7th March, 1956

CABINET

FARM PRICE REVIEW 1956

Memorandum by the Minister of Agriculture, Fisheries and Food

I circulate for the information of my colleagues the draft of the White Paper on the Annual Review of the Agricultural Industry and Determination of Guarantees, without appendices.

2. I may, of course, find it necessary to make some minor alterations before the paper goes to print.

D. H. A.

Ministry of Agriculture, Fisheries and Food, S.W.1.

7th March, 1956.
AGRICULTURE ACT, 1947
ANNUAL REVIEW AND DETERMINATION OF GUARANTEES, 1956

I. Introduction

1. The 1956 Annual Review of the economic condition and prospects of the agricultural industry has now been held in accordance with Section 2 of the Agriculture Act, 1947. In the light of it the Government have determined the guarantees for livestock and livestock products in the year April, 1956, to March, 1957, and for crops from the 1957 harvest. These are set out in Appendix V.

2. A Special Review, on account of changes in wage costs, has been held concurrently with the Annual Review and the results are given in Appendix VI. These Special Review determinations relate to crops of the 1956 harvest, and to livestock products of 1955/56 - i.e. in each case a year earlier than the period to which the present Annual Review determinations relate.

II. Economic Condition of the Agricultural Industry

Production Progress

3. Agricultural net output for the year 1955/56 is forecast at 55 per cent above pre-war. The revised index for last year, 1954/55, is 51 per cent above pre-war. Last year's outcome was seriously affected by the weather. The volume of net output is now back to the 1953/54 level, which was the highest previously recorded. This reflects credit on the endeavours of the industry. The result has been achieved despite a substantial fall in tillage area and pig production. These declines have been offset by record yields of cereal crops, a better hay harvest (with a consequential fall in imports of feedingstuffs) and a continuing upward trend in the output of milk and eggs. Breeding for production of beef, mutton and lamb continues to expand.
Changes in Costs

4. Statistics of changes in costs are shown in Appendix III. There is a substantial increase again this year, estimated to amount to about £43 million in a year for all commodities, and about £35 million for review commodities. Disregarding the reductions in the cost of feed for pigs and eggs, which are reflected automatically in adjustments to the guarantees for those commodities, the figures would be about £45 million for all commodities and just under £37 million for review commodities. Apart from feed costs, which cannot be apportioned, some £12 million of increased costs on review commodities will have already affected net income in the current year 1955/56, leaving about £24 million on review commodities still to take effect on future net income.

Efficiency

5. The annual increase in efficiency, arising primarily from improvements in husbandry and farm management, can only be estimated broadly. The Government assessed this a year ago at something like £30 million a year for the industry as a whole and about £25 million a year for review commodities. They have examined alternative ways of assessing this and have concluded that there are reasonable grounds on which to credit agriculture with an increase of some £30 million a year for the industry as a whole, which is equivalent to about 2 per cent of gross output.

Changes in Income

6. The forecast of total net income for 1955/56 is £299½ million, and compares with £285½ million in 1954/55. When adjusted for normal weather conditions, the net income is estimated at £292½ million for 1955/56; the comparable figure for 1954/55 was £320½ million. The outcome forecast for 1955/56 does not fully reflect the recovery that is taking place from the actual level of net income in 1954/55 when the weather was so bad. This is due to a number of factors apart from the continuing effect of that year's exceptional weather. For example, in the case of crops lower guaranteed prices for the 1955 harvest had been determined after the 1954 Annual Review.
whereas the higher prices determined after the 1955 Review will not take effect until the 1956 harvest; and there has been an increase, compared with 1954/55, in stocks and work in progress at the end of the year, on which no profit is reckoned until the output is sold.

Economic Condition of the Industry

7. The Government's assessment of the economic condition of the industry is as follows. Output has recovered from the setback in 1954/55, but the industry is having to bear a substantial burden of increased costs. Favourable factors at work are the increasing efficiency of the industry and the continuing effects of the 1955 Annual Review award, some of which have not so far been felt. But on balance the industry needs a further increase in the value of the guarantees.

