, and above all in Ireland, the price factor will have a very favourable effect on production. As regards consumption, it is anticipated that consumption per head of the population will remain static only in the United Kingdom, as an effect of the economic expansion expected to result from accession. But in Denmark, and especially in Ireland, consumption per head of the population should fall. In view of all these factors, the FAO expects an appreciable decline in Denmark's export surplus, a reduction of more than 50% in the United Kingdom's deficit, and the virtual doubling of Ireland's export surplus; Ireland, with an export volume of 400 000 metric tons would thus become one of the world's chief exporters (probably in third place after Australia and Argentina) and would cover 50% of the other member countries' needs.

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A rational forecast has therefore proved possible: following enlargement, the EEC of the Nine would have a shortage of some 850 000 metric tons in 1980 - or 15% of the amount consumed. Trends recorded between 1968 and 1973 appear to confirm the thesis that a considerable shortage will persist.

FORECAST OF SUPPLY AND DEMAND FOR BEEF AND VEAL, TAKING INTO ACCOUNT THE ENLARGEMENT OF THE COMMUNITY

('000 metric tons)

	A Production			B Consumption			Balance A - B	
	1964/66 average	1980	% trend	1964/66 average	1980	% trend	1964/66 average	1980
The six original member countries	3 410	4 830	41.3	3 970	5 990	+ 50.4	- 560	- 1 160
Denmark	232	190	- 18.1	69	67	- 2.9	+ 163	+ 123
Ireland	286	451	+ 57.8	50	42	- 16.0	+ 236	+ 409
United Kingdom	808	1 176	+ 45.5	1 304	1 407	+ 7.9	- 496	- 231
Total for the 3	1 326	1 817	+ 37.0	1 423	1 516	+ 6.6	- 97	+ 301
Total for the 9	4 736	6 647	+ 40.4	5 393	7 506	+ 39.1	- 657	- 859

Source: F.A.O.

For that four-year period, an appreciable aggravation of that shortage may be observed, both for the Six and for the Nine, as the following table shows:

Community shortage (in metric tons);

	Six	Nine
1968	450 000	360 000
1971	514 000	540 000
percentage increase	+ 14	+ 50

The objection can, of course, be raised that this analysis covers a period when the enlargement process had not yet begun. To see whether this objection is warranted, we must therefore look at what happened in 1972 and probable developments in 1973 and even 1974.

After a temporary drop in production and consumption in 1972, previous trends should be resumed in 1973, and especially in 1974, in the enlarged Community.

1972 was marked by a sharp fall in production in the enlarged Community. Compared to the previous year, production fell by at least 500 000 metric tons, or 8.5% (beef: 360 000 metric tons; veal: 140 000 metric tons). This fall is explained by the fact that, despite the machinery introduced by Community rules, a production cycle is still discernible, even though on a much smaller scale than those observed in some countries, such as Argentina.

The last significant decline in production was in 1964 (- 7.4%). This lends support to the theory held by some that there is a production cycle of 6 to 8 years.

What happened in 1972?

The origins of the phenomenon go back to 1970; in that year the number of cattle in all the countries of the original Community, and in Denmark, began to decline (whereas in the United Kingdom and Ireland, on the other hand, numbers continued to increase).

That decline is to be attributed to a feeling of concern on the part of some stock farmers over the trend in meat prices which had been at a standstill between 1966 and 1969 (the same applies to prices for milk). The decline in the numbers of cattle led to increased slaughtering in 1970 and 1971, so that the Community meat shortage decreased (to 527 000 metric tons and 514 000 metric tons respectively for the Community of the Six compared to 575 000 metric tons in 1969).

In 1972, as an after-effect, that decline in numbers produced a scarcity situation, owing to the fact that inroads had been made into production potential; consequently, prices rose, all the more so because at the time there was a strong demand on the world market.

The big rise in prices in 1972 was sufficient to reverse the tendency to reduce stocks of cattle; as the farmers were now retaining more animals for restocking, this further increased the scarcity. Thus in 1972 the bottom of the cycle had been reached.

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Let us now consider what repercussions the increase of more than 20% in the market price in 1972 had on the level of consumption.

In 1972 beef and veal consumption in the enlarged Community declined by 1 to 2% in relation to the previous year.

A distinction should be made here between veal and beef.

Consumption of the former in 1972 declined by 15% compared to 1971; consumption of the latter remained practically unchanged: beef consumers thus hardly reacted at all to a wholesale price rise of 20%.

As regards beef, the resistance capacity of French and Italian consumers is particularly striking since they had to absorb a 25% rise in wholesale prices, which meant an even more marked rise at retail level.

