

EU COMMON AGRICULTURAL POLICY

A SCOTTISH PERSPECTIVE

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OVERVIEW (1)

- **EU Common Agricultural Policy formed to ensure adequate food supplies and at affordable prices to continental Europe originally emerging from world wars and periods of chronic shortages and unaffordable prices**

OVERVIEW (2)

- **Food as % of household income**
Pre-war 35%
Currently 9%
- **Policy and productivity has delivered a 26% rise in living standards**
- **Cost of CAP is approximately 40% of the total EU budget**

What does EU currently look like? (1)

	<u>EU 25</u>	<u>Scotland</u>
Population	460m	5m
Agricultural Output	€260bn	€3bn
Holdings over 5 ha	3,721,000	32,000
Average Holding Size	37 ha	174 ha
Output per holding	€70,000	€90,000
Arable ground	60%	15%

What does EU currently look like? (2)

<u>Agricultural Output</u>	EU25	Scotland
Crops	42.9%	22.4%
Potatoes	2.6	9.4
Cattle	9.7	23.8
Sheep	1.8	7.5
Pigs	10.1	3.0
Chicken	4.1	3.7
Milk/Eggs	16.1	14.6
Other	<u>12.7</u>	<u>15.6</u>
	100.0%	100.0%

Thoughts on Prices (1)

Farmers share of retail prices

1960	40%
2008	15%

1 Ton wheat produces 1842 bread loaves

At €140 ton = 8c

At €280 ton = 16c

Increase 8c

Average retail increase 25c

Thoughts on Prices (2)

Subsidies on a per person basis

- **Scotland €800m. Europe €45bn**
Cost per head €160 Europe €100
- **About 1% of family income**
- **If no subsidies prices should rise to take cost of food to 10% from 9% of income**

How has our farming responded?

- **Economics more important than politicians**
- **Politicians will dictate subsidies we receive**
- **Aim to be profitable without subsidies**
- **China with 22% of the world population, but only 7% of the arable land may need 15% of global agricultural output to satisfy its needs**
- **Strathisla has targeted its output to grain and beef which are land intensive but labour un-intensive**

Agricultural Output

	Scotland	Strathisla
Subsidies	23%	16%
Crops	17	44
Potatoes	7	6
Cattle	19	24
Sheep	6	-
Pigs	2	-
Chicken	3	-
Milk/Eggs	11	-
Other	<u>12</u>	<u>10</u>
	<u>100%</u>	<u>100%</u>

Productivity and Profitability of Output(1)

	Scotland		Strathisla	
	€m		€m	
Agricultural Output	2,750	77%	1.04	84%
Subsidies	<u>800</u>	23%	.20	16%
	3,550	100%	1.24	00%
Costs	<u>2,700</u>	<u>77</u>	0.75	<u>60</u>
Pre-tax Income	<u>850</u>	<u>23%</u>	0.49	<u>40%</u>
Pre-tax ex Subsidies	50	1%	0.29	<u>23%</u>

Productivity and Profitability of Output(2)

Costs ex Subsidies

Ton of grain **€130**

based on output of 2,200 tons

Kg of beef **€3.40**

based on output of 90,000 kg dwt

Pedigree Assumptions

90% Weaning

25% Bull calves sold as pedigree

Expected value 75% of market averages

Annual spend on Bulls – 33% of pedigree income

Future of Common Agricultural Policy (1)

- Will be decided by politicians
- Key driver I believe is climate change
- Subsidies cost 40% of the EU budget, but only deliver 1% income saving to consumer
- Subsidies now decoupled from production and agriculture typically 1-2% of economies so world trade a bigger issue

Future of Common Agricultural Policy (2)

- Logical to recouple subsidies but linked now to climate change
- I believe agricultural profits will soar as global shortages emerge and producers on a realistic scale will not be needing subsidies as they may have done in the past
- Scottish politicians already too enthusiastic saying carbon reduction target should be 80%. Science says agriculture can do 18%
- Penalty for non-compliance??