III. Production and Guarantee Policy

8. Production and guarantee policy have been reviewed and the policy of the Government is set out in the immediately following paragraphs.

Production Policy

9. The Government have considered whether agricultural production policy as hitherto stated requires to be revised in the light of the balance of payments problems that face the United Kingdom. Factors to be considered are:-- the possible saving of direct imports of food by additional home production, and the additional imports of animal feedingstuffs that might be required for this purpose; the possible saving of imported feedingstuffs; the benefit to the balance of payments and to the national income of a further increase in home agricultural production compared with that which could be obtained from other industries using the labour, materials and finance which the increase in agricultural production might require; and the net advantage of any possible import saving, having regard to the sources of the imports and their place in our general overseas trade.

10. The conclusion is that national requirements can best be met by intensifying the policy developed since 1952. The objective of production policy remains the most that can be produced economically and efficiently in accordance with market requirements.
steadily increasing technical efficiency and diminishing unit cost. But even greater emphasis than before must be put on the substitution of home-grown products (mainly grass and other feedingstuffs) for imports, and on economies in the use of imported materials. If this is done it will increase the net output of agriculture more economically than would an indiscriminate expansion of end-products; and will bring greater and more certain relief to the balance of payments. The agricultural industry will be expanding a side of its business - that which is concerned with its raw material supplies - which offers the greatest scope for development.

11. This can best be done by a vigorous continuation of the policy of:-

(i) maintaining a large arable area with emphasis on feed crops that can be used to replace imports, on temporary grass and on improving crop yields;

(ii) improving the standards of our temporary and permanent grass and our techniques for conservation, and encouraging the increased use of grass in the production of beef, mutton and milk;

(iii) using feed to the best advantage by economy and skill in our feeding methods.

Commodity Policy

12. The main features of current production appear to be a continuing long-term expansion in the production of beef, mutton and lamb; a lower level in output of pigmeat than the peak of 1954/55; and a continuing trend of relatively small increases in the output of milk and eggs. Although tillage area has been falling, crop production, particularly of grain crops, is at present fairly stable because of an increase in crop yields. The increase in the area under grass has outstripped the increase in grass-eating animals.
13. The main directions in which the Government would wish to see production developed continue to be as follows:

(a) a large arable area should be maintained; this will need to include a large tillage area, but the emphasis should be more on feed crops (barley and oats, other feed crops and high quality leys), and on improving crop yields;

(b) the production of beef, mutton and lamb should be increased;

(c) more of the milk output should be produced from home-produced feed;

(d) for pigs and eggs, which are largely dependent on imported feeds, the major concern continues to be to reduce costs of production and, in the case of pigs, to relate them more closely to the costs of our overseas suppliers while still improving quality.

Guarantee Policy

14. The long-term objective continues to be to achieve a steady improvement in the competitive position of the industry. To do this the industry must concentrate on reducing unit costs of production, meeting consumer choice, and raising quality. The total cost of the Exchequer support given to agriculture has been less during the current financial year than it was in 1954/55. This is partly due to the industry's success in improving quality and responding to consumer choice in ways that have helped during the recent past to improve returns from the market for some products. But the cost to the Exchequer is still high and it is important that the industry should continue to do all that it can to reduce its need for support.
IV. Determination of Guarantees

15. The following are the Government's determinations of the guarantees for livestock and livestock products in the year 1956/57 and for crops from the 1957 harvest. Additional details are given in Appendix V.

**Fat Cattle, Sheep and Lambs**

16. There is still a need for more good quality beef, mutton and lamb; though for mutton and lamb at least the longer term prospects depend on further reduction in unit costs of production. The standard price for fat cattle is being increased to 151s. 0d. a live cwt. The standard price for fat sheep and lambs will be increased to 3s. 2d. a lb. estimated dressed carcass weight.