Despite the rise in world prices, on account of the fall in production and because of consumer pressure, the Community had to import from non-member countries at such a level that the deficit reached an unprecedented level: 885 000 metric tons for the Nine (865 000 for the Six).

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During the first half of 1973, although the scarcity situation persisted, prices remained stable until 15 May, an advance indication that a new production cycle was starting; and in fact, since 15 May, prices have again been falling.

It is expected that production may increase by 4.5% in 1973, and even more in 1974. It is to be noted that, of the additional 250 000 metric tons expected to be produced in the enlarged Community in 1973, of which practically all will be beef (which confirms the stagnation already apparent in veal production), half will be supplied by the United Kingdom and Ireland; this is the consequence of the stimulus given to production in those two Member States by the rise in market prices following accession on the one hand and the shortage on the other. This stimulus will still be making itself felt in 1974, so that the absolute record for production attained in 1971 (5 850 000 metric tons for the Nine) will probably be equalled, or even broken, in 1974.

In 1973, despite the revival of production, the deficit may well be as great as in 1972; owing to the reversal of market price trends observed during the second quarter of 1973, it is highly likely that consumption will resume a steady rate of increase, so that a deficit for the Nine of 850 000 metric tons will again be equalled, or even exceeded, in 1973, thus confirming that the figure of 850 000 metric tons put forward by the FAO as the possible Community deficit by about 1980 is in no way exaggerated. Even if production were still rising in 1974 and 1975, the requirements to be covered by imports will remain very considerable owing to the anticipated persistence of a high level of consumption.

What, then, is holding back production in the face of expanding consumption?

<u>The small size of Community farms restricts the development of beef and veal production.</u>

We learned from surveys and visits to farms in the six member countries where it is desired to develop cattle-rearing aimed primarily at meat production that, in most cases, full-time farmers rearing cattle on less than 30 ha concentrate mainly on milk production, meat production being merely a by-product of milk or, at best, a supplementary line of production. For such farmers, giving up specialization in milk would mean a considerable drop in income, and would moreover require increased capital, as meat production makes greater demands on capital than milk production. Milk is thus essential for the survival of small farms which are not in a position to specialize (in pigs, poultry, arboriculture, etc.).

A comparison of national statistics shows that (in 1967) 69% of farms of 5 ha or more, situated on the territory of the present enlarged Community, were of less than 20 ha. The United Kingdom is in the best position (40%) and Italy in the worst (84%).

It transpires, however, that the countries which have the highest proportion of holdings in the 20 to 50 ha category (experience leads us to believe that this category affords the most opportunities for developing meat production) - the United Kingdom, Ireland and France (more than 30% of all holdings) - are precisely the ones which are seeking to promote beef and veal production independently of milk production.

<u>Owing to the small average size of farms, the Community of the Six has experienced large milk surpluses.</u>

This point is crucial. In 1967, three quarters of the farms of more than 5 ha in the Community were of less than 20 ha (the average size of farms for the whole of the EEC was then 12 ha); beef and veal production was (and still is) closely linked with that of milk.

Thus - as was stated on page one - of the 22 million cows in the Community of the Six in 1971 (the number had grown slightly from 1964 to 1968, then had fallen back by 1971 to its 1964 level), 19 million were intended primarily for milk production (in fact only France and Italy have beef breeds which are farmed on a sufficiently large scale). This state of affairs has resulted in large, and growing, surpluses of milk products: 330 000 metric tons of butter in storage on 31 December 1968 and 31 December 1969, as a result of the regular increase in milk yield per cow, not balanced by an appreciable decrease in the number of dairy cows.

Council Regulation (EEC) No 1975/69 introducing a system of premiums for slaughtering cows and for withholding milk and milk products from the market: a normalizing factor in the 1971 milk market.

The Commission and the Council of Ministers of the EEC therefore decided in October 1969 to introduce a system of premiums for the slaughter of dairy cows and for withholding milk and milk products from the market. Under this system, premiums were paid for some 500 000 cows. Most of those cows were slaughtered; the rest, in connection with the premium for ceasing to supply milk to the market, were either used for suckling calves or sold to other farmers. This measure contributed significantly to relieving pressure on the market in milk and milk products in 1971.

The experience gained by the Commission through the implementation of this premium system in the Member States allowed it to assess both the limitations and the positive aspects of such a measure, and in particular to determine the most favourable conditions for the farmer to switch from milk to meat.