17. The large increase in the standard price for fat cattle has been made to give further encouragement to beef production. As long-term planning is particularly important to producers of fat cattle, the Government further assure them that they regard a high level of guarantee as a necessary part of their long-term policy for beef production.

18. The classes of cattle eligible for the guarantee have been reviewed. It has been decided that the minimum standard for steers and heifers should be raised from 50 per cent to 54 per cent killing-out percentage. For 1956/57 special young cows will continue to be within the scope of the guarantee.

**Fat Pigs**

19. Production of pig meat has fallen from the peak level of 1954/55, but the rate of subsidy is still high; in the current financial year the subsidy represents about one-third of the market value of pigs certified under the guarantee arrangements. It would not be desirable to encourage any renewed expansion until both production costs and the unit rate of subsidy can be reduced. Overriding importance must continue to be attached to improvement in quality and substantial reduction in costs.
The guarantee already reflects changes in feed costs which account for a large part of the costs of production. The Government have accordingly decided that a small further reduction of 6d. a score should be made in the standard price for pigs.

20. For the livestock year 1956/57 a quality premium will be payable, but on a higher standard than hitherto. Moreover, in accordance with their policy of encouraging the production of carcases of the quality required by the market, the Government intend to introduce a more rigorous specification. A minimum carcase length measurement will be introduced with effect from 25th March, 1957, or at an earlier date, subject to six months' notice, and the other specifications may be modified, subject to six months' notice.

Fatstock Guarantee System

21. The Government have decided to discontinue the individual guarantees for all classes of fatstock which were a feature of the guarantee scheme introduced in 1954 after the end of control. These were intended to provide individual producers with a safeguard against any serious imperfections in the auction markets when private trading was restored. They were not intended to provide a floor price for the industry as a whole; this was unnecessary since the collective guarantee was designed to make up any deficiency between the average market price and the standard price. In fact the auction markets are now working reasonably well and the stage has been reached when the risks which these arrangements were intended to meet no longer justify the elaborate machinery involved. The individual guarantees have had the disadvantages of tending to distort the normal market influences, of weakening the tone of the market because they may remove some of the seller's incentive to get the best price out of the market, and of complicating the system, with consequent heavy administrative charges. The Government have therefore come to the conclusion that the system should now be simplified by the withdrawal of this particular feature and the equivalent deadweight guarantees. This will also mean that in the case of pigs the present
complex of the individual guarantee, the market addition, and its deadweight equivalent will be eliminated.

22. There will be a single guarantee payment for each group of fatstock (cattle, sheep and pigs) which will be the difference between the standard price and the average of realised prices for that group of fatstock. This single guarantee payment will be adjusted as and when necessary to ensure that the average total return to producers each week remains within the following ranges on either side of the respective standard prices:
- cattle - 23s. Od. per live cwt.; sheep - 4d. per lb. dressed carcass weight; and pigs - 5s. Od. per score deadweight.

The guarantee for pigs will continue to be linked to a standard price of feed.

Eggs (Hen and Duck)

23. Production of hen eggs continues to increase, but better market prices have reduced slightly the unit cost of subsidy. This is still high and there is room for further reduction in average costs. No change is being made in the level of the guarantee for hen eggs. The guarantee for duck eggs is being reduced to 2s. Od. per dozen.

Milk

24. The general production objective remains as stated in the 1954 Annual Review White Paper (Cmd. 9104). There has been no substantial change in the liquid market during the last year. Production is still expanding. It is of great importance that more of the output should be produced from home-grown feed. It is also desirable that there should be some change-over from milk to beef so far as practicable. Having regard to the increase in costs of production the guarantee is being increased by ½d. per gallon.

25. The standard quantities have been reviewed and it has been decided that for 1956/57 no change should be made for any of the milk marketing areas.
Wool

26. There are special arrangements for a stabilisation fund, but this is now nearly exhausted. The Government's policy remains that, taking one year with another, the guarantee should not require continuing Exchequer payments. The guaranteed price is being brought down nearer to the current market level, by 2d. per lb. As foreshadowed last year, no further request is being made by the Government to the British Wool Marketing Board in regard to the special bonus on the wool of certain breeds of hill sheep. This is a matter that should, in the Government's view, be left to the discretion of the Board.

Cereals

27. Cereal production will continue to play an important part in the maintenance of a large arable acreage based on a rotational system of crops and grass. Production appears to be generally profitable and improved yields will have done more than offset cost increases. It is important to encourage a greater supply of home-grown feedingstuffs, but at the same time to bring the price guarantees for the different cereal crops more into line with one another. Wheat is at present getting a disproportionate part of the subsidy payments on cereals. At a time when there are large wheat surpluses - especially in other Commonwealth countries - there is no longer any special reason to justify exceptional encouragement for the production of wheat. The Government have therefore decided to reduce the guaranteed prices for wheat and rye by 1s. 6d. per cwt. On the other hand, to encourage the growing of barley and oats for feeding to livestock and to assist a number of small farmers and those farming on some marginal lands, the guaranteed price for barley will be increased by 6d. per cwt., and that for oats by 1s. 6d. per cwt.
28. The guarantee is a support price which is intended to protect producers against low returns in years of high yield. The general production objective continues to be that in years of average yields supplies should be sufficient to meet demand at reasonable prices.

29. The Government have decided that the time has come to exclude sub-standard ware potatoes from the scope of the guarantee. This applies only to Great Britain, since such potatoes have never been included for Northern Ireland. Sub-standard ware potatoes were included during the war and post-war years because of the need to maintain the largest possible acreage, using compulsion when necessary. In the very different circumstances of today the application of the guarantee to potatoes not up to the standard required for sale for human consumption can no longer be justified. The definition of ware potatoes has, however, been amended so as to include all potatoes which are fit for sale for human consumption in normal conditions.

30. Taking account of these changes, and of increasing costs, the support price for ware potatoes is being increased by 8s. Od. per ton.

Sugar Beet

31. The Government wish to see the present sugar beet acreage maintained. Account has been taken of cost increases. The price determined for 1957/58 is 130s. 6d. per ton.

Production Grants

32. The Government have reviewed the existing production grants which now amount to about £60 million a year. They have decided that further encouragement should be given to the use of fertilisers, so far as supply and technical considerations allow. From 1st July next increased rates of subsidy will be fixed for nitrogen and phosphates involving (on the rate of consumption in the current year) additional payments of £3 million in aggregate. The maximum rate of grant under the marginal production schemes will also be increased as far as work on marginal farms is concerned and this is expected to lead to additional expenditure of about £1 million in a full year.
The making of more good quality silage, alongside other methods of making improved use of our grassland resources, would contribute most usefully to greater reliance on home-grown feed. This will continue to be encouraged by technical advice and demonstration. Any form of direct financial encouragement for silage-making presents considerable difficulties and would require legislation. While this would not in any case therefore be practicable for the 1956 season, the possibilities for the future will be considered further in consultation with the industry.

V. Effect of Determinations

As was stated in last year's Annual Review White Paper (Cmd.9406) the effect of any particular determinations on the net income of the industry cannot be precisely forecast in conditions of a free economy. In any event net income is bound to fluctuate appreciably from year to year. The determinations now made increase the value of the guarantees by £24 million, and should assist the industry to secure a satisfactory level of remuneration.

Agriculture is still in receipt of large subsidies and the guarantees now determined increase still further the contingent Exchequer liability. The actual cost to the Exchequer will depend on the future trend of market prices and on the volume and kind of output. The Government expect that with the assurance of continuing support the industry will be able to maintain a sound position in the national economy with diminishing calls on the Exchequer in future years.