<u>The relationships between beef and veal prices and feed grain prices is not yet such as to favour the commencement of a large-scale expansion of specialized beef and veal production.</u>

A study undertaken at the Commission's request[1] concludes that the ratio between the price paid to the producer per kg live-weight of beef or veal and the price per kg of feed grain should exceed 7.7 to 1 to 8.7 to 1 (on the price of the new born calf) for specialized beef and veal production plants to be able to develop on a large scale. Owing to the constant rise in prices for new-born calves, this ratio should at the moment be approximately 9 to 1, perhaps more.

This conclusion is confirmed by the facts. Thus, in the United States from 1958, the ratio between prices for beef and veal and for maize has become attractive, increasing from 7.5 to 1 to 14.0 to 1 in 1970, while production of beef and veal in "feed lots" has developed considerably.

The rise in meat prices has been less of an incentive to the development of production than has the drop in maize prices. A number of American farmers therefore decided to convert their maize (grain-maize or fodder maize) to beef and veal.

In the Community the development of "feed lots" is impeded by the fact that the meat/cereal price ratio has always been below 8 to 1, except in Italy from 1964 to 1967, a period which in fact saw the development of major fattening plants, and in France since 1970, the year in which modern production, run by producer groups, got under way in that country.

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[1]Guidelines for beef and veal production in the Community: June 1970.

In 1972 this price ratio improved distinctly; it is now above 9 to 1 in all member countries (even above 11 to 1 in France); this is an advance indication of the beginning of an expansion which will make itself felt on the market from the end of 1973 or the beginning of 1974, as mentioned above.

At the present time, a drop in feed grain prices in the Community is neither politically acceptable nor to be anticipated in the short term in view of world conditions. Similarly, a major rise in meat prices might cause stagnation or a decline in consumption in some Member States. EEC market prices are, moreover, the highest in the world (except those in Norway and Sweden); the harmonization of market prices necessitated by the enlargement of the Community therefore prohibits too great an increase in the Community guide price.

If we take the production price in the Community of the Six as being 100, the levels for the new Member States are as follows:

	in 1969	in April 1973
United Kingdom	75	80
Denmark	70	91
Ireland	67	79

Prices alone cannot provide the necessary incentive for the development of beef and veal production.

In short, the Commission and the Council were faced with a situation of which the essential facts can be summed-up as follows:

1. The small average size of farms in the Community prevents beef and veal being produced at cost prices comparable to those in overseas countries (Australia produces its beef and veal at 50% and Argentina at 30% of the EEC price)[1]. Beef and veal will for a long time to come remain expensive to produce in the EEC.
2. The Community cannot accept the prospect of seeing its beef and veal shortages increasing beyond a certain limit and counting on the world market to make good the deficit.

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[1]The latter percentage is only indicative, in view of the difficulty of determining the real exchange rate between the Argentine peso and the unit of account.

The FAO experts expect the annual growth-rate of world production to fall in the course of the current decade (particularly in North America and Eastern Europe). Potential world demand, on the other hand, will be constantly on the increase in view of the rise in living standards. The FAO consequently expects demand in 1980 for beef and veal for which payment would be available to exceed world production by 1 600 000 metric tons. This is obviously only a technical view of the situation, for world-wide production and consumption should be equal. The FAO forecast simply means that there will inevitably be a levelling-off of the unsatisfied demand through a rise in the world price.

Recent events confirm the view of the FAO experts, for we have indeed entered a period of shortage of beef and veal unprecedented in the last 20 years, bringing with it a rapid rise in prices. (Between August 1968 and August 1972, prices on the world market have practically doubled. Since that date, they have continued to rise, though at a definitely slower rate than in 1972).

In the face of this world shortage, it is necessary that the Community should make every effort to develop its own production.

A policy of prices which is too high cannot be applied to develop Community production, in view of the political and social considerations to which reference has been made earlier.

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The Commission considered that, in view of the situation summarized above and in order to meet this shortage, there should be a moderate increase in the guide price for calves and adult bovine animals (an increase related to the rise in the standard of living), accompanied by direct incentives for the production of beef and veal. Having come to this conclusion, the Commission presented to the Council in February 1972 a draft proposal for a Regulation introducing a system of incentives for the development of beef and veal production.

The draft proposal had two parts:

(i) concerning premiums for changing from milk to meat production;

(ii) concerning incentive premiums for the development of meat production.

In drawing up the proposal, the Commission took advantage of experience gained by the Community when premiums were granted for withholding milk and milk products from the market and by individual countries (the United Kingdom and Ireland) in which there are already direct incentives.

The Commission proposals were the subject of many thorough discussions at Council level.

Decisions taken by the Council on 29/30 April and 1 May 1973

The Council finally adopted a Regulation[1] introducing a premium system for the conversion of dairy cow herds to meat production and a development premium for the specialized raising of cattle for meat production.

The Commission later adopted detailed rules for the application of the premium system[2].

The Council Regulation incorporates the main points of the Commission proposal as regards the conversion premium; but the scope of the proposed incentive premiums for production development has been considerably reduced, since such incentives are only to be given in exceptional cases. The Council wished to give priority to the problem of absorbing milk product surpluses (400 000 metric tons of butter on 1 April 1973).

The Regulation provides that each producer showing evidence, when lodging his application, that at a reference date established by each Member State he kept at least eleven dairy cows, is eligible for a premium for the conversion of dairy cow herds to meat production, on condition that he keeps for a given period the same number of adult bovine animals and gives up all sales of milk and milk products.

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[1]OJ of the European Communities No L 141, 28 May 1973, p. 18.

[2]OJ of the European Communities, No L 184, 6 July 1973, p. 24.

Notwithstanding, the above provisions, the Member States are authorized

(a) to fix in certain regions a minium threshold figure exceeding eleven but not greater than fifteen dairy cows;

(b) to grant the premium to those producers keeping a number of dairy cows less than eleven but higher than four in regions where at least 50% of the dairy cows are kept in herds of less than eleven dairy cows (France, Germany and Ireland will avail themselves of the second authorization).

The amount of the premium is 7.5 units of account per 100 litres of milk no longer marketed. The Guidance Section of the EAGGF is to refund to the Member States 50% of the expenditure.

Authorization may be granted not to apply the system in regions where the price of milk is higher than 125% of the target price and where a milk supply shortage therefore exists (Italy and Corsica in particular).

In such regions Member States may grant a development premium for the specialized raising of cattle for meat production.

In order to be eligible for the development premium, producers must, at a given reference date, have kept at least five cows or in-calf heifers of beef breeds. In the case of producers' associations, the number of such animals must be not less than three times the number of member producers.

Producers must furthermore undertake to keep for a period of four years a number of cows or heifers which is higher than the number kept on the reference date and in any case not less than eight during the fourth year.

The amount of the premium is 240 units of account per head for each cow or in-calf heifer over and above the original number.

The Council also approved the Directive on the guidance premium provided for in Article 10 of the Directive on the modernization of farms[3].

The guidance premium referred to in Article 10 of Council Directive No 72/159/EEC is calculated per hectare of farm land required for the production of beef and veal or mutton and lamb on a farm, the development plan for which provides that at its term the share of earnings from cattle and sheep sales shall exceed 50% of earnings from all farm sales.

The amount of that premium is:

- 45 units of account per hectare within a ceiling of 4 000 units of account per farm in the first year;
- 30 units of account per hectare within a ceiling of 3 000 units of account per farm in the second year;
- 15 units of account per hectare within a ceiling of 1 500 units of account per farm in the third year.

CONCLUSIONS

In view of the world shortage both of beef and veal and of calves for rearing (the price of eight-day-old calves has doubled in five years), the Community must do its utmost not only to maintain its existing calf-producing potential, but to increase it without increasing the output of milk and dairy products. Given the current weaknesses of production structures, neither the producer price policy nor the favourable terms offered for the importation of calves will by themselves achieve this result.

Direct incentives at producer level are therefore necessary.

However, the measures already adopted by the Council will not prevent the enlarged Community from experiencing a continuing major shortage.

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[3] OJ of the European Communities No L 153, 9 June 1973, p. 24.

As a consequence of production continuing to follow a cycle, an annual deficit varying between 500 000 and 1 000 000 metric tons according to the year may be expected between now and 1980. It will therefore be possible to take into consideration the interest of non-member countries in exporting to the Community, especially as the greater part of this deficit (particularly as regards meat for processing and animals for fattening) could be covered by imports totally or partially exempted from levies.

The Community has in fact been led to suspend the charging of customs duties and levies, in whole or in part, depending on the product, for a period extending from the summer of 1972 to September 1973.

Thus, although the Community is obliged to take action to encourage the production of beef and veal, whether through pressure on the market (guide prices, intervention prices) or direct incentives (premiums), the steady rise in consumption will provide non-member countries with export outlets which will not decrease even within the new context of the enlarged Community.

In 1980 the Community with a probable consumption of some 7.5 million metric tons will be the area in the world with the second-largest consumption of beef and veal (two-thirds the total consumption of the USA). By that time the USA and the EEC together, with a population representing one tenth of the total population of the world, will be consuming four tenths of the beef and veal producted in the